THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT AS AT 30 JUNE 2020

2019/20 financial year

Analysis Document

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

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ABBREVIATIONS

AFS	Annual Financial Statements
AG	Auditor-General
BC	Budget Council
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CEDMF	City Economic Development Managers' Forum
CSIP	City Support Implementation Plan
CSP	Cities Support Programme
DCoG	Department of Cooperative Governance
DoRA	Division of Revenue Act
EC	Eastern Cape
FAQ	Frequently asked questions
FM	Financial management
FMIP	Financial Management Improvement Programme
FS	Free State
GDP	Gross Domestic Product
GT	Gauteng
IDP	Integrated Development Plan
IT	Information technology
KZN	KwaZulu-Natal
LGSETA	Local Government Sector and Education Training Authority
LP	Limpopo
Metro	Metropolitan municipality
MFIP	Municipal Finance Improvement Programme
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MinMEC	Ministers and Members of Executive Councils
MM	Municipal Manager
MP	Mpumalanga
MTBPS	Medium Term Budget Policy Statement
MSA	Municipal Structures Act
mSCOA	Municipal Standard Chart of Accounts
MTREF	Medium Term Revenue and Expenditure Framework
NC	Northern Cape
NW	North West
SACN	South African Cities Network
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
TCF	Technical Committee on Finance
WC	Western Cape

EXECUTIVE SUMMARY

The 2020 State of Local Government Finances and Financial Management Report provides a quantitative analysis of the financial health of 257 municipalities using a set of predetermined financial ratios and audited financial information. This report will also highlight the critical role played by municipalities in responding to the impact of the COVID-19 pandemic and the knock-on effect of the pandemic on municipal finances.

The 2019/20 financial year has been challenging for many municipalities across the country. Since the declaration of a state of national disaster in March 2020 and the national lockdown which followed, municipalities were thrust to the forefront requiring further stretching of their budgets to deal with the COVID-19 pandemic. This pandemic struck local government a few months before the end of the 2019/20 financial year and resulted in the shutdown of municipal offices to ensure compliance with the declared state of the national disaster and national lockdown, inevitably this affected the normal business operations of municipalities. Some municipalities had to suspend a portion of their credit control measures to aid consumers who were struggling to pay their municipal accounts. As a result, many of these municipalities lost substantial revenues between April and June 2020. Other municipalities battled to ensure that communities were supplied with the bare minimum of basic services that included water, sanitation and waste management necessary to mitigate the spread of the coronavirus. However, metros such as City of Cape Town and City of Johannesburg have shown resilience in their finances despite these challenges. The City of Cape Town was even recognised in the 2019/20 Ratings Afrika report as the only metro in South Africa to have improved its sustainability score.

Given the pressure on local government to respond to the impact of COVID-19, and the associated social and economic impacts thereof, additional funding was provided by national government to support municipalities in providing emergency water supply, increased sanitation, food and shelter for the homeless as well as basic and community services to combat the spread of COVID-19. In the 2019/20 financial year, a total amount of R150.2 million was transferred to municipalities from the municipal disaster relief grant and a further R4 billion was reprioritised within other conditional grants already transferred to municipalities. The 2020 Medium Term Budget Policy Statement (MTBPS) announced the 2020/21 adjusted transfers to local government where additional funding of R20 billion was made available to municipalities for the provision of basic services. This R20 billion included an additional R11 billion allocated through the equitable share, and R9 billion in repurposed spending within conditional grants already allocated to municipalities.

Many municipalities already had strained cash flow positions prior to the outbreak of the COVID-19 pandemic. The 2019/20 financial results revealed that municipalities that are financially distressed[1] have increased from 163 to 175 while 123 passed unfunded budgets. The decline in economic growth and poor revenue collection exacerbated the current circumstances in municipalities. Moreover, almost 50 per cent of municipalities show indications of severe financial strain including low debt recovery, substantial operating deficits and escalating amounts owed to creditors. The overall financial management challenges in local government manifested in, among others, negative audit outcomes, deteriorating cash flow positions and poor delivery of basic services. Amongst the factors that contributes to financial problems in municipalities, the most common are:

- **Inadequate cash coverage to fund operations (monthly fixed costs)**. More than 50 per cent of municipalities have low cash coverage indicating that cash and short-term investments are insufficient to cover at least one month of fixed operating commitments. A total of four (4) metropolitan municipalities and 142 non-metropolitan municipalities reported cash coverage of less than a month of operating expenditure in 2019/20. These municipalities are at a higher risk of financial instability as their ability to provide basic services or meet financial commitments is compromised.

1 Based on 13 indicators namely cash balances, cash plus investments less applications, cash coverage, repairs and maintenance expenditure level, asset rehabilitation expenditure level, asset depreciation level, total capital expenditure as a percentage of total expenditure, liquidity ratio, debtors' days, creditor days, total borrowing as a percentage of total operating revenue, current ratio and solvency ratio.

EXECUTIVE SUMMARY

- **Negative cash and cash equivalents balances at year end**. Municipalities with negative cash balances at year end demonstrates serious financial management problems. When a municipality does not have enough cash on hand from month to month to pay salaries and suppliers, this can quickly lead to a financial crisis. A total of 24 municipalities had negative cash balances at the end of 2019/20, comprising of two (2) metros, two (2) secondary cities, 18 locals and two (2) districts.

- **Inadequate cash and investments to pay current obligations (liquidity ratio)**. Most municipalities are unable to pay off current debt obligations from cash and investments. Seven (7) metros and 17 secondary cities reflected that their cash and investments were inadequate to settle current liabilities. Moreover, 138 local municipalities and 26 district municipalities also had inadequate cash and investments available to pay current liabilities.

- **Negative current ratios (current liabilities exceeds current assets)**. This implies that municipalities are unable to pay all current or short-term obligations when they fall due. This highlights serious financial challenges and likely, liquidity problems over the medium term. Four (4) of the eight (8) metros have reported that their current assets are less than the current liabilities, this highlights a serious challenge as metros are seen to be the drivers of economic growth. About half of the local municipalities (91) had insufficient current assets to settle current obligations, this is a decrease from 102 in 2018/19. A total of 20 of the 44 districts also do not have enough cash and net debtors to settle current obligations.

- **Unfunded budgets are growing at an alarming rate**. Several municipalities continue to adopt unfunded budgets despite being consistently cautioned against this practice. This demonstrates weak political oversight and non-adherence to sound budgeting principles. A total of 123 municipalities adopted unfunded budgets in 2019/20, an increase compared to 115 municipalities in 2018/19. These municipalities include two (2) metros, nine (9) secondary cities, 94 local municipalities and 18 district municipalities.

- **Unfunded or underfunded mandates remain a cause of concern**. Unfunded mandates occur when a municipality performs a function on behalf of the provincial sphere of government and incur the expenditure while the revenue instrument remains with the provincial government e.g. provision of library and primary health services. In most cases, municipalities also render a higher standard of the service than required, which increase the expenditure incurred. Both unfunded/underfunded mandates place unnecessary pressure on the funds of local government since municipalities use their own funds to finance these functions.

- **Under-provision for debt impairment and depreciation**. Municipalities have shown a trend of under providing for non-cash items such as debt impairment and depreciation. This understatement of non-cash items during the budget distorts the surplus or deficit of municipalities and results in substantial unauthorised expenditure at the end of the financial year. The Auditor General report revealed that unauthorised expenditure of municipalities increased from R17.8 billion in 2018/19 to R21.9 billion in 2019/20 and 42 per cent of this amount is attributed to non-cash items.

- **Inadequate infrastructure investments**. Funding for capital infrastructure remains an ongoing challenge for many municipalities in South Africa. Lack of infrastructure investment hinders the ability of municipalities to address service delivery backlogs and to support more rapid economic growth. A total of 116 municipalities had spent less than 10 per cent of their total expenditure on capital infrastructure in 2019/20. This again is inadequate to address huge backlogs for the rehabilitation or replacement of aged infrastructure in South Africa. It is clear that rural municipalities are struggling to grow investments due to their limited flexibility to raise their revenue base to contribute towards capital infrastructure. On the other hand, the national fiscus is constrained and cannot assist these municipalities with increasing their infrastructure investments.

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- **Persistent underspending on repairs and maintenance of existing infrastructure**. Over 90 per cent of municipalities spent below 8 per cent on repairs and maintenance against their municipal asset base (property, plant and equipment (PPE)). Asset maintenance is pivotal to prevent breakdowns of infrastructure assets and to avoid interruptions to service delivery. The 2019/20 audit outcomes show that 233 municipalities spent less than 8 per cent of repairs and maintenance on PPE while only 24 municipalities have met the target of 8 per cent.

- Similarly, **spending on renewal or upgrading of existing assets remains substantially low**. While spending on repairs and maintenance remains low, expenditure for asset renewal is significantly lower. This indicates that municipalities are not prioritising asset management to ensure sustainability of services beyond the initial or original useful life of the asset, inevitably this will affect the revenue potential. On aggregate, 106 municipalities satisfactorily spent their capital budget on renewal or upgrading of existing assets in 2019/20 while 151 municipalities under invested in asset renewal (below the National Treasury's recommended guideline of 40 per cent of the capital budget). Another worrying factor is that most of these infrastructure assets have declined in value or have become obsolete, therefore underspending on asset renewal poses a risk of further deterioration in assets.

- **Distribution losses remains high due to ageing infrastructure**. Many municipalities are experiencing revenue losses in water and electricity due to ageing and condition of their infrastructure assets. These municipalities persistently underspent on repairs and maintenance and renewal of existing infrastructure. Metros reported water and electricity losses of R5.6 billion and R9.2 billion respectively, in 2019/20.

- **Inability to access capital markets to meet infrastructure investment needs**. Many municipalities, particularly smaller towns, do not have the capacity to borrow or take up additional borrowing due to their revenue limitations or cash flow challenges. This implies that this category of municipalities is unable to afford to repay borrowing from their own generated revenue. Although a few municipalities have sufficient borrowing capacity as their debt-to-revenue ratio is less than 45 per cent, this ratio is assessed in conjunction with the cash flow position of a municipality to determine the affordability level.

- **High creditors payment periods and escalating amounts owed to creditors, especially Eskom and Water Boards**. Failure to pay creditors within 30 days is one of the first signs of cash flow problems or lack of proper and effective controls to ensure prompt payments. Only 57 municipalities settled their creditors within 30 days in 2019/20 while 200 took more than 30 days to pay creditors. This resulted in **outstanding creditors growing rapidly**. On aggregate, debt owed to creditors by municipalities increased from R53 million in 2018/19 to R66 million in 2019/20.

- **Municipal audit outcomes continue to show an overall regression**. Despite numerous actions taken by municipal governance structures, initiatives or recommendations by national and provincial departments and interventions implemented in municipalities, 12 municipalities obtained disclaimed audit opinions while six (6) obtained adverse opinion with findings. At most of these municipalities, there are leadership instabilities (both at political and administrative level), poor oversight by councils, significant financial problems, lack of consequence management and ineffective interventions.

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The poor state of financial and performance management indicates that National Treasury's recommendations remain unheeded by municipalities. A few municipalities, particularly in larger urban areas, have displayed resilience during the COVID-19 pandemic by either maintaining or improving their financial positions. The improvements in the 2019/20 financial year are indicated below:

- Only 24 municipalities had negative cash balances in 2019/20; an improvement compared to 31 in the previous year. Six (6) municipalities improved their cash positions despite the economic and development challenges that they have faced;
- Municipalities with low cash coverage decreased from 165 in 2018/19 to 146 in 2019/20;
- About 66 municipalities had positive cash-backed accumulated surpluses after considering all their commitments at the end of 2019/20;
- 24 of the 257 municipalities have provided within the norm for repairs and maintenance as a percentage of PPE;
- 106 municipalities have spent more than 40 per cent of their capital budget on renewal of infrastructure;
- 61 municipalities are providing more than 100 per cent for depreciation of assets to improve the life span of their assets;
- 138 municipalities have adequately invested on capital infrastructure in 2019/20;
- 69 municipalities have enough cash and investments to meet current liabilities;
- 53 municipalities collected monies owed to them within 30 days of issuing a bill to consumers while 68 municipalities pay their creditors within 30 days of receiving the invoice;
- 131 of the 257 municipalities have current assets which exceeds current obligations; and
- Out of a total of 240 Chief Financial Officers, 155 (65 per cent) comply with the minimum competency levels while 61 per cent of senior managers comply with the minimum competency levels.

EXECUTIVE SUMMARY

Annexure A1 lists the municipalities in financial distress in 2019/20 based on an assessment of their financial health. There are about 175 municipalities identified to be in varying degrees of financial distress, this is an increase compared to 163 reported in the previous year. According to the assessment of 13 indicators, municipalities in financial distress are generally characterised by poor cash flow management, increasing debtors' books and creditors as well as insufficient repairs and maintenance of infrastructure. Most of these municipalities have a history of unfunded budgets and disclaimed audit opinions.

Annexure A2 contains an analysis of municipalities in financial distress between the 2008/09 and 2019/20 financial years. According to the list in Annexure A2, 6 of the 27 municipalities that received unqualified audit opinions with no findings, were in fact classified as being financially distressed. This indicates that audit outcomes and financial distress are not synonymous. Good audit outcomes do not necessarily indicate good financial health. Rather, audit outcomes provide more of a reflection of the state of record keeping and compliance with the law, while financial distress indicators look at the actual health of the municipality's finances. Furthermore, 52 of the 91 municipalities that received unqualified audit reports with findings, were classified as financially distressed. However, in the case of 12 disclaimed audit opinions, there was a correlation between the audit outcome and the state of financial health in the municipality.

INTRODUCTION

1. This is the ninth report of the State of Local Government Finances and Financial Management (SoLGF) published annually by the National Treasury. The report provides an assessment of the state of municipal financial health for the financial year that ended on 30 June 2020. It also reviews the overall performance of local government including the analysis of revenue and expenditure as well as structural and operational challenges impeding the effective functioning of municipalities. Similar to the 2019 SoLGF, this year's report also identifies municipalities that are in financial distress so that processes can be initiated to determine the full extent of their financial problems and establish whether:
   - A municipality requires support and the extent of that support; or
   - An intervention is required in a municipality due to its financial problems or financial crisis as stipulated in Section 139 of the Constitution read with Chapter 13 of the MFMA; and the mode of intervention required.

2. The information contained in this report is based on information submitted by municipalities for the 2019/20 financial year. While the information is primarily extracted from the data submitted to the National Treasury's Local Government Database and Reporting System (LGDRS), the report highlights inconsistencies between the data on the LGDRS and the information contained in audited annual financial statements. Owing to the fact that the National Treasury only utilises the data from LGDRS to perform any analysis, it remains the responsibility of a municipality to ensure that data on the LGDRS reconciles with the audited information. This is to ensure compliance with the requirements of the Municipal Standard Chart of Account (*m*SCOA).

3. This is the first year that the SoLGF report is compiled using only the figures from the *m*SCOA data strings. In the previous year (2018/19), the National Treasury allowed dual reporting where both manually prepared excel spreadsheets and *m*SCOA data strings were submitted. The regulated *m*SCOA requires municipalities to upload financial information in a data string format to the Local Government Upload portal using the six *m*SCOA regulated segments.

4. However, several municipalities are still not budgeting, transacting and reporting directly in or from their core financial systems as required in terms of *m*SCOA. Reports are prepared on excel spreadsheets and then imported into the financial system for submission to the LG Upload portal. This results in discrepancies in the data submitted by municipalities. At the core of this problem is:
   - Incorrect use of the *m*SCOA chart and municipal accounting practices by municipal officials;
   - Some municipalities do not perform checks at month-end to ensure prudent financial reporting; and
   - Poor or no Information and Communication Technology (ICT) upgrades (servers, hardware and software) and maintenance, resulting in the ICT environment not being able to cope with the modern technology required to implement *m*SCOA.

5. Despite the discrepancies in the data, the information contained in the report provides a broad and high-level perspective of key financial trends and indicators commonly used in both public and private sectors. The National Treasury publishes this report annually in accordance with Section 5 of the MFMA as part of its oversight responsibility pertaining to municipal financial management (MFMA). The report provides decision-makers with a useful instrument for making strategic choices about municipalities.

INTRODUCTION

6. The Auditor-General (AG) reported that a total of 53 audits were not finalised at the legislated date. However, during the time of collating all datasets for this report, 221 of the 257 municipalities successfully uploaded the 2019/20 audited *m*SCOA data strings to the National Treasury's LG Upload portal while 22 were not successfully submitted due to technical errors and 14 are still outstanding. Municipalities that did not submit audited data strings are Nelson Mandela Bay, Raymond Mohlaba, Kopanong, Mohokare, Mantsopa, Masilonyana, Nketoana, Tokologo, West Rand, Bela-Bela, Lepelle-Nkumpi, Maruleng, Bojanala, Ditsobotla, Kgetlengrivier, Dawid Kuiper, Nala, City of Tshwane, Merafong, Alfred Duma, Impendle, Nquthu, Ugu, Amajuba, uMngeni, Elias Motsaledi, Ba-Phalaborwa, Greater Giyani, Polokwane, Dr J.S Moroka, Emakhazeni, Govan Mbeki, Thaba Chweu, Thembisile Hani, Beaufort West and Central Karoo. In their case, pre-audited figures were utilised to compile the report.

7. National Treasury is aware that after the release of the AG report, a few audits have been concluded. However, the SoLGF report still reflects those audits as outstanding.

8. The report is structured as follows:
   - The role of local government in responding to the impact of the COVID-19 pandemic;
   - Assessment of municipal financial health;
   - Other measures impacting on financial health;
     - 2019/20 Audited outcomes
     - Administrative challenges: Acting Municipal Managers and Chief Financial Officer positions
     - Electricity and water losses
     - Asset management practices
     - Conditional grants performance
     - Adoption of municipal budgets
   - Support provided by National Treasury to improve financial management and reporting;
     - Implementation of Minimum Competency Levels
     - Municipal Standard Chart of Accounts (*m*SCOA)
     - Municipal Finance Improvement Programme (MFIP phase III)
     - Cities Support Programme (CSP)
     - MFMA Circular No. 88
   - Interventions in municipalities to address municipal failures;
   - Concluding remarks; and
   - Annexures providing detailed information and assessment results for municipalities in financial distress and history of financial distress since 2008 (Annexure A1 and Annexure A2).

9. The summarised version of this review will be presented to the Technical Committee on Finance (TCF), the Budget Forum (BF) and the Budget Council (BC) in different formats. The full report will also be circulated to the Presidency, the Department of Cooperative Governance (DCoG), and Provincial Treasuries.

THE ROLE OF LOCAL GOVERNMENT IN RESPONDING TO COVID-19 IN SOUTH AFRICA

The impact of COVID-19 on South African municipalities

10. The impact of the COVID-19 pandemic has been most acutely felt at the local level and that is also where response and recovery efforts have been most critical. On 15 March 2020, the President of South Africa, declared a national state of disaster and established a National Coronavirus Command Council to lead the national effort to contain the spread and mitigate the negative impact of the virus. On 23 March 2020, a national lockdown was announced to start four days later to "flatten the curve" and allow time for government to respond to the unprecedented health crisis.

11. South Africa's early lockdown was recognised as being one of the most stringent in the world, with the easing of restrictions only starting on the 1 May 2020, with a massive negative economic and social impact. At least 3 million jobs were lost during this period.

12. In South Africa, the pandemic led to a steep economic decline and accelerated the deterioration of the public finances. The economy contracted by 7.8 per cent in 2020 according to data released by Statistics SA. Expenditure as a percentage of gross domestic product (GDP) continued to grow despite the significant drop in revenue resulting in a 14.6 per cent main budget deficit. According to the 2020 MTBPS, debt service costs increased to R21.50 of every R100.00 of revenue collected.

13. Due to the economic hardships brought about by COVID-19, municipalities were faced with significant challenges in collecting revenue from financially stressed residents. The situation was exacerbated by the loss of income from places such as game reserves and other public spaces that have been forced to close. Traditional revenue sources of municipalities were negatively impacted by COVID-19 as a result of the impact that the contracting economy had on household disposable income level and consumers' abilities to pay for municipal services. In addition, many municipalities had to forgo a substantial portion of their revenue in providing indigent support and relief measures to customers. With this revenue erosion, some municipalities defaulted on the payment of bulk supplier accounts as they were not collecting enough revenue from consumers.

14. Disaster management regulations have also forced additional responsibilities on municipalities, placing them under further financial pressure to increase the provision of goods and services to combat the spread of COVID-19. Some of these obligations included, the setting up of quarantine and isolation sites, regular sanitation and cleaning of public facilities and the provision of personal protective equipment (PPE). Additionally, some cities, such as City of Johannesburg and eThekwini, saw a rapid and substantial increase of land invasions and illegal occupation of buildings since the declaration of a national state of disaster. The City of Johannesburg even launched an anti-land invasion unit to combat the recent upsurge in illegal land grabs across the city.

15. Most municipalities plagued by corruption, financial mismanagement, maladministration and operational inefficiencies were not equipped to deal with this additional pressure.

Metro's response plans to address the impact of COVID-19

16. The COVID-19 pandemic reality forced a lethargic public service into an over-drive. Government's economic stimulus package required economic and social sector departments and state-owned enterprises, together with provinces and metros, to design and roll out business and individual relief schemes at an unparalleled rate. Partnerships were mobilised across sectors, most notably through the Solidarity Fund and through grassroots networks, to fast-track relief to the most vulnerable. The leap to virtual business operations meant that stakeholders, both domestic and global, could be rapidly mobilised and engaged.

17. There was a widespread acceptance that the public sector could not "do this alone" and needed to forge partnerships and engage stakeholders. Many of the "old" ways of doing things appeared obsolete in the face of the growing pandemic.

18. The Deputy Minister responsible for the Cooperative Governance requested the Cities Support Programme (CSP) unit of the National Treasury to convene an "Economic Recovery" Think-Tank with participation from city economic development practitioners as well as academia to explore a broad-based urban response to the challenges and opportunities presented by the crisis without derailing the country's economic transformation agenda. The Think-Tank took place on 14 April 2020 and identified certain short and medium-term city and national level interventions necessary to stabilise and then recover the economy.

19. Metros called for the establishment of a City Economic Development Managers' Forum (CEDMF) to support their economic recovery plans and efforts. This CEDMF met bi-weekly throughout 2020 and had representation from metros and secondary cities, economic development managers, relevant national sector departments such as the Department of Cooperative Governance and Traditional Affairs (CoGTA), the Department of Trade Industry and Competition (DTIC), the Department of Agriculture, the Department of Land Reform and Rural Development (DALRRD), the Department of Tourism (DoT), the Department of Small Business Development DSBD), the Department of Employment and Labour (DoEL), National Treasury and the Presidency. Parastatals such as the Small Enterprises Development Agency (SEDA), Small Enterprises Financing Agency (SEFA), Productivity South Africa (PSA), Industrial Development Corporation (IDC), Automotive Industry Development Centre (AIDC), South African Cities Network (SACN) and South African Local Government Association (SALGA) were also part of the forum.

20. Metros adopted a phased approach to their economic recovery planning which included an immediate disaster response followed by more medium and longer-term recovery responses. The aim of the immediate responses was to provide household and business relief to mitigate the impact and retain local businesses and investment while the medium-term responses included supporting adaptation and recovery through getting people and businesses back to work. The longer-term goal was to rebuild in a more sustainable and resilient manner to withstand future shocks.

21. The main metro disaster responses included the following:
    - ***Ensuring an adequate health response*** through securing medical supplies and equipment and the personal protection of health care workers;
    - ***Offering of business and household relief*** including reduced tariff increases, rates deferment/ rates payment arrangements, writing off overdue accounts, fast-tracking of SMME payments and 12-month holidays on development application fees;
    - ***Mobilisation of food and relief efforts*** in collaboration with the private sector and provincial government;
    - ***Facilitation of SMME support access*** to national government business relief effort through business information portals, facilitating access of local firms to national PPE contracts and opening of business hotlines;
    - ***Offering sector relief*** such as tourism relief funds; business online hubs, SMME COVID-19 information kits and municipal entity support;

- ***Development of workplace guidelines*** for the re-opening and the provision of municipal services;
- ***Business permitting*** through the granting of temporary operating permits for informal traders and spaza shops;
- ***COVID-19 awareness campaigns***;
- ***Fast-tracking the digitisation of city business services*** to enable the electronic submissions of development plans and land use applications and the fast tracking of building plan approval processes; and
- ***Law enforcement and compliance.***

22. The main medium-term responses were:
    - Fast-tracking infrastructure spend;
    - Increased SMME procurement;
    - Targeted sector recovery support focused on business retention and recovery, including localisation policies, investment retention and attraction, green economy interventions and domestic tourism marketing; and
    - The roll out of public employment interventions.

23. Whilst metros were required to pivot and respond, it was clear that many of the instruments and budgets required to drive city economic recovery lay at a national level. It was also clear that the impact of the crisis on the metros was so severe that government could not respond alone, and broader societal partnerships were required. A key lesson during the immediate response to the crisis was that all spheres of government were planning their responses in silos from each other, and this hugely weakened both the credibility of the national response and the likelihood of its success.

24. The recovery of the national economy is and will always be largely dependent on the recovery of metros.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Indicators of municipal financial health

25. This report evaluates the state of municipal finances using 13 key indicators identified in the Funding Compliance Methodology[2] and MFMA Circular No. 42 (Funding a Municipal Budget) as outlined by figure 1 below[3]. These indicators give a broader perspective of the financial health of municipalities and are only used for the purposes of this report.

Figure 1: Indicators of municipal financial health

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

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

3 It must be noted that ratios published in MFMA Circular No. 71 are for use by municipalities to assess their financial situation internally and are therefore not applicable to this report.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

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

26. Assessing liquidity levels is essential to assess whether municipalities have adequate cash and investments to meet their financial commitments or sustain their operations. Without proper cash flow management and a sound liquidity risk management strategy, a municipality is likely to experience serious financial problems which transform into a crisis and ultimately leads to municipal dysfunctionality. Section 45 of the MFMA prohibits municipalities from closing their financial year with any short-term borrowing or overdraft. This implies that municipalities must always maintain a positive cash position and efficiently manage their cash resources to avoid overdraft situation. Three sub-indicators are used to provide a more holistic view of municipalities' cash position:
- Did the municipality end the financial year with a positive or negative cash balance?
- Are negative cash balances persistent - is the negative cash balance temporary or does it indicate deeper-rooted financial problems in the municipality?
- Even if a municipality has a positive cash balance, is the revenue base under threat? For how many months will the municipality be able to continue funding its monthly operational expenditure from available cash? In other words, what is the cash coverage ratio of the municipality?

Indicator 1: Negative cash balances

27. Many municipalities may experience temporary cash flow problems throughout the year due to external shocks such as slow economic growth and the COVID-19 pandemic. However, with proper cash flow management, municipalities are able to fund any cash shortfalls before the end of the financial year. If a municipality encounters ongoing cash problems, it would be prudent to reevaluate the municipality's revenue and expenditure, cash flow systems and long-term viability.

28. Table 1 below shows municipalities with negative cash balances for the periods 2018/19 to 2019/20. A negative cash balance is a strong indicator that a municipality is experiencing a serious financial problem.

Table 1: Municipalities' negative cash balances, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No.of municipalities with negative cash balances	0	2
Secondary Cities (19)		
No.of municipalities with negative cash balances	4	2
Other Local Municipalities (Towns) 186		
No.of municipalities with negative cash balances	24	18
District Municipalities (44)		
No.of municipalities with negative cash balances	3	2
All municipalities (257)		
No.of municipalities with negative cash balances	31	24

Source: National Treasury - Local Government Database

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

29. At the end of 2019/20, a total 24 municipalities had negative cash balances compared to 31 municipalities in the previous year (2018/19). Ten (10) of these 24 municipalities had negative cash balances for the past two consecutive years. In relation to Table 1 above, the following observation can be made:
    - For the first time, two (2) metros namely, eThekwini and City of Tshwane, reported negative cash balances at the end of 2019/20. However, this can be attributed to challenges with the implementation of *m*SCOA and the impact of the COVID-19 pandemic on revenue collection;
    - Two (2) secondary cities[4] namely, City of Matlosana and Newcastle, had negative cash balances at the end of 2019/20;
    - There is a decline in the number of local municipalities (towns) that reported negative cash balances in 2019/20, from 24 in 2018/19 to 18 in 2019/20; and
    - Two (2) district municipalities namely, ZF Mgcawu and Overberg, reported negative cash balances in 2019/20, this is a slight decrease compared to three (3) municipalities reported in 2018/19.

Indicator 2: Cash coverage ratio

30. The cash coverage ratio is essential to measure whether a municipality has adequate cash to meet its monthly fixed operational costs. If a municipality has a ratio below one month, it signals potential financial problems and that its ability to meet its obligations to provide basic services or meet its financial commitments is compromised. The trend of the cash coverage ratio over time is important to ascertain the change in a municipality's financial position. It is generally accepted that a prudent level of cash coverage should be between one and three months of operational expenditure. Table 2 below shows the number of municipalities that had negative cash coverage at the end of June 2020.

31. Municipalities with sound cash positions, mostly metros and secondary cities, continued to fund their operations during the COVID-19 pandemic.

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Table 2: Municipalities' cash coverage, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. of municipalities for which cash data is unavailable		
No. whose cash coverage is:		
more than 3 months of operational expenditure	2	2
between 1 and 3 months of operational expenditure	3	2
Less than one month of operational expenditure	3	4
Secondary Cities (19)		
No. of municipalities for which cash data is unavailable		
No. whose cash coverage is:		
more than 3 months of operational expenditure	1	1
between 1 and 3 months of operational expenditure	2	4
Less than one month of operational expenditure	16	14
Other Local Municipalities (Towns) 186		
No. of municipalities for which cash data is unavailable		
No. whose cash coverage is:		
more than 3 months of operational expenditure	35	43
between 1 and 3 months of operational expenditure	27	32
Less than one month of operational expenditure	124	111
District Municipalities (44)		
No. of municipalities for which cash data is unavailable		
No. whose cash coverage is:		
more than 3 months of operational expenditure	13	15
between 1 and 3 months of operational expenditure	9	12
Less than one month of operational expenditure	22	17
All Municipalities (257)		
No. of municipalities for which cash data is unavailable		
No. whose cash coverage is:		
more than 3 months of operational expenditure	51	61
between 1 and 3 months of operational expenditure	41	50
Less than one month of operational expenditure	165	146

Source: National Treasury - Local Government Database

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32. At the end of 2019/20, 146 municipalities had cash coverage ratio below one month, which implies that they had inadequate cash to cover their operational expenditure of one month. A total of 61 municipalities (23.7 per cent) had cash coverage ratio exceeding three months of operational expenditure in 2019/20; an improvement from 51 municipalities in 2018/19. Further analysis demonstrates that:
    - Four (4) metros (eThekwini, City of Tshwane, Mangaung and Ekurhuleni) had cash coverage ratios of less than one month of operational expenditure in 2019/20 and fourteen (14) secondary cities had cash coverage of less than a month of operational expenditure;
    - Nelson Mandela Bay and City of Cape Town have maintained a positive cash coverage of more than three (3) months of operational expenditure for the past two years; and
    - Only one (1) secondary city namely, Stellenbosch, had a cash coverage of more than three months of operational expenditure in 2019/20 and local municipalities with cash coverage of more than three months increased from thirty-five (35) to forty-three (43).

33. Amongst the factors that contributes to this poor cash flow management in municipalities, the most common are:
    - *Overspending of operational budgets* – many municipalities are spending beyond their approved budgets and as a result, make use of bank overdraft facilities to cover this overspending. This has led to most municipalities being under severe financial pressure to meet their financial commitments;
    - *High monthly fixed costs* – a number of municipalities are struggling with high fixed costs such as salaries and wages, contracted services and administrative costs which constitutes almost 50 per cent of their budgets;
    - *Poor financial planning* – municipalities fail to perform good cash flow forecasts during the budget process. It is therefore expected that these municipalities will suffer from cash shortages and ultimately be in a financial distress position; and
    - *Inadequate cash flow management* – the lack of clear, comprehensive policy on cash flow management backed by a realistic cash management plan lead to ineffective cash flow management. This also includes the lack of a well-defined investment or cash backed reserves strategy to ensure that cash surpluses are properly invested.

34. National Treasury has, on several occasions, cautioned municipalities on potential risks that might negatively impact on financial sustainability. The following events could cause a municipality with a low (vulnerable) cash coverage ratio to experience financial problems and unfavorable cash positions:
    - Deteriorating economic climate as a result of external factors such as the COVID-19 pandemic or mining industry retrenchments might negatively affect municipalities' revenue collections and cash flows;
    - Changes in revenue levels as a result of changes in consumption patterns;
    - Escalating rates and tariffs will affect household disposable income and affordability levels, and ultimately affect municipalities revenue streams;
    - Emergencies and natural disasters such as floods, drought and fire;
    - Major breakdown or service interruptions (particularly for water and electricity) will result in significant loss of revenue;
    - Illegal connection of electricity and water, including tampering of water and electricity meters;
    - Ineffective cash flow management on a monthly basis or inefficient internal controls required to support sound financial management; and
    - Non-implementation of debt collection and credit control policies.

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

Indicator 3: Cash plus investments less applications or commitments

36. It is important that municipalities have adequate cash and investment to cover their financial obligations (current and future operations) and be able to build cash reserves[5]. This is to ensure that municipalities have a buffer against internal and external risks and adequate funding in order to achieve their stated objectives.

37. Cash and investment management is one of the most important requirements for financial sustainability and must be closely monitored to ensure that a minimum cash is set aside for capital replacement projects or defined purposes. Most metros and secondary cities invest their cash surpluses to maximise return on investment.

38. Table 3 below shows municipalities that still had a positive cash surplus after taking into consideration all their commitments for the period 2018/19 and 2019/20.

Table 3: Cash plus investments less applications, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. whose audit outcomes were		
Funded (positive)	1	1
Unfunded (negative)	7	7
Secondary Cities (19)		
Funded (positive)	1	1
Unfunded (negative)	18	18
Other Local Municipalities (Towns) 186		
No. whose audit outcomes were		
Funded (positive)	43	48
Unfunded (negative)	143	138
District Municipalities (44)		
No. whose audit outcomes were		
Funded (positive)	20	16
Unfunded (negative)	24	28

Source: National Treasury - Local Government Database

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

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39. The total number of municipalities with positive cash-backed accumulated surpluses after taking into account commitments have slightly increased from 65 in 2018/19 to 66 in 2019/20, while municipalities with cash shortfalls also decreased from 192 to 191. To comply with statutory requirements, municipalities must have adequate cash and investments to cover all commitments such as unspent conditional grants, working capital requirements, commitments resulting from employee benefits or any other reserves required to be cash backed.

40. Further analysis demonstrates that:
    - At the end of 2019/20, only one (1) metro namely, City of Cape Town, had a positive cash-backed accumulated surplus, this is similar to the previous financial year. Likewise, one (1) secondary city namely, Polokwane, had a positive cash-backed accumulated surplus at the end of 2019/20. It is concerning that only few municipalities reflected adequate cash and investment to pay all its financial obligations (current and future operations) at the end of the financial year;
    - There is also a worrying trend which revealed that municipalities who were assessed as funded with sufficient cash surplus during the budget process ended up with cash shortfalls or deficits at the end of the audit year; and
    - There was a slight increase across local municipalities with positive cash-backed accumulated surpluses from 43 in 2018/19 to 48 in 2019/20.

Indicator 4: Liquidity ratio

41. Liquidity ratio is an important indicator used to determine the municipality's ability to pay off current debt obligations from cash and investment without raising external capital. Municipalities with strong liquidity positions will have adequate cash available to pay their short-term obligations, despite economic challenges that may be present in the environment. This ratio only considers a municipality's most liquid assets – cash and investments against current liabilities (amounts due to be paid within 12 months). It also indicates the number of times the short-term debt obligations are covered by the cash and investments. If the value is greater than one, it means that short-term obligations are fully covered.

42. Table 4 below shows the liquidity positions of 257 municipalities between the 2018/19 and 2019/20 financial years. A total of 69 municipalities reflected sound liquidity position in 2019/20. This is an improvement compared 61 municipalities in 2018/19.

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Table 4: Liquidity Ratio, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	7	7
More than current liabilities (more than 1)	1	1
Secondary Cities (19)		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	17	17
More than current liabilities (more than 1)	2	2
Other Local Municipalities (Towns) 186		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	142	138
More than current liabilities (more than 1)	44	48
District Municipalities (44)		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	30	26
More than current liabilities (more than 1)	14	18
All municipalities (257)		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	196	188
More than current liabilities (more than 1)	61	69

Source: National Treasury - Local Government Database

43. Further analysis shows that:

- Seven (7) metros reported cash and investments that are insufficient to pay current liabilities while one (1) metro, City of Cape Town, reflected a strong liquidity position;
- 17 secondary cities and 138 local municipalities (60 per cent of all municipalities) have inadequate cash and investments to settle current liabilities; and
- 26 district municipalities have always reflected poor liquidity ratios. The lower the liquidity ratio, the greater the likelihood of a municipality experience financial difficulties.

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Indicator 5: Current ratio

44. The ratio is used to assess the municipality's ability to pay back its current liabilities (debt and payables) with its current assets (cash, inventory and receivables). The higher the current ratio, the greater the capability of the municipality to pay its current or short-term obligations and enable it to continue operating as a going concern. A ratio of below 1 suggests that a municipality will be unable to pay all its current or short-term obligations if they fall due at any specific point.

45. If current liabilities exceed current assets, it highlights serious financial challenges and most likely, liquidity challenges.

46. Table 5 below shows current ratio between 2018/19 and 2019/20. Almost 50 per cent of municipalities have current liabilities that exceeds current assets in 2019/20.

Table 5: Current Ratio, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	4	4
more than current liabilities (more than 1)	4	4
Secondary Cities (19)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	13	11
more than current liabilities (more than 1)	6	8
Other Local Municipalities (Towns) 186		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	102	91
more than current liabilities (more than 1)	84	95
District Municipalities (44)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	21	20
more than current liabilities (more than 1)	23	24
All municipalities (257)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	140	126
more than current liabilities (more than 1)	117	131

Source: National Treasury - Local Government Database

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47. Further analysis shows that:
- At the end of 2019/20, four (4) metros namely, Mangaung, City of Tshwane, Ekurhuleni and eThekwini have reported current ratios that are lower than the norm;
- A total of 11 secondary cities also indicated negative current ratios in 2019/20, this is a slight decrease compared to 13 reported in 2018/19;
- Almost half of the local municipalities (91) have insufficient current assets to pay current obligations. Although undesirable, this does represent an improvement from the 2018/19 financial year where 102 municipalities were in this position; and
- 20 of the 44 districts have negative current ratios.

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

48. Repairs and maintenance of infrastructure is critical to restore or maintain the economic benefits and service potential expected from an asset. Municipalities are advised to spend a minimum of 8 per cent on repairs and maintenance against the property, plant and equipment (PPE). A ratio below this norm is a reflection that inadequate provision is being made for repairs and maintenance which could lead to early impairment of an asset.

Table 6: Repairs and maintenance as a % of PPE, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. whose repairs and maintenance are		
less than 8% of PPE	8	6
more than 8% of PPE	0	2
Secondary Cities (19)		
No. whose repairs and maintenance are		
less than 8% of PPE	16	16
more than 8% of PPE	3	3
Other Local Municipalities (Towns) 186		
No. whose repairs and maintenance are		
less than 8% of PPE	168	176
more than 8% of PPE	18	10
District Municipalities (44)		
No. whose repairs and maintenance are		
less than 8% of PPE	35	35
more than 8% of PPE	9	9

Source: National Treasury - Local Government Database

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49. Table 6 above shows that over 90 per cent (233 of the 257) of municipalities in the country spent less than the 8 per cent on repairs and maintenance. This poor spending on repairs and maintenance is prevalent in all categories of municipalities and this suggests that there is no effort to protect infrastructure assets. An analysis further shows that:
    - Six (6) metros had spent inadequately on repairs and maintenance as a percentage of PPE in 2019/20;
    - 16 secondary cities spent inadequately on repairs and maintenance in 2019/20 while three (3) municipalities spent more than 8 per cent of PPE;
    - Of a total of 186 local municipalities, 176 under provided for repairs and maintenance; and
    - The same trend was also observed among the district municipalities where 35 municipalities under provided for repairs and maintenance as a percentage of PPE.

50. Municipalities consistently underspend on maintenance, and often sacrifice maintenance budgets in lieu of other municipal 'priorities'. Long-term deferring of asset maintenance and renewals can lead to more breakdowns and service disruptions or substandard services and, in the end, service delivery collapse. Regular maintenance helps to preserve the useful life of an asset.

51. Many municipalities always perform corrective maintenance instead of preventative maintenance. Corrective maintenance means no or minimal maintenance is undertaken unless, or until, the asset no longer functions to the required standard or has broken down whereas preventative maintenance is programmed maintenance undertaken to reduce the likelihood of failure and to keep the asset operating at an acceptable level.

Indicator 7: Asset renewal/rehabilitation expenditure level

52. Asset renewal/rehabilitation of existing assets refers to costs incurred in relation to refurbishment, rehabilitation or reconstruction of assets to return its desired service levels. It is important to ensure sustainability of service delivery beyond the initial or original useful life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed or the asset life span must be improved before it reaches its useful life.

53. It is important that a municipality adequately allocates funding for asset renewal, especially if an asset is aged or dilapidated. Most municipalities' spending on renewal/upgrading of existing assets are below the National Treasury's guideline of 40 per cent of the total capital expenditure. This is inadequate to address the condition of the existing infrastructure in municipalities.

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Table 7: Asset Renewal/rehabilitation expenditure level, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. whose asset renewal is		
less than 40% of their total capital expenditure	3	4
More than 40% of their total capital expenditure	5	4
Secondary Cities (19)		
No. whose asset renewal is		
less than 40% of their total capital expenditure	10	11
More than 40% of their total capital expenditure	9	8
Other Local Municipalities (Towns) 186		
No. whose asset renewal is		
less than 40% of their total capital expenditure	101	104
More than 40% of their total capital expenditure	85	82
District Municipalities (44)		
No. whose asset renewal is		
less than 40% of their total capital expenditure	31	32
More than 40% of their total capital expenditure	13	12

Source: National Treasury - Local Government Database

54. As shown in table 7 above, 151 out of 257 municipalities inadequately spent (less than 40 per cent) on asset renewal at the end of 2019/20. A ratio less than 40 per cent can either indicate that a municipality is inadequately spending towards asset renewal to protect its infrastructure or that assets are in good condition thus do not require renewal.

55. An analysis further indicates the following:

- Four (4) metros reported assets renewal of less than 40 per cent, a slight increase compared to three (3) reported in the previous financial year;
- 11 out of 19 secondary cities reported assets renewal of less than 40 per cent;
- 104 local municipalities recorded asset renewal of less than 40 per cent, a slight increase from the 101 reported in the previous financial year; and
- 32 district municipalities had spent less than 40 per cent of capital expenditure on asset renewal. It should be noted that not all districts are water service authorities, therefore they do not own any assets that require renewal, except for those that are water service authorities.

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Indicator 8: Asset Renewal/Depreciation level

56. Asset renewal as a percentage of depreciation is essential to identify the potential decline or improvement of asset condition and standards. When an asset of a municipality has declined in value or its useful life has reduced, that municipality is encouraged to invest 100 per cent of depreciation towards renewal, upgrading or replacement of existing assets. A ratio below 100 per cent indicates that the municipality is not adequately spending on asset renewal to improve the condition of an asset. The rate at which an asset depreciates or loses value should be the rate at which the municipality provides for the future replacement or renewal of that asset.

Table 8: Asset renewal/ Depreciation level, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. whose depreciation level is		
less than 100% of assets	5	6
More than 100% of assets	3	2
Secondary Cities (19)		
No. whose depreciation level is		
less than 100% of assets	15	15
More than 100% of assets	4	4
Other Local Municipalities (Towns) 186		
No. whose depreciation level is		
less than 100% of assets	138	134
More than 100% of assets	48	52
District Municipalities (44)		
No. whose depreciation level is		
less than 100% of assets	34	41
More than 100% of assets	10	3
All municipalities (257)		
No. whose depreciation level is		
less than 100% of assets	192	196
More than 100% of assets	65	61

Source: National Treasury - Local Government Database

57. Table 8 above shows that municipalities are inadequately spending on asset renewal relative to depreciation costs. A total of 196 out of 257 municipalities reflected asset renewal of less than 100 per cent of depreciation.

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58. National Treasury has always encouraged municipalities to incorporate depreciation costs in the determination of tariffs as assets are consumed in the provision of services. Inclusion of this item will lead to a more cost-reflective tariff for the municipality allowing for sufficient revenue to be generated to fund infrastructure renewal or replacement in future. When an asset is regularly utilised, it loses value and its useful life diminishes, therefore sufficient funds will be required to replace such asset in future. Buffalo City has adopted the strategy of cash backing their full depreciation costs on a year-to-year basis to allow for the replacement of the infrastructure assets in the future.

59. At the end of 2019/20, the audited outcomes revealed that:
    - Six (6) metros spent less than 100 per cent on asset renewal against depreciation, this is a marginal increase compared to five (5) reported in the previous financial year;
    - 15 secondary cities spent less than 100 per cent on asset renewal against depreciation; and
    - 134 local municipalities inadequately spent on asset renewal against depreciation. This is inadequate to address the state of municipal infrastructure assets in local government.

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

60. Total capital expenditure as a percentage of total expenditure is used to assess the level of capital investments made by municipalities in responding to historical service delivery backlogs and addressing growing needs. Notably, municipalities investing in infrastructure have increased significantly over the last three financial years, despite the reduction in intergovernmental transfers.

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

62. To assess whether a municipality has adequately invested on capital infrastructure, the level of capital expenditure should be in the region of between 10 and 20 per cent of total expenditure. A ratio below 10 per cent reflects that a municipality has not sufficiently invested in infrastructure needed for delivering services and addressing the principal welfare issues of its residents. While spending more than 20 per cent on capital expenditure is seen as a good performance to accelerate in service delivery, it can also present risks of financial sustainability. If a municipality substantially invest its own funding towards capital infrastructure, it might face a risk of eroding all its cash reserves. In cases like these, spending on infrastructure must be assessed against the revenue raising potential of that asset/spend.

63. Table 9 below shows the total capital expenditure as a percentage of total expenditure between the 2018/19 and 2019/20 financial years. There are 26 municipalities that have under invested on capital infrastructure in 2019/20. The past records have shown that as municipalities experience financial difficulties, they reduce their own contributions towards capital investments to achieve a balance.

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Table 9: Total Capital Expenditure as Percentage of Total Expenditure, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. whose Total Capital Expenditure is		
less than 10% of their total expenditure	5	5
between 10% and 20% of their total expenditure	1	2
more than 20% of their total expenditure	2	1
Secondary Cities (19)		
No. whose Total Capital Expenditure is		
less than 10% of their total expenditure	11	12
between 10% and 20% of their total expenditure	3	4
more than 20% of their total expenditure	5	3
Other Local Municipalities (Towns) 186		
No. whose Total Capital Expenditure is		
less than 10% of their total expenditure	77	73
between 10% and 20% of their total expenditure	50	48
more than 20% of their total expenditure	59	65
District Municipalities (44)		
No. whose Total Capital Expenditure is		
less than 10% of their total expenditure	17	26
between 10% and 20% of their total expenditure	3	2
more than 20% of their total expenditure	11	13

Source: National Treasury - Local Government Database

64. Between 2018/19 and 2019/20 financial years, the audited outcomes revealed that:
- Five (5) of the eight (8) metros spent less than 10 per cent on capital expenditure as a percentage of total expenditure while two (2) metros have adequately invested for infrastructure, within the acceptable norm of between 10 to 20 per cent;
- 12 secondary cities spent less than 10 per cent on capital expenditure while 4 were within the norm of 10 and 20 per cent; and
- A total of 65 local municipalities have spent more than 20 per cent of their total expenditure. Given that this category of municipalities heavily relies on conditional grants to fund their capital infrastructure, the spending is informed by the level of conditional grants transferred.

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Indicator 10: Debtors days

65. Net Debtor Days refers to the average number of days required for a municipality to receive payment from its consumers for bills/invoices issued for services. This indicator provides information about consumer payment patterns and how well the municipality manages its debtors. A shorter payment period (less than 30 days) indicates that a municipality has and maintains an effective system of credit control and debt collection in respect of debtors' management. If the ratio is above the norm, it indicates that the municipality is experiencing challenges in the collection of outstanding amounts due to it. This exposes a municipality to significant cash flow risk.

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

67. Table 10 below shows the debtors days between the 2018/19 and 2019/20 financial years. A total of 204 municipalities takes more than 30 days to collect outstanding debt whereas 53 municipalities collect debt within the prescribed 30 days.

Table 10: Debtors days, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. of municipalities who receive debtors		
less than 30 days	1	2
More than 30 days	7	6
Secondary Cities (19)		
No. of municipalities who receive debtors		
less than 30 days	5	2
More than 30 days	14	17
Other Local Municipalities (Towns) 186		
No. of municipalities who receive debtors		
less than 30 days	38	25
More than 30 days	148	161
District Municipalities (44)		
No. of municipalities who receive debtors		
less than 30 days	26	24
More than 30 days	18	20
All municipalities (257)		
No. of municipalities who receive debtors		
less than 30 days	70	53
More than 30 days	187	204

Source: National Treasury - Local Government Database

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68. Further analysis shows that:
- Six (6) metros take more than 30 days to collect debt while two (2) metros collect within the 30-day period;
- Almost 90 per cent of secondary cities takes more than 30 days to collect debt;
- 25 local municipalities collect debts within 30 days period, this is a regression compared to 38 in 2018/19; and
- A similar trend is also noted within the district category where there is a decline of municipalities that collected within the 30 days.

Indicator 11: Creditors days

69. Timely payment of creditors is not only essential for the liquidity of local economies and the survival of SMMEs but is also a good reflection of the extent of financial challenges facing a municipality. The creditors payment period provides information about the municipality's payments patterns and how well the cash flow is being managed. A shorter payment period (less than 30 days) indicates that payments are made promptly and creditors are prioritised. This implies that a municipality has and maintains an effective system of expenditure control and internal control in respect of creditors and payments. A period longer than 30 days is an indication that the municipality may be experiencing cash flow problems or the municipality might not have effective controls in place to ensure prompt payments.

70. 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.

71. The following table shows creditors payment period for 257 municipalities between 2018/19 and 2019/20. This reflects the average number of days taken by municipalities to pay creditors.

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Table 11: Payment of creditors days, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	2	2
more than 30 days after receiving the invoice	6	6
Secondary Cities (19)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	3	4
more than 30 days after receiving the invoice	16	15
Other Local Municipalities (Towns) 186		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	58	43
more than 30 days after receiving the invoice	128	143
District Municipalities (44)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	10	8
more than 30 days after receiving the invoice	34	36
All municipalities (257)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	73	57
more than 30 days after receiving the invoice	184	200

Source: National Treasury - Local Government Database

72. A total of 200 municipalities takes more than 30 days to pay creditors in 2019/20. Further analysis shows that:
    - Six (6) metros and 15 secondary cities take more than 30 days to pay creditors; and
    - 143 local municipalities take more than 30 days to pay creditors.

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

74. Late or non-payment of creditors has dire consequences for both private and public sectors. Businesses, particularly SMMEs have raised numerous concerns regarding delayed or non-payment for services rendered to municipalities, which results in negative impact on job creation and financial viability of their operations.

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Indicator 12: Total borrowing vs total operating revenue

75. The purpose of the indicator is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively, the ratio assesses the affordability level of a municipality to service debt from own generated revenue. The threshold for total borrowing is 45 per cent of the total operating revenue. An outcome of less than 45 per cent indicates that the municipality has capacity to take up additional funding from borrowings.

76. Table 12 below indicates the total borrowing against the total operating revenue. A total of 254 out of 257 municipalities have less than 45 per cent borrowing relative to total operating revenue. This indicates that municipalities still have capacity to take up additional funding from borrowings. However, this indicator is assessed together with liquidity ratios of municipalities to determine the affordability level. Most importantly, municipalities must only borrow for revenue generating assets.

Table 12: Debt as a percentage of total operating revenue, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. of municipalities whose debt level is		
less than 45%	7	8
more than 45%	1	0
Secondary Cities (19)		
No. of municipalities whose debt level is		
less than 45%	18	18
more than 45%	1	1
Other Local Municipalities (Towns) 186		
No. of municipalities whose debt level is		
less than 45%	183	185
more than 45%	3	1
District Municipalities (44)		
No. of municipalities whose debt level is		
less than 45%	43	43
more than 45%	1	1
All municipalities (257)		
No. of municipalities whose debt level is		
less than 45%	251	254
more than 45%	6	3

Source: National Treasury - Local Government Database

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

77. Further analysis shows that:
    - All eight (8) metros' total borrowing is less than 45 per cent of total operating revenue. This supports the notion that metros are self-sustaining or self-sufficient and therefore can afford the repayment of borrowing from their own revenue generated;
    - 18 secondary cities have adequate borrowing capacity. However, this needs to be assessed together with cash flow position of a municipality to accurately determine the affordability level;
    - 185 of the 186 local municipalities have adequate borrowing capacity and therefore, only one (1) municipality has limited capacity to increase borrowing given its revenue limitations; and
    - Among district municipalities, only one (1) district has limited borrowing capacity.

Indicator 13: Solvency ratio

78. The solvency ratio evaluates the total liabilities of a municipality as a percentage of its total assets. The purpose of the ratio is to measure the ability of a municipality to pay off its long-term debt obligations with its assets. While municipalities cannot sell or dispose their infrastructure assets to repay total liabilities, it is prudent that revenue generating assets are well maintained and protected to ensure sustainability of services and revenue potential. This ratio is often used by potential investors when evaluating a municipality's creditworthiness or long-term financial health. An unfavourable ratio can indicate that a municipality is in the worst position to continue with its operations.

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

80. Table 13 below shows the solvency ratio of 257 municipalities between 2018/19 and 2019/20. A total of 33 municipalities has insufficient assets to cover their total liabilities.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 13: Solvency Ratio, 2018/19 - 2019/20

	Audit Outcome	
Municipalities	**2018/19**	**2019/20**
Metropolitan Municipalities (8)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	0	2
more than total liabilities (more than 1)	8	6
Secondary Cities (19)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	3	1
more than total liabilities (more than 1)	16	18
Other Local Municipalities (Towns) 186		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	24	22
more than total liabilities (more than 1)	162	164
District Municipalities (44)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	12	8
more than total liabilities (more than 1)	32	36
All municipalities (257)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	39	33
more than total liabilities (more than 1)	218	224

Source: National Treasury - Local Government Database

81. Further analysis shows that:

- Two (2) metros (City of Tshwane and eThekwini) and one secondary city (Matjhabeng) have insufficient total assets to cover their total liabilities
- 22 local municipalities also reflected total liabilities that exceeds total assets; and
- Eight (8) district municipalities have total liabilities that exceeds total assets.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

Audit outcomes: 2019/20 financial year

82. The overall audit outcomes have shown no signs of improvement over the past four financial years. Most municipalities are now in a worse position than at the beginning of the current administration's term in 2016-17, with 46 improving their audit outcomes but 61 regressing over this period (2019/20 Auditor-General (AG) report). The AG reported that its normal audit processes and timelines were severely affected by the two-month extension granted by the Minister of Finance to municipalities for the submission of their financial statements due to the COVID-19 restrictions.

83. Audit outcomes are not necessarily an indicator of the financial health in municipalities. Municipalities with positive audit outcomes can be in financial distress and equally, municipalities who are financially sound can obtain negative audit reports. A positive audit outcome means that the financial statements fairly represent the financial state of the municipality, despite their liquidity challenges. A negative audit outcome means that a municipality could not provide evidence for most amounts and disclosures in their financial statements. Therefore, the Auditor-General could not express an opinion on the credibility of these financial statements or determine what had been done with the funds received for the year.

84. Table 14 below presents a summary of audit opinions for all municipalities between 2015/16 and 2019/20 (refer to Annexure A2 for the 2019/20 audit outcomes per municipality). In the 2019/20 financial year, 27 municipalities obtained unqualified opinions with no findings compared to 20 municipalities in 2018/19. On a positive note, 15 municipalities (Senqu, Midvaal, Okhahlamba, Witzenberg, Cape Agulhas, Capricon, Cape Winelands, Nkangala, John Taolo Gaetsewe, Drakenstein, Langeberg, Prince Albert, Saldana Bay, Theewaterkloof and Overstrand) were able to maintain clean audits over the past two years while 12 municipalities improved their audit outcome to unqualified with no findings. Most of these unqualified audit opinions with no findings (14 of the 27 municipalities audits) were obtained by municipalities in the Western Cape province. Only one (1) metro, Ekurhuleni obtained clean audit whereas 11 local municipalities and four (4) district municipalities obtained unqualified audit opinions with no findings.

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Table 14: Summary of audit opinions for all municipalities, 2009-10 to 2019-20

Audit Opinon	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No	%	No	%	No	%	No	%	No	%
Adverse	7	2%	9	3%	3	1%	4	1%	9	3%	4	1%	4	1%	4	2%	12	5%	0	0%	6	2%
Disclaimer	53	19%	82	29%	76	27%	90	32%	66	21%	33	12%	25	9%	24	9%	31	12%	33	13%	12	5%
Qualified	50	18%	55	20%	64	23%	68	24%	83	27%	71	26%	63	23%	65	25%	87	34%	83	32%	68	26%
Unqualified - with findings	120	42%	117	42%	106	38%	98	35%	109	36%	111	41%	122	44%	113	44%	105	41%	91	35%	91	35%
Unqualified - no findings	7	2%	13	5%	9	3%	22	8%	40	13%	54	20%	49	18%	34	13%	18	7%	20	8%	27	11%
Audits Outstanding	46	16%	2	1%	20	7%	0	0%	0	0%	0	0%	15	5%	17	7%	4	2%	30	12%	53	21%
Total	283	100%	278	100%	278	100%	282	100%	307	100%	273	100%	278	100%	257	100%	257	100%	257	100%	257	100%

Consolidated general reports on the audit outcomes of local government MFMA

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

85. The number of unqualified audit opinions with findings remained stagnant at 91 in 2019/20. However, qualified audit opinions decreased from 83 to 68 municipalities over the same period.

86. In spite of recommendations from both the AG and National Treasury and actions taken by municipal governance structures, 12 municipalities obtained disclaimer opinions while six (6) obtained adverse audit opinions. Although there is a decrease in disclaimer audit opinions from 33 in 2018/19 to 12 in 2019/20, it is concerning that municipalities are still failing to produce enough evidence to support their financial reporting.

87. Municipalities in the Eastern Cape showed improvement in audit outcomes, two (2) municipalities improved from disclaimer to qualified opinion while two (2) moved from qualified to unqualified with findings in 2019/20. Gauteng province shows stagnation in audit outcomes, but increasing levels of unauthorised, irregular, and fruitless and wasteful expenditure. The City of Ekurhuleni improved from an unqualified opinion with findings to an unqualified opinion with no findings while Rand West City regressed from an unqualified to qualified audit opinion. The rest of the municipalities in Gauteng maintained the same audit outcomes for two consecutive years.

88. The provinces with the worst audit outcomes in 2019/20, based on the highest disclaimed opinions are North West (3), Eastern Cape (4) and KwaZulu-Natal (3). Limpopo and Free State provinces did not record any disclaimer audit opinion in 2019/20. Audits were mostly outstanding in the Free State (8), North West (5) and Northern Cape (4).

89. The provinces with the best audit outcomes in 2019/20, based on the highest unqualified with no findings, are Western Cape (14), Northern Cape (3) and Mpumalanga (3). Unqualified audit opinions with no findings increased from 9 in 2018/19 to 14 in 2019/20 in the Western Cape.

90. According to the AG report, the closing amounts for irregular[6] expenditure decreased from R32.5 billion in 2018/19 to R26 billion in 2019/20. In general, this irregular expenditure relates to non-compliance with supply chain management legislation including non-compliance with other procurement process requirements such as preference points not being applied or procurement from suppliers who had not submitted valid tax clearance certificates, procurement without following a competitive bidding or quotation process and inadequate contract management.

91. The top ten contributors to irregular expenditure are City of Tshwane, Mangaung, Nelson Mandela Bay, eThekwini, City of Johannesburg, Ngaka Modiri Molema, OR Tambo, City of Cape Town, Moses Kotane and Rustenburg.

92. Fruitless and wasteful expenditure incurred by municipalities has grown from R3.1 billion to R3.5 billion in 2019/20. Among the factors that contributed to this expenditure are interest and penalties on overdue accounts, litigation and claims as well as write-offs of assets.

93. Unauthorised expenditure increased from R15.9 billion in 2018/19 to R22 billion in 2019/20. Unauthorised expenditure is predominantly the result of overspending of budgets and expenditure related to non-cash items which indicates a poor estimation of asset impairment and debt impairment.

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

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

94. Most municipalities appoint consultants for financial reporting as their own finance employees lack the skills required to prepare financial statements. This over-reliance on consultants led to a high total cost of financial reporting, which increased from R847 million in 2018/19 to R1.0 billion in 2019/20.

95. The Auditor General made the following general observations with regard to the 2019/20 audit outcomes:
    - Local government finances continue to be under severe pressure;
    - Credible financial statements are crucial to enable accountability and transparency, but municipalities are failing in this area;
    - Short-term and costly solutions such as consultants are not addressing the lack of financial management and reporting skills;
    - Unreliable performance reporting is adding to the challenge of poor service delivery;
    - The lapse in oversight and lack of controls relating to compliance are evident in a number of areas, including supply chain management;
    - Audit outcomes remain poor and have regressed over the four-year period;
    - The state of internal controls is still not improving;
    - Information systems and automated controls are not supporting accountability by accurately recording and processing financial and performance information; and
    - The root causes of the poor state of local government continue to be a slow response to the call to strengthen internal controls, vacancies and instability that hamper progress, and a lack of consequences for accountability failures.

Governance: Acting Municipal Manager and Chief Financial Officer Positions

96. The instability in senior municipal management positions has an effect on accountability, service delivery and implementation of the audit action plan to improve the audit results. In most cases, acting incumbents fail to make basic managerial decisions, such as the appointment of service providers, and implement measures that will improve the overall financial sustainability of the municipality. Alternatively, in a case where a permanent municipal manager (MM) is placed under temporary suspension, the role of the MM is usually spread across senior managers and this creates a lack of accountability.

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

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

99. Section 54A of the Municipal Systems Act (MSA), 2000 (Act No. 32 of 2000) obliges a municipal council to appoint a Municipal Manager (MM) with relevant skills and expertise to perform the relevant functions of the position. The MM is the accounting officer of a municipality and is responsible for all operations and holds overall accountability for the administration of the municipality. It is therefore critical that the position of MM remains filled.

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100. The position of the Chief Financial Officer (CFO) is equally important in the municipal organisational structure. 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. Section 80 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) regulates the establishment of the Budget and Treasury Office led by the CFO.

101. As part of National Treasury's efforts to promote stability and accountability in municipalities, MFMA Budget Circular No. 72 introduced additional requirements for approval of a roll-over of unspent conditional grants. Municipalities applying for a roll-over of unspent conditional grants are obliged to submit proof that the MM and CFO are permanently appointed.

102. Table 15 below shows the number of acting MMs and CFOs as at 30 June 2019 and 2020.

Table 15: Municipalities with acting Municipal Managers and CFOs at 30 June 2019 & 2020

2020			Acting MM		Acting CFO		Both Acting	
Summary per Province			**No.**	**%**	**No.**	**%**	**No.**	**%**
Eastern Cape	39	EC	6	15.4%	2	5.1%	-	0.0%
Free State	23	FS	6	26.1%	5	21.7%	4	17.4%
Gauteng	11	GT	2	18.2%	3	27.3%	1	9.1%
Kwazulu-Natal	54	KZ	12	22.2%	10	18.5%	3	5.6%
Limpopo	27	LP	10	37.0%	6	22.2%	4	14.8%
Mpumalanga	20	MP	3	15.0%	6	30.0%	3	15.0%
North West	22	NW	5	22.7%	6	27.3%	3	13.6%
Northern Cape	31	NC	8	25.8%	10	32.3%	4	12.9%
Western Cape	30	WC	5	16.7%	7	23.3%	1	3.3%
Total	**257**		**57**	**22%**	**55**	**21%**	**23**	**9%**

2019			Acting MM		Acting CFO		Both Acting	
Summary per Province			**No.**	**%**	**No.**	**%**	**No.**	**%**
Eastern Cape	39	EC	6	15.4%	8	20.5%	3	7.7%
Free State	23	FS	6	26.1%	7	30.4%	2	8.7%
Gauteng	11	GT	3	27.3%	4	36.4%	2	18.2%
Kwazulu-Natal	54	KZ	5	9.3%	7	13.0%	3	5.6%
Limpopo	27	LP	7	25.9%	9	33.3%	5	18.5%
Mpumalanga	20	MP	5	25.0%	5	25.0%	1	5.0%
North West	22	NW	10	45.5%	11	50.0%	8	36.4%
Northern Cape	31	NC	8	25.8%	10	32.3%	6	19.4%
Western Cape	30	WC	-	0.0%	6	20.0%	-	0.0%
Total	**257**		**50**	**19%**	**67**	**26%**	**30**	**12%**

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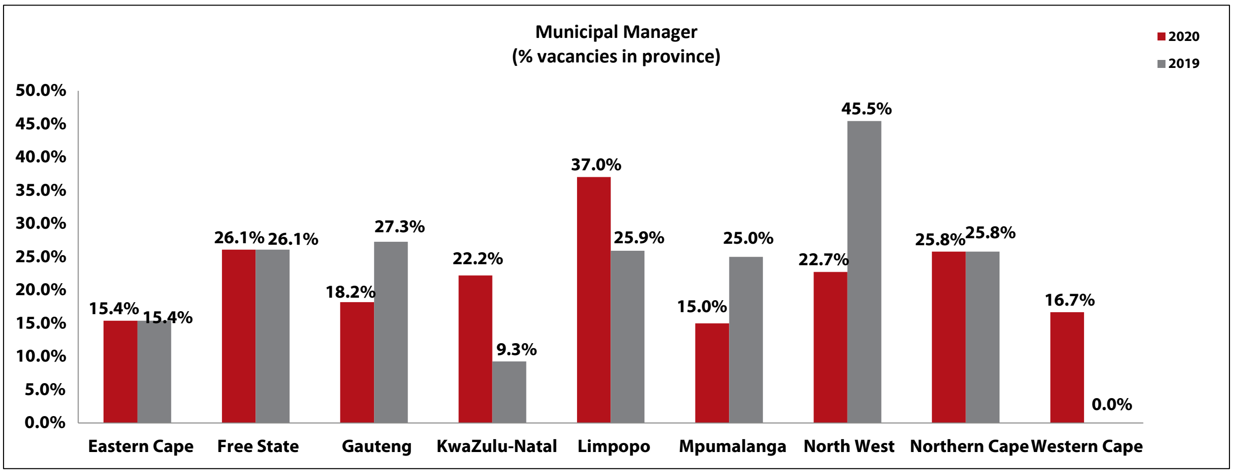
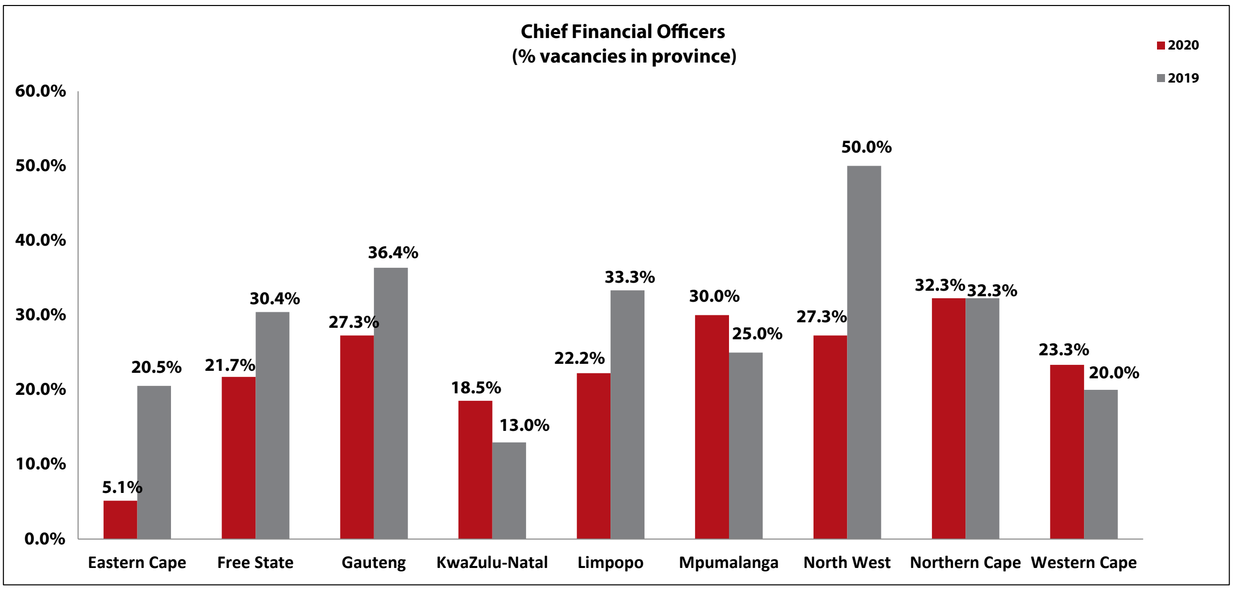
103. Between June 2019 and June 2020, the number of acting MMs increased from 50 to 57. Notably, the high increase was in Limpopo and Kwazulu-Natal provinces. An improvement was observed in relation to CFOs, where the number of acting positions decreased from 67 to 55 in 2020. North West and Eastern Cape provinces showed a decline in the number of acting CFOs by 5 and 6 respectively. The number of municipalities where both MM and CFO were in an acting capacity decreased from 30 to 23.

104. Table 15 shows that the province with the largest percentage of both acting MMs and CFOs was Free State (17.4 per cent) followed by Mpumalanga with 15.0 per cent.

105. Figure 2 below depicts the comparison of acting Municipal Managers and Chief Financial Officers as at 30 June 2020. The acting MMs were prevalent in Limpopo with 37.0 per cent in 2020 while Northern Cape had the highest acting CFOs, represented by 32.3 per cent.

Figure 2: Graphical representation of acting MMs and CFOs





OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

106. The lack of administrative stability in municipalities is a threat to financial sustainability at local government level. It is evident that vacancies and instability in key positions slowed down improvements in audit outcomes, financial management and service delivery. Local government requires stable administration with necessary skills, experience and capacity to execute responsibilities as assigned.

107. It should also be noted that in some Provinces, the location of municipalities poses its own challenge to finding and recruiting suitable candidates for these positions.

Inadequate budgets for repairs and maintenance and asset management

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

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

110. The escalating backlog in the maintenance required to keep infrastructure operational has led to these assets being in a dilapidated state at most municipalities. Consequentially, this **has caused significant water and electricity distribution losses at municipalities**. A poorly maintained infrastructure network, which is revenue generating, threatens service reliability and subsequently, revenue potential. For example, an aged water infrastructure that is not properly maintained poses the risk of limited revenue generation and service interruptions. The willingness of residents to pay rates and service charges is intrinsically linked to the quality of services provided which in turn depends on how municipalities invest in asset maintenance or capital renewal.

111. A further challenge is the financing of operations and maintenance of infrastructure by rural municipalities which, unless effectively tackled, will continue to result in rapid deterioration of infrastructure and poor service delivery. The medium to long-term consequences of underspending on repairs and maintenance include:

- Deteriorating reliability and quality of services;
- Reactive maintenance rather than planned maintenance;
- Increased future cost of maintenance and refurbishment;
- Shortened useful lifespan of assets, requiring earlier replacement; and
- Consumer unhappiness and boycotts.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

112. 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 2017/18 to 2019/20. This is an indicator that reflects the spending on repairs and maintenance against the municipal asset base. Between 2017/18 and 2019/20, most municipalities spent below the average norm of 8 per cent on repairs and maintenance.

Table 16: National - Repairs and maintenance, 2017/18 - 2019/20

Description	2017/18	2018/19	2019/20
R thousands	**Audited Outcome**	**Audited Outcome**	**Audited Outcome**
Repairs and Maintenance by Asset Class	20 132 958	14 675 635	18 659 905
Roads Infrastructure	4 374 936	2 476 083	2 771 189
Storm water Infrastructure	-	240 440	340 569
Electrical Infrastructure	3 753 334	3 384 433	4 573 889
Water Supply Infrastructure	2 813 327	2 174 424	2 834 480
Sanitation Infrastructure	1 449 251	1 665 069	1 837 287
Solid Waste Infrastructure		259 049	341 134
Rail Infrastructure		2 697	10 559
Coastal Infrastructure	-	7 847	12 302
Information and Communication Infrastructure	1 293 166	66 785	114 151
Infrastructure	13 684 014	10 276 827	12 835 560
Community	1 027 010	971 096	1 119 206
Heritage assets	1 524	1 366	570
Investment properties	196 119	72 224	75 019
Other assets	5 224 292	3 354 122	4 629 551
TOTAL EXPENDITURE	**20 132 958**	**14 675 635**	**18 659 905**
% of capital exp on renewal of assets	28.2%	46.1%	53.3%
Renewal of Existing Assets as % of deprecn	40.4%	129.7%	188.3%
R&M as a % of PPE	2.9%	3.0%	3.0%
Renewal and R&M as a % of PPE	5.0%	11.0%	15.0%

Source: National Treasury Local Government Database

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113. Table 17 below shows spending by metropolitan municipalities on repairs and maintenance as well as asset renewal from 2017/18 to 2019/20. Metros slightly increased repairs and maintenance spending from 3 per cent in 2017/18 to 5 per cent over the 2019/20, which is still below the NT guideline of 8 per cent. However, most metros indicated that their strategies are to renew assets in order to improve their lifespan, therefore significant efforts in asset maintenance are not required. Investment in asset renewal shows a significant increase from 45.1 per cent in 2018/19 to 76.8 per cent in 2019/20. Moreover, renewal of existing assets as a percentage of depreciation increased over the past three financial years from 69.1 per cent in 2017/18 to 213.0 per cent in 2019/20.

Table 17: Metros - Repairs and maintenance, 2017/18 - 2019/20

Description	2017/18	2018/19	2019/20
R thousands	**Audited Outcome**	**Audited Outcome**	**Audited Outcome**
Repairs and Maintenance by Asset Class	15 543 425	8 086 254	11 429 601
Roads Infrastructure	3 174 056	1 489 092	1 640 644
Storm water Infrastructure	-	123 525	233 437
Electrical Infrastructure	3 197 284	2 402 052	3 420 005
Water Supply Infrastructure	1 807 577	754 805	1 204 837
Sanitation Infrastructure	1 243 235	855 401	998 440
Solid Waste Infrastructure		68 459	80 332
Rail Infrastructure			8 339
Coastal Infrastructure	-		1 400
Information and Communication Infrastructure	996 246	30 697	90 065
Infrastructure	10 418 399	5 724 031	7 677 499
Community	855 045	673 635	677 001
Heritage assets	1 377	1 028	397
Investment properties	195 779	62 564	66 969
Other assets	4 072 826	1 624 995	3 007 734
TOTAL EXPENDITURE	**15 543 425**	**8 086 254**	**11 429 601**
% of capital exp on renewal of assets	54.6%	45.1%	76.8%
Renewal of Existing Assets as % of deprecn	69.1%	104.4%	213.0%
R&M as a % of PPE	4.9%	3.0%	5.0%
Renewal and R&M as a % of PPE	8.0%	10.0%	21.0%

Source: National Treasury Local Government Database

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

114. Table 18 below shows secondary cities' asset management spending from 2017/18 to 2019/20. This category of municipalities has improved marginally on capital renewal over the years. The total amount of capital expenditure spent on asset renewal has increased from 24.1 per cent in 2017/18 to 37.7 per cent in 2019/20 (slightly below the NT guideline of 40 per cent). However, spending on repairs and maintenance has been insignificant and stagnant at 2 per cent over the past two financial years.

Table 18: Secondary Cities - Repairs and maintenance, 2017/18 - 2019/20

Description	2017/18	2018/19	2019/20
R thousands	**Audited Outcome**	**Audited Outcome**	**Audited Outcome**
Repairs and Maintenance by Asset Class	1 918 721	2 279 526	2 571 923
Roads Infrastructure	361 198	322 124	308 902
Storm water Infrastructure	-	29 171	28 869
Electrical Infrastructure	353 992	349 603	595 755
Water Supply Infrastructure	250 908	299 000	420 868
Sanitation Infrastructure	112 346	340 013	394 152
Solid Waste Infrastructure		58 807	149 775
Rail Infrastructure		1 755	1 901
Coastal Infrastructure	-	2 194	1 013
Information and Communication Infrastructure	43 569	3 767	252
Infrastructure	1 122 013	1 406 434	1 901 486
Community	113 753	156 932	246 026
Heritage assets	147	260	173
Investment properties	124	6 653	6 528
Other assets	682 684	709 248	417 710
TOTAL EXPENDITURE	**1 918 721**	**2 279 526**	**2 571 923**
% of capital exp on renewal of assets	24.1%	55.1%	37.7%
Renewal of Existing Assets as % of deprecn	21.5%	107.1%	163.8%
R&M as a % of PPE	1.6%	2.0%	2.0%
Renewal and R&M as a % of PPE	3.0%	9.0%	11.0%

Source: National Treasury Local Government Database

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

Significant electricity and water losses

115. The ageing infrastructure and poor maintenance of existing infrastructure assets resulted in high electricity and water distribution losses. Municipalities are losing almost R20 billion in revenue annually. Therefore, maintenance and refurbishment backlogs must be prioritised as an important intervention to address this problem.

116. A significant degree of these losses is non-technical or commercial losses, which are caused by illegal connections, leaks, and pipe bursts. However, there is a proportion that is affected by technical losses which are caused by unmetered, authorised water uses such as firefighting and cleaning of reservoirs. Table 19 below shows the extent of water and electricity losses for metros as at 30 June 2020 (Reliable comparative data is not yet available for other municipalities).

Table19: Electricity and Water Losses for the Metros as at 30 June 2020

Municipality	Code	Water Losses		Electricity Losses	
		R'000	%	R'000	%
Buffalo City	BUF	126 145	36.3%	295 092	19.4%
Nelson Mandela Bay	NMA	65 500	46.3%	558 630	20.3%
Mangaung	MAN	227 624	40%	138 777	8.0%
City of Ekurhuleni	EKU	1 083 753	30.3%	1 881 786	14.1%
City of Johannesburg	JHB	1 233 200	29%	3 348 559	28%
City of Tshwane	TSH	988 884	30.2%	1 948 645	22.3%
eThekwini	ETH	1 721 600	51.1%	762 000	7.7%
Cape Town	CPT	191 347	10.5%	300 337	9.7%
Total		**5 638 053**		**9 233 826**	

Source: 2019/20 Audited Financial Statements

117. At the end of 30 June 2020, metros recorded water and electricity losses of R5.6 and R9.2 billion, respectively. Electricity losses increased by R1.9 billion, from R7.3 billion in 2018/19 to R9.2 billion in 2019/20.

118. The City of Johannesburg reported the highest losses on electricity (R3.3 billion) while Nelson Mandela Bay had the lowest water losses of R65.5 million. Mangaung reported the lowest electricity losses of R138.8 million.

Spending of conditional grants

119. Table 20 below shows conditional grants performance by municipalities as at 30 June 2020. In terms of the Division of Revenue Act, 2019 (Act No.10 of 2019), municipalities were allocated R45.1 billion in conditional grants for the 2019/20 financial year as depicted in table 20 below.

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Table 20: Conditional grants transferred from national departments to municipalities in 2019/20

				Year to date	YTD Expenditure		% for the 4th Quarter	
R thousands	**Division of revenue Act No. 10 of 2019**	**Adjustment (Mid year)**	**Total Available 2018/19**	**Transferred to municipalities**	**Actual expenditure National Department**	**Actual expenditure by municipalities**	**Exp as % of Allocation (National Department)**	**Exp as % of Allocation (Municipalities)**
Infrastructure	30 993 532	127 732	31 121 264	30 839 675	21 185 443	29 897 110	68.1%	96.1%
Municipal Infrastructure Grant	14 816 103	74 745	14 890 848	14 650 103	10 941 514	20 747 333	73.5%	139.3%
Public Transport Network Grant	6 468 248	-	6 468 248	6 468 248	4 237 673	2 591 225	65.5%	40.1%
Integrated National Electrification Programme (Municipal) Grant	1 863 328	-	1 863 328	1 860 328	1 233 261	1 259 141	66.2%	67.6%
Neighbourhood Development Partnership Grant (Capital Grant)	621 172	(19 500)	601 672	601 672	440 887	221 955	73.3%	36.9%
Rural Road Assets Management Systems Grant	113 891	-	113 891	113 891	66 016	56 598	58.0%	49.7%
Municipal Drought Relief Grant	-	-	-	-	-	-	-	-
Municipal Water Infrastructure Grant	-	-	-	-	-	-	-	-
Rural Household Infrastructure Grant	-	-	-	-	-	-	-	-
Municipal Disaster Recovery Grant	60 733	72 487	133 220	133 220	-	34 350	-	25.8%
Integrated City Development Grant	310 051	-	310 051	310 051	-	128 174	-	41.3%
Regional Bulk Infrastructure Grant (Schedule 5B)	2 066 360	-	2 066 360	2 028 516	1 123 532	1 203 263	54.4%	58.2%
Water Services Infrastructure Grant (Schedule 5B)	3 669 319	-	3 669 319	3 669 319	2 248 573	3 626 037	61.3%	98.8%
Municipal Emergency Housing Grant	147 432	-	147 432	147 432	46 585	29 033	31.6%	19.7%
Integrated Urban Development Grant	856 895	-	856 895	856 895	847 403	-	98.9%	-
Capacity and Others	1 911 881	-	1 911 881	1 790 319	1 326 926	1 423 842	69.4%	74.5%
Local Government Financial Management Grant	532 822	-	532 822	532 822	402 831	364 216	75.6%	68.4%
Municipal Systems Improvement Grant	121 562	-	121 562	-	-	303	-	0.2%
Expanded Public Works Programme Integrated Grant (Municipality)	730 046	-	730 046	730 046	628 773	683 783	86.1%	93.7%
Infrastructure Skills Development Grant	149 416	-	149 416	149 416	117 984	211 369	79.0%	141.5%
Energy Efficiency and Demand Side Management	227 065	-	227 065	227 065	155 488	135 939	68.5%	59.9%
Municipal Disaster Grant	150 970	-	150 970	150 970	21 850	28 231	14.5%	18.7%
Municipal Human Settlements Capacity Grant	-	-	-	-	-	-	-	-
Municipal Demarcation Transition Grant (Schedule 5B)	-	-	-	-	-	-	-	-
Total	**32 905 413**	**127 732**	**33 033 145**	**32 629 994**	**22 512 369**	**31 320 952**	**68.2%**	**94.8%**
Urban Settlement Development Grant	12 045 386	-	12 045 386	12 045 386	-	4 705 084	-	39.1%
Total as per DoRA	**44 950 799**	**127 732**	**45 078 531**	**44 675 380**	**22 512 369**	**36 026 036**	**49.9%**	**79.9%**

Source: Q4 Section 71 figures National Treasury Local Government Database

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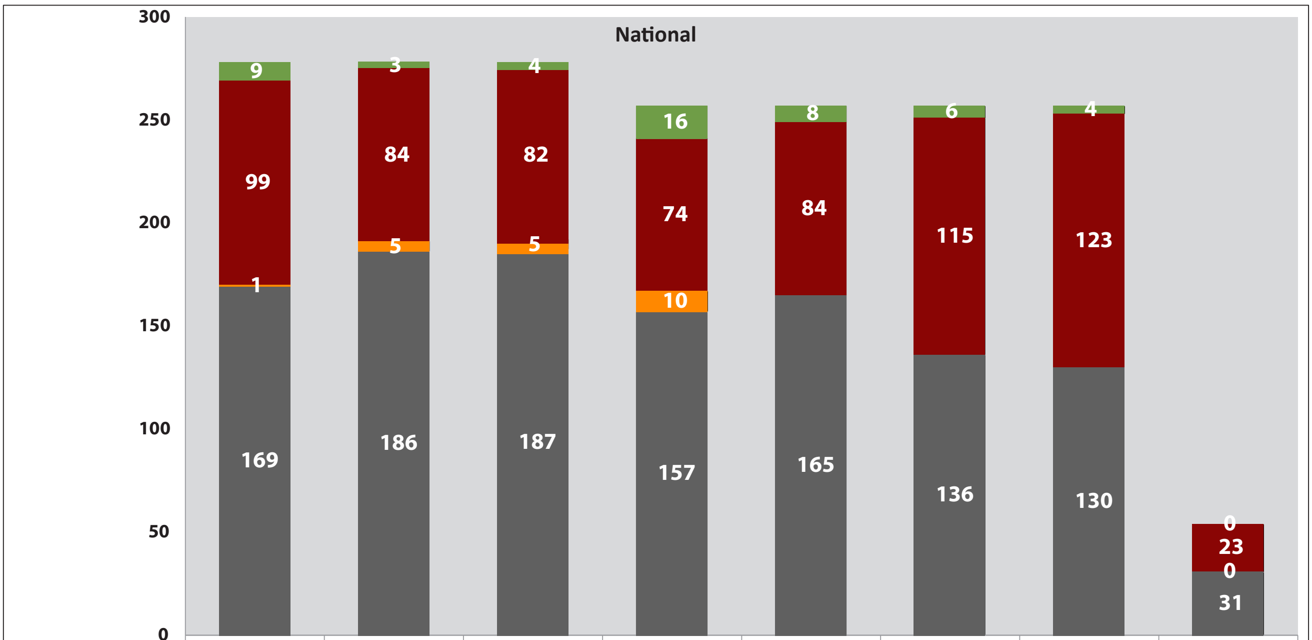
120. On aggregate, municipalities reported a total expenditure of R36.0 billion representing 79.9 per cent of the direct transfers of R45.1 billion. Infrastructure grants reported the highest expenditure performance level, at 96.1 per cent of the allocation, followed by capacity grants with 74.5 per cent. The total spending on the Urban Settlements Development Grant, which is transferred only to metros, was unsatisfactory at 39.1 per cent of the allocation.

121. Although municipalities received additional funding through the disaster relief grant in response to the COVID-19 pandemic, the spending on COVID-19 initiatives was unsatisfactory at 18.7 per cent in 2019/20.

Funded/ Unfunded Budgets for 2019/20

122. Figure 3 below shows funded and unfunded budgets information between 2013/14 and 2019/20. Over the past four years, unfunded budgets have increased significantly, from 74 in 2016/17 to 123 in 2019/20. The unfunded budgets suggest that municipalities are still experiencing challenges with aligning expenditure with anticipated revenue.

Figure 3: Funded/ Unfunded Budgets



	2013/14 Adopted budget	2014/15 Adopted budget	2015/16 Adopted budget	2016/17 Adopted budget	2017/18 Adopted budget	2018/19 Adopted budget	2019/20 Adopted budget	2021/22 Adjusted budget
Undetermined	9	3	4	16	8	6	4	0
Unfunded	99	84	82	74	84	115	123	23
Funded with risk	1	5	5	10	0	0	0	0
Funded	169	186	187	157	165	136	130	31

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123. Despite numerous engagements with municipalities, recommendations by both national and provincial treasuries to address unfunded budgets, municipalities continue to adopt unrealistic and unsustainable budgets. These unfunded budgets are mostly prevalent in smaller or rural municipalities who are confronted with internal capacity challenges, weak governance and high levels of institutional and operational inefficiencies. Mangaung Metro in the Free State Province was the only metro that adopted an unfunded budget for the financial years 2018/19 and 2019/20.

124. Municipalities that adopt unfunded budgets fail to contain expenditure within the expected income levels. Regardless of declining revenue collections and escalating debtors, expenditure is still planned against overstated revenues. This practice has led many municipalities to become financially distressed.

125. In 2019/20, the Budget Council directed municipalities to re-do unfunded budgets until a funded position was achieved. While unfunded budgets reduced from 123 to 95 through the special adjustments budget process, some municipalities could not adopt funded budgets due to legacy issues such as long-term contracts or bloated organisational structures which could not be resolved immediately. National Treasury advised those municipalities to develop funding plans outlining actions to be undertaken to produce a funded budget in the medium term.

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126. Municipalities are responsible for their own fiscal sustainability. Section 135 of the MFMA assigns municipalities the primary responsibility to avoid, identify and resolve any financial problems that they may experience. Section 154(1) of the Constitution requires the national government and provincial governments, by legislative and other measures, to "support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions." It is only once these measures have failed to resolve challenges facing a municipality that other spheres of government are empowered to intervene in the affairs of a municipality.

127. The National Treasury, in exercising its oversight role in relation to municipalities, monitors the fiscal health and sustainability of the local government sphere and individual municipalities. This includes evaluating and assisting municipalities that are currently, or likely to, experience financial distress.

128. Financial distress in this context is defined as the sustained inability of a municipality to fund the delivery of basic public goods and other requirements as per their constitutional mandate. This has far-reaching implications for the political, social and economic state of affairs in a municipality.

129. National Treasury utilises an early warning system comprised of several in-year monitoring tools to identify financial problems in municipalities or confirm financial distress when it has occurred. Although these tools are valuable for identifying problems, further action must be taken to prevent the occurrence or mitigate the impact of the financial distress.

130. To assist national and provincial government identify cases of serious financial problems or financial crisis, National Treasury publishes, on its website, a report that identifies municipalities that meet the requirements of sections 138 and 140 of the MFMA. S138 indicators are used to signal serious financial problems in a municipality while S140 indicators point to a financial crisis.

131. **Annexure A1** lists the 175 municipalities that are identified to be in financial distress in terms of the key indicators selected for the financial health assessment. It also provides a consolidated analysis of audit outcomes for the 257 municipalities, an analysis of financial distress over a ten-year period between 2008/09 and 2019/20 and the mode of interventions implemented in those municipalities. The list in annexure A1 shows that 6 of the 27 municipalities that received unqualified audit opinion with no findings, were classified as financially distressed. A total of 52 of the 91 municipalities that received unqualified audit report with findings, were classified as financially distressed. This reaffirms that audit outcomes and the state of financial health in a municipality are not synonymous. An audit opinion relates to whether the financial statements give a fair and accurate account of municipalities finances. Of the 68 municipalities that received qualified audit opinions, 54 were financially distressed. Of the 12 municipalities that received disclaimers, 11 are financially distressed.

Manifestations of financial distress

132. Some causes of financial distress are beyond the municipality's control but are within the power of national government to resolve. These are referred to as unfunded/ underfunded mandates, i.e. functions which a municipality is required to perform, but revenue instruments are with the provincial government.

133. Another challenge is the undefined roles and responsibilities and unclear institutional arrangements between districts and local municipalities. The institutional relationship between the Ngaka Modiri Molema District and its locals is a typical example of where unclear institutional arrangements and absence of a service level agreement for the provision of water services result in disputes over the Equitable Share allocations.

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134. There are also structural changes in the economy that impacts on a sustainable municipality, for example the impact of the COVID-19 pandemic on the economy. Addressing these challenges require adaptation on the part of the municipality to better align spending priorities with revenue levels.

135. However, most of the financial problems are believed to be within the control of a municipality. These include (1) the lack of proper financial management and (2) weak municipal leadership, including ineffective councils and governance structures such as that demonstrated in the City of Tshwane and Nelson Mandela Bay in 2019/20.

136. Liquidity challenges are the most common manifestation of financial distress in a municipality. Municipalities with liquidity challenges are failing at effectively delivering services, billing for services and collecting the revenue due. Consequently, outstanding debtors are increasing, and municipalities are not able to maintain positive cash flows to pay creditors within the 30 days' timeframe as legally prescribed.

137. Outstanding consumer debt owed to municipalities, as reported in terms of 2019/20 audit outcomes, has increased significantly since 2011. This total debt grew from R134.1 billion in 2018/19 to R141.8 billion in 2019/20. While households continue to be the largest contributor to outstanding municipal debt comprising 69.9 per cent of the total, there is a wide-spread non-payment across all consumer categories.

138. Municipalities in turn owe creditors approximately R66.2 billion in 2019/20. This indicates that many municipalities are not paying creditors within the required 30-day period. Although it is the monies owed to Eskom and Water Boards that has attracted the most attention, cases of non-payment of other municipal creditors and suppliers have resulted in the attachment and sale-in-execution of municipal assets by the courts.

139. In some cases, municipalities are deducting pension contributions from its employees and failing to make these payments to the pension fund. National Treasury has cautioned municipalities that such practice of non-payment of pension contributions to the pension fund is a criminal offence in terms of section 13A of the Pensions Fund Act, amended in 2013.

Causes and effects of local government finance failures

140. When diagnosing the reasons that contribute to the municipal liquidity challenges it is prudent to holistically examine the organisational and operational management inefficiencies. Among the audit issues raised with respect to municipal financial management inefficiencies are weak internal controls; weaknesses and non-compliance to policies and procedures; and increase in fruitless and wasteful, unauthorised and irregular expenditure.

141. Causes of financial distress can be classified into:
- ***Structural (or fixed) factors****, i*ncluding the erosion or interruption of the tax base, decrease in population size, residents' socio-economic status, structural impediments that contributes to constrained national fiscus and decline in economic productivity. Structural factors are known to be the hardest to resolve, as they are sometimes outside the municipality's control;
- ***Organisational factors,*** including mismanagement, transparency and labour unions power in public administration and other political factors. Organisational factors are relatively easier to resolve because they are often internal to the organisation. Research shows that mismanagement, one of the organisational factors, is a major cause of fiscal distress; and

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- ***Hybrid factors,*** which relate to intergovernmental relations and coordination. Sometimes grey areas exist in intergovernmental relations, especially regarding roles, responsibility and accountability.

142. When National Treasury engaged the defaulting municipalities, the following issues were tabled for consideration as the root causes that impact on their ability to operate:
    - Several municipalities with poor cash flows have adopted unfunded budgets. Budgeted revenue collection levels are not realised while operating costs (such as employee related costs) remain high with no effort made to contain expenditure particularly on non-priority spending which led to persistent negative cash balances;
    - Weak management of the overall revenue value chain, including tariff setting for trading services, administering the property transfer process, and misalignment of tariffs, billings and credit control measures with indigent policies. The local government equitable share is mainly used to fund operating costs rather than utilised for the purpose of service delivery targeting the poorest of the poor;
    - Weak internal controls, risk management and supply chain management (SCM) inefficiencies resulting in poor audit outcomes and wasteful expenditure;
    - Historically inadequate budget allocation for repairs and maintenance and asset management have weakened revenue potential;
    - Limited evidence based financial management such as cash flow management;
    - Inefficient management of electricity demand means that penalty charges are unnecessarily incurred (fruitless and wasteful expenditure);
    - Payment arrangements negotiated with creditors are not subsequently provided for in the municipal budget. It may be argued that the signed payment arrangements are merely a case of malicious compliance; and
    - Inadequate human resources capacity and a shortage of technical skills.

Interventions in municipalities

143. The powers of other spheres of government to intervene in the affairs of a municipality is regulated by the Constitution and the MFMA. Section 139 of the Constitution provides for provincial (and national) interventions in municipalities as a last resort in response to serious problems. It envisages three kinds of failures in local government, with responses to address each of these problems, set out in the different sub-sections. The role of the province is to assess the nature of the problem, and to respond in terms of the relevant sub-section of Section 139 of the Constitution as follows:
    - Section 139(1) should be invoked in response to a "failure to fulfil an executive obligation": these are discretionary interventions;
    - Section 139(4) should be invoked in response to a failure by Council to pass a budget or budget related measures. This refers to a failure to fulfil a legislative function and is a mandatory intervention; and
    - Section 139(5) should be invoked in response to a financial crisis, specifically a material breach of financial obligations or ability to provide basic services: these are also mandatory interventions.

144. Sections 139(4) and (5) of the Constitution are regulated by Chapter 13 of the MFMA. Chapter 13 also addresses the requirements for discretionary interventions that require the development of a financial recovery plan. Any mandatory intervention invoked in a municipality must be referred to the Municipal Finance Recovery Services (MFRS) Unit within the National Treasury for the development of a financial recovery plan. Section 139(7) of the Constitution also provides that if the province fails to intervene when the conditions for a mandatory intervention exist, the national executive must do so.

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

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

147. Some provinces have sent "administrators" to municipalities even while the elected Council remained in place. This is not permitted by the Constitution, which authorizes the appointment of an administrator only on a temporary basis, and only when a Council has been dissolved, e.g. for failure to implement a recovery plan. Appointing an administrator while the council is still in place makes it unlikely that the council and the administrator will collaborate effectively and defeats the fundamental constitutional premise.

148. Following the resolution, passed at the Budget Council in 2019, the Intergovernmental Relations division of the National Treasury developed a credible programme of action to respond to the serious financial problems in municipalities. Concomitantly, the MFRS Unit developed and implemented a new phased strategic approach that guides the development of financial recovery plans in municipalities. This approach consists of three phases namely, Rescue Phase, Stabilisation Phase and Sustainability Phase. It is envisaged to improve the financial sustainability of local government.

149. Furthermore, this unit engaged with the Department of Cooperative Governance and Traditional Affairs (CoGTA) to prepare a draft collaboration framework that determines and clarifies the proposed roles of the National Treasury: MFRS unit, Provincial Treasuries, the Provincial CoGTA departments and SALGA in the preparation and implementation of recovery plans.

150. Between April and June 2021, National Treasury and CoGTA held provincial roadshows to create awareness on the requirements and implementation of Section 139 of the Constitution and Chapter 13 of the MFMA.

151. During the Provincial Roadshows it was highlighted that although financial and technical support for municipalities have been increasing steadily over the years the state of local government continues to decline. Therefore, the roadshows emphasised the need for Provinces to monitor their respective municipalities rigorously and to apply the correct mode of Section 139. Failure to apply the law correctly will result in a growing number of municipalities resisting interventions subtly by failing to cooperate or choosing to litigate against provincial intervention.

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152. The MFRS unit demonstrated during the Provincial Roadshows a step by step guide to invoking, implementing, monitoring and terminating of a discretionary or mandatory intervention in terms of Section 139 and Chapter 13 of the MFMA. Concerns were raised on the failure to monitor and report quarterly on the status of the financial recovery plan (FRP) by MECs in provinces. National Treasury will work closely with Provincial Treasuries to capacitate them to identify distressed municipalities (early warning signs), undertake status quo reviews, develop financial recovery plans, implement and monitor interventions in line with applicable legal prescripts.

153. As at June 2020, there were 21 interventions in terms of Section 139 of the Constitution that the MFRS unit was monitoring. Most of these interventions were in Free State Province (5 municipalities) followed by Mpumalanga Province (5 municipalities), Northern Cape Province (4 municipalities), Limpopo, Gauteng and KwaZulu Natal Provinces (2 municipalities each) and Eastern Cape Province (1 municipality).

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154. South Africa's local government financial management system has undergone a number of reforms that has seen considerable progress. The COVID-19 crisis has heightened the urgency for much needed reforms and it provided an opportunity to drive these through in a way that was not possible pre-crisis.

155. National government has introduced changes in local government grants to respond to the impact of COVID-19 pandemic and other reforms to bring predictability and certainty into the local fiscal system. However, there is still a long way to go before all 257 municipalities are fully functional and sustainable. A multi-pronged approach that includes addressing operational inefficiencies, incompetence and governance failures is required to ensure sound fiscal discipline in the longer term.

156. The financial management reform agenda for local government is an evolutionary process and needs to be nurtured to maturity. Government has initiated a number of capacity building initiatives and reforms to support municipalities in achieving this, including:

a) **Implementing Minimum Competency Levels**

The prescribed minimum competency levels were introduced 14 years ago for Municipal Managers, Chief Financial Officers (CFOs) and Chief Executive Officers (CEOs) of municipal entities where they exist, Senior Managers, SCM managers and Middle Managers including other officials dealing with financial management (FM) and supply chain management (SCM). Table 21 below summarises the enrolment in the Minimum Competency programme across the regulated positions and provinces. Out of 2 393 municipal officials, only 1 618 officials meet the minimum competency levels as at 31 January 2021. Out of 240 CFOs reported on, only 155 (64.5 per cent) have achieved minimum competency levels. 61.4 per cent of senior managers have achieved minimum competency levels.

However, it is important to note that the amendment to the regulation, through Government Gazette No. 41996 of 26 October 2018, allows municipalities to appoint officials that have not completed the required unit standards and this affects the number of officials compliant with the regulation since 2007. The officials are given 18 months from day of appointment to obtain the unit standards.

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Table 21: Minimum competency levels among senior municipal officials as at 30 June 2020

Table 21: National Status of Minimum Competency Levels by position

Province	Accounting Officer	Meet Minimum Competency	Chief Financial Officer - Municipality	Meet Minimum Competency	Senior Manager (MSA S56)	Meet Minimum Competency	Head of Supply Chain Management unit	Meet Minimum Competency	Supply Chain Management Manager	Meet Minimum Competency	Middle Manager: Finance	Meet Minimum Competency
EC Eastern Cape	37	33	37	33	136	95	12	7	37	28	105	81
FS Free State	21	33	21	11	67	34	3	3	21	16	65	38
GT Gauteng	11	33	11	8	75	48	5	4	8	7	51	41
KZN Kwazulu-Natal	49	33	49	38	160	113	13	10	50	44	138	108
LIM Limpopo	26	33	26	10	96	41	8	4	19	13	97	68
MP Mpumalanga	18	33	18	11	68	44	5	4	20	14	64	43
NC Northern Cape	32	33	31	14	69	34	15	6	19	11	82	50
NW North West	18	33	18	10	69	38	3	1	15	12	65	42
WC Western Cape	29	33	29	20	92	64	13	11	30	25	79	59
TOTAL	**241**	**297**	**240**	**155**	**832**	**511**	**77**	**50**	**219**	**170**	**746**	**530**

Source: National Treasury - Capacity Building Unit

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b) The Municipal Standard Chart of Accounts (*m*SCOA)

*m*SCOA is one of the key game changers to address municipal performance failures. This standard classification framework enforces the link between planning (IDP) and the budget through the project segment and enables annual reporting and performance management linked to strategic service delivery objectives. By now, municipalities should have acquired and upgraded the hardware, software and licences required to be and remain *m*SCOA compliant and budget, transact and report on all six (6) legislated *m*SCOA segments directly on the core financial system and submit the required data strings directly from this system to the National Treasury's local government portal.

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

All municipalities have implemented *m*SCOA but the level of implementation differs. Almost 95 per cent of the audited and restated data strings were submitted, however the credibility and quality of this data requires further attention. Several municipalities are still budgeting, transacting and reporting outside the core systems by capturing information on excel spreadsheets and then upload it on the system at a later stage.

The National and Provincial Treasuries have had quarterly meetings for the past three years with all key municipal financial system providers during which these system providers had to demonstrate the functionality available in the systems. From these engagements it was evident that most of the municipal systems available in the market comply with the system requirements of the *m*SCOA Regulations. In addition, the National and Provincial Treasuries conducted a module use verification in October and November 2019 to assess if municipalities are using the IDP, budget, billing and receipting, general ledger, SCM, asset management and inventory, payroll, debtors, creditors and reporting modules available in their core financial systems.

The findings were that most municipalities have access to these modules on the core financial system or via 3rd party sub-systems. However, most municipalities are not fully utilising these modules and are still operating outside of the integrated financial systems. Municipalities do not openly admit to these poor practices, but it is evident when the financial reports submitted to Council differ from the information that is submitted to the NT local government portal.

Among the reasons why municipalities are not fully using their core financial systems include:

- Lack in capacity of municipal officials to use the financial system, correct *m*SCOA chart and application of basic accounting principles;
- Resistance to change previous financial management practices and adopt *m*SCOA and its transparency;
- Deliberate circumvention of the internal controls built-in on the systems to dodge unauthorised expenditure and commit acts of fraud and corruption;
- Budgetary constraints to upgrade and maintain the ICT environment (servers, hardware, software, updated modules and versions of the system, and licenses);

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- Connectivity problems at rural municipalities impact on the use of web-based systems and the submission of data strings to the Local Government upload portal;
- The level of customisation in the system functionality required by Metros and large secondary cities delay system development;
- Municipalities are dependent on the system vendors and do not take ownership of their system/the data captured on it;
- Municipalities do not perform the responsibilities required from them (i.e. data cleansing, user testing, transaction capturing, etc.) when migrating to a new system, resulting in delays to implement the core system;
- Non-payment of system vendors due to contractual disagreements result in vendors suspending support; and
- The COVID-19 pandemic that resulted in municipal officials working from home has also impacted on *m*SCOA reporting as some officials did not have access to the municipal financial system from home or experienced connectivity challenges.

National Treasury, through MFMA Circulars No. 98 and 107, requested municipalities to submit a roadmap to the National and respective provincial treasury to indicate how they will become *m*SCOA compliant if the minimum level of *m*SCOA implementation has not been achieved as yet. Furthermore, the National Treasury will be conducting independent audits on all municipal financial systems by end of 2021 to determine the extent to which the financial systems that are currently being used by municipalities comply with the minimum business processes and system specifications required in terms of *m*SCOA. It should be emphasized that the onus to ensure compliance with the *m*SCOA Regulations and minimum system specifications as per MFMA Circular No. 80 rests with the municipality and not the system vendor.

c) Municipal Finance Improvement Programme (MFIP III):

The third three-year phase of the programme, MFIP III, commenced on 1 April 2017 and ended on 31 March 2020. As at 31 March 2020, the MFIP procured and deployed 80 technical advisors (TAs) at the following institutions and work streams:

- Direct capacity support to municipal budget and treasury offices in general financial management: 23 TAs were deployed across the nine provinces;
- Direct capacity support to the municipal finance units of provincial treasuries: 32 TAs were placed. Specialised support was offered in the following areas: supply chain management (seven advisors), the Municipal Standard Chart of Accounts (*m*SCOA) (six advisors), asset management (seven advisors) and the revenue management (seven advisors);
- Direct capacity support to three National Treasury chief directorates – Local Government Budget Analysis, Municipal Finance Management Act Implementation and the Supply Chain Management Policy and Legal: 18 TAs were placed, providing specialised support in the following areas: financial management capability maturity model (two advisors), audit outcomes (three advisors), budgeting and reporting (one advisor), municipal financial recovery services (eight advisors), *m*SCOA (one advisor), supply chain management (one advisor) and the revenue management (two advisors); and
- Seven TAs were procured to provide programme and project management capacity support to the officials in the MFIP project management unit.

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As part of the MFIP III close-out processes all TAs contracts came to an end on 31 March 2020. The Programme Management Unit (PMU) conducted the close out reporting and annual performance review sessions in March 2020. To sustain the momentum spawned during MFIP III and given the enduring municipal financial sustainability difficulties, approval was granted for the extension of the MFIP III for an additional two years from 1 April 2020 to 31 March 2022 (MFIP IIIx). The project is implemented under the budget and functional authority of the National Treasury's Office of the Accountant-General (OAG), in partnership with the Intergovernmental Relations (IGR) division, Office of the Chief Procurement Officer (OCPO), with administrative management support provided by the Government Technical Advisory Centre (GTAC). The MFIP IIIx commenced on 1 April 2020, however due to the COVID-19 pandemic, TAs were only placed in August 2020.

The MFIP capacity building and skills transfer initiatives support the various institutional and technical areas in financial management in terms of the Municipal Finance Management Act and the local government reform agenda of the National Treasury. While these interventions are mostly informal and non-accredited, they assist in enhancing the practical and on-the-job skills of officials involved in municipal financial management as well as strengthening the capacity of Provincial Treasuries to exercise their oversight and support role. During the reporting period 1 July 2019 – 30 June 2020, 1 626 capacity building sessions were held, involving 4 895 officials on topics such as accounting and audit, supply chain management, budget and revenue management, budget and financial management, asset management, *m*SCOA and the MFRS.

The year also saw the implementation of further measures to improve the overall effectiveness and efficiency of the programme. These included strengthening the institutionalisation of the modified business model; undertaking ongoing advocacy of the revised governance and management arrangements with programme stakeholders; sourcing the full complement of technical advisors to implement the entire spectrum of MFIP technical support; and implementing the MFIP knowledge and information management strategy to improve the efficiency of programme administration and enhance knowledge sharing and collaborative learning across the project work streams. In addition to the measures mentioned above, a programme mid-term evaluation (MTE) was conducted during this financial year. The purpose of the MTE was to review the design and implementation of the third phase of the programme. The MTE final report contained a total of 22 recommendations which were clustered according to the following four areas, namely: Institutional positioning, Governance and oversight, Programme design and Programme management and Implementation. An Improvement Plan was compiled and approved by the Public Service Commission (PSC) subsequent to the adoption of the MTE report, to ensure utilisation of evaluation findings and strengthening of programme, monitoring of the implementation of recommendations as well as keeping stakeholders informed of necessary actions to improve programme delivery. Several of the MTE recommendations determined the need for an integrated results-based monitoring and evaluation (M&E) framework for the programme to better monitor outputs and outcomes and evaluate impacts. The M&E framework has been developed and implemented using a phased in approached under MFIP IIIx.

The programme initiatives mentioned above will continue in 2020/21 to help realise the expected return on the National Treasury's investment in the MFIP.

SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY

d) **Cities Support Programme (CSP):**

CSP is aimed at supporting metros to drive an effective spatial transformation agenda whilst contributing to inclusive economic growth. In collaboration with relevant key national departments the programme also contributes to creating an enabling fiscal and policy environment for the metros. The programme is implemented through five components, namely Governance and Fiscal, Public Transport, Human Settlements, Economic Development and Climate Resilience that facilitate and provide technical support to eight (8) metros.

Over the past year (2019/20) with the impact of COVID-19, a number of the CSP projects have been directed to supporting economic recovery in the metropolitan municipalities. Work within the climate resilience component of the CSP focused on the restructuring of metro water, electricity and waste businesses fundamental to economic recovery. Engagement with firms within metro spaces has highlighted that the lack of energy and water security pose the greatest risks for firms to operate and grow.

Support being provided to the metros on infrastructure planning, management and financing is also central to metro economic recovery. With growing fiscal pressures on metros, meeting infrastructure demands at both a household and firm level have required metros to explore a range of alternative financing instruments such as land value capture, development contributions, public-private partnerships and borrowing. The need for metros to provide market certainty through long-term infrastructure planning and to ensure public sector infrastructure investment alignment to unlock catalytic development is paramount.

In discussions with cities and the rest of government, it has become increasingly clear that the primary reason for infrastructure under-investment is limited to availability of well-prepared and bankable investment programmes and projects. In May 2020, a workshop on 'Supporting inclusive and resilient growth through infrastructure delivery in cities" was convened with the metros. In addition, through the Climate Resilient component, a resilient capital investment planning workshop for metros was held focusing on the design and packaging of capital projects for investment that would strengthen the resilience of these metros to climate and disaster risks.

The CSP drives a spatial transformation agenda focused on the development of more compact and efficient city forms. The key levers of well-placed and appropriate forms of human settlement delivery (such as inclusionary and social housing, informal settlement upgrading and infill) and integrated and devolved public transport planning and delivery will enable sustained economic recovery in the medium to long term.

The focus on economic recovery, both on a national and local level, is being supported through monthly City Economic Development Managers' Forums that aims to facilitate metro peer learning and greater inter-governmental and broader societal stakeholder alignment. This forum is now functioning as a valued intergovernmental platform to support metros and departments to plan for and implement economic recovery plans. In addition, the CSP provides direct support to space-based economic development and recovery initiatives within the metro. Some metros (eThekwini, Ekurhuleni, Cape Town, Tshwane and Nelson Mandela Bay) are supported by multi-disciplinary technical teams to develop, resource and implement bottom-up and integrated Township Economic Development strategies. Four metros (eThekwini, Ekurhuleni, Johannesburg and Tshwane) are also being supported by a technical team to develop, resource and implement multi-stakeholder Industrial Park Revitalisation Plans.

SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY

All metros are receiving support on improving key business processes related to the provision of an enabling environment for private sector investment. These reforms relate to the process of firms registering property, applying for construction permits and getting electricity connections.

e) Revenue Management Support:

The Revenue Management work stream is a collective effort of the National Treasury to achieve the following objectives:

- Strengthening support with respect to oversight of the municipal revenue value chain and the impact it has on the budget, with specific focus to protect and optimise municipal revenue streams;
- Assessing the credibility of the municipal revenue base and its revenue generation potential to maximise revenue collection by reconciling the General Valuation Roll and supplementary valuation with the information on the financial system (billing system);
- Identify and fix the weaknesses in tariff development, where it is clear that the true tariff diverges from the approved tariff, then implement processes that gradually closes the gap (this requires understanding costs per service; consumption patterns and demand management);
- Ensuring that the budget policies are "water tight" and conforms to best practice principles before adoption as well as achieve alignment between revenue management strategies and policies;
- Improving municipal revenue governance arrangements and implementing effective cash management systems;
- Improving indigent management within the municipality to ensure that those that qualify are truly in need of the support;
- Assisting with establishing a revenue committee at the municipality with a revenue champion to lead the programme (preferably someone outside the BTO that reports directly to the municipal manager); and
- Improve financial management performance in municipalities for an enhanced quality of service.

The focus is on the revenue value chain and all related internal and external dependencies and identifying catalytic areas where attention should be focused to derive the largest financial benefit.

f) MFMA Circular No. 88

MFMA Circular No. 88 of 2017 is the first MFMA circular jointly issued by National Treasury, the Department of Cooperative Governance and the Department of Planning, Monitoring and Evaluation as part of a suite of planning, budgeting and reporting reforms. Since the rollout of the reporting reform to metropolitan municipalities in the 2018/19 financial year, considerable progress has been made to rationalise, better coordinate and standardise indicator planning, monitoring and reporting in metropolitan municipalities and across local government. As a result, metropolitan municipalities have now established reliable baseline measurements and begun tracking an agreed, commonly defined set of performance indicators at outcome and output results levels, year-on-year. Submission of annual reporting for the 2020/21 financial year is expected to enable the performance analysis and inform evaluative work in support of improvements in municipal performance, uptake of lessons learnt and greater accountability.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

The 2nd Addendum update to MFMA Circular No. 88 (2020) confirmed the piloting of the indicator planning, monitoring and reporting reform among all other categories of municipalities in the 2021/22 financial year, thereby marking the application of the circular across all local government. The latest circular update has introduced a singular, differentially applied set of indicators for all of local government covering the following sectors:

- Water and sanitation;
- Electricity and energy;
- Housing and community facilities;
- Roads and transport;
- Environment and waste management;
- Fire and disaster services;
- Governance; and
- Local economic development.

Work to institutionalise and capacitate municipalities regarding the MFMA Circular No. 88 remains on-going. A rationalised set of financial management indicators are also at an advanced stage of development ahead of the introduction in the next circular update for the 2022/23 financial year. Ultimately, MFMA Circular No. 88 will be used to rollout a differentially applied set of indicators for local government to a common standard prior to their eventual regulation by the Department of Cooperative Governance through an update of the Planning and Performance Management Regulations of 2001 that was issued in terms of the Municipal Systems Act.

CONCLUDING REMARKS

157. Municipalities are operating in a difficult environment, with continued low economic growth and rising fiscal risk. The COVID-19 pandemic has brought serious disruptions to the economy and society. Many cities have seen an increase in expenditure, primarily for the provisioning of emergency services to combat the spread of the coronavirus while revenues are declining. The rate at which local economies will rebound remains to be seen.

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

159. The 2019/20 SoLGF report comprehensively discusses the financial health of all 257 of the country's municipalities and to some extent, assessed the impact COVID-19 had on municipal finances. The report concludes that the state of municipal finances continues to worsen. **Annexure A2** indicates the history of financial distress in municipalities since 2008 and municipalities that are identified as financially distressed in 2019/20.

160. This analysis presented in this report indicates that a **significant number of municipalities continue to perform poorly with no sign of improvement**. In addition, these municipalities were already in a dire financial state pre-COVID-19. This confirms that the COVID-19 pandemic only intensified the existing challenges in the local government. At an aggregate level:

- **There are municipalities that closed their year with negative cash and cash equivalents**. A negative cash balance is a strong indicator that there are severe underlying financial problems;
- **Municipalities continue to have insufficient cash coverage to fund their operations**. This means that municipalities have cash coverage ratio of below 1-3 months. A ratio below 1 month implies that a municipality is at a higher risk of defaulting on its debts;
- **Most municipalities do not have sufficient cash and investments to pay for current obligations (liquidity ratio)**. This reflects that most short-term liabilities are not covered by the cash and investments;
- **It takes longer than 30 days for municipalities to collect debt from consumers after issuing the bill**. This, to some extent, was affected by suspension of credit control measures during the nationwide lockdown where some municipalities allowed consumers to enter into payments arrangements if they are unable to pay their municipal accounts. In the current economic climate, it is inevitable that municipality payments may delay. However, some municipalities have demonstrated no effort to intensify their debt collection and credit control strategies.
- **Outstanding creditors are growing rapidly**. The declined collection rates and deteriorating cash flows led municipalities to many financial problems. Several municipalities have defaulted on bulk suppliers' accounts including paying workers' pension contributions to respective pension funds.
- **There are not enough current assets to pay short term liabilities in about half of the municipalities**. This indicates that most municipalities are unable to pay their current or short-term obligations and provide for a risk cover to enable them to continue operations at desired levels;
- **Few municipalities are in a state of insolvency**. A municipality is technically insolvent if its total liabilities exceed total assets. This means that a municipality might not be able to fulfil its financial obligations as it does not have enough investments, cash and other assets;
- **Unfunded budgets are a threat to municipal financial sustainability**. Most municipalities that adopt unfunded budgets ended up in a financial distressed position;

CONCLUDING REMARKS

- **Municipal audit outcomes have regressed**. The overall audit outcomes for 2019/20 shows regression. This reflects a lack of commitment by municipal leadership and weak control environment to improve audit outcomes;
- **Inadequate spending on repairs and maintenance of infrastructure**. Municipalities are still underspending on repairs and maintenance. Underspending results in a steady deterioration in the quality and serviceability of municipal assets; and
- **Underinvesting on capital infrastructure**. This continues to undermine efforts to improve access to services, service reliability and local economic growth.

161. A total of 175 municipalities have been identified as experiencing some form of financial distress. Many of these municipalities have been experiencing "financial crisis" (as the term used in the Constitution and MFMA, and required mandatory provincial intervention in terms of Section 139(5) of the Constitution. It is known that some provinces have failed to intervene at all when municipalities have serious problems, while others have intervened primarily in terms of Section 139(1) of the Constitution, rather than the sections intended to deal with financial problems. This is despite the clear legal provisions that invoking S139(5) is both mandatory and will supersede all other interventions and/ or support measures.

162. Initiatives by provincial governments to address this situation have been limited and to some extent, ineffective. More scope exists for national government to play a larger role in exercising powers under Chapter 13 of the MFMA when a provincial government fails to act timeously in addressing a municipal financial emergency.

ANNEXURE A1

Municipalities in financial distress as at 30 June 2020 *(municipalities identified as being in financial distress are highlighted)*.
The National Treasury used 13 key indicators to determine municipalities that are in financial distress. 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

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Eastern Cape	A	Buffalo City	BUF	1	7	2	-	Permanent	Permanent
Eastern Cape	A	Nelson Mandela Bay	NMA	1	8	2	-	Acting	Permanent
Eastern Cape	B	Blue Crane Route	EC102	0	5	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Dr Beyers Naude	EC101	0	3	0	Financial Distress	Permanent	Acting
Eastern Cape	B	Kou-Kamma	EC109	1	6	2	Financial Distress	Permanent	Permanent
Eastern Cape	B	Kouga	EC108	0	5	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Makana	EC104	1	6	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Ndlambe	EC105	1	5	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Sundays River Valley	EC106	1	5	1	Financial Distress	Permanent	Permanent
Eastern Cape	C	Sarah Baartman	DC10	1	8	2	-	Permanent	Permanent
Eastern Cape	B	Amahlathi	EC124	1	5	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Great Kei	EC123	1	4	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Mbhashe	EC121	1	9	2	-	Permanent	Permanent
Eastern Cape	B	Mnquma	EC122	1	6	2	Financial Distress	Permanent	Permanent
Eastern Cape	B	Ngqushwa	EC126	1	6	2	Financial Distress	Permanent	Permanent
Eastern Cape	B	Raymond Mhlaba	EC129	0	5	0	Financial Distress	Permanent	Acting
Eastern Cape	C	Amathole	DC12	1	5	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Emalahleni (EC)	EC136	1	5	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Engcobo	EC137	1	9	2	-	Permanent	Permanent
Eastern Cape	B	Enoch Mgijima	EC139	1	3	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Intsika Yethu	EC135	1	8	2	-	Permanent	Permanent
Eastern Cape	B	Inxuba Yethemba	EC131	1	5	1	Financial Distress	Acting	Permanent
Eastern Cape	B	Sakhisizwe	EC138	1	4	1	Financial Distress	Acting	Permanent
Eastern Cape	C	Chris Hani	DC13	1	4	2	Financial Distress	Permanent	Permanent
Eastern Cape	B	Elundini	EC141	1	7	2	-	Permanent	Permanent
Eastern Cape	B	Senqu	EC142	1	8	2	-	Permanent	Permanent
Eastern Cape	B	Walter Sisulu	EC145	1	3	1	Financial Distress	Permanent	Permanent
Eastern Cape	C	Joe Gqabi	DC14	1	6	2	Financial Distress	Permanent	Permanent
Eastern Cape	B	King Sabata Dalindyebo	EC157	1	5	1	Financial Distress	Permanent	Permanent

ANNEXURE A1

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Eastern Cape	B	Mhlontlo	EC156	1	6	2	Financial Distress	Permanent	Permanent
Eastern Cape	B	Ngquza Hills	EC153	1	7	2	-	Permanent	Permanent
Eastern Cape	B	Nyandeni	EC155	1	10	2	-	Acting	Permanent
Eastern Cape	B	Port St Johns	EC154	1	9	2	-	Acting	Permanent
Eastern Cape	C	O R Tambo	DC15	1	3	1	Financial Distress	Permanent	Permanent
Eastern Cape	B	Matatiele	EC441	1	6	2	Financial Distress	Acting	Permanent
Eastern Cape	B	Ntabankulu	EC444	1	7	2	-	Permanent	Permanent
Eastern Cape	B	Umzimvubu	EC442	1	7	2	-	Permanent	Permanent
Eastern Cape	B	Winnie Madikizela-Mandela	EC443	1	8	2	-	Permanent	Permanent
Eastern Cape	C	Alfred Nzo	DC44	1	8	2	-	Permanent	Permanent

ANNEXURE A1

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Free State	A	Mangaung	MAN	1	3	1	Financial Distress	Acting	Permanent
Free State	B	Kopanong	FS162	0	5	0	Financial Distress	Permanent	Permanent
Free State	B	Letsemeng	FS161	1	5	1	Financial Distress	Permanent	Permanent
Free State	B	Mohokare	FS163	1	4	2	Financial Distress	Acting	Acting
Free State	C	Xhariep	DC16	1	6	1	Financial Distress	Permanent	Permanent
Free State	B	Masilonyana	FS181	0	5	0	Financial Distress	Permanent	Acting
Free State	B	Matjhabeng	FS184	0	2	0	Financial Distress	Permanent	Permanent
Free State	B	Nala	FS185	0	3	0	Financial Distress	Acting	Permanent
Free State	B	Tokologo	FS182	0	5	0	Financial Distress	Permanent	Permanent
Free State	B	Tswelopele	FS183	1	3	1	Financial Distress	Permanent	Permanent
Free State	C	Lejweleputswa	DC18	0	5	0	Financial Distress	Permanent	Permanent
Free State	B	Dihlabeng	FS192	1	3	1	Financial Distress	Acting	Acting
Free State	B	Maluti-a-Phofung	FS194	0	1	0	Financial Distress	Permanent	Permanent
Free State	B	Mantsopa	FS196	0	4	0	Financial Distress	Acting	Acting
Free State	B	Nketoana	FS193	1	5	1	Financial Distress	Permanent	Permanent
Free State	B	Phumelela	FS195	1	4	1	Financial Distress	Permanent	Permanent
Free State	B	Setsoto	FS191	1	6	2	Financial Distress	Permanent	Permanent
Free State	C	Thabo Mofutsanyana	DC19	1	10	2	-	Permanent	Permanent
Free State	B	Mafube	FS205	1	2	1	Financial Distress	Permanent	Permanent
Free State	B	Metsimaholo	FS204	1	4	2	Financial Distress	Acting	Acting
Free State	B	Moqhaka	FS201	1	2	1	Financial Distress	Permanent	Permanent
Free State	B	Ngwathe	FS203	0	3	0	Financial Distress	Permanent	Permanent
Free State	C	Fezile Dabi	DC20	1	9	2	-	Permanent	Permanent
Gauteng	A	City of Ekurhuleni	EKU	1	6	1	Financial Distress	Permanent	Permanent
Gauteng	A	City of Johannesburg	JHB	1	6	2	Financial Distress	Permanent	Permanent
Gauteng	A	City of Tshwane	TSH	0	3	0	Financial Distress	Permanent	Permanent
Gauteng	B	Emfuleni	GT421	1	3	1	Financial Distress	Permanent	Permanent
Gauteng	B	Lesedi	GT423	1	4	2	Financial Distress	Acting	Acting

ANNEXURE A1

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Gauteng	B	Midvaal	GT422	1	8	2	-	Permanent	Permanent
Gauteng	C	Sedibeng	DC42	0	4	0	Financial Distress	Permanent	Acting
Gauteng	B	Merafong City	GT484	0	3	0	Financial Distress	Permanent	Acting
Gauteng	B	Mogale City	GT481	1	7	1	Financial Distress	Permanent	Permanent
Gauteng	B	Rand West City	GT485	1	4	1	Financial Distress	Permanent	Permanent
Gauteng	C	West Rand	DC48	0	4	0	Financial Distress	Acting	Permanent

ANNEXURE A1

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Kwazulu-Natal	A	eThekwini	ETH	0	4	0	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Ray Nkonyeni	KZN216	1	4	2	Financial Distress	Permanent	Acting
Kwazulu-Natal	B	Umdoni	KZN212	1	8	2	-	Acting	Permanent
Kwazulu-Natal	B	Umzumbe	KZN213	1	9	2	-	Permanent	Permanent
Kwazulu-Natal	B	uMuziwabantu	KZN214	1	7	2	-	Acting	Permanent
Kwazulu-Natal	C	Ugu	DC21	0	5	0	Financial Distress	Acting	Acting
Kwazulu-Natal	B	Impendle	KZN224	1	5	2	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Mkhambathini	KZN226	1	8	2	-	Permanent	Acting
Kwazulu-Natal	B	Mpofana	KZN223	0	3	0	Financial Distress	Acting	Acting
Kwazulu-Natal	B	Msunduzi	KZN225	1	6	2	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Richmond	KZN227	1	4	2	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	uMngeni	KZN222	1	5	2	Financial Distress	Permanent	Acting
Kwazulu-Natal	B	uMshwathi	KZN221	1	9	2	-	Permanent	Permanent
Kwazulu-Natal	C	uMgungundlovu	DC22	1	4	1	Financial Distress	Permanent	Acting
Kwazulu-Natal	B	Alfred Duma	KZN238	1	7	2	-	Permanent	Acting
Kwazulu-Natal	B	Inkosi Langalibalele	KZN237	1	6	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Okhahlamba	KZN235	1	8	2	-	Permanent	Acting
Kwazulu-Natal	C	Uthukela	DC23	1	3	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Endumeni	KZN241	1	4	2	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Msinga	KZN244	1	9	2	-	Permanent	Permanent
Kwazulu-Natal	B	Nquthu	KZN242	1	6	2	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Umvoti	KZN245	1	7	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	C	Umzinyathi	DC24	1	5	1	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Dannhauser	KZN254	1	4	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Emadlangeni	KZN253	1	5	1	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Newcastle	KZN252	1	2	1	Financial Distress	Acting	Permanent
Kwazulu-Natal	C	Amajuba	DC25	0	7	1	Financial Distress	Permanent	Acting
Kwazulu-Natal	B	Abaqulusi	KZN263	1	3	1	Financial Distress	Permanent	Permanent

ANNEXURE A1

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Kwazulu-Natal	B	Nongoma	KZN265	1	5	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Ulundi	KZN266	1	4	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	eDumbe	KZN261	1	7	2	-	Acting	Acting
Kwazulu-Natal	B	uPhongolo	KZN262	1	4	2	Financial Distress	Permanent	Permanent
Kwazulu-Natal	C	Zululand	DC26	1	3	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Hlabisa Big Five	KZN276	1	7	2	-	Permanent	Permanent
Kwazulu-Natal	B	Jozini	KZN272	1	5	2	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Mtubatuba	KZN275	1	7	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Umhlabuyalingana	KZN271	1	8	2	-	Permanent	Permanent
Kwazulu-Natal	C	Umkhanyakude	DC27	1	6	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Mfolozi	KZN281	1	6	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Mthonjaneni	KZN285	1	7	2	-	Permanent	Permanent
Kwazulu-Natal	B	Nkandla	KZN286	1	8	2	-	Permanent	Permanent
Kwazulu-Natal	B	uMhlathuze	KZN282	1	6	2	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	uMlalazi	KZN284	1	6	2	Financial Distress	Permanent	Permanent
Kwazulu-Natal	C	King Cetshwayo	DC28	1	8	2	-	Permanent	Permanent
Kwazulu-Natal	B	KwaDukuza	KZN292	1	8	2	-	Permanent	Permanent
Kwazulu-Natal	B	Mandeni	KZN291	1	9	2	-	Permanent	Permanent
Kwazulu-Natal	B	Maphumulo	KZN294	1	4	1	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Ndwedwe	KZN293	1	7	2	-	Permanent	Permanent
Kwazulu-Natal	C	iLembe	DC29	1	5	2	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Dr Nkosazana Dlamini Zuma	KZN436	1	7	2	-	Permanent	Permanent
Kwazulu-Natal	B	Greater Kokstad	KZN433	1	6	2	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Ubuhlebezwe	KZN434	1	7	2	-	Permanent	Permanent
Kwazulu-Natal	B	Umzimkhulu	KZN435	1	9	2	-	Permanent	Permanent
Kwazulu-Natal	C	Harry Gwala	DC43	1	5	1	Financial Distress	Permanent	Permanent
Limpopo	B	Ba-Phalaborwa	LIM334	1	5	2	Financial Distress	Permanent	Acting

ANNEXURE A1

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Limpopo	B	Greater Giyani	LIM331	1	6	2	Financial Distress	Permanent	Permanent
Limpopo	B	Greater Letaba	LIM332	1	4	2	Financial Distress	Permanent	Permanent
Limpopo	B	Greater Tzaneen	LIM333	1	7	2	-	Permanent	Permanent
Limpopo	B	Maruleng	LIM335	1	7	2	-	Permanent	Permanent
Limpopo	C	Mopani	DC33	1	3	1	Financial Distress	Permanent	Permanent
Limpopo	B	Collins Chabane	LIM345	1	7	2	-	Acting	Permanent
Limpopo	B	Makhado	LIM344	1	8	2	-	Permanent	Permanent
Limpopo	B	Musina	LIM341	1	3	1	Financial Distress	Permanent	Permanent
Limpopo	B	Thulamela	LIM343	1	8	2	-	Permanent	Permanent
Limpopo	C	Vhembe	DC34	1	5	1	Financial Distress	Permanent	Permanent
Limpopo	B	Blouberg	LIM351	1	6	2	Financial Distress	Permanent	Permanent
Limpopo	B	Lepelle-Nkumpi	LIM355	0	5	0	Financial Distress	Acting	Acting
Limpopo	B	Molemole	LIM353	1	6	2	Financial Distress	Permanent	Permanent
Limpopo	B	Polokwane	LIM354	1	7	2	-	Permanent	Permanent
Limpopo	C	Capricorn	DC35	1	7	2	-	Permanent	Permanent
Limpopo	B	Bela	LIM366	1	4	1	Financial Distress	Acting	Permanent
Limpopo	B	Lephalale	LIM362	1	5	2	Financial Distress	Permanent	Permanent
Limpopo	B	Modimolle-Mookgo-pong	LIM368	1	4	1	Financial Distress	Acting	Permanent
Limpopo	B	Mogalakwena	LIM367	1	5	2	Financial Distress	Acting	Acting
Limpopo	B	Thabazimbi	LIM361	1	3	1	Financial Distress	Acting	Permanent
Limpopo	C	Waterberg	DC36	1	9	2	-	Acting	Permanent
Limpopo	B	Elias Motsoaledi	LIM472	1	7	2	-	Acting	Acting
Limpopo	B	Ephraim Mogale	LIM471	1	8	2	-	Acting	Acting
Limpopo	B	Makhuduthamaga	LIM473	1	5	2	Financial Distress	Permanent	Permanent
Limpopo	B	Tubatse Fetakgomo	LIM476	1	6	2	Financial Distress	Acting	Permanent
Limpopo	C	Sekhukhune	DC47	1	4	1	Financial Distress	Permanent	Acting

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STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Mpumalanga	B	Albert Luthuli	MP301	1	4	1	Financial Distress	Permanent	Permanent
Mpumalanga	B	Dipaleseng	MP306	1	5	1	Financial Distress	Acting	Permanent
Mpumalanga	B	Govan Mbeki	MP307	1	5	1	Financial Distress	Acting	Acting
Mpumalanga	B	Lekwa	MP305	0	3	0	Financial Distress	Permanent	Acting
Mpumalanga	B	Mkhondo	MP303	1	5	1	Financial Distress	Permanent	Permanent
Mpumalanga	B	Msukaligwa	MP302	1	3	1	Financial Distress	Permanent	Acting
Mpumalanga	B	Pixley Ka Seme (MP)	MP304	1	4	1	Financial Distress	Permanent	Acting
Mpumalanga	C	Gert Sibande	DC30	1	8	2	-	Permanent	Permanent
Mpumalanga	B	Dr J.S. Moroka	MP316	0	6	0	Financial Distress	Acting	Acting
Mpumalanga	B	Emakhazeni	MP314	1	7	2	-	Permanent	Acting
Mpumalanga	B	Emalahleni (MP)	MP312	1	4	1	Financial Distress	Permanent	Permanent
Mpumalanga	B	Steve Tshwete	MP313	1	7	2	-	Permanent	Permanent
Mpumalanga	B	Thembisile Hani	MP315	1	7	2	-	Permanent	Permanent
Mpumalanga	B	Victor Khanye	MP311	1	5	2	Financial Distress	Permanent	Permanent
Mpumalanga	C	Nkangala	DC31	1	9	2	-	Permanent	Permanent
Mpumalanga	B	Bushbuckridge	MP325	1	8	2	-	Permanent	Permanent
Mpumalanga	B	City of Mbombela	MP326	1	3	1	Financial Distress	Permanent	Permanent
Mpumalanga	B	Nkomazi	MP324	1	6	2	Financial Distress	Permanent	Permanent
Mpumalanga	B	Thaba Chweu	MP321	1	6	1	Financial Distress	Permanent	Permanent
Mpumalanga	C	Ehlanzeni	DC32	1	5	2	Financial Distress	Permanent	Permanent
North West	B	Kgetlengrivier	NW374	0	5	0	Financial Distress	Permanent	Permanent
North West	B	Madibeng	NW372	1	3	1	Financial Distress	Acting	Acting
North West	B	Moretele	NW371	1	5	1	Financial Distress	Acting	Permanent
North West	B	Moses Kotane	NW375	1	4	1	Financial Distress	Permanent	Permanent
North West	B	Rustenburg	NW373	1	5	1	Financial Distress	Permanent	Permanent
North West	C	Bojanala Platinum	DC37	0	4	0	Financial Distress	Acting	Acting
North West	B	Ditsobotla	NW384	1	2	1	Financial Distress	Permanent	Permanent
North West	B	Mafikeng	NW383	1	5	1	Financial Distress	Permanent	Permanent

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STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
North West	B	Ramotshere Moiloa	NW385	0	5	0	Financial Distress	Permanent	Permanent
North West	B	Ratlou	NW381	0	6	1	Financial Distress	Permanent	Acting
North West	B	Tswaing	NW382	1	3	1	Financial Distress	Permanent	Permanent
North West	C	Ngaka Modiri Molema	DC38	1	6	2	Financial Distress	Permanent	Permanent
North West	B	Greater Taung	NW394	1	7	2	-	Permanent	Permanent
North West	B	Kagisano-Molopo	NW397	1	5	1	Financial Distress	Permanent	Permanent
North West	B	Lekwa-Teemane	NW396	1	4	1	Financial Distress	Acting	Permanent
North West	B	Mamusa	NW393	1	4	1	Financial Distress	Permanent	Acting
North West	B	Naledi (NW)	NW392	1	3	1	Financial Distress	Acting	Acting
North West	C	Dr Ruth Segomotsi Mompati	DC39	1	5	1	Financial Distress	Permanent	Acting
North West	B	City of Matlosana	NW403	1	2	1	Financial Distress	Permanent	Permanent
North West	B	J B Marks	NW405	1	5	2	Financial Distress	Permanent	Permanent
North West	B	Maquassi Hills	NW404	1	3	1	Financial Distress	Permanent	Permanent
North West	C	Dr Kenneth Kaunda	DC40	1	7	2	-	Permanent	Permanent

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STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Northern Cape	B	Ga-Segonyana	NC452	1	7	2	-	Permanent	Permanent
Northern Cape	B	Gamagara	NC453	1	6	1	Financial Distress	Permanent	Acting
Northern Cape	B	Joe Morolong	NC451	1	4	2	Financial Distress	Permanent	Permanent
Northern Cape	C	John Taolo Gaetsewe	DC45	1	7	2	-	Permanent	Permanent
Northern Cape	B	Hantam	NC065	1	5	1	Financial Distress	Permanent	Permanent
Northern Cape	B	Kamiesberg	NC064	1	4	1	Financial Distress	Permanent	Permanent
Northern Cape	B	Karoo Hoogland	NC066	1	3	1	Financial Distress	Permanent	Acting
Northern Cape	B	Khai-Ma	NC067	1	4	1	Financial Distress	Permanent	Permanent
Northern Cape	B	Nama Khoi	NC062	1	3	1	Financial Distress	Permanent	Permanent
Northern Cape	B	Richtersveld	NC061	1	3	1	Financial Distress	Permanent	Permanent
Northern Cape	C	Namakwa	DC6	0	4	1	Financial Distress	Permanent	Permanent
Northern Cape	B	Emthanjeni	NC073	1	4	1	Financial Distress	Permanent	Permanent
Northern Cape	B	Kareeberg	NC074	1	8	2	-	Permanent	Permanent
Northern Cape	B	Renosterberg	NC075	1	5	1	Financial Distress	Acting	Acting
Northern Cape	B	Siyancuma	NC078	1	3	1	Financial Distress	Acting	Permanent
Northern Cape	B	Siyathemba	NC077	1	6	1	Financial Distress	Permanent	Permanent
Northern Cape	B	Thembelihle	NC076	1	2	1	Financial Distress	Permanent	Permanent
Northern Cape	B	Ubuntu	NC071	1	3	1	Financial Distress	Acting	Permanent
Northern Cape	B	Umsobomvu	NC072	1	5	2	Financial Distress	Permanent	Permanent
Northern Cape	C	Pixley Ka Seme (NC)	DC7	1	9	2	-	Permanent	Permanent
Northern Cape	B	!Kai! Garib	NC082	1	6	1	Financial Distress	Acting	Permanent
Northern Cape	B	!Kheis	NC084	0	3	0	Financial Distress	Permanent	Acting
Northern Cape	B	Dawid Kruiper	NC087	0	5	0	Financial Distress	Permanent	Acting
Northern Cape	B	Kgatelopele	NC086	0	4	1	Financial Distress	Acting	Permanent
Northern Cape	B	Tsantsabane	NC085	1	5	1	Financial Distress	Permanent	Permanent
Northern Cape	C	Z F Mgcawu	DC8	1	5	1	Financial Distress	Permanent	Acting
Northern Cape	B	Dikgatlong	NC092	1	3	1	Financial Distress	Acting	Acting
Northern Cape	B	Magareng	NC093	1	6	1	Financial Distress	Permanent	Permanent

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STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Northern Cape	B	Phokwane	NC094	1	5	1	Financial Distress	Acting	Acting
Northern Cape	B	Sol Plaatje	NC091	1	7	2	-	Acting	Acting
Northern Cape	C	Frances Baard	DC9	1	10	2	-	Permanent	Acting
Western Cape	A	Cape Town	CPT	1	7	2	-	Permanent	Permanent
Western Cape	B	Bergrivier	WC013	1	9	2	-	Permanent	Permanent
Western Cape	B	Cederberg	WC012	1	3	1	Financial Distress	Acting	Acting
Western Cape	B	Matzikama	WC011	1	6	1	Financial Distress	Acting	Permanent
Western Cape	B	Saldanha Bay	WC014	1	8	2	-	Permanent	Permanent
Western Cape	B	Swartland	WC015	1	9	2	-	Permanent	Permanent
Western Cape	C	West Coast	DC1	1	7	2	-	Permanent	Permanent
Western Cape	B	Breede Valley	WC025	1	7	2	-	Permanent	Permanent
Western Cape	B	Drakenstein	WC023	1	4	1	Financial Distress	Permanent	Permanent
Western Cape	B	Langeberg	WC026	1	9	2	-	Permanent	Acting
Western Cape	B	Stellenbosch	WC024	1	6	2	Financial Distress	Permanent	Permanent
Western Cape	B	Witzenberg	WC022	1	6	1	Financial Distress	Permanent	Acting
Western Cape	C	Cape Winelands DM	DC2	1	9	2	-	Permanent	Permanent
Western Cape	B	Cape Agulhas	WC033	1	8	2	-	Permanent	Permanent
Western Cape	B	Overstrand	WC032	1	8	2	-	Permanent	Permanent
Western Cape	B	Swellendam	WC034	1	8	2	-	Permanent	Permanent
Western Cape	B	Theewaterskloof	WC031	1	11	2	-	Acting	Permanent
Western Cape	C	Overberg	DC3	0	2	0	Financial Distress	Permanent	Permanent
Western Cape	B	Bitou	WC047	1	5	2	Financial Distress	Permanent	Permanent
Western Cape	B	George	WC044	1	10	2	-	Permanent	Acting
Western Cape	B	Hessequa	WC042	1	11	2	-	Permanent	Permanent
Western Cape	B	Kannaland	WC041	1	11	2	-	Permanent	Permanent
Western Cape	B	Knysna	WC048	1	7	1	Financial Distress	Permanent	Acting
Western Cape	B	Mossel Bay	WC043	1	9	2	-	Permanent	Acting
Western Cape	B	Oudtshoorn	WC045	1	9	2	-	Acting	Permanent

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STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2019/20				SCORE			DISTRESS INDICATOR	ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	Ind 13 Score	Score Indicator 1 to 13	Score Indicator 12 to 13	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Western Cape	C	Eden	DC4	1	8	2	-	Permanent	Permanent
Western Cape	B	Beaufort West	WC053	1	4	1	Financial Distress	Permanent	Acting
Western Cape	B	Laingsburg	WC051	1	3	1	Financial Distress	Permanent	Permanent
Western Cape	B	Prince Albert	WC052	1	9	2	-	Permanent	Permanent
Western Cape	C	Central Karoo	DC5	1	8	2	-	Acting	Permanent

ANNEXURE A2

Analysis of municipalities in financial distress in municipalities *(municipalities identified as being in financial distress in 2019/20 are also highlighted)*.

This section indicates analysis of financial distress in 257 municipalities for the period 2008/09 to 2019/20.

ANNEXURE A2

Period: 2008/09 to 2019/20																							
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
Eastern Cape																							
EC	A	BUF	Buffalo City												Qualified	-							
EC	A	NMA	Nelson Mandela Bay												Qualified								
EC	B	EC101	Dr Beyers Naude												Qualified								
EC	B	EC102	Blue Crane Route												Unqualified - With findings								
EC	B	EC104	Makana												Disclaimer of opinion								In Process
EC	B	EC105	Ndlambe												Qualified								
EC	B	EC106	Sundays River Valley												Disclaimer of opinion								
EC	B	EC108	Kouga												Unqualified - With findings								
EC	B	EC109	Kou-Kamma												Unqualified - With findings								
EC	C	DC10	Sarah Baartman												Unqualified - With findings								
EC	B	EC121	Mbhashe												Unqualified - With findings								
EC	B	EC122	Mnquma												Unqualified - With findings								
EC	B	EC123	Great Kei												Outstanding								
EC	B	EC124	Amahlathi												Unqualified - With findings								Request - Vol.
EC	B	EC126	Ngqushwa												Qualified								
EC	B	EC129	Raymond Mhlaba												Qualified								
EC	C	DC12	Amathole												Adverse opinion						S139(5) (a)	Jan-21	In Process
EC	B	EC131	Inxuba Yethemba												Unqualified - With findings								
EC	B	EC135	Intsika Yethu												Qualified								
EC	B	EC136	Emalahleni (EC)												Unqualified - With findings								
EC	B	EC137	Engcobo												Unqualified - With findings								
EC	B	EC138	Sakhisizwe												Adverse opinion								Request - Vol.
EC	B	EC139	Enoch Mgijima												Qualified					S139(1)(b)	S139(5)	Aug-18	Mandatory
EC	C	DC13	Chris Hani												Disclaimer of opinion								
EC	B	EC141	Elundini												Unqualified - No findings								
EC	B	EC142	Senqu												Unqualified - No findings								
EC	B	EC145	Walter Sisulu												Qualified								
EC	C	DC14	Joe Gqabi												Outstanding								
EC	B	EC153	Ngquza Hills												Disclaimer of opinion								
EC	B	EC154	Port St Johns												Qualified								
EC	B	EC155	Nyandeni												Unqualified - With findings								

ANNEXURE A2

Period: 2008/09 to 2019/20																							
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
EC	B	EC156	Mhlontlo												Qualified								
EC	B	EC157	King Sabata Dalindyebo												Qualified								
EC	C	DC15	O R Tambo												Qualified								
EC	B	EC441	Matatiele												Unqualified - With findings								
EC	B	EC442	Umzimvubu												Qualified								
EC	B	EC443	Winnie Madikizela Mandela												Unqualified - With findings								
EC	B	EC444	Ntabankulu												Unqualified - With findings								
EC	C	DC44	Alfred Nzo												Unqualified - With findings								
Total EC			39	9	8	12	7	9	8	8	18	21	22	24		17	32	14	13	1	2		

ANNEXURE A2

Period: 2008/09 to 2019/20																							
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
Free State																							
FS	A	MAN	Mangaung												Unqualified - With findings						S139 (5) (a);(c)	Dec-19	Mandatory
FS	B	FS161	Letsemeng												Qualified								
FS	B	FS162	Kopanong												Outstanding								Request - Vol.
FS	B	FS163	Mohokare												Qualified								
FS	C	DC16	Xhariep												Unqualified - With findings								
FS	B	FS181	Masilonyana												Outstanding								Discretionary
FS	B	FS182	Tokologo												Outstanding								
FS	B	FS183	Tswelopele												Unqualified - With findings								
FS	B	FS184	Matjhabeng												Qualified								
FS	B	FS185	Nala												Qualified								
FS	C	DC18	Lejweleputswa												Unqualified - With findings								
FS	B	FS191	Setsoto												Qualified								
FS	B	FS192	Dihlabeng												Qualified								
FS	B	FS193	Nketoana												Outstanding								Discretionary
FS	B	FS194	Maluti-a-Phofung												Outstanding								Discretionary
FS	B	FS195	Phumelela												Unqualified - With findings								Discretionary
FS	B	FS196	Mantsopa												Outstanding								In Process
FS	C	DC19	Thabo Mofutsanyana												Qualified								
FS	B	FS201	Moqhaka												Qualified								
FS	B	FS203	Ngwathe												Qualified								Request - Vol.
FS	B	FS204	Metsimaholo												Qualified					S139 (1) (b)		Feb-20	
FS	B	FS205	Mafube												Outstanding					S139 (1) (b)		Dec-17	Discretionary
FS	C	DC20	Fezile Dabi												Qualified								
Total FS			23	9	9	14	9	9	15	14	16	16	21	21		19	23	18	1	2	1		

ANNEXURE A2

Period: 2008/09 to 2019/20																							
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
Gauteng																							
GT	A	EKU	City of Ekurhuleni												Unqualified - No findings								
GT	A	JHB	City of Johannesburg												Unqualified - With findings								
GT	A	TSH	City of Tshwane												Unqualified - With findings					Pending		??	Voluntary
GT	B	GT421	Emfuleni												Outstanding					S139(1) (b)	S139(5)	Jun-18	Mandatory
GT	B	GT422	Midvaal												Unqualified - No findings								
GT	B	GT423	Lesedi												Unqualified - With findings								
GT	C	DC42	Sedibeng												Unqualified - With findings								Request - Vol.
GT	B	GT481	Mogale City												Unqualified - With findings								
GT	B	GT484	Merafong City												Unqualified - With findings								Request - Vol.
GT	B	GT485	Rand West City												Qualified								
GT	C	DC48	West Rand												Unqualified - With findings						S139(5)	Feb-19	Mandatory
Total GP			11	0	4	2	1	2	2	3	8	9	9	10		5	8	8	7	1	2		

ANNEXURE A2

Period: 2008/09 to 2019/20

Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
KwaZulu-Natal																							
KZ	A	ETH	eThekwini									■		■	Unqualified - With findings	■	■						
KZ	B	KZN212	Umdoni	■		■	■	■			■				Qualified								
KZ	B	KZN213	Umzumbe								■				Unqualified - With findings								
KZ	B	KZN214	uMuziwabantu		■	■	■					■			Unqualified - With findings								
KZ	B	KZN216	Ray Nkonyeni										■	■	Unqualified - With findings								
KZ	C	DC21	Ugu		■							■	■	■	Outstanding	■	■	■	■				
KZ	B	KZN221	uMshwathi		■	■	■	■			■	■			Unqualified - With findings		■						
KZ	B	KZN222	uMngeni		■	■	■	■	■		■		■	■	Qualified		■						
KZ	B	KZN223	Mpofana				■				■		■	■	Qualified	■	■	■	■	S139 (1) (b)		Dec-17	
KZ	B	KZN224	Impendle				■		■	■				■	Unqualified - With findings		■	■					
KZ	B	KZN225	Msunduzi		■	■			■			■	■	■	Qualified		■	■	■	S139 (1) (b)		Apr-19	Discretionary
KZ	B	KZN226	Mkhambathini												Unqualified - With findings								
KZ	B	KZN227	Richmond			■	■							■	Unqualified - With findings	■	■			S139 (1) (b)		Mar-19	
KZ	C	DC22	uMgungundlovu				■			■	■		■	■	Unqualified - With findings		■	■	■				Request - Vol.
KZ	B	KZN235	Okhahlamba	■									■		Unqualified - No findings								
KZ	B	KZN237	Inkosi Langalibalele								■	■	■	■	Disclaimer of opinion	■	■	■	■	S139 (1) (b)		Dec-17	
KZ	B	KZN238	Alfred Duma												Unqualified - With findings								
KZ	C	DC23	Uthukela							■	■	■	■	■	Qualified	■	■	■	■	S139 (1) (b)		Aug-18	Request - Vol.
KZ	B	KZN241	Endumeni		■	■	■	■	■	■	■			■	Qualified				■				
KZ	B	KZN242	Nquthu								■			■	Outstanding					S139 (1) (a)		Jan-21	
KZ	B	KZN244	Msinga				■								Unqualified - With findings								

ANNEXURE A2

Period: 2008/09 to 2019/20

Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
KZ	B	KZN245	Umvoti												Unqualified - With findings								
KZ	C	DC24	Umzinyathi												Disclaimer of opinion					S139 (1) (b)		Oct-16	
KZ	B	KZN252	Newcastle												Unqualified - With findings								
KZ	B	KZN253	Emadlangeni												Qualified					S139 (1) (b)		Sep-20	
KZ	B	KZN254	Dannhauser												Qualified								
KZ	C	DC25	Amajuba												Disclaimer of opinion								
KZ	B	KZN261	eDumbe												Qualified								
KZ	B	KZN262	uPhongolo												Unqualified - With findings								
KZ	B	KZN263	Abaqulusi												Qualified					S139 (1) (b)		Feb-19	
KZ	B	KZN265	Nongoma												Unqualified - With findings								
KZ	B	KZN266	Ulundi												Unqualified - With findings								
KZ	C	DC26	Zululand												Qualified								
KZ	B	KZN271	Umhlabuyalingana												Unqualified - With findings								
KZ	B	KZN272	Jozini												Unqualified - With findings								
KZ	B	KZN275	Mtubatuba												Qualified					S139 (1) (b)		Mar-19	
KZ	B	KZN276	Hlabisa Big Five												Qualified								
KZ	C	DC27	Umkhanyakude												Adverse opinion					S139 (1) (b)		Jan-21	
KZ	B	KZN281	Mfolozi												Unqualified - With findings								
KZ	B	KZN282	uMhlathuze												Unqualified - No findings								
KZ	B	KZN284	uMlalazi												Unqualified - With findings								
KZ	B	KZN285	Mthonjaneni												Unqualified - With findings								
KZ	B	KZN286	Nkandla												Unqualified - With findings								

ANNEXURE A2

Period: 2008/09 to 2019/20																						
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)		Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
KZ	C	DC28	King Cetshwayo												Unqualified - With findings								
KZ	B	KZN291	Mandeni												Unqualified - With findings								
KZ	B	KZN292	KwaDukuza												Unqualified - With findings								
KZ	B	KZN293	Ndwedwe												Unqualified - With findings								
KZ	B	KZN294	Maphumulo												Unqualified - With findings								
KZ	C	DC29	iLembe												Unqualified - With findings								
KZ	B	KZN433	Greater Kokstad												Unqualified - With findings								
KZ	B	KZN434	Ubuhlebezwe												Qualified								
KZ	B	KZN435	Umzimkhulu												Unqualified - With findings								
KZ	B	KZN436	Dr Nkosazana Dlami-ni Zuma												Unqualified - With findings								
KZ	C	DC43	Harry Gwala												Unqualified - With findings								Voluntary
Total KZN			54	6	15	13	26	14	15	15	26	25	29	34		21	27	17	21	11	0		

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Period: 2008/09 to 2019/20

Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
Limpopo																							
LP	B	LIM331	Greater Giyani												Unqualified - With findings								
LP	B	LIM332	Greater Letaba												Unqualified - With findings								
LP	B	LIM333	Greater Tzaneen												Unqualified - With findings								
LP	B	LIM334	Ba-Phalaborwa												Qualified								Voluntary
LP	B	LIM335	Maruleng												Unqualified - With findings								
LP	C	DC33	Mopani												Outstanding								
LP	B	LIM341	Musina												Unqualified - With findings								Voluntary
LP	B	LIM343	Thulamela												Unqualified - With findings								
LP	B	LIM344	Makhado												Unqualified - With findings								
LP	B	LIM345	Collins Chabane												Unqualified - With findings								
LP	C	DC34	Vhembe												Qualified								Request - Vol.
LP	B	LIM351	Blouberg												Unqualified - With findings								
LP	B	LIM353	Molemole												Unqualified - With findings								
LP	B	LIM354	Polokwane												Outstanding								
LP	B	LIM355	Lepelle-Nkumpi												Outstanding								
LP	C	DC35	Capricorn												Unqualified - No findings								
LP	B	LIM361	Thabazimbi												Qualified								Discretionary
LP	B	LIM362	Lephalale												Unqualified - With findings								
LP	B	LIM366	Bela Bela												Qualified								
LP	B	LIM367	Mogalakwena												Adverse opinion					S139 (1) (b)		Dec-19	Discretionary
LP	B	LIM368	Modimolle-Mook-gopong												Qualified								
LP	C	DC36	Waterberg												Unqualified - With findings								

ANNEXURE A2

Period: 2008/09 to 2019/20																							
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
LP	B	LIM471	Ephraim Mogale												Unqualified - With findings								
LP	B	LIM472	Elias Motsoaledi												Qualified								
LP	B	LIM473	Makhuduthamaga												Unqualified - With findings								
LP	B	LIM476	Tubatse Fetakgomo												Qualified								Request - Vol.
LP	C	DC47	Sekhukhune												Qualified								
Total LP			27	2	7	4	5	5	7	7	12	12	17	17		12	10	16	11	1	0		

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Period: 2008/09 to 2019/20

Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
Mpumalanga																							
MP	B	MP301	Albert Luthuli												Unqualified - With findings								
MP	B	MP302	Msukaligwa												Adverse opinion						S139(5)	Oct-18	Mandatory
MP	B	MP303	Mkhondo												Qualified								Request - Vol.
MP	B	MP304	Pixley Ka Seme (MP)												Outstanding								
MP	B	MP305	Lekwa												Outstanding						S139 (5)	Oct-18	Mandatory
MP	B	MP306	Dipaleseng												Outstanding								Voluntary
MP	B	MP307	Govan Mbeki												Disclaimer of opinion						S139 (5)	Oct-18	Mandatory
MP	C	DC30	Gert Sibande												Outstanding								
MP	B	MP311	Victor Khanye												Qualified								Request - Vol.
MP	B	MP312	Emalahleni (MP)												Outstanding						S139 (5)	Oct-18	Mandatory
MP	B	MP313	Steve Tshwete												Unqualified - No findings								
MP	B	MP314	Emakhazeni												Adverse opinion								
MP	B	MP315	Thembisile Hani												Qualified								
MP	B	MP316	Dr J.S. Moroka												Outstanding					S139 (1) (b)		Jan-20	
MP	C	DC31	Nkangala												Unqualified - No findings								
MP	B	MP321	Thaba Chweu												Qualified						S139 (5)	Oct-18	Mandatory

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Period: 2008/09 to 2019/20																							
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
MP	B	MP324	Nkomazi												Outstanding								
MP	B	MP325	Bushbuckridge												Unqualified - With findings								
MP	B	MP326	City of Mbombela												Outstanding								Voluntary
MP	C	DC32	Ehlanzeni												Unqualified - No findings								
Total MP			**20**	**4**	**6**	**6**	**7**	**7**	**6**	**9**	**12**	**9**	**12**	**14**		**13**	**19**	**14**	**7**	**1**	**5**		

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Period: 2008/09 to 2019/20																							
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
Northern Cape																							
NC	B	NC451	Joe Morolong												Outstanding								
NC	B	NC452	Ga-Segonyana												Unqualified - With findings								
NC	B	NC453	Gamagara												Qualified								
NC	C	DC45	John Taolo Gaetsewe												Unqualified - No findings								
NC	B	NC061	Richtersveld												Outstanding								
NC	B	NC062	Nama Khoi												Qualified								
NC	B	NC064	Kamiesberg												Qualified								
NC	B	NC065	Hantam												Unqualified - With findings								
NC	B	NC066	Karoo Hoogland												Unqualified - With findings								
NC	B	NC067	Khai-Ma												Qualified								Request - Vol.
NC	C	DC6	Namakwa												Outstanding								
NC	B	NC071	Ubuntu												Outstanding								Discretion-ary
NC	B	NC072	Umsobomvu												Outstanding								
NC	B	NC073	Emthanjeni												Qualified								
NC	B	NC074	Kareeberg												Unqualified - With findings								
NC	B	NC075	Renosterberg												Outstanding								Discretion-ary
NC	B	NC076	Thembelihle												Qualified								
NC	B	NC077	Siyathemba												Qualified								
NC	B	NC078	Siyancuma												Qualified								
NC	C	DC7	Pixley Ka Seme (NC)												Unqualified - With findings								
NC	B	NC082	!Kai! Garib												Disclaimer of opinion								Voluntary
NC	B	NC084	!Kheis												Outstanding								
NC	B	NC085	Tsantsabane												Outstanding								
NC	B	NC086	Kgatelopele												Outstanding								

ANNEXURE A2

Period: 2008/09 to 2019/20																							
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
NC	B	NC087	Dawid Kruiper												Unqualified - With findings								
NC	C	DC8	Z F Mgcawu												Unqualified - No findings								
NC	B	NC091	Sol Plaatje												Qualified								
NC	B	NC092	Dikgatlong												Qualified								Discretion-ary
NC	B	NC093	Magareng												Outstanding								
NC	B	NC094	Phokwane												Outstanding					S139 (1) (b)		Mar-20	Request - Vol.
NC	C	DC9	Frances Baard												Unqualified - No findings								
Total NC			**31**	**11**	**5**	**13**	**12**	**13**	**6**	**13**	**22**	**17**	**27**	**25**		**21**	**28**	**19**	**17**	**1**	**0**		

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Period: 2008/09 to 2019/20																						
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
North West																							
NW	B	NW371	Moretele												Qualified								
NW	B	NW372	Madibeng												Outstanding					S139 (1) (b)		Aug-20	
NW	B	NW373	Rustenburg												Outstanding								
NW	B	NW374	Kgetlengrivier												Outstanding								Request - Vol.
NW	B	NW375	Moses Kotane												Qualified								
NW	C	DC37	Bojanala Platinum												Outstanding								
NW	B	NW381	Ratlou												Disclaimer of opinion								
NW	B	NW382	Tswaing												Qualified					S139 (1) (b)		Aug-20	Voluntary
NW	B	NW383	Mafikeng												Qualified								
NW	B	NW384	Ditsobotla												Outstanding								
NW	B	NW385	Ramotshere Moiloa												Outstanding					S139 (1) (b)		Aug-20	Request - Vol.
NW	C	DC38	Ngaka Modiri Molema												Outstanding								Voluntary
NW	B	NW392	Naledi (NW)												Outstanding								Voluntary
NW	B	NW393	Mamusa												Outstanding								
NW	B	NW394	Greater Taung												Outstanding								
NW	B	NW396	Lekwa-Teemane												Outstanding								
NW	B	NW397	Kagisano-Molopo												Qualified								
NW	C	DC39	Dr Ruth Segomotsi Mompati												Disclaimer of opinion								
NW	B	NW403	City of Matlosana												Outstanding								
NW	B	NW404	Maquassi Hills												Disclaimer of opinion								
NW	B	NW405	J B Marks												Qualified					S139 (1) (b)		Aug-20	
NW	C	DC40	Dr Kenneth Kaunda												Unqualified - With findings								
Total NW			22	5	3	8	5	8	8	9	10	12	19	20		16	22	17	13	4	0		

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Period: 2008/09 to 2019/20																							
Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report)											2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20		Unfunded Budgets		S139 Intervention (current)			Financial Recovery Plan
				2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		S140	S138	2019/20 adopted	2019/20 adjusted	S139 (1)	S139 (5)	Start Date	Current
Western Cape																							
WC	A	CPT	Cape Town												Unqualified - With findings		■						
WC	B	WC011	Matzikama				■					■	■	■	Outstanding		■		■				
WC	B	WC012	Cederberg				■	■	■			■	■	■	Unqualified - With findings	■	■						
WC	B	WC013	Bergrivier												Unqualified - With findings								
WC	B	WC014	Saldanha Bay												Unqualified - No findings								
WC	B	WC015	Swartland												Unqualified - No findings								
WC	C	DC1	West Coast												Outstanding		■						
WC	B	WC022	Witzenberg			■	■							■	Unqualified - No findings								
WC	B	WC023	Drakenstein										■	■	Unqualified - No findings				■				
WC	B	WC024	Stellenbosch											■	Outstanding								
WC	B	WC025	Breede Valley												Unqualified - No findings								
WC	B	WC026	Langeberg												Unqualified - No findings								
WC	C	DC2	Cape Winelands DM	■											Unqualified - No findings								
WC	B	WC031	Theewaterskloof	■								■			Unqualified - No findings		■						
WC	B	WC032	Overstrand												Unqualified - No findings								
WC	B	WC033	Cape Agulhas												Unqualified - No findings								
WC	B	WC034	Swellendam		■			■							Unqualified - No findings								
WC	C	DC3	Overberg	■										■	Unqualified - With findings		■						
WC	B	WC041	Kannaland	■	■		■	■			■		■		Outstanding	■	■	■	■		S139(5)	Dec-16	Mandatory
WC	B	WC042	Hessequa												Outstanding		■						

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Period: 2008/09 to 2019/20

Province	Cat	Code	Name	History of Financial Distress (State of LG Finances Report) 2008/09	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2019/20 Audit Outcomes	S138 and S140 Triggers 2019/20: S140	S138	Unfunded Budgets: 2019/20 adopted	2019/20 adjusted	S139 Intervention (current): S139 (1)	S139 (5)	Start Date	Financial Recovery Plan: Current
WC	B	WC043	Mossel Bay												Unqualified - No findings								
WC	B	WC044	George												Unqualified - With findings								
WC	B	WC045	Oudtshoorn												Unqualified - With findings								
WC	B	WC047	Bitou												Unqualified - With findings								
WC	B	WC048	Knysna												Unqualified - With findings								
WC	C	DC4	Garden Route												Unqualified - With findings								
WC	B	WC051	Laingsburg												Outstanding								
WC	B	WC052	Prince Albert												Unqualified - No findings								
WC	B	WC053	Beaufort West												Outstanding								
WC	C	DC5	Central Karoo												Unqualified - No findings								
Total WC			30	6	2	5	4	3	2	1	3	4	7	10		2	14	1	5	0	1		

THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT AS AT 30 JUNE 2020

2019/20 financial year

Analysis Document

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national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

NDP 2030

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA
TOGETHER WE CAN BEAT CORONAVIRUS