ISSN 1835-761X

Working Paper Series

10-2008 December 2008

Financial Sustainability in South African Local Government: An Analysis of Municipal Funding Compliance

Nigel Graves* and Brian Dollery*#
**Centre for Local Government, UNE & #School of Business, Economics and Public Policy, UNE*

Abstract: South African local government has undergone radical transformation. As part of the reform process, a local government financial management best-practice technical assistance program (MFMTAP) has targeted financial management, especially budget quality reform. Dollery and Graves (2008) have examined the efficacy of the South African National Treasury (NT's) municipal budget funding compliance technique for measuring adherence to the Municipal Finance Management Act's (MFMA) budget funding requirements using a single sample metropolitan municipality as a case study. This paper now evaluates the robustness and validity of the funding compliance instrument further as a reform performance measurement tool by comparing the results of four geographically and demographically different municipalities. The paper also introduces a performance 'trend' instrument similar to a 'Likert scale' as a basis for comparing municipal performance. Optimal tax revenue theory is invoked to examine this key revenue variable for producing a compliant budget. The paper finds the 'budget funding' reform component of the Best-Practice Technical Assistance (BPTA) program ineffective and an unsustainable.

Keywords: Best-practice technical assistance; budget; funding compliance; public finance reform, local government; South Africa.

Note: Dollery and Graves (2008) considered the municipal funding compliance 'Best Practice Technical Assistance' (BPTA) procedure applied by the South African National Treasury to evaluate Municipal Financial Management Act funding compliance. This paper tackles a similar problem using a larger stratified sample to improve reliability. Brian Dollery gratefully acknowledges the financial support provided by an Australian Research Council Discovery Grant DP 0770520.

Centre for Local Government, School of Business, Economics and Public Policy, University of New England, Armidale NSW 2351. Phone: + 61 2 6773 2500, Fax: + 61 2 6773 3596. Email: bdollery@une.edu.au

Introduction

South African local government has been subjected to extensive reform in order to attune it more closely with the new realities local service provision in the post-apartheid era. An important component of this process has focused on municipal budgetary reform. This paper builds on earlier work on budgetary reform conducted by Dollery and Graves (2008) by extending their analysis which sought to understand whether a 'budget funding compliance measurement' instrument could explain BPTA performance at South African municipalities. In particular, the earlier Dollery and Graves (2008) analysis used a single important metropolitan municipality case study. While Dollery and Graves (2008) laid the conceptual foundations for an understanding of the funding compliance technique, firm conclusions could not be drawn without a larger sample. The present paper seeks to remedy this by examining a larger and more varied sample of four municipalities. We conclude that the budget funding measurement technique is useful for assessing BPTA outcomes and suggest that analysis should now be extended to a statistically valid and representative sample.

Dollery and Graves (2008) described the need for sound local public budgeting practice in municipal governance in developing countries in the light of significant 'challenging' factors in the international development literature. They also provided a useful synoptic discussion of the South African municipal environment, including to the environment in which the BPTA program commenced, characterized by personnel shortages, under-performance, and the consequent need to measure BPTA performance. Finally, Dollery and Graves (2008) provided a detailed discussion of the MFMA funding compliance requirements and set out NT's MFMA Funding Compliance measurement procedure.

Against this background, the present paper considers a sample of four South African municipalities as a means of examining the problem in greater detail. The analysis is intended to make at least some modest contribution to the call by (Bahl and Smoke 2003, 278) for much more ‘applied research’ in the realm of South African municipal reform. In this regard, the analysis conducted in this paper can shed light on a ‘fiscal condition’ measure for national government revenue sharing formulation (Bahl and Smoke 2003, 229) and evidence of ‘proper budgeting and sound financial management procedures’ (Bahl and Smoke 2003, 267) to improve the local debt market.

The paper is divided into seven main parts. Section 2 contains some salient definitional issues. Section 3 explains the rationale for the municipality sample employed in the paper. Section 4 outlines the methodology adopted and section 5 deals with the performance rating scales deployed in the analysis, which centres on a ‘Likert-like’ scale instrument for quantitatively assessing the funding compliance measure performance trend of each municipality and comparing scores between municipalities. Section 6 examines the results obtained from the analysis. Section 7 considers these results against the local public finance context in South Africa. The paper ends with some brief concluding remarks in section 8.

Conceptual and Definitional Considerations

The MFMA demands a ‘credible’ budget. In this paper, we apply a limited definition of budget ‘credibility’ aligned to the MFMA context. In general, scholars have typically utilised broader criteria for evaluating public sector budget credibility, including technical and governance perspectives. ‘Limited credibility’ means ‘ensuring that the numbers contained in the budget document are correct and based on realistic macroeconomic foundations’ (Folscher 2006, 5). Broader credibility includes budget formulation rule and process predictability, macroeconomic frameworks, realistic revenue forecasts, transparent planning, solid budget classification and, importantly, implementation as planned (Folscher 2006). However, in this paper we deliberately narrowly concentrate on MFMA’s funding compliance focus of the macroeconomic and ‘correct numbers’ technical aspects of ‘credibility’. Funding compliance has some budget 'implementation' elements, in terms of multi-year performance comparison and performance indicators, but certainly does not measure delivery of promised services.

We employ Sheehan's (2005, 65) definition of budget 'sustainability': 'Fiscal strategy must be sustainable in the sense that it can be continued for the foreseeable future without any substantial change, and in particular without any sharp changes in tax rates or spending to prevent a substantial deterioration in fiscal position'. This represents a central aim of NT's funding compliance testing. In so doing, we are mindful that 'often reforms result in compliance, but not in any substantive behaviour change' (Folscher 2006, 7), suggesting a limited value of funding compliance by itself, and a need for concurrent evidence of 'genuine' reform.

Finally, as an additional caveat, we note the potential influence that could be exerted by 'political entrepreneurs' (Dollery 2003), particularly those who deliberately cause budgets to be unsustainable or non-compliant for their own motives. Municipal political entrepreneurs often seek to advance political careers to higher levels of governance by 'capturing the attention of voters and party officials rather than the allocatively efficient provision of public goods' (Dollery 2003, 226), thereby contributing to non-compliance with national 'budget funding' legislation by supporting expenditure to meet political goals.

Sample Selection of Municipalities

The need for controlled tests and municipal sample selection to measure funding performance improvement statistically was considered in depth in Dollery and Groves (2008), which discussed some of the difficulties of isolating the causes of BPTA outcomes and concluded that a controlled test would be useful. But this approach is not possible in the real-world municipal environment because all South African municipalities have received at least some form of BPTA as financial assistance or guidance, including a limited number which had been provided with a technical assistance advisor, municipality's more than one advisor, and municipality's with advisors for limited periods only. Moreover, the degree of variability in advisor ability and acceptance represents an additional problem, and it was not uncommon for municipalities to resist receiving BPTA assistance. Thus whilst methodological 'purity' would be ensured by selecting a sample of municipalities that had not received any technical assistance at all, and then comparing their performance with those that had received an identical level of assistance, including a BPTA advisor, such a sample is simply not possible since all municipalities have received at least some form of assistance.

An alternative feasible approach is possible that meets some of these difficulties. It is argued that differentiated sample representative of significant variation in financial management capacity and the level of National Government support should provide sufficient variability to broadly understand the performance of financial management reform performance under variable conditions. Accordingly, in this paper a sample of four municipalities is employed which targets the key variables of BPTA advisor support (or no support) and variable financial management capacity (as rated by NT). The sample encompasses the following municipalities:

- Two municipalities publicly recognised for financial management achievements with a different variable management capacity level (or NT rating), and which had *not* received any BPTA 'advisor' assistance, and
- Two further municipalities with a different variable management capacity level that *had* received a BPTA advisor, but not a large metropolitan municipally as examined in Dollery and Graves (2008).

Against this background, it can reasonably be expected *ex ante* that the funding performance of municipalities with advisor assistance would be superior to those not provided with an advisor, and that higher capacity municipalities would perform better than their lower capacity counterparts. The deliberate selection of 'publicly recognised' municipalities, which could be argued would skew the analysis because the sample comprised 'good performers', is obviously pragmatic in that lesser quality lower capacity performers were unlikely to have the budget and financial statement information necessary to undertake the analysis. Lower capacity ‘non-recognised’ municipalities would likely not be producing financial information of sufficient quality or level of compliance. The two ‘no-advisor’ municipal samples selected were Swartland Local Municipality (Western Cape Province) and Emakhazeni Local Municipality (Mpumalanga Province).

The analysis of the ‘non-metro’ municipalities with BPTA advisor assistance was intended to facilitate determination of whether municipalities with lesser management resources received and applied the BPTA, compared to the ‘metro’ analysed in Dollery and Graves (2008). However, this selection was also pragmatically based, with the sample selected also likely to have produced the budget and financial statement information necessary to undertake the analysis. The two municipalities selected were Buffalo City Local Municipality (Eastern Cape Province) and Steve Tshwete Local Municipality (Mpumalanga Province). Both municipalities are rated as high capacity by NT partially due to the presence of an advisor, but the municipalities vary significantly in size.

In order to provide some contextual background to the sample municipalities, it is worth considering them in more detail. The ‘publicly-recognised’ municipalities were selected from award recipients. South African local government Vuna Awards are distributed every year to celebrate municipal service excellence. These awards ‘reward municipalities that go beyond standards to give their communities excellent services and governance’ (DPLG 2008). Importantly one of the award categories is financial management. In essence, the Vuna Awards are decided by the DPLG, together with the South African Local Government Association (SALGA), Development Bank of Southern Africa (DBSA) and the National Productivity Institute (NPI). In the category of Local Municipalities, the Swartland Local Municipality in the Western Cape secured the award, followed by Steve Tshwete from Mpumalanga. In addition, the Steve Tshwete Local Municipality had the benefit of a BPTA advisor for nearly 2 years from July 2003 until June 2005 and Buffalo City for two years and 6 months.

By contrast, the Swartland Municipality was not provided with a BPTA advisor. However, after initial scrutiny, it was realised that the funding compliance procedure could be successfully applied to the financial results and budgets of Swartland. Furthermore, the national Vuna Financial Management Award win by this municipality suggested that there would be evidence of finance management reform progress and data availability.

Vuna Awards are also made on a provincial basis. In this regard, the Emakhazeni Local Municipality was short-listed and achieved third overall in the Mpumalanga Province. It was thus expected that the application of the funding compliance procedure would find evidence of reform progress at the lower capacity Emakhazeni Municipality.

In sum, this sample of four municipalities enabled a comparison of the financial management reform performance of two significant municipalities that had a BPTA advisor, with two award-winning municipalities that had not had a BPTA advisor, but nonetheless had reasonable prospects of having data capable of applying our analytical techniques. Table 1 summarises chief characteristics of the four municipalities considered in this paper:

Table 1: Characteristics of Sample Municipalities

Municipality	No.	Category	Capacity *	Advisor **	Vuna award
Buffalo City	1	Local	High	Jan. 2003 - July 2005	2007 National
Steve Tshwete	2	Local	High	July 2003 - June 2005	2007 National Runner up
Swartland	3	Local	Medium	No	2007 National
Emakhazeni ***	4	Local	Low	No	2007 Provincial 3rd

Notes: * As defined by Government Gazette (National Treasury (No.1) 2004)
** MFMTAP record of advisors assigned (National Treasury (No.2) 2008)
*** Formerly known and classified as the 'Highlands' Local Municipality (National Treasury (No.1) 2004)

Analytical Procedures

The time series financial analysis performed was limited to commencing from the 2002/03 financial year since reasonable financial information was unavailable prior to that year. Municipalities generally commenced the implementation of new accounting standard formats from the 2003/04 financial year, but provided re-stated comparative information in those statements for the 2002/03 financial year. Whilst there has been some prior ‘piloting’ of BPTA, the main MFMTAP BPTA commenced from January 2003. The 2002/03 financial year thus represents a reasonable baseline for the analysis.

The financial analysis focused upon the comparison of key selected financial items obtained from municipal financial statements and budgets. A key financial management reform is the conversion to ‘Generally Recognised Accounting Practice’ (GRAP) compliant financial statements prepared in accordance with ‘specimen’ format statements issued by NT. The NT ‘capacity’ classification of a municipality determined the latest financial year for conversion, although earlier conversion was encouraged. For the financial years prior to conversion, it was common for financial statements to be prepared using formats issued by the Institute of Municipal Finance Officers (IMFO). Part of our analysis involved the translation of IMFO formats to NT prescribed formats in some cases, but a limitation is that complete information is not always available for complete conversion. Key differences of IMFO formats include using ‘internal loans’, effectively internally generated surplus funds, and the phased ‘capital’ charging of capital expenditure over the loan period (internal and external loans). GAMAP/GRAP, closely aligned to accounting standards issued by the International Federation of Accountants (IFAC), do not allow internal loans and capital expenditure is allocated over the life of the asset by depreciation expense to a Statement of Financial Performance.

Appendix D outlines the MFMA delays and exemptions description related to GRAP implementation (section 122(3)), which explains how MFMA financial statement format reform was progressively implemented relative to municipal capacity. Crucial to our analysis is that exemptions from any ‘budget’ funding requirements (mainly MFMA s17 and s19) even for low capacity municipalities expired in June 2007. All municipalities, regardless of capacity should have produced a fully compliant 2007/08 MTREF (Medium Term Revenue Expenditure Framework).

Performance Rating Scales

Background

The Dollery and Graves (2008) analysis of NT’s funding compliance procedure revealed a challenge: How best to assess whether a municipality’s ‘overall’ financial management performance had improved in terms of the reform objectives? The compliance procedure required NT analysts to individually examine each of 18 measures to assess MFMA ‘funding’ compliance. However, a common outcome was instances of improvement in some measures, deterioration in others, with the *status quo* maintained for the remainder. An individual assessment of each measure was useful for the analysis purposes of NT, or a Provincial Treasury (PT) in the case of the municipalities over which they had oversight (comprising 266 entities in total), but would not provide anything other than an impression of whether or not a municipality had improved and not reveal a performance trend over a number of financial years.

It could be argued that the comparative trends (of one municipality) and local government (with other municipalities) derived from financial performance analysis would be more reliable by applying established ‘fiscal health’ instruments rather than constructing a new instrument. Existing instruments such as the Ten-point Test of Fiscal Condition, the Financial Trend Monitoring System, and Fiscal Capacity Analysis have been found to have ‘fairly modest data requirements’ (Honadle *et al*. 2004, 139). These instruments rely on local government data collections, such as the Government Finance Officers Association (GFOA) Financial Indicators Database. However, whilst such data collections might be readily available in developed countries such as the United

States, information of this kind is not available in South Africa. Moreover, the MFMA is highly prescriptive legislation designed specifically for the South African local government environment. Local Government financial information is presently being assembled within NT's database, but it will be some time before the information is reliable and constructed consistently based on all municipalities applying stable and accepted accounting standards. In this regard, (Bahl and Smoke 2003, 277) have observed that 'it is essential to develop an adequate municipal information and monitoring system' since 'better information is needed about expenditure levels and needs, revenue levels and capacities, and fiscal performance'. It seems clear that this advice applies equally to South African local government. However, the current policy position in South African local government is based on the acceptance of other related advice that 'if a local government wants to use some of the more sophisticated techniques for analysing financial data, it may need to start collecting certain data' (Honadle *et al*. 2004, 27), which is proceeding at the NT. Unfortunately this information is currently of insufficient quality and detail to be useful over the time period considered in this paper.

As a consequence of these factors, we developed a 'Likert-like' scale as a performance rating instrument for South African municipalities. In the social sciences, Likert scales have traditionally been used to obtain responses to survey instruments (Elaine Allen and Seaman 2007, 65). A scale would commonly ask respondents to select one of the five (or perhaps seven) propositions. Likert scales usually produce imprecise ordinal data with consequential limitations to the validity of most standard statistical tests (Elaine Allen and Seaman 2007, 64), but the precise financial nature of the base data for ratings for the application used here is synonymous with higher validity interval data. It should be stressed that this is not the first time that Likert scales are used as an evaluation technique of public sector reform (Monavvarian 2003).

5.1 Development

To meet the need for an overall assessment tool, Likert-like performance rating scales were constructed to assess each performance measure of the funding compliance procedure. The 'Funding Measures' Likert-like performance rating scales are displayed in Appendix E. NT's funding compliance procedure is intended as a self-assessment instrument by municipalities, and similarly this type of rating instrument could also be self-assessed.

A simple 5 point scale was selected for each measure and values of 2, 1, 0, -1 or -2 were assigned based on a financial range outcome. For example, the 'Cash and Cash Equivalent' position of a municipality could be 'Positive and improving' (2), 'Positive and stable' (1), 'Positive and declining' (0), 'Negative and stable' (-1) or 'Negative and declining' (-2). An assigned score is shown in brackets after the scale item example. After assigning scores for each measure, the total scale item scores were summed for a total score. This procedure was repeated for each financial year analysed. The total score was displayed by a line chart, for each sample municipality, with a moving average trend line added to the chart to indicate overall progress. The charts for the sample analysed are included in Appendix B.

We concede that in their present form, these scales require further refinement, but they do provide a preliminary basis for an overall performance assessment. Further quantitative assessment is required. Firstly, there may well be a correlation between some of the measures used. Thus a positive score for one measure may be related to a positive score for another measure. Statistical analysis could be applied to measure the degree of correlation and the effect of each measure on the total score. It may thus be possible to group some scales into factor scores in a more simplified approach. This could also provide the basis of predicting municipal financial performance based on the trend information, which would be useful to national and provincial departments that have municipal oversight.

A second validity question resides in the summing of scale rating scores to obtain a total score. This approach was applied in Brown's (1993) Ten-Point Test of Fiscal Condition, a similar performance 'rating' approach to that we used, which 'portrays the fiscal condition of a local government in a set of ten simple ratios' (Honadle *et al*. 2004, 140). In that instrument, a score is assigned to each ratio included in the test depending on the relative relationship (quartile breakpoints) of a municipality compared to the GFOA database of all municipalities. The score was then summed for an overall score and the overall score ranked against other municipalities. It could be argued that there is also a correlation between some of the tests; for example, the ratio Total Revenues/Population would likely be correlated to Debt Service/Total Revenues. This matter could be explored further to ascertain if other studies have considered the validity of a summated score in similar circumstances.

Sample Municipality Analysis Outcomes

Dollery and Graves (2008, 22) argued 'an important question is whether the funding compliance test can have an alternative application to provide an insight into the influence the international technical assistance program on South African municipal management capacity' Moreover, 'it could be expected that, if successful, the various measurements that test the MFMA compliance could also explain underlying financial management performance change'. From the municipal sample in Dollery and Graves (2008, 25), it was concluded there was 'sufficient performance differentiation to justify extending this line of analysis to other municipalities…' and that '… if the same results are evident in a larger sample, then this supports a finding that the measurements could be used with complementary evidence as analysis of BPTA performance outcomes'. The present paper follows this observation and we now consider findings of this larger sample.

Sample Number 1: BPTA Advisor Supported Municipality: Buffalo City Local Municipality

Buffalo City is a second-tier 'Eastern Cape' municipality, an 'aspiring metro' NT classified as a 'high' capacity municipality for MFMA implementation (National Treasury (No.6) 2004, 11). For Buffalo City, 2006/07 annual revenue was approximately 1.745 billion Rand (or US$233 million at an exchange rate of 7.50 Rand to the $US). Appendix A1 provides the result of the funding compliance analysis of Buffalo City Local Municipality. Performance rating scale scores and chart are presented in Appendix B1.

Quite unexpectedly, the score results show a marked difference comparing the audited financial results from 2003/04 to 2006/07 and the 2007/08 MTREF (3 year budget). However, there is an obvious cause for this discrepancy; the Budgeted Cash Flow Statement. 2007/08 cash flow budget from ratepayers and consumers, the main revenue items, is estimated at less than the amount actually received in 2003/04. This is inconsistent with the revenue estimates, so either Buffalo City was expecting a substantial deterioration in debtor collection rates or it has approved a poorly-constructed budget. The cash flow prediction subsequently affects cash/investment balances and various related measures that contribute to poor scores. However, the predicted cause of the problem, which could be easily corrected, does not readily excuse the fact that its MTREF does not comply with the legislated funding requirements seemingly indicating a lack of administrative capacity. The funding compliance measurement highlights compliance problems of this kind, which presumably will assist this municipality to avoid this problem when it undertakes the compliance tests in conjunction with the development of its next budget (2008/09).

Sample Number 2: BPTA Advisor Supported Municipality: Steve Tshwete Local Municipality

Steve Tshwete Local Municipality is an 'Mpumalanga' municipality NT classified as 'high' capacity for MFMA implementation (National Treasury (No.6) 2004, 16). 2006/07 annual revenue was approximately 506 million Rand (or US$67 million). Appendix A2 provides the results of the funding compliance analysis. The performance rating scale scores and chart are presented in Appendix B2.

The analysis indicates that prior year financial outcomes display a higher degree of MFMA compliance than the 2007/08 MTREF, although the 'trend' line is straight. Whilst there was a reasonable level of MTREF format compliance, the absence of a Budgeted Statement of Financial Position prevented the calculation of a number of measures. Steve Tshwete Municipality, as a high capacity municipality, should have achieved full format compliance in the previous year 2006/07 MTREF. Thus the absence of a key document in the 2007/08 MTREF is non-compliant with the MFMA and reform progress is therefore questionable.

Sample Number 3: 'No Advisor' Municipality: Swartland Local Municipality

Swartland is a relatively small 'Western Cape' municipality, with annual revenue of approximately 189 million Rand in 2006/07 (or US$25 million), NT classified as a 'medium' capacity municipality for MFMA implementation (National Treasury (No.6) 2004, 9). To illustrate its comparative size, Johannesburg 'Metro' had annual revenue 15.4 'billion' Rand in the same year (or approximately US$2 billion). However, Swartland is still a significant local government entity since the average revenue budget for South African municipalities was 418 million Rand in 2007/08 (National Treasury (No.3) 2007; National Treasury (No.5) 2008). Furthermore, the average fiscal size, excluding the six metropolitan municipalities in 2007/08, was 171 million Rand (National Treasury (No.3) 2007). Although not a large municipality on this basis, Swartland would still be above average.

Appendix A3 provides the result of the funding compliance analysis of Swartland Local Municipality and Appendix B3 presents the performance rating scale scores and related chart. GAMAP/GRAP formats were first introduced by Swartland in the 2004/05 annual financial statements, with the 2003/04 'comparatives' restated. IMFO format financial statements were available for the previous year and we re-stated these to align approximately to GAMAP/GRAP formats.

Financial statement quality overall was impressive, with steady annual progression in the level of format compliance. The quality of the 2006/07 financial statements was high, closely adhering to MFMA format requirements. Moreover, the level of detailed notes readily enabled the funding compliance procedure to be applied. In addition, the funding compliance analysis specifically revealed a:

- Steady improvement in the cash and investments position, from 2002/03.
- Significant improvement in cash and investments, excluding funds applied, position from a large negative position in 2003/04, meaning there were insufficient funds to 'cash-back' the reserves it was obliged or voluntarily accounted for, to a sizeable positive situation until 2006/07.
- Steadily improving operating surplus position, displaying property tax and service charge revenues adequate for a community 'paying its way' for the resources consumed.
- Impressive debt collection improvement, shown by annual average debtor collection rates exceeding 100% and a reduction in long term debtor levels.
- Reasonable repairs and maintenance expenditure level, although this conclusion is subject to a historical infrastructure asset condition assessment.

However, the quality of the budget information for the 2006/07 financial year and the 2007/08 MTREF was poor compared to financial statement quality. The budget format was to a large extent non-compliant with MFMA formats issued in 2005. There were some tables with the requisite information demonstrating that the municipality was aware of the requirements. The budget contained a mixture of English and Afrikaans text, making it non-compliant. Furthermore, some information did not reconcile; for instance, capital expenditure did not agree with capital funding supporting tables. In sum, it was hard to believe that the same municipality, which had prepared such high quality financial statements for a number of years, had produced such a poor budget document.

Upon investigation, it was discovered that Swartland was only lodging a high level summary return form to NT for its budget and financial reporting information in accordance with MFMA (Section 71) reporting requirements. This 'summary' return was introduced by NT to provide a temporary level of information compliance for municipalities that were failing to meet their full legal obligations in order to allow NT to produce its consolidated quarterly local government returns.

One possibility is that consulting assistance was used to produce the annual financial statements, but not the budget. An improvement in the quality of medium term municipal budgets and 'in-year' reporting are key MFMTAP reform program aims. Swartland was not achieving these aims. The lack of access to a BPTA advisor is likely a factor. The analysis supported a conclusion that the funding compliance procedure could assist in understanding BPTA impact and reform progress, albeit negative performance.

Sample Number 4: 'No Advisor' Municipality: Emakhazeni local Municipality

Emakhazeni Local Municipality is a small Mpumalanga municipality NT classified 'low' capacity for MFMA implementation (National Treasury (No.6), 2004, 16). 2006/07 annual revenue was approximately 70 million Rand (or US$9.3 million). The funding compliance output measurement for Emakhazeni is displayed as Appendix A4. Performance rating scale scores and chart are presented in Appendix B4. Formerly known as 'Highlands' (National Treasury (No.6) 2004, 16), Emakhazeni was exempt from many of the requirements of the MFMA including section 122(3) relating to financial statement format until 30 June 2008. Appendix D details the MFMA delays and exemptions that were granted by the Minister of Finance on 1 July 2004. However, the delay and exemption of implementation of selected parts of the section 17 and section 19 requirements (MTREF) expired after the preparation and approval of the 2006/07 Emakhazeni annual budget. Accordingly, even for a low capacity municipality full MFMA compliance was required for the 2007/08 MTREF, the medium term budget analysed.

Emakhazeni's 'annual financial statements' until 2006/07, the final year of 'actual' results analysed, were all presented applying IMFO formats, displaying minimal progress toward GRAP compliance. This was MFMA 'delays' allowed, but improvement could have been expected from an award winning municipality. Nonetheless our financial statements translation to the required format revealed suspect financial trends. The 2006/07 discussion refers to substantial debtors for grants spent but not received, presumably conditional capital transfers/grants. But if this amount is factored as revenue 'earned' the financial performance result is problematical, indicating that these amounts have not been reported as revenue, even though it is unclear how the amount could be shown as debtors in this case. More detail regarding these deficiencies is beyond the scope of this paper, but these problems could affect the performance rating scores positively or negatively. Performance assessment credibility will be limited until the municipality achieves a number of consecutive years of GRAP financial statement history.

Since the 'budget' format delays and exemptions had expired prior to the preparation of the 2007/08 MTREF, the analysis reveals important compliance deficiencies. Critical to the funding compliance analysis is the presentation of 'budgeted' GRAP compliant statements for financial performance, financial position and cash flows. Yet only a partially compliant financial performance budget is available. The information shortfall seriously limits the completion of the funding compliance requirements and the performance rating assessment.

Funding compliance improvement is evident in 2003/04, 2004/05 and 2005/06. A substantial deterioration occurred in the 2006/07 financial results, suggesting that solvency of the municipality is questionable. In that year it had borrowed funds for capital expenditure - and had not spent the funds - yet was in a poor liquidity situation. The 2007/08 MTREF is heavily non-compliant with MFMA requirements, making it very difficult to assess the budget credibility and subsequently apply Likert scoring. The trend line suggests overall deterioration in funding compliance since 2002/03. The findings are contrary to what was surmised *ex ante* that this award-winning municipality would display continuing and improving MFMA compliance. Instead financial management performance appears to be deteriorating.

Public Finance Revenue Optimality Considerations

Any analysis of local government finance should include a funding compliance 'reasonableness' test of revenue levels, especially in a developing country context. An investigation concerned with this facet of local government finance should consider funding compliance against the background of tax and other revenue sources available to municipalities as well as relevant theoretical guidance from the local public finance literature on tax optimality. In respect of any funding compliance 'reasonableness' test of revenue levels, (Bahl and Smoke 2003, 75) have set out three basic optimality propositions for South African local finance that are useful in the present context:

- Local government should have 'at least one other broad-based local tax to support "adequate" levels of local public services' (Bahl and Smoke 2003, 72);
- Local tax revenues should be 'elastic, automatically growing in proportion to the growth in expenditure needs' (Bahl and Smoke 2003, 73). In the South African milieu, property tax and service charge increases are associated with this factor.
- Local tax revenues should be 'politically acceptable' (Bahl and Smoke 2003, 75). Collection rate trends are used as a proxy for this analysis.

In addition to these characteristics, optimal taxes should be equitable and should not export tax burden to other communities (Bahl and Smoke 2003), but these factors are beyond the scope of the quantitative analysis in this paper, since our key concern resides in sustainability rather than equity, although perceived inequity might discourage sustainability. Moreover, factors such as exporting tax burdens reduce the overall tax system fairness, but 'local' politicians would likely see 'exporting' as a desirable objective. In the present context, if the municipalities in question do not possess 'good taxes' in their repertoire, then they will be under pressure to maintain MFMA 'funding' compliance in a country under enormous pressure to expand and improve basic service delivery with scarce resources.

With respect to the sample local councils, our municipalities are all in the 'local' category; this means they can all levy a property rates 'tax'. Furthermore, they all deliver electricity, water, sanitation and refuse services, with revenue for these services potentially available to cross-subsidise other municipal services depending on local policy.

The next factor to consider is whether local taxes are growing in proportion to expenditure needs. To measure this dimension, we use funding 'compliance measurement number five' as a proxy; the percentage change in service charge revenue above the South African Reserve Bank inflation target. Given that all municipalities in the sample were experiencing demand for increased services, it would be expected that this measure would be positive (i.e. greater than the Reserve bank target). The relevant values are displayed in Table 2:

Table 2: Property Tax and Service Charge Increases > Reserve Bank Inflation Target

MUNICIPALITY	2003/04 Actual %	2004/05 Actual %	2005/06 Actual %	2006/07 Actual %	2007/08 Budget %	2008/09 Budget %	2009/10 Budget %
eThekwini 'metro'	5.1%	2.7%	(1.5%)	3.0%	2.8%	1.9%	1.1%
Buffalo City	2.3%	5.8%	(0.8%)	0.1%	0.8%	1.5%	(0.2%)
Steve Tshwete	N.A.	4.0%	(0.8%)	9.0%	(2.5%)	0.3%	(2.5%)
Swartland	10.4%	(0.3%)	5.6%	7.4%	N.A.	N.A.	N.A.
Emakhazeni	40.1%	15.5%	15.6%	12.1%	(2.4%)	(1.7%)	(1.7%)

The information in Table 2 is not conclusive, especially as changes in accounting standards and formats limit data reliability, but negative values are suggestive of municipalities under political pressure to minimise tax and service charge increases. In addition, there is some correlation between this measure and funding compliance, with low increases and negative change putting pressure on revenue. However, comparing the tax/service charge increases to a ‘municipal cost index’, an index of the price increases of municipal inputs (remuneration, bulk electricity, bulk water, road materials etc), would be a better guide, but that falls beyond the scope of this paper.

The next question is whether the local tax is politically acceptable. In order to examine this problem, we use the revenue collection rate as a proxy on the basis that a politically acceptable tax will exhibit high collection rates. The relevant information is shown in Table 3. We will also refer back to table 2, as politically unacceptable taxes will likely experience budgetary ‘containment’ pressure.

Table 3: Collection Rates

MUNICIPALITY	2003/04 Actual %	2004/05 Actual %	2005/06 Actual %	2006/07 Actual %	2007/08 Budget %	2008/09 Budget %	2009/10 Budget %
eThekwini 'metro'	91.0%	92.0%	90.0%	90.0%	95.0%	95.0%	93.0%
Buffalo City	131.6%	119.6%	127.6%	143.7%	88.6%	81.3%	81.8%
Steve Tshwete	140.9%	106.8%	94.7%	99.8%	80.1%	99.5%	99.6%
Swartland	97.7%	103.1%	111.6%	109.1%	No Cash Fl.	No Cash Fl.	No Cash Fl.
Emakhazeni	59.0%	118.8%	96.5%	56.3%	No Cash Fl.	No Cash Fl.	No Cash Fl.

Once again, it is important to note that changes in accounting standards and formats limit the data reliability. Historical collection rates greater than 100 per cent are caused by including transfers from reserves as revenue, but GRAP compliant financial statements and budgets exclude these transfers. Those municipalities that have implemented GRAP display collection rates below 100 in Table 3. In this regard, Buffalo City data is unreliable. There does not appear to be any correlation at Steve Tshwete and the data for Swartland is incomplete. There is a suggestion at Emakhazeni that a history of large tax/service charges increases are progressively affecting collection rates.

Concluding Remarks

Our conclusions regarding the sample funding compliance procedure analysis conducted in this paper are summarised in Table 4:

Table 4: Summary of Conclusions

Municipality	Conclusions
Buffalo City	Does not meet the basic requirements of MFMA section 18, and probably section 19, because approved expenditure budgets levels are unlikely to be fully funded.
Steve Tshwete	Does not meet the basic requirements of MFMA section 18, and probably section 19, because approved expenditure budgets levels are unlikely to be fully funded. Budgeted Cash Flow Statement corrections could indicate a different outcome.
Swartland	Does not meet the funding compliance test, trending negative. Very poor level of 2007/08 MTREF compliance for a medium capacity municipality.
Emakhazeni	2007/08 MTREF does not meet the funding compliance test, trending negative. Poor format compliance.

On this basis, and in common with the analysis of the metropolitan municipality sample Dollery and Graves (2008), there is sufficient justification for performance measurement differentiation to justify extending this line of analysis to an even larger sample of municipalities. Similar results in a larger sample would improve reliability of our finding that the measurements can be used with complementary evidence in the analysis of BPTA performance outcomes, provided the analysis is supported by quantitative analysis of the relationship between the performance rating scales used. This analysis could aid in the design and implementation of similar reform programs in other developing nations as a performance measure, or as an ongoing assessment of the municipal financial management reform in South Africa.

We also heed the warnings of other scholars. For example, Honadle *et al.* (2004, 249) concluded that 'relative quantitative analysis need always be strengthened by proper interpretation and feedback provided only through close interaction with local government officials … direct inference from analytical methods alone can lead one to false conclusion of strong or weak fiscal condition'. The relative analysis undertaken for the sample used in this paper is qualified as not having the benefit of local manager interpretation and feedback.

Our interpretation would be disappointing to the South African Government, especially as there would have been higher expectations from these municipalities. The literature describing 'policy shocks' may explain one of the causes:

> These developments raise substantial concerns about how much "policy shock" the municipalities can absorb at one time, how quickly they can climb the required learning curve, and what the national government can afford in the short term and beyond (Bahl and Smoke 2003, 274).

The relevant literature also warns about the requirements for capacity building:

> Demanding too much at once especially if uncoordinated and/or unsupported by adequate capacity building, may prevent municipalities from adopting reforms successfully, damaging economic development and social well being (Bahl and Smoke 2003, 274).

Furthermore, the apparent lack of reform progress may not be directly related to the funding compliance mechanism at all, but rather organisational resistance. For instance, (Monavvarian 2003, 592) has contended that as 'long as the reformers are from within the bureaucracy, there is no hope to achieve desired results'.

An alternative explanation for the apparent non-compliance observed in our sample is the newly elected councils (in March 2006) possibly included key political entrepreneurs, such as newly-appointed Mayors who put pressure on funding compliance by accelerating basic local services spending. Although 2006/07 was the first available budget soon after the election, it is likely that 2007/08 was the first budget new councillors could genuinely influence. Variable correlation would be very difficult to prove, because electoral change does not necessarily cause an increase in the number or effectiveness of political entrepreneurs. But if a correlation existed between the funding compliance trend and the 5 year electoral cycle (i.e. percentage change in councillors at an election and a percentage change in mayoral committee members, who have the most influence), then this might constitute relevant evidence.

While it is too early to conclude from our sample of four municipalities, early signs nonetheless suggest reforms are not embedded, even regardless of providing a BPTA advisor or other assistance, and the variable performance between the samples appears to be correlated with capacity. This limits the justification of expenditure on advisors. Bahl and Smokes 2003 caveat on the pace of reform and capacity building requires further investigation, as well as the influence of optimal taxation considerations on the ability of municipalities to meet service demand and maintain ‘funding’ compliance with the MFMA.

References

Bahl, R. and Smoke, P. (2003). *Restructuring Local Government Finance in Developing Countries: Lessons from South Africa,* Edward Elgar Publishing, Inc., Cheltenham.

Brown, K. W. 1993. ‘The 10-Point Test of Financial Condition: Toward an Easy-to-Use Assessment Tool for Smaller Cities’. *Government Finance Review* 9(6): 21-6.

Buffalo City Local Municipality (2004-2007). *Annual Audited Financial Statements for the Financial Years* 2003/04, 2004/05, 2005/06 and 2006/07.

Buffalo City Local Municipality (2008). *Medium Term Revenue and Expenditure Framework 2007/08.*

Dollery, B. E. (2003). 'Local Government Failure', in Dollery, B. E., Marshall, N.A. and Worthington, A. C. (eds) *Reshaping Australian Local Government: Finance, Governance and Reform*, pp. 212-228*,* University of New South Wales Press, Sydney.

Dollery, B. E. and Graves, N.R. (2008). 'Funding Compliance Measurement to Understand Best-Practice Financial Management Technical Assistance to South African Local Government', *Public Administration and Development* (forthcoming).

Department of Local Government (DPLG) (2008). *Awards Description by the Department of Local Government,* available at: http://www.thedplg.gov.za/vuna/ *Vuna, accessed on* 17 February 2008.

Elaine Allen, I. and Seaman, C. A. (2007). 'Likert Scales and Data Analyses', *Quality Progress*, 40: 64-65.

Emakhazeni Local Municipality (2004-2007). *Annual Audited Financial Statements for the Financial Years* 2003/04, 2004/05, 2005/06 and 2006/07.

Emakhazeni Local Municipality (2007). Emakhazeni Local Municipality Policy and Budget Speech 2007/08 by the Executive mayor, Councillor Linkie Mohlala, 1-19.

Emakhazeni Local Municipality (2008). *Medium Term Revenue and Expenditure Framework 2007/08.*

Folscher, A. (2006). *Introduction: Africa Experience with Budget Reform,* OCED Journal on Budgeting, 1-16.

Honadle, B. W., Costa, J. M. and Cigler, B. A. (2004). *Fiscal Health for Local Governments: An introduction to Concepts, Practical Analysis, and Strategies,* Elsevier Academic Press, San Diego.

MFMA Guidelines (2007). MFMA Funding Compliance Procedure. South African National Treasury, 1-24, available at http://www.treasury.gov.za/legislation/mfma/guidelines/default.aspx

Monavvarian, A. (2003). 'Analysis of the Perceived Degree of Success of Reform Efforts: Reform Agent's Perceptions', Journal of Management Development, 579-585.

Municipal Finance Management Act, 56 of 2003, South Africa.

National Treasury (No.1) (2004). *Government Gazette, Republic of South Africa, 469(26511)*: 1-24.

National Treasury (No.6) (2004). *Government Gazette, Republic of South Africa, 1 July 2004*.

National Treasury (No.3) (2007). *Municipal MTREF Information - Municipal Operating Budget for 2007/08 - Annexure A* (2007).

National Treasury (No.2) (2008). *MFMTAP Allocation of Advisors Sorted by Municipal Name,* 1-3.

National Treasury (No.4) (2008). *Local Government Budgets and Expenditure Review.*

National Treasury (No.5) (2008). *MFMA Funding Compliance Guideline*, 1-15.

Sheehan, P. (2005). 'Accounting for Government Activities in Australia: the State of the Budgets', Australian Accounting Review, 62-70.

Steve Tshwete Local Municipality (2004-2007). *Annual Audited Financial Statements for the Financial Years* 2003/04, 2004/05, 2005/06 and 2006/07.

Steve Tshwete Local Municipality (2008). *Medium Term Revenue and Expenditure Framework 2007/08.*

Swartland Local Municipality (2003-2007). *Annual Audited Financial Statements for the Financial Years* 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07.

Swartland Local Municipality (2008). *Medium Term Revenue and Expenditure Framework 2007/08.*

APPENDIX A1 – MFMA Funding Compliance Table (BUFFALO CITY LOCAL Municipality)

Description	MFMA section	Ref	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Medium Term Revenue and Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Funding measures										
Cash/cash equivalents at the year end - R'000	18(1)b	1	(68 685)	115 299	225 540	491 831	632 145	66 198	50 040	15 760
Cash equivalents + investments less applications - R'000	18(1)b	2	206 096	197 534	202 306	307 410	380 204	9 971	(123 248)	(93 972)
Cash at the year end:% of monthly employee/supplier payments	18(1)b	3	(1.0)	1.4	2.4	5.1	5.8	0.6	0.4	0.1
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	2 533	69 601	211 788	243 401	135 971	87 736	33 181	34 925
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	5	N.A.	2.3%	5.8%	(0.8%)	0.1%	0.8%	1.5%	(0.2%)
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	113.4%	131.6%	119.6%	127.6%	143.7%	88.6%	81.3%	81.8%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	3.5%	4.6%	8.2%	5.1%	5.7%	2.7%	2.7%	3.6%
Capital payments % of capital expenditure	18(1)c;19	8	100.0%	89.4%	100.0%	100.0%	100.0%	101.9%	127.6%	183.8%
Borrowing receipts % of capital expenditure (excl grants)	18(1)c	9	33.7%	42.1%	72.6%	0.0%	85.8%	55.2%	50.7%	65.4%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10	N.R.	N.R.	N.R.	N.R.	N.R.	93.5%	83.2%	79.3%
Current consumer debtors % change - incr(decr)	18(1)a	11	N.A.	(5.6%)	3.9%	4.2%	0.0%	4.7%	10.0%	10.0%
Long term receivables % change - incr(decr)	18(1)a	12	N.A.	(34.0%)	(54.8%)	(57.1%)	(59.2%)	123.5%	(2.2%)	(1.8%)
R&M % of Property Plant & Equipment	20(1)(vi)	13	7.3%	6.9%	8.3%	7.1%	5.5%	5.1%	5.5%	5.8%
Asset renewal % of capital budget	20(1)(vi)	14	Not recorded	Not recorded	Not recorded	Not recorded	Not recorded	Not recorded	Not recorded	Not recorded

Notes:
1. NA - the information for the calculation was unavailable because prior year data was unavailable, the municipality did not disclose the base information, or the funding compliance procedure did not require the measure for that financial year (i.e. Government transfer measurement is only required for the budget 'years').
2. NR – Nor required
3. Refer Appendix A5 for an explanation of the measurement references
4. Shading highlights problematical results
5. R'000 - thousand South African Rand

APPENDIX A2 – MFMA Funding Compliance Table (STEVE TSHWETE LOCAL Municipality)

Description	MFMA section	Ref	2003/04	2004/05	2005/06	2006/07	2007/08 Medium Term Revenue and Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Funding measures									
Cash/cash equivalents at the year end - R'000	18(1)b	1	25 715	62 648	65 633	68 251	20 112	23 495	27 666
Cash equivalents + investments less applications - R'000	18(1)b	2	107 321	146 774	15 856	54 782			
Cash at the year end:% of monthly employee/supplier payments	18(1)b	3	1.5	3.3	2.9	2.9	0.8	0.8	0.9
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	27 833	70 239	110 113	174 489	39 250	35 293	28 369
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	5	N.A.	4.0%	(0.8%)	9.0%	(2.5%)	0.3%	(2.5%)
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	140.9%	106.8%	94.7%	99.8%	80.1%	99.5%	99.6%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	0.8%	2.6%	1.3%	1.0%	1.0%	1.0%	0.9%
Capital payments % of capital expenditure	18(1)c;19	8	100.0%	100.0%	93.8%	100.0%	74.8%	100.0%	100.0%
Borrowing receipts % of capital expenditure (excl grants)	18(1)c	9	0.0%	69.2%	0.0%	0.0%	27.9%	22.2%	29.1%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10	N.R.	N.R.	N.R.	N.R.	147.7%	135.2%	129.4%
Current consumer debtors % change - incr(decr)	18(1)a	11	0.0%	(5.2%)	64.5%	9.0%	(100.0%)		
Long term receivables % change - incr(decr)	18(1)a	12	0.0%	(12.7%)	(49.5%)	(75.1%)	(100.0%)		
R&M % of Property Plant & Equipment	20(1)(vi)	13	3.9%	3.8%	4.4%	4.0%			
Asset renewal % of capital budget	20(1)(vi)	14	Not recorded	Not recorded	Not recorded	Not recorded	Not recorded	Not recorded	Not recorded

Notes:
1. NA - the information for the calculation was unavailable because prior year data was unavailable, the municipality did not disclose the base information, or the funding compliance procedure did not require the measure for that financial year (i.e. Government transfer measurement is only required for the budget 'years').
2. NR – Nor required
3. Refer Appendix A5 for an explanation of the measurement references
4. Shading highlights problematical results
5. R'000 - thousand South African Rand
6. 2002/03 unavailable

APPENDIX A3 – MFMA Funding Compliance Table (SWARTLAND LOCAL Municipality)

Description	MFMA section	Ref	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Medium Term Revenue and Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Funding measures										
Cash/cash equivalents at the year end - R'000	18(1)b	1	11 301	18 146	20 534	104 659	100 931			
Cash equivalents + investments less applications - R'000	18(1)b	2	2 206	(67 736)	67 167	251 563	250 056			
Cash at the year end:% of monthly employee/supplier payments	18(1)b	3	2.1	3.2	2.6	13.7	12.8			
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	15 550	15 657	5 279	28 312	32 182	58 794		
Service charge rev % change - macro target exclusive	18(1)a,(2)	5	12.2%	10.4%	(0.3%)	5.6%	7.4%			
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	106.3%	97.7%	103.1%	111.6%	109.1%			
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	2.4%	1.9%	2.3%	2.7%	2.1%			
Capital payments % of capital expenditure	18(1)c;19	8	100.0%	100.0%	100.0%	100.0%	101.9%			
Borrowing receipts % of capital expenditure (excl grants)	18(1)c	9	0.0%	91.7%	0.0%	0.0%	0.9%			
Transfers % of Govt. legislated/gazetted allocations	18(1)a	10	N.R.	N.R.	N.R.	N.R.	N.R.	100.0%	100.0%	100.0%
Current consumer debtors % change - incr(decr)	18(1)a	11	(16.8%)	16.2%	(3.8%)	16.5%	17.1%			
Long term receivables % change - incr(decr)	18(1)a	12	(2.1%)	(20.4%)	(19.5%)	(26.4%)	(27.0%)			
R&M % of Property Plant & Equipment	20(1)(vi)	13	8.9%	3.6%	3.7%	4.7%	3.6%			
Asset renewal % of capital budget	20(1)(vi)	14	Not Recorded	Not Recorded	Not Recorded	Not Recorded	Not Recorded	Not Recorded	Not Recorded	Not Recorded

Notes:
1. NA - the information for the calculation was unavailable because prior year data was unavailable, the municipality did not disclose the base information, or the funding compliance procedure did not require the measure for that financial year (i.e. Government transfer measurement is only required for the budget 'years').
2. NR – Nor required
3. Refer Appendix A5 for an explanation of the measurement references
4. Shading highlights problematical results
5. R'000 - thousand South African Rand

APPENDIX A4 – MFMA Funding Compliance Table (EMAKHAZENI LOCAL Municipality)

Description	MFMA section	Ref	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Medium Term Revenue and Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Audited Outcome	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Funding measures										
Cash/cash equivalents at the year end - R'000	18(1)b	1	4 204	265	45	9 999	560	No Cash Fl.	No Cash Fl.	No Cash Fl.
Cash equivalents + investments less application of funds - R'000	18(1)b	2	22 887	6 317	29 824	49 313	(670)	No Cash Fl.	No Cash Fl.	No Cash Fl.
Cash at the year end:% of monthly employee/supplier payments	18(1)b	3	3.1	0.2	0.0	4.0	0.2	No Cash Fl.	No Cash Fl.	No Cash Fl.
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	(364)	5 739	546	1 577	17 201	1 588	1 656	1 727
Service charge rev % change - macro target exclusive	18(1)a,(2)	5	N.A.	40.1%	15.5%	15.6%	12.1%	(2.4%)	(1.7%)	(1.7%)
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	100.0%	59.0%	118.8%	96.5%	56.3%	No Cash Fl.	No Cash Fl.	No Cash Fl.
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	0.0%	0.0%	20.2%	12.8%	14.2%	11.0%	11.0%	11.0%
Capital payments % of capital expenditure	18(1)c;19	8	9174.7%	141.6%	5.6%	33.9%	52.3%	No Cash Fl.	No Cash Fl.	No Cash Fl.
Borrowing receipts % of capital expenditure (excl grants)	18(1)c	9	64.3%	0.0%	0.0%	0.0%	(126.5%)	0.0%	0.0%	0.0%
Transfers % of Govt. legislated/gazetted allocations	18(1)a	10	N.R.	N.R.	N.R.	N.R.	N.R.	71.0%	63.6%	55.8%
Current consumer debtors % change - incr(decr)	18(1)a	11	N.A.	29.7%	30.9%	3.5%	37.3%	No SFPos	No SFPos	No SFPos
Long term receivables % change - incr(decr)	18(1)a	12	N.A.	N.A.	N.A.	N.A.	N.A.	No SFPos	No SFPos	No SFPos
R&M % of Property Plant & Equipment	20(1)(vi)	13	50.2%	270.5%	333.3%	271.2%	71.3%	No SFPos	No SFPos	No SFPos
Asset renewal % of capital budget	20(1)(vi)	14	Not Recorded	Not Recorded	Not Recorded	Not Recorded	Not Recorded	Not Recorded	Not Recorded	Not Recorded

Notes:
1. NA - the information for the calculation was unavailable because prior year data was unavailable, the municipality did not disclose the base information, or the funding compliance procedure did not require the measure for that financial year (i.e. Government transfer measurement is only required for the budget 'years').
2. NR – Nor required
3. Refer Appendix A5 for an explanation of the measurement references
4. Shading highlights problematical results
5. R'000 - thousand South African Rand

APPENDIX A5 – MFMA Funding Compliance Table References

1. Positive cash balances indicative of minimum compliance - subject to 2

2. Deduct application of funds (defined) from cash balances

3. Indicative of sufficient liquidity to meet average monthly operating payments

4. Indicative of funded operational requirements

5. Indicative of adherence to macro-economic targets (prior to 2003/04 revenue not available for high capacity municipalities and later for other capacity classifications)

6. Realistic average cash collection forecasts as % of annual billed revenue

7. Realistic average increase in doubtful debt provision

8. Indicative of planned capital expenditure level & cash payment timing

9. Indicative of compliance with borrowing 'only' for the capital budget - should not exceed 100% unless refinancing

10. Substantiation of National/Province allocations included in budget

11. Indicative of realistic current arrear debtor collection targets (prior to 2003/04 revenue not available for high capacity municipalities and later for other capacity classifications)

12. Indicative of realistic long term arrear debtor collection targets (prior to 2003/04 revenue not available for high capacity municipalities and later for other capacity classifications)

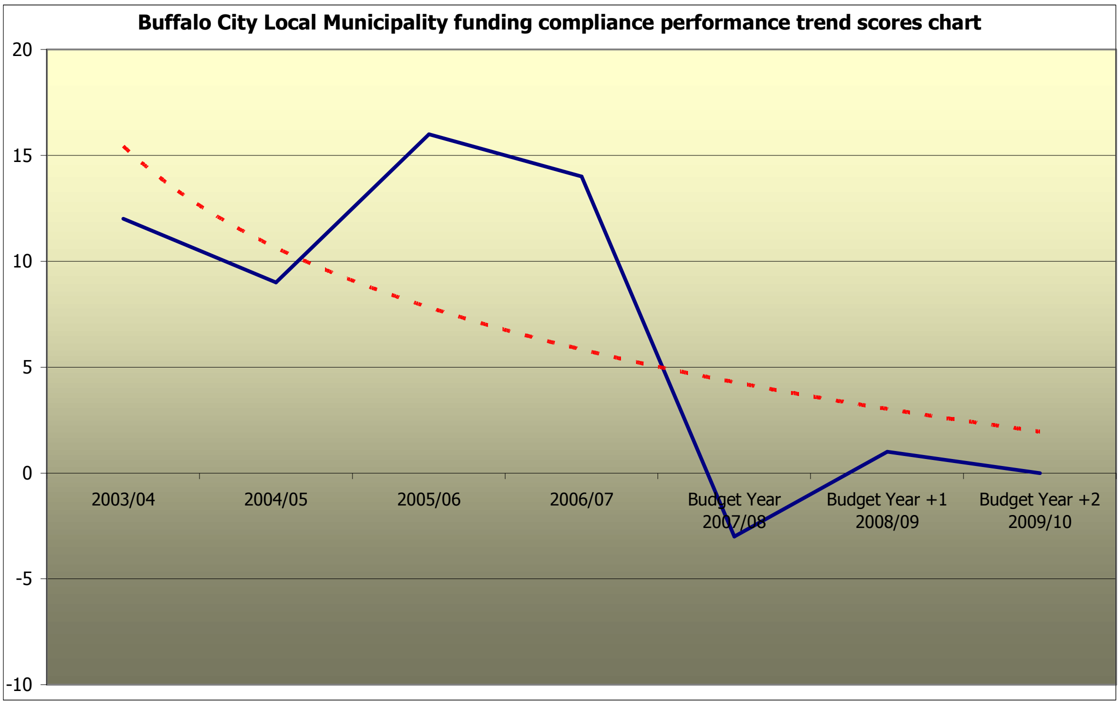
13. Indicative of a credible allowance for repairs & maintenance of assets - functioning assets revenue protection

14. Indicative of a credible allowance for asset renewal (requires analysis of asset renewal projects as % of total capital projects - detailed capital plan) - functioning assets revenue protection

APPENDIX B1 – Performance Scales Scores (Buffalo City)

Buffalo City Local Municipality funding compliance performance trend scales

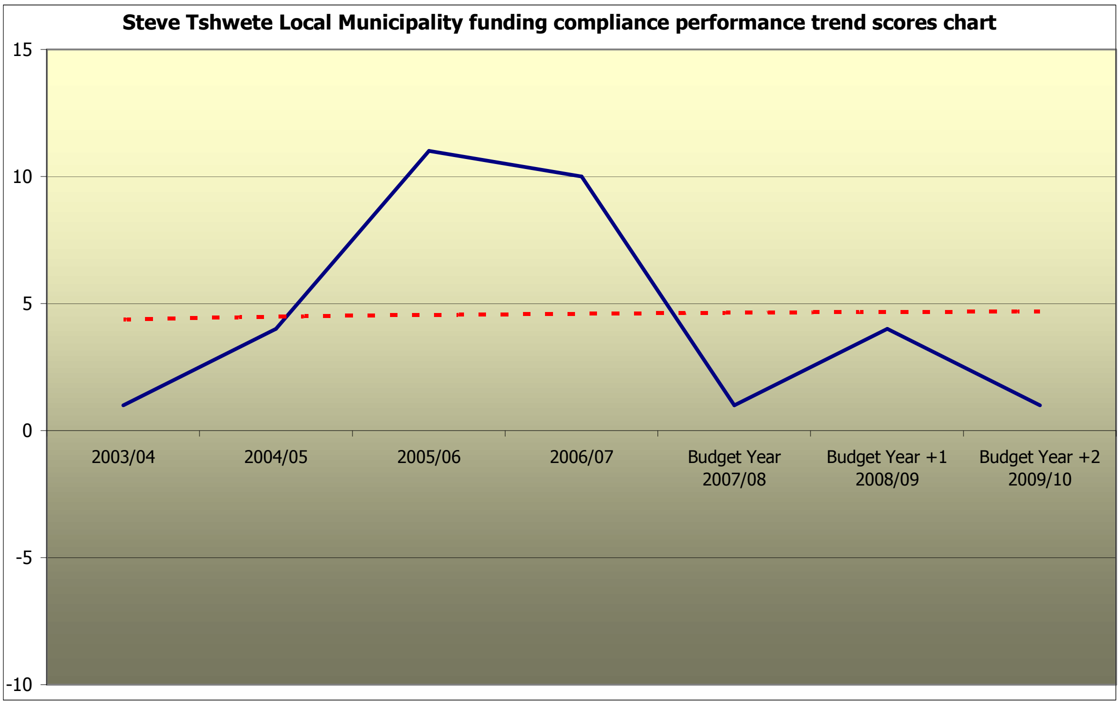
Financial Year: / Funding measures title	Measure #	2003/04 Audited Outcome	2004/05 Audited Outcome	2005/06 Audited Outcome	2006/07 Audited Outcome	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Cash/cash equivalents at the year end	1	2	2	2	2	0	0	0
Cash equivalents + investments less applications	2	1	1	2	2	0	-2	-1
Cash at the year end:% of monthly employee/supplier payments	3	-1	1	2	2	-1	-1	-1
Surplus/(Deficit) excluding depreciation offsets	4	2	2	2	0	0	0	0
Service charge revenue % change - macro CPIX target exclusive	5	0	-2	-2	2	2	1	0
Cash receipts % of Ratepayer & Other revenue	6	2	1	2	2	-2	-2	-2
Debt impairment expense as a % of total billable revenue	7	0	0	2	1	2	1	1
Capital payments % of capital expenditure	8	1	-2	-2	-2	0	2	2
Borrowing receipts % of capital expenditure (excl grants)	9	1	-2	2	-2	0	0	0
Transfers/Grants % of Govt. legislated/gazetted allocations	10	0	0	0	0	0	0	0
Current consumer debtors % change - incr(decr)	11a	-1	0	-1	0	-2	-2	-2
Long term receivables % change - incr(decr)	11b	-1	2	2	2	-2	1	1
Repairs & Maintenance % of Property Plant & Equipment	12	1	2	1	1	0	2	1
Asset renewal % of capital budget	13	-2	-2	-2	-2	-2	-2	-2
Financial Performance Budget result (surplus/deficit)	14	2	2	1	1	1	1	1
Financial Position Budget	15	2	1	2	2	1	1	1
Cash flow budget	16	2	2	2	2	1	1	1
Other key performance measures	17	1	1	1	1	-1	0	0
		12	**9**	**16**	**14**	**-3**	**1**	**0**



APPENDIX B2 – Performance Rating Scores (Steve Tshwete)

Steve Tshwete Local Municipality funding compliance performance trend scales

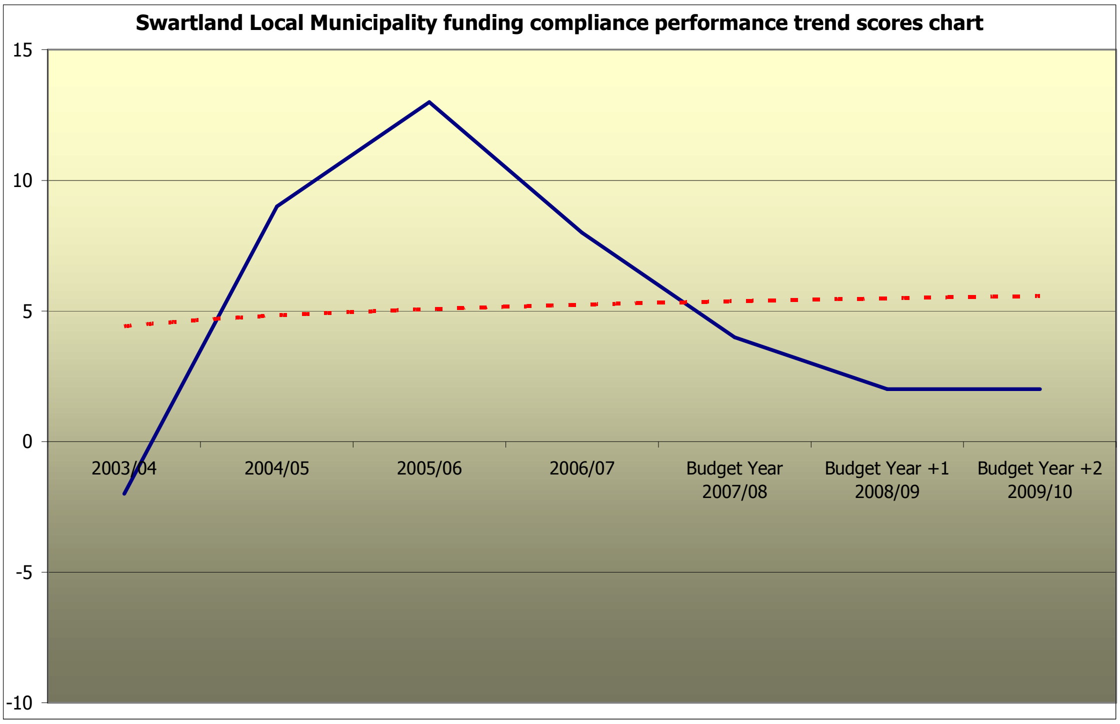
Financial Year: / Funding measures title	Measure #	2003/04 Audited Outcome	2004/05 Audited Outcome	2005/06 Audited Outcome	2006/07 Audited Outcome	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Cash/cash equivalents at the year end	1	0	2	1	1	0	1	1
Cash equivalents + investments less applications	2	0	2	0	2			
Cash at the year end:% of monthly employee/supplier payments	3	0	1	1	1	-1	-1	-1
Surplus/(Deficit) excluding depreciation offsets	4	1	2	2	2	0	0	0
Service charge revenue % change - macro CPIX target exclusive	5		-1	-2	-1	-2	0	-2
Cash receipts % of Ratepayer & Other revenue	6	1	0	2	2	-2	2	1
Debt impairment expense as a % of total billable revenue	7	1	0	2	1	1	1	1
Capital payments % of capital expenditure	8	-2	-2	1	-2	1	-2	-2
Borrowing receipts % of capital expenditure (excl grants)	9	2	-2	2	2	1	2	1
Transfers/Grants % of Govt. legislated/gazetted allocations	10	0	0	0	0	0	0	0
Current consumer debtors % change - incr(decr)	11a			-2	-2	2		
Long term receivables % change - incr(decr)	11b			2	2	2		
Repairs & Maintenance % of Property Plant & Equipment	12	-1	-1	-1	-1	-1		
Asset renewal % of capital budget	13	-2	-2	-2	-2	-2	-2	-2
Financial Performance Budget result (surplus/deficit)	14	1	1	2	2	2	1	2
Financial Position Budget	15		2	2	2			
Cash flow budget	16	0	2	0	0	-1	1	1
Other key performance measures	17		0	1	1	1	1	1
		1	**4**	**11**	**10**	**1**	**4**	**1**



APPENDIX B3 – Performance Rating Scales Scores (Swartland)

Swartland Local Municipality funding compliance performance trend score scales

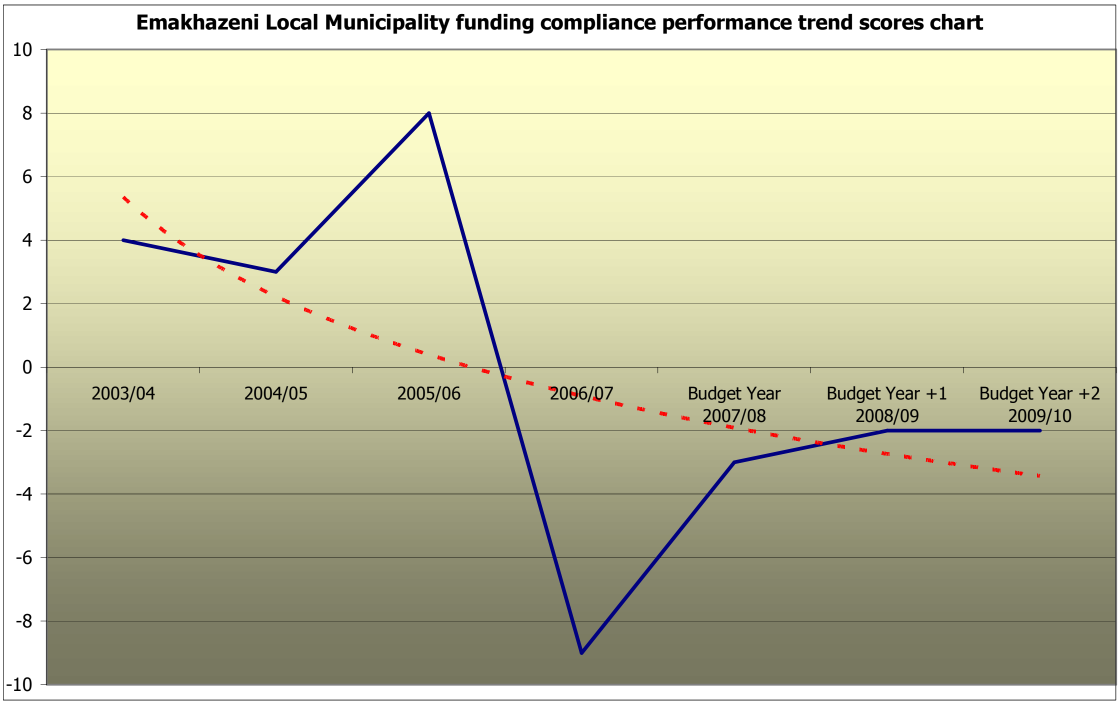
Financial Year: / Funding measures title	Measure #	2003/04 Audited Outcome	2004/05 Audited Outcome	2005/06 Audited Outcome	2006/07 Audited Outcome	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Cash/cash equivalents at the year end	1	2	1	2	1			
Cash equivalents + investments less applications	2	-2	2	2	1			
Cash at the year end:% of monthly employee/supplier payments	3	1	1	2	2			
Surplus/(Deficit) excluding depreciation offsets	4	1	0	2	2	2		
Service charge revenue % change - macro CPIX target exclusive	5	-2	-2	-2	-2			
Cash receipts % of Ratepayer & Other revenue	6	0	2	2	1			
Debt impairment expense as a % of total billable revenue	7	0	2	2	0			
Capital payments % of capital expenditure	8	-2	-2	-2	0			
Borrowing receipts % of capital expenditure (excl grants)	9	-2	2	2	2			
Transfers/Grants % of Govt. legislated/gazetted allocations	10	0	0	0	0	2	2	2
Current consumer debtors % change - incr(decr)	11a	-2	1	-2	-2			
Long term receivables % change - incr(decr)	11b	2	2	2	2			
Repairs & Maintenance % of Property Plant & Equipment	12	-2	-1	-1	-1			
Asset renewal % of capital budget	13	-2	-2	-2	-2	-2	-2	-2
Financial Performance Budget result (surplus/deficit)	14	1	0	2	2	2	2	2
Financial Position Budget	15	2	1	1	1			
Cash flow budget	16	2	1	2	1			
Other key performance measures	17	1	1	1	0			
		-2	**9**	**13**	**8**	**4**	**2**	**2**



APPENDIX B4 – Performance Rating Scales Scores (Emakhazeni)

Emakhazeni Local Municipality funding compliance performance trend scales

Financial Year: / Funding measures title	Measure #	2003/04 Audited Outcome	2004/05 Audited Outcome	2005/06 Audited Outcome	2006/07 Audited Outcome	Budget Year 2007/08	Budget Year +1 2008/09	Budget Year +2 2009/10
Cash/cash equivalents at the year end	1	0	1	2	0			
Cash equivalents + investments less applications	2	0	2	2	-2			
Cash at the year end:% of monthly employee/supplier payments	3	-1	-1	2	-1			
Surplus/(Deficit) excluding depreciation offsets	4	2	0	2	2	0	1	1
Service charge revenue % change - macro CPIX target exclusive	5	-2	-2	-2	-2	-2	-2	-2
Cash receipts % of Ratepayer & Other revenue	6	-2	2	2	-2			
Debt impairment expense as a % of total billable revenue	7	1	-2	-2	-2	-2	-2	-2
Capital payments % of capital expenditure	8	2	-1	-1	-1			
Borrowing receipts % of capital expenditure (excl grants)	9	2	2	2	2	2	2	2
Transfers/Grants % of Govt. legislated/gazetted allocations	10	0	0	0	0	0	0	0
Current consumer debtors % change - incr(decr)	11a	-2	-2	0	-2			
Long term receivables % change - incr(decr)	11b							
Repairs & Maintenance % of Property Plant & Equipment	12	2	2	0	0			
Asset renewal % of capital budget	13	-2	-2	-2	-2	-2	-2	-2
Financial Performance Budget result (surplus/deficit)	14	2	1	2	2	1	1	1
Financial Position Budget	15	0	0	0	0			
Cash flow budget	16	1	1	2	1			
Other key performance measures	17	1	2	-1	-2			
		4	**3**	**8**	**-9**	**-3**	**-2**	**-2**



APPENDIX C – Selected Funding Compliance Measure Descriptions

'14. Financial Performance Budget result (surplus/deficit): the purpose of this measure is to assess the overall budget. A 'balanced' budget (revenue = expenditure) may indicate funding compliance, taking into consideration some key aspects of the budget after closer examination (depreciation, asset contributions, capital grants), and evidence of a community paying its way for the resources it plans to consume during the budget period. A deficit may be indicative of property taxes/rates, services tariffs or other fees and charges being too low to cover consumption by the community in the budget period (community may not be 'paying its way' and may be deferring obligations to future generations). A deficit greater than the level of non-cash items such as depreciation may indicate a severe funding shortfall and non-compliance with the MFMA. This may require further review and should be considered in the context of the responses to factors 4 "surplus/deficit excluding depreciation offsets" and 16 "cash flow budget". A surplus is not necessarily indicative of additional funds available to spend, as items such as conditional capital transfers/grants may have an influence and the surplus should be examined with care. A surplus may be required to be at a level to produce sufficient internally generated funds to support a sustainable capital budget. Analysis of the trend of previous years' surplus/deficits is also very relevant, as an improving or deteriorating trend may motivate further or different action.

Care should be taken to motivate and review contributions to provision items initiated for the first time to comply with GRAP/GAMAP; e.g. landfill rehabilitation. Some items may affect the surplus/deficit, but not have an immediate effect on MFMA funding compliance cash position. These items and assumptions should be described in budget documentation. If the Financial Performance Budget result is in 'balance' (revenue equals expenditure) depending on the circumstances of the municipality it may also be evidence of non-compliance. If a 'balanced' result is being supported by a large amount of capital transfers/grants and other asset contributions it is reasonable to conclude that the levels of tax and service revenue are insufficient to be sustainable.

15. Financial Position Budget: the purpose of this measure is to also assess the overall budget. Special attention should be give to key items such as Inventory, Current Debtors, Non-current debtors (these 3 items broadly grouped as part of 'working capital'), Borrowing and Community Wealth. Recognition also needs to be given to community growth and its impact on the financial resources of the municipality. If a community is experiencing substantial growth it will likely be causing expanded municipal operations, with increased billing, creditor payments and inventory (refer to individual items for specific discussion). This may require an increased investment in inventory (another working capital item); requiring a cash payment that is not directly reflected in the Financial Performance Budget until the inventory is booked to operational expenses. Efficiency improvements such as 'Just-in-time' may reduce the investment in inventory with a beneficial cash flow impact relative to previous financial years. Debtor collection and creditor payment timing may cause a cash flow shortfall; i.e. if average debtor collection is 45 days and creditor payment and remuneration is 30 days then growth will cause an increased need for cash to cover the gap between payment and collection. Borrowing levels need to be sustainable in that the municipality must be able to prove that it will generate sufficient funds to meet the repayment obligations. An accumulated surplus may indicate that past revenues exceeded expenditure, but unless the surplus is cash-backed it is not available to fund the next medium term budget (refer factor 2 "cash plus investments less application of funds").

16. Cash Flow Budget: the purpose of this measure is to also assess the overall budget. The Financial Performance Budget on an accrual basis contains a number of non-cash items and excludes some cash items, so the Cash Flow Budget is crucial to analyse. Positive cash position and cash flows are required to meet obligations as and when they are due. A steadily improving cash flow balance, relative to the growth of the municipality is a good sign of financial health. Declining cash balances may be evidence of financial difficulties. Care needs to be taken that too much focus is not put on the year end balances of cash alone. This could be the most unfavourable cash position time of the financial year, even of the well-managed municipality, as it could be a sign that the all expenditure programs have been finalised prior to the end of the year. An examination of average monthly balances will overcome this deficiency. Large cash balances may be a sign of mismanagement or disguising mid-year performance problems. Large cash balances could mean that the capital expenditure program was rushed at year end and contractors/suppliers have not been paid, or the program has not been completed and an adjustment budget will be required. Poor revenue collection performance for some months during the year may create temporary cash shortfalls.

17. Other key performance measures: this measure requires an overall review of the performance indicators presented in Table A8 to ascertain if funding related measures are deteriorating, which may be indicative of a funding issue. Crucial performance measures (current debtors' collection rate, the non-current debtors' collection rate, the capital expenditure rate, borrowing level, own-funds devoted to the capital program and the rate of new and renewal/rehabilitated asset acquisition; also electricity and water losses if these apply) should be analysed to ascertain if they are deteriorating. A deteriorating trend could be evidence of a budget that is not credible and sustainable. Trends of these measures can be as crucial as the absolute amount. Deteriorating measurements require investigation and possibly cause a review of the budget' (National Treasury (No.5) 2008, 12).

APPENDIX D – MFMA 'Budget' Delays and Exemptions

The Minister of Finance granted a number of delays and exemptions of various sections of the MFMA in Government Gazette (National Treasury (No.6) 2004). The delays and exemptions related to 'budget content' and 'annual financial statement' requirements, categorised by municipal capacity to implement the reforms, were:

Medium Capacity Municipalities

"The implementation of the following provisions of the Act are ***delayed*** for medium capacity municipalities until 30 June **2005**:

Section 17(1)(c) and (d)(ii) and (3)(b);

Section 19;

Section 122(2)

The implementation of section 122(3) of the Act is delayed for medium capacity municipalities until **30 June 2007**" (National Treasury (No.6) 2004, 6).

The text of these delayed sections/sub-sections:

"**Contents of annual budgets and supporting documents**

17. (1) An annual budget of a municipality must be a schedule in the prescribed format—

(c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;

(d) setting out— (ii) actual revenue and expenditure by vote for the financial year preceding the current year" (Treasury 2007, 34);

"(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:

(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan" (Treasury 2007, 35).

"**Capital projects**

19. (1) A municipality may spend money on a capital project only if—

(a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in section 17(2);

(b) the project, including the total cost, has been approved by the council;

(c) section 33 has been complied with, to the extent that that section may be applicable to the project; and

(d) the sources of funding have been considered, are available and have not been committed for other purposes.

(2) Before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider -

(a) the projected cost covering all financial years until the project is operational; and

(b) the future operational costs and revenue on the project, including municipal tax and tariff implications.

(3) A municipal council may in terms of subsection (1)(b) approve capital projects below a prescribed value either individually or as part of a consolidated capital programme" (Treasury 2007, 38).

"**Preparation of financial statements**

122. (3) Both annual financial statements and consolidated annual financial statements must be prepared in accordance with **generally recognised accounting practice** prescribed in terms of section 91(1)(b) of the Public Finance Management Act". (Treasury 2007, 120)

"After 30 June **2005** medium capacity municipalities are exempted from or in respect of sections 17(1)(c) and (d)(ii), 17(3)(B), 19 and … in so far as those sections are applicable to their annual budgets for the 2005/06 budget year" (National Treasury (No.6) 2004, 6)

(emphasis added)

Low Capacity Municipalities

"The implementation of the following provisions of the Act are ***delayed*** for medium capacity municipalities until 30 June **2006**:

Section 17(1)(c) and (d)(ii) and (3)(b);
Section 19" (National Treasury (No.6) 2004, 7).

"After 30 June **2006** low capacity municipalities are exempted from or in respect of sections 17(1)(c) and (d)(ii), 17(3)(B), 19 and … in so far as those sections are applicable to their annual budgets for the **2006/07** budget year" (National Treasury (No.6) 2004, 7).

The implementation of section 122(3) of the Act is delayed for medium capacity municipalities until **30 June 2008**" (National Treasury (No.6) 2004, 8).

Refer to 'Medium Capacity' delays and exemptions section above for the wording of the relevant MFMA sections.
(emphasis added)

APPENDIX E – Performance Rating Scales Description

Funding measures title	Measure #	Scale				
Cash/cash equivalents at the year end	1	Positive improving	Positive stable	Positive decline	Negative stable	Negative decline
		2	1	0	-1	-2
		A positive cash balance, either improving or stable is evidence of s18 MFMA compliance. A positive, but declining balance (compared to previous year) could indicate a trend away from compliance, and negative balances would indicate non-compliance.				
Cash equivalents + investments less applications	2	Positive improving	Positive stable	Positive decline	Negative stable	Negative decline
		2	1	0	-1	-2
		A positive cash & investments, balance <u>less</u> committed applications of those funds, either improving or stable is evidence of s18 MFMA compliance. A positive, but declining balance (compared to previous year) could indicate a trend away from compliance, and negative balances would indicate non-compliance.				
Cash at the year end:% of monthly employee/supplier payments	3	Ratio > 4	Ratio > 2	Ratio = 1	Ratio < 1	Ratio < -1
		2	1	0	-1	-2
		A ratio of 4 indicates an ability to meet monthly fixed payment commitments for 4 months without cash inflows (i.e. in the case of a disaster that prevented billing); a ratio of 2 refers to 2 months, a ratio of 1 is for 1 month. A ratio of less than 0 or less than -1 would indicate different degrees of risk in a situation that would require a municipality to rely on short term borrowing.				
Surplus/(Deficit) excluding depreciation offsets	4	Positive improving	Positive stable	Positive decline	Negative stable	Negative decline
		2	1	0	-1	-2
		A positive and improving surplus indicates that revenue is more than sufficient to meet the economic benefits provided to the community, a 'stable' surplus indicates that revenue is sufficient to meet the economic benefits provided to the community, a declining surplus indicates that there may not be sufficient revenue to cover the cost of economic benefits provided in the future, and deficit results (stable or declining) indicate insufficient revenue is being generated.				
Service charge revenue % change - macro CPIX target exclusive	5	% result < 1%	% result < 2%	% result = 0	% result > 0%	% result 'negative' or > 2%
		2	1	0	-1	-2
		The variation to the macro CPIX target is being used as a proxy for real growth in revenues, although in periods where inflation exceed the target rate this may be a inappropriate proxy. Negative % results indicate that revenues are declining in real terms. Positive % increases can indicate (unless proven to be real growth and consumption) price increases greater than National Government macro policy.				
Cash receipts % of Ratepayer & Other revenue	6	> 95% & improving	> 95% stable	> 95% decline	> 90% stable	Other lower collection rate %
		2	1	0	-1	-2
		The % measure is the imputed collection rate by comparing cash collections to revenue billed. In the South African context a rate greater than 95% would generally be accepted as 'good', rates less than 90% would not be uncommon, but indicate a risk of expenditure greater than will be supported by cash collection.				
Debt impairment expense as a % of total billable revenue	7	< 10% & improving	< 10% & stable	< 10% & declining	> 10% and stable	Other higher %
		2	1	0	-1	-2
		There is a correlation between debt impairment (provision for doubtful debts change) and the collection rate, but over medium term averages. Individual financial years can display the result of the sum of the collection rate and debt impairment % exceeding 100% as indicative of collection of 'arrear' debt. A sum of <100% would indicate that the provision was previously over-provided possibly because collection				
Capital payments % of capital expenditure	8	Capital payments % > 110%	Capital payments % > 105%	Capital payments % > 100%	Capital payments % < 100%	Capital payments % = 100%
		2	1	0	1	-2
		It would generally be extremely rare that the capital cash outflows are exactly equal to capital expenditure (100%), simply because of payment timing. However, it is apparent that many municipalities the amounts are equal, indicating that they have not considered timing issues. More serious is that they have not considered the impact on cash management, which can be significant. This situation would mean their treasuries are managing cash by the 'seat of the pants' on a daily basis without any recognition of the medium term budget. Capital payments greater than expenditure in an financial year could indicate the capital program is slowing, with a lower level of risk. Variations from 100% at least partially7 indicate that the municipality recognises and possibly manages cash timing issues. Capital payments less than expenditure could indicate that the capital program is growing, with a greater level of risk on cash management activities.				
Borrowing receipts % of capital expenditure (excl grants)	9	< 50% stable	< 50% deteriorating	< 60% = 0	> 60% stable	> 60% deteriorating
		2	1	0	-1	-2
		A generally accepted norm is that borrowing should be limited to 50% of 'own-funded' capital expenditure. Analysis of one metropolitan municipality suggested that this was the approximate % that could be sustained in the long term (loans repaid without extraordinary price increases for services).				
Transfers/Grants % of Govt. legislated/gazetted allocations	10	= 100% exactly	< 100%	< 95%	> 100%	>105%
		2	1	0	-1	-2
		Allocations to municipalities are included in legislation (National Government - Division of Revenue Act) or gazetted by Provincial Governments. If the % = 100% this indicates that the municipality has exactly included all allocations in its medium term budget, or spent the allocations provided. Other %s indicate either allocations have not been fully budgeted, or budgets higher than allocations and over-expenditure has				
Current consumer debtors % change - incr(decr)	11a	Negative < 5%	Negative % (0-5%)	< 5% improving	< 5% stable	> 5%
		2	1	0	-1	-2
		A 'negative; % indicates that debtors balances are reducing, either by improved collection or write-offs. Increasing balances indicate deteriorating collection. This factor relates to only current debtors (billed within the last 12 months).				
Long term receivables % change - incr(decr)	11b	Negative < 5%	Negative % (0-5%)	< 5% improving	< 5% stable	> 5%
		2	1	0	-1	-2
		A 'negative; % indicates that debtors balances are reducing, either by improved collection or write-offs. Increasing balances indicate deteriorating collection. This factor relates to only non-current debtors (billed before the last 12 months).				
Repairs & Maintenance % of Property Plant & Equipment	12	> 5% & improving	> 5% & stable	> 5% & declining	< 5% and stable	Other lower %
		2	1	0	-1	-2
		A reasonable norm appears to be around the range of 6% to 8%. National Treasury has recommended 7 to 15% for infrastructure such as water and santitation assets (NT(4), 2008). Higher levels of expenditure could be caused by maintenance backlogs and threatening revenue protection. Similarly low levels of expenditure could be causing maintenance backlogs, also a risk to future revenue.				
Asset renewal % of capital budget	13	> 50% & improving	> 50% & stable	> 50% & declining	< 50% & stable	Other lower %
		2	1	0	-1	-2
		A norm has not been established. A 2005 National Treasury circular requested that municipalities include this information in their budgets, but few appear to do so. It is assumed that higher levels of expenditure could be caused by backlogs and threatening revenue protection. Similarly low levels of expenditure could be causing backlogs, also a risk to future revenue.				
Financial Performance Budget result (surplus/deficit) (refer measure 14 Annexure C for a description of the measurement)	14	Surplus & improving	Surplus & stable	Balance	Deficit & stable	Deficit & deteriorating
		2	1	0	-1	-2
		Overall assessment of magnitude and direction of the overall financial performance result (surplus/deficit)				
Financial Position Budget (refer measure 15 Annexure C for a description of the measurement)	15	Substantial improvement	Minor improvement	Stable	Minor deterioriation	Substantial deterioration
		2	1	0	-1	-2
		Overall assessment of the financial position				
Cash flow budget (refer measure 16 Annexure C for a description of the measurement)	16	Positive & improving	Positive & stable	Neutral cash movement	Negative & stable	Negative & deteriorating
		2	1	0	-1	-2
		Overall assessment of the cash flow budget				
Other key performance measures (refer measure 17 Annexure C for a description of the measurement)	17	Substantial improvement	Minor improvement	Stable	Minor deterioriation	Substantial deterioration
		2	1	0	-1	-2
		Overall assessment of key performance measures				