



THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT AS AT 30 JUNE 2024

Audit Outcomes of the 2023/24 financial year



national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Abbreviations

AFS	Annual Financial Statements
AGSA	Auditor-General South Africa
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CEDMF	City Economic Development Managers' Forum
CIDMS	Cities Infrastructure and Delivery Management System
CSIP	City Support Implementation Plan
CSP	Cities Support Programme
DBSA	Development Bank of Southern Africa
DPSA	Department of Public Service and Administration
DoRA	Division of Revenue Act
DoRAA	Division of Revenue Amended Act
DPME	Department of Planning, Monitoring and Evaluation
EC	Eastern Cape
FRP	Financial Recovery Plan
FM	Financial Management
FMIP	Financial Management Improvement Programme
FMISD	Public Financial Management Capacity Development Programme for Improved Service Delivery
FS	Free State
CoGTA	Department of Cooperative Governance and Traditional Affairs
GT	Gauteng
GVR	General Valuation Roll
IDP	Integrated Development Plan
IYM	In-Year management, Monitoring, and reporting system
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
MM	Municipal Manager

MP	Mpumalanga
MSA	Municipal Structures Act
mSCOA	Municipal Standard Chart of Accounts
MTEF	Medium Term Expenditure Framework
MTREF	Medium Term Revenue and Expenditure Framework
NERSA	National Energy Regulator of South Africa
NC	Northern Cape
NTSPME	National Treasury Strategic Planning, Monitoring & Evaluation
NW	North West
OCPO	Office of the Chief Procurement Officer
SALGA	South African Local Government Association
SCM	Supply Chain Management
SMME	Small Medium Micro Enterprises
SoLGF	State of Local Government Finances
SOP	Standard operating procedure
STATSSA	Statistics South Africa
WC	Western Cape

Executive Summary

On an annual basis, the National Treasury publishes the State of Local Government Finances and Financial Management Report. The report is aligned with Section 5 of the Municipal Finance Management Act, 56 of 2003 (MFMA), which requires oversight of municipal financial management.

The 2024 State of Local Government Finances and Financial Management Report use preset financial ratios and audited financial data to give a quantitative analysis of the financial health of the 257 municipalities. The primary source of information utilised in this report is the 2023/24 financial year's audited Annual Financial Statements (AFS) submitted by municipalities to the National Treasury's Local Government Database and Reporting System (LGDRS) using the Municipal Standard Chart of Accounts (*mSCOA*) data strings.

Some municipalities submit inconsistent information, which compromises the accuracy of the analysis and may significantly indicate that the data is not credible.

Although municipalities were given the opportunity to verify the accuracy and consistency of financial information submitted to the LGDRS, there are still discrepancies between the data on the LGDRS system and the information in the audited annual financial statements.

To assist municipalities in submitting credible *mSCOA* data strings, the National Treasury, together with Provincial Treasuries, has institutionalised the monthly analysis of submitted data. Feedback is provided to municipalities on identified misalignments to enable corrective action. In addition, technical support is offered through the Municipal Finance Improvement Programme (MFIP).

Information obtained from the municipalities indicates that most of the senior municipal officials possess the prescribed minimum qualifications and relevant experience for their positions and have completed the required unit standards to meet minimum competency levels.

The 2023/24 financial results show a slight improvement in the state of local government finances and financial management, as the number of municipalities in financial distress decreased from 168 in 2022/23 to 162 (4 per cent) in 2023/24. Despite this marginal improvement, the overall performance remains poor. The findings highlight persistent challenges, including the erosion of institutional capacity, weak financial management, and political instability, all of which continue to undermine effective governance.

Furthermore, it is evident that the new political leadership elected following the 2021 local government elections has achieved limited success in reversing the decline in municipal performance. The financial challenges are further underscored by the latest audit outcomes of the 2023/24 financial year.

Political instability is prevalent in metropolitan municipalities that are governed through a coalition government, and to a certain extent, has significant impact on the ability of the administrative leadership to make timeous decisions.

Although some of the key positions are occupied by suitably qualified individuals, municipalities continue to struggle to perform the basics of financial management. This has resulted in a heavy reliance on consultants, yet such interventions have yielded minimal to no improvement in overall municipal performance.

A total of 113 municipalities adopted unfunded adjustments budgets for the 2023/24 financial year and failed to pay their creditors within the legislated timeframe of 30 days period after receiving invoices. This challenge is compounded by an average collection rate that fell below the benchmark norm of 95 per cent. Among the long outstanding creditors are Eskom and Water Boards, third parties such as the pension funds and medical aid schemes. In addition, the National Treasury has noted a growing trend of municipalities defaulting on their pension funds contributions.

In terms of the MFMA, failure by accounting officers to meet their statutory 3rd party payment commitments constitutes a financial offence. The National Treasury is engaging directly with pension funds that are owed and is implementing Section 216(2) of the Constitution in respect of the affected municipalities. As a result, municipalities are required to provide proof of payment or enter formal payment arrangements before their equitable share allocations can be released.

Of concern is the persistently high level of unauthorised, irregular, fruitless and wasteful (UIFW) expenditure. In several municipalities UIFW balances continue to increase, reflecting weaknesses in internal controls and deficiencies in financial governance.

The number of prepared Financial Recovery Plans (FRPs) remains high varied from mandatory, discretionary, and voluntary FRPs without tangible evidence to show recoveries to a stable and sustainable phase. It is imperative to note that the implementation of these FRPs comes with limitations such as the sole dependency on the municipal council and municipal officials to rectify the situation and for successful implementation, especially when municipal councils fail in their oversight to prevent service delivery failure, retain statutory and executive powers.

Governance and leadership failures continue to negatively affect the quality of services delivered to communities. These shortcomings have also resulted in the inadequate maintenance of critical service delivery infrastructure leading to significantly high water and electricity losses. This is evident in municipalities' ongoing struggle to strike an appropriate balance between procuring new assets and investing in routine repairs and maintenance, renewal and upgrading of existing assets in line with prescribed norms and standards.

Challenges have been observed in certain municipalities participating in the Debt Relief Programme, particularly in their failure to meet the conditions attached to the programme. These municipalities struggle to comply with condition 6.3 (payment of Eskom current account) and condition 6.14 (NERSA license requirements) both of which recorded the lowest levels of compliance.

The National Treasury in the financial year 2023/24 established a Metro Trading Services programme to support trading service functionality with Technical Advisors and with an incentive grant. These reforms are designed to address the institutional challenges that hinder the provision of water and sanitation, electricity distribution, and solid waste management to communities.

Furthermore, the capacity building programme through the Municipal Finance Improvement Programme (MFIP) has been immensely valuable with the appointment of Technical Advisors to provide direct capacity support to the identified municipalities, allowing National and Provincial Treasuries to focus on different work streams.

The National Treasury plans to strengthen the local government capacity building system, by consolidating the financial management support initiatives into an integrated Local Government Financial Management Capability Programme (LGFMC) which represents a strategic paradigm shift in the approach to municipal capacity building. This integration transcends an ordinary administrative efficiency exercise as financial management competencies are cultivated and maintained within the realm of local governance.

This report highlights that there are serious financial challenges persist across most municipalities in South Africa.

1. INTRODUCTION

- 1.1. This marks the 13th edition of the State of Local Government Finances and Financial Management (SoLGF) report, published annually by the National Treasury. In line with Section 5 of the MFMA, the National Treasury issues this report each year as part of its monitoring and oversight responsibility relating to municipal financial management.
- 1.2. The report presents an assessment of municipal financial health, governance, institutional arrangements, and service delivery for the financial year ending 30 June 2024.
- 1.3. It also reviews the overall performance of local government and provides an update on several initiatives that are underway to address the structural and operational challenges impeding the effective functioning of municipalities. In the previous reports, municipalities in financial distress were identified, and certain steps were taken at certain municipalities to initiate the applicable intervention mode in line with the extent of the financial and service delivery challenges.
- 1.4. Regarding the financial data used in this report, the *mSCOA* regulations require municipalities to upload financial information in a data string format on the Local Government Upload portal using the six *mSCOA* regulated segments. The regulations additionally require municipalities to plan, budget, transact and report directly from their financial systems that are *mSCOA* compliant to ensure consistency of data. However, several municipalities are still not planning, budgeting, transacting, and reporting directly in or from their core financial systems. Instead, reports are manually prepared on excel spreadsheets and then imported into the financial system for submission to the LG Upload portal. This results in discrepancies in data. At the core of the problem are the following:
 - Incorrect use of the *mSCOA* chart and municipal accounting practices by municipal officials;
 - Certain municipalities do not perform quality checks at month-end to ensure prudent financial reporting; and
 - Poor or no upgrades of the Information and Communication Technology (ICT) (servers, hardware, and software) and lack of maintenance, resulting in the ICT environment not being compatible with the modern technology required to implement *mSCOA*.
- 1.5. Notwithstanding the data challenges, this report provides a broad, high-level perspective of key financial trends and indicators commonly used in both public and private sectors.
- 1.6. The report provides key information to enable municipal councils, sector departments, Provincial Treasuries, National and Provincial Legislatures, and academic institutions in making strategic decisions about municipalities. This information is also used to inform policy formulation.
- 1.7. Annexure A1 identifies municipalities in financial distress based on the assessment of their financial health. A total of 162 municipalities were identified with varying degrees of financial problems.
- 1.8. These financial problems are typically characterised by poor cash flow management, increasing debtors' books and creditors, as well as inadequate repairs and maintenance of infrastructure. In addition, some of these municipalities have repeated disclaimer audit opinions and the persistent adoption of unfunded budgets by municipal councils.
- 1.9. Annexure A1 and Annexure A2 provides details of information that will be diagnosed and analysed in this report. The discussion below reflects municipalities' performance in the 2023/34 financial year.

2. LOCAL GOVERNMENT AUDITED FINANCES AS AT 30 JUNE 2024

2.1. Table 1 below provides a high-level summary of balances relating to total billed revenue, total estimated expenditure, personnel expenditure, capital expenditure and conditional grants. For 2023/24 financial year, 113 municipalities adopted unfunded adjustments budgets. The impact of this is evident in the financial outcomes, with total actual billed revenue amounting to R622.8 billion, compared to total expenditure of R658.7 billion. This mismatch resulted in a shortfall of approximately R35.9 billion.

Table 1: LG financial performance as at 30 June 2024

Description	R'000							
	Total Original Budget	Total Adjusted Budget	Difference between OB and AB	Total Actual	Under against Original Budget	Under against Adjusted Budget	Actual as percentage of Original Budget	Actual as percentage of Adjusted Budget
Revenue Expenditure	652 272 572	663 500 441	11 227 869	622 814 545	(29 458 027)	(40 685 896)	95.5%	93.9%
	649 928 359	665 451 952	15 523 593	658 706 283	8 777 924	(6 745 669)	101.4%	99.0%
Actual surplus / shortfall	2 344 213	(1 951 511)		(35 891 738)				
Personnel Expenditure	162 639 103	161 228 513	(1 410 590)	145 012 562	(17 626 541)	(16 215 951)	89.2%	89.9%
Capital Expenditure	77 410 772	79 948 976	2 538 204	100 315 869	22 905 097	20 366 893	129.6%	125.5%
Conditional Grants	43 813 824	43 288 719	(525 105)	31 399 684	(12 414 140)	(11 889 035)	71.7%	72.5%

Source: LGDRS

2.2. The total original revenue was budgeted at R652.3 billion and later was slightly adjusted to R663.5 billion resulting in an increase of R11.2 billion. However, the actual revenue reported amounted to R622.8 billion resulting in an underperformance of R40.7 billion or 6.1 per cent against the adjusted budget.

2.3. The billed revenue was below expectations, highlighting systemic challenges in achieving budgeted targets. The municipalities achieved 93.9 per cent of their revenue projections. Persistent under-billing may be attributed to factors such as over-optimistic budgeting and lack of improved operational capacity.

2.4. The total operating expenditure was initially projected at R649.9 billion in the original budget and subsequently adjusted upwards to R665.5 billion, reflecting an increase of R15.5 billion. The actual expenditure reported amounted to R658.7 billion, resulting in an underspending of R6.7 billion, or approximately 1 per cent against the adjusted budget.

2.5. While underspending may contribute to a surplus, it often indicates shortcomings in budget planning and implementation, as allocated funds are not fully utilised. Of the adjusted total expenditure of R658.7 billion, 84.8 per cent relates to operating expenditure, amounting to R558.4 billion.

2.6. As presented in table 1 above, the overall outcome of the Local Government (LG) financial performance as at 30 June 2024 depicts a total actual deficit of R35.9 billion which indicates that revenue was below expenditure, which is a negative and concerning indicator. It is important to note that the total operating deficit excludes conditional grants received for the year.

2.7. To enable credibility of budgeting municipalities should adopt a more realistic budgeting by aligning revenue forecasts with historical collection trends and enhance in-year monitoring of revenue and expenditure to detect shortfalls early in the year and correct them with the adjustment budgets.

2.8. The personnel expenditure was budgeted at R162.6 billion but later adjusted downward by R1.4 billion to R161.2 billion by R1.4 billion. Municipalities did not fully utilise their personnel budget with actual expenditure amounting to 89.9 per cent against the adjusted personnel

expenditure budget. The underspending can be attributed to factors such as unfiled vacancies, overestimation of salary increases or benefits during budgeting, and cost containment measures observed during the in-year monitoring. Municipalities are urged to strike a balance financial prudence and the need to maintain adequate operational capacity needs.

- 2.9. The original capital budget was R77.4 billion and was subsequently adjusted upward by R2.5 billion to R79.9 billion. This reflects an expansion of projects by municipalities leading to increased capital costs. The approval of conditional grants rollover applications from 2022/23 financial year also contributes to the increase in the capital budget.
- 2.10. The actual capital expenditure amounted to R100.3 billion reflecting significant overspending of R20.4 billion or 22.5 per cent against the adjusted budget. This outcome highlights poor alignment between capital budget planning and implementation capacity. However, the credibility of this reported performance is questionable given the underspending on conditional grants by R11.9 billion as shown in the table above. The reported actual spending could have errors due to incorrect data strings submissions.
- 2.11. It is noted in other reports that municipalities generally underperform on their capital expenditure budgets. This persistent trend highlights challenges in the effective implementation of planned infrastructure projects and capital programmes, which often results in delays, underspending, and reduced service delivery outcomes. The reason for underspending includes project implementation delays due to procurement bottlenecks, contractor disputes, or late project starts, capacity constraints within technical or project management units, cash flow challenges linked to revenue under collection, unrealistic budgeting not aligned with actual delivery capacity and external factors such as supply chain disruptions, community protests, or regulatory delays in project delays.
- 2.12. The underspending on capital expenditure has resulted in delays to critical infrastructure projects such as roads, water, sanitation, and housing. These delays directly affect communities as intended outcomes such as local job creation, and local supplier opportunities are not being realised.
- 2.13. The conditional grants were initially allocated R43.8 billion and were adjusted downward by R525.1 million to R43.3 billion. This downward adjustment was primarily due to poor mid-year performance. The actual expenditure amounted to R31.4 billion, reflecting an underspending of R11.9 billion or 27.5 per cent against the adjusted budget. This represents a notably low utilisation rate, with nearly one-third of conditional grants remaining unspent.
- 2.14. The poor spending results in service delivery setbacks as conditional grants are often earmarked for critical services such as provision of water, sanitation, housing, roads, electrification, and this means that communities are deprived of planned benefits.
- 2.15. The debtors as at the end of the 2023/24 financial year amounted to R427.7 billion. This exceptionally high balance reflects substantial amounts owed to municipalities particularly for service charges and property rates. The persistence of collection inefficiencies across most municipalities highlights weak revenue management, poor enforcement of credit control and ongoing affordability challenges faced by residents.
- 2.16. A substantial amount of R156.1 billion was owed to suppliers and service providers. High creditors and high debtors create liquidity challenges resulting in municipalities struggling to pay creditors while waiting to collect from consumer debtors.
- 2.17. At the end of 2023/24 financial year, municipalities reported total cash and cash equivalents of R266.8 billion alongside investments valued at R37.5 billion. The total borrowing balance stood at R67.2 billion. Despite these figures, many municipalities continue to experience liquidity pressures, as they cannot depend on debtors due to prolonged collection cycle, while creditors and service delivery obligations demand immediate cash outflows.

3. SUMMARY OF AUDIT OUTCOMES FOR THE FINANCIAL YEAR 2023/24

Figure 1

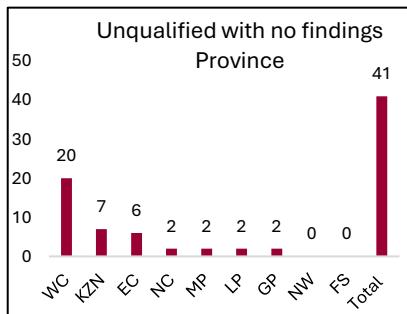


Figure 3

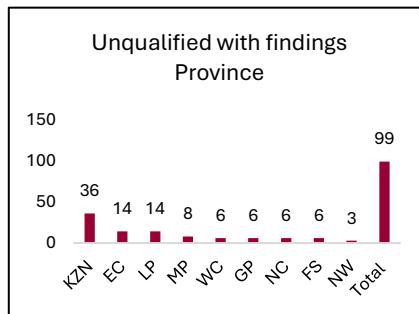
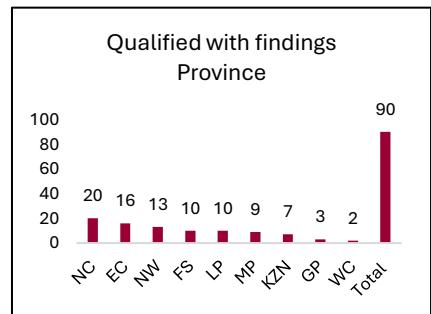


Figure 3



- 3.1. Out of the 257 municipalities, only 41 obtained unqualified audit opinions with no findings. The Western Cape recorded the highest number with 20 municipalities followed by KwaZulu-Natal with 7 and Eastern Cape with 6 municipalities.
- 3.2. A total of Ninety-nine (99) municipalities obtained unqualified audit opinions with findings. KwaZulu-Natal recorded the highest number with 36 municipalities followed by Limpopo and Eastern Cape with 14 municipalities each. In contrast, 90 municipalities obtained qualified audit opinions with findings. The leading province was the Northern Cape with 20 municipalities followed by Eastern Cape and North West with 16 and 13 municipalities, respectively.

Figure 4

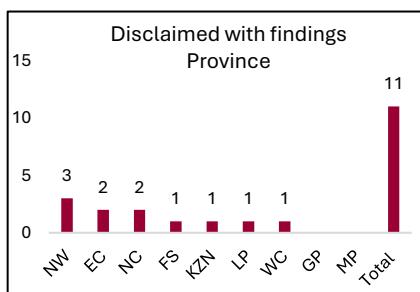


Figure 5

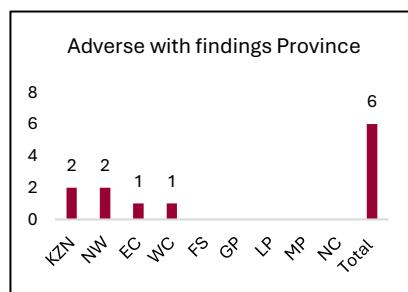
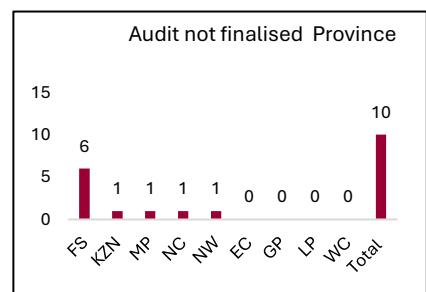


Figure 6



- 3.3. Eleven (11) municipalities obtained disclaimer of an opinion, while 6 obtained adverse audit opinion and 10 audits were not finalised, mostly in the Free State province with 6 auditees in this category.

4. METROS UNAUTHORISED, IRREGULAR, FRUITLESS, AND WASTEFUL EXPENDITURE (UIFWE)

Table 2: Metropolitan Municipalities Unauthorised, Irregular, Fruitless and Wasteful Expenditure as at 30 June 2024

Municipality	Unauthorised Expenditure		Irregular Expenditure		Fruitless and Wasteful Expenditure	
	R'000	% of total	R'000	% of total	R'000	% of total
Buffalo City	368 454	1.4%	10 555 696	16.2%	50 390	1.0%
Nelson Mandela Bay	1 450 589	5.6%	22 231 362	34.2%	705 409	13.3%
Mangaung	8 806 165	33.7%	3 744 440	5.8%	560 170	10.6%
City of Ekurhuleni	397 108	1.5%	1 694 166	2.6%	76 127	1.4%
City of Johannesburg	12 937 021	49.6%	9 942 124	15.3%	734 814	13.9%
City of Tshwane	2 146 040	8.2%	15 521 389	23.9%	3 141 844	59.4%
eThekweni	-	0.0%	1 294 868	2.0%	17 217	0.3%
City of Cape Town	-	0.0%	-	0.0%	-	0.0%
Total	26 105 377	100.0%	64 984 045	100.0%	5 285 970	100.0%

Source: LGDRS

- 4.1. The table above highlights the accumulated level of UIFWE for metropolitan municipalities. The table highlights a concentrated problem across metros with irregular expenditure constituting the largest share among the three categories. The total UIFWE amounted to R96.4 billion, with the unauthorised expenditure amounting to R26.1 billion, irregular expenditure of R65 billion, and fruitless & wasteful expenditure amounting to R5.3 billion.
- 4.2. Three metros (Nelson Mandela Bay, Johannesburg, Tshwane) together account for 71.4 per cent of the combined UIFWE (R68.8 billion) as broken down below:
 - Nelson Mandela Bay – R24.39 billion (25.3 per cent of the combined UIFWE of metros);
 - Johannesburg – R23.61 bn (24.5 per cent of the combined UIFWE of metros); and
 - Tshwane – R20.81 bn (21.6 per cent of the combined UIFWE of metros).
- 4.3. There is high level of concentration among the top 3 metropolitan municipalities, which collectively account for R7 out of every R10 of UIFWE reported in the dataset above.
- 4.4. Regarding unauthorised expenditure, the largest contributor is the City of Johannesburg (49.6 per cent or R12.94 billion), followed by Mangaung (33.7 per cent or R8.81 billion). Unauthorised expenditure means spending that was not approved in the budget. The audit reports have shown that the large UIFWE aggregates attracts adverse findings from Auditor-General of South Africa (AGSA) and may cause audit qualifications, impact fiscal credibility, and hamper service delivery.
- 4.5. The significantly high unauthorised expenditure in the Johannesburg and Mangaung metros is indicative of budget control failures, unauthorised virements, or expenditure without proper council approval. The financial impact is that the unauthorised expenditure directly weakens fiscal control and may require corrective budgetary measures; repeated or large unauthorised expenditure can lead to poor cash management and audit qualifications.
- 4.6. In respect of irregular expenditure, the biggest contributor is Nelson Mandela Bay metro which accounts for R22.2 billion or 34.2 per cent of all irregular expenditure billion), followed by the City of Tshwane at R15.5 billion or 23.9 per cent of the total irregular expenditure and Buffalo City which reports R10.5 billion representing 16.2 per cent.
- 4.7. The irregular expenditure typically arises from non-compliance with procurement rules (Supply Chain Management), contract irregularities, or failure to follow statutory processes. The dominance of irregular expenditure (67 per cent of total UIFWE) suggests systemic supply chain management problems at several metros.

4.8. The risk is that the irregular expenditure often triggers AGSA findings, possible requirements for recoveries, and reputational or legal consequences if contracts were awarded improperly.

4.9. The fruitless and wasteful expenditure in the City of Tshwane alone accounts for 59.4 per cent of total fruitless and wasteful expenditure (R3.14 billion), which represents extremely large share. The City of Johannesburg and Nelson Mandela Bay contribute 13 per cent and 14 per cent, respectively.

4.10. The fruitless and wasteful expenditure usually reflects waste (e.g., penalties, abortive contracts, duplication, poor contract termination) and is often recoverable if wrongdoing is proven.

4.11. The high fruitless and wasteful expenditure is an indicator of poor contract and project management, and weak supervisory controls. The fruitless and wasteful expenditure often ties up funds that could otherwise be used for services; large numbers imply real service delivery trade-offs.

4.12. Metropolitan municipalities face different expenditure challenges; some struggle with procurement resulting in irregular expenditure, others face budgetary issues, leading to unauthorised expenditure while in certain cases, weak project management causes fruitless and wasteful expenditure. Remedies must therefore be tailored to the category of expenditure incurred and the municipality. Remedies must therefore be customised to both the category of expenditure incurred and the specific municipality, ensuring that corrective measures directly address the root causes of financial inefficiency.

4.13. A focused remediation targeted at the top three metropolitan municipalities could reduce 71 per cent of total UIFWE through high-impact, high-priority interventions. To achieve this, municipalities are required to implement robust UIFWE reduction strategies that include quantifiable targets and effective monitoring mechanisms.

4.14. It is important to establish key performance indicators (KPIs) with clear percentage reduction targets for UIFWE implemented through a phased in approach on flagged items. Municipalities should also define strict timelines to close investigations ranging from minor to major cases, and report on measurable outcomes such as the percentage or numbers of recoveries achieved from identified recoverable amounts.

4.15. Council Audit Committees should formally review forensic findings reports, investigation reports and recovery plans; and must require evidence of disciplinary action where appropriate. In addition, municipalities should proactively engage with AGSA at an early stage to discuss disclosure requirements, remediation measures strategies, to reduce the risk of unexpected audit qualifications.

5. DISTRIBUTION LOSSES AT METROPOLITAN MUNICIPALITIES

Table 3: Electricity and Water Losses as at 30 June 2024

Municipality	Water Losses		Electricity Losses	
	R'000	%	R'000	%
Buffalo City	147 964	24.20%	556 016	37.74%
Nelson Mandela Bay	383 600	48.66%	1 196 763	26.34%
Mangaung	490 552	49.00%	202 219	7.67%
City of Ekurhuleni	1 296 264	27.61%	2 750 624	16.25%
City of Johannesburg	2 900 100	35.00%	4 932 026	30.00%
City of Tshwane	1 331 067	34.40%	2 529 946	32.00%
eThekweni	1 996 175	53.80%	1 715 683	11.56%
City of Cape Town	112 539	5.90%	633 187	11.00%
Total	8 658 261		14 516 465	

Source: LGDRS

- 5.1. The overall water losses amounted to R8.66 billion, with an average loss of 34.6 per cent for the metropolitan municipalities. The electricity losses amounted to R14.52 billion, with an average loss of 20.9 per cent. Both averages significantly exceed the acceptable benchmarks of water and electricity losses, highlighting systemic inefficiencies that are considered highly problematic.
- 5.2. In terms of the benchmark, water losses should be between 15 and 30 per cent and electricity losses should be between 7 and 10 per cent. Both water and electricity losses indicate some serious distribution inefficiencies, widespread theft, and deteriorating or fractured infrastructure within municipal networks.
- 5.3. The highest percentage losses were observed at eThekwini at 53.8 per cent and Mangaung at 49 per cent, meaning that over half of the water purchased by eThekwini's cannot be billed. These significant losses point to systematic challenges such as aging infrastructure, frequent pipe bursts, illegal connections, or weak monitoring and control mechanisms.
- 5.4. The highest financial loss was observed at the City of Johannesburg at R2.9 billion or 35 per cent. Even though this was not the highest percentage loss, the financial magnitude of such a loss is alarming. The best performer is the City of Cape Town with 5.9 per cent of water losses which reflects strong water management practices, leak detection, and billing controls. The City of Cape Town is clearly outperforming the other metropolitan municipalities.
- 5.5. The metros that recorded the highest electricity losses in percentage loss were Buffalo City (37.7 per cent) and City of Tshwane (32 per cent) and this depicts serious non-technical losses due to theft, illegal connections, and metering failures.
- 5.6. The highest electricity financial loss was in the City of Johannesburg amounting to R4.93 billion or 30 per cent and this is the largest contributor nationally to electricity losses. The overall loss is more than the City of Cape Town, Mangaung, and eThekwini metros combined.
- 5.7. The lowest loss in electricity is seen at Mangaung at 7.7 per cent and City of Cape Town at 11 per cent. Both are within a more acceptable range though still slightly above best-practice benchmark standard of 7 to 10 per cent.
- 5.8. In comparison, the City of Johannesburg stands out with the highest combined monetary loss of R7.83 billion, while the City of Cape Town stands out with the lowest combined losses both in percentage and value terms, eThekwini is mixed, with very high-water losses but relatively low electricity losses and Mangaung is the opposite, with very high-water losses but low electricity losses.
- 5.9. Municipalities are losing billions in potential revenue, undermining service delivery and solvency. This is observed in the City of Johannesburg with its losses alone that could destabilise its budget and financial sustainability.
- 5.10. High water losses depict poor maintenance of pipes, leaks, water theft and high electricity losses show aging grids, illegal connections, and poor metering. The high losses point to weak oversight and ineffective revenue collection.
- 5.11. There is a need for urgent interventions at the City of Johannesburg, City of Tshwane, and Buffalo City to address electricity theft and billing challenges. In eThekwini, Mangaung and Nelson Mandela Bay metros, some urgent water leak detection, pipe replacement, and water demand-side management is needed.
- 5.12. Municipalities need to consistently apply stricter penalties for illegal connections and safeguarding of critical infrastructure. The National Treasury highlighted trading services inefficiencies. Metropolitan municipalities are advised to take advantage of the national priority programme coordinated by the National Treasury on trading services reform which aims to link grants funding to efficiency improvements which will assist in curbing some

leakages and move towards an investment in infrastructure such as smart meters for water and electricity, and or exploring Geographic Information System based leak detection and real-time consumption monitoring.

6. GRANTS MANAGEMENT

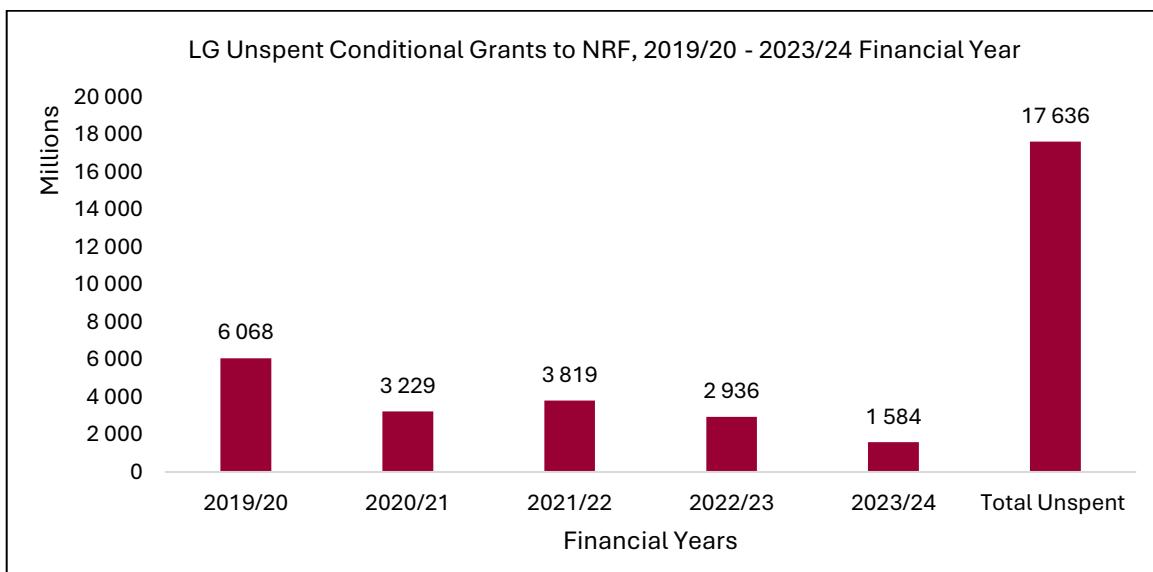
- 6.1. In the 2023/24 financial year, municipalities were allocated an adjusted amount of R145.3 billion through the Division of Revenue Amendment Act, 2023 (Act No. 24 of 2023), and this amount includes unconditional transfers in the form of the Local Government Equitable Share (LGES) and related of R95.2 billion, the general fuel levy sharing with metropolitan municipalities of R15.4 billion, and direct conditional grants for capacity building and infrastructure conditional grants of R49.9 billion. Indirect conditional grants to municipalities were allocated R8.4 billion.
- 6.2. In 2023/24 financial year, the direct conditional grants achieved a performance rate of 92.5 per cent against the revised allocation of R49.9 billion. This reflects a notable improvement compared to 76.1 per cent performance recorded in the 2022/23 financial year, indicating stronger utilisation and delivery capacity by municipalities.
- 6.3. This represents a notable increase in municipal spending against allocated conditional grants. However, the improved performance must be viewed in context: without the reductions to conditional grant allocations necessitated by government's fiscal consolidation exercise, the outcome would have been far less favourable. During the adjustment budget, the direct conditional grants to municipalities were reduced by R3.4 billion during the adjustment budget.
- 6.4. The Integrated Urban Development Grant (IUDG) administered by department of Corporative Governance (DCoG), was the best-performing grant in the 2023/24 financial year. Of R1.1 billion allocated, municipalities successfully spent 99.9 per cent or R1.1 billion at the end of the financial year.
- 6.5. The IUDG supports spatially aligned public infrastructure investments that will lead to functional and efficient urban spaces and ultimately unlock growth through providing funding for public investment in infrastructure for the poor and promoting increased access to municipal own sources of capital finance to increase funding for public investment in economic infrastructure.
- 6.6. The second-best performing grant was the Expanded Public Works Programme (EPWP) Integrated grant managed by the Department of Public Works and Infrastructure (DPWI). An amount of R744.1 million or 99.3 per cent of the allocated R748.9 million was spent on the creation of employment opportunities through labour intensive methods in municipal infrastructure and other municipal services.
- 6.7. The Municipal Infrastructure Grant, also managed by DCoG had an adjusted allocation of R16.3 billion, reduced by R1.2 billion from R17.5 billion, and municipalities spent R15.8 billion or 96.8 per cent.
- 6.8. The two (2) DCoG managed disaster grants, Municipal Disaster Relief Grant (MDRG) meant to provide immediate relief to affected communities following a disaster to lessen the impact and the Municipal Disaster Recovery Grant (MDRG) meant to reconstruct infrastructure damaged from a disaster to restore services were the poorest performing grants. The two (2) grants only spent 54.5 per cent or R460.4 million and R671.9 million or 48.9 per cent against their allocated R844.2 million and R1.3 billion, respectively. These two (2) grants were the poorest performing grants in the 2023/24 financial year.
- 6.9. Affected municipalities are ideally compelled to respond rapidly to natural disasters to save lives and minimise human suffering. Therefore, affected municipalities are often expected to

act in response to disasters, even before the DCoG declares a disaster. However, given the poor state of local government finances in most municipalities, weak liquidity positions and insufficient cash reserves, it is difficult for these municipalities to respond effectively and efficiently to community needs for essential services during disasters.

- 6.10. Despite government moving with speed to allocate funds for immediate disaster relief, municipalities still fail to spend these funds with and provide immediate relief to affected communities.
- 6.11. On a positive note, the two grants administered by the Department of Human Settlements (DHS) performed relatively well, in that the Urban Settlements Development Grant (USDG) for provision of basic services in metropolitan municipalities spent 98 per cent or R7.4 billion of the adjusted allocation of R7.5 billion which was reduced by R517.4 million due to fiscal consolidation.
- 6.12. From an electricity provision and energy saving point of view by municipalities, the Department of Energy and Electricity (DEE) is responsible for administering two (2) conditional grants for the following purposes respectively i.e., the Integrated National Electrification Programme (INEP) grant and the Energy Efficiency Demand Side Management (EEDSM) grant which were allocated R223 million and R2 billion, respectively.
- 6.13. The INEP grant spent 95.5 per or R1.9 billion of the R2 billion allocation, while the EEDSM grant spent R212 million or 95 per cent of the R223 million allocation. Both grants reflect strong utilisation rates, demonstrating effective spending of funds by municipalities in their respective programmes.
- 6.14. National Treasury administered grants also performed well with three (3) of the four (4) conditional grants spending over 94 per cent of their allocations, while the Programme and Project Preparation Support Grant (PPPSG) only managed to spend 89 per cent of its allocation.
- 6.15. The Financial Management Grant (FMG) recorded expenditure of 97.5 per cent or municipalities spent R554.6 million against an allocation of R568.5 million.
- 6.16. The Neighborhood Development Partnership Grant (NDPG) spent 97.1 per cent of its R1.3 billion allocation to assist municipalities to plan, catalyse, and invest in targeted locations to attract and sustain third party capital investments aimed at spatial transformation.
- 6.17. The Infrastructure Skills Development Grant (ISDG) managed to spend over 90 per cent of its allocation by spending R143.2 million or 94.6 per cent of the R151.3 million allocation.
- 6.18. The Programme and Project Preparation Support Grant (PPPSG) also administered by National Treasury, supports metropolitan municipalities to develop a pipeline of investment ready capital programmes and projects through establishing and institutionalising an effective and efficient system of programme and project spent 89 per cent of its R318.6 million allocation.
- 6.19. The Department of Water and Sanitation (DWS) administers grants for bulk water and sanitation infrastructure, as well as water and sanitation reticulation and they are Regional Bulk Infrastructure Grant (RBIG) and the Water Services Infrastructure Grant (WSIG).
- 6.20. The RBIG spent 89.4 per cent of its R3.2 billion allocation and the WSIG spent 94.3 per cent of its R3.6 billion allocation. The underspending undermines the urgent need for bulk and reticulation water and sanitation infrastructure given the high backlogs in access to water and sanitation in some of the municipalities with the highest backlogs in the country.
- 6.21. In addition, most municipalities in financial distress utilise the conditional grants funding for their operational activities that are outside the framework of the grant conditions, especially on the payment of salaries and councilors allowances.

6.22. Municipal councils must be held accountable in instances where a municipality utilises grant funding for unintended purposes. Both municipal councilors and officials who permit such practices should be subjected to consequence management as this constitutes financial misconduct under applicable governance and accountability frameworks.

Figure 7



6.23. Therefore, National Treasury has recalled an amount of close to R1.6 billion by end of 2024/25 financial year in unspent conditional grants. Therefore, it is regrettable to note that in the past five (5) financial years, over R17.6 billion of unspent conditional grants were paid back to the national fiscus.

6.24. It could be concluded that the challenge has not been a shortage of grant allocations, instead, the issue lies in the diversion of funds to purposes other than those legally prescribed under the Division of Revenue Act. This misuse undermines the intended developmental and service delivery objectives of the grants and highlights the need for stronger compliance, oversight, and consequence management.

6.25. Figure 7 above depicts the amount of unspent conditional grants from the 2019/20 to 2023/24 financial years. The unspent amounts are made up of unapproved rollovers and amounts unspent not requested for rollover for the period between 2019/20 and 2023/24 financial years. The total unspent grants for the 2023/24 financial year were R1.6 billion and was paid to the National Revenue Fund by municipalities.

6.26. Amongst some of the reasons for the non-approval of the rollover requests as part of the criteria outlined in the various MFMA Circulars is late/non appointment of service providers and contractors, instances where applicant municipalities have positions for either municipal manager or chief financial officer or both vacant for more than six (6) months within the financial year that a rollover is requested, and unspent funds not being cashed backed.

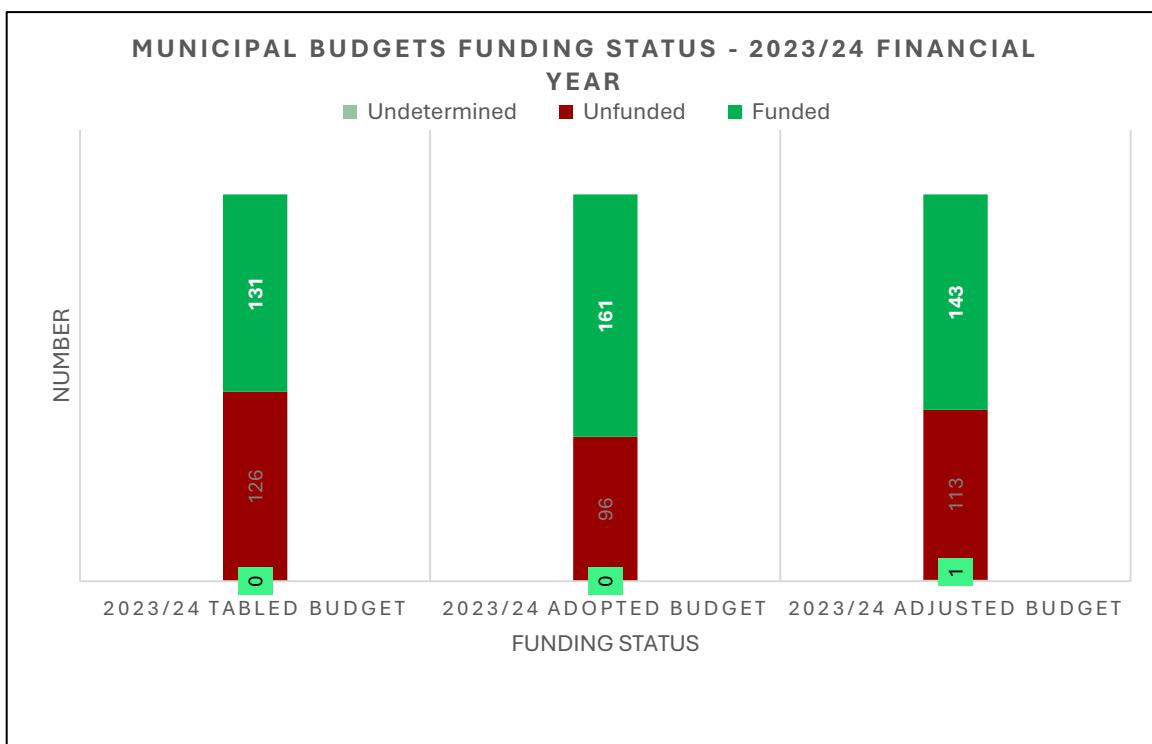
6.27. This then indicates the financial consequences that the municipalities are suffering due to the delays by councils in concluding recruitment processes and other labour relations matters. The National Treasury is working towards an urban development financing grant with an intention to integrate and consolidate metropolitan municipalities grants with an added concept of an incentive performance grant window for the Metro Trading Services currently under a design process.

7. FUNDED/UNFUNDED BUDGETS FOR 2023/24

7.1. For the period under review, the number of municipalities that **adopted** unfunded budgets decreased from 126 in the tabled budgets to 96 in 2023/24 adopted budgets.

7.2. Unfunded budgets suggest that municipalities are struggling to fund their expenses with their expected revenue, often due to and overestimating projected collection rates for property rates and service charges. Additional challenges include inefficiencies such as excessive water and electricity losses, accrued expenses, and growing debtors' books that are not timeously dealt with. Figure 8 below illustrates funded and unfunded budgets information for the 2023/24 financial year.

Figure 8



7.3. According to National Treasury circulars, the municipalities with unfunded budgets are required to have a realistic funding plan that outlines the actions to be taken to improve to a funded budget status in the medium term.

7.4. The funding plans that are adopted by some municipalities are unrealistic to move the municipality from an unfunded to a funded budget and they fall short in yielding the desired results.

7.5. It has been noted that most municipalities are still not implementing their own credit control and debt management policies that were adopted by the council. The trends indicate that the collection rate from households is declining, while government institutions often do not honor their payment arrangements.

7.6. Seven (7) metropolitan municipalities adopted funded budgets in the 2023/24 financial year. The City of Tshwane, however, was the only metropolitan municipality that adopted an unfunded budget even for the three prior years. It is concerning that despite continuous support and recommendations by both National and Provincial Treasuries, municipalities continue to adopt unrealistic and unsustainable operational budgets. This suggests that there may be deeper, systemic weaknesses that are contributing to the persistence of

unfunded budgets. Nonetheless, some improvements were seen in certain provinces on funded budgets such as Western Cape.

- 7.7. A lack of capacity, weak governance, operational and institutional inefficiencies, and, to some extent, political instability are common factors in municipalities that consistently adopt unfunded budgets. To address these challenges, it is expected that the budget funding plan must be aligned with the prescribed framework to ensure consistency with the rescue phase of the new FRP approach.
- 7.8. The municipalities with undetermined budget outcomes are deemed unfunded and for the 2023/24 financial year only Makana Local Municipality was classified as such in the Eastern Cape for the adjustments budget. In other provinces, there was no municipality's budget assessed as undetermined.
- 7.9. The National Treasury took a decision to withhold the local government's equitable share of municipalities that were non-compliant with the requirements as stated in the MFMA municipal Budget Circulars for the 2023/24 financial year.

Assessment of the financial health of municipalities

8. INDICATORS OF MUNICIPAL FINANCIAL HEALTH

- 8.1. The financial state of municipalities is assessed using 13 key indicators as specified in the Funding Compliance Methodology and MFMA Circular No. 42 (Funding a Municipal Budget), as illustrated in Table 4 below. These indicators provide a comprehensive overview of municipal financial health.

Table 4: Indicators of municipal financial health

Indicators	Method
Cash/cash equivalent position	Cash+Short Term Investment - Bank Overdraft (Cash & Equivalents (A6 row 6) - Bank Overdraft (A6 row 29)) / [Empl Exp (A4 row 34) + Clr Remun (A4 row 35) + Bulk Elect (A4 row 36) - Inv Cons Water (A6I rows 50:51) + Debt Imp (A4 row 38)+ Interest (A4 row 40) + Contracted Serv (A4 row 41) + Cash Trf & Sub (A4F row 192) - Repay Borrow (A7 row 35) +{Inv Cons (A4 row 37) + Inv Cons Water (A6I row 50:51) + Oper Cost (A4 row 44)*40%] /12
Cash Coverage	Cash & Equivalents (A6 row 6)- Bank Overdraft (A6 row 29) + LT Investments (A6 row 15)- Application of Cash (Table A8 row 18)
Cash plus investment less applications	Repairs and maintenance as a % of Property and Equipment(carrying value)
Repairs and maintenance expenditure level	(Total Renewal of Existing Assets + Total Upgrading of Existing Assets)/ Total Capital Expenditure
Asset renewal/rehabilitation expenditure level	(Total Renewal of Existing Assets + Total Upgrading of Existing Assets)/Depreciation & asset impairment
Asset renewal/Depreciation level	(Total capital expenditure/ (Total operating expenditure + Total capital expenditure)) X 100
Total CAPEX as a Percentage of Total Expenditure	(Cash + Short Term Investments) / Total Current Liabilities
Liquidity Ratio	(Net Receivables Exch Rev + Net Receivables Prop Rates)/ (Serv chg - Electricity + Serv chg - Water + Serv chg - W_Water + Serv chg - Waste Man + Property rates x 365
Debtors Days	(Trade Payable Exch Trans / (Bulk Purch Elect + Inventory Cons + Interest + Contracted Serv + Oper Cost Exch Trans + CAPEX) x 365
Creditors Days	(Bank overdraft + Current Liabilities borrowings + Non-Current Liabilities borrowings)/Total operating revenue
Debt(Total Borrowing)vs Total Operating Revenue	Current Assets/Current Liabilities
Current Ratio	Total Asset/Total Liabilities
Solvency Ratio	

Assessing the liquidity levels of municipalities (cash/cash equivalents, cash coverage, and liquidity position)

8.2. Assessing liquidity levels is crucial in determining whether municipalities have sufficient cash and investments to meet their financial obligations and sustain operations. A municipality that lacks effective cash flow management and a robust liquidity risk management strategy is likely to face severe financial difficulties, which could escalate into a crisis and ultimately lead to dysfunctionality.

8.3. Furthermore, a municipality must consistently maintain a positive cash position throughout the financial year and manage its cash resources efficiently to prevent overdrafts. Section 45 of the MFMA clearly prohibits municipalities from ending their financial year with any short-term borrowing or overdraft. To offer a more comprehensive assessment of a municipality's cash position, three sub-indicators are used:

- A positive or negative cash balance at the end of the financial year;
- Persistent or temporary negative cash balances; and
- The cash coverage ratio of the municipality – the ratio measures the municipality's ability to fund its monthly operational expenses using available cash.

Indicator 1: Negative cash balances

8.4. Municipalities may at times encounter short -term cash flow difficulties, driven by low revenue collection rates and weak economic growth that is reducing employment jobs and restricting the ability of communities to pay promptly for municipal services on time. Nevertheless, with sound cash flow management practices, many municipalities could stabilise their finances and resolve these shortfalls before the close of the financial year.

8.5. For municipalities which experiences ongoing cash flow issues, it is crucial to focus efforts on their revenue collection, very strict expenditure control (eliminate wastages – conduct regular review of the payroll to deal with ghost workers), implement strategies that improves productivity and regularly assess the cash flow management to prevent financial shortfalls.

8.6. A single instance of negative cash flows seldom constitutes a crisis, but if left unattended it can intensify and ultimately become unsustainable.

8.7. Municipalities that consistently close their financial year with a negative cash balance are at a higher risk of facing serious financial difficulties in the forthcoming financial year.

8.8. Table 5 below shows municipalities with negative cash balances for the periods 2022/23 to 2023/24.

Table 5: Municipalities' negative cash balances, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. of municipalities with negative cash balances	1	3
Secondary Cities (19)		
No. of municipalities with negative cash balances	0	2
Other Local Municipalities (Towns) (186)		
No. of municipalities with negative cash balances	14	9
District Municipalities (44)		
No. of municipalities with negative cash balances	0	1
All Municipalities (257)		
No. of municipalities with negative cash balances	15	15

Source: National Treasury - Local Government Database

8.9. At the end of 2023/24, a total of 15 municipalities had negative cash balances, and this suggests that there was no improvement as the same number of municipalities were reported in the 2022/23 financial year. In relation to Table 5 above, the following observations can be made:

- Five (5) metros maintained positive cash balances in 2023/24 financial year, a regression from 2022/23 whereby seven (7) metros had a positive cash balance. Metros with a negative cash balance were Mangaung, City of Tshwane, and eThekweni. The audited financial statements depict a positive cash balance meaning that the latter municipalities may have submitted incorrect data strings which affect the credibility of the information;
- Seventeen secondary cities maintained a positive cash balance, a regression from 2022/23 whereby all cities had a positive cash balance at year-end.
- All 44 district municipalities, except for Thabo Mofutsanyana, reported positive cash balances. This represents a regression compared to the 2022/23 financial year, when all district municipalities reported positive cash balances.
- When a municipality closes the financial year with a negative cash balance indicates that it did not collect sufficient cash to cover current year's payments, and it also erodes the cash for the financial year's opening balance.

Indicator 2: Cash coverage ratio

8.10. The cash coverage ratio is a key indicator of whether a municipality has sufficient cash to cover its monthly fixed operational costs.

8.11. A ratio below one-month signals potential financial instability and a higher risk of financial shortfalls soon which may lead to the municipality's inability to meet its obligations, such as providing basic services and fulfilling financial commitments, may be compromised.

8.12. Monitoring the trend of the cash coverage ratio over time is essential in assessing the changes in a municipality's financial position.

8.13. Generally, a prudent level of cash coverage is between one (1) and three (3) months of operational expenditure. Table 6 below shows the number of municipalities that had negative cash coverage at the end of June 2024.

8.14. The metros and secondary cities constitute most of the municipalities with strong financial positions and positive cash coverage ratios.

Table 6: Municipalities' cash coverage, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	2	1
between 1 and 3 months of operational expenditure	3	2
Less than one month of operational expenditure	3	5
Secondary Cities (19)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	2	3
between 1 and 3 months of operational expenditure	5	2
less than one month of operational expenditure	12	14
Other Local Municipalities (Towns) (186)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	58	56
between 1 and 3 months of operational expenditure	43	36
less than one month of operational expenditure	85	94
District Municipalities (44)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	21	17
between 1 and 3 months of operational expenditure	13	12
less than one month of operational expenditure	10	15
All Municipalities (257)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	83	77
between 1 and 3 months of operational expenditure	64	52
less than one month of operational expenditure	110	128

Source: National Treasury - Local Government Database

8.15. At the end of the 2023/24 financial year, a total of 128 municipalities had a cash coverage ratio of less than one month, indicating that they have insufficient funds to cover one month's worth of operating expenses. A total of 77 municipalities had cash coverage ratios that were greater than three months of operational expenditure in 2023/24. Further analysis indicates that:

- Five (5) metros (Mangaung, eThekweni, and three metros in Gauteng) had cash coverage ratios of less than one month of operational expenditure and 14 secondary cities had cash coverage of less than a month of operational expenditure;
- For the past four financial years, the Nelson Mandela Bay Metro, Buffalo City, and the City of Cape Town have maintained positive cash coverage of more than three (3) months of operational expenditure, and they are the only metros that managed to record the cash coverage of more than three (3) months. For the 2023/24 financial year, only the Nelson Mandela Bay has more than three months as reported; and
- George and Stellenbosch are the two (2) secondary cities that maintained adequate cash to cover its operational expenditure for more than three (3) months, while the number of local municipalities with cash coverage of less than three months slightly increased from 85 in 2022/23 to 94 in 2023/24.

8.16. The following are some of the most common causes that contribute to this poor cash flow management in municipalities:

- *Overspending of operational budgets* – most municipalities are spending above their budgeted allocations, resulting in the dependency on bank overdraft facilities to cover the shortfalls that caused a severe financial pressure to meet their financial commitments;
- *High monthly fixed costs* – Some municipalities are grappling with high fixed operating costs, including salaries and wages, councilors remuneration, contracted services, and interest and loan repayments, which represent approximately 50 per cent of their budgets;
- *Poor financial planning* – Failure to achieve prudent cash flow estimates during the budget process by most municipalities results in cash shortages and eventually financial instability;
- *Inadequate cash flow management* – The absence of a clear and comprehensive cash flow management policy, supported by a realistic cash management plan, has resulted in ineffective cash flow management. The challenge is further compounded by the lack of a well-defined investment strategy, or cash-backed reserves plan to ensure that cash surpluses are properly invested.
- *A declining macro socio-economic environment* and in general, the high unemployment rate can have an adverse impact on municipalities' revenue collections and increases the number of indigents households that in most cases, are not properly accounted for; and
- *Failure to collect arrear debt* from all customer categories in line with the approved debt collection and credit control policies.

8.17. Amongst other things, the following scenarios could lead to financial challenges, adverse and poor cash positions for a municipality with a weak cash coverage ratio:

- Persistent increases in rates and tariffs that households find unaffordable and significantly impact on their disposable income;
- Continuing decline in revenue streams due to customers pursuing alternative sources of energy such as the solar reduces the demand for municipal electricity and implementation of water demand management system to reduce waste;
- Tampering of water and electricity infrastructure leading to illegal connections and further causes major breakdowns and service interruptions and revenue losses;
- Natural disasters caused by climate change resulting in fire, floods and drought that may trigger an emergency procurement;
- Monthly cash flow projections that are not credible and poor internal controls that do not support sound financial management; and
- Poor implementation of the budget funding plans remains a challenge as the affected municipalities are disregarding cost containment measures which were instituted to control and reduce operating expenditure in line with the expected revenues.

8.18. The in-year management, monitoring and reporting system (IYM) and major strategic engagements such as the budget and benchmark assessments, together with the mid-year budget and performance reviews are the main platforms of engagement between a municipality and key stakeholders.

8.19. These engagements have been institutionalised by the National Treasury to track and discuss municipal performance in all the key areas, including cash flow management.

8.20. Effective cash flow management practices serve as critical early warning mechanisms for identifying potential municipal financial distress. By monitoring inflows and outflows of funds, municipalities can detect emerging risks at an early stage, enabling timely corrective action to mitigate financial difficulties before they escalate.

Indicator 3: Cash plus investments less applications or commitments

8.21. This indicator requires that municipalities maintain sufficient cash and investments to meet their financial obligations, both for current operations and future needs, while also building cash reserves. Financial stability serves as a buffer against internal and external risks, ensuring that municipalities have the necessary funding to achieve their strategic objectives and continue providing essential services.

8.22. Cash and investment management is a critical component of financial sustainability and must be carefully monitored to ensure that an appropriate amount of cash is allocated for capital replacement projects and for the ongoing maintenance of infrastructure assets. By strategically investing surplus cash, many metros and secondary cities can maximise returns, strengthen their financial capacity and secure long-term sustainability.

8.23. Table 7 below shows municipalities that had positive cash surplus after taking into consideration all their commitments for the period 2022/23 and 2023/24.

Table 7: Cash plus investments less applications, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	5	4
Shortfal (negative)	3	4
Secondary Cities (19)		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	7	8
Shortfal (negative)	12	11
Other Local Municipalities (Towns) (186)		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	83	84
Shortfal (negative)	103	102
District Municipalities (44)		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	24	25
Shortfal (negative)	20	19
All Municipalities (257)		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	119	121
Shortfal (negative)	138	136

Source: National Treasury - Local Government Database

8.24. To meet statutory requirements, municipalities must ensure that they have sufficient cash and investments to cover all obligations, including unspent conditional grants, working capital requirements, employee benefit commitments, and any other reserves that require cash backing.

8.25. The number of municipalities with positive cash-backed accumulated surpluses, after accounting for commitments, has slightly increased from 119 in 2022/23 to 121 in 2023/24. Meanwhile, the number of municipalities with cash shortfalls decreased from 138 to 136 during the same period.

8.26. The Three metros in Gauteng and eThekweni reported negative balances or shortfall. The number of district municipalities and secondary cities with a shortfall decreased by one respectively, in the period under review.

8.27. Further analysis demonstrates that:

- In most cases, municipalities budget for substantial surpluses at the beginning of the financial year, however, only a few municipalities had managed to have adequate cash and investments at the end of the financial year to cover all their financial obligations (current and future operations); and

- In addition, municipalities always project significant cash surpluses at the beginning of the year (budget), nevertheless, they end up with deficits or financial shortfalls at the end of the audit year. This is a major concern and a repetitive occurrence over prolonged financial years.

Indicator 4: Repairs and maintenance as a percentage of PPE

8.28. Table 8 below shows the repairs and maintenance of 257 municipalities between the 2022/23 and 2023/24 financial years. Overall, 29 municipalities demonstrated an ability to appropriate more than 8 per cent of PPE which is an increase from 2022/23.

8.29. All the metros reported a percentage below 2.5 per cent except for City of Ekurhuleni with 5.9 per cent. Of a concern, eThekweni reported a figure of 236.9 per cent which indicates incorrect submission of data strings.

8.30. Gert Sibande, Overberg, and Central Karoo are amongst the districts that reported incorrect figures with 25.4 per cent, 90.3 per cent, 36.7 per cent, respectively.

8.31. Sol Plaatjie is one secondary city that reported repairs and maintenance of more than 8 per cent, however, the figure is overstated at 373.7 per cent. A number of local municipalities also reported inflated figures.

Table 8: Repairs and maintenance as a % of PPE, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. whose repairs and maintenance are less than 8% of PPE	7	7
more than 8% of PPE	1	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	171	165
more than 8% of PPE	15	21
District Municipalities (44)		
No. whose repairs and maintenance are less than 8% of PPE	37	38
more than 8% of PPE	7	6
All Municipalities (257)		
No. whose repairs and maintenance are less than 8% of PPE	233	228
more than 8% of PPE	24	29

Source: National Treasury - Local Government Database

8.32. The repairs and maintenance of infrastructure are vital for ensuring that assets continue to provide the expected economic benefits and remain serviceable.

8.33. Municipalities are advised to allocate at least 8 per cent of their budget to the repairs and maintenance of property, plant, and equipment (PPE).

8.34. When this ratio falls below the recommended threshold, it indicated that insufficient resources are being dedicated to maintenance of infrastructure assets, this underinvestment increases the risk of premature deterioration, reduced functionality or impairment of assets ultimately leading to higher long-term costs and potential service disruptions.

8.35. This could result in higher long-term costs and reduced asset performance, affecting the municipality's ability to deliver essential services.

Indicator 5: Asset renewal / rehabilitation expenditure level

8.36. Asset Renewal / Rehabilitation Expenditure refers to the spending by municipalities to restore, refurbish, or replace existing infrastructure and assets (roads, water networks, electricity grids, sewerage systems, public buildings, etc.) so they can continue functioning at their intended capacity and prolong their useful life.

8.37. The purpose is to reduce long-term costs by avoiding expensive emergency repairs and ensure reliable service delivery (e.g., fewer water pipe bursts, fewer electricity outages, better road conditions).

Table 9: Asset Renewal/rehabilitation expenditure level, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	4	3
more than 40% of their total capital expenditure	4	5
Secondary Cities (19)		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	11	11
more than 40% of their total capital expenditure	8	8
Other Local Municipalities (Towns) (186)		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	111	105
more than 40% of their total capital expenditure	75	81
District Municipalities (44)		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	34	32
more than 40% of their total capital expenditure	10	12
All Municipalities (257)		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	160	151
more than 40% of their total capital expenditure	97	106

Source: National Treasury - Local Government Database

8.38. Table 9 above highlights that municipalities whose asset renewal is less than 40 per cent of their total capital expenditure decreased from 160 in the 2022/23 financial year to 151 in 2023/24.

8.39. Three metros that reported below 40 per cent are Mangaung (28 per cent), City of Johannesburg, and eThekweni (28.8 per cent). Of concern, City of Johannesburg depicts zero.

8.40. Further analysis shows that:

- The number of secondary cities that reported a ratio lower than 40 per cent remained unchanged at 11 municipalities compared to 2022/23;
- A total of 105 local municipalities also reported less than 40 per cent compared to 111 municipalities in the 2022/23 financial year; and
- There was a slight improvement from 34 to 32 district municipalities having reported a ratio below 40 per cent of asset renewal from the total capital expenditure.

Indicator 6: Asset renewal / depreciation level

8.41. Depreciation is the accounting measure of how much municipal assets are “used up” each year (wear and tear, ageing). It shows the annual consumption of asset value.

8.42. The Municipalities whose depreciation level is less than 100 per cent of assets decrease from 195 in 2022/23 to 172 in 2023/24 and those whose depreciation level is more than 100 per cent of assets increased from 62 in 2022/23 to 85 municipalities in 2023/24.

Table 10: Asset renewal/ Depreciation level, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. whose depreciation level is less than 100% of assets	5	6
more than 100% of assets	3	2
Secondary Cities (19)		
No. whose depreciation level is less than 100% of assets	14	14
more than 100% of assets	5	5
Other Local Municipalities (Towns) (186)		
No. whose depreciation level is less than 100% of assets	139	119
more than 100% of assets	47	67
District Municipalities (44)		
No. whose depreciation level is less than 100% of assets	37	33
more than 100% of assets	7	11
All Municipalities (257)		
No. whose depreciation level is less than 100% of assets	195	172
more than 100% of assets	62	85

Source: National Treasury - Local Government Database

- 8.43. City of Cape Town (152.4 per cent) and Nelson Mandela Bay (165.4 per cent) reported over 100 per cent each and the rest of the metros reported lower percentages.
- 8.44. The asset renewal as a percentage of depreciation is a crucial metric for assessing whether the condition of a municipality's assets is likely to improve or deteriorate over time.
- 8.45. Municipalities are encouraged to invest an amount equivalent to 100 per cent of the depreciation they accumulate to replace or upgrade assets whose value or useful life has diminished.
- 8.46. A ratio below 100 per cent signals that the municipality is not sufficiently providing for depreciation in asset renewal, potentially leading to higher depreciation costs (asset impairment).
- 8.47. The rate at which municipalities consume the assets in service delivery should align with their depreciation provisions to ensure timely replacement or upgrades, preserving the assets' functionality and preventing service interruptions.
- 8.48. Municipalities must allocate sufficient funds for asset renewal, particularly the aging or deteriorating infrastructure. However, many municipalities fall short of the National Treasury's recommendation to spend at least 40 per cent of total capital expenditure on renewing and upgrading existing assets.
- 8.49. This underinvestment exacerbates the state of current municipal infrastructure, leading to a total breakdown and higher future costs.
- 8.50. To properly address infrastructure needs and to ensure long-term service delivery, municipalities must prioritise adequate budgeting for asset renewal and upgrades. This proactive approach is essential for maintaining and improving infrastructure life span.
- 8.51. Therefore, if the asset is still in operation when it reaches the end of its useful life, it must either be renewed, or its lifespan extended through proactive interventions. By doing so, municipalities can maintain reliable service levels, avoid costly replacements, and optimise the use of existing infrastructure.

Indicator 7: Total capital expenditure as percentage of total expenditure

Table 11: Total Capital Expenditure as Percentage of Total Expenditure, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. of municipalities whose Total Capital Expenditure is		
less than 10% of their total expenditure	5	6
between 10% and 20% of their total expenditure	3	2
more than 20% of their total expenditure	0	0
Secondary Cities (19)		
No. of municipalities whose Total Capital Expenditure is		
less than 10% of their total expenditure	11	12
between 10% and 20% of their total expenditure	4	6
more than 20% of their total expenditure	4	1
Other Local Municipalities (Towns) (186)		
No. of municipalities whose Total Capital Expenditure is		
less than 10% of their total expenditure	65	60
between 10% and 20% of their total expenditure	67	60
more than 20% of their total expenditure	54	66
District Municipalities (44)		
No. of municipalities whose Total Capital Expenditure is		
less than 10% of their total expenditure	25	24
between 10% and 20% of their total expenditure	4	3
more than 20% of their total expenditure	15	17
All Municipalities (257)		
No. of municipalities whose Total Capital Expenditure is		
less than 10% of their total expenditure	106	102
between 10% and 20% of their total expenditure	78	71
more than 20% of their total expenditure	73	84

Source: National Treasury - Local Government Database

- 8.52. The above indicator measures how much of the municipality's total spending is directed towards capital investment (infrastructure and assets) rather than operational costs.
- 8.53. It shows whether the municipality is investing in long-term infrastructure or spending mainly on day-to-day running costs.
- 8.54. Six metros reported a figure below 10 per cent of their total expenditure. City of Cape Town and eThekweni reported above 10 per cent at 13.8 per cent and 10.8 per cent, respectively.
- 8.55. The allocation of funds through the intergovernmental transfers are diminishing, therefore some municipalities invest substantially in infrastructure spending through other funding sources. Therefore, metropolitan municipalities started to explore ways of leveraging external finance to expand their capital investments to augment the allocated funding by the national government.
- 8.56. Weak financial liquidity is the main cause why many municipalities are unable to access private capital markets or Development Finance Institutions (DFIs) for infrastructure funding leaving them without the necessary resources to invest in infrastructure projects.
- 8.57. To assess whether a municipality has adequately invested in capital infrastructure, the level of capital expenditure should be between 10 and 20 per cent of total expenditure.
- 8.58. A ratio below 10 per cent reflects that a municipality indicates a low investment in new infrastructure which could signal under-investment or maintenance backlog. In other words, the municipality is spending most of its budget on operations (salaries, maintenance, administration) rather than upgrading or building assets.
- 8.59. While spending more than 20 per cent on capital expenditure is seen as a good performance to accelerate service delivery, it can also present risks of financial sustainability. This implies that, if a municipality substantially invests its own funding towards capital infrastructure, it might face a risk of eroding all its cash reserves.

Indicator 8: Liquidity ratio

8.60. The liquidity ratio is a critical measure for evaluating a municipality's financial health, particularly its ability to meet short-term financial obligations using its most liquid assets such as cash and investments.

8.61. By comparing the current assets to current liabilities (debts due within 12 months), the ratio provides insight into the municipality's capacity to satisfy these obligations without the need to secure additional funding.

8.62. Municipalities with a strong liquidity position are better equipped to withstand economic uncertainties, ensuring they have enough cash on hand to cover immediate financial responsibilities. The ratio also reflects how often liquid assets are used to fulfil short-term debt commitments.

Table 12: Liquidity Ratio, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. of municipalities whose cash and investments is less than current liabilities (less than 1 month)	6	8
more than current liabilities (more than 1 month)	2	0
Secondary Cities (19)		
No. of municipalities whose cash and investments is less than current liabilities (less than 1 month)	19	17
more than current liabilities (more than 1 month)	0	2
Other Local Municipalities (Towns) (186)		
No. of municipalities whose cash and investments is less than current liabilities (less than 1 month)	140	142
more than current liabilities (more than 1 month)	46	44
District Municipalities (44)		
No. of municipalities whose cash and investments is less than current liabilities (less than 1 month)	26	30
more than current liabilities (more than 1 month)	18	14
All Municipalities (257)		
No. of municipalities whose cash and investments is less than current liabilities (less than 1 month)	191	197
more than current liabilities (more than 1 month)	66	60

Source: National Treasury - Local Government Database

8.63. Table 12 above depicts the liquidity position of municipalities. All eight metropolitan municipalities in the 2023/24 financial year had cash and investments that are less than current liabilities, an increase from six municipalities in the previous year.

8.64. One hundred and ninety-seven (197) local municipalities had cash and investments that are less than current liabilities in 2023/24, an increase from six municipalities in the previous financial year. Secondary cities decreased from nineteen (19) to seventeen (17) from 2022/23 to the 2023/24 financial year.

8.65. All the metros reported a liquidity of below one. Mangaung, eThekweni, and City of Tshwane reported negative amounts.

8.66. A strong liquidity position implies that the municipality is able to borrow and expand infrastructure investment. NT always encourages municipalities to borrow if they have a strong liquidity position.

8.67. A weak liquidity position means, delayed payments to suppliers and employees, inability to repair infrastructure or purchase materials, reliance on short-term borrowing or grants, and potential for financial distress or intervention.

Indicator 9: Debtor's days

8.68. Table 13 below shows the debtors' days refers to the average number of days required for a municipality to receive payment from its consumers for bills/ invoices issued for municipal

services. The indicator provides information about consumer payment patterns and how well the municipality manages revenue collections.

8.69. A shorter payment period of within 30 days indicates that a municipality maintains an effective system for the implementation of credit control and debt collection policies. The ratio above the prescribed norm which indicates that the municipality is experiencing challenges in the collection of outstanding amounts due and failure to implement credit control and debt collection policies. This is exacerbated by the culture of non-payment. The extended collection period exposes a municipality to significant cash flow risk due to late payment by consumers.

Table 13: Debtor days, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. of municipalities who receive payment from debtors		
less than 30 days	0	1
more than 30 days	8	7
Secondary Cities (19)		
No. of municipalities who receive payment from debtors		
less than 30 days	2	2
more than 30 days	17	17
Other Local Municipalities (Towns) (186)		
No. of municipalities who receive payment from debtors		
less than 30 days	14	19
more than 30 days	172	167
District Municipalities (44)		
No. of municipalities who receive payment from debtors		
less than 30 days	23	23
more than 30 days	21	21
All Municipalities (257)		
No. of municipalities who receive payment from debtors		
less than 30 days	39	45
more than 30 days	218	212

Source: National Treasury - Local Government Database

8.70. The above shows the debtors days between the 2022/23 and the 2023/24 financial years. There is a slight improvement as a total of 212 or 82.5 per cent municipalities took more than 30 days to collect outstanding debt compared to 218 in 2022/23, whereas only 45 municipalities collected debt within the prescribed 30 day compared to 39 in 2022/23.

8.71. It takes longer days for metros to collect revenues. It takes Buffalo City, Nelson Mandela Bay, and Mangaung over 100 days to collect revenues due. Only one metropolitan municipality (eThekewini) received payments within 30 days in the 2023/24 financial year.

Indicator 10: Payment of creditors days

Table 14: Payment of creditors days, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	1	0
more than 30 days after receiving the invoice	7	8
Secondary Cities (19)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	1	2
more than 30 days after receiving the invoice	18	17
Other Local Municipalities (Towns) (186)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	23	27
more than 30 days after receiving the invoice	163	159
District Municipalities (44)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	5	6
more than 30 days after receiving the invoice	39	38
All Municipalities (257)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	30	35
more than 30 days after receiving the invoice	227	222

Source: National Treasury - Local Government Database

- 8.72. Table 14 above indicates creditors' payment period for 257 municipalities between 2022/23 and 2023/24. Over this period, the number declined from 227 to 222, indicating a reduction in the average number of days municipalities take to settle payments to creditors.
- 8.73. None of the metropolitan municipalities can pay creditors within 30 days of receiving the invoice. Of concern is that it takes Mangaung 267 days to pay creditors while City of Johannesburg takes 206 days. One metropolitan municipality which takes lesser days is eThekweni with 32 days.
- 8.74. The creditors' payment period provides insight into how long a municipality takes to pay its suppliers and service providers after receiving goods or services. It is an important liquidity and financial management indicator in municipal finance.
- 8.75. The creditors' payment period measures the time municipalities take to settle accounts with suppliers and service providers after the goods and services have been delivered.
- 8.76. The prescribed norm is for municipalities to settle invoices within 30 days of receipt. However, paying too quickly can strain the working capital requirements and affect cash flow management. A shorter payment period of less than 30 days indicates that payments are made promptly, and creditors are prioritised. This implies that a municipality has and maintains an effective system of expenditure control and internal control in respect of turnaround time for the payment of creditors. Ultimately, it is about striking a sound balance.
- 8.77. A payment period exceeding 30 days may signal that a municipality is facing challenges with cash flow or lacks effective controls to guarantee timely settlement of accounts. Therefore, timely payment of creditors plays a crucial role in maintaining the liquidity of local economies and ensuring the sustainability of Small, Medium, and Micro Enterprises (SMMEs).
- 8.78. Section 65(2)(e) of the MFMA prescribes that all monies owed 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.

Table 15: Debt as a percentage of total operating revenue, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. of municipalities whose debt level is		
less than 45%	8	8
more than 45%	0	0
Secondary Cities (19)		
No. of municipalities whose debt level is		
less than 45%	17	18
more than 45%	2	1
Other Local Municipalities (Towns) (186)		
No. of municipalities whose debt level is		
less than 45%	185	185
more than 45%	1	1
District Municipalities (44)		
No. of municipalities whose debt level is		
less than 45%	44	44
more than 45%	0	0
All Municipalities (257)		
No. of municipalities whose debt level is		
less than 45%	254	255
more than 45%	3	2

Source: National Treasury - Local Government Database

Indicator 11: Debt as a percentage of total operating revenue

8.79. The above table indicates a financial metric that demonstrates how much total debt a municipality has relative to its income, calculated as total debt over the available revenue. A lower ratio is generally better, indicating more financial freedom and less pressure from debt obligations. It indicates the level of indebtedness relative to the municipality's ability to generate income. The number of municipalities whose debt level is less than 45 per cent increased from 254 in 2022/23 to 255 in 2023/24.

8.80. None of the metros carry a debt level of more than 45 per cent, which is a positive financial indicator.

8.81. A further correlation can be drawn between the level of underspending on capital expenditure as a percentage of total expenditure and how municipalities with under borrowed position can leverage this ratio (external borrowing) to increase investment in capital assets because the total capital expenditure includes conditional grants, own funds, and borrowings.

Indicator 12: Current ratio

Table 16: Current Ratio, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
Metropolitan Municipalities (8)		
No. of municipalities whose current assets are less than current liabilities (less than 1)	4	5
more than current liabilities (more than 1)	4	3
Secondary Cities (19)		
No. of municipalities whose current assets are less than current liabilities (less than 1)	13	13
more than current liabilities (more than 1)	6	6
Other Local Municipalities (Towns) (186)		
No. of municipalities whose current assets are less than current liabilities (less than 1)	98	95
more than current liabilities (more than 1)	88	91
District Municipalities (44)		
No. of municipalities whose current assets are less than current liabilities (less than 1)	20	18
more than current liabilities (more than 1)	24	26
All Municipalities (257)		
No. of municipalities whose current assets are less than current liabilities (less than 1)	135	131
more than current liabilities (more than 1)	122	126

Source: National Treasury - Local Government Database

- 8.82. Table 16 above shows the current ratio between 2022/23 and 2023/24. Almost half of the municipalities have current liabilities that are greater than current assets in 2022/23.
- 8.83. Five metros have a current ratio below one which are eThekwini, Mangaung, and the three metros in Gauteng which is concerning.
- 8.84. The current ratio is a key financial indicator used to assess whether a municipality has sufficient current assets to cover its current liabilities, such as debt and payables. A higher current ratio signifies a stronger capacity to meet short-term obligations, contributing to the municipality's ability to maintain operations as a going concern.
- 8.85. The number of municipalities whose current assets are more than current liabilities increased from 122 in 2022/23 to 126 in 2023/24 while those with less than one month decreased from 135 in 2022/23 to 131 in 2023/24.
- 8.86. A ratio of less than 1 is indicative that the municipality is technically insolvent. In total 131 (50.9 per cent) of all municipalities, 5 metros (62.5 per cent), 13 secondary cities (68.4 per cent), 95 of other local municipalities (51.1 per cent and 18 district municipalities (40.9 per cent) are technically insolvent.
- 8.87. On the contrary, a ratio below 1 indicates that the municipality may struggle to pay its current liabilities all at once if they become due, signaling potential technical insolvency and financial distress.
- 8.88. This ratio helps to evaluate a municipality's short-term financial stability and liquidity. If current liabilities are greater than current assets, it highlights serious financial challenges and most likely, liquidity challenges.
- 8.89. The number of municipalities whose current assets are more than current liabilities increased from 122 in 2022/23 to 126 in 2023/24 while those with less than one month decreased from 135 in 2022/23 to 131 in 2023/24.

Indicator 13: Solvency ratio

8.90. This ratio assesses a municipality's ability to pay off its long-term debts with its available assets. While municipalities, unlike private companies, cannot simply sell off infrastructure assets to settle debts, this ratio provides insight into the overall financial strength and stability of the municipality.

8.91. Though infrastructure and other assets cannot be sold, it is crucial that revenue generating assets such as utilities, transportation systems, or other public services are maintained effectively. The sustainability of these assets ensures that the municipality can continue providing essential services, which, in turn, maintain or even increase revenue potential. The higher the solvency ratio, the more capable the municipality is in terms of paying its total liabilities.

8.92. Table 17 below shows the solvency ratio of 257 municipalities between 2022/23 and 2023/24. A total of 24 municipalities has insufficient total assets to cover their total liabilities.

8.93. It is commendable that all the metros' total assets are more than total liabilities. Seven of the 44 district municipalities' total assets are less than total liabilities.

Table 17: Solvency Ratio, 2022/23 - 2023/24

Municipalities	Audit Outcome	
	2022/23	2023/24
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)	3	3
more than total liabilities (more than 1)	16	16
Other Local Municipalities (Towns) (186)		
No. of municipalities whose total assets are less than total liabilities (less than 1)	10	14
more than total liabilities (more than 1)	176	172
District Municipalities (44)		
No. of municipalities whose total assets are less than total liabilities (less than 1)	8	7
more than total liabilities (more than 1)	36	37
All Municipalities (257)		
No. of municipalities whose total assets are less than total liabilities (less than 1)	21	24
more than total liabilities (more than 1)	236	233

Source: National Treasury - Local Government Database

8.94. Further analysis shows that:

- All the eight (8) metropolitan municipalities reported sufficient total assets to cover their total liabilities, while 16 secondary cities had sufficient total assets to cover their total liabilities;
- Similarly, 172 local municipalities also reflected total liabilities that are less than the total assets; and
- Thirty-seven (37) district municipalities have total liabilities that are less than total assets.

8.95. An indicator less than 1 is indicative that a municipality is totally bankrupt and 24 municipalities or 9.3 per cent fall within this category and represents an increase compared to the 21 municipalities or (8.2 per cent) in 2022/23 financial year.

8.96. This represents an increase of 19.0 per cent on a year-on-year basis.

9. REVENUE MANAGEMENT

- 9.1. The municipalities are supported through the ongoing revenue management programme, and it is meant to enhance and protect local government revenue. At the core of sustainable service delivery is a funded budget, which is underpinned by credible budget assumptions, based on realistically anticipated revenue, optimisation of existing revenue sources and limiting expenditure to remain within the budget.
- 9.2. Certain high performing municipalities are leveraging their sound finances to access finance to increase infrastructure investment.
- 9.3. Three of the four major trading services (water, wastewater, solid waste) still operate below full cost recovery (direct cost calculation) which presents a real sustainability risk. Municipalities need to refine tariffs, improve efficiency, and strengthen revenue management. These reforms must be paired with a focus on customer affordability, ensuring that cost-reflective tariffs remain fair, transparent, and sensitive to households under financial pressure.
- 9.4. The wastewater investment surged from 2021/22 to 2023/24, a massive shift toward sanitation infrastructure which is key for environmental compliance and service reliability.
- 9.5. The RT29-2024 transversal contract for smart metering solutions and systems is available to municipalities on an application basis, and the participation guidelines can be accessed on the National Treasury's website.
- 9.6. A panel of appointed service providers is responsible for conducting audits and token identifier (TID) conversions of existing prepayment meters, as well as the supply, delivery, installation, management, and maintenance of smart metering infrastructure for the state.
- 9.7. During 2024/25, municipalities participating in municipal debt relief were prioritised for the smart meter grant. Twenty (20) applications were received, resulting in the installation of 66 599 prepaid smart meters in seven (7) of the successful applicants.
- 9.8. During the installation process, 1 006 local jobs were created, contributing to local economic development and an effective spend rate of 99.94 per cent or R499.7 million of the R500 million grant funding allocated in 2024/25.
- 9.9. It is anticipated that subject to the available fiscal envelope, the grant will be expanded progressively to additional municipalities, thereby contributing to improved financial sustainability and enhanced utility management across local government.
- 9.10. The smart meter grant rollout generates detailed consumption data and provides real-time visibility of electricity and water distribution networks.
- 9.11. This enhances the municipal monitoring and control of utility infrastructure, improves performance monitoring, and facilitates technical audits and the proactive management of utility services - particularly in billing, verification, and enforcement against illegal connections.
- 9.12. As part of the grant support, municipal staff receive ongoing technical assistance and capacity building to ensure their competent management and optimisation of the new technologies.
- 9.13. The RT29-2024 service providers are appointed by the National Treasury and are required to undertake pre-implementation audits to inform the business implementation plans.
- 9.14. The grant support framework is comprehensive to ensure sustainable operation and continued enhancement of the smart metering systems post-installation. Parallel performance is closely monitored in combination with technical audits to facilitate

compliance, system efficiency, improved revenue recovery, and ultimately enhanced service delivery.

- 9.15. Related to the revenue programme, the Municipal Eskom Debt Relief is intended to improve Eskom's balance sheet and financial sustainability and facilitated the support to municipalities in the form of a debt write-off of the municipal debt owed Eskom as at 31 March 2023. National Treasury communicated the introduction of the Municipal Debt Relief Programme through the MFMA Circular No. 124 in March 2023.
- 9.16. The Municipal Debt Relief Programme is a separate programme from the Eskom Debt Relief Programme and entails the ring-fencing of municipal relief debt that if coupled with a return to basic minimum financial management best practices can bring relief to the municipal Eskom defaulters.
- 9.17. There is also the added benefit of a full debt write-off over the three (3) years of the programme subject to the municipality meeting the conditions. The conditions aimed at enforcing basic financial management best practices are already embodied in the MFMA and Municipal Systems Act 32 of 2000.
- 9.18. This is also meant to bring about critical changes in the energy sector and simultaneously address a behavioral change in the municipal defaulters by requiring them to meet certain conditions and in return (as an incentive) relieve their gridlocked financial crisis of historic arrear Eskom debt.
- 9.19. A total of 71 municipalities were approved to participate in the Eskom Debt Relief programme based on rolling a 12-month rolling cycle that commenced on the staggered effective date of their National Treasury approval.
- 9.20. The National and Provincial Treasuries are expected to provide a report on high-level overview of the monthly overall compliance, indicating a gradual average improvement in compliance with the relief conditions.
- 9.21. Compliance certification issued by both the National and Provincial Treasuries indicates that the average municipal participant's compliance with the conditions improved from 55 per cent (31 March 2024) to 67 per cent (30 June 2024).
- 9.22. The improvement correlates to the re-deployment of MFIP resources to assist with the monitoring of and support of provincial treasuries and participating municipalities. However, the improvement is not adequate as many participants are at risk of not qualifying for the debt write-off at the end of their first 12-month cycle due to varying levels of non-compliance.
- 9.23. Condition 6.1 is only assessed at the end of each 12-month cycle. Condition 6.2 (applications) was also not rated since all participants met application requirements.
- 9.24. Condition 6.13 (accounting treatment) was assessed by selected provincial treasuries and reflects a score; however, the condition only applies when the annual financial statements are assessed during October to December. Condition 6.14 (NERSA license) automatically comes into play when any condition shows a low score. This condition will be invoked should attempts to assist a municipality fails and will be informed by a concurrent process of introducing a MSA Section 78 process.
- 9.25. Guidance to municipalities on the accounting treatment of the debt relief was issued later during the programme and this directly impacted condition 6.12 (proper management of resources). Therefore, it is anticipated that municipalities will progressively improve in this area as they align with the mSCOA guidance to properly ring-fence their electricity and water function(s).
- 9.26. As of 30 June 2024, 15 of the 71 participants completed their first debt relief cycle, of which twelve (12) qualified for the first third write-off per the National Treasury's assessment. Eskom

is however, contesting the National instruction for four (4) of the twelve (12) – the effective start date and Eskom payment allocations are in dispute.

- 9.27. More recently, the Water Debt Relief incentive scheme was introduced as an initiative of the Department of Water and Sanitation intended to deal only with the water debt owed to their Water Trading Entity and not all the water debt in the sector.
- 9.28. The support to municipalities is in the form of a debt write-off of the municipal debt owed to selected Water Boards, Water User Associations, and the Water Trading Entity over 60 days as of 30 September 2024.
- 9.29. The municipal write-off is not necessarily a full write-off and is limited to the Water Trading Entity write-off passed on to the Water Boards and Water User Associations.
- 9.30. The incentive is only available upon invitation to the municipality by either the Department of Water and Sanitation, Water Board and or Water User Association. The Department of Water and Sanitation approved the Water Debt Relief Guideline on 11 February 2025.
- 9.31. As of August 2025, the application process remained incomplete to allow the Department of Water and Sanitation time to resolve several disputes regarding the relief debt balances with certain municipalities invited to participate.

10. ASSET MANAGEMENT

- 10.1. As at 30 June 2024, the total capital investment stood at R22.6 billion. Of this amount 54 per cent or R12.23 billion was directed towards on acquisition of new assets and 21.8 per cent or R4.9 billion to renewal of existing assets and 24.2 per cent was invested to upgrading of the existing assets (R5.47 billion).

Table 18: Asset Management

Description		
R thousands	Q4 June Actual	%
Capital expenditure		
Total New Assets	12 230 744	54.0%
Total Renewal of Existing Assets	4 929 960	21.8%
Total Upgrading of Existing Assets	5 472 544	24.2%
Total Capital Expenditure	22 633 249	100.0%
Total Repairs and Maintenance Expenditure	7 222 551	100.0%

Source: National Treasury and Local Government Database

- 10.2. The repairs and maintenance amounted to R7.2 billion. The contracted services dominated expenditure on repairs and maintenance. Municipalities still struggle to budget for 8 per cent on repairs and maintenance against the property, plant, and equipment.
- 10.3. The primary risk identified is high reliance on contractors, relatively low staff-related maintenance spending, and a capital programme weighed up to new assets. This raises the risk pertaining to procurement, lifecycle-costing and long-term operating costs.
- 10.4. The capital expenditure was made up of new assets amounting to R12.2 billion or 54.0 per cent which essentially is more of the municipality's growth or is expansion oriented. The renewal and upgrading amounted to R10.4 billion or 46.0 per cent, which is significant but slightly smaller than the allocation for new assets.
- 10.5. The municipalities must ensure the allocation to new assets is consistent with expansion but should ensure that renewal is aligned with asset deterioration. New assets create future operating and maintenance obligations such as staff, materials, other asset operating costs.
- 10.6. It is important to note that if renewal expenditure (or lifecycle replacement funding) falls below actual depreciation or replacement requirements, the municipal asset base will deteriorate, leading to increased service interruptions. Furthermore, investment in new

assets typically generates additional recurring costs, including maintenance, staffing, and utilities. These costs must be adequately budgeted for and sustainably funded over the long term to safeguard service delivery and ensure the continued functionality of municipal infrastructure. The high contracted services share introduces contract performance risk, potential cost escalation, single-supplier exposure, and possible irregular expenditure if procurement controls are weak.

10.7. In addition, the small employee R&M spend may mean loss of internal skills and higher long-term vendor dependency and large capex needs robust business cases, project management, and post-implementation reviews to ensure assets deliver promised benefits.

11. FINANCIAL GOVERNANCE – ACTING POSITIONS

Table 19: Municipalities with acting Municipal Managers and CFOs at 30 June 2024

2024		Acting MM		Acting CFO		Both Acting		
Summary per Province		No.	%	No.	%	No.	%	
Eastern Cape	39	EC	3	7.7%	8	20.5%	1	2.6%
Free State	23	FS	3	13.0%	4	17.4%	5	21.7%
Gauteng	11	GT	-	0.0%	-	0.0%	-	0.0%
Kwazulu-Natal	54	KZ	7	13.0%	13	24.1%	4	7.4%
Limpopo	27	LP	6	22.2%	5	18.5%	1	3.7%
Mpumalanga	20	MP	4	20.0%	4	20.0%	2	10.0%
North West	22	NW	6	27.3%	7	31.8%	3	13.6%
Northern Cape	31	NC	5	16.1%	6	19.4%	2	6.5%
Western Cape	30	WC	2	6.7%	4	13.3%	1	3.3%
Total	257		36	14.0%	51	20.0%	19	7.0%

Source: National Treasury and Local Government Database

11.1. Acting appointments at the highest level particularly in the role of Chief Financial Officer (CFO), or in cases where both Municipal Manager (MM) and CFO are filled on an acting basis significantly heighten risks to financial management, service delivery, and overall accountability.

11.2. In the North West (NW) province, acting appointments are particularly prevalent, highlighting significant leadership instability. Out of twenty-two (22) municipalities, six (6) or (27.3 per cent) had acting Municipal Managers while Seven (7) or 31.8 per cent had the acting CFOs. It was noted that 13.6 per cent relates to both acting MM and CFO. This widespread reliance on temporary appointments underscores a serious governance and stability challenge across the province.

11.3. The Free State (FS) also has a high level of vacancies with five (5) out of twenty-three (23) municipalities or 21.7 per cent having both acting MM and CFO which is a significant red flag for governance. KwaZulu-Natal (KZN) had thirteen (13) out of fifty-four (54) representing 24.1 per cent acting CFOs which contributes to financial instability in many councils.

11.4. In the Eastern Cape (EC) and Western Cape (WC) the incidence of acting appointments is comparatively lower with CFOs accounting for 20.5 per cent and acting MM at 6.7 per cent, respectively.

11.5. Gauteng stands out as an outlier and a stabilising benchmark with none of its 11 municipalities reporting acting Municipal Managers (MMs) or Chief Financial Officers (CFOs).

11.6. Acting MMs generally operate with less authority, limited political legitimacy, and often limited time horizon to take difficult decisions leading to slow implementation of infrastructure projects, procurement, and restoration of essential services.

- 11.7. The Acting CFOs may lack full delegations or be unfamiliar with strategic budget choices, increasing the risks of misstatements, late preparations and submission of annual financial statements, qualified audit findings and higher UIFWE exposure. There is high probable risk in cases where both the CFO and MM are acting as there is no permanent accounting officer and head of finance to drive reforms.
- 11.8. The Municipal Public Accounts Committee, Audit Committees and Councils find it more difficult to hold acting officials account due to changes in the acting positions. Disciplinary or remedial processes may be delayed if incumbents are suspended, and positions remain acting.
- 11.9. A high prevalence of acting appointments prevalence often reflects an inability to recruit or retain senior managers due to rural locations of municipalities, less pay compared to high-capacity municipalities, political instability, and legal disputes. These dynamics erode institutional memory and weaken the effective implementation of policies and projects.
- 11.10. The unresolved labour relations challenges, bureaucratic delays and political interference are some of the root causes of extended period of acting positions, amongst others.

12. MUNICIPAL FINANCIAL RECOVERY SERVICES

- 12.1. In terms of Section 139 (5) of the Constitution, when a mandatory intervention is invoked in a municipality, a mandatory financial recovery plan (FRP) must be prepared and implemented to resolve the financial crisis in the municipality.
- 12.2. The Municipal Financial Recovery Services (MFRS) unit within the National Treasury is responsible for the preparation of FRPs under mandatory interventions. In contrast, an FRP may also be prepared for discretionary interventions invoked under Section 139 (1) of the Constitution. However, in these cases, the plan does not have to be prepared by the MFRS unit; instead, any suitably qualified person may prepare it. Additionally, a municipality experiencing financial difficulties may voluntarily request the MFRS to develop an FRP to assist in addressing its financial challenges.
- 12.3. Previously, the MFRS was involved in preparing all types of FRPs, including mandatory, discretionary, and voluntary plans. However, it has become evident that discretionary and voluntary FRPs are generally poorly implemented due to the absence of a legal framework that enforces compliance and regular progress reporting.
- 12.4. This lack of accountability has significantly undermined their effectiveness.
- 12.5. In response, the MFRS, in line with the Technical Committee on Finance (TCF) Lekgotla resolution, has decided to shift its focus exclusively to mandatory FRPs, where compliance can be enforced.
- 12.6. Requests for discretionary or voluntary FRPs are now only considered on a case-by-case basis, ensuring better allocation of resources and improved outcomes.
- 12.7. The FRP serves as a critical intervention tool for when municipalities encounter financial problems. It adopts a holistic approach that encompasses the four pillars of municipal sustainability which are governance, institutional arrangements, service delivery and financial management, acknowledging their interdependence and their collective impact on municipal financial stability.
- 12.8. By addressing the root causes of financial distress across the different pillars, the FRP aims to restore overall municipal financial health. If implemented effectively, the FRP will assist in resolving a municipality's financial problems and ensuring timely and sustainable financial recovery and improved service delivery.

FRP support to municipalities

- 12.9. As at the end of the 2023/24 financial year, there were 47 active FRPs that have been prepared by the MFRS over the years.
- 12.10. Of these, 23 are mandatory FRPs, while 13 are discretionary and 11 are voluntary.
- 12.11. Meanwhile, three additional FRPs requested during the same period have not yet commenced, primarily due to resistance to the interventions from the respective municipalities.
- 12.12. Further, 9 FRPs were revised during the 2023/24 financial year, consisting of three mandatory FRPs for municipalities in Mpumalanga province and six (6) voluntary FRPs for municipalities in Limpopo province.

Table 20: Number of FRPs developed

PROVINCE	TOTAL	MANDATORY	DISCRETIONARY	VOLUNTARY
EC	5	5	0	0
FC	9	2	5	2
GP	4	3	0	1
KZN	1	0	0	1
LIM	6	0	4	2
MP	7	5	0	2
NW	8	7	0	1
NC	7	0	5	2
WC	1	1	0	0
TOTAL	48	23	14	11

- 12.13. For the FRP to be truly impactful, it depends heavily on the effective participation of all stakeholders within the FRP and/ or intervention ecosystem.
- 12.14. The National Treasury, through the MFRS unit, plays a critical role by developing an FRP that is responsive to the challenges that each municipality has and by monitoring the implementation progress. However, the core responsibility for implementing the FRP rests with the municipality, and this is where the most significant breakdown tends to occur.
- 12.15. No matter how well-crafted and technically sound an FRP may be, it cannot deliver the intended results without effective implementation at the municipal level.
- 12.16. Unfortunately, poor implementation by municipalities is a recurring issue, which not only undermines the prospects of financial recovery but also diminishes the value of the substantial efforts and resources invested by the National Treasury in developing these FRPs.
- 12.17. Moreover, municipalities often either fail to adhere to the monthly reporting requirements on implementation progress or submit reports lacking credible proof of execution to support claimed progress, further weakening accountability and the overall effectiveness of the FRP.
- 12.18. As a result, most municipalities that have adopted FRPs remain stuck in the rescue phase for years, unable to progress towards sustainable financial recovery.

Update on national interventions

- 12.19. National interventions are provided for under Section 139 (7) of the Constitution and are intended as a measure of last resort, to be invoked only when a provincial executive either fails to intervene in a municipality facing a financial crisis or is unable to do so effectively.
- 12.20. This provision underscores the seriousness of such interventions, reflecting the need for urgent and decisive action when all other mechanisms at the provincial level have proven inadequate in addressing the financial crisis and institutional dysfunction within a municipality.

- 12.21. By end of the 2023/24 financial year, the national interventions in Lekwa local municipality, Enoch Mgijima local municipality, and Mangaung metropolitan municipality had each been in place for at least two years. The intervention in the Lekwa local municipality began in May 2021, while those in the Enoch Mgijima local municipality and the Mangaung metropolitan municipality both commenced in April 2022. The FRP for the Lekwa Local Municipality was approved in October 2021, whereas the those for Enoch Mgijima Local Municipality and Mangaung Metropolitan Municipality were approved December 2022 and August 2023, respectively.
- 12.22. Although the national interventions in these three municipalities were positioned at a high level and initially raised hopes of a decisive shift in resolving deep-rooted dysfunction, the outcomes on the ground have not yielded the desired outcomes thus far.
- 12.23. The implementation of FRPs remained slow across all three municipalities, as at end of 2023/24 financial year.
- 12.24. It has been noted that key activities in the FRPs identified as having the greatest potential to facilitate financial recovery have been implemented at a slow pace or in some cases not implemented at all. The slow progress has significantly undermined the municipalities' ability to achieve timely and sustainable financial recovery.

13. MFMA CIRCULAR NO. 88

- 13.1. The MFMA Circular No. 88 Addendum 4 update was released to municipalities in December 2022 for implementation in the 2023/24 financial year. In support of municipalities grappling with operationalising aspects of the reform, the addendum update tackled reporting guidance and clarifications aimed at strengthening indicator targeting and reporting, among other elements.
- 13.2. This guidance extended to how municipalities should report in circumstances where incomplete data or systems limitations may create an administrative risk for the municipality, while at the same time providing clear steps for progressively improving data quality, completeness, and reliability.
- 13.3. MFMA Circular No. 88 remains the only circular formally endorsed and co-signed by the National Treasury, the Department of Cooperative Governance (DCoG), and the Department of Planning, Monitoring and Evaluation (DPME).
- 13.4. The reform continues to benefit from cross-sector support, albeit the level of participation by sector departments has been uneven. Notably, the more actively engaged departments have, over the past year, made significant progress in strengthening technical guidance on indicators and enhancing oversight. However, metros challenges relating to data quality and reliability persist, and remain a key focus of ongoing discussions and clarifications. To assist municipalities in addressing these issues, itemised updates and detailed descriptions have been included in the Addendum's appendices.
- 13.5. The National Treasury has remained the primary driver of the reform at the metropolitan level, while its partnership with DCoG has ensured that MFMA Circular No. 88 continues to be implemented across the 249 non-metropolitan municipalities, albeit on a differentiated basis. Metros are required to integrate the full set of indicators into their statutory planning and reporting (i.e., the Integrated Development Plans (IDPs), Service Delivery and Budget Implementation Plans (SDBIPs) and Annual Performance Reports (APRs), whereas non-metros plan and report on the indicators as a supplement to their official planning and reporting.
- 13.6. The oversight of this reform is coordinated by the Joint Planning, Budgeting, and Reporting Reform (JPBRR) Steering Committee, comprising of the National Treasury, DPME, and DCoG.

The committee is further supported by key stakeholders including, the AGSA, SALGA, the Department of Public Service and Administration (DPSA), the South African Cities Network (SACN), and Statistics South Africa.

- 13.7. These stakeholders play a crucial role in institutionalising the reform, as well as proactively addressing the administrative risks associated with publishing and reporting performance information from data management systems that are still being progressively embedded to produce more accurate and timeous data.
- 13.8. As part of the institutionalisation of the reform, the National Treasury and the AGSA established periodic bilateral meetings, focusing on the application of MFMA Circular No. 88 guidance as part of the Audit of Predetermined Objectives (AoPO) for metros. While appropriately and accurately planning for, monitoring, and reporting of performance information across all South African municipalities remains a work-in-progress, MFMA Circular No: 88 has become an annual mechanism for providing guidance on implementing indicators across varied municipal contexts, capacity, and resource environments.
- 13.9. In the 2023/24 financial year, the National Treasury continued with consultations with sector departments on the latest policy and technical developments for operationalisation in the MFMA Circular No. 88 indicator set. The process involved engagements with various structures, including bilateral engagements at sectoral level. This involved periodic engagements between National Treasury and sector departments or agencies to assist with interpreting latest policy guidance and clarifications to the formulation of performance indicators. Metro support consultations and bilateral meetings. This involved engagements with metros in relation to specific reform operationalisation challenges.
- 13.10. This also extended to metro support forums and one-on-one engagements with metros subject to identified need. Sector Technical Working Groups (TWGs). Sector Technical Working Group engagements occurred twice annually per sector with the intention of interrogate metros performance data.
- 13.11. These sessions have become progressively more effective at moving from highlighting data quality issues to relational performance issues, and in some instances highlighting good practices. Additionally, this platform is used to clarify, amend, or revise indicators and resolve any implementation challenges.
- 13.12. The TWGs cover various sectors, including water and sanitation, electricity and energy, housing and community facilities, roads and transport, environment and waste management, fire and disaster services, governance, local economic development, and financial management. They serve as the key platform for periodic intergovernmental performance indicator reviews and discussions on formulation, interpretation, data quality, and performance analysis of metros.
- 13.13. The engagements are chaired by the relevant department with the sector policy responsibility (e.g., Department of Transport chaired the Roads & Transport TWG's) and include consistent participation from the National Treasury and DCoG, as well as metropolitan municipal representatives. The DCoG also extended invitations to provincial CoGTAs and selected non-metro municipalities that are grappling with the reform, particularly regarding the interpretation, application, and reporting of indicators. With MFMA Circular No. 88 indicators now integrated into metro statutory planning and reporting documents, this performance data has been increasingly scrutinised by municipal internal audit, AGSA and national departments.
- 13.14. These oversight processes continue to highlight some discrepancies between the Technical Indicator Descriptions and municipal operationalisation in the performance data reported. The AGSA has begun noting these inconsistencies in its annual audit management feedback to metros, with the intention of formally including them in future audit findings. DCoG

continued to pilot the implementation of MFMA Circular No. 88 in intermediate cities, district, and local municipalities as supplementary to the existing statutory planning and reporting processes.

- 13.15. In the 2023/24 financial year, there was some stagnation among those reporting and just under 50 per cent of non-metro municipalities reported to DCoG in line with MFMA Circular No. 88 requirements, which is a slight decline on the reporting rate in 2022/23. Reporting has been relatively satisfactory in Gauteng, KwaZulu-Natal, Limpopo, and the Western Cape, while municipalities in the other provinces have struggled with basic compliance, with significant concerns persisting around the quality of the data submitted.
- 13.16. In the 2023/24 financial year the DCoG revisited its plans for drafting updated regulations that will replace the Municipal Systems Act: Planning & Performance Management Regulations of 2001 and the indicators listed in Section 10. While limited progress was made on the regulations in this period, the DCoG did commit to performance targets for the update of this regulation in 2025/26.
- 13.17. Some sector departments, such as the Department of Human Settlements, continue to engage with and analyse MFMA Circular No. 88 data in relation to the Urban Settlements Development Grant (USDG) as tranche payments to metros are conditional on Circular 88 reporting submissions. This experience is proving to be formative for other reform initiatives targeting metros, including where performance-based incentives are mooted for incorporation into the design.
- 13.18. The implementation of MFMA Circular No. 88 data is becoming increasingly becoming institutionalised and reinforced across sectors, strengthening the reform's central aim of streamlining reporting requirements. It is also bringing more policy and technical capacity in the system for the supply of better-quality municipal performance data.

14. MUNICIPAL FINANCE IMPROVEMENT PROGRAMME

- 14.1. The MFIP is a strategically driven programme which continues to play a critical role in strengthening financial sustainability and governance within municipalities. In response to persistent challenges in local government finance, MFIP is an impactful, results-driven programme that not only addresses immediate financial management challenges but also lays the foundation for long-term institutional sustainability.
- 14.2. MFIP was established with a mandate to build institutional and technical financial management capacity across all levels of government, namely, National Treasury, Provincial Treasuries, and municipalities.
- 14.3. At the core of this mission is the strategic deployment of Technical Advisors (TAs) who are seasoned professionals placed within MFMA support units in treasuries and Budget and Treasury Offices in municipalities who provide both advisory and hands-on, targeted support tailored to the unique needs and challenges of each supported institution.
- 14.4. As at 30 June 2024, MFIP had deployed a total of 98 TAs across National Treasury, Provincial Treasuries, and municipalities across all nine provinces.
- 14.5. These advisors are placed to address the financial sustainability challenges, particularly in municipalities under the Eskom Debt Relief Programme and those classified as financially distressed.
- 14.6. Thirty-five (35) TAs were deployed directly to municipalities identified for support. Thirty-four (34) TAs were assigned to Provincial Treasuries, focusing on asset management, supply chain management, *mSCOA*, audit and accounting support, as well as budget and revenue management.

14.7. Twenty-nine (29) TAs were placed within National Treasury to strengthen national policy frameworks, systems, and procedures related to local government financial management.

14.8. Table 21 below depicts the TAs placed at National Treasury, Provincial Treasuries and Municipalities:

Table 21: Technical Advisors

No.	MFIP Workstreams	National Treasury	Provincial Treasuries	Municipalities	Total
1	Municipal Standard Chart of Accounts	5	6	0	11
2	Municipal Finance Recovery Services	9	0	0	9
3	Supply Chain Management	1	8	0	9
4	Budget and Revenue Management	4	7	0	11
5	Budget and Financial Management	1	0	0	1
	Accounting and Audit Support: Accounting				
6	Support	1	0	0	1
7	Accounting and Audit Support: IT Specialist	1	0	0	1
	Accounting and Audit Support: Alegislative and				
8	Policy Reform	2	5	0	7
9	Asset Management	0	8	0	8
10	LGBA Project Administrator	1	0	0	1
11	Municipal Support	4	0	35	39
	Total	29	34	35	98

14.9. Capacity building remains central to MFIP, with the objective of enhancing capacity at the institutional, organisational, and individual level. The programme recognise that sustainable financial improvement requires more than temporary support initiatives, it demands the empowerment of municipal officials with practical and applicable skills, and ongoing mentorship.

14.10. In the 2023/24 financial year, MFIP conducted a total of 2 674 training sessions, reaching over 34 000 officials across various financial disciplines. These sessions, though informal and non-accredited, have been instrumental in enhancing the day-to-day competencies of municipal finance teams. By focusing on on-the-job learning, MFIP ensures that knowledge transfer is immediate, relevant, and impactful.

14.11. The MFIP Project Management Unit (PMU) within the National Treasury maintains a thorough performance monitoring framework to ensure accountability, effectiveness, value for money as well as contract compliance. Towards this end, bi-annual performance reviews were conducted in October 2023 and April 2024, covering the periods from April to September 2023 and October 2023 to March 2024, respectively.

14.12. These reviews involved all Technical Advisors across National Treasury, Provincial Treasuries, and participating municipalities and provided a platform to assess progress against support plans, identify persistent challenges, recognise stream-based achievements, and gather feedback from beneficiaries. The lessons learned have been instrumental in guiding future implementation strategies and strengthening the programme's commitment to responsive and adaptive planning.

14.13. In response to the growing demand for direct technical assistance, MFIP underwent a strategic expansion in November 2023. Approval was obtained to procure additional Technical Advisors increasing the total to 110 Technical Advisors. This expansion reflects a strong affirmation of the programme's effectiveness and its critical role in supporting local government reform. Additionally, the Director General approved the extension of the programme to 31 March 2026, to align the programme to government's financial year. This extension paves the way to refine MFIP's approach, integrate lessons learned, and scale its impact.

14.14. To address the recommendations from the internal evaluation of the programme and the need for more integrated support, MFIP is undergoing a strategic redesign campaign led by the Intergovernmental Relations (IGR) division. The redesign process is informed by a

comprehensive Grant Review and collaborative engagements with stakeholders within the National Treasury, including the Local Government Budget Analysis (LGBA) and Intergovernmental Policy and Planning (IPP) units.

- 14.15. Additionally, a concept note was developed during the 2023/24 financial year, and a dedicated team which includes Long-Term Advisors (LTAs) has been established to finalise the redesign. The goal is to create a more cohesive, sustainable framework that addresses fragmented capacity-building efforts and persistent performance challenges. Implementation of the redesigned programme is anticipated in the 2026/27 financial year.
- 14.16. Continued evolution reflects a strong national commitment to empowering municipalities with the tools, expertise, and systems essential for success. By establishing high-level technical support, expanding capacity-building initiatives, and redesigning the programme for maximum impact, MFIP is laying the groundwork for sustainable financial management across local government.
- 14.17. The forthcoming signifies more than continuation of the programme; it marks a fundamental transformation in approach and scope. MFIP is poised to be a game-changer, directly supporting the National Treasury's local government reform agenda, and setting a new benchmark for excellence in local government financial management.

15. CITY SUPPORT PROGRAMME

Progress on the implementation of the Cities Support Programme

- 15.1. The Cities Support Programme (CSP) is located within the intergovernmental relations division of the National Treasury (has entered its third phase of implementation).
- 15.2. The CSP continues to support improved spatial transformation and inclusive economic growth outcomes for the South African metropolitan municipalities through catalysing improvements at the city level and intergovernmental level, using technical assistance, as well as fiscal and policy reforms.
- 15.3. The programme continues to operate within the Integrated Urban Development Framework (IUDF) and is a key implementing partner to Operation Vulindlela (OV), established as a joint initiative of the Presidency and NT to accelerate the implementation of structural reforms and support economic recovery.
- 15.4. The second phase of OV launched in May 2024, introduced several new reform areas, that are closely aligned to the work of the CSP. These reform areas include:
 - Tackling spatial inequality by creating dynamic and integrated cities to enable economic activity;
 - Harnessing digital public infrastructure as a driver of growth and inclusion; and
 - Strengthening local government and improving the delivery of basic services. Priorities include professionalising utilities, such as water and electricity services, and reviewing fiscal frameworks to align revenue with responsibilities.
- 15.5. The Metro Trading Services is a key reform in local government. National Treasury is coordinating a national priority programme called Metro Trading Services Reform (MTSR) Programme to provide a performance-based incentive and technical assistance to strengthen the performance of water and sanitation, electricity, and solid waste trading services in Metros.
- 15.6. The MTSR is directly responding to the infrastructure collapse and service delivery failures that residents and businesses in the metros are experiencing. It addresses inefficiencies in

the municipal system at the institutional, financial, and operational levels in trading service businesses and committing the metros to greater accountability and financial transparency through incentivising performance.

- 15.7. The MTSR has been designed as a six-year reform programme aimed at incentivising the turnaround of the Metro Trading Services (MTS) business and enabling the delivery of reliable services within metropolitan area. The MTS incentive window has been introduced in the new Urban Development Financing Grant for the metropolitan municipalities. The MTS PBI signalled in the MTBPS aimed to be available to qualifying metros from 25/26 financial year.
- 15.8. The National Treasury has issued four Guidance Notes and the Municipal Budget Circular, to guide metros in preparing their documents for participation in the reform. The Metropolitan Councils have approved and submitted to National Treasury strategies, business turnaround roadmaps and investment plans in preparation and compliance with the requirements of the MTS reform as directed by National Treasury.
- 15.9. The first cohort of submissions included water and sanitation services from six metros (Buffalo City, Cape Town, eThekweni, City of Johannesburg, Mangaung and City of Tshwane) and energy and electricity services from six metros (Buffalo City, Cape Town, City of Ekurhuleni, eThekweni, City of Johannesburg, and City of Tshwane).
- 15.10. These metros presented their draft performance improvement action plans (PIAPs, also known as A3) at the municipal mid-year budget review (MYBR) and benchmarking engagements in February, April, and May 2025 respectively before submitting these documents for Council approval alongside metro budgets.
- 15.11. The MTSP will move from design to implementation at the start of the 2025/26 financial year. By the end of July 2025, the metropolitan municipalities would also have submitted Council approved PIAPs reflecting performance targets and commitments which need to be actioned and achieved as from the 2025/26 financial year. Further as part of the second cohort of submissions metros are required to prepare and submit their eligibility documents by the end of July 2025 for the entry of solid waste management services into the reform in 2026/27.
- 15.12. The Titling Support Programme was also elevated to the OV reform agenda, as part of tackling spatial inequality and strengthening local government. The titling supports operational plan and has been developed to strengthen collaboration between the CSP and the Department of Human Settlements. Funding is being secured to resolve the metro titling backlog through interventions, such as addressing township proclamation issues that hinder titling registration.
- 15.13. The Small Scale Affordable Rental Programme is part of CSP's support for land use and infrastructure reform in metropolitan areas. The SSAR framework originated from a National Symposium held in 2023, followed by a highly successful pilot project in the City of Cape Town. The programme is now being expanded to Gauteng Metros. The SSAR rental project focuses on formalising backyard accommodation, promoting structured and sustainable densification in townships, and developing infrastructure models to rehabilitate overburdened infrastructure within these areas.
- 15.14. A new version of the Spatial Tax Panel (STP) is now available, representing an important milestone of 10 years of granular spatial tax data (2014–2024). The STP provides an important source of economic data available to metros and contains 197 datasets, including different spatial aggregations (national, local municipal, sub-metro [hexagon]), output variables (full-time equivalent employment; establishments), aggregate variables (combining industry, wages, sex, etc.) and time (monthly or yearly); and incorporates geocoded data to enhance geographical accuracy.
- 15.15. A further data initiative that has been established is MzansiXChange. Initiated jointly by National Treasury the South African Revenue Service, Stats SA, the United Nations University

World Institute for Development Economics Research (UNU-WIDER) and the HSRC, this project is implemented in collaboration with the DG's Office in NT, with technical support from the Open Cities Lab, and financial support from the UK-FCDO and SECO.

- 15.16. MzansiXChange's vision is to create a trusted, integrated data ecosystem for effective planning, policy, reporting and service delivery for the public's benefit.
- 15.17. The Township Economic Development (TED) project that commenced in 2020 continues with five metros to pilot spatially targeted approaches to socio-economic development in marginalised neighbourhoods or townships: Cape Town (Delft), City of Ekurhuleni (Thembisa), eThekewini (Pinetown South), Nelson Mandela Bay (New Brighton) and City of Tshwane (Hammanskraal). A TED learning event (29–31 October 2024) was hosted in collaboration with UK-FCDO, the World Bank and the Sustainable Livelihoods Foundation.
- 15.18. This project has supported the provision of infrastructure and enterprise support for waste collectors/waste beneficiation in eThekewini (Pinetown South) and facilitated a partnership between eThekewini metro, Use-It and Green Corridors and the drafting an Investment and Facilitation Plan for the Tembisa Station node in Ekurhuleni, ensuring alignment with existing city policies and land-use development plans.
- 15.19. The CSP is collaborating with the Development Action Group and the Lincoln Institute for Land Policy on the National Land Value Capture Programme. A key focus of the programme has been the release of municipal land. The Releasing Municipal Land for Affordable Housing report was launched in May 2024.
- 15.20. This report documents the land-release experiences of Cape Town, eThekewini, City of Johannesburg, and City of Tshwane, and is the result of a project undertaken jointly with the Human Sciences Research Council (HSRC) and the National Association of Social Housing Organisations. It contributes to a conceptual framework and evidence base for understanding municipal land release in South Africa.
- 15.21. Engagements were held with the cities to disseminate the findings and discuss the recommendations of the individual city reports and two peer-to-peer learning workshops on municipal land release were held with the aim of enhancing municipal capacity, fostering cross-municipal collaboration, and driving policy integration and institutional commitment.
- 15.22. Through the Cities Infrastructure Delivery and Management System (CIDMS), the CSP provided technical support to three metros (Cape Town, City of Tshwane, and eThekewini) for piloting the integration of climate adaption and resilience with infrastructure asset management, using climate risk assessment processes and resilience incorporated in modules of the CIDMS toolkit.
- 15.23. In August 2024, a workshop about the pilot study's implementation and lessons learnt was convened in collaboration with the three participating metros and provided a peer-learning opportunity for the other metros that attended.
- 15.24. To further support the practice and approach adopted in the CIDMS toolkit training for officials from five metros (Cape Town, City of Johannesburg, City of Ekurhuleni, City of Tshwane, and eThekewini) were held. The training sessions and modules were customised to the needs requested by the cities. The CIDMS rolled out identified 35 sewer purification plants for conditional assessment linked to the blue dop status report to support clear project prep in future years., linked to MTS reform programme.
- 15.25. Approximately 186 officials, including urban planners, infrastructure managers, asset management officials, finance officers, strategy officials and project managers, participated in the training.

15.26. Public Transport and mobility support to the cities is ongoing with the aim of building capabilities through developing pilot projects in collaboration with the national DOT and other stakeholders. Some of the activities included:

- Convening of the second Minibus Taxi community of practice event that was attended by the DOT, SALGA, SACN, relevant provincial departments, selected secondary cities and the eight metros; and
- Developing a rail precinct revitalisation plan to enhance connectivity, promote economic growth and support spatial transformation at a pilot station in two metros (City Johannesburg and eThekewini).

15.27. Recognising the inner-city decay in especially City of Johannesburg and eThekewini, inner city regeneration is being elevated as a Presidential priority and CSP support is being mobilised for such work.

15.28. The City's Business Process Engineering work planned by CSP is to expand the ease of doing business engineering support to new areas of the city business value chain, e.g., improvements in the process of informal trade permits and other development approvals processes.

16. LOCAL GOVERNMENT DATABASE AND REPORTING SYSTEM (LGDRS) AND GOMUNI

16.1. The promulgation of the Municipal Finance Management Act (MFMA, 2003) laid the foundation for the LG financial management, budget and reporting reforms in South Africa.

16.2. The Local Government Database and Reporting System (LGDRS) was developed in 2009 to facilitate the collection, storage, and publication of financial and non-financial data on municipal performance at a central point.

16.3. A sound reporting system facilitates transparency, better in-year management and oversight of budgets and better policy decisions on funding allocations across all spheres of government.

16.4. The reports available on the LGDRS are management tools and early warning mechanisms for municipal management and councils to improve municipal performance.

16.5. The aim of an early warning system is to provide government with timely information on the state of municipalities' finances that highlights possible areas of risk so that such risks can be investigated and mitigated before they give rise to serious problems.

16.6. The information and reports contained in the Local Government Database and Reporting System (LGDRS) remains the most sort after by different local and global stakeholders for different interactions and usage.

16.7. There is a need for information on municipal performance by various stakeholders such as South African Reserve Bank (SARB), Statistics South Africa, the South African Revenue Services (SARS), Department of Water and Sanitation (DWS), National Energy Regulator of South Africa (NERSA), department of Cooperative Governance (DCoG), the Auditor-General of South Africa (AGSA), the World Bank and universities.

16.8. This central reporting system eliminates duplication of effort where various departments request the same information from the same municipality.

16.9. In addition, the Municipal Money portal on the LGDRS provides information about municipal spending to the public, thereby promoting transparency and enabling citizens to hold their municipalities accountable.

- 16.10. Municipal Money is also part of the country's Open Government Partnership (OGP) 5th National Action Plan to improve transparency and public participation in government processes.
- 16.11. The OGP National Action Plan was adopted by Cabinet and progress against the commitments made to OGP is presented quarterly to Cabinet due to the impact that public transparency has on South Africa's credit rating. OGP has added a link to Municipal Money on their website (76 countries and 104 municipalities are members).
- 16.12. In addition to Municipal Money, the data on municipal financial performance is also made available through an Application Program Interface (API) to allow other national departments, service providers and researchers access this data to build their own datasets and develop their own monitoring and reporting tools using the data available on the National Treasury's Local Government Database and Reporting System (LGDRS).

The Municipal Standard Chart of Accounts (*m*SCOA)

- 16.13. The Municipal Regulations on a Standard Chart of Accounts (*m*SCOA) was introduced during April 2014. *m*SCOA is the uniform classification framework that must be used by municipalities and their entities to capture transactions in their financial systems.
- 16.14. It is a multi-segmental chart where Local Government information is classified according to project, fund, function, item, costing and region dimensions to enhance "whole of government" reporting. Municipalities and their entities had a three-year preparation period to comply with the Regulations by 01 July 2017.
- 16.15. The benefits of the reform include improving the quality local government information informing national policy debates; improving the overall financial planning ability of municipalities as the implementation of the project segment demands that all senior managers actively partake in the formulation of operational and capital projects; providing the data structure to compile both budgets and financial statements; improving data comparability between municipalities to inform policy decisions; allowing for better resource management and greater consistency in financial management; reducing the reporting burden and the cost of reporting as *m*SCOA allows for data extraction in various reporting formats from a single collections source; modernising financial management through updated systems and technology; and improving transparency and accountability leading to a high level of service delivery.
- 16.16. Importantly, *m*SCOA is an organisational change reform that affects all business units within a municipality and not just a financial reform, making it one of the biggest and most complex financial reforms ever implemented in the country.
- 16.17. It is also not limited to a standardised financial classification but incorporates the modernisation of the Local Government business processes (regulation of minimum business processes and system specifications); application of basic processes and procedures for the daily operation of the municipality; and improvement of the municipal ICT and control environment.
- 16.18. The minimum business process and system requirements that underpins the *m*SCOA reform are not currently regulated, but MFMA Circular No. 80 dated 08 March 2016 provides detailed guidance in this regard.
- 16.19. All municipalities have been implementing *m*SCOA since 01 July 2007, but the level of implementation differs. The findings of an independent audit that was conducted at 17 municipalities from July 2021 to March 2022 on the levels of compliance with the *m*SCOA Regulations recommended that the minimum requirements for *m*SCOA must be regulated to enforce the adherence to these requirements and improve the financial controls and credibility of data used for decision-making and oversight in the ERP systems.

16.20. The need for the regulation of the minimum business process and system requirements for *mSCOA* is evident when the financial performance reported to Council differ from the information that is submitted to National and Provincial Treasuries and the high levels of unauthorised expenditure reported by the AGSA (when budgeting, transacting and reporting are done outside of the system and captured at a later stage, the built-in controls in the core system to prevent unauthorised expenditure are not triggered).

16.21. In terms of the *mSCOA* Regulations, the Minister may, by notice in the Gazette, determine minimum business process and system requirements for municipalities and municipal entities to enable implementation of the regulations. The National Treasury will be regulating the minimum requirements for *mSCOA* by the end of 2025/26. This project includes:

- Updating the set of minimum business processes and system specifications for *mSCOA* articulated in MFMA Circular No. 80 to incorporate new legislative requirements that have been issued since the circular was published;
- Updating and development of Standard operating procedures (SOPs) to provide guidance to municipalities in performing specific operations in a uniform manner;
- Align the ITC due diligence assessment for *mSCOA* to the new Regulations to assess whether a municipal ERP system is meeting the minimum *mSCOA* requirements. Due to the high cost of procuring an ERP system, municipalities should not procure new systems unless the current system does not comply with the minimum *mSCOA* requirements;
- Drafting of regulations on the minimum business processes and system specifications;
- Extensive consultation with key stakeholders on draft regulations, through:
 - Engagements with specific stakeholders;
 - Working Groups on business and sub-processes;
 - Interactive Consultative Forums (ICFs) on business and sub-processes;
 - Written inputs received on comment papers;
 - Monthly reporting to *mSCOA* PSC; and
 - Training on the new Regulations to ensure that there is a fair understanding of the new regulation by stakeholders.

17. CONCLUDING REMARKS

17.1. In summary, the top 10 critical problems identified in the local government finances could be summarised as follows:

- 113 municipalities in South Africa adopted unfunded budgets as at 30 June 2024;
- The total debt owed to municipalities in South Africa as at 30 June 2024 amounted to R427.7 billion;
- As of 30 June 2024, 15 of the 71 participants municipalities completed their first debt relief cycle, of which 12 qualified for the first third write-off per the National Treasury's assessment;
- The total balance owed by municipalities to supplies of goods and service in South Africa as amounted to R156.1 billion at 30 June 2024. Certain municipalities failed to honour their payment obligations to 3rd parties like SARS, pension funds and water boards;
- In the 2023/24 financial year, 162 municipalities were identified to be in financial distress;

- Of the 257 municipalities, only 41 obtained unqualified audit opinions with no findings, 99 unqualified audit opinions with findings, 90 qualified audit opinions with findings 11 disclaimer audit opinions with findings, 6 adverse with findings, and 10 audits were not finalised when the results were released;
- Municipalities spent R1.5 billion in consultancy costs for the preparation of the Annual Financial Statements as highlighted by AGSA in the MFMA General Report for the financial year 2023/24;
- Metropolitan municipalities incurred R96.4 billion in Unauthorised, Irregular, Fruitless and Wasteful Expenditure as highlighted by AGSA in the MFMA General Report for the financial year 2023/24;
- Municipalities refunded an amount of R1.6 billion to the national fiscus due to unspent conditional grants that were not approved for rollover into the next financial year because the set criteria were not met, as well as unspent conditional grants that were not requested for rollover but remained unspent at the end of the financial year;
- Metropolitan municipalities incurred R23.2 billion in water and electricity losses; and
- Twenty-eight (28) municipalities were under mandatory intervention under Section 139 of the Constitution of the Republic of South Africa, 1996 which deals with the National and Provincial intervention in local government when a municipality cannot or does not fulfil its executive obligations.

17.2. The reality is clear, municipalities are trapped in a cycle of poor governance, weak financial management, and service delivery decline. The lack of governance has led to financial challenges which are also interconnected as it starts with municipalities adopting unfunded budgets leading to cash flow crises affecting creditors' payment days and ultimately service delivery.

17.3. There are municipalities with good audit outcomes even though their finances are not in a good position. This is because they can provide evidence and have the structures in place.

17.4. Weak councils and poor leadership allow this cycle to continue due to poor monitoring and oversight. For municipalities to recover, there must be a fundamental shift in governance, accountability, capacity building and a strong focus to improve their cash generation capacity. Without strong leadership, proper systems, skilled people, and a culture of accountability, no amount of funding or new projects will bring lasting change.

17.5. There is a pattern of serious and recurring weaknesses that threaten service delivery, financial stability, and public trust considering the current state of municipalities. These are not isolated problems, but they are interconnected, and each failure makes the others worse, creating a cycle of decline.

17.6. Year after year, many municipalities receive negative audit outcomes. This means the basic financial reporting is unreliable and the rules of financial management are not being followed. When records are poor or incomplete, it becomes impossible to track how public money is spent, and this opens the door to waste, abuse, and corruption. Unfortunately, there is not much reported in terms of the success rates of MPACs and DC Boards towards implementation of consequence management.

17.7. Several councils continue to adopt unfunded budgets, and they are often planning to spend more than they realistically expect to collect. This is unsustainable and results in cash shortages, unpaid bills, and eventually, service interruptions. It shows a lack of discipline in financial planning and poor long-term vision.

- 17.8. Infrastructure water pipes, roads, electricity networks are deteriorating because repairs and maintenance are underfunded. This creates a backlog of failing assets, higher costs in the future, and more frequent breakdowns.
- 17.9. Many municipalities cannot pay their suppliers, Eskom, or water boards on time. This damages relationships, attracts penalties and interest, and in some cases leads to service restrictions. Not paying creditors is a sign of cash flow distress and poor working capital management.
- 17.10. Municipalities often bill residents and businesses for services but then fail to collect the money. Weak billing systems, poor enforcement, political interference, and a culture of non-payment all contribute to inadequate revenues. Without effective revenue collection, municipalities cannot cover operating costs or invest in services.
- 17.11. Together, these issues plunge municipalities into financial distress. This means they operate with ongoing deficits and have little to no reserves. Financial distress erodes their ability to provide even basic services reliably.
- 17.12. At the core is weak governance as councils that do not exercise proper oversight, municipal leadership that lacks accountability, and political interference in administration. Without ethical and competent leadership, no system can work.
- 17.13. Billions are lost to irregular contracts, payments for no benefit, or wasteful expenditure penalties. This is money that could have gone to fixing water leaks, building infrastructure, or hiring critical staff but instead is written off as wasteful expenditure.
- 17.14. Municipalities lose large amounts of water and electricity before they reach paying customers. Some losses are due to theft and illegal connections, others due to poor infrastructure and lack of maintenance. These losses reduce revenue, increase costs, and weaken financial sustainability.
- 17.15. Because of weak cash flow, and high debt, municipalities often cannot borrow to fund long term infrastructure. Even where borrowing is allowed, investors have little confidence. This blocks growth and development.
- 17.16. Many municipalities spend most of their revenue on salaries, benefits, and overtime leaving little for service delivery. At the same time, overreliance on contracted services and outsourcing drives costs up and reduces accountability, as outside contractors are not always monitored properly.
- 17.17. Municipalities often lack the technical, financial, and managerial skills needed to plan, budget, and implement projects. This skills gap means even good strategies fail when it comes to execution.
- 17.18. Councils and committees frequently fail to exercise strong oversight. Reports are not interrogated, decisions are not followed up, and poor performance goes unpunished. This creates a culture where failure has no consequences.
- 17.19. Procurement is a major area of failure, with irregular tender processes, inflated prices, and weak contract management. Asset registers are often incomplete or inaccurate, making it impossible to plan properly for replacements or maintenance.
- 17.20. The *mSCOA* was designed to improve transparency and consistency, however, many municipalities still do not have the right systems, staff training, or Information Communication Technology capacity to implement it properly. As a result, the financial data is unreliable, and financial reports lose their value.

Annexure A1

Assessment of financial distress is based on data uploaded from the municipal Standard Chart of Accounts data strings and errors in reporting may in some cases lead to municipalities being incorrectly classified. National and Provincial Treasuries are working with municipalities to improve the accuracy of their reporting.

Municipalities in financial distress as at 30 June 2024 (*municipalities identified as being in financial distress are highlighted for the two consecutive financial years*).

The National Treasury used 13 key indicators to determine municipalities that are in financial distress.

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.

Annexure 1 also identifies municipalities with unfunded budgets for the 2025/26 financial year, municipalities under the debt relief programme, and those that were highlighted in the Department of Cooperative Governance State of Local Government report as requiring support.

Municipality	Dem from Go Muni	State of LG Finance Report 2022/23	State of LG Finance Report 2023/24	Unfunded Budget 2025/26 Adopted Budget	Debt Relief Municipality - Eskom	COGTA State of LG Report
Eastern Cape						
Nelson Mandela Bay	NMA	-	-			s139 & s154 Support
Buffalo City	BUF	-	-			s139 & s154 Support
Sarah Baartman Municipalities						
Dr Beyers Naudé	EC101	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Blue Crane Route	EC102	Financial Distress	Financial Distress	Unfunded		
Makana	EC104	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Ndlambe	EC105	-	Financial Distress			
Sundays River Valley	EC106	Financial Distress	Financial Distress	Unfunded		
Kouga	EC108	Financial Distress	Financial Distress			
Kou-Kamma	EC109	Financial Distress	-			
Sarah Baartman	DC10	-	-			
Amathole Municipalities						
Mbhashe	EC121	-	-			
Mnquma	EC122	-	-			
Great Kei	EC123	-	-			
Amahlathi	EC124	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Ngqushwa	EC126	-	-			
Raymond Mhlaba	EC129	Financial Distress	Financial Distress		Debt Relief	
Amathole	DC12	Financial Distress	Financial Distress	Unfunded		
Chris Hani Municipalities						
Inxuba Yethemba	EC131	Financial Distress	Financial Distress		Debt Relief	
Intsika Yethu	EC135	-	Financial Distress			
Emalahleni (Ec)	EC136	-	-			
Dr. A.B. Xuma	EC137	Financial Distress	Financial Distress			
Sakhisizwe	EC138	Financial Distress	-			
Enoch Mgijima	EC139	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Chris Hani	DC13	Financial Distress	Financial Distress			
Joe Gqabi Municipalities						
Elundini	EC141	-	Financial Distress			
Senqu	EC142	-	-			
Walter Sisulu	EC145	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Joe Gqabi	DC14	Financial Distress	-			
OR Tambo Municipalities						
Ngquza Hills	EC153	-	-			
Port St Johns	EC154	-	-			
Nyandeni	EC155	-	-			
Mhlonglo	EC156	-	-			
King Sabata Dalindyebo	EC157	Financial Distress	Financial Distress			
OR Tambo	DC15	Financial Distress	Financial Distress			
Alfred Nzo Municipalities						
Matatiele	EC441	Financial Distress	-			
Umzimvubu	EC442	-	-			
Winnie Madikizela-Mandela	EC443	-	-			
Ntabankulu	EC444	-	Financial Distress			
Alfred Nzo	DC44	-	-			
Total Eastern Cape		19	19	8	7	4

Municipality	Dem from Go Muni	State of LG Finance Report 2022/23	State of LG Finance Report 2023/24	Unfunded Budget 2025/26 Adopted Budget	Debt Relief Municipality - Eskom	COGTA State of LG Report
Free State						
Mangaung	MAN	Financial Distress	Financial Distress		Debt Relief	s139 & s154 Support
Xhariep Municipalities						
Letsemeng	FS161	-	Financial Distress	Unfunded		
Kopanong	FS162	Financial Distress	Financial Distress	Unfunded		s139 & s154 Support
Mohokare	FS163	Financial Distress	Financial Distress	Unfunded		
Xhariep	DC16	Financial Distress	Financial Distress			
Lejweleputswa Municipalities						
Masilonanya	FS181	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Tokologo	FS182	Financial Distress	Financial Distress	Unfunded		
Tswelepele	FS183	Financial Distress	Financial Distress		Debt Relief	
Matjhabeng	FS184	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Nala	FS185	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Lejweleputswa	DC18	-	-			
Thabo Mofutsanyana Municipalities						
Setsoto	FS191	-	-			
Dihlabeng	FS192	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Nketoana	FS193	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Maluti-a-Phofung	FS194	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Phumelela	FS195	Financial Distress	Financial Distress		Debt Relief	
Mantsopa	FS196	Financial Distress	Financial Distress	Unfunded		
Thabo Mofutsanyana	DC19	Financial Distress	Financial Distress			
Fezile Dabi Municipalities						
Moqhaka	FS201	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Ngwathe	FS203	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Metsimaholo	FS204	Financial Distress	Financial Distress			
Mafube	FS205	Financial Distress	Financial Distress	Unfunded		s139 & s154 Support
Fezile Dabi	DC20	-	-			
Total Free State		19	20	14	11	5

Municipality	Dem from Go Muni	State of LG Finance Report 2022/23	State of LG Finance Report 2023/24	Unfunded Budget 2025/26 Adopted Budget	Debt Relief Municipality - Eskom	COGTA State of LG Report
Gauteng						
City of Ekurhuleni	EKU	Financial Distress	Financial Distress			s139 & s154 Support
City Of Johannesburg	JHB	Financial Distress	Financial Distress			s139 & s154 Support
City Of Tshwane	TSH	Financial Distress	Financial Distress			s139 & s154 Support
Sedibeng Municipalities						
Emfuleni	GT421	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Midvaal	GT422	-	-			
Lesedi	GT423	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Sedibeng	DC42	Financial Distress	Financial Distress	Unfunded		
West Rand Municipalities						
Mogale City	GT481	Financial Distress	Financial Distress		Debt Relief	s139 & s154 Support
Merafong City	GT484	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Rand West City	GT485	Financial Distress	Financial Distress	Unfunded	Debt Relief	
West Rand	DC48	Financial Distress	Financial Distress	Unfunded		
Total Gauteng		10	10	6	5	5

Municipality	Dem from Go Muni	State of LG Finance Report 2022/23	State of LG Finance Report 2023/24	Unfunded Budget 2025/26 Adopted Budget	Debt Relief Municipality - Eskom	COGTA State of LG Report
KwaZulu-Natal						
eThekweni	ETH	-	Financial Distress			s139 & s154 Support
Ugu Municipalities						
Umdoni	KZN212	-	-			s139 & s154 Support
Umzumbe	KZN213	-	-			
uMuiziabantu	KZN214	-	-			
Ray Nkonyeni	KZN216	-	Financial Distress			
Ugu	DC21	Financial Distress	Financial Distress			
uMgungundlovu Municipalities						
uMshwathi	KZN221	-	-			
uMngeni	KZN222	Financial Distress	Financial Distress			
Mpofana	KZN223	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Impendle	KZN224	Financial Distress	Financial Distress			
Msunduzi	KZN225	Financial Distress	Financial Distress		Debt Relief	s139 & s154 Support
Mkhambathini	KZN226	-	-			
Richmond	KZN227	Financial Distress	-			
uMgungundlovu	DC22	Financial Distress	-			
Uthukela Municipalities						
Okhahlamba	KZN235	Financial Distress	Financial Distress			
Inkosi Langalibalele	KZN237	-	-			
Alfred Duma	KZN238	-	Financial Distress			
Uthukela	DC23	Financial Distress	Financial Distress	Unfunded		
Umzinyathi Municipalities						
Endumeni	KZN241	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Nquthu	KZN242	Financial Distress	Financial Distress			
Msinga	KZN244	Financial Distress	Financial Distress			
Umvoti	KZN245	Financial Distress	Financial Distress			
Umzinyathi	DC24	Financial Distress	Financial Distress			s139 & s154 Support
Amajuba Municipalities						
Newcastle	KZN252	Financial Distress	Financial Distress			s139 & s154 Support
eMadlangeni	KZN253	Financial Distress	Financial Distress	Unfunded		
Dannhauser	KZN254	Financial Distress	Financial Distress			
Amajuba	DC25	Financial Distress	Financial Distress			
Zululand Municipalities						
eDumbe	KZN261	Financial Distress	Financial Distress			
uPhongolo	KZN262	Financial Distress	Financial Distress			
Abaqulusi	KZN263	Financial Distress	Financial Distress			
Nongoma	KZN265	Financial Distress	Financial Distress			
Ulundi	KZN266	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Zululand	DC26	Financial Distress	Financial Distress			
Umkhanyakude Municipalities						
Umhlabuyalingana	KZN271	-	-			
Jozini	KZN272	Financial Distress	Financial Distress			
Mtubatuba	KZN275	Financial Distress	Financial Distress			
Hlabisa Big Five	KZN276	-	-			
Umkhanyakude	DC27	-	-			
King Cetshwayo Municipalities						
Mfolozi	KZN281	-	-			
uMhlathuze	KZN282	-	-			s139 & s154 Support
uMlalazi	KZN284	-	Financial Distress			
Mthonjaneni	KZN285	Financial Distress	Financial Distress		Debt Relief	
Nkandla	KZN286	Financial Distress	-			
King Cetshwayo	DC28	Financial Distress	Financial Distress			
iLembe Municipalities						
Mandeni	KZN291	-	-			
KwaDukuza	KZN292	-	-			
Ndwedwe	KZN293	-	-			
Maphumulo	KZN294	Financial Distress	-			
iLembe	DC29	-	-			
Harry Gwala Municipalities						
Greater Kokstad	KZN433	-	-			
Johannes Phumanzi Phungula	KZN434	-	-			
Umzimkhulu	KZN435	-	-			
Dr Nkosazana Dlamini Zuma	KZN436	-	-			
Harry Gwala	DC43	Financial Distress	-			
Total		31	30	5	5	6

Municipality	Dem from Go Muni	State of LG Finance Report 2022/23	State of LG Finance Report 2023/24	Unfunded Budget 2025/26 Adopted Budget	Debt Relief Municipality - Eskom	COGTA State of LG Report
Limpopo						
Sekhukhune Municipalities						
Ephraim Mogale	LIM471	-	-			
Elias Motsoaledi	LIM472	-	-			
Makhuduthamaga	LIM473	Financial Distress	Financial Distress			
Tubatse Fetakgomo	LIM476	-	Financial Distress			
Sekhukhune	DC47	-	Financial Distress			
Mopani Municipalities						
Greater Giyani	LIM331	Financial Distress	-			
Greater Letaba	LIM332	Financial Distress	Financial Distress	Unfunded		
Greater Tzaneen	LIM333	-	-			
Ba-Phalaborwa	LIM334	Financial Distress	Financial Distress	Unfunded		
Maruleng	LIM335	-	Financial Distress			
Mopani	DC33	Financial Distress	Financial Distress	Unfunded		
Vhembe Municipalities						
Musina	LIM341	Financial Distress	Financial Distress	Unfunded		
Thutamela	LIM343	-	-			s139 & s154 Support
Makhado	LIM344	Financial Distress	Financial Distress			
Collins Chabane	LIM345	-	-			
Vhembe	DC34	Financial Distress	Financial Distress	Unfunded		
Capricorn Municipalities						
Blouberg	LIM351	-	-			
Molemole	LIM353	-	-			
Polokwane	LIM354	Financial Distress	-			
Lepelle-Nkumpi	LIM355	-	-			
Capricorn	DC35	-	-			
Waterberg Municipalities						
Thabazimbi	LIM361	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Lephalale	LIM362	Financial Distress	Financial Distress			
Bela Bela	LIM366	Financial Distress	-		Debt Relief	
Mogalakwena	LIM367	Financial Distress	Financial Distress			s139 & s154 Support
Modimolle-Mookgopong	LIM368	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Waterberg	DC36	Financial Distress	Financial Distress	Unfunded		
Total		15	15	8	3	3

Municipality	Dem from Go Muni	State of LG Finance Report 2022/23	State of LG Finance Report 2023/24	Unfunded Budget 2025/26 Adopted Budget	Debt Relief Municipality - Eskom	COGTA State of LG Report
Northern Cape						
John Taolo Gaetsewe Municipalities						
Joe Morolong	NC451	Financial Distress	Financial Distress	Unfunded		
Ga-Segonyana	NC452	Financial Distress	Financial Distress			
Gamagara	NC453	Financial Distress	Financial Distress	Unfunded	Debt Relief	
John Taolo Gaetsewe	DC45	Financial Distress	Financial Distress			
Namakwa Municipalities						
Richtersveld	NC061	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Nama Khoi	NC062	Financial Distress	Financial Distress		Debt Relief	
Kamiesberg	NC064	Financial Distress	Financial Distress	Unfunded		
Hantam	NC065	Financial Distress	Financial Distress			
Karoo Hoogland	NC066	Financial Distress	-			
Khai-Ma	NC067	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Namakwa	DC6	Financial Distress	-			
Pixley Ka Seme (Nc) Municipalities						
Ubuntu	NC071	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Umsobomvu	NC072	Financial Distress	Financial Distress		Debt Relief	
Emthanjeni	NC073	Financial Distress	Financial Distress	Unfunded		
Kareeberg	NC074	Financial Distress	-			
Renosterberg	NC075	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Thembelihle	NC076	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Siyathemba	NC077	Financial Distress	Financial Distress	Unfunded		
Siyancuma	NC078	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Pixley Ka Seme (Nc)	DC7	Financial Distress	Financial Distress	Unfunded		
Z F Mgawu Municipalities						
!Kai! Garib	NC082	Financial Distress	Financial Distress	Unfunded	Debt Relief	
!Kheis	NC084	Financial Distress	Financial Distress	Unfunded		
Tsantsabane	NC085	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Kgatelopele	NC086	Financial Distress	Financial Distress	Unfunded		
Dawid Kruiper	NC087	Financial Distress	Financial Distress		Debt Relief	
Z F Mgawu	DC8	Financial Distress	Financial Distress	Unfunded		
Frances Baard Municipalities						
Sol Plaatje	NC091	-	Financial Distress		Debt Relief	s139 & s154 Support
Dikgatlong	NC092	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Magareng	NC093	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Phokwane	NC094	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Frances Baard	DC9	-	-			
Total		29	27	20	16	3

Municipality	Dem from Go Muni	State of LG Finance Report 2022/23	State of LG Finance Report 2023/24	Unfunded Budget 2025/26 Adopted Budget	Debt Relief Municipality - Eskom	COGTA State of LG Report
North West						
Bojanala Platinum Municipalities						
Moretele	NW371	-	-			
Madibeng	NW372	-	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Rustenburg	NW373	Financial Distress	Financial Distress			s139 & s154 Support
Kgetlengrivier	NW374	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Moses Kotane	NW375	Financial Distress	Financial Distress	Unfunded		
Bojanala Platinum	DC37	Financial Distress	-			
Ngaka Modiri Molema Municipalities						
Ratlou	NW381	Financial Distress	-			
Tswaing	NW382	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Mafikeng	NW383	Financial Distress	-			s139 & s154 Support
Ditsobotla	NW384	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Ramotshere Moitoa	NW385	-	Financial Distress		Debt Relief	
Ngaka Modiri Molema	DC38	-	Financial Distress			
Dr Ruth Segomotsi Mompati Municipalities						
Naledi (Nw)	NW392	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Mamuswa	NW393	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Greater Taung	NW394	-	Financial Distress	Unfunded		
Lekwa-Teemane	NW396	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Kagisano-Molopo	NW397	Financial Distress	Financial Distress	Unfunded		
Dr Ruth Segomotsi Mompati	DC39	Financial Distress	Financial Distress	Unfunded		
Dr Kenneth Kaunda Municipalities						
City Of Matlosana	NW403	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Maquassi Hills	NW404	Financial Distress	Financial Distress	Unfunded	Debt Relief	
JB Marks	NW405	Financial Distress	Financial Distress	Unfunded		
Dr Kenneth Kaunda	DC40	-	-			
Total		16	17	14	10	6

Municipality	Dem from Go Muni	State of LG Finance Report 2022/23	State of LG Finance Report 2023/24	Unfunded Budget 2025/26 Adopted Budget	Debt Relief Municipality - Eskom	COGTA State of LG Report
Mpumalanga						
Gert Sibande Municipalities						
Albert Luthuli	MP301	Financial Distress	Financial Distress			
Msukaligwa	MP302	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Mkhondo	MP303	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Pixley Ka Seme (MP)	MP304	Financial Distress	Financial Distress	Unfunded		
Lekwa	MP305	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Dipaleseng	MP306	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Govan Mbeki	MP307	Financial Distress	Financial Distress	Unfunded	Debt Relief	s139 & s154 Support
Gert Sibande	DC30	-	-			
Nkangala Municipalities						
Victor Khanye	MP311	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Emalahleni (Mp)	MP312	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Steve Tshwete	MP313	Financial Distress	Financial Distress			
Emakhazeni	MP314	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Thembisile Hani	MP315	Financial Distress	Financial Distress			
Dr J.S. Moroka	MP316	Financial Distress	-			s139 & s154 Support
Nkangala	DC31	-	-			
Ehlanzeni Municipalities						
Thaba Chweu	MP321	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Nkomazi	MP324	-	Financial Distress	Unfunded		
Bushbuckridge	MP325	-	-			
City of Mbombela	MP326	Financial Distress	Financial Distress		Debt Relief	s139 & s154 Support
Ehlanzeni	DC32	Financial Distress	Financial Distress			
Total		16	16	11	10	3

Municipality	Dem from Go Muni	State of LG Finance Report 2022/23	State of LG Finance Report 2023/24	Unfunded Budget 2025/26 Adopted Budget	Debt Relief Municipality - Eskom	COGTA State of LG Report
Western Cape						
Cape Town	CPT	-	-			
West Coast Municipalities						
Matzikama	WC011	Financial Distress	Financial Distress		Debt Relief	
Cederberg	WC012	Financial Distress	-		Debt Relief	
Bergrivier	WC013	-	-			
Saldanha Bay	WC014	-	-			
Swartland	WC015	-	-			
West Coast	DC1	-	-			
Cape Winelands DM Municipalities						
Witzenberg	WC022	-	-			
Drakenstein	WC023	Financial Distress	-			
Stellenbosch	WC024	-	-			
Breede Valley	WC025	-	-			
Langeberg	WC026	-	-			
Cape Winelands DM	DC2	-	-			
Overberg Municipalities						
Theewaterskloof	WC031	Financial Distress	Financial Distress	Unfunded		
Overstrand	WC032	Financial Distress	-			
Cape Agulhas	WC033	-	-			
Swellendam	WC034	-	-			
Overberg	DC3	Financial Distress	Financial Distress			
Garden Route Municipalities						
Kannaland	WC041	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Hessequa	WC042	-	-			
Mossel Bay	WC043	-	-			
George	WC044	Financial Distress	-			
Oudtshoorn	WC045	Financial Distress	-			
Bitou	WC047	Financial Distress	Financial Distress			
Knysna	WC048	Financial Distress	Financial Distress			
Garden Route	DC4	-	-			
Central Karoo Municipalities						
Laingsburg	WC051	Financial Distress	Financial Distress			
Prince Albert	WC052	-	-			
Beaufort West	WC053	Financial Distress	Financial Distress	Unfunded	Debt Relief	
Central Karoo	DC5	-	-			
Total		13	8	3	4	0

Annexure A2

Analysis of municipalities 2023/24 UIFWe, Audit Opinion and Section 139 Interventions

This section indicates audit outcomes of the 257 municipalities for the period of the 2023/24 financial year, the balances of the Unauthorised, Irregular, Fruitless, and Wasteful Expenditure (UIFWE) in South African municipalities, and the Section 139 of the South African Constitution Interventions which allows the provincial executive to intervene in a municipality that fails to fulfill its constitutional or statutory obligations, such as approving a budget, providing essential services, or managing financial crises. Annexure A2 also lists the 43 identified municipalities in financial crisis.

Municipality	UIFWE 2023/24			Audit Opinion 2023/24						Interventions				43 municipalities in Crisis
	Unauthorised expenditure Amount 'R'000'	Irregular expenditure Amount 'R'000'	Fruitless and wasteful expenditure Amount 'R'000'	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimerd with findings	Audit Not Finalised	Voluntary	Discretionary	Mandatory	MFIP Support	
Eastern Cape														
Nelson Mandela Bay	1 441 700.0	1 951 200.0	17 100.0			Qualified-With Find								
Buffalo City	403 500.0	1 317 700.0	690.0			Qualified-With Find								
Sarah Baartman Municipalities														
Dr Beyers Naudé	98 000.0	61 800.0	55 600.0			UnQualified-With Find								
Blue Crane Route	12 300.0	7 200.0	16 300.0			Qualified-With Find								
Makana	-	41 500.0	31 500.0			UnQualified-With Find								
Ndlambe	42 200.0	110 900.0	50.0			Disclaimed-With Find								
Sundays River Valley	91 300.0	169 600.0	5 900.0			Disclaimed-With Find								
Kouga	-	-	-			Adverse-With Find								
Kou-Kamma	6 100.0	11 200.0	940.0											
Sarah Baartman	-	12 400.0	10.0											
Amathole Municipalities														
Mbhashe	-	2 300.0	240.0			UnQualified-With Find								
Mnquma	-	650.0	-			UnQualified-With Find								
Great Kei	-	-	6 000.0			UnQualified-With Find								
Amahlathi	-	23 900.0	10 700.0			UnQualified-With Find								
Ngquushwa	-	3 400.0	600.0			Qualified-With Find								
Raymond Mhlaba	-	24 700.0	10 600.0			Qualified-With Find								
Amathole	188 600.0	639 300.0	28 200.0			Qualified-With Find								
Chris Hani Municipalities														
Inxuba Yetshemba	23 000.0	58 200.0	1 300.0			UnQualified-With Find								
Intsika Yethu	18 900.0	21 400.0	8.0			Qualified-With Find								
Emalahleni (Ec)	27 600.0	16 300.0	30.0			Qualified-With Find								
Dr. A.B. Xuma	-	69 700.0	1 400.0			Qualified-With Find								
Sakhisizwe	21 100.0	13 100.0	1 100.0			Qualified-With Find								
Enoch Mgijima	381 600.0	221 700.0	51 000.0			Qualified-With Find								
Chris Hani	98 700.0	152 500.0	2 200.0			Qualified-With Find								
Joe Gqabi Municipalities														
Elundini	-	-	-			UnQualified-With Find								
Senqu	2 000.0	5 800.0	60.0			Qualified-With Find								
Walter Sisulu	99 400.0	21 800.0	8 500.0			UnQualified-With Find								
Joe Gqabi	-	-	-			UnQualified-With Find								
OR Tambo Municipalities														
Ngquza Hills	-	8 900.0	50.0			Qualified-With Find								
Port St Johns	43 700.0	1 500.0	2 100.0			Qualified-With Find								
Nyandeni	-	168 500.0	5 000.0			Qualified-With Find								
Mhlongto	1 900.0	13 300.0	18 900.0			Qualified-With Find								
King Sabata Dalindyebo	39 300.0	25 400.0	17 200.0			Qualified-With Find								
OR Tambo	265 000.0	181 700.0	3 700.0			Qualified-With Find								
Alfred Nzo Municipalities														
Matatiele	90.0	220.0	220.0			Qualified-With Find								
Umzimvubu	620.0	24 300.0	450.0			UnQualified-With Find								
Winnie Madikizela-Mandela	-	167 500.0	50.0			UnQualified-With Find								
Ntabankulu	-	6 400.0	720.0			UnQualified-With Find								
Alfred Nzo	-	6 900.0	-											
Total Eastern Cape	3 306 610.0	5 562 870.0	298 418.0	6	14	16	1	2	0	0	0	6	10	8

Municipality	UIFWE 2023/24			Audit Opinion 2023/24					Interventions					43 municipalities in Crisis
	Unauthorised expenditure Amount 'R000'	Irregular expenditure Amount 'R000'	Fruitless and wasteful expenditure Amount 'R000'	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit Not Finalised	Voluntary	Discretionary	Mandatory	MFIP Support	
Free State														
Mangaung	1 343 100.0	277 200.0	122 500.0			Qualified-With Find						Mandatory		In Crisis
Xhariep Municipalities														
Letsemeng	127 300.0	41 000.0	24 300.0			Qualified-With Find								
Kopanong	Aud not Finalised	Aud not Finalised	Aud not Finalised											
Mohokare	Aud not Finalised	Aud not Finalised	260.0											
Xhariep	12 700.0	4 200.0												
Lejweleputswa Municipalities														
Masilonanya	Aud not Finalised	Aud not Finalised	Aud not Finalised											
Tokolo	6 200.0	11 000.0	39 600.0											
Tswelopele	63 600.0	57 600.0	13 600.0											
Matjhabeng	Aud not Finalised	Aud not Finalised	Aud not Finalised											
Nala	-	70 400.0	32 200.0											
Lejweleputswa	810.0	23 900.0	210.0											
Thabo Mofutsanyana Municipalities														
Setsoto	78 200.0	10 000.0	10.0											
Dihlabeng	287 200.0	207 600.0	93 400.0											
Nketoana	471 600.0	69 100.0	37 600.0											
Maluti-a-Phofung	Aud not Finalised	Aud not Finalised	Aud not Finalised											
Phumelela	122 600.0	2 600.0	21 600.0											
Mantsopa	8 200.0	6 500.0	28 200.0											
Thabo Mofutsanyana	1 100.0	10 200.0	6.0											
Feezile Dabi Municipalities														
Moqhaka	122 600.0	83 900.0	5 500.0											
Ngwathe	335 300.0	59 700.0	94 400.0											
Metsimaholo	84 000.0	147 700.0	4 500.0											
Mafube	Aud not Finalised	30 900.0	Aud not Finalised											
Feezile Dabi	6 600.0	1 700.0												
Total Free State	3 071 110.0	1 113 500.0	519 586.0	0	6	10	0	1	6	2	5	2	3	6

Municipality	UIFWE 2023/24			Audit Opinion 2023/24					Interventions					43 municipalities in Crisis
	Unauthorised expenditure Amount 'R000'	Irregular expenditure Amount 'R000'	Fruitless and wasteful expenditure Amount 'R000'	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit Not Finalised	Voluntary	Discretionary	Mandatory	MFIP Support	
Gauteng														
City of Ekurhuleni	397 100.0	124 200.0	410.0											
City Of Johannesburg	2 755 000.0	1 982 200.0	1 500.0											
City Of Tshwane	2 146 000.0	2 411 200.0	793 000.0											
Sedibeng Municipalities														
Emfuleni	1 650 400.0	49 300.0	208 500.0											
Midvaal	-	940.0	90.0											
Lesedi	9 000.0	6 400.0	20 300.0											
Sedibeng	18 300.0	19 100.0	-											
West Rand Municipalities														
Mogale City	615 500.0	209 200.0	157 800.0											
Merafong City	1 030 100.0	210 800.0	71 100.0											
Rand West City	465 200.0	-	720.0											
West Rand	-													
Total Gauteng	8 471 100.0	5 628 840.0	1 253 420.0	2	6	3	0	0	0	1	0	3	5	3

Municipality	UIFWE 2023/24			Audit Opinion 2023/24					Audit Not Finalised	Interventions			43 municipalities in Crisis	
	Unauthorised expenditure Amount 'R000'	Irregular expenditure Amount 'R000'	Fruitless and wasteful expenditure Amount 'R000'	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings		Voluntary	Discretionary	Mandatory	MFIP Support	
Maphumulo iLembe	9 000.0	9 000.0	2 600.0		UnQualified-With Find UnQualified-With Find									
Harry Gwala Municipalities Greater Kokstad Johannes Phumani	18 200.0	4 600.0	1 300.0		UnQualified-With Find									
Phungula Umzimkhulu Dr Nkosazana Dlamini	9 900.0	860.0	3.0		UnQualified-With Find UnQualified-With Find									
Zuma Harry Gwala	26 600.0 128 000.0	160.0 147 700.0	5.0 2.0		UnQualified-With Find UnQualified-With Find					Voluntary				
Total	3 785 900.0	5 677 150.0	205 321.0	7	36	7	2	1	1	2	1	0	8	7

Municipality	UIFWE 2023/24			Audit Opinion 2023/24						Interventions				43 municipalities in Crisis
	Unauthorised expenditure Amount 'R000'	Irregular expenditure Amount 'R000'	Fruitless and wasteful expenditure Amount 'R000'	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit Not Finalised	Voluntary	Discretionary	Mandatory	MFIP Support	
Limopo Sekhukhune Municipalities														
Ephraim Mogale	-	23 100.0	20.0		UnQualified-With Find									
Elias Motsoaledi		52 000.0	250.0		UnQualified-With Find									
Makhuduthamaga	30 500.0	1 500.0	-		UnQualified-With Find									
Tubatse Fetakgomo	275 700.0	46 900.0	-		UnQualified-With Find									
Sekhukhune	21 700.0	93 900.0	800.0		Qualified-With Find					Voluntary				
Mopani Municipalities														
Greater Giyani	-	8 000.0	3 100.0		UnQualified-With Find									
Greater Letaba	83 300.0	3 900.0	110.0		UnQualified-With Find									
Greater Tzaneen	-	98 500.0	5 700.0		UnQualified-With Find									
Ba-Phalaborwa	84 800.0	20 900.0	7 200.0		UnQualified-With Find					Voluntary				
Maruleng	14 100.0	13 300.0	20.0		Qualified-With Find									
Mopani	422 700.0	7 700.0	63 700.0		Qualified-With Find									
Vhembe Municipalities														
Musina	8 700.0	22 600.0	1 500.0		UnQualified-With Find					Voluntary				
Thulamela	1 000.0	17 000.0	370.0		UnQualified-With Find									
Makhado	-	550.0	920.0		Qualified-With Find									
Collins Chabane	86 300.0	32 800.0	1 700.0		Qualified-With Find									
Vhembe	-	117 700.0	310.0		Qualified-With Find									
Capricorn Municipalities														
Blouberg	-	34 700.0	-		UnQualified-With Find									
Molema	18 200.0	-	-		UnQualified-With Find									
Polokwane	932 100.0	432 500.0	6 100.0		UnQualified-With Find									
Lepelle-Nkumpi	-	56 100.0	44 400.0		UnQualified-With Find									
Capricorn	-	214 500.0	60.0	UnQualified-No Find	Qualified-With Find									
Waterberg Municipalities														
Thabazimbi	60 000.0	22 700.0	6 100.0		UnQualified-With Find									
Lephalale	42 700.0	290.0	30.0		Qualified-With Find									
Bela Bela	58 400.0	26 500.0	210.0		Qualified-With Find									
Mogalakwena	-	650 600.0	6 800.0		Qualified-With Find									
Modimolle-Mookgopong	49 700.0	27 100.0	-	UnQualified-No Find	Disclaimed- With Find									
Waterberg	-	-	-		Voluntary									
Total	2 189 900.0	2 025 340.0	149 400.0	2	14	10	0	1	0	5	1	0	5	2

Municipality	UIFWE 2023/24			Audit Opinion 2023/24					Interventions			43 municipalities in Crisis	
	Unauthorised expenditure Amount 'R000'	Irregular expenditure Amount 'R000'	Fruitless and wasteful expenditure Amount 'R000'	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit Not Finalised	Voluntary	Discretionary	Mandatory	MFIP Support
Mpumalanga													
Gert Sibande Municipalities													
Albert Luthuli	-	1 900.0	8.0										
Mukaligwa	233 300.0	51 400.0	119 200.0										
Mkhondo	99 100.0	12 200.0	86 200.0										
Pixley Ka Seme (MP)	-	14 800.0	410.0										
Lekwa	354 000.0	54 200.0	189 900.0										
Dipaleseng	240 500.0	25 800.0	29 900.0										
Govan Mbeki	911 100.0	158 000.0	295 700.0										
Gert Sibande	-	67 900.0	-	UnQualified-With Find									
Nkangala Municipalities													
Victor Khanye	289 000.0	221 700.0	85 100.0										
Emalahleni (Mp)	1 036 600.0	1 647 400.0	384 000.0										
Steve Tshwete	95 400.0	51 000.0	7 000.0										
Emakhazeni	63 400.0	17 900.0	7 000.0										
Thembisile Hani	58 000.0	5 700.0	1.0										
Dr J.S. Moroka	25 700.0	199 200.0	50.0										
Nkangala	-	-	280.0	UnQualified-No Find									
Ehlanzeni Municipalities													
Thaba Chweu	Aud not Finalised	Aud not Finalised	Aud not Finalised										
Nkomazi	472 700.0	54 900.0	3 100.0										
Bushbuckridge	-	-	7 600.0										
City of Mbombela	727 000.0	81 900.0	114 500.0										
Ehlanzeni	-	-	70.0	UnQualified-With Find									
Total	4 605 800.0	2 665 900.0	1 330 019.0	2	8	9	0	0	1	2	0	5	9
													5

Municipality	UIFWE 2023/24			Audit Opinion 2023/24					Interventions				43 municipalities in Crisis	
	Unauthorised expenditure Amount 'R000'	Irregular expenditure Amount 'R000'	Fruitless and wasteful expenditure Amount 'R000'	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit Not Finalised	Voluntary	Discretionary	Mandatory	MFIP Support	
Northern Cape														
John Taolo Gaetsewe Municipalities														
Joe Morolong	68 300.0	138 800.0	480.0										MFIP Support	
Ga-Segonyana	89 400.0	85 700.0	270.0										MFIP Support	
Gamagara	28 600.0	123 500.0	16 600.0										MFIP Support	In Crisis
John Taolo Gaetsewe	11 200.0	350.0	230.0											
Namakwa Municipalities														
Richtersveld	14 800.0	4 000.0	3 200.0											
Nama Khoi	24 500.0	112 300.0	11 500.0											
Kamiesberg	16 300.0	11 800.0	10 100.0											
Hantam	21 500.0	3 800.0	50.0											
Karoo Hoogland	16 600.0	680.0	460.0											
Khai-Ma	9 100.0	830.0	3 900.0											
Namakwa	530.0	1 900.0	7.0	UnQualified-No Find										
Pixley Ka Seme (Nc) Municipalities														
Ubuntu	32 100.0	4 600.0	1 300.0										Discretionary	
Umsobomvu	-	1 100.0	680.0										MFIP Support	
Emthanjeni	116 600.0	23 100.0	23 400.0											
Kareeberg	16 000.0	-	-										MFIP Support	
Renosterberg	-	5 100.0	5 000.0											
Thembelihle	50 600.0	3 800.0	10 400.0										Discretionary	
Siyathemba	36 200.0	10 300.0	24 300.0										MFIP Support	
Siyancuma	59 200.0	19 700.0	1 600.0										MFIP Support	
Pixley Ka Seme (Nc)	9 100.0	5 700.0	470.0	UnQualified-With Find									MFIP Support	
Z F Mgawu Municipalities														
!Kai! Garib	206 400.0	9 100.0	35 100.0										MFIP Support	
!Kheis	Aud not Finalised	Aud not Finalised	Aud not Finalised										MFIP Support	
Tsantsabane	95 100.0	9 600.0	42 700.0											
Kgatelopele	33 800.0	640.0	2 800.0										MFIP Support	
David Kruijer	-	32 300.0	5 100.0										MFIP Support	
Z F Mgawu	-	100.0	120.0	UnQualified-With Find									MFIP Support	
Frances Baard Municipalities														
Sol Plaatje	29 300.0	64 600.0	40 700.0										Discretionary	
Dikgatlong	-	51 600.0	5 500.0										Discretionary	
Magareng	33 800.0	45 800.0	970.0										Discretionary	
Phokwane	342 100.0	18 900.0	21 000.0										MFIP Support	
Frances Baard	-			UnQualified-No Find									MFIP Support	In Crisis
Total	1 361 130.0	789 700.0	267 937.0	2	6	20	0	2	1	2	5	0	15	2

Municipality	UIFWE 2023/24			Audit Opinion 2023/24					Audit Not Finalised	Interventions			MFIP Support	43 municipalities in Crisis
	Unauthorised expenditure Amount 'R000'	Irregular expenditure Amount 'R000'	Fruitless and wasteful expenditure Amount 'R000'	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings		Voluntary	Discretionary	Mandatory		
North West														
Bojanala Platinum Municipalities														
Moretele	96 200.0	10 100.0	1 300.0											
Madibeng	321 600.0	213 200.0	94 800.0											
Rustenburg	10 400.0	318 300.0	120.0											
Kgettengrivier	174 700.0	57 500.0	32 200.0											
Moses Kotane	82 900.0	235 500.0	17 900.0											
Bojanala Platinum	-	73 900.0	310.0	UnQualified-With Find	Qualified-With Find	Qualified-With Find	Qualified-With Find	Qualified-With Find						
Ngaka Modiri Molema Municipalities														
Ratlou	9 400.0	7 100.0	20.0											
Tswaing	148 400.0	95 700.0	21 900.0											
Mafikeng	140 900.0	311 200.0	14 900.0											
Ditsobotla	-	-	43 400.0											
Ramotshere Moiloa	29 000.0	4 300.0	10 600.0											
Ngaka Modiri Molema	509 900.0	581 700.0	480.0											
Dr Ruth Segomotsi Mompati Municipalities														
Naledi (Nw)	24 700.0	120 000.0	20 300.0											
Mamusa	43 800.0	19 000.0	26 800.0											
Greater Taung	45 900.0	43 600.0	500.0											
Lekwa-Teerpane	194 200.0	41 800.0	46 400.0											
Kagisano-Molopo	Aud not Finalised	Aud not Finalised	Aud not Finalised											
Dr Ruth Segomotsi Mompati	340 200.0	308 800.0	550.0											
Dr Kenneth Kaunda Municipalities														
City Of Matlosana	1 126 900.0	264 300.0	104 900.0											
Maquassi Hills	206 700.0	34 200.0	8 600.0											
JB Marks	15 000.0	466 200.0	33 500.0											
Dr Kenneth Kaunda	3 500.0	47 300.0	240.0	UnQualified-With Find	Qualified-With Find	Adverse-With Find	Adverse-With Find	Adverse-With Find						
Total	3 524 300.0	3 253 700.0	479 720.0	0	3	13	2	3	1	0	1	9	9	9

Municipality	UIFWE 2023/24			Audit Opinion 2023/24					Interventions				43 municipalities in Crisis	
	Unauthorised expenditure Amount 'R'000'	Irregular expenditure Amount 'R'000'	Fruitless and wasteful expenditure Amount 'R'000'	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit Not Finalised	Voluntary	Discretionary	Mandatory	MFIP Support	
Western Cape														
Cape Town	-	634 300.0	-	UnQualified-No Find										
West Coast Municipalities														
Matzikama	-	59 800.0	6 300.0	UnQualified-No Find										
Cederberg	970.0	16 600.0	1 200.0	UnQualified-No Find										
Bergvlier	-	12 200.0	-	UnQualified-No Find										
Saldanha Bay	2 600.0	34 100.0	90.0	UnQualified-No Find										
Swartland	-	13 900.0	-	UnQualified-No Find										
West Coast	-	420.0	120.0	UnQualified-No Find										
Cape Winelands DM Municipalities														
Witzenberg	-	5 900.0	-	UnQualified-No Find										
Drakenstein	-	172 300.0	790.0	UnQualified-No Find										
Stellenbosch	-	12 400.0	-	UnQualified-No Find										
Breede Valley	-	-	-	UnQualified-No Find										
Langeberg	-	-	5.0	UnQualified-No Find										
Cape Winelands DM	-	-	-	UnQualified-No Find										
Overberg Municipalities														
Theewaterskloof	49 400.0	262 300.0	-	UnQualified-No Find										
Overstrand	-	4 300.0	-	UnQualified-No Find										
Cape Agulhas	30 600.0	113 700.0	200.0	UnQualified-No Find										
Swellendam	980.0	63 500.0	-	UnQualified-No Find										
Overberg	-	14 000.0	-	UnQualified-No Find										
Garden Route Municipalities														
Kannaland	-	20 100.0	-	UnQualified-No Find										
Hessequa	5 500.0	10.0	10.0	UnQualified-No Find										
Mossel Bay	-	25 500.0	-	UnQualified-No Find										
George	31 300.0	40 000.0	-	UnQualified-No Find										
Oudtshoorn	-	25 900.0	-	UnQualified-No Find										
Bitou	31 800.0	21 900.0	1 200.0	UnQualified-With Find										
Knysna	58 200.0	142 800.0	-	UnQualified-With Find										
Garden Route	12 000.0	35 100.0	90.0	UnQualified-No Find										
Central Karoo Municipalities														
Laingsburg	25 000.0	45 100.0	1 500.0	UnQualified-With Find										
Prince Albert	19 100.0	5 100.0	5.0	UnQualified-With Find										
Beaufort West	12 700.0	20 700.0	1 200.0	UnQualified-With Find										
Central Karoo	6 800.0	3 500.0	20.0	UnQualified-With Find										
Total	286 950.0	1 805 430.0	12 730.0	20	6	2	1	1	0	0	0	3	9	1

THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT AS AT 30 JUNE 2024

Audit Outcomes of the 2023/24 financial year

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National Treasury
REPUBLIC OF SOUTH AFRICA