

# State of Local Government Finance

## Section 71 quarter 4 local government results as at 30 June 2019

**NCOP Provincial Week – 16 to 20 September 2019**  
**National Treasury**



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Audit Outcomes 2017-18 Municipal Financial Year



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Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Highlights....AG Report 2017/18

- Reduction in the number of clean audits in 2017/18
  - 18 in 2017/18 versus 33 in 2016/17
- Unqualified financial statements decreased from 61% to 51%
- 63 municipalities regressed in their results (only 22 improved)
- Highest level of non-compliance with key legislation since 2011/12 (81%)
- R907m paid to consultants to assist with financial statements preparation
- Only 19% of municipalities could provide financial statements without material misstatements
- 74% of municipalities did not adequately follow up allegations of financial and supply chain management for misconduct or fraud
- 45% of municipalities did not have all the required mechanisms for reporting and investigating transgression or possible fraud
- Irregular expenditure is still high at R25.2bn (slight decline from R29.7bn in 2016/17)

# Summary of 2017/18 Audit Findings

## *The three main indicators of the deteriorating accountability*

### **1. Overall, the audit outcomes regressed**

- Municipal audit outcomes have shown little improvement
- Deadline for submission of the annual financial statements to the AG had been met by only 90.7 per cent of municipalities
- Unqualified with no findings decreased from 33 municipalities in 2016/17 to only 18 in 2017/18
- While disclaimers increased from 24 to 26 in the same period
- Audits of 63 municipalities regressed

### **2. A lack of consequences for transgressions and irregularities**

- The AG noted with concern that recommendations made in previous years to improve audit outcomes and or investigate irregularities were not implemented
- Status record review and engagements with municipal managers yielded little benefit as recommendations were not implemented
- Management (municipal managers and senior management), political leadership (mayors) and oversight bodies (municipal councils and portfolio committees) do not respond with the required urgency to the AG's messages about addressing risks and improving internal controls.
- Political infighting at council level and interference in administration weaken oversight, hinder the effecting of consequences, and make local government less attractive for professionals to join

### **3. Increasingly difficult environment for auditors and other role players in accountability**

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

### *The impact of deteriorating accountability*

- **two key areas of impact:** the financial health of municipalities and the delivery and maintenance of municipal infrastructure
  - Vacancies and instability in key positions
  - increasing indicators of a collapse in local government finances
  - inability to collect debt from municipal consumers
  - financial woes of local government also weighed heavily on municipal creditors
  - shortcomings in the development and maintenance of infrastructure
  - lack of attention paid to water and sanitation infrastructure
  - maintenance of roads also did not receive the necessary attention

# The State of Local Government Finances and Financial Management Report as at 30 June 2018



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Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Financial assessment criteria

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

# Highlights....State of LG Finances as at 30 June 2018 (1)

- 48% (or 124) municipalities have less than 3 months of **cash coverage**
  - This include 3 of the metros
- **Overspending of operating budgets** has shown only a marginal improvement from last year
- There are still 51% (or 131) municipalities who overspent in 2017/18
  - 25 of these municipalities (incl. 2 secondary cities) overspent by more than a quarter of their total adjusted budget
- **Underspending of capital budgets** persists with almost 36% (or 92) municipalities overspending by more than 30%
  - Metros failed to spend 20.6% of their capital budgets
- Total outstanding **consumer debtors** have grown significantly over the last financial year:
  - Total consumer debtors reported as R152.7bn an increase of R44.5bn from 2016/17

# Highlights....State of LG Finances as at 30 June 2018 (2)

- Total **outstanding creditors** remains concerning. The problem is particularly acute in the metros and secondary cities:
  - 6 metros and 13 secondary cities have creditors exceeding 75% of available cash and investments
- Average **spending on R&M** as a % of PPM is predicted to be in the region of 3.5% which is still significantly below the norm of 8%
- **Water and Electricity Losses** are still very high and consequently has a negative impact on potential revenues



# Financial Distress

Financial Year	No of Municipalities in Financial Distress
2012/13	95
2013/14	86
2014/15	87
2015/16	95
2016/17	128
2017/18	125

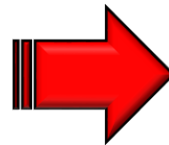
# Unfunded Budgets

Financial Year	No of Municipalities adopting unfunded budgets	% of total number of municipalities
2015/16	82	29.5%
2016/17	74	28.8%
2017/18	83	32.2%
2018/19	113	44.0%

What does an “unfunded” budget” mean?

Leading indication that **even before the start of a financial year**, municipalities will have:

- × *Inadequate resources to fund operational expenditure*
- × *Inadequate resources to meet all current liabilities over the MTREF*
- × *No internally generated funds to fund capital expenditure*



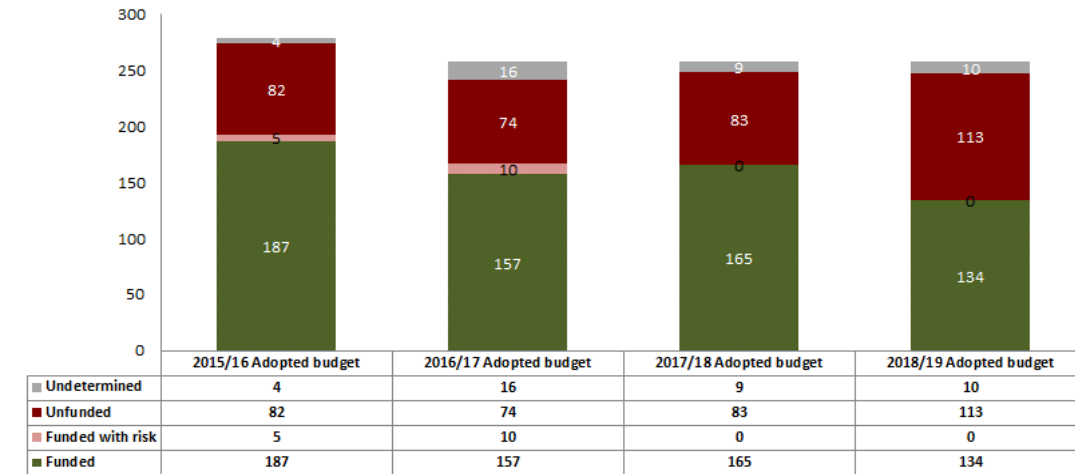
- × *Liquidity challenges - unable to pay salaries, etc.*
- × *Unable to pay service providers – impacts service provision*
- × *Dependent on grant funding - capital programme will not address broader development issues*
- × *Use of LGES to pay creditors*

# A growing number of municipalities approved unfunded budgets

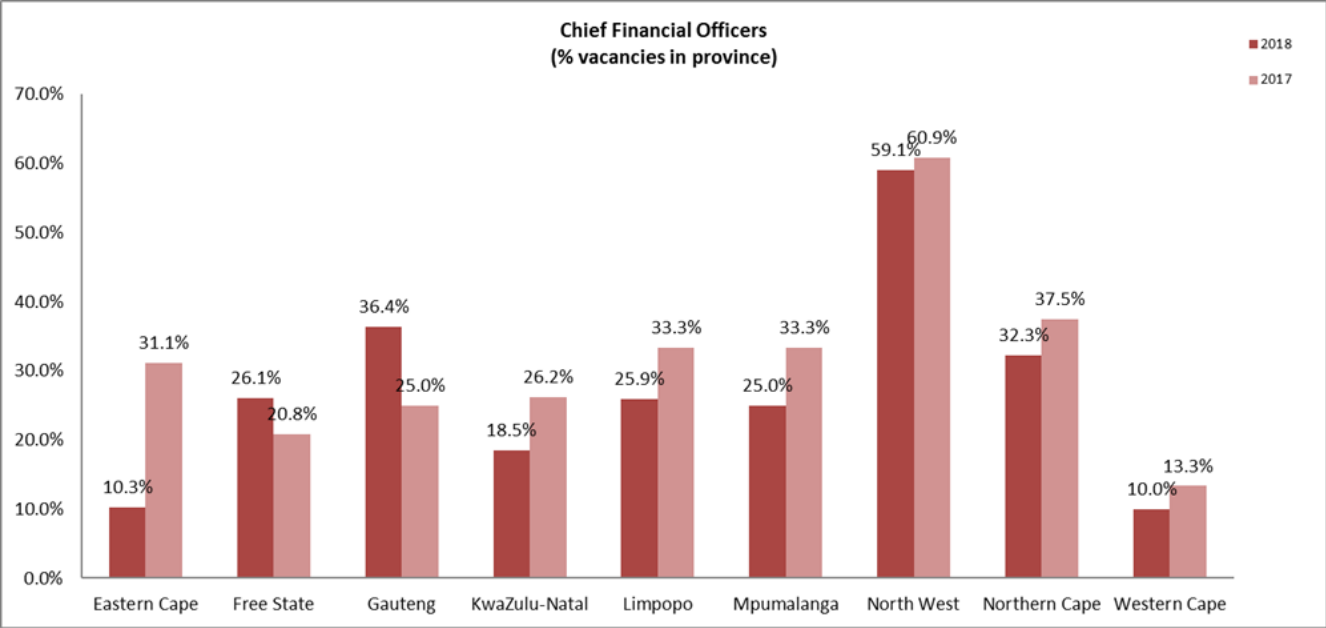
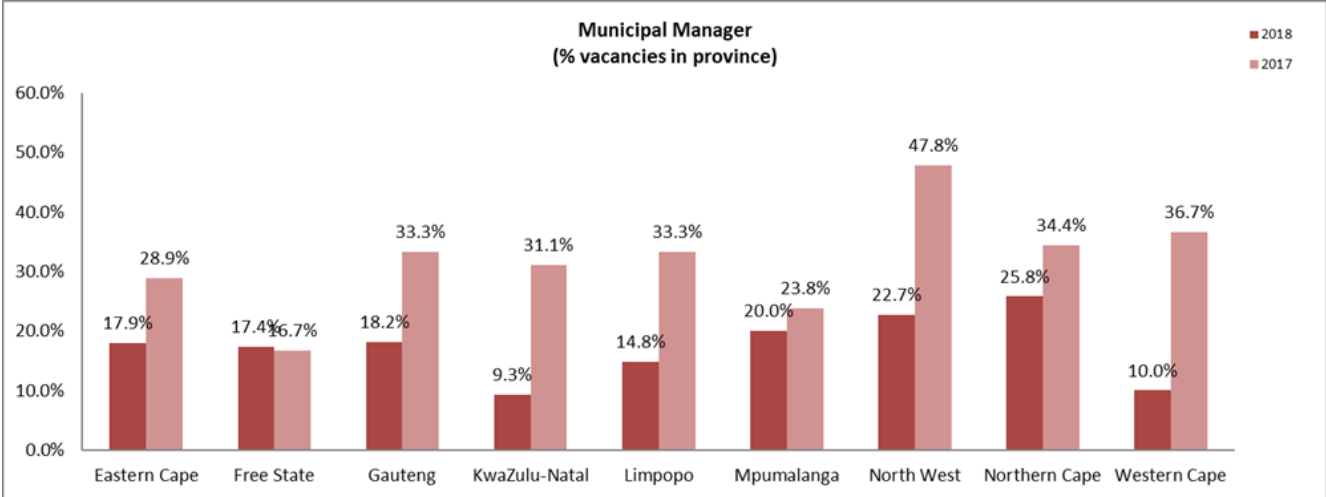
- 113 Municipalities adopted “unfunded budgets” for 2018/19 financial year
- The number of “unfunded budgets” are increasing at an alarming rate:
  - 2015/16 82 of 278 = 29.5 per cent
  - 2018/19 113 of 257 = 43.9 per cent
- New demarcations in 2016/17 did not assist to improve the overall funding position of municipalities
- An unfunded budget position is indicative that:
  - Municipalities will not have adequate resources to fund the operational expenditure and to meet all current liabilities over the MTREF
  - Municipalities have over R35 billion in arrears according to the s71 of MFMA report for the period ending 30 June 2019. Included in this amount are arrears for:
    - Electricity to Eskom - over R20.0bn; and
    - Water to the water boards and raw water to the DHSWS - over R7.7bn
  - The analysis shows that some municipalities would take up to 22 years to repay their debts to Eskom based on the current financial situation
  - Losses in VBS has undermined ability to pay creditors and salaries
  - Internally generated funds are not available to fund capital expenditure
  - Inability to meet current liabilities has a major impact on service providers

Funded/unfunded Budgets

National



# Governance : Acting MMs and CFOs positions



Decrease in acting MMs was noticeable in KZN (from 31.1% to 9.3%) , WC (36.7% to 10%) and NW (47.8% to 22.7%)

A similar trend was observed with acting CFOs. The number in Eastern Cape decreased by 10 (from 14 to 4), in KwaZulu-Natal by 6 (from 16 to 10) and in Limpopo by 3 (from 10 to 7)

Instances where both MM and CFO were in an acting capacity decreased over the same period from 50 to 18

The largest percentages of acting MMs was in Northern Cape Province (25.8 per cent acting), North West Province (22.7 per cent acting) and Mpumalanga Province (20 per cent acting)

# Government's investment in capacity building

- National government invests over R2 billion every year in capacity building for local government
- Contrary to this substantial investment in \*S154 support, very little is invested in ensuring the success of government's \*S139 responsibilities

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

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

\*Refers to Section in the Constitution

# Section 71 quarter 4 local government results as at 30 June 2019



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Highlights....S71 reporting 4<sup>th</sup> Q (2018/19)

*Total revenue*  
R404.7bn – 92.1%  
*Total expenditure*  
R391.8bn – 87.9%

- Highest YTD revenue: Gauteng 95.9% followed by Mpumalanga at 94.9%. Lowest reported at Limpopo at 80.1%
- Highest YTD expenditure: Gauteng 94.4% followed by Free State 93.4%.

*Capital expenditure*  
R55.4bn – 75.3%

- Highest capital expenditure: Gauteng 83.9% followed by Mpumalanga at 83.2%
- Free State has the lowest capital spending at 62.7%

*Employee expenditure*  
R105.2bn – 93.1%

- Is on average 32.1% of operational expenditure
- Spending levels in Gauteng – 96.1% followed by KwaZulu-Natal – 95.8% and Eastern Cape 93.9%

*Conditional grant spending*  
R27.2bn – 80.1%

- Highest grant spending – Expanded Public Works Programme Integrated Grant 100%
- Lowest grant spending – Municipal Systems Improvement Grant 17%

*Debtors age analysis*  
R165.5bn

- Government debt – 6.2%, Household debt – 71.7%
- 0 – 90 days debt – R29.6bn

*Cash position*  
R50.1bn

- 45 municipalities have negative cash position, increase of 20 municipalities from 3<sup>rd</sup> quarter

*Creditors age analysis*  
R60.2bn

- Creditors longer than 90 days outstanding: Free State 89.3%, Northern Cape 76.7% and Mpumalanga 75.5% and

# Section 71 Publication for 4<sup>th</sup> Quarter 2018/19 (as at 30 June 2019)

## – Revenue performance

- Aggregated billing amounted to 92.1 per cent or R404.7 billion of a total adopted revenue budget of R439.5 billion (total revenue excludes capital transfers)

Collection Rate indicators as at 30 June 2019

- Collection rate average

< 50	50 - 59	60 - 69	70 - 79	80 - 94	>= 95	Unknown
43	15	30	29	52	66	22

## • Expenditure performance

- Municipalities in aggregate spent 87.9 per cent or R391.8 billion of the total adopted expenditure budget of R445.7 billion

## • Capital performance

- Municipalities capital budgets was R73.6 billion, which is an increase of R2.2 billion when compare to the same quarter in 2017/18 financial year
- Spending levels for capital for the 4th quarter is 75.3 per cent or R55.4 billion

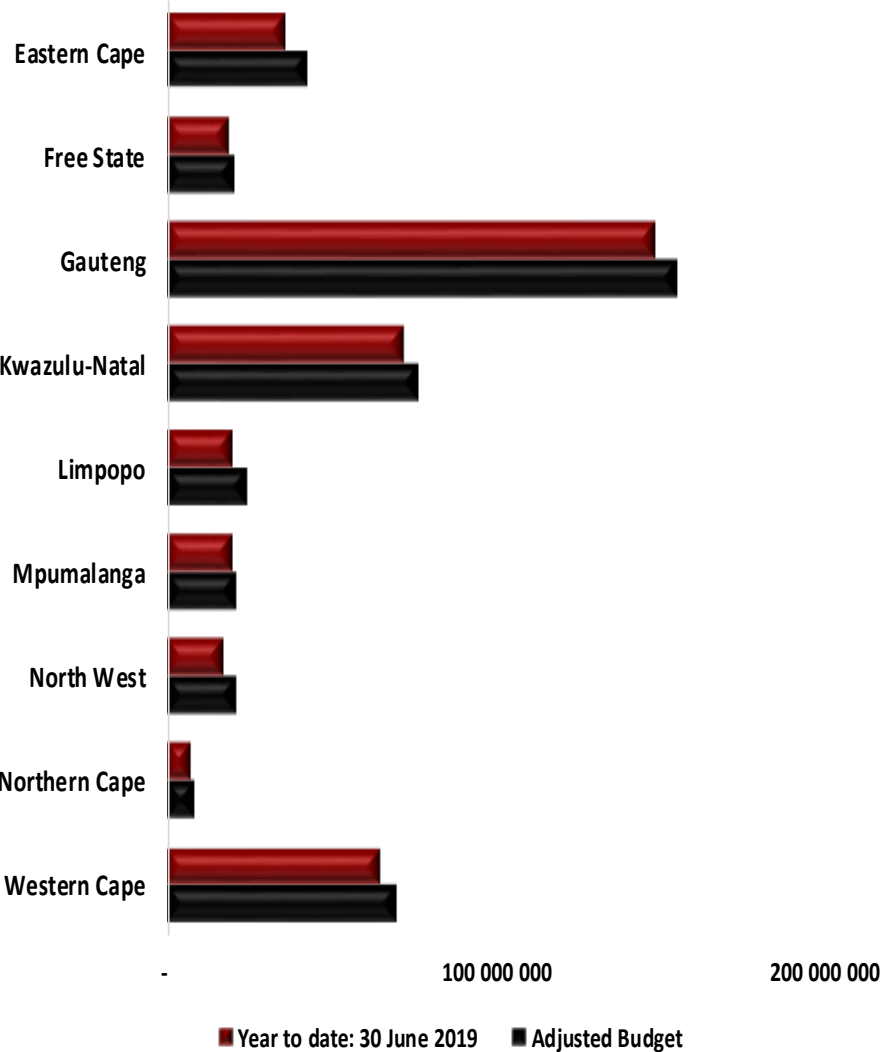
## • Conditional grant performance

- Grant expenditure was 80.1 per cent or R27.2 billion of the R33.6 billion transferred



# Revenue analysis as at 30 June 2019

Total revenue as at 30 June 2019



## Highlights: 30 June 2019

<b>Aggregated Billing: 30 June 2019</b>	<b>R404.7 billion 92.1 per cent</b>
Total Adjusted Revenue Budget: 2018/19	R439.5 billion
Metros	60.7 per cent of total aggregated revenue in 2018/19 Operational revenue collection 94.8 per cent (30 June 2019)

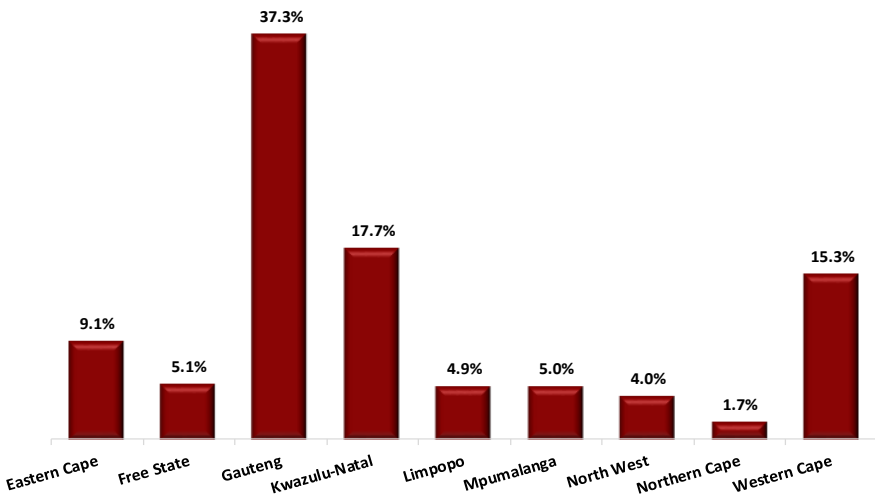
 6 per cent compared to 4<sup>th</sup> quarter of 2017/18

### BILLED REVENUE ≠ REVENUE COLLECTED

**Observation:** Both Operational revenue budget and capital revenue budget increased during the 2018/19 adjustments budget process

# Expenditure analysis as at 30 June 2019

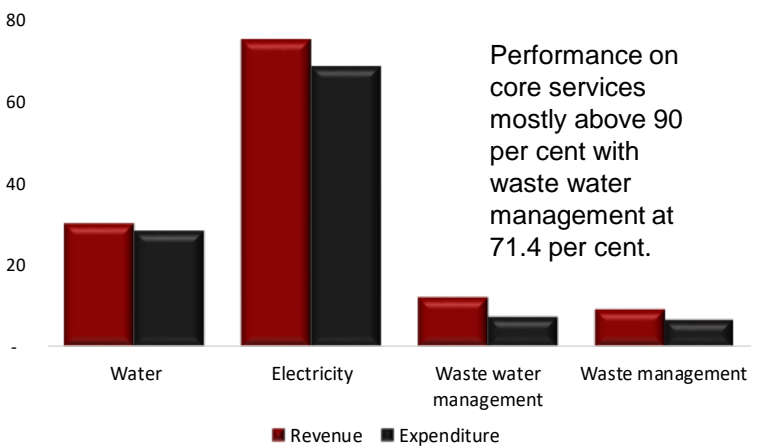
Ration of the total expenditure per province as at 30 June 2019



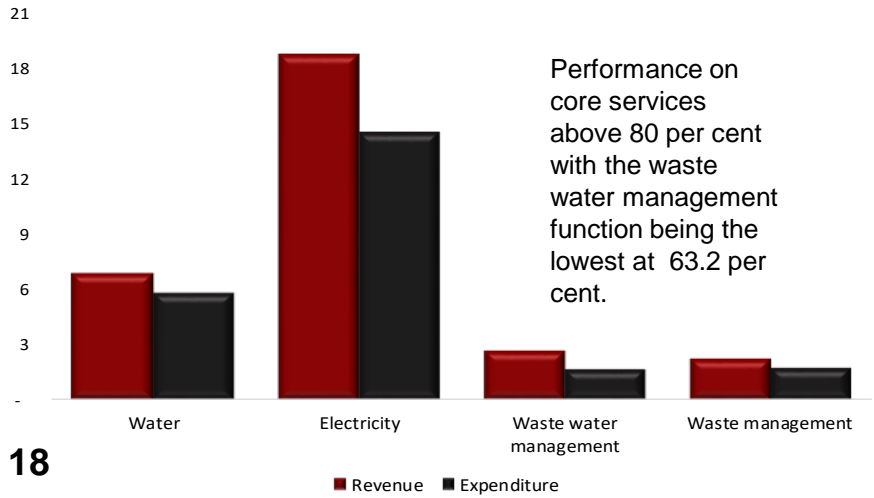
## Highlights: 30 June 2019

Total municipal expenditure	R391.8 billion 87.9 per cent
Operating expenditure	R336.4 billion 90.4 per cent
Capital Expenditure	R55.4 billion 75.3 per cent
Highest spending levels	GT : 94.4 per cent FS : 93.4 per cent KZN : 88.1 per cent

Metros performance against core services as at 30 June 2019

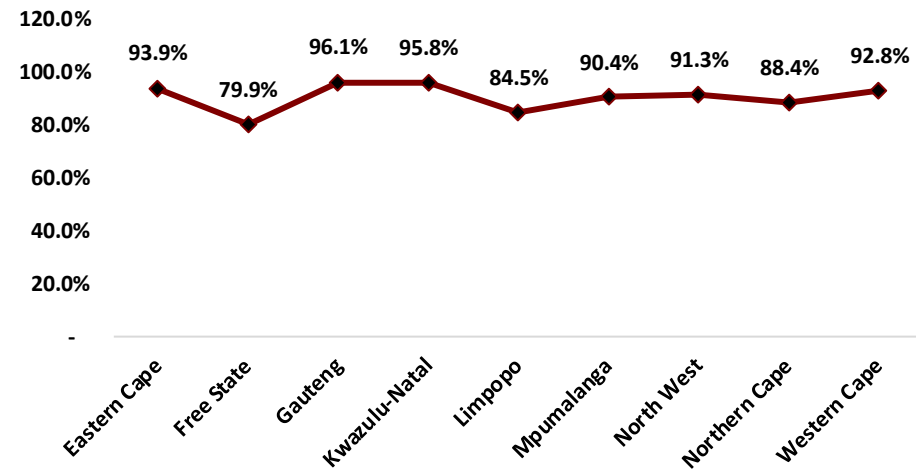


Secondary cities performance against core services as at 30 June 2019



# Personnel expenditure analysis as at 30 June 2019

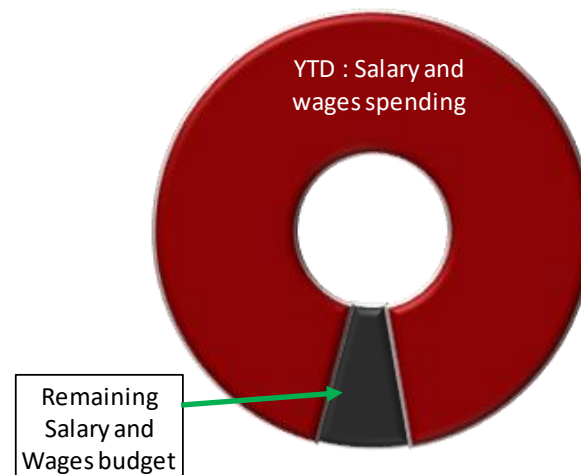
Salaries and wages spending as at 30 June 2019



Salaries and Wages expenditure	R105.2 billion 93.1 per cent
Adjusted personnel budget	R112.98 billion
Highest Spending	GT : 96.1 per cent KZN : 95.8 per cent EC : 93.9 per cent
Salaries and Wages as a % of operating expenditure	30.1 per cent

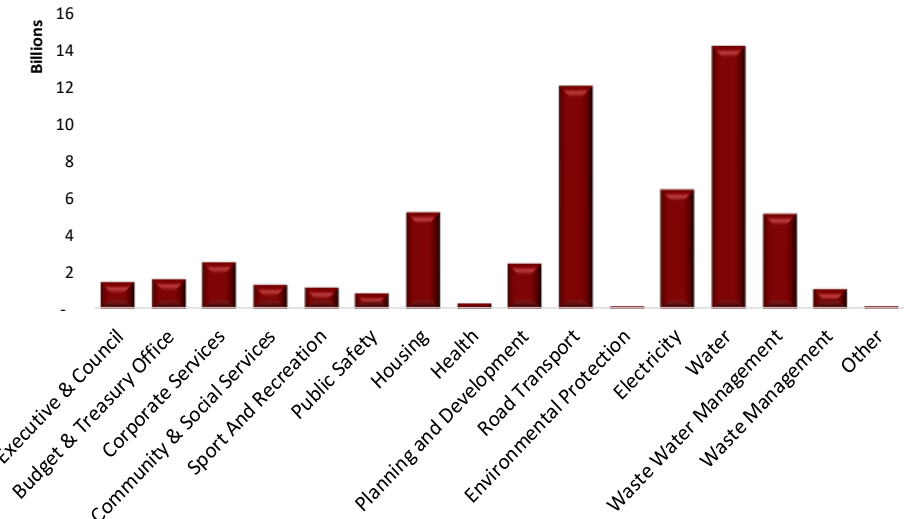
Compared to the 4<sup>th</sup> quarter of 2017/18, the adjusted budget for salaries and wages has increased by 6.9 per cent in the fourth quarter of 2018/19

Salary and wages spending as at 30 June 2019



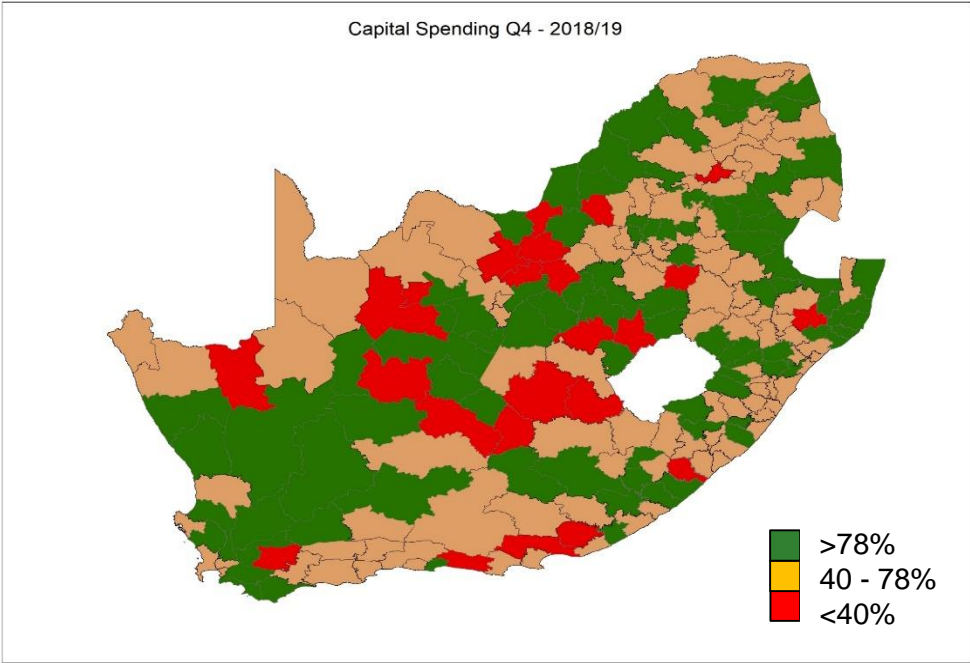
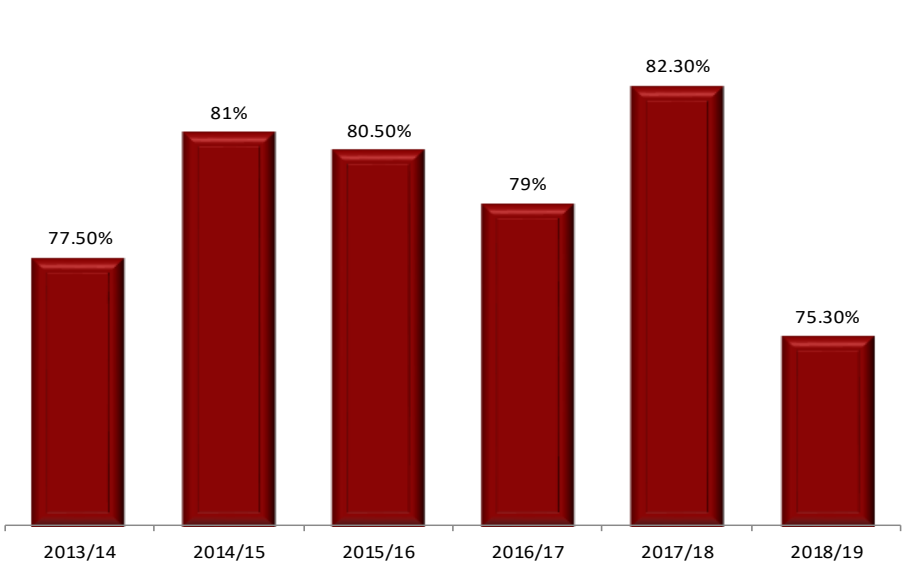
# Capital expenditure as at 30 June 2019

Capital spending per Standard Classification as at 30 June 2019



- As at 30 June 2019, municipal capital spending on average was 75.3 per cent.
- The biggest capital spending is allocated to water followed by roads transport, electricity and housing.
- Although a slight decline in the capital spending is observed when compared to previous years, overall performance still remains unsatisfactory
- Under performance contributed to:
  - Weak multi-year budgeting;
  - Limited planning and project management skills; and
  - Supply Chain Management inefficiencies.

Capital expenditure for 4th quarter of 2013/14 to 2018/19



# Summary of over- and underspending of budgets (30 June 2019)

## Analysis of Over and Under spending of expenditure for 2015/16 - 2018/19

R thousands	2015/16			2016/17			2017/18			2018/19		
	(Over)	Under	Nett	(Over)	Under	Nett	(Over)	Under	Nett	(Over)	Under	Nett
Total	(3 079 327)	43 699 930	40 620 603	(1 766 257)	53 093 175	51 326 919	(22 626 540)	66 833 502	44 206 962	(3 843 598)	57 804 639	53 961 040
Capital	(1 037 171)	13 408 789	12 371 618	(1 389 980)	15 828 308	14 438 328	(8 186 799)	20 812 583	12 625 783	(836 236)	18 982 576	18 146 340
Operating	(3 053 249)	31 302 234	28 248 985	(1 482 741)	38 371 331	36 888 591	(15 108 441)	46 689 620	31 581 179	(4 871 939)	40 686 639	35 814 700

Source: National Treasury Local Government database

- There is a decrease in the under spending of the capital budget from 2017/18.

## Number of municipalities per interval for total expenditure as at 30 June 2019 (Preliminary results)

Count	(Over)			Target		Under			Insufficient Information
	More than - 15%	Between -15% and -10%	Between -5% and -10%	Between 0% and -5%	Between 0% and 5%	Between 5% and 10%	Between 15% and 10%	More than 15%	
<b>Summary per Province</b>									
Eastern Cape	1	0	0	1	1	5	2	29	0
Free State	2	0	0	1	0	3	0	17	0
Gauteng	0	0	1	1	3	2	1	3	0
Kwazulu-Natal	1	0	1	3	3	12	9	25	0
Limpopo	0	1	1	0	2	0	4	19	0
Mpumalanga	0	0	0	1	1	3	4	11	0
North West	0	0	0	1	0	1	3	17	0
Northern Cape	3	0	2	0	2	2	4	18	0
Western Cape	0	0	1	1	0	1	9	18	0
<b>Total</b>	<b>7</b>	<b>1</b>	<b>6</b>	<b>9</b>	<b>12</b>	<b>29</b>	<b>36</b>	<b>157</b>	<b>0</b>

Source: National Treasury Local Government database

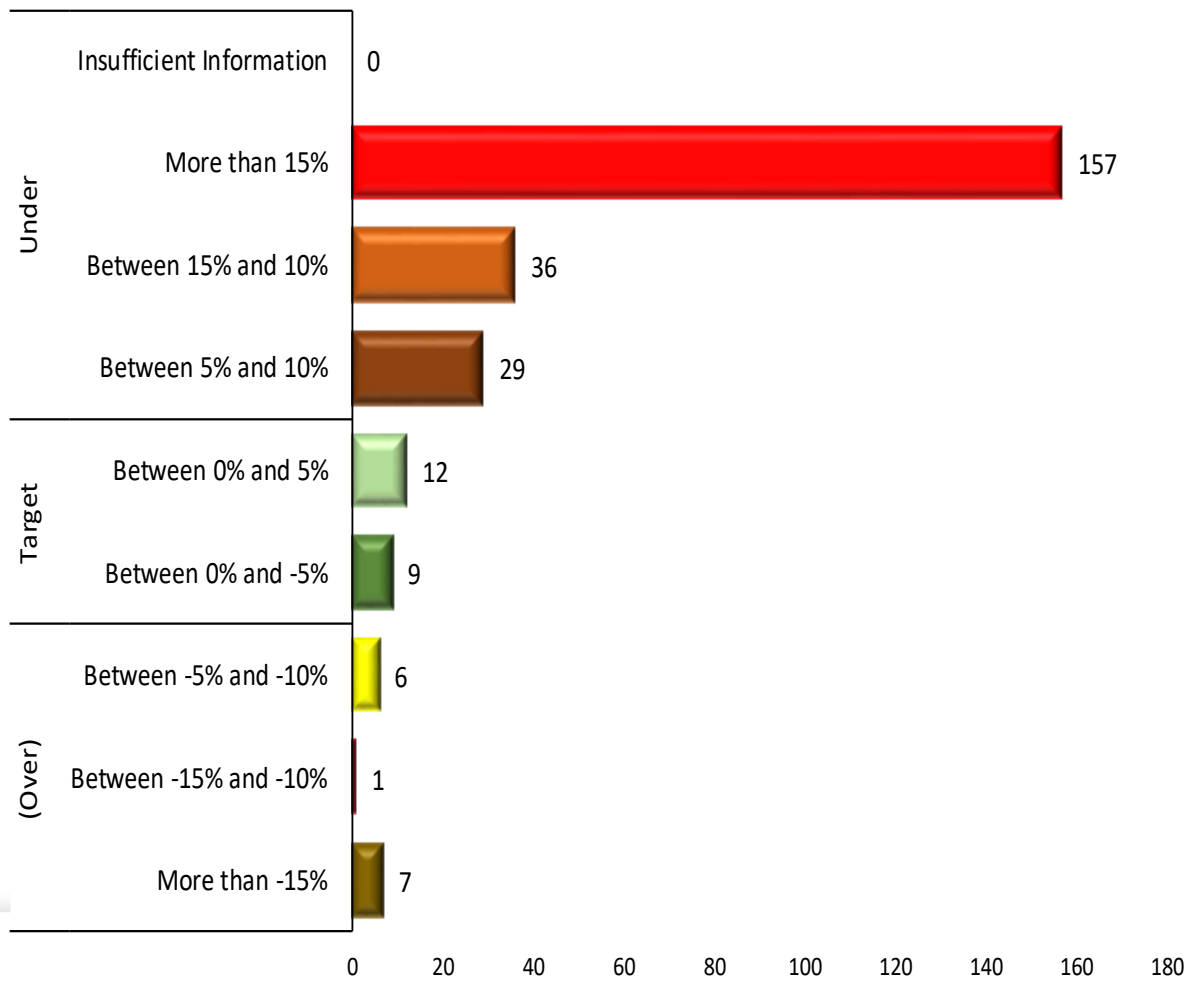
# Over- and underspending of Total Budget 2018/19

222 municipalities under spent their total budget by more than 15%

21 municipalities were on target with regard to their total adjusted budget spending

Only 14 municipalities over spent their total budget.

Analysis of Over and Under spending of expenditure as at 30 June 2019



# Preliminary analysis of over- and underspending as at 30 June 2018/19

## Operating budgets

- Overspending R4.9bn
- Underspending R40.7bn
- Nett underspending R35.8bn

- Number Overspending: 15
- Number Underspending: 211
- Number on target: 31

## Capital budgets

- Overspending R836.2m
- Underspending R19bn
- Nett underspending R18.1bn

- Number Overspending: 28
- Number Underspending: 214
- Number on target: 15

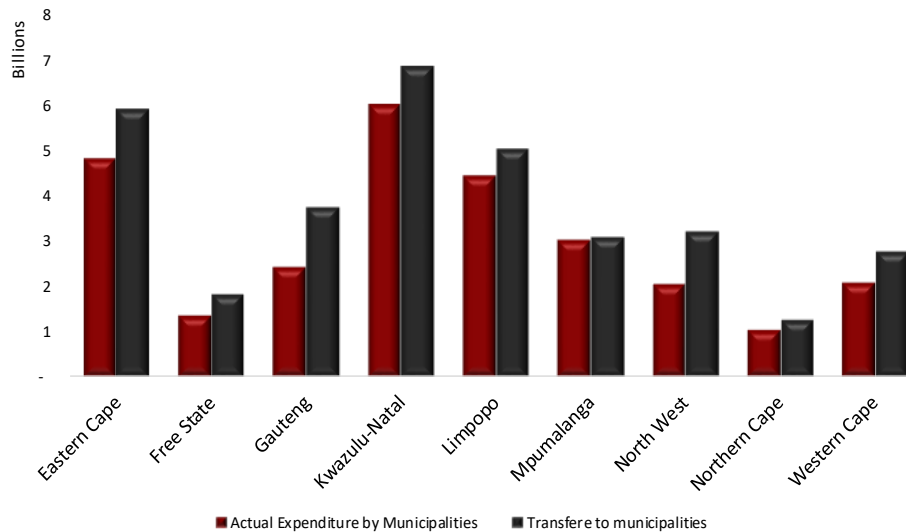
## Unspent conditional grants

- Allocated R40.9bn
- Transferred R33.6bn
- Spent R27.2bn

- Overspending: 24
- Underspending: 155
- Number on target: 72

# National Grants spending per province as at 30 June 2019

National grants spending as at 30 June 2019



**Total conditional grants transferred to municipalities: 30 June 2019**

**R33.6 billion  
82.3 per cent**

Total conditional grant allocations: 2018/19

R40.9 billion

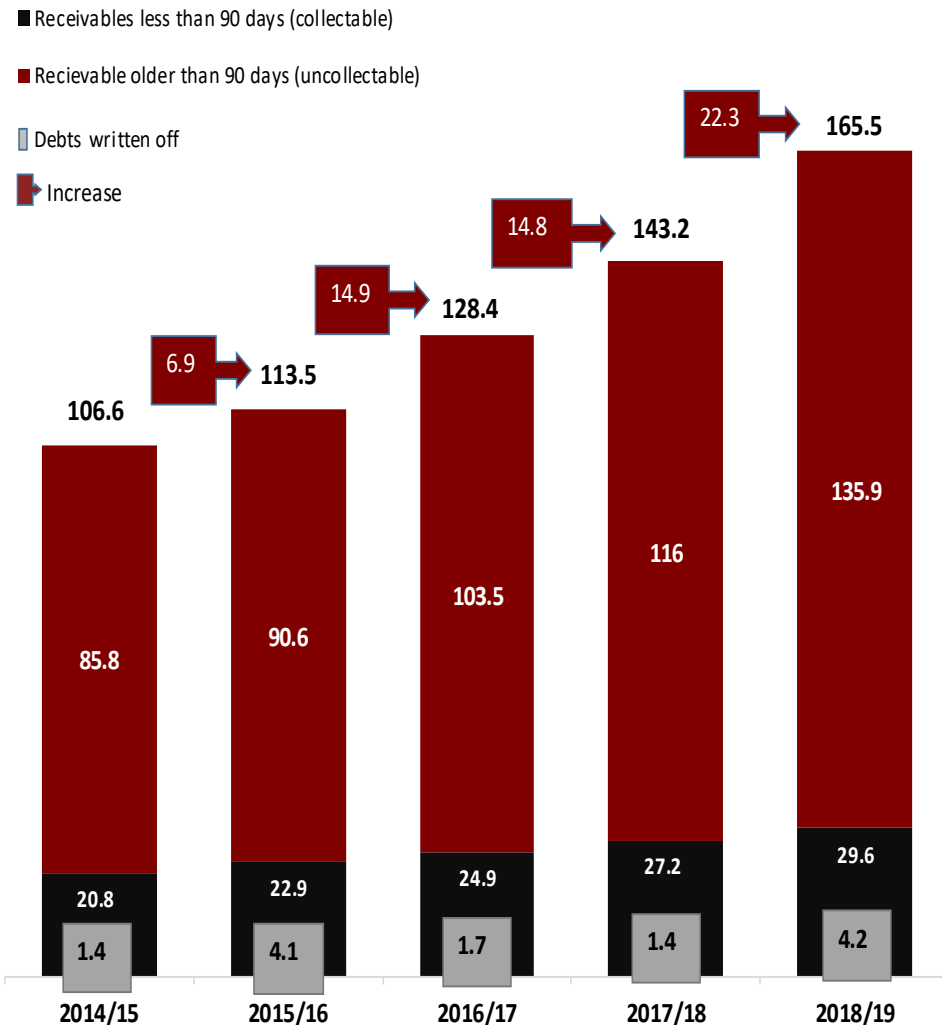
Total conditional grant expenditure as at 30 June 2018/19

R27.2 billion  
80.1 per cent

- R119.9 billion was allocated to LG in grants
- Constitutes 27.3% of the total adjusted revenue budget for municipalities
- As at the end of the 4<sup>th</sup> quarter expenditure was recorded at 80.1 per cent
- This is despite MIG achieving expenditure of 92.7 per cent (biggest grant for LG)
- Spending on operational grants were higher - incentive grant being the best performing programme (EPWP) (100 per cent), followed by ISDG and FMG.
- Infrastructure grants had a mixed bag of performance, as some performed well e.g. MIG and INEP grant, while others performed poorly i.e. MDRG, WSIG and MEHG

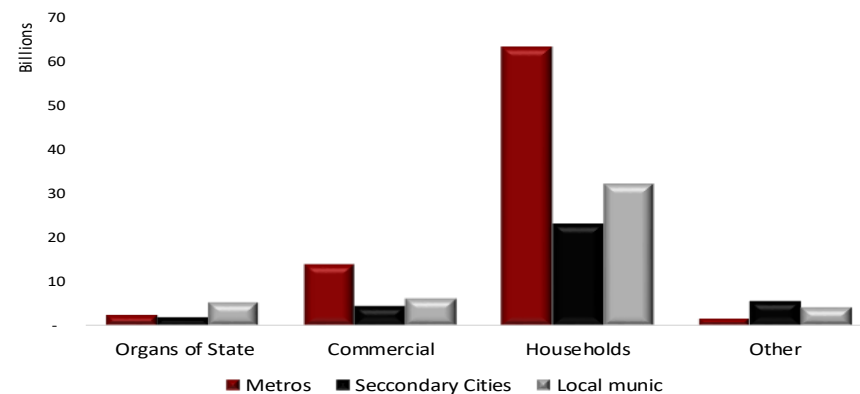


# Outstanding debtors as at 30 June 2019



Aggregate Consumer debtors: 30 June 2019	R165.5 billion (R143.2 billion -4 <sup>th</sup> Q : 2017/18)
Compositions	Households: R118.6 billion (71.7 per cent) Government: R10.3 billion (6.2 per cent)
Debt below 90 days (collectable)	R29.6 billion
Provinces National Departments	R5.8 billion R3.5 billion
Metros	49.7 per cent of total outstanding municipal consumer debt (R165.5 billion)

Debtors by customer group as at 30 June 2019



# Analysis of Debtors and Creditors

## 4<sup>th</sup> Quarter 2018/19 Results

	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
R billion	2017/18	2018/19	2018/19	2018/19	2018/19
<b>Debtors Age Analysis</b>					
National	143.2	158.9	184.7	162.9	165.5
Metros	72.3	84.8	100.4	83.9	82.2
Secondary cities	25.6	28.3	36.5	30.3	35.4
<b>Creditors Age Analysis</b>					
National	51.1	50.7	50.9	50.6	60.2
Metros	20.8	16.3	16.2	15.6	17.1
Secondary cities	12.0	14.3	15.4	15.5	18.8
<b>Percentage creditors over 90 days</b>					
Eastern Cape	30.2%	34.2%	30.9%	80.7%	33.4%
Free State	87.5%	85.2%	89.5%	85.1%	89.3%
Gauteng	3.7%	3.4%	3.9%	80.9%	5.3%
KwaZulu-Natal	16.4%	23.5%	30.3%	78.7%	27.7%
Limpopo	62.5%	72.4%	68.1%	87.1%	68.3%
Mpumalanga	65.6%	73.1%	82.5%	90.4%	75.5%
North West	71.1%	70.7%	72.3%	89.0%	57.7%
Northern Cape	70.3%	77.3%	79.3%	89.9%	76.7%
Western Cape	4.4%	4.0%	4.8%	70.0%	2.9%

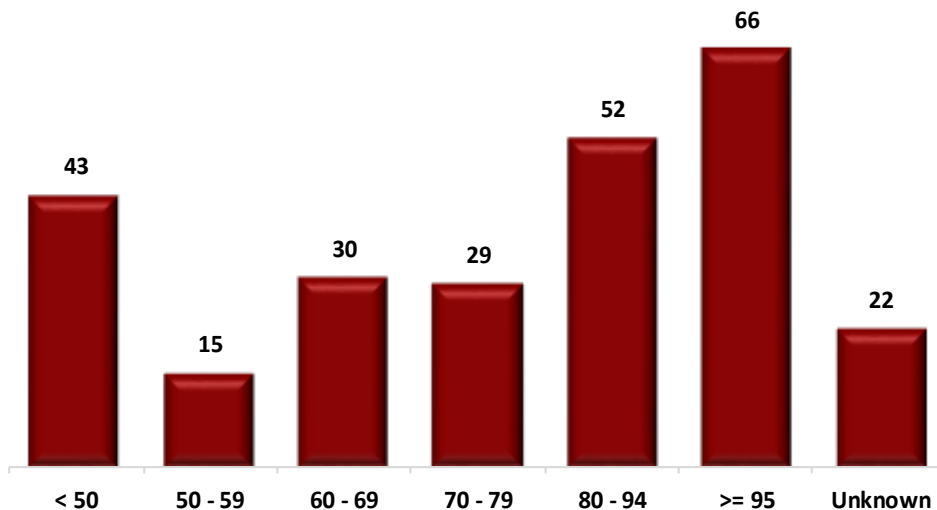
# Collection rate as at 30 June 2019

## National collection rate as at 4th Quarter Ended 30 June 2019

	Adjusted Budget	First Quarter 2018/19 Actual	Second Quarter 2018/19 Actual	Third Quarter 2018/19 Actual	Fourth Quarter 2018/19 Actual	Year to date: 30 June 2019 Actual
R thousands						
<b>Collection Rate</b>	88.9%	83.4%	91.3%	90.7%	90.9%	88.9%
Property rates	92.6%	77.5%	94.3%	88.1%	89.1%	86.8%
Service charges - Total	88.8%	87.0%	92.2%	94.2%	94.3%	91.8%
Service charges - electricity revenue	89.5%	92.7%	100.7%	94.5%	96.7%	96.1%
Service charges - water revenue	83.1%	78.1%	83.1%	108.1%	110.9%	93.7%
Service charges - sanitation revenue	83.9%	63.9%	61.7%	64.0%	55.6%	61.3%
Service charges - refuse revenue	82.1%	71.7%	80.4%	88.5%	76.6%	79.1%
Service charges - other	477.0%	402.3%	226.4%	91.4%	55.7%	144.5%
Interest earned - outstanding debtors	57.6%	55.3%	44.9%	23.8%	42.8%	43.2%

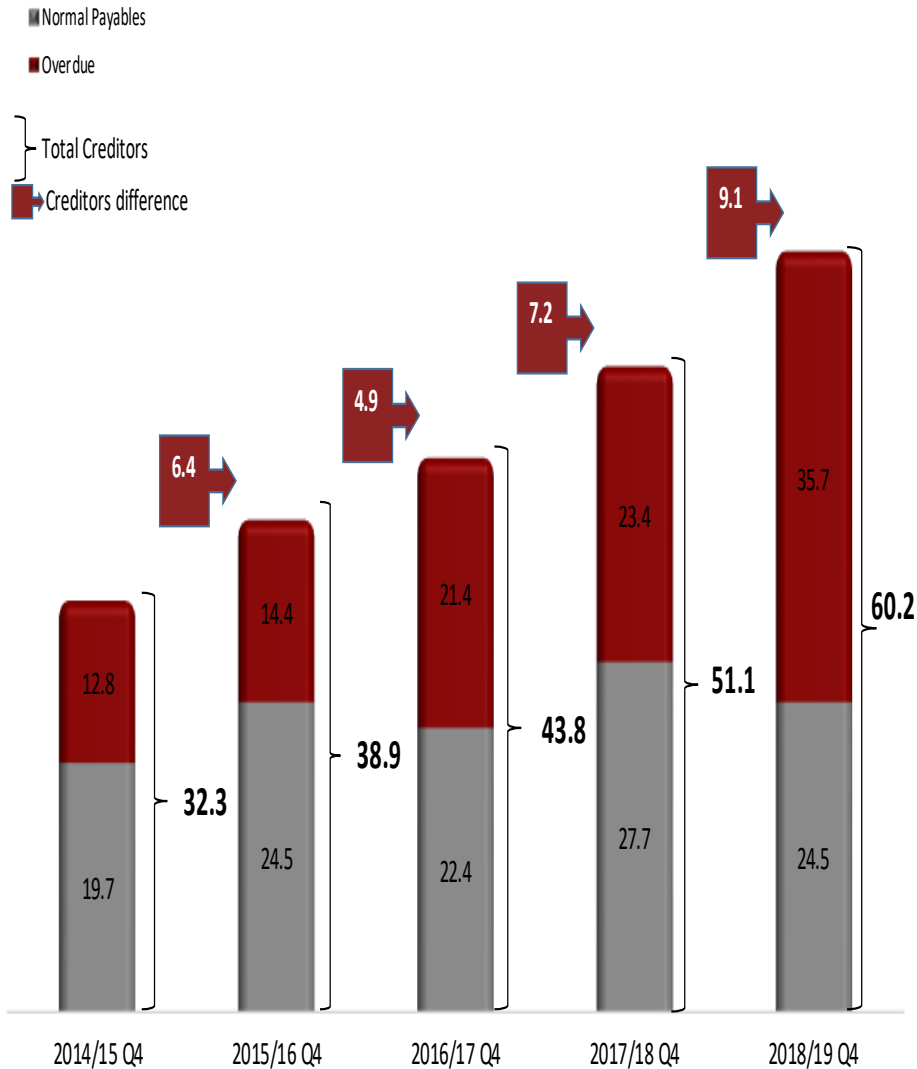
Source: National Treasury Local Government database

## Collection rate breakdown as at 30 June 2019



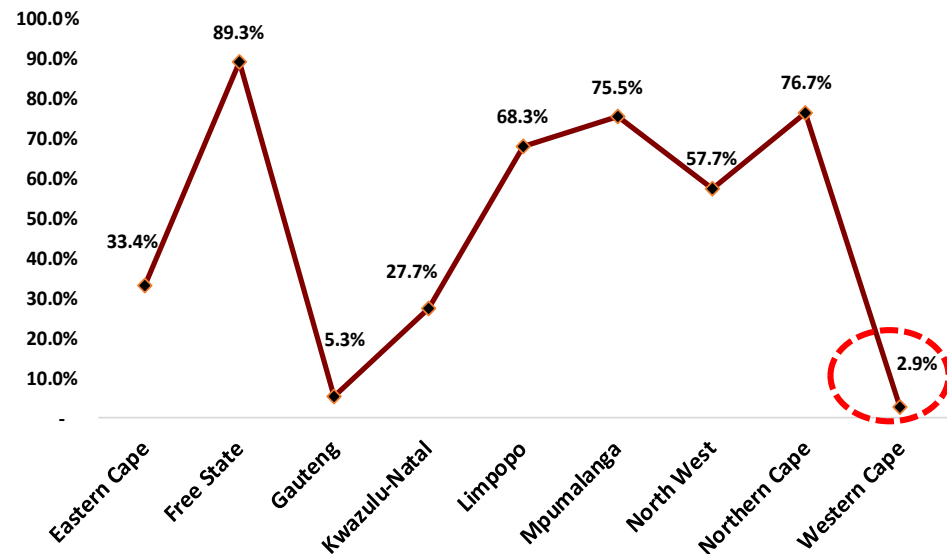
- The aggregated year-to-date actual collection rate is 88.9 per cent compared to an adjusted budgeted collection rate of 88.9 per cent.
- This represents an aggregated under performance of 1.2 per cent.
- It is suspected that the reported collection rate is distorted owing to reporting inconsistencies on cash flow movements of municipalities and the incorrect classification of service charges.
- The big metros tend to distort the true collection rate of smaller municipalities.
- Municipalities are under strain - 43 municipalities collecting less than 50 per cent of their billing while 22 municipalities' collection rate is undetermined.

# Creditor analysis as at 30 June 2019



- R60.2 billion is owed by municipalities as at 30 June 2019 (R51.1 billion reported in the same quarter in 2017/18).
- Highest percentage of outstanding creditors greater than 90 days:
  - Free State 89.3 per cent, Northern Cape 76.7 per cent and Mpumalanga at 75.5 per cent.
  - The lowest is Western Cape at 2.9 per cent
- 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

Outstanding creditors over 90 days as at 30 June 2019



# Quarterly cash balances for 4<sup>th</sup> quarter

## 30 June 2018/19

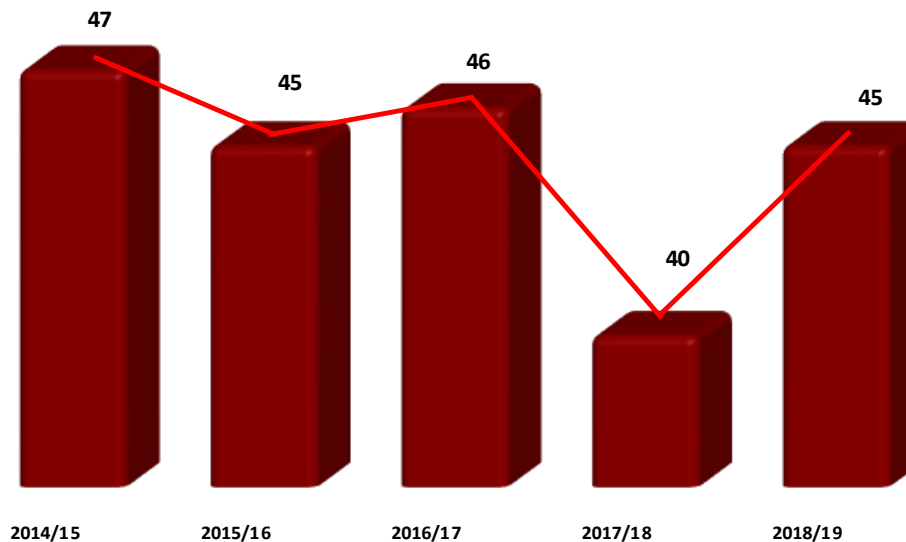
- A negative cash position is a very strong indicator that these municipalities are in financial distress.
- Municipalities with negative cash balances (in overdraft) at the end of the fourth quarter per province.
- Underperformance of actual collections against billed revenue holds a significant risk for the cash and liquidity position of municipalities as the planned expenditure is based on a higher level of collection.
- 45 Municipalities reported negative cash positions; an increase when compared to the 40 reported in the fourth quarter of 2017/18.

### Negative cash balances as at 30 June 2019

No of municipalities	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	2018/19	2018/19	2018/19	2018/19
<b>Per Province</b>				
Eastern Cape	4	2	2	8
Free State	3	2	4	7
Gauteng	2	0	0	0
Kwazulu-Natal	1	2	6	11
Limpopo	3	2	2	2
Mpumalanga	1	1	0	2
North West	1	3	5	4
Northern Cape	4	5	6	10
Western Cape	0	0	0	1
<b>Total</b>	<b>19</b>	<b>17</b>	<b>25</b>	<b>45</b>

Source: National Treasury Local Government database

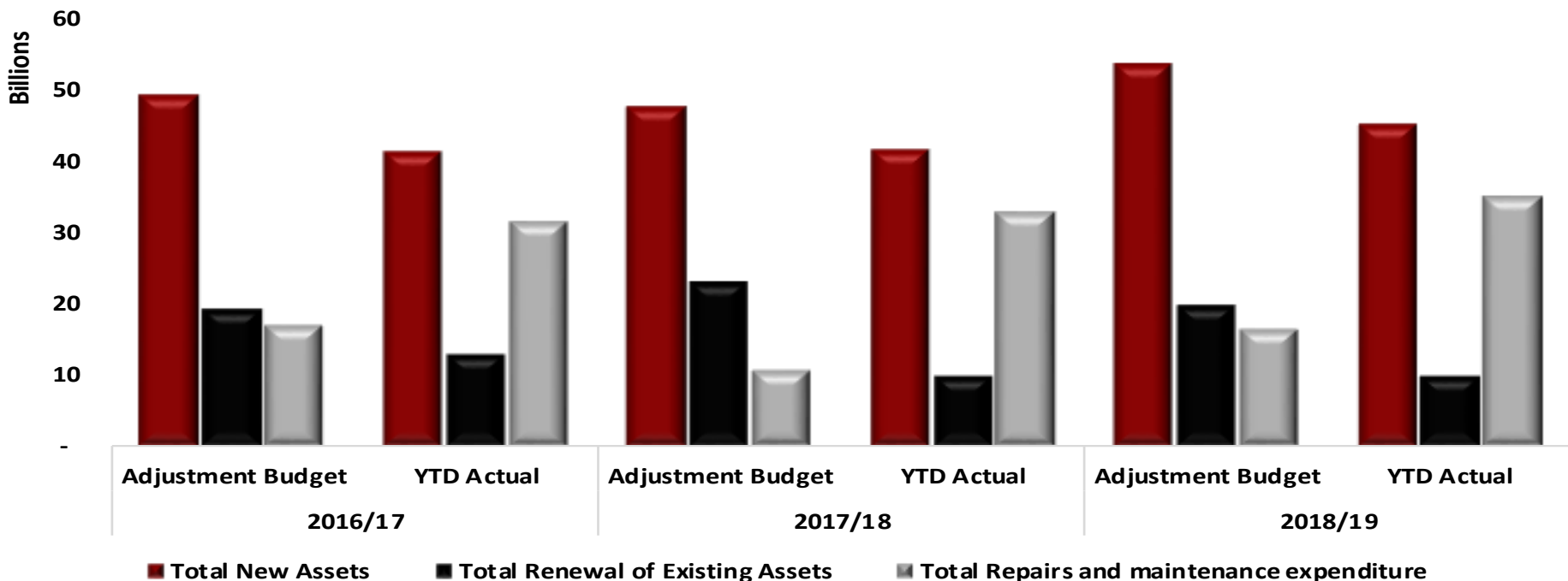
### Negative cash balance for the 4th quarter from 2014/15 to 2018/19



# Asset Management

- In a municipal context asset management comprises of two distinct expenditure classifications, namely: operational repairs and maintenance, including preventative maintenance; and asset renewal as part of the capital infrastructure budget
- Across all provinces, limited priority is given to this strategic spending area by municipalities. This directly contributes to significant inefficiencies within the system through, among others: increasing water and electricity losses; deficient reticulation infrastructure; service delivery disruptions; revenue losses etc.
- There is a increase in the amount used for new assets in the 4<sup>th</sup> quarter compared to the same quarter in 2016/17 and 2017/18

## Asset management for the 4th quarter from 2016/17 to 2018/19

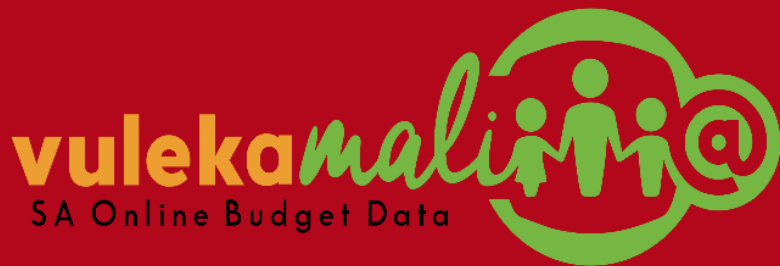


# Financial health of municipalities 2018/19

Category R'000	Cash and cash equivalents		Debtors		Creditors	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
Metros	29 606 393	30 523 169	72 343 801	82 192 750	20 449 484	17 085 301
Local municipalities	13 985 046	15 377 420	63 012 848	74 516 366	28 670 713	40 187 132
District municipalities	6 182 744	4 151 916	7 824 221	8 818 234	1 938 387	2 898 106
<b>National aggregate</b>	<b>49 774 182</b>	<b>50 052 505</b>	<b>143 348 754</b>	<b>165 527 350</b>	<b>51 058 583</b>	<b>60 170 539</b>

- In aggregate (national) municipalities closed the 2018/19 financial year with **positive cash balance** of R50.1 billion (S71, Q4, 2018/19)
- There is improvement in cash balances and the major contributors are the metros and local municipalities
- Overall all municipal categories (metros, local and district) experienced increase in debtors
- Metros is the only category that experienced a decrease in creditors
- The trend indicates the increasing financial pressures as consumers are not paying for services and municipalities are not paying suppliers

# THANK YOU



For additional information on national and provincial budgets, please visit our new budget data portal: <https://vulekamali.gov.za>

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open **local government budget** data portal

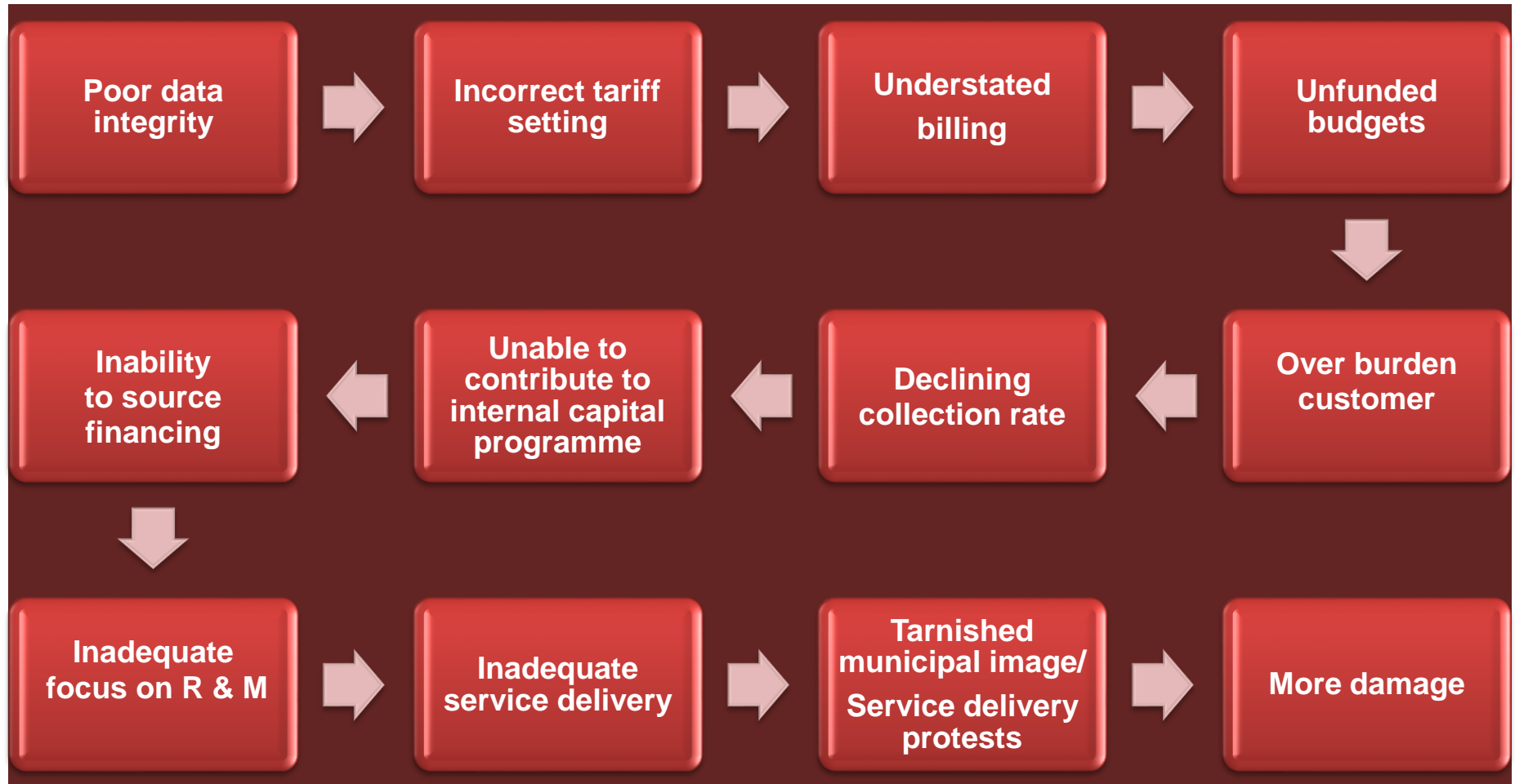
Explore easy-to-understand, verified financial information for **every single municipality** in South Africa in one place.



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# Consequences of poor revenue management



# Outcomes of the financial assessment (1)

No.	Measure	Outcome
1.	Cash as a percentage of operating expenditure	<b>Overall negligible improvement in cash coverage ratio</b> where the number of municipalities with cash coverage of less than one month decreased from 126 in 2016/17 to 124 in 2017/18. Also the number of municipalities with cash coverage exceeding 3 months <b>improved</b> from 58 in 2016/17 to 74 in 2017/18.
2.	Negative cash balances	<b>Overall deteriorating cash positions</b> Decrease in the number of municipalities with negative cash balances (from 19 in 2016/17 to 10 in 2017/18).
3.	Over spending of adjustment operating budgets	<b>Significant improvement in budget assumptions</b> for the operating expenditure budget ( 25 municipalities overspent their operational budgets by more than 25 per cent when compared to 45 in 2016/17) The total number of municipalities that overspent increased from 155 in 2015/16 to 157 in 2017/18.
4.	Under spending of original capital budgets	<b>Overall poor performance against the capital budget</b> 92 municipalities underspent the capital budgets by more than 30 per cent in 2017/18 compared to 67 in 2016/17.

The underspending of capital budgets in municipalities is mainly attributed to difficulties with planning and executing capital projects. It could also be associated with over ambitious capital programmes and potential cash flow problems in municipalities

# Outcomes of the financial assessment (2)

No.	Measure	Outcome
5.	Debtors as a percentage of own revenue	<b>Continuous growth in debtors compared to own revenue</b> The number of municipalities with debtor levels higher than 30 per cent of own revenue increased from 129 in 2016/17 to 142 in 2017/18
6.	Year on year growth in debtors	<b>Significant increase in debtors</b> The number of municipalities whose debtors grew by more than 20 per cent increased from 92 in 2016/17 to 120 in 2017/18 Overall debtors increased by R44.5 billion from 2016/17 to 2017/18
7.	Creditors as a percentage of cash and investments	<b>Slight improvement in creditors as a percentage of cash</b> The number of municipalities whose creditors are more than 75 per cent of their cash reduced from 149 in 2016/17 to 139 in 2017/18
8.	Reliance on national and provincial government transfers to finance the capital budget	<b>Slight improvement in reliance on national and provincial transfers</b> The number of municipalities whose capital budget is 75 per cent financed by national transfers decreased from 129 in 2015/16 to 94 in 2016/17 Also the number of municipalities whose capital budget is financed between 30 and 75 per cent from the national transfers decreased from 86 in 2016/17 to 53 in 2017/18

The underperformance of actual collections against billed revenue can be attributed to amongst others, the affordability, economic slowdown, poorly designed revenue management, indigents, debtor policies and resistance to pay for services