



**2023 SoLGF**

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

**As at 30 June 2023**

**Audit Outcomes of the 2022/23 financial year**  
*Analysis Document*



**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**





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# 2023 SoLGF

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## ABBREVIATIONS

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

## ABBREVIATIONS

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





## EXECUTIVE SUMMARY

The National Treasury annually publishes the State of Local Government Finances and Financial Management Report. The report is aligned with Section 5 of the Municipal Finance Management Act, 56 of 2003 (MFMA), which requires oversight of municipal financial management.

The 2023 State of Local Government Finances and Financial Management Report uses a set of preset financial ratios and audited financial data to give a quantitative analysis of the financial health of the 257 municipalities. The information included in this report is taken from the 2022/23 financial year's audited Annual Financial Statements (AFS) submitted by municipalities to the National Treasury's Local Government Database and Reporting System (LGDRS) using *mSCOA* data strings. Submission by some municipalities contained inconsistencies which have a significant impact on the credibility of the financial information reported, therefore affecting this analysis. Although municipalities were given the opportunity to verify the accuracy and consistency of financial information submitted to the LGDRS, there are still discrepancies between the data on the LGDRS system and the information in the audited annual financial statements. To assist municipalities to submit credible *mSCOA* data strings, National Treasury and Provincial Treasuries have institutionalised monthly analysis of the *mSCOA* data strings submitted and provide feedback to municipalities on misalignments so that they can correct the errors. In addition, technical support is also provided through the Municipal Finance Improvement Programme (MFIP).

The 2022/23 financial results revealed a declining state of local government finances and financial management, given that the number of municipalities in financial distress increased from 157 in 2021/22 to 168 (65 per cent) in 2022/23, which is concerning. These results indicate that performance of most municipalities is deteriorating, and this is based on the various indicators assessed in this report and the failures reflect the continuing erosion of institutional capacity, poor financial management and political instability that weaken governance.

In addition, it is evident that the new political leadership elected after the 2021 local government elections have not achieved much success in reversing the decline in municipal performance. The state of finances is more pronounced by the latest audit outcomes of the 2022/23 financial year. Political instability is prevalent in metropolitan municipalities that are governed through a coalition of political parties, and to a certain extent, has significant impact on the ability of the administrative leadership to make timely decisions. Information suggests that most of the senior municipal officials are in possession of the required minimum qualifications and relevant experiences required for the positions they occupy and have completed the required unit standards for the minimum competency levels, as prescribed. Despite having the correct people in some of the key positions, municipalities are still struggling to perform the basics of financial management, and this has led to a high reliance on consultants, with minimal to no impact on municipal performance. Therefore, a further analysis may be required to establish what has caused a failure of the political administrative interface that prevents meaningful progress for municipalities to deliver on their mandates, including meeting the expectation regarding financial governance, institutional capability, financial health and service delivery. Similar questions can also be asked in relation to the effectiveness of the council oversight structures in place to assist council with its legislative oversight responsibilities.

The National Treasury has also invested a lot of resources to train municipal officials so that they can appropriately discharge their responsibilities and to build their capability, however, despite these efforts, improvement has been minimal. The lack of improvement is evident in the number of municipalities that are in financial distress, which remains high. A total of 95 municipalities adopted unfunded budgets and were unable to pay their creditors within the legislated timeframe of 30 days of receiving an invoice, coupled with having average collection rates that are below the norm of 95

## EXECUTIVE SUMMARY

per cent. Included in the long outstanding creditors, are Eskom and Water Boards, third parties such as the pension funds and medical aid. In addition, the National Treasury has observed an increasing trend in the number of municipalities defaulting on their pension funds contributions. The latter trend has especially been exposed with the commencement of the new amendments to the pension funds laws with the introduction of a “two-pot” system that allows employees (that are Pension Fund members) to withdraw a portion of their pension contributions. This has left many municipal retirees out of pocket as they had no funds in their pension fund accounts. The Municipal Finance Management Act (MFMA) makes it an act of financial offence (which is a criminal offence) when accounting officers fail to meet their statutory 3<sup>rd</sup> party payment commitments. The National Treasury is following this up and will be engaging municipalities with a view of trying to encourage municipalities to pay the outstanding arrears so that municipal retirees can retire with dignity and peace of mind.

The Auditor-General of South Africa (AGSA) has previously urged all municipal councils to instil a culture of good performance, promotion of principles of transparency, accountability, institutional integrity and provision of services to the communities. The 2022/23 reporting did not reflect improvements on performance, given that the number of municipalities with unqualified audit opinion with no findings declined from 38 in 2021/22 to 34 in 2022/23 while 10 municipalities audits were outstanding at the time of the audit. Furthermore, the assessment of the state of local government finances and financial management undertaken in this report demonstrates that municipalities can be in financial distress even though they have achieved clean audits. This is observed on 15 of the 34 municipalities that obtained clean audits and actively participating in the debt relief programme, therefore struggling to pay their creditors and seeking financial relief. Again, it is a clear reflection on the failure of the leadership to take remedial actions towards changing the status quo.

Of concern is the unauthorised, irregular, fruitless and wasteful (UIFW) expenditure that remains significantly high while some municipalities are continually experiencing repeats of such category of expenditures which reflects the weaknesses in internal controls.

The National Treasury supported 48 municipalities with preparations of their Financial Recovery Plans (FRP) which is an increase compared to the 38 reported for the 2021/22 financial year. The support varied from 26 mandatory FRP's, 14 discretionary and 8 voluntary. It is imperative to note that the implementation of these FRPs comes with limitations such as the sole dependency on the municipal council and municipal officials to rectify the situation and for successful implementation, especially when municipal councils failed in their oversight to prevent service delivery failure, retain statutory and executive powers.

Governance and leadership failures therefore continue to have a negative impact on the quality of services delivered to communities. It has also led to a failure to maintain critical service delivery infrastructure which has resulted in significantly high water and electricity losses. This is seen as municipalities are struggling to have adequate balance between procuring new assets and investing in routine repairs and maintenance, renewal and upgrading in line with the norms and standards.

In response to the publication of MFMA Circular No.124 on the Debt Relief Programme in March 2023, 72 municipalities applied to participate on the programme, with 71 applications being approved to participate in the Eskom Debt Relief Programme administered by the National Treasury. The programme is based on rolling 12-month cycles that commenced

## EXECUTIVE SUMMARY

on the date of the approval of the application received by the National Treasury. There are several conditions attached to this programme for the approved municipalities to adhere to over the duration of 24 months while participating in the program. It should be noted that not all the 71 municipalities are fully compliant with the set conditions. However, there is regular communication in guiding the municipalities on the remedial action. It is observed that municipalities find it difficult to comply with condition 6.3 (payment of current account of ESKOM) and condition 6.14 (NERSA license) as they both recorded the lowest levels of compliance with 56 per cent and 24 per cent respectively. These conditions nevertheless automatically come into play when any condition is not complied with and therefore shows a low score.

The National Treasury's City Support Programme (CSP) is assisting metropolitan municipalities with the development and implementation of the municipal water business turnaround strategies. In addition, the CSP is assisting the metros with the implementation of the Trading Services Reforms which are aimed at addressing the institutional challenges disrupting the provision of water and sanitation, electricity distribution and solid waste management to communities.

Furthermore, the capacity building programmes through the Municipal Finance Improvement Programme (MFIP) has been extended with the appointment of Technical Advisors to provide the direct capacity support to the identified municipalities, allowing National and Provincial Treasuries to focus on different work streams. The National Treasury intends to make improvements on the local government capacity building system, by combining the financial management support initiatives into an integrated Local Government Financial Management Capability Programme (LGFMCAP) which represents a strategic paradigm shift in the approach to municipal capacity building. This integration transcends an ordinary administrative efficiency exercise as financial management competencies are cultivated and maintained within the realm of local governance.

This report reveals that there are serious financial problems in more than 65 per cent of municipalities in South Africa. The problems include weak revenue collection efforts, significant financial deficits in operations and a rapid increase in creditors. The most significant contributing factors to these financial problems in municipalities are:

- **Negative cash and cash equivalents balances at year end.** A total of 14 local municipalities had negative cash balances at the end of 2022/23. Those that have negative cash balances at year-end usually have serious financial management challenges. When a municipality does not have sufficient liquidity, it is likely to result in the non-payment of salaries and suppliers, leading to further cash flow problems;
- **Inadequate cash and investments to pay current obligations (liquidity ratio).** A total of 190 municipalities consisting of six (6) metros and 18 secondary cities indicated that their cash and investments were inadequate to cover current liabilities. Pertaining to 190 municipalities, 139 are local municipalities and 27 district municipalities with inadequate cash and investments available to pay current liabilities. This is a deterioration compared to a total of 188 municipalities reported in 2021/22;
- **Negative current ratios (current liabilities exceed current assets).** Four (4) metros have indicated that their current assets are less than the current liabilities in 2022/23 which indicates financial problems. This presents a significant financial and operational risk as metros are the drivers of economic growth in the country and when they are experiencing financial problems, it impacts directly on the performance of the economy as a whole;
- **Number of unfunded budgets remain high.** A total of 95 municipalities adopted unfunded budgets in 2022/23, which is an improvement compared to 112 municipalities in 2021/22. Unfunded budgets contravene the provisions of Section 18 of the MFMA, and this indicates that municipalities are struggling to align their expenditure with estimated revenue often overestimating their anticipated revenue and planning excessive spending, which results in a financial crisis;

## EXECUTIVE SUMMARY

- **Inadequate infrastructure investments.** Lack of infrastructure investment deters the ability of municipalities to address service delivery backlogs, inability to provide uninterrupted water and electricity supply and failure to support more rapid economic growth. A total of 93 municipalities spent less than 10 per cent of their total budget on infrastructure in 2022/23, while the norm is between 10 to 20 per cent of the total budget of the municipality;
- **Persistent underspending on repairs and maintenance of existing infrastructure.** A total of 230 municipalities which represent more than 89 per cent of municipalities, spent below the norm of 8 per cent on repairs and maintenance of their assets while only 27 municipalities have met the target. Proactive asset maintenance is essential to prevent breakdowns of infrastructure assets and to avert interruptions to service delivery;
- **Similarly, spending on renewal and upgrading of existing assets remains substantially low.** A total of 152 municipalities under invested in the rehabilitation and asset renewal which is below the recommended minimum of 40 per cent of the capital budget. This is an indication that municipalities are not prioritising asset management to ensure sustainability of services beyond the initial or original useful life of the asset. Another concerning factor is that many of these infrastructure assets have eroded in value and others have become obsolete. Hence, underspending on asset renewal increases the risk of deterioration of asset condition;
- **Distribution losses remain high due to poor preservation of ageing infrastructure.** Many municipalities are experiencing revenue losses in water and electricity due to distribution losses of ageing and poor condition of their infrastructure assets. In terms of metropolitan municipalities, eThekweni recorded the highest water losses of 58.1 per cent while the Mangaung metro recorded the lowest electricity losses of 9.8 per cent in 2022/23;
- **Inability to access capital markets to meet infrastructure investment needs.** Several municipalities, particularly smaller towns that are predominantly rural with the restricted revenue base, do not have the capacity to borrow or take up borrowing due to their revenue limitations or cash flow challenges and therefore remain grant dependent;
- **High creditors payment periods and escalating amounts owed to creditors, especially Pension Funds contributions, Eskom and Water Boards.** Only 34 municipalities settled their creditors within 30 days of receiving the invoice in 2022/23 while 223 municipalities took more than 30 days to pay creditors. One of the first indications of cash flow problems or a lack of appropriate and efficient measures to ensure prompt payments is the failure to pay creditors within the legislated 30 days. There was marginal improvement in paying for services on time as there were 34 municipalities in the 2022/23 compared to 33 municipalities in 2021/22 that managed to pay creditors within 30 days; and
- **Persistent underspending on conditional grants.** Municipalities refunded R2.9 billion to the national fiscus due to the decline in their application for rollover of unspent conditional grants. The spending level of the three-disaster funding grants, namely the municipal emergency housing grant, the municipal disaster recovery grant and the municipal disaster response grant was 50.8 per cent, 8 per cent and 65.6 per cent respectively. The low spending on these types of grants is concerning given it reflects the failure of affected municipalities to respond to the natural disasters in the provision of interim relief to the victims.
- **Non-submission of mSCOA data strings.** At the time of writing this report, 13 municipalities were unable to upload the 2022/23 audited mSCOA data strings successfully to the local government database due to the incomplete audit process.

# INTRODUCTION

1. This is the 12<sup>th</sup> report of the State of Local Government Finances and Financial Management (SoLGF) published annually by the National Treasury. The 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. The report provides an assessment of the state of municipal financial health, governance, institutional arrangements and service delivery for the financial year that ended on 30 June 2023. It also reviews the overall performance of local government and providing an update on several initiatives that are underway to address the structural and operational challenges impeding the effective functioning of municipalities. In the previous reports, the municipalities in financial distress were identified, the steps were taken to initiate the applicable intervention mode in line with the extent of the financial and service delivery challenges.
2. The *mSCOA* regulations require municipalities to upload financial information in a data string format on the Local Government Upload portal using the six *mSCOA* regulated segments. The regulations additionally require municipalities to plan, budget, transact and report directly from their financial systems that are *mSCOA* compliant to ensure consistency of data. However, several municipalities are still not planning, budgeting, transacting, and reporting directly in or from their core financial systems. Reports are manually prepared on excel spreadsheets and then imported into the financial system for submission to the LG Upload portal. This results in discrepancies in data. At the core of the problem are the following:
  - Incorrect use of the *mSCOA* chart and municipal accounting practices by municipal officials;
  - Certain municipalities do not perform quality checks at month-end to ensure prudent financial reporting; and
  - Poor or no upgrades of the Information and Communication Technology (ICT) (servers, hardware and software) and lack of maintenance, resulting in the ICT environment not being compatible with the modern technology required to implement *mSCOA*.
3. Notwithstanding the data challenges, this report provides a broad, high-level perspective of key financial trends and indicators commonly used in both public and private sectors. The report provides key information to enable municipal councils, sector departments, Provincial Treasuries, National and Provincial Legislatures, and academic institutions in making strategic decisions about municipalities. This information is also used to inform policy formulation.
4. Annexure A1 identifies municipalities in financial distress based on the assessment of their financial health. A total of 168 municipalities were identified with 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 of infrastructure. In addition, some of these municipalities have repeated disclaimer audit opinions and the persistent adoption of unfunded budgets by municipal councils.
5. Annexure A2 contains an analysis of municipalities in financial distress, audit outcomes and unfunded budgets for a five-year period. The municipalities listed in Annexure A2 show that 12 out of the 34 municipalities obtained unqualified audit opinions without findings in the 2022/23 financial year are in financial distress. As a result, it can be established that there is no a correlation necessarily between the audit results of a municipality and its state of financial health. In other words, a clean audit opinion does not always imply sound financial health. Moreover, a total of 61 of the 110 municipalities or 55 per cent that obtained unqualified audit opinions with findings are in financial distress.

# INTRODUCTION

## Response of the Division of Revenue Act to natural disasters and performance of conditional grants

6. South Africa has suffered adverse climate change as parts of the country are experiencing rapid veld fires, severe thunderstorms leading to flash flooding while other parts of the country suffered from severe drought resulting in extremely low dam levels and depleted water reservoirs. All these incidents are classified as natural disasters which often leads to economic losses, destruction of municipal and private properties, health hazards to communities, damages to critical infrastructure and eventually triggers emergency procurement of goods and services.
7. Affected municipalities are compelled to respond rapidly to natural disasters to save lives and minimise human suffering. Therefore, affected municipalities are often expected to take action in response to disasters, even before the Department of Corporative Governance (DCoG) declares a disaster. However, given the poor state of local government finances in most municipalities, weak liquidity positions and insufficient cash reserves, it is difficult for these municipalities to respond effectively and efficiently to community needs for essential services during disasters.
8. During the 2022/23 financial year, the allocation of direct conditional grants increased by 7.7 per cent, which resulted in a notable adjustment of R52 billion in the Medium-Term Expenditure Framework (MTEF) allocations. The fiscal increase was primarily driven by unexpected natural disaster events that occurred during the period. The aim of this adjustment was to ensure that public finances were efficiently directed to the affected municipalities, equipping them to swiftly address emergencies while continuing their regular functions and effectively serving their communities.
9. While the national government made an upward adjustment to avail resources to respond to the natural disasters, it is unfortunate that municipalities have not managed to fully spend their allocations by the end of 2022/23 financial year. The performance of the three-disasters grant, namely the Municipal Emergency Housing Grant, the Municipal Disaster Recovery Grant and the Municipal Disaster Response Grant was 50.8 per cent, 8 per cent and 65.6 per cent respectively. This underperformance is concerning given the inherent need for an immediate response to address the after-effects of the disasters and reconstruction of damaged infrastructure. It may be argued that these funds are generally released during the year, or sometimes late in the municipal financial year, and it takes time for municipalities to accelerate spending the funds. The understanding has always been that immediate relief requires immediate attention and municipalities are required to implement emergency procurement; hence it is inconceivable that recipient municipalities failed to spend the disaster funding allocations by end of the financial year.
10. The performance of direct conditional grants was recorded at 76.1 per cent against a revised allocation of R48.8 billion, which is a decrease from the 85.6 per cent performance observed in the previous year. This decline is partially linked to governance issues, pressures from local businesses who demands participation without following procedures; and disruptive to the project implementation, and supply chain management challenges delaying the appointment of contractors and service providers. Historical data reveals a broader trend of difficulties in grant utilisation, with consistent declines in performance metrics for both infrastructure and capacity-building conditional grants.

## INTRODUCTION

11. In addition, most municipalities in financial distress utilise the conditional grants funding for their operational activities that are outside the framework of the grant conditions, especially on the payment of salaries and councillors allowances. Municipal councils need to be taken to task in instances whereby the municipality uses grant funding not for the intended purposes, municipal councillors need to be subjected to consequence management as this practice constitutes financial misconduct.
12. Therefore, National Treasury has recalled an amount of R2.9 billion by end of the 2022/23 financial year in unspent conditional grants that were either not requested for rollover by municipalities or the rollover applications not approved by the National Treasury. Therefore, it is regrettable to note that in the past five (5) financial years, over R17.7 billion of unspent conditional grants were paid back to the national fiscus.
13. Therefore, it could be concluded that there has not been a shortage of grant allocations, rather it has been misused and or not for the intended purpose as prescribed by law (Division of Revenue Act). Figure 1 below depicts the amounts of unspent conditional grants from 2018/19 to 2022/23 financial years.

**Figure 1: The trend on unspent conditional grants**

### Unspent Conditional Grants 2018/19 to 2022/23



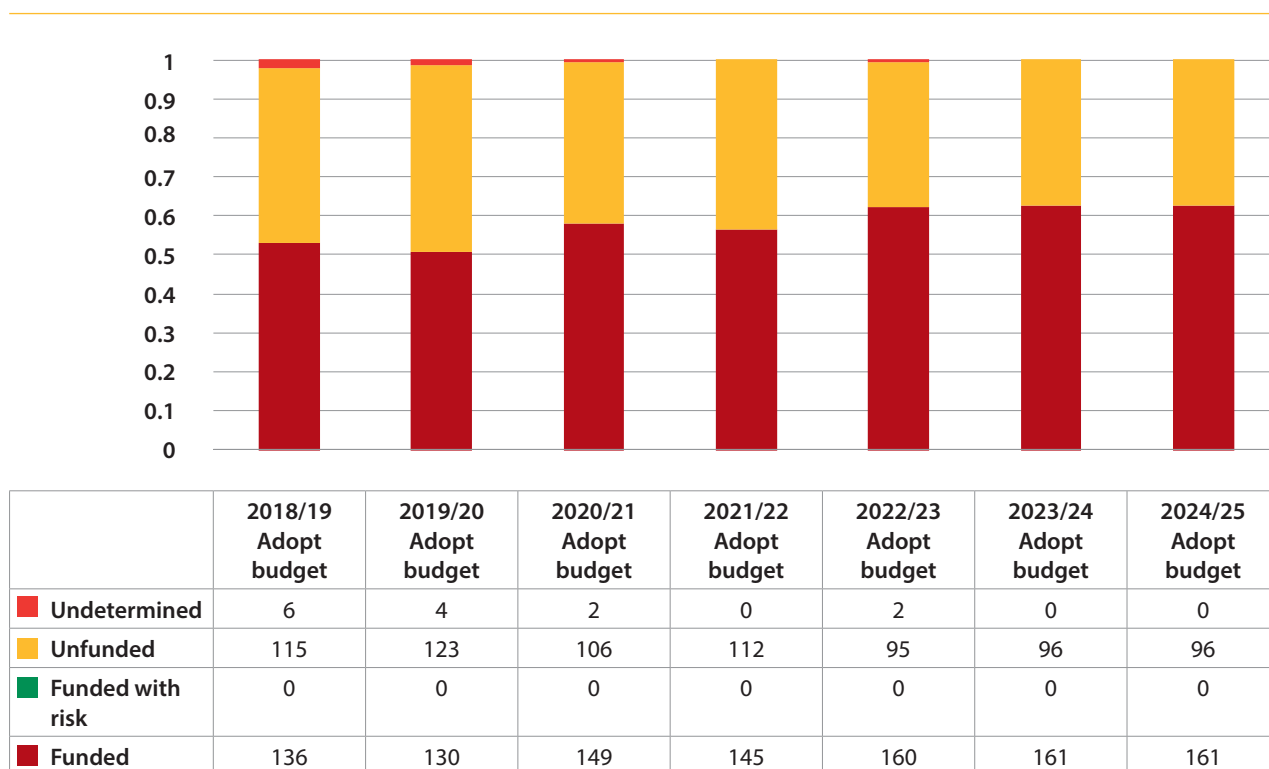
	2018/19	2019/20	2020/21	2021/22	2022/23
Series1	3,481,924	4,241,446	3,228,660	3,819,114	2,935,718

14. One of the reasons for the non-approval of the rollovers requests is when an applicant municipality has positions for both municipal manager and chief financial officer been vacant for at least six months within the financial year that a rollover is requested and, unspent funds not being cashed backed. This then indicates the financial consequences that the municipalities are suffering due to the delays by councils in concluding recruitment processes and other labour relations matters.

## FUNDED/UNFUNDED BUDGETS FOR 2022/23

15. Over a five-year budget period, the number of municipalities that adopted unfunded budgets is reduced, from 115 in 2018/19 to 95 in 2022/23. The unfunded budgets could indicate that municipalities are struggling to balance their expenses with their expected revenue and overestimate the projected collection rate for property rates and service charges. Amongst other challenges, inefficiencies such as excessive water and electricity losses and escalating unauthorised, irregular, fruitless and wasteful expenditure that are not timeously dealt with. Figure 2 below shows funded and unfunded budgets information between 2018/19 and 2022/23.

**Figure 2: Funded/ Unfunded Budgets**



16. The municipalities with unfunded budgets are required to have a realistic funding plan that outlines the actions to be taken to produce a funded budget in the medium term. However, most municipalities are still not implementing their own credit control and debt management policies that were adopted by the council. The trends indicate that the collection rate from households is shrinking, while government institutions often do not honor their payment arrangements.
17. Seven (7) metros adopted funded budgets in the 2022/23 financial year and the City of Tshwane was the only metro that adopted unfunded budget even for the past three (3) financial years. Furthermore, 10 out of 19 secondary cities adopted unfunded budgets. It is concerning that despite continuous support and recommendations by both National and Provincial Treasuries, municipalities continue to adopt unrealistic and unsustainable operational budgets. This suggests that there may be deeper, systemic weaknesses that are contributing to the persistence of unfunded budgets.



## **FUNDED/UNFUNDED BUDGETS FOR 2022/23**

18. Lack of capacity, weak governance, operational and institutional inefficiencies and political instability to a certain extent, are common factors in municipalities that consistently adopt unfunded budgets. It is also expected that any budget funding plan must be aligned to the prescribed framework to ensure alignment to the rescue phase of the new approach to the Financial Recovery Plan.
19. The municipalities with undetermined budget outcomes are considered to be unfunded and for the 2022/23 financial year, Sundays River Valley and Enoch Mgijima local municipalities in the Eastern Cape were classified as such for the original budget, however the outcome for the adjustment budget were unfunded.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

## Indicators of municipal financial health

20. This report assesses the financial condition of municipalities by utilising 13 key indicators as specified in the Funding Compliance Methodology and MFMA Circular No. 42 (Funding a Municipal Budget), as illustrated in Figure 3 below. These indicators provide a comprehensive overview of municipal financial health.

**Figure 3: Indicators of municipal financial health**

Indicators	Method
Cash/cash equivalent position	Cash+Short Term Investment - Bank Overdraft
Cash Coverage	$\frac{\text{(Cash \& Equivalents (A6 row 6) - Bank Overdraft (A6 row 29))}}{\text{[Empl Exp (A4 row 34) + Cllr Remun (A4 row 35) + Bulk Elect (A4 row 36) - Inv Cons Water (A6l rows 50:51) + Debt Imp (A4 row 38)+ Interest (A4 row 40) + Contracted Serv (A4 row 41) + Cash Trf \& Sub (A4F row 192) - Repay Borrow (A7 row 35) +{Inv Cons (A4 row 37) + Inv Cons Water (A6l row 50:51) + Oper Cost (A4 row 44)*40%] /12}}$
Cash plus investment less applications	Cash & Equivalents (A6 row 6)- Bank Overdraft (A6 row 29) + LT Investments (A6 row 15)- Application of Cash (Table A8 row 18)
Repairs and maintenance expenditure level	Repairs and maintenance as a % of Property 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 a Percentage of Total Expenditure	$\frac{\text{(Total capital expenditure/ (Total operating expenditure + Total capital expenditure))}}{\text{X 100}}$
Liquidity Ratio	$\frac{\text{(Cash + Short Term Investments)}}{\text{Total Current Liabilities}}$
Debtors Days	$\frac{\text{(Net Receivables Exch Rev + Net Receivables Prop Rates)/ (Serv chg - Electricity + Serv chg - Water + Serv chg - W_ Water + Serv chg - Waste Man + Property rates}}{\text{x 365}}$
Creditors Days	$\frac{\text{(Trade Payable Exch Trans / (Bulk Purch Elect + Inventory Cons + Interest + Contracted Serv + Oper Cost Exch Trans + CAPEX)}}{\text{x 365}}$
Debt(Total Borrowing)vs Total Operating Revenue	$\frac{\text{(Bank overdraft + Current Liabilities borrowings + Non-Current Liabilities borrowings)}}{\text{Total operating revenue}}$
Current Ratio	Current Assets/Current Liabilities
Solvency Ratio	Total Asset/Total Liabilities

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

### Assessing the liquidity levels of municipalities (cash/cash equivalents, cash coverage and liquidity position)

21. Assessing liquidity levels is crucial in determining whether municipalities have sufficient cash and investments to meet their financial obligations and sustain operations. A municipality that lacks effective cash flow management and a robust liquidity risk management strategy is likely to face severe financial difficulties, which could escalate into a crisis and ultimately lead to dysfunctionality.
22. Furthermore, a municipality must consistently maintain a positive cash position throughout the financial year and manage its cash resources efficiently to prevent overdrafts. Section 45 of the MFMA clearly prohibits municipalities from ending their financial year with any short-term borrowing or overdraft. To offer a more comprehensive assessment of a municipality's cash position, three sub-indicators are used:
  - 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 – This measures the municipality's ability to fund its monthly operational expenses using available cash.

### Indicator 1: Negative cash balances

23. In certain cases, municipalities may face temporary cash flow challenges due to low collection rates and sluggish economic growth that is shedding jobs and restricting the ability of communities to pay promptly for municipal services. However, many of these municipalities can recover and address any cash shortfalls before the end of the financial year through the implementation of effective cash flow management. For municipalities experiencing ongoing cash issues, it is crucial to focus efforts on their revenue collection, very strict expenditure control (eliminate wastages – conduct regular cleaning of payroll to deal with ghost workers), implement strategies that improves productivity and regularly assess the cash flow management to prevent financial shortfalls.
24. While a single instance of negative cash flow is rarely a crisis, it might escalate and become unsustainable if not properly controlled and managed. Municipalities that consistently close their financial year with a negative cash balance are at a higher risk of facing serious financial difficulties in the forthcoming financial year.
25. Table 1 below shows municipalities with negative cash balances for the periods 2021/22 to 2022/23.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

**Table 1: Municipalities' negative cash balances, 2021/22 – 2022/23**

Municipalities	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No.of municipalities with negative cash balances	0	0
<b>Secondary Cities (19)</b>		
No.of municipalities with negative cash balances	0	0
<b>Other Local Municipalities (Towns) 186</b>		
No.of municipalities with negative cash balances	12	14
<b>District Municipalities (44)</b>		
No.of municipalities with negative cash balances	2	0
<b>All municipalities (257)</b>		
No.of municipalities with negative cash balances	14	14

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

At the end of 2022/23, a total of 14 municipalities had negative cash balances and this indicates no improvement as the same number of municipalities were reported in the 2021/22 financial year. Six (6) of these 14 municipalities had recurring negative cash balances from the previous 2021/22 financial year. In relation to Table 1 above, the following observations can be made:

- All the eight (8) metros have maintained positive cash balances for two consecutive financial years under review;
- Free State and Northern Cape provinces reported the highest number of four (4) municipalities each that had negative cash balances for 2022/23, followed by North-West province with three (3) municipalities; and
- All 44 district municipalities reported positive cash balances which is an improvement when compared to the 2021/22 financial year, where two (2) district municipalities reported negative cash balances.

### Indicator 2: Cash coverage ratio

- The cash coverage ratio is a key indicator of whether a municipality has sufficient cash to cover its monthly fixed operational costs. A ratio below one-month signals potential financial instability and a higher risk of financial shortfalls in the near future which may lead to the municipality's inability to meet its obligations, such as providing basic services and fulfilling financial commitments, may be compromised.
- Monitoring the trend of the cash coverage ratio over time is essential in assessing the changes in a municipality's financial position. Generally, a prudent level of cash coverage is between one (1) and three (3) months of operational expenditure. Table 2 below shows the number of municipalities that had negative cash coverage at the end of June 2023.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

28. The metros and secondary cities constitute the majority of the municipalities with strong financial positions and positive cash coverage ratios.

**Table 2: Municipalities' cash coverage, 2021/22 – 2022/23**

Municipalities	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. whose cash coverage is:		
more than 3 months of operational expenditure	2	2
between 1 and 3 months of operational expenditure	2	3
Less than one month of operational expenditure	4	3
<b>Secondary Cities (19)</b>		
No. whose cash coverage is:		
more than 3 months of operational expenditure	3	2
between 1 and 3 months of operational expenditure	9	5
Less than one month of operational expenditure	7	12
<b>Other Local Municipalities (Towns) 186</b>		
No. whose cash coverage is:		
more than 3 months of operational expenditure	61	58
between 1 and 3 months of operational expenditure	30	44
Less than one month of operational expenditure	95	84
<b>District Municipalities (44)</b>		
No. whose cash coverage is:		
more than 3 months of operational expenditure	22	19
between 1 and 3 months of operational expenditure	9	14
Less than one month of operational expenditure	13	11
<b>All Municipalities (257)</b>		-
No. whose cash coverage is:		
more than 3 months of operational expenditure	88	81
between 1 and 3 months of operational expenditure	50	66
Less than one month of operational expenditure	119	110

Source: National Treasury - Local Government Database

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

29. At the end of the 2022/23 financial year, a total of 110 municipalities (42.8 per cent) had a cash coverage ratio of less than one month, indicating that they have insufficient funds to cover one month's worth of operating expenses. A total of 81 municipalities (31.5 per cent) had cash coverage ratios that were greater than three months of operational expenditure in 2022/23. Further analysis explains that:
- Three (3) metros (City of Tshwane, City of Johannesburg and City of Ekurhuleni) had cash coverage ratios of less than one month of operational expenditure and 12 secondary cities had cash coverage of less than a month of operational expenditure;
  - For the past three financial years, the Nelson Mandela Bay Metro and the City of Cape Town have maintained positive cash coverage of more than three (3) months of operational expenditure, and they are the only metros that managed to record the cash coverage of more than three (3) months; and
  - George and Stellenbosch are the two (2) secondary cities that maintained adequate cash to cover its operational expenditure for more than three months, while the number of local municipalities with cash coverage of more than three months slightly decreased from 61 in 2021/22 to 58 in 2022/23.
30. The following are some of the most common causes that contribute to this poor cash flow management in municipalities:
- **Overspending of operational budgets** – most municipalities are spending above their budgeted allocations, resulting in the dependency on bank overdraft facilities to cover the shortfalls that caused a severe financial pressure to meet their financial commitments;
  - **High monthly fixed costs** – Some municipalities are grappling with high fixed operating costs, including salaries and wages, councillor remuneration, contracted services, and interest and loan repayments, which represent approximately 50 per cent of their budgets;
  - **Poor financial planning** – Failure to achieve prudent cash flow estimates during the budget process by most municipalities results in cash shortages and eventually financial instability; and
  - **Inadequate cash flow management** – The absence of a clear and comprehensive cash flow management policy, supported by a realistic cash management plan, has resulted in ineffective cash flow management. The challenge is further compounded by the lack of a well-defined investment strategy or cash-backed reserves plan to ensure that cash surpluses are properly invested.
  - **A declining macro socio-economic environment** and in general, the high unemployment rate can have an adverse impact on municipalities' revenue collections and also increases the number of indigents households that in most cases, are not properly accounted for;
  - **Failure to collect arrear debt** from all customer categories in line with the approved debt collection and credit control policies;
31. The National Treasury always warns municipalities of the potential risk that could have a negative impact on financial sustainability. Amongst other things, the following scenarios could lead to financial challenges, adverse and poor cash positions for a municipality with a weak cash coverage ratio:
- Persistent increases in rates and tariffs that households find unaffordable and significantly impact their disposable income;
  - Continuing decline in revenue streams due to customers pursuing alternative source of energy from renewables and implementation of water demand management system to reduce waste;

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

- Tampering of water and electricity infrastructure leading to illegal connections and further causes major breakdowns and service interruptions and revenue losses;
  - Natural disasters caused by climate change resulting in fire, floods and drought that may trigger an emergency procurement;
  - Monthly cash flow projections that are not credible and poor internal controls that do not support sound financial management; and
  - Poor implementation of the budget funding plans remains a challenge as the affected municipalities are disregarding cost containment measures which were instituted to control and reduce operating expenditure in line with the expected revenues.
32. The in-year management, monitoring and reporting system (IYM) and major strategic engagements such as the budget and benchmark assessments, together with the mid-year budget and performance reviews are the main platforms of engagement between a municipality and key stakeholders. The engagements have been institutionalised by the National Treasury to track and discuss municipal performance in all the key areas, including cash flow management. Effective cash flow management practices are crucial to the early warning signs of municipalities in financial distress, enabling timely action to be taken and mitigate the financial difficulties. Therefore, these systems are designed to enhance oversight and improve the financial performance of municipalities.

### Indicator 3: Cash plus investments less applications or commitments

33. It is required that municipalities maintain sufficient cash and investments to meet their financial obligations, both for current operations and future needs, while also building cash reserves. Financial stability serves as a buffer against internal and external risks, ensuring municipalities have the necessary funding to achieve their strategic objectives and continue providing essential services.
34. Cash and investment management is a critical component of financial sustainability and must be carefully monitored to ensure that an appropriate amount of cash is allocated for capital replacement projects and the upkeep of infrastructure assets. Many metros and secondary cities invest their cash surpluses to optimise returns, thereby enhancing their financial capacity and long-term sustainability.
35. Table 3 below shows municipalities that had positive cash surplus after taking into consideration all their commitments for the period 2021/22 and 2022/23.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

**Table 3: Cash plus investments less applications, 2021/22 – 2022/23**

Municipalities	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	5	5
Shortfal (negative)	3	3
<b>Secondary Cities (19)</b>		
Surplus (positive)	10	8
Shortfal (negative)	9	11
<b>Other Local Municipalities (Towns) 186</b>		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	78	86
Shortfal (negative)	108	100
<b>District Municipalities (44)</b>		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	24	26
Shortfal (negative)	20	18

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

36. In order to meet statutory requirements, municipalities must ensure that they have sufficient cash and investments to cover all obligations, including unspent conditional grants, working capital requirements, employee benefit commitments, and any other reserves that require cash backing. The number of municipalities with positive cash-backed accumulated surpluses, after accounting for commitments, has slightly increased from 117 in 2021/22 to 125 in 2022/23. Meanwhile, the number of municipalities with cash shortfalls decreased from 140 to 132 during the same period.
37. Further analysis demonstrates that:
- Five (5) metros, Buffalo City, Nelson Mandela Bay, Mangaung, eThekweni and City of Cape Town had positive cash-backed accumulated surplus at the end of 2022/23. Only eight (8) secondary cities had positive cash-backed accumulated surpluses. It is observed that Mogale City and JB Marks deteriorated in 2022/23 compared to positive balances reported at the end of the 2021/22 financial year;
  - In most cases, municipalities budget for substantial surpluses at the beginning of the financial year however, only a few municipalities had managed to have adequate cash and investments at the end of the financial year, to cover all their financial obligations (current and future operations); and
  - In addition, municipalities always project significant cash surpluses at the beginning of the year (budget), nevertheless, they end up with deficits or financial shortfalls at the end of the audit year. This is a major concern and a repetitive occurrence over prolonged financial years.



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## Indicator 4: Liquidity ratio

38. The liquidity ratio is a critical measure for evaluating a municipality's financial health, particularly its ability to meet short-term financial obligations using its most liquid assets such as cash and investments. By comparing the current assets to current liabilities (debts due within 12 months), the ratio provides insight into the municipality's capacity to satisfy these obligations without the need to secure additional funding. Municipalities with a strong liquidity position are better equipped to withstand economic uncertainties, ensuring they have enough cash on hand to cover immediate financial responsibilities. The ratio also reflects how often liquid assets are used to fulfil short-term debt commitments.
39. Table 4 below shows the liquidity positions of 257 municipalities between the 2021/22 and 2022/23 financial years. Overall, 67 municipalities demonstrated stable liquidity in 2022/23 compared to 69 municipalities in 2021/22 which is a deterioration.

**Table 4: Liquidity ratio, 2021/22 – 2022/23**

	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	7	6
More than current liabilities (more than 1)	1	2
<b>Secondary Cities (19)</b>		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	19	18
More than current liabilities (more than 1)	0	1
<b>Other Local Municipalities (Towns) 186</b>		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	137	139
More than current liabilities (more than 1)	49	47
<b>District Municipalities (44)</b>		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	25	27
More than current liabilities (more than 1)	19	17
<b>All municipalities (257)</b>	-	-
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	188	190
More than current liabilities (more than 1)	69	67

Source: National Treasury - Local Government Database

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

40. Further analysis shows that:

- The City of Cape Town reflected a stable liquidity position for both 2021/22 and 2022/23 financial years, and the eThekweni Metro reflected an improvement when compared to the previous years. However, six (6) metros reported cash and investments that are insufficient to pay current liabilities for both 2021/22 and 2022/23 financial years;
- 18 secondary cities and 139 local municipalities (61.1 per cent of all municipalities) have inadequate cash and investments to settle current liabilities. Stellenbosch municipality is the only secondary city that managed to improve its liquidity position compared to the 2021/22 financial year; and
- A total of 27 district municipalities has weak liquidity positions. The lower the liquidity ratio, the greater the probability of a municipality experiencing financial problems.

### Indicator 5: Current ratio

41. The current ratio is a key financial indicator used to assess whether a municipality has sufficient current assets to cover its current liabilities, such as debt and payables. A higher current ratio signifies a stronger capacity to meet short-term obligations, contributing to the municipality's ability to maintain operations as a going concern. On the contrary, a ratio below 1 indicates that the municipality may struggle to pay its current liabilities all at once if they become due, signalling potential technical insolvency and financial distress. This ratio helps to evaluate a municipality's short-term financial stability and liquidity.
42. If current liabilities are greater than current assets, it highlights serious financial challenges and most likely, liquidity challenges.
43. Table 5 below shows the current ratio between 2021/22 and 2022/23. Almost half of the municipalities have current liabilities that are greater than current assets in 2022/23.

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Table 5: Current ratio, 2021/22 – 2022/23

	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	5	4
more than current liabilities (more than 1)	3	4
<b>Secondary Cities (19)</b>		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	9	12
more than current liabilities (more than 1)	10	7
<b>Other Local Municipalities (Towns) 186</b>		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	94	92
more than current liabilities (more than 1)	92	94
<b>District Municipalities (44)</b>		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	20	20
more than current liabilities (more than 1)	24	24
<b>All municipalities (257)</b>	-	-
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	128	128
more than current liabilities (more than 1)	129	129

Source: National Treasury - Local Government Database

44. Further analysis shows that:

- At the end of 2022/23, a total of four (4) metros namely, Mangaung, City of Johannesburg, City of Tshwane and the City of Ekurhuleni have reported current ratios that are lower than the norm. eThekweni improved its current ratio compared to its position in the 2021/22 financial year;
- A total of 12 secondary cities reported negative current ratios in the 2022/23 financial year which is a deterioration compared to nine (9) in 2021/22;
- A total of 92 local municipalities had insufficient current assets to pay current obligations. This is a marginal improvement compared to 94 municipalities in the 2021/22 financial year; and
- There is no improvement as 20 of the 44 district municipalities have negative current ratios compared to what was reported at the end of the 2021/22 financial year.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

### Indicator 6: Repairs and maintenance as a percentage of property, plant and equipment

45. Repairs and maintenance of infrastructure is vital for ensuring that assets continue to provide the expected economic benefits and remain serviceable. Municipalities are advised to allocate at least 8 per cent of their budget to the repairs and maintenance of property, plant, and equipment (PPE). If this ratio falls below the recommended threshold, it suggests that insufficient resources are being dedicated to maintenance of infrastructure assets, which can lead to the premature deterioration or impairment of assets. This could result in higher long-term costs and reduced asset performance, affecting the municipality's ability to deliver essential services.

**Table 6: Repairs and maintenance as a percentage of property, plant and equipment, 2021/22 – 2022/23**

Municipalities	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. whose repairs and maintenance are		
less than 8% of PPE	7	7
more than 8% of PPE	1	1
<b>Secondary Cities (19)</b>		
No. whose repairs and maintenance are		
less than 8% of PPE	18	17
more than 8% of PPE	1	2
<b>Other Local Municipalities (Towns) 186</b>		
No. whose repairs and maintenance are		
less than 8% of PPE	172	169
more than 8% of PPE	14	17
<b>District Municipalities (44)</b>		
No. whose repairs and maintenance are		
less than 8% of PPE	35	37
more than 8% of PPE	9	7

Source: National Treasury - Local Government Database

46. Municipalities often prioritise spending on other activities over repairs and maintenance, including funding the construction of new infrastructure assets and neglecting the existing assets. The neglect begins in the budgeting phase, where insufficient allocations for repairs and maintenance, resulting in the postponement of essential repairs, replacements, and renewals. Over time, the approach can cause more frequent asset breakdowns, service interruptions, potentially leading to a complete collapse of service delivery. Regular maintenance, on the other hand, helps to preserve the useful life of assets, ensuring reliable operations and preventing costly failures, while maintaining the quality of public services.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

47. Table 6 above shows that 89.5 per cent (230 of the 257) of municipalities in the country spent less than 8 per cent on repairs and maintenance. Underspending on repairs and maintenance is a widespread issue across all categories of municipalities, indicating a lack of commitment to protecting and preserving infrastructure assets. An analysis further shows that:
- Seven (7) metros had underspent on repairs and maintenance as a percentage of PPE in the 2022/23 financial year, eThekweni Metro consistently remains the only metro that managed to spend according to the recommended norm;
  - 17 secondary cities underspent on repairs and maintenance in the 2022/23 financial year while two (2) municipalities spent more than 8 per cent of PPE;
  - A total of 169 local municipalities underspent on repairs and maintenance; and
  - A similar trend of underspending on repairs and maintenance was observed among 37 district municipalities failing to meet the recommended spending levels as a percentage of PPE.
48. Many municipalities tend to prioritise corrective maintenance over preventative maintenance. Corrective maintenance involves addressing issues only after an asset has failed or is no longer performing to the required standard. This reactive approach can lead to higher repair costs, more frequent breakdowns, and reduced asset lifespan. In contrast, preventative maintenance is a proactive strategy where regular, scheduled maintenance is performed to reduce the likelihood of asset breakdown and ensure consistent performance. By neglecting preventative maintenance, municipalities risk increased downtime, higher long-term costs, and diminished service quality, as assets may not be kept in optimal condition.

### Indicator 7: Asset renewal/rehabilitation expenditure level

49. Municipalities must allocate sufficient funds for asset renewal, particularly the aging or deteriorating infrastructure. However, many municipalities fall short of the National Treasury's recommendation to spend at least 40 per cent of total capital expenditure on renewing and upgrading existing assets. This underinvestment exacerbates the state of current municipal infrastructure, leading to a total breakdown and higher future costs. To properly address infrastructure needs and to ensure long-term service delivery, municipalities must prioritise adequate budgeting for asset renewal and upgrades. This proactive approach is essential for maintaining and improving infrastructure life span.
50. Therefore, if the asset is still in operation when it reaches the end of its useful life, it must either be renewed, or its lifespan extended through proactive interventions. By doing so, municipalities can maintain reliable service levels, avoid costly replacements, and optimise the use of existing infrastructure.
51. Renewal or rehabilitation of existing assets involves costs related to refurbishing, rehabilitating, or reconstructing assets to restore their desired service levels. This process is crucial for sustaining service delivery beyond the asset's original useful life. If the asset's services remain necessary at the end of its initial life span, it should be renewed, or its life span extended through maintenance and upgrades. Ensuring that assets continue to meet service needs is essential for maintaining the quality and reliability of public services over time.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

**Table 7: Asset renewal/rehabilitation expenditure level, 2021/22 – 2022/23**

Municipalities	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	3	3
More than 40% of their total capital expenditure	5	5
<b>Secondary Cities (19)</b>		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	7	9
More than 40% of their total capital expenditure	12	10
<b>Other Local Municipalities (Towns) 186</b>		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	113	106
More than 40% of their total capital expenditure	73	80
<b>District Municipalities (44)</b>		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	34	34
More than 40% of their total capital expenditure	10	10

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

52. As illustrated in table 7 above, the overall total improved from 157 in the 2021/22 financial year to 152 in the 2022/23 financial year of municipalities who inadequately spent (less than 40 per cent) on asset renewal at the end of 2022/23. A ratio of less than 40 per cent spent on asset renewal can indicate one of two scenarios for a municipality: either there is insufficient investment in renewing and protecting infrastructure, which may lead to asset deterioration, or the assets are currently in good condition and do not require immediate renewal. In the latter case, the lower spending could reflect effective prior maintenance and sound asset management, reducing the need for renewal at the present time. However, continuous monitoring is essential to ensure that assets do not fall into disrepair due to prolonged underinvestment.
53. An analysis further indicates the following:
- Similar to the prior financial years, three (3) metros reported assets renewal of less than 40 per cent;
  - Nine (9) out of 19 secondary cities reported assets renewal of less than 40 per cent;
  - 106 local municipalities recorded assets renewal of less than 40 per cent which is an improvement when compared to the 113 recorded in the 2021/22 financial year; and
  - There is no improvement as the same number of 34 district municipalities spent less than 40 per cent of capital expenditure on asset renewal compared to the 2021/22 financial year. It is important to note that not all districts, except for those that are water service authority, have significant infrastructure assets that require to be renewed.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

### Indicator 8: Asset Renewal/Depreciation level

54. Asset renewal as a percentage of depreciation is a crucial metric for assessing whether the condition of a municipality's assets is likely to improve or deteriorate over time. Municipalities are encouraged to invest an amount equivalent to 100 per cent of the depreciation they accumulate to replace or upgrade assets whose value or useful life has diminished. A ratio below 100 per cent signals that the municipality is not sufficiently providing for depreciation in asset renewal, potentially leading to higher depreciation costs (asset impairment). The rate at which municipalities consume the assets in service delivery should align with their depreciation provisions to ensure timely replacement or upgrades, preserving the assets' functionality and preventing service interruptions.

**Table 8: Asset renewal/depreciation level, 2021/22 – 2022/23**

Municipalities	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. whose depreciation level is		
less than 100% of assets	6	4
More than 100% of assets	2	4
<b>Secondary Cities (19)</b>		
No. whose depreciation level is		
less than 100% of assets	15	14
More than 100% of assets	4	5
<b>Other Local Municipalities (Towns) 186</b>		
No. whose depreciation level is		
less than 100% of assets	138	134
More than 100% of assets	48	52
<b>District Municipalities (44)</b>		
No. whose depreciation level is		
less than 100% of assets	35	37
More than 100% of assets	9	7
<b>All municipalities (257)</b>		
No. whose depreciation level is		
less than 100% of assets	194	189
More than 100% of assets	63	68

Source: National Treasury - Local Government Database

55. Table 8 above shows that municipalities are insufficiently spending on asset renewal relative to depreciation costs. A total of 189 out of 257 (74 per cent) of municipalities have spent less than 100 per cent of depreciation on asset renewal.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

56. The National Treasury's recommendation for municipalities is to factor in depreciation costs in the tariff calculations as a strategic measure aimed at ensuring long-term sustainability and financial health. Depreciation represents the wear and tear of assets over time, and by including it in tariffs, municipalities can create cost-reflective pricing that accurately captures the true expenses of service delivery. This approach not only helps municipalities cover current operational costs but also builds up reserves for future infrastructure renewal or replacement, maintaining service quality and preventing sudden financial shortfalls when assets reach the end of their useful life.
57. At the end of 2022/23, the audited outcomes revealed that:
- Four (4) metros spent less than 100 per cent on asset renewal against depreciation;
  - 14 secondary cities spent less than 100 per cent on asset renewal against depreciation; and
  - 134 local municipalities inadequately spent on asset renewal against depreciation, although an improvement compared to the 138 in 2021/22 it is not sufficient to address the state of municipal infrastructure assets in local government.

### Indicator 9: Total capital expenditure as a percentage of total expenditure

58. 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 the growing need for access to basic services. The allocation of funds through the intergovernmental transfers are diminishing, therefore some municipalities invest substantially in infrastructure spending through other funding sources. Therefore, many municipalities started to explore ways of leveraging external finance to expand their capital investments to augment the allocated funding by the national government.
59. Weak financial liquidity is the main cause why many municipalities are unable to access private capital markets or Development Finance Institutions (DFIs) for infrastructure funding leaving them without the necessary resources to invest in infrastructure projects.
60. To assess whether a municipality has adequately invested in capital infrastructure, the level of capital expenditure should be between 10 and 20 per cent of total expenditure. A ratio below 10 per cent reflects that a municipality has insufficiently invested in infrastructure needed for delivering basic 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. This implies that, if a municipality substantially invests its own funding towards capital infrastructure, it might face a risk of eroding all its cash reserves.
61. Table 9 below shows the total capital expenditure as a percentage of total expenditure between the 2021/22 and 2022/23 financial years. There are 93 municipalities that have under invested in capital infrastructure in 2022/23. It has been noted that the more municipalities experience financial difficulties, the more they reduce their own contributions towards capital investments to achieve a balance.



## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

**Table 9: Total capital expenditure as a percentage of total expenditure, 2021/22 – 2022/23**

	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
<b>No. of municipalities whose Total Capital Expenditure is</b>		
less than 10% of their total expenditure	6	4
between 10% and 20% of their total expenditure	1	2
more than 20% of their total expenditure	1	2
<b>Secondary Cities (19)</b>		
<b>No. of municipalities whose Total Capital Expenditure is</b>		
less than 10% of their total expenditure	10	11
between 10% and 20% of their total expenditure	5	5
more than 20% of their total expenditure	4	3
<b>Other Local Municipalities (Towns) 186</b>		
<b>No. of municipalities whose Total Capital Expenditure is</b>		
less than 10% of their total expenditure	61	56
between 10% and 20% of their total expenditure	62	69
more than 20% of their total expenditure	63	61
<b>District Municipalities (44)</b>		
<b>No. of municipalities whose Total Capital Expenditure is</b>		
less than 10% of their total expenditure	23	22
between 10% and 20% of their total expenditure	3	4
more than 20% of their total expenditure	16	14

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

62. Between 2021/22 and 2022/23 financial years, the audited outcomes revealed that:

- Four (4) metros spent less than 10 per cent on capital expenditure as a percentage of total expenditure while only Buffalo City and City of Cape Town metros had adequately invested in infrastructure within the acceptable norm of between 10 to 20 per cent. The Nelson Mandela Bay metro has again reported total capital expenditure that is above the total expenditure due to incorrect mSCOA data strings while the City of Tshwane metro improved from zero to above the norm;
- 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 three (3) spent above the norm; and
- A total of 61 local municipalities spent more than 20 per cent of their total expenditure, while Letsemeng and Masilonyana local municipalities in the Free State Provinces recorded the highest at 90.4 per cent and 95.2 per cent respectively. These municipalities are heavily reliant on conditional grants transfers to finance their capital infrastructure.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

63. The Thabo Mofutsanyana district municipality did not submit the relevant data strings for this indicator for both the 2021/22 and 2022/23 financial years, while Uthukela, Bojanala and Overberg district municipalities did not submit for the 2022/23 financial year.

### Indicator 10: Debtors days

64. Debtors' days refers to the average number of days required for a municipality to receive payment from its consumers for bills/ invoices issued for municipal services. The indicator provides information about consumer payment patterns and how well the municipality manages revenue collections. A shorter payment period (less than 30 days) indicates that a municipality maintains an effective system for the implementation of credit control and debt collection policies. If the ratio is above the norm, it indicates that the municipality is experiencing challenges in the collection of outstanding amounts due. This extended collection period exposes a municipality to significant cash flow risk.
65. Municipalities that failed to fully implement municipal credit control and debt collection policy often experience late payment of municipal bills by consumer debtors. In addition, the culture of non-payment by consumers also contributes to this indicator and if a municipality fails to apply its credit control and debt collection policy efficiently, the number of debtors days exacerbate.
66. Table 10 below shows the debtors days between the 2021/22 and 2022/23 financial years. There is an overall regression as a total of 218 or 85 per cent municipalities took more than 30 days to collect outstanding debt whereas 39 municipalities collected debt within the prescribed 30 days.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

Table 10: Debtors days, 2021/22 – 2022/23

	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. of municipalities who receive payment from debtors		
less than 30 days	2	1
More than 30 days	6	7
<b>Secondary Cities (19)</b>		
No. of municipalities who receive payment from debtors		
less than 30 days	2	3
More than 30 days	17	16
<b>Other Local Municipalities (Towns) 186</b>		
No. of municipalities who receive payment from debtors		
less than 30 days	16	12
More than 30 days	170	174
<b>District Municipalities (44)</b>		
No. of municipalities who receive payment from debtors		
less than 30 days	21	23
More than 30 days	23	21
<b>All municipalities (257)</b>		
No. of municipalities who receive payment from debtors		
less than 30 days	41	39
More than 30 days	216	218

Source: National Treasury - Local Government Database

67. Further analysis indicates that:

- Seven (7) metros take more than 30 days to collect debt while eThekweni is the only metropolitan municipality that collects billed revenue within the 30-day period;
- 16 of the 19 or 84 per cent secondary cities takes more than 30 days to collect debt;
- 12 local municipalities collect debts within 30 days' period, this is a minor regression compared to 16 reported in 2021/22 however, the regression is persistent for every financial year; and
- The category of district municipalities reported a slight increase in municipalities that collected revenue within the 30 days.

### Indicator 11: Creditors days

68. 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

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

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 turnaround time for the payment of creditors. A period longer than 30 days is an indication that the municipality may be experiencing cash flow problems, or the municipality might not have effective controls in place to ensure prompt payments. Therefore, timely payment of creditors plays a crucial role in maintaining the liquidity of local economies and ensuring the survival of Small, Medium, and Micro Enterprises (SMMEs).

69. 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.

70. The following table indicates creditors payment period for 257 municipalities between 2021/22 and 2022/23. This reflects the average number of days taken by municipalities to pay creditors.

**Table 11: Creditors days, 2021/22 – 2022/23**

	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
<b>No. of municipalities who pay creditors</b>		
within 30 days of receiving the invoice	3	2
more than 30 days after receiving the invoice	5	6
<b>Secondary Cities (19)</b>		
<b>No. of municipalities who pay creditors</b>		
within 30 days of receiving the invoice	2	2
more than 30 days after receiving the invoice	17	17
<b>Other Local Municipalities (Towns) 186</b>		
<b>No. of municipalities who pay creditors</b>		
within 30 days of receiving the invoice	22	23
more than 30 days after receiving the invoice	164	163
<b>District Municipalities (44)</b>		
<b>No. of municipalities who pay creditors</b>		
within 30 days of receiving the invoice	6	7
more than 30 days after receiving the invoice	38	37
<b>All municipalities (257)</b>	-	-
<b>No. of municipalities who pay creditors</b>		
within 30 days of receiving the invoice	33	34
more than 30 days after receiving the invoice	224	223

Source: National Treasury - Local Government Database

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

71. A total of 223 or 87 per cent municipalities took more than 30 days to pay creditors in 2022/23 and further analysis shows that:
  - Six (6) metros and 17 secondary cities take more than 30 days to pay creditors; and
  - 163 local municipalities take more than 30 days to pay creditors.
72. The above highlights that municipalities are not adhering to Section 65(2)(e) of the MFMA, which mandates timely payments to creditors. This is a key indicator of a financial crisis as it triggers the criteria for serious financial problems and persistent material breach of financial commitments as per MFMA Section 138 and 140 respectively. The National Treasury conducts a quarterly assessment of these triggers and communicates the outcomes with all municipalities and related stakeholders.
73. Late or non-payment of creditors carries severe repercussions for both the private and public sectors, with SMMEs being the most vulnerable. SMMEs often operate on tight margins and rely heavily on consistent cash flow to sustain their operations and when municipalities delay payments, these businesses face financial strain, which can lead to reduced capacity, job loss, or even bankruptcy.

### Indicator 12: Total borrowing vs total operating revenue

74. The objective of this indicator is to assess whether a municipality is generating enough revenue to meet its long-term liabilities. Otherwise, the ratio assesses the ability of a municipality to service debt from its 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 the capacity to take up additional borrowings to fund.
75. Table 12 below indicates the total borrowing against the total operating revenue. A total of 254 out of 257 or 99 per cent of municipalities have less than 45 per cent borrowing relative to total operating revenue. This is an indication that municipalities could borrow more money for revenue generating assets. To determine the level of affordability, this indicator is evaluated in conjunction with the municipal liquidity ratios.

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

**Table 12: Total borrowing vs total operating revenue, 2021/22 – 2022/23**

	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. of municipalities whose debt level is		
less than 45%	8	8
more than 45%	0	0
<b>Secondary Cities (19)</b>		
No. of municipalities whose debt level is		
less than 45%	18	17
more than 45%	1	2
<b>Other Local Municipalities (Towns) 186</b>		
No. of municipalities whose debt level is		
less than 45%	185	185
more than 45%	1	1
<b>District Municipalities (44)</b>		
No. of municipalities whose debt level is		
less than 45%	44	44
more than 45%	0	0
<b>All municipalities (257)</b>	-	-
No. of municipalities whose debt level is		
less than 45%	255	254
more than 45%	2	3

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

76. Further analysis indicates that:

- Eight (8) metros' total borrowing is less than 45 per cent of total operating revenue. This confirms the notion that metros are self-sustaining or self-sufficient and therefore can afford the repayment of borrowing from their own generated revenue. The same results were reported for the 2021/22 financial year;
- A total of 17 secondary cities has adequate borrowing capacity, but Drakenstein and Steve Tshwete local municipalities are the only secondary cities that have limited capacity to increase their borrowing. When evaluating the financial health and affordability level of a municipality, it is essential to assess financial ratios in conjunction with cash flow. To accurately determine affordability, a holistic approach that examines both ratios (debt and other financial indicators) and cash flow ensures a better understanding of the municipality's capacity to manage its finances effectively; and
- Similar to the 2021/22 financial year reporting, 185 of the 186 local municipalities have adequate borrowing capacity and Mohokare local municipality reported to have limited capacity to increase borrowing given their revenue limitations.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

## Indicator 13: Solvency ratio

77. This ratio assesses a municipality's ability to pay off its long-term debts with its available assets. While municipalities, unlike private companies, cannot simply sell off infrastructure assets to settle debts, this ratio provides insight into the overall financial strength and stability of the municipality. Though infrastructure and other assets cannot be sold, it is crucial that revenue-generating assets such as utilities, transportation systems, or other public services are maintained effectively. The sustainability of these assets ensures that the municipality can continue providing essential services, which, in turn, maintain or even increase revenue potential.
78. The higher the solvency ratio, the more capable the municipality will be to pay its total liabilities.
79. Table 13 below shows the solvency ratio of 257 municipalities between 2021/22 and 2022/23. A total of 24 municipalities has insufficient total assets to cover their total liabilities.

**Table 13: Solvency ratio, 2021/22 – 2022/23**

	Audit Outcome	
	2021/22	2022/23
<b>Metropolitan Municipalities (8)</b>		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	1	0
more than total liabilities (more than 1)	7	8
<b>Secondary Cities (19)</b>		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	3	3
more than total liabilities (more than 1)	16	16
<b>Other Local Municipalities (Towns) 186</b>		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	13	12
more than total liabilities (more than 1)	173	174
<b>District Municipalities (44)</b>		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	8	9
more than total liabilities (more than 1)	36	35
<b>All municipalities (257)</b>	-	-
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	25	24
more than total liabilities (more than 1)	232	233

Source: National Treasury - Local Government Database

## ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

80. Further analysis shows that:

- All the eight (8) metropolitan municipalities reported sufficient total assets to cover their total liabilities, while three (3) secondary cities (Matjhabeng, Govan Mbeki and Emalahleni (MP) have insufficient total assets to cover their total liabilities. These secondary cities except Emalahleni were also in this position in the 2021/22 financial year;
- Similarly, 12 local municipalities also reflected total liabilities that exceeds total assets; and
- Nine (9) district municipalities have total liabilities that exceed total assets.



## OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

### Audit outcomes: 2022/23 financial year

81. The 2022/23 audit is the second audit cycle for the elected incumbent municipal councils post the November 2021 local government elections. Therefore, these outcomes reflect the performance of the established councils and demonstrate their commitment or lack thereof to clean audits. Municipalities must strengthen their financial governance to address the historical record of weak institutional capacity, instability due to political infighting, and lack of accountability which ultimately deteriorates service delivery. Therefore, to a certain extent, the audit outcomes reflect the political and administrative leadership at the municipalities.
82. The negative audit outcome could suggest that the financial statements cannot be relied on due to lack of supporting documentation, or cannot be verified, even if the municipality is in good financial health. Therefore, it is important to note that even if a municipality that is financially sound can obtain negative audit outcomes.
83. Overall, the 2022/23 audit outcomes indicates slight change and according to the AGSA, despite commitments made for improvements, the action was too slow with little impact on the lived realities of ordinary South Africans.
84. Table 14 below presents a summary of audit opinions for all municipalities between 2018/19 and 2022/23. In the financial year 2022/23, a total of 34 municipalities obtained unqualified opinions with no findings, a decrease from 38 municipalities in 2021/22. For the past two years, a total of 30 municipalities were able to maintain their unqualified audit with no findings status, while four (4) municipalities improved to this position. A further 8 municipalities named City of Ekurhuleni (GP), Capricorn (LIM), Waterberg (LIM), Hantam (NC), Prince Albert (WC), Ray Nkonyeni, Swellendam (WC) and Theewaterskloof (WC) regressed to unqualified audit opinion with findings. A total of 20 municipalities that achieved unqualified audit opinion with no findings are from the Western Cape province.
85. The City of Cape Town is the only metro that received unqualified audit opinion with no findings for two consecutive financial years, while the Mangaung metro received a repeat qualified audit opinion.

**Table 14: Summary of audit opinions for all municipalities, 2018/19 to 2022/23**

Audit Opinon	2018/19		2019/20		2020/21		2021/22		2022/23	
	No	%	No	%	No	%	No	%	No	%
Adverse	6	2%	7	3%	4	2%	6	2%	6	2%
Disclaimer	42	16%	34	13%	25	10%	15	6%	12	6%
Qualified	95	37%	87	34%	78	30%	78	30%	85	30%
Unqualified - with findings	94	37%	96	37%	100	39%	104	40%	110	40%
Unqualified - no findings	20	8%	32	12%	41	16%	38	15%	34	15%
Audits Outstanding	0	0%	1	0%	9	4%	16	6%	10	6%
<b>Total</b>	<b>257</b>	<b>100%</b>	<b>257</b>	<b>100%</b>	<b>257</b>	<b>100%</b>	<b>257</b>	<b>100%</b>	<b>257</b>	<b>100%</b>

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

86. The number of unqualified audit opinions with findings increased to 110 in 2022/23, from 104 in 2021/22. In addition, qualified audit opinions also increased to 85 in 2022/23 from 78 in 2021/22.

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

87. Six (6) municipalities obtained adverse audit opinions and three (3) of those namely uMzinyathi (KZN), Emakhazeni (MP) and Laingsburg (WC) have obtained the same outcomes in 2021/22. Although there is a marginal decline in disclaimer audit opinions from 15 in 2021/22 to 12 in 2022/23, it is still a serious concern that some municipalities are still unable to provide sufficient evidence to support their financial reporting and performance.
88. Seven (7) municipalities improved from disclaimer to qualified opinion while three (3) municipalities moved from adverse to qualified audit opinion in 2022/23. Lekwa municipality, which is under national government intervention, is amongst the improved municipalities while the City of Tshwane has also recorded an improvement.
89. The provinces with the worst audit outcomes in 2022/23, based on the highest disclaimer audit opinions are North West (3) and Eastern Cape (3). Although Free State recorded two (2) disclaimers, it remains the province with the highest number of municipalities that failed to complete the audit within the legislated date.
90. In terms of the municipal entities, Maluti Water has a record of five (5) consecutive years of obtaining disclaimer audit opinion while Joburg Market is the only municipal entity with unqualified audit with no findings.
91. While there is an overall deterioration of municipalities that achieved unqualified audits with no findings, from 46 in 2021/22 to 34 in 2022/23, the provinces with the exceptional audit outcomes in 2022/23, based on the highest unqualified audit with no findings are Western Cape (20), Eastern Cape (4) and KwaZulu-Natal (4). It is important to note that the Northern Cape declined from five (5) to two (3) while the Western Cape also declined from 24 to 20 municipalities. The Free State and North West municipalities failed to achieve clean audits in both 2021/22 and 2022/23 financial years.
92. Similarly, Limpopo province declined from one (1) to zero (0), while Gauteng Province also declined from four (4) to one (1) clean audit.
93. Of concern is the high amounts of the unauthorised, irregular, fruitless and wasteful expenditure and despite the high levels of these transgressions, the AGSA has noted that the municipal public accounts committees are not always investigating this category of expenditures. The fruitless and wasteful expenditure increased from R4.7 billion in 2021/22 to R7.4 billion in 2022/23. Although there was a marginal decrease of R1.3 billion or 5.4 per cent from a reported unauthorised expenditure of R25.4 billion in 2021/22 to R24.1 billion in 2022/23, this expenditure remains high.
94. The top five contributors to fruitless and wasteful expenditure are City of Tshwane (R1.3 billion), Emalahleni (MP) (R534.1 million), Matjhabeng (R341.6 million), Goven Mbeki (R327.8 million), and City of Matlosana (R233.4 million).

## Governance: Acting Municipal Manager and Chief Financial Officer Positions

95. Section 54A of the Municipal Systems Act, 2000 highlights the critical role of the Municipal Manager (MM) in a municipality. As the accounting officer, the MM is responsible for the municipality's financial and administrative operations, ensuring compliance with various regulations and effective service delivery to the community.

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

96. Also, the position of the Chief Financial Officer (CFO) is equally important. The CFO is responsible for managing the Budget and Treasury Office, overseeing the municipality's finances, and ensuring compliance with municipal finance management legislation and council policies. The establishment of the Budget and Treasury Office, which is headed by the CFO, is regulated by Section 80 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).
97. Therefore, both the MM and CFO positions are the pillars of a municipality as they take accountability of overall performance and also provide strategic leadership. Failure to fill these positions results in operational disruptions and later poor service delivery and financial governance.
98. It is observed that at most municipalities with, officials in acting position find it difficult to take decisions more especially those related to contracts and procurement and particularly in cases whereby a permanent MM and or CFO are temporarily suspended. In this instance their responsibilities are normally shared by senior managers, which results in a lack of accountability and hesitation to act promptly. However, it is observed in provinces such as the Free State, the Provincial Department of Cooperative Governance and Traditional Affairs often second officials to act in those positions until new appointments are made and or suspensions are concluded. Although the secondment is meant to assist the municipalities, it is also seen as aiding or supporting poor leadership by council as such matters tend to extend beyond the prescribed period.
99. The AGSA has also urged provincial departments of Cooperative Governance to focus on addressing this issue to bring stability to struggling municipalities. Furthermore, these vacancies affect the entire value chain of reporting such as the required legislative reports which hinders proactive action by the province to facilitate the interventions needed to address any shortcomings.
100. To encourage stability of administrative leadership at municipalities, the National Treasury has embedded a compulsory requirement in the annexure to MFMA Circular No. 86 of 2017, that the positions of both the MM and CFO should not be vacant for more than six months during the financial year that a roll-over is requested.
101. Table 15 below shows the number of acting MMs and CFOs as at 30 June 2022 and 30 June 2023.

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

**Table 15: Municipalities with acting Municipal Managers and CFOs at 30 June 2022 & 2023**

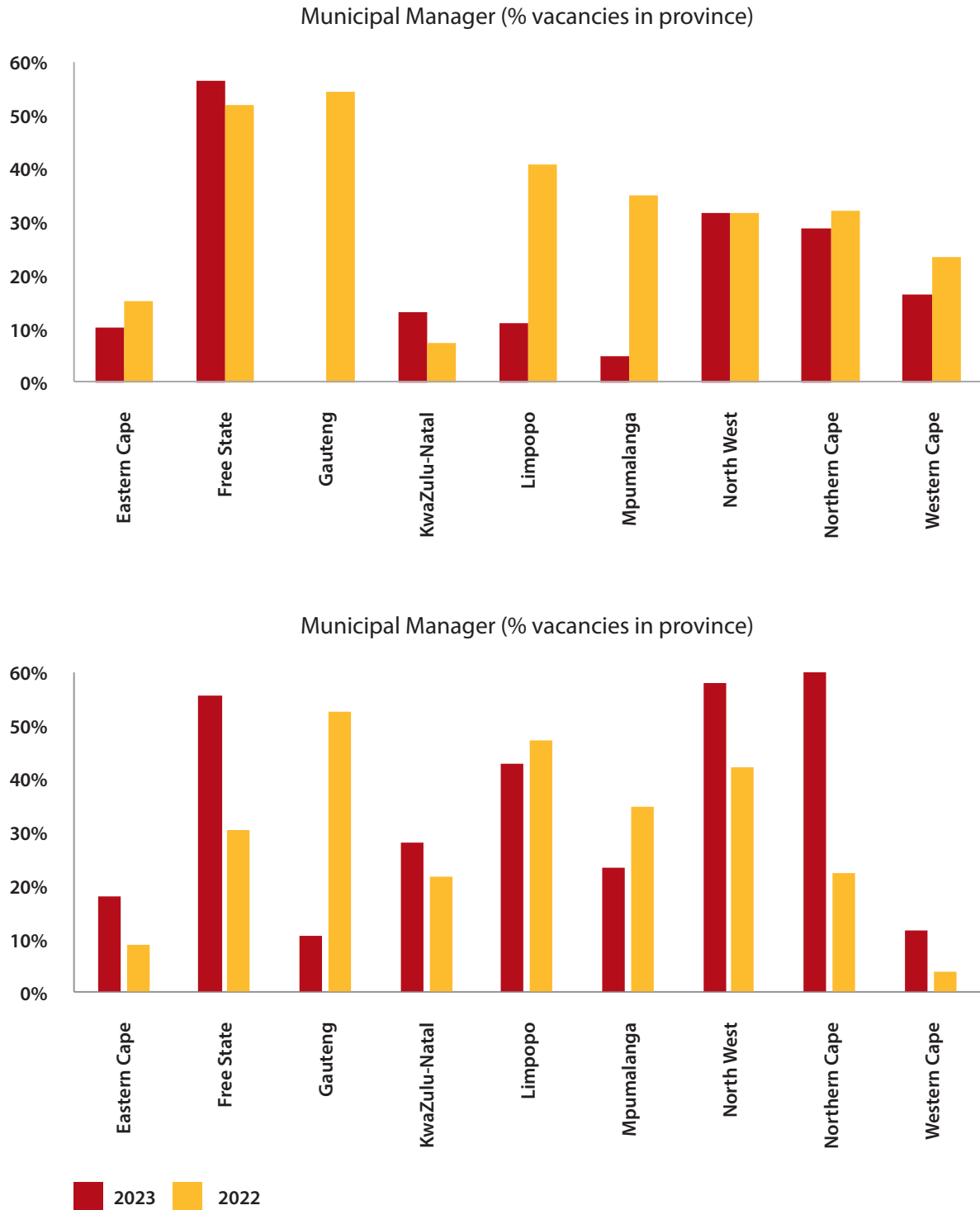
2023			Acting MM		Acting CFO		Both Acting	
Summary per Province			No.	%	No.	%	No.	%
Eastern Cape	39	EC	-	0.0%	-	0.0%	-	0.0%
Free State	23	FS	-	0.0%	-	0.0%	-	0.0%
Gauteng	11	GT	-	0.0%	-	0.0%	-	0.0%
Kwazulu-Natal	54	KZ	-	0.0%	-	0.0%	-	0.0%
Limpopo	27	LP	-	0.0%	-	0.0%	-	0.0%
Mpumalanga	20	MP	-	0.0%	-	0.0%	-	0.0%
North West	22	NW	-	0.0%	-	0.0%	-	0.0%
Northern Cape	31	NC	-	0.0%	-	0.0%	-	0.0%
Western Cape	30	WC	-	0.0%	-	0.0%	-	0.0%
<b>Total</b>	<b>257</b>		<b>-</b>	<b>0%</b>	<b>-</b>	<b>0%</b>	<b>-</b>	<b>0%</b>

2022			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%
<b>Total</b>	<b>257</b>		<b>70</b>	<b>27%</b>	<b>56</b>	<b>22%</b>	<b>25</b>	<b>10%</b>

102. The number of acting MM's decreased from 70 in the 2021/22 financial year to 49 in the 2022/23 financial year, the highest reduction was in Gauteng, Limpopo and Mpumalanga. The Free State vacancy rate for MM's was 56.5 per cent, which makes it the highest in the country, while in North West there was no improvement at 31.8 per cent.
103. With regard to acting CFOs, there was a significant increase from 56 in 2021/22 to 75 in 2022/23 with the following provinces recording the highest vacancy rate: Northern Cape (51.6 per cent), North West (50 per cent), Free State (47.8 per cent) and Limpopo (37 per cent). The number of municipalities who had both MM and CFO acting also decreased marginally from 25 to 24.
104. Table 15 above shows that the province with the largest percentage of both acting MM's and CFOs was North West (40.9 per cent) followed by Gauteng (36.4 per cent) and Northern Cape (22.6 per cent).
105. Figure 4 below depicts the comparison of acting Municipal Managers and Chief Financial Officers as at 30 June 2023. The acting MM's and acting CFOs were prevalent in the Free State with 56.5 per cent and 47.8 per cent in 2022/23 and North West with 31.8 per cent and 50 per cent in the same period.

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

Figure 4: Graphical representation of acting MMs and CFOs



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

106. Administrative instability poses a significant threat to the financial sustainability in municipalities when key positions such as the MM, CFO and other senior management positions are left vacant, negative consequences due to decline in audit outcomes, weakened financial management, erosion of public confidence and creating a wider capacity gap.
107. The municipal councils are taking a prolonged period to finalise the recruitment process for senior managers and dealing with labour-related matters therefore creating capacity gaps at municipalities.

### Non-Payment of third parties by municipalities

108. Some municipalities remain repeat defaulters of non-payment of third-party creditors such as pension, retirement and medical aid contributions to the fund managers while they make monthly salaries deductions from their employees. This practice is illegal and warrants criminal charges and liability against the accounting officers and municipal officials. In most cases, the affected beneficiaries do not have the financial capacity and knowledge of filing complaints to the pension fund managers and statutory bodies such as the Pension Fund Adjudicator due to the associated red tape with lengthy turnaround time for resolving complaints.
109. There is a pattern amongst the municipalities that are persistent defaulters, such as poor governance, institutional instability and weak financial management, corruption and criminal activities. Therefore, amongst others, poor liquidity due to weaknesses in revenue management and therefore leading to municipalities deciding to divert collected deductions to the payment of day-to-day operations in the administration.
110. As a result, the pension fund administrators have started using the court of law to interdict the municipal bank accounts, targeting the payment date of the equitable share allocations. This approach compels the affected municipalities to make payment arrangements. However, these municipalities are failing to keep up with payment agreements and revert to defaulting. This then highlights larger and more complex challenges that they are facing.
111. The National Treasury has been consistent on its reminder for the payment of creditors in terms of Section 65(2) (f) of the MFMA and this is communicated through the annual Budget Circulars and including payment of third parties on the criteria to release the equitable share.
112. Recently, the Pension Funds Amendment Bill and the Revenue Laws Amendment Bill were signed into law by the President, which enabled the retirement funds to change their systems to implement the two-pot regime from 1 September 2024. This reform has increased the media exposure on non-compliant municipalities and introduced an increased level of transparency and answering the question of “who is supposed to lay criminal charges against the municipal accounting officers at fault”.

### Municipal asset management

113. Municipal infrastructure assets are fundamental in supporting the local economic development, and their maintenance is critical in ensuring the durability of the asset, financial sustainability and the uninterrupted delivery

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

of basic services. Therefore, well-maintained municipal infrastructure such as roads, water supply systems, and public buildings as a combination of these factors creates the necessary condition that reduces the cost of doing business. Regular spending on municipal infrastructure consequently stimulates economic growth hence enabling business activities and growth, ease the transportation of goods and mobility of people, and providing acceptable services to the residents and businesses.

114. However, wear and tear is a reality as infrastructure naturally deteriorates with time and after extended usage and should municipalities neglect routine maintenance, assets will dilapidate leading to operational inefficiencies and total breakdown. This degradation can result in significant financial losses, service delivery disruptions, and increased repairs and maintenance expenses. Municipalities that fail to maintain its infrastructure periodically are at a risk of incurring higher cost of renewal or replacement in the future and therefore, preventive maintenance is far more cost-effective than waiting for complete asset breakdown, which would require higher investment cost for large-scale repairs or even complete replacement.
115. Over the years, it has been observed that inadequate asset maintenance is a major challenge as it prevents municipalities to realise their full economic growth potential and in the main, infrastructure in certain municipalities has inevitably collapsed, reaching the end of its useful lifespan due to the lack of appropriate maintenance and asset renewal. Moreover, the neglect in repairs and maintenance of municipal infrastructure is evident on recurring sewer spillages, water pipe burst that result in interruption of water supply in some areas, flooding during rainy season due to unkept storm water drainage, electricity outages and some municipalities having road networks rampant with potholes.
116. Another factor disruptive on the operationalisation of preventative repairs and maintenance, is the reliance on external contractors to perform the functions that could be done in-house therefore leading to the exorbitant expenditures that could be avoided if internal capacity was available. Therefore, there is a need to build internal capacity by investing in technical skills that will enable municipal officials to perform the function in-house.
117. The municipalities are continuing to incur significant distribution losses on water and electricity due to the escalating maintenance backlog required to keep infrastructure operational. An aging water and electricity infrastructure that is not adequately maintained threatens the ability of municipalities to generate revenue given the interruption of service provision. Consumers also base their decision to pay for municipal rates and service charges on the level of services delivered, which is strongly dependent on the reliability of infrastructure assets.
118. Table 16 below shows the national aggregate spending patterns on repairs and maintenance as a percentage of expenditure on property, plant and equipment for the financial years 2020/21 to 2022/23. The indicator compares the amount spent on repairs and maintenance to the value of the municipal asset base. Between 2021/22 and 2022/23, most municipalities spent on average 3.5 per cent on repairs and maintenance throughout the past three financial years, which is below the average norm of 8 per cent. In addition, it reflects significant underspending which requires comprehensive scrutiny to understand other contributing factors.

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

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

Description	2020/21	2021/22	2022/23
R thousands	Audited Outcome	Audited Outcome	Audited Outcome
Repairs and Maintenance by Asset Class	20 755 206	20 691 748	23 244 494
<i>Roads Infrastructure</i>	3 049 596	2 884 374	3 023 937
<i>Storm water Infrastructure</i>	373 085	390 586	416 278
<i>Electrical Infrastructure</i>	4 800 047	5 055 982	6 335 396
<i>Water Supply Infrastructure</i>	3 197 798	3 723 272	4 135 947
<i>Sanitation Infrastructure</i>	2 436 849	2 194 533	2 286 391
<i>Solid Waste Infrastructure</i>	390 749	460 133	475 509
<i>Rail Infrastructure</i>	57 136	56 036	8 279
<i>Coastal Infrastructure</i>	67 936	3 128	6 303
<i>Information and Communication Infrastructure</i>	139 726	98 490	81 775
<b>Infrastructure</b>	<b>14 512 922</b>	<b>14 866 533</b>	<b>16 769 815</b>
<b>Community Assets</b>	<b>1 266 741</b>	<b>1 104 919</b>	<b>1 242 929</b>
<b>Heritage Assets</b>	<b>903</b>	<b>1 676</b>	<b>2 867</b>
<b>Investment properties</b>	<b>80 889</b>	<b>(71 398)</b>	<b>39 881</b>
<b>Other Assets</b>	<b>1 198 216</b>	<b>1 134 941</b>	<b>1 091 113</b>
<b>Biological or Cultivated Assets</b>	<b>4 947</b>	<b>9 827</b>	<b>13 089</b>
<b>Intangible Assets</b>	<b>252 821</b>	<b>189 286</b>	<b>249 387</b>
<b>TOTAL EXPENDITURE OTHER ITEMS</b>	<b>56 233 542</b>	<b>54 559 758</b>	<b>60 444 002</b>
<i>Renewal and upgrading of Existing Assets as % of total capex</i>	57.0%	51.1%	53.4%
<i>Renewal and upgrading of Existing Assets as % of deprecn</i>	223.5%	216.1%	226.2%
<i>R&amp;M as a % of PPE &amp; Investment Property</i>	3.5%	3.5%	3.5%
<i>Renewal and upgrading and R&amp;M as a % of PPE and Investment Property</i>	17.0%	15.9%	16.1%

119. The table below depicts the spending of metropolitan municipalities on asset renewal as well as repairs and maintenance. Spending on repairs and maintenance by metros remains the same at 4.1 per cent in 2022/23, which is below the National Treasury recommended norm of between 8 per cent to 10 per cent of the asset base. It is observed that the metros are having difficulties in making sufficient provision for repairs and maintenance due to financial constraints and spending on the acquisition of new assets at the expense of renewal and upgrading of existing assets.
120. Investment in asset renewal has significantly decreased from 80.5 per cent in 2021/22 to 70.5 per cent in 2022/23. In the last three financial years, the renewal of existing assets as a percentage of depreciation increased from 223.5 per cent in 2020/21 to 226.2 per cent in 2022/23 which is substantially higher than the guideline of 100 per cent. Therefore, an indication that the metros are mostly investing in the renewal of their assets instead of routine maintenance.
121. While it is observed that metros are finding it difficult to maintain a balance between spending on repairs and maintenance, renewal and upgrading of the existing assets, it is envisaged that the new reforms on metro trading services will strengthen the metros' ability to overcome the challenges.



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

Table 17: Metropolitan Municipalities – Repairs and Maintenance, 2020/21 – 2022/23

Description	2020/21	2021/22	2022/23
R thousands	Audited Outcome	Audited Outcome	Audited Outcome
Depreciation	17 614 366	15 788 892	19 148 766
Repairs and Maintenance by Asset Class	11 380 035	10 124 111	12 398 545
<i>Roads Infrastructure</i>	1 505 556	1 084 837	1 273 931
<i>Storm water Infrastructure</i>	254 938	243 267	271 874
<i>Electrical Infrastructure</i>	3 381 296	3 162 558	4 085 739
<i>Water Supply Infrastructure</i>	1 266 634	1 251 000	1 620 426
<i>Sanitation Infrastructure</i>	1 089 264	1 096 247	1 328 908
<i>Solid Waste Infrastructure</i>	70 482	98 031	94 608
<i>Rail Infrastructure</i>	6 662	1 454	6 103
<i>Coastal Infrastructure</i>	21 290	708	389
<i>Information and Communication Infrastructure</i>	105 179	57 463	39 917
<b>Infrastructure</b>	<b>7 701 302</b>	<b>6 995 565</b>	<b>8 721 894</b>
Community Facilities	723 263	567 559	702 053
Sport and Recreation Facilities	61 260	46 218	63 694
<b>Community Assets</b>	<b>784 523</b>	<b>613 777</b>	<b>765 748</b>
<b>Heritage Assets</b>	<b>728</b>	<b>1 577</b>	<b>1 588</b>
Revenue Generating	38 352	136	18 604
Non-revenue Generating	34 154	(80 672)	10 691
<b>Investment properties</b>	<b>72 506</b>	<b>(80 537)</b>	<b>29 295</b>
Operational Buildings	585 232	478 820	486 442
Housing	104 742	140 031	143 566
<b>Other Assets</b>	<b>689 974</b>	<b>618 851</b>	<b>630 008</b>
<b>Biological or Cultivated Assets</b>	<b>4 344</b>	<b>8 280</b>	<b>8 280</b>
Servitudes			
Licences and Rights	152 161	86 058	136 994
<b>Intangible Assets</b>	<b>152 161</b>	<b>86 058</b>	<b>136 994</b>
Computer Equipment	126 155	99 634	139 960
Furniture and Office Equipment	261 320	253 372	354 590
Machinery and Equipment	331 195	290 886	363 805
Transport Assets	1 255 828	1 236 648	1 246 384
Land			
Zoo's, Marine and Non-biological Animals			
Living Resources	-	-	-
<b>TOTAL EXPENDITURE OTHER ITEMS</b>	<b>28 994 401</b>	<b>25 913 004</b>	<b>31 547 311</b>
<i>Renewal and upgrading of Existing Assets as % of total capex</i>	<i>76.9%</i>	<i>80.5%</i>	<i>70.5%</i>
<i>Renewal and upgrading of Existing Assets as % of deprecn</i>	<i>228.0%</i>	<i>249.2%</i>	<i>250.6%</i>
<i>R&amp;M as a % of PPE &amp; Investment Property</i>	<i>4.4%</i>	<i>4.1%</i>	<i>4.1%</i>
<i>Renewal and upgrading and R&amp;M as a % of PPE and Investment Property</i>	<i>20.3%</i>	<i>20.1%</i>	<i>20.0%</i>

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

122. Table 18 below depicts spending of secondary cities on asset management from 2020/21 to 2022/23. The capital expenditure for asset renewal has improved from 17.2 per cent in 2021/22 to 29.4 per cent in 2022/23 which is also below the NT guideline of 40 per cent. While the expenditure on repairs and maintenance has been under 5 per cent over the past three financial years, the renewal and upgrading as a percentage of depreciation recorded 108.4 per cent, which is higher than the guideline of 100 per cent. Therefore, this indicates that the secondary cities follow similar trend as in metros, also investing in the renewal of their assets instead of routine maintenance.

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

Table 18 : Secondary Cities - Repairs and maintenance

Description	2020/21	2021/22	2022/23
R thousands	Audited Outcome	Audited Outcome	Audited Outcome
Depreciation	6 171 848	6 101 984	5 967 902
Repairs and Maintenance by Asset Class	4 156 062	4 101 877	3 742 646
Roads Infrastructure	556 094	653 755	539 793
Storm water Infrastructure	42 328	53 802	71 489
Electrical Infrastructure	722 126	827 874	1 035 749
Water Supply Infrastructure	764 279	874 690	721 842
Sanitation Infrastructure	889 585	471 907	428 911
Solid Waste Infrastructure	197 541	222 197	206 817
Rail Infrastructure	49 960	53 146	752
Coastal Infrastructure			
Information and Communication Infrastructure	9 871	5 515	2 532
Infrastructure	3 231 784	3 162 886	007 884
Community Facilities	236 126	188 064	184 056
Sport and Recreation Facilities	50 988	50 562	43 642
Community Assets	287 113	238 626	227 699
Heritage Assets	163	99	440
Revenue Generating	7 217	7 375	8 801
Non-revenue Generating			
Investment properties	7 217	7 375	8 801
Operational Buildings	227 224	163 276	153 398
Housing	2 331	2 726	4 528
Other Assets	229 555	166 002	157 926
Biological or Cultivated Assets	603	682	339
Servitudes			
Licences and Rights	38 466	34 629	39 623
Intangible Assets	38 466	34 629	39 623
Computer Equipment	25 247	36 320	25 918
Furniture and Office Equipment	24 517	24 759	38 389
Machinery and Equipment	115 478	203 350	55 441
Transport Assets	195 919	227 149	180 186
Living Resources	-	-	-
TOTAL EXPENDITURE OTHER ITEMS	10 327 910	10 203 862	9 710 549
Renewal and upgrading of Existing Assets as % of total capex	41.3%	17.2%	29.4%
Renewal and upgrading of Existing Assets as % of deprecn	190.5%	91.9%	108.4%
R&M as a % of PPE & Investment Property	3.8%	3.7%	3.3%
Renewal and upgrading and R&M as a % of PPE and Investment Property	14.6%	8.8%	8.9%

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

### Significant electricity and water losses

123. Municipalities suffers water losses which translates to billions of rands in losses while South Africa is becoming a “water scares” country. There are many factors causing the distribution losses but in the main, the inefficiencies relating to the repairing water pipes to stop the leaks and burst pipes contribute. Often there is poor quality control regarding turnaround time of attending to calls for repairs. In addition, vandalism, the non-implementation of water efficiency solutions and unplanned human settlements result in unmetered water consumption therefore creating losses for municipalities.
124. Similarly, the electricity losses at municipalities are also caused by the inefficiencies by departments in managing the electricity business. The deficiencies in electricity infrastructure are due to either a lack of the repairs and maintenance plan or failure to implement the plan, illegal connections, meter tampering, cable theft and incorrect billing amongst contributing factors.
125. Therefore, regular maintenance and refurbishment of municipal infrastructure is required to curb the water and electricity distribution losses. In addition, it is then important that the assets are maintained according to established norms and standards to reduce inefficiencies caused by negligence or delayed repairs as poorly maintained infrastructure can indeed be a significant factor contributing to distribution losses. The water and electricity losses for metros as of 30 June 2023 is shown in table 19 below.

Table 19: Electricity and Water Losses as at 30 June 2023

Municipality	Code	Water Losses		Electricity Losses	
		R'000	%	R'000	%
Buffalo City	BUF	152 293	37.6%	375 441	19.2%
Nelson Mandela Bay	NMA	253 196	43.1%	986 100	25.9%
Mangaung	MAN	454 225	49.0%	213 877	9.8%
City of Ekurhuleni	EKU	1 235 594	28.7%	2 333 616	15.9%
City of Johannesburg	JHB	2 394 300	33.0%	4 195 338	30.0%
City of Tshwane	TSH	1 115 794	32.0%	2 462 202	21.4%
eThekweni	ETH	2 332 841	58.1%	1 364 481	10.7%
City of Cape Town	CPT	103 724	6.5%	585 601	11.5%
<b>Total</b>		<b>8 041 968</b>		<b>12 516 656</b>	

Source: National Treasury and Local Government Database

126. At the end of 30 June 2023, metros reported water and electricity losses of R8 billion and R12.5 billion respectively. Electricity losses marginally increased by R496.8 million from R12 billion in 2021/22 to R12.5 billion in 2022/23, while the water losses significantly increased with R1.9 billion from R6.1 billion in 2021/22 to R8 billion in the 2022/23 financial year.
127. eThekweni (58.1 per cent), Mangaung (49 per cent) and Nelson Mandela Bay (43.1 per cent) metros suffered the highest water losses while the City of Cape Town recorded the lowest at 6.5 per cent. In terms of electricity losses,

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

the City of Johannesburg reported the highest losses of 30 per cent for the 2022/23 financial year, while Mangaung recorded the lowest at 9.8 per cent. The rand value losses for the City of Johannesburg losses are recorded at R4.2 billion for electricity while water losses are recorded at R2.4 billion.

### Support provided to the municipalities on asset management

128. National Treasury adopted a multi-faceted approach towards supporting municipalities with infrastructure delivery, over and above general monitoring and reporting on implementation; efforts are being systemically put in place to support initiatives such as the development of the Local Government Infrastructure Delivery Management System (LGIDMS) toolkit. Upon its completion, the toolkit will assist in guiding municipalities towards cost effective and efficient infrastructure delivery. Linked to infrastructure delivery is the continuous creation of relevant built environment skills through the implementation of the infrastructure skills grant across 18 municipalities. This initiative ensures that municipalities have access to qualified and experienced professionals. To date, a total of 452 graduates have already been professionalised and exited the programme while 372 graduates are currently enrolled in training.
129. In addition, the National Treasury continues to assist municipalities to consider long-term funding plans to finance certain types of infrastructure projects whilst simultaneously thinking about suitable funding mix to augment existing funding. This initiative is entering its third phase of iteration and evidence suggests that municipalities that have and are implementing this Long-Term Financial Planning process can attract and sustain infrastructure funding. The support will be extended to the intermediate cities and some of the smaller municipalities. The initiative was introduced to avoid often good infrastructure projects from suffering the impact of limited or non-availability of funding.
130. Similarly, the National Treasury through the City Support Programme (CSP) provides technical support on the implementation of Cities Infrastructure and Delivery Management System (CIDMS) which aims to enhance capability of the metros in the planning, delivery and managing their infrastructure assets in a seamless and integrated manner. Some metros have already benefitted from the asset management support such as the development and review of strategies, and the establishment of asset management committees with transversal participation in the cities, amongst others.
131. Furthermore, the National Treasury has engaged the World Bank Group to support the design of a Metro Trading Services Programme (MTSP). The MTSP will provide a performance-based finance incentive as well as technical assistance to strengthen efficiency, reliability and financial sustainability of water and sanitation, electricity, and solid waste trading services in metros. In doing so, the programme will seek to incentivise and support the turnaround in financial, technical and corporate governance to improve the performance of the city's trading services. This will enable metros to increase access to finance to supplement available grant funding, increasing the level of investment in trading services. Jointly, it is expected that both institutional reform and increased investment in trading services infrastructure will contribute towards improved service delivery outcomes.
132. It was however expected that metros develop a council approved turnaround strategies for the trading services which will serve as a road map towards achieving the objectives of the reforms.

## MUNICIPAL FINANCIAL RECOVERY SERVICES

133. In 2022, National Treasury identified 43 municipalities in a financial and service delivery crisis and urgently requiring a mandatory intervention in terms of Section 139(5) of the Constitution. Financial mismanagement, political interference, unfunded budgets, skill shortages and a lack of consequence management are some of the key underlying causes contributing to financial crises in municipalities. In addition, structural exogenous factors that have affected financial distress in municipalities include the increase in unemployment, slow macroeconomic growth which was exacerbated by persistent load shedding and interruption of water supply during the 2022/23 municipal financial year.
134. Furthermore, the National Treasury conducted councillor induction for these 43 municipalities in distress and conducted master classes on revenue management for them, of which the latter was funded by the National Treasury. Subsequently, the National Treasury received requests for the preparations of the FRPs from 12 of these 43 municipalities.
135. The National Treasury publishes the quarterly in-year management and monitoring reports, including Sections 138 and 140 of the MFMA, which identifies municipalities that meet the criteria for serious financial problems or financial crises. This is to assist the National and Provincial governments to make informed decisions when addressing municipal failures.
136. The Financial Recovery Plan (FRP) is a key intervention tool in terms of Chapter 13 of the MFMA. An FRP is a set of holistic remedial measures developed, to address serious problems or a crisis in a number of key performance areas such as finance, corporate governance, service delivery and institutional arrangements. Based on lessons learned and observations made over the past years on the successes and failures of implementation of FRP's, a new approach has been developed as best practice.
137. The MFRS approach to financial recovery further includes active partnering with stakeholders and sector departments responsible for local government performance such as the Department of Cooperative Governance (DCoG) and the South African Local Government Association (SALGA), amongst others. The bulk of the partnering support is operational in nature and should be aligned to the FRP. These plans are tailored to be municipal specific and seeks to directly address their current challenges.

Table 20: Electricity and Water Losses as at 30 June 2022

Municipality	Code	Water Losses		Electricity Losses	
		R'000	%	R'000	%
Buffalo City	BUF	139 272	37.5	413 427	20.47
Nelson Mandela Bay	NMA	219 442	39.29	867 591	23.86
Mangaung	MAN	406 667	45	241 915	10.96
City of Ekurhuleni	EKU	115 148	31.96	2 400 497	16.77
City of Johannesburg	JHB	2 089 400	32	4 168 819	30
City of Tshwane	TSH	1 083 402	32.6	2 136 889	19.44
eThekweni	ETH	1 989 060	56.2	1 359 300	11.28
City of Cape Town	CPT	146 786	6.47	431 445	10.24
<b>Total</b>		<b>6 189 178</b>		<b>12 019 883</b>	

## MUNICIPAL FINANCIAL RECOVERY SERVICES

138. National Treasury supported the preparations of 48 FRP's during the 2022/23 municipal financial year, of which 26 were mandatory; 14 discretionary and 8 voluntary. The support provided includes the preparation of 12 new FRP's, monitoring the implementation of 35 existing FRPs and the revision and amendment of 2 existing FRP's. Three of the FRP's supported were for national interventions invoked in terms of section 139(7) of the Constitution at the Lekwa local municipality, Enoch Mgijima local municipality and the Mangaung metropolitan municipality.
139. Through the three national interventions, valuable lessons have been learned. It is essential to recognise the limitations on the national government's authority to implement an FRP, as it is constrained by legislation, especially when municipal councils retain statutory and executive powers. Under the existing legislative framework, National Cabinet Representatives lack unilateral decision-making authority for successful FRP implementation and must rely on their persuasive ability to influence decisions and manage complex internal relationships.
140. It is also important to note that the responsibility to report and institutionalise the implementation of the approved FRP rests with the affected municipalities. The municipalities are required to report monthly to Provinces, National Treasury's MFRS unit and other relevant stakeholders on the implementation of the approved FRP's. Reporting must be done through the offices of the Municipal Managers. In addition, the strategies set out in these plans relate to activities that must be institutionalised and performed by various municipal officials as part of their routine duties and tasks.
141. The above table excludes the Msunduzi local municipality whose FRP was approved prior to 2022/23 financial year.

**Figure 5: Non-reporting and reporting municipalities on their FRP implementation**

Province	Non-Reporting Municipalities	Reporting Municipalities
EASTERN CAPE	Makana LM (1)	Enoch Mgijima LM, Amathole DM (2)
FREE STATE	Phumelela LM, Masilonyana LM, Maluti-A-Phofung LM, Mantsopa LM, Nketoana LM, Mafube LM (6)	Mangaung MM (1)
GAUTENG	City of Tshwane (1)	West Rand DM, Emfuleni LM (2)
KZN		Msunduzi LM (1)
LIMPOPO	Mogalakwena LM (1)	Ba-Phalaborwa LM, Thabazimbi LM, Musina LM, Modimolle Moogophong LM (4)
MPUMALANGA	Msukaligwa LM, Govan Mbeki LM, Dipaleseng LM, City of Mbombela (4)	Emalahleni LM, Lekwa LM, Thaba Chweu LM (3)
NORTHERN CAPE	Renosterberg LM, Dikgatlong LM, Ubuntu LM, Kai!Gariep LM, Phokwane LM, Magareng LM (6)	!Kheis LM (1)
NORTH WEST	Ngaka Modiri Molema DM (1)	
WESTERN CAPE		Beaufort West LM (1)
TOTAL	20	15

*Source: FRP Reporting Status (2022/23)*

142. Reporting on the implementation of FRP's needs to be prioritised by municipalities and provinces, as the report will assist the provinces to monitor progress and identify targeted support where the municipality does not have

## MUNICIPAL FINANCIAL RECOVERY SERVICES

the ability to achieve certain activities. In addition, the report will assist the MEC for Finance to perform quarterly reviews or assessments on the effectiveness of the financial recovery plan's and whether the municipality should remain under intervention.

143. To drive a successful implementation of the FRP's, strategic attention is directed towards specific key drivers for municipal interventions. This requires action in four critical areas:
  - funding and budget management;
  - fostering strong institutional capacity;
  - implementing organisational change management at the start of the intervention; and
  - securing support from sector departments and establishing multi-stakeholder communication strategies.
144. These actions are imperative for fostering successful financial recovery and service delivery improvements in the municipalities.

### Municipalities in financial distress

145. The 13 key indicators used to identify municipalities that are in financial distress reveal that for the financial year ending 2022/23, 168 or 65 per cent municipalities were classified as in financial distress, as listed in Annexure A2. This is a deterioration as the number has increased from 157 in the 2021/22 financial year. In addition, the list also provides audit outcomes for all 257 municipalities as well as their financial status over a five-year period (2018/19 to 2022/23) and the type of interventions implemented in those municipalities. From the list, the following observations are made:
  - 12 of the 34 municipalities that received unqualified audit opinion with no findings are classified as financially distressed. It was also observed that none of these municipalities are participating in the debt relief programme;
  - Of the 110 municipalities that obtained unqualified audit opinion with findings, 61 or 55 per cent of them are classified as in financial distress during the 2022/23 financial year; and 15 of them are participating in the debt relief programme. This observation is a reflection that a positive audit outcome may not automatically translate into a positive financial position for municipalities as it is evident that some are struggling to pay their creditors;
  - Similarly, of the 85 municipalities with qualified audit opinions, 68 or 80 per cent are in financial distress and a significant number 36 of them are also part of the debt relief programme; and
  - All 12 municipalities that received disclaimers are financially distressed and six (6) of them are on the debt relief programme.
146. The results indicate that the audit outcomes mostly reflect the strong administrative, political leadership and financial governance. However, it does not absolve these municipalities from suffering from weak liquidity. Also, it could also be said that the municipalities identified as financially distress, could also mostly be characterised by political infighting, weak council oversight, serious financial problems resulting in service delivery failures.



## **SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY**

147. South Africa's local government financial management system has undergone several reforms that have seen considerable progress. The challenges in local government have reinforced the urgency for much needed reforms, which provided an opportunity to drive local government agenda towards a functioning sphere of government.
148. 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 government 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 is required that addresses operational inefficiencies, incompetence, and governance failures.
149. The financial management reform agenda for local government is an evolutionary process and needs to be nurtured to maturity. The national government has initiated a number of capacity building initiatives and reforms to support municipalities in achieving this, including:

### **Local Government Database and Reporting System (LGDRS) and GoMuni**

150. The information and reports contained in the Local Government Database and Reporting System (LGDRS) remains the most demanded by different local and global stakeholders for different interactions and usage.
151. There is a need for information on municipal performance by various stakeholders such as South African Reserve Bank (SARB), Statistics South Africa, the South African Revenue Services (SARS), Department of Water and Sanitation (DWS), National Energy Regulator of South Africa (NERSA), DCoG, AGSA, the World Bank and universities. This central reporting system eliminates duplication of effort where various departments request the same information from the same municipality. In addition, the Municipal Money portal on the LGDRS provides information about municipal spending to the public, thereby promoting transparency and enabling citizens to hold their municipalities accountable.
152. Municipal Money is also part of the country's Open Government Partnership (OGP) 5<sup>th</sup> National Action Plan to improve transparency and public participation in government processes. The OGP National Action Plan was adopted by Cabinet and progress against the commitments made to OGP is presented quarterly to Cabinet due to the impact that public transparency has on South Africa's credit rating. OGP has added a link to Municipal Money on their website (76 countries and 104 municipalities are members).
153. In addition to Municipal Money, the data on municipal financial performance is also made available through an Application Program Interface (API) to allow other national departments, service providers and researchers access the data to build their own datasets and develop their own monitoring and reporting tools using the data set available on the National Treasury's LGDRS.

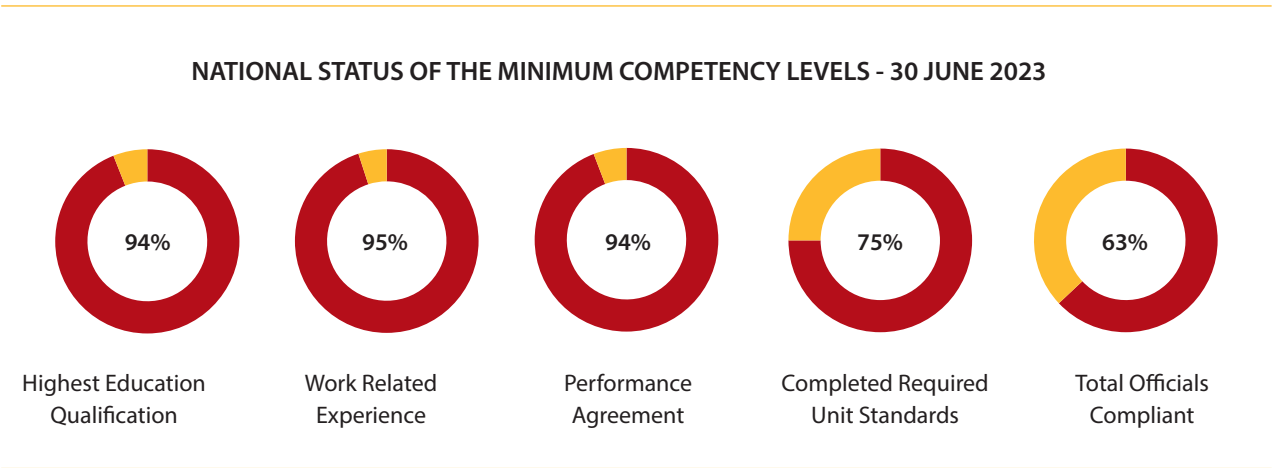
### **Minimum Competency Levels**

154. The Municipal Minimum Competency Regulations (MMCR) were introduced to ensure that key officials in municipalities possess the necessary competencies to manage municipal finances effectively. These regulations, issued by the National Treasury in 2007, set minimum competency requirements for municipal managers, chief financial officers, senior managers, and other key personnel responsible for municipal finance management.

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

155. The MMCR has had a positive impact on the local government sphere by raising the standards for financial management and promoting good governance. Since their introduction, municipalities were required to align their appointments of financial officials with these competency requirements. In addition, these regulations have contributed to increased professionalisation of municipal finance roles and have supported municipalities in implementing sound budgeting, financial planning, and expenditure management practices. However, the implementation of the MMCR has not been without its challenges, particularly in ensuring consistent compliance across all municipalities. Many municipalities have struggled to meet the competency deadlines, which necessitated the 2018 amendments, to allow new entrants reasonable time to obtain the prescribed minimum competencies.

Figure 6: High level status on the minimum competency levels as at 30 June 2023



156. Figure 6 above indicates that compliance level of affected municipal officials varied across the four (4) criteria and at the end of the 2022/23 financial year, an average of 63 per cent of officials where compliant with all of them.
157. Of concern is that municipalities are also struggling to attract new talent of officials who are already in possession of these qualifications on Municipal Finance Management Programme (MFMP) which then necessitate the municipalities to send them for training upon their appointments. However, this also come with its challenges as in most cases, it is not easy to do so promptly therefore delaying compliance while the officials are already in the service of the municipalities. Furthermore, there is a noticeable lack of engagement from the officials themselves, resulting in incomplete training and further non-compliance.
158. The credibility and accuracy of the information reported by municipalities is another challenge and these inaccuracies or incomplete data undermines the integrity of the reporting process and can lead to incorrect assessments of municipalities' compliance with MMCR. Accountability has been strengthened by requiring municipalities to table progress reports on MMCR compliance in council. The ongoing efforts to refine the MMCR and improve compliance mechanisms demonstrate a commitment to strengthening governance and financial management in local government, which will ultimately lead to improved service delivery and promote sustainable municipal operations.

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

### Municipal Finance Improvement Programme (MFIP IIIx)

159. In response to the ongoing challenges faced by municipalities in achieving financial sustainability, and to capitalise on the gains of the Municipal Finance Improvement Programme (MFIP IIIx) which concluded on 30 June 2022, a critical recommendation was made to extend the programme. This bold decision ensured the progress initiated by MFIP IIIx not only continues but evolves to meet the growing demands of municipalities in financial crisis.
160. An extensive evaluation of MFIP IIIx, conducted by the National Treasury's Strategic Planning, Monitoring, and Evaluation (NTSPME) unit during the 2021/22 financial year, highlighted a significant opportunity to improve local government. The evaluation, completed on behalf of the Director General, recommended that the programme be redesigned to increase its relevance, efficiency, and long-term impact. This redesign process has commenced, incorporating feedback and lessons learned, while ensuring strategic alignment with the six Local Government Financial Management (LGFM) game changers endorsed by the Budget Council.
161. Consequently, to ensure a seamless transition into the redesigned MFIP phase, the Director General approved a three (3) month extension, followed by a further extension for two (2) years from 1 October 2022 to 30 September 2024, with an option of an additional year if required.
162. As at 31 March 2023, the MFIP had deployed 66 technical advisors (TAs) across municipalities, Provincial Treasuries, and National Treasury. These advisors provided critical, targeted support across several work streams, including budgeting and revenue management, *m*SCOA, accounting and audit support, asset management, and MFRS directly aligned with the needs of financially distressed municipalities. At the municipal level, 20 TAs were deployed in 49 municipalities across nine (9) provinces, focusing on budgeting and revenue management. In addition, the Provincial Treasuries were assigned 26 TAs, specialising in supply chain management, *m*SCOA, accounting and audit support, asset management and budget and revenue management.

**Figure 7: Technical advisors allocated to National & Provincial Treasuries and municipalities**

MFIP Technical advisors allocated to National & Provincial Treasuries and Municipalities				
MFIP Workstreams	National Treasury	Provincial Treasuries	Municipalities	Total
Municipal Standard Chart of Accounts	3	4		7
Municipal Finance Recovery Services	8	0		8
Supply Chain Management	1	8		9
Budget and Revenue Management	2	6		8
Budget and Financial Management	1	0		1
Accounting & Audit support: Internal Audit	2	0		2
Accounting & Audit support: Accounting support	1	0		1
Accounting & Audit support: Legislative & Policy Reforms	1	2		3
Asset Management	0	6		6
LGBA Project Administrator	1	0		1
Municipal Support	0	0	20	20
<b>Total</b>	<b>20</b>	<b>26</b>	<b>20</b>	<b>66</b>

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

163. The National Treasury was assigned 20 TAs to strengthen its ability to better enable it to execute its mandate in the various financial management disciplines, consistent with the MFMA. This technical expertise has proven indispensable in driving financial improvements where it is most needed, offering real-time solutions and on-the-ground support.
164. With all the resources allocated to this programme, it is obvious that capacity building is a cornerstone of the MFIP's based on the success reported on its initiatives that goes beyond technical support, providing practical, on-the-job skills development to municipal financial management officials. In the 2022/23 financial year, the MFIP conducted 2 096 capacity building sessions for 23 147 officials on various financial management disciplines. Although these capacity building initiatives are informal and non-accredited but have been pivotal in enhancing the practical skills of officials and creating lasting change across municipalities.
165. Through the strengthened MFIP, it is envisaged that it will include significant improvements in programme management to ensure greater effectiveness and operational efficiency. These enhancements will include:
  - Strengthening the institutionalisation of the modified MFIP business model;
  - Improving administrative capabilities for smooth operations within the Programme Management Unit (PMU);
  - Streamlining the procurement of technical advisors for optimal deployment; and
  - Implementing knowledge management initiatives that facilitate better information sharing and collaborative learning across all project work streams.
166. These strategic upgrades will lay the foundation for a more robust, agile MFIP that can swiftly respond to the evolving financial challenges faced by municipalities.
167. The MFIP's continued evolution reflects a national commitment to ensuring municipalities have the tools and expertise they need to thrive. By extending the programme, redesigning it for maximum impact, and embedding high-level technical support in municipalities, the National Treasury is laying the groundwork for sustainable financial management practices that will support municipalities in the future. Through collaboration, capacity building, and continuous improvement, the MFIP is poised to be a game-changer in local government financial management, directly supporting the National Treasury's local government reform agenda.
168. This extension and redesign will propel the MFIP to new heights, ensuring that financially distressed municipalities not only recover but also build a solid foundation for long-term financial sustainability. The next phase of the MFIP is not just about continuing a programme, it is about driving transformation at every level of local government finance.

### Revenue Management Support

169. Support to municipalities through the revenue management programmes is ongoing and it is meant to enhance local government revenue management. At the core of sustainable service delivery is a funded budget, which is underpinned by credible budget assumptions, based on realistically anticipated revenue, optimisation of existing revenue sources and limiting expenditure to remain within the budget.

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

170. National Treasury communicated the introduction of the Debt Relief Programme through the MFMA Circular 124 No. in March 2023. The intention of the debt relief package for Eskom is to improve the utility's balance sheet and facilitates the proposal that Eskom write off the municipal debt under strict conditions and with the guidance of the National Treasury. This is also meant to bring about critical changes in the energy sector and simultaneously address a behavioural change in the municipal defaulters by requiring them to meet certain conditions and in return (as an incentive) relieve their gridlocked financial crisis of historic arrear Eskom debt.
171. A total of 71 municipalities were approved to participate in the Eskom Debt Relief programme based on a 12-month rolling cycle that commenced on the effective date of the National Treasury approval. The National and Provincial Treasuries are expected to provide a report on high-level overview of the overall compliance on a monthly basis indicating a gradually average improvement in compliance with the relief conditions. Figure 8 below depict the overall compliance performance of participants per condition.

**Figure 8: Compliance with Debt Relief Programme conditions by municipalities**

Debt Relief Programme - Compliance Performance against conditions as at 31 July 2024	
Conditions per MFMA Circular No.124	Compliance level
6.3 Maintaining the Eskom bulk current account	56%
6.4 A funded MTREF	71%
6.5 Cost reflective tariffs	85%
6.6 Electricity and water as collectin tools	70%
6.7 maintain a minimun average quartely collection of property rates	67%
6.8 Completeness of revenue base	85%
6.9 Monitor and report on implementation	77%
6.10 Provincial Treasury certification of municipal compliance	92%
6.11 Limitation on municipality borrowing powers	93%
6.12 Proper management of resources	68%
6.13 Accounting treatment	77%
6.14 NERSA licence	24%

172. Compliance certification issued by both the National and Provincial Treasuries indicates that the average municipal participant's compliance to the conditions improved from 55 per cent (31 March 2024) to 76 per cent (30 August 2024). The improvement correlates to the re-deployment of MFIP resources to assist with the monitoring of and support to Provincial Treasuries and participating municipalities. However, the improvement is not adequate as many participants are at risk of not qualifying for the debt write-off at the end of their first 12-month cycle due to varying level of non-compliance.
173. Condition 6.1 is only assessed at the end of each 12-month cycle and is therefore not yet reflecting any score in the table above. Condition 6.2 (applications) was also not rated as reflected in the table since all participants met application requirements. Condition 6.13 (accounting treatment) was assessed by selected Provincial Treasuries and is reflecting a score; however, the condition only applies when the annual financial statements are assessed during October to December. Condition 6.14 (NERSA license) automatically comes into play when any condition is not complied with and therefore shows a low score.

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

174. Guidance to municipalities on the accounting treatment of the debt relief was issued later during the programme and this directly impacted condition 6.12 (proper management of resources). Therefore, it is anticipated that municipalities will progressively improve in this area as they align with the *mSCOA* guidance to properly ring-fence their electricity and water function(s).
175. There are numerous initiatives pertaining to revenue management, a new Smart Meters conditional grant was introduced as part of the 2024 Budget, and it focuses on the rollout of prepaid smart meters. The purpose of this grant is to ensure efficiency in energy provision, including the integration of renewable energy to meet consumer demands. Apart from aiding these objectives, smart grid technologies can also help municipalities to protect existing revenue and optimise overall collection from the existing revenue base. Therefore, the new grant allocations will fund the initial capital outlay and operational expenditure required to implement smart systems that integrate with existing financial systems.
176. The grant will initially focus on those municipalities that the National Treasury has approved for municipal debt relief. In the first year, 20 applications were received, and the grant funding allocation will assist seven (7) municipalities in the 2024/25 financial year. The grant is expected to progressively extend across municipalities to help improve financial sustainability and management.
177. The RT29-2024 transversal contract for smart solutions and systems has been awarded and is available for all municipalities to participate on an application basis. The participation guidelines were developed and are published on the National Treasury's website. A panel of suitably qualified service providers has been appointed for audit and token identifier (TID) conversion of existing prepayment meters and the supply, delivery, installation, management, and maintenance of smart metering solutions to the state.

### MFMA Circular No. 88

178. The MFMA Circular No.88 Addendum 3 was released to municipalities for implementation in the 2022/23 financial year, aimed at enhancing the existing indicators through refined definitions and a new set of indicators within the financial management sector. The Addendum was jointly endorsed by the National Treasury, DCoG, and the Department of Planning, Monitoring and Evaluation (DPME). While the reform has seen notable improvements, there are still ongoing challenges related to reporting and data quality that require further attention.
179. The National Treasury has been the primary driver of the reform at the metro level, while the DCoG is responsible for overseeing the implementation of Circular No.88 in non-metropolitan municipalities. The oversight of this reform is coordinated by a steering committee, comprising of the National Treasury, DPME, and DCoG. The committee is further supported by key stakeholders including, the AGSA, SALGA, the Department of Public Service and Administration (DPSA), the South African Cities Network (SACN), and Statistics South Africa. These stakeholders played a crucial role in institutionalising the reform. The AGSA, in particular, has been actively involved by auditing the MFMA Circular No. 88 indicators as part of the Audit of Predetermined Objectives (AoPO) for metros.
180. In the 2022/23 financial year, the National Treasury conducted an extensive consultative process to finalise a set of indicators for Circular No. 88. The process involved engagements with various structures, including:

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

### **Bilateral engagements at sectoral level**

- This involves engagements between National Treasury and sector departments or agencies to assist with the identification, prioritisation, and formulation of performance indicators.

### **Consultations with metros and other municipalities**

- This involves engaging with metros through forums such as metro support forum and one-on-one engagements with metros.

### **Technical Working Groups (TWGs)**

- Technical Working Group engagements interrogate metros data with the aim of addressing data quality issues. Additionally, this platform is used to review indicators and address any implementation challenges.

### **Task Teams for Technical Review**

- Task teams within each sector to conduct technical reviews and revise indicators as needed.

181. The TWG's engagements have become a key platform for periodic intergovernmental technical reviews and discussions on indicator formulation, interpretation, data quality, and performance analysis of metros. The engagements include participation from the three national government departments (i.e. National Treasury, DCoG and DPME), provincial CoGTAs and municipal representatives. The set of indicators discussed at the TWGs covers various sectors, including 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.
182. Some metros have integrated the Circular No.88 indicators into their statutory planning documents i.e., the Integrated Development Plans (IDP) and the Service Delivery and Budget Implementation Plans (SDBIP) and have begun reporting on these indicators in their Annual Performance Reports (APR). However, despite this progress, the National Treasury has identified discrepancies between the planning data and the reporting data submitted by metros. These inconsistencies have also been noted by the AGSA during the annual audit process.
183. DCoG continued to pilot the implementation of Circular No.88 in intermediate cities, district and local municipalities as a supplementary to the existing statutory planning and reporting processes. This meant that Circular No.88 indicators were not fully integrated into the plans and reports of non-metro municipalities but were instead reported separately. In the 2022/23 financial year, at least 50 per cent of non-metro municipalities reported to DCoG in line with Circular No. 88 requirements, which is similar to the 50 per cent reporting rate in 2021/22. Reporting has been relatively satisfactory in Mpumalanga, Gauteng, KwaZulu-Natal, Limpopo, and the Western Cape, while municipalities in the North West, Northern Cape, and Free State have not been reporting.
184. As an additional measure to enhance the implementation of the reform, DCoG has integrated data collected through Circular No. 88 into the Municipal Performance Assessment Tool (MPAT). This development is part of the incremental codification of the reform, which will eventually be formalised in the updated municipal planning and performance management regulations, issued in accordance with the Municipal Systems Act. The data sourced



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

through the MPAT tool consists of a prioritised set of indicators drawn from the Circular No. 88 reporting template, reinforcing and aligning with the ongoing reform processes.

185. The draft updated regulations will replace the 2001 indicators with Circular No.88 indicators and prescribe performance indicators for local government monitoring and reporting.
186. Some sector departments, such as the Department of Human Settlements and the Department of Water and Sanitation (DWS), have begun engaging with and analysing Circular No.88 data in relation to the Urban Settlements Development Grant (USDG) and municipal water services development plans. These departments rely on Circular No.88 data for performance monitoring. In addition, National Treasury has conducted an analysis of the 2022/23 data reported by metros, with a particular focus on the water and sanitation.
187. Additionally, the 2022/23 data was disseminated to the SACN and other key stakeholders for performance analysis, review, and utilisation. The SACN has incorporated this data into their research projects on cities, further leveraging the insights gained from Circular No.88 data to support urban development initiatives and inform policy recommendations.

### Progress on the review of the local government capacity building system

188. Leading a transformative, introspective change management initiative, the National Treasury is fundamentally altering the landscape of building capability within local government. This methodology, which has previously resulted in the Capability Development Programme (CDP) and the Capability Development Strategy (CDS), now culminates in a consolidation endeavour. The consolidation of all the financial management support initiatives that include the Local Government Financial Management Grant, which aims to enhance financial management capacity; the Municipal Finance Improvement Programme, which provides technical assistance to strengthen financial governance; and the Municipal Revenue Management Improvement Programme, designed to boost municipal revenue collection and management into a single programme. This integrated approach aims to provide a comprehensive framework for developing financial capabilities, equipping municipalities with the necessary tools, knowledge, and resources. Such a programme aims to deliver substantial value to municipalities nationwide by streamlining existing support initiatives and leveraging best practices tailored for individual municipalities.
189. Consolidating National Treasury's financial management support initiatives into a unified Local Government Financial Management Capability Programme (LGF MCP) represents a strategic paradigm shift in the approach to municipal capacity building. This integration transcends a mere administrative efficiency exercise; it constitutes a profound reconceptualisation of the processes through which financial management competencies are cultivated and maintained within the realm of local governance. Key elements of the proposed LGF MCP include:
  - Aligning with National Treasury's Capability Development Framework and strategies;
  - Providing differentiated support based on municipal types and maturity levels;
  - Conducting capacity assessments of municipalities prior to awarding grants funding, to identify gaps and ensure the most effective use of grant funds;
  - Utilising multi-year grants to build sustainable in-house municipal capabilities, rather than relying on standalone training interventions;



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

- Leveraging partner organisations such as SALGA, DCoG, and universities to design and deliver tailored made capacity-building packages;
  - Tracking results through a municipal scorecard linked to grant allocation, which monitors capability gains; and
  - Ensuring alignment with the game changers.
190. Following the redesign of the LGFMCP, a government-wide initiative will be launched to expand and integrate capability development across all municipal functions. This comprehensive approach will transcend financial management, incorporating governance, service delivery, and other core municipal functions. The National Treasury will engage relevant sector departments and support institutions to ensure a cohesive, long-term strategy for sustainable municipal development. Key elements include:
- Establishing an inter-departmental framework for aligned capability building;
  - Developing integrated, multi-year enhancement plans tailored to diverse municipal needs;
  - Implementing cross-sectoral learning programmes that combine financial acumen with leadership and governance excellence;
  - Creating sustainable knowledge transfer mechanisms to ensure continuity and resilience; and
  - Instituting a comprehensive monitoring and evaluation system to track progress and inform adaptive strategies.

## CONCLUDING REMARKS

The National Treasury uses an approach based on the four pillars of sustainability, these being governance, institutional arrangements, financial health and service delivery to assess holistically the state of a municipality. This analysis goes beyond the assessment of only the financial health which has become evident that it is triggered by other factors. Therefore, poor governance and political instability could lead to bad financial management decisions plunging a municipality into financial distress. In addition, it is observed that high vacancy rate at senior management positions is undeniably another contributor to financial distress, where provinces such as Free State and North West are recording highest vacancies for MM's positions at 47.5 per cent and 50 per cent, respectively. While the Northern Cape recorded the highest CFO vacancies of 51.6 per cent. This is also a reflection of ineffective councils as the trend has been increasing over the years indicating that there is no political will to stabilise these municipalities.

The number of municipalities assessed to meet the criteria for financial distress increased from 157 in 2021/22 to 168 in 2022/23, whilst the overall audit outcomes does not reflect improvement. Again, the new councils that were elected in 2021 have failed to turnaround the performance of municipalities and considering the municipalities in the Free State are still the highest that failed to compile and submit the annual financial statements on time, and therefore leading to audits not completed within the legislated date. The Western Cape Province is commended that it has the highest number of municipalities with clean audits while Midvaal local municipality is the only one in Gauteng.

Similar to the observation made in the past, most municipalities with clean audits and unqualified audit opinions with/without findings are also classified as being in distress. Meaning that, while there is strong evidence of good corporate governance, these municipalities still meet the criteria for section 138 and 140 of the MFMA and therefore found to be in financial distress. This means that municipalities have not yet found the balance between prudent financial management, service delivery, institutional arrangements and good governance. In addition, some of these municipalities actually participate in the debt relief programme which indicates that they are not in a good financial position to pay their creditors on time.

The other concern is the failure of municipalities to respond to the natural disasters they were faced with through the implementation of measures for immediate relief during the 2022/23 financial year. The municipal disaster grant allocations were specifically increased to enable affected municipalities to respond to the natural disasters however, while major infrastructure assets were reported to be badly affected, the allocated funds were partially spent.

The persistent negligence of infrastructure assets is another factor contributing to financial decline due to escalating water and electricity losses at municipalities. Municipalities are not spending adequately on repairs and maintenance of infrastructure, and this leads to perpetual deterioration of the municipal assets and quality of service delivery. Again, municipalities continue to focus on investing more in new assets rather than taking care of the existing ones. While there are other external factors, municipalities are failing to install zonal meters, manage water consumptions by indigent households amongst other things that they have control over.

National Treasury is continuing to support municipalities through various programmes and reforms such as the MFMIP IIIx, CSP, mSCOA, MFRS, debt relief programme, MFMA Circular No. 88 and the legislated and institutionalised processes such as the annual budget assessment, in-year monitoring and the mid-year performance assessments.

There are already sufficient financial allocations through the DoRA in support of municipalities, therefore the failures observed in this report can never be attributed with lack of funding, while it is expected that local government as a

## CONCLUDING REMARKS | CONT.

sphere of government should be self-sufficient. Unfortunately, the municipal councils remain the final decision makers and perhaps it is high time the laws are changed to limit the powers of councillors so that the National and Provincial governments can be able to effectively influence change towards financial sustainability of these municipalities. A typical example is on the municipalities that are placed under Section 139 of the Constitution, all that the National Treasury can do is to prepare the FRPs and monitor implementation. It is inconceivable to expect a turnaround of the situation being led by councils that plunged the municipalities into distress by implementing the corrective measures prescribed in the FRP.

## ANNEXURE A1

**Municipalities in financial distress as at 30 June 2023** (*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 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Eastern Cape	A	Buffalo City	BUF	Metro	-	No	No
Eastern Cape	A	Nelson Mandela Bay	NMA	Metro	-	Acting	No
Eastern Cape	B	Blue Crane Route	EC102	Sarah Baartman	Financial Distress	No	No
Eastern Cape	B	Dr Beyers Naude	EC101	Sarah Baartman	Financial Distress	No	No
Eastern Cape	B	Kou-Kamma	EC109	Sarah Baartman	Financial Distress	No	No
Eastern Cape	B	Kouga	EC108	Sarah Baartman	Financial Distress	Acting	Acting
Eastern Cape	B	Makana	EC104	Sarah Baartman	Financial Distress	No	No
Eastern Cape	B	Ndlambe	EC105	Sarah Baartman	-	No	No
Eastern Cape	B	Sundays River Valley		Sarah Baartman	Financial Distress	No	No
Eastern Cape	C	Sarah Baartman	DC10	Sarah Baartman	-	No	No
Eastern Cape	B	Amahlathi	EC124	Amathole	Financial Distress	No	No
Eastern Cape	B	Great Kei	EC123	Amathole	-	No	Acting
Eastern Cape	B	Mbhashe	EC121	Amathole	-	No	No
Eastern Cape	B	Mnquma	EC122	Amathole	-	No	No
Eastern Cape	B	Ngqushwa	EC126	Amathole	-	No	No
Eastern Cape	B	Raymond Mhlaba	EC129	Amathole	Financial Distress	No	No
Eastern Cape	C	Amathole	DC12	Amathole	Financial Distress	No	No
Eastern Cape	B	Dr. A.B. Xuma	EC137	Chris Hani	Financial Distress	No	Acting
Eastern Cape	B	Emalahleni (EC)	EC136	Chris Hani	-	No	Acting
Eastern Cape	B	Enoch Mgijima	EC139	Chris Hani	Financial Distress	No	No
Eastern Cape	B	Intsika Yethu	EC135	Chris Hani	-	No	No
Eastern Cape	B	Inxuba Yethemba	EC131	Chris Hani	Financial Distress	No	Acting
Eastern Cape	B	Sakhisizwe	EC138	Chris Hani	Financial Distress	No	No
Eastern Cape	C	Chris Hani	DC13	Chris Hani	Financial Distress	No	No
Eastern Cape	B	Elundini	EC141	Joe Gqabi	-	No	No
Eastern Cape	B	Senqu	EC142	Joe Gqabi	-	No	No
Eastern Cape	B	Walter Sisulu	EC145	Joe Gqabi	Financial Distress	No	No

## ANNEXURE A1 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Eastern Cape	C	Joe Gqabi	DC14	Joe Gqabi	Financial Distress	No	Acting
Eastern Cape	B	King Sabata Dalindyebo	EC157	O .R. Tambo	Financial Distress	No	No
Eastern Cape	B	Mhlontlo	EC156	O .R. Tambo	-	No	No
Eastern Cape	B	Ngquza Hills	EC153	O .R. Tambo	-	No	No
Eastern Cape	B	Nyandeni	EC155	O .R. Tambo	-	Acting	No
Eastern Cape	B	Port St Johns	EC154	O .R. Tambo	-	No	No
Eastern Cape	C	O R Tambo	DC15	O .R. Tambo	Financial Distress	No	No
Eastern Cape	B	Matatiele	EC441	Alfred Nzo	Financial Distress	No	No
Eastern Cape	B	Ntabankulu	EC444	Alfred Nzo	-	No	No
Eastern Cape	B	Umkhumbi	EC442	Alfred Nzo	-	No	No
Eastern Cape	B	Winnie Madikizela-Mandela	EC443	Alfred Nzo	-	No	No
Eastern Cape	C	Alfred Nzo	DC44	Alfred Nzo	-	Acting	No
Free State	A	Mangaung	MAN	Metro	Financial Distress	Acting	Acting
Free State	B	Kopanong	FS162	Xhariep	Financial Distress	Acting	Acting
Free State	B	Letsemeng	FS161	Xhariep	-	Acting	No
Free State	B	Mohokare	FS163	Xhariep	Financial Distress	No	Acting
Free State	C	Xhariep	DC16	Xhariep	Financial Distress	No	No
Free State	B	Masilonyana	FS181	Lejweleputswa	Financial Distress	No	No
Free State	B	Matjhabeng	FS184	Lejweleputswa	Financial Distress	Acting	Acting
Free State	B	Nala	FS185	Lejweleputswa	Financial Distress	No	Acting
Free State	B	Tokologo	FS182	Lejweleputswa	Financial Distress	Acting	No
Free State	B	Tswelopele	FS183	Lejweleputswa	Financial Distress	Acting	No
Free State	C	Lejweleputswa	DC18	Lejweleputswa	-	No	No
Free State	B	Dihlabeng	FS192	Thabo Mofutsanyana	Financial Distress	Acting	Acting
Free State	B	Maluti-a-Phofung	FS194	Thabo Mofutsanyana	Financial Distress	Acting	No
Free State	B	Mantsopa	FS196	Thabo Mofutsanyana	Financial Distress	No	No
Free State	B	Nketoana	FS193	Thabo Mofutsanyana	Financial Distress	No	No

## ANNEXURE A1 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Free State	B	Phumelela	FS195	Thabo Mofutsanyana	Financial Distress	Acting	No
Free State	B	Setoto	FS191	Thabo Mofutsanyana	-	No	No
Free State	C	Thabo Mofutsanyana	DC19	Thabo Mofutsanyana	Financial Distress	No	No
Free State	B	Mafube	FS205	Fezile Dabi	Financial Distress	Acting	Acting
Free State	B	Metsimaholo	FS204	Fezile Dabi	Financial Distress	Acting	Acting
Free State	B	Moghaka	FS201	Fezile Dabi	Financial Distress	Acting	Acting
Free State	B	Ngwathe	FS203	Fezile Dabi	Financial Distress	Acting	Acting
Free State	C	Fezile Dabi	DC20	Fezile Dabi	-	No	Acting
Gauteng	A	City of Ekurhuleni	EKU	Metro	Financial Distress	No	No
Gauteng	A	City of Johannesburg	JHB	Metro	Financial Distress	No	No
Gauteng	A	City of Tshwane	TSH	Metro	Financial Distress	No	No
Gauteng	B	Emfuleni	GT421	Sedibeng	Financial Distress	No	No
Gauteng	B	Lesedi	GT423	Sedibeng	Financial Distress	No	No
Gauteng	B	Midvaal	GT422	Sedibeng		No	No
Gauteng	C	Sedibeng	DC42	Sedibeng	Financial Distress	No	Acting
Gauteng	B	Merafong City	GT484	West Rand	Financial Distress	No	No
Gauteng	B	Mogale City	GT481	West Rand	Financial Distress	No	No
Gauteng	B	Rand West City	GT485	West Rand	Financial Distress	No	No
Gauteng	C	West Rand	DC48	West Rand	Financial Distress	No	No
Kwazulu-Natal	A	eThekwin	ETH	Metro	-	No	No
Kwazulu-Natal	B	Ray Nkonyeni	KZN216	Ugu	-	No	No
Kwazulu-Natal	B	Umdoni	KZN212	Ugu	-	No	No
Kwazulu-Natal	B	Umzumbe	KZN213	Ugu	-	Acting	Acting
Kwazulu-Natal	B	uMuziwabantu	KZN214	Ugu	-	Acting	Acting
Kwazulu-Natal	C	Ugu	DC21	Ugu	Financial Distress	Acting	No
Kwazulu-Natal	B	Impendle	KZN224	uMgungundlovu	Financial Distress	No	No
Kwazulu-Natal	B	Mkhambathini	KZN226	uMgungundlovu	-	No	No

## ANNEXURE A1 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Kwazulu-Natal	B	Mpofana	KZN223	uMgungundlovu	Financial Distress	No	Acting
Kwazulu-Natal	B	Msunduzi	KZN225	uMgungundlovu	Financial Distress	No	No
Kwazulu-Natal	B	Richmond	KZN227	uMgungundlovu	Financial Distress	No	No
Kwazulu-Natal	B	uMngeni	KZN222	uMgungundlovu	Financial Distress	Acting	No
Kwazulu-Natal	B	uMshwathi	KZN221	uMgungundlovu	-	No	No
Kwazulu-Natal	C	uMgungundlovu	DC22	uMgungundlovu	Financial Distress	Acting	Acting
Kwazulu-Natal	B	Alfred Duma	KZN238	Uthukela	-	No	No
Kwazulu-Natal	B	Inkosi Langalibalele	KZN237	Uthukela	-	No	No
Kwazulu-Natal	B	Okhahlamba	KZN235	Uthukela	Financial Distress	No	No
Kwazulu-Natal	C	Uthukela	DC23	Uthukela	Financial Distress	No	No
Kwazulu-Natal	B	Endumeni	KZN241	Umginyathi	Financial Distress	No	Acting
Kwazulu-Natal	B	Msinga	KZN244	Umginyathi	Financial Distress	No	Acting
Kwazulu-Natal	B	Nquthu	KZN242	Umginyathi	Financial Distress	No	No
Kwazulu-Natal	B	Umvoti	KZN245	Umginyathi	Financial Distress	No	No
Kwazulu-Natal	C	Umginyathi	DC24	Umginyathi	Financial Distress	Acting	No
Kwazulu-Natal	B	Dannhauser	KZN254	Amajuba	Financial Distress	No	Acting
Kwazulu-Natal	B	Emadlangeni	KZN253	Amajuba	Financial Distress	No	No
Kwazulu-Natal	B	Newcastle	KZN252	Amajuba	Financial Distress	No	No
Kwazulu-Natal	C	Amajuba	DC25	Amajuba	Financial Distress	No	Acting
Kwazulu-Natal	B	Abaqulusi	KZN263	Zululand	Financial Distress	No	No
Kwazulu-Natal	B	Nongoma	KZN265	Zululand	Financial Distress	No	No
Kwazulu-Natal	B	Ulundi	KZN266	Zululand	Financial Distress	No	No
Kwazulu-Natal	B	eDumbe	KZN261	Zululand	Financial Distress	No	No
Kwazulu-Natal	B	uPhongolo	KZN262	Zululand	Financial Distress	No	No
Kwazulu-Natal	C	Zululand	DC26	Zululand	Financial Distress	No	No
Kwazulu-Natal	B	Hlabisa Big Five	KZN276	Umkhanyakude	-	No	No
Kwazulu-Natal	B	Jozini	KZN272	Umkhanyakude	Financial Distress	No	No



## ANNEXURE A1 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Kwazulu-Natal	B	Mtubatuba	KZN275	Umkhanyakude	Financial Distress	No	No
Kwazulu-Natal	B	Umkhlabuyalingana	KZN271	Umkhanyakude	-	No	No
Kwazulu-Natal	C	Umkhanyakude	DC27	Umkhanyakude	-	No	Acting
Kwazulu-Natal	B	Mfolozi	KZN281	King Cetshwayo	-	No	No
Kwazulu-Natal	B	Mthonjaneni	KZN285	King Cetshwayo	Financial Distress	No	No
Kwazulu-Natal	B	Nkandla	KZN286	King Cetshwayo	Financial Distress	No	No
Kwazulu-Natal	B	uMhlathuze	KZN282	King Cetshwayo	-	No	No
Kwazulu-Natal	B	uMlalazi	KZN284	King Cetshwayo	-	No	No
Kwazulu-Natal	C	King Cetshwayo	DC28	King Cetshwayo	Financial Distress	No	No
Kwazulu-Natal	B	KwaDukuza	KZN292	iLembe	-	No	No
Kwazulu-Natal	B	Mandeni	KZN291	iLembe	-	No	Acting
Kwazulu-Natal	B	Maphumulo	KZN294	iLembe	Financial Distress	Acting	Acting
Kwazulu-Natal	B	Ndwedwe	KZN293	iLembe	-	No	Acting
Kwazulu-Natal	C	iLembe	DC29	iLembe	-	No	Acting
Kwazulu-Natal	B	Dr Nkosazana Dlamini Zuma	KZN436	Harry Gwala	-	No	No
Kwazulu-Natal	B	Greater Kokstad	KZN433	Harry Gwala	-	No	No
Kwazulu-Natal	B	Ubuhlebezwe	KZN434	Harry Gwala	-	No	No
Kwazulu-Natal	B	Umzimkhulu	KZN435	Harry Gwala	-	No	No
Kwazulu-Natal	C	Harry Gwala	DC43	Harry Gwala	Financial Distress	No	No
Limpopo	B	Ba-Phalaborwa	LIM334	Mopani	Financial Distress	No	No
Limpopo	B	Greater Giyani	LIM331	Mopani	Financial Distress	No	No
Limpopo	B	Greater Letaba	LIM332	Mopani	Financial Distress	No	Acting
Limpopo	B	Greater Tzaneen	LIM333	Mopani	-	No	Acting
Limpopo	B	Maruleng	LIM335	Mopani	-	No	Acting
Limpopo	C	Mopani	DC33	Mopani	Financial Distress	No	No
Limpopo	B	Collins Chabane	LIM345	Vhembe	-	No	No
Limpopo	B	Makhado	LIM344	Vhembe	Financial Distress	No	Acting

## ANNEXURE A1 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Limpopo	B	Musina	LIM341	Vhembe	Financial Distress	No	Acting
Limpopo	B	Thulamela	LIM343	Vhembe	-	No	No
Limpopo	C	Vhembe	DC34	Vhembe	Financial Distress	Acting	No
Limpopo	B	Blouberg	LIM351	Capricorn	-	No	No
Limpopo	B	Lepelle-Nkumpi	LIM355	Capricorn	-	No	Acting
Limpopo	B	Molemole	LIM353	Capricorn	-	No	No
Limpopo	B	Polokwane	LIM354	Capricorn	Financial Distress	No	No
Limpopo	C	Capricorn	DC35	Capricorn	-	No	Acting
Limpopo	B	Bela Bela	LIM366	Waterberg	Financial Distress	No	No
Limpopo	B	Lephalale	LIM362	Waterberg	Financial Distress	No	No
Limpopo	B	Modimolle-Mookgopong	LIM368	Waterberg	Financial Distress	No	No
Limpopo	B	Mogalakwena	LIM367	Waterberg	Financial Distress	No	No
Limpopo	B	Thabazimbi	LIM361	Waterberg	Financial Distress	Acting	Acting
Limpopo	C	Waterberg	DC36	Waterberg	Financial Distress	No	No
Limpopo	B	Elias Motsoaledi	LIM472	Sekhukhune	-	No	Acting
Limpopo	B	Ephraim Mogale	LIM471	Sekhukhune	-	No	No
Limpopo	B	Makhuduthamaga	LIM473	Sekhukhune	Financial Distress	No	Acting
Limpopo	B	Tubatse Fetakgomo	LIM476	Sekhukhune	-	No	No
Limpopo	C	Sekhukhune	DC47	Sekhukhune	-	Acting	No
Mpumalanga	B	Albert Luthuli	MP301	Gert Sibande	Financial Distress	No	No
Mpumalanga	B	Dipaleseng	MP306	Gert Sibande	Financial Distress	No	No
Mpumalanga	B	Govan Mbeki	MP307	Gert Sibande	Financial Distress	No	Acting
Mpumalanga	B	Lekwa	MP305	Gert Sibande	Financial Distress	No	No
Mpumalanga	B	Mkhondo	MP303	Gert Sibande	Financial Distress	Acting	Acting
Mpumalanga	B	Msukaligwa	MP302	Gert Sibande	Financial Distress	No	No
Mpumalanga	B	Pixley Ka Seme (MP)	MP304	Gert Sibande	Financial Distress	No	No
Mpumalanga	C	Gert Sibande	DC30	Gert Sibande	-	No	No

## ANNEXURE A1 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Mpumalanga	B	Dr J.S. Moroka	MP316	Nkangala	Financial Distress	No	No
Mpumalanga	B	Emakhazeni	MP314	Nkangala	Financial Distress	No	No
Mpumalanga	B	Emalahleni (MP)	MP312	Nkangala	Financial Distress	No	No
Mpumalanga	B	Steve Tshwete	MP313	Nkangala	Financial Distress	No	Acting
Mpumalanga	B	Thembisile Hani	MP315	Nkangala	Financial Distress	No	No
Mpumalanga	B	Victor Khanye	MP311	Nkangala	Financial Distress	No	No
Mpumalanga	C	Nkangala	DC31	Nkangala	-	No	No
Mpumalanga	B	Bushbuckridge	MP325	Ehlanzeni	-	No	No
Mpumalanga	B	City of Mbombela	MP326	Ehlanzeni	Financial Distress	No	No
Mpumalanga	B	Nkomazi	MP324	Ehlanzeni	-	No	No
Mpumalanga	B	Thaba Chweu	MP321	Ehlanzeni	Financial Distress	No	Acting
Mpumalanga	C	Ehlanzeni	DC32	Ehlanzeni	Financial Distress	No	No
North West	B	Kgetlengrivier	NW374	Bojanala Platinum	Financial Distress	No	No
North West	B	Madibeng	NW372	Bojanala Platinum	-	Acting	Acting
North West	B	Moretele	NW371	Bojanala Platinum	-	No	No
North West	B	Moses Kotane	NW375	Bojanala Platinum	Financial Distress	No	No
North West	B	Rustenburg	NW373	Bojanala Platinum	Financial Distress	Acting	Acting
North West	C	Bojanala Platinum	DC37	Bojanala Platinum	Financial Distress	No	Acting
North West	B	Ditsobotla	NW384	Ngaka Modiri Molema	Financial Distress	Acting	Acting
North West	B	Mafikeng	NW383	Ngaka Modiri Molema	Financial Distress	No	No
North West	B	Ramotshere Moiloa	NW385	Ngaka Modiri Molema	-	No	No
North West	B	Ratlou	NW381	Ngaka Modiri Molema	Financial Distress	No	Acting
North West	B	Tswaing	NW382	Ngaka Modiri Molema	Financial Distress	No	Acting
North West	C	Ngaka Modiri Molema	DC38	Ngaka Modiri Molema	-	No	No
North West	B	Greater Taung	NW394	Dr Ruth Segomotsi Mompoti	-	Acting	No
North West	B	Kagisano-Molopo	NW397	Dr Ruth Segomotsi Mompoti	Financial Distress	Acting	No
North West	B	Lekwa-Teemane	NW396	Dr Ruth Segomotsi Mompoti	Financial Distress	Acting	Acting

## ANNEXURE A1 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
North West	B	Mamusa	NW393	Dr Ruth Segomotsi Mompoti	Financial Distress	No	Acting
North West	B	Naledi (NW)	NW392	Dr Ruth Segomotsi Mompoti	Financial Distress	No	No
North West	C	Dr Ruth Segomotsi Mompoti	DC39	Dr Ruth Segomotsi Mompoti	Financial Distress	No	Acting
North West	B	City of Matlosana	NW403	Dr Kenneth Kaunda	Financial Distress	No	No
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	No	Acting
North West	C	Dr Kenneth Kaunda	DC40	Dr Kenneth Kaunda	-	No	No
Northern Cape	B	Ga-Segonyana	NC452	John Taolo Gaetsewe	Financial Distress	No	No
Northern Cape	B	Gamagara	NC453	John Taolo Gaetsewe	Financial Distress	No	No
Northern Cape	B	Joe Morolong	NC451	John Taolo Gaetsewe	Financial Distress	No	Acting
Northern Cape	C	John Taolo Gaetsewe	DC45	John Taolo Gaetsewe	Financial Distress	No	No
Northern Cape	B	Hantam	NC065	Namakwa	Financial Distress	Acting	Acting
Northern Cape	B	Kamiesberg	NC064	Namakwa	Financial Distress	No	No
Northern Cape	B	Karoo Hoogland	NC066	Namakwa	Financial Distress	No	Acting
Northern Cape	B	Khai-Ma	NC067	Namakwa	Financial Distress	No	Acting
Northern Cape	B	Nama Khoi	NC062	Namakwa	Financial Distress	No	No
Northern Cape	B	Richtersveld	NC061	Namakwa	Financial Distress	No	No
Northern Cape	C	Namakwa	DC6	Namakwa	Financial Distress	No	Acting
Northern Cape	B	Emthanjeni	NC073	Pixley ka Seme (NC)	Financial Distress	No	Acting
Northern Cape	B	Kareeberg	NC074	Pixley ka Seme (NC)	Financial Distress	No	Acting
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	No
Northern Cape	B	Siyathemba	NC077	Pixley ka Seme (NC)	Financial Distress	Acting	No
Northern Cape	B	Thembelihle	NC076	Pixley ka Seme (NC)	Financial Distress	Acting	Acting
Northern Cape	B	Ubuntu	NC071	Pixley ka Seme (NC)	Financial Distress	No	Acting
Northern Cape	B	Umsobomvu	NC072	Pixley ka Seme (NC)	Financial Distress	No	Acting
Northern Cape	C	Pixley Ka Seme (NC)	DC7	Pixley ka Seme (NC)	Financial Distress	No	No

## ANNEXURE A1 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Northern Cape	B	!Kail! Garib	NC082	Z F Mgcawu	Financial Distress	No	No
Northern Cape	B	!Kheis	NC084	Z F Mgcawu	Financial Distress	Acting	No
Northern Cape	B	Dawid Kruiper	NC087	Z F Mgcawu	Financial Distress	No	No
Northern Cape	B	Kgatelopele	NC086	Z F Mgcawu	Financial Distress	No	No
Northern Cape	B	Tsantsabane	NC085	Z F Mgcawu	Financial Distress	No	Acting
Northern Cape	C	Z F Mgcawu	DC8	Z F Mgcawu	Financial Distress	Acting	No
Northern Cape	B	Dikgatlong	NC092	Frances Baard	Financial Distress	Acting	Acting
Northern Cape	B	Magareng	NC093	Frances Baard	Financial Distress	Acting	Acting
Northern Cape	B	Phokwane	NC094	Frances Baard	Financial Distress	No	No
Northern Cape	B	Sol Plaatje	NC091	Frances Baard	-	No	Acting
Northern Cape	C	Frances Baard	DC9	Frances Baard	-	No	Acting
Western Cape	A	Cape Town	CPT	Metro	-	No	No
Western Cape	B	Bergrivier	WC013	West Coast	-	No	No
Western Cape	B	Cederberg	WC012	West Coast	Financial Distress	No	No
Western Cape	B	Matzikama	WC011	West Coast	Financial Distress	No	No
Western Cape	B	Saldanha Bay	WC014	West Coast	-	No	No
Western Cape	B	Swartland	WC015	West Coast	-	No	No
Western Cape	C	West Coast	DC1	West Coast	-	No	No
Western Cape	B	Breede Valley	WC025	Cape Winelands	-	No	No
Western Cape	B	Drakenstein	WC023	Cape Winelands	Financial Distress	No	No
Western Cape	B	Langeberg	WC026	Cape Winelands	-	No	No
Western Cape	B	Stellenbosch	WC024	Cape Winelands	-	No	No
Western Cape	B	Witzenberg	WC022	Cape Winelands	-	No	No
Western Cape	C	Cape Winelands DM	DC2	Cape Winelands	-	No	No
Western Cape	B	Cape Agulhas	WC033	Overberg	-	No	No
Western Cape	B	Overstrand	WC032	Overberg	Financial Distress	No	No
Western Cape	B	Swellendam	WC034	Overberg	-	No	No

## ANNEXURE A1 | CONT.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2022/23 (Source: MSCOA)					DISTRESS INDICATOR	ACTING POSITIONS	
Province	Cat	Demarcation Description	Demarc Code	District	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Western Cape	B	Theewaterskloof	WC031	Overberg	Financial Distress	Acting	Acting
Western Cape	C	Overberg	DC3	Overberg	Financial Distress	No	No
Western Cape	B	Bitou	WC047	Garden Route	Financial Distress	Acting	Acting
Western Cape	B	George	WC044	Garden Route	Financial Distress	Acting	No
Western Cape	B	Hessequa	WC042	Garden Route	-	No	No
Western Cape	B	Kannaland	WC041	Garden Route	Financial Distress	Acting	No
Western Cape	B	Knysna	WC048	Garden Route	Financial Distress	Acting	No
Western Cape	B	Mossel Bay	WC043	Garden Route	-	No	No
Western Cape	B	Oudtshoorn	WC045	Garden Route	Financial Distress	No	No
Western Cape	C	Garden Route	DC4	Garden Route	-	No	No
Western Cape	B	Beaufort West	WC053	Central Karoo	Financial Distress	No	No
Western Cape	B	Laingsburg	WC051	Central Karoo	Financial Distress	No	No
Western Cape	B	Prince Albert	WC052	Central Karoo	-	No	No
Western Cape	C	Central Karoo	DC5	Central Karoo	-	No	Acting

# ANNEXURE A2

Analysis of municipalities in financial distress in municipalities (municipalities identified as being in financial distress in 2022/23 are also highlighted).

This section indicates analysis of financial distress in 257 municipalities for the period 2018/19 to 2022/23.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)	Start Date	Current
<b>Eastern Cape</b>															
EC	A	BUF	Buffalo City	1					Qualified	Funded					
EC	A	NWA	Nelson Mandela Bay						Unqualified - With findings	Funded					
EC	B	EC101	Dr Beyers Naude	1	1	1	1	1	Unqualified - With findings	1	1				
EC	B	EC102	Blue Crane Route	1	1	1	1	1	Unqualified - With findings	Funded					
EC	B	EC104	Makana	1	1	1	1	1	Disclaimer of opinion	Funded	1		S139(5) (a)	Feb-22	Mandatory
EC	B	EC105	Ndlambe		1	1	1	1	Unqualified - With findings	Funded					
EC	B	EC106	Sundays River Valley	1	1	1	1	1	Disclaimer of opinion	1					
EC	B	EC108	Kouga		1	1			Unqualified - With findings	Unfunded					
EC	B	EC109	Kou-Kamma		1	1	1	1	Qualified	Funded					
EC	C	DC10	Sarah Baartman						Unqualified - With findings	Funded					
EC	B	EC121	Mbashe				1	1	Unqualified - With findings	Funded					
EC	B	EC122	Mnquma	1	1		1		Unqualified - Without findings	Funded					
EC	B	EC123	Great Kei	1	1	1	1	1	Unqualified - With findings	Funded					
EC	B	EC124	Amahlathi	1	1	1			Qualified						

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		
EC	B	EC126	Nqushwa	1	1				Unqualified – With findings	Funded					
EC	B	EC129	Raymond Mhlaba	1	1	1	1	1	Qualified	1	1				
EC	C	DC12	Amathole	1	1	1	1	1	Disclaimer of opinion	1			S139(5) (a)	Jan-21	Mandatory
EC	B	EC131	Inxuba Yethemba	1	1	1		1	Unqualified – With findings		1				
EC	B	EC135	Intsika Yethu	1					Unqualified – With findings	Funded					
EC	B	EC136	Emalahleni (EC)	1	1	1	1	1	Qualified	Funded					
EC	B	EC137	Dr A B Xuma						Unqualified – With findings	Funded					
EC	B	EC138	Sakhiszwe	1	1	1	1	1	Qualified						
EC	B	EC139	Enoch Mgijima	1	1	1	1	1	Qualified	1	1		S139(7)	Dec-22	Mandatory
EC	C	DC13	Chris Hani	1	1	1	1	1	Qualified	1			S139(5) (a)		In Process
EC	B	EC141	Elundini						Unqualified – With findings						
EC	B	EC142	Senqu						Unqualified – Without findings	Funded					
EC	B	EC145	Walter Sisulu	1	1	1	1	1	Qualified	1	1		S139(5) (a)	Oct-23	Mandatory
EC	C	DC14	Joe Gqabi	1	1		1	1	Unqualified – Without findings	Funded					
EC	B	EC153	Inguza Hills			1	1	1	Qualified	Funded					
EC	B	EC154	Port St Johns						Qualified	Funded					
EC	B	EC155	Nyandeni			1			Qualified	Funded					
EC	B	EC156	Mhlontlo		1		1		Qualified	Funded					
EC	B	EC157	King Sabata Dalindyebo	1	1	1			Unqualified – With findings	Funded					
EC	C	DC15	O R Tambo	1	1	1	1	1	Unqualified – With findings	Funded			S139(5) (a)	Oct-23	Mandatory



## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23							
EC	B	EC441	Mataiele		1	1	1	1	Unqualified – With findings	Funded					
EC	B	EC442	Umkimvubu				1		Unqualified – With findings	Funded					
EC	B	EC443	Winnie Madikizela Mandela						Unqualified – Without findings	Funded					
EC	B	EC444	Ntabankulu	1		1			Unqualified – With findings	Funded					
EC	C	DC44	Alfred Nzo						Unqualified – With findings	Funded					
Total		EC	39	22	24	21		19		6	5	0	5		5

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		Current
Free State															
FS	A	MAN	Mangaung	1	1	1	1	1	Qualified	Funded	1		S139(7)	Dec-19	Mandatory
FS	B	FS161	Letsemeng	1	1	1	1		Qualified						
FS	B	FS162	Kopanong	1	1	1	1	1	Qualified	1					
FS	B	FS163	Mohokare	1	1	1	1	1	Disclaimer of opinion	1					
FS	C	DC16	Xhariep	1	1	1	1	1	Unqualified -With findings	Funded					
FS	B	FS181	Masilonyana	1	1	1	1	1	Disclaimer of opinion	1	1	S139(1)(b)	S139(5) (a) & (c)	Dec-17	Discretionary
FS	B	FS182	Tokologo	1	1	1	1	1	Qualified	1					Mandatory
FS	B	FS183	Tswelopele	1	1	1	1	1	Unqualified -With findings		1				
FS	B	FS184	Matjhabeng	1	1	1	1	1	Qualified	1	1				
FS	B	FS185	Nala	1	1	1	1	1	Qualified	1	1				
FS	C	DC18	Lejweleputswa						Unqualified -With findings	Funded					
FS	B	FS191	Setso	1	1	1			Unqualified -With findings	1					
FS	B	FS192	Dihlabeng	1	1	1	1	1	Audit not finalised at legislated date	1	1				
FS	B	FS193	Nketoana	1	1	1	1	1	Disclaimer of opinion	1	1	S139(1)(b)		2016/17	Discretionary

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)	Start Date	Current
FS	B	FS194	Maluti-a-Phofung	1	1	1	1	1	Audit not finalised at legislated date	1	1	S139(1)(b)		Oct-18	Discretionary
FS	B	FS195	Phumelela	1	1	1	1	1	Unqualified -With findings	1	1	S139(1)(b)		2016/17 2020/21	Discretionary
FS	B	FS196	Mantsopa	1	1	1	1	1	Qualified	1					Voluntary
FS	C	DC19	Thabo Mofutsanyana	1			1	1	Unqualified -With findings	Funded					
FS	B	FS201	Moghaka	1	1	1	1	1	Audit not finalised at legislated date	1	1				
FS	B	FS203	Ngwathe	1	1	1	1	1	Qualified	1	1				
FS	B	FS204	Metsimaholo	1	1	1	1	1	Qualified	1					
FS	B	FS205	Mafube	1	1	1	1	1	Audit not finalised at legislated date	1			S139(5) (a) & (c)	Dec-17	Mandatory
FS	C	DC20	Fezile Dabi						Qualified						
Total FS				21	21	20		19		15	11	4	2		7

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		Current
<b>Gauteng</b>															
GT	A	EKU	City of Ekurhuleni	1	1	1	1	1	Unqualified - With findings						
GT	A	JHB	City of Johannesburg		1	1	1	1	Unqualified - With findings						
GT	A	TSH	City of Tshwane	1	1	1	1	1	Qualified	1				Aug-21	Voluntary
GT	B	GT421	Emfuleni	1	1	1	1	1	Qualified	1	1		S139(5)	Jan-19	Mandatory
GT									Unqualified - Without findings						
GT	B	GT422	Midvaal						Unqualified - With findings						
GT	B	GT423	Lesedi	1	1	1	1	1	Unqualified - With findings	1	1				
GT	C	DC42	Sedibeng	1	1	1	1	1	Unqualified - With findings	1					
GT	B	GT481	Mogale City	1	1	1	1	1	Qualified	1	1				
GT	B	GT484	Merafong City	1	1	1	1	1	Disclaimer of opinion	1	1		S139(5) (a)		In Process
GT	B	GT485	Rand West City	1	1	1	1	1	Unqualified - With findings	1	1				
GT	C	DC48	West Rand	1	1	1	1	1	Unqualified - With findings	1			S139(5) (a)	Aug-19	Mandatory
<b>Total GP</b>				<b>9</b>	<b>10</b>			<b>10</b>	<b>8</b>	<b>5</b>	<b>0</b>	<b>2</b>		<b>3</b>	

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		Current
<b>KwaZulu-Natal</b>															
KZ	A	ETH	eThekweni	1	1	1	1		Unqualified -With findings						
KZ	B	KZN212	Umdoni						Unqualified -With findings						
KZ	B	KZN213	Umkumbe						Qualified						
KZ	B	KZN214	uMuziwabantu						Unqualified -With findings						
KZ	B	KZN216	Ray Nkonyeni	1	1	1			Unqualified -With findings						
KZ	C	DC21	Ugu	1	1	1	1	1	Unqualified -With findings						
KZ	B	KZN221	uMshwathi					1	Unqualified -With findings						
KZ	B	KZN222	uMngeni	1	1	1	1	1	Unqualified -With findings						
KZ	B	KZN223	Mpofana	1	1	1	1	1	Qualified	1	1				
KZ	B	KZN224	Impendle						Unqualified -With findings						
KZ	B	KZN225	Msunduzi	1	1	1	1	1	Qualified	1	1	S139 (1) (b)		Apr-19	Voluntary
KZ	B	KZN226	Mkhambathini					1	Unqualified -With findings						

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		Current
KZ	B	KZN227	Richmond		1				Unqualified - With findings	1					
KZ	C	DC22	uMgungundlovu	1	1	1	1	1	Unqualified - With findings	1					
KZ	B	KZN235	Okhahlamba	1		1			Unqualified - Without findings						
KZ	B	KZN237	Inkosi Langalibalele	1	1	1	1		Qualified						
KZ	B	KZN238	Alfred Duma			1	1	1	Unqualified - With findings						
KZ	C	DC23	Uthukela	1	1	1	1	1	Qualified	1					
KZ	B	KZN241	Endumeni		1	1	1	1	Qualified	1	1				
KZ	B	KZN242	Nquthu		1		-	1	Unqualified - With findings						
KZ	B	KZN244	Msinga					1	Unqualified - With findings						
KZ	B	KZN245	Umvoti	1	1			1	Unqualified - With findings						
KZ	C	DC24	Umzinyathi	1	1	1	1	1	Adverse opinion	1					
KZ	B	KZN252	Newcastle	1	1	1	1	1	Unqualified - With findings	1					
KZ	B	KZN253	Emadlangeni		1	1	1	1	Unqualified - With findings						

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)	Current	
KZ	B	KZN254	Dannhauser	1	1	1	1	1	Unqualified - With findings						
KZ	C	DC25	Amajuba	1	1	1	1	1	Qualified						
KZ	B	KZN261	eDumbe	1		1	1	1	Unqualified - With findings	1					
KZ	B	KZN262	uPhongolo	1	1	1	1	1	Unqualified - With findings						
KZ	B	KZN263	Abaqulusi	1	1	1	1	1	Unqualified - With findings	1					
KZ	B	KZN265	Nongoma	1	1	1	1	1	Unqualified - With findings						
KZ	B	KZN266	Ulundi	1	1	1	1	1	Unqualified - With findings	1					
KZ	C	DC26	Zululand	1	1	1	1	1	Unqualified - With findings						
KZ	B	KZN271	Umkhanyakude						Unqualified - With findings						
KZ	B	KZN272	Jozini	1	1	1	1	1	Qualified						
KZ	B	KZN275	Mtubatuba	1	1	1	1	1	Qualified						
KZ	B	KZN276	Hlabisa Big Five	1					Unqualified - With findings						
KZ	C	DC27	Umkhanyakude	1	1				Qualified	1					
KZ	B	KZN281	Mfolozi	1	1				Unqualified - With findings	1					

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)	Start Date	Current
KZ	B	KZN282	uMhlathuze		1			1	Unqualified - Without findings						
KZ	B	KZN284	uMlalazi		1			1	Unqualified - Without findings	1					
KZ	B	KZN285	Mthonjaneni	1		1	1		Unqualified - With findings	Unfunded					
KZ	B	KZN286	Nkandla	1					Unqualified - With findings	1					
KZ	C	DC28	King Cetshwayo					1	Unqualified - Without findings						
KZ	B	KZN291	Mandeni						Unqualified - With findings						
KZ	B	KZN292	KwaDukuza						Unqualified - With findings						
KZ	B	KZN293	Ndwedwe					1	Unqualified - With findings						
KZ	B	KZN294	Maphumulo	1	1	1	1		Unqualified - With findings						
KZ	C	DC29	iLembe	1	1				Unqualified - With findings						
KZ	B	KZN433	Greater Kokstad		1	1			Unqualified - With findings						



## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)	Start Date	Current
KZ	B	KZN434	Ubuhlebezwe						Unqualified - With findings						
KZ	B	KZN435	Umzimkhulu						Unqualified - With findings						
KZ	B	KZN436	Dr Nkosazana Dlamini Zuma						Unqualified - With findings						
KZ	C	DC43	Harry Gwala	1	1	1	1	1	Unqualified - With findings						
Total KZN				29	34	31		32		14	5	1			1

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		Current
<b>Limpopo</b>															
LP	B	LIM331	Greater Giyani		1	1	1	1	Unqualified -With findings						
LP	B	LIM332	Greater Letaba		1	1	1	1	Unqualified -With findings						
LP	B	LIM333	Greater Tzaneen	1					Unqualified -With findings						
LP	B	LIM334	Ba-Phalaborwa	1	1	1	1	1	Qualified	1		S139 (1) (b)		2015/16	Discretionary
LP	B	LIM335	Maruleng			1			Unqualified -With findings						
LP	C	DC33	Mopani	1	1	1	1	1	Qualified	1					
LP	B	LIM341	Musina	1	1	1	1	1	Unqualified -With findings	1				2016/17	Voluntary
LP	B	LIM343	Thulamela						Unqualified -With findings						
LP	B	LIM344	Makhado		1			1	Unqualified -With findings						
LP	B	LIM345	Collins Chabane						Unqualified -With findings						
LP	C	DC34	Vhembe	1	1	1	1	1	Qualified						
LP	B	LIM351	Blouberg	1	1	1	1	1	Qualified						
LP	B	LIM353	Molemole	1	1				Unqualified -With findings						

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)	Start Date	Current
LP	B	LIM354	Polokwane	1		1		1	Unqualified - With findings						
LP	B	LIM355	Lepelle-Nkumpi		1				Unqualified - With findings						
LP	C	DC35	Capricorn						Unqualified - With findings						
LP	B	LIM361	Thabazimbi	1	1	1	1	1	Qualified	1	1	S139 (1) (b)		2015/16	Discretionary
									Unqualified - With findings						
LP	B	LIM362	Lephalale	1	1	1		1	Qualified	1	1				
LP	B	LIM366	Bela Bela	1	1	1	1	1	Qualified	1	1				
LP	B	LIM367	Mogalakwena	1	1	1	1	1	Qualified	1		S139 (1) (b)		2015/16	Discretionary
			Modimolle-						Adverse opinion	1					
LP	B	LIM368	Mookgopong	1	1	1	1	1	Unqualified - With findings	1	1			2015/16	Voluntary
									Unqualified - With findings						
LP	C	DC36	Waterberg					1	Unqualified - With findings						
									Unqualified - With findings						
LP	B	LIM471	Ephraim Mogale						Unqualified - With findings						
									Unqualified - With findings						
LP	B	LIM472	Elias Motsoaledi	1		1	1		Unqualified - With findings						
									Unqualified - With findings						
LP	B	LIM473	Makhuduthamaga	1	1	1		1	Unqualified - With findings						
									Unqualified - With findings						
LP	B	LIM476	Tubatse Fetakgomo	1	1				Unqualified - With findings						
LP	C	DC47	Sekhukhune	1	1	1	1		Qualified						
Total LP			27	17	17	17	13	15		6	3	3			5

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		
<b>Mpumalanga</b>															
MP	B	MP301	Albert Luthuli	1	1	1	1	1	Qualified						
MP	B	MP302	Msukaligwa	1	1	1	1	1	Qualified	1	1		S139(5) (a) & (c)	2019/20	Mandatory
MP	B	MP303	Mkhondo	1	1	1	1	1	Unqualified - With findings	1	1				
MP	B	MP304	Pixley Ka Seme (MP)						Unqualified - With findings						
MP	B	MP305	Lekwa	1	1	1	1	1	Qualified	1	1		S139 (7)	Oct-21	Mandatory
MP	B	MP306	Dipaleseng	1	1	1	1	1	Qualified		1			2017/18	Voluntary
MP	B	MP307	Govan Mbeki	1	1	1	1	1	Qualified	1	1		S139(5) (a) & (c)	2019/20	Mandatory
MP	C	DC30	Gert Sibande						Unqualified - With findings						
MP	B	MP311	Victor Khanye	1	1	1	1	1	Qualified	1	1				
MP	B	MP312	Emalahleni (MP)	1	1	1	1	1	Qualified	1	1		S139(5) (a) & (c)	Oct-18	Mandatory
MP	B	MP313	Steve Tshwete						Qualified	1					
MP	B	MP314	Emakhazeni	1			1	1	Adverse opinion		1				
MP	B	MP315	Thembisile Hani						Unqualified - With findings						
MP	B	MP316	Dr J.S. Moroka	1	1	1		1	Qualified						
MP	C	DC31	Nkangala						Unqualified - Without findings						

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)	Start Date	Current
MP	B	MP321	Thaba Chweu	1	1	1	1	1	Qualified	1	1		S139(5)	2019/20	Mandatory
MP	B	MP324	Nkomazi		1			1	Unqualified - With findings						
MP	B	MP325	Bushbuckridge	1					Unqualified - With findings						
MP	B	MP326	City of Mbombela	1	1	1	1	1	Unqualified - With findings		1			2018/19	Voluntary
MP	C	DC32	Ehlanzeni		1			1	Unqualified - Without findings						
Total MP				12	14	12	13	17		8	10	0	5		7

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		Current
Northern Cape															
NC	B	NC451	Joe Morolong	1	1		1	1	Disclaimer of opinion	1					
NC	B	NC452	Ga-Segonyana	1				1	Qualified						
NC	B	NC453	Gamagara	1	1	1	1	1	Unqualified -With findings	1	1				
NC	C	DC45	John Taolo Gaetsewe	1				1	Unqualified -With findings						
NC	B	NC061	Richtersveld	1	1	1	1	1	Qualified	1	1				
NC	B	NC062	Nama Khoi	1	1	1	1	1	Qualified	1	1				
NC	B	NC064	Kamiesberg	1	1	1	1	1	Qualified	1					
NC	B	NC065	Hantam	1	1	1	1	1	Unqualified -With findings						
NC	B	NC066	Karoo Hoogland	1	1	1	1	1	Unqualified -With findings						
NC	B	NC067	Khai-Ma	1	1	1	1	1	Qualified	1	1				
NC	C	DC6	Namakwa	1	1	1	1	1	Unqualified -Without findings						
NC	B	NC071	Ubuntu	1	1	1	1	1	Qualified	1	1	S139 (1) (b)			Discretionary
NC	B	NC072	Umsobomvu	1	1	1	1	1	Qualified		1				
NC	B	NC073	Emthanjeni	1	1	1	1	1	Qualified	1					
NC	B	NC074	Kareeberg				1	1	Audit not finalised at legislated date						
NC	B	NC075	Renosterberg	1	1	1	1	1	Qualified	1	1	S139 (1) (b)		2016/17	Discretionary
NC	B	NC076	Thembelihle	1	1	1	1	1	Qualified	1	1				

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		
NC	B	NC077	Siyathemba	1	1	1	1	1	Qualified	1					
NC	B	NC078	Siyancuma	1	1	1	1	1	Qualified	1	1				
NC	C	DC7	Pixley Ka Seme (NC)	1		1	1	1	Unqualified - With findings						
NC	B	NC082	!Kail Garib	1	1	1	1	1	Audit not finalised at legislated date	1	1				Voluntary
NC	B	NC084	!Kheis	1	1	1	1	1	Disclaimer of opinion	1				Jan-22	Voluntary
NC	B	NC085	Tsantsabane	1	1	1	1	1	Qualified	1	1				
NC	B	NC086	Kgatelopele	1	1	1	1	1	Qualified	1					
NC	B	NC087	Dawid Kruiper	1	1	1	1	1	Unqualified - With findings		1				
NC	C	DC8	Z F Mgcawu	1	1	1	1	1	Unqualified - Without findings	1					
NC	B	NC091	Sol Plaatje	1					Qualified		1				
NC	B	NC092	Dikgatlong	1	1	1	1	1	Qualified	1	1	S139 (1) (b)		Mar-16	Discretionary
NC	B	NC093	Magareng	1	1	1	1	1	Qualified	1	1	S139 (1) (b)			Discretionary
NC	B	NC094	Phokwane		1	1	1	1	Audit not finalised at legislated date	1	1	S139 (1) (b)		Jan-21	Discretionary
NC	C	DC9	Frances Baard						Unqualified - Without findings						
Total NC				27	25	25	27	29		20	16	4			7

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		Current
North West															
NW	B	NW371	Moretele	1	1				Unqualified - With findings						
NW	B	NW372	Madibeng	1	1	1	1		Adverse opinion		1		S139(5) (a) & (c)	Aug-23	Mandatory
NW	B	NW373	Rustenburg	1	1	1	1	1	Qualified						
NW	B	NW374	Kgetlengrivier	1	1	1	1	1	Qualified	1	1		S139(5) (a) & (c)	Aug-23	Mandatory
NW	B	NW375	Moses Kotane	1	1	1	1	1	Qualified	1					
NW	C	DC37	Bojanala Platinum	1	1			1	Qualified						
NW	B	NW381	Ratlou	1	1			1	Disclaimer of opinion						
NW	B	NW382	Tswaing	1	1	1	1	1	Qualified	1	1		S139(5) (a) & (c)	Aug-23	Mandatory
NW	B	NW383	Mafikeng	1	1	1	1	1	Qualified	1			S139(5) (a) & (c)		In Process
NW	B	NW384	Ditsobotla	1	1	1	1	1	Audit not finalised at legislated date	1	1		S139(5) (a) & (c)	Aug-23	Mandatory
NW	B	NW385	Ramotshere Moloka	1	1	1	1		Qualified	1	1		S139(5) (a) & (c)	Aug-23	Mandatory
NW	C	DC38	Ngaka Modiri Molema		1				Qualified	Funded		S139(1)		Mar-16	Discretionary
NW	B	NW392	Naledi (NW)	1	1	1	1	1	Adverse opinion	1	1		S139(5) (a) & (c)	Aug-23	Mandatory
NW	B	NW393	Mamusa	1	1	1	1	1	Audit not finalised at legislated date	1	1				



## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)			
NW	B	NW394	Greater Taung						Qualified						
NW	B	NW396	Lekwa-Teemane	1	1	1	1	1	Disclaimer of opinion	1	1				
NW	B	NW397	Kagisano-Molopo	1	1	1	1	1	Qualified	1					
NW	C	DC39	Dr Ruth Segomotsi Mompoti	1	1	1	1	1	Qualified	1			S139(5) (a) & (c)	Aug-23	Mandatory
NW	B	NW403	City of Matlosana	1	1	1	1	1	Unqualified - With findings	1	1				
NW	B	NW404	Maquassi Hills	1	1	1	1	1	Disclaimer of opinion	1	1				
NW	B	NW405	J B Marks	1	1	1	1	1	Qualified	Funded					
NW	C	DC40	Dr Kenneth Kaunda						Unqualified - With findings						
Total NW				19	20	17	16	16		13	10	1	8		9

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)			Current
Western Cape															
WC	A	CPT	Cape Town						Unqualified - Without findings						
WC	B	WC011	Matzikama	1	1	1	1	1	Unqualified - With findings	1	1				
WC	B	WC012	Cederberg	1	1	1	1	1	Unqualified - With findings	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						
WC	B	WC022	Witzenberg		1	1			Unqualified - Without findings						
WC	B	WC023	Drakenstein	1	1	1	1	1	Unqualified - Without findings						
WC	B	WC024	Stellenbosch		1	1			Unqualified - Without findings						

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)	Current	
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 - With findings						
WC	B	WC032	Overstrand		1	1	1	1	Unqualified - Without findings						
WC	B	WC033	Cape Agulhas						Unqualified - Without findings						
WC	B	WC034	Swellendam				1		Unqualified - With findings						
WC	C	DC3	Overberg		1		1	1	Unqualified - Without findings						
WC	B	WC041	Kannaland	1		1	1	1	Audit not finalised at legislated date	1			1		
WC	B	WC042	Hessequa						Unqualified - Without findings						
WC	B	WC043	Mossel Bay						Unqualified - Without findings						

## ANNEXURE A2 | CONT.

Province	Cat	Code	Name	Financial year					2022/23 Audit Outcomes	Unfunded Budgets	Debt Relief	S139 Intervention (current)	S139 (5) or (7)	Start Date	Financial Recovery Plan
				18/19	19/20	20/21	21/22	22/23		2022/23 adopted	Approved	S139 (1)	S139 (5) or (7)		Current
WC	B	WC044	George					1	Unqualified - Without findings						
WC	B	WC045	Oudtshoorn					1	Unqualified - Without findings						
WC	B	WC047	Bitou		1	1	1	1	Unqualified - Without findings						
WC	B	WC048	Knysna	1	1	1		1	Qualified	1					
WC	C	DC4	Garden Route						Unqualified - Without findings						
WC	B	WC051	Laingsburg	1	1	1	1	1	Adverse opinion	1					
WC	B	WC052	Prince Albert						Unqualified - With findings						
WC	B	WC053	Beaufort West	1	1	1	1	1	Qualified	1	1		S139(5) (a)	Dec-16	Mandatory
WC	C	DC5	Central Karoo	1					Unqualified - With findings						
Total WC			30	7	10	12		13	6	6	4	0	1		1







**2023 SoLGF**

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

**As at 30 June 2023**

**Audit Outcomes of the 2022/23 financial year**  
*Analysis Document*

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