THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT AS AT 30 JUNE 2018

Fourth quarter of the 2017/18 financial year

Analysis Document

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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ABBREVIATIONS

AG	Auditor-General
ASB	Accounting Standards Board
B2B	Back to Basics
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIDMS	City Infrastructure Development Management System
CIGFARO	Chartered Institute of Government, Financial and Risk Officers
CSIP	City Support Implementation Plan
CSP	Cities Support Programme
DCoG	Department of Cooperative Governance
DoRA	Division of Revenue Act
EC	Eastern Cape
EU	European Union
FAQ	Frequently asked questions
FM	Financial management
FMCMM	Financial Management Capability Maturity Model
FMG	Financial Management Grant
FMIP	Financial Management Improvement Programme
FS	Free State
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
MSA	Municipal Structures Act
mSCOA	Municipal Standard Chart of Accounts
MTREF	Medium Term Revenue and Expenditure Framework
NC	Northern Cape
NW	North West
RIPOA	Rapid Integrated Project Options Assessment
SALGA	South African Local Government Association
SAQA	South African Qualifications Authority
SARS	South African Revenue Service
SCM	Supply Chain Management
SoLGF	State of Local Government Finances
SOP	Standard operating procedure
TCF	Technical Committee on Finance
WC	Western Cape

EXECUTIVE SUMMARY

The State of Local Government and Financial Management Report reviews the financial position of all 257 of the country's municipalities. The information used in this report is based on pre-audited Annual Financial Statement information covering the financial year 2017/18 ending on 30 June 2018. The National Treasury issues this report annually in accordance with Section 5 of the Municipal Finance Management Act, as part of its supervisory duties for municipal financial management.

While most municipalities are in reasonably good shape about 125 municipalities are in varying degrees of financial distress[1]. This report concludes that a significant number of municipalities continue to perform poorly and remain a cause for concern. This contributes to a negative impression of the performance of the municipal system as a whole. At an aggregate level:

- **Municipalities continue to have insufficient cash coverage to fund their operations:** A total of 121 non-metropolitan municipalities and 3 metropolitan municipalities reported cash coverage data, which failed to meet prudent standards in 2017/18. Only 55 local municipalities and 15 district municipalities had cash coverage of more than three months of operational expenditure. This indicates that municipalities continue to struggle to understand and action the critical concept that budgeting for surpluses is necessary to avoid cash and liquidity problems. Moreover, it is important to note that there was a decrease in the number of municipalities that could not provide cash coverage information from 14 in 2016/17 to 2 in 2017/18.

- **Overspending of operating budgets has decreased:** The total number of municipalities that overspent their adjusted operational budgets decreased from 155 in 2016/17 to 131 in 2017/18. In total 25 municipalities overspent their operational budgets by more than 25 per cent. These municipalities include 2 secondary cities, 21 local municipalities and 2 district municipalities.

- **Underspending of capital budgets continues to be a challenge:** Municipalities underspent their capital budgets by R16.3 billion (or 22.9 per cent of R71.1 billion adjustment budget). Metropolitan municipalities accounted for 13.2 per cent of all capital budget underspending followed by local municipalities at 8.1 per cent, and on average metros failed to spend 20.6 per cent of their capital budgets. The total number of municipalities that have underspent on their capital budget by more than 30 per cent have increased from 67 in 2016/17 to 92 in 2017/18.

- **Total outstanding consumer debtors has expanded significantly:** Municipalities reported total consumer debtors of R152.7 billion, a R44.5 billion increase from the 2016/17 financial year. A total of 142 municipalities had debtor levels higher than 30 per cent of own revenue, an increase from 129 as at June 2016/17. In metros, total debtors rose from 35 per cent to 37 per cent of total revenue, while secondary cities and other local municipalities rose from 29 per cent and 44 per cent to 62 per cent and 54 per cent of total revenue respectively. In district municipalities, total debtors rose from 26 per cent to 44 per cent of total revenue. This decline in performance is attributable both to a significant nominal decline in reported own revenues by non-metropolitan municipalities as well as a rise in consumer debtors.

- **Total creditors outstanding remains very high:** Six metros and 13 secondary cities reported that total creditors exceeded 75 per cent of the value of their available cash and investments, and accounted for 171 per cent and 236 per cent of available cash flow in metros and secondary cities respectively.

- **Asset management spending remains inadequate:** National aggregate spending on repairs and maintenance as a percentage of property, plant and equipment averages 3.5 per cent in the period 2014/15 to 2020/21. A rising trend in investment is evident, with full year forecasts for 2017/18 rising to 3.7 per cent, and up to 4.1 per cent by 2020/21. The aggregate proportion of capital expenditure on asset renewal rose from a low of 34.7 per cent in 2015/16 to 56 per cent in 2017/18. Notwithstanding this trend, significant under investment in asset management continues to be evident. The pace of asset depreciation continues to outstrip investment in asset renewal by a significant margin, with renewal investments accounting for only 83 per cent of depreciation values in 2017/18.

[1]There are 8 indicators (cash coverage, cash balances, reliance on capital grants to fund capital budget, overspending operational budget, underspending capital budget, debtors' growth, debtors as percentage of own revenue and creditors as a percentage of cash and investments) that are used to classify a municipality as financially distressed. A score of 1-3 is used to classify a municipality as financially distressed, where 1 refers to good, 2 refers to fair and 3 refers to poor. If a municipality receives 3 (poor) in 4 of any of the 8 indicators, the municipality will then be classified as financially distressed.

EXECUTIVE SUMMARY

- **Recorded water and electricity losses remain high:** On 30 June 2018, metropolitan municipalities recorded water and electricity losses amounting to R4.2 billion and R6.9 billion respectively. During the 2017/18 financial year, water losses increased significantly, by R1.4 billion. Electricity losses decreased by R300 million, from R7.2 billion in 2016/17 to R6.9 billion in 2017/18.

- **Some municipalities are adopting unfunded budgets:** However, there has been a decline in the number of municipalities adopting funded budgets from 2013/14 to 2018/19 from 169 to 134, a decline of 20.7 per cent.

- **Municipal audit outcomes continue to decline:** In the 2017/18 financial year, only 18 municipalities obtained unqualified opinions without findings. This was a 47 per cent decrease compared to 34 municipalities in 2016/17. The number of unqualified audit opinions with findings decreased from 113 municipalities in 2016/17 to 101 municipalities in 2017/18. According to the Auditor General, the closing amounts for irregular expenditure increased from R62.7 billion in 2016/17 to R71.1 billion in 2017/18. Unauthorised expenditure increased from R11.2 billion in 2016/17 to R12.8 billion in 2017/18.

While a number of municipalities continue to demonstrate evidence of significant financial distress, these challenges are not systemic. A number of municipalities have either sustained or improved their financial performance, particularly in larger urban areas, despite the economic and developmental challenges they face. In particular:

- No metropolitan municipalities and only 10 other municipalities recorded negative cash balances an improvement from 19 municipalities in the previous year. This indicates that, in general, they have adequate cash and comply with cash flow management procedures;
- The number of municipalities with cash coverage of less than one month of operational expenditure decreased from 126 in 2016/17 to 124 in 2017/18;
- The total number of municipalities that overspent on their operational budgets decreased from 155 in 2016/17 to 131 in 2017/18;
- Total creditors amounted to R86.7 billion, a R2.2 billion increase from R84.5 billion in 2016/17 financial year;
- There is a decrease in the reliance on conditional grants for funding the capital budget in municipalities from 129 in 2016/17 to 94 in 2017/18 where more than 75 per cent of transfers of revenue are from national transfers. In aggregate, municipalities spent R37.2 billion or 73.1 per cent of the total direct conditional grants allocated to them in 2017/18. Infrastructure grants reported the highest expenditure performance level, at 86.5 per cent of the allocation;
- Fruitless and wasteful expenditure incurred by municipalities decreased marginally from R1.5 billion in 2016/17 to R1.3 billion in 2017/18; and
- A major improvement has been made in 2017/18 in stabilising senior municipal management in comparison with the previous financial years. Between June 2017 and June 2018, the number of acting Municipal Managers (MMs) decreased from 88 to 42. A similar trend was observed in relation to CFOs over the same period, with the number of acting Chief Financial Officers (CFOs) decreasing from 85 (31 per cent) to 62 (24 per cent). However, out of 8 760 regulated municipal officials, only 4 039 officials met the minimum competency levels as at 30 June 2018. Only 83 of 224 CFO's (37.1 per cent) have achieved minimum competency levels.

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Annexure A1 lists the municipalities in financial distress in 2017/18 (125) based on an assessment of their financial health. There were about 18 district municipalities that were identified as financially distressed, a negligible increase from 17 from the previous year. However, for the few that are in financial distress it is cause for concern given the role district municipalities have to play in empowering and capacitating local municipalities. Municipalities in financial distress are characterised by poor cash flow management and an increase in outstanding debtors and creditors.

Annexure A2 provides a consolidated analysis of the 257 municipalities' audit outcomes, capital budget performance, current interventions, vacancies in key positions, those identified as financially distressed and trends for the 2017/18 financial year.

Annexure B pprovides the consolidated assessment results for the metros as at 30 June 2018.

The list in annexure A2 shows that 4 of the 18 municipalities that received unqualified audit opinion with no findings, were classified as financially distressed. Forty of the 101 municipalities that received unqualified audit report with findings, were classified as financially distressed. This suggests that the result of the audit outcome is not on its own a reflection of good financial health, nor is it intended to be. An audit opinion relates to whether the financial statements give a fair and accurate account of the municipalities' finances. Of the 78 municipalities that received qualified audit opinion, 45 were financially distressed. Of the 26 municipalities that received disclaimers, 13 of them were financially distressed. Nine of the 10 municipalities that received adverse opinion were financially distressed. Fourteen of the 24 municipalities whose audit opinions are still outstanding are financially distressed.

INTRODUCTION

1. This is the seventh report on the State of Local Government Finances and Financial Management (SoLGF) that is being published. It depicts the state of municipal financial affairs as at the financial year ended 30 June 2018. The report reviews the state of municipal finances taking into account both the revenue and expenditure as well as municipal governance related issues at the end of a particular financial year in order to identify:
   - Areas of systemic risk so that appropriate policy responses can be developed; and
   - Municipalities that are in financial distress so that processes can be initiated to determine the full extent of their financial problems and whether: (i) a municipality requires support and the extent of that support, or (ii) an intervention is required in a municipality due to a crisis in its finances (as provided for in Section 139 of the Constitution read with Chapter 13 of the MFMA).

2. The report is based on the information contained in the unaudited annual financial statements for 2017/18, the current Medium-term Revenue and Expenditure Budget Framework (MTREF) and report submitted by municipalities in terms of Section 71 of the MFMA (as verified annually by both National and Provincial Treasuries).

3. A total of 14 municipalities were not able to submit their unaudited annual financial statements for 2017/18 to the Office of the Auditor-General in time for auditing. In these cases, data from Section 71 reports are used for the purpose of this report. These municipalities are: Raymond Mhlaba, Sakhisizwe, Lejweleputswa, Mafube, Maluti-a-Phofung, Masilonyana, Nketoana, Fezile Dabi, Modimolle-Mookgopong, Thabazimbi, Phokwane, Renosterberg, Kannaland and Laingsburg.

4. National government continues to invest considerable resources and put effort in assisting municipalities to address the immediate and underlying causes of poor institutional performance and inadequate service delivery. The impact of these initiatives varies, and there are examples of sustained performance improvement as well as ongoing concerns.

5. The report is structured as follows:
   - An international perspective;
   - The measures used and assessment of municipal financial health;
   - Other measures impacting on financial health;
     - Unaudited outcomes: 2017/18 financial year
     - Governance: Acting Municipal Managers and Chief Financial Officer positions
     - Significant electricity and water losses
     - Inadequate budgets for repair and maintenance and asset management
     - Underspending of conditional grants
     - Adoption of funded budgets
   - Financial Management sustainability challenges and proposed solutions;
   - Support provided by National Treasury to improve financial management;
     - Implementing of Minimum Competency Levels
     - Standard Chart of Accounts for municipalities (*m*SCOA)
     - Capacity building grants
     - Municipal Finance Improvement Programme (MFIP phase III)
     - Cities Support Programme (CSP)
   - Interventions in municipalities facing financial distress;
   - Concluding remarks; and
   - Annexures providing detailed information and assessment results for municipalities in financial distress (Annexure A1), key governance data for all municipalities (Annexure A2) and the consolidated assessment results for the metros (Annexure B).

6. As was the case with previous reports, the summarised version of this review will be presented to the Technical Committee on Finance (TCF), the Budget Forum and the Budget Council in different formats and parts. The full report will also be circulated to the Presidency, the Department of Cooperative Governance (DCoG), and Provincial Treasuries.

A BROADER PERSPECTIVE ON LOCAL GOVERNMENT PERFORMANCE IN SOUTH AFRICA

The fiscal framework for local government in South Africa

7. South Africa has an internationally well-regarded fiscal framework for local governance. The fiscal framework is built on a clear set of functional (expenditure) assignments for basic local infrastructure services delivery such as water services, electricity distribution, solid waste, and local roads and transport in addition to important regulatory authority over spatial planning and development control.

8. These functions are financed predominantly through locally controlled revenue sources, such as user fees and the property tax. This is supplemented by a Constitutionally guaranteed, unconditional equitable share of nationally raised revenues and various conditional transfers to support national development priorities, such as for infrastructure investment that benefits poor households. Municipalities also have broad powers to borrow money for infrastructure investment, without national government approval or guarantees.

9. The distribution of national revenues to local government (the division of revenue) is designed to achieve a substantial redistribution of revenues raised through national taxes in relatively wealthy (mainly urban) areas to those areas where the demand for subsidised public services are the highest and own revenue raising potential is limited. As a result, the most rural municipalities receive around twice the allocation per household that metros do.

10. Notwithstanding its relative efficacy the local government fiscal framework faces a number of pressures:
    - Public housing and transport functions continue to be exercised concurrently between provincial and local governments, and also with national government in the case of commuter rail services. This weakens coordination in the management of the built environment, ultimately weakening both accountability for performance and municipal fiscal sustainability, particularly in larger urban areas; and
    - The rapid growth in national transfers during 2007 to 2010 period, may have had an unintended consequence of reducing local revenue efforts, muting local level accountability, and reducing incentives for creditworthy municipalities to borrow to finance long term capital investment programmes. The equitable share, grants and subsidies allocated to municipalities has increased in the period 2000/01 to 2017/18 from R14.2 billion to R100.7 billion or 609.2 per cent. The future growth in national transfers is now being constrained as part of the national programme of fiscal consolidation.

INTERNATIONAL BENCHMARKS OF LOCAL GOVERNMENT FINANCE IN SOUTH AFRICA

11. South Africa performs relatively well against other developing countries in terms of public financial management. This was confirmed by the findings in 2018 by the **Mo Ibrahim Index of African Governance (IIAG)** which ranked South Africa 4th of the 54 countries in Africa. The IIAG is a tool that measures and monitors governance performance in African countries.

12. The **World Economic Forum's Global Competitiveness Report** 2017-18 ranked South Africa 61 while it was ranked 47 out of 138 countries in 2016/17. The report noted that the strength of auditing and reporting standards in South Africa, where it was ranked first. However, it also highlighted the three problematic factors for doing business with SA as corruption, crime and theft, and government instability.

13. National Treasury is committed to assisting communities and businesses to have a better understanding of the financial position and performance of their municipalities. To assist with the processes of democratic oversight the National Treasury launched the Municipal Money website *(www.municipalmoney.gov.za)* in 2016. This portal provides up to date and comparative information on all municipalities. This has now been complemented by a new "Vulekamali" portal *(www.vulekamali.gov.za)*, launched on 20 February 2018, that includes data on national and provincial budgets. In addition, the equivalent of the Open Budget Index (OBI) for Metros are in the process of being developed.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Measures of municipal financial health

14. This report evaluates the state of municipal finances using eight key measures 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 broad perspective of their financial health of municipalities and are only used for the purposes of this report.

Figure 1: Measures of municipal financial health

No.	Measure	Purpose
1.	Cash as a percentage of operating expenditure	To determine cost coverage: does the municipality have adequate cash available to meet its operating expenditure requirements?
2.	Persistence of negative cash balances	Identifies whether cash shortages/bank overdrafts pose a "chronic" problem for the municipality.
3.	Over spending of original operating budgets	Tests the effectiveness of municipal spending in accordance with the resources available to them. What is the credibility of the budget and are municipalities able to adjust expenditure should planned revenues not materialise?
4.	Under spending of original capital budgets	Tests the effectiveness of municipal spending and also provides an indication of whether, for example, municipalities are compromising on capital programmes to resolve cash flow challenges, are there planning deficiencies which are impacting on service delivery.
5.	Debtors as a percentage of own revenue	Examines municipalities' revenue management capabilities.
6.	Year on year growth in debtors	Is the municipality exercising fiscal effort in collecting outstanding debt? To what extent is financial distress the result of poor debtor management?
7.	Creditors as a percentage of cash and investments	Is the municipality able to meet its monthly commitments? Does it have sufficient cash to pay its creditors in line with the requirements of the MFMA (cost coverage)?
8.	Reliance on national and provincial government transfers	Determine the levels at which municipalities are able to generate own funds to finance revenue generating assets to enhance and sustain revenue generating streams.

[2] Section 18 of the MFMA requires that a municipality's annual budget must be 'funded', and identifies three possible funding sources: (a) realistically anticipated revenues to be collected, (b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes, and (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 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.

ASSESSING THE FINANCIAL HEALTH OF MUNICIPALITIES

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

15. Section 45 of the MFMA prohibits municipalities from closing their financial year with any short-term borrowing or overdraft. At a minimum, a municipality should maintain a positive cash position. A failure to do this is the first indicator of financial distress. 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? In other words, what is the cash coverage ratio of the municipality?

16. In order to ensure compliance with the law, from 2011/12 the National Treasury has not considered any applications for the roll-over of grant funds by municipalities who report negative cash balances.

(a) Negative cash balances

17. Many municipalities experience temporary cash-flow problems. The negative cash balance is a strong indicator that there are severe underlying financial problems. Table 1 below shows reported negative cash balances for the periods 2014/15 to 2017/18.

Table 1: Persistence of municipalities' negative cash balances, 2014/15 - 2017/18

	Audited Outcome			Pre-Audit Outcome
Municipalities	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Metropolitan Municipalities (8)				
No.of municipalities with negative cash balances	0	0	0	0
Secondary Cities (19)				
No.of municipalities with negative cash balances	1	1	2	2
Other Local Municipalities (Towns) 186				
No.of municipalities with negative cash balances	8	9	14	6
District Municipalities (44)				
No.of municipalities with negative cash balances	1	1	3	2
All municipalities (257)				
No.of municipalities with negative cash balances	10	11	19	10

Source: *National Treasury - Local Government Database*

ASSESSING THE FINANCIAL HEALTH OF MUNICIPALITIES

18. 10 municipalities reported negative cash balances at 30 June 2018 compared to 19 municipalities as at 30 June 2017. Further analysis demonstrates that:
    - No metropolitan municipality (metros) recorded a negative cash balance in the course of 2017/18. This is a strong indication that, in general, they have adequate cash and comply with cash flow management procedures;
    - Two secondary cities[4] reported negative balances between 2016/17 and 2017/18 financial year;
    - Six local municipalities (3.2 per cent of all local municipalities) reported negative cash balances in 2017/18, down from 14 local municipalities (7.5 per cent) in 2016/17; and
    - Two district municipalities reported negative cash balances in 2017/18. This is an improvement from three districts that reported negative cash balances in 2016/17.

(b) Cash coverage position of municipalities

19. A municipality needs to have enough cash on hand to meet its monthly financial commitments when they fall due. Calculating the level of cash coverage in a municipality is especially important when its revenue collection is threatened. It is generally accepted that a prudent level of cash coverage is one month of average operational expenditure for metros and three months for other municipalities. Table 2 below shows the number of municipalities that, at the end of June 2018, had less than the required cash coverage.

20. Over the years, municipalities have become accustomed to reporting cash flow information. Only 2 municipalities did not report cash data on 30 June 2018, down from 14 municipalities who did not do so in 2016/17. This is an improvement in reporting.

[4] Secondary cities are seen as important catalysts for more balanced and dispersed growth across the country. As alternative urban centres, they relieve pressure from the country's primate cities (metros), which is especially important in countries where most demographic and economic activity has historically occurred in just one city. They are also catalysts for surrounding areas, acting as markets for agricultural produce, as administrative and service centres, and as links to the primate cities (John 2012). In South Africa there are 19 secondary cities.

ASSESSING THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 2: Municipalities' cash coverage, 2014/15 – 2017/18

	Audited Outcome			Pre-Audit Outcome
Municipalities	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Metropolitan Municipalities (8)				
No. of municipalities for which cash data is unavailable	0	0	0	0
No. whose cash coverage is:				
more than 3 months of operational expenditure	2	2	1	2
between 1 and 3 months of operational expenditure	4	4	4	3
Less than one month of operational expenditure	2	2	3	3
Secondary Cities (19)				
No. of municipalities for which cash data is unavailable	2	2	2	0
No. whose cash coverage is:				
more than 3 months of operational expenditure	2	1	2	2
between 1 and 3 months of operational expenditure	7	6	4	4
Less than one month of operational expenditure	8	10	11	13
Other Local Municipalities (Towns) 186				
No. of municipalities for which cash data is unavailable	12	12	12	2
No. whose cash coverage is:				
more than 3 months of operational expenditure	38	47	42	55
between 1 and 3 months of operational expenditure	50	36	39	37
Less than one month of operational expenditure	86	91	93	92
District Municipalities (44)				
No. of municipalities for which cash data is unavailable	0	0	0	0
No. whose cash coverage is:				
more than 3 months of operational expenditure	17	15	13	15
between 1 and 3 months of operational expenditure	17	11	12	13
Less than one month of operational expenditure	10	18	19	16
All Municipalities (257)				-
No. of municipalities for which cash data is unavailable	14	14	14	2
No. whose cash coverage is:				
more than 3 months of operational expenditure	59	65	58	74
between 1 and 3 months of operational expenditure	78	57	59	57
Less than one month of operational expenditure	106	121	126	124

Source: *National Treasury - Local Government Database*

ASSESSING THE FINANCIAL HEALTH OF MUNICIPALITIES

21. A total of 121 non-metropolitan municipalities and 3 metropolitan municipalities that reported cash coverage data, which failed to meet prudent standards in 2017/18. This represents a minor improvement from 123 non-metropolitan municipalities and 3 metros in 2016/17. It is also encouraging to note that there was a decrease in the number of municipalities that could not provide the information from 14 in 2016/17 to only 2 in 2017/18. At an aggregate level 74 municipalities in 2017/18 (28.8 per cent) recorded cash coverage exceeding three months of operational expenditure, up from 58 municipalities in 2016/17.

22. Further analysis demonstrates that:
    - Metros have reported a negligible increase in cash coverage of more than three months of operational expenditure from 1 metro in 2016/17 to 2 metros in 2017/18;
    - Two secondary city municipalities had a cash coverage in excess of three months of operational expenditure. This is unchanged from the previous year; and
    - 55 local municipalities and 15 district municipalities had cash coverage of more than three months of operational expenditure.

23. It seems clear that municipalities continue to struggle to understand and give effect to action the critical concept that budgeting for surpluses is necessary to avoid cash and liquidity problems.

24. As cited in previous publications, any of the following events could result in a municipality with a very low (vulnerable) cash coverage ratio ending up with a negative cash position:
    - A deterioration in revenue collection due to the impact of the economic slowdown and the rising rates and tariffs which affect household budgets;
    - Emergencies and natural disasters such as floods, drought and fire;
    - The cash flow time difference between paying for the increased cost of bulk electricity/water and the collection of revenues from customers;
    - Any major breakdown in service delivery resulting in non-supply (especially of water and electricity) and therefore loss of revenue;
    - A rate-payers/consumers boycott;
    - Illegal connection of electricity and water, including tempering of water and electricity meters;
    - Ineffective cash flow management on a monthly basis; and
    - Non-implementation of debt collection and credit control policies.

25. Sustained effort is required to address these weak cash positions. National and provincial treasuries will continue to engage with municipalities on improving their cash flows during the mid-year performance and annual budget benchmark engagements in January/February and April/May each year. These two annual strategic engagements have been institutionalized by National Treasury to improve and strengthen the quality and oversight of municipal performance.

Indicator 3: Overspending of operational expenditure budgets

26. If a credible long or medium-term financial strategy is not in place, and there is weakness in internal controls, it will be difficult to compile effective operational budgets or to spend in line with available financial resources. In cases where either of these failures occurs in the context of limited cash resources and poor rates of revenue collection, the financial risk is greatly magnified.

27. Table 3 below shows the overspending of operational expenditure budgets from 2014/15 to 2017/18 per category of municipality.

ASSESSING THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 3: Overspending of operational budgets per category of municipality, 2014/15 - 2017/18

	Audited Outcome			Pre-Audit Outcome
Municipalities	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Metropolitan Municipalities (8)				
Total Operating Budgets	161 618	180 500	193 809	202 153
Total Overspending of Adjusted Operating Budgets	(2 363)	(1 279)	(838)	(1 503)
Overspending as % of operating budgets	-1%	-1%	-0%	-1%
Number of municipalities who overspent by				
less than 10% of their operational budget	2	1	2	1
between 10% and 25%of their operational budget	1	0	0	1
more than 25% of their operational budget	0	0	0	0
Secondary Cities (19)				
Total Operating Budgets	36 467	40 129	46 093	51 857
Total Overspending of Adjusted Operating Budgets	(3 894)	(4 313)	(5 945)	(3 001)
Overspending as % of operating budgets	-11%	-11%	-13%	-6%
Number of municipalities who overspent by				
less than 10% of their operational budget	6	5	6	4
between 10% and 25%of their operational budget	4	3	2	2
more than 25% of their operational budget	1	3	3	2
Other Local Municipalities (Towns) 186				
Total Operating Budgets	49 788	56 485	66 928	72 436
Total Overspending of Adjusted Operating Budgets	(7 199)	(5 921)	(7 019)	(4 719)
Overspending as % of operating budgets	-14%	-10%	-10%	-7%
Number of municipalities who overspent by				
less than 10% of their operational budget	42	40	43	45
between 10% and 25%of their operational budget	33	39	34	29
more than 25% of their operational budget	43	27	35	21
District Municipalities (44)				
Total Operating Budgets	17 574	19 128	19 173	20 844
Total Overspending of Adjusted Operating Budgets	(2 613)	(2 829)	(2 271)	(2 840)
Overspending as % of operating budgets	-15%	-15%	-12%	-14%
Number of municipalities who overspent by				
less than 10% of their operational budget	10	13	18	13
between 10% and 25%of their operational budget	7	10	5	11
more than 25% of their operational budget	9	6	7	2

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

ASSESSING THE FINANCIAL HEALTH OF MUNICIPALITIES

28. The total number of municipalities that overspent their adjusted operational budgets decreased from 155 in 2016/17 to 131 in 2017/18. The aggregated size of overspending by municipalities has decreased from 4.9 per cent (R16.1 billion) to 3.5 per cent (R12.1 billion). This means that as fewer municipalities are overspending, the size of this variance has also decreased. Further analysis demonstrates that:
    - Metros overspent their operating budgets by 1 per cent (R1.5 billion) which is a slight increase from 0.4 per cent (R838 million) in 2016/17;
    - Secondary cities and other local municipalities overspent their operating budgets by 6 per cent (R3 billion) and 7 per cent (R4.7 billion) respectively. This is an improvement from an aggregate overspending of 13 per cent (R5.9 billion) for secondary cities and 10 per cent (R7 billion) for other local municipalities in 2016/17;
    - District municipalities overspent their operating budgets by 14 per cent (R2.8 billion), reversing their aggregated overspending of 11 per cent (R2.3 billion) in 2016/17; and
    - 25 municipalities overspent their operational budgets by more than 25 per cent. These municipalities include 2 secondary cities, 21 local municipalities and 2 district municipalities.

29. This outcome reflects a systemic local budgeting failure with potentially dire consequences for municipalities that fail to address it. In some cases, it may be attributed to a failure to table and adopt funded budgets, as even in cases the underspending does not always translate to the equivalent amount of cash in the bank. It suggests that:
    - municipalities are still not properly forecasting revenue and expenditure patterns;
    - there is a serious problem of not spending according to expenditure plans;
    - General weaknesses in internal controls;
    - there is a general lack of fiscal discipline; and
    - municipalities do not always make adequate provision for debt impairment and depreciation.

30. These issues will be addressed through the implementation of Provincial Treasuries strategies to address municipal performance failures specific to their provinces, including remedial interventions where appropriate.

Indicator 4: Underspending of capital budgets

31. Capital spending by municipalities results in the creation of assets that are used for the delivery of basic social and economic services. Effective spending of capital budgets is essential to expanding access to basic services, particularly for poor households, and maintaining the quality of services for all. Underspending of capital budgets typically reflects poor programme and project preparation and management practices, although this can be influenced by unforeseen events such as natural disasters.

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Table 4: Underspending of municipalities' capital budgets, 2014/15 – 2017/18

	Audited Outcome			Pre-Audit Outcome
Municipalities	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Metropolitan Municipalities (8)				
Total Capital Budget	34 560	34 998	37 420	36 587
Total Underspending of the Adjustment Capital Budget	4 769	3 224	6 082	7 535
Underspending as % of Capital Budget	13,8%	9,2%	16,3%	20,6%
Number of municipalities who underspent by				
less than 10% of their capital budget	2	4	1	2
between 10 and 30% of their capital budget	5	2	5	5
more than 30% of their capital budget	0	0	0	1
Secondary Cities (19)				
Total Capital Budget	5 989	6 338	7 143	8 449
Total Underspending of the Adjustment Capital Budget	895	1 226	1 060	1 590
Underspending as % of Capital Budget	14,9%	19,3%	14,8%	18,8%
Number of municipalities who underspent by				
less than 10% of their capital budget	1	2	4	3
between 10 and 30% of their capital budget	9	5	6	13
more than 30% of their capital budget	0	3	3	3
Other Local Municipalities (Towns) 186				
Total Capital Budget	12 261	13 795	14 750	16 517
Total Underspending of the Adjustment Capital Budget	2 597	2 839	3 222	4 620
Underspending as % of Capital Budget	21,2%	20,6%	21,8%	28,0%
Number of municipalities who underspent by				
less than 10% of their capital budget	22	25	18	27
between 10 and 30% of their capital budget	36	27	51	50
more than 30% of their capital budget	35	42	50	69
District Municipalities (44)				
Total Capital Budget	9 044	10 040	10 245	9 559
Total Underspending of the Adjustment Capital Budget	2 838	2 294	3 075	2 510
Underspending as % of Capital Budget	31,4%	22,8%	30,0%	26,3%
Number of municipalities who underspent by				
less than 10% of their capital budget	4	2	2	6
between 10 and 30% of their capital budget	5	9	5	10
more than 30% of their capital budget	18	16	14	19

Source: *National Treasury - Local Government Database*

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32. Municipalities budgeted a total of R71.1 billion towards capital investment programmes in the 2017/18 financial year of which R16.3 billion (or 22.9 per cent) was not spent. This represents an increase in underspending from 2016/17 (R13.4 billion or 20.9 per cent underspending). This decline was largely driven by the performance of district municipalities; as further analysis shows that:
    - Metros increased underspending on their capital budgets to R7.5 billion (or 20.6 per cent), from R6.1 billion the previous year. The number of metros underspending their capital budgets by between 10 and 30 per cent is the same in 2016/17 (5) and in 2017/18. One metro underspent its budget by more than 30 per cent in the 2017/18 financial year;
    - Secondary cities in 2017/18 underspent their capital budgets by R1.6 billion, an increase of R530 million from the 2016/17 financial year. The number of these cities that underspent their budgets by less than 10 per cent decreased from 4 in 2016/17 to 3 in 2017/18. Those that underspent by between 10 and 30 per cent increased from 6 to 13. Three secondary cities underspent their 2017/18 budgets by more than 30 per cent compared to 3 in 2016/17;
    - Local municipalities underspent their capital budgets by R4.6 billion in the 2017/18 financial year. The number of municipalities underspending by 10 per cent increased from 18 in 2016/17 to 27 in 2017/18, while underspending of capital budgets between 10 and 30 per cent decreased from 51 to 50 municipalities in 2017/18. However, the number of local municipalities underspending their capital budgets by more than 30 per cent increased from 50 to 69; and
    - The total capital budget underspending among district municipalities was R2.5 billion, or 26.3 per cent of their budgeted capital expenditure. This accounts for 15.4 per cent of all municipal capital underspending.

33. It is observable over the years that municipalities tend to struggle with implementing their capital budgets. Contributing factors include but are not limited to the following:
    - Weak multi-year budgeting;
    - Limited planning, project preparation and project management;
    - Supply Chain Management (SCM) inefficiencies;
    - Poor asset management; and
    - Poor contract management.

Indicators 5 and 6: Levels of growth in consumer debtors

34. Consumer debtors as a percentage of own revenue provides a useful and easily calculated indicator of the state of municipalities' debtor management capabilities. Municipalities whose debtors are greater than 30 per cent of their own revenue face a serious financial risk and should work to correct the situation as soon as possible. Debt impairment as a percentage of billable revenue is a complementary measure of the cost to a municipality of providing for non-collection/writing off of billable revenue.

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Table 5: Debtors as percentage of own revenue, 2014/15 – 2017/18

	Audited Outcome			Pre-Audit Outcome
Municipalities	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Metropolitan Municipalities (8)				
Total Own Revenue	169 144	181 837	192 825	221 416
Total Debtors	64 573	54 402	68 242	82 831
Debtors as a % of total own revenue	38%	30%	35%	37%
No. whose total debtors are				
less than 15% of their total own revenue	0	1	0	0
between 15 and 30% of their total own revenue	2	1	3	1
more than 30% of their total own revenue	6	6	5	7
Secondary Cities (19)				
Total Own Revenue	34 699	37 253	45 250	48 313
Total Debtors	19 364	13 773	13 163	29 987
Debtors as a % of total own revenue	56%	37%	29%	62%
No. whose total debtors are				
less than 15% of their total own revenue	4	7	7	5
between 15 and 30% of their total own revenue	2	2	6	2
more than 30% of their total own revenue	11	8	6	12
Other Local Municipalities (Towns) 186				
Total Own Revenue	40 994	46 371	52 739	59 742
Total Debtors	21 462	20 682	23 467	36 010
Debtors as a % of total own revenue	52%	45%	44%	60%
No. whose total debtors are				
less than 15% of their total own revenue	33	35	44	30
between 15 and 30% of their total own revenue	36	45	42	38
more than 30% of their total own revenue	105	94	98	105
District Municipalities (44)				
Total Own Revenue	10 774	14 595	12 442	17 054
Total Debtors	4 581	5 314	3 277	7 459
Debtors as a % of total own revenue	43%	36%	26%	44%
No. whose total debtors are				
less than 15% of their total own revenue	14	16	14	16
between 15 and 30% of their total own revenue	9	8	10	8
more than 30% of their total own revenue	18	19	20	18

Source: *National Treasury - Local Government Database*

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35. At the end of 2017/18, total debtors amounted to R152.7 billion, a R44.5 billion increase from the 2016/17 financial year. Households make up the bulk of total debtors at 64.8 per cent. 142 municipalities had debtor levels higher than 30 per cent of own revenue, an increase from 129 as at June 2016/17. The reason for the increase in debtors among households is associated with weak revenue collection effort by the municipality and household affordability. Further analysis shows that municipalities reporting debtors against own revenue of above 30 per cent included:
    - 7 metros, up from 5 in 2016/17, with total debtors rising from 35 per cent to 37 per cent of total revenue;
    - 12 secondary cities, up from 6 in 2016/17, with total debtors rising from 29 per cent to 62 per cent of total revenue;
    - 105 local municipalities, up from 98 in 2016/17, with total debtors rising 44 per cent to 54 per cent of total revenue; and
    - 18 district municipalities, from 20 in 2016/17, but with total debtors rising from 26 per cent to 44 per cent of total revenue.

36. This decline in performance is attributable both to a significant nominal decline in reported own revenues by non-metropolitan municipalities as well as a rise in consumer debtors:
    - In metros the growth of 14.8 per cent in own revenues between 2016/17 and 2017/18 was offset by a rise in debtors of 20 per cent from 1 metro in 2016/17 to 3 metros in 2017/18;
    - In secondary cities, a 6.8 per cent increase in own revenues was compounded by growth in municipalities with debtors more than 20 per cent from 6 municipalities in 2016/17 to 8 municipalities in 2017/18;
    - In other local municipalities, a 13.3 per cent growth in own revenues was offset by growth in consumer debtors of more than 20 per cent, from 75 municipalities in 2016/17 to 87 per cent in 2017/18; and
    - In district municipalities, a 37.1 per cent increase in own revenues was offset by a growth in debtors of more than 20 per cent from 10 municipalities in 2016/17 to 17 municipalities in 2017/18.

37. All this is an indication that municipalities are struggling to collect outstanding debtors.

38. Table 6 below shows the growth in consumer debtors between the 2014/15 and 2017/18 financial years. It shows that significant growth in debtors has occurred in all categories of municipalities with the severity of the challenge increasing. The number of municipalities with debtors growing by more than 20 per cent increased from 92 in 2016/17 to 120 in 2017/18.

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Table 6: Growth in consumer debtors, 2014/15 – 2017/18

	Audited Outcome			Pre-Audit Outcome
Municipalities	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Metropolitan Municipalities (8)				
No. whose debtors grew	0	0	0	0
No. whose debtors increased by				
less than 10% over period shown	1	3	2	2
between 10% and 20% over period shown	2	2	3	2
more than 20% over period shown	4	1	1	3
Secondary Cities (19)				
No. whose debtors grew	0	0	0	0
No. whose debtors increased by				
less than 10% over period shown	4	3	3	4
between 10% and 20% over period shown	4	3	5	3
more than 20% over period shown	3	5	6	8
Other Local Municipalities (Towns) 186				
No. whose debtors grew	0	0	0	0
No. whose debtors increased by				
less than 10% over period shown	19	17	17	20
between 10% and 20% over period shown	38	44	33	29
more than 20% over period shown	61	55	75	91
District Municipalities (44)				
No. whose debtors grew	0	0	0	0
No. whose debtors increased by				
less than 10% over period shown	0	3	4	3
between 10% and 20% over period shown	3	7	5	4
more than 20% over period shown	25	21	10	18
All municipalities (257)				
No. whose debtors grew	-	-	-	-
No. whose debtors increased by				
less than 10% over period shown	24	26	26	29
between 10% and 20% over period shown	47	56	46	38
more than 20% over period shown	93	82	92	120

Source: *National Treasury - Local Government Database*

ASSESSING THE FINANCIAL HEALTH OF MUNICIPALITIES

Indicator 7: Outstanding creditors

39. Timely payment of creditors by a municipality is not only essential for the liquidity of local economies and the survival of small and medium sized enterprises, but is also a good reflection of the extent of financial challenges facing a municipality. A municipality that is unable to pay its creditors within prescribed time limits in effectively using their resources to fund other activities, indicating the likelihood of underlying financial problems. A year-on-year increase in outstanding creditors could be an indication that municipalities are experiencing liquidity and cash challenges and consequently are delaying the settlement of outstanding debt owed.

40. Section 65(2)(e) of the MFMA provides that a municipality's accounting officer must take all reasonable steps to ensure "that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. In addition, Section 65(2)(h) provides that the accounting officer must take all reasonable steps to ensure that the municipality's available working capital is managed effectively and economically". At a minimum, this involves ensuring that the timing of the municipality's expenditures is matched by its flow of income.

41. The following table shows creditors as a percentage of cash and investments between 2014/15 and 2017/18. This indicates the extent to which municipalities had working capital to settle their outstanding creditors.

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Table 7: Creditors as percentage of cash and investments, 2014/15 – 2017/18

	Audited Outcome			Pre-Audit Outcome
	2014/15	2015/16	2016/17	2017/18
Metropolitan Municipalities (8)				
Total Cashflow	27 100	28 859	24 998	24 675
Total Creditors	27 155	30 571	40 962	42 287
Creditors as a % of Total Cash	100%	106%	164%	171%
No. whose Total Creditors are				
less than 25% of their Cash	1	0	0	0
between 25 and 50% of their Cash	0	1	1	0
between 50 and 75% of their Cash	2	1	0	2
more than 75% of their Cash	4	5	7	6
Secondary Cities (19)				
Total Cashflow	4 525	3 329	3 450	7 220
Total Creditors	7 822	11 712	16 505	17 068
Creditors as a % of Total Cashflow	173%	352%	478%	236%
No. whose Total Creditors are				
less than 25% of their Cash	2	0	1	0
between 25 and 50% of their Cash	3	2	1	2
between 50 and 75% of their Cash	0	2	0	1
more than 75% of their Cash	11	12	15	13
Other Local Municipalities (Towns) 186				
Total Cashflow	7 717	8 359	9 762	14 641
Total Creditors	11 584	13 996	21 256	22 460
Creditors as a % of Total Cashflow	150%	167%	218%	153%
No. whose Total Creditors are				
less than 25% of their Cash	36	40	27	40
between 25 and 50% of their Cash	15	20	21	14
between 50 and 75% of their Cash	17	6	14	16
more than 75% of their Cash	87	88	102	97
District Municipalities (44)				
Total Cashflow	6 723	5 587	4 385	6 412
Total Creditors	3 765	4 657	5 767	4 946
Creditors as a % of Total Cashflow	56%	83%	132%	77%
No. whose Total Creditors are				
less than 25% of their Cash	16	12	12	11
between 25 and 50% of their Cash	4	6	2	2
between 50 and 75% of their Cash	3	3	2	2
more than 75% of their Cash	18	22	25	23

Source: *National Treasury - Local Government Database*

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42. Total creditors across all municipalities has increased to R86.8 billion at the end of 2017/18, from R84.5 billion in 2016/17 financial year. 'Other' made up the bulk of total creditors at 61.5 per cent followed by Trade Creditors (20.1 per cent) and bulk electricity (10.8 per cent). Further analysis shows that:
    - Six metros and 13 secondary cities reported that total creditors exceeded 75 per cent of the value of their available cash *and investments*. This is a slight improvement from 7 metros and 15 secondary cities who reported this position in 2016/17. However, the nominal value of creditors outstanding had risen to R42.3 billion (or by 3.2 per cent) in metros and accounted for 171 per cent of available cash flow. In the case of secondary cities creditors outstanding had increased to R17.1 billion (or by 3.4 per cent) and accounted for 236 per cent of available cash flow;
    - Other local municipalities only had available cash of R14.6 billion to repay outstanding creditors of R22.5 billion, resulting in an aggregated deficit of R7.9 billion to honour the financial commitments. However, the number of these municipalities reporting that total creditors exceeded 75 per cent of the value of their available cash *and investments* declined from 102 to 97, as did the total nominal value of creditors outstanding and their percentage of available cash flow; and
    - 23 District Municipalities reported that total creditors exceeded 75 per cent of the value of their available cash *and investments,* a slight improvement from 25 in the previous year. The total nominal value of creditors outstanding and their percentage of available cash flow both improved in 2017/18.

43. This data clearly shows that some municipalities are not complying with Section 65 (2)(e) of the MFMA and that their cash flow management is weak. This has serious implications for the financial viability of Small Medium and Micro Enterprises (SMMEs) and other suppliers that provide services to municipalities. The year-on-year increase in outstanding creditors in some municipalities is an indication that they are experiencing liquidity and cash challenges and consequently are delaying the settlement of outstanding debt owed. These findings are consistent with the trends observed in the past, with municipalities delaying payments to creditors at the end of the financial year in order to report a 'favourable cash position' and thereby ostensibly comply with Section 65 of the MFMA.

44. National Treasury has made efforts to ensure that municipalities pay their long outstanding creditors. Methods used have included obtaining settlement agreements with those municipalities owing monies to Eskom and the country's Water Boards.

Indicator 8: Reliance on national and provincial conditional grants

45. Conditional grants are allocated to municipalities to fund projects of national priority, particularly the provision of basic infrastructure services to poor households, and not necessarily for capital programmes that are revenue raising.

46. The level of grant reliance of a municipality must be related to its social, economic and fiscal context. For example, it is widely accepted that cities are the growth engines of the economy and that, as well as providing for asset renewal; they must invest in new infrastructure to accommodate demographic and economic growth. This requires appropriate locally-sources funding of their capital budgets through property taxes and user charges that can – and in many cases should – be used to leverage long term borrowings to finance investment programmes. Conversely, municipalities with predominantly poor populations have limited access to local revenues. These municipalities cannot be expected to self-finance a significant portion of their capital investment programmes.

47. Table 8 below indicates local governments' reliance on national government transfers for infrastructure investment in financing their capital budgets.

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Table 8: Local governments' reliance on capital conditional grants, 2014/15 – 2017/18

	Audited Outcome			Pre-Audit Outcome
	2014/15	**2015/16**	**2016/17**	**2017/18**
Metropolitan Municipalities (8)				
No. of municipalities for which data is unavailable	0	0	0	0
No. who receive				
less than 30% of revenue from national transfers	0	0	0	0
between 30% and 75% revenue from national transfers	8	8	8	7
more than 75% of revenue from national transfers	0	0	0	0
Secondary Cities (19)				
No. of municipalities for which data is unavailable	2	2	0	0
No. who receive more than				
less than 30% of revenue from national transfers	4	3	4	2
between 30% and 75% revenue from national transfers	7	8	8	3
more than 75% of revenue from national transfers	6	6	6	8
Other Local Municipalities (Towns) 186				
No. of municipalities for which data is unavailable	13	14	4	22
No. who receive more than				
less than 30% of revenue from national transfers	2	7	5	3
between 30% and 75% revenue from national transfers	59	71	65	42
more than 75% of revenue from national transfers	106	86	105	70
District Municipalities (44)				
No. of municipalities for which data is unavailable	0	0	0	1
No. who receive more than				
less than 30% of revenue from national transfers	4	3	2	3
between 30% and 75% revenue from national transfers	2	3	5	1
more than 75% of revenue from national transfers	16	21	18	16
All municipalities (257)				
No. of municipalities for which data is unavailable	15	16	4	23
No. who receive more than				
less than 30% of revenue from national transfers	10	13	11	8
between 30% and 75% revenue from national transfers	76	90	86	53
more than 75% of revenue from national transfers	128	113	129	94

Source: *National Treasury - Local Government Database*

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48. A total of 94 municipalities (or 36.6 per cent of all municipalities) reported that they are reliant on infrastructure grants to finance 75 per cent or more of their capital budgets. Although this represents a decrease in the number of heavily grant reliant municipalities (from 129 to 94), it still constitutes 60.6 per cent of all municipalities who reported information in this respect (or 36.6 per cent of all municipalities). Only 8 municipalities (or 3.1 per cent of reporting municipalities) relied on grant financing for 30 per cent of their budgets or less. Further analysis shows that:
    - No metro relies on grants to finance 75 per cent or more of their capital budgets, no metro has a reliance on grant financing that is less than 30 per cent;
    - Only 2 secondary cities self-finance 70 per cent or more of their capital expenditures, while 8 secondary cities rely on grant finance for 75 per cent or more of their capital budgets;
    - The number of other local municipalities reliant on capital grants for 75 per cent or more of their infrastructure spending decreased from 105 to 70, similarly the number of these municipalities who were able to finance 70 per cent or more of their investments from local sources decreased from 65 to 42; and
    - Among district municipalities, 16 were more than 75 per cent reliant on national transfers in 2017/18 compared to 18 in 2016/17.

49. The total number of municipalities failing to disclose conditional grant information increased from 4 in 2016/17 to 23 in 2017/18. This increase is cause for serious concern as all local municipalities and district municipalities that are water service authorities should be reporting on their performance infrastructure service delivery on a monthly basis.

Audit outcomes: 2017/18 financial year

50. It is important to note that audit outcomes are not necessarily the only indicator of financial health. A good audit outcome means that the financial statements fairly represent the financial condition of the municipality, even if the finances are not in a good state. A bad audit outcome can mean that the financial statements cannot be relied on due to lack of supporting documentation, or cannot be verified, even if the municipality is in good financial health.

51. Municipal audit outcomes have shown little improvement. The Auditor-Generals (AG) 2017/18 report[5] on local government audit outcomes highlighted that municipal audit outcomes continue to decline. Even the deadline for submission of the annual financial statements to the AG had been met by only 90.7 per cent of municipalities. By the legislative audit deadline of 31 August 2018[6], 24 reports for 2017/18 were outstanding.

52. The following table presents a summary of audit opinions for all municipalities between 2008/09 and 2017/18 (refer to Annexure A2 for the 2017/18 audit outcomes per municipality).

[5] The 2017/18 AG report was used for the purpose of this report as it was the most recent report available, however please note that 24 audit opinions were still outstanding.

[6] Consolidated Financial Statements are submitted by 30 September for municipalities with entities.

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Table 9: Summary of audit opinions for all municipalities, 2008-09 to 2017-18

Audit Opinon	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No	%	No	%	No	%
Adverse	10	4%	7	2%	9	3%	3	1%	9	3%	3	1%	4	1%	4	1%	4	2%	10	4%
Disclaimer	103	36%	53	19%	82	29%	76	27%	66	24%	55	20%	33	12%	25	9%	24	9%	26	10%
Qualified	50	18%	50	18%	55	20%	64	23%	83	30%	71	26%	76	27%	63	23%	65	25%	78	30%
Unqualified - with findings	113	40%	120	42%	117	42%	106	38%	98	35%	109	39%	111	40%	122	44%	113	44%	101	39%
Unqualified - no findings	4	1%	7	2%	13	5%	9	3%	22	8%	40	14%	54	19%	49	18%	34	13%	18	7%
Audits Outstanding	3	1%	46	16%	2	1%	20	7%	0	0%	0	0%	0	0%	15	5%	17	7%	24	9%
Total	283	100%	283	100%	278	100%	278	100%	278	100%	278	100%	278	100%	278	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

53. In the 2017/18 financial year, 18 municipalities obtained unqualified opinions without findings. This was a 47 per cent decrease compared to 34 municipalities in 2016/17. The bulk of the unqualified audit opinions without any emphasis of matter were achieved by municipalities in the Western Cape. In the 2017/18 reporting period, no metropolitan municipality (metro) received unqualified audit opinions without any emphasis of matter. There were 12 local municipalities and 6 district municipalities that received unqualified audit opinions without any emphasis of matter.

54. The number of unqualified audit opinions with findings decreased from 113 municipalities in 2016/17 to 101 municipalities in 2017/18. However, qualified audit opinions increased from 65 municipalities to 78 municipalities over the same period, with municipalities relying heavily on consultants to correct material mistakes identified during the audit.

55. What is a concern, is that, the number of municipalities receiving disclaimers increased from 24 in 2016/17 to 26 in 2017/18 with the number of adverse opinions also significantly increasing from 4 to 10 over the same period. Over a longer period, however, there is a decrease in the number of disclaimers, from 103 municipalities in 2008/09 to 26 municipalities in 2017/18.

56. The audit outcomes of municipalities in the Free State, Eastern Cape, and Mpumalanga regressed from 2016/17. Although Western Cape shows an increase in the number of unqualified audit opinions with emphasis of matter from 5 in 2016/17 to 13 in 2017/18, of concern is the decrease in unqualified audit opinions without any emphasis of matter from 21 in 2016/17 to 12 in 2017/18.

57. The provinces with the poorest outcomes (based on the number of municipalities with disclaimed opinions) were North West (13 in 2017/18), the Northern Cape (4 in 2017/18), the Eastern Cape (3 in 2017/18) and the Free State (2 in 2017/18). KwaZulu-Natal had the highest (4) number of adverse audit findings in 2017/18 followed by Mpumalanga, Limpopo and Eastern Cape with 2 municipalities in each. Audits were mostly outstanding in Free State (9) and Northern Cape (5).

58. According to the AG, the closing amounts for irregular[7] expenditure increased from R62.7 billion in 2016/17 to R71.1 billion in 2017/18. Although the annual value of irregular expenditure decreased from R29 billion to R21.5 billion, the number of municipalities incurring irregular expenditure slightly increased from 211 to 219 municipalities. Irregular expenditure was mostly incurred on payment of contracts (81 per cent or R17.2 billion), with R10.8 billion incurred on non-compliance and R6.4 billion was expenditure on ongoing multi-year contracts.

59. Fruitless and wasteful expenditure incurred by municipalities decreased marginally from R1.5 billion in 2016/17 to R1.3 billion in 2017/18. The main reason for the fruitless and wasteful expenditure is on interest, penalties on overdue accounts and late payments.

60. Unauthorised expenditure increased from R11.2 billion in 2016/17 to R12.8 billion in 2017/18, R7 billion of the R12.8 billion was as a result of non-cash items. Poorly prepared budgets, inadequate fiscal control and lack of monitoring and oversight were some of the reasons for the overspending. Municipal budgets also make provision for non-cash items which includes accounting entries such as reducing the value at which assets are reflected in the financial statements (assets impairment) and provision for other types of potential financial losses.

61. The AG highlighted six main risk areas that need to be addressed by municipalities. These are: (i) poor management of procurement and contracts; (ii) quality of financial statements; (iii) prevention of unauthorized, irregular and fruitless and wasteful expenditure; (iv) effective consequence management; (v) creditors not paid within 30 days; and (vi) poor asset management.

62. The AG indicated that the root cause of the accountability failures is that:
    - Management (municipal managers and senior management), political leadership (mayors) and oversight bodies (municipal councils and portfolio committees) do not respond with the required urgency to the AG's messages about addressing risks and improving internal controls. This slow response from management was evident at 97 per cent of auditees with unfavourable outcomes;
    - Vacancies in critical posts and instability slow down systematic and disciplined improvements;
    - Inadequate skills lead to a lack of oversight by council (including the mayor), and insufficient implementation and maintenance

[7] Irregular, unauthorised and wasteful expenditure is defined in Section 1 of the MFMA.

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of financial and performance management systems by administration;
- Political infighting at council level and interference in administration weaken oversight, hinder the effecting of consequences, and make local government less attractive for professionals to join;
- Leadership's inaction/ inconsistent action creates a culture of 'no consequences', often due to inadequate performance systems and processes;
- Blatant disregard for controls, compliance with legislation and AGSA recommendations;
- Inadequate use of internal audit teams and Audit Committees;
- Focus is on unqualified financial statements by using consultants and auditors, at great cost and to the detriment of credible reporting on performance and compliance with legislation; and
- Provincial and national role players do not sufficiently support municipalities, however, where support is being provided, Council sometimes ignore the support.

63. The AG once again expressed his concern about pressure that is placed on auditors to change conclusions to avoid negative audit outcomes or the disclosure of irregularities. Intimidation and threats towards auditors were reported. Protest actions at municipalities also impacted the auditing process and resulted in delays to the finalization of audits.

64. The AG noted with concern that recommendations made in previous years to improve audit outcomes and or investigate irregularities were not implemented. Status record review and engagements with municipal managers yielded little benefit as recommendations were not implemented. The audit outcomes of 63 municipalities regressed.

65. The provinces with the best audit outcomes (based on the number of municipalities with unqualified with no findings) were Western Cape (12 in 2017/18) and Eastern Cape (2 in 2017/18).

66. The Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings were promulgated on 31 May 2014 to deal with matters of financial misconduct and to give effect to the concept of consequence management. A concerted effort has also been made with the Section 71 monthly budget statements and Back to Basics (B2B) reports to ensure that municipalities that fail to comply with audit requirements put in place internal controls and early-warning systems to minimise the risk of future non-compliance.

Governance: Acting Municipal Manager and Chief Financial Officer Positions

67. The instability in senior municipal management positions has a negative impact on service delivery to communities. This manifests in a number of ways including the inability to make basic managerial decisions, such as the appointment of service providers, and overall financial sustainability. This often delays project implementation and affects the municipality's ability to spend its capital budget.

68. Section 82 of the Municipal Structures Act (MSA) 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 major operations and holds overall accountability for the administration of the municipality.

69. Through its interaction with municipalities, National Treasury has observed that when the position of MM is vacant, accountability is weak. It may be that the acting incumbent, if one is appointed, feels restricted from making certain key decisions. Alternatively, if (in cases where a permanent MM is not in place due to resignation, suspension or termination of service) the MM's role is spread amongst several senior managers, no one person can be held accountable when things go wrong. It is therefore critical that the post of MM be permanently filled and that the necessary performance agreements and contracts are in place.

70. The Chief Financial Officer (CFO) is another critical position in the municipal structure. The CFO is responsible for managing the Budget and Treasury Office, overseeing the municipality's finances and ensuring compliance with public finance legislation and council policies. Section 80 of the MFMA regulates the establishment of the Budget and Treasury Office led by the CFO.

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71. 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 roll-over of unspent conditional grants. Municipalities applying to retain conditional allocations committed to identifiable projects or requesting a roll-over in terms of Section 22 of the 2015/16 DoRA must submit proof that the MM and CFO are permanently appointed.

72. Table 10 shows the number of acting MMs and CFOs as at 30 June 2018.

Table 10: Municipalities with acting Municipal Managers and CFOs at 30 June 2017 & 2018

2018			Acting MM		Acting CFO		Both Acting	
Summary per Province			**No.**	**%**	**No.**	**%**	**No.**	**%**
Eastern Cape	39	EC	7	17,9%	4	10,3%	3	7,7%
Free State	23	FS	4	17,4%	6	26,1%	2	8,7%
Gauteng	12	GT	2	16,7%	4	33,3%	2	16,7%
Kwazulu-Natal	54	KZ	5	9,3%	10	18,5%	1	1,9%
Limpopo	27	LP	4	14,8%	7	25,9%	4	14,8%
Mpumalanga	20	MP	4	20,0%	5	25,0%	1	5,0%
North West	22	NW	5	22,7%	13	59,1%	-	0,0%
Northern Cape	31	NC	8	25,8%	10	32,3%	5	16,1%
Western Cape	30	WC	3	10,0%	3	10,0%	-	0,0%
Total	**258**		**42**	**16%**	**62**	**24%**	**18**	**7%**

2017			Acting MM		Acting CFO		Both Acting	
Summary per Province			**No.**	**%**	**No.**	**%**	**No.**	**%**
Eastern Cape	45	EC	13	28,9%	14	31,1%	10	22,2%
Free State	24	FS	4	16,7%	5	20,8%	1	4,2%
Gauteng	12	GT	4	33,3%	3	25,0%	2	16,7%
Kwazulu-Natal	61	KZ	19	31,1%	16	26,2%	9	14,8%
Limpopo	30	LP	10	33,3%	10	33,3%	6	20,0%
Mpumalanga	21	MP	5	23,8%	7	33,3%	2	9,5%
North West	23	NW	11	47,8%	14	60,9%	10	43,5%
Northern Cape	32	NC	11	34,4%	12	37,5%	7	21,9%
Western Cape	30	WC	11	36,7%	4	13,3%	3	10,0%
Total	**278**		**88**	**32%**	**85**	**31%**	**50**	**18%**

73. A major improvement has been made in 2017/18 in stabilizing at senior municipal management in comparison with the previous financial years. Between June 2017 and June 2018, the number of acting MMs decreased from 88 to 42. The decrease was especially noticeable in KwaZulu-Natal, Western Cape and North West provinces where the number of acting MMs decreased by 14 (from 19), 8 (from 11) and 6 (from 11) respectively, in that period.

74. A similar trend was observed in relation to CFOs over the same period, with the number of acting CFOs decreasing from 85 (31 per cent) to 62 (24 per cent). The number in Eastern Cape decreased by 10 (from 14 to 4), in KwaZulu-Natal by 6 (from 16 to 10) and in Limpopo by 3 (from 10 to 7). Instances where both MM and CFO were in an acting capacity decreased over the same period from 50 to 18.

75. Table 10 shows that 42 municipalities (16 per cent) had acting MMs in place at the end of June 2018 and 62 (24 per cent) had acting CFOs. The largest percentages of acting MMs was in Northern Cape Province (25.8 per cent acting), North West Province (22.7 per cent acting) and Mpumalanga Province (20 per cent acting).

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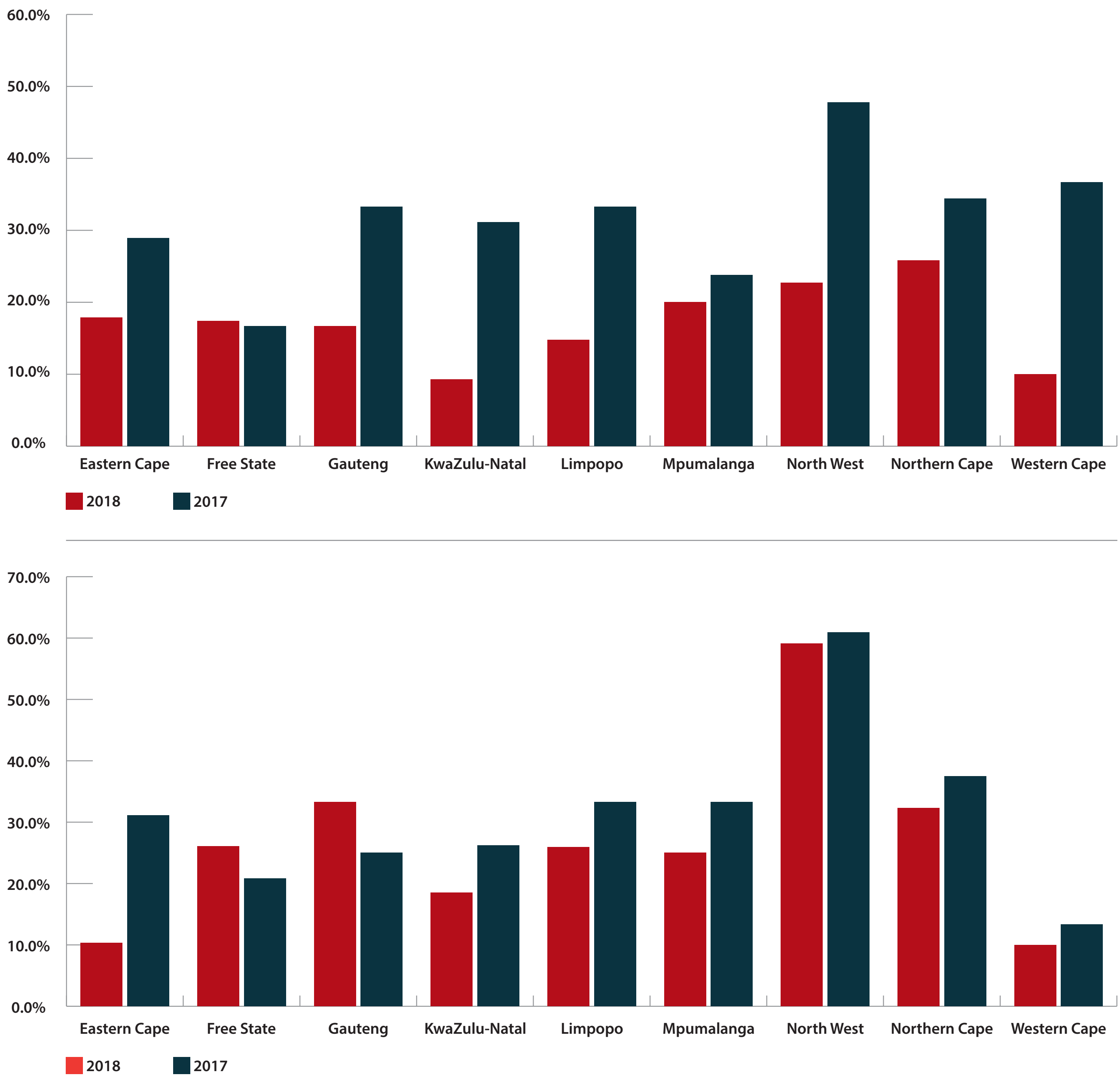
Figure 2: Comparison of acting Municipal Managers and Chief Financial Officers as at the end of 30 June 2017 and 2018



76. Figure 2 above shows that the number of acting Municipal Managers is highest in the Northern Cape (25.8 per cent) and acting Chief Financial Officers is most evident in the North West Province (59.1 per cent).

77. It is evident that the lack of stability and institutional knowledge in administrative leadership can threaten the financial health of a municipality. Local government complexities and the challenges of running a municipality require that key personnel are appointed and have the necessary skills, experience and capacity to fulfil their responsibilities and exercise their functions and powers.

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Significant electricity and water losses

78. Table 11 below shows the extent of water and electricity losses by metros at 30 June 2018. No reliable comparative data is yet available for other municipalities. It should be noted that a degree of technical and commercial losses is inherent to water and electricity transmission and distribution systems. However, the extent of these losses is also affected by the level of a municipalities' spending on repairs and maintenance, tolerance for theft of services and effectiveness of its metering and credit control procedures.

79. On 30 June 2018, metropolitan municipalities recorded water and electricity losses amounting to R4.2 billion and R6.9 billion respectively. During the 2017/18 financial year, water losses increased significantly, by R1.4 billion. Electricity losses decreased by R300 million, from R7.2 billion in 2016/17 to R6.9 billion in 2017/18.

80. Table 11 shows that, in nominal terms, the City of Johannesburg reported the highest losses on water (R1.2 billion) and electricity (R2.5 billion). The lowest losses were reported by Buffalo City metro at R140.3 million (water) and R236.5 million (electricity). It should, however, be noted that these cities provide utility services at vastly different scales.

Table 11: Electricity and Water losses for the metros as at 30 June 2018

Municipality	Code	Water losses	Electricity losses
		R'000	R'000
Nelson Mandela Bay	NMA	152 900	339 500
Buffalo City	BUF	140 263	236 502
Mangaung	MAN	266 369	83 710
Ekurhuleni	EKU	833 363	1 076 497
City of Johannesburg	JHB	1 219 200	2 508 683
City of Tshwane	TSH	739 330	1 556 703
eThekwini	ETH	714 000	783 507
City of Cape Town	CPT	159 543	332 155
Total		**4 224 968**	**6 917 257**

Source: *2016/17 Audited Annual Financial Statements*

Inadequate budgets for repairs and maintenance and asset management

81. Asset management must be considered a key spending priority for municipalities as infrastructure is pivotal to sustainable and continuous service delivery. Asset management consists of two distinct categories of expenditure: asset renewal as part of the capital programme, and operational repairs and maintenance of infrastructure.

82. The adequacy of planned expenditure on repairs and maintenance is a key factor that must be considered when a budget is drafted and is a core part of the National Treasury's Funding Compliance assessment methodology. Section 18 of the MFMA requires that a municipality's annual budget must be 'funded', and identifies three possible funding sources: (a) realistically anticipated revenues to be collected, (b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes, and (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. Many municipalities that allocate insufficient funds for asset repair compromise the credibility and sustainability of their budgets in the medium to long term because the revenue on which the budget is based is not being protected. For example, an electricity or water network will not generate revenue if it deteriorates and the supply is not sustained. There is also often a link between the number of potholes, unattended pipe bursts and sewerage spills in municipal areas and the willingness of residents to pay their rates and service charges, which affects the revenue of the municipality. Repairs and maintenance expenditure levels should be examined by trend, benchmarking and engineering recommendations.

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83. Municipalities experiencing financial stress frequently seek to immediately reduce expenditures on repairs and maintenance as its impact is not immediately obvious. It is also less politically sensitive than reducing the capital expenditure programme. However, the medium to long term consequences of underspending on repairs and maintenance include:
    - Deteriorating reliability and quality of services;
    - A move to more expensive crisis maintenance rather than planned maintenance;
    - Increased future cost of maintenance and refurbishment; and
    - Shortened useful lifespan of assets, requiring earlier replacement than would otherwise have been the case.

84. Table 12 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 2014/15 to 2020/21. This is an appropriate indicator of spending on repairs and maintenance as it measures spending against the value of the assets for which such spending was incurred. The national norm according to National Treasury's financial indicators is 8 per cent.

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Table 12: National aggregate repair and maintenance, 2014/15- 2020/21

Description	2014/15	2015/16	2016/17	Current year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Repairs and Maintenance by Asset Class	17 946 071	16 476 796	18 020 191	21 543 579	24 485 649	24 485 649	27 398 703	29 462 871	31 657 353
Infrastructure - Road Transport	3 300 782	2 983 036	3 893 511	4 307 964	5 052 607	5 052 607	5 529 437	5 821 872	6 105 837
Infrastructure - Electricity	3 307 090	3 406 488	3 620 763	4 248 128	4 696 357	4 696 357	4 947 523	5 376 945	5 798 108
Infrastructure - Water	2 757 769	2 478 944	2 873 992	3 477 010	3 752 445	3 752 445	4 300 774	4 874 049	5 239 224
Infrastructure - Sanitation	1 556 718	1 453 516	1 812 282	1 888 544	2 326 417	2 326 417	2 816 073	3 044 942	3 241 093
Infrastructure - Other	487 664	556 748	332 345	613 131	431 810	431 810	469 626	519 321	561 911
Infrastructure	*11 410 023*	*10 878 732*	*12 532 893*	*14 534 778*	*16 259 635*	*16 259 635*	*18 063 433*	*19 637 129*	*20 946 173*
Community	1 212 477	1 281 893	952 980	1 038 266	1 436 361	1 436 361	1 728 338	1 841 631	1 931 025
Heritage assets	165 963	132 713	1 993	14 053	12 222	12 222	13 545	14 315	15 140
Investment properties	35 913	56 565	64 372	90 074	78 497	78 497	108 319	108 623	109 187
Other assets	5 121 696	4 126 894	4 467 953	5 866 409	6 698 934	6 698 934	7 485 067	7 861 172	8 655 828
TOTAL EXPENDITURE OTHER ITEMS	44 640 501	44 585 999	47 759 825	51 538 490	55 243 319	55 243 319	58 964 027	63 259 446	67 463 020
% of capital exp on renewal of assets	*46,2%*	*34,7%*	*44,0%*	*55,9%*	*56,0%*	*56,0%*	*54,9%*	*58,8%*	*58,7%*
Renewal of Existing Assets as % of deprecn	*62,3%*	*55,0%*	*62,2%*	*84,4%*	*83,0%*	*83,0%*	*82,4%*	*81,3%*	*77,6%*
R&M as a % of PPE	*3,4%*	*2,9%*	*2,8%*	*3,5%*	*3,7%*	*3,7%*	*3,9%*	*4,0%*	*4,1%*
Renewal and R&M as a % of PPE	*6,0%*	*6,0%*	*6,0%*	*8,0%*	*8,0%*	*8,0%*	*8,0%*	*8,0%*	*8,0%*

Source: *National Treasury Local Government Database*

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

85. National aggregate spending on repairs and maintenance as a percentage of property, plant and equipment averages 3.5 per cent in the period 2014/15 to 2020/21, as shown in Table 12 below. A rising trend in investment is evident, with full year forecasts for 2017/18 rising to 3.7 per cent, and up to 4.1 per cent by 2020/21. The aggregate proportion of capital expenditure on asset renewal rose from a low of 34.7 per cent in 2015/16 to 56 per cent in 2017/18. Notwithstanding this trend, significant under investment in asset management continues to be evident. The pace of asset depreciation continues to outstrip investment in asset renewal by a significant margin, with renewal investments accounting for only 83 per cent of depreciation values in 2017/18. In effect, this means that 17 per cent of the asset base of a municipality is being abandoned in each year, which may have significant cumulative effects.

86. Table 13 (below) shows spending by metropolitan municipalities on repairs and maintenance as a percentage of expenditure on property, plant and equipment from 2014/15 to 2020/21. Metros increased spending from 5.2 per cent in 2014/15 to 5.4 per cent over the 2017/18, after allowing this to decline for the previous two years. Their spending is projected to stabilize at 5.5 per cent over the 2018/19 MTREF, despite being well below the norm of 8 per cent. Investment in asset renewal shows a more positive trend, with a large and growing proportion of expenditure dedicated to renewal, and the rate of renewal outstripping the pace of asset depreciation.

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Table 13: Metros' repair and maintenance, 2014/15- 2020/21

Description	2014/15	2015/16	2016/17	Current year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Repairs and Maintenance by Asset Class	13 395 738	12 530 842	13 691 675	13 615 895	16 916 482	16 916 482	18 639 726	20 055 872	21 664 705
Infrastructure - Road Transport	2 426 700	2 082 742	2 715 367	2 472 079	3 254 230	3 254 230	3 577 526	3 770 545	3 975 137
Infrastructure - Electricity	2 769 340	2 806 183	3 038 996	2 913 488	3 607 190	3 607 190	3 601 919	3 942 213	4 265 588
Infrastructure - Water	1 848 733	1 690 919	2 058 306	1 801 160	2 465 544	2 465 544	2 868 404	3 112 308	3 445 088
Infrastructure - Sanitation	1 293 984	1 198 588	1 537 999	1 318 467	1 750 814	1 750 814	2 094 817	2 255 930	2 365 144
Infrastructure - Other	306 176	372 670	161 638	216 219	195 495	195 495	144 883	156 784	166 361
Infrastructure	8 644 933	8 151 103	9 512 307	8 721 414	11 273 274	11 273 274	12 287 549	13 237 780	14 217 318
Community	978 539	1 054 582	714 118	594 882	756 549	756 549	1 089 609	1 152 390	1 218 546
Heritage assets	155 163	132 713	1 647	12 150	2 558	2 558	2 576	2 740	2 917
Investment properties	32 813	48 159	61 269	21 511	59 311	59 311	75 478	80 217	85 268
Other assets	3 584 291	3 144 287	3 402 334	4 265 938	4 824 790	4 824 790	5 184 514	5 582 745	6 140 656
TOTAL EXPENDITURE OTHER ITEMS	**25 479 894**	**25 686 446**	**26 701 616**	**29 078 283**	**32 159 969**	**32 159 969**	**34 577 401**	**37 285 121**	**40 055 011**
% of capital exp on renewal of assets	79,4%	68,5%	95,9%	96,4%	104,5%	104,5%	83,5%	84,5%	85,5%
Renewal of Existing Assets as % of deprecn	109,3%	98,5%	117,7%	120,3%	122,7%	122,7%	111,2%	113,3%	108,9%
R&M as a % of PPE	5,2%	4,5%	4,5%	4,8%	5,4%	5,4%	5,5%	5,5%	5,5%
Renewal and R&M as a % of PPE	10,0%	9,0%	10,0%	11,0%	11,0%	11,0%	11,0%	11,0%	11,0%

Source: *National Treasury Local Government Database*

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87. Table 14 (below) shows secondary cities' asset management spending from 2014/15 to 2020/21. These municipalities are under-investing significantly in asset management, spending on average only 1.3 per cent on repairs and maintenance between 2014/15 and 2016/17. This is projected over the 2018/19 MTREF with an average of 2.3 per cent. Asset renewal accounted for only 62.1 per cent of capital expenditure in 2017/18, although this has risen from only 25 per cent in 2015/16. Asset renewal accounted for only 55.4 per cent of the value of depreciation in 2017/18, with forecasts showing this is unlikely to improve over the medium term.

88. Secondary cities need to take the necessary action to reverse the impact of inadequate budgeting and spending on repairs and maintenance. During the budget benchmark engagements, National Treasury and the provincial treasuries should emphasise the need for all municipalities to increase their repairs and maintenance budgets.

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Table 14: Secondary cities' repair and maintenance, 2014/15- 2020/21

Description	2014/15	2015/16	2016/17	Current year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Repairs and Maintenance by Asset Class	1 590 865	1 320 646	1 247 019	2 993 673	1 829 189	1 829 189	2 034 237	2 146 155	2 283 999
Infrastructure - Road Transport	299 110	259 855	169 645	674 377	336 808	336 808	350 142	376 860	393 765
Infrastructure - Electricity	281 411	285 843	168 779	715 294	423 349	423 349	495 899	523 538	549 170
Infrastructure - Water	169 513	152 870	185 621	380 037	263 235	263 235	249 322	267 280	286 201
Infrastructure - Sanitation	107 486	119 780	121 154	274 234	141 208	141 208	204 651	218 657	232 526
Infrastructure - Other	58 560	74 919	55 580	117 756	53 687	53 687	86 209	91 721	97 542
Infrastructure	*916 079*	*893 268*	*700 779*	*2 161 697*	*1 218 287*	*1 218 287*	*1 386 222*	*1 478 056*	*1 559 205*
Community	146 452	111 902	128 035	234 852	216 870	216 870	186 802	198 124	211 685
Heritage assets	10 797		346	957	2	2			
Investment properties	3 100	6 839	2 978	18 210			754	808	866
Other assets	514 438	308 638	414 881	577 958	394 029	394 029	460 459	469 168	512 243
TOTAL EXPENDITURE OTHER ITEMS	6 734 400	6 531 467	7 471 676	8 229 485	7 669 789	7 669 789	7 925 440	8 107 550	8 479 576
% of capital exp on renewal of assets	*38,1%*	*25,0%*	*34,2%*	*50,5%*	*62,1%*	*62,1%*	*66,9%*	*74,4%*	*76,4%*
Renewal of Existing Assets as % of deprecn	*28,8%*	*20,8%*	*27,4%*	*50,0%*	*55,4%*	*55,4%*	*58,4%*	*53,6%*	*53,7%*
R&M as a % of PPE	*1,6%*	*1,3%*	*1,1%*	*2,5%*	*1,5%*	*1,5%*	*2,2%*	*2,3%*	*2,4%*
Renewal and R&M as a % of PPE	*3,0%*	*2,0%*	*3,0%*	*5,0%*	*4,0%*	*4,0%*	*6,0%*	*6,0%*	*6,0%*

Source: *National Treasury Local Government Database*

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Spending of conditional grants

89. Table 15 below shows expenditure performance by municipalities on all conditional grants transferred to them as at 30 June 2018. In the 2017/18 financial year, in terms of the DoRA R50.9 billion was allocated in the form of direct and indirect grants to local government.

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Table 15: Conditional grants transferred from national departments to municipalities in 2017/18

				Year to date	YTD Expenditure		% Changes for the 4th Q	
R thousands	**Division of revenue Act No. 10 of 2017**	**Adjustment (Mid year)**	**Total Available 2017/18**	**Approved payment schedule**	**Actual expenditure National Department**	**Actual expenditure by municipalities**	**Exp as % of Allocation National Department**	**Exp as % of Allocation by municipalities**
Direct Transfers	32 147 710	335 890	32 483 600	32 165 123	26 470 672	28 009 452	81,5%	86,2%
Infrastructure	30 395 142	(26 355)	30 368 787	30 078 168	25 075 515	26 277 581	82,6%	86,5%
Capacity and Others	1 752 568	362 245	2 114 813	2 086 955	1 395 157	1 731 871	66,0%	81,9%
Grants excluded from the publication	11 382 247	-	11 382 247	-	-	9 171 573	-	80,6%
Urban Settlement Development Grant	11 382 247	-	11 382 247	-	-	9 171 573	-	80,6%
Total as per DoRA	50 867 765	793 837	51 661 602	39 960 878	26 470 672	37 181 026		

Source: National Treasury Local Government Database

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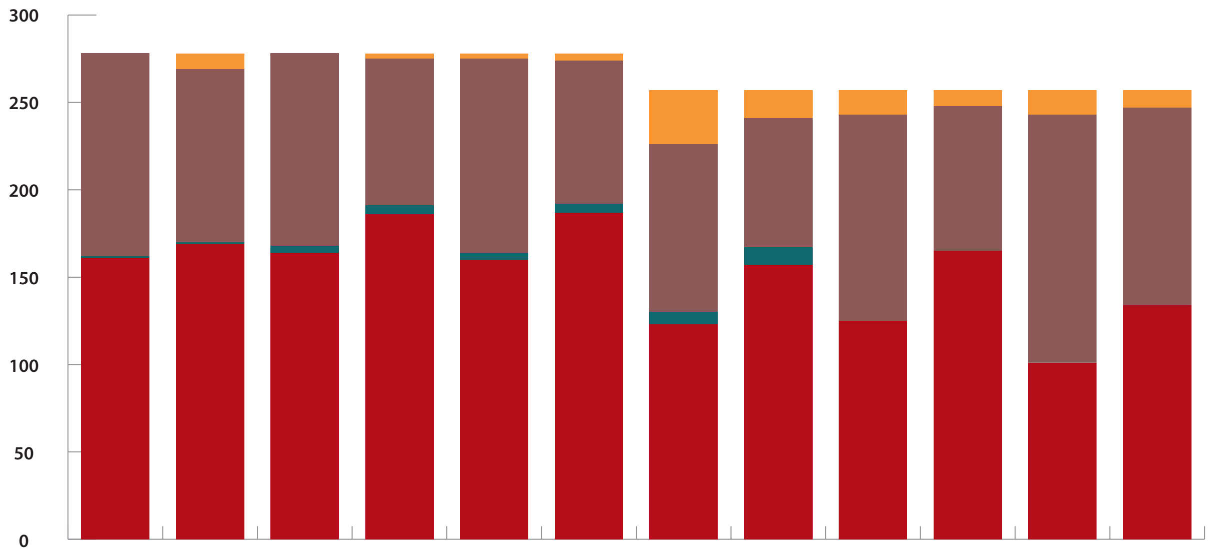
90. In aggregate, municipalities spent R28 billion or 86.2 per cent of the total direct conditional grants allocated to them in 2017/18. Infrastructure grants reported the highest expenditure performance level, at 86.5 per cent of the allocation. This was followed by capacity grants at 81.9 per cent. Spending performance of the Urban Settlements Development Grant, which is transferred only to metros, was the lowest, at 80.6 per cent of the allocation.

91. Please note that the variance in figures reported by administering departments and municipalities is due to the difference in reporting due dates. Municipalities report to treasuries by the 10th of a month but national transferring officer's report to National Treasury on the 20th of each month.

Adoption of Funded Budgets

92. There has been a decline in the number of municipalities adopting funded budgets from 2013/2014 to 2018/19 from 169 to 134, a decline of 20.7 per cent. The main reason for the decrease is that municipalities budget for deficits with an increase inability to maintain payments to creditors which compromise service delivery and threatens their fiscal sustainability.

Figure 3: Number of Municipalities with funded budgets



	2013/14 Tabled budget	2013/14 Adopted budget	2014/15 Tabled budget	2014/15 Adopted budget	2015/16 Tabled budget	2015/16 Adopted budget	2016/17 Tabled budget	2016/17 Adopted budget	2017/18 Tabled budget	2017/18 Adopted budget	2018/19 Tabled budget	2018/19 Adopted budget
Funded	161	169	164	186	160	187	123	157	125	165	101	134
Funded with risk	1	1	4	5	4	5	7	10	0	0	0	0
Unfunded	116	99	110	84	111	82	96	74	118	83	142	113
Undetermined	0	9	0	3	3	4	31	16	14	9	14	10

MUNICIPALITIES IN FINANCIAL DISTRESS

93. Municipalities are responsible for their own fiscal sustainability. Section 135 of the MFMA assigns municipalities the primary responsibility to avoid, identify and resolve 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.

94. 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 are likely to, experience financial distress.

95. 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.

96. National Treasury (NT) has developed a diagnostic tool for fiscal health. It should be noted that this tool simply reports fiscal distress when it has occurred, instead of predicting it. It also does ***not*** capture the service delivery side of fiscal distress in a municipality. Although valuable for oversight purposes, it is not the only instrument necessary to proactively prevent the occurrence or mitigate the impact of the financial distress.

97. Annexure A1 lists the 125 municipalities (a decline from 128 municipalities as reported in the 2016/17 State of Local Government Finances and Financial Management Report) that are evaluated to be experiencing some form of financial distress in 2017/18, based on the financial health assessment. Annexure A2 provides a consolidated analysis of the 257 municipalities' audit outcomes, capital budget performance, current interventions, vacancies in key positions, those identified as financially distressed and trends for the 2017/18 financial year. The list in annexure A2 shows that 4 of the 18 municipalities that received unqualified audit opinion with no findings, were classified as financially distressed. Forty of the 101 municipalities that received unqualified audit report with findings, were classified as financially distressed. This suggests that the result of the audit outcome is not on its own a reflection of good financial health, nor is it intended to be. An audit opinion relates to whether the financial statements give a fair and accurate account of the municipalities finances. If they accurately report huge debts, they will be unqualified. Of the 78 municipalities that received qualified audit opinion, 45 were financially distressed. Of the 26 municipalities that received disclaimers, 13 of them were financially distressed. Nine of the 10 municipalities that received adverse opinion were financially distressed. Fourteen of the 24 municipalities whose audit opinions are still outstanding are financially distressed.

Manifestations of financial distress

98. 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 they are not able to maintain positive cash flows to pay creditors within the thirty days' timeframe as legally prescribed.

99. Outstanding consumer debt owed to municipalities, as reported in terms of s71 of the MFMA, has increased uncontrollably since 2011. Currently, the outstanding municipal debt (R152.7 billion, unaudited AFS, 2017/18) exceeds the total amount allocated to local government through direct and indirect grants from the national fiscus (R111 billion). While households continue to be the largest contributor to outstanding municipal debt comprising 64.8 per cent of the total, there is wide-spread non-payment across all customer segments.

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100. Municipalities in turn owe creditors R86.7 billion (unaudited AFS, 2017/18). This includes all categories of creditors and indicates that many municipalities are not paying creditors within the required 30 day period (sections 65(1) and (2)(e) of the MFMA). Although it is the monies owed to Eskom and Water Boards that has attracted most attention, cases of non-payment of other municipal creditors and suppliers have resulted in attachment and sale-in-execution of municipal assets by the courts. In some cases, this can further undermine the ability of the municipality to deliver basic services.

Causes and effects of local government finance failures

101. 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 fruitless and wasteful, unauthorised and irregular expenditure.

102. Causes of financial distress can be classified into:
- *Structural (or fixed) factors,* including the erosion or interruption of the tax base, decrease in population size, residents' socioeconomic status, government resource allocation, loss of financial independence (e.g. through reliance on government transfers), 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 organization. Research shows that mismanagement, one of the organizational factors, is the major cause of fiscal distress; and
- *Hybrid factors,* which relate to intergovernmental relations and coordination. Sometimes grey areas exist in intergovernmental relations, especially regarding roles, responsibility and accountability.

103. 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. Unrealistic 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 has 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.

104. In most cases weak municipal leadership underpins these issues. Political instability, poor administrative governance and weak financial management remains the common denominator and at the heart of the problem impacting on the municipality's ability to deliver services as per their mandate. Key issues include:
- Ineffective councils and governance structures that contributes to weak fiscal discipline and consequent financial mismanagement;

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- An inappropriate or ineffective political-administrative interface within a municipality, with councillors irregularly involved in administrative decisions or action, and administrators often participating in political or factional activities;
- Vacant or appointment of temporary municipal managers: accountability is notably weaker at municipalities where the position of municipal manager is vacant or occupied by an "acting" incumbent, as an "acting" municipal manager is less inclined to take decisions; and
- The absence of a suitably competent Chief Financial Officer: this presents 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.

105. The AG has also identified key causative factors for financial distress as the lack (or total absence) of leadership commitment, and a management system that is almost completely devoid of consequences for poor performance and wrong-doing.

Support to municipalities provided by the National Treasury

106. South Africa's local government financial management system has undergone a number of reforms and there has been considerable progress. It is internationally acknowledged that South Africa has some exceptional financial management legislation. National government has introduced changes to the local government equitable share formula, announced of multi-year allocations, and other reforms to bring predictability and certainty into the 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.

107. Table 16 below summarises national government strategies to address both the causes and effect of municipal failures.

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Table 16: Cause and Effect of Municipal Failures

Cause/Failures	Effect	Strategy to address Failures
According to Business Unity South Africa (BUSA), indicated the following reasons for municipal debt. • irregular billing, • incorrect billing, • unhappiness with service, • high tariffs, and • others do not pay	Treasury's 2017 State of Local Government Finance Report puts aggregate debt at R143.6 billion at the end of the first quarter. This is an increase of R15.2 billion from the previous quarter. Households account for 70.8 per cent of the R143.6 billion, government 5.7 per cent and business the bulk of the balance. Metropolitan municipalities are owed R72.8 billion (half of total debt). Secondary city municipalities are owed R 29.3 billion or 20.4 per cent of total debt. Households accounted for 65.6 per cent of the R29.3 billion.	National Treasury introduced "game changers" plan to help municipalities reduce costs and improve financial management. Furthermore, National Treasury - MFIP programme & CoGTA Revenue Enhancement also assigns specialists to address municipal billing, financial and services failures. An *m*SCOA system is also expected to improve billing accuracy and reconciliation of accounts. Municipal consumer debt is complex and requires a multi-faceted solution. Addressing the challenge requires not only interventions aimed at promoting greater levels of payment by consumers through credit controls but also, perhaps more importantly, improvements to municipal service delivery and administrative processes.
The Auditor General South Africa (AGSA) audits the financial health indicators of municipalities according to their analysis the financial health is widening on the negative trajectory.	According the AGSA in the last municipal audit 74 auditees (23 per cent) either disclosed that a material uncertainty existed with regard to their ability to continue as a going concern. Recently the volume of municipalities not honouring their payments have increased substantially. Municipalities are also not honouring the 3rd party payment such as pensions, insurance etc. The contingent liability recorded in last financial statement have more than doubled.	The local government equitable share (LGES) formula is being continuously reviewed to smooth out municipalities that have an increase movement in indigent base. Government has commenced with redesigning capital conditional grant to be reactive to grown and aligned to the NDP targets. Municipalities have been given authority on pledging of grants. Revenue document which includes tariff modelling to be roll out by NT to all municipalities.

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Cause/Failures	Effect	Strategy to address Failures
According to the 2018 report by NT the number of Municipal budgets that have been unfunded have grown significantly. In 2018/19, only 101 municipalities tabled funded budgets, but after going through the budget benchmarking process with treasuries, the number increased to 134. According to NT the problems run deeper. In 2018/19, 113 municipal councils voted to adopt budgets that they knew were not funded, making some form of financial distress inevitable.	Community apathy results in increase of protests. Loss of investor confidence results in increase in unemployment.	Municipalities must introduce austeric measures (including contain employee related costs, limiting non-priority spending, increasing revenue collection and adopting funded budgets). Legislation should be amended to force Municipal Councils to approve funded budgets only.
Poor Reporting – increase in disclaimer audit opinions.	Loss of business and community confidence.	*m*SCOA to stream line reporting to improve quality and credibility to improve decision making aimed at service excellence.
Recently municipal collection rates have decreased significantly.	Collapse of service delivery specially water, electricity, sanitation and refuse removal.	Implement measures to identify rural and urban municipalities & collection rate. Economic grant to improve growth should support nodal municipalities

108. 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 to support municipalities in achieving this, including:

a) ***Implementing Minimum Competency Levels:*** Prescribed minimum competency levels were introduced 11 years ago for Municipal Managers, CFOs and 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 17 below summarises the provincial patterns of enrolment in the Minimum Competency Levels programme across the regulated positions. Out of 8 760 municipal officials, only 4 039 officials meet the minimum competency levels as at 30 June 2018. A concern is that out of 224 Chief Financial Officers[8] (CFOs), only 83 (37.1 per cent) have achieved minimum competency levels. It is also a concern that less than 50 per cent of senior managers have achieved minimum competency levels.

[8] This list includes CFOs from the Municipal Entities

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Table 17: Minimum competency levels among senior municipal officials as at 30 June 2018

Province	Number of Municipalities	Accounting Officer	Meet Minimum Competency	Chief Financial Officer	Meet Minimum Competency	Senior Manager	Meet Minimum Competency	Head of Supply Chain Management unit	Meet Minimum Competency	Supply Chain Management Manager	Meet Minimum Competency	Middle Manager	Meet Minimum Competency	Other Official	Meet Minimum Competency	Total Officials who Meet Minimum Competency
EC	39	30	14	29	13	110	53	15	8	28	18	366	130	340	175	411
FS	23	34	8	23	11	90	8	2	1	12	3	173	37	403	277	345
GT	11	9	6	25	3	263	149	12	11	63	41	628	402	528	359	971
KZN	54	43	23	45	13	125	34	13	3	42	18	461	99	777	344	534
LIM	27	21	6	23	6	85	25	6	2	17	8	225	73	477	216	336
MP	20	13	10	15	6	113	35	6	3	16	6	200	75	524	236	371
NC	31	31	13	28	8	84	24	15	4	14	6	150	35	250	98	188
NW	22	17	9	12	3	62	20	4	0	17	6	183	61	392	118	217
WC	30	25	18	24	20	105	70	21	13	27	20	468	253	401	272	666
TOTAL	257	223	107	224	83	1037	418	94	45	236	126	2854	1165	4092	2095	4039

Source: National Treasury - Capacity Building Unit

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b) ***Standard Chart of Accounts for Municipalities (mSCOA):*** This is the biggest reform in the history of Local Government. The Minister of Finance approved publication of the Municipal Regulation on a Standard Chart of Accounts (Notice No. 37577) on 22 April 2014. *m*SCOA is not only a financial classification system or standard at a transactional level across all 257 municipalities, but also a business reform that affects every part of the operations of a municipality. The essence of a successful *m*SCOA lies in whether seamless integration across the accountability cycle of all financial planning, transacting and reporting in every municipality can be achieved, firstly at an operational level and secondly to such an extent that it unlocks strategic reporting.

The Regulation provided for a three-year preparation and readiness window and all 257 municipalities had to be compliant to the *m*SCOA classification framework by 1 July 2017. The *m*SCOA Regulations requires that municipalities upload their annual MTREF budgets (tabled and adopted) in a data string format to the Local Government Database and Reporting System across the six *m*SCOA regulated segments. The successful submission of the budget data strings once again exceeded expectations as 92 per cent of municipalities had successfully uploaded their tabled MTREF budget data strings (TABB) on 26 July 2018.

The National and Provincial treasuries are key stakeholders that drive the successful implementation of the *m*SCOA reform in municipalities. To date, intensive efforts have been made to build the capacity of the Provincial and National Treasuries through monthly progress meetings and training sessions.

In Phase 4 of the mSCOA project implementation, once off non-accredited *m*SCOA training was rolled out to approximately 5 821 officials from all three spheres of government and other relevant stakeholders across the affected environment. However, due to the high turnover of staff in government, especially in municipalities, there is a need for continuous and accredited training on *m*SCOA. A training working group was established to review and update the *m*SCOA training materials that were developed previously. The training was rolled out to provincial treasuries, the Local Government Budget Analysis (LGBA) unit, municipalities and other relevant stakeholders such as Department of Cooperative Governance (DCoG), the South African Local Government Association (SALGA), Auditor General South Africa (AGSA) and the Chartered Institute of Government Finance Audit and Risk Officers (CIGFARO) in September and November 2018. The National Treasury also provided training on *m*SCOA to a group of 110 South African Revenue Services (SARS) officials.

National Treasury has also continued to meet quarterly with the Reporting Reference Group to discuss and agree on *m*SCOA related reporting issues. The reference group consists of representatives from National and Provincial Treasuries, all municipal system vendors, municipalities that act as their own vendors (Cities of Cape Town, eThekwini and Johannesburg), the Accounting Standards Board (ASB) and CIGFARO. These meetings have also eliminated the duplication of efforts when National and Provincial Treasuries meet with system vendors separately on the same issues.

Seven Municipal Finance Improvement Programme (MFIP) advisors and one Database Specialist were appointed through an open tender (GT003/2017) to assist Treasuries with the implementation of *m*SCOA Phase 5 from 01 July 2017 to 31 March 2019.

c) ***Capacity building grants:*** R7.5 billion (for the period 2014/15 to 2017/18) and R7.3 billion (for the period 2018/19 to 2020/21) was allocated to support capacity building in municipalities to improve financial management. However, despite this unqualified audit outcomes (both with findings and without findings) were only reduced from 149 municipalities in 2014/15 to 121 municipalities in 2017/18.

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Table 18: Capacity-building and other current grants to local government 2014/15 - 2020/21

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
R million	Outcome			Adjusted budget	Medium-term estimates		
Direct transfers	1 621	1 446	1 861	1 977	2 043	2 136	2 769
Local government financial management	449	452	465	502	505	533	562
Municipal human settlements capacity	300	100	–	–	–	–	–
Expanded public works programme integrated grant for municipalities	595	588	664	691	693	742	783
Infrastructure skills development	104	124	130	141	141	149	158
Energy efficiency and demand-side management	137	178	186	203	215	227	240
Municipal demarcation transition	–	4	297	140	–	–	–
Municipal restructuring grant	–	–	–	–	–	–	514
Municipal emergency housing grant	–	–	–	–	140	149	159
Municipal disaster relief	36	–	118	300	349	335	354
Indirect transfers	252	251	19	103	115	122	128
Municipal systems improvement	252	251	19	103	115	122	128
Total	1 873	1 698	1 880	2 081	2 158	2 257	2 898

1. Excludes provisional allocations
***Source:** National Treasury*

Among these programmes, the Financial Management Grant (FMG) was introduced in 2004 in response to the scarcity of suitably skilled and experienced municipal finance staff, especially in rural areas. It funds the appointment of financial management and accounting graduates as interns in municipalities. Interns are sourced from a pool of unemployed regionally-based Accounting, Economics, Finance and Risk Management graduates and appointed for 24 to 36 month periods. In 2017/18, R502 million in FMG funding was transferred to municipalities, of which 38 per cent was spent on the appointment of at least five interns per municipality; 20 per cent on upgrading and maintenance of financial management systems; 15 per cent on training municipal officials to attain minimum competencies; and 14 per cent on the preparation and timely submission of Annual Financial Statements.

d) *Municipal Finance Improvement Programme (MFIP III):* The MFIP procured and deployed a total of 59 technical advisors during the 2017/18 financial year, of whom 5 exited the programmes during the year. As at 31 March 2018, the programme was providing support in the following areas:

- Direct capacity support to municipal Budget and Treasury Offices (BTOs) in general financial management areas: eight (8) advisors were deployed in municipalities, with an eventual target of supporting 20 municipalities across the nine (9) provinces by the end of the next financial year;
- Direct capacity support to the Municipal Finance Units of Provincial Treasuries (PTs): 27 technical advisors were placed at the nine PTs providing general PT support (8); specialist SCM support (8); *m*SCOA support (6); specialist asset management support (3); and specialist revenue management support (2). It is envisaged that a total number of 41 technical advisors will be placed at the PTs by the end of the next financial year;
- Direct capacity support to two National Treasury (NT) Chief Directorates (CDs), namely Local Government Budget Analysis and MFMA Implementation: 13 technical advisors were placed in the two CDs providing specialist support in Financial Management Capacity Maturity Model (FMCMM) (2); Audit outcomes (1); *m*SCOA (3); Budgeting and Reporting (1); Municipal Financial Recovery Services (MFRS) (5); and Revenue Management (1). An additional three (3) specialists for MFRS and *m*SCOA must still be procured in the next financial year which will increase the number of technical advisors placed at NT CDs to 16; and

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- The full complement of six (6) technical advisors were procured to provide programme and project management capacity support to the officials in the MFIP Project Management Unit (PMU).

  The capacity building training initiatives under the MFIP are support the various institutional and financial management functional areas identified in terms of the MFMA and the NT local government reform agenda. A total of 404 capacity building sessions were completed since the placement of advisors in June 2017, with 1 008 officials participating including municipal councillors, financial management interns, municipal internal audit forum participants and attendees at various municipal CFO forums. In 2017/18 MFIP municipal advisors conducted 224 capacity building training sessions reaching 304 officials across the eight municipalities. In addition, PT advisors conducted 180 capacity building sessions involving 704 officials from both provincial treasuries and municipalities.

e) *Cities Support Programme (CSP):* The CSP support metropolitan municipalities to strengthen urban governance systems required to build more productive, inclusive and sustainable cities. It operates within the parameters of the Integrated Urban Development Framework (IUDF). The first phase of CSP entered its final full year of implementation in 2017/18. The implementation of the second phase of the Programme has been approved based on a number of evaluations including the Government Wide Evaluation System through the Department of Planning, Monitoring and Evaluation (DPME).

The CSP has delivered a broad range of outputs, documenting progress made in strengthening urban planning systems, financial strategy making and infrastructure delivery management. It has focused on key aspects of built environment management, including housing and urban public transport, while building a portfolio of activities that support metros to focus their actions on building resilience and accelerating inclusive growth. From a programme perspective there were two priorities for 2017/18: project (output) delivery and effective institutionalization. These were both essential to ensure that the CSP leaves an enduring legacy, across government, for the subsequent programme phase, and for any successor initiatives.

f) *Revenue Management Support:* A Revenue Management project is being implemented at provincial treasuries and their associated municipalities to achieve the following objectives:

- Strengthening support with respect to oversight of municipal revenue budget assessments with a view to protect and optimise municipal revenue streams (provincial specific strategies to specifically include this);
- Assessing the credibility of the municipal revenue base and its revenue generation potential to maximise revenue collection (General Valuation Roll and supplementary valuation processes);
- Identify and fix the weaknesses in tariff determination processes (this will rely on *m*SCOA and correctly understanding costs per service; consumption patterns and demand management);
- Improving municipal revenue governance arrangements and implement effective cash management systems;
- Assisting with establishing a revenue committee at the municipality with a revenue champion to lead (preferably someone outside the BTO that reports directly to the municipal manager);
- Achieve alignment between revenue management strategies and policies; and
- Improve financial management performance in municipalities.

The key focus areas for the provincial Revenue Management Specialists are as follows:

- To focus on the revenue value chain and all related internal and external dependencies;
- Working with different stakeholders to avoid duplication;
- Assessment of the Standard Operating Procedures (SOP's) to ensure that the required processes are efficient;
- Identify catalytic areas where attention should be focused to derive the largest financial benefit; and
- Policy compilation and implementation.

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Interventions in municipalities

109. The powers of other spheres of government to intervene in the affairs of a municipality is carefully regulated by the Constitution and the MFMA. Section 139 of the Constitution provides for provincial (and national) interventions in municipalities as a last resort response to serious problems. It envisages three different kinds of problems, with different responses to suit these, set out in the different sub-sections. The role of the province is to assess the nature of the serious problem, and to respond as the relevant section requires:
    - Section 139 (1) is in response to "failure to fulfil an executive obligation": these are discretionary interventions;
    - Section 139 (4) is in response to failure to pass a budget or associated measures: these are mandatory interventions; and
    - Section 139 (5) is in response to serious financial problems, specifically a material breach of financial obligations or ability to provide basic services: these are mandatory interventions.

110. The MFMA requires mandatory interventions under s139(5) to be undertaken through the Municipal Financial Recovery Service located in the National Treasury. Section 139 (7) is clear that if the province fails to promptly intervene when the conditions for a mandatory intervention exist, the national executive must do so.

111. Until recently, provinces have been reticent in using their section 139 of the Constitution powers. In 1998 there were only two municipal interventions, however by 2013 the accumulative total was at 69 and in 2018 a significant accumulative total of 113 interventions in terms of section 139(1) (b) of the Constitution. Most of the interventions were in KwaZulu-Natal Province (33 municipalities) followed by North West Province (30 municipalities) and Eastern Cape and Free State with 14 municipalities. Gauteng only recorded one intervention, while Limpopo and Northern Cape only recorded two interventions. The most common type of provincial interventions was in governance, finance, administration dysfunctionality and service delivery.

CONCLUDING REMARKS

112. The State of Local Government and Financial Management Reports comprehensively discusses the financial health of all 257 of the country's municipalities. **Annexure A1** lists the municipalities in financial distress in 2017/18 (125). **Annexure A2** provides a consolidated analysis of the 257 municipalities' audit outcomes, capital budget performance, current interventions, vacancies in key positions, those identified as financially distressed and trends for the 2017/18 financial year. **Annexure B** provides the consolidated assessment results for the metros as at 30 June 2018.

113. This analysis presented in this report indicates that a **significant number of municipalities continue to perform poorly and remain a cause for concern.** This contributes to a negative impression of the performance of the municipal system as a whole. At an aggregate level:
    - **Municipalities continue to have insufficient cash coverage to fund their operations.** This indicates that municipalities continue to struggle to understand and action the critical concept that budgeting for surpluses is necessary to avoid cash and liquidity problems;
    - **Overspending of operating budgets continues to be a challenge.** This demonstrates weakening fiscal discipline and lax budgeting and financial management practices;
    - **Underspending of capital budgets continues to be a challenge.** This continues to undermine efforts to universalise access to services, improve service reliability and support local economic growth;
    - **Total outstanding consumer debtors has expanded significantly.** This reflects both pressures on household budgets as well as poor revenue value chain management by municipalities;
    - **Total creditors outstanding remains very high.** This reflects a reliance by municipalities on consumers to finance their operations, weak financial management controls and a significant burden being placed on local economies;
    - **Asset management spending remains inadequate.** This is resulting in a steady deterioration in the quality and serviceability of municipal assets that poses both an immediate and long-term risk to fiscal sustainability. This is also reflected in the continued high level of water and electricity losses;
    - **More municipalities are adopting unfunded budgets.** Municipalities that budget for deficits will experience an increased inability to maintain payments to creditors which will compromise service delivery and threaten their fiscal sustainability; and
    - **Municipal audit outcomes continue to decline.** This reflects a lack of commitment by municipal leadership and a weak environment for consequence management.

114. 125 municipalities have been identified as experiencing some form of financial distress, characterised by poor cash flow management and an increase in outstanding debtors and creditors. Initiatives by provincial governments to address this situation have been limited to date. 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.

115. While a number of municipalities continue to demonstrate evidence of significant financial distress, these challenges are not systemic. A number of municipalities have either sustained or improved their financial performance, particularly in larger urban areas, despite the economic and developmental challenges they face.

116. To address capacity challenges, government has channelled very substantial resources and effort towards capacity building initiatives through a number of reform initiatives, support programmes and conditional grant instruments.

117. It is envisaged that municipalities will utilise the information in this report for their benefit and will seek ways of mitigating financial risks.

ANNEXURE A1

Municipalities in financial distress as at 30 June 2018 *(municipalities identified as being in financial distress are highlighted).*

1 - Good

2 - Fair

3 - Poor

≥16 - a municipality shows signs of distress (receiving a score of 3 in more than 4 of the 8 indicators listed in the tables below).

Mun_Name	Mun_Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Buffalo City	BUF	1	1	2	1	2	3	3	2	15	-
Nelson Mandela Bay	NMA	1	1	2	1	1	2	3	3	14	-
Mangaung	MAN	3	1	1	1	3	1	3	3	16	YES
City Of Johannesburg	JHB	3	1	2	1	2	1	3	3	16	YES
City Of Tshwane	TSH	3	1	2	1	2	2	3	3	17	YES
Ekurhuleni Metro	EKU	2	1	2	1	1	1	3	3	14	-
eThekwini	ETH	2	1	2	1	2	3	3	3	17	YES
Cape Town	CPT	2	1	2	1	2	3	2	2	15	-
Matjhabeng	FS184	3	1	3	1	1	2	3	1	15	-
Emfuleni	GT421	3	1	3	1	3	3	3	3	20	YES
Mogale City	GT481	3	1	3	1	2	1	3	3	17	YES
Msunduzi	KZN225	2	1	2	1	2	3	3	3	17	YES
Newcastle	KZN252	3	1	1	1	2	1	3	3	15	-
uMhlathuze	KZN282	2	1	1	1	2	3	1	3	14	-
Polokwane	LIM354	3	1	2	1	2	1	3	3	16	YES
Govan Mbeki	MP307	3	1	3	1	3	3	3	1	18	YES
Emalahleni (Mp)	MP312	1	1	1	1	2	3	3	1	13	-
Steve Tshwete	MP313	3	1	1	1	1	1	1	3	12	-
City of Mbombela	MP326	3	1	3	1	2	1	1	3	15	-
Sol Plaatje	NC091	3	1	3	1	2	1	3	3	17	YES
Madibeng	NW372	3	1	1	1	3	3	3	3	18	YES
Rustenburg	NW373	3	1	1	2	1	1	3	3	15	-
Tlokwe-Ventersdorp	NW405	2	1	2	1	2	2	2	2	14	-
City Of Matlosana	NW403	3	1	3	2	2	3	3	3	20	YES
Drakenstein	WC023	2	1	1	1	2	1	2	1	11	-

ANNEXURE A1

Mun_Name	Mun_Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Stellenbosch	WC024	3	1	1	2	2	2	1	3	15	-
George	WC044	1	1	3	1	2	3	1	1	13	-
Makana	EC104	1	1	1	1	1	3	3	1	12	-
Blue Crane Route	EC102	3	1	3	1	1	3	3	3	18	YES
Dr Beyers Naude	EC101	3	1	3	1	3	3	2	3	19	YES
Kou-Kamma	EC109	3	1	3	1	2	3	3	3	19	YES
Kouga	EC108	2	1	2	1	3	3	2	3	17	YES
Ndlambe	EC105	1	1	3	1	2	3	3	1	15	-
Sundays River Valley	EC106	3	1	3	1	1	3	3	3	18	YES
Raymond Mhlaba	EC129	3	1	1	1	1	3	3	3	16	YES
Amahlathi	EC124	3	1	1	1	2	3	2	3	16	YES
Great Kei	EC123	3	1	2	1	1	3	3	3	17	YES
Mbhashe	EC121	3	1	3	2	2	3	2	3	19	YES
Mnquma	EC122	3	1	1	3	3	3	3	1	18	YES
Ngqushwa	EC126	3	1	1	1	1	1	2	3	13	-
Enoch Mgijima	EC139	2	1	1	3	1	1	3	3	15	-
Inxuba Yethemba	EC131	1	1	3	1	3	1	2	1	13	-
Sakhisizwe	EC138	1	1	3	3	3		3	1	15	-
Emalahleni (Ec)	EC136	3	1	3	1	1	3	3	2	17	YES
Engcobo	EC137	1	1	2	1	3	1	1	1	11	-
Intsika Yethu	EC135	2	1	3	1	3	1	1	1	13	-
Walter Sisulu	EC145	3	1	3	1	2	3	3	3	19	YES
Elundini	EC141	2	1	3	2	3	3	3	2	19	YES
Senqu	EC142	1	1	2	2	3	3	3	1	16	YES
King Sabata Dalindyebo	EC157	3	1	3	1	3	1	1	3	16	YES
Mhlontlo	EC156	1	1	3	2	3	1	3	1	15	-
Ngquza Hills	EC153	1	1	1	1	2	1	3	1	11	-
Nyandeni	EC155	1	1	3	2	3	3	1	1	15	-
Port St Johns	EC154	1	1	3	3	3	3	3	1	18	YES
Matatiele	EC441	3	1	3	1	2	3	3	3	19	YES

ANNEXURE A1

Mun_Name	Mun_ Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Mbizana	EC443	1	1	3	1	3	1	3	1	14	-
Ntabankulu	EC444	3	1	3	1	1	3	2	3	17	YES
Umzimvubu	EC442	2	1	3	1	2	3	2	1	15	-
Kopanong	FS162	2	1	1	1	3	2	3	3	16	YES
Letsemeng	FS161	1	1	1	3	3	3	3	3	18	YES
Mohokare	FS163	3	1	1	1	1	3	1	3	14	-
Masilonyana	FS181	1	1	3	3	3	3	3	3	20	YES
Nala	FS185	2	1	3	1	3	3	3	3	19	YES
Tokologo	FS182	3	1	1	1	1	3	2	1	13	-
Tswelopele	FS183	3	1	2	1	1	3	2	3	16	YES
Dihlabeng	FS192	3	1	1	1	1	3	3	1	14	-
Maluti-a-Phofung	FS194	3	1	3	3	3	3	3	3	22	YES
Mantsopa	FS196	3	1	3	1	1	3	3	3	18	YES
Nketoana	FS193	3	1	3	1	3	3	3	1	18	YES
Phumelela	FS195	3	1	1	1	1	3	3	3	16	YES
Setsoto	FS191	3	1	3	1	3	3	3	1	18	YES
Metsimaholo	FS204	3	1	3	1	3	1	3	3	18	YES
Moqhaka	FS201	3	1	3	1	2	2	3	3	18	YES
Mafube	FS205	3	1	3	2	3	2	3	3	20	YES
Ngwathe	FS203	3	1	1	1	2	1	3	3	15	-
Midvaal	GT422	2	1	2	1	3	3	2	1	15	-
Lesedi	GT423	3	1	3	1	3	3	3	3	20	YES
Rand West City	GT485	3	1	3	1	2	2	3	3	18	YES
Merafong City	GT484	3	1	2	1	1	3	3	3	17	YES
Ray Nkonyeni	KZN216	3	1	2	1	3	1	2	1	14	-
Umdoni	KZN212	1	1	2	2	1	3	2	1	13	-
uMuziwabantu	KZN214	1	1	3	2	3	3	2	1	16	YES
Umzumbe	KZN213	1	1	2	2	3	3	2	1	15	-
uMshwati	KZN221	3	1	3	1	2	1	3	3	17	YES
uMngeni	KZN222	3	1	2	1	1	1	2	2	13	-
Mkhambathini	KZN226	1	1	2	1	1	3	3	1	13	-

ANNEXURE A1

Mun_Name	Mun_ Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Mpofana	KZN223	1	1	3	1	2	1	3	3	15	-
Impendle	KZN224	3	1	1	1	1	3	1	1	12	-
Richmond	KZN227	1	1	2	1	1	3	3	1	13	-
Alfred Duma	KZN238	1	1	2	2	1	3	1	2	13	-
Inkosi Langalibalele	KZN237	3	1	3	1	2	3	3	3	19	YES
Okhahlamba	KZN235	2	1	2	1	1	2	3	3	15	-
Endumeni	KZN241	2	1	1	1	1	3	3	2	14	-
Umvoti	KZN245	3	1	3	1	3	2	3	3	19	YES
Msinga	KZN244	1	1	3	2	3	1	2	1	14	-
Nquthu	KZN242	1	1	1	1	3	1	1	1	10	-
eMadlangeni	KZN253	2	1	3	1	1	2	3	1	14	-
Dannhauser	KZN254	1	1	1	1	3	3	3	1	14	-
Abaqulusi	KZN263	3	1	2	2	1	2	3	3	17	YES
eDumbe	KZN261	3	1	3	1	1	3	2	3	17	YES
Nongoma	KZN265	3	1	3	1	1	1	3	3	16	YES
Ulundi	KZN266	3	1	1	1	3	1	3	3	16	YES
uPhongolo	KZN262	3	1	1	3	3	1	3	3	18	YES
The New Big 5 False Bay	KZN276	3	1	3	1	1	3	3	3	18	YES
Mtubatuba	KZN275	3	1	3	1	3	2	3	2	18	YES
Jozini	KZN272	3	1	2	1	2	3	3	1	16	YES
Umhlabuyalingana	KZN271	2	1	2	1	2	1	3	1	13	-
Mthonjaneni	KZN285	3	1	3	1	2	1	2	3	16	YES
Mfolozi	KZN281	3	1	3	1	2	2	1	3	16	YES
Nkandla	KZN286	1	1	3	1	1		1	1	9	-
uMlalazi	KZN284	1	1	3	1	2	1	1	1	11	-
KwaDukuza	KZN292	1	1	2	1	2	1	1	2	11	-
Mandeni	KZN291	2	1	2	1	1	2	3	1	13	-
Maphumulo	KZN294	2	1	2	2	1	2	3	1	14	-
Ndwedwe	KZN293	1	1	2	1	3	3	3	1	15	-
Dr Nkosazana Dlamini Zuma	KZN436	1	1	2	2	3	3	3	1	16	YES
Greater Kokstad	KZN433	1	1	2	2	2	1	1	1	11	-

ANNEXURE A1

Mun_Name	Mun_Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Ubuhlebezwe	KZN434	1	1	3	2	3	1	3	1	15	-
Umzimkhulu	KZN435	1	1	3	2	3	1	1	3	15	-
Ba-Phalaborwa	LIM334	3	1	1	1	1	1	2	3	13	-
Greater Giyani	LIM331	3	1	3	1	2	3	3	1	17	YES
Greater Letaba	LIM332	2	1	2	1	2	1	3	1	13	-
Greater Tzaneen	LIM333	3	1	2	1	3	2	3	2	17	YES
Maruleng	LIM335	1	1	1	2	2	3	1	1	12	-
Makhado-Thulamela	LIM345	1	1	1	3	1	1	1	1	10	-
Musina	LIM341	3	1	3	1	1	3	2	2	16	YES
Makhado	LIM344	3	1	3	1	2	3	3	3	19	YES
Thulamela	LIM343	1	1	2	1	2	2	3	1	13	-
Blouberg	LIM351	3	1	1	1	1	1	2	3	13	-
Lepelle-Nkumpi	LIM355	2	1	2	1	3	2	2	3	16	YES
Molemole	LIM353	1	1	3	1	3	1	3	1	14	-
Modimolle-Mookgopong	LIM368	1	1	3	3	3	3	3	2	19	YES
Mogalakwena	LIM367	2	1	1	1	1	2	3	1	12	-
Bela Bela	LIM366	1	1	1	1	1	1	3	1	10	-
Lephalale	LIM362	3	1	3	1	3	3	3	3	20	YES
Thabazimbi	LIM361	1	1	3	3	3	1	3	3	18	YES
Fetakgomo-Greater Tubatse	LIM476	1	1	1	1	3	1	3	3	14	-
Elias Motsoaledi	LIM472	3	1	3	1	1	3	2	3	17	YES
Ephraim Mogale	LIM471	2	1	3	1	2	2	3	1	15	-
Makhuduthamaga	LIM473	3	1	2	1	1	2	3	3	16	YES
Msukaligwa	MP302	3	1	3	1	3	2	3	3	19	YES
Dipaleseng	MP306	3	1	3	2	1	1	3	3	17	YES
Lekwa	MP305	3	1	3	1	3	1	3	3	18	YES
Mkhondo	MP303	3	1	3	1	1	2	1	3	15	-
Pixley Ka Seme (MP)	MP304	1	1	3	1	2	2	3	1	14	-
Albert Luthuli	MP301	3	1	3	1	3	1	3	3	18	YES
Emakhazeni	MP314	1	1	3	3	3	1	2	3	17	YES
Victor Khanye	MP311	3	1	3	1	2	1	3	3	17	YES

ANNEXURE A1

Mun_Name	Mun_ Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Dr J.S. Moroka	MP316	3	1	3	1	3	3	3	3	20	YES
Thembisile Hani	MP315	2	1	3	1	2	1	1	3	14	-
Thaba Chweu	MP321	3	1	3	1	2	2	3	3	18	YES
Bushbuckridge	MP325	1	1	3	1	1	2	3	2	14	-
Nkomazi	MP324	1	1	3	1	3	1	2	2	14	-
Ga-Segonyana	NC452	3	1	1	1	1	1	2	3	13	-
Gamagara	NC453	2	1	1	2	3	1	1	1	12	-
Joe Morolong	NC451	3	1	3	1	3	3	3	1	18	YES
Hantam	NC065	3	1	3	1	1	3	2	3	17	YES
Kamiesberg	NC064	3	1	1	1	2	3	3	3	17	YES
Karoo Hoogland	NC066	3	1	3	1	1	3	3	3	18	YES
Khai-Ma	NC067	3	1	1	1	2	3	3	3	17	YES
Nama Khoi	NC062	3	1	3	1	3	3	3	3	20	YES
Richtersveld	NC061	3	1	3	1	2	3	3	3	19	YES
Emthanjeni	NC073	3	1	1	1	2	1	3	3	15	-
Kareeberg	NC074	1	1	3	3	3	1	1	1	14	-
Renosterberg	NC075	1	1	3	2	2	1	3	1	14	-
Siyancuma	NC078	3	1	2	1	3	3	3	3	19	YES
Siyathemba	NC077	2	1	1	1	1	3	3	3	15	-
Thembelihle	NC076	3	1	1	3	1	3	1	3	16	YES
Ubuntu	NC071	3	1	3	1	2	3	3	1	17	YES
Umsobomvu	NC072	3	1	1	1	2	3	3	3	17	YES
Dawid Kruiper	NC087	2	1	1	1	3	2	1	3	14	-
!Kai! Garib	NC082	3	1	3	1	3	1	3	3	18	YES
!Kheis	NC084	3	1	3	1	2	3	3	3	19	YES
Kgatelopele	NC086	2	1	1	1	3	1	2	3	14	-
Tsantsabane	NC085	2	1	1	1	1	1	3	3	13	-
Dikgatlong	NC092	3	1	1	1	1	3	3	3	16	YES
Magareng	NC093	3	1	3	1	3	2	3	3	19	YES
Phokwane	NC094	1	1	3	3	2		3	1	14	-
Kgetlengrivier	NW374	3	1	1	2	3	3	3	3	19	YES

ANNEXURE A1

Mun_Name	Mun_Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Moretele	NW371	2	1	3	1	2	3	2	3	17	YES
Moses Kotane	NW375	3	1	1	1	1	3	3	3	16	YES
Mafikeng	NW383	3	1	3	1	3	3	3	1	18	YES
Ditsobotla	NW384	2	1	1	1	1	3	2	3	14	-
Ramotshere Moiloa	NW385	3	1	3	1	3	3	3	3	20	YES
Tswaing	NW382	3	1	2	1	1	3	3	3	17	YES
Ratlou	NW381	1	1	1	1	3	1	1	1	10	-
Lekwa-Teemane	NW396	3	1	2	2	1	3	3	3	18	YES
Mamusa	NW393	2	1	3	1	2	3	3	3	18	YES
Naledi (Nw)	NW392	1	1	3	3	3	3	3	3	20	YES
Greater Taung	NW394	1	1	2	2	1	1	1	1	10	-
Kagisano-Molopo	NW397	1	1	1	1	1	3	1	1	10	-
Maquassi Hills	NW404	3	1	1	1	1	3	3	1	14	-
Saldanha Bay	WC014	3	1	1	1	2	2	2	1	13	-
Bergrivier	WC013	1	1	2	1	1	3	3	1	13	-
Cederberg	WC012	3	1	2	1	3	2	3	3	18	YES
Matzikama	WC011	2	1	3	1	3	2	3	2	17	YES
Swartland	WC015	1	1	2	1	1	1	1	1	9	-
Breede Valley	WC025	2	1	2	1	2	2	2	3	15	-
Langeberg	WC026	2	1	2	1	2	1	1	1	11	-
Witzenberg	WC022	2	1	1	1	1	1	2	1	10	-
Overstrand	WC032	1	1	2	1	2	1	1	1	10	-
Cape Agulhas	WC033	2	1	2	1	1	3	2	2	14	-
Swellendam	WC034	2	1	1	1	3	1	1	1	11	-
Theewaterskloof	WC031	2	1	2	1	3	3	3	2	17	YES
Knysna	WC048	2	1	1	1	1	1	3	3	13	-
Mossel Bay	WC043	3	1	1	1	2	3	1	3	15	-
Oudtshoorn	WC045	2	1	3	1	2	1	2	1	13	-
Bitou	WC047	2	1	1	1	1	1	2	2	11	-
Hessequa	WC042	1	1	2	1	3	1	2	1	12	-
Kannaland	WC041	1	1	3	1	2	1	3	1	13	-

ANNEXURE A1

Mun_Name	Mun_ Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Beaufort West	WC053	3	1	1	1	1	3	1	3	14	-
Laingsburg	WC051	1	1	3	3	3	1	3	1	16	YES
Prince Albert	WC052	1	1	3	1	2	3	3	1	15	-
Sarah Baartman	DC10	1	1	1	3	3	1	1	1	12	-
Amathole	DC12	2	1	1	2	1	3	3	1	14	-
Chris Hani	DC13	2	1	3	1	3	3	3	1	17	YES
Joe Gqabi	DC14	3	1	3	1	3	3	3	3	20	YES
O .R. Tambo	DC15	2	1	3	1	3	3	3	3	19	YES
Alfred Nzo	DC44	1	1	3	2	1	2	2	1	13	-
Xhariep	DC16	3	1	1	1	1	1	2	3	13	-
Lejweleputswa	DC18	1	1	3	2	2	3	3	1	16	YES
Thabo Mofutsanyana	DC19	3	1	1	1	1	3	3	3	16	YES
Fezile Dabi	DC20	1	1	1	1	3		1	1	9	-
Sedibeng	DC42	3	1	3	1	3	3	3	3	20	YES
West Rand	DC48	3	1	3	1	3	1	3	1	16	YES
Ugu	DC21	3	1	1	1	2	3	3	3	17	YES
uMgungundlovu	DC22	3	1	1	1	1	1	2	3	13	-
Uthukela	DC23	3	1	3	1	3	3	3	3	20	YES
Umzinyathi	DC24	1	1	3	1	2	3	3	3	17	YES
Amajuba	DC25	2	1	1	1	3	3	3	3	17	YES
Zululand	DC26	3	1	3	1	2	1	2	3	16	YES
Umkhanyakude	DC27	2	1	3	1	3	1	2	3	16	YES
King Cetshwayo	DC28	1	1	3	1	3	1	2	1	13	-
iLembe	DC29	2	1	3	1	1	2	3	3	16	YES
Harry Gwala	DC43	2	1	3	1	3	1	3	2	16	YES
Mopani	DC33	2	1	1	1	2	3	3	3	16	YES
Vhembe	DC34	1	1	1	1	1	1	3	1	10	-
Capricorn	DC35	1	1	3	1	1	1	1	3	12	-
Waterberg	DC36	1	1	1	2	1	3	1	1	11	-
Sekhukhune	DC47	3	1	1	1	3	3	2	1	15	-
Gert Sibande	DC30	1	1	1	1	1	1	1	1	8	-

ANNEXURE A1

Mun_Name	Mun_ Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Nkangala	DC31	1	1	1	1	2	1	1	1	9	-
Ehlanzeni	DC32	3	1	1	1	3	2	1	3	15	-
John Taolo Gaetsewe	DC45	3	1	1	1	1	1	1	3	12	-
Namakwa	DC6	2	1	3	3	3	3	3	1	19	YES
Pixley Ka Seme (Nc)	DC7	3	1	1	1	1	1	2	2	12	-
Z F Mgcawu	DC8	3	1	1	1	3	1	1	3	14	-
Frances Baard	DC9	1	1	1	2	3	1	3	1	13	-
Bojanala Platinum	DC37	3	1	1	1	1	1	1	3	12	-
Ngaka Modiri Molema	DC38	2	1	3	2	2	1	1	3	15	-
Dr Ruth Segomotsi Mompati	DC39	2	1	1	2	3	1	1	3	14	-
Dr Kenneth Kaunda	DC40	3	1	1	1	2	2	3	3	16	YES
West Coast	DC1	1	1	1	1	2	3	1	1	11	-
Cape Winelands DM	DC2	1	1	1	1	2	1	1	1	9	-
Overberg	DC3	2	1	1	1	3	3	1	1	13	-
Eden	DC4	1	1	1	1	1	3	1	1	10	-
Central Karoo	DC5	2	1	2	1	1	1	1	3	12	-

Soure: *NT Local Government Database*

ANNEXURE A2

Consolidated audit outcomes, interventions, vacancies and distress list

Annexure B: Consolidated audit outcome, interventions, vacancies and distress list

Category	Municipality Name	Muni Code	Financial Distress 2017/18	Audit Outcome 2017/18	Persisitent Capital Underspending 2016-18	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
A	Buffalo City	BUF	-	Qualified	YES	Permanent	Permanent			0
A	Nelson Mandela Bay	NMA	-	Qualified	YES	Permanent	Permanent			0
A	Mangaung	MAN	YES	Outstanding	-	Permanent	Permanent			1
A	City Of Johannesburg	JHB	YES	Unqualified - With findings	-	Permanent	Acting			0
A	City Of Tshwane	TSH	YES	Unqualified - With findings	-	Permanent	Permanent			2
A	Ekurhuleni Metro	EKU	-	Unqualified - With findings	YES	Permanent	Permanent			0
A	eThekwini	ETH	YES	Unqualified - With findings	-	Permanent	Permanent			1
A	Cape Town	CPT	-	Unqualified - With findings	-	Permanent	Permanent			0
B1	Matjhabeng	FS184	-	Qualified	-	Permanent	Permanent			2
B1	Emfuleni	GT421	YES	Outstanding	YES	Acting	Acting	Yes		5
B1	Mogale City	GT481	YES	Unqualified - With findings	YES	Permanent	Permanent			1
B1	Msunduzi	KZN225	YES	Outstanding	YES	Permanent	Permanent			0
B1	Newcastle	KZN252	-	Unqualified - With findings	YES	Permanent	Permanent			1
B1	uMhlathuze	KZN282	-	Unqualified - With findings	YES	Permanent	Permanent			0
B1	Polokwane	LIM354	YES	Qualified	YES	Acting	Acting			2
B1	Govan Mbeki	MP307	YES	Disclaimer of opinion	YES	Permanent	Permanent			4
B1	Emalahleni (Mp)	MP312	-	Qualified	YES	Permanent	Permanent			4
B1	Steve Tshwete	MP313	-	Unqualified - With findings	-	Permanent	Permanent			0
B1	City of Mbombela	MP326	-	Unqualified - With findings	-	Permanent	Permanent			1
B1	Sol Plaatje	NC091	YES	Qualified	YES	Acting	Acting			0
B1	Madibeng	NW372	YES	Disclaimer of opinion	-	Permanent	Permanent			3
B1	Rustenburg	NW373	-	Outstanding	YES	Permanent	Acting			0
B1	Tlokwe-Ventersdorp	NW405	-	Qualified	-	Acting	Permanent			0
B1	City Of Matlosana	NW403	YES	Unqualified - With findings	YES	Permanent	Permanent			4
B1	Drakenstein	WC023	-	Unqualified - With findings	-	Permanent	Permanent			0
B1	Stellenbosch	WC024	-	Unqualified - With findings	YES	Permanent	Permanent			0
B1	George	WC044	-	Qualified	-	Permanent	Acting			0
B2	Makana	EC104	-	Qualified	YES	Acting	Acting			1

ANNEXURE A2

Category	Municipality Name	Muni Code	Financial Distress 2017/18	Audit Outcome 2017/18	Persisitent Capital Underspending 2016-18	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B2	Blue Crane Route	EC102	YES	Unqualified - With findings	-	Permanent	Permanent		Yes	2
B2	Dr Beyers Naude	EC101	YES	Disclaimer of opinion	YES	Permanent	Permanent		Yes	2
B2	Kou-Kamma	EC109	YES	Unqualified - With findings	-	Permanent	Permanent			3
B2	Kouga	EC108	YES	Unqualified - With findings	-	Permanent	Permanent			1
B2	Ndlambe	EC105	-	Qualified	-	Permanent	Permanent			3
B2	Sundays River Valley	EC106	YES	Qualified	YES	Permanent	Permanent		Yes	2
B2	Raymond Mhlaba	EC129	YES	Unqualified - With findings	-	Permanent	Permanent			1
B2	Amahlathi	EC124	YES	Unqualified - With findings	-	Permanent	Permanent			2
B2	Great Kei	EC123	YES	Unqualified - With findings	YES	Acting	Permanent	Yes		3
B2	Mbhashe	EC121	YES	Unqualified - With findings	-	Permanent	Permanent			1
B2	Mnquma	EC122	YES	Adverse opinion	YES	Permanent	Permanent			3
B2	Ngqushwa	EC126	-	Unqualified - With findings	-	Permanent	Permanent			2
B2	Enoch Mgijima	EC139	-	Disclaimer of opinion	-	Permanent	Permanent	Yes	Yes	1
B2	Inxuba Yethemba	EC131	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Sakhisizwe	EC138	-	Outstanding	YES	Permanent	Acting			0
B2	Emalahleni (Ec)	EC136	YES	Unqualified - With findings	-	Permanent	Permanent			1
B2	Engcobo	EC137	-	Qualified	-	Permanent	Permanent			0
B2	Intsika Yethu	EC135	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Walter Sisulu	EC145	YES	Disclaimer of opinion	-	Acting	Acting	Yes	Yes	1
B2	Elundini	EC141	YES	Adverse opinion	-	Permanent	Permanent			2
B2	Senqu	EC142	YES	Unqualified - No findings	YES	Permanent	Permanent			2
B2	King Sabata Dalindyebo	EC157	YES	Qualified	-	Acting	Permanent			4
B2	Mhlontlo	EC156	-	Unqualified - With findings	-	Permanent	Permanent		Yes	2
B2	Ngquza Hills	EC153	-	Qualified	-	Permanent	Permanent			0
B2	Nyandeni	EC155	-	Unqualified - With findings	YES	Permanent	Permanent			0
B2	Port St Johns	EC154	YES	Qualified	YES	Acting	Permanent			2
B2	Matatiele	EC441	YES	Unqualified - With findings	-	Permanent	Permanent			2
B2	Mbizana	EC443	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Ntabankulu	EC444	YES	Unqualified - With findings	-	Acting	Acting			0
B2	Umzimvubu	EC442	-	Qualified	-	Permanent	Permanent			1
B2	Kopanong	FS162	YES	Qualified	YES	Permanent	Acting		Yes	2

ANNEXURE A2

Category	Municipality Name	Muni Code	Financial Distress 2017/18	Audit Outcome 2017/18	Persisitent Capital Underspending 2016-18	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B2	Letsemeng	FS161	YES	Outstanding	YES	Permanent	Permanent			3
B2	Mohokare	FS163	-	Outstanding	YES	Permanent	Permanent		Yes	3
B2	Masilonyana	FS181	YES	Outstanding	YES	Permanent	Acting	Yes		4
B2	Nala	FS185	YES	Qualified	-	Permanent	Permanent			4
B2	Tokologo	FS182	-	Disclaimer of opinion	-	Permanent	Acting		Yes	3
B2	Tswelopele	FS183	YES	Qualified	-	Permanent	Permanent		Yes	3
B2	Dihlabeng	FS192	-	Qualified	YES	Permanent	Permanent			2
B2	Maluti-a-Phofung	FS194	YES	Outstanding	YES	Acting	Permanent	Yes		5
B2	Mantsopa	FS196	YES	Qualified	-	Acting	Permanent		Yes	3
B2	Nketoana	FS193	YES	Outstanding	YES	Permanent	Permanent			5
B2	Phumelela	FS195	YES	Qualified	-	Permanent	Permanent			1
B2	Setsoto	FS191	YES	Qualified	-	Permanent	Permanent		Yes	3
B2	Metsimaholo	FS204	YES	Qualified	YES	Acting	Acting			4
B2	Moqhaka	FS201	YES	Unqualified - With findings	-	Permanent	Permanent		Yes	2
B2	Mafube	FS205	YES	Outstanding	YES	Permanent	Permanent	Yes		4
B2	Ngwathe	FS203	-	Disclaimer of opinion	-	Permanent	Permanent			2
B2	Midvaal	GT422	-	Unqualified - No findings	-	Permanent	Permanent		Yes	0
B2	Lesedi	GT423	YES	Unqualified - With findings	-	Acting	Acting			4
B2	Rand West City	GT485	YES	Unqualified - With findings	-	Permanent	Permanent			1
B2	Merafong City	GT484	YES	Unqualified - With findings	-	Permanent	Permanent			3
B2	Ray Nkonyeni	KZN216	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Umdoni	KZN212	-	Unqualified - With findings	YES	Acting	Permanent			2
B2	uMuziwabantu	KZN214	YES	Unqualified - With findings	-	Permanent	Permanent			0
B2	Umzumbe	KZN213	-	Unqualified - With findings	YES	Permanent	Permanent			1
B2	uMshwati	KZN221	YES	Unqualified - With findings	-	Permanent	Permanent			2
B2	uMngeni	KZN222	-	Unqualified - With findings	-	Permanent	Permanent			2
B2	Mkhambathini	KZN226	-	Unqualified - With findings	YES	Acting	Permanent			0
B2	Mpofana	KZN223	-	Disclaimer of opinion	-	Acting	Acting	Yes		1
B2	Impendle	KZN224	-	Qualified	-	Permanent	Acting			2
B2	Richmond	KZN227	-	Outstanding	-	Permanent	Permanent			0
B2	Alfred Duma	KZN238	-	Qualified	-	Permanent	Permanent			0
B2	Inkosi Langalibalele	KZN237	YES	Adverse opinion	-	Permanent	Permanent	Yes		2

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Category	Municipality Name	Muni Code	Financial Distress 2017/18	Audit Outcome 2017/18	Persisitent Capital Underspending 2016-18	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B2	Okhahlamba	KZN235	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Endumeni	KZN241	-	Unqualified - With findings	-	Permanent	Acting			4
B2	Umvoti	KZN245	YES	Unqualified - With findings	YES	Permanent	Permanent			1
B2	Msinga	KZN244	-	Unqualified - With findings	-	Acting	Acting			0
B2	Nquthu	KZN242	-	Unqualified - With findings	YES	Permanent	Permanent			1
B2	eMadlangeni	KZN253	-	Unqualified - With findings	YES	Permanent	Permanent	Yes		1
B2	Dannhauser	KZN254	-	Qualified	-	Permanent	Permanent			1
B2	Abaqulusi	KZN263	YES	Qualified	-	Permanent	Permanent			3
B2	eDumbe	KZN261	YES	Unqualified - With findings	-	Permanent	Permanent	Yes		3
B2	Nongoma	KZN265	YES	Adverse opinion	-	Permanent	Permanent			3
B2	Ulundi	KZN266	YES	Unqualified - With findings	-	Permanent	Permanent			1
B2	uPhongolo	KZN262	YES	Unqualified - With findings	-	Permanent	Permanent			3
B2	The New Big 5 False Bay	KZN276	YES	Qualified	-	Permanent	Permanent			2
B2	Mtubatuba	KZN275	YES	Unqualified - With findings	-	Permanent	Permanent			1
B2	Jozini	KZN272	YES	Unqualified - With findings	YES	Permanent	Acting			1
B2	Umhlabuyalingana	KZN271	-	Unqualified - With findings	-	Acting	Permanent			0
B2	Mthonjaneni	KZN285	YES	Unqualified - With findings	-	Permanent	Permanent			0
B2	Mfolozi	KZN281	YES	Unqualified - With findings	-	Permanent	Acting			2
B2	Nkandla	KZN286	-	Unqualified - With findings	-	Permanent	Permanent			2
B2	uMlalazi	KZN284	-	Unqualified - With findings	-	Permanent	Permanent			1
B2	KwaDukuza	KZN292	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Mandeni	KZN291	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Maphumulo	KZN294	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Ndwedwe	KZN293	-	Unqualified - With findings	-	Permanent	Acting			2
B2	Dr Nkosazana Dlamini Zuma	KZN436	YES	Unqualified - With findings	-	Permanent	Permanent	Yes		0
B2	Greater Kokstad	KZN433	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Ubuhlebezwe	KZN434	-	Qualified	YES	Permanent	Permanent			2
B2	Umzimkhulu	KZN435	-	Unqualified - With findings	YES	Permanent	Permanent			0
B2	Ba-Phalaborwa	LIM334	-	Qualified	YES	Permanent	Permanent			4
B2	Greater Giyani	LIM331	YES	Qualified	-	Permanent	Permanent			0

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Category	Municipality Name	Muni Code	Financial Distress 2017/18	Audit Outcome 2017/18	Persisitent Capital Underspending 2016-18	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B2	Greater Letaba	LIM332	-	Unqualified - With findings	-	Permanent	Permanent			1
B2	Greater Tzaneen	LIM333	YES	Qualified	-	Permanent	Permanent			0
B2	Maruleng	LIM335	-	Unqualified - With findings	YES	Acting	Acting			2
B2	Makhado-Thulamela	LIM345	-	Disclaimer of opinion	-	Permanent	Permanent			0
B2	Musina	LIM341	YES	Qualified	YES	Permanent	Permanent			3
B2	Makhado	LIM344	YES	Qualified	-	Permanent	Permanent		Yes	1
B2	Thulamela	LIM343	-	Unqualified - With findings	YES	Permanent	Permanent		Yes	0
B2	Blouberg	LIM351	-	Qualified	YES	Permanent	Acting		Yes	1
B2	Lepelle-Nkumpi	LIM355	YES	Qualified	YES	Permanent	Permanent			1
B2	Molemole	LIM353	-	Unqualified - With findings	YES	Permanent	Acting		Yes	1
B2	Modimolle-Mookgopong	LIM368	YES	Outstanding	-	Acting	Acting	Yes	Yes	2
B2	Mogalakwena	LIM367	-	Adverse opinion	-	Acting	Acting			1
B2	Bela Bela	LIM366	-	Qualified	YES	Permanent	Permanent			1
B2	Lephalale	LIM362	YES	Qualified	-	Permanent	Permanent			2
B2	Thabazimbi	LIM361	YES	Outstanding	YES	Acting	Acting			5
B2	Fetakgomo-Greater Tubatse	LIM476	-	Qualified	-	Permanent	Permanent			1
B2	Elias Motsoaledi	LIM472	YES	Unqualified - With findings	-	Permanent	Permanent			1
B2	Ephraim Mogale	LIM471	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Makhuduthamaga	LIM473	YES	Qualified	-	Permanent	Permanent			1
B2	Msukaligwa	MP302	YES	Adverse opinion	YES	Permanent	Permanent			4
B2	Dipaleseng	MP306	YES	Qualified	-	Permanent	Permanent			2
B2	Lekwa	MP305	YES	Qualified	-	Permanent	Acting			3
B2	Mkhondo	MP303	-	Qualified	-	Permanent	Permanent		Yes	2
B2	Pixley Ka Seme (MP)	MP304	-	Unqualified - With findings	-	Acting	Permanent			0
B2	Albert Luthuli	MP301	YES	Unqualified - With findings	-	Permanent	Permanent			2
B2	Emakhazeni	MP314	YES	Qualified	-	Permanent	Permanent		Yes	1
B2	Victor Khanye	MP311	YES	Qualified	YES	Acting	Permanent			1
B2	Dr J.S. Moroka	MP316	YES	Adverse opinion	-	Acting	Permanent			2
B2	Thembisile Hani	MP315	-	Qualified	YES	Permanent	Acting		Yes	1
B2	Thaba Chweu	MP321	YES	Outstanding	-	Acting	Acting			4

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Category	Municipality Name	Muni Code	Financial Distress 2017/18	Audit Outcome 2017/18	Persisitent Capital Underspending 2016-18	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B2	Bushbuckridge	MP325	-	Qualified	-	Permanent	Acting			2
B2	Nkomazi	MP324	-	Unqualified - With findings	YES	Permanent	Permanent			2
B2	Ga-Segonyana	NC452	-	Qualified	-	Permanent	Permanent			3
B2	Gamagara	NC453	-	Disclaimer of opinion	YES	Permanent	Acting			2
B2	Joe Morolong	NC451	YES	Disclaimer of opinion	-	Permanent	Acting			2
B2	Hantam	NC065	YES	Qualified	-	Permanent	Permanent			3
B2	Kamiesberg	NC064	YES	Qualified	-	Permanent	Acting		Yes	4
B2	Karoo Hoogland	NC066	YES	Unqualified - With findings	-	Permanent	Permanent			4
B2	Khai-Ma	NC067	YES	Qualified	-	Permanent	Permanent			4
B2	Nama Khoi	NC062	YES	Qualified	-	Permanent	Acting			2
B2	Richtersveld	NC061	YES	Qualified	-	Acting	Permanent			4
B2	Emthanjeni	NC073	-	Unqualified - With findings	YES	Permanent	Permanent			2
B2	Kareeberg	NC074	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Renosterberg	NC075	-	Outstanding	-	Acting	Acting			2
B2	Siyancuma	NC078	YES	Unqualified - With findings	-	Acting	Permanent		Yes	3
B2	Siyathemba	NC077	-	Outstanding	YES	Permanent	Permanent			4
B2	Thembelihle	NC076	YES	Qualified	-	Permanent	Permanent		Yes	3
B2	Ubuntu	NC071	YES	Qualified	YES	Acting	Permanent			3
B2	Umsobomvu	NC072	YES	Unqualified - With findings	YES	Permanent	Permanent		Yes	2
B2	Dawid Kruiper	NC087	-	Unqualified - With findings	-	Permanent	Permanent			1
B2	!Kai! Garib	NC082	YES	Qualified	-	Acting	Acting			1
B2	!Kheis	NC084	YES	Disclaimer of opinion	YES	Acting	Acting			3
B2	Kgatelopele	NC086	-	Disclaimer of opinion	-	Permanent	Permanent		Yes	1
B2	Tsantsabane	NC085	-	Outstanding	-	Acting	Acting			4
B2	Dikgatlong	NC092	YES	Outstanding	YES	Permanent	Permanent			2
B2	Magareng	NC093	YES	Qualified	-	Permanent	Permanent			4
B2	Phokwane	NC094	-	Outstanding	-	Acting	Acting			1
B2	Kgetlengrivier	NW374	YES	Disclaimer of opinion	-	Permanent	Permanent	Yes		5
B2	Moretele	NW371	YES	Qualified	-	Permanent	Acting			2
B2	Moses Kotane	NW375	YES	Disclaimer of opinion	YES	Permanent	Acting			1
B2	Mafikeng	NW383	YES	Disclaimer of opinion	-	Acting	Acting	Yes	Yes	2
B2	Ditsobotla	NW384	-	Disclaimer of opinion	-	Permanent	Acting	Yes		5

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Category	Municipality Name	Muni Code	Financial Distress 2017/18	Audit Outcome 2017/18	Persisitent Capital Underspending 2016-18	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B2	Ramotshere Moiloa	NW385	YES	Disclaimer of opinion	-	Acting	Acting	Yes		3
B2	Tswaing	NW382	YES	Qualified	-	Permanent	Permanent			1
B2	Ratlou	NW381	-	Qualified	-	Permanent	Acting			1
B2	Lekwa-Teemane	NW396	YES	Disclaimer of opinion	-	Permanent	Acting		Yes	3
B2	Mamusa	NW393	YES	Disclaimer of opinion	-	Permanent	Permanent			4
B2	Naledi (Nw)	NW392	YES	Disclaimer of opinion	-	Permanent	Permanent	Yes		4
B2	Greater Taung	NW394	-	Qualified	YES	Permanent	Acting			2
B2	Kagisano-Molopo	NW397	-	Disclaimer of opinion	YES	Permanent	Acting	Yes		1
B2	Maquassi Hills	NW404	-	Disclaimer of opinion	-	Acting	Acting	Yes	Yes	4
B2	Saldanha Bay	WC014	-	Unqualified - With findings	YES	Permanent	Permanent			0
B2	Bergrivier	WC013	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Cederberg	WC012	YES	Unqualified - No findings	YES	Permanent	Permanent			3
B2	Matzikama	WC011	YES	Unqualified - No findings	-	Permanent	Permanent			0
B2	Swartland	WC015	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Breede Valley	WC025	-	Unqualified - No findings	YES	Permanent	Permanent			0
B2	Langeberg	WC026	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Witzenberg	WC022	-	Unqualified - No findings	-	Permanent	Permanent			1
B2	Overstrand	WC032	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Cape Agulhas	WC033	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Swellendam	WC034	-	Unqualified - No findings	YES	Permanent	Permanent			1
B2	Theewaterskloof	WC031	YES	Unqualified - With findings	YES	Permanent	Permanent			0
B2	Knysna	WC048	-	Unqualified - With findings	YES	Acting	Permanent			1
B2	Mossel Bay	WC043	-	Unqualified - With findings	-	Permanent	Permanent			0
B2	Oudtshoorn	WC045	-	Qualified	YES	Permanent	Permanent		Yes	1
B2	Bitou	WC047	-	Unqualified - With findings	-	Permanent	Permanent			1
B2	Hessequa	WC042	-	Unqualified - No findings	YES	Permanent	Permanent			0
B2	Kannaland	WC041	-	Outstanding	YES	Permanent	Acting	Yes		3
B2	Beaufort West	WC053	-	Qualified	-	Permanent	Permanent		Yes	2
B2	Laingsburg	WC051	YES	Outstanding	YES	Acting	Permanent			1
B2	Prince Albert	WC052	-	Unqualified - With findings	-	Acting	Permanent			1
B2	Sarah Baartman	DC10	-	Unqualified - With findings	-	Permanent	Permanent			1
B2	Amathole	DC12	-	Qualified	-	Permanent	Permanent			2

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Category	Municipality Name	Muni Code	Financial Distress 2017/18	Audit Outcome 2017/18	Persisitent Capital Underspending 2016-18	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B2	Chris Hani	DC13	YES	Qualified	-	Acting	Permanent			0
B2	Joe Gqabi	DC14	YES	Unqualified - No findings	YES	Permanent	Permanent			5
B2	O .R. Tambo	DC15	YES	Qualified	-	Permanent	Permanent			1
B2	Alfred Nzo	DC44	-	Unqualified - With findings	-	Permanent	Permanent		Yes	3
B2	Xhariep	DC16	-	Unqualified - With findings	YES	Permanent	Acting			4
B2	Lejweleputswa	DC18	YES	Outstanding	-	Permanent	Permanent			1
B2	Thabo Mofutsanyana	DC19	YES	Qualified	-	Permanent	Permanent			5
B2	Fezile Dabi	DC20	-	Outstanding	YES	Acting	Acting			0
B2	Sedibeng	DC42	YES	Unqualified - With findings	-	Permanent	Acting			2
B2	West Rand	DC48	YES	Unqualified - With findings	YES	Permanent	Permanent			1
B2	Ugu	DC21	YES	Adverse opinion	-	Permanent	Permanent			1
B2	uMgungundlovu	DC22	-	Qualified	-	Permanent	Acting			2
B2	Uthukela	DC23	YES	Qualified	-	Permanent	Permanent	Yes		4
B2	Umzinyathi	DC24	YES	Adverse opinion	-	Permanent	Acting	Yes		3
B2	Amajuba	DC25	YES	Qualified	YES	Permanent	Permanent			3
B2	Zululand	DC26	YES	Qualified	-	Permanent	Acting			3
B2	Umkhanyakude	DC27	YES	Qualified	-	Permanent	Permanent			3
B2	King Cetshwayo	DC28	-	Qualified	YES	Acting	Permanent			1
B2	iLembe	DC29	YES	Unqualified - With findings	-	Permanent	Permanent			1
C	Harry Gwala	DC43	YES	Qualified	YES	Permanent	Permanent			1
C	Mopani	DC33	YES	Adverse opinion	YES	Permanent	Permanent			3
C	Vhembe	DC34	-	Disclaimer of opinion	YES	Permanent	Permanent			1
C	Capricorn	DC35	-	Unqualified - With findings	-	Permanent	Permanent			0
C	Waterberg	DC36	-	Qualified	-	Acting	Acting			0
C	Sekhukhune	DC47	-	Unqualified - With findings	YES	Permanent	Acting			4
C	Gert Sibande	DC30	-	Unqualified - No findings	YES	Permanent	Permanent			0
C	Nkangala	DC31	-	Unqualified - With findings	YES	Permanent	Permanent			0
C	Ehlanzeni	DC32	-	Unqualified - With findings	YES	Permanent	Acting			0
C	John Taolo Gaetsewe	DC45	-	Unqualified - With findings	-	Permanent	Permanent			4
C	Namakwa	DC6	YES	Unqualified - With findings	YES	Permanent	Permanent			1
C	Pixley Ka Seme (Nc)	DC7	-	Unqualified - With findings	-	Permanent	Permanent			3
C	Z F Mgcawu	DC8	-	Unqualified - No findings	-	Permanent	Permanent			0

ANNEXURE A2

Category	Municipality Name	Muni Code	Financial Distress 2017/18	Audit Outcome 2017/18	Persisitent Capital Underspending 2016-18	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
C	Frances Baard	DC9	-	Unqualified - With findings	YES	Permanent	Acting			0
C	Bojanala Platinum	DC37	-	Disclaimer of opinion	-	Permanent	Permanent			0
C	Ngaka Modiri Molema	DC38	-	Disclaimer of opinion	YES	Acting	Permanent	Yes		2
C	Dr Ruth Segomotsi Mompati	DC39	-	Qualified	-	Permanent	Acting			1
C	Dr Kenneth Kaunda	DC40	YES	Qualified	-	Permanent	Acting			0
C	West Coast	DC1	-	Unqualified - No findings	-	Permanent	Permanent			0
C	Cape Winelands DM	DC2	-	Unqualified - No findings	-	Permanent	Permanent			0
C	Overberg	DC3	-	Unqualified - No findings	-	Permanent	Acting		Yes	0
C	Eden	DC4	-	Unqualified - With findings	-	Permanent	Permanent			1
C	Central Karoo	DC5	-	Unqualified - With findings	YES	Permanent	Permanent			0

ANNEXURE B

Summary Assessment Results: Metropolitan municipalities

Cash	• All Metros reported positive cash balances • Mangaung reported lowest cash balances (R235.9 million), followed by Buffalo City (R1.8 billion), City of Johannesburg (R2.2 billion), and City of Tshwane (R2.3 billion)
Overspending on Operational Budgets	• Mangaung overspent the operational budget by 11.3%.1 metro overspent their budget by less than 10 per cent. All other metros not mentioned did not overspend their budgets • It is encouraging to note that none of the metros overspent their operational budgets by more than 25 per cent. This is indicative of expenditure management and and credible budget assumptions.
Underspending on Capital Budgets	• 8 metros, compared to 6 in the 2016/17 financial year, have under-spent their capital budget • Two metro underspent their capital budget by less than 10% • 5 metros underspent their capital budget by between 10 and 30% • 1 metro underspent its capital budget by more than 30%
Debtors	• Management of debtors continues to be a challenge in metros. An amount of R54.1 billion or 71.6 per cent has been outstanding for a period exceeding 90 days and therefore less likely to be recovered. This is an increase from R49 billion in 2016/17. • A total of R75.5 billion in outstanding debt is owed to metros, representing an increase of R10.6 billion or 16.3 % when compared to the 2016/17 financial year • The City of Johannesburg is still owed the largest amount at R19.8 billion, followed by Ekurhuleni Metro at R14.5 billion, City of Tshwane at R11 billion and Ethekwini at R10.1 billion • Ethekwini reported the highest growth in outstanding debtors (43.6%) followed by the Cape Town at 36.7% and Buffalo City at 24% respectively. • 7 metros have reported outstanding debtors of more than 30 % of own revenue against 5 metros in the 2016/17 financial year • As at June 2018 the collection rate by metros averages 93.6% compared to a national collection rate of 75.4%
Creditors	• Increase of R1.3 billion owed by metros in 2017/18 compared to 2016/17 financial year. • Creditor as a percentage of cash and investments has increased to 171 % in 2017/18 compared to 164 % in 2016/17. • 6 metros in 2017/18 from 7 in 2016/17 have creditors exceeding 75 per cent of their total cash and investments • 2 metros in 2017/18 have Creditors between 50 and 75 per cent of their total cash and investments • All metros are in contravention of section 65 of the MFMA

ANNEXURE B

1. Cash performance

	2014/15	2015/16	2016/17	2017/18	Overall Trend	Municipality	Risk	Action
Positive Cash balance: 30 June 2018	8	8	8	8	→	All metro recorded positive cash balances	Low	None required
Negative Cash balances (assessed as the number of months over the previous 6 months)								
For more than 3 months	0	0	0	0	→	None	Low	None required
Between 1 and 3 months	0	0	0	0	→	None	Low	None required
Less than 1 months	0	0	0	0	→	None	Low	None required
Cash Coverage (ability of municipality to cover monthly operational expenditure):								
More than 3 months of operational expenditure	2	2	1	2	↓	Buffalo City, Nelson Mandela Bay	Low	
Between 1-3 months	4	4	4	3	↑	Ekurhuleni, Ethekwini, Cape Town,	Low	
Less than 1 months	2	2	3	3	→	Mangaung, City of Johanesburg, City of Tshwane	Moderate to high	Requires monthly monitoring

2. Over-spending of operational budgets

	2014/15	2015/16	2016/17	2017/18	Overall Trend	Risk	Action
Total operating Budget (R'000)	161 618	180 500	193 809	202 153	↑		
Total overspending of the adjustment operating budgets	(2 363)	(1 279)	(838)	(1 503)	↓	Low	
Percentage overspending	-1%	-1%	0%	-1%	↓		
Over-spending of less than 10% of operational budget	Ethekwini						
Over-spending of between 10% and 25% of operational budget	Mangaung						
Over-spending of more than 25% of operational budget							

3. Under-spending of capital budget

	2014/15	2015/16	2016/17	2017/18	Overall Trend	Overall Risk	Action
Total Capital Budget (R'000)	34 560	34 998	37 420	36 587			
Total under-spending of the adjustment capital budget	4 769	3 224	6 082	7 535	↑	Moderate to high	
Percentage under-spending	14%	9%	16%	21%	↑		
Under-spending of less than 10% of capital budget	Nelson Mandela, Ekurhuleni						
Under-spending of between 10% and 30% of capital budget	Buffalo City, Cape Town, City of Tshwane, Ethekwini, City of Johannesburg						
Under-spending of more than 30% of capital budget	Mangaung						

ANNEXURE B

4. Growth in consumer debtors

	2014/15	2015/16	2016/17	2017/18	Overall Trend	Overall Risk	Action
Total Own Revenue (R'000)	169 144	181 837	192 825	221 416			
Total Debtors	64 573	54 402	68 242	82 831	↑	Moderate	
Debtors as a % of own revenue	38%	30%	35%	37%	↑		
Debtors as a percentage of own revenue							
Debtors less than 15% of total own revenue							
Debtors between 15% and 30% of total own revenue	Cape Town						
Debtors more than 30% of total own revenue	Buffalo City, Nelson Mandela, City of Johannesburg, Ekurhuleni, City of Tshwane, Ethekwini, Mangaung						
Annual growth in debtors							
Growth in debtors of less than 10% over period	Mangaung, City of Johannesburg						
Growth in debtors of between 10% and 20% over period	Nelson Mandela Bay, City of Tshwane						
Growth in debtors of more than 20% over period	Buffalo City, eThekwini, Cape Town						

5. Creditor management

	2014/15	2015/16	2016/17	2017/18	Overall Trend	Overall Risk	Action
Total Cash (R'000)	27 100	28 859	24 998	24 675			
Total Creditors	27 155	30 571	40 962	42 287	↑	Moderate	
Creditors as a % of total cash	100%	106%	164%	171%	↑		
Creditors less than 25% of total cash							
Creditors between 25% and 50% of total cash							
Creditors between 50% and 75% of total cash	Buffalo City, Cape Town						
Creditors more than 75% of total cash	City of Tshwane, Ekurhuleni, City of Johannesburg, City of Tshwane, Nelson Mandela Bay, Mangaung						

THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT AS AT 30 JUNE 2018

Fourth quarter of the 2017/18 financial year

Analysis Document

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