

**NATIONAL COUNCIL OF PROVINCES**  
**QUESTION FOR WRITTEN REPLY**  
**QUESTION NUMBER: 487 [CW523E]**  
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**487. Mr I M Sileku (Western Cape: DA) to ask the Minister of Finance: [★17] (Interdepartmental transfer – 5 August 2022)**

Whether there has been any increase in the number of municipalities that are regarded as bankrupt and/or insolvent; if so, what are the relevant details?

CW523E

**REPLY:**

No, there is a decrease of number of municipalities regarded as been “technically bankrupt” and or “insolvent”. The number reduced from 151 in 2018/19 to 125 municipalities in 2019/20.

The exercise in determining “bankrupt” and or “insolvent” municipalities takes into consideration the annual verification of the audit outcomes results submitted to the National Treasury’s Local Government Database and Reporting System (LGDRS) for completion. Additionally, the resultant is highly influenced by the quality of mSCOA data strings submitted by the municipality. There are three criteria that are characteristic in determining whether a municipality is “bankrupt” and or “insolvent” are:

**Bankrupt** - Solvency ratio of less than 1:1 (total liabilities exceed total assets);

**Insolvent** - Current ratio of less than 1:1 and unable to pay creditors from available cash and investments in line with the 30 days as articulated in Section (2)(e) of the MFMA; and

**Solvent** - Unable to Pay Creditors - Current ratio above 1:1 but unable to pay creditors from available cash and investments.

The National Treasury’s norms with regard to these ratios are articulated in MFMA Circular No. 71 which can be located on the NT Website.

The table below provides the detail of the breakdown per the characteristics above:

| SUMMARY                           | Financial Health Indicator - Audit Outcome - 30 June | Financial Health Indicator - Audit Outcome - 30 June |
|-----------------------------------|--|--|
|                                   | 2019   | 2020   |
| Bankrupt                          | 10   | 21   |
| Insolvent                         | 103  | 66   |
| Solvent - Unable to Pay Creditors | 38   | 38   |
| <b>TOTAL</b>                      | <b>151</b>   | <b>125</b>   |

*Source: National Treasury Local Government Database*

The combination of these characteristics determines the “bankrupt” and or “insolvency” status of a municipality