

**NATIONAL COUNCIL OF PROVINCES  
QUESTION FOR WRITTEN REPLY  
QUESTION NUMBER: 278 [CW370E]  
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**278. Ms C Labuschagne (Western Cape: DA) to ask the Minister of Finance:**

- (1) With reference to a reply to Question 236 on 8 June 2015 by the Minister of Cooperative Governance and Traditional Affairs, (a) which municipalities in the Eastern Cape are currently in financial distress and (b) what criteria were used to identify them;
- (2) what programmes were implemented by the (a) national and (b) provincial departments in each of these municipalities to provide support;
- (3) whether any specific cases were referred to the National Treasury; if not, what is the position in this regard; if so, (a) why and (b) what were the outcomes in each case?

CW370E

**REPLY:**

1. (a) The following 11 municipalities are listed in the “State of Local Government Finances and Financial Management Report dated 30 June 2014” produced by the National Treasury annually as being under financial distress:  
  
(1) Ikwezi local municipality, (2) Ndlambe local municipality, (3) Kouga local municipality, (4) Great Kei local municipality, (5) Amahlathi local municipality, (6) Nxuba local municipality, (7) Maletswai local municipality, (8) Gariep local municipality, (9) Mhlontlo local municipality, (10) King Sabata Dalindyebo local municipality, and (11) Umzimvubu local municipality.
1. (b) The National Treasury uses 8 indicators to measure the financial health of municipalities which is consistent with the approach followed during the previous years. The indicators are:
  - **Cash balances.** In terms of section 45 of the MFMA, municipalities are not permitted to close the financial year with an overdraft or short term borrowing.
  - **Cash coverage.** To measure if the municipality has adequate cash to meet its operating expenditure requirements. Municipalities are required to have three months cash available.

- **Reliance on capital grants.** The indicator looks at the level in which municipalities are able to generate own funds to finance revenue generating assets. Reliance should not be more than 30 per cent while over 75 per cent is deemed very severe.
- **Overspending on Operating budget.** Test if municipal spending is in line with available financial resources. The per cent ratio should not be more than 10 per cent of total operating budget.
- **Underspending on capital budget.** Test the effectiveness of municipal capital spending and to provide an indication of whether municipalities are using capital funds to resolve operating cash flow challenges. The underspending per cent should not be more than 10 per cent of capital budget. The unspent capital portion should have corresponding actual available cash in the bank.
- **Debtor's growth.** This tests the ability and level at which municipalities are collecting on outstanding debtors. The debtor's growth should not be more than 10 per cent of a 12 months period. Growth of above 20 per cent over a period of twelve months indicates that municipalities are not implementing debtor's collection policies.
- **Debtors to own revenue.** The ratio should not be more than 15 per cent while a ratio of 30 per cent and above indicates serious financial risk.
- **Creditor's payment.** This measure indicates if the municipality is able to meet its monthly financial obligations. Municipalities are required to pay creditors within 30 days of receiving invoice in line with MFMA section 65(e).

2. (a) Through the Municipal Finance Improvement Programme II (MFIP II), the National Treasury provides financial management support to municipalities. This is a demand driven programme. An advisor has already been placed at Mhlontlo local municipality. Ikwezi, Nxuba and Maletswai have been considered for support and once suitable qualified candidates have been identified and interviewed, the placement will take place.

Gariep local municipality's support has been declined by the National Treasury on the basis that they do not meet the criteria for such support. One of the criteria is to have a permanent accounting officer before support can be provided. The following five local municipalities have not applied for support: Ndlambe, Kouga, Great Kei, Amahlathi, King Dalindyebo and Umzimvubu.

2. (b) The question asked by the Honourable member, Ms C Labuschagne, must be directed to the relevant provincial departments, which are referred to and have the competent authority to provide the information as requested.
3. (a) No specific cases were referred to the National Treasury while maintaining that through the MFIP II, municipalities were requested to make application for support through provincial treasuries.
3. (b) See 3(a) above.