THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT

AS AT 30JUNE 2019

Audit Outcomes of the 2018/19 financial year

Analysis Document

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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CONTACT PERSON:
JAN HATTINGH
Chief Director: Local Government Budget Analysis, Intergovernmental Relations (IGR)
Tel: (012) 315-5009 | **Fax:** (012) 395 6553
E-mail: jan.hattingh@treasury.gov.za

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ABBREVIATIONS

AFS	Annual Financial Statements
AG	Auditor-General
ASB	Accounting Standards Board
B2B	Back to Basics
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIDMS	City Infrastructure Development Management System
CIGFARO	Chartered Institute of Government, Financial and Risk Officers
CSIP	City Support Implementation Plan
CSP	Cities Support Programme
DCoG	Department of Cooperative Governance
DoRA	Division of Revenue Act
EC	Eastern Cape
EU	European Union
FAQ	Frequently asked questions
FM	Financial management
FMCMM	Financial Management Capability Maturity Model
FMG	Financial Management Grant
FMIP	Financial Management Improvement Programme
FS	Free State
GT	Gauteng
IDP	Integrated Development Plan
IT	Information technology
KZN	KwaZulu-Natal
LGSETA	Local Government Sector and Education Training Authority
LP	Limpopo
Metro	Metropolitan municipality
MFIP	Municipal Finance Improvement Programme
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MinMEC	Ministers and Members of Executive Councils
MM	Municipal Manager
MP	Mpumalanga
MSA	Municipal Structures Act
mSCOA	Municipal Standard Chart of Accounts
MTREF	Medium Term Revenue and Expenditure Framework
NC	Northern Cape
NW	North West
RIPOA	Rapid Integrated Project Options Assessment
SALGA	South African Local Government Association
SAQA	South African Qualifications Authority
SARS	South African Revenue Service
SCM	Supply Chain Management
SoLGF	State of Local Government Finances
SOP	Standard operating procedure
TCF	Technical Committee on Finance
WC	Western Cape

EXECUTIVE SUMMARY

The State of Local Government Finances and Financial Management Report reviews the financial health of all 257 of the country's municipalities. The information used in this report is based on the audited Annual Financial Statement information for the 2018/19 financial year. The National Treasury publishes this report annually in accordance with Section 5 of the Municipal Finance Management Act, as part of its oversight responsibility with regard to municipal financial management.

It is concerning that approximately 63.4 per cent or 163 municipalities are categorised as being in varying degrees of financial distress based on the 2018/19 financial results[1]. This report concludes that a significant number of municipalities continue to perform poorly and thus remain a cause for concern. This confirms the negative impression that has been developing with regard to the performance of the municipal system as a whole. At an aggregate level:

- **A few municipalities still closed the year with negative cash and cash equivalents balances:** Only four (4) municipalities reported negative cash balances in 2018/19 representing a reduction from eight (8) municipalities in 2017/18. Negative cash balances are likely to indicate the existence of severe cash flow problems within a municipality. Audit outcomes of these municipalities are usually qualified, disclaimers or outstanding, which indicates that in addition to financial challenges, leadership challenges also exist.
- **Municipalities continue to have insufficient cash coverage to fund their operations:** A total of 132 non-metropolitan municipalities and two (2) metropolitan municipalities reported cash coverage data, which failed to meet prudent standards in 2018/19. Only 41 local municipalities and 17 district municipalities had cash coverage of more than three months of operational expenditure. This indicates that municipalities that are below the ratio of 1-3 months are vulnerable and at a higher risk in the event of financial shocks and their ability to meet their obligations to provide basic services or their financial commitments are compromised.
- **Unfunded operations decreased insignificantly:** The total number of municipalities whose operations were not funded decreased from 140 in 2017/18 to 139 in 2018/19. These municipalities include two (2) metros, 14 secondary cities, 100 local municipalities and 23 district municipalities. This demonstrates the negative effects of adopting an unfunded budget by Council, which does not reflect the financial and economic realities facing the municipality as well as the lack of fiscal discipline in the implementation of the budget during the financial year.
- **Municipalities are consistently and grossly underspending on repairs and maintenance of infrastructure**: The 2018/19 audit outcomes reveal that only six (6) out of 257 municipalities have spent adequately on repairs and maintenance as a percentage of property, plant and equipment (PPE). This explains the generally poor state of infrastructure that municipalities are battling with.
- **Municipalities are spending less than 40 per cent of their capital budget on the renewal of municipal assets as a percentage of total capital expenditure:** The National Treasury recommends that municipalities should not budget less than 40 per cent of their capital budget on renewal of assets. The 2018/19 audit outcomes reveal that 229 of the 257 municipalities have spent less than 40 per cent of their capital budget on the renewal of infrastructure. Municipalities tend to focus on new infrastructure rather than on renewal and upgrading of existing infrastructure (as most new infrastructure is grant funded).
- **Under-provision for depreciation remains a challenge:** Depreciation allows for existing assets to be written off during their useful lives. Municipalities should make provision for the replacement of their assets in future. However,

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

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only 14 municipalities provided adequately for the depreciation of assets.

- **Less municipalities are spending on capital expenditure as a percentage of total expenditure:** 92 municipalities have provided less than 10 per cent of their total expenditure on capital expenditure in 2018/19. This is an increase of 21 per cent compared to the 2017/18 financial year. It is evident that as municipalities experience financial difficulties, capital budgets are usually reduced in response.
- **Most municipalities do not have sufficient cash and investments to pay for current obligations (liquidity ratio).** Six (6) metros and 16 secondary cities reported that their cash and investments are insufficient to settle current liabilities. About 73.7 per cent of all local municipalities do not have adequate cash and investments to settle current liabilities. About 61.4 per cent of districts were also found to have inadequate cash and investment to settle current liabilities.
- **It takes longer than 30 days to collect debt from municipalities after issuing the bill:** Only 39.5 per cent of municipalities collect debt within 30 days. The remaining municipalities are unable to comply with this requirement.
- **Outstanding Creditors continues to grow while it takes municipalities more than 30 days of receiving the invoice to pay creditors:** Total creditors across all municipalities has increased to R137.9 billion at the end of the 2018/19 financial year, from R109.8 billion in the 2017/18 financial year. Five metros and 14 secondary cities reported that it takes more than 30 days of receiving the invoice to pay creditors. 34 District Municipalities reported that it takes more than 30 days of receiving the invoice to pay creditors.
- **Many municipalities are borrowing less given the cash flow challenges:** 250 of the 257 municipalities have less than 45 per cent borrowing as a percentage of total operating revenue.
- **There are not enough current assets to pay short term liabilities in about half of the municipalities:** Two of the eight (8) metros have reported that their current assets are less than their current liabilities, which highlights that there are huge financial challenges in these metros. About half of the local municipalities (93) have insufficient current assets to settle current obligations, an increase from 89 in 2017/18. 21 of the 44 districts also do not have enough cash and debtors to settle current obligations.
- **In terms of the total liabilities as a percentage of its total assets**, only nine (9) or 3.5 per cent of the municipalities do not have sufficient assets to pay their total liabilities.
- **Asset management spending remains inadequate:** National aggregate spending on repairs and maintenance as a percentage of property, plant and equipment averages 2.5 per cent in the period 2016/17 to 2018/19. The aggregate proportion of capital expenditure on asset renewal decreased from a high of 43.5 per cent in 2016/17 to 32.9 per cent in 2018/19. Significant under investment in asset management continues to be evident. The pace of asset depreciation continues to outstrip investment in asset renewal by a significant margin, with renewal investments accounting for only 42.7 per cent of depreciation values in 2018/19.
- **Recorded water and electricity losses remain high:** On 30 June 2019, metropolitan municipalities recorded water (average loss of 32.8 per cent) and electricity (average loss of 14.8 per cent) losses amounting to R5.2 billion and R7.3 billion respectively. During the 2018/19 financial year, water losses increased significantly, by R900 million. Electricity losses increased by R600 million, from R6.9 billion in 2017/18 to R7.5 billion in 2018/19.
- **Municipal audit outcomes continue to decline:** In the 2018/19 financial year, only 20 municipalities obtained unqualified opinions without findings. This was a 11 per cent increase compared to 18 municipalities in 2017/18. The number of unqualified audit opinions with findings decreased from 101 municipalities in 2017/18 to 91 municipalities in 2018/19. According to the Auditor General, the closing amounts for irregular expenditure increased

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from R53.4 billion in 2017/18 to R65.6 billion in 2018/19. Unauthorised expenditure increased from R8.9 billion in 2017/18 to R15.9 billion in 2018/19.

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

- None of the eight metropolitan municipalities and only four (4) other municipalities recorded negative cash balances; an improvement from eight (8) municipalities in the previous year. This indicates that, in general, these 12 municipalities have adequate cash and comply with cash flow management procedures;
- The number of municipalities with cash coverage of less than one month of operational expenditure decreased from 143 in 2017/18 to 134 in 2018/19;
- About 118 municipalities budgets were funded in 2018/19, as reported in the audit outcomes;
- Six (6) of the 257 municipalities have provided enough for the repairs and maintenance as a percentage of PPE;
- 28 municipalities are spending more than 40 per cent of their capital budget on renewal of infrastructure;
- 14 municipalities are providing more than 100 per cent for depreciation of assets in order to replace these assets when they reach their useful life;
- 97 municipalities are spending between 10-20 per cent of their total budget on infrastructure related expenditure;
- 71 municipalities have enough cash and investments to meet current liabilities;
- 51 municipalities have reported that they can collect debt within 30 days after issuing the bill. And 68 municipalities can pay their creditors within 30 days of receiving the invoice;
- 128 of the 257 municipalities have enough current assets to meet current obligations;
- About 248 or 96.5 per cent municipalities can settle their outstanding debt with their total assets; and
- Out of a total of 248 Chief Financial Officers, only 128 (51.6 per cent) comply with the minimum competency levels. 53.7 per cent of senior managers comply with the minimum competency levels.

Annexure A1 lists the municipalities in financial distress in 2018/19 (163) based on an assessment of their financial health. There were about 27 district municipalities that were identified as financially distressed, an increase from 18 from the previous year. However, for those districts that are in financial distress, it is a cause for concern given the important role that district municipalities have to play in empowering and capacitating local municipalities. Municipalities in financial distress according to these 13 indicators are generally characterised by poor cash flow management and an increase in outstanding debtors and creditors and poor maintenance of the infrastructure.

The list in annexure A1 shows that four (4) of the 20 municipalities that received unqualified audit opinion with no findings, were classified as financially distressed. 38 of the 91 municipalities that received unqualified audit report with findings, were classified as financially distressed. This suggests that the result of the audit outcome is not on its own a reflection of good financial health, nor is it intended to be. An audit opinion relates to whether the financial statements provide a fair and accurate reflection of the municipalities' finances and recordkeeping. Of the 83 municipalities that received qualified audit opinion, 65 were financially distressed. Of the 33 municipalities that received disclaimers, 30 of them were financially distressed. Both of the municipalities that received adverse audit opinions were financially distressed. 24 of the 28 municipalities whose audit opinions are still outstanding are financially distressed.

INTRODUCTION

1. This is the eighth report on the State of Local Government Finances and Financial Management (SoLGF) that is being published. It provides an assessment of the state of municipal financial affairs and financial health as reflected by the number of municipalities in financial distress for the financial year ended 30 June 2019. The report reviews the state of municipal finances taking into account both the revenue and expenditure as well as municipal governance related issues at the end of a particular financial year in order to identify:
   - Areas of systemic risk so that appropriate policy responses can be developed; and
   - Municipalities that are in financial distress so that processes can be initiated to determine the full extent of their financial problems and whether: (i) a municipality requires support and the extent of that support, or (ii) an intervention is required in a municipality due to a crisis in its finances (as provided for in Section 139 of the Constitution read with Chapter 13 of the MFMA).
2. The report is based on the information contained in the audited annual financial statements for 2018/19, the current Medium-term Revenue and Expenditure Budget Framework (MTREF) and report submitted by municipalities in terms of Section 71 of the MFMA (as verified annually by both National and Provincial Treasuries).
3. A total of 28 municipalities were not able to submit their audited annual financial statements for 2018/19 to the Office of the Auditor-General in time for auditing. However, by the time of concluding the dataset for this Report, only 15 municipalities were still outstanding from the 28. In these cases, the pre-audit AFS for 2018/19 returns are used, and in cases where the pre-audit AFS was still outstanding, the Section 71 reports are used for the purpose of this report. These municipalities are: Enoch Mgijima in EC, Kopanong in FS, Mafube in FS, Maluti-a-Phofung in FS, Masilonyana in FS, Nketoana in FS, Phumelela in FS, Tokologo in FS, Emfuleni in GP, Dr JS Moroka in MP, Govan Mbeki in MP, Greater Taung in NW, Phokwane in NC, Renosterberg in NC and Tsantsabane in NC.
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:
   - An international perspective;
   - The measures used and assessment of municipal financial health;
   - Other measures impacting on financial health;
     - Audited outcomes: 2018/19 financial year
     - Governance: Acting Municipal Managers and Chief Financial Officer positions
     - Governance: Suspended municipal officials
     - Significant electricity and water losses
     - Inadequate budgets for repair and maintenance and asset management
     - Underspending of conditional grants
     - Adoption of funded budgets
   - Financial Management sustainability challenges and proposed solutions;
   - Support provided by National Treasury to improve financial management;
     - Implementing of Minimum Competency Levels
     - Standard Chart of Accounts for municipalities (***m***SCOA)
     - Capacity building grants
     - Municipal Finance Improvement Programme (MFIP phase III)

INTRODUCTION

- Cities Support Programme (CSP)
- Interventions in municipalities facing financial distress;
- Concluding remarks; and
- Annexures providing detailed information and assessment results for municipalities in financial distress (Annexure A1).

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

A BROADER PERSPECTIVE ON LOCAL GOVERNMENT PERFORMANCE IN SOUTH AFRICA

THE FISCAL FRAMEWORK FOR LOCAL GOVERNMENT IN SOUTH AFRICA

7. South Africa has an internationally well-regarded fiscal framework for local governance. The fiscal framework is built on a clear set of functional (expenditure) assignments for basic local infrastructure services delivery such as water services, electricity distribution, solid waste, and local roads and transport in addition to important regulatory authority over spatial planning and development control.
8. These functions are financed predominantly through locally controlled revenue sources, such as user fees and 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 infrastructure investment and the provision of basic service that benefits poor households. Municipalities also have powers to borrow money for infrastructure investment without national government approval or guarantees.
9. The distribution of national revenues to local government (the division of revenue) is designed to achieve a substantial redistribution of revenues raised through national taxes in relatively wealthy (mainly urban) areas to those areas where the demand for subsidised public services are the highest and own revenue raising potential is limited. As a result, the most rural municipalities receive around twice the allocation per household that metros do.
10. Notwithstanding its relative efficacy, the local government fiscal framework faces a number of pressures:
    - Public housing and transport functions continue to be exercised concurrently between provincial and local governments, and also with national government in the case of commuter rail services. This weakens coordination in the management of the built environment, ultimately weakening both accountability for performance and municipal fiscal sustainability, particularly in larger urban areas; and
    - The rapid growth in national transfers during the period between 2007 to 2010 may have had an unintended consequence of reducing local revenue efforts, accountability at a local level, and incentives for creditworthy municipalities to borrow to finance long term capital investment programmes. The equitable share, grants and subsidies allocated to municipalities has increased in the period 2000/01 to 2018/19 from R14.2 billion to R118.5 billion. The future growth in national transfers is now being constrained as part of the national programme of fiscal consolidation.

INTERNATIONAL BENCHMARKS OF NATIONAL GOVERNMENT FINANCE IN SOUTH AFRICA

11. South Africa performs relatively well against other developing countries in terms of public financial management. This was confirmed by the findings in 2018 by the **Mo Ibrahim Index of African Governance (IIAG)** which ranked South Africa 4th of the 54 countries in Africa. The IIAG is a tool that measures and monitors governance performance in African countries. The report is released every two years.
12. The **World Economic Forum's Global Competitiveness Report** 2019 ranked South Africa 60 out of 141 countries a climb from 7 places from its previous report. According to the report South Africa is the sub-Saharan regional financial hub with also advanced transport infrastructure in the region. Security performs poorly, while transparency and government adaptability to change are below par.
13. National Treasury is committed to assisting communities and businesses to have a better understanding of the financial position and performance of their municipalities. To assist with the processes of democratic oversight the National Treasury launched the Municipal Money website (www.municipalmoney.gov.za) in 2016. This portal provides up to date and comparative information on all municipalities. This has now been complemented by a new "Vulekamali" portal (www.vulekamali.gov.za), launched on 20 February 2018, that includes data on national and provincial budgets.
14. South Africa has once again come joint first with New Zealand in the 2019 **Open Budget Index (OBI)** conducted by the International Budget Partnership (IBP) through an Open Budget Survey. The win is in recognition of the country's commitment to a transparent budget process. This is a repeat of the result from the 2017 OBI.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

MEASURES OF MUNICIPAL FINANCIAL HEALTH

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

FIGURE 1: MEASURES OF MUNICIPAL FINANCIAL HEALTH

MEASURE	METHOD
Cash/cash equivalent position	Cash + Short Term Investments - Bank Overdraft
Cash Coverage	(Cash + Short Term Investments - Bank Overdraft) / ((Employee related costs + Remuneration of councillors + Debt Impairment + Finance charges + Bulk purchases + Contracted services + Repayment of borrowing + Other materials + Other expenditure + Cash transfers & grants) / 12)
Cash plus investments less applications	Cash + Short Term Investments + Long Term Investments - Bank Overdraft Less Application of Cash (Refer calculation on Table A8)
Repairs and maintenance expenditure level	Repairs & Maintenance as a % of Property Plant and Equipment (carrying value) from table A9
Asset renewal/ rehabilitation expenditure level	(Total Renewal of Existing Assets + Total Upgrading of Existing Assets) / Total Capital Expenditure
Asset renewal/ Depreciation level	(Total Renewal of Existing Assets + Total Upgrading of Existing Assets) / Depreciation & asset impairment
Total CAPEX as Percentage of Total Expenditure	(Total capital expenditure / (Total operating expenditure + Total capital expenditure)) × 100
Liquidity Ratio	(Cash + Short Term Investments) / Total Current Liabilities
Debtors Days	(Total consumer debtors / (Property Rates + Service charges electricity revenue + Service charges water revenue + Service charges sanitation revenue + Service charges refuse revenue)) × 365
Creditors Days	(Trade payables / (Bulk purchases + Other materials + Contracted services + Other expenditure + Total Capital Expenditure)) × 365
Debt (Total Borrowing) vs Total Operating Revenue	(Bank overdraft + Current Liabilities borrowings + Non Current Liabilities borrowings) / Total operating revenue
Current Ratio	Current Assets / Current Liabilities
Solvency Ratio	Total Assets / Total Liabilities

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

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

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

INDICATORS (CASH AND CASH EQUIVALENTS AND CASH COVERAGE) ASSESSING THE VULNERABILITY OF MUNICIPALITIES' CASH POSITION

16. Section 45 of the MFMA prohibits municipalities from closing their financial year with any short-term borrowing or overdraft. At a minimum, a municipality should maintain a positive cash position. A failure to do this is the first indicator of financial distress. Three sub-indicators are used to provide a more holistic view of municipalities' cash position:
    - Did the municipality end the financial year with a positive or negative cash balance?
    - Are negative cash balances persistent - is the negative cash balance temporary or does it indicate deeper-rooted financial problems in the municipality?
    - Even if a municipality has a positive cash balance, is the revenue base under threat? For how many months will the municipality be able to continue funding its monthly operational expenditure? In other words, what is the cash coverage ratio of the municipality?
17. In order to ensure compliance with the law, from 2011/12 the National Treasury has not considered any applications for the roll-over of grant funds by municipalities who report negative cash balances.

Indicator 1: Negative cash balances

18. Many municipalities experience temporary cash-flow problems. A negative cash balance is a strong indicator that there are underlying financial problems. Table 1 below shows the number of municipalities that reported negative cash balances for the periods 2017/18 to 2018/19.

TABLE 1: MUNICIPALITIES' NEGATIVE CASH BALANCES, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8) No.of municipalities with negative cash balances	0	0
Secondary Cities (19) No.of municipalities with negative cash balances	1	0
Other Local Municipalities (Towns) 186 No.of municipalities with negative cash balances	6	4
District Municipalities (44) No.of municipalities with negative cash balances	1	0
All municipalities (257) No.of municipalities with negative cash balances	8	4

Source: National Treasury - Local Government Database

19. Four municipalities reported negative cash balances at 30 June 2019 compared to 8 municipalities as at 30 June 2018. Further analysis demonstrates that:

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

- No metropolitan municipality (metros) recorded a negative cash balance at the end of 2018/19. This is a strong indication that, in general, the metros have adequate cash and comply with cash flow management procedures;
- No secondary cities[4] reported negative balance in 2018/19 financial year, while there was one secondary City that reported negative cash balance in 2017/18;
- Four local municipalities (2.2 per cent of all local municipalities) reported negative cash balances in 2018/19, down from six local municipalities (3.2 per cent) in 2017/18; and
- No district municipalities reported negative cash balances in 2018/19, while there was one district that had reported a negative cash balance in 2017/18.

Indicator 2: Cash coverage position of municipalities

20. A municipality needs to have enough cash on hand to meet its monthly financial commitments when they fall due. Calculating the level of cash coverage in a municipality is especially important when its revenue collection is threatened. It is generally accepted that a prudent level of cash coverage is one month of average operational expenditure for metros and three months for other municipalities. Table 2 below shows the number of municipalities that, at the end of June 2019, had less than the required cash coverage.
21. Over the years, municipalities have become accustomed to reporting cash flow information. All municipalities have reported on cash information in 2018/19. This is an improvement in reporting compared to previous years.

TABLE 2: MUNICIPALITIES' CASH COVERAGE, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	2	2
between 1 and 3 months of operational expenditure	5	4
Less than one month of operational expenditure	1	2
Secondary Cities (19)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	3	3
between 1 and 3 months of operational expenditure	3	4
Less than one month of operational expenditure	13	12

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

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MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Other Local Municipalities (Towns) 186		
No. whose cash coverage is:		
more than 3 months of operational expenditure	40	41
between 1 and 3 months of operational expenditure	34	44
Less than one month of operational expenditure	112	101
District Municipalities (44)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	14	17
between 1 and 3 months of operational expenditure	13	8
Less than one month of operational expenditure	17	19
All Municipalities (257)		-
No. whose cash coverage is:		
more than 3 months of operational expenditure	59	63
between 1 and 3 months of operational expenditure	55	60
Less than one month of operational expenditure	143	134

Source: National Treasury - Local Government Database

22. A total of 132 non-metropolitan municipalities and 2 metropolitan municipalities that reported cash coverage data, which failed to meet prudent standards (norm is 1-3 months) in 2018/19. This represents an improvement from 142 non-metropolitan municipalities and 1 metro in 2017/18. At an aggregate level, 63 municipalities (24.5 per cent) recorded cash coverage exceeding three months of operational expenditure in 2018/19; an improvement from 59 municipalities in 2017/18.

23. Further analysis demonstrates that:
    - The number of metros whose cash coverage is more than three months remained the same at 2 in 2017/18 and 2018/19;
    - Three secondary city municipalities had a cash coverage in excess of three months of operational expenditure. This is unchanged from the previous year; and
    - 41 local municipalities and 17 district municipalities had cash coverage of more than three months of operational expenditure.

24. It seems clear that municipalities continue to struggle to understand and action budgeting for surpluses to create a reserve for funding capital projects from the internally generated funds, and to also avoid cash and liquidity problems.

25. 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:

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

- A deterioration in revenue collection due to the impact of the economic slowdown and the increasing rates and tariffs year-on-year which affect household budgets and affordability levels;
- Emergencies and natural disasters such as floods, drought and fire;
- The cash flow time difference between paying for the increased cost of bulk electricity/water and the collection of revenues from customers;
- Any major breakdown in service delivery resulting in non-supply (especially of water and electricity) and therefore loss of revenue;
- A rate-payers/consumers boycott;
- Illegal connection of electricity and water, including tempering of water and electricity meters;
- Ineffective cash flow management on a monthly basis; and
- Non-implementation of debt collection and credit control policies.

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

Indicator 3: Cash plus investments less applications

27. A funded budget is critical as it determines that the municipality has sufficient cash to pay all outstanding obligations.
28. Table 3 below shows the number of municipalities that still had a positive balance even after taking into consideration of all the commitments for the period 2017/18 and 2018/19.

TABLE 3: CASH PLUS INVESTMENTS LESS APPLICATIONS, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. whose audit outcomes were		
Funded (positive)	5	6
Unfunded (negative)	3	2
Secondary Cities (19)		
Funded (positive)	10	5
Unfunded (negative)	9	14
Other Local Municipalities (Towns) 186		
No. whose audit outcomes were		
Funded (positive)	82	86
Unfunded (negative)	104	100

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
District Municipalities (44)		
No. whose audit outcomes were		
Funded (positive)	20	21
Unfunded (negative)	24	23

Source: National Treasury - Local Government Database

29. The total number of municipalities whose budgets were still funded after all commitments have been considered increased from 117 in 2017/18 to 118 in 2018/19, while the number whose budgets were unfunded decreased slightly from 140 in 2017/18 to 139 in 2018/19. An unfunded budget is a clear indication that a municipality is "living beyond their means". The National Treasury has always advocated during engagements with municipalities that they must balance or limit their expenditure to the maximum revenue that they are able to realise. However, some municipalities continue to spend more than their available revenue despite knowing that they will not recoup monies spent. Further analysis demonstrates that:
    - The cash balance of the six metros was positive after taking into consideration all their commitments which is an increase from five metros in 2017/18. It is a concern that there were still two metros whose budgets were unfunded as per the audit outcomes;
    - It is also worrying that the number of secondary cities whose budgets were funded decreased from 10 in 2017/18 to only five in 2018/19. This resulted in the number of unfunded budgets for secondary cities increasing from 9 in 2017/18 to 14 in 2018/19;
    - There was a slight improvement in the number of funded budgets among other local municipalities; from 82 in 2017/18 to 86 in 2018/19; and
    - Almost half of the budgets of the district municipalities are not funded (23 out of 44 districts). This is a concern as districts municipalities should be an example of good practice for the local municipalities in their area of jurisdiction.
30. The unfunded budgets suggest that:
    - Municipalities are still experiencing challenges with regard to forecasting of revenue and expenditure patterns;
    - There is a serious problem in aligning actual and planned spending;
    - There are general weaknesses in internal controls; and
    - There is a general lack of fiscal discipline.
31. National Treasury will continue to drive the importance of a funded budget through the implementation of province specific strategies by Provincial Treasuries to address municipal performance failures and institute remedial interventions where appropriate.

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Indicator 4: Repairs and maintenance as a percentage of property, plant and equipment

32. Repairs and maintenance of infrastructure is critical to ensure ongoing service delivery and avoid interruptions to services through unplanned and unnecessary breakdowns. Municipalities are required to budget for a minimum of 8 per cent of property, plant and equipment (PPE) for repairs and maintenance. A ratio below this norm is a reflection that inadequate provision is being made for repairs and maintenance which could lead to early impairment of useful assets.

TABLE 4: REPAIRS AND MAINTENANCE AS A PERCENTAGE OF PROPERTY, PLANT AND EQUIPMENT, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. whose repairs and maintenance are		
less than 8% of PPE	6	7
more than 8% of PPE	2	1
Secondary Cities (19)		
No. whose repairs and maintenance are		
less than 8% of PPE	18	18
more than 8% of PPE	1	1
Other Local Municipalities (Towns) 186		
No. whose repairs and maintenance are		
less than 8% of PPE	183	184
more than 8% of PPE	3	2
District Municipalities (44)		
No. whose repairs and maintenance are		
less than 8% of PPE	42	42
more than 8% of PPE	2	2

Source: National Treasury - Local Government Database

33. It is concerning that almost all municipalities in the country (251 out of 257) spent less than the 8 per cent of the PPE on repairs and maintenance. This poor allocation for repairs and maintenance was prevalent in all categories of municipalities; as further analysis shows that:
    - Out of eight (8) metros, only one metro had spent adequately on repairs and maintenance as a percentage of PPE. The rest are finding it difficult to spend in line with the norm;
    - About 18 secondary cities didn't provide enough for repairs and maintenance in 2018/19, similar to 2017/18;

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- Out of a total of 186 local municipalities, only two (2) provided adequately for repairs and maintenance; and
- The same trend was observed amongst the district municipalities, where only two out of the 44 districts provided adequately for repairs and maintenance as percentage of PPE.

34. It has been observed over the years that municipalities consistently under budget for maintenance, and often sacrifice maintenance budgets in lieu of other municipal 'priorities'. National Treasury has consistently cautioned municipalities against this practice as it would in the long run severely affect revenue generating assets.

Indicator 5: Asset renewal/rehabilitation expenditure level

35. It is of utmost importance that the municipality's Property Plant and Equipment be maintained properly, in order to ensure sustainable service delivery. Sufficient resources should be budgeted for to maintain assets and care should be exercised not to allow a declining maintenance programme in order to fund other less important expenditure requirements. The guide from National Treasury is that municipalities should allocate 40 per cent of their capital budget towards the renewal of assets.

TABLE 5: ASSET RENEWAL/REHABILITATION EXPENDITURE LEVEL, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. whose asset renewal is		
less than 40% of their total capital expenditure	3	4
More than 40% of their total capital expenditure	5	4
Secondary Cities (19)		
No. whose asset renewal is		
less than 40% of their total capital expenditure	16	11
More than 40% of their total capital expenditure	3	8
Other Local Municipalities (Towns) 186		
No. whose asset renewal is		
less than 40% of their total capital expenditure	170	171
More than 40% of their total capital expenditure	16	15
District Municipalities (44)		
No. whose asset renewal is		
less than 40% of their total capital expenditure	43	43
More than 40% of their total capital expenditure	1	1

Source: National Treasury - Local Government Database

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36. As shown in table 5 above, 229 out of 257 municipalities spent less than 40 per cent of their total capital expenditure on the renewal of assets at the end of 2018/19. This confirms the notion that municipalities tend to focus on new infrastructure investments rather than renewal of the existing infrastructure. Further analysis shows that municipalities are not prioritising the renewal of the old infrastructure:
   - Four (4) metros, up from three (3) in 2017/18, reported assets renewal of less than 40 per cent;
   - 11 secondary cities, down from 16 in 2017/18, reported assets renewal of less than 40 per cent;
   - 171 local municipalities, up from 170 in 2017/18, reported asset renewal of less than 40 per cent; and
   - 43 district municipalities, the same as in 2017/18, with asset renewal less than 40 per cent. It should be noted however that not all districts are water service authorities, therefore districts would not necessarily have to spend their capital budget on renewal of assets except for those that are water service authorities.

Indicator 6: Asset Renewal/Depreciation level

37. It is important to ensure that depreciation is included in calculating the cost of a service and that it is recovered by way of tariffs. Cash generated from depreciation needs to be transferred to the Capital Replacement Reserve. Municipalities should allocate a provision for the depreciation of assets as they use them and therefore the allocation for depreciation should be 100 per cent of usage over the useful life.

38. Table 6 below shows the depreciation level between the 2017/18 and 2018/19 financial years. It is evident from the information below that municipalities are not providing enough for depreciation. There were 243 out 257 that provided less than the 100 per cent required for depreciation. National Treasury has always encouraged municipalities to provide fully for depreciation as assets continue to be consumed in the provision of services. As assets continue to be consumed, provision should be made for their replacement. Inadequate provision for depreciation reflects a short-term view of asset management. As these assets reach their useful life, there will be inadequate funding for their replacement compromising service delivery and hence municipal revenues.

TABLE 6: ASSET RENEWAL/DEPRECIATION LEVEL, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. whose depreciation level is		
less than 100% of assets	7	7
More than 100% of assets	1	1
Secondary Cities (19)		
No. whose depreciation level is		
less than 100% of assets	18	18
More than 100% of assets	1	1

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MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Other Local Municipalities (Towns) 186		
No. whose depreciation level is		
less than 100% of assets	177	175
More than 100% of assets	9	11
District Municipalities (44)		
No. whose depreciation level is		
less than 100% of assets	44	43
More than 100% of assets	0	1
All municipalities (257)		
No. whose depreciation level is		
less than 100% of assets	246	243
More than 100% of assets	11	14

Source: National Treasury - Local Government Database

39. Further analyses show that:
    - Seven (7) of the eight (8) metros did not provide enough for depreciation in both the 2017/18 and 2018/19 financial years;
    - 18 of the 19 secondary cities under provided for depreciation; and
    - Of the 186 local municipalities, 175 or 94 per cent did not provide adequately for depreciation. This is hardly surprising and is reflected in the significant water losses in many of these municipalities.

Indicator 7: Total capital expenditure as a percentage of total expenditure

40. Total capital expenditure as a percentage of total expenditure is used to assess the level of capital expenditure to total expenditure, which indicates the prioritisation of expenditure towards current operations versus future capacity in terms of municipal services. The norm is between 10 and 20 per cent. When assessing the level of investment in assets, a ratio of less than 10 per cent reflects lower spending by the municipality in infrastructure and holds potential risks to service delivery. A ratio of more than 20 per cent reflects higher spending on infrastructure and acceleration in service delivery, but could also hold financial sustainability risks if the infrastructure does not include both economic (revenue generating) and social infrastructure.
41. Table 7 below shows the total capital expenditure as a percentage of total expenditure between the 2017/18 and 2018/19 financial years. There were 92 municipalities that have provided below the norm of 10 per cent in 2018/19, an increase of 21 per cent compared to 2017/18. This indicates that as municipalities experience financial difficulties, they decrease the budget spent on infrastructure.

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TABLE 7: TOTAL CAPITAL EXPENDITURE AS A PERCENTAGE OF TOTAL EXPENDITURE, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. whose Total Capital Expenditure is		
less than 10% of their total expenditure	1	1
between 10% and 20% of their total expenditure	7	6
more than 20% of their total expenditure	0	1
Secondary Cities (19)		
No. whose Total Capital Expenditure is		
less than 10% of their total expenditure	8	9
between 10% and 20% of their total expenditure	8	6
more than 20% of their total expenditure	3	4
Other Local Municipalities (Towns) 186		
No. whose Total Capital Expenditure is		
less than 10% of their total expenditure	44	61
between 10% and 20% of their total expenditure	87	78
more than 20% of their total expenditure	55	47
District Municipalities (44)		
No. whose Total Capital Expenditure is		
less than 10% of their total expenditure	23	21
between 10% and 20% of their total expenditure	5	7
more than 20% of their total expenditure	16	15

Source: National Treasury - Local Government Database

42. Further analysis shows that:
- One of the eight (8) metros spent less than 10 per cent on capital expenditure as a percentage of total expenditure, while six metros are spending their capital budgets within the acceptable norm of between 10 to 20 per cent; and
- 47 per cent of the 19 secondary cities spent less than 10 per cent on infrastructure, while 21 per cent of the secondary cities are spending more than 20 per cent on infrastructure. This is also not advisable especially if the municipality is not spending on revenue generating infrastructure as this could pose financial sustainability risks for the municipality.

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Indicator 8: Liquidity ratio

43. The liquidity ratios are a result of dividing cash and investments by current liabilities. These ratios show the number of times the short-term debt obligations are covered by the cash and investments. If the value is greater than one, it means the short-term obligations are fully covered.

44. Table 8 below shows the liquidity ratio between the 2017/18 and 2018/19 financial years. Just over 27 per cent of municipalities had enough cash and investments to pay current obligations.

TABLE 8: LIQUIDITY RATIO, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. of municipalities whose cash and investments is	**0**	**0**
less than current liabilities (less than 1)	7	6
More than current liabilities (more than 1)	1	2
Secondary Cities (19)		
No. of municipalities whose cash and investments is	**0**	**0**
less than current liabilities (less than 1)	16	16
More than current liabilities (more than 1)	3	3
Other Local Municipalities (Towns) 186		
No. of municipalities whose cash and investments is	**0**	**0**
less than current liabilities (less than 1)	135	137
More than current liabilities (more than 1)	51	49
District Municipalities (44)		
No. of municipalities whose cash and investments is	**0**	**0**
less than current liabilities (less than 1)	29	27
More than current liabilities (more than 1)	15	17
All municipalities (257)	**-**	**-**
No. of municipalities whose cash and investments is	**-**	**-**
less than current liabilities (less than 1)	187	186
More than current liabilities (more than 1)	70	71

Source: National Treasury - Local Government Database

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45. Further analysis shows that:
    - Six metros and 16 secondary cities reported that their cash and investments are insufficient to pay all current liabilities;
    - 73.7 per cent of the local municipalities do not have adequate cash and investments to pay for current liabilities; and
    - 61.4 per cent of districts did not have adequate cash and investments to pay for current liabilities.

Indicator 9: Debtors days

46. Debtors days reflects the collection period. Net Debtor Days refers to the average number of days required for a municipality to receive payment from its consumers for bills/invoices issued to them for services. The norm for the collection period is 30 days. If the ratio is above the norm, this indicates that the municipality is exposed to significant cash flow risk. This is also an indication that the municipality is experiencing challenges in the collection of outstanding amounts due to it. In addition, this indicates that a significant amount of potential cash is tied up in consumer debtors and the municipality must improve its revenue and cash flow management.

47. Table 9 below shows the debtors days between the 2017/18 and 2018/19 financial years. 39.5 per cent of municipalities collect debt within 30 days. The rest of municipalities are not able to collect debt within 30 days. This explains why most municipalities are experiencing cash flow challenges.

TABLE 9: DEBTORS DAYS, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. of municipalities who receive debtors		
less than 30 days	0	0
More than 30 days	8	8
Secondary Cities (19)		
No. of municipalities who receive debtors		
less than 30 days	2	2
More than 30 days	17	17
Other Local Municipalities (Towns) 186		
No. of municipalities who receive debtors		
less than 30 days	20	23
More than 30 days	166	163

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MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
District Municipalities (44)		
No. of municipalities who receive debtors		
less than 30 days	24	26
More than 30 days	20	18
All municipalities (257)		
No. of municipalities who receive debtors		
less than 30 days	46	51
More than 30 days	211	206

Source: National Treasury - Local Government Database

48. Further analysis shows that:
    - None of the metros are able to collect debt within 30 days;
    - Only two of the 19 secondary cities are able to collect debt within 30 days of issuing the bill;
    - Only 12 per cent of local municipalities are able to collect debt within 30 days; and
    - About 59.1 per cent of districts are able to collect debt within 30 days.

Indicator 10: Creditors days

49. Timely payment of creditors by a municipality is not only essential for the liquidity of local economies and the survival of small and medium sized enterprises, but is also a good reflection of the extent of financial challenges facing a municipality. A municipality that is unable to pay its creditors within prescribed time limits is ineffectively using their resources to fund other activities, indicating the likelihood of underlying financial problems. A year-on-year increase in outstanding creditors could be an indication that municipalities are experiencing liquidity and cash challenges and consequently are delaying the settlement of outstanding debt owed.
50. 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.
51. The following table shows payment of creditors days between 2017/18 and 2018/19. This indicates the extent to which municipalities had working capital to settle their outstanding creditors.

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TABLE 10: CREDITORS DAYS, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	2	3
more than 30 days after receiving the invoice	6	5
Secondary Cities (19)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	5	5
more than 30 days after receiving the invoice	14	14
Other Local Municipalities (Towns) 186		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	75	50
more than 30 days after receiving the invoice	111	136
District Municipalities (44)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	21	10
more than 30 days after receiving the invoice	23	34
All municipalities (257)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	103	68
more than 30 days after receiving the invoice	154	189

Source: National Treasury - Local Government Database

52. Total creditors across all municipalities has increased to R137.9 billion at the end of 2018/19, from R109.8 billion in 2017/18 financial year. 'Other' made up the bulk of total creditors at 37 per cent followed by Trade Creditors (31.5 per cent) and bulk electricity (15.6 per cent). Further analysis shows that:
    - Five metros and 14 secondary cities reported that it takes more than 30 days of receiving the invoice to pay creditors. This is a slight improvement from 6 metros who reported this position in 2017/18. However, the nominal value of creditors outstanding had risen to R85.1 billion (or by 55.6 per cent) in metros. In the case of secondary cities and local municipalities creditors outstanding had decreased to R45.1 billion from R48 billion (or by 6 per cent) in 2017/18; and
    - 34 district municipalities reported that it takes more than 30 days of receiving the invoice to pay creditors. The total nominal value of creditors outstanding increased from R6.6 billion in 2017/18 to R7.6 billion in 2018/19.

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53. This data clearly shows that some municipalities are not complying with Section 65 (2)(e) of the MFMA and that their cash flow management is weak. This has serious implications for the financial viability of Small Medium and Micro Enterprises (SMMEs) and other suppliers that provide services to municipalities. The year-on-year increase in outstanding creditors in some municipalities is an indication that they are experiencing liquidity and cash challenges and consequently are delaying the settlement of outstanding debt owed. These findings are consistent with the trends observed in the past, with municipalities delaying payments to creditors at the end of the financial year in order to report a 'favourable cash position' and thereby ostensibly comply with Section 65 of the MFMA.
54. National Treasury has made efforts to ensure that municipalities pay their long outstanding creditors. Methods used have included obtaining settlement agreements with those municipalities owing monies to Eskom and the country's Water Boards.

Indicator 11: Total borrowing vs total operating revenue

55. This ratio indicates the extent of total borrowings in relation to total operating revenue. It indicates short- and long-term debt relative to operating revenue of the municipality.
56. The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings. The accepted norm for total borrowing is up to 45 per cent of the total operating revenue.
57. Table 11 below indicates total borrowing versus total operating revenue. 250 of the 257 municipalities have less than 45 per cent borrowing as a percentage of total operating revenue. This indicates that municipalities still have capacity to take increase funding from borrowings. However, this should be considered within the cash flow requirements of the municipalities and their ability to repay borrowing. Importantly, municipalities should borrow for revenue generating assets.

TABLE 11: TOTAL BORROWING VS TOTAL OPERATING REVENUE, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. of municipalities whose debt level is		
less than 45%	7	7
more than 45%	1	1
Secondary Cities (19)		
No. of municipalities whose debt level is		
less than 45%	17	17
more than 45%	2	2
Other Local Municipalities (Towns) 186		
No. of municipalities whose debt level is		
less than 45%	185	183

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MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
more than 45%	1	3
District Municipalities (44)		
No. of municipalities whose debt level is		
less than 45%	43	43
more than 45%	1	1
All municipalities (257)		
No. of municipalities whose debt level is		
less than 45%	252	250
more than 45%	5	7

Source: National Treasury - Local Government Database

58. Further analysis shows that:
    - Seven of eight (8) metros' total borrowing is less than 45 per cent of total operating revenue;
    - 17 secondary cities have adequate capacity to borrow but may not be able to afford borrowing given cash flow constraints or poor credit ratings;
    - Only three (3) of the 186 local municipalities have reported to have borrowed more than 45 per cent of their operating revenue. This supports the notion that local municipalities are cash strapped and therefore many cannot afford the repayment of borrowing nor do they qualify for a loan from the banks; and
    - Among district municipalities, only one district reported to have borrowed more than 45 per cent of their operating revenue.

Indicator 12: Current ratio

59. The ratio is used to assess the municipality's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash and receivables).
60. The higher the current ratio, the more capable the municipality will be to pay its current or short-term obligations and provide for a risk cover to enable it to continue operations at desired levels. A financial ratio of under 1 suggests that a municipality will be unable to pay all its current or short-term obligations if they fall due at any specific point.
61. If current liabilities exceed current assets, it highlights serious financial challenges and most likely liquidity problems (i.e. insufficient cash to meet short-term financial obligations). Current assets must therefore be increased to appropriately cover current liabilities or there is a risk that non-current assets will need to be liquidated to settle current liabilities.
62. Table 12 below shows current ratio between 2017/18 and 2018/19. A huge concern is that the current assets are below the current liabilities in about half of the municipalities.

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TABLE 12: CURRENT RATIO, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	2	2
more than current liabilities (more than 1)	6	6
Secondary Cities (19)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	11	13
more than current liabilities (more than 1)	8	6
Other Local Municipalities (Towns) 186		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	89	93
more than current liabilities (more than 1)	97	93
District Municipalities (44)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	21	21
more than current liabilities (more than 1)	23	23
All municipalities (257)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	123	129
more than current liabilities (more than 1)	134	128

Source: National Treasury - Local Government Database

63. Further analysis shows that:

- Two of the eight (8) metros have reported that their current assets are below their current liabilities, which highlights that there are huge financial challenges in these metros;
- The current assets are less than current liabilities in about 68 per cent of the secondary cities, also an indication of insufficient cash to meet short term financial obligations;
- About half of the local municipalities (93) have insufficient current assets to pay current obligations, an increase from 89 in 2017/18; and
- 21 of the 44 districts also do not have enough cash and debtors to pay current obligations.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Indicator 13: Solvency ratio

64. Solvency ratio evaluates the total liabilities of a municipality as a percentage of its total assets. It is calculated by dividing the total debt or liabilities by the total assets. The purpose of the ratio is to measure the ability of a municipality to pay off its debt with its assets. It determines how many assets should be sold to pay off the total debt of the municipality.
65. The higher the solvency ratio, the more capable the municipality will be to pay its total liabilities with its total assets.
66. Table 13 below shows the solvency ratio of municipalities between 2017/18 and 2018/19. Only 9 or 3.5 per cent of the municipalities do not have sufficient assets to pay their total liabilities.

TABLE 13: SOLVENCY RATIO, 2017/18 – 2018/19

MUNICIPALITIES	AUDIT OUTCOME	
	2017/18	2018/19
Metropolitan Municipalities (8)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	0	0
more than total liabilities (more than 1)	8	8
Secondary Cities (19)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	0	0
more than total liabilities (more than 1)	19	19
Other Local Municipalities (Towns) 186		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	2	2
more than total liabilities (more than 1)	184	184
District Municipalities (44)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	7	7
more than total liabilities (more than 1)	37	37
All municipalities (257)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	9	9
more than total liabilities (more than 1)	248	248

Source: National Treasury - Local Government Database

67. Further analysis shows that:

- Only two local municipalities and seven districts did not have enough assets to sell to pay their total liabilities.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

AUDIT OUTCOMES: 2018/19 FINANCIAL YEAR

68. It is important to note that audit outcomes are not necessarily the only indicator of financial health. A good audit outcome means that the financial statements fairly represent the financial condition of the municipality, even if the finances are not in a good state. A bad audit outcome can mean that the financial statements cannot be relied on due to lack of supporting documentation, or cannot be verified, even if the municipality is in good financial health.
69. The audit outcomes regressed for a third consecutive year. The Auditor-Generals (AG) 2018/19 report[5] on local government audit outcomes highlighted that municipal audit outcomes of 76 municipalities regressed while only 31 showed improvement. Even the deadline for submission of the annual financial statements to the AG had been met by only 89.1 per cent of municipalities. By the legislative audit deadline of 31 August 2019[6], 28 annual financial statements for 2018/19 were outstanding.
70. It was also noted by the AG that municipalities used consultants for financial reporting services at a cost of R1.3 billion in 2018/19.

5 The 2018/19 AG report was used for the purpose of this report as it was the most recent report available, however please note that 28 audit opinions were still outstanding.

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

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

71. Table 14 below presents a summary of audit opinions for all municipalities between 2009/10 and 2018/19 (refer to Annexure A1 for the 2018/19 audit outcomes per municipality).

TABLE 14: SUMMARY OF AUDIT OPINIONS FOR ALL MUNICIPALITIES, 2009-10 TO 2018-19

AUDIT OPINON	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO	%	NO	%	NO	%	NO	%
Adverse	7	2%	9	3%	3	1%	4	1%	9	3%	4	1%	4	1%	4	2%	12	5%	2	1%
Disclaimer	53	19%	82	29%	76	27%	90	32%	66	21%	33	12%	25	9%	24	9%	31	12%	33	13%
Qualified	50	18%	55	20%	64	23%	68	24%	83	27%	71	26%	63	23%	65	25%	87	34%	83	32%
Unqualified - with findings	120	42%	117	42%	106	38%	98	35%	109	36%	111	41%	122	44%	113	44%	105	41%	91	35%
Unqualified - no findings	7	2%	13	5%	9	3%	22	8%	40	13%	54	20%	49	18%	34	13%	18	7%	20	8%
Audits Outstanding	46	16%	2	1%	20	7%	0	0%	0	0%	0	0%	15	5%	17	7%	4	2%	28	11%
Total	283	100%	278	100%	278	100%	282	100%	307	100%	273	100%	278	100%	257	100%	257	100%	257	100%

Consolidated general reports on the audit outcomes of local government MFMA

72. In the 2018/19 financial year, 20 municipalities obtained unqualified opinions without findings compared to 18 municipalities in 2017/18. The bulk of the unqualified audit opinions without any emphasis of matter were achieved by municipalities in the Western Cape (13 of the 20). In the 2018/19 reporting period, no metropolitan municipality (metro) received unqualified audit opinions without any emphasis of matter. There were 14 local municipalities and 6 district municipalities that received unqualified audit opinions without any emphasis of matter.

73. The number of unqualified audit opinions with findings decreased from 105 municipalities in 2017/18 to 91 municipalities in 2018/19. However, qualified audit opinions decreased from 87 municipalities to 83 municipalities over the same period, with municipalities relying heavily on consultants to correct material mistakes identified during the audit.

74. What is of concern, is that, the number of municipalities receiving disclaimers increased from 31 in 2017/18 to 33 in 2018/19 with the number of adverse opinions significantly decreasing from 12 to two (2) over the same period. Over a longer period, there is a decrease in the number of disclaimers, from 82 municipalities in 2010/11 to 33 municipalities in 2018/19.

75. The audit outcomes of municipalities in the Eastern Cape (13 or 33 per cent), Mpumalanga (6 or 30 per cent) and Northern Cape (6 or 19.4 per cent) regressed the most from 2017/18. Unqualified audit opinions without any emphasis of matter increased from 12 in 2017/18 to 13 in 2018/19 in the Western Cape.

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76. The provinces with the poorest audit outcomes in 2018/19 (based on the number of municipalities with disclaimer opinions) were the North West (9), Eastern Cape (8), Northern Cape (6) and Mpumalanga Provinces (4). Mpumalanga was the only province with adverse audit findings in 2018/19 (2 municipalities received adverse opinions). Audits were mostly outstanding in the Free State (8), Northern West (5) and Northern Cape (4).
77. According to the AG, the closing amounts for irregular[7] expenditure increased from R53.41 billion in 2017/18 to R65.6 billion in 2018/19. The annual value of irregular expenditure increased from R25.2 billion to R32.1 billion (R21.46 billion audited plus R10.6 billion outstanding based on unaudited AFS), the number of municipalities incurring irregular expenditure slightly increased from 239 to 241. The main cause for irregular expenditure in 93 per cent of the time was non-compliance with supply chain legislation, relating to procurement without following the competitive bidding or quotation process (R5.5 billion), non-compliance with procurement process requirements (R12.3 billion), and inadequate contract management (R2.2 billion).
78. Fruitless and wasteful expenditure incurred by municipalities increased marginally from R1 billion in 2017/18 to R3.12 billion (including outstanding audits) in 2018/19. The main reason for the fruitless and wasteful expenditure was interest, penalties on overdue accounts and late payments.
79. Unauthorised expenditure increased from R8.9 billion in 2017/18 to R15.9 billion (including outstanding audits) in 2018/19. Unauthorised expenditure is predominantly the result of overspending of budgets (R5 billion related to actual payment in excess of budget) and expenditure related to non-cash items (R6.8 billion) which indicates a poor estimation of asset impairment.
80. The AG highlighted three main root causes for limited improvement in the audits of 2018/19. These are: (i) slow or no response in improving internal controls and addressing risk areas; (ii) inadequate consequences for poor performance and transgressions; and (iii) instability or vacancies in key positions or key officials lacking appropriate completeness.
81. In its report the AG concluded the following:
    - Legislation coupled with policies and procedures are in place to guide local government, but local government persistently fails to implement these in the intended manner to enforce compliance;
    - More focus must be placed on exercising political oversight and addressing the aspirations of citizens;
    - Municipal managers and senior management also do not devote sufficient energy to areas that matter such as key controls, risk management and credible reporting in prime areas such as reconciliations, supervisory reviews, action plan monitoring and adherence as well as record keeping, which form the foundation for sound levels of accountability;
    - Consequently, there is often a blatant disregard for the legislation that governs good administration, without punitive measures being actioned against errant officials;
    - Moreover, consultants continue to be appointed in many instances while officials are in positions to execute these functions. This promotes indolence among officials as well as a wastage of funds;
    - The municipal managers, with their management teams, must set an ethical tone to solidify systems and processes as well as preventative controls, which should operate on autopilot and set accountability in overdrive. The levels of tolerance for non-compliance need to be minimised, with transparent reporting to councils and the public; and

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

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- The importance of implementing the recommendations of audit committees cannot be over emphasised, nor can the need for assurance providers (municipal public accounts committees and audit committees) to understand the business of local government beyond the financial statements. This is important to support cohesive and better-governed municipalities.

82. The provinces with the best audit outcomes (based on the number of municipalities with unqualified with no findings) were the Western Cape (13 in 2018/19) and Mpumalanga (2 in 2018/19).
83. The Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings were promulgated on 31 May 2014 to deal with matters of financial misconduct and to give effect to the concept of consequence management. A concerted effort has also been made with the Section 71 monthly budget statements and Back to Basics (B2B) reports to ensure that municipalities that fail to comply with audit requirements put in place internal controls and early-warning systems to minimise the risk of future non-compliance.

GOVERNANCE: ACTING MUNICIPAL MANAGER AND CHIEF FINANCIAL OFFICER POSITIONS

84. The instability in senior municipal management positions has a negative impact on service delivery to communities. This manifests in a number of ways including the inability to make basic managerial decisions, such as the appointment of service providers, and overall financial sustainability. This often delays project implementation and affects the municipality's ability to spend its capital budget.
85. Section 82 of the Municipal Structures Act (MSA) obliges a municipal council to appoint a Municipal Manager (MM) with relevant skills and expertise to perform the relevant functions of the position. The MM is the accounting officer of a municipality and is responsible for all major operations and holds overall accountability for the administration of the municipality.
86. Through its interaction with municipalities, National Treasury has observed that when the position of MM is vacant, accountability is weak. It may be that the acting incumbent, if one is appointed, feels restricted from making certain key decisions. Alternatively, if (in cases where a permanent MM is not in place due to resignation, suspension or termination of service) the MM's role is spread amongst several senior managers, no one person can be held accountable when things go wrong. It is therefore critical that the post of MM be permanently filled and that the necessary performance agreements and contracts are in place.
87. 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 management legislation and council policies. Section 80 of the MFMA regulates the establishment of the Budget and Treasury Office led by the CFO.
88. As part of National Treasury's efforts to promote stability and accountability in municipalities, MFMA Budget Circular No. 72 introduced additional requirements for approval of roll-over of unspent conditional grants. Municipalities applying to retain conditional allocations committed to identifiable projects or requesting a roll-over in terms of Section 22 of the 2015/16 DoRA must submit proof that the MM and CFO are permanently appointed.
89. Table 15 shows the number of acting MMs and CFOs as at 30 June 2019.

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TABLE 15: MUNICIPALITIES WITH ACTING MUNICIPAL MANAGERS AND CFOS AT 30 JUNE 2018 AND 2019

2019			ACTING MM		ACTING CFO		BOTH ACTING	
SUMMARY PER PROVINCE			**NO.**	**%**	**NO.**	**%**	**NO.**	**%**
Eastern Cape	39	EC	6	15,4%	8	20,5%	3	7,7%
Free State	23	FS	6	26,1%	7	30,4%	2	8,7%
Gauteng	11	GT	3	27,3%	4	36,4%	2	18,2%
Kwazulu-Natal	54	KZ	5	9,3%	7	13,0%	3	5,6%
Limpopo	27	LP	7	25,9%	9	33,3%	5	18,5%
Mpumalanga	20	MP	5	25,0%	5	25,0%	1	5,0%
North West	22	NW	10	45,5%	11	50,0%	8	36,4%
Northern Cape	31	NC	8	25,8%	10	32,3%	6	19,4%
Western Cape	30	WC	-	0,0%	6	20,0%	-	0,0%
Total	**257**		**50**	**19%**	**67**	**26%**	**30**	**12%**

2018			ACTING MM		ACTING CFO		BOTH ACTING	
SUMMARY PER PROVINCE			**NO.**	**%**	**NO.**	**%**	**NO.**	**%**
Eastern Cape	39	EC	7	17,9%	4	10,3%	3	7,7%
Free State	23	FS	4	17,4%	6	26,1%	2	8,7%
Gauteng	11	GT	2	18,2%	4	36,4%	2	18,2%
Kwazulu-Natal	54	KZ	5	9,3%	10	18,5%	1	1,9%
Limpopo	27	LP	4	14,8%	7	25,9%	4	14,8%
Mpumalanga	20	MP	4	20,0%	5	25,0%	1	5,0%
North West	22	NW	5	22,7%	13	59,1%	-	0,0%
Northern Cape	31	NC	8	25,8%	10	32,3%	5	16,1%
Western Cape	30	WC	3	10,0%	3	10,0%	-	0,0%
Total	**257**		**42**	**16%**	**62**	**24%**	**18**	**7%**

90. A regression has been observed in 2018/19 in stabilizing at senior municipal management in comparison with the previous financial years. Between June 2018 and June 2019, the number of acting MMs increased from 42 to 50. The increase was especially noticeable in North West, Limpopo and Free State provinces where the number of acting MMs increased by 5 (from 5), 3 (from 4) and 2 (from 4) respectively, in that period.

91. A similar trend was observed in relation to CFOs over the same period, with the number of acting CFOs increasing from 62 (24 per cent) to 67 (26 per cent). The number in Eastern Cape increased by 4 (from 4 to 8), in Western Cape by 3 (from 3 to 6) and in Limpopo by 2 (from 7 to 9). Instances where both MM and CFO were in an acting capacity increased over the same period from 18 to 30.

92. Table 15 shows that 50 municipalities (19 per cent) had acting MMs in place at the end of June 2019 and 67 (26 per cent) had acting CFOs. The largest percentages of acting MMs was in North West Province (45.5 per cent acting), Gauteng Province (27.3 per cent acting) and Free State Province (26.1 per cent acting).

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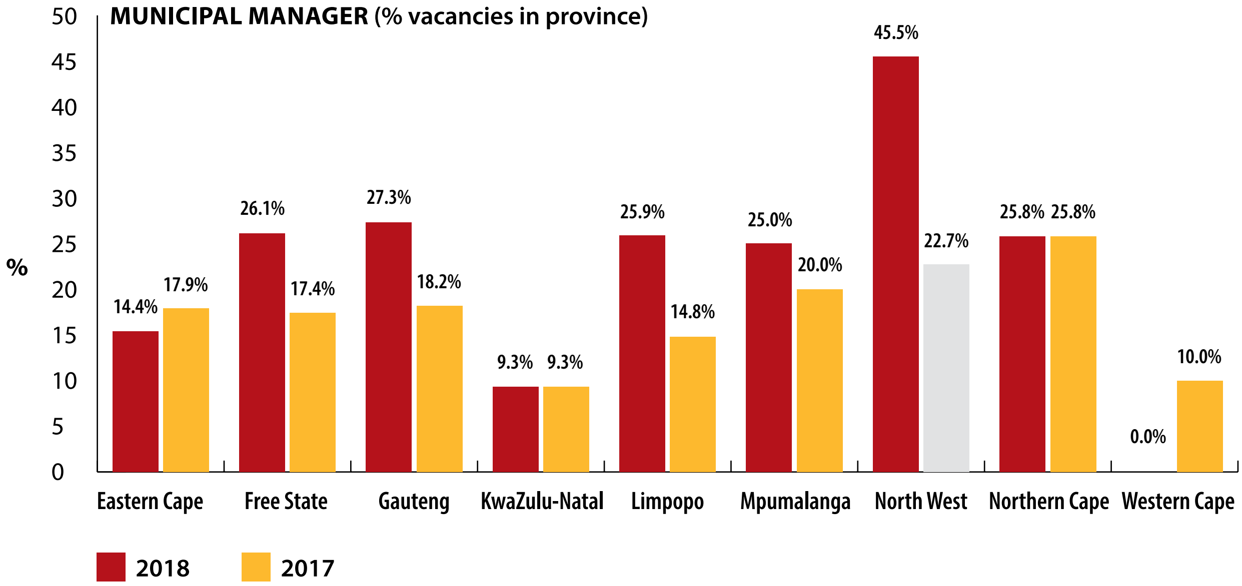
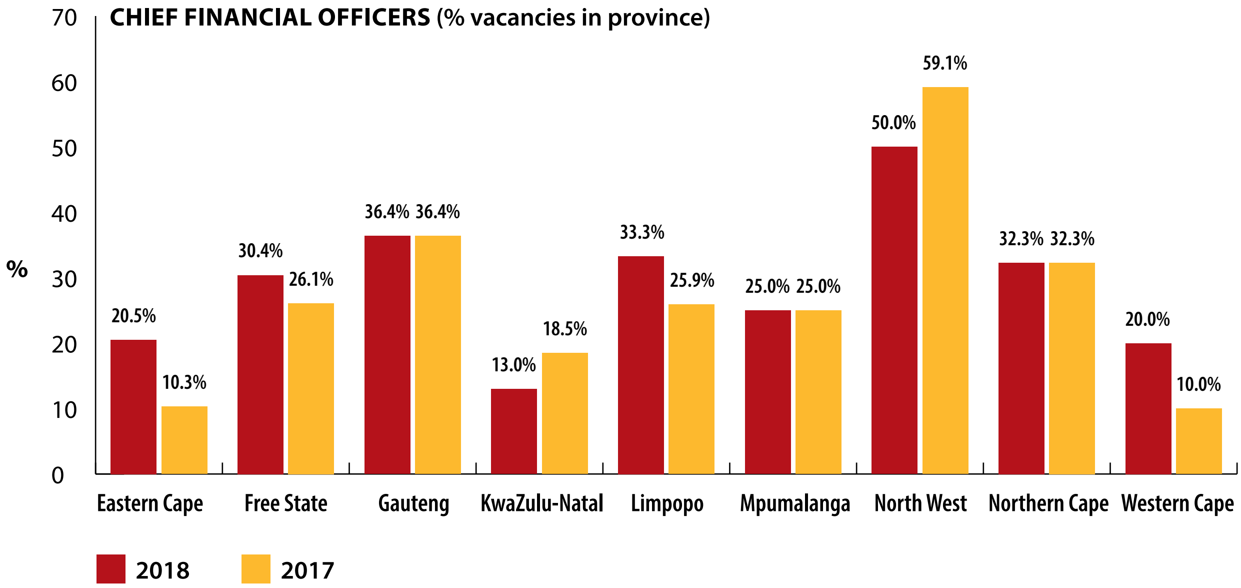
FIGURE 2: COMPARISON OF ACTING MUNICIPAL MANAGERS AND CHIEF FINANCIAL OFFICERS AS AT THE END OF 30 JUNE 2018 AND 2019





93. Figure 2 above shows that the number of acting Municipal Managers is highest in the North West (45.5 per cent) and acting Chief Financial Officers is most evident also in the North West Province (50 per cent).

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

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GOVERNANCE: SUSPENDED MUNICIPAL OFFICIALS

95. Due to various accounts of misconduct these municipal officials gets suspended. What is of concern is the continued full payment of salaries to these officials even after a number of years that they are on suspension.
96. The Department of Cooperative Governance indicated that there are about 35 managers in the local government sphere that have been suspended in the 2019/20 period. Of this, 21 of the suspended are municipal managers.
97. Further analysis shows that:
    - In the Eastern Cape, five municipal managers have been suspended. These included the City Managers of the Nelson Mandela Bay Metro, Sakhisizwe Local Municipality, Ingquza Local Municipality, Enoch Mgijima Local Municipality and O.R Tambo District Municipality;
    - Municipal managers were suspended in the Free State at Nala, Dihlabeng, Metsimaholo and Moqhaka Local Municipalities;
    - In Gauteng there were two municipalities (West Rand District Municipality and Merafong City Local Municipality) whose MMs are suspended but receiving full pay;
    - Three municipal managers and one senior manager have been suspended in Limpopo. All four are still being paid. They were working at Ephraim Mogale, Elias Motsoaledi and the Collins Chabane Local Municipalities;
    - In KwaZulu-Natal four municipal managers and two senior officials have been suspended. The municipal managers of the Umzinyathi District Municipality as well as the Richmond, Abaqulusi and Emadlangeni Local Municipalities were suspended on full pay. The two suspended officials worked at the Umzinyathi District Municipality and Emadlangeni Local Municipality;
    - In Mpumalanga, three senior officials from the Msukaligwa, Dr Pixley ka Seme and Dr JS Moroka Local Municipalities were suspended on full pay;
    - Two senior officials of the Dikgatlong Local Municipality were suspended while the municipal manager and a senior official of the Sol Plaatjie Municipality were suspended on full pay in the Northern Cape;
    - In the Western Cape, the municipal manager of the Knysna Local Municipality was suspended alongside two senior officials of the George and Cederberg Municipalities. All officials were suspended on full pay; and
    - Four municipal officials were suspended in the North West.

SIGNIFICANT ELECTRICITY AND WATER LOSSES

98. Table 16 below shows the extent of water and electricity losses by metros at 30 June 2019. No reliable comparative data is yet available for other municipalities. It should be noted that a degree of technical and commercial losses is inherent to water and electricity transmission and distribution systems. However, the extent of these losses is also affected by the level of a municipalities' spending on repairs and maintenance, theft of services and the effectiveness of its metering and credit control procedures.
99. On 30 June 2019, metropolitan municipalities recorded water and electricity losses amounting to R5.2 billion or an average of 32.8 per cent and R7.3 billion or an average 14.8 per cent respectively. During the 2018/19 financial year, water losses increased significantly, by R1 billion. Electricity losses increased by R391.5 million, from R6.9 billion in 2017/18 to R7.3 billion in 2018/19.

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100. Table 16 shows that, in nominal terms, the City of Johannesburg reported the highest losses on water (R1.4 billion) and electricity (R2.9 billion). The lowest water losses were reported by Buffalo City Metro at R158.2 million and the lowest electricity losses were reported in Mangaung at R138.1 million (electricity). It should, however, be noted that these cities provide utility services at vastly different scales.

TABLE16: ELECTRICITY AND WATER LOSSES FOR THE METROS AS AT 30 JUNE 2019

MUNICIPALITY	CODE	WATER LOSSES	ELECTRICITY LOSSES
		R'000	R'000
Buffalo City	BUF	158 217	302 074
Nelson Mandela Bay	NMA	162 900	339 500
Mangaung	MAN	186 748	138 097
City of Ekurhuleni	EKU	1 002 006	1 184 000
City of Johannesburg	JHB	1 400 000	2 900 000
City of Tshwane	TSH	1 051 432	1 524 622
eThekwini	ETH	968 100	575 000
Cape Town	CPT	303 487	345 465
Total		**5 232 890**	**7 308 758**

Source: 2018/19 Audited Financial Statements

INADEQUATE BUDGETS FOR REPAIRS AND MAINTENANCE AND ASSET MANAGEMENT

101. 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.

102. The adequacy of planned expenditure on repairs and maintenance is a key factor that must be considered when a budget is drafted and is a core part of the National Treasury's Funding Compliance assessment methodology. The MFMA regulations require the presentation of all the information needed to evaluate whether a municipality's operating and capital budgets are 'funded' or not. Many municipalities that allocate insufficient funds for asset repair compromise the credibility and sustainability of their budgets in the medium to long term because the revenue on which the budget is based is not being protected. For example, an electricity or water network will not generate revenue if it deteriorates and the supply is not sustained. There is also often a link between the number of potholes, unattended pipe bursts and sewerage spills in municipal areas and the willingness of residents to pay their rates and service charges, which affects the revenue of the municipality. Repairs and maintenance expenditure levels should be examined by trend, benchmarking and engineering recommendations.

103. Municipalities experiencing financial stress frequently seek to immediately reduce expenditures on repairs and maintenance as its impact is not immediately obvious. It is also less politically sensitive than reducing the capital expenditure programme. However, the medium to long term consequences of underspending on repairs and

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maintenance include:

- Deteriorating reliability and quality of services;
- A move to more expensive crisis maintenance rather than planned maintenance;
- Increased future cost of maintenance and refurbishment; and
- Shortened useful lifespan of assets, requiring earlier replacement than would not otherwise have been the case.

104. Table 17 below shows the national aggregate spending patterns on repairs and maintenance as a percentage of expenditure on property, plant and equipment for the financial years 2016/17 to 2018/19. This is an appropriate indicator of spending on repairs and maintenance as it measures spending against the value of the assets for which such spending was incurred. The national norm according to National Treasury's financial indicators is 8 per cent.

105. National aggregate spending on repairs and maintenance as a percentage of property, plant and equipment averages 2.5 per cent in the period 2016/17 to 2018/19, as shown in Table 17 below. The aggregate proportion of capital expenditure on asset renewal decreased from 43.5 per cent in 2016/17 to 32.9 per cent in 2018/19. Notwithstanding this trend, significant under investment in asset management continues to be evident. The pace of asset depreciation continues to outstrip investment in asset renewal by a significant margin, with renewal investments accounting for only 42.7 per cent of depreciation values in 2018/19. In effect, this means that 57.3 per cent of the asset bases of municipalities are being abandoned in each year, which may have significant cumulative effects.

TABLE 17: NATIONAL - REPAIRS AND MAINTENANCE, 2016/17 - 2018/19

DESCRIPTION	2016/17	2017/18	2018/19
R THOUSANDS	**AUDITED OUTCOME**	**AUDITED OUTCOME**	**AUDITED OUTCOME**
Repairs and Maintenance by Asset Class	17 736 141	20 132 958	12 818 534
Infrastructure - Road Transport	3 935 890	4 374 936	2 087 996
Infrastructure - Electricity	3 580 518	3 753 334	1 794 853
Infrastructure - Water	2 484 063	2 813 327	1 916 875
Infrastructure - Sanitation	1 847 549	1 449 251	887 441
Infrastructure - Other	838 490	1 293 166	661 985
Infrastructure	12 686 511	13 684 014	7 349 150
Community	1 012 960	1 027 010	802 475
Heritage assets	1 873	1 524	932
Investment properties	45 279	196 119	13 581
Other assets	3 989 518	5 224 292	4 652 397
TOTAL EXPENDITURE OTHER ITEMS	**47 806 739**	**53 601 179**	**47 754 891**
% of capital exp on renewal of assets	*43,5%*	*28,2%*	*32,9%*
Renewal of Existing Assets as % of deprecn	*60,6%*	*40,4%*	*42,7%*
R&M as a % of PPE	*2,8%*	*2,9%*	*1,9%*
Renewal and R&M as a % of PPE	*6,0%*	*5,0%*	*4,0%*

Source: National Treasury Local Government Database

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106. Table 18 (below) shows spending by metropolitan municipalities on repairs and maintenance as a percentage of expenditure on property, plant and equipment from 2016/17 to 2018/19. Metros decreased spending from 4.4 per cent in 2016/17 to 2.8 per cent over the 2018/19, which is well below the norm of 8 per cent. Investment in asset renewal shows a declining trend over the three years from 96.4 per cent in 2016/17 to only 53.1 per cent in 2018/19. Also renewal of existing assets as a percentage of depreciation was very good in 2016/17 at 116.1 per cent for metros, but it has since declined in 2018/19 to only 67 per cent.

TABLE 18: METROS - REPAIRS AND MAINTENANCE, 2016/17 - 2018/19

DESCRIPTION	2016/17	2017/18	2018/19
R THOUSANDS	AUDITED OUTCOME	AUDITED OUTCOME	AUDITED OUTCOME
Repairs and Maintenance by Asset Class	13 242 546	15 543 425	9 242 513
Infrastructure - Road Transport	2 813 058	3 174 056	1 482 950
Infrastructure - Electricity	2 983 211	3 197 284	1 317 298
Infrastructure - Water	1 584 443	1 807 577	911 923
Infrastructure - Sanitation	1 542 438	1 243 235	653 137
Infrastructure - Other	638 506	996 246	528 154
Infrastructure	9 561 655	10 418 399	4 893 462
Community	750 464	855 045	658 139
Heritage assets	1 528	1 377	928
Investment properties	42 268	195 779	13 054
Other assets	2 886 631	4 072 826	3 676 930
TOTAL EXPENDITURE OTHER ITEMS	**26 452 142**	**30 979 918**	**25 740 272**
% of capital exp on renewal of assets	*96,4%*	*54,6%*	*53,1%*
Renewal of Existing Assets as % of deprecn	*116,1%*	*69,1%*	*67,0%*
R&M as a % of PPE	*4,4%*	*4,9%*	*2,8%*
Renewal and R&M as a % of PPE	*10,0%*	*8,0%*	*6,0%*

Source: National Treasury Local Government Database

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107. Table 19 (below) shows secondary cities' asset management spending from 2016/17 to 2018/19. These municipalities are under-investing significantly in asset management, spending on average only 1.4 per cent on repairs and maintenance between 2016/17 and 2018/19. Asset renewal accounted for only 44.8 per cent of capital expenditure in 2018/19, although this has risen from only 26.4 per cent in 2016/17. Asset renewal accounted for only 32.3 per cent of the value of depreciation in 2018/19.

108. 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.

TABLE 19: SECONDARY CITIES - REPAIRS AND MAINTENANCE, 2016/17 - 2018/19

DESCRIPTION	2016/17	2017/18	2018/19
R THOUSANDS	**AUDITED OUTCOME**	**AUDITED OUTCOME**	**AUDITED OUTCOME**
Repairs and Maintenance by Asset Class	1 785 186	1 918 721	1 463 569
Infrastructure - Road Transport	354 733	361 198	285 187
Infrastructure - Electricity	271 469	353 992	339 751
Infrastructure - Water	242 087	250 908	133 316
Infrastructure - Sanitation	167 606	112 346	85 333
Infrastructure - Other	86 689	43 569	65 760
Infrastructure	1 122 585	1 122 013	909 346
Community	164 149	113 753	102 548
Heritage assets	346	147	
Investment properties	2 978	124	478
Other assets	495 128	682 684	451 197
TOTAL EXPENDITURE OTHER ITEMS	**7 963 125**	**8 376 906**	**8 931 430**
% of capital exp on renewal of assets	*26,4%*	*24,1%*	*44,8%*
Renewal of Existing Assets as % of deprecn	*24,6%*	*21,5%*	*32,3%*
R&M as a % of PPE	*1,5%*	*1,6%*	*1,2%*
Renewal and R&M as a % of PPE	*3,0%*	*3,0%*	*3,0%*

Source: National Treasury Local Government Database

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SPENDING OF CONDITIONAL GRANTS

109. Table 20 below shows expenditure performance by municipalities on all conditional grants transferred to them as at 30 June 2019. In the 2018/19 financial year, in terms of the DoRA R51 billion was allocated in the form of direct and indirect grants to local government.

TABLE 20: CONDITIONAL GRANTS TRANSFERRED FROM NATIONAL DEPARTMENTS TO MUNICIPALITIES IN 2018/19

				YEAR TO DATE	YTD EXPENDITURE		% CHANGES FOR THE 4TH Q	
R thousands	Division of revenue Act No. 10 of 2017	Adjustment (Mid year)	Total Available 2018/19	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	**31 774 244**	**2 211 874**	**33 986 118**	**33 692 509**	**25 306 361**	**27 183 510**	**74,5%**	**80,0%**
Infrastructure	**30 220 284**	**2 188 658**	**32 408 942**	**32 115 333**	**23 919 574**	**25 672 301**	**73,8%**	**79,2%**
Capacity and Others	**1 553 960**	**23 216**	**1 577 176**	**1 577 176**	**1 386 787**	**1 511 209**	**87,9%**	**95,8%**
Grants excluded from the publication	**11 306 137**	**-**	**11 306 137**	**-**	**-**	**9 660 740**	**-**	**85,4%**
Urban Settlement Development Grant	11 306 137	-	11 306 137	-	-	9 660 740	-	85,4%
Total as per DoRA	**50 990 106**	**1 194 530**	**52 184 636**	**40 584 890**	**25 306 361**	**36 844 250**		

Source: National Treasury Local Government Database

110. In aggregate, municipalities spent R27.2 billion or 74.5 per cent of the total direct conditional grants allocated to them in 2018/19. Capacity grants reported the highest expenditure performance level, at 87.9 per cent of the allocation. This was followed by infrastructure grants at 73.8 per cent. Spending performance of the Urban Settlements Development Grant, which is transferred only to metros, was at 85.4 per cent of the allocation.

111. It should be noted that the variance in figures reported by administering departments and municipalities is due to the difference in reporting due dates. Municipalities report to treasuries by the 10th working day of a month but national transferring officer's report to National Treasury on the 20th of each month.

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FUNDED BUDGETS AS PER THE AUDIT OUTCOMES

112. There was a negligible decline of municipalities with unfunded budgets from 140 in 2017/18 to 139 municipalities in 2018/19. The main reason for the unfunded budgets is that municipalities budget for deficits with an increase inability to maintain payments to creditors which compromises service delivery and threatens their fiscal sustainability.

MUNICIPALITIES IN FINANCIAL DISTRESS

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

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

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

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

117. **Annexure A1** lists the 163 municipalities (an increase from 125 municipalities as reported in the 2017/18 State of Local Government Finances and Financial Management Report) that are evaluated to be experiencing some form of financial distress in 2018/19, based on the financial health assessment. Annexure A1 also provides a consolidated analysis of the 257 municipalities' audit outcomes, those identified as financially distressed and trends for the 2018/19 financial year. The list in annexure A1 shows that four (4) of the 20 municipalities that received unqualified audit opinion with no findings, were classified as financially distressed. Thirty-eight of the 91 municipalities that received unqualified audit report with findings, were classified as financially distressed. This suggests that the result of the audit outcome is not on its own a reflection of good financial health, nor is it intended to be. An audit opinion relates to whether the financial statements give a fair and accurate account of the municipalities finances. If they accurately report huge debts, they will receive an unqualified audit opinion. Of the 83 municipalities that received qualified audit opinion, 65 were financially distressed. Of the 33 municipalities that received disclaimers, 30 of them were financially distressed. All two 10 municipalities that received adverse opinion were financially distressed. Twenty-four of the 28 municipalities whose audit opinions are still outstanding are financially distressed.

MANIFESTATIONS OF FINANCIAL DISTRESS

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

119. Outstanding consumer debt owed to municipalities, as reported in terms of 2018/19 audit outcomes, has increased significantly since 2011. Currently, the outstanding municipal debt (R132.9 billion as per the audited AFS for 2018/19 (R115.8 billion in 2017/18)) exceeds the total amount allocated to local government through direct and

MUNICIPALITIES IN FINANCIAL DISTRESS

indirect grants from the national fiscus (R114.9 billion). While households continue to be the largest contributor to outstanding municipal debt comprising 64.8 per cent of the total, there is wide-spread non-payment across all customer segments.

120. Municipalities in turn owe creditors R137.9 billion (audited AFS, 2018/19) (R109.8 billion in 2017/18). This includes all categories of creditors and indicates that many municipalities are not paying creditors within the required 30-day period (as per sections 65(1) and (2)(e) of the MFMA). Although it is the monies owed to Eskom and Water Boards that has attracted most attention, cases of non-payment of other municipal creditors and suppliers have resulted in attachment and sale-in-execution of municipal assets by the courts. In some cases, this can further undermine the ability of the municipality to deliver basic services.

CAUSES AND EFFECTS OF LOCAL GOVERNMENT FINANCE FAILURES

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

122. Causes of financial distress can be classified into:

- ***Structural (or fixed) factors***, including the erosion or interruption of the tax base, decrease in population size, residents' socio-economic status, government resource allocation, loss of financial independence (e.g. through reliance on government transfers), and decline in economic productivity. Structural factors are known to be the hardest to resolve, as they are sometimes outside the municipality's control;
- ***Organisational factors*** including mismanagement, transparency and labour unions power in public administration and other political factors. Organisational factors are relatively easier to resolve because they are often internal to the organisation. Research shows that mismanagement, one of the organisational factors, is a major cause of fiscal distress; and
- ***Hybrid factors***, which relate to intergovernmental relations and coordination. Sometimes grey areas exist in intergovernmental relations, especially regarding roles, responsibility and accountability.

123. When National Treasury engaged the defaulting municipalities, the following issues were tabled for consideration as the root causes that impact on their ability to operate:

- Several municipalities with poor cash flows have adopted unfunded budgets. Unrealistic budgeted revenue collection levels are not realised while operating costs (such as employee related costs) remain high with no effort made to contain expenditure particularly on non-priority spending has led to persistent negative cash balances;
- Weak management of the overall revenue value chain, including tariff setting for trading services, administering the property transfer process, and misalignment of tariffs, billings and credit control measures with indigent policies. The local government equitable share is mainly used to fund operating costs rather than utilised for the purpose of service delivery targeting the poorest of the poor;
- Weak internal controls, risk management and supply chain management (SCM) inefficiencies resulting in poor audit outcomes and wasteful expenditure;

MUNICIPALITIES IN FINANCIAL DISTRESS

- Historically inadequate budget allocation for repairs and maintenance and asset management have weakened revenue potential;
- Limited evidence based financial management such as cash flow management;
- Inefficient management of electricity demand means that penalty charges are unnecessarily incurred (fruitless and wasteful expenditure);
- Payment arrangements negotiated with creditors are not subsequently provided for in the municipal budget. It may be argued that the signed payment arrangements are merely a case of malicious compliance; and
- Inadequate human resources capacity and a shortage of technical skills.

124. In most cases weak municipal leadership underpins these issues. Political instability, poor administrative governance and weak financial management remains the common denominator and at the heart of the problem impacting on the municipality's ability to deliver services as per their mandate. Key issues include:
    - Ineffective councils and governance structures that contributes to weak fiscal discipline and consequently financial mismanagement;
    - An inappropriate or ineffective political-administrative interface within a municipality, with councillors irregularly involved in administrative decisions or action, and administrators often participating in political or factional activities;
    - Vacant positions for municipal managers or appointment of temporary incumbents: accountability is notably weaker at municipalities where the position of municipal manager is vacant or occupied by an "acting" incumbent, as an "acting" municipal manager is less inclined to take decisions and responsibility for actions; and
    - The absence of a suitably competent CFO: this presents a risk to sound financial management as it provides opportunities for the flouting of internal controls, non-compliance to the legal framework and general mismanagement of public funds.

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

MUNICIPALITIES IN FINANCIAL DISTRESS

SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY

126. South Africa's local government financial management system has undergone a number of reforms and there has been considerable progress. It is internationally acknowledged that South Africa has some exceptional financial management legislation. National government has introduced changes to the local government equitable share formula, announced multi-year allocations, and other reforms to bring predictability and certainty into the fiscal system. However, there is still a long way to go before all 257 municipalities are fully functional and sustainable. A multi-pronged approach that includes addressing operational inefficiencies, incompetence and governance failures is required to ensure sound fiscal discipline in the longer term.

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

    a) ***Implementing Minimum Competency Levels:*** Prescribed minimum competency levels were introduced 13 years ago for Municipal Managers, Chief Financial Officers (CFOs) and Chief Executive Officers (CEOs) of municipal entities where they exist, Senior Managers, SCM managers and Middle Managers including other officials dealing with financial management (FM) and supply chain management (SCM). Table 21 below summarises the provincial patterns of enrolment in the Minimum Competency Levels programme across the regulated positions. Out of 2 747 municipal officials, only 1 565 officials meet the minimum competency levels as at 31 January 2020. Out of 248 CFOs[8], only 128 (51.6 per cent) have achieved minimum competency levels. 53.7 per cent of senior managers have achieved minimum competency levels.

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

Table 21: Minimum competency levels among senior municipal officials as at 30 June 2019

TABLE 21: NATIONAL STATUS OF THE MINIMUM COMPETENCY LEVELS BY POSITION

8 This list includes CFOs from the Municipal Entities

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Province	Accounting Officer	Meet Minimum Competency	Chief Executive Officer - Entity	Meet Minimum Competency	Chief Financial Officer - Municipality	Meet Minimum Competency	Chief Financial Officer - Entity	Meet Minimum Competency	Senior Manager (MSA S56)	Meet Minimum Competency	Head of Supply Chain Management unit	Meet Minimum Competency	Supply Chain Management Manager	Meet Minimum Competency	Middle Manager: Finance	Meet Minimum Competency
EC Eastern Cape	38	31	2	2	38	20	1	0	154	87	12	6	48	35	156	94
FS Free State	20	13	2	2	22	9	1	0	65	29	8	2	18	14	115	43
GT Gauteng	11	9	16	6	11	8	16	3	79	45	6	3	68	50	66	47
KZN Kwazulu-Natal	54	36	2	0	52	27	2	1	166	103	13	10	54	40	166	100
LIM Limpopo	25	17	1	1	26	12	1	0	101	43	7	3	21	16	128	62
MP Mpumalanga	21	13	0	0	19	11	0	0	72	35	7	3	21	12	79	42
NC Northern Cape	32	23	0	0	32	10	0	0	70	24	19	3	19	10	68	43
NW North West	22	8	0	0	19	9	0	0	76	31	4	3	16	8	79	35
WC Western Cape	30	24	0	0	29	22	1	0	90	72	17	12	33	25	80	58
TOTAL	**253**	**174**	**23**	**11**	**248**	**128**	**22**	**4**	**873**	**469**	**93**	**45**	**298**	**210**	**937**	**524**

Source: National Treasury - Capacity Building Unit

b) ***The Municipal Standard Chart of Accounts (mSCOA)*** Regulations were promulgated on 22 April 2014 and prescribes the uniform recording and classification of municipal budget and financial information at a transaction level. All municipalities and municipal entities had to comply with the Regulations by 01 July 2017.

*m*SCOA is one of the key game changers to address municipal performance failures. This standard classification framework enforces the link between planning (IDP) and the budget through the project segment and enables annual reporting and performance management linked to strategic service delivery objectives. It should be noted that the *m*SCOA Regulations also incorporates the modernisation of the Local Government business processes through the regulation of minimum business processes and system specifications.

Phase 5 of the reform commenced on 01 April 2017 and focus on the implementation (post 01 July 2017) and institutionalisation of *m*SCOA. Notwithstanding the massive strides that has been made with *m*SCOA implementation and the institutionalisation thereof in a relatively short period of time, a number of challenges are still hampering the effective implementation of the *m*SCOA reform at municipalities.

Extensive engagements were held with key system providers during which the system functionality on the following modules were demonstrated live: IDP and Budget (November 2018); SCM (February 2019); and Asset Management (June/July 2019). These engagements provided National and Provincial Treasuries with an understanding of what functionality is available on each system and what the key system related challenges are.

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Although these demonstrations indicated that most of the financial systems in the market contain the required functionality, it was evident that municipalities are not using their systems optimally. Some of the challenges that were identified in this regard include the following:

- Some municipalities have budgetary constraint / inadequate funds to:
  - Purchase all the modules of the core financial system or upgrade to the Enterprise Resource Planning (ERP) (*m*SCOA enabling) version of systems;
  - Acquire the required licences to use system solutions; and
  - Upgrade and maintain their servers, hardware and software to become and remain *m*SCOA complaint.
- Due to perceived non-compliance of some systems with *m*SCOA, a number of municipalities are still transacting on their legacy systems that are not *m*SCOA enabling, while they are paying for maintenance and support for the *m*SCOA enabling system that was procured. This constitutes fruitless and wasteful expenditure;
- A number of municipalities are not using all the modules of the core financial system (using 3rd party systems) while they have procured these modules. This is once again fruitless and wasteful expenditure;
- Dependency on system vendors to operate financial systems is still a challenge. Some municipalities are not taking ownership for their own data and processes, (e.g. cleansing, testing version changes, transaction capturing, etc.);
- Weak contract management is implemented by municipalities to address non-compliance or lack of support by system vendors. This is exacerbated when service level agreements (SLAs) are unfairly prejudiced and protecting the system vendor but the municipality signed (therefore agreed to it) such a SLA;
- Non-payment of vendors by municipalities, resulting in support services (not the access to the actual financial system) being suspended by the vendor until payment has been received;
- Information and communications technology (ICT) connectivity problems at rural municipalities' impact on submission of data strings to cloud/web-based solutions and the Local Government Upload Portal; and
- Poor ICT internal controls and securities impact on the optimal use of core financial systems solutions.

Most municipalities are using third party systems in conjunction with their core financial management and internal control system due to cost implications and resistance to change.

Two years into implementation, at least 11 of the 18 systems in the municipal space (including those municipalities with in-house systems) are complying with the minimum *m*SCOA requirements, while the submission rate of financial information in the form of *m*SCOA data strings by municipalities are exceeding 80 per cent.

Ultimately the aim is to get to a point where all municipalities budget and transact directly in and report from their core financial system. This will result in one version of the 'truth' where the financial performance reported to Council will not differ from the performance information submitted to and published by National and Provincial Treasuries. This will also reduce the reliance on consultants and system vendors to prepare municipal reports.

Further training and change management is required as *m*SCOA has not been fully embraced as yet and it is still seen as a finance reform and not a business reform and municipal officials are still not budgeting and transacting correctly.

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Poor ICT connectivity and maintenance at municipalities are impacting on the implementation of the *m*SCOA reform and there is a need for an intergovernmental ITC Working Group that looks into the ICT infrastructure needs and challenges of municipalities.

c) ***Capacity building grants:*** R7.1 billion (for the period 2016/17 to 2019/20) and R6.6 billion (for the period 2020/21 to 2022/23) was allocated to support capacity building in municipalities to improve financial management. However, despite this unqualified audit outcomes (both with findings and without findings) were reduced from 147 municipalities in 2016/17 to 111 municipalities in 2018/19.

TABLE 22: CAPACITY BUILDING AND OTHER CURRENT GRANTS TO LOCAL GOVERNMENT, 2016/17 - 2022/23

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R MILLION	**OUTCOME**			**ADJUSTED BUDGET**	**MEDIUM-TERM ESTIMATES**		
Direct transfers	1 675	1 815	1 400	1 897	1 959	2 067	2 149
Municipal disaster relief	118	341	–	335	354	373	391
Municipal demarcation transition	297	140	–	–	–	–	–
Municipal systems improvement	–	–	23	–	–	–	–
Municipal human settlements capacity							
Municipal emergency housing	–	–	38	149	159	168	175
Infrastructure skills development	130	141	141	149	153	162	168
Local government financial management	465	502	505	533	545	575	596
"Expanded public works programme integrated grant for municipalities"	664	691	693	730	748	790	819
Indirect transfers	**19**	**103**	**71**	**111**	**128**	**135**	**140**
Municipal systems improvement	19	103	71	111	128	135	140
Total	**1 695**	**1 919**	**1 470**	**2 008**	**2 087**	**2 203**	**2 289**

Source: National Treasury

Table 22 shows capacity building and other current grants to local government for the period 2016/17 and 2022/23. Among these programmes, the Financial Management Grant (FMG) was introduced in 2004 in response to the scarcity of suitably skilled and experienced municipal finance staff, especially in rural areas. It funds among others the appointment of financial management and accounting graduates as interns in municipalities. Interns are sourced from a pool of unemployed regionally-based Accounting, Economics, Finance and Risk Management graduates and appointed for 24 to 36 month periods. In 2018/19, R505 million in FMG funding was transferred to municipalities, of which 38 per cent was spent on the appointment of at least five interns per municipality; 20 per cent on upgrading and maintenance of financial management systems; 15 per cent on training municipal officials to attain minimum competencies; and 14 per cent on the preparation and timely submission of Annual Financial Statements.

d) ***Municipal Finance Improvement Programme (MFIP III):*** The MFIP procured and deployed 80 technical advisors

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(TAs) during the 2019/20 financial year. The increased number of TAs placed compared to previous years was mainly as a result of the increase in the number of municipalities supported that were classified by National Treasury and Department of Cooperative Governance (DCoG) as financially distressed and institutionally dysfunctional. As at 31 March 2020, the programme was supporting the following institutions and work streams:

- Direct capacity support to municipal budget and treasury offices in general financial management: 23 TAs were deployed in municipalities across the nine provinces;
- Direct capacity support to the municipal finance units of provincial treasuries: 32 TAs were placed, of whom five provided general support. Specialist support was offered in the following game changer areas: supply chain management (seven advisors), the Municipal Standard Chart of Accounts or ***m***SCOA (six advisors), asset management (seven advisors) and revenue management (seven advisors);
- 18 TAs were placed to provide direct capacity support to the following National Treasury Chief Directorates: Local Government Budget Analysis, MFMA Implementation and SCM Policy and Legal on the six game changers (funded budgets, revenue management, ***m***SCOA, asset management, SCM and audit outcomes), the Financial Management Capability Maturity Model, the Municipal Financial Recovery Service; and
- Seven TAs were procured to provide programme and project management capacity support to the officials in the MFIP project management unit.

MFIP capacity building and skills transfer initiatives support various institutional and technical areas in financial management in terms of the Municipal Finance Management Act and the local government reform agenda of the National Treasury. While these interventions are mostly informal and non-accredited, they assist in enhancing the practical, on-the-job skills of officials involved in municipal financial management. During the year, 2 280 capacity building sessions were held, involving 13 603 officials. The municipal advisors conducted 948 capacity building sessions, reaching 1 507 officials across 29 municipalities. The provincial advisors conducted 199 capacity building sessions, involving 1 007 officials from both provincial treasuries and municipalities. Finally, MFIP specialists conducted 1 133 capacity building sessions with 11 089 officials on topics such as SCM, revenue management, asset management, ***m***SCOA and the Municipal Financial Recovery Service.

e) ***Cities Support Programme (CSP):*** Located within the IGR division of the National Treasury, the CSP is aimed at supporting metros to drive an effective spatial transformation agenda. The second phase of the CSP started in March 2019 and its focus continues to be working with metros and a broad range of stakeholder to support the achievement of the immediate outcomes in the CSP Theory of Change being:

- Capable cities: where metros are to implement strategies to accelerate inclusive economic growth by building inclusive, productive and sustainable cities;
- Enabling fiscal and financial platform: ensuring the alignment of fiscal frameworks, policies, incentives and grants by all sector departments to support sustainable urban financing and transformation; and
- Enabling policy environment: strengthened intergovernmental relations and coordination to support the transformation agenda of metro and reviewed and refined national and provincial policies and plans to support metros in implementing reforms and promote metros' role in the transformation agenda.

For this second phase, the CSP is tasked to institutionalise and embed changes into the policy environment and the fiscal and financial platforms.

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The Programme is implemented through five components, namely Municipal Governance and Fiscal Reforms, Public Transport, Human Settlements, Economic Development and Climate Resilience in the form of 40 support projects in the eight metros.

f) ***Revenue Management Support:*** A Revenue Management work stream is being implemented by a collective effort of the National Treasury, the Department of Cooperative Governance and provincial treasuries and their associated municipalities to achieve the following objectives:

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

The focus is on the revenue value chain and all related internal and external dependencies and identifying catalytic areas where attention should be focused to derive the largest financial benefit. Various stakeholders are part of this work stream to avoid duplication in efforts.

INTERVENTIONS IN MUNICIPALITIES

128. The powers of other spheres of government to intervene in the affairs of a municipality is regulated by the Constitution and the MFMA. Section 139 of the Constitution provides for provincial (and national) interventions in municipalities as a last resort in response to serious problems. It envisages three kinds of failures in local government, with responses to address each of these problems, set out in the different sub-sections. The role of the province is to assess the nature of the problem, and to respond in terms of the relevant sub-section of Section 139 of the Constitution as follows:

- Section 139(1) should be invoked in response to a "failure to fulfil an executive obligation": these are discretionary interventions;
- Section 139(4) should be invoked in response to a failure by Council to pass a budget or budget related measures: this refers to a failure to fulfil a legislative function and is a mandatory intervention; and
- Section 139(5) should be invoked in response to a financial crisis, specifically a material breach of financial obligations or ability to provide basic services: these are also mandatory interventions.

MUNICIPALITIES IN FINANCIAL DISTRESS

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

130. Research conducted on behalf of the National Treasury into the efficiency of Section 139 interventions revealed that triggers for Section 139 interventions have not usually been informed by a careful review of the problems in municipalities. Since 1998 to 2018, 140 interventions have been invoked in municipalities. 15 of these interventions have subsequently been set aside. Of the remaining interventions, most were invoked in terms of Section 139(1) of the Constitution, even though in many cases conditions existed for invoking a Section 139(5) intervention. Only 11 interventions were actually initiated using other subsections of Section 139 and 4 of these were invoked in combination with Section 139(1). Of these 11 interventions, 6 interventions were in terms of Section 139(4) (failure to pass a budget) and 5 were in terms of Section 139(5) (as a result of a financial crisis in the municipality).

131. As at January 2020, there were 36 interventions in terms of Section 139 of the Constitution. Most of these interventions were in North West Province (9 municipalities), followed by KwaZulu-Natal Province (8 municipalities) and Mpumalanga (6 municipalities). Gauteng only recorded one intervention, while Limpopo and Northern Cape only recorded two interventions.

132. As at January 2020, financial recovery plans were in place in 33 municipalities with 9 of these being voluntary recovery plans. More and more municipalities are requesting voluntary financial recovery plans. As January 2020, there were 16 municipalities that had made requests for a voluntary financial recovery plans.

133. 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 163 municipalities that were assessed as in financial

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distress in 2018/19.

134. This analysis presented in this report indicates that a **significant number of municipalities continue to perform poorly and remain a cause for concern**. This contributes to a negative impression of the performance of the municipal system as a whole. At an aggregate level:

- **A few municipalities still close the year with negative cash and cash equivalents.** This indicates some municipalities experience temporary cash-flow problems. The negative cash balance is a strong indicator that there are severe underlying financial problems;
- **Municipalities continue to have insufficient cash coverage to fund their operations.** This indicates that municipalities that are below the ratio of 1-3 months are vulnerable and at a higher risk in the event of financial shocks and their ability to meet their obligations to provide basic services or their financial commitments are compromised;
- **Most municipalities do not have sufficient cash and investments to pay for current obligations (liquidity ratio).** The reflects that most short-term liabilities are not covered by the cash and investments;
- **It takes longer than 30 days to collect debt from municipalities after issuing the bill.** This reflects both pressures on household budgets as well as poor revenue value chain management by municipalities;
- **Creditors outstanding continues to grow.** This reflects a reliance by municipalities on consumers to finance their operations, weak financial management controls and a significant burden being placed on local economies;
- **There are not enough current assets to pay short term liabilities in about half of the municipalities.** This indicates that most municipalities will not be able to pay their current or short-term obligations and provide for a risk cover to enable them to continue operations at desired levels;
- **In terms of the total liabilities as a percentage of its total assets** it's a concern that there are some municipalities that do not have enough assets to pay for total liabilities;
- **Unfunded operations continue to be a challenge.** Municipalities that adopt unfunded budgets experience an increased inability to maintain payments to creditors which will compromise service delivery and threaten their fiscal sustainability;
- **Many municipalities are borrowing less given the cash flow challenges.** This indicates that there is no appetite to borrow as the municipalities know they will not be able to commit to the repayment of borrowing due to cash flow challenges;
- **Municipal audit outcomes continue to decline.** This reflects a lack of commitment by municipal leadership and a weak environment for consequence management;
- **Municipalities are underspending on repairs and maintenance of infrastructure.** Repairs and maintenance of municipal assets is required to ensure the continued provision of services. Underspending results in a steady deterioration in the quality and serviceability of municipal assets that poses both an immediate and long-term risk to fiscal sustainability. This is also reflected in the continued high level of water and electricity losses;
- **Municipalities are spending too little on the renewal of municipal assets as a percentage of total capital expenditure**. This means that the municipality's Property Plant and Equipment are not maintained

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properly, in order to ensure sustainable service delivery;

- **Under-provision for depreciation remains a challenge.** This means that municipalities are not setting tariffs that reflect the depreciation of assets. It is important to have a cash-backed depreciation in order to allow for the replacement of assets in future; and
- **Underspending of capital budgets as a percentage of total expenditure continues to be a challenge.** This continues to undermine efforts to improve access to services, service reliability and local economic growth.

135. 163 municipalities have been identified as experiencing some form of financial distress, characterised by poor cash flow management and an increase in outstanding debtors and creditors. Initiatives by provincial governments to address this situation have been limited to date. More scope exists for national government to play a larger role in exercising powers under Chapter 13 of the MFMA when a provincial government fails to act timeously in addressing a municipal financial emergency.
136. While a number of municipalities continue to demonstrate evidence of significant financial distress, these challenges are not universal. A number of municipalities have either sustained or improved their financial performance, particularly in larger urban areas, despite the economic and developmental challenges they face.
137. To address capacity challenges, government has channelled very substantial resources and effort towards support municipalities through capacity building initiatives, a number of reform initiatives, support programmes and conditional grant instruments.

ANNEXURE A1

Municipalities in financial distress as at 30 June 2019 *(municipalities identified as being in financial distress are highlighted)*.

As a result of expanding the set of indicators from eight to thirteen the scoring had to be adjusted as follows:
1 – Good
0 – Poor

A municipality shows signs of financial distress when it receives a score of less than 7 from the 13 indicators. Also note that when the municipality's current assets/current liabilities are less than 1 or when the total assets/total liabilities are less than 1, it is an indication of financial distress, irrespective of the total score.

Please note that the Auditor General's data shown below reflects the audit outcomes as released by Auditor General when they first ran their first snap shots by end January. National Treasury is aware that after the end January deadline, subsequently, AG has since concluded the audit for some municipalities that appear to be outstanding below.

PROVINCE	CAT	DEMARCATION DESCRIPTION	DEMARC CODE	DISTRICT	FINANCIAL DISTRESS	AUDIT OUTCOMES	MM VACANCY	CFO VACANCY
Eastern Cape	A	Buffalo City	BUF	Metro	Financial Distress	Qualified	Permanent	Permanent
Eastern Cape	A	Nelson Mandela Bay	NMA	Metro	-	Outstanding	Acting	Acting
Eastern Cape	B	Blue Crane Route	EC102	Sarah Baartman	Financial Distress	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Dr Beyers Naude	EC101	Sarah Baartman	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Eastern Cape	B	Kou-Kamma	EC109	Sarah Baartman	-	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Kouga	EC108	Sarah Baartman	-	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Makana	EC104	Sarah Baartman	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Eastern Cape	B	Ndlambe	EC105	Sarah Baartman	-	Qualified	Permanent	Permanent
Eastern Cape	B	Sundays River Valley	EC106	Sarah Baartman	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Eastern Cape	C	Sarah Baartman	DC10	Sarah Baartman	-	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Amahlathi	EC124	Amathole	Financial Distress	Qualified	Permanent	Permanent
Eastern Cape	B	Great Kei	EC123	Amathole	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Eastern Cape	B	Mbhashe	EC121	Amathole	-	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Mnquma	EC122	Amathole	Financial Distress	Qualified	Permanent	Permanent
Eastern Cape	B	Ngqushwa	EC126	Amathole	Financial Distress	Qualified	Permanent	Acting
Eastern Cape	B	Raymond Mhlaba	EC129	Amathole	Financial Distress	Qualified	Permanent	Acting
Eastern Cape	C	Amathole	DC12	Amathole	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Eastern Cape	B	Emalahleni (EC)	EC136	Chris Hani	Financial Distress	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Engcobo	EC137	Chris Hani	-	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Enoch Mgijima	EC139	Chris Hani	Financial Distress	Outstanding	Permanent	Acting
Eastern Cape	B	Intsika Yethu	EC135	Chris Hani	Financial Distress	Qualified	Permanent	Permanent
Eastern Cape	B	Inxuba Yethemba	EC131	Chris Hani	Financial Distress	Unqualified - With findings	Acting	Permanent
Eastern Cape	B	Sakhisizwe	EC138	Chris Hani	Financial Distress	Qualified	Acting	Permanent
Eastern Cape	C	Chris Hani	DC13	Chris Hani	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Eastern Cape	B	Elundini	EC141	Joe Gqabi	-	Unqualified - With findings	Permanent	Permanent

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PROVINCE	CAT	DEMARCATION DESCRIPTION	DEMARC CODE	DISTRICT	FINANCIAL DISTRESS	AUDIT OUTCOMES	MM VACANCY	CFO VACANCY
Eastern Cape	B	Senqu	EC142	Joe Gqabi	-	Unqualified - No findings	Acting	Permanent
Eastern Cape	B	Walter Sisulu	EC145	Joe Gqabi	Financial Distress	Disclaimer of opinion	Acting	Acting
Eastern Cape	C	Joe Gqabi	DC14	Joe Gqabi	Financial Distress	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	King Sabata Dalindyebo	EC157	O .R. Tambo	Financial Distress	Qualified	Permanent	Permanent
Eastern Cape	B	Mhlontlo	EC156	O .R. Tambo	-	Qualified	Permanent	Permanent
Eastern Cape	B	Ngquza Hills	EC153	O .R. Tambo	-	Disclaimer of opinion	Acting	Acting
Eastern Cape	B	Nyandeni	EC155	O .R. Tambo	-	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Port St Johns	EC154	O .R. Tambo	-	Qualified	Permanent	Acting
Eastern Cape	C	O R Tambo	DC15	O .R. Tambo	Financial Distress	Qualified	Permanent	Permanent
Eastern Cape	B	Matatiele	EC441	Alfred Nzo	-	Unqualified - With findings	Permanent	Acting
Eastern Cape	B	Mbizana	EC443	Alfred Nzo	-	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Ntabankulu	EC444	Alfred Nzo	Financial Distress	Unqualified - With findings	Permanent	Permanent
Eastern Cape	B	Umzimvubu	EC442	Alfred Nzo	-	Qualified	Permanent	Permanent
Eastern Cape	C	Alfred Nzo	DC44	Alfred Nzo	-	Unqualified - With findings	Permanent	Permanent
Free State	A	Mangaung	MAN	Metro	Financial Distress	Qualified	Permanent	Permanent
Free State	B	Kopanong	FS162	Xhariep	Financial Distress	Outstanding	Permanent	Acting
Free State	B	Letsemeng	FS161	Xhariep	Financial Distress	Qualified	Permanent	Permanent
Free State	B	Mohokare	FS163	Xhariep	Financial Distress	Qualified	Permanent	Permanent
Free State	C	Xhariep	DC16	Xhariep	Financial Distress	Unqualified - With findings	Permanent	Permanent
Free State	B	Masilonyana	FS181	Lejweleputswa	Financial Distress	Outstanding	Permanent	Acting
Free State	B	Matjhabeng	FS184	Lejweleputswa	Financial Distress	Outstanding	Acting	Permanent
Free State	B	Nala	FS185	Lejweleputswa	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Free State	B	Tokologo	FS182	Lejweleputswa	Financial Distress	Outstanding	Permanent	Acting
Free State	B	Tswelopele	FS183	Lejweleputswa	Financial Distress	Qualified	Permanent	Permanent
Free State	C	Lejweleputswa	DC18	Lejweleputswa	-	Unqualified - With findings	Permanent	Permanent
Free State	B	Dihlabeng	FS192	Thabo Mofutsanyana	Financial Distress	Qualified	Acting	Permanent
Free State	B	Maluti-a-Phofung	FS194	Thabo Mofutsanyana	Financial Distress	Outstanding	Acting	Acting
Free State	B	Mantsopa	FS196	Thabo Mofutsanyana	Financial Distress	Outstanding	Permanent	Permanent
Free State	B	Nketoana	FS193	Thabo Mofutsanyana	Financial Distress	Disclaimer of opinion	Acting	Permanent
Free State	B	Phumelela	FS195	Thabo Mofutsanyana	Financial Distress	Outstanding	Permanent	Permanent
Free State	B	Setsoto	FS191	Thabo Mofutsanyana	Financial Distress	Qualified	Permanent	Acting
Free State	C	Thabo Mofutsanyana	DC19	Thabo Mofutsanyana	Financial Distress	Unqualified - With findings	Permanent	Permanent
Free State	B	Mafube	FS205	Fezile Dabi	Financial Distress	Outstanding	Acting	Permanent
Free State	B	Metsimaholo	FS204	Fezile Dabi	Financial Distress	Qualified	Acting	Acting
Free State	B	Moqhaka	FS201	Fezile Dabi	Financial Distress	Qualified	Permanent	Permanent
Free State	B	Ngwathe	FS203	Fezile Dabi	Financial Distress	Qualified	Permanent	Permanent
Free State	C	Fezile Dabi	DC20	Fezile Dabi	-	Disclaimer of opinion	Permanent	Acting
Gauteng	A	City of Ekurhuleni	EKU	Metro	Financial Distress	Unqualified - With findings	Permanent	Permanent
Gauteng	A	City of Johannesburg	JHB	Metro	-	Unqualified - With findings	Permanent	Permanent
Gauteng	A	City of Tshwane	TSH	Metro	Financial Distress	Outstanding	Acting	Permanent
Gauteng	B	Emfuleni	GT421	Sedibeng	Financial Distress	Outstanding	Acting	Acting

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PROVINCE	CAT	DEMARCATION DESCRIPTION	DEMARC CODE	DISTRICT	FINANCIAL DISTRESS	AUDIT OUTCOMES	MM VACANCY	CFO VACANCY
Gauteng	B	Lesedi	GT423	Sedibeng	Financial Distress	Unqualified - With findings	Acting	Acting
Gauteng	B	Midvaal	GT422	Sedibeng	-	Unqualified - No findings	Permanent	Permanent
Gauteng	C	Sedibeng	DC42	Sedibeng	Financial Distress	Unqualified - With findings	Permanent	Acting
Gauteng	B	Merafong City	GT484	West Rand	Financial Distress	Unqualified - With findings	Permanent	Permanent
Gauteng	B	Mogale City	GT481	West Rand	Financial Distress	Unqualified - With findings	Permanent	Permanent
Gauteng	B	Rand West City	GT485	West Rand	Financial Distress	Unqualified - With findings	Permanent	Acting
Gauteng	C	West Rand	DC48	West Rand	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	A	eThekwini	ETH	Metro	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Ray Nkonyeni	KZN216	Ugu	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Umdoni	KZN212	Ugu	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Umzumbe	KZN213	Ugu	-	Unqualified - With findings	Acting	Acting
Kwazulu-Natal	B	uMuziwabantu	KZN214	Ugu	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	C	Ugu	DC21	Ugu	Financial Distress	Qualified	Permanent	Permanent
Kwazulu-Natal	B	Impendle	KZN224	uMgungundlovu	-	Qualified	Acting	Acting
Kwazulu-Natal	B	Mkhambathini	KZN226	uMgungundlovu	-	Unqualified - With findings	Acting	Permanent
Kwazulu-Natal	B	Mpofana	KZN223	uMgungundlovu	Financial Distress	Disclaimer of opinion	Acting	Acting
Kwazulu-Natal	B	Msunduzi	KZN225	uMgungundlovu	Financial Distress	Qualified	Permanent	Permanent
Kwazulu-Natal	B	Richmond	KZN227	uMgungundlovu	-	Qualified	Permanent	Permanent
Kwazulu-Natal	B	uMngeni	KZN222	uMgungundlovu	Financial Distress	Qualified	Permanent	Permanent
Kwazulu-Natal	B	uMshwathi	KZN221	uMgungundlovu	-	Qualified	Permanent	Permanent
Kwazulu-Natal	C	uMgungundlovu	DC22	uMgungundlovu	Financial Distress	Qualified	Permanent	Acting
Kwazulu-Natal	B	Alfred Duma	KZN238	Uthukela	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Inkosi Langalibalele	KZN237	Uthukela	Financial Distress	Outstanding	Permanent	Permanent
Kwazulu-Natal	B	Okhahlamba	KZN235	Uthukela	Financial Distress	Unqualified - No findings	Permanent	Permanent
Kwazulu-Natal	C	Uthukela	DC23	Uthukela	Financial Distress	Qualified	Permanent	Permanent
Kwazulu-Natal	B	Endumeni	KZN241	Umzinyathi	-	Unqualified - With findings	Acting	Permanent
Kwazulu-Natal	B	Msinga	KZN244	Umzinyathi	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Nquthu	KZN242	Umzinyathi	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Umvoti	KZN245	Umzinyathi	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	C	Umzinyathi	DC24	Umzinyathi	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Kwazulu-Natal	B	Dannhauser	KZN254	Amajuba	Financial Distress	Qualified	Permanent	Permanent
Kwazulu-Natal	B	Emadlangeni	KZN253	Amajuba	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Newcastle	KZN252	Amajuba	Financial Distress	Unqualified - With findings	Permanent	Acting
Kwazulu-Natal	C	Amajuba	DC25	Amajuba	Financial Distress	Qualified	Permanent	Permanent
Kwazulu-Natal	B	Abaqulusi	KZN263	Zululand	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Nongoma	KZN265	Zululand	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Ulundi	KZN266	Zululand	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	eDumbe	KZN261	Zululand	Financial Distress	Qualified	Permanent	Permanent
Kwazulu-Natal	B	uPhongolo	KZN262	Zululand	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	C	Zululand	DC26	Zululand	Financial Distress	Qualified	Permanent	Permanent
Kwazulu-Natal	B	Hlabisa Big Five	KZN276	Umkhanyakude	Financial Distress	Qualified	Permanent	Permanent

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PROVINCE	CAT	DEMARCATION DESCRIPTION	DEMARC CODE	DISTRICT	FINANCIAL DISTRESS	AUDIT OUTCOMES	MM VACANCY	CFO VACANCY
Kwazulu-Natal	B	Jozini	KZN272	Umkhanyakude	-	Qualified	Permanent	Permanent
Kwazulu-Natal	B	Mtubatuba	KZN275	Umkhanyakude	Financial Distress	Qualified	Permanent	Acting
Kwazulu-Natal	B	Umhlabuyalingana	KZN271	Umkhanyakude	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	C	Umkhanyakude	DC27	Umkhanyakude	Financial Distress	Qualified	Permanent	Permanent
Kwazulu-Natal	B	Mfolozi	KZN281	uThungulu	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Mthonjaneni	KZN285	uThungulu	Financial Distress	Unqualified - With findings	Permanent	Acting
Kwazulu-Natal	B	Nkandla	KZN286	uThungulu	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	uMhlathuze	KZN282	uThungulu	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	uMlalazi	KZN284	uThungulu	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	C	King Cetshwayo	DC28	uThungulu	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	KwaDukuza	KZN292	iLembe	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Mandeni	KZN291	iLembe	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Maphumulo	KZN294	iLembe	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Ndwedwe	KZN293	iLembe	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	C	iLembe	DC29	iLembe	Financial Distress	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Dr Nkosazana Dlamini Zuma	KZN436	Harry Gwala	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Greater Kokstad	KZN433	Harry Gwala	-	Unqualified - With findings	Permanent	Permanent
Kwazulu-Natal	B	Ubuhlebezwe	KZN434	Harry Gwala	-	Qualified	Permanent	Permanent
Kwazulu-Natal	B	Umzimkhulu	KZN435	Harry Gwala	-	Qualified	Permanent	Permanent
Kwazulu-Natal	C	Harry Gwala	DC43	Harry Gwala	Financial Distress	Unqualified - With findings	Permanent	Permanent
Limpopo	B	Ba-Phalaborwa	LIM334	Mopani	Financial Distress	Qualified	Permanent	Permanent
Limpopo	B	Greater Giyani	LIM331	Mopani	-	Qualified	Permanent	Permanent
Limpopo	B	Greater Letaba	LIM332	Mopani	-	Unqualified - With findings	Permanent	Permanent
Limpopo	B	Greater Tzaneen	LIM333	Mopani	Financial Distress	Qualified	Permanent	Permanent
Limpopo	B	Maruleng	LIM335	Mopani	-	Unqualified - With findings	Permanent	Acting
Limpopo	C	Mopani	DC33	Mopani	Financial Distress	Qualified	Permanent	Acting
Limpopo	B	Collins Chabane	LIM345	Vhembe	-	Qualified	Permanent	Permanent
Limpopo	B	Makhado	LIM344	Vhembe	-	Qualified	Permanent	Permanent
Limpopo	B	Musina	LIM341	Vhembe	Financial Distress	Qualified	Permanent	Permanent
Limpopo	B	Thulamela	LIM343	Vhembe	-	Unqualified - With findings	Permanent	Permanent
Limpopo	C	Vhembe	DC34	Vhembe	Financial Distress	Qualified	Permanent	Permanent
Limpopo	B	Blouberg	LIM351	Capricorn	Financial Distress	Qualified	Permanent	Permanent
Limpopo	B	Lepelle-Nkumpi	LIM355	Capricorn	-	Qualified	Acting	Acting
Limpopo	B	Molemole	LIM353	Capricorn	Financial Distress	Unqualified - With findings	Permanent	Permanent
Limpopo	B	Polokwane	LIM354	Capricorn	Financial Distress	Outstanding	Permanent	Permanent
Limpopo	C	Capricorn	DC35	Capricorn	-	Unqualified - No findings	Permanent	Permanent
Limpopo	B	Bela Bela	LIM366	Waterberg	Financial Distress	Qualified	Permanent	Permanent
Limpopo	B	Lephalale	LIM362	Waterberg	Financial Distress	Qualified	Permanent	Permanent
Limpopo	B	Modimolle-Mookgopong	LIM368	Waterberg	Financial Distress	Disclaimer of opinion	Acting	Acting
Limpopo	B	Mogalakwena	LIM367	Waterberg	Financial Distress	Outstanding	Acting	Acting
Limpopo	B	Thabazimbi	LIM361	Waterberg	Financial Distress	Outstanding	Acting	Permanent

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PROVINCE	CAT	DEMARCATION DESCRIPTION	DEMARC CODE	DISTRICT	FINANCIAL DISTRESS	AUDIT OUTCOMES	MM VACANCY	CFO VACANCY
Limpopo	C	Waterberg	DC36	Waterberg	-	Unqualified - With findings	Permanent	Acting
Limpopo	B	Elias Motsoaledi	LIM472	Sekhukhune	Financial Distress	Qualified	Acting	Acting
Limpopo	B	Ephraim Mogale	LIM471	Sekhukhune	-	Qualified	Acting	Acting
Limpopo	B	Makhuduthamaga	LIM473	Sekhukhune	Financial Distress	Unqualified - With findings	Permanent	Permanent
Limpopo	B	Tubatse Fetakgomo	LIM476	Sekhukhune	Financial Distress	Qualified	Acting	Permanent
Limpopo	C	Sekhukhune	DC47	Sekhukhune	Financial Distress	Qualified	Permanent	Acting
Mpumalanga	B	Albert Luthuli	MP301	Gert Sibande	-	Unqualified - With findings	Permanent	Permanent
Mpumalanga	B	Dipaleseng	MP306	Gert Sibande	Financial Distress	Disclaimer of opinion	Acting	Permanent
Mpumalanga	B	Govan Mbeki	MP307	Gert Sibande	Financial Distress	Outstanding	Permanent	Permanent
Mpumalanga	B	Lekwa	MP305	Gert Sibande	Financial Distress	Disclaimer of opinion	Permanent	Acting
Mpumalanga	B	Mkhondo	MP303	Gert Sibande	Financial Distress	Qualified	Permanent	Permanent
Mpumalanga	B	Msukaligwa	MP302	Gert Sibande	Financial Distress	Adverse opinion	Permanent	Permanent
Mpumalanga	B	Pixley Ka Seme (MP)	MP304	Gert Sibande	-	Disclaimer of opinion	Acting	Permanent
Mpumalanga	C	Gert Sibande	DC30	Gert Sibande	-	Unqualified - No findings	Permanent	Permanent
Mpumalanga	B	Dr J.S. Moroka	MP316	Nkangala	Financial Distress	Outstanding	Acting	Acting
Mpumalanga	B	Emakhazeni	MP314	Nkangala	Financial Distress	Adverse opinion	Permanent	Acting
Mpumalanga	B	Emalahleni (MP)	MP312	Nkangala	Financial Distress	Qualified	Permanent	Permanent
Mpumalanga	B	Steve Tshwete	MP313	Nkangala	-	Unqualified - With findings	Permanent	Permanent
Mpumalanga	B	Thembisile Hani	MP315	Nkangala	-	Qualified	Permanent	Acting
Mpumalanga	B	Victor Khanye	MP311	Nkangala	Financial Distress	Disclaimer of opinion	Acting	Permanent
Mpumalanga	C	Nkangala	DC31	Nkangala	-	Unqualified - No findings	Permanent	Permanent
Mpumalanga	B	Bushbuckridge	MP325	Ehlanzeni	Financial Distress	Unqualified - With findings	Permanent	Acting
Mpumalanga	B	City of Mbombela	MP326	Ehlanzeni	Financial Distress	Qualified	Permanent	Permanent
Mpumalanga	B	Nkomazi	MP324	Ehlanzeni	-	Unqualified - With findings	Permanent	Permanent
Mpumalanga	B	Thaba Chweu	MP321	Ehlanzeni	Financial Distress	Qualified	Acting	Permanent
Mpumalanga	C	Ehlanzeni	DC32	Ehlanzeni	-	Unqualified - With findings	Permanent	Permanent
North West	B	Kgetlengrivier	NW374	Bojanala Platinum	Financial Distress	Disclaimer of opinion	Permanent	Permanent
North West	B	Madibeng	NW372	Bojanala Platinum	Financial Distress	Disclaimer of opinion	Acting	Acting
North West	B	Moretele	NW371	Bojanala Platinum	Financial Distress	Qualified	Acting	Acting
North West	B	Moses Kotane	NW375	Bojanala Platinum	Financial Distress	Qualified	Permanent	Permanent
North West	B	Rustenburg	NW373	Bojanala Platinum	Financial Distress	Qualified	Acting	Acting
North West	C	Bojanala Platinum	DC37	Bojanala Platinum	Financial Distress	Outstanding	Permanent	Permanent
North West	B	Ditsobotla	NW384	Ngaka Modiri Molema	Financial Distress	Disclaimer of opinion	Acting	Acting
North West	B	Mafikeng	NW383	Ngaka Modiri Molema	Financial Distress	Disclaimer of opinion	Acting	Acting
North West	B	Ramotshere Moiloa	NW385	Ngaka Modiri Molema	Financial Distress	Disclaimer of opinion	Permanent	Permanent
North West	B	Ratlou	NW381	Ngaka Modiri Molema	Financial Distress	Disclaimer of opinion	Acting	Acting
North West	B	Tswaing	NW382	Ngaka Modiri Molema	Financial Distress	Qualified	Permanent	Permanent
North West	C	Ngaka Modiri Molema	DC38	Ngaka Modiri Molema	-	Outstanding	Acting	Permanent
North West	B	Greater Taung	NW394	Dr Ruth Segomotsi Mompati	-	Outstanding	Permanent	Permanent
North West	B	Kagisano-Molopo	NW397	Dr Ruth Segomotsi Mompati	Financial Distress	Qualified	Permanent	Permanent
North West	B	Lekwa-Teemane	NW396	Dr Ruth Segomotsi Mompati	Financial Distress	Disclaimer of opinion	Permanent	Acting

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PROVINCE	CAT	DEMARCATION DESCRIPTION	DEMARC CODE	DISTRICT	FINANCIAL DISTRESS	AUDIT OUTCOMES	MM VACANCY	CFO VACANCY
North West	B	Mamusa	NW393	Dr Ruth Segomotsi Mompati	Financial Distress	Outstanding	Permanent	Permanent
North West	B	Naledi (NW)	NW392	Dr Ruth Segomotsi Mompati	Financial Distress	Outstanding	Acting	Permanent
North West	C	Dr Ruth Segomotsi Mompati	DC39	Dr Ruth Segomotsi Mompati	Financial Distress	Disclaimer of opinion	Acting	Acting
North West	B	City of Matlosana	NW403	Dr Kenneth Kaunda	Financial Distress	Qualified	Permanent	Acting
North West	B	J B Marks	NW405	Dr Kenneth Kaunda	Financial Distress	Qualified	Permanent	Permanent
North West	B	Maquassi Hills	NW404	Dr Kenneth Kaunda	Financial Distress	Disclaimer of opinion	Acting	Acting
North West	C	Dr Kenneth Kaunda	DC40	Dr Kenneth Kaunda	-	Qualified	Permanent	Acting
Northern Cape	B	Ga-Segonyana	NC452	John Taolo Gaetsewe	Financial Distress	Outstanding	Permanent	Permanent
Northern Cape	B	Gamagara	NC453	John Taolo Gaetsewe	Financial Distress	Qualified	Permanent	Permanent
Northern Cape	B	Joe Morolong	NC451	John Taolo Gaetsewe	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Northern Cape	C	John Taolo Gaetsewe	DC45	John Taolo Gaetsewe	Financial Distress	Unqualified - No findings	Permanent	Permanent
Northern Cape	B	Hantam	NC065	Namakwa	Financial Distress	Unqualified - With findings	Permanent	Permanent
Northern Cape	B	Kamiesberg	NC064	Namakwa	Financial Distress	Disclaimer of opinion	Permanent	Acting
Northern Cape	B	Karoo Hoogland	NC066	Namakwa	Financial Distress	Qualified	Permanent	Permanent
Northern Cape	B	Khai-Ma	NC067	Namakwa	Financial Distress	Qualified	Permanent	Permanent
Northern Cape	B	Nama Khoi	NC062	Namakwa	Financial Distress	Qualified	Permanent	Acting
Northern Cape	B	Richtersveld	NC061	Namakwa	Financial Distress	Qualified	Acting	Acting
Northern Cape	C	Namakwa	DC6	Namakwa	Financial Distress	Unqualified - With findings	Permanent	Permanent
Northern Cape	B	Emthanjeni	NC073	Pixley ka Seme (NC)	Financial Distress	Qualified	Permanent	Permanent
Northern Cape	B	Kareeberg	NC074	Pixley ka Seme (NC)	-	Unqualified - With findings	Permanent	Permanent
Northern Cape	B	Renosterberg	NC075	Pixley ka Seme (NC)	Financial Distress	Outstanding	Acting	Acting
Northern Cape	B	Siyancuma	NC078	Pixley ka Seme (NC)	Financial Distress	Unqualified - With findings	Acting	Permanent
Northern Cape	B	Siyathemba	NC077	Pixley ka Seme (NC)	Financial Distress	Qualified	Permanent	Permanent
Northern Cape	B	Thembelihle	NC076	Pixley ka Seme (NC)	Financial Distress	Qualified	Permanent	Permanent
Northern Cape	B	Ubuntu	NC071	Pixley ka Seme (NC)	Financial Distress	Qualified	Acting	Permanent
Northern Cape	B	Umsobomvu	NC072	Pixley ka Seme (NC)	Financial Distress	Qualified	Permanent	Permanent
Northern Cape	C	Pixley Ka Seme (NC)	DC7	Pixley ka Seme (NC)	Financial Distress	Unqualified - With findings	Permanent	Permanent
Northern Cape	B	!Kai! Garib	NC082	Z F Mgcawu	Financial Distress	Disclaimer of opinion	Acting	Acting
Northern Cape	B	!Kheis	NC084	Z F Mgcawu	Financial Distress	Disclaimer of opinion	Acting	Acting
Northern Cape	B	Dawid Kruiper	NC087	Z F Mgcawu	Financial Distress	Unqualified - With findings	Permanent	Permanent
Northern Cape	B	Kgatelopele	NC086	Z F Mgcawu	Financial Distress	Disclaimer of opinion	Permanent	Permanent
Northern Cape	B	Tsantsabane	NC085	Z F Mgcawu	Financial Distress	Outstanding	Permanent	Permanent
Northern Cape	C	Z F Mgcawu	DC8	Z F Mgcawu	Financial Distress	Unqualified - With findings	Permanent	Permanent
Northern Cape	B	Dikgatlong	NC092	Frances Baard	Financial Distress	Disclaimer of opinion	Permanent	Acting
Northern Cape	B	Magareng	NC093	Frances Baard	Financial Distress	Qualified	Permanent	Permanent
Northern Cape	B	Phokwane	NC094	Frances Baard	-	Outstanding	Acting	Acting
Northern Cape	B	Sol Plaatje	NC091	Frances Baard	-	Qualified	Acting	Acting
Northern Cape	C	Frances Baard	DC9	Frances Baard	-	Unqualified - With findings	Permanent	Acting
Western Cape	A	Cape Town	CPT	Metro	-	Unqualified - With findings	Permanent	Permanent
Western Cape	B	Bergrivier	WC013	West Coast	-	Unqualified - No findings	Permanent	Permanent
Western Cape	B	Cederberg	WC012	West Coast	Financial Distress	Unqualified - No findings	Permanent	Acting

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PROVINCE	CAT	DEMARCATION DESCRIPTION	DEMARC CODE	DISTRICT	FINANCIAL DISTRESS	AUDIT OUTCOMES	MM VACANCY	CFO VACANCY
Western Cape	B	Matzikama	WC011	West Coast	Financial Distress	Unqualified - With findings	Permanent	Permanent
Western Cape	B	Saldanha Bay	WC014	West Coast	-	Unqualified - No findings	Permanent	Permanent
Western Cape	B	Swartland	WC015	West Coast	-	Unqualified - With findings	Permanent	Permanent
Western Cape	C	West Coast	DC1	West Coast	-	Unqualified - No findings	Permanent	Permanent
Western Cape	B	Breede Valley	WC025	Cape Winelands	-	Unqualified - With findings	Permanent	Permanent
Western Cape	B	Drakenstein	WC023	Cape Winelands	Financial Distress	Unqualified - No findings	Permanent	Permanent
Western Cape	B	Langeberg	WC026	Cape Winelands	-	Unqualified - No findings	Permanent	Permanent
Western Cape	B	Stellenbosch	WC024	Cape Winelands	-	Unqualified - With findings	Permanent	Permanent
Western Cape	B	Witzenberg	WC022	Cape Winelands	-	Unqualified - No findings	Permanent	Acting
Western Cape	C	Cape Winelands DM	DC2	Cape Winelands	-	Unqualified - No findings	Permanent	Permanent
Western Cape	B	Cape Agulhas	WC033	Overberg	-	Unqualified - No findings	Permanent	Permanent
Western Cape	B	Overstrand	WC032	Overberg	-	Unqualified - No findings	Permanent	Permanent
Western Cape	B	Swellendam	WC034	Overberg	-	Unqualified - With findings	Permanent	Permanent
Western Cape	B	Theewaterskloof	WC031	Overberg	-	Unqualified - No findings	Permanent	Permanent
Western Cape	C	Overberg	DC3	Overberg	-	Unqualified - With findings	Permanent	Acting
Western Cape	B	Bitou	WC047	Garden Route	-	Unqualified - With findings	Permanent	Permanent
Western Cape	B	George	WC044	Garden Route	-	Unqualified - With findings	Permanent	Acting
Western Cape	B	Hessequa	WC042	Garden Route	-	Unqualified - No findings	Permanent	Permanent
Western Cape	B	Kannaland	WC041	Garden Route	Financial Distress	Outstanding	Permanent	Permanent
Western Cape	B	Knysna	WC048	Garden Route	-	Unqualified - With findings	Permanent	Permanent
Western Cape	B	Mossel Bay	WC043	Garden Route	-	Unqualified - With findings	Permanent	Acting
Western Cape	B	Oudtshoorn	WC045	Garden Route	-	Unqualified - With findings	Permanent	Permanent
Western Cape	C	Garden Route	DC4	Garden Route	-	Unqualified - With findings	Permanent	Permanent
Western Cape	B	Beaufort West	WC053	Central Karoo	Financial Distress	Qualified	Permanent	Acting
Western Cape	B	Laingsburg	WC051	Central Karoo	Financial Distress	Qualified	Permanent	Permanent
Western Cape	B	Prince Albert	WC052	Central Karoo	-	Unqualified - No findings	Permanent	Permanent
Western Cape	C	Central Karoo	DC5	Central Karoo	Financial Distress	Unqualified - With findings	Permanent	Permanent

NOTES

NOTES

THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT
AS AT 30JUNE 2019

Audit Outcomes of the 2018/19 financial year

Analysis Document

Private Bag X115, Pretoria, 0001 | 40 Church Square, Pretoria, 0002

Tel: +27 12 315 5944 | Fax: +27 12 406 9055

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Department:
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REPUBLIC OF SOUTH AFRICA