A municipality’s cash balance refers to the money it has in the bank that it can access easily. If a municipality’s bank account is in overdraft it has a negative cash balance. Negative cash balances are a sign of serious financial management problems. A municipality should have enough cash on hand from month to month so that it can pay salaries, suppliers and so on.

A municipality’s cash balance can be positive or negative:

**Positive balance**
- Good
- More than 3 months
- Between 1 and 3 months

**Negative balance**
- Bad
- Less than 1 month

**Cash Coverage**

3.6 months

Months of operating expenses can be paid for with the cash available.

About the same as similar municipalities in Eastern Cape: 3.6 months

More than double the coverage for similar municipalities nationally: 1.7 months

**Cash Flow item code 4200, Audited Actual**

If Cash available at year end is negative, we say cash cover is zero months.
Spending of Operating Budget  July 2017 - June 2018

**8.8% underspent 😦**

Difference between budgeted operating expenditure and what was actually spent.

- More than double the underspending or overspending for similar municipalities in Eastern Cape: -3.45%
- More than double the underspending or overspending for similar municipalities nationally: -1.5999999999999998%

**FORMULA:**

\[
\text{Underspending} = \frac{\text{Budgeted Operating Expenditure} - \text{Actual Operating Expenditure}}{\text{Actual Operating Expenditure}}
\]

**REFERENCE: Over and under spending reports to parliament**

**FORMULA:**

\[
\text{Unauthorised, Irregular, Fruitless and Wasteful Expenditure} / \text{Actual Operating Expenditure}
\]

**DID YOU KNOW?**

This indicator is about how much more a municipality spent on its operating expenses, than was planned and budgeted for. It is important that a municipality controls its day-to-day expenses in order to avoid cash shortages. If a municipality significantly overspends its operating budget this is a sign of poor operating controls or something more sinister.

Overspending by up to 5 percent is usually condoned; overspending in excess of 15 percent is a sign of high risk.

Spending of Capital Budget  July 2017 - June 2018

**1.58% underspent 😦**

Difference between budgeted capital expenditure and what was actually spent.

- About 10 percent of the underspending or overspending for similar municipalities in Eastern Cape: -5.215%
- About 10 percent of the underspending or overspending for similar municipalities nationally: -16.240000000000002%

**FORMULA:**

\[
\text{Capital Underspending} = \frac{\text{Budgeted Capital Expenditure} - \text{Actual Capital Expenditure}}{\text{Actual Capital Expenditure}}
\]

**REFERENCE: Over and under spending reports to parliament**

**FORMULA:**

\[
\text{Capital item code 4100, Total Assets, Audited Actual} / \text{Capital item code 4100, Total Assets, Adjusted Budget}
\]

**DID YOU KNOW?**

Capital spending includes spending on infrastructure projects like new water sites or building a library. Under spending on a capital budget can lead to an under delivery of basic services. This indicator looks at the percentage by which actual spending falls short of the budget for capital expenses. Persistent under spending may be due to under resourced municipalities which cannot manage large projects on time.

Municipalities should aim to spend at least 95 percent of their capital budgets. Failure to spend even 85 percent is a clear warning sign.

Spending on Repairs and Maintenance  July 2017 - June 2018

**1.98% 😦**

Spending on Repairs and Maintenance as a percentage of Property, Plant and Equipment.

- More than double the underspending or overspending for similar municipalities in Eastern Cape: 1.94%
- More than double the underspending or overspending for similar municipalities nationally: 1.9499999999999998%

**FORMULA:**

\[
\text{Spending on Repairs and Maintenance} = \frac{\text{Repairs and maintenance expenditure}}{\text{Property, Plant and Equipment} + \text{Investment Property}}
\]

**REFERENCE: Circular 71**

**FORMULA:**

\[
\text{Income & Expenditure item code 4600, Audited Actual} / \text{Income & Expenditure item code 4600, Adjusted Budget}
\]

**DID YOU KNOW?**

Infrastructure must be maintained so that service delivery is not affected. This indicator looks at how much money was budgeted for repairs and maintenance, as a percentage of total fixed assets (property, plant and equipment). For every R10 spent on building/ replacing infrastructure, R0.80 should be spent every year on repairs and maintenance.

This translates into a Repairs and Maintenance budget that should be 8 percent of the value of property, plant and equipment.

Fruitless and Wasteful Expenditure  July 2015 - June 2016

**15.34% 😦**

Unauthorised, Irregular, Fruitless and Wasteful Expenditure as a percentage of operating expenditure.

- More than double the expenditure for similar municipalities in Eastern Cape: 5.25%
- More than double the expenditure for similar municipalities nationally: 5.925%

**FORMULA:**

\[
\text{Fruitless and Wasteful Expenditure} = \frac{\text{Unauthorised, Irregular, Fruitless and Wasteful Expenditure}}{\text{Actual Operating Expenditure}}
\]

**REFERENCE: Circular 71**

**FORMULA:**

\[
\text{Unauthorised, Irregular, Fruitless and Wasteful Expenditure item codes / Income & Expenditure item code 4600, Audited Actual}
\]

**DID YOU KNOW?**

Unauthorised expenditure means any spending that was not budgeted for or that is unrelated to the municipal department’s function. An example is using municipal funds to pay for unbudgeted projects. Irregular expenditure is spending that goes against the relevant legislation, municipal policies or by-laws. An example is awarding a contract that did not go through tender procedures. Fruitless and wasteful expenditure concerns spending which was made in vain and would have been avoided had reasonable care been exercised. An example of such expenditure would include paying a deposit for a venue and not using it and losing the deposit.

Current Ratio  July 2018 - June 2019 Quarter 4

**2.09 😦**

The value of a municipality's short-term assets as a multiple of its short-term liabilities.

- More than double the expenditure for similar municipalities in Eastern Cape: 2.65

**REFERENCE:**

**FORMULA:**

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]
Liquidity Ratio July 2018 - June 2019 Quarter 4

1.24

The municipality's immediate ability to pay its current liabilities

About 20 percent higher than similar municipalities in Eastern Cape: 1.07
More than double the ratio for similar municipalities nationally: 0.505

Reference: Municipal Budget and Reporting Regulations

Formula: = (Cash + Call Investment Deposits) / Current Liabilities

Note: The quarterly summary looks at the state at the end of each quarter. If the monthly data is missing for the last month in the quarter, the previous month in that quarter. If all months are missing, that quarter is shown as blank.

Current Debtors Collection Rate July 2018 - June 2019 Quarter 4

88.89%

The percentage of new revenue (generated within the financial year) that a municipality actually collects

About the same as similar municipalities in Eastern Cape: 90.66%
A little less than similar municipalities nationally: 94.16%

Reference: Municipal Budget and Reporting Regulations

Formula: = Collected Revenue / Billed Revenue

Note: The quarterly summary looks at the state at the end of each quarter. If the monthly data is missing for the last month in the quarter, the previous month in that quarter. If all months are missing, that quarter is shown as blank.

Incomes

Where does Nelson Mandela Bay get its money from?

1. Money Generated Locally
   July 2017 - June 2018

   73.06%

   From residents paying for water & electricity, rates, licenses & fines, and from interest and investments.

   Reference: Local Government Equitable Share

2. Money from National Government
   July 2017 - June 2018

   26.94%

   From the Equitable Share of taxes, and Grants from National Government

Reference: Local Government Equitable Share

Source: Income & Expenditure Audited Actual

DID YOU KNOW?

The current ratio compares the value of a municipality's short-term assets (cash, bank deposits, etc) compared with its short-term liabilities (creditors, loans due and so on). The higher the ratio, the better. The normal range of the current ratio is 1.5 to 2 (the municipality has assets more than 1.5 to 2 times its current debts). Anything less than that and the municipality may struggle to keep up with its payments.

DID YOU KNOW?

Liquidity ratios show the ability of a municipality to pay its current liabilities (monies it owes immediately such as rent and salaries) as they become due, and their long-term liabilities (such as loans) as they become current. These ratios also show the level of cash the municipality has and/or the ability it has to turn other assets into cash to pay off liabilities and other current obligations.

DID YOU KNOW?

Municipalities don't manage to collect all of the money they earn through rates and service charges. This measure looks at the percentage of new revenue that a municipality collects. It is also referred to as the Current Debtors Collection Ratio.

DID YOU KNOW?

The more a municipality is able to generate its own income, the more self-sufficient it is. Municipalities should not be too reliant on transfers and grants from other spheres of government.
SPENDING - How money is spent

Staff Wages and Salaries July 2017 - June 2018

31.74% Staff salaries and wages as a percentage of operating expenditure.

<table>
<thead>
<tr>
<th>within norms</th>
<th>outside norms</th>
</tr>
</thead>
<tbody>
<tr>
<td>25% to 40%</td>
<td>less than 25% or more than 40%</td>
</tr>
</tbody>
</table>

Formula: \( \frac{\text{Wages & Salaries} + \text{Social Contributions}}{\text{Actual Operating Expenditure}} \)

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>26.3%</td>
<td>26.7%</td>
<td>24.7%</td>
<td>31.7%</td>
</tr>
</tbody>
</table>

DID YOU KNOW? Employee-related costs are typically the largest portion of operating expenditure, but they should not grow so large that they threaten the sustainability of the operating budget. The normal range for this indicator is between 25% - 40% of total operating expenditure. Municipalities must guard against spending too much on staff while also making sure they have the people they need to deliver services effectively.

Contractor Services July 2017 - June 2018

11.79% Costs of contractor services as a percentage of operating expenditure.

<table>
<thead>
<tr>
<th>within norms</th>
<th>outside norms</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 5%</td>
<td>more than 5%</td>
</tr>
</tbody>
</table>

Formula: \( \frac{\text{Contracted Services}}{\text{Actual Operating Expenditure}} \)

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2%</td>
<td>5.5%</td>
<td>13.0%</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

DID YOU KNOW? Private contractors are sometimes needed for certain work, but they are usually more expensive than municipal staff. This measure is normally between 2 percent and 5 percent of total operating expenditure. This should be kept to a minimum and efforts should be made to provide services in-house, where possible.

What is Money Spent On?

- Property rates
- Service Charges
- Rental income
- Interest and investments
- Fines
- Licenses and Permits
- Agency services
- Government
- Transfers for Operating Expenses
- Transfers for Capital Expenses
- Other

SOURCE: Income & Expenditure, Audited Actual and Original Budget
Understanding Municipal Finance

- Treasury's Municipal Finance website is filled with resources on municipal finance.
- Circular 71 explains many of the financial norms and indicators used to gauge the financial performance of Municipalities.
- MFMA Return Forms submitted by Municipalities to National Treasury. Understanding these forms can help you understand the information on Municipal Money.
- A Million Bags of a Million Rand - a video by the Auditor General's office which simplifies audit outcomes.
- Understanding the Standard Charter of Accounts - a video by the National Treasury on mSCOA.

Financial Reports

Read more about Local Government Finances and learn about how your money is spent.

- Annual Financial Statements of municipalities since 2002-2003. These include the Notes to the Annual Financial Statements where you can find explanations of specific accounting practises and calculations used by the municipality in its financial reporting and some decision making.
- State of Local Government Finances reports are published every year by National Treasury and describe in detail how Municipalities are performing.
- In year Management, Monitoring and Evaluation of Municipal Finances - Annual and quarterly PDF and Excel reports on Municipal finances since 2007.

Further Reading

Resources from the South African and international community.

- Local Government in South Africa – Part 5, Finances, 19 March 2014 by Corruption Watch
- Infographic: South Africa: Public Participation Mechanisms in Fiscal Matters, 01 July 2015 by Global Initiative for Fiscal Transparency (GIFT)
- Infographic: Open Budget Survey 2015 by International Budget Partnership (IBP)
- Open Budget Survey 2015 by International Budget Partnership (IBP)