THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT

AS AT 30 JUNE 2017

Fourth Quarter of the 2016/17 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 question
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

ABBREVIATIONS

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 comprehensively discusses the financial health of all 257 of the country's municipalities. The conclusion of the assessment is that municipalities in financial distress are characterised by poor cash flow management and an increase in outstanding debtors and creditors based on the assessment of the following financial health indicators:

- 64 municipalities had negative cash balances at 30 June 2017. Throughout the 2016/17 financial year, none of the metropolitan municipalities (metros) recorded negative cash balances. This is a strong indication that, in general, they have a solid cash base and comply with cash flow management procedures.
- At an aggregate level, 74 (68 in 2015/2016) municipalities in 2016/17 (28.8 per cent) recorded cash coverage exceeding three months of operational expenditure, which is within the acceptable norm. Of concern is the fact that the number of municipalities with cash coverage of less than one month of operational expenditure increased from 116 in 2015/16 to 137 in 2016/17.
- The total number of municipalities that overspent on their operational budgets decreased from 163 in 2015/16 to 33 in 2016/17.
- The total number of municipalities that have underspend on their capital budget by more than 30 per cent have increased from 90 in 2015/16 to 122 in 2016/17.
- At the end of the fourth quarter of 2016/17 (as per the Section 71 results), total debtors amounted to R128.5 billion, a R14.9 billion increase from the 2015/16 financial year and total creditors amounted to R43.8 billion, a R4.9 billion increase from the 2015/16 financial year.
- There is a decrease in the reliance on conditional grants in municipalities where more than 75 per cent of transfers of revenue on national transfers.
- In 2016/17, 17 district municipalities were identified as financially distressed, an increase from the 16 of the previous year. It is cause for concern that district municipalities are financially distressed, given the role they have to play in empowering and capacitating local municipalities.

Other analysis and data confirm these findings. The Auditor-General (AG) highlighted the fact that municipal audit outcomes had shown little improvement. Recorded water and electricity losses remain high. There is on-going instability in senior municipal management positions with an increase in the number of acting Municipal Managers (104) and acting Chief Financial officers (88), a total increase in both acting positions from 18 to 20 per cent has a negative impact on service delivery to communities.

Annexure A1 lists the municipalities in financial distress in 2016/17 (128). 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 2016/17 financial year. Annexure B provides the consolidated assessment results for the metros as at 30 June 2017.

This report also discusses capacity building initiatives adopted by the government in recent years and has provided an overview of the recently introduced municipal development programmes. To address capacity challenges, government has channelled very substantial funding towards these initiatives; the results, however, remain unsatisfactory.

INTRODUCTION

1. This is the sixth (of nine reports prepared) annual State of Local Government Finances and Financial Management Report (SoLGF), covering the period to the end of the 2016/17 municipal financial year (30 June 2017).
2. The purpose of the report is to identify areas of risk in local government finances so that appropriate policy responses can be developed. In particular, the report enables the recognition of those municipalities that are in financial distress[1] so that processes can be initiated to determine the full extent of their financial problems, the extent of support that a municipality may require, or if an intervention is required in a municipality due to a crisis in its finances (as provided for in Section 139 of the Constitution). Annexure A provides a list of municipalities in financial distress as at 30 June 2017.
3. The report reviews the state of municipal budgets taking into account both the revenue and expenditure as well as municipal governance related issues at the end of a particular financial year. It is based on the information contained in the audited annual financial statements, the current Medium-term Revenue and Expenditure Budget Framework (MTREF) and Section 71 reports (as verified annually by both National and Provincial Treasuries).
4. National government continues to invest considerable resources and 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:
   - A broader perspective on local government finance in South Africa, including a summary of the fiscal framework for local government, international benchmarks on local government, and a summary of the Department of Cooperative Governance (DCoG's) report on the state of local government in South Africa as at 30 June 2016.
   - An assessment of the financial health of municipalities, using eight indicators, as well as a review of other issues and indicators impacting on financial health.
   - An overview of the support provided by improve financial management in municipalities.
6. As was the case with previous reports, the summarised version of this review was presented to the Technical Committee on Finance (TCF), the Budget Forum and the Budget Council in different formats and parts. The full report is also circulated to the Presidency, the Department of Cooperative Governance (DCoG), and provincial treasuries.

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

A BROADER PERSPECTIVE 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 predominately 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 achieved a substantial redistribution of revenues raised through national taxes in relatively wealthy (mainly urban) areas to areas where the demand for subsidised public services are the highest. As a result, the most rural municipalities receive around twice the allocation per household than metros.
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.
    - The rapid growth in national transfers 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 municipal election period 2000/01 to 2016/17 from R14.2 billion to R93.7 billion or 559.9 per cent. The future growth in national transfers is now being reduced as part of the national programme of fiscal consolidation.

INTERNATIONAL BENCHMARKS OF LOCAL GOVERNMENT FINANCE IN SOUTH AFRICA

11. The principal of transparency, as outlined in the Constitution, is a fundamental pillar on which the system of public finance in South Africa continues to be built. The National Treasury, in partnership with Code4SA, launched the Municipal Money website and data portal (www.municipalmoney.gov.za) in 2016 to encourage citizen oversight of municipal finances. More recently, on 20 February 2018, the new "Vulekamali" portal (www.vulekamali.gov.za) was launched in partnership with IMALI YETHU, to provide complementary data on provincial budgets.
12. In addition, the equivalent of the Open Budget Index (OBI) for Metros are in the process to be developed.

A BROADER PERSPECTIVE LOCAL GOVERNMENT PERFORMANCE IN SOUTH AFRICA

13. South Africa's efforts to deepen transparency in public financial management processes have been extensively recognised internationally:
    - In the 2017 Open Budget Index (OBI) survey, out of 115 countries, South Africa has been ranked first – a position shared with New Zealand. South Africa has consistently been rated in the top three since it held the first position in the 2010 Open Budget Index. The OBI survey assesses the availability and comprehensiveness of eight key budget documents and examines the extent of effective oversight provided by legislatures, independent fiscal institutions and the supreme audit authorities, and the opportunities available to the public to participate in national budget processes. An Open Budget Index (OBI) for Metropolitan Municipalities is currently being piloted in partnership with the International Budget Partnership (https://www.internationalbudget.org/)
    - The 2017 by the Mo Ibrahim Index of African Governance (IIAG) ranked South Africa sixth overall in Africa from fourth in the year 2015, fourth in Sustainable Economic Opportunity and first in the category of Public Management. The IIAG is a tool that measures and monitors governance performance in African countries, measured across four key components of safety and rule of law, participation and human rights, sustainable economic opportunity and human development.
    - The World Economic Forum's Global Competitiveness Report 2016-2017 ranked South Africa 47th out of 138 countries. It noted areas of excellence in local government as the strength of auditing and reporting standards (1st) and quality of roads (29th). However, the World Economic Forum's report highlighted areas of poorer performance, including wastefulness of government expenditure (88th), public trust in politicians (109th), perceived favoritism in decisions of government officials (115th), quality of electricity supply (112th) and the burden of government regulation (106th).

DCOG: REPORT ON THE STATE OF LOCAL GOVERNMENT IN SOUTH AFRICA AS AT 30 JUNE 2016

14. The Department of Cooperative Governance (DCoG) uses twenty-five indicators to assess progress made and challenges experienced by municipalities. The latest report on the state of local government in South Africa as at June 2016, was issued in October 2017. It focusses on issues of service delivery, governance, legislative compliance, implementation challenges, as well as support initiatives and their impact.
15. The report notes that, access to basic services for households has increased from 70 per cent to 85 per cent between Census 2001 and Census, 2011. Over the same period, access to energy increased from 72 per cent to 85 per cent, access to water from 64 per cent to 73 per cent, and access to flush, chemical or ventilated pit toilets and refuse removal from 55 per to 62 per cent.
16. Broad observations emanating from this Report can be summarized as follows:
    - The number of households in South Africa increased from 14.5 million in 2011 (StatsSa Census 2011) to 16.9 million in 2016 (StatsSa Community Survey). Gauteng province experienced the highest household population growth between 2011 and 2016 (20.9 per cent), followed by Western Cape (18.3 per cent).
    - Households with access to the electricity grid has increased to 90.2 per cent and households with access to piped water has increased from 85.1 per cent (2011) to 89.9 per cent (2016) which is close to the National Development Goal of 90 per cent by 2019 for both electricity and water.
    - The capacity to provide households with access to chemical and flush toilets has increased from 59 per cent (2011) municipalities to 84 per cent (2016).

A BROADER PERSPECTIVE LOCAL GOVERNMENT PERFORMANCE IN SOUTH AFRICA

- The provision for refuse removal services remains a challenge, especially in rural areas. 201 municipalities reported on the provision of refuse removal, 39 (19.4 per cent) were able to serve 80 per cent or more of their households with refuse removal services on a weekly or less often than a weekly basis.
- The Auditor General reports that the financial health of municipalities is on a steady decline, and that only 35 per cent of municipalities (93 of 278) are financial healthy.
- 66 municipalities (23.7 per cent of all municipalities) collected less than 80 per cent of the revenue owed to them as per their adjustments budgets. Municipalities are especially struggling in the Eastern Cape, Northern Cape and Limpopo Provinces.
- Almost a quarter of municipalities underspent on conditional grants with a majority of these municipalities in the Limpopo Province.
- The average number of ward committee meetings per ward was 4.6 in 2015/16, which was a slight increase from 4.3 in 2014/15. The most meetings per ward were held in municipalities in Limpopo, KwaZulu-Natal, North West and Mpumalanga.
- In the 2015/16 period, 2 135 protests were recorded by municipalities, mainly in Gauteng and the Western Cape Provinces.
- Challenges are mainly still experienced across the infrastructure development life cycle in municipalities from project identification, infrastructure planning, financing, construction to operations and maintenance. Some of the root causes remain weak institutional capacity and shortage of skills that all impact on the ability to plan for operations and maintenance of infrastructure.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

MEASUREMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

17. The purpose of this report is to assess the financial health of municipalities. The indicators in Figure 1, below are used in order to give a broad perspective of financial health and are only used for the purposes of this report. They contain eight key measures identified in the Funding Compliance Methodology and MFMA Circular No. 42 (Funding a Municipal Budget). 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.

Figure 1: Measures of municipal financial health

No.	Measure	Purpose
1	Cash as a percentage of operating expenditure	To determine cost average: does the municipality have adequate cash available to meet its operating expenditure requirements?
2	Persistance of negative cash balances	Identifies whether cash shortages/bank overdrafts pose a "chronic" problem for municipality
3	Overspending 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	Underspending of original capital budgets	Tests the effectiveness of municpal 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 finacial distress the result of poor debtor management?
7	Creditors as a percentage of cash 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 MFMA (cost average) ?
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.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

INDICATORS 1 & 2: ASSESSING THE VULNERABILITY OF MUNICIPALITIES' CASH POSITION

18. In terms of Section 45 of the MFMA, municipalities are not permitted to close the financial year with any short-term borrowing or overdraft. The fact that some municipalities were not able to close the 2016/17 financial year with positive cash positions is considered a very strong indicator that they were in financial distress at that date.
19. An additional condition for approval of roll-over applications was introduced in the 2011/12 financial year: roll-over requests from municipalities reporting negative cash balances were not considered for approval.
20. At a minimum, a municipality should maintain a positive cash position. 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?

(A) PERSISTENT NEGATIVE CASH BALANCES

21. Many municipalities experience temporary cash-flow problems. Where these persist over a number of months, this is a strong indicator that there are severe underlying financial problems. Table 1 below shows for how many months in the preceding six months' municipalities reported negative cash balances at the end of the month or failed to report credible cash information. The aim is to identify those municipalities that are persistently in a vulnerable cash-flow position or which generate unreliable information.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 1: Persistence of municipalities' negative cash balances, 2015/16-30 June 2017

	Audited Outcome	Section 71 Report for the financial year 2016/17				
'Municipalities	'2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '17	Quarter 4: 30 Jun '17	Year to Date 2016/17
Metropolitan municipalities (8)						
No.of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No.of municipalities whose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	0	0	0	0	0
between 1 and 3 months of the previous 6 months	0	0	0	0	0	0
less than 1 month of the previous 6 months	0	0	0	0	0	0
Secondary cities (19)						
No.of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No.of municipalities whose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	3	3	2	2	2
between 1 and 3 months of the previous 6 months	2	1	1	3	3	3
less than 1 month of the previous 6 months	0	0	0	0	0	0
Other Local Municipalities (Towns) 186						
No.of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No.of municipalities whose cash balance was negative over the last 6 months:						

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 1: Persistence of municipalities' negative cash balances, 2015/16-30 June 2017

'Municipalities	Audited Outcome	Section 71 Report for the financial year 2016/17				
	'2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '17	Quarter 4: 30 Jun '17	Year to Date 2016/17
for more than 3 months of previous 6 months	0	7	16	24	22	23
between 1 and 3 months of the previous 6 months	6	39	24	21	28	26
less than 1 month of the previous 6 months	0	0	0	0	0	0
District municipalities (44)						
No.of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No.of municipalities whose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	3	5	6	6	6
between 1 and 3 months of the previous 6 months	2	5	4	3	4	4
less than 1 month of the previous 6 months	0	0	0	0	0	0
All municipalities (257)						
No.of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No.of municipalities whose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	13	24	32	30	31
between 1 and 3 months of the previous 6 months	10	45	29	27	35	33
less than 1 month of the previous 6 months	0	0	0	0	0	0

Source: National Treasury - Local Government Database

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

22. The table above shows that 64 municipalities had negative cash balances at 30 June 2017. Throughout the 2016/17 financial year, none of the metropolitan municipalities (metros) recorded negative cash balances. This is a strong indication that, in general, they have a solid cash base and comply with cash flow management procedures.
23. Two secondary cities reported negative balances for more than three months of the last six months during the 2016/17 financial year while they reported no negative cash balances during the 2015/16 financial year. This implies that the two secondary cities' ability to manage their cash balances has deteriorated.
24. Among local municipalities, 49 (26 per cent) reported negative cash balances in 2016/17. This was an increase of 43 or 717 per cent compared with the 2015/16 financial year. The huge difference in information received between the audited results for 2015/16 and S71 information for 2016/17 is a clear indication that municipalities do not report credible quarterly S71 information to Provincial and National Treasury.
25. Ten district municipalities reported negative cash balances for more than three months and four operated an overdraft between one to three months in 2016/17.

(B) CASH COVERAGE POSITION OF MUNICIPALITIES

26. 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 5 below shows the number of municipalities that, at the end of June 2017, had less than the required cash coverage.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 2: Municipalities' cash coverage, 2015/16-30 June 2017

	Audited Outcome	Section 71 Report for the financial year 2016/17				
'Municipalities	'2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '17	Quarter 4: 30 Jun '17	Year to Date 2016/17
Metropolitan municipalities (8)						
No. of munics for which cash data is unavailable	1	0	0	0	0	0
No. whose cash coverage is						
more than 3 months of operational expenditure	3	5	6	8	6	2
between 1 and 3 months of operational expenditure	3	3	2	0	2	3
1 month or less of operational expenditure	1	0	0	0	0	3
Secondary cities (19)						
No. of munics for which cash data is unavailable	2	0	0	0	0	0
No. whose cash coverage is						
more than 3 months of operational expenditure	0	11	11	12	10	2
between 1 and 3 months of operational expenditure	7	3	4	3	2	7
1 month or less of operational expenditure	10	5	4	4	7	10
Other Local Municipalities (Towns) 186						
No. of munics for which cash data is unavailable	23	1	3	2	4	1
No. whose cash coverage is						
more than 3 months of operational expenditure	46	120	121	130	89	54

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 2: Municipalities' cash coverage, 2015/16-30 June 2017

	Audited Outcome	Section 71 Report for the financial year 2016/17				
'Municipalities	'2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '17	Quarter 4: 30 Jun '17	Year to Date 2016/17
between 1 and 3 months of operational expenditure	32	17	15	14	22	28
1 month or less of operational expenditure	85	48	47	40	71	103
District municipalities (44)						
No. of munics for which cash data is unavailable	1	0	0	0	0	0
No. whose cash coverage is						
more than 3 months of operational expenditure	19	31	32	33	24	16
between 1 and 3 months of operational expenditure	4	4	3	4	5	8
1 month or less of operational expenditure	20	9	9	7	15	20
All municipalities (257)						
No. of munics for which cash data is unavailable	27	1	3	2	4	1
No. whose cash coverage is						
more than 3 months of operational expenditure	68	167	170	183	129	74
between 1 and 3 months of operational expenditure	46	27	24	21	31	46
1 month or less of operational expenditure	116	62	60	51	93	136

Source: National Treasury - Local Government Database

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

27. Over the years, municipalities have become accustomed to reporting cash information. However, 27 municipalities did not report cash data for 2015/16 and only one on 30 June 2017.
28. The metros have reported a decrease in cash coverage of more than three months of operational expenditure from 3 in 2015/16 to 2 in 2016/17.
29. Among the secondary cities, two municipalities in the 2016/17 financial year compared to zero in 2015/16 had a cash coverage in excess of three months of operational expenditure. In addition to the 2 metros and the 2 secondary cities, 54 municipalities and 16 district municipalities had cash coverage of more than three months of operational expenditure.
30. At an aggregate level, 74 (68 in 2015/2016) municipalities in 2016/17 (28.8 per cent) recorded cash coverage exceeding three months of operational expenditure, which is within the acceptable norm.
31. Of concern is the fact that the number of municipalities with cash coverage of less than one month of operational expenditure increased from 116 in 2015/16 to 136 in 2016/17.
32. It seems clear that municipalities continue to struggle to understand and action the critical concept that budgeting for surpluses is necessary to avoid cash and liquidity problems. There was a decline in the compliance with these two indicators in the 2016/17 financial year compared with 2015/16.
33. 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 budget and performance and annual budget benchmark engagements in January/February and April/May each year. These two annual strategic engagements have been institutionalised by National Treasury to improve and strengthen the quality and oversight of municipal performance.
34. 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 disasters such as floods and drought
    - 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
    - Ineffective cash flow management on a monthly basis
    - Non-implementation of debt collection and credit control policies.

INDICATOR 3: OVERSPENDING OF OPERATIONAL EXPENDITURE BUDGETS

35. If a credible long or medium term financial strategy is not in place, it may 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.
36. Table 3 below shows the overspending of operational expenditure budgets from 2012/13 to 2016/17 per category of municipality.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 3: Overspending of operational budgets per category of municipality, 2012/13-2016/17

	Audited Outcome				Section 71 Report for the financial year 2016/17				
	2012/13	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '17	Quarter 4: 30 Jun '17	Year to Date 2016/17
Metropolitan municipalities (8)									
Total Operating Budgets	133 964	149 065	160 970	147 330	44 254	44 674	41 938	51 660	182 526
Total Overspending of Adjusted Operating Budgets	5 439	874	648	33 170	4 205	3 784	6 952	(2 770)	13 033
Overspending as % of operating budgets	4%	1%	0%	23%	10%	8%	17%	-5%	7%
Number of municipalities who overspent by									
less than 10% of their operational budget	0	4	3	0	1	0	0	2	1
between 10% and 25%of their operational budget	0	4	2	0	1	0	0	2	1
more than 25% of their operational budget	0	0	0	1	0	0	0	0	0
Secondary cities (19)									
Total Operating Budgets	32 678	36 833	39 622	43 825	9 719	10 674	10 752	10 431	41 576
Total Overspending of Operating Budgets	(3 226)	(5 124)	(3 155)	(3 696)	1 804	849	1 324	1 645	6 728
Overspending as % of operating budgets	-10%	-14%	-8%	-8%	19%	8%	12%	16%	16%
Number of municipalities who overspent by									
less than 10% of their operational budget	8	9	5	6	2	0	1	2	0
between 10% and 25%of their operational budget	8	4	6	6	2	6	4	4	2
more than 25% of their operational budget	2	4	1	3	1	0	0	0	0
Other Local Municipalities (Towns) 186									

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Table 3: Overspending of operational budgets per category of municipality, 2012/13-2016/17

	Audited Outcome				Section 71 Report for the financial year 2016/17				
	2012/13	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '17	Quarter 4: 30 Jun '17	Year to Date 2016/17
Total Operating Budgets	44 525	49 120	54 676	57 582	12 043	14 102	13 066	13 978	53 188
Total Overspending of Operating Budgets	(5 246)	(4 022)	(4 888)	(1 097)	4 449	2 390	3 867	2 955	14 545
Overspending as % of operating budgets	-12%	-8%	-9%	-2%	37%	17%	30%	21%	27%
Number of municipalities who overspent by									
less than 10% of their operational budget	85	76	75	59	11	22	10	29	7
between 10% and 25%of their operational budget	41	42	43	36	5	14	9	13	8
more than 25% of their operational budget	50	38	44	21	5	12	5	11	4
District municipalities (44)									
Total Operating Budgets	15 859	18 027	18 044	20 389	3 548	4 404	4 507	4 453	16 912
Total Overspending of Operating Budgets	(1 539)	(2 500)	(471)	(1 260)	1 245	390	367	420	2 583
Overspending as % of operating budgets	-10%	-14%	-3%	-6%	35%	9%	8%	9%	15%
Number of municipalities who overspent by									
less than 10% of their operational budget	20	19	17	17	1	10	7	6	2
between 10% and 25%of their operational budget	7	10	9	9	5	11	5	4	7
more than 25% of their operational budget	14	12	6	5	0	3	3	4	1

Source: National Treasury - Local Government Database

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37. The table shows that 1 metro, 7 local municipalities and 2 district municipality had overspent their adjusted operational budgets by less than 10 per cent at the end of 2016/17.
38. Only five municipalities overspent their operational budgets by more than 25 per cent. This is a result of incorrect budgeting which will be addressed through the implementation of each provincial treasury's strategies to address municipal performance failures specific to their provinces.
39. The total number of municipalities that overspent decreased from 163 in 2015/16 to 33 in 2016/17. This is a great achievement and it is commendable.
40. The above analysis suggests that municipalities are still not properly forecasting expenditure patterns or that there is a serious problem of not spending according to expenditure plans. This may be attributed to a failure to table and adopt funded budgets, as in some cases the underspending does not translate to the equivalent amount of cash in the bank.
41. The above analysis also suggests that municipalities do not always make adequate provision for debt impairment and depreciation.

INDICATOR 4: UNDER-SPENDING OF CAPITAL BUDGETS

42. The total allocation to the local government capital infrastructure programme for the 2016/17 financial year was R54.4 billion.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 4: Under-spending of municipalities' capital budgets, 2012/13-30 June 2017

	Audited Outcome				Section 71 Report for the financial year 2016/17				
	2012/13	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '17	Quarter 4: 30 Jun '17	Year to Date 2016/17
Metropolitan municipalities (8)									
Total Capital Budget	22 964	26 990	29 876	28 094	4 334	7 055	5 995	12 936	30 320
Total Underspending of Capital Budget	2 118	1 643	4 683	6 904	5 021	2 300	3 039	(3 902)	5 815
Underspending as % of Capital Budget	9%	6%	16%	25%	116%	33%	51%	-30%	19%
Number of municipalities who underspent by									
less than 10% of their capital budget	5	1	3	5	0	2	1	0	2
between 10 and 30% of their capital budget	2	2	3	2	0	4	2	0	6
more than 30% of their capital budget	1	1	0	1	8	2	5	0	0
Secondary cities (19)									
Total Capital Budget	4 179	4 911	5 376	5 970	676	1 406	1 202	2 564	5 848
Total Underspending of Capital Budget	806	843	613	368	1 110	380	771	(592)	2 043
Underspending as % of Capital Budget	19%	17%	11%	6%	164%	27%	64%	-23%	35%
Number of municipalities who underspent by									
less than 10% of their capital budget	5	1	1	2	0	2	2	2	2
between 10 and 30% of their capital budget	4	5	11	6	1	4	3	1	11
more than 30% of their capital budget	10	6	0	4	18	10	14	2	6
Other Local Municipalities (Towns) 186									

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 4: Under-spending of municipalities' capital budgets, 2012/13-30 June 2017

	Audited Outcome				Section 71 Report for the financial year 2016/17				
	2012/13	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '17	Quarter 4: 30 Jun '17	Year to Date 2016/17
Total Capital Budget	8 993	12 016	11 716	13 483	2 376	3 123	2 121	3 666	11 286
Total Underspending of Capital Budget	2 602	229	545	312	1 278	531	1 648	104	3 793
Underspending as % of Capital Budget	29%	2%	5%	2%	54%	17%	78%	3%	34%
Number of municipalities who underspent by									
less than 10% of their capital budget	13	15	25	24	14	8	3	12	16
between 10 and 30% of their capital budget	46	34	34	27	25	39	31	30	72
more than 30% of their capital budget	73	79	50	66	108	76	128	69	74
District municipalities (44)									
Total Capital Budget	5 260	7 147	5 877	7 665	1 574	2 058	1 384	1 940	6 957
Total Underspending of Capital Budget	2 917	630	3 167	2 375	988	504	1 052	496	2 788
Underspending as % of Capital Budget	55%	9%	54%	31%	63%	24%	76%	26%	40%
Number of municipalities who underspent by									
less than 10% of their capital budget	3	2	6	2	3	5	3	3	7
between 10 and 30% of their capital budget	4	9	4	10	0	6	7	8	11
more than 30% of their capital budget	26	17	20	19	32	19	30	19	21

Source: National Treasury - Local Government Database

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43. Table 4 above shows total underspending of metros' adjusted capital budgets of R5.8 billion. It also shows that all metros underspent their original capital budgets during the 2016/17 financial year. In 2015/16, underspending by 8 metros amounted to R6.9 billion, with the number of metros underspending their capital budgets by between 10 and 30 per cent rising from 2 in 2015/16 to 6 in 2016/17. However, none of the metros underspent their budgets by more than 30 per cent in the 2016/17 financial year.
44. Secondary cities in 2016/17 underspent their capital budgets by R2 billion, an increase of R1.7 billion from the 2015/16 financial year. The number of these cities that underspent their budgets by less than 10 per cent remain at 2. Those that underspent by between 10 and 30 per cent increased from 6 to 11. Six secondary cities underspent their 2016/17 budgets by more than 30 per cent compared to four in 2015/16.
45. Local municipalities underspent their capital budgets by R3.8 billion in the 2016/17 financial year. The number of municipalities underspending by 10 per cent decreased from 24 in 2015/16 to 16 in 2016/17, while 45 more than in the previous financial year underspent their capital budgets by between 10 and 30 per cent. However, the number of local municipalities underspending their capital budgets by more than 30 per cent increased from 66 to 74.
46. The total capital budget underspending among district municipalities (39) was R2.8 billion.
47. 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
    - SCM inefficiencies
    - Poor asset management
    - Poor contract management.

INDICATORS 5 AND 6: LEVELS OF GROWTH IN CONSUMER DEBTORS

48. 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.
49. The table below shows that, at 30 June 2017, 152 municipalities had debtor levels higher than 30 per cent of own revenue, an increase from 138 as at June 2015/16.
50. 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.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 5: Debtors as percentage of own revenue, 2013/14-30 June 2017

	Audited Outcome			Section 71 Report for the financial year 2016/17				
	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '16	Quarter 4: 30 Jun '17	Year to Date 2016/17
Metropolitan municipalities (8)								
Total Own Revenue	144 151	155 777	147 246	49 440	47 812	45 922	51 960	195 134
Total Debtors	64 546	64 573	61 459	56 921	57 013	65 701	64 912	64 912
Debtors as a % of total own revenue	45%	41%	42%	115%	119%	143%	125%	33%
No. whose total debtors are								
less than 15% of their total own revenue	0	0	0	0	1	0	0	0
between 15 and 30% of their total own revenue	2	1	2	1	0	0	0	2
more than 30% of their total own revenue	6	7	5	7	7	8	8	6
Secondary cities (19)								
Total Own Revenue	30 987	33 496	36 611	11 172	10 232	9 790	11 424	42 617
Total Debtors	14 297	19 364	20 670	25 204	25 944	26 434	27 171	27 171
Debtors as a % of total own revenue	46%	58%	56%	226%	254%	270%	238%	64%
No. whose total debtors are								
less than 15% of their total own revenue	5	4	5	1	1	1	1	6
between 15 and 30% of their total own revenue	1	2	2	0	1	0	0	1
more than 30% of their total own revenue	11	11	10	18	17	18	18	12
Other Local Municipalities (Towns) 186								

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 5: Debtors as percentage of own revenue, 2013/14–30 June 2017

	Audited Outcome			Section 71 Report for the financial year 2016/17				
	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '16	Quarter 4: 30 Jun '17	Year to Date 2016/17
Total Own Revenue	37 115	40 853	43 507	13 482	12 256	10 559	12 292	48 590
Total Debtors	17 628	21 441	25 070	31 355	33 603	32 777	31 909	31 909
Debtors as a % of total own revenue	47%	52%	58%	233%	274%	310%	260%	66%
No. whose total debtors are								
less than 15% of their total own revenue	35	33	31	11	8	15	25	42
between 15 and 30% of their total own revenue	40	35	32	2	2	2	6	29
more than 30% of their total own revenue	99	106	102	172	176	169	153	115
District municipalities (44)								
Total Own Revenue	10 602	11 341	13 284	2 493	3 192	2 348	3 033	11 067
Total Debtors	3 774	4 581	5 769	5 410	4 503	5 680	4 358	4 358
Debtors as a % of total own revenue	36%	40%	43%	217%	141%	242%	144%	39%
No. whose total debtors are								
less than 15% of their total own revenue	21	17	15	8	14	16	18	21
between 15 and 30% of their total own revenue	6	10	7	3	2	2	0	4
more than 30% of their total own revenue	17	16	21	33	28	26	26	19

Source: National Treasury - Local Government Database

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

51. At the end of the fourth quarter of 2016/17 (as per the Section 71 results), total debtors amounted to R128.4 billion, a R15.7 billion increase from the 2015/16 financial year. Households made up the bulk of total debtors at 64.8 per cent.
52. Table 5 above shows that, as at June 2017, debtors against own revenue of 6 (5 in 2015/16) metros, 12 secondary cities (10 in 2015/16), 115 local municipalities (102 in 2015/16) and 19 district municipalities (21 in 2015/16) was above 30 per cent.
53. Unbundling of outstanding debtors began in earnest in the 2016/17 financial year and has resulted in identifying interest on debtors amounting to R13.1 billion and outstanding government debt of R7.4 billion.
54. National Treasury has undertaken revenue management programmes and workshops to train provincial treasury officials to assist municipalities in strengthening their billing and revenue collection capacity.
55. Table 6 below shows the growth in consumer debtors between the 2013/14 and 2016/17 financial years.

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Table 6: Growth in consumer debtors, 2013/14-30 June 2017

	Audited Outcome			Section 71 Report for the financial year 2016/17				
	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '16	Quarter 4: 30 Jun '17	Year to Date 2016/17
Metropolitan municipalities (8)								
No. whose debtors grew	0	0	0	0	0	0	0	0
No. whose debtors increased by								
less than 10% over period shown	4	5	5	7	8	7	6	6
between 10% and 20% over period shown	4	2	2	1	0	0	1	1
more than 20% over period shown	0	1	1	0	0	1	1	1
Secondary cities (19)								
No. whose debtors grew	0	0	0	0	0	0	0	0
No. whose debtors increased by								
less than 10% over period shown	5	3	9	9	17	17	8	8
between 10% and 20% over period shown	5	7	4	2	1	0	3	3
more than 20% over period shown	9	9	6	8	1	2	8	8
Other Local Municipalities (Towns) 186								
No. whose debtors grew	0	0	0	0	0	0	0	0
No. whose debtors increased by								
less than 10% over period shown	67	73	65	86	160	159	52	52
between 10% and 20% over period shown	37	38	51	27	11	7	50	50

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Table 6: Growth in consumer debtors, 2013/14-30 June 2017

	Audited Outcome			Section 71 Report for the financial year 2016/17				
	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '16	Quarter 4: 30 Jun '17	Year to Date 2016/17
more than 20% over period shown	82	75	70	73	15	20	84	84
District municipalities (44)								
No. whose debtors grew	0	0	0	0	0	0	0	0
No. whose debtors increased by								
less than 10% over period shown	18	16	17	26	29	30	17	17
between 10% and 20% over period shown	8	7	7	4	5	4	5	5
more than 20% over period shown	18	21	20	14	10	10	22	22
All municipalities (257)								
No. whose debtors grew	-	-	-	-	-	-	-	-
No. whose debtors increased by								
less than 10% over period shown	94	97	96	128	214	213	83	83
between 10% and 20% over period shown	54	54	64	34	17	11	59	59
more than 20% over period shown	109	106	97	95	26	33	115	115

Source: National Treasury - Local Government Database

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

56. The table above shows an increase in debtors from 97 in 2015/16 to 115 in 2016/17 in the number of municipalities whose debtors grew by more than 20 per cent.

INDICATOR 7: OUTSTANDING CREDITORS

57. 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.
58. The following table shows creditors as a percentage of cash and investments between 2013/14 and June 2017. 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, 2013/14-30 June 2017

	Audited Outcome			Section 71 Report for the financial year 2016/17				
	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '16	Quarter 4: 30 Jun '17	Year to Date 2016/17
Metropolitan municipalities (8)								
Total Cashflow	*25 793*	*27 100*	*28 269*	*24 585*	*27 459*	*34 947*	*24 885*	*24 885*
Total Creditors	*19 351*	*27 155*	*55 710*	*13 132*	*13 027*	*12 789*	*18 544*	*18 544*
Creditors as a % of Total Cash	75%	100%	197%	53%	47%	37%	75%	75%
No. whose Total Creditors are								
less than 25% of their Cash	2	2	1	2	3	3	1	1
between 25 and 50% of their Cash	2	0	1	3	3	3	3	3
between 50 and 75% of their Cash	1	2	0	1	0	1	2	2
more than 75% of their Cash	3	4	6	2	2	1	2	2
Secondary cities (19)								
Total Cashflow	*4 112*	*4 483*	*3 229*	*4 977*	*5 137*	*6 570*	*4 650*	*4 650*
Total Creditors	*5 022*	*7 822*	*9 637*	*8 048*	*7 301*	*7 657*	*9 587*	*9 587*
Creditors as a % of Total Cashflow	122%	174%	298%	162%	142%	117%	206%	206%
No. whose Total Creditors are								
less than 25% of their Cash	5	3	3	9	8	8	8	8
between 25 and 50% of their Cash	2	3	2	3	2	4	2	2
between 50 and 75% of their Cash	1	0	2	1	2	0	1	1
more than 75% of their Cash	9	11	10	6	7	7	8	8
Other Local Municipalities (Towns) 186								

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Table 7: Creditors as percentage of cash and investments, 2013/14-30 June 2017

	Audited Outcome			Section 71 Report for the financial year 2016/17				
	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '16	Quarter 4: 30 Jun '17	Year to Date 2016/17
Total Cashflow	*7 104*	*7 354*	*8 510*	*10 641*	*12 263*	*14 158*	*8 611*	*8 662*
Total Creditors	*8 044*	*11 542*	*12 551*	*11 311*	*12 153*	*12 368*	*13 723*	*13 723*
Creditors as a % of Total Cashflow	113%	157%	147%	106%	99%	87%	159%	158%
No. whose Total Creditors are								
less than 25% of their Cash	72	57	56	114	111	121	112	117
between 25 and 50% of their Cash	14	15	18	9	14	5	10	10
between 50 and 75% of their Cash	15	18	4	1	2	6	5	6
more than 75% of their Cash	73	84	86	62	59	53	52	53
District municipalities (44)								
Total Cashflow	*6 509*	*6 403*	*5 814*	*4 302*	*4 821*	*5 160*	*1 077*	*1 568*
Total Creditors	*2 991*	*3 765*	*3 287*	*2 300*	*2 467*	*1 856*	*1 966*	*1 966*
Creditors as a % of Total Cashflow	46%	59%	57%	53%	51%	36%	183%	125%
No. whose Total Creditors are								
less than 25% of their Cash	20	20	17	28	31	32	25	26
between 25 and 50% of their Cash	4	4	5	3	6	3	3	3
between 50 and 75% of their Cash	2	3	3	2	2	3	3	3
more than 75% of their Cash	18	16	18	11	5	6	12	12

Source: National Treasury - Local Government Database

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

59. At the end of the fourth quarter of 2016/17 (as per the Section 71 results), total creditors amounted to R43.8 billion, a R14.9 billion increase from the 2015/16 financial year. Bulk electricity made up the bulk of total creditors at 36.6 per cent.
60. Table 7 shows that the creditors of 2 (6 in 2015/16) of the 8 metros in 2016/17 and 8 (10 in 2015/16) secondary cities reported creditors exceeding 75 per cent of their available cash.
61. As at 30 June 2017, local municipalities only had cash available of R8.7 billion to repay outstanding creditors of R13.7 billion, leaving a deficit of R5 billion to honour the financial commitments. The situation is the same for the secondary cities where total creditors in 2016/17 amounted to R9.6 billion while the available cash was R4.7 billion; creditors were thus owed 104 per cent of the available cash. This 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 SMMEs and other suppliers that provide services to municipalities.
62. Municipalities in the Free State have the highest percentage of outstanding creditors greater than 90 days at 84.9 per cent, followed by North West at 76.4 per cent, Limpopo at 68.7 per cent and Mpumalanga at 68.6 per cent. The 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.
63. 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.
64. National Treasury has made efforts to ensure that municipalities pay their long outstanding creditors. Methods used have included withholding equitable share tranche payments to 59 municipalities and 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

65. Conditional grants are allocated to municipalities to fund projects of national priority and not necessarily capital programmes that are revenue raising.
66. 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. This requires appropriate funding of their capital budgets.
67. Table 8 below indicates local governments' reliance on national government transfers (capital grants/capital budget).

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Table 8: Local governments' reliance on conditional grants, 2013/14-30 June 2017

	Audited Outcome			Section 71 Report for the financial year 2016/17				
	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '16	Quarter 4: 30 Jun '17	Year to Date 2016/17
Metropolitan municipalities (8)								
No. of munics for which data is unavailable	*0*	*0*	*1*	*0*	*0*	*0*	*0*	*0*
No. who receive								
less than 30% of revenue from national transfers	0	0	0	2	0	0	3	2
between 30% and 75% revenue from national transfers	2	2	4	5	6	7	5	6
more than 75% of revenue from national transfers	6	6	3	1	2	1	0	0
Secondary cities (19)								
No. of munics for which data is unavailable	*2*	*2*	*2*	*0*	*0*	*0*	*0*	*0*
No. who receive more than								
less than 30% of revenue from national transfers	1	3	3	11	8	11	14	10
between 30% and 75% revenue from national transfers	4	3	5	4	5	2	3	5
more than 75% of revenue from national transfers	12	11	9	4	6	6	2	4
Other Local Municipalities (Towns) 186								
No. of munics for which data is unavailable	*16*	*15*	*27*	*5*	*4*	*7*	*7*	*1*
No. who receive more than								
less than 30% of revenue from national transfers	21	12	23	81	67	82	117	60

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Table 8: Local governments' reliance on conditional grants, 2013/14-30 June 2017

	Audited Outcome			Section 71 Report for the financial year 2016/17				
	2013/14	2014/15	2015/16	Quarter 1: 30 Sep '16	Quarter 2: 31 Dec '16	Quarter 3: 31 Mar '16	Quarter 4: 30 Jun '17	Year to Date 2016/17
between 30% and 75% revenue from national transfers	40	49	40	33	49	21	24	51
more than 75% of revenue from national transfers	109	110	96	67	66	76	38	74
District municipalities (44)								
No. of munics for which data is unavailable	*1*	*2*	*2*	*5*	*5*	*5*	*3*	*2*
No. who receive more than								
less than 30% of revenue from national transfers	24	23	22	20	17	16	26	17
between 30% and 75% revenue from national transfers	2	2	3	3	3	6	3	3
more than 75% of revenue from national transfers	17	17	17	16	19	17	12	22
All municipalities (257)								
No. of munics for which data is unavailable	*19*	*19*	*32*	*10*	*9*	*12*	*10*	*3*
No. who receive more than								
less than 30% of revenue from national transfers	46	38	48	114	92	109	160	89
between 30% and 75% revenue from national transfers	48	56	52	45	63	36	35	65
more than 75% of revenue from national transfers	144	144	125	88	93	100	52	100

Source: National Treasury - Local Government Database

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

68. Among metros, two have a reliance of less than 30 per cent on national transfers for their budgets. The number of metros whose revenue is grant-financed by more than 75 per cent has decreased from 3 in 2015/16 to 0 in 2016/17.
69. Among the secondary cities, the revenue of 10 municipalities is less than 30 per cent financed by national transfers; 4 municipalities' revenue is more than 75 per cent financed from this source.
70. In 2016/17 159 local municipalities, compared with 225 in 2015/16, increased their reliance on national transfers.
71. Among district municipalities, an additional 5 in 2016/17 were more than 75 per cent reliant on national transfers.
72. The total number of municipalities failing to disclose conditional grant information decreased from 32 in 2015/16 to 3 in 2016/17. There was an increase of 13 in the number of municipalities whose grant reliance is between 30 and 75 per cent of total revenue, mainly because of their lack of fiscal effort to raise more own revenue. A more significant decrease is the 100 in the 2016/17 financial year from the 125 in 2015/16 in the number of municipalities whose revenue is 75 per cent financed by national transfers.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

AUDIT OUTCOMES: 2015/16 FINANCIAL YEAR

73. In the 2015/16 report[2] on local government audit outcomes, the Auditor-General (AG) highlighted the fact that municipal audit outcomes had shown little improvement. The deadline for submission of annual financial statements to the AG had been met by 94 per cent of municipalities.
74. According to the AG, the amount of irregular[3] expenditure had increased from R11.1 billion by 232 municipalities in 2014/15 to R16.8 billion by 236 municipalities in 2015/16. This increase was the highest since the AG has been tracking the values and largely as a result of municipalities' failure to address prior year qualifications and of poor supply chain management (SCM) practices.
75. Fruitless and wasteful expenditure incurred by municipalities decreased from R1.1 billion by 216 municipalities in 2014/15 to R901 million by 218 municipalities in 2015/16. The main reason for the fruitless and wasteful expenditure is on interest, penalties on overdue accounts and late payments.
76. In 190 municipalities unauthorised expenditure increased from R12.7 billion in 2014/15 to R12.8 billion with 181 municipalities in 2015/16. The reasons for unauthorised expenditure was 99 per cent for overspending of the budget. Poorly prepared budgets, inadequate budget 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.
77. The AG once again expressed his concern about the lack of follow-up on previous audit recommendations and inadequate consequence management for financial misconduct in terms of the MFMA, with councils seldom investigating unauthorised, irregular, fruitless or wasteful expenditure to determine if officials were liable for the expenditure. The councils of 112 municipalities (compared with 118 in 2014/15) did not conduct investigations in 2014/15 and again did not do so on 2015/16. To deal with matters of financial misconduct and to give effect to the concept of consequence management, the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings were promulgated on 31 May 2014.
78. The AG highlighted four main risk areas that need to be addressed: (i) supply chain management processes; ((ii) human resource management; (iii) the quality of submitted financial statements; and (iv) financial health.
79. As part of the audit process, the AG found that among the root causes of poor audit findings were inadequate internal control measures. The following were reported as contributing to persistently poor audit outcomes at local government level:
    - Ineffective political and administrative leadership
    - Slow response in improving internal controls and addressing key risk areas
    - Instability or vacancies in key positions or key officials lacking appropriate competencies
    - Inadequate consequences for poor performance and transgression.

80. The following table presents a summary of audit opinions for all municipalities between 2011/12 and 2015/16 (refer to Annexure B2 for the 2015/16 audit outcomes per municipality).

[2] The 2015/16 AG report was used for the purpose of this report as it was the most recent report available.
[3] Irregular, unauthorised and wasteful expenditure is defined in Section 1 of the MFMA.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

Table 9: Summary of audit opinions for all municipalities, 2011-12 to 2015-16

	2011/12		2012/13		2013/14		2014/15		2015/16	
	No.	%	No.	%	No.	%	No.	%	No	%
Adverse	4	1%	9	3%	3	1%	4	1%	4	1%
Disclaimer	90	32%	66	24%	55	20%	33	12%	25	9%
Qualified	68	24%	83	30%	71	26%	76	27%	63	23%
Unqualified	116	42%	120	43%	149	54%	165	59%	171	62%
Audits Outstanding	0	0%	0	0%	0	0%	0	0%	15	5%
Total	**278**	**100%**	**278**	**100%**	**278**	**100%**	**278**	**100%**	**278**	**100%**

Consolidated general report on the audit outcomes of local government MFMA 2015-16

81. In the 2015/16 financial year, 49 municipalities (18 per cent) obtained unqualified opinions without findings. This was a decrease of 2 municipalities against 2014/15. The bulk of the clean audits were achieved by municipalities in the Western Cape, KwaZulu-Natal and the Eastern Cape Provinces. In the 2015/16 reporting period, 1 metropolitan municipality (metro), 14 district municipalities and 34 local municipalities received clean audits.
82. The number of unqualified audit opinions with findings has increased from 111 in 2014/15 to 122 (44 per cent) in 2015/16. However, qualified audit opinions have decreased from 76 to 63 over the same period, with municipalities relying heavily on consultants to correct material mistakes identified during the audit.
83. On a positive note, the number of municipalities receiving disclaimers significantly declined from 90 in 2011/12 to 25 in 2015/16 with the number of adverse opinions remaining the same at 4 over the same period. The percentage of municipalities receiving disclaimers or adverse audit opinions decreased from 33.8 per cent in 2011/12 to 10.5 per cent in 2015/16.
84. By the legislative audit deadline of 31 August 2016, fifteen reports for 2015/16 were outstanding.
85. A concerted effort was made with the Section 71 monthly budget statements and Back to Basics (B2B) reports to ensure that municipalities that failed to comply with audit requirements put in place internal controls and early-warning systems to minimise the risk of future non-compliance.
86. The number of unqualified audit opinions increased by 47 per cent from 116 in 2011/12 to 171 in 2015/16. Throughout the past five financial years, municipalities have continued to struggle to correctly measure and disclose on property, infrastructure and equipment, revenue and irregular expenditure. However, there has been improvement in all three of these audit areas, most notably in the area of property, infrastructure and equipment.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

87. The AG's findings on the financial health, based on ten indicators, of 263 municipalities audited revealed the following challenges:
    - The financial health of 86 (33 per cent) of the municipalities was found to be of concern
    - 84 (32 per cent) of municipalities were found to be in a particularly poor financial position, with doubts about their going concern which required an intervention
    - There had been a slight improvement in the number of municipalities of 88 (90 in 2014/15) that spent more than their available financial resources (resulting in a net deficit), while those current liabilities exceeded their current assets increased to 116 (102 in 2014/15)
    - 8 (11 in 2014/15) municipalities had bank overdrafts at year end, a decrease in comparison with the previous financial year
    - 245 municipalities, the same as the 2014/15 financial year same, estimated that they might not recover 10 per cent of the outstanding debts owed to them
    - 139 (129 in 2014/15) municipalities had an average debt collection period of over 90 days
    - 218 (217 in 2014/15) municipalities had creditors outstanding for more than 30 days
    - 127 (126 in 2014/15) municipalities had creditors outstanding for more than 90.

88. There are weaknesses in municipalities' effective utilisation of conditional grants, with 35 found not to have complied with the Division of Revenue Act (DoRA) requirements.
89. In 2015/16, 93 per cent of 234 municipalities audited has spent the Municipal Infrastructure Grant (MIG) allocation, an improvement from 87 per cent in 2014/15. In total 105 (123 in 2014/15) municipalities has underspent on their MIG, of which 53 underspent by more than 10 per cent.
90. The quality of the annual performance reports has improved, with the number of municipalities with no material findings increasing from 38 per cent between 2014/15 to 47 per cent in 2015/16. The usefulness of the information has decreased from 45 per cent (114 municipalities) in 2014/15 to 38 per cent (96 municipalities) in 2015/16.
91. The audit outcomes of municipalities in the Eastern Cape, Limpopo and Mpumalanga showed momentum in the right direction, with the Eastern Cape showing the greatest improvement. The Western Cape continued with setting the pace by increasing their clean unqualified opinions without emphasis of matters to 80 per cent of their municipalities. After a notable improvement in 2014-15, the audit outcomes of KwaZulu-Natal showed a significant regression this year. The provinces with the poorest outcomes (based on the number of municipalities with disclaimed and adverse opinions or outstanding audits) were North West, the Northern Cape and the Free State.

GOVERNANCE: ACTING MUNICIPAL MANAGER AND CHIEF FINANCIAL OFFICER POSITIONS

92. 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 overall accountability for the administration of the municipality vests with her or him.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

93. 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 filled and that the necessary performance agreements and contracts are in place.
94. 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.
95. 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 is permanently appointed.
96. Table 10 shows the number of acting MMs and CFOs as at 30 June 2017.

Table 10: Municipalities with acting Municipal Managers and CFOs at 30 June 2016 & 2017

2017		Acting MM		Acting CFO		Both Acting	
Summary per Province Province	No.	No.	%	No.	%	No.	%
Eastern Cape	39	13	33,3%	8	20,5%	5	12,8%
Free State	23	6	26,1%	11	47,8%	5	21,7%
Gauteng	12	3	25,0%	5	41,7%	2	16,7%
Kwazulu-Natal	54	19	35,2%	20	37,0%	10	18,5%
Limpopo	27	13	48,1%	14	51,9%	6	22,2%
Mpumalanga	20	9	45,0%	6	30,0%	4	20,0%
North West	22	15	68,2%	15	68,2%	12	54,5%
Northern Cape	31	21	67,7%	8	25,8%	6	19,4%
Western Cape	30	5	16,7%	1	3,3%	1	3,3%
Total	258	104	40%	88	34%	51	20%

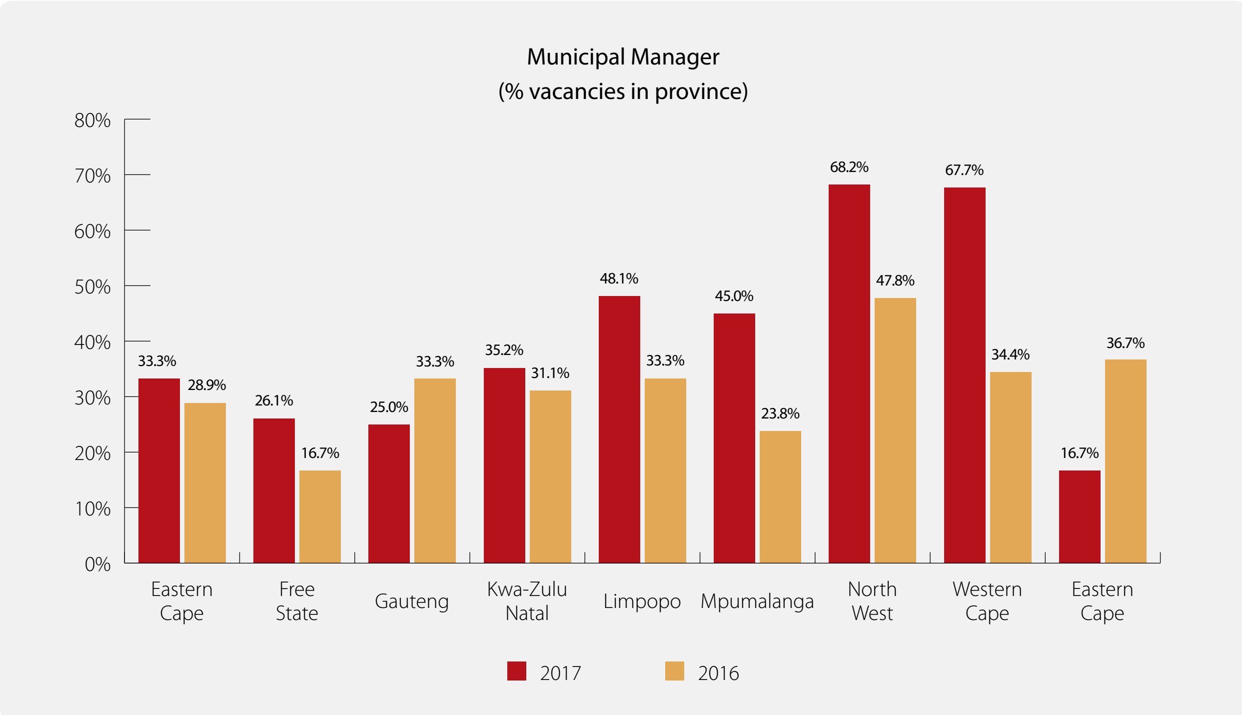
OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

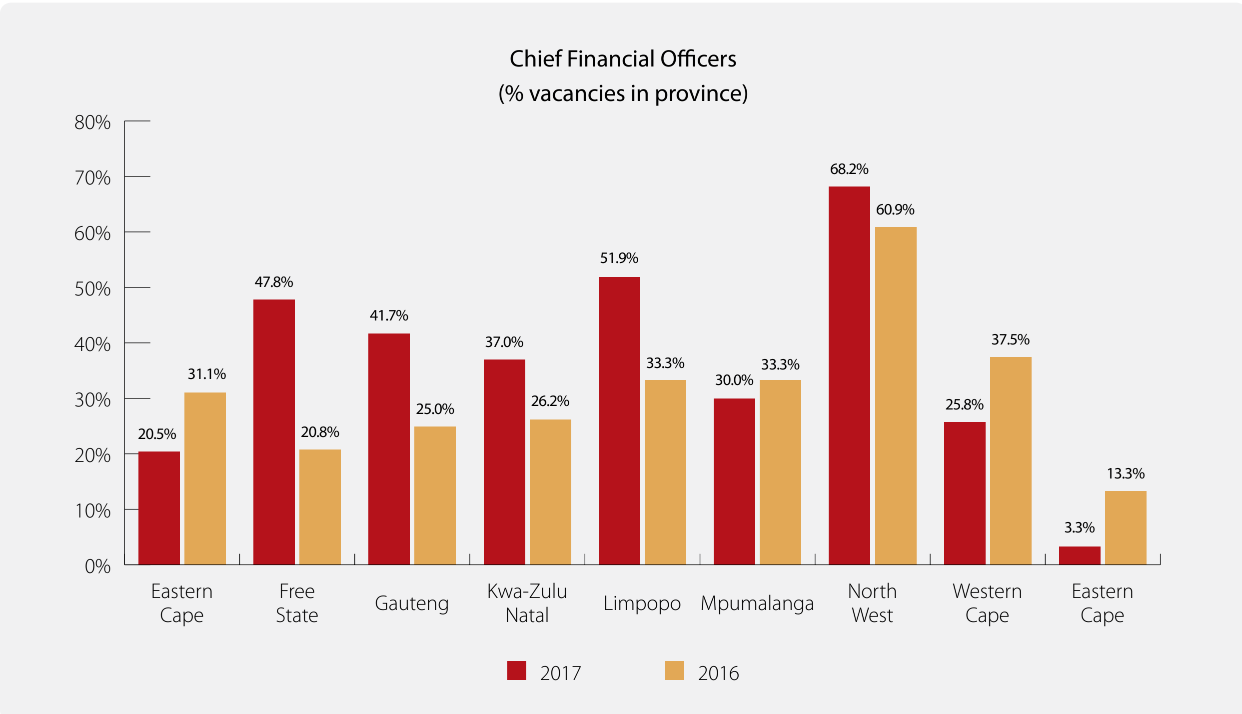
2016		Acting MM		Acting CFO		Both Acting	
Summary per Province Province	No.	No.	%	No.	%	No.	%
Eastern Cape	45	13	28,9%	14	31,1%	10	22,2%
Free State	24	4	16,7%	5	20,8%	1	4,2%
Gauteng	12	4	33,3%	3	25,0%	2	16,7%
Kwazulu-Natal	61	19	31,1%	16	26,2%	9	14,8%
Limpopo	30	10	33,3%	10	33,3%	6	20,0%
Mpumalanga	21	5	23,8%	7	33,3%	2	9,5%
North West	23	11	47,8%	14	60,9%	10	43,5%
Northern Cape	32	11	34,4%	12	37,5%	7	21,9%
Western Cape	30	11	36,7%	4	13,3%	3	10,0%
Total	**278**	**88**	**32%**	**85**	**31%**	**50**	**18%**

97. Table 10 shows that 104 municipalities (40 per cent) had acting MMs in place at the end of June 2017 and 88 (32 per cent) had acting CFOs.
98. The table also shows, as at the same month, the largest percentages of acting MMs in North West Province (68.2 per cent acting), Northern Cape Province (67.7 per cent acting) and Limpopo Province (48.1 per cent acting).
99. Between June 2016 and June 2017, the number of acting MMs increased from 88 to 104. The increase was especially noticeable in the Northern Cape, North West and Mpumalanga provinces where the number of acting MMs increased by 10 (from 11), 4 (from 11) and 4 (from 5) in that period.
100. This trend in relation to CFOs was observed in the same period, with the number of acting CFOs increasing from 85 (31 per cent) to 88 (34 per cent).
101. The number in Free State increased by 6 (from 5), in Limpopo by 4 (from 10) and in Kwazulu-Natal by 4 (from 16). Instances where both MM and CFO were in an acting capacity increased over the same period from 50 to 51.
102. This on-going 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 financial sustainability. This often delays project implementation and affects the municipality's ability to spend its capital budget.
103. The lack of stability at senior management level has been amplified since 2011/12.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

Figure 2: Comparison of acting Municipal Managers and Chief Financial Officers as at the end of 30 June 2016 and 2017





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104. The figure above shows that at 30 June 2017, the percentage of acting MMs had increased in the Eastern Cape, Free State, Kwazulu-Natal, Limpopo, Mpumalanga, North West and Northern Cape. The percentage of acting CFOs decreased in the Eastern Cape, Mpumalanga, Northern Cape and Western Cape.

105. Although there is no proven correlation between the number of CFO vacancies and the use of consultants, the AG's 2015/16 report notes the following:
    - Local Government has spent an estimated R3.5 billion on consultancy services
    - 230 municipalities (87 per cent) used consultants to assist them either with financial reporting or the preparation of performance information. The use of consultants services was most common in Limpopo, Northern Cape and North West Province
    - R838 million was spent on consultants, an increase from R823 million in 2014/15. This included expenditure by provincial treasuries and CoGTA on behalf of municipalities. The most common reason why consultants were appointed was a lack of skills (60 per cent), a combination of a lack of skills and vacancies (34 per cent) and vacancies only 5 per cent
    - Only 146 municipalities (63 per cent) that were assisted received financially unqualified audit opinions, although this was an improvement from the 60 per cent of 2014/15
    - In 178 (70 per cent) municipalities assisted, there were weaknesses in the management of consultants ranging from a lack of skills transfer to poor management and monitoring, and inadequate planning and appointment processes.

106. 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.

SIGNIFICANT ELECTRICITY AND WATER LOSSES

107. Table 11 below shows the extent of water and electricity losses by metros at 30 June 2016.

108. On 30 June 2016, metropolitan municipalities recorded water and electricity losses amounting to R2.8 billion and R7.2 billion respectively. During the 2015/16 financial year, water losses decreased significantly, by R1.1 billion. Water losses are also affected by the level of municipalities' spending on repairs and maintenance; this was discussed under Indicator 9 above. Electricity losses increased significantly with R1.7 billion, from R5.5 billion in 2014/15 to R7.2 billion in 2015/16. There are always technical losses due to normal transmission and distribution; however, the increase in electricity losses is similar to water services and also affected by the level of municipalities' spending on repairs and maintenance and in increase in electricity theft.

109. Table 11 shows that, in nominal terms, the City of Johannesburg reported the highest losses on water (R895.5 million) and electricity (R2.2 billion). At R98.9 million (water) and R496.2 million (electricity), the lowest losses were reported by Cape Town metro.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

Table 11: Electricity and Water losses for the metros as at 30 June 2016

Municipality	Code	Water losses	Electricity losses
		R'000	R'000
Nelson Mandela Bay	NMA	170 000	291 100
Buffalo City	BUF	116 720	180 455
Mangaung	MAN	146 393	180 249
Ekurhuleni	EKU	111 363	1 649 908
City of Johannesburg	JHB	895 500	2 220 583
City of Tshwane	TSH	549 289	1 347 408
eThekwini	ETH	710 900	828 000
City of Cape Town	CPT	98 860	496 200
Total		**2 799 025**	**7 193 903**

Source: 2015/16 Audited Annual Financial Statements

110. Significant water losses may be attributed to ageing infrastructure, low expenditure on capital asset renewal and insufficient repairs and maintenance of reticulation infrastructure.

INADEQUATE BUDGETS FOR REPAIRS AND MAINTENANCE AND ASSET MANAGEMENT

111. The adequacy of planned expenditure on repairs and maintenance is one of the indicators of the Funding Compliance methodology that must be considered when a budget is drafted. Municipalities allocate insufficient funds for asset repair that can compromise the credibility and/or sustainability of the budget in the medium to long term because the revenue budget is not being protected. For example, an electricity or water network will not generate revenue if it deteriorates and the supply is not sustained. Repair and maintenance levels should be examined by trend, benchmarking and engineering recommendations.

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112. It is frequently the case that, when a municipality experiences financial stress, the first category of expenditure to be cut is repairs and maintenance as the impact of not spending on this category is not immediately obvious. It is also less politically sensitive than cutting 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
    - Shortened useful lifespan of assets, requiring earlier replacement than would otherwise have been the case.
113. 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.
114. Table 12 below shows the national aggregate, metros and secondary cities' spending patterns on repairs and maintenance as a percentage of expenditure on property, plant and equipment for the financial years 2013/14 to 2019/20. 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.

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Table 12: National aggregate repair and maintenance, 2013/14- 2019/20

Description	2013/14	2014/15	2015/16	Current year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Repairs and Maintenance by Asset Class	15 481 472	17 824 450	15 893 016	24 259 077	22 672 492	22 672 492	18 865 235	20 359 417	22 042 642
Infrastructure - Road Transport	3 160 950	3 155 817	2 422 293	4 918 158	4 215 776	4 215 776	3 747 066	3 957 762	4 245 775
Infrastructure - Electricity	3 132 916	3 250 897	2 249 618	4 901 520	4 708 961	4 708 961	4 023 054	4 409 155	4 773 834
Infrastructure - Water	2 005 456	2 684 000	1 529 513	3 204 841	2 819 911	2 819 911	2 857 024	3 098 046	3 462 591
Infrastructure - Sanitation	1 494 206	1 569 662	783 167	2 179 951	1 709 321	1 709 321	1 783 738	1 985 587	2 128 051
Infrastructure - Other	1 015 710	1 032 042	693 665	1 077 366	660 665	660 665	581 245	624 733	663 445
Infrastructure	10 809 237	11 692 419	7 678 256	16 281 836	14 114 635	14 114 635	12 992 127	14 075 284	15 273 696
Community	1 171 798	1 692 620	623 585	1 930 970	1 291 721	1 291 721	1 254 839	1 354 207	1 435 737
Heritage assets	110 772	159 371	21 922	254 605	15 226	15 226	12 951	13 813	14 703
Investment properties	26 772	25 003	54 557	34 056	62 698	62 698	59 273	65 619	70 017
Other assets	3 362 894	4 255 037	7 514 695	5 757 610	7 188 213	7 188 213	4 546 046	4 850 495	5 248 489
TOTAL EXPENDITURE OTHER ITEMS	41 114 799	44 194 438	42 043 256	50 858 198	49 991 286	49 991 286	46 265 801	49 056 975	52 455 614

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Table 12: National aggregate repair and maintenance, 2013/14- 2019/20

Description	2013/14	2014/15	2015/16	Current year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
% of capital exp on renewal of assets	*38,0%*	*41,9%*	*34,0%*	*40,8%*	*39,3%*	*39,3%*	*67,8%*	*64,3%*	*62,5%*
Renewal of Existing Assets as % of deprecn	*54,9%*	*59,2%*	*53,6%*	*75,6%*	*71,0%*	*71,0%*	*90,2%*	*83,6%*	*80,2%*
R&M as a % of PPE	*3,3%*	*3,4%*	*3,1%*	*4,2%*	*3,9%*	*3,9%*	*3,8%*	*3,9%*	*4,0%*
Renewal and R&M as a % of PPE	*6,0%*	*6,0%*	*6,0%*	*8,0%*	*7,0%*	*7,0%*	*9,0%*	*8,0%*	*8,0%*

Source: 2015/16 Audited Annual Financial Statements

115. National aggregate spending on repairs and maintenance as a percentage of property, plant and equipment averages 3.4 per cent as shown in the table above. The national norm according to National Treasury's financial indicators is 8 per cent.

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Table 13: Metros' repair and maintenance, 2013/14-2019/20

Description	2013/14	2014/15	2015/16	Current year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Repairs and Maintenance by Asset Class	11 606 621	13 395 789	12 729 327	17 777 708	17 298 084	17 298 084	13 927 066	15 234 600	16 443 623
Infrastructure - Road Transport	2 322 242	2 424 457	1 432 379	3 302 771	2 907 108	2 907 108	2 630 037	2 825 366	3 014 849
Infrastructure - Electricity	2 581 236	2 795 034	1 800 275	3 830 463	3 744 833	3 744 833	3 101 211	3 443 297	3 741 744
Infrastructure - Water	1 159 466	1 508 859	1 037 344	2 185 345	1 926 559	1 926 559	1 857 867	2 069 858	2 223 146
Infrastructure - Sanitation	1 237 235	1 388 779	587 638	1 674 420	1 235 619	1 235 619	1 375 456	1 571 006	1 691 727
Infrastructure - Other	833 017	744 450	549 583	828 055	388 843	388 843	355 861	382 664	409 990
Infrastructure	8 133 196	8 861 580	5 407 220	11 821 054	10 202 962	10 202 962	9 320 432	10 292 190	11 081 456
Community	899 617	1 487 640	487 741	1 449 083	932 664	932 664	928 900	1 006 545	1 065 321
Heritage assets	110 646	154 678	21 530	252 249	15 160	15 160	12 150	12 964	13 803
Investment properties	26 772	21 904	46 968	31 942	62 299	62 299	25 441	29 786	31 658
Other assets	2 436 389	2 869 988	6 765 867	4 223 381	6 084 999	6 084 999	3 640 143	3 893 116	4 251 385
TOTAL EXPENDITURE OTHER ITEMS	23 057 709	25 426 457	24 173 249	31 127 141	30 991 450	30 991 450	28 905 848	30 825 066	33 283 694

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Table 13: Metros' repair and maintenance, 2013/14-2019/20

Description	2013/14	2014/15	2015/16	Current year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
% of capital exp on renewal of assets	77,2%	78,6%	66,2%	61,0%	63,7%	63,7%	120,3%	108,4%	103,9%
Renewal of Existing Assets as % of deprecn	102,7%	109,3%	97,8%	106,3%	102,7%	102,7%	132,0%	126,3%	119,5%
R&M as a % of PPE	5,0%	5,3%	5,4%	6,0%	5,9%	5,9%	4,9%	5,0%	5,1%
Renewal and R&M as a % of PPE	10,0%	10,0%	10,0%	11,0%	11,0%	11,0%	12,0%	12,0%	11,0%

Source: 2015/16 Audited Annual Financial Statements

116. Table 13 above shows, spending by metropolitan municipalities on repairs and maintenance as a percentage of expenditure on property, plant and equipment from 2013/14 to 2015/16 increased, at an average of 5.2 per cent. It is broadly acknowledged that there is a link between the number of potholes, unattended burst pipes and sewerage spills in municipal areas and non-payment of rates and service charges which affects the revenue of the municipality.

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Table 14: Secondary cities' repair and maintenance, 2013/14-2019/20

Description	2013/14	2014/15	2015/16	Current year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Repairs and Maintenance by Asset Class	1 519 685	1 510 531	875 001	2 561 314	1 895 543	1 895 543	2 087 590	2 225 199	2 425 691
Infrastructure - Road Transport	256 529	259 108	116 989	565 463	363 610	363 610	474 000	490 756	554 370
Infrastructure - Electricity	291 631	260 371	228 796	515 103	426 449	426 449	496 893	546 227	588 666
Infrastructure - Water	232 000	153 102	110 009	345 672	253 688	253 688	298 613	307 047	343 706
Infrastructure - Sanitation	153 736	93 503	111 986	238 607	267 096	267 096	256 718	271 325	286 433
Infrastructure - Other	78 343	93 502	40 044	134 430	95 827	95 827	65 282	69 567	74 096
Infrastructure	1 012 239	859 586	607 823	1 799 275	1 406 670	1 406 670	1 591 506	1 684 923	1 847 270
Community	186 833	135 543	45 414	271 777	201 377	201 377	202 093	220 005	235 659
Heritage assets		4 693	392						
Investment properties		3 100	7 036	1 896			24 376	25 887	27 899
Other assets	320 613	507 609	214 336	488 366	287 497	287 497	269 614	294 384	314 863
TOTAL EXPENDITURE OTHER ITEMS	6 352 034	6 669 770	6 320 354	6 968 722	6 545 205	6 545 205	6 569 313	7 014 869	7 294 663

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Table 14: Secondary cities' repair and maintenance, 2013/14-2019/20

Description	2013/14	2014/15	2015/16	Current year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
% of capital exp on renewal of assets	29,1%	34,4%	35,7%	49,4%	40,2%	40,2%	45,0%	39,1%	32,1%
Renewal of Existing Assets as % of deprecn	22,9%	26,7%	28,8%	53,6%	48,7%	48,7%	46,9%	36,8%	33,9%
R&M as a % of PPE	1,8%	1,5%	0,9%	2,5%	1,7%	1,7%	2,5%	2,6%	2,8%
Renewal and R&M as a % of PPE	3,0%	3,0%	2,0%	5,0%	4,0%	4,0%	5,0%	5,0%	5,0%

Source: National Treasury Local Government Database

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117. Table 14 above shows, secondary cities' spending from 2013/14 to 2015/16 on this indicator falls far short of the expected norm. On average, secondary cities budgeted 2.5 per cent for repairs and maintenance and spent only 1.4 per cent on this item. This poor allocation for repairs and maintenance is sustained over the 2017/18 MTREF with an average of 2.6 per cent. 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.
118. Overall, municipalities are not sufficiently prioritising expenditure on asset management. As a result, these strategic spending areas receive limited allocations.

UNDER-SPENDING OF CONDITIONAL GRANTS

119. Table 15 below shows conditional grants performance as at 30 June 2017.

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Table 15: Conditional grants transferred from national departments to municipalities in 2016/17

Grant Type	Division of revenue Act No. 1 of 2015	Total Available 2016/17	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	**30 010 142**	**30 062 341**	**29 798 391**	**24 785 126**	**26 073 153**	**82,4%**	**86,7%**
Infrastructure	28 233 356	28 285 555	28 018 750	23 275 047	24 552 621	82,3%	86,8%
Capacity and Others	1 776 786	1 776 786	1 779 641	1 510 079	1 520 532	85,0%	85,6%
Grants excluded from the publication	**10 839 468**	**10 839 468**	**-**	**-**	**9 686 998**	**-**	**89,4%**
Urban Settlement Development Grant	10 839 468	10 839 468	-	-	9 686 998	-	89,4%
	48 941 849	**49 116 648**	**38 013 230**	**24 785 126**	**35 760 151**	**50,5%**	**72,8%**

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120. In the 2016/17 financial year, in terms of the DoRA R49.1 billion was allocated in the form of direct and indirect grants to local government.
121. In aggregate, municipalities spent R35.8 billion or 72.8 per cent of the total direct conditional grants: Infrastructure, Capacity and Urban Settlement Development grants at R24.6 billion (68.9 per cent, R1.5 billion (4.2 per cent) and R9.6 billion (26.9 per cent) respectively. The administering departments reported these figures as R24.8 billion or 50.4 per cent as at 30 June 2017. The misalignment is due to the fact that municipalities report to treasuries by the 10th of a month but national transferring officer's report to National Treasury on the 20th.

SUMMARY OF MUNICIPALITIES IN FINANCIAL DISTRESS

122. There is a group of municipalities that have liquidity challenges and 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.
123. Annexure A1 lists the municipalities in financial distress in 2016/17 (128) 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 2016/17 financial year. This list shows that 57 municipalities classified as financially distressed received unqualified audit report with findings. This suggests that the result of the audit outcome is not on its own a reflection of good financial health. Ten financially distressed municipalities obtained disclaimers, while 36 financially distressed municipalities obtained qualified audit opinions. Annexure B provides the consolidated assessment results for the metros as at 30 June 2017.
124. 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; fruitless and wasteful, unauthorised and irregular expenditure.
125. The increase in municipal debt is predominantly prevalent in smaller municipalities that have struggled with capacity, governance, institutional and operational inefficiencies. At the core of this is that these municipalities do not prepare funded and implementable budgets, despite the allocations and receipt of conditional and unconditional grants.
126. National Treasury in collaboration with other stakeholders has introduced changes to the local government equitable share formula, announcements of multi-year allocations, and other reforms to bring predictability and certainty into the fiscal system, despite current economic climate, but as long as municipalities fail to practice sound financial discipline they will always argue that funding is inadequate.
127. Despite all efforts the trend analysis of outstanding debt owed to municipalities, as reported in terms of s71 of the MFMA, show that it has increased uncontrollably since 2011. Currently, the outstanding municipal debt (R128.4 billion, fourth quarter, 2017/18) exceeds the total amount allocated to local government through direct and indirect grants from the national fiscus (R111 billion).
128. 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 (s71, fourth quarter, 2016/17).

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129. Municipalities in turn owe creditors R43.8 billion (s71, fourth quarter, 2017/18); these include all categories of creditors, however, it is the monies owed to Eskom and Water Boards that has sparked political interest to resolve the issues of non-payment. There are also cases of municipal non-payment of other creditors and suppliers that resulted in attachment of municipal assets and sale if execution of such assets by the courts. This cannot be allowed to continue as it will erode the gains made in the democratic system of governance as more and more communities face service delivery failures and communities vent their frustration through destructive protest actions as a result of the inability of municipalities to attend to basic service needs.
130. It is evident that, non-compliance to the thirty day payment period of the MFMA and Public Finance Management Act, 1999, (Act No. 29 of 1999)(PFMA) (as amended) is endemic across the spheres of government. Municipalities are not paying creditors within the 30 days period as required in terms of sections 65(1) and (2)(e) of the MFMA which stipulates that "the accounting officer of a municipality is responsible for the management of the expenditure of the municipality and must take all reasonable steps to account for the creditors of the municipality and ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice, unless prescribed otherwise for certain categories of expenditure". This has resulted in some municipalities facing litigations due to non-payment of creditors.
131. 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
    - Tariffs, billings and credit control measures were not aligned to indigent policies
    - Inefficient management of electricity demand means that penalty charges are unnecessarily incurred (fruitless and wasteful expenditure)
    - 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
    - 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
    - Payment arrangements are not provided for in the municipal budget; consequently, it may be argued that the signed payment arrangements are merely a case of malicious compliance
    - Weak municipal leadership, including ineffective councils and governance structures contribute to weak fiscal discipline; and consequent financial mismanagement
    - Notably accountability is 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. Essentially, the first indicator of managerial failure is evident in the operational matters on the ground, for example, if the streets in a municipality are littered and there are unsightly heaps of rubble or the robots do not work and there are inadequately serviced public ablution facilities. The second indicator of managerial failure is the tendency of senior managers to polarize themselves with political factions while the third indicator is generally incompetence of the staff complement
    - The absence of a suitably competent Chief Financial Officer 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. The filling of vacancies with regard to the two key positions in a municipality needs to be fast-tracked with competent managers. If there is no leadership in these positions, it should be no surprise that service delivery failures are eminent
    - Weak management of the overall revenue value chain, including tariff setting of trading services and administering the property transfer process

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- Ineffective budget planning and implementation; inability to maximise the capital budget spending while overspending on the operating budget, increasing non-priority spending and persistent negative cash balances
- Historic inadequate budget allocation for repairs and maintenance and asset management
- Limited evidence based financial management such as cash flow management
- Weak internal controls, risk management and supply chain management (SCM) inefficiencies resulting in poor audit outcomes and wasteful expenditure.

132. These studies and initiatives as well as the engagements with municipalities highlighted the fact that political instability, poor administrative governance and weak financial management was the common denominator and at the heart of the problem impacting on the municipality's ability to deliver services as per their mandate. If, however the political economy issues which consist of the lack of leadership, political will and decisive decision making capability are not addressed as a matter of urgency, the interface between executive and administrative functions within a municipality will continue to translate into financial distress and service delivery failures.
133. In order to address the "culture of non-payment" it is imperative that the broader scope of remedial action required is recognised and that all spheres of government are informed of their required contribution to the rehabilitation process.
134. Therefore, a multi-pronged approach that includes addressing operational inefficiencies, incompetence and governance failures is required to ensure sound fiscal discipline in the longer term.

SUPPORT PROVIDED BY GOVERNMENT TO IMPROVE FINANCIAL MANAGEMENT

135. South Africa's local government financial management system has undergone a number of reforms and there has been considerable progress. However, there is still a long way to go before all 257 municipalities are fully functional and sustainable. It is internationally acknowledged that South Africa has some exceptional financial management legislation and practices but these must be institutionalized by all municipalities if overall performance objectives are to be achieved in local government.
136. 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.

IMPLEMENTING MINIMUM COMPETENCY LEVELS

137. It has been ten years since the introduction of this reform aimed to build the financial management capacity of municipal officials to implement the MFMA reforms and the other legislative framework impacting on LG finances. There has been a positive acceptance by municipal officials, as per the table below, to embrace this reform as an enabler to achieving sound financial management governance across the respective municipalities and municipal entities, where they exist.
138. The latest reform through the issuance of another MFMA Exemption Notice, Gazette 40593 of 03 February 2017, after extensive consultations with the relevant stakeholders such as the TCF, LG MinMEC, Technical MinMEC to relax the fourth requirement on FM and SCM competency levels and thus enable municipalities to attract officials coming from the private sector and other spheres of government promises to inject a fresh approach to professionalism, ethics and ethos across municipalities if used correctly.

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139. The issued exemption notice which is a precursor to the amended Municipal Regulations on Minimum Competency levels once ratified by Parliament, allows the current officials employed before 03 February 2017 a further 18 months to comply with the issued requirements for their positions. Furthermore, any new official appointed after the 03 February 2017, will have their 18 months to comply with the FM and SCM competency levels for their positions.
140. This also implies that the other requirements such as higher education qualifications for the position, work related experience and performance agreement if needed, are not negotiable for the respective positions. The capacity building chief directorate is monitoring the implementation of this exemption notice using the required municipal monthly progress reports.
141. Municipal Councils as employers have been guided through this exemption notice on how to manage non-compliance beyond the given timelines whilst following all the related labour relations provisions of the country, among others. It also envisaged that the current graduate internship programme also funded primarily from the FMG allocation will continue to be utilised by municipalities as a talent pipeline to mitigate current and future capacity needs within their Budget and Treasury Offices. This necessitates that trained interns are retained within municipal BTO structures at appropriate levels to build the needed capacity in a sustainable manner.
142. The current and future municipal fiscal landscape in the medium term, promises to remain sticky downward in the backdrop of the latest economic downgrade to junk status by the rating agencies and the resultant retrenchments from the mining and retail sectors, among others.
143. Table 16 below summarises the provincial patterns of enrolment in the Minimum Competency Levels programme across the regulated positions, i.e. 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).

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Table 16: Minimum competency levels among senior municipal officials as at 30 June 2017

Province	Number of Municipalities	Accounting Officers	Meet Minimum Competencies	Chief Financial Officers	Meet Minimum Competencies	Senior Managers	Meet Minimum Competencies	Head of Supply Chain Management unit	Meet Minimum Competencies	Supply Chain Management Managers	Meet Minimum Competencies	Middle Managers	Meet Minimum Competency	Other Officials with Statement of Results (SoR)	Total Officials with SOR:
EC	39	39	11	39	7	86	38	7	2	16	7	215	77	1601	1743
FS	23	23	7	23	7	88	15	1	0	13	6	181	43	902	980
GT	11	11	5	11	6	321	100	11	7	59	35	1025	452	1603	2208
KZN	54	54	13	54	15	139	41	7	2	38	14	402	131	1402	1618
LIM	27	27	5	27	1	64	11	8	2	14	7	122	41	1297	1364
MP	20	20	10	20	4	108	26	5	3	17	9	183	98	1393	1543
NC	31	31	9	31	8	86	19	7	4	11	2	119	33	1403	1478
NW	22	22	6	22	3	69	16	4	0	13	5	194	60	902	992
WC	30	30	13	30	12	82	47	18	10	43	22	382	199	2010	2313
TOTAL	257	257	79	257	63	1043	313	68	30	224	107	2823	1134	12513	14239

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144. A total of 14 239 officials received a Statement of Results as proof of compliance with Financial Management and Supply Chain Management competency levels. This includes officials not immediately affected by the minimum competency levels such as clerks and interns but who have undertaken the programme as part of their financial management responsibilities and to enhance their career progression within their municipalities.

CAPACITY BUILDING GRANTS

145. In response to the scarcity of suitably skilled and experienced municipal finance staff, especially in rural areas, National Treasury introduced the Financial Management Grant (FMG) in 2004. This funds are utilized for inter alia, the appointment of financial management and accounting graduates as interns in municipalities. The interns are sourced from a pool of unemployed regionally-based Accounting, Economics, Finance and Risk Management graduates who are appointed for 24 to 36 month periods.
146. In 2016/17, R465 million in FMG funding was transferred to municipalities, against which the following expenditure was reported:
    - 38 per cent 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
    - 14 per cent on the preparation and timely submission of Annual Financial Statements.

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Table 17: Capacity-building and other current grants to local government 2013/14 - 2019/20

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
R million	Outcome			Revised estimate	Medium-term estimates		
Direct transfers	1 606	1 621	1 446	1 743	1 950	1 995	2 062
Local government financial management	425	449	452	465	502	531	561
Municipal human settlements capacity		300	100	-	-	-	-
2014 African Nations Championships host city operating	120	-	-	-	-	-	-
Expanded public works programme integrated grant for municipalities	611	595	588	664	691	729	781
Infrastructure skills development	99	104	124	130	141	149	157
Energy efficiency and demand-side management	181	137	178	186	203	215	227
Municipal demarcation transition	-	-	4	297	112	-	-
Municipal disaster	171	36	-	-	300	371	335
Indirect transfers	240	252	251	84	103	115	122
Municipal systems improvement	240	252	251	84	103	115	122
Total	1 846	1 873	1 698	1 827	2 053	2 110	2 183

Source: National Treasury, Local Government Database

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147. Despite the amount of funding assigned to capacity building in municipalities to improve financial management (R7.2 billion from 2013/14 to 2016/17 as shown in the table above), the audit outcomes of 160 municipalities in 2014/15 remained the same as in 2015/16, with 8 municipalities progressing.

MUNICIPAL FINANCE IMPROVEMENT PROGRAMME

148. The main objectives of the MFIP are to facilitate improved municipal financial management capacity, enhanced budget and financial management practices and improved outcomes through the provision of technical capacity support. Phase II of the MFIP was a three-year support initiative that came to an end in March 2017 and was followed by a new phase (Phase III) which commenced in April 2017 and will be implemented until the end of March 2020.
149. The MFIP is based on two specific intervention strategies that include:
   - Direct capacity support to the National Treasury and Provincial Treasuries;
   - Direct capacity support to identified municipalities through long-term advisors and short term specialists; and
150. In the 2016/17 financial year a total of 37 municipalities were supported through the placement of MFIP Technical Advisors on a long-term basis. A further 8 advisors were based at the NT providing specialist support to municipalities and PTs in key financial management disciplines and 7 advisors provided programme management services within the PMU.
151. In the case of the MFIP II support provided to PTs, the Budget Council Lekgotla resolved on 8 November 2014 that a differentiated approach, based on the individual capacity of each PT, was required in order to strengthen PTs so that they are better equipped to monitor and support their respective municipalities on financial management and budgeting issues.
152. As at 31 March 2017, four PT Advisors had been placed in the EC, GP, LP and NC. Support plans in these PTs were signed off by the MECs for Finance and HODs of the respective provinces. The implementation commenced on 04 January 2016 and concluded on 31 March 2017.
   - With 1 July 2017 being the legislative compliance date for all 257 municipalities to comply with the mSCOA chart, eight MFIP Advisors were appointed to to provide support to the 17 non-delegated municipalities and the following PTs EC, FS, GT, LP, NC and NW.
153. As at 31 March 2017, a total of 80 per cent of technical activities in MFIP II supported municipalities had been completed, with 3 per cent in progress and 2 per cent not yet started, the remaining 14 per cent is either outsourced or not on the support plans. MFIP II Support on Revenue Management was 82 per cent complete, Budgeting was at 84 per cent, Cash Management was at 86 per cent, Asset Management, 72 per cent and Supply Chain Management had 79 per cent completion statuses.
154. A total of 7 378 training sessions were completed, with 1 063 officials trained for the duration of the MFIP II programme. In the year under review, municipalities received a total of 3 937 training sessions from Advisors located in the various municipalities, compared to 2 553 sessions in the previous year. The increase in the number of training sessions and number of officials trained is mainly due to the increase in the number of municipalities supported during 2016/17.
155. Further to the direct Advisor support at municipalities regarding Asset Management, the PSC approved an Integrated Infrastructure and Asset Management System Project to be piloted in 10 municipalities identified by the respective PTs. Following the required procurement processes, 3 service providers were appointed during March 2015 to assist 9 municipalities with the following required deliverables:

Integrated Infrastructure and Asset Management system that provides the following outputs:

- Fully satisfy the requirements regarding asset management as stipulated in the MFMA
- Comply with the prevailing GRAP 17 and any accounting standard(s) issued

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- Comply with the Standard Chart of Accounts (mSCOA) requirements as per Government Gazette 37577 dated 22 April 2014
- Provide reporting capabilities on all lifecycle aspects of Assets in order to support financial, operational and planning Managers in line with the Local Government Systems Act and appropriate sector guidelines
- Update the scope of assets to include all immovable and moveable assets.

156. The Asset Management Project was officially concluded on 31 January 2017. 24 Municipalities were supported through three appointed service providers. The audit reports indicate issues in certain municipalities which continue to contribute to qualified audit opinions. 14 municipalities under the MFIP II Support were unqualified in respect of assets while another 10 only had issues contributing to qualifications on matters such as valuations and insufficient supporting documentation for the audit which were out of scope of the MFIP II Support Program attention.
157. The August 2016, TCF resolved that the current phase III of the MFIP must be restructured and further strengthened and aligned to the six adopted local government financial management game changers, namely funded budgets, revenue management, mSCOA, asset management, supply chain management and audit outcomes. This resulted in significant shifts in the operating modalities of the programme compared to previous phases whereby all technical advisory support deployed to NT, PTs and Municipalities aims to bolster the implementation of the game changers in order to facilitate sustainable improvements in the management of municipal financial affairs.
158. In this regard the bulk of the support provided under MFIP III will be targeted at the municipal finance units of PTs to further enhance their institutional and technical capacity to better monitor, support and oversee the financial management affairs of delegated municipalities in line with their approved province specific strategies.

STANDARD CHART OF ACCOUNTS FOR MUNICIPALITIES (*m*SCOA)

159. The Minister of Finance approved publication of the Municipal Regulation on a Standard Chart of Accounts (Notice No. 37577) on 22 April 2014.
160. This has been by far the biggest reform in the history of Local Government. It 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 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.
161. Twenty-six municipalities (including three metros) across ten system platforms piloted *m*SCOA, of which 20 were able to go live early on 1 July 2015. During the piloting process, which officially concluded on 5 December 2015, a total of 32 municipalities (including official pilots and voluntary early adopters) received continued support from the 'piloting work stream', resulting in an additional seven municipalities going live on 01 July 2016. The final *m*SCOA Version (6.1) for implementation by 1 July 2017, was released on 7 December 2016 after extensive consultation with relevant stakeholders.
162. Seven system vendors with *m*SCOA enabling software solutions were appointed on a transversal panel for a period of three years (August 2016 to July 2019). The purpose of the transversal tender is to support municipalities with limited skills to draft and evaluate a technical specification, and to reduce the time spent on onerous tender processes and price negotiations, should a municipality decide to change its current financial system to comply with *m*SCOA.

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163. Technical guidance was provided to municipalities in the form of Circulars (*m*SCOA Circulars No. 1 to 6 provided guidance on *m*SCOA implementation, while MFMA Circular No. 80 and its addendum set out the proposed minimum ICT and business process functionality to enable transacting against *m*SCOA with effect 1 July 2017 and technical support.
164. Stakeholder management, empowerment and communication took place to ensure a common understanding of the project objectives (change management, training and technical guidance) and milestones to be achieved, including:

- Attending and presenting at the Provincial Municipal Manager and Chief Financial Officer's Forums
- Incorporating the Provincial Treasuries into the National *m*SCOA Integrated Consultative Forum (ICF)
- Presentations and engagements at the CIGFARO (IMFO) Conferences in Gauteng (11th to 12th July 2016) and Durban (2nd to 6th October 2016) and a *m*SCOA Workshop on the 22nd to 23rd September 2016 in Pretoria
- Ongoing engagements with all system vendors, including facilitating vendor discussion forums on 3 to 6 June 2014, 24 November 2014 and 30 to 31 January 2016.

165. The *m*SCOA Frequently Asked Questions (FAQ) Database was established to address queries. A total of 3 935 queries have been resolved to date, of which 3 628 were received and processed in the lead up to the final chart release in November 2016.
166. Development, roll-out and facilitation of non-accredited *m*SCOA training to a total of 5 821 officials from all three spheres of government and other relevant stakeholders across the affected environment.
167. During the period 01 April to 30 June 2017, the national and provincial treasuries, with the support of three *m*SCOA advisors, pursued the submission of the data strings and correction of the segment and trial balance errors. Extensive engagements were also held with system vendors to ensure that all system errors are resolved timeously.
168. On 02 July 2017, 99 per cent of municipalities had successfully uploaded their tabled MTREF budget data strings (TABB) and 98 per cent their adopted MTREF budget data strings (ORGB) for 2017/18. Also, 96 per cent of municipalities submitted their adopted budget data strings without any segment test or trial balance errors.

CITIES SUPPORT PROGRAMME (CSP)

169. The Cities Support Programme works with metropolitan municipalities, national departments, provincial governments and other stakeholders to facilitate faster and more inclusive urban economic growth. Effective urban governance is a key pre-requisite for building more productive, inclusive and sustainable cities. In particular, effective urban planning is essential to restructuring the spatial form of cities over time to capture the agglomeration benefits of urbanisation.
170. The CSP has coordinated the introduction of Built Environment Performance Plans (BEPPs) in metropolitan municipalities. The focus of the BEPPs has progressed over the last three years from spatial planning, to the identification of Integration Zones and catalytic projects, to alignment with the budgeting process and urban management practices. All 8 metropolitan municipalities submitted their final, council approved BEPPs on time, indicative of the buy in and support from the metro's. The 2016/17 BEPPs focussed on progress with the establishment and measurement of built environment outcome indicators, the alignment of plans, the preparation of catalytic investment programmes and projects within the Urban Network Strategy.
171. At a high level the 2016/17 BEPP processes highlighted the progress in adopting a spatial planning approach and identifying the Integration Zones by cities, the challenges in trying to take the leap from the old focus on outputs to now beginning to focus on outcomes, the lack of a clearly identified a pipeline of catalytic projects within Integration Zones and weaknesses in identifying support needs in relation to programme preparation and implementation requirements outlined in the BEPPs.

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172. As part of the Governance Component, the CIDMS (Cities Infrastructure Delivery Management System) toolkit was developed and finalised in the reporting period to support cities to identify the need for infrastructure over multiple planning horizons, to evaluate the merits of infrastructure investment proposals, to support procurement and delivery of infrastructure, and to undertake the above in a sustainable integrated infrastructure asset management framework.

173. The CIDMS Toolkit presents cities with a customized system incorporating best practice processes, techniques and tools for optimizing performance right across the urban infrastructure value chain while responding to the long term strategies of cities (i.e., spatial transformation strategies). The scope of the CIDMS Toolkit clearly extends beyond infrastructure delivery. It encompasses the full ambit of infrastructure management as appropriate to a public sector asset-intense organization that must remain financially viable and achieve equitable outcomes for society.

174. The implementation of the CIDMS toolkit will be rolled out in 2017/18. It will initially be piloted in 3 metros (eThekwini, Cape Town and Johannesburg) and full implementation to all metros in the subsequent financial years.

175. The benchmark Sub-National Doing Business survey – Doing Business SA 2015 – was launched in 12 June 2015. In 2016/17, a new round of engagements with city governments was initiated, aimed at seeking continuous improvements in city processes and performance. Cities prepared a Doing Business Reform Action Plans that identified key interventions to improve their Doing Business score in the 3 indicators that are within the city government sphere of management – that is, dealing with Construction Permits, Getting Electricity and Registering Property. The reform plans were submitted to National Treasury and progress on the plans are reported at the City Budget Forum meetings.

176. The CSP provided support to cities in long term planning for their public transport networks, in creating credible full network plans for their areas. This included hosting a series of technical workshops on integrated transport network planning. A peer review mechanism with local and international experts was established to test for various aspects of the city plans.

177. The project addressing the BRT operations, provided support to the City of Johannesburg and Tshwane in diagnosing and follow up action to moderate costs and enhance revenues for their BRT systems. The lessons learnt from this work were shared through a series of technical workshops on bus operations, Intelligent Transport systems and Station Management.

178. The ELP (Executive Leadership Programme) is an annual CSP event. The 2017 ELP was hosted in partnership with the Gordon Institute of Business (GIBS) and was run as a 5-day executive leadership programme for the senior political and administrative leaders of the 8 metros.

179. The theme was Accelerating City Transformation for Inclusion, Growth and Sustainability. The course was designed to (i) provide a concise overview of urban development challenges and opportunities in SA cities; (ii) consider and develop strategies for intervention to support inclusive growth; (iii) develop the leadership teams with the agency to implement these strategies.

180. In October 2016 'Municipal Money' (https://municipalmoney.gov.za/) was launched. The National Treasury's Local Government Budget Analysis Unit, the Cities Support Programme and the Economies of Regions Learning Network, have worked together to develop 'Municipal Money", an open local government budget data portal which provides citizens and other stakeholders with access to comparable, verified information on the financial performance of each municipality. Municipal Money aims to promote transparency and citizen engagement through the visualization and 'demystification' of information about municipal spending.

181. The creation of this portal is in line with international best practice, where governments are increasingly opening up their data, specifically budget and expenditure data, to the public - to promote oversight, transparency and accountability. Municipal Money is a user-friendly website that utilises a variety of media and tools to present key municipal financial information, and also to explain the related financial concepts and their relevance to citizens.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

182. There are also two key housing projects that are implemented being the understanding of Residential Property markets and a Programme Management Toolkit for scaling up formalisation and upgrading of informal settlements. The tool has been developed and applied in three metros (eThekwini, Cape Town and Mangaung) to help them generate and analyse data that will assist them to understand the dynamics and trends (performance, size and transactions) in the residential markets in their cities. This project is aimed at making cities to better plan for improving and stabilising residential property markets in a holistic matter, thus contributing amongst others in improving delivery of affordable housing and revenue collection.
183. The CSP has also partnered with the National Department of Human Settlements / National Upgrading Support Programme (NUSP) to develop a Programme Management Toolkit for scaling up participatory and city wide incremental upgrading of informal settlements. The toolkit is near completion and has been workshopped with all metros.

THE BACK TO BASICS (B2B) APPROACH

184. The first phase of the B2B focused on laying the foundation for a developmental local government by doing the basics right. This means that the pillars of the first phase of Back to Basics will now become the foundation on which we need to build further.
185. The second phase of B2B is conceptually predicated on the theme "Managing Municipal Spaces for Radical Social and Economic Transformation". The second phase requires a government-wide paradigm shift in perceptions of the role of Local Government, and will require a reorientation of the approach to implementation of the B2B Programme. However, municipalities that are not achieving the basics yet, will still need to first concentrate on getting the foundational pillars right in order to stabilise such municipalities.
186. The B2B ten-point has been updated and tightened after the inputs of the Third Presidential Local Government Summit to reflect the five pillars as foundational areas and the focus areas of Spatial and Integrated Development Planning, LED, Disaster Risk Planning and the Strengthening of the IGR.
187. By the end of the 2016/17 financial year, 95 per cent of ward committees were established. The average rate of ward committee meetings in the 2016/17 year per municipality, was 7, 2 meetings per month, which was lower than in 2015/16 (12, 5 meetings). It must however be remembered that ward committees first had to be established after the 3 August 2016 local government elections, with the result that the average rate of meetings per month would be lower in 2016/17.
188. In terms of the Municipal Structures Act, 117 of 1998, Section 18(2), a municipal council must meet at least quarterly. The national average was indicative of a trend towards monthly council meetings with an average of 0.83 meetings per month in 2016/17 rather than having meetings only once per quarter[4]. Reporting by municipalities in the Western Cape had averages of more than one meeting per month in 2016/17, namely 1.09 followed by Mpumalanga (0,96) and Limpopo (0,93). The lowest averages of meetings per month in 2016/17 were reported by municipalities in North West, 0.57, Eastern Cape, 0.64 and Free State, 0,73.
189. The expectations of communities that remain unfulfilled with regard to quality service delivery is evidenced in increasing service delivery protests. In this regard Municipal IQ reported early in October that major service delivery protests, are likely to eclipse all other tallies by the end of 2017, other than perhaps 2012 and 2015.

[4] This overall average as reported by municipalities was a bit higher previously with an average of 1 meeting per month in 2014/15 and 0,9 in 2015/16.
[4] Calculated by dividing the total number of water stoppages reported in 2016/17 by the number of responses/templates provided.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

190. Analysis indicates that the increase in service delivery protests occurred irrespective of the public participatory type meetings (such as ward committee meetings) held as prescribed or expected. One must therefore be cautious to assume that it is merely as a result of the public participation mechanisms not being effective or functional enough, that service delivery protests have been increasing. The phenomenon of protests is complex, with many cases, of which the effectiveness of public participation mechanisms is but one. The highest average number of water service interruptions per month[5] was reported by Gauteng municipalities, followed by Western Cape and Limpopo.

A COORDINATED APPROACH TO MUNICIPAL SUPPORT

191. A collective programmatic effort is needed to enhance treasuries to drive their core mandates as well as provide leadership to coordinate with other stakeholders such as DCoG and SALGA to address the failures encountered at the municipalities.
192. It is therefore essential to align the province specific strategy to that of the "Game Changers" as decided by Budget Council and alluded to by the Minister of Finance in the budget speech of 2017.
193. The National and provincial treasuries have agreed to focus on "Game Changers" in their efforts to improve the capacity and financial performance of municipalities, and these are:
    - A new Municipal Standard Chart of Accounts (mSCOA) will be implemented across all 257 municipalities from 1 July 2017. This is a major reform seeks to improve integration between the municipality's IDP and the budget and standardise financial reporting and annual performance plans against pre-determined service delivery targets as articulated in the SDBIP
    - An improved supply chain management system to reduce irregular expenditure and generate significant savings, led by the OCPO
    - An improved revenue management framework for municipalities that targets improving the internal controls, cash flow management and operational efficiencies in municipalities and reduce unnecessary and wasteful expenditure
    - Improved asset management for continuous delivery of services and to generate associated revenue
    - Ensure that budgets adopted by the municipal councils are funded
    - Support to address audit outcomes, especially those related to adverse and disclaimers;
    - Support in implementing consequence management in municipalities by training and advising on municipal processes and oversight structures.
194. It is imperative that the provincial treasuries strengthen their monitoring and oversight of municipal finances in terms of the "early warning" reporting so that the incidence of financial crisis or distress is minimized. This requires proactive efforts and preventative measures within a coordinated framework as shown below:

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

PROPOSED RESPONSE TO ADDRESS THE CULTURE OF NON-PAYMENT

FOCUS ON MUNICIPALITIES WITH DIRE LIQUIDITY CHALLENGES

Immediate | **next 6 Months** | **6 to 12 Months**

NT/PT
- MFCA
- TCF
- Lekgotla resolution

Game Changers
- **Funded Budgets**
  - Robust assessment of the 2017/18 budget
  - Adequate surpluses - guide affordable payment arrangements reduced expenditure
- **Revenue Management**
- **Asset Management**

- **Government debt**
- **Turnaround plan**

Aligned to the provincial specific strategy

Suppoprt from MFIP

If necessary invoking of S216 for failure to adhere to short term initiatives or S139 of the MFMA

Finalisation of the MoU

Eliminate "GREY" areas in the two MFMA and MSA that are confusing roles and responsibilities and to avoid duplications

CoGTA
- MSA

- Back to basics - governance - no acting MMs and CFOs - instability
- Ensure effective functioning of councils
- Ensure debt collection and credit control policies are structured in the best interest of the minicipality
- Review of indigent policy
- Governement debt

- Possibility of invoking S139 of the Constitution
- Financial recovery plans

Support - MISA, MSIG

SUPPORT OF SALGA

OVERSIGHT AND MONITORING - PARLIAMENT SCOPA, IMC(E), SeCOA

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

SHORT TERM MEASURES

195. Initial focus on the top creditors (per the s71 report) which includes in all probability Eskom and water boards debt but is limited to those municipalities with liquidity challenges. This means each province will identify municipalities in financial crisis to prioritise for support.
196. Provincial treasuries, in collaboration with the National Treasury, should undertake a robust budget assessment of the adjusted 2017/18 and tabled and adopted 2018/19 budgets for prioritised municipalities to ensure that:

- The budgets are funded
- That the budget includes adequate provision for realistic payment arrangements entered into with any creditors, in this way the municipality will be in a better position to structure affordable payment arrangement that will be honoured.

197. This must be a pre-requisite before the budget is adopted by the respective Councils:

- National Treasury will facilitate discussions with the government departments that owe these municipalities so that settlement can be linked to DPW debt verification process
- It is proposed that a committee comprising National Treasury and the relevant provincial treasuries (including other relevant stake holders) will be constituted for each province to support these municipalities to implement financial turnaround strategies (action plan) until there is measurable cash flow improvement. The current debt forums in the province may provide a platform for monitoring
- This initiative should be formalised by its inclusion in updated and prioritised provincial specific municipal support strategies of the provincial treasuries
- To ensure success of this approach resilient monitoring and oversight of the 2017/18 budget implementation by provincial treasuries will be required
- National Treasury will work jointly with Provincial Treasury to implement other initiatives to assist municipalities to address weaknesses in specific financial management discipline including budgets and revenue management. This will include engaging with other stakeholders such as DCoG to address matters of governance, service delivery, institutional and human resources challenges that are eminent in these municipalities
- National Treasury emphasises the need to improve revenue and to reduce expenditure not aligned to core services through an introduction of an action plan that will culminate into a holistic financial recovery plan in the longer term.

MEDIUM TERM MEASURES

198. In cases of failure of the municipality to honour this arrangement National Treasury will support PT to enforce financial recovery measures in terms of chapter 13 of the MFMA by invoking section 216(2) of the Constitution against any defaulting municipality for consistently failing to honour its credit obligations thereby undermining the measures prescribed in section 215(1) of the Constitution. Alternatively, provinces can also choose to invoke section 139 of the MFMA in the failing municipalities.
199. In addition, invoking section 216(2) will also send a strong message to defaulting municipalities that maladministration, financial mismanagement, corruption and fraud will not be condoned at the expense of service delivery.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

LONG TERM MEASURE

200. Since there are existing areas in the MFMA and MSA that are not clear and these areas pose confusion on the roles and responsibilities and duplication of effort in certain instance during the implementation of the Acts, National Treasury and DCoG must endeavour to resolve these differences for a more conducive operational environment.
201. An opportunity to bring alignment by clarifying roles, responsibilities and accountability and enabling these changes into legislation will require ongoing engagements at provincial and national department level as well as legislature levels. The strengthening of collaboration, coordination and sharing of information between the departments will form a basis to which the above changes can be practically implemented. Such forums and engagements must be regularized to ensure coherent actions.
202. The financial recovery services of National Treasury will participate to prepare a recovery plan that incorporates the action plan for finance mentioned above.
203. Reports will be prepared and presented to Parliament and Legislatures by National Treasury and Provincial Treasuries, such reports will be enhanced with measures that will be included arising from the alignment and amendment of the MFMA and MSA.
204. Provinces and National Treasury will report to the SeCOA on progress on a quarterly basis and when required.

CONCLUDING REMARKS

205. 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 2016/17 (128). **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 2016/17 financial year. **Annexure B** provides the consolidated assessment results for the metros as at 30 June 2017.

206. **Municipalities in financial distress are characterised by poor cash flow management and an increase in outstanding debtors and creditors**. This assessment is based on the following financial health indicators:

- 64 municipalities had negative cash balances at 30 June 2017. Throughout the 2016/17 financial year, none of the metropolitan municipalities (metros) recorded negative cash balances. This is a strong indication that, in general, they have a solid cash base and comply with cash flow management procedures.
- At an aggregate level, 74 (68 in 2015/2016) municipalities in 2016/17 (28.8 per cent) recorded cash coverage exceeding three months of operational expenditure, which is within the acceptable norm. Of concern is the fact that the number of municipalities with cash coverage of less than one month of operational expenditure increased from 116 in 2015/16 to 137 in 2016/17.
- The total number of municipalities that overspent on their operational budgets decreased from 163 in 2015/16 to 33 in 2016/17.
- The total number of municipalities that have underspent on their capital budget by more than 30 per cent increased from 90 in 2015/16 to 122 in 2016/17.
- At the end of the fourth quarter of 2016/17 (as per the Section 71 results), total debtors amounted to R128.5 billion, a R14.9 billion increase from the 2015/16 financial year. Total creditors amounted to R43.8 billion, a R4.9 billion increase from the 2015/16 financial year.
- Local Municipalities only had R8.7 billion cash available to repay outstanding creditors of R13.7 billion, leaving a deficit of R5 billion to honour financial commitments. The situation is the same for the secondary cities where total creditors in 2016/17 amounted to R9.6 billion while available cash was R4.7 billion; creditors were thus owed 104 per cent of the available cash.
- There is a decrease in the reliance on conditional grants in municipalities where revenue is financed by national transfers of 75 per cent and more, from 125 in 2015/16 to 100 in the 2016/17 financial year.
- In 2016/17, 17 district municipalities were identified as financially distressed, an increase from the 16 of the previous year. It is cause for concern that district municipalities are financially distressed, given the role they have to play in empowering and capacitating local municipalities.

207. **The Auditor-General (AG) has highlighted the fact that the municipal audit outcomes have shown little improvement.** The audit outcomes of municipalities in the Eastern Cape, Limpopo and Mpumalanga showed momentum in the right direction, with the Eastern Cape showing the greatest improvement. The Western Cape continued to set the pace by increasing their clean unqualified audit opinions without emphasis of matters to 80 per cent of their municipalities. The on-going instability in senior municipal management positions has a negative impact on both audit outcomes and service delivery to communities. The number of acting Municipal Managers (104) and acting Chief Financial officers (88) represents a total increase in both acting positions from 18 to 20 per cent.

208. **Overall, municipalities are not sufficiently prioritising expenditure on asset management.** National aggregate spending on repairs and maintenance as a percentage of property, plant and equipment averages 3.4 per cent while the norm is 8 per cent. On 30 June 2016, metropolitan municipalities recorded water and electricity losses amounting to R2.8 billion and R7.2 billion respectively. During the 2015/16 financial year, water losses decreased significantly, by R1.1 billion. Water losses are affected by the level of municipalities' spending on repairs and maintenance. Electricity losses increased significantly with R1.7 billion, from R5.5 billion in 2014/15 to R7.2 billion in 2015/16.

CONCLUDING REMARKS

209. **To address capacity challenges, government has channelled very substantial funding towards capacity building initiatives.** In the 2016/17 financial year, in terms of DoRA R49.1 billion was allocated in the form of direct and indirect grants to local government of which municipalities spent R35.8 billion or 72.8 per cent. Selected activities have included:
    - A total of 7 378 training sessions were completed, with 1 063 officials trained for the duration of the Municipal Finance Improvement Program (MFIP II) programme. In the year under review, municipalities received a total of 3 937 training sessions from Advisors located in the various municipalities, compared to 2 553 sessions in the previous year.
    - It has been ten years since the introduction of the implementation of the minimum competency level reform aimed to build the financial management capacity of municipal officials to implement the MFMA reforms and the other legislative framework impacting on LG finances. A total of 14 239 officials received a Statement of Results as proof of compliance with Financial Management and Supply Chain Management competency levels.
    - With the implementation of mSCOA, on 02 July 2017, 99 per cent of municipalities had successfully uploaded their tabled MTREF budget data strings (TABB) and 98 per cent their adopted MTREF budget data strings (ORGB) for 2017/18. Also, 96 per cent of municipalities submitted their adopted budget data strings without any segment test or trial balance errors.
    - In October 2016 'Municipal Money' (https://municipalmoney.gov.za/) was launched. The National Treasury's Local Government Budget Analysis Unit, the Cities Support Programme and the Economies of Regions Learning Network, have worked together to develop 'Municipal Money", an open local government budget data portal which provides citizens and other stakeholders with access to comparable, verified information on the financial performance of each municipality. Municipal Money aims to promote transparency and citizen engagement through the visualization and 'demystification' of information about municipal spending.
    - A Cities Infrastructure Delivery and Management System (CIDMS) toolkit has been developed and finalised in the reporting period to support cities to identify the need for infrastructure over multiple planning horizons, to evaluate the merits of infrastructure investment proposals, to support procurement and delivery of infrastructure, and to undertake the above in a sustainable integrated infrastructure asset management framework.
210. **The adoption of the Integrated Urban Development Framework (IUDF) has led to greater coordination and focussing of support to different categories of municipalities,** in order to enable them to respond more effectively to their development challenges and align their performance with our national development goals.
    - the Cities Support Programme (CSP), which is coordinated by the National Treasury, is working closely with our metropolitan municipalities in IUDF implementation. The CSP has a number of key capacity building activities underway for metropolitan municipalities in areas of governance, human settlements, urban public transport, climate resilience and economic development. This includes initiatives such as analytical reviews of residential property markets, and toolkits to scale up upgrading of informal settlements.
    - The Department of Cooperative Governance (DCoG) has begun to rollout out a complementary programme for Intermediate Cities, while the design of a small towns programme is being finalised in consultation with the SA Local Government Association. These programmes strongly complement the systemic support and reform programmes such as Back to Basics (B2B) and Municipal Financial Management reforms.
211. The National and provincial treasuries have agreed to focus on "Game Changers" in their efforts to improve the capacity and financial performance of municipalities. National Treasury and Department of Cooperative Governance (DCoG) are collaborating to prioritise municipalities that are in financial distress and failing to deliver services for support and intervention to restore them to sustainability, working in collaboration with provinces.

CONCLUDING REMARKS

212. **The Minister of Finance, in his October 2017 Medium Term Budget Policy Statement (MTBPS), announced the introduction of a funding mechanism to support the recovery plans for municipalities that face a financial crisis, as provided for in section 139(5) of The Constitution.** The DoRA published in February 2018 provides a brief background to the proposed funding mechanism namely, the Municipal Restructuring Grant (MRG). The purpose of this grant, as described in the DoRA, is "to be a short term intervention that will fund the turnaround of struggling municipalities". This will provide some financial relief to municipalities that require financial support to improve their current situation. It is important to note that this grant allocation is not intended to fund the complete financial recovery plan but rather to contribute to the implementation of corrective action that demonstrates sufficient alignment to NT's "game changers".

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

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (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).

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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	1	3	1	12	-
Nelson Mandela Bay	NMA	2	1	2	2	2	1	3	1	14	-
Mangaung	MAN	3	1	2	1	1	1	3	2	14	-
City Of Johannesburg	JHB	2	1	1	1	2	1	3	2	13	-
City Of Tshwane	TSH	3	1	2	1	2	1	3	3	16	YES
Ekurhuleni Metro	EKU	2	1	2	1	2	1	3	3	15	-
eThekwini	ETH	1	1	2	1	1	3	2	1	12	-
Cape Town	CPT	3	1	1	2	2	2	2	1	14	-
Matjhabeng	FS184	2	1	3	3	1	3	3	3	19	YES
Emfuleni	GT421	3	3	3	3	3	1	3	1	20	YES
Mogale City	GT481	3	1	2	1	2	3	3	3	18	YES
Msunduzi	KZN225	2	1	2	1	2	1	3	1	13	-
Newcastle	KZN252	3	3	1	1	2	1	3	1	15	-
uMhlathuze	KZN282	2	1	1	1	2	1	1	1	10	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Polokwane	LIM354	3	1	2	1	2	1	3	3	16	YES
Govan Mbeki	MP307	3	1	3	2	2	3	3	3	20	YES
Emalahleni (Mp)	MP312	3	3	2	2	3	2	3	3	21	YES
Steve Tshwete	MP313	3	1	1	2	3	1	1	3	15	-
City of Mbombela	MP326	3	2	1	1	2	3	2	3	17	YES
Sol Plaatje	NC091	2	1	1	2	2	2	3	2	15	-
Madibeng	NW372	3	1	1	2	1	3	3	3	17	YES
Rustenburg	NW373	2	1	1	2	2	2	3	1	14	-
Tlokwe-Ventersdorp	NW405	2	1	1	3	2		1	1	11	-
City Of Matlosana	NW403	3	1	3	2	3	3	3	1	19	YES
Drakenstein	WC023	2	1	1	1	2	1	1	1	10	-
Stellenbosch	WC024	1	1	1	2	3	1	1	1	11	-
George	WC044	1	1	2	2	3	3	1	1	14	-
Makana	EC104	1	1	1	3	3		1	3	13	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Blue Crane Route	EC102	3	1	3	1	2	2	3	1	16	YES
Dr Beyers Naude	EC101	3	1	3	3	3	3	3	1	20	YES
Kou-Kamma	EC109	3	1	1	3	2	3	3	3	19	YES
Kouga	EC108	3	1	2	1	2	1	2	3	15	-
Ndlambe	EC105	3	3	2	2	2	2	3	2	19	YES
Sundays River Valley	EC106	3	1	3	3	3	2	3	1	19	YES
Raymond Mhlaba	EC129	1	1	3	3	1		1	1	11	-
Amahlathi	EC124	2	1	2	1	2	3	3	1	15	-
Great Kei	EC123	3	3	3	3	3	3	3	3	24	YES
Mbhashe	EC121	3	1	2	1	2	1	1	1	12	-
Mnquma	EC122	3	3	3	2	3		1	1	16	YES
Ngqushwa	EC126	3	1	3	3	2	2	3	1	18	YES
Enoch Mgijima	EC139	3	1	2	3	3	3	3	2	20	YES
Inxuba Yethemba	EC131	3	3	1	3	3		1	1	15	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Sakhisizwe	EC138	3	1	3	3	3		1	1	15	-
Emalahleni (Ec)	EC136	3	1	3	1	2	1	3	3	17	YES
Engcobo	EC137	1	1	3	3	2	1	1	1	13	-
Intsika Yethu	EC135	1	2	1	3	3		1	1	12	-
Walter Sisulu	EC145	1	1	2	3	3		1	3	14	-
Elundini	EC141	2	1	3	3	3	1	2	1	16	YES
Senqu	EC142	1	3	2	2	3	2	3	1	17	YES
King Sabata Dalindyebo	EC157	3	1	3	2	3	2	3	3	20	YES
Mhlontlo	EC156	3	1	2	3	1		1	1	12	-
Ngquza Hills	EC153	1	1	2	2	1		1	1	9	-
Nyandeni	EC155	1	2	1	3	3	1	1	1	13	-
Port St Johns	EC154	3	1	1	3	3	1	3	1	16	YES
Matatiele	EC441	1	1	3	2	2	3	3	1	16	YES
Mbizana	EC443	1	1	3	2	3	1	2	1	14	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Ntabankulu	EC444	1	1	3	1	3	1	2	1	13	-
Umzimvubu	EC442	1	1	2	3	1	2	2	1	13	-
Kopanong	FS162	2	1	1	3	3		1	3	14	-
Letsemeng	FS161	3	1	3	3	3	3	3	2	21	YES
Mohokare	FS163	3	1	3	3	3		1	1	15	-
Masilonyana	FS181	3	1	3	3	3	2	3	3	21	YES
Nala	FS185	3	1	1	2	1	3	3	3	17	YES
Tokologo	FS182	3	3	1	1	1	3	3	1	16	YES
Tswelopele	FS183	3	2	3	1	3	2	3	1	18	YES
Dihlabeng	FS192	1	1	3	2	2	3	3	3	18	YES
Maluti-a-Phofung	FS194	3	3	3	3	2	3	3	1	21	YES
Mantsopa	FS196	3	1	2	2	3		1	1	13	-
Nketoana	FS193	3	3	3	1	3	3	3	1	20	YES
Phumelela	FS195	1	1	1	1	2		1	1	8	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Setsoto	FS191	3	1	3	1	1	2	3	3	17	YES
Metsimaholo	FS204	3	3	1	2	3	3	3	3	21	YES
Moqhaka	FS201	3	1	1	3	2	3	3	3	19	YES
Mafube	FS205	3	1	3	1	3	3	3	3	20	YES
Ngwathe	FS203	3	1	3	3	2	1	3	3	19	YES
Midvaal	GT422	2	1	2	1	1	1	2	1	11	-
Lesedi	GT423	3	1	2	3	3	3	3	3	21	YES
Rand West City	GT485	2	1	1	3	2	3	3	3	18	YES
Merafong City	GT484	3	1	3	2	1	2	3	3	18	YES
Ray Nkonyeni	KZN216	1	1	1	2	3	1	2	1	12	-
Umdoni	KZN212	3	1	1	2	3	2	2	3	17	YES
uMuziwabantu	KZN214	3	3	1	1	1	2	2	1	14	-
Umzumbe	KZN213	3	1	3	2	2	3	2	1	17	YES
uMshwati	KZN221	3	1	3	2	2	1	3	3	18	YES

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
uMngeni	KZN222	3	1	3	1	2	2	3	1	16	YES
Mkhambathini	KZN226	1	1	3	2	2	2	3	1	15	-
Mpofana	KZN223	3	3	3	2	3		1	1	16	YES
Impendle	KZN224	2	1	3	1	1	3	2	1	14	-
Richmond	KZN227	3	1	3	2	1	1	2	1	14	-
Alfred Duma	KZN238	1	1	1	2	3	3	3	1	15	-
Inkosi Langalibalele	KZN237	3	3	1	3	2	3	3	1	19	YES
Okhahlamba	KZN235	2	1	2	2	2	2	3	1	15	-
Endumeni	KZN241	3	3	2	1	2	1	3	1	16	YES
Umvoti	KZN245	3	3	1	1	2	1	3	1	15	-
Msinga	KZN244	1	1	1	3	3	1	3	1	14	-
Nquthu	KZN242	1	1	3	3	2	3	2	1	16	YES
eMadlangeni	KZN253	3	2	2	2	2	2	3	1	17	YES
Dannhauser	KZN254	2	1	1	3	3	3	3	1	17	YES

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Abaqulusi	KZN263	1	1	1	3	3	2	3	2	16	YES
eDumbe	KZN261	3	1	2	1	2	3	3	3	18	YES
Nongoma	KZN265	3	1	3	1	1	3	3	3	18	YES
Ulundi	KZN266	3	3	1	1	1	1	3	1	14	-
uPhongolo	KZN262	3	1	3	1	2	3	3	3	19	YES
The New Big 5 False Bay	KZN276	3	1	3	1	2	3	3	3	19	YES
Mtubatuba	KZN275	3	1	3	1	2	3	3	1	17	YES
Jozini	KZN272	1	1	3	2	3	3	3	1	17	YES
Umhlabuyalingana	KZN271	2	1	2	2	2	2	3	1	15	-
Mthonjaneni	KZN285	1	1	2	2	1	1	1	1	10	-
Mfolozi	KZN281	3	1	3	1	3	1	1	3	16	YES
Nkandla	KZN286	3	1	2	1	1	3	2	3	16	YES
uMlalazi	KZN284	2	1	2	1	2	3	2	1	14	-
KwaDukuza	KZN292	1	1	2	1	2	2	1	1	11	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Mandeni	KZN291	1	1	1	1	1	2	3	1	11	-
Maphumulo	KZN294	1	1	2	1	1	2	3	1	12	-
Ndwedwe	KZN293	1	1	3	2	3	3	2	1	16	YES
Dr Nkosazana Dlamini Zuma	KZN436	1	1	2	2	2	3	3	1	15	-
Greater Kokstad	KZN433	1	1	2	2	3	1	2	1	13	-
Ubuhlebezwe	KZN434	1	1	2	2	2	2	3	1	14	-
Umzimkhulu	KZN435	1	1	2	2	2	1	1	1	11	-
Ba-Phalaborwa	LIM334	3	1	3	2	3	3	3	3	21	YES
Greater Giyani	LIM331	1	1	3	2	2	1	3	1	14	-
Greater Letaba	LIM332	2	1	2	2	3	2	3	1	16	YES
Greater Tzaneen	LIM333	3	1	3	2	1		1	1	12	-
Maruleng	LIM335	1	1	3	3	2	3	3	1	17	YES
Makhado-Thulamela	LIM345	1	1	3	3	3		1	1	13	-
Musina	LIM341	3	1	3	1	2		1	3	14	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Makhado	LIM344	1	1	2	3	3		1	1	12	-
Thulamela	LIM343	1	1	1	3	2	1	3	1	13	-
Blouberg	LIM351	1	1	3	3	2	3	3	1	17	YES
Lepelle-Nkumpi	LIM355	1	1	2	3	3	3	3	1	17	YES
Molemole	LIM353	1	1	2	2	2	3	3	1	15	-
Modimolle-Mookgopong	LIM368	3	2	1	2	2	3	3	1	17	YES
Mogalakwena	LIM367	3	3	1	1	1	2	3	1	15	-
Bela Bela	LIM366	3	3	1	3	2		1	1	14	-
Lephalale	LIM362	3	3	1	3	1	3	3	1	18	YES
Thabazimbi	LIM361	3	3	1	2	3	3	3	1	19	YES
Fetakgomo-Greater Tubatse	LIM476	1	1	2	3	2	3	3	1	16	YES
Elias Motsoaledi	LIM472	3	1	3	2	3	1	2	1	16	YES
Ephraim Mogale	LIM471	1	1	1	3	2	3	3	1	15	-
Makhuduthamaga	LIM473	1	1	2	2	2	2	3	1	14	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Msukaligwa	MP302	3	3	1	3	3	2	3	1	19	YES
Dipaleseng	MP306	3	2	1	3	1	1	3	1	15	-
Lekwa	MP305	3	3	2	3	2	2	3	1	19	YES
Mkhondo	MP303	3	3	1	2	2	3	3	1	18	YES
Pixley Ka Seme (MP)	MP304	2	1	1	3	2	2	3	1	15	-
Albert Luthuli	MP301	3	1	1	3	2	2	3	1	16	YES
Emakhazeni	MP314	3	1	3	3	3	3	3	3	22	YES
Victor Khanye	MP311	3	3	3	2	3	2	3	1	20	YES
Dr J.S. Moroka	MP316	3	2	2	3	2	3	3	1	19	YES
Thembisile Hani	MP315	2	1	2	3	2	3	3	1	17	YES
Thaba Chweu	MP321	3	1	1	2	1	1	3	3	15	-
Bushbuckridge	MP325	1	1	3	2	1	2	3	3	16	YES
Nkomazi	MP324	2	1	1	2	3	1	2	2	14	-
Ga-Segonyana	NC452	3	1	3	2	1	2	3	3	18	YES

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Gamagara	NC453	3	3	1	2	3		1	1	14	-
Joe Morolong	NC451	3	1	3	1	1	3	3	3	18	YES
Hantam	NC065	3	1	1	2	1	2	3	3	16	YES
Kamiesberg	NC064	3	1	1	3	1	2	3	3	17	YES
Karoo Hoogland	NC066	3	3	2	2	1	1	3	1	16	YES
Khai-Ma	NC067	2	1	3	2	3	1	3	3	18	YES
Nama Khoi	NC062	3	1	2	2	1	3	3	3	18	YES
Richtersveld	NC061	3	1	1	3	2	3	3	3	19	YES
Emthanjeni	NC073	3	1	2	2	2	1	2	3	16	YES
Kareeberg	NC074	1	1	1	3	3		1	1	11	-
Renosterberg	NC075	3	3	1	3	3	3	3	1	20	YES
Siyancuma	NC078	3	3	1	2	1	3	3	1	17	YES
Siyathemba	NC077	3	3	3	2	3	2	3	1	20	YES
Thembelihle	NC076	3	1	1	2	3	2	3	3	18	YES

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Ubuntu	NC071	3	1	1	1	3		1	1	11	-
Umsobomvu	NC072	2	1	2	1	3	2	3	1	15	-
Dawid Kruiper	NC087	3	1	2	2	3	3	2	2	18	YES
!Kai! Garib	NC082	2	1	3	1	1		1	3	12	-
!Kheis	NC084	3	3	3	3	3	2	3	1	21	YES
Kgatelopele	NC086	2	1	3	3	3	2	3	3	20	YES
Tsantsabane	NC085	2	1	2	3	1	2	3	3	17	YES
Dikgatlong	NC092	2	1	3	3	3	1	3	3	19	YES
Magareng	NC093	3	1	3	3	3	2	3	1	19	YES
Phokwane	NC094	3	1	1	3	2	2	3	3	18	YES
Kgetlengrivier	NW374	3	3	3	3	3	1	3	1	20	YES
Moretele	NW371	3	1	3	1	1	2	3	3	17	YES
Moses Kotane	NW375	3	1	1	1	2	3	3	1	15	-
Mafikeng	NW383	1	1	2	3	3	3	3	3	19	YES

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Ditsobotla	NW384	3	3	3	2	1	3	3	1	19	YES
Ramotshere Moiloa	NW385	3	1	3	3	1		1	3	15	-
Tswaing	NW382	3	1	3	3	2		1	1	14	-
Ratlou	NW381	1	1	3	1	2	1	2	1	12	-
Lekwa-Teemane	NW396	3	2	3	3	3	2	3	1	20	YES
Mamusa	NW393	3	1	1	3	3		1	1	13	-
Naledi (Nw)	NW392	3	1	3	2	3	1	3	3	19	YES
Greater Taung	NW394	1	1	3	3	2	3	3	1	17	YES
Kagisano-Molopo	NW397	2	1	3	3	3	1	1	1	15	-
Maquassi Hills	NW404	3	1	1	2	1	2	3	3	16	YES
Saldanha Bay	WC014	1	1	1	2	2	1	2	1	11	-
Bergrivier	WC013	1	1	1	2	2	1	3	1	12	-
Cederberg	WC012	3	1	1	2	3	1	3	1	15	-
Matzikama	WC011	3	1	1	2	2	1	2	1	13	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Swartland	WC015	1	1	1	2	2	1	1	1	10	-
Breede Valley	WC025	2	1	1	1	3	1	2	1	12	-
Langeberg	WC026	2	1	2	2	2	1	1	1	12	-
Witzenberg	WC022	2	1	2	2	1	2	3	1	14	-
Overstrand	WC032	2	1	2	1	1	1	1	1	10	-
Cape Agulhas	WC033	2	1	2	2	1	1	1	1	11	-
Swellendam	WC034	1	1	2	3	3	1	2	1	14	-
Theewaterskloof	WC031	2	1	1	2	2	1	3	1	13	-
Knysna	WC048	2	1	2	2	2	1	2	1	13	-
Mossel Bay	WC043	1	1	1	2	2	2	1	1	11	-
Oudtshoorn	WC045	3	1	3	1	2	1	2	3	16	YES
Bitou	WC047	1	1	3	2	2	2	2	1	14	-
Hessequa	WC042	1	1	2	2	3	1	1	1	12	-
Kannaland	WC041	1	1	1	3	3	2	3	3	17	YES

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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	3	2	2	1	3	1	16	YES
Laingsburg	WC051	3	1	2	2	2	1	1	1	13	-
Prince Albert	WC052	1	1	3	1	3	3	1	1	14	-
Sarah Baartman	DC10	1	2	1	2	1	1	1	1	10	-
Amathole	DC12	2	1	3	3	3	2	3	1	18	YES
Chris Hani	DC13	3	1	3	3	2		1	1	14	-
Joe Gqabi	DC14	3	3	3	2	3	1	3	3	21	YES
O.R. Tambo	DC15	1	1	3	2	2	2	3	1	15	-
Alfred Nzo	DC44	3	3	3	3	2	1	2	1	18	YES
Xhariep	DC16	3	1	3	1	3	3	3	3	20	YES
Lejweleputswa	DC18	1	1	1	2	3	3	2	1	14	-
Thabo Mofutsanyana	DC19	3	1	1	1	1	3	3	3	16	YES
Fezile Dabi	DC20	1	1	1	2	3		1	1	10	-
Sedibeng	DC42	3	1	1	1	3	3	2	3	17	YES

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
West Rand	DC48	3	1	3	1	3	1	3	3	18	YES
Ugu	DC21	2	1	3	1	1	3	3	1	15	-
uMgungundlovu	DC22	3	3	2	1	1	3	3	1	17	YES
Uthukela	DC23	3	2	3	1	2	3	3	1	18	YES
Umzinyathi	DC24	2	1	3	1	2	1	3	1	14	-
Amajuba	DC25	2	1	1	1	2	3	3	3	16	YES
Zululand	DC26	3	3	3	1	1	2	2	1	16	YES
Umkhanyakude	DC27	2	1	3	1	3	3	3	3	19	YES
King Cetshwayo	DC28	1	1	3	1	2	1	1	1	11	-
iLembe	DC29	3	1	3	1	1	1	3	3	16	YES
Harry Gwala	DC43	2	1	3	2	3		1	1	13	-
Mopani	DC33	3	3	2	1	3		1	1	14	-
Vhembe	DC34	1	1	1	3	3		1	1	11	-
Capricorn	DC35	1	1	3	1	1	1	3	3	14	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
Waterberg	DC36	1	1	3	2	3		1	1	12	-
Sekhukhune	DC47	3	3	3	1	3	1	3	1	18	YES
Gert Sibande	DC30	1	1	1	2	3	1	3	1	13	-
Nkangala	DC31	1	1	1	2	2	3	1	1	12	-
Ehlanzeni	DC32	1	1	1	2	2	3	1	1	12	-
John Taolo Gaetsewe	DC45	2	1	3	2	3	1	3	2	17	YES
Namakwa	DC6	3	1	2	3	3	1	3	1	17	YES
Pixley Ka Seme (Nc)	DC7	3	1	1	2	1	1	1	3	13	-
Z F Mgcawu	DC8	3	1	1	2	1	1	1	3	13	-
Frances Baard	DC9	1	1	1	3	3	1	3	1	14	-
Bojanala Platinum	DC37	3	1	3	1	3		1	2	14	-
Ngaka Modiri Molema	DC38	3	1	3	3	3	1	1	3	18	YES
Dr Ruth Segomotsi Mompati	DC39	1	1	3		3		1	1	10	-
Dr Kenneth Kaunda	DC40	3	1	3	1	3		1	2	14	-

ANNEXURE A1

Municipalities in financial distress as at 30 June 2017 (municipalities identified as being in financial distress are highlighted)

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
West Coast	DC1	1	1	1	2	1	2	1	1	10	-
Cape Winelands DM	DC2	1	1	1	2	1	2	1	1	10	-
Overberg	DC3	2	1	1	1	2	1	1	1	10	-
Eden	DC4	1	1	1	1	1	3	1	1	10	-
Central Karoo	DC5	3	1	3	1	2	3	1	1	15	-

ANNEXURE A2

Consolidated sudit outcomes, interventions, vacancies and distress list

Category	Municipality Name	Muni Code	Financial Distress 2016/17	Audit Outcome 2015/16	Persisitent Capital Underspending 2015 -17	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	-	Outstanding	-	Permanent	Permanent			3
A	City Of Johannesburg	JHB	-	Unqualified with findings	-	Permanent	Acting			0
A	City Of Tshwane	TSH	YES	Unqualified with findings	-	Permanent	Acting			2
A	Ekurhuleni Metro	EKU	-	Unqualified with findings	YES	Permanent	Permanent			1
A	eThekwini	ETH	-	Unqualified with findings	-	Permanent	Permanent			0
A	Cape Town	CPT	-	Unqualified - No findings	-	Permanent	Permanent			0
B1	Matjhabeng	FS184	YES	Outstanding	-	Permanent	Acting			4
B1	Emfuleni	GT421	YES	Unqualified with findings	YES	Acting	Acting			6
B1	Mogale City	GT481	YES	Unqualified with findings	-	Permanent	Permanent			2
B1	Msunduzi	KZN225	-	Qualified	YES	Acting	Permanent			3
B1	Newcastle	KZN252	-	Unqualified with findings	YES	Permanent	Acting			1

ANNEXURE A2

Consolidated sudit outcomes, interventions, vacancies and distress list

Category	Municipality Name	Muni Code	Financial Distress 2016/17	Audit Outcome 2015/16	Persisitent Capital Underspending 2015 -17	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B1	uMhlathuze	KZN282	-	Unqualified - No findings	YES	Permanent	Permanent			0
B1	Polokwane	LIM354	YES	Unqualified with findings	YES	Permanent	Permanent			3
B1	Govan Mbeki	MP307	YES	Unqualified with findings	YES	Acting	Acting			3
B1	Emalahleni (Mp)	MP312	YES	Disclaimer of opinion	YES	Acting	Permanent			7
B1	Steve Tshwete	MP313	-	Unqualified - No findings	YES	Acting	Permanent			0
B1	City of Mbombela	MP326	YES	N/A	-	Acting	Acting			1
B1	Sol Plaatje	NC091	-	Unqualified with findings	YES	Permanent	Permanent			0
B1	Madibeng	NW372	YES	Disclaimer of opinion	-	Acting	Acting			5
B1	Rustenburg	NW373	-	Qualified	YES	Acting	Acting			0
B1	Tlokwe-Ventersdorp	NW405	-	N/A	-	Permanent	Acting			0
B1	City Of Matlosana	NW403	YES	Qualified	YES	Acting	Acting			4
B1	Drakenstein	WC023	-	Unqualified - No findings	-	Permanent	Permanent			0
B1	Stellenbosch	WC024	-	Unqualified - No findings	YES	Permanent	Permanent			0

ANNEXURE A2

Consolidated sudit outcomes, interventions, vacancies and distress list

Category	Municipality Name	Muni Code	Financial Distress 2016/17	Audit Outcome 2015/16	Persisitent Capital Underspending 2015 -17	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B1	George	WC044	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Makana	EC104	-	Qualified	YES	Acting	Permanent			3
B2	Blue Crane Route	EC102	YES	Unqualified with findings	-	Acting	Permanent		Yes	1
B2	Dr Beyers Naude	EC101	YES	Unqualified with findings	-	Permanent	Permanent		Yes	1
B2	Kou-Kamma	EC109	YES	Unqualified with findings	-	Permanent	Permanent			4
B2	Kouga	EC108	-	Unqualified with findings	-	Permanent	Permanent			3
B2	Ndlambe	EC105	YES	Qualified	-	Permanent	Permanent			5
B2	Sundays River Valley	EC106	YES	Adverse opinion	YES	Acting	Permanent		Yes	1
B2	Raymond Mhlaba	EC129	-	N/A	-	Permanent	Permanent			0
B2	Amahlathi	EC124	-	Unqualified with findings	-	Acting	Acting			2
B2	Great Kei	EC123	YES	Unqualified with findings	YES	Permanent	Permanent			3
B2	Mbhashe	EC121	-	Unqualified with findings	-	Acting	Permanent			0
B2	Mnquma	EC122	YES	Unqualified with findings	YES	Acting	Permanent			5

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Category	Municipality Name	Muni Code	Financial Distress 2016/17	Audit Outcome 2015/16	Persisitent Capital Underspending 2015 -17	MM vacancy	CFO vacancy	Section 139 Interventions March 2017	MFIP Support	Persistent Distress
B2	Ngqushwa	EC126	YES	Qualified	YES	Acting	Permanent			2
B2	Enoch Mgijima	EC139	YES	N/A	-	Acting	Acting		Yes	1
B2	Inxuba Yethemba	EC131	-	Disclaimer of opinion	-	Permanent	Permanent			2
B2	Sakhisizwe	EC138	-	Unqualified with findings	YES	Permanent	Permanent			0
B2	Emalahleni (Ec)	EC136	YES	Unqualified with findings	-	Permanent	Permanent			2
B2	Engcobo	EC137	-	Unqualified - No findings	-	Permanent	Permanent			1
B2	Intsika Yethu	EC135	-	Unqualified with findings	-	Acting	Permanent			2
B2	Walter Sisulu	EC145	-	N/A	-	Permanent	Acting		Yes	0
B2	Elundini	EC141	YES	Unqualified with findings	-	Permanent	Permanent			2
B2	Senqu	EC142	YES	Unqualified - No findings	YES	Permanent	Acting			2
B2	King Sabata Dalindyebo	EC157	YES	Qualified	-	Permanent	Permanent			7
B2	Mhlontlo	EC156	-	Unqualified with findings	-	Permanent	Permanent		Yes	4
B2	Ngquza Hills	EC153	-	Unqualified - No findings	-	Permanent	Permanent			0

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B2	Nyandeni	EC155	-	Unqualified - No findings	YES	Permanent	Permanent			0
B2	Port St Johns	EC154	YES	Qualified	-	Permanent	Permanent			1
B2	Matatiele	EC441	YES	Unqualified - No findings	-	Acting	Permanent			4
B2	Mbizana	EC443	-	Unqualified with findings	-	Permanent	Permanent			0
B2	Ntabankulu	EC444	-	Qualified	-	Acting	Acting			3
B2	Umzimvubu	EC442	-	Unqualified - No findings	-	Acting	Acting			1
B2	Kopanong	FS162	-	Unqualified with findings	YES	Acting	Acting		Yes	4
B2	Letsemeng	FS161	YES	Qualified	YES	Acting	Acting			2
B2	Mohokare	FS163	-	Unqualified with findings	YES	Acting	Acting		Yes	5
B2	Masilonyana	FS181	YES	Disclaimer of opinion	YES	Permanent	Permanent	Yes		5
B2	Nala	FS185	YES	Unqualified with findings	-	Permanent	Permanent			5
B2	Tokologo	FS182	YES	Unqualified with findings	-	Permanent	Acting		Yes	4
B2	Tswelopele	FS183	YES	Unqualified with findings	-	Permanent	Permanent		Yes	3

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B2	Dihlabeng	FS192	YES	Unqualified with findings	-	Permanent	Permanent			2
B2	Maluti-a-Phofung	FS194	YES	Outstanding	YES	Acting	Acting			6
B2	Mantsopa	FS196	-	Qualified	-	Acting	Permanent		Yes	4
B2	Nketoana	FS193	YES	Qualified	YES	Permanent	Acting			4
B2	Phumelela	FS195	-	Outstanding	-	Permanent	Acting			4
B2	Setsoto	FS191	YES	Unqualified with findings	-	Permanent	Permanent		Yes	4
B2	Metsimaholo	FS204	YES	Unqualified with findings	YES	Permanent	Permanent	Yes		6
B2	Moqhaka	FS201	YES	Unqualified with findings	-	Permanent	Permanent		Yes	3
B2	Mafube	FS205	YES	Disclaimer of opinion	YES	Permanent	Acting	Yes		5
B2	Ngwathe	FS203	YES	Unqualified with findings	-	Permanent	Permanent			4
B2	Midvaal	GT422	-	Unqualified - No findings	-	Permanent	Permanent		Yes	2
B2	Lesedi	GT423	YES	Unqualified with findings	-	Acting	Permanent			6
B2	Rand West City	GT485	YES	N/A	-	Permanent	Permanent			1

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B2	Merafong City	GT484	YES	Unqualified with findings	-	Acting	Acting			3
B2	Ray Nkonyeni	KZN216	-	Unqualified with findings	YES	Permanent	Permanent			0
B2	Umdoni	KZN212	YES	Unqualified with findings	YES	Acting	Acting			4
B2	uMuziwabantu	KZN214	-	Unqualified - No findings	-	Permanent	Acting			3
B2	Umzumbe	KZN213	YES	Unqualified - No findings	-	Permanent	Permanent			1
B2	uMshwati	KZN221	YES	Unqualified with findings	-	Permanent	Permanent			5
B2	uMngeni	KZN222	YES	Unqualified with findings	-	Acting	Permanent			5
B2	Mkhambathini	KZN226	-	Unqualified with findings	-	Permanent	Permanent			0
B2	Mpofana	KZN223	YES	Disclaimer of opinion	-	Permanent	Acting			1
B2	Impendle	KZN224	-	Unqualified with findings	-	Acting	Acting			2
B2	Richmond	KZN227	-	Unqualified with findings	-	Permanent	Permanent			2
B2	Alfred Duma	KZN238	-	N/A	-	Permanent	Permanent			0
B2	Inkosi Langalibalele	KZN237	YES	N/A	-	Acting	Permanent			1

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B2	Okhahlamba	KZN235	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Endumeni	KZN241	YES	Unqualified - No findings	YES	Acting	Acting			7
B2	Umvoti	KZN245	-	Unqualified with findings	YES	Acting	Acting			0
B2	Msinga	KZN244	-	Unqualified with findings	-	Permanent	Acting			0
B2	Nquthu	KZN242	YES	Unqualified with findings	YES	Permanent	Permanent			1
B2	eMadlangeni	KZN253	YES	Unqualified with findings	-	Acting	Acting			3
B2	Dannhauser	KZN254	YES	Unqualified with findings	-	Permanent	Permanent			3
B2	Abaqulusi	KZN263	YES	Unqualified with findings	-	Permanent	Permanent			4
B2	eDumbe	KZN261	YES	Unqualified with findings	-	Acting	Permanent	Yes		4
B2	Nongoma	KZN265	YES	Unqualified with findings	-	Acting	Acting			4
B2	Ulundi	KZN266	-	Unqualified with findings	-	Permanent	Permanent			3
B2	uPhongolo	KZN262	YES	Qualified	-	Acting	Acting			3
B2	The New Big 5 False Bay	KZN276	YES	N/A	-	Permanent	Acting			1

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B2	Mtubatuba	KZN275	YES	Unqualified with findings	-	Permanent	Acting			4
B2	Jozini	KZN272	YES	Unqualified with findings	YES	Permanent	Acting			1
B2	Umhlabuyalingana	KZN271	-	Unqualified - No findings	-	Acting	Permanent			1
B2	Mthonjaneni	KZN285	-	Unqualified with findings	-	Permanent	Permanent			0
B2	Mfolozi	KZN281	YES	Unqualified with findings	-	Permanent	Permanent			4
B2	Nkandla	KZN286	YES	Unqualified with findings	-	Permanent	Permanent			2
B2	uMlalazi	KZN284	-	Unqualified with findings	-	Acting	Permanent			2
B2	KwaDukuza	KZN292	-	Unqualified with findings	-	Permanent	Permanent			0
B2	Mandeni	KZN291	-	Unqualified - No findings	-	Acting	Permanent			0
B2	Maphumulo	KZN294	-	Unqualified with findings	-	Acting	Acting			0
B2	Ndwedwe	KZN293	YES	Unqualified with findings	YES	Permanent	Permanent			2
B2	Dr Nkosazana Dlamini Zuma	KZN436	-	N/A	-	Permanent	Permanent			0
B2	Greater Kokstad	KZN433	-	Unqualified with findings	-	Permanent	Permanent			0

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B2	Ubuhlebezwe	KZN434	-	Unqualified with findings	YES	Permanent	Acting			2
B2	Umzimkhulu	KZN435	-	Unqualified with findings	-	Permanent	Permanent			1
B2	Ba-Phalaborwa	LIM334	YES	Disclaimer of opinion	YES	Acting	Permanent			7
B2	Greater Giyani	LIM331	-	Outstanding	-	Acting	Permanent			0
B2	Greater Letaba	LIM332	YES	Qualified	YES	Acting	Acting			1
B2	Greater Tzaneen	LIM333	-	Unqualified with findings	-	Acting	Acting			1
B2	Maruleng	LIM335	YES	Unqualified with findings	-	Permanent	Acting			1
B2	Makhado-Thulamela	LIM345	-	N/A	-	Permanent	Permanent			0
B2	Musina	LIM341	-	Unqualified with findings	YES	Permanent	Acting			3
B2	Makhado	LIM344	-	Qualified	-	Acting	Permanent		Yes	0
B2	Thulamela	LIM343	-	Unqualified with findings	YES	Permanent	Acting		Yes	0
B2	Blouberg	LIM351	YES	Qualified	YES	Permanent	Acting		Yes	1
B2	Lepelle-Nkumpi	LIM355	YES	Qualified	YES	Permanent	Permanent			1

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B2	Molemole	LIM353	-	Unqualified with findings	YES	Acting	Acting		Yes	1
B2	Modimolle-Mookgopong	LIM368	YES	N/A	-	Permanent	Acting		Yes	1
B2	Mogalakwena	LIM367	-	Outstanding	-	Acting	Acting			2
B2	Bela Bela	LIM366	-	Unqualified with findings	YES	Acting	Acting			2
B2	Lephalale	LIM362	YES	Unqualified with findings	-	Permanent	Acting			1
B2	Thabazimbi	LIM361	YES	Outstanding	YES	Acting	Acting			5
B2	Fetakgomo-Greater Tubatse	LIM476	YES	N/A	-	Acting	Permanent			1
B2	Elias Motsoaledi	LIM472	YES	Qualified	YES	Permanent	Permanent			1
B2	Ephraim Mogale	LIM471	-	Qualified	YES	Permanent	Permanent			0
B2	Makhuduthamaga	LIM473	-	Unqualified with findings	YES	Acting	Permanent			1
B2	Msukaligwa	MP302	YES	Qualified	-	Acting	Permanent			6
B2	Dipaleseng	MP306	-	Unqualified with findings	-	Acting	Permanent			2
B2	Lekwa	MP305	YES	Unqualified with findings	-	Permanent	Permanent			5

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B2	Mkhondo	MP303	YES	Qualified	-	Permanent	Permanent		Yes	2
B2	Pixley Ka Seme (MP)	MP304	-	Unqualified with findings	-	Permanent	Permanent			1
B2	Albert Luthuli	MP301	YES	Qualified	-	Permanent	Acting			1
B2	Emakhazeni	MP314	YES	Qualified	-	Acting	Acting		Yes	1
B2	Victor Khanye	MP311	YES	Qualified	-	Permanent	Permanent			1
B2	Dr J.S. Moroka	MP316	YES	Qualified	-	Acting	Permanent			2
B2	Thembisile Hani	MP315	YES	Qualified	YES	Permanent	Permanent		Yes	1
B2	Thaba Chweu	MP321	-	Disclaimer of opinion	-	Permanent	Permanent			6
B2	Bushbuckridge	MP325	YES	Unqualified with findings	-	Permanent	Permanent			2
B2	Nkomazi	MP324	-	Unqualified with findings	YES	Permanent	Permanent			5
B2	Ga-Segonyana	NC452	YES	Disclaimer of opinion	-	Acting	Permanent			2
B2	Gamagara	NC453	-	Outstanding	YES	Acting	Permanent			4
B2	Joe Morolong	NC451	YES	Disclaimer of opinion	-	Acting	Acting			3

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B2	Hantam	NC065	YES	Qualified	-	Acting	Acting			5
B2	Kamiesberg	NC064	YES	Qualified	-	Acting	Permanent		Yes	5
B2	Karoo Hoogland	NC066	YES	Qualified	-	Acting	Permanent			5
B2	Khai-Ma	NC067	YES	Unqualified with findings	-	Acting	Permanent			5
B2	Nama Khoi	NC062	YES	Qualified	-	Permanent	Acting			3
B2	Richtersveld	NC061	YES	Qualified	-	Acting	Permanent			4
B2	Emthanjeni	NC073	YES	Unqualified with findings	YES	Acting	Permanent			1
B2	Kareeberg	NC074	-	Unqualified with findings	YES	Acting	Acting			3
B2	Renosterberg	NC075	YES	Outstanding	-	Acting	Acting			2
B2	Siyancuma	NC078	YES	Qualified	-	Acting	Permanent		Yes	4
B2	Siyathemba	NC077	YES	Disclaimer of opinion	YES	Acting	Permanent			3
B2	Thembelihle	NC076	YES	Qualified	-	Acting	Acting		Yes	3
B2	Ubuntu	NC071	-	Disclaimer of opinion	YES	Permanent	Permanent	Yes		4

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B2	Umsobomvu	NC072	-	Unqualified with findings	YES	Acting	Permanent		Yes	1
B2	Dawid Kruiper	NC087	YES	N/A	-	Permanent	Permanent			1
B2	!Kai! Garib	NC082	-	Qualified	-	Acting	Permanent			2
B2	!Kheis	NC084	YES	Qualified	YES	Permanent	Permanent			2
B2	Kgatelopele	NC086	YES	Qualified	-	Permanent	Permanent		Yes	1
B2	Tsantsabane	NC085	YES	Outstanding	-	Permanent	Permanent			4
B2	Dikgatlong	NC092	YES	Outstanding	-	Acting	Permanent			3
B2	Magareng	NC093	YES	Outstanding	-	Acting	Permanent			3
B2	Phokwane	NC094	YES	Outstanding	-	Permanent	Permanent			1
B2	Kgetlengrivier	NW374	YES	Unqualified with findings	-	Acting	Acting			4
B2	Moretele	NW371	YES	Qualified	-	Acting	Permanent			2
B2	Moses Kotane	NW375	-	Qualified	-	Acting	Permanent			2
B2	Mafikeng	NW383	YES	Disclaimer of opinion	YES	Acting	Acting		Yes	3

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B2	Ditsobotla	NW384	YES	Qualified	-	Acting	Permanent			4
B2	Ramotshere Moiloa	NW385	-	Qualified	-	Acting	Acting			4
B2	Tswaing	NW382	-	Qualified	-	Acting	Acting			1
B2	Ratlou	NW381	-	Qualified	-	Permanent	Permanent			0
B2	Lekwa-Teemane	NW396	YES	Disclaimer of opinion	YES	Acting	Acting		Yes	6
B2	Mamusa	NW393	-	Disclaimer of opinion	-	Acting	Acting			5
B2	Naledi (Nw)	NW392	YES	Unqualified with findings	-	Acting	Acting			4
B2	Greater Taung	NW394	YES	Qualified	-	Permanent	Permanent			4
B2	Kagisano-Molopo	NW397	-	Unqualified with findings	YES	Permanent	Acting			1
B2	Maquassi Hills	NW404	YES	Qualified	-	Permanent	Acting		Yes	3
B2	Saldanha Bay	WC014	-	Unqualified - No findings	YES	Permanent	Permanent			0
B2	Bergrivier	WC013	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Cederberg	WC012	-	Unqualified with findings	YES	Acting	Permanent			2

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B2	Matzikama	WC011	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Swartland	WC015	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Breede Valley	WC025	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Langeberg	WC026	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Witzenberg	WC022	-	Unqualified - No findings	-	Permanent	Permanent			2
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	Acting	Permanent			2
B2	Theewaterskloof	WC031	-	Unqualified - No findings	-	Acting	Permanent			0
B2	Knysna	WC048	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Mossel Bay	WC043	-	Unqualified - No findings	-	Permanent	Permanent			0
B2	Oudtshoorn	WC045	YES	Qualified	-	Permanent	Permanent		Yes	1
B2	Bitou	WC047	-	Unqualified - No findings	-	Permanent	Permanent			0

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B2	Hessequa	WC042	-	Unqualified - No findings	YES	Permanent	Permanent			0
B2	Kannaland	WC041	YES	Disclaimer of opinion	-	Permanent	Permanent			3
B2	Beaufort West	WC053	YES	Unqualified with findings	-	Acting	Acting		Yes	3
B2	Laingsburg	WC051	-	Unqualified with findings	YES	Permanent	Permanent			2
B2	Prince Albert	WC052	-	Unqualified with findings	-	Permanent	Permanent			3
B2	Sarah Baartman	DC10	-	Unqualified with findings	-	Permanent	Permanent			1
B2	Amathole	DC12	YES	Unqualified with findings	-	Permanent	Permanent			1
B2	Chris Hani	DC13	-	Qualified	-	Permanent	Permanent			0
B2	Joe Gqabi	DC14	YES	Unqualified - No findings	-	Permanent	Acting			6
B2	O .R. Tambo	DC15	-	Qualified	-	Permanent	Permanent			1
B2	Alfred Nzo	DC44	YES	Qualified	-	Acting	Acting		Yes	5
B2	Xhariep	DC16	YES	Unqualified with findings	YES	Acting	Acting			6
B2	Lejweleputswa	DC18	-	Unqualified with findings	-	Permanent	Permanent			1

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B2	Thabo Mofutsanyana	DC19	YES	Unqualified with findings	-	Permanent	Acting			4
B2	Fezile Dabi	DC20	-	Unqualified - No findings	YES	Permanent	Permanent			0
B2	Sedibeng	DC42	YES	Unqualified with findings	-	Permanent	Acting			1
B2	West Rand	DC48	YES	Unqualified with findings	YES	Permanent	Permanent			2
B2	Ugu	DC21	-	Unqualified with findings	-	Permanent	Permanent			1
B2	uMgungundlovu	DC22	YES	Unqualified - No findings	-	Acting	Permanent			2
B2	Uthukela	DC23	YES	Unqualified with findings	-	Permanent	Permanent			3
B2	Umzinyathi	DC24	-	Qualified	-	Acting	Acting			3
B2	Amajuba	DC25	YES	Qualified	-	Permanent	Permanent			3
B2	Zululand	DC26	YES	Unqualified with findings	-	Permanent	Acting			3
B2	Umkhanyakude	DC27	YES	Adverse opinion	YES	Permanent	Acting			4
B2	King Cetshwayo	DC28	-	Unqualified - No findings	YES	Acting	Permanent			1
B2	iLembe	DC29	YES	Unqualified - No findings	-	Acting	Acting			2

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C	Harry Gwala	DC43	-	Unqualified with findings	-	Permanent	Permanent			1
C	Mopani	DC33	-	Adverse opinion	YES	Permanent	Permanent			4
C	Vhembe	DC34	-	Disclaimer of opinion	YES	Permanent	Permanent			3
C	Capricorn	DC35	-	Unqualified with findings	-	Acting	Acting			1
C	Waterberg	DC36	-	Unqualified with findings	-	Acting	Permanent			0
C	Sekhukhune	DC47	YES	Unqualified with findings	YES	Permanent	Acting			3
C	Gert Sibande	DC30	-	Qualified	YES	Acting	Acting			0
C	Nkangala	DC31	-	Unqualified - No findings	YES	Permanent	Permanent			0
C	Ehlanzeni	DC32	-	Unqualified - No findings	YES	Permanent	Acting			2
C	John Taolo Gaetsewe	DC45	YES	Unqualified with findings	YES	Acting	Permanent			3
C	Namakwa	DC6	YES	Unqualified with findings	YES	Permanent	Permanent			1
C	Pixley Ka Seme (Nc)	DC7	-	Unqualified with findings	-	Acting	Permanent			5
C	Z F Mgcawu	DC8	-	Unqualified - No findings	-	Permanent	Acting			2

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C	Frances Baard	DC9	-	Unqualified - No findings	YES	Acting	Acting			0
C	Bojanala Platinum	DC37	-	Disclaimer of opinion	-	Acting	Acting			0
C	Ngaka Modiri Molema	DC38	YES	Disclaimer of opinion	YES	Acting	Acting			4
C	Dr Ruth Segomotsi Mompati	DC39	-	Unqualified with findings	-	Permanent	Permanent			1
C	Dr Kenneth Kaunda	DC40	-	Qualified	YES	Permanent	Permanent			0
C	West Coast	DC1	-	Unqualified - No findings	-	Permanent	Permanent			0
C	Cape Winelands DM	DC2	-	Unqualified - No findings	-	Acting	Permanent			0
C	Overberg	DC3	-	Unqualified - No findings	-	Permanent	Permanent		Yes	0
C	Eden	DC4	-	Unqualified - No findings	-	Permanent	Permanent			0
C	Central Karoo	DC5	-	Unqualified with findings	-	Permanent	Permanent			2

ANNEXURE B

SUMMARY ASSESSMENT RESULTS: METROPOLITAN MUNICIPALITIES

CASH	• All Metros reported positive cash balances • Mangaung reported the lowest cash balance followed by Nelson Mandela Bay
OVERSPENDING ON OPERATIONAL BUDGETS	• Buffalo City overspent the operational budget by 1.4% • 1 in 8 Metros overspent by less than 10% • It is enciuraging to note that none of the Metros overspent their operational budgets by more than 25%. This is indicative of expenditure management and credable budget assumptions • There is an improvement in comparison with the 2015/16 financial year
UNDERSPENDING ON CAPITAL BUDGETS	• 8 Metros, the same as in the 2015/16 financial year, have under spent their capital budgte • 2 Metros underspent their capital budget by less than 10% • 6 Metros underspent their capital budget by between 10 & 30%
DEBTORS	• Management of debtors continuesto be a challenge in metros. An amount of R49.7 billion or 76.6% has been outstanding for a period exceeding 90 days and therefore less likely to be recovered. This is a decrease from R43 billion in 2015/16. • A total of R64.9 billion in outstanding debt is owed to metros, representing an increase of R8.2 billion or 14.5% when compared to the 2015/16 financial year. • The City of Johannesburg is still owed the largest amount of R17.1 billion, followed by Ekhurhuleni Metro at R13.3 billion, City of Tshwane R9.5 billion and Cape Town at R8.1 billion. • The City of Tshwane reported the highest growth in outstanding debtors, followed by the City of Ekhurhuleni at 24.6% and 14.4% respectively. • 6 Metros have reported outstanding debtors of more than 30% of own revenue against 5 metros in the 2015/16 financial year. • The collection rate by metros averages 94.8% compared to a national ccollection of 90.8%
CREDITORS	• Reduction of R1.3 billion owed by Metros from 2015/16 financial year. • Creditor as a percentage of cash and investments has imcreased to 75% in 2016/17 compared to 6.1% in 2015/16. • 2 Metros from 6 in 2015/16 have creditors exceeding 75% of their total cash and investments. • 2 Metros from zero in 2015/16 have Creditors between 50 and 75% of their total cash and investment • All metros are in contravention of section 65 of the MFMA

ANNEXURE B

1. CASH PERFORMANCE

	2013/14	2014/15	2015/16	2016/17	Overall Trend	Municipality	Risk	Action
Positive Cash balance: 30 June 2017	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	1	3	3	2	↑	Buffalo City, eThekwini	Low	
Between 1-3 months	6	4	3	3	→	City of Johannesburg, Ekurhuleni, Nelson Mandela Bay	Low	
1 month or less	1	1	1	3	↓	City Of Tshwane, Mangaung, Cape Town	Moderate to high	Requires monthly monitoring

ANNEXURE B

2. OVER-SPENDING OF OPERATIONAL BUDGETS

	2012/13	2013/14	2014/15	2015/16	2016/17	Overall Trend	Risk	Action
Total operating Budget (R'000)	133 964	149 065	160 970	147 330	182 526	↑		
Total overspending of original operating budgets	5 439	874	648	33 170	13 033	↓	Low	
Percentage overspending	4%	1%	0%	23%	7%	↓		
Over-spending of less than 10% of operational budget	Buffalo City							
Over-spending of between 10% and 25% of operational budget								
Over-spending of more than 25% of operational budget								

3. UNDER-SPENDING OF CAPITAL BUDGET

	2012/13	2013/14	2014/15	2015/16	2016/17	Overall Trend	Overall Risk	Action
Total Capital Budget (R'000)	22 964	26 990	29 876	28 094	30 320			
Total under-spending of original capital budget	2 118	1 643	4 683	6 904	5 815	↓	Moderate to high	
Percentage under-spending	9%	6%	16%	25%	19%	↓		
Under-spending of less than 10% of capital budget	Mangaung, eThekwini							
Under-spending of between 10% and 30% of capital budget	Nelson Mandela Bay, Buffalo City, Buffalo City, Ekurhuleni, Cape Town, City of Johannesburg							
Under-spending of more than 30% of capital budget								

ANNEXURE B

4. GROWTH IN CONSUMER DEBTORS

	2012/13	2013/14	2014/15	2015/16	2016/17	Overall Trend	Overall Risk	Action
Total Own Revenue (R'000)	131 071	144 151	155 777	147 246	195 134			
Total Debtors	57 659	64 546	64 573	61 459	64 912	↑	Moderate	
Debtors as a % of own revenue	44%	45%	41%	42%	33%	↓		
Debtors as a percentage of own revenue								
Debtors less than 15% of total own revenue								
Debtors between 15% and 30% of total own revenue	eThekwini, Cape Town							
Debtors more than 30% of total own revenue	Buffalo City, Nelson Mandela, Mangaung, City of Johannesburg, Ekurhuleni, City of Tshwane							
Annual growth in debtors								
Growth in debtors of less than 10% over period	Buffalo City, Nelson Mandela, Mangaung, City of Johannesburg, Ekurhuleni, City of Tshwane							
Growth in debtors of between 10% and 20% over period	Cape Town							
Growth in debtors of more than 20% over period	eThekwini							

ANNEXURE B

5. CREDITOR MANAGEMENT

	2012/13	2013/14	2014/15	2015/16	2016/17	Overall Trend	Overall Risk	Action
Total Own Revenue (R'000)	131 071	144 151	155 777	147 246	195 134			
Total Cash (R'000)	28 839	25 793	27 100	28 269	24 885			
Total Creditors	19 107	19 351	27 155	55 710	18 544	↓	Moderate	
Creditors as a % of total cash	66%	75%	100%	197%	75%	↓		
Creditors less than 25% of total cash	Nelson Mandela Bay							
Creditors between 25% and 50% of total cash	Buffalo City, eThekwini, Cape Town							
Creditors between 50% and 75% of total cash	Mangaung, City of Johannesburg							
Creditors more than 75% of total cash	City of Tshwane, Ekurhuleni							

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THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT

AS AT 30 JUNE 2017

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National Treasury
REPUBLIC OF SOUTH AFRICA