

# The Municipal Financial Sustainability & Payment of Trade and Other Payables

*Presentation to the Joint Meeting of the PC on Cooperative Governance & Traditional Affairs –  
10 October 2017*

National Treasury – CD: Local Government Budget Analysis



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Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Overview

- State of Municipal Finances and Expenditure as at 30 June 2017
- Problem Statement
- Root causes of municipal liquidity challenges
- Proposed strategic response
- Involvement of stakeholders in Eskom's PAJA process
- Financial analysis of 62 affected municipalities
- Recommendations

# State of Municipal Finances and Expenditure as at 30 June 2017



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# Financial Performance per S71 as at 30<sup>th</sup> June 2017

Financial performance is measured against the adjusted budget:

- ❑ Revenue performance
  - Total revenue of 91.2 per cent or R359 billion of the R394 billion revenue budget (total revenue excludes capital transfers)
- ❑ Expenditure performance
  - Total expenditure of 88.9 per cent or R294 billion of the R331 billion expenditure budget (includes capital)
- ❑ Capital performance
  - municipalities decreased their capital budgets from R69.4 billion to an adjusted budget of R68.8 billion; and spent only 79 per cent
- ❑ Conditional grant
  - grant expenditure was 86.7 per cent or R26 billion of the R30 billion

# Financial Performance – Debtors and Creditors per S71 as at 30<sup>th</sup> June 2017

- ❑ Municipal debt continues to grow; exacerbated by the culture of non-payment.
- ❑ Debtors at R128.4 billion is greater than the total LG grant allocation of R111 billion
  - Households - R83 billion
  - Commercial – R27 billion
  - Organs of state – R7.4 billion

## Collection Rate Indicator as at 30 June 2017

< 50	50 - 59	60 - 69	70 - 79	80 - 94	>= 95	Unknown
<b>44</b>	<b>19</b>	<b>24</b>	<b>28</b>	<b>48</b>	<b>78</b>	<b>16</b>

*Note that the government debt reported by municipalities have not been verified by the respective government departments*

- ❑ Municipalities owe creditors significant amounts that threaten the livelihood of these suppliers amounting to R43 billion
  - Bulk electricity – R16 billion
  - Bulk water – R6.8 billion
  - Trade creditors R 11.9 billion

# Analysis of over- and under spending as at 30 June 2017

## Summarised over and under spending of expenditure as at 30 June 2017 (Preliminary results)

	Adjusted Budget	Year to date: 30 June 2017	Total expenditure as % of main appropriation	Total expenditure as % of adjusted budget	(Over)	Under	(Over) as % of adjusted budget	Under as % of adjusted budget
R thousands								
Operational expenditure	331 091 016	294 202 425	90.2%	88.9%	(1 482 741)	38 371 331	(0.4%)	11.6%
Capital expenditure	68 849 006	54 410 678	78.3%	79.0%	(1 389 980)	15 828 308	(2.0%)	23.0%
<b>Total expenditure</b>	<b>399 940 022</b>	<b>348 613 103</b>	<b>88.1%</b>	<b>87.2%</b>	<b>(1 766 257)</b>	<b>53 093 175</b>	<b>(0.4%)</b>	<b>13.3%</b>
of which								
<i>Conditional grant spending</i>	<i>29 769 943</i>	<i>26 073 153</i>	<i>86.7%</i>	<i>87.6%</i>	<i>(582 330)</i>	<i>4 279 120</i>	<i>(2.0%)</i>	<i>14.4%</i>

Source: National Treasury Local Government database

- Although underspending against the Adjusted Budget is significant, the key question is whether there were cash to fund this expenditure in the first place?
- Secondly, is the underspending in Conditional Grants supported with cash in the bank?

# Analysis of Debtors and Creditors

## 4<sup>th</sup> Quarter 2016/17 Results

<b>R billion</b>	<b>Quarter 1 2016/17</b>	<b>Quarter 2 2016/17</b>	<b>Quarter 3 2016/17</b>	<b>Quarter 4 2016/17</b>
<b>Debtors Age Analysis</b>				
National	116.7	117.7	128.3	128.4
Metros	56.9	57.0	65.7	64.9
Secondary cities	25.2	25.9	26.4	27.2
<b>Creditors Age Analysis</b>				
National	34.6	34.3	34	43.8
Metros	13.1	13.0	12.8	18.5
Secondary cities	8.0	7.1	7.7	9.6
<b><i>Percentage creditors over 90 days</i></b>				
Eastern Cape	22.6%	30.7%	39.0%	30.9%
Free State	74.3%	84.0%	85.9%	84.9%
Gauteng	0.8%	3.1%	1.2%	4.2%
KwaZulu-Natal	24.6%	26.1%	22.8%	23.0%
Limpopo	57.7%	48.3%	74.0%	68.7%
Mpumalanga	71.7%	77.3%	73.8%	68.6%
North West	68.2%	74.3%	77.4%	76.4%
Northern Cape	70.3%	71.2%	68.0%	60.7%
Western Cape	8.9%	12.2%	9.1%	4.9%

# Problem Statement



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# Problem Statement.....

*Some municipalities are failing at effectively delivering services, billing for services and collecting the revenue due.*

*Consequently, outstanding debtors are increasing and they are not able to maintain positive cash flows to pay creditors within the thirty days timeframe as legally prescribed.*

*In addition, the governance at these municipalities have been weak with inadequate leadership and guidance.*

# Perceived contributing factors to municipal failures .....

- Some stakeholders argue Local Government is underfunded?
  - That their share of nationally raised revenue as articulated in the annual Division of Revenue Act at **9 per cent** is not sufficient ...
- Others argue that municipalities...
  - are not viable?
  - Or that it is a Governance Failure
  - Or the design of our Intergovernmental System is the problem
  - Or that National Government is the reason for this failure
  - Or a combination of all the above
- Yet, municipalities
  - collectively underspent each year...
  - Have substantial revenue sources assigned to them relative to provinces and if one takes this into account, their share of the total national revenue raised is in fact **25 per cent**
  - The AG's findings largely indicate that mismanagement, lack of internal controls, leadership challenges, massive water and electricity losses are the issues that need immediate remedial action
- So what is really the problem/situation...and is it informed by factual information – empirical evidence?

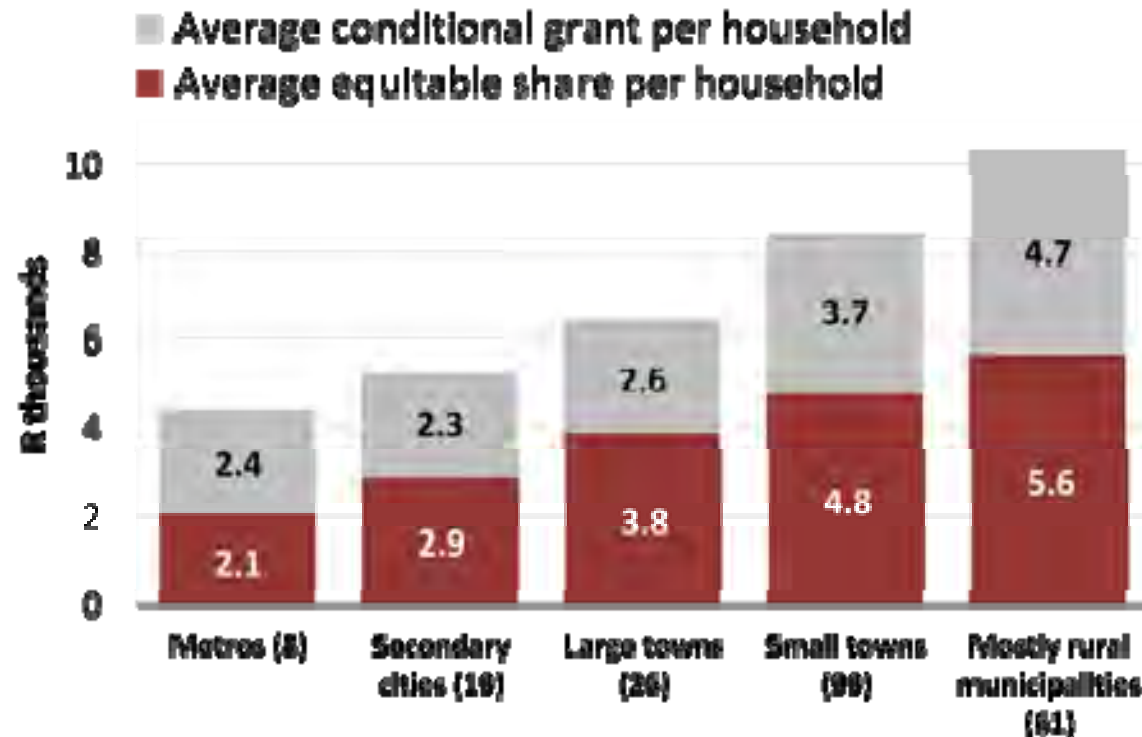
# Is the Fiscal Framework adequate?

- The Local Government Fiscal Framework is premised on the understanding that there are economic inequalities across the country - certain municipalities have less own revenue raising potential
- The local government equitable share is designed to fill the fiscal gap, enabling the local government sphere “to provide basic services and perform the functions allocated to it” in terms of section 227(1)(a) of the Constitution, taking into account **“the fiscal capacity”** and **“developmental and other needs”** of municipalities
- LG share of DOR increased from 3% in 2000/01 to the current 9%
- Municipalities are expected to fund basic services and functions like the provision of water, electricity, refuse removal, fire-fighting and emergency services from their own revenue taken together with the equitable share and related allocations
- The LGES formula allocates additional funding to municipalities with limited revenue raising capacity to subsidise administration costs, community services, and also receive allocation for special support for councillors salaries and ward committees.
- Municipalities are expected to use the equitable share to subsidise or fund the provision of municipal services to poor households: The equitable share:
  - cannot fund municipalities for lack of revenue raising efforts
  - does not accommodate operational inefficiencies and financial mismanagement

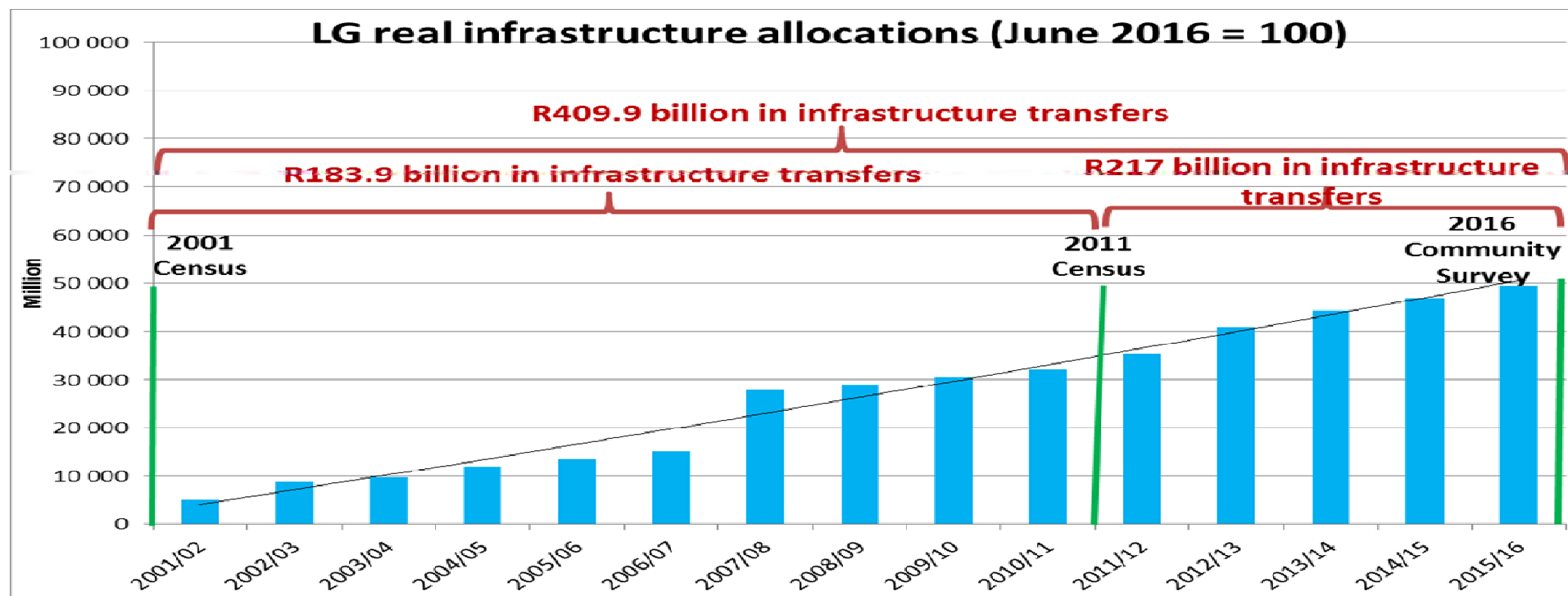
# Redistribution to poorer resourced municipalities achieved through the Division of Revenue

- The DOR achieves a substantial redistribution of revenues raised through taxes in relatively wealthy (mainly urban) areas to areas where the demand for subsidised public services are the highest
- As a result, the most rural municipalities receive twice the allocation per household than metros (although 70% of tax revenue is raised in metros)

Per household allocations to municipalities



# Real infrastructure allocations increasing while service provision is decreasing



Although allocations have substantially increased between 2011-2016 (5 years), there is less service delivery progress than between 2010-2011 (10 years)

Number and percentage change in HH with access to services

	2001-2011	2001-2011	2011-2016	2011-2016
Electricity	4 427 127	57%	3 085 170	25%
Water	4 218 878	52%	1 769 242	14%
Refuse	4 248 215	68%	1 526 018	15%
Sanitation	3 187 490	45%	3 236 805	31%

# Conditional grant allocation against the backlog

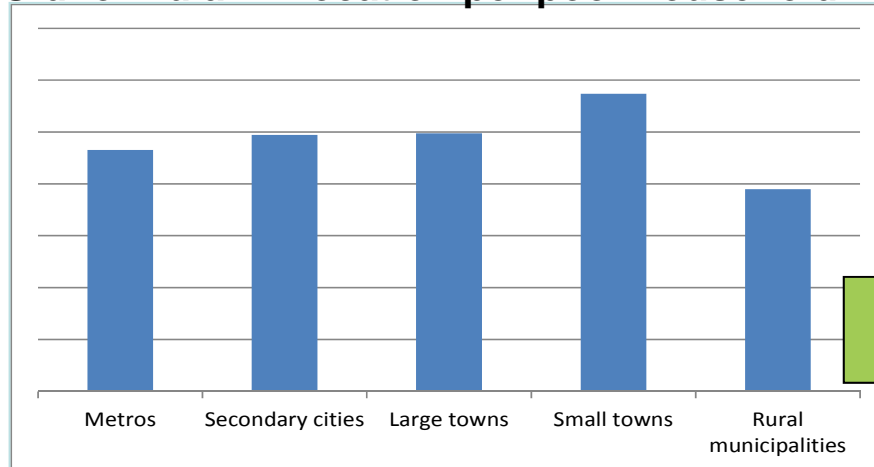
Municipal type	Electricity backlog	Electricity grants	Water and sanitation backlog	Water grants	Water grants and USDG/MIG W&S	Refuse backlog	USDG/MIG - Refuse
Metros	35.8%	6.1%	17.4%	2.2%	27.5%	22.7%	43.3%
Secondary cities	14.2%	12.4%	14.0%	11.4%	9.0%	15.6%	8.3%
Large towns	10.2%	7.8%	9.0%	8.1%	6.7%	8.5%	5.5%
Small towns	14.8%	21.3%	14.7%	20.0%	13.3%	14.4%	10.5%
Rural municipalities	25.0%	52.4%	44.9%	6.3%	23.5%	38.7%	32.4%
DMs without W&S - C1				1.4%	0.5%		0.0%
DMs with W&S - C2				50.8%	19.5%		0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

- Metros get low allocations to address higher backlogs
- Rural municipalities get high allocations to address lower backlogs, demonstrating redistributive nature of Fiscal Framework

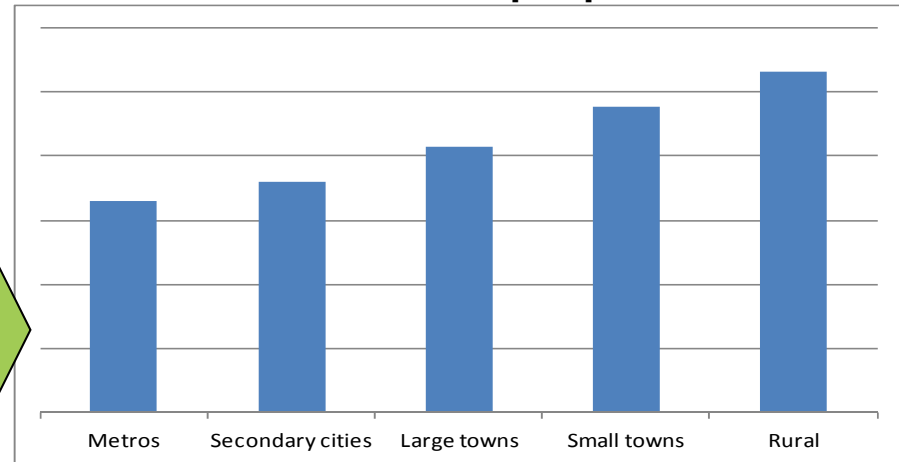


# Impact of the new equitable share formula

Old formula - Allocation per poor household



New formula - Allocation per poor household



- Lack of strategic prioritisation of additional resources by rural and small municipalities has nullified the impact of the new redistributive new LGES formula implemented in 2012/13
- There is a direct trade-off between personnel spending and other expenditures related to the delivery of services
- In 2011/12, employee costs as a percentage of total operating expenditure was 27.8 per cent for local municipalities. This has increased to 33 per cent by the end of 2015/16
- The increase in allocations to rural municipalities has increased employee costs and did not result in higher service delivery expenditure
- This trend should be reversed

# Root causes of municipal liquidity challenges



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# 1. Root Causes: Political Accountability

- Failures in political leadership
- Bloated municipal organisational structures strains the municipal budgets
  - “*not fit for purpose*”



## Audit findings:

- Calls for leadership accountability in management of municipal affairs, starting with appropriate planning focused on the needs of citizens
- Respect for the law in the running of municipalities, oversight by all political and administrative leadership
- Demonstrated consequences for mismanagement and non-performance is required
- In 2015-16, vacancies in the positions of MM, CFO and head of the SCM unit increased – of which CFO vacancies are most of concern (vacancies at 27% of municipalities)

## 2. External contributing factors

- **Institutional arrangements:**
  - Absence of or weak service level agreements where municipalities perform functions on behalf of provinces translates into unfunded (or under funded) mandates, e.g. library and primary health services
  - Municipalities performing functions which are not their core competency in terms of the Constitution
- **Powers and functions:**
  - Misalignment of funding to the district and local municipalities
  - The Department of Cooperative Governance is leading the process of reviewing the functions of district municipalities (in progress for several years now and still not concluded)
- **Impact of amalgamations:**
  - Combining two dysfunctional / distressed municipalities does not yield a functional municipality
  - Funding any amalgamation is a zero-sum gain and may result in reduced funding allocations
  - Weaknesses in the process of re-establishing the amalgamated municipalities
  - This process of transition takes time and any anticipated benefits of such institutional change may only be realised over a three to five year period
- **Misalignment of legislation:**
  - The overlap between the MSA and MFMA has blurred the functional responsibilities for LG performance monitoring and oversight that is shared among national and provincial treasuries and COGTAs

# 3. Internal Contributing Factors

## Governance and leadership

- Where municipal leadership is weak, ineffective councils and governance structures have negative consequences (weak fiscal discipline; mismanagement, political/administrative instability and bloated organisational structures)
- Notably accountability is weaker at municipalities where there is an “acting” incumbent as municipal manager as he/she is less inclined to take decisions
- The absence of suitably competent CFOs poses a risk to sound financial management with dire consequences such as non-compliance to the legal framework and general mismanagement of public funds

## Financial management is among the responsibilities of the BTO

- Included are ineffective implementation of financial management principles; weak budgeting capabilities; low collection levels; inadequate allocation for repairs and maintenance and asset management; weak internal controls and risk management and supply chain management shortcomings

## 4. Culture of non payment and past initiatives

### The “culture of non-payment” impacts all

- It is evident that non-compliance to the MFMA and PFMA is endemic across all spheres of government
- The call to stop the “**culture of non-payment**” was tabled at the PCC that agreed it adversely affects the sustainability of certain institutions
- More critically, this “culture” threatens the livelihood of medium and small suppliers and State Entities (Eskom and Water Boards)

### Past initiatives did not achieve the desired results

- Eskom’s PAJA process
  - Invoking of s216
  - Warning letters
  - Debt forums
  - “provincial bail outs”
  - Court decisions
  - DPE, CoGTA & SALGA
- **Uncoordinated and reactive with no tangible results to the bigger issue**
  - **Monitoring and oversight was weak**
  - **Unresolved matters**

# Proposed Strategic Response



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# Strategy to address municipal performance failures - 2009 update in 2014

Necessary  
pre-  
requisite

Clarify the roles and  
responsibilities of  
national and provincial  
departments and of other  
stakeholders

Essential  
tools

Strengthen systems to  
monitor local government  
compliance, finances and  
performance

Develop a mechanism to  
identify municipalities at  
risk and to co-ordinate  
tailor-made support /  
interventions

The  
Strategy

Political messaging and  
action to support  
municipal performance

Systematically review the  
external environment to  
identify and resolve  
obstacles to municipal  
performance

Design and implement a  
multi-faceted programme  
to build municipal  
capacity to perform



# What have we done to date to address the challenges in Local Government .....

- Developed and implemented
  - A budgeting system for LG - *including institutionalising the budget benchmark and mid-year performance engagements for municipalities*
  - A LG reporting system – *including the establishment of the LG Database which provides for an 'early warning system'*
  - a LG grant monitoring and management system
  - Routine publication of municipal performance in terms of the legal framework
- Introduced province specific strategies in 2014 to address LG finance performance failures and at the 2015 Budget Council it was resolved that:
  - The key “**game changers**” required to address municipal performance failures in the next period are funded budgets, revenue management, *m*SCOA, asset management, SCM and improving audit outcomes
  - Aligned our capacity support programme with the game changers
    - MFIP and *m*SCOA advisors were deployed to PTs to provide support to implement the province specific strategies
    - PTs are exercising oversight over the execution of the approved provincial specific strategies and support plans
  - The Number of funded budget has decrease from 153/257 (2016/17) to 147/257 (2017/18)

# The situation requires a strategic response from government .....

- The political will to ensure accountability, putting “people first”
- Addressing the national “**culture of non-payment**” a broader perspective should inform the required remedial action
- A **collective and coordinated approach** that is consistently applied by all spheres of government is required to address LG service delivery failures and maladministration.
- **Need to clarify roles and responsibilities especially between COGTA and National Treasury (MSA vs MFMA)**
- This strategic response must focus on municipal **financial sustainability** (not be confined to creditors)
- All levels of political leadership in National, Provinces, and Parliament should not only exercise prudent oversight but also be willing to enforce consequences for municipalities that persistently breach the legal framework, (i.e. s139 and s154)
- The top 20 worst performing municipalities (financial distress municipalities) must be targeted collectively by all stakeholders to improve governance and financial management



# Proposed multi-pronged approach to address financial sustainability

## Focus on municipalities with liquidity challenges

IMMEDIATE

NEXT THREE MONTHS

SIX TO TWELVE MONTHS

### Role of NT/PT MFMA

#### Game Changers

- Funded Budgets,
  - Robust assessment of the 2017/18 budget
  - Budget surpluses
  - Provide for affordable payment arrangements
  - Contain expenditure
- Revenue management
- Asset management

- Government debt (DPW)
- **Financial Recovery Plan**

Aligned to provincial treasury specific strategy

Support from MFIP

Finalisation of NT/cogta MoU

Invoking s138 of the MFMA or s216 for failure to adhere to short term initiatives

Eliminate “GREY” areas in the two Acts that are blurring the monitoring and oversight responsibilities of NT and DCOG

### Role of CoGTA MSA

- Back to basics – governance – no acting MMs and CFOs - instability
- Facilitate implementation of the MPRA to grow and protect the property rates base
- Review of indigent policy
- Influence municipal organisational structure to facilitate “fit for purpose” design
- Strengthen the capability of Council to act responsibly

Possibility of invoking s139 of the Constitution

Facilitate implementation of financial recovery plans

Support – MISA, MSIG (asset management)

Support of SALGA (councillors)

Oversight and monitoring - Parliament  
SCOPA, IMC(E), SeCOA

# Involvement of Stakeholders in Eskom PAJA Process



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# Progress with government debt

## ❑ Progress with government debt verification by DPW

▪ S71 2015	R5.2 billion
▪ Verification exercise confirmed	R4 billion
▪ Municipalities signed –off	R3.8 billion
▪ Payments by Prov and Nat dept	R1.6 billion
▪ Unpaid verified amount	R2.2 billion

## ❑ In some cases departments have not been responsive to confirming their debt liability (partly because of incomplete asset registers)

## ❑ Verification of debt between municipalities and government departments however, settlement of this verified debt remains a challenge when departments do not have money to pay (no budget provision for municipal liability)

## ❑ State owned property information per the Deeds Registry is incomplete and there are several properties where ownership is not known (in the name of previous dispensation). Debt will continue to accumulate while ownership remains unresolved.

## ❑ Policy formulation is necessary to resolve liability for property rates in respect of traditional land

## ❑ Public Works continues to engage custodian departments, particularly, Rural Development and Land Affairs where many of the government property ownership disputes originated (Deeds Registry now incorporated in the Department)

# Debt profile of municipalities per S71 as at 30<sup>th</sup> June 2017 (for 4<sup>th</sup> Quarter)

National R'000		Total Creditors s71 Q4 2016/17	Total Creditors s71 Q4 2016/17 (excluding current)	Eskom Amount in arrears (s41 report) 30 June 2017	Water Boards Amount in arrears (s41 report) 30 June 2017	Debtors Analysis - organs of state (s71 Q4)	Cash and Cash equivalents- (s71 Q4)
FS184	Matjhabeng	3 332 434	3 164 751	1 384 656	1 783 269	53 813	303 737
FS194	Maluti-a-Phofung	2 196 199	2 120 516	2 064 880	–	131 236	(10 963)
MP312	Emalahleni (Mp)	1 352 118	1 302 569	1 078 336	–	26 006	2 354
FS203	Ngwathe	880 224	833 246	723 630	4 804	44 511	2 601
GT421	Emfuleni	1 369 282	796 645	262 793	369 468	363 713	(76 049)
MP305	Lekwasa	795 134	772 229	320 143	–	9 317	(55 672)
MP307	Govan Mbeki	746 353	599 739	409 397	49 499	17 311	32 603
DC33	Mopani	574 875	556 501	–	226 932	–	(332 455)
MP326	City of Mbombela	662 250	502 578	131 802	37 003	59 002	20 628
MP302	Msukaligwa	537 226	482 609	110 695	–	12 272	(77 361)
MP321	Thaba Chwae	476 570	431 231	395 357	–	–	21 150
DC38	Ngaka Modiri Molema	443 941	425 863	804	–	–	13 954
FS205	Mafube	383 873	376 531	60 211	–	3 400	45
MP325	Bushbuckridge	394 725	367 971	–	268 361	17 483	293 956
LIM361	Thabazimbi	402 209	357 425	221 329	35 972	7 835	(39 448)
NW392	Naledi (Nw)	332 768	312 499	241 796	–	6 186	16 752
FS185	Nala	338 076	306 126	173 433	125 338	23 079	5 079
GT481	Mogale City	531 982	303 694	173 496	19 987	15 402	44 753
NW403	City Of Matlosana	396 637	293 045	112 853	–	37 943	91 463
NW384	Ditsobotla	279 816	279 816	214 725	47 381	91 958	(65 708)
NW383	Mafikeng	296 753	259 343	2 112	229 325	362 423	205 854
NW396	Lekwasa-Teemane	254 280	247 662	42 038	–	4 618	(1 115)
LIM368	Modimolle-Mookgopong	267 501	241 490	–	–	18 980	(59 117)
FS162	Kopanong	247 510	238 773	488	189 828	–	27 188
DC35	Capricorn	248 184	235 166	–	6 374	–	246 621
GT484	Merafong City	300 514	202 073	140 350	52 441	14 595	89 933
FS201	Moqhaka	237 767	196 215	164 091	–	18 068	4 704
		18 279 201	16 206 306	8 429 415	3 445 983	1 339 151	705 488

Creditor Age Analysis (in R'000) for Financial Year End 2017 Preliminary figures

Figures presented in this table are preliminary as reported by municipalities.

- Municipalities report that government owes R1.3 billion
- Municipalities owe creditors an arrear amount of R16 billion
- Municipal cash and cash equivalents are a mere R705 m (some already showing a deficit)
- This demonstrates that payment arrangements they entered into are not funded
- Notably, there is little correlation between the monies owed to municipalities by government and that which they owe to creditors

## Governments Failure – need for collective response

### National and provincial governments

- ❑ Cannot be “bystanders” or “spectators” whilst municipalities face litigation and have their assets attached
- ❑ Have failed to timeously and adequately respond to the crises facing municipalities
- ❑ Have failed to invoke s139 or s154 of the Constitution when the need to do so arose
- ❑ Are failing to exercise their fiduciary duties by not invoking the relevant provisions of the legal framework to intervene in municipalities that are in financial distress
- ❑ Persistent failure to pay creditors and intervention by the courts are not a feasible option as service delivery ends up being severely being comprised

## The situation requires a strategic response - collective and collaborative

- ❑ To address the “**culture of non-payment**” by municipalities, it is imperative that a broader scope of remedial action be recognised
- ❑ A multi-pronged (collective and coordinated) approach is essential to address operational inefficiencies from all spheres of government
- ❑ The strategic response must focus on **ALL CREDITORS** and should not limit the effort to one single creditor – all creditors must receive the same attention
- ❑ Therefore stakeholders such as NT, PTs, DCoG, SALGA, DPE, DWS, Eskom, and water boards are key participants to structure a suitable remedy
- ❑ Parliament to provide oversight and monitor

# Analysis of 62 Affected Municipalities



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# List of 62 Municipalities Per Province



## Update on Municipal Debt Stakeholder Engagements

Province	PA's as at 31 May 2017	Municipality	Fully Honouring PAs	Partially Honouring PAs	Not Honouring PAs	2015/16 AG financial health status*	2014/15 AG financial health status*
Eastern Cape	6	Dr Beyers Naude	X				Not provided
		KSD		X			
		Makana			X		
		Raymond Mhlaba		X			Not provided
		Walter Sisulu	X				Not provided
Free State	8	Inxuba Yethemba	X				
		Dihlabeng			X		
		Mantsopa			X		
		Masilonyana	X				
		Moghaka			X		
		Nala		X			
		Nketoana			X		
		Phumelela		X			Not provided
		Tokologo		X			
Gauteng	4	Emfuleni	X				
		Merafong	X				
		Mogale City	X				
		Randfontein	X				
KZN	4	eDumbe	X				
		Mpofana		X			
		Ulundi	X				
		Zululand	X				

Province	PA's as at 31 May 2017	Municipality	Fully Honouring PAs	Partially Honouring PAs	Not Honouring PAs	2015/16 AG financial health status*	2014/15 AG financial health status*
Limpopo	4	Modimolle			X		
		Mookgophong			X		
		Musina		X			
		Thabazimbi			X		
Mpumalanga	10	Albert Lithuli			X		
		Dipaleseng			X		
		Emakhazeni	X				
		Emalahleni		X			
		Govan Mbeki			X		
		Lekwa			X		
		Mkhondo			X		
		Msukaligwa			X		
		Thaba Chweu			X		
		Victor Khanye			X		
		Ditsobotla		X			
North West	9	Kgetlengrivier			X		
		Lekwa-Teemane			X		
		Mamusa			X		
		Matlosana	X				
		Naledi			X		
		Ramotshere	X				
		Tswaing			X		
		Ventersdorp	X				

Province	PA's as at 31 May 2017	Municipality	Fully Honouring PAs	Partially Honouring PAs	Not Honouring PAs	2015/16 AG financial health status*	2014/15 AG financial health status*
Northern Cape	15	Dikgatlong			X		Not provided
		Emthanjeni	X				
		Gamagara	X				
		Ga-Segonyana			X		
		Kai Garib			X		
		Kamiesberg		X			
		Khai-Ma	X				
		Magareng			X		
		Nama Khoi			X		
		Phokwane/Hartswater			X		
		Renosterberg			X		Not provided
		Siyancuma			X		
		Siyathemba			X		
		Tsantsabane			X		
		Ubuntu	X				
Western Cape	2	Kannaland		X			
		Oudtshoorn	X				
<b>Total</b>	<b>62</b>		<b>20</b>	<b>11</b>	<b>31</b>		



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# Critical Indicators

		Eskom Debt - 2017/18 MTREF - Critical Indicators													
Municipality	Demarcation	Eskom Arrangement Compliance Status May 2017	PAJA Process		2015/16 AFS Collection Rate	2016/17 S71 Q4 YTD Collection Rate	Collection Rate Used for Assessment	Operating Surplus/ (Deficit) 2017/18	Internally Generated CAPEX 2017/18	Funded/ (Unfunded) Budget 2017/18	Total Trade Payables (Creditors) 2017/18	Projected Cash & Cash Equivalents/ (Overdraft)	Projected Cash & Cash Equivalents/ (Overdraft)	Projected Cash & Cash Equivalents/ (Overdraft)	Debtor Analysis Organs of State S71 Q4 30-Jun-17
			Suspended Interruptions	Outstanding Interruptions											
Gamagara Local Municipality	NC453	Complying			37.8%	49.1%	37.8%	(287 978)	61 422	(670 575)	(142 772)	(514 847)	(763 489)	(1 032 013)	
Lekwa	MP305	Not			70.6%	73.1%	70.6%	(252 325)	–	(798 547)	(482 451)	(400 559)	(518 221)	(618 014)	5 136
Emalahleni Local Municipality	MP312	Partially		2017/11/20	73.0%	83.4%	73.0%	(368 813)	20 600	(1 967 649)	(1 983 579)	(400 203)	(470 290)	(530 088)	849
Merafong City Local Municipality	GT484	Complying		2017/10/25	63.9%	72.9%	63.9%	(227 812)	1 460	(562 593)	(324 676)	(387 177)	(582 791)	(787 346)	14 595
Nala Local Municipality	FS185	Partially	2017/09/27		55.3%	59.4%	55.3%	(174 373)	1 064	(474 265)	(310 853)	(211 747)	(335 928)	(465 994)	23 079
Thaba Chweu	MP321	Not		2017/10/09	91.1%	90.4%	87.2%	(151 590)	2 400	(672 488)	(469 176)	(206 466)	(319 840)	(433 722)	17 483
Modimolle-Mookgophong	LIM368	Not			72.5%	70.4%	72.5%	(178 185)	–	(344 040)	(264 183)	(189 481)	(299 051)	(407 811)	18 980
King Sabata Dalindyebo Municipality	EC157	Partially			81.6%	61.3%	81.6%	(231 685)	8 665	(418 209)	(266 509)	(169 481)	(184 714)	(242 182)	58 284
City Of Matlosana Local Municipality	NW403	Complying			69.8%	69.7%	69.8%	(593 379)	10 000	(633 177)	(596 296)	(164 851)	(243 775)	(324 864)	37 943
Moghaka	FS201	Not			84.3%	73.9%	84.3%	(76 532)	12 872	(252 170)	(176 888)	(162 616)	(233 376)	(309 458)	18 068
Makana	EC104	Not			76.1%	202.4%	76.1%	(99 695)	8 600	(289 828)	(134 606)	(127 017)	(206 869)	(291 501)	–
Nketoane	FS193	Not	2017/09/27		56.5%	26.1%	46.6%	(108 699)	–	(267 452)	(163 426)	(115 530)	(164 877)	(216 009)	2 697
Tsantsabane	NC085	Not		2017/09/18	58.2%	62.8%	58.2%	(50 222)	2 115	(172 153)	(111 432)	(94 155)	(133 555)	(163 590)	6 575
Dihlabeng	FS192	Not			92.4%	99.5%	65.1%	(140 125)	–	(276 314)	(228 438)	(87 795)	(158 879)	(237 215)	13 633
Msukaligwa	MP302	Not	2017/10/09		80.2%	61.4%	80.2%	(151 142)	1 000	(542 599)	(503 643)	(87 077)	(145 275)	(205 416)	4 909
Mkhondo	MP303	Not		2017/10/09	79.5%	100.1%	79.5%	(112 765)	2 500	(236 782)	(175 735)	(83 866)	(114 815)	(143 834)	9 317
Mogale City Local Municipality	GT481	Complying			93.2%	96.9%	93.2%	26 335	80 278	(277 416)	(586 671)	(81 119)	71 250	227 753	15 402
Masilonyana Municipality	FS181	Complying	2017/09/27		30.7%	22.8%	30.7%	(60 491)	7 495	(219 632)	(135 053)	(81 047)	(110 532)	(146 530)	9 941
Phokwane Municipality	NC094	Not			62.9%	33.4%	62.9%	(53 714)	4 896	(147 760)	(73 743)	(77 133)	(113 663)	(152 672)	16 159
Kai Garib	NC082	Not	2017/09/18		79.3%	110.5%	79.3%	(16 830)	–	(207 573)	(160 849)	(73 186)	(70 643)	(77 593)	–
Mantsopa	FS196	Not	2017/09/27		48.3%	38.5%	48.3%	(27 424)	–	(130 630)	(121 587)	(55 353)	(77 201)	(99 155)	–
Phumelela Municipality	FS195	Partially			50.0%	54.1%	50.0%	(23 376)	–	(172 388)	(125 720)	(52 942)	(68 402)	(84 319)	–
Randfontein Local Municipality - Randwest City	GT485	Complying			82.6%	79.1%	82.6%	(187 890)	–	(446 197)	(396 804)	(52 072)	(36 459)	7 598	89 196
Westonaria Local Municipality	GT485	Complying			82.6%	79.1%	82.6%	(187 890)	–	(446 197)	(396 804)	(52 072)	(36 459)	7 598	–
VictorKhanje	MP311	Not			81.9%	70.6%	81.9%	(21 135)	4 715	(25 874)	(53 484)	(41 326)	(46 975)	(36 444)	26 006
Tswaing Local Municipality	NW382	Not	2017/09/20		61.8%	46.7%	61.8%	(25 354)	–	(138 582)	(120 792)	(32 974)	(42 957)	(54 448)	–
Oudtshoorn Local Municipality	WC045	Complying			96.1%	100.4%	96.1%	(44 024)	7 349	(154 601)	(106 253)	(31 731)	(60 176)	(89 969)	3 991
Siyancuma	NC078	Not		2017/09/18	82.5%	97.1%	82.5%	(19 853)	17 630	(112 034)	(78 666)	(28 196)	(55 461)	(76 238)	1 398
Kgetlengrivier	NW374	Not	2017/09/20		53.4%	51.2%	53.4%	(33 193)	–	(143 736)	(120 218)	(20 654)	(16 857)	2 239	797
Ubuntu Local Municipality	NC071	Complying			57.8%	85.1%	57.8%	(2 014)	–	(32 982)	(27 567)	(20 429)	(17 943)	(15 814)	–
Thabazimbi	LIM361	Not		2017/09/21	76.0%	59.5%	76.0%	(43 839)	1 500	(290 534)	(307 818)	(15 976)	(16 230)	(10 953)	7 835
Emakhazeni Local Municipality	MP314	Complying			89.8%	99.9%	89.8%	(59 467)	5 276	(110 610)	(122 582)	(15 285)	(37 182)	(60 974)	–
Mpofana Local Municipality	KZN223	Partially			82.1%	50.8%	82.1%	(16 294)	–	(46 042)	(31 565)	(12 834)	(22 605)	(23 582)	–
Tokolologo Local Municipality	FS182	Partially	2017/09/27		63.1%	46.5%	63.1%	(13 939)	500	(52 342)	(51 008)	(9 995)	(21 307)	(32 563)	5 834
Dipaleseng	MP306	Not		2017/10/09	87.5%	87.6%	65.2%	(19 240)	–	(101 776)	(63 222)	(8 252)	(752)	6 581	17 311
Naledi (NW)	NW392	Not	2017/09/20		79.7%	60.1%	79.7%	(115 165)	–	(447 630)	(389 302)	(7 887)	(43 163)	(70 315)	6 186
Renosterberg Local Municipality	NC075	Not		2017/09/18	54.2%	47.2%	54.2%	(6 403)	–	(57 093)	(68 286)	(6 087)	(10 715)	(12 205)	9 973



# Critical Indicators

		Eskom Debt - 2017/18 MTREF - Critical Indicators													
Municipality	Demarcation	Eskom Arrangement Compliance Status May 2017	PAJA Process		2015/16 AFS Collection Rate	2016/17 S71 Q4 YTD Collection Rate	Collection Rate Used for Assessment	Operating Surplus/ (Deficit) 2017/18	Internally Generated CAPEX 2017/18	Funded/ (Unfunded) Budget 2017/18	Total Trade Payables (Creditors) 2017/18	Projected Cash & Cash Equivalents/ (Overdraft)	Projected Cash & Cash Equivalents/ (Overdraft)	Projected Cash & Cash Equivalents/ (Overdraft)	Debtor Analysis Organs of State S71 Q4 30-Jun-17
			Suspended Interruptions	Outstanding Interruptions											
Ramotshere Moiloa Local Municipality	NW385	Complying			77.0%	83.8%	77.0%	(5 938)	6 154	(31 306)	(65 898)	1 618	22 964	42 081	–
Nama Khoi	NC062	Not			94.2%	87.9%	94.2%	(60 518)	–	(174 471)	(188 785)	6 594	(9 446)	(25 763)	2 426
Inxuba Yethemba Local Municipality	EC131	Complying	2017/09/15		88.9%	60.5%	69.4%	(55 133)	9 031	(160 561)	(69 218)	11 650	13 389	22 963	–
Edumbe Municipality	KZN261	Complying			65.8%	80.9%	65.8%	(11 907)	150	(14 783)	(35 742)	12 395	2 800	(9 233)	7 605
Dikgatlong Local Municipality	NC092	Not			44.4%	59.1%	44.4%	(11 025)	500	(27 095)	(73 868)	15 441	5 948	(1 823)	34 225
Lekwa-Teemane	NW396	Not	2017/10/11		72.0%	56.2%	72.0%	(29 261)	1 658	(235 700)	(242 193)	16 251	(5 957)	(31 754)	4 618
Magareng	NC093	Not			46.7%	32.9%	46.7%	(42 801)	–	(83 279)	(92 393)	18 718	(14 460)	(49 605)	3 436
Ditsobotla Local Municipality	NW384	Partially	2017/09/27		97.3%	72.5%	74.6%	(48 520)	–	(278 271)	(316 007)	21 664	20 209	19 343	91 958
Walter Sisulu Local Municipality	EC145	Complying	2017/09/15		84.7%	150.5%	84.7%	(27 360)	100	(180 463)	(218 156)	22 660	18 401	21 709	–
Kamiesberg Municipality	NC064	Partially			92.0%	62.8%	92.0%	(8 856)	–	(15 903)	(42 611)	25 098	25 484	23 098	2 065
Mamusa Local Municipality	NW393	Not	2017/10/11		86.9%	68.2%	86.9%	(36 867)	–	(48 926)	(72 117)	32 402	20 616	8 144	–
Govan Mbeki	MP307	Not		2017/10/09	84.7%	98.3%	84.7%	(75 508)	72 230	(419 990)	(634 488)	33 712	74 839	140 862	19 796
Ulundi Local Municipality	KZN266	Complying			86.0%	63.2%	86.0%	(40 293)	–	(35 032)	(107 375)	49 522	Incomplete	Incomplete	15 743
Musina Local Municipality	LIM341	Partially			93.5%	87.1%	93.5%	(7 353)	1 250	(172 433)	(343 274)	51 827	70 994	91 603	–
Albert Luthuli Local Municipality	MP301	Not			47.8%	47.5%	47.8%	(11 820)	7 000	(149 114)	(199 283)	63 994	99 011	135 385	12 272
Ga-Segonyana Local Municipality	NC452	Not			97.8%	92.1%	97.8%	(2 280)	1 045	(20 984)	(99 034)	67 006	102 591	143 083	19 883
Zululand District Municipality	DC26	Complying			66.9%	69.4%	69.6%	12 479	16 022	55 026	(56 877)	120 921	197 655	279 331	10 116
Ventersdorp Local Municipality & Tlokwe	NW405	Complying			97.8%	103.9%	89.1%	(285 048)	123 998	26 403	(307 862)	294 103	550 647	746 192	–
Emfuleni Local Municipality	GT421	Complying	2017/10/03		81.3%	56.5%	70.0%	(263 192)	163 514	(654 697)	(1 282 178)	364 376	584 090	777 519	363 713
Dr Beyers Naudé Local Municipality	EC101	Complying			-	25.9%	Incomplete Information								
Raymond Mhlaba Local Municipality	EC129	Partially	2017/09/15		-	85.2%									
Khai-Ma Municipality	NC067	Complying			59.5%	60.3%									
Emathanjeni Municipality	NC073	Complying			81.6%	88.7%									
Siyathemba Local Municipality	NC077	Not	2017/09/18		74.2%	23.7%									
Kannaland Municipality	WC041	Partially			114.5%	104.9%									

# Overview

- ❑ Collections rates for almost all municipalities were overstated
- ❑ Most municipalities present an operational deficit
- ❑ 37 municipalities present a deficit after commitments are considered
  - All these municipalities adopted unfunded budgets
  - 21 municipalities are not honouring their payment arrangement – Eskom
  - 10 municipalities are honouring their payment arrangement
  - 6 are partially honouring
  - Most of these municipalities contribute to capital programme even though they projected cash deficits
- ❑ 19 municipalities present a surplus after commitments are considered
  - All these municipalities adopted unfunded budgets except two
  - 8 municipalities are not honouring their payment arrangement – Eskom
  - 8 municipalities are honouring their payment arrangement
  - 3 are partially honouring
  - some of these municipalities contribute to capital programme
- ❑ The analysis could not be undertaken in 6 municipalities due to incomplete documents
- ❑ Total creditors is R14 billion and R1 billion (s71 Q4 prelim) is owed to these municipalities by organs of state
  - 17 of these municipalities reported no debt by organs of state
  - None of these municipalities are owed by organs of state more than what they owe creditors

# Recommendations



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Recommendation

It is recommended that:

- ❑ In light of the analysis undertaken all payment arrangements must be reviewed in line with the municipality's affordability threshold;
- ❑ **All Trade Payables & commitments** must be taken into consideration before an arrangement can be signed;
- ❑ **Funded Budgets** – Most of the identified municipalities have approved unfunded budgets for the 2017/18 Medium Term Revenue and Expenditure Framework (MTREF) - The municipalities must therefore implement the following actions:
  - Compile a funded adjustment budget for the 2017/18 MTREF
  - Budget for realistic anticipated revenue to be collected based on the average of the audited collection rate for the past two financial years and the current year to date actuals
  - Make realistic affordable arrangements with all creditors on amounts outstanding for more than thirty days;

# Recommendation

- Budget for a cash flow surplus which must be used to repay outstanding creditors above 30 days. Municipalities must in this regard provide a detail analysis on the proposed payment of suppliers and employees on table A7 inclusive of the expenditure for the current financial year and the portion to be paid to outstanding creditors on arrangements made;
- The filling of vacancies must be frozen, except for the appointment of section 56 (Municipal System Act) managers for sustainable leadership, in an attempt to retain the consistent increase in fixed costs;
- Capital projects financed from internally generated funds will not be allowed if the municipality have creditors that is outstanding for more than thirty days;
- **Cash flow Management** - Municipalities in financial distress generally do not monitor their cash flow position regularly to make informed decisions if revenue collected has decreased below expenditure commitments - The municipalities must therefore implement the following actions:
  - Compile a cash flow budget based on the actions indicated under “funded budgets” above;

# Recommendation

- Update and reconcile revenue receipts on a daily basis. The expenditure to be incurred in the following month should be limited to the actual revenue received in the previous month with the aim to decrease expenditure to the maximum income realised;
- The budgeted cash flow expenditure should monthly be divided between the relevant directorates based on the most urgent priorities of the municipality;
- The office of the Chief Financial Officer within the municipality must limit the approval of purchase requisitions monthly based on the total amount approved per directorate based on the above-mentioned calculation;

❑ **Revenue Management** - Municipalities do not collect all the revenue due to them due to the culture of non-payment and ineffective controls measures implemented - The municipalities must therefore implement the following actions:

- Ensure completeness of revenue - the information that is registered at the deeds office on developed and undeveloped land must be used to identify what a stand (consumer) must be billed for property rates, water, electricity, refuse and sanitation. The reconciliation and correction on the financial system (billing module) per extension should be phased in per quarter over the next quarters until June 2018;



# Recommendation

- Compilation and approval at least one supplementary valuation roll annually to improve rates revenue;
- Monthly meter readings should be accurate, accuracy should be monitored through deviation reports and limited to a maximum overall variance on meter readings of 10 per cent that will be allowed;
- Electricity supply due to non-payment should be cut on a monthly basis;
- Illegal electricity connections should be followed up on a monthly basis;
- Follow up on zero sales on prepaid electrify on a monthly basis;
- Distribution losses (water and electricity) should be targeted as a matter of urgency;
- The compilation of the tabled budget for the 2018/19 MTREF should include a narrative that clearly explains how secondary cost was allocated, break-even point between billed revenue and purchases as well as tariff setting on the electricity and water function.

# DISCUSSIONS

## THANK YOU

### CONTACT

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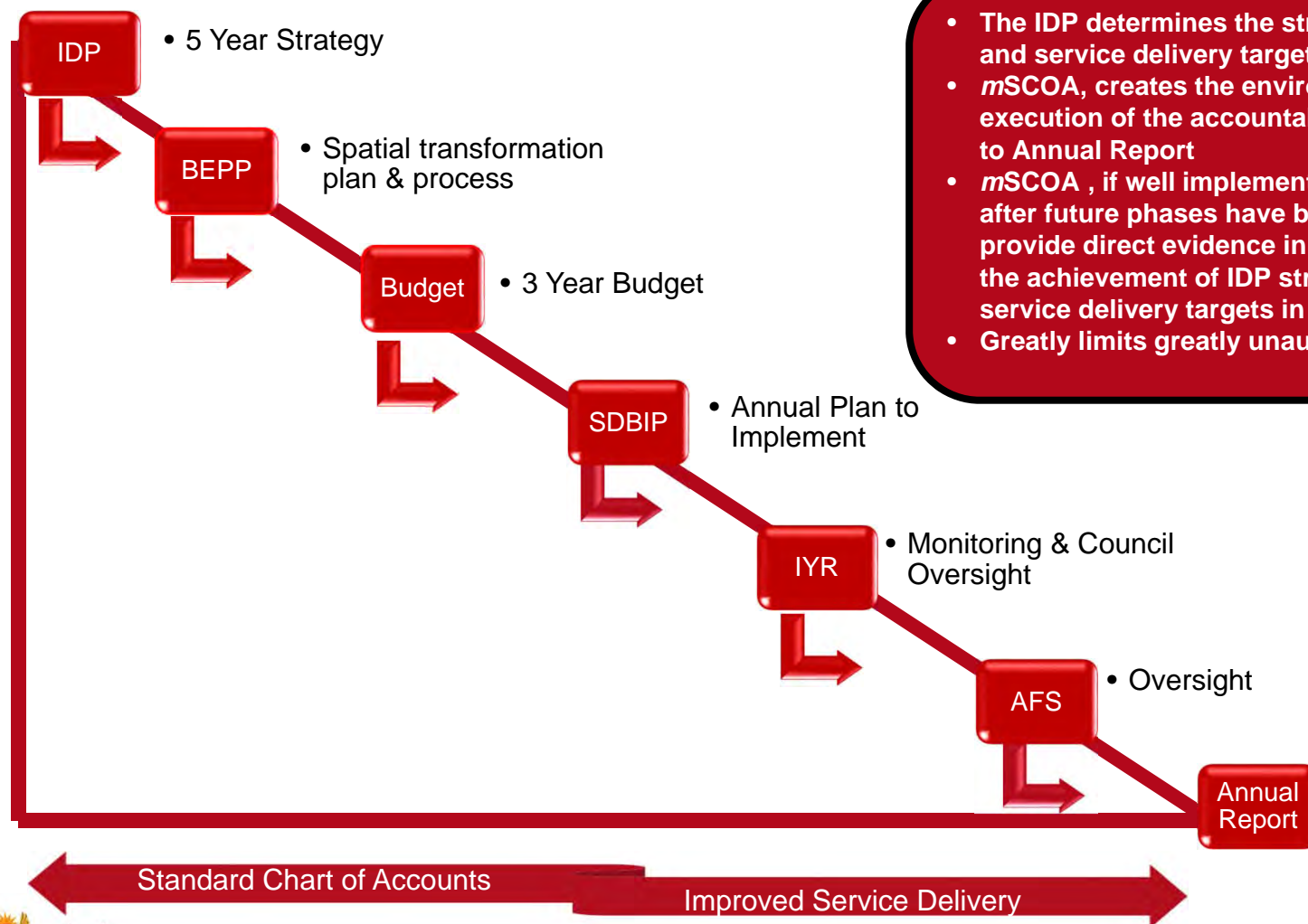
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# Annexure



# Local Government Accountability Cycle



# Creditor age analysis as per 4<sup>th</sup> Quarter results (30 June 2017)

## Creditors Age Analysis as at 30 June 2017

	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
R thousands	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Bulk Electricity	6 305 898	39.3%	799 546	5.0%	614 282	3.8%	8 336 361	51.9%	16 056 088	36.6%
Bulk Water	1 492 331	21.7%	346 472	5.1%	489 604	7.1%	4 534 539	66.1%	6 862 947	15.7%
PAYE deductions	367 904	81.0%	12 538	2.8%	10 542	2.3%	63 267	13.9%	454 251	1.0%
VAT (output less input)	4 109	16.5%	-	-	4 484	18.1%	16 246	65.4%	24 840	0.1%
Pensions / Retirement	346 972	75.9%	6 714	1.5%	3 083	0.7%	100 700	22.0%	457 469	1.0%
Loan repayments	633 301	44.9%	382	0.0%	130 974	9.3%	645 108	45.8%	1 409 765	3.2%
Trade Creditors	8 190 575	68.6%	597 377	5.0%	699 298	5.9%	2 458 281	20.6%	11 945 531	27.3%
Auditor-General	72 708	27.4%	6 020	2.3%	7 302	2.8%	179 389	67.6%	265 419	0.6%
Other	5 053 223	79.7%	197 783	3.1%	98 074	1.6%	993 614	15.7%	6 342 694	14.5%
<b>Total</b>	<b>22 467 023</b>	<b>51.3%</b>	<b>1 966 832</b>	<b>4.5%</b>	<b>2 057 644</b>	<b>4.7%</b>	<b>17 327 504</b>	<b>39.5%</b>	<b>43 819 003</b>	<b>100.0%</b>
<b>Per Province</b>										
Eastern Cape	775 700	56.6%	126 692	9.2%	45 145	3.3%	424 144	30.9%	1 371 681	3.1%
Free State	648 172	7.5%	334 980	3.9%	328 451	3.8%	7 366 991	84.9%	8 678 594	19.8%
Gauteng	14 549 581	87.8%	462 690	2.8%	863 796	5.2%	696 625	4.2%	16 572 692	37.8%
Kwazulu-Natal	3 494 553	70.2%	129 983	2.6%	211 510	4.3%	1 144 161	23.0%	4 980 207	11.4%
Limpopo	440 140	22.3%	60 906	3.1%	117 301	5.9%	1 356 719	68.7%	1 975 066	4.5%
Mpumalanga	853 593	15.4%	502 116	9.1%	380 036	6.9%	3 796 932	68.6%	5 532 677	12.6%
North West	269 167	11.9%	197 065	8.7%	68 265	3.0%	1 734 629	76.4%	2 269 126	5.2%
Northern Cape	307 121	24.9%	142 915	11.6%	35 382	2.9%	748 631	60.7%	1 234 049	2.8%
Western Cape	1 128 997	93.7%	9 485	0.8%	7 758	0.6%	58 671	4.9%	1 204 911	2.8%
<b>Total</b>	<b>22 467 023</b>	<b>51.3%</b>	<b>1 966 832</b>	<b>4.5%</b>	<b>2 057 644</b>	<b>4.7%</b>	<b>17 327 504</b>	<b>39.5%</b>	<b>43 819 003</b>	<b>100.0%</b>

# Negative cash position as per 4<sup>th</sup> Quarter 2016/17 Results (30 June 2017)

Negative cash balances as at 4th Quarter Ended 30 June 2017

	First Quarter 2016/17	Second Quarter 2016/17	Third Quarter 2016/17	Fourth Quarter 2016/17
No of municipalities				
Per Province				
Eastern Cape	6	11	7	9
Free State	3	3	2	4
Gauteng	2	2	2	1
Kwazulu-Natal	3	3	7	11
Limpopo	3	5	3	7
Mpumalanga	4	4	3	6
North West	3	3	2	2
Northern Cape	6	4	7	6
Western Cape	1	0	0	0
<b>Total</b>	<b>31</b>	<b>35</b>	<b>33</b>	<b>46</b>

Source: National Treasury Local Government database

# Methodology for assessment

The assessment focussed on the funding of the 2017/18 MTRF budget to assess the municipality's cash position and funding that will impact on their ability to meet their current liabilities over the MTREF. For this purpose we used the recently developed budget funding assessment tool that employs the following methodology:

- ❑ The assessment starts with the audited Statement of Financial Position and Cash Flow Statement for 2015/16 as this is regarded as the latest trustworthy information and forms a sound basis for the assessment
- ❑ The assessment tool then assess the impact of the 2016/17 adjustment budget as well as the three MTREF budgets for the 2017/18, 2018/19 & 2019/20 financial years on:
  - The Cash Flow Statement – to determine the impact of the operational and capital budgets on the cash and cash equivalents at the end of each financial reporting period (Table A7)
  - The Statement of Financial Position of the municipality – focus is on accurate projection of the impact of the operational and capital budgets on the working capital requirements represented by receivables(debtors) and payables (creditors), the unspent grants, statutory requirements (VAT and taxation), unspent borrowing, provisions and reserves and commitment of any long term investments to assess the funding of the budget in terms of all outstanding liabilities (Table A8) – the final assessment will also give an indication of the amount of un-committed cash available to pay off arrear creditors.
- ❑ The assumptions for expenditure is that the municipality will spent 100% of the budgeted expenditure for each financial year (worst case scenario for funding purposes)
- ❑ The assumption for capital expenditure is that 100% of budgeted capital expenditure will be spent for each financial year (worst case scenario for funding purposes)
- ❑ The assumption for creditors is an accrual of not more than one month (8.33%) of creditors accrual to be paid in the next financial year for cash flow purposes
- ❑ The collection rate for revenue was based on the circular 71 method of calculation and based on the audited Statement of Financial Position and Performance for the 2015/16 financial year unless there were obvious mistakes in the AFS in which case the average collection rate for the three audited periods was used
- ❑ Repayment of borrowing was based on the assumptions budgeted for by the municipality
- ❑ Contributions to reserves and provisions were based on the assumptions budgeted for by the municipality
- ❑ All trade payables and not just Eskom debt were considered