

Reference: T8/2/31

TREASURY CIRCULAR MUN NO 4/2015

THE MAYOR, CITY OF CAPE TOWN: MS P DE LILLE
THE MAYOR, WEST COAST DISTRICT MUNICIPALITY: MR JH CLEOPHAS
THE MAYOR, MATZIKAMA MUNICIPALITY: MR J BOTHA
THE MAYOR, CEDERBERG MUNICIPALITY: MS L SCHEEPERS
THE MAYOR, BERGRIVIER MUNICIPALITY: MR EB MANUEL
THE MAYOR, SALDANHA BAY MUNICIPALITY: MR F SCHIPPERS
THE MAYOR, SWARTLAND MUNICIPALITY: MR T VAN ESSEN
THE MAYOR, CAPE WINELANDS DISTRICT MUNICIPALITY: MR N DE BRUYN
THE MAYOR, WITZENBERG MUNICIPALITY: MR J KLAZEN
THE MAYOR, DRAKENSTEIN MUNICIPALITY: MS G VAN DEVENTER
THE MAYOR, STELLENBOSCH MUNICIPALITY: MR CJ SIDEGO
THE MAYOR, BREEDE VALLEY MUNICIPALITY: MS A STEYN
THE MAYOR, LANGEBERG MUNICIPALITY: MS D GAGIANO
THE MAYOR, OVERBERG DISTRICT MUNICIPALITY: MR L DE BRUYN
THE MAYOR, THEEWATERSKLOOF MUNICIPALITY: MR CB PUNT
THE MAYOR, OVERSTRAND MUNICIPALITY: MS N BOTHA-GUTHRIE
THE MAYOR, CAPE AGULHAS MUNICIPALITY: MR R MITCHELL
THE MAYOR, SWELLENDAM MUNICIPALITY: MR N MYBURGH
THE MAYOR, EDEN DISTRICT MUNICIPALITY: MR V VAN DER WESTHUIZEN
THE MAYOR, KANNALAND MUNICIPALITY: MR J DONSON
THE MAYOR, HESSEQUA MUNICIPALITY: MS E NEL
THE MAYOR, MOSSEL BAY MUNICIPALITY: MS M FERREIRA
THE MAYOR, GEORGE MUNICIPALITY: MR C STANDERS
THE MAYOR, OUDTSHOORN MUNICIPALITY: MR G APRIL
THE MAYOR, BITOU MUNICIPALITY: MR M BOOYSEN
THE MAYOR, KNYSNA MUNICIPALITY: MS J WOLMARANS
THE MAYOR, CENTRAL KAROO DISTRICT MUNICIPALITY: MR E NJADU
THE MAYOR, LAINGSBURG MUNICIPALITY: MR W THERON
THE MAYOR, PRINCE ALBERT MUNICIPALITY: MR G LOTTERING
THE MAYOR, BEAUFORT WEST MUNICIPALITY: MR HT PRINCE

THE MUNICIPAL MANAGER, CITY OF CAPE TOWN: MR A EBRAHIM
THE MUNICIPAL MANAGER, WEST COAST DISTRICT MUNICIPALITY: MR H PRINS
THE MUNICIPAL MANAGER, MATZIKAMA MUNICIPALITY: MR M BOLTON (ACTING)
THE MUNICIPAL MANAGER, CEDERBERG MUNICIPALITY: MR I KENNED
THE MUNICIPAL MANAGER, BERGRIVIER MUNICIPALITY: ADV H LINDE
THE MUNICIPAL MANAGER, SALDANHA BAY MUNICIPALITY: MR L SCHEEPERS
THE MUNICIPAL MANAGER, SWARTLAND MUNICIPALITY: MR J SCHOLTZ
THE MUNICIPAL MANAGER, CAPE WINELANDS DISTRICT MUNICIPALITY: MR M MGAJO
THE MUNICIPAL MANAGER, WITZENBERG MUNICIPALITY: MR D NASSON
THE MUNICIPAL MANAGER, DRAKENSTEIN MUNICIPALITY: MR J METTLER
THE MUNICIPAL MANAGER, STELLENBOSCH MUNICIPALITY: MS C LIEBENBERG
THE MUNICIPAL MANAGER, BREEDE VALLEY MUNICIPALITY: MR G MATTHYSE
THE MUNICIPAL MANAGER, LANGEBERG MUNICIPALITY: MR SA MOKWENI
THE MUNICIPAL MANAGER, OVERBERG DISTRICT MUNICIPALITY: MR D BERETTI
THE MUNICIPAL MANAGER, THEEWATERSKLOOF MUNICIPALITY: MR HSD WALLACE
THE MUNICIPAL MANAGER, OVERSTRAND MUNICIPALITY: MR C GROENEWALD
THE MUNICIPAL MANAGER, CAPE AGULHAS MUNICIPALITY: MR D O'NEILL
THE MUNICIPAL MANAGER, SWELLENDAM MUNICIPALITY: MR CM AFRICA
THE MUNICIPAL MANAGER, EDEN DISTRICT MUNICIPALITY: MR GW LOUW
THE MUNICIPAL MANAGER, KANNALAND MUNICIPALITY: MR M HOOGBAARD
THE MUNICIPAL MANAGER, HESSEQUA MUNICIPALITY: MR J JACOBS
THE MUNICIPAL MANAGER, MOSSEL BAY MUNICIPALITY: DR M GRATZ
THE MUNICIPAL MANAGER, GEORGE MUNICIPALITY: MR T BOTHA

THE MUNICIPAL MANAGER, OUDTSHOORN MUNICIPALITY: MR R LOTTERING (ACTING)
THE MUNICIPAL MANAGER, BITOU MUNICIPALITY: MR A PAULSE
THE MUNICIPAL MANAGER, KNYSNA MUNICIPALITY: MR G EASTON (ACTING)
THE MUNICIPAL MANAGER, CENTRAL KAROO DISTRICT MUNICIPALITY: MR S JOOSTE
THE MUNICIPAL MANAGER, LAINGSBURG MUNICIPALITY: MR P WILLIAMS
THE MUNICIPAL MANAGER, PRINCE ALBERT MUNICIPALITY: MR H METTLER
THE MUNICIPAL MANAGER, BEAUFORT WEST MUNICIPALITY: MR J BOOYSEN

THE CHIEF FINANCIAL OFFICER, CITY OF CAPE TOWN: MR K JACOBY
THE CHIEF FINANCIAL OFFICER, WEST COAST DISTRICT MUNICIPALITY: MR J KOEKEMOER
THE CHIEF FINANCIAL OFFICER, MATZIKAMA MUNICIPALITY: MR M BOLTON
THE CHIEF FINANCIAL OFFICER, CEDERBERG MUNICIPALITY: MR E ALFRED
THE CHIEF FINANCIAL OFFICER, BERGRIVIER MUNICIPALITY: MR JA VAN NIEKERK
THE CHIEF FINANCIAL OFFICER, SALDANHA BAY MUNICIPALITY: MR S VORSTER
THE CHIEF FINANCIAL OFFICER, SWARTLAND MUNICIPALITY: MR K COOPER
THE CHIEF FINANCIAL OFFICER, CAPE WINELANDS DISTRICT MUNICIPALITY: MS FA DU RAAN-GROENEWALD
THE CHIEF FINANCIAL OFFICER, WITZENBERG MUNICIPALITY: MR C KRITZINGER
THE CHIEF FINANCIAL OFFICER, DRAKENSTEIN MUNICIPALITY: MR J CARSTENS
THE CHIEF FINANCIAL OFFICER, STELLENBOSCH MUNICIPALITY: MR M WÜST
THE CHIEF FINANCIAL OFFICER, BREEDE VALLEY MUNICIPALITY: MR D MCTHOMAS
THE CHIEF FINANCIAL OFFICER, LANGEBERG MUNICIPALITY: MR CF HOFFMANN
THE CHIEF FINANCIAL OFFICER, OVERBERG DISTRICT MUNICIPALITY: MR J TESSELAAR
THE CHIEF FINANCIAL OFFICER, THEEWATERSKLOOF MUNICIPALITY: MR D LOUW
THE CHIEF FINANCIAL OFFICER, OVERSTRAND MUNICIPALITY: MS S REYNEKE-NAUDE
THE CHIEF FINANCIAL OFFICER, CAPE AGULHAS MUNICIPALITY: MR H VAN BILJON
THE CHIEF FINANCIAL OFFICER, SWELLENDAM MUNICIPALITY: MR H SCHLEBUSCH
THE CHIEF FINANCIAL OFFICER, EDEN DISTRICT MUNICIPALITY: MS L HOEK
THE CHIEF FINANCIAL OFFICER, KANNALAND MUNICIPALITY: MR N DELO
THE CHIEF FINANCIAL OFFICER, HESSEQUA MUNICIPALITY: MS HJ VILJOEN
THE CHIEF FINANCIAL OFFICER, MOSSEL BAY MUNICIPALITY: MR MK BOTHA
THE CHIEF FINANCIAL OFFICER, GEORGE MUNICIPALITY: MR K JORDAAN
THE CHIEF FINANCIAL OFFICER, OUDTSHOORN MUNICIPALITY: ADV F HUMAN (ACTING)
THE CHIEF FINANCIAL OFFICER, BITOU MUNICIPALITY: MR F LÖTTER
THE CHIEF FINANCIAL OFFICER, KNYSNA MUNICIPALITY: MR G EASTON
THE CHIEF FINANCIAL OFFICER, CENTRAL KAROO DISTRICT MUNICIPALITY: MR N NORTJE (ACTING)
THE CHIEF FINANCIAL OFFICER, LAINGSBURG MUNICIPALITY: MS A GROENEWALD
THE CHIEF FINANCIAL OFFICER, PRINCE ALBERT MUNICIPALITY: MR J NEETHLING
THE CHIEF FINANCIAL OFFICER, BEAUFORT WEST MUNICIPALITY: MR F SABBAT

THE HEAD OFFICIAL: PROVINCIAL TREASURY (MR Z HOOSAIN)
THE HEAD: BRANCH FISCAL AND ECONOMIC SERVICES (MR H MALILA)
THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (MR A HARDIEN) (ACTING)
THE HEAD: PUBLIC POLICY SERVICES (MS M KORSTEN)
THE HEAD: PROVINCIAL GOVERNMENT PUBLIC FINANCE (MS JD GANTANA)
THE HEAD: LOCAL GOVERNMENT PUBLIC FINANCE (MR H MALILA) (PRO TEM)
THE HEAD: ASSET MANAGEMENT (MR IG SMITH)
THE HEAD: FINANCIAL GOVERNANCE AND ACCOUNTING (MR A HARDIEN)
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)
THE HEAD: OFFICE OF THE FINANCE MINISTRY (ADV E PRETORIUS)
THE SENIOR MANAGER: BUSINESS INFORMATION AND DATA MANAGEMENT (MR PP PIENAAR)
THE SENIOR MANAGER: FINANCIAL GOVERNANCE (MR B VINK)
THE SENIOR MANAGER: FISCAL POLICY (MR H MALILA) (PRO TEM)
THE SENIOR MANAGER: INFRASTRUCTURE (MR P CHANDAKA)
THE SENIOR MANAGER: LOCAL GOVERNMENT ACCOUNTING (MS M FORTUIN) (ACTING)
THE SENIOR MANAGER: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (MR E JOHANNES) (ACTING)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)
THE SENIOR MANAGER: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MR S MAYEKISO) (ACTING)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT ACCOUNTING (MR A REDDY)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT BUDGET OFFICE (MS M KORSTEN) (PRO TEM)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (EXPENDITURE MANAGEMENT) (MS A PICK)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MS N EBRAHIM)
THE SENIOR MANAGER: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS A SMIT)
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

ROLL OUT OF THE FINANCIAL MANAGEMENT CAPABILITY MATURITY MODEL (FMCMM) TOOL AND UNIFORM FINANCIAL RATIOS FOR MUNICIPALITIES

1. PURPOSE

To notify municipalities of the forthcoming workshop on the roll out of the FMCMM and Financial Ratios for Municipalities, to be held in Worcester on 30 January 2015.

2. BACKGROUND

National Treasury issued a letter, dated 12 December 2014, to all municipalities and their entities communicating the roll out of the FMCMM tool and uniform financial ratios (details of uniform financial ratios are provided in National Treasury Circular 71 that was issued on 17 January 2014).

As stipulated in the above-mentioned letter, these initiatives are designed to assist municipalities in monitoring their finances and help in identifying areas of financial weakness with a view to improve their financial position. The documentation from the original correspondence is attached for your convenience and reference.

Kindly note that only one session will be held and is scheduled as follows:

Date and Time	Venue	District
30 January 2015 08:00 to 15:30	Council Chamber, 51 Trappes Street, Worcester	All Districts

3. REQUIRED ACTIONS

Municipalities are requested to nominate two officials (Chief Financial Officer and another official in the Finance office) as per the Accountant-General's letter dated 12 December 2014 and forward names to the Provincial Treasury by close of business on 22 January 2015.

Please forward all nominations to Nangamso.Sigwela@westerncape.gov.za, utilising the attached Registration form (Annexure A).



MR A THOMAS

ACTING SENIOR MANAGER: FINANCIAL GOVERNANCE

DATE: 16 January 2015



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag x 115, Pretoria, 0001. Tel: 012 315 5850 Fax: 012 315 5230 Email: mfma@treasury.gov.za

Municipal Managers
Accounting Officers of Municipal Entities
Chief Finance Officers

Dear Colleagues

CONFIRMATION OF ROLL-OUT ARRANGEMENTS – FMCMM AND FINANCIAL RATIOS FOR MUNICIPALITIES

As you will be aware from previous engagements at different forums, Provincial Treasuries supported by National Treasury, are now in the process of finalising arrangements for the roll-out of the Financial Management Capability Maturity Model (FMCMM) and uniform financial ratios to all municipalities. The outcome of this exercise will result in a holistic picture providing empirical information on the capability, maturity and financial sustainability of each municipality. The results will be used to address specific needs and improve targeted support programmes.

These initiatives are designed to support municipalities in monitoring their finances and help in identifying areas of financial weakness with a view to improve their financial position, contributing to the government's strategy outlined in earlier Presidential Outcomes, in the National Development Plan and Back to Basics programme of financial management improvement that will lead to improved service delivery and better quality of life for all.

These tools go beyond a programme of broad compliance, allowing municipalities to adopt a broader insight into internal financial management practices to consciously promote sustainable improvements in financial efficiency, the rigor of financial and non-financial processes, providing timely and more accurate reporting to inform decision-making and improve internal controls which will ultimately result in more efficient and effective use of public resources.

The FMCMM is a financial management assessment tool designed to help municipalities assess their own level of financial management maturity and performance. It was developed by National Treasury in consultation with various stakeholders, including Provincial Treasuries and a number of municipalities, primarily to provide Municipal Managers, Chief Financial Officers, Heads of Departments and other staff in Budget and Treasury Offices, identify any gaps that may exist in the management of municipal finances across the entire spectrum of financial management functions. It also addresses internal audit and audit related processes to improve governance over financial management. As such, it provides a comprehensive management tool to address system and process improvements, identifying areas of compliance or non-compliance and allowing ongoing monitoring of improvements as they are made. It also acts as a checklist for managers and assists internal audit compliance procedures in readiness for the annual audit and to help municipalities in adopting broader best practice initiatives.

It has been tested in a number of municipalities through various pilots over a period of eighteen months, to ensure each module and all questions contained in the tool are relevant, and add value to a municipality's financial management processes. To date, it has received overwhelmingly positive feedback from Municipal Managers, Chief Financial Officers and finance officials in terms of its value to improve financial management vigilance in municipalities and municipal entities.

The FMCMM tool itself is an MS Excel spreadsheet which comprises twenty-one key financial management disciplines (or modules), each containing a number of simple questions surrounding key financial management procedures, processes, systems and areas of compliance. Questions are to be completed by the municipality itself, each module may be completed individually or concurrently and coordinated by an official across a number of areas within the organization. Once all of the questions within each module are completed, a score is automatically calculated which will then provide to the municipality a rating of its financial maturity, both within a particular module and also overall. This rating is depicted across six levels of financial maturity as follows:

Rating	Level of Maturity
1	Starting Up
2	Developmental Impact
3	Controlling the Environment
4	Information Integration
5	Management of Resources
6	Optimization

Most municipalities in South Africa are currently expected to be operating within a rating of 1 to 3 (either at start up or developmental levels of maturity), although we anticipate a number of municipalities to be operating within a rating of 3 (at the control level). Therefore questions have been aimed at these levels of maturity. Ratings 4, 5 and 6 (information integration, resource management and optimization) will be achieved by municipalities over time, and therefore questions associated with these levels of maturity will be introduced in a phased-in approach, as municipalities continue to aspire to achieve financial management excellence and improved service delivery. Such incremental improvements at each level within this tool are building blocks to help municipalities improve their financial management practices as a process of continuous improvement.

As one of the critical challenges faced in municipalities is the high level of vacancies in senior financial management positions and limited skills levels within the Budget and Treasury office, this tool helps to provide the required guidance and support that so far has been limited for municipalities.

The second element of this assessment will be to train municipal officials interpret and populate the 32 financial ratios. The session will entail practical training using live case studies and offering participants an opportunity to translate actual numbers and trends into workable solutions that inform Council strategy, budget prioritisation, service delivery choices and decision making.

Provincial Treasuries are currently in the process of verifying municipal information including Auditor-General reports, annual financial statements, annual reports, oversight reports, IDPs, annual budgets and SDBIPs; and will if required contact municipalities whose information is either incomplete or absent before **Friday 16 January 2015**.

Provinces will also contact municipalities to arrange training workshops for Chief Financial Officers and where possible other finance officials in municipalities on the operation of the FCMCM tool and uniform financial ratios (details of these ratios are provided in National Treasury Circular 71 – issued 17 January 2014). It is envisaged that the province will confirm the venue, dates and participants with municipalities by **Friday 16 January 2015**. Regional training sessions should commence by **Wednesday 21 January 2015** and conclude at latest by **Friday 6 February 2015**.

Provincial officials, with the support of a National Treasury expert, will then assist municipalities in the completion of the FCMCM assessments and the financial ratios and norms, **from Monday 9 February to Friday 20 March 2015**.

Data from the assessments will be provided to the municipality, a rating and financial management maturity level, for its own review, consideration and actions. This information, together with information from other available sources including Auditor-General reports, and reports provided by the National Treasury and the Provincial Treasury will then be reviewed, validated, evaluated and consolidated, with consolidated provincial and national reports being published thereafter.

Results and outcomes of these assessments will feed into governments various programmes of action, including the Back to Basics activities, and used to guide other financial and support measures. Any further clarification of these initiatives should be raised at the municipal training workshops scheduled during January and February 2015.

Yours sincerely


MICHAEL SASS

ACCOUNTANT-GENERAL

DATE: 12 DECEMBER 2014

Cc: HOD - Provincial Treasuries

Cc: Provincial Accountant-General

Cc: Provincial MFMA Coordinators

SUMMARY OF UNIFORM FINANCIAL RATIO, FORMULAE, DATA SOURCE AND NORMS

1. FINANCIAL POSITION

A. Asset Management

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Capital Expenditure to Total Expenditure	Total Capital Expenditure / Total Expenditure (Total Operating expenditure + Capital expenditure) × 100	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget, In-Year reports, IDP and AR	10% - 20%
2	Impairment of Property, Plant and Equipment, Investment Property and Intangible Assets (Carrying Value)	Property, Plant and Equipment Impairment + Investment Property Impairment + Intangible Assets Impairment/(Total Property, Plant and Equipment + Investment Property + Intangible Assets) × 100	Statement of Financial Position, Notes to the AFS and AR	0%
3	Repairs and Maintenance as a % of Property, Plant and Equipment, Investment Property (Carrying Value)	Total Repairs and Maintenance Expenditure/ Property, Plant and Equipment and Investment Property(Carrying value) x 100	Statement of Financial Position, Statement of Financial Performance, IDP, Budgets and In-Year Reports	8%

B. Debtors Management

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Collection Rate	$(\text{Gross Debtors Closing Balance} + \text{Billed Revenue} - \text{Gross Debtors Opening Balance} + \text{Bad Debts Written Off}) / \text{Billed Revenue} \times 100$	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget , In-Year Reports, IDP and AR	95%
2	Bad Debts Written-off as % of Provision for Bad Debt	$\text{Bad Debts Written-off} / \text{Provision for Bad Debt} \times 100$	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget and AR	100%
3	Net Debtors Days	$((\text{Gross Debtors} - \text{Bad debt Provision}) / \text{Actual Billed Revenue}) \times 365$	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget and AR	30 days

C. Liquidity Management

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants)	((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provision for Bad Debts, Impairment and Loss on Disposal of Assets)	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget, In year Reports and AR	1 - 3 Months
2	Current Ratio	Current Assets / Current Liabilities	Statement of Financial Position, Budget, IDP and AR	1.5 - 2:1

D. Liability Management

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Capital Cost(Interest Paid and Redemption) as a % of Total Operating Expenditure	Capital Cost(Interest Paid and Redemption) / Total Operating Expenditure x100	Statement of Financial Position, Statement of Cash Flows, Statement of Financial Performance, Budget, IDP, In-Year Reports and AR	6% - 8%
2	Debt (Total Borrowings) / Revenue	(Overdraft + Current Finance Lease Obligation + Non Finance Lease Obligation + Short Term Borrowings + Long Term Borrowings) / Total Operating Revenue	Statement of Financial Position, Statement of Financial Performance, Budget, IDP and AR	45%

E. Sustainability

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Level of Cash Backed Reserves (Net Assets - Accumulated Surplus)	(Cash and Cash Equivalents - Bank overdraft + Short Term Investment + Long Term Investment - Unspent grants) / (Net Assets - Accumulated Surplus - Non Controlling Interest - Share Premium - Share Capital - Fair Value Adjustment - Revaluation Reserve)	Statement Financial Position, Budget and AR	100%

2. FINANCIAL PERFORMANCE

A. Efficiency

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Net Operating Surplus Margin	$(\text{Total Operating Revenue} - \text{Total Operating Expenditure}) / \text{Total Operating Revenue}$	Statement of Financial Performance, Budget, In-Year reports, AR, Statement of Comparison of Budget and Actual Amounts and Statement of Changes in Net Assets	= or > 0%
2	Net Surplus /Deficit Electricity	$\text{Total Electricity Revenue less Total Electricity Expenditure} / \text{Total Electricity Revenue} \times 100$	Statement of Financial Performance, Notes to AFS, Budget, IDP, In-Year reports and AR	0% - 15%
3	Net Surplus /Deficit Water	$\text{Total Water Revenue less Total Water Expenditure} / \text{Total Water Revenue} \times 100$	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	= or > 0%
4	Net Surplus /Deficit Refuse	$\text{Total Refuse Revenue less Total Refuse Expenditure} / \text{Total Refuse Revenue} \times 100$	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	= or > 0%
5	Net Surplus /Deficit Sanitation and Waste Water	$\text{Total Sanitation and Waste Water Revenue less Total Sanitation and Waste Water Expenditure} / \text{Total Sanitation and Waste Water Revenue} \times 100$	Statement of Financial Performance, Notes to AFS Budget, IDP, In-Year reports and AR	= or > 0%

B. Distribution Losses

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Electricity Distribution Losses (Percentage)	$(\text{Number of Electricity Units Purchased and/or Generated} - \text{Number of Electricity Units Sold}) / \text{Number of Electricity Units Purchased and/or Generated} \times 100$	Annual Report, Audit Report and Notes to Annual Financial Statements	7% - 10%
2	Water Distribution Losses (Percentage)	$(\text{Number of Kilolitres Water Purchased or Purified} - \text{Number of Kilolitres Water Sold}) / \text{Number of Kilolitres Water Purchased or Purified} \times 100$	Annual Report, Audit Report and Notes to Annual Financial Statements	15% - 30%

C. Revenue Management

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Growth in Number of Active Consumer Accounts	$(\text{Period under review's number of Active Debtor Accounts} - \text{previous period number of Active Debtor Accounts}) / \text{previous period number of Active Debtor Accounts} \times 100$	Debtors System	None
2	Revenue Growth (%)	$(\text{Period under review's Total Revenue} - \text{previous period's Total Revenue}) / \text{previous period's Total Revenue} \times 100$	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	= CPI
3	Revenue Growth (%) - Excluding capital grants	$(\text{Period under review's Total Revenue Excluding capital grants} - \text{previous period's Total Revenue excluding capital grants}) / \text{previous period's Total Revenue excluding capital grants} \times 100$	Statement of Financial Performance, Notes to AFS , Budget, IDP, In-Year reports and AR	= CPI

D. Expenditure Management

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Creditors Payment Period (Trade Creditors)	$\text{Trade Creditors Outstanding} / \text{Credit Purchases (Operating and Capital)} \times 365$	Statement of Financial Performance, Notes to AFS, Budget, In-Year reports and AR	30 days
2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	$(\text{Irregular, Fruitless and Wasteful and Unauthorised Expenditure}) / \text{Total Operating Expenditure} \times 100$	Statement Financial Performance, Notes to Annual Financial Statements and AR	0%
3	Remuneration as % of Total Operating Expenditure	$\text{Remuneration (Employee Related Costs and Councillors' Remuneration)} / \text{Total Operating Expenditure} \times 100$	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	25% - 40%
4	Contracted Services % of Total Operating Expenditure	$\text{Contracted Services} / \text{Total Operating Expenditure} \times 100$	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	2% - 5%

E. Grant Dependency

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	Own funded Capital Expenditure (Internally generated funds + Borrowings) / Total Capital Expenditure x 100	Statement of Financial Position, Budget, AFS Appendices, Notes to the Annual Financial Statements (Statement of Comparative and Actual Information), Budget, IDP, In-Year reports and AR	None
2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	Own funded Capital Expenditure (Internally Generated Funds) / Total Capital Expenditure x 100	Statement of Financial Position, Budget, AFS Appendices, Notes to the Annual Financial Statements (Statement of Comparative and Actual Information) Budget, IDP, In-Year reports and AR	None
3	Own Source Revenue to Total Operating Revenue(Including Agency Revenue)	Own Source Revenue (Total revenue - Government grants and Subsidies - Public Contributions and Donations)/ Total Operating Revenue (including agency services) x 100	Statement Financial Performance, Budget, IDP, In-Year reports and AR	None

3. BUDGET IMPLEMENTATION

RATIO		FORMULA	DATA SOURCE AND POLICY DOCS	NORM
1	Capital Expenditure Budget Implementation Indicator	Actual capital Expenditure / Budget Capital Expenditure x 100	Statement of Financial Position, Budget, AFS Appendices, In-Year reports and AR	95% - 100%
2	Operating Expenditure Budget Implementation Indicator	Actual Operating Expenditure / Budgeted Operating Expenditure x 100	Statement of Financial Position, Budget, AFS Appendices, IDP, In-Year reports and AR	95% - 100%
3	Operating Revenue Budget Implementation Indicator	Actual Operating Revenue / Budget Operating Revenue x 100	Statement of Financial Position, Budget, AFS Appendices, IDP, In-Year reports and AR	95% - 100%
4	Service Charges and Property Rates Revenue Budget Implementation Indicator	Actual Service Charges and Property Rates Revenue / Budget Service Charges and Property Rates Revenue x 100	Statement of Financial Position, Budget, AFS Appendices, IDP, In-Year reports and AR	95% - 100%



NATIONAL TREASURY
MFMA Circular No 71
Municipal Finance Management Act No. 56 of 2003

Annexure 2
Interpretation of results

	The green colour indicates that the result is within the norm and is acceptable
	The red colour indicates that the result is not acceptable and corrective actions/plans should be put in place to improve the results.
	Data should be captured in the blue colour cell to calculate a ratio.
	# In situations where the results are not within the acceptable norm, corrective actions/plans should be taken and referenced

Template for Calculation of Uniform Financial Ratios and Norms

RATIO		FORMULA	DATA SOURCE	NORM/RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	INTERPRETATION	MUNICIPAL COMMENTS (#)
" R 000 "								
1. FINANCIAL POSITION								
A. Asset Management/Utilisation								
1	Capital Expenditure to Total Expenditure	Total Capital Expenditure / Total Expenditure (Total Operating expenditure + Capital expenditure) x 100	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget, In-Year reports, IDP and AR	10% - 20%		29%	Please refer to page 2 of MFMA Circular No.71	
					Total Operating Expenditure	6 000		
					Taxation Expense	1 000		
					Total Capital Expenditure	1 500		
2	Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	Property, Plant and Equipment + Investment Property + Intangible Assets Impairment/(Total Property, Plant and Equipment + Investment Property + Intangible Assets) x 100	Statement of Financial Position, Notes to the AFS and AR	0%		56%	Please refer to page 3 of MFMA Circular No. 71	
					PPE, Investment Property and Intangible Impairment	200		
					PPE at carrying value	200		
					Investment at carrying value	-		
					Intangible Assets at carrying value	158		
3	Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	Total Repairs and Maintenance Expenditure/ Property, Plant and Equipment and Investment Property (Carrying value) x 100	Statement of Financial Position, Statement of Financial Performance, IDP, Budgets and In-Year Reports	8%		8%	Please refer to page 4 of MFMA Circular No. 71	
					Total Repairs and Maintenance Expenditure	120		
					PPE at carrying value	1 000		
					Investment Property at Carrying value	500		

RATIO	FORMULA	DATA SOURCE	NORM/RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	INTERPRETATION	MUNICIPAL COMMENTS (#)
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B. Debtors Management

1	Collection Rate	(Gross Debtors Closing Balance + Billed Revenue - Gross Debtors Opening Balance - Bad Debts Written Off)/Billed Revenue x 100	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget , In-Year Reports, IDP and AR	95%		122%	Please refer to page 5 of MFMA Circular No. 71
					Gross Debtors closing balance	65	
					Gross Debtors opening balance	200	
					Bad debts written Off	12	
					Billed Revenue	555	

2	Bad Debts Written-off as % of Provision for Bad Debt	Bad Debts Written-off/Provision for Bad debts x 100	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget and AR	100%		120%	Please refer to page 5 of MFMA Circular No. 71
					Consumer Debtors Bad debts written off	600	
					Consumer Debtors Current bad debt Provision	500	

3	Net Debtors Days	((Gross Debtors - Bad debt Provision)/ Actual Billed Revenue) x 365	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget and AR	30 days		16 days	Please refer to page 6 of MFMA Circular No. 71
					Gross debtors	50 000	
					Bad debts Provision	10 000	
					Billed Revenue	900 000	

C. Liquidity Management

1	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provision for Bad Debts, Impairment and Loss on Disposal of Assets)	Statement of Financial Position, Statement of Financial Performance, Notes to the AFS, Budget, In year Reports and AR	1 - 3 Months		4 Month	Please refer to page 7 of MFMA Circular No. 71
					Cash and cash equivalents	600	
					Unspent Conditional Grants	200	
					Overdraft	300	
					Short Term Investments	300	
					Total Annual Operational Expenditure	1 200	

2	Current Ratio	Current Assets / Current Liabilities	Statement of Financial Position, Budget, IDP and AR	1.5 - 2:1		1.50	Please refer to page 7 of MFMA Circular No. 71
					Current Assets	150	
					Current Liabilities	100	

D. Liability Management

1	Capital Cost(Interest Paid and Redemption) as a % of Total Operating Expenditure	Capital Cost(Interest Paid and Redemption) / Total Operating Expenditure x 00	Statement of Financial Position, Statement of Cash Flows, Statement of Financial Performance, Budget, IDP, In-Year Reports and AR	6% - 8%		8%	Please refer to page 8 of MFMA Circular No. 71
					Interest Paid	900	
					Redemption	200	
					Total Operating Expenditure	13 500	
					Taxation Expense	100	

2	Debt (Total Borrowings) / Revenue	(Overdraft + Current Finance Lease Obligation + Non current Finance Lease Obligation + Short Term Borrowings + Long term borrowing) / (Total Operating Revenue - Operational Conditional Grants) x 100	Statement of Financial Position, Statement of Financial Performance, Budget, IDP and AR	45%		117%	Please refer to page 9 of MFMA Circular No. 71
					Total Debt	700 000	
					Total Operating Revenue	600 000	
					Operational Conditional Grants	-	

RATIO	FORMULA	DATA SOURCE	NORM/RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	INTERPRETATION	MUNICIPAL COMMENTS (#)
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E. Sustainability

1	Level of Cash Backed Reserves (Net Assets - Accumulated Surplus)	(Cash and Cash Equivalents - Bank overdraft + Short Term Investment + Long Term Investment - Unspent grants) / (Net Assets - Accumulated Surplus - Non Controlling Interest Share Premium - Share Capital - Fair Value Adjustment - Revaluation Reserve) x 100	Statement Financial Position, Budget and AR	100%		110%	Please refer to page 9 of MFMA Circular No. 71
					Cash and cash Equivalents	1 500	
					Bank Overdraft	100	
					Short Term Investment	100	
					Long Term Investment	100	
					Unspent Grants	500	
					Net Assets	1 400	
					Share Premium	-	
					Share Capital	-	
					Revaluation Reserve	-	
Fair Value Adjustment Reserve	-						
Accumulated Surplus	400						

2. FINANCIAL PERFORMANCE

A. Efficiency

1	Net Operating Surplus Margin	(Total Operating Revenue - Total Operating Expenditure)/Total Operating Revenue	Statement of Financial Performance, Budget, In-Year reports, AR, Statement of Comparison of Budget and Actual Amounts and Statement of Changes in Net Asset	= or > 0%		36%	Please refer to page 10 of MFMA Circular No. 71
					Total Operating Revenue	200 000	
					Depreciation - Revalued Portion (Only populate if depreciation line item in the Statement of Financial Performance is based on the revalued asset value)	1 000	
					Total Operating Expenditure	100 000	
					Taxation Expense	30 000	

2	Net Surplus /Deficit Electricity	Total Electricity Revenue less Total Electricity Expenditure/Total Electricity Revenue x 100	Statement of Financial Performance, Notes to AFS, Budget, IDP, In-Year reports and AR	0% - 15%		10%	Please refer to page 10 of MFMA Circular No. 71
					Total Electricity Revenue	10 000	
					Total Electricity Expenditure	9 000	

3	Net Surplus /Deficit Water	Total Water Revenue less Total Water Expenditure/Total Water Revenue x 100	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	= or > 0%		-25%	Please refer to page 11 of MFMA Circular No. 71
					Total Water Revenue	200 000	
					Total Water Expenditure	250 000	

4	Net Surplus /Deficit Refuse	Total Refuse Revenue less Total Refuse Expenditure/Total Refuse Revenue x 100	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	= or > 0%		0%	Please refer to page 12 of MFMA Circular No. 71
					Total Refuse Revenue	20 000	
					Total Refuse Expenditure	20 000	

RATIO		FORMULA	DATA SOURCE	NORM/RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	INTERPRETATION	MUNICIPAL COMMENTS (#)
5	Net Surplus /Deficit Sanitation and Waste Water	Total Sanitation and Waste Water Revenue less Total Sanitation and Waste Water Expenditure/Total Sanitation and Waste Water Revenue x 100	Statement of Financial Performance, Notes to AFS, Budget, IDP, In-Year reports and AR	= or > 0%		-150%	Please refer to page 12 of MFMA Circular No. 71	
					Total Sanitation and Water Waste Revenue	20 000		
					Total Sanitation and Water Waste Expenditure	50 000		
B. Distribution Losses								
1	Electricity Distribution Losses (Percentage)	(Number of Electricity Units Purchased and/or Generated - Number of units sold) / Number of Electricity Units Purchased and/or generated) x 100	Annual Report, Audit Report and Notes to Annual Financial Statements	7% - 10%		85%	Please refer to page 13 of MFMA Circular No. 71	
					Number of units purchased and/or generated	120 000		
					Number of units sold	18 500		
2	Water Distribution Losses (Percentage)	(Number of Kilotres Water Purchased or Purified - Number of Kilotres Water Sold) / Number of Kilotres Water Purchased or Purified x 100	Annual Report, Audit Report and Notes to Annual Financial Statements	15% - 30%		25%	Please refer to page 13 of MFMA Circular No. 71	
					Number of kilolitres purchased and/or purified	20 000		
					Number of kilolitres sold	15 000		
C. Revenue Management								
1	Growth in Number of Active Consumer Accounts	(Period under review's number of Active Debtor Accounts - previous period's number of Active Debtor Accounts)/ previous number of Active Debtor Accounts x 100	Debtors System	None		20%	Please refer to page 14 of MFMA Circular No. 71	
					Number of Active Debtors Accounts (Previous)	50 000		
					Number of Active Debtors Accounts (Current)	60 000		
2	Revenue Growth (%)	(Period under review's Total Revenue - previous period's Total Revenue)/ previous period's Total Revenue) x 100	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	= CPI		7%	Please refer to page 15 of MFMA Circular No. 71	
					CPI	7%		
					Total Revenue (Previous)	14 000		
		Total Revenue (Current)	15 000					
3	Revenue Growth (%) - Excluding capital grants	(Period under review's Total Revenue Excluding capital grants- previous period's Total Revenue excluding capital grants)/ previous period's Total Revenue excluding capital grants) x 100	Statement of Financial Performance, Notes to AFS , Budget, IDP, In-Year reports and AR	= CPI		-33%	Please refer to page 15 of MFMA Circular No. 71	
					CPI	6%		
					Total Revenue Exl.Capital (Previous)	15 000		
					Total Revenue Exl.Capital (Current)	10 000		

RATIO	FORMULA	DATA SOURCE	NORM/RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	INTERPRETATION	MUNICIPAL COMMENTS (#)
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D. Expenditure Management

1	Creditors Payment Period (Trade Creditors)	Trade Creditors Outstanding / Credit Purchases (Operating and Capital) x 365	Statement of Financial Performance, Notes to AFS, Budget, In-Year reports and AR	30 days		46 days	Please refer to page 16 of MFMA Circular No. 71
					Trade Creditors	20 000	
					Contracted Services	2 000	
					Repairs and Maintenance	6 000	
					General expenses	2 000	
					Bulk Purchases	50 000	
Capital Credit Purchases (Capital Credit Purchases refers to additions of Investment Property and Property, Plant and Equipment)	100 000						

2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	(Irregular, Fruitless and Wasteful and Unauthorised Expenditure) / Total Operating Expenditure x100	Statement Financial Performance, Notes to Annual Financial Statements and AR	0%		1%	Please refer to page 16 of MFMA Circular No. 71
					Irregular, Fruitless and Wasteful and Unauthorised Expenditure	10 000	
					Total Operating Expenditure	1 000 000	
					Taxation Expense	100 000	

3	Remuneration as % of Total Operating Expenditure	Remuneration (Employee Related Costs and Councillors' Remuneration) / Total Operating Expenditure x100	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	25% - 40%		39%	Please refer to page 17 of MFMA Circular No. 71
					Employee/personnel related cost	10 000	
					Councillors Remuneration	2 000	
					Total Operating Expenditure	30 000	
					Taxation Expense	1 000	

4	Contracted Services % of Total Operating Expenditure	Contracted Services / Total Operating Expenditure x100	Statement of Financial Performance, Budget, IDP, In-Year reports and AR	2% - 5%		2%	Please refer to page 17 of MFMA Circular No. 71
					Contracted Services	15 000	
					Total Operating Expenditure	600 000	
					Taxation Expense	20 000	

E. Grant Dependency

1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	Own funded Capital Expenditure (Internally generated funds + Borrowings) / Total Capital Expenditure x 100	Statement of Financial Position, Budget, AFS Appendices, Notes to the Annual Financial Statements (Statement of Comparative and Actual Information), Budget, IDP, In-Year reports and AR	None		73%	Please refer to page 18 of MFMA Circular No. 71
					Internally generated funds	20 000	
					Borrowings	2 000	
					Total Capital Expenditure	30 000	

RATIO		FORMULA	DATA SOURCE	NORM/RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	INTERPRETATION	MUNICIPAL COMMENTS (#)
2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	Own funded Capital Expenditure (Internally Generated Funds) / Total Capital Expenditure x 100	Statement of Financial Position, Budget, AFS Appendices, Notes to the Annual Financial Statements (Statement of Comparative and Actual Information) Budget, IDP, In-Year reports and AR	None		10%	Please refer to page 18 of MFMA Circular No. 71	
					Internally generated funds	2 000		
					Total Capital Expenditure	20 000		

3	Own Source Revenue to Total Operating Revenue(Including Agency Revenue)	Own Source Revenue (Total revenue - Government grants and Subsidies - Public Contributions and Donations)/ Total Operating Revenue (including agency services) x 100	Statement Financial Performance, Budget, IDP, In-Year reports and AR	None		98%	Please refer to page 18 of MFMA Circular No. 71	
					Total Revenue	50 000		
					Government grant and subsidies	5 000		
					Public contributions and Donations	1 000		
					Capital Grants	5 000		

3. BUDGET IMPLEMENTATION

1	Capital Expenditure Budget Implementation Indicator	Actual capital Expenditure / Budget Capital Expenditure x 100	Statement of Financial Position, Budget, AFS Appendices, In-Year reports and AR	95% - 100%		138%	Please refer to page 19 of MFMA Circular No. 71	
					Actual Capital Expenditure	22 000		
					Budget Capital Expenditure	16 000		

2	Operating Expenditure Budget Implementation Indicator	Actual Operating Expenditure / Budgeted Operating Expenditure x 100	Statement of Financial Position, Budget, AFS Appendices, IDP, In-Year reports and AR	95% - 100%		97%	Please refer to page 20 of MFMA Circular No. 71	
					Actual Operating Expenditure	60 000		
					Budget Operating Expenditure	62 000		

3	Operating Revenue Budget Implementation Indicator	Actual Operating Revenue / Budget Operating Revenue x 100	Statement of Financial Position, Budget, AFS Appendices, IDP, In-Year reports and AR	95% - 100%		99%	Please refer to page 20 of MFMA Circular No. 71	
					Actual Operating Revenue	69 000		
					Budget Operating Revenue	70 000		

4	Service Charges and Property Rates Revenue Budget Implementation Indicator	Actual Service Charges and Property Rates Revenue / Budget Service Charges and Property Rates Revenue x 100	Statement of Financial Position, Budget, AFS Appendices, IDP, In-Year reports and AR	95% - 100%		89%	Please refer to page 21 of MFMA Circular No. 71	
					Actual Service Charges and Property Rates Revenue	100 000		
					Budget Service Charges and Property Rates Revenue	112 000		

RATIO	FORMULA	DATA SOURCE	NORM/RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	INTERPRETATION	MUNICIPAL COMMENTS (#)
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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2014



FINANCIAL
MANAGEMENT
CAPABILITY
MATURITY
MODEL
(FMCMM)
for
MUNICIPALITIES

Summary

Q: *What is the Financial Management Capability Maturity Model?*

A: a model designed to support a public institution (in this case, municipality) to:

- To determine its own maturity level in terms of financial management;
- To identify its own gaps by evaluation;
- To grow or move from one level of maturity to another.

Q: *How to define “maturity”*

A: A stage in the development of streams or growth which is comparable to a growth of a child into teenager into adulthood

Maturity levels

1. Starting up
2. Developmental impact
3. Controlling the environment
4. Information integration
5. Management of resources
6. Optimization

Benefits

Immediate benefits, among others, of the FMCMM are:

- **ALERT** the municipality of impending crisis related to financial management (FM);
- Improve and develop upon the **practices** of FM;
- Identify **risks** prevalent in the system;
- **Strengthen** the capacity of the municipality in small steps!

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Introduction

“Financial management is the system by which the resources of an organization’s business are planned, directed, monitored and controlled to enable the organization’s goals to be achieved.”

National Treasury developed a Financial Management Capability Maturity Model (FMCMM) for the national and provincial departments following extensive international research. This model has now been modified and developed for South African municipalities and local government entities.

The concept of capability maturity models has been applied to fundamental aspects of organisational, people resource, project and / or product development as a **means of assessment and as part of a framework for continuous improvement**.

“A major benefit of modeling capability maturity is to provide a framework for defining and selecting process improvement strategies by first determining the current capabilities of specific processes and identifying the areas of weaknesses and related issues most critical to process and performance improvement”¹.

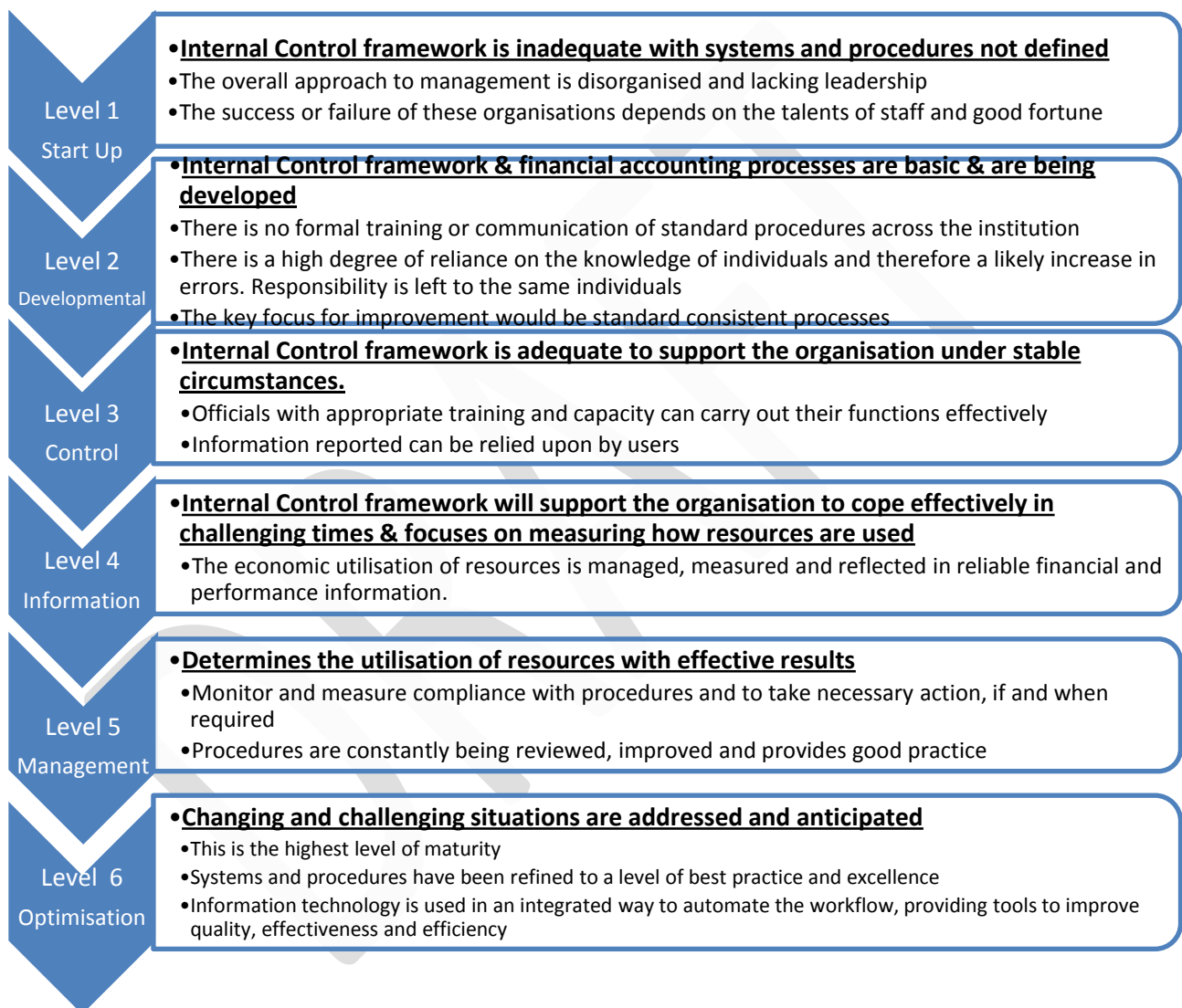
The FMCMM is therefore a framework assessing the key elements for effective financial management. It sets out a path upon which a municipality may follow to progressively develop sophisticated financial management practices. The FMCMM may be used to improve and develop financial management practices to progress from a level of financial management typical of a start-up municipality to the strong, effective, financial management capabilities associated with a mature and complex municipality. The need for sophisticated financial management capabilities increase as the size, complexity or risks associated with activities increase. The FMCMM may be used to:



¹ [PMI, 2003; Crawford, 2002; Kerzner, 2001; Ibbs and Kwak]

An important **first step** in addressing financial management capability maturity is to treat the entire financial management function as a set of integrated business processes which support the human resource allocation of a municipality in the achievement of its objectives. These processes, when appropriately applied, yield a degree or level of financial control. A fully effective and efficient financial management framework must consider the integral relationship between tasks, tools and methods, skills, training and motivation of staff to support the all-important service delivery key performance area (KPA) of a municipality .

The Model proposes to establish a framework for strengthening financial management based on a number of small steps which are organized into six progressive "capability levels".



Level 1: *The Start-up*

The Start-up Level describes the financial management characteristic of a municipality that has, in essence, not as yet established its key policies and practices nor its control framework. At this level, in the absence of established practices, the municipality's ability to achieve its business or program objectives depends on the often-isolated efforts and accomplishments of individuals. In these circumstances there is no certainty of accomplishments or sustainability.

This situation might also exist where a municipality has undergone dramatic changes in its operations. This is especially so if the municipality has not effectively managed the increased risks associated with the change.

The lack of sustainable practices of financial management and control means that any data produced may not be complete, accurate or reliable. Similarly, without an adequate control framework in place, assets may not be adequately protected nor will the resources be adequately controlled.

The Start-Up Level, unlike other levels in the FMCMM, is not a stable environment and is therefore undesirable.

Level 2: *The Developmental*

The key challenges a municipality faces at this level are:

- The development of realistic and useful financial and operational business plans;
- The establishment of a basic control framework which allows the monitoring & controlling of resources and the safeguarding and protection of assets;
- Internal Control frameworks and financial accounting processes are basic and, in some cases, are being developed;
- Absence of formal training or communication of standard procedures across the institution
- Responsibility is left to the same individual;
- There is a high degree of reliance on the knowledge of individuals and therefore a likely increase in errors;
- The organisation has some awareness that it needs to improve its financial management but does not actively do so. Improvements are rarely made;
- The organization is aware of a number of issues with the current financial management processes, which have been highlighted by sources such as external and internal audit;
- It becomes aware of potential overspends too late to be able to bring them back into line;
- Some of the major projects are regularly over the time limit and so is the costing. The quality or outcome of the projects are therefore sub-standard and of poor quality;
- The organization reacts to reductions in funding by budget cutting due to a lack of understanding of the impact of changes on the costs and performance of programs.

The key focus for improvement would be standard consistent processes. This level too is unstable and undesirable.

Level 3: *The Control*

At the Control Level the focus is on ensuring that adequate resources are available, assets are safeguarded, reliable data is on hand, and operations are monitored, controlled and conducted with prudence and probity. Municipalities at the Control Level are able to meet statutory and regulatory reporting requirements.

Municipalities that have instituted the key process areas for this level have established a control framework that provides a stable environment and ensures that control practices are repeatable and sustainable. The control framework includes financial, operational and management controls. When these basic controls are operating as intended, they will help the municipality to control or reduce risks and to produce complete and accurate financial and operational data. With sound financial and operational data, the municipality can carry out its basic stewardship responsibilities and meet its reporting obligations. The integrity of the data supports operational planning decisions and monitoring activities. It ensures that sufficient funds have been obtained to meet budget and cash-flow requirements, and it satisfies statutory and operational reporting requirements.

A municipality at the Control Level will be able to answer positively to the following key questions that characterize this level:

- *“Does the municipality have a control framework to ensure that assets are safeguarded, data is accurate and reliable, and operations are conducted with prudence and probity?”*
- *Are transactions processed and controlled in accordance with applicable legislative and/or regulatory requirements?”*

The primary activities of the municipality's Budget and Treasury office (BTO) when it performs at the Control Level, are when the traditional accounting functions such as processing transactions, bookkeeping and general accounting functions are well in place. Finance focusses on ensuring that controls over the financial systems are adequate to produce complete, accurate and timely financial data and to provide functional guidance to operational groups as required.

At the Control Level, operational managers play a role in achieving basic financial management capabilities. This involves establishing realistic financial plans based on expected results, and estimating the resources required achieving those results. The data on which these plans are based are typically historical in nature, drawn from past experience. At this level, operational managers would also track actual progress and resource use against planned results.

At the Control Level, reliable historical data are available. However, they are not generally available as "information". Although ad hoc analysis can be carried out, the effort to collect information may be extensive and time-consuming because it may be fragmented, scattered and not easily accessible.

Level 4: The Information

At the Information Level, key process areas focus on integrating the municipality's financial and non-financial systems, practices and procedures to provide information that can be used to manage resources with prudence, probity and in an efficient and economical manner.

A municipality will be capable of both measuring and managing its risks, and can tailor management practices within its various operating units to manage and reduce risk and cost effectively. The municipality will have information on the cost of producing a product of a given quality or delivering a service at a given level.

A key aspect is the changing role of its BTO or Finance Department. The role begins to move away from performing only the traditional accounting functions to performing as a team player providing valuable support to the various operational managers. The BTO works with operational managers to develop a financial structure that provides them with cost-effective controls and information which meets their day-to-day needs - for example, information on production costs.

At the Information level, operational managers have a broader understanding of their financial management responsibilities. They also recognize their responsibility to contribute to the municipality's financial management capabilities.

Therefore, critical to achieving this level of capability is a climate that institutionalizes financial management practices throughout the municipality's culture. This would require that senior management explicitly demand and promote effective financial management and demonstrate its value. Such a culture is developed by formalizing financial management policies and practices across the municipality and supplementing them with appropriate training - and a system of rewards, recognition and sanctions that reinforces the culture.

In addition to being able to answer positively to the Control level questions above, a municipality at the Information level will be able to answer "Yes" to the question:

"Does the municipality have the financial management systems, practices and information that are required to measure and monitor the cost and quality of outputs and the use of resources?"

At the Information level, municipal standards for all processes and activities have been established to allow for measurement and comparison between similar business units across the municipality. These standard financial management practices can be tailored to the respective unit's nature and unique risks.

One of the key processes at the Information level is to provide consistent and comparable financial and operational (non-financial) information and reports that meet the needs of managers. This information provides a basis for developing performance indicators, cost and quality measures and monitoring performance, to ensure that intended results are being achieved and to demonstrate accountability.

Level 5: *The Managed*

At the Managed level, a municipality:

- Uses the information developed to balance two competing objectives: using its resources economically and efficiently, and producing cost-effective results - for example, goods or services of acceptable quality. The municipality understands the financial implications of the choices and trade-offs it makes between these objectives. Such information also allows the municipality to better account for the way that it uses the resources entrusted to it;
- Can better manage its financial and operational performance because it has - and uses - the "right" information. It has information and analyses on the relative costs of different approaches to achieving its objectives;
- Uses that information and impact analyses to make informed decisions on cost versus quality and risk versus opportunities, or decisions on levels of service;
- Possess mechanisms for measuring the impact of variables such as cost, quality, productivity and degree of success in achieving its stated objectives. This capability flows from a history of having measured and managed municipality performance, which includes, for example:
 - managing the municipality's information and knowledge resources as assets, so that information needed to make informed decisions is available (for example, by using simulations, historical trends and manipulating variables to see how they affect results);
 - defining the relationships among variables that affect cost, quality and level of service and understanding how they impact on the municipality's desired results;
 - using information to make informed choices among competing objectives like cost, quality and schedule;
 - understanding the financial implications of decisions before making them, and monitoring their outcomes;

- using quantitative information to (a) control variances and (b) balance among competing business line objectives.
- Will be able to answer positively to the question:
"Does the municipality determine the cost to achieve a given result, and follow the most cost-effective approach in achieving it?"

Level 6: *The Optimizing*

A municipality at the Optimizing Level uses information from inside and outside the organization to set and achieve strategic targets or objectives for improvement. Achieving these targets enables the municipality to increase the value of its services or products to clients or consumers. The focus is on continuous improvement. The municipality uses what it has learned from past experience to identify areas for future improvement. This involves:

- developing prospective information to anticipate both internal and external changes that may affect the municipality's performance (instead of reacting to changes) and making the necessary strategic or tactical decisions to manage their effects;
- measuring the organization's performance against that of others in the same industry and setting strategic targets for improvement;
- finding best practices and learning from other municipalities (benchmarking); and
- Finding ways to minimize costs and maximize revenues, and to improve the quantity and quality of outputs, by introducing new technology or improving existing processes.
- The key question that an organization at the Optimizing Level asks itself is:
"How & where can the organization improve its performance?"

Characteristics of the FMCMM

This Financial Management Capability Maturity Model is designed to be descriptive - not prescriptive. Please note that once completed, the model will not necessarily show how to improve its financial management practices but rather it will suggest what will be needed to achieve a certain level of capability. The model is intended to assist in mapping out a strategic plan to undertake the required improvements by defining the financial management requirements for each level.

The model provides for a framework to determine the financial management requirements of a municipality and comparing those requirements with the municipality's actual capabilities. In addition, the model should reflect specific attributes or financial management capabilities that a municipality at a particular level would typically exhibit. A municipality could be assessed against these attributes to determine where it is on the financial management continuum according to the model's levels. While at a lower level on the capability framework, a municipality may demonstrate some of the characteristics associated with a higher level of capability.

In summary, the incremental improvements or practices at each level of the Model are seen as the building blocks that allow a municipality to establish effective financial management, and provide guidance for continuous improvement.

According to statistics and trends, most municipalities in South Africa currently fall between Levels 1 and 2; i.e. *Start Up and Developmental* levels, with a few municipalities at Level 3 - *Control level*. Therefore the questions have been aimed at this level and tend to focus more on compliance related disciplines but as the municipalities mature, Level 4, 5 and 6 questions will be introduced.

Applying the FMCMM

Initially it would be expected that the senior management of a municipality would systematically analyze the cost and effectiveness of each key activity. The purpose of this analysis would be for management to determine three things:

- the financial risks it faces and which are priority;
- the financial information the municipality needs to meet both internal and external accountability requirements; and
- The financial information it needs to support its operational and policy responsibilities.

The second step would be for management to determine, based on the results of its assessment, the level of financial management capability it needs to meet its responsibilities. This step would establish the required level of financial management capability for the municipality in light of its responsibilities. That level would be expected to vary substantially between municipalities.

The third step would be for management to assess the municipality's capability in each process area. This assessment would likely involve a combination of traditional internal audit and review procedures and self-assessment of controls.

If the assessment process reveals a discrepancy between the necessary level of capability and the actual level, management would be expected to review its earlier analysis to determine whether the discrepancy is the result of either a deficiency needing to be remedied or an overstatement of the required capability. In either instance, the discrepancy would need to be resolved.

Auditors can also use this FMCMM and the process to assess a municipality's level of financial management capability relative to its requirements.

Institutionalizing Key Process Areas

Mastering one or more key process areas is not enough, it is essential to "institutionalize" the key process areas and all of the activities associated with mastering it and only in doing so will the organization make the key process areas sustainable, repeatable and lasting. Institutionalizing the key process areas requires the "right" organizational climate and some prerequisites or characteristics of such a climate are:

- a **commitment** to master the key process areas associated with reaching a particular capability level;
- the **ability** to carry out the necessary **activities** competently, for example, through training and development;
- ongoing **measurement and analysis** of activities and progress toward goals; and
- **Continuous verification** to ensure that activities have been carried out in accordance with established policies and procedures.

Such a climate provides the support or foundation for reaching a financial management capability maturity level appropriate to the organization.

Instructions

The model consists of 21 modules and can be completed individually or together.

Each module consists of a list of self-assessment questions for the municipality to determine their capability to discharge their duties relating to financial management. Included are associated risks, associated controls and a reference (where appropriate).

After each question a response is required from a “Drop down box” under the “Response” column. Select the appropriate response to the question, either “Yes”, “Partial”, “No” or where appropriate “N/A” (not applicable).

- A “Yes” response will score 3 points,
- A “Partial” response will score 2 points
- A “No” response will score 1 point
- A “N/A” will not affect the scoring

- The score will automatically appear under the “Score” column.
- Each module computes an average which automatically populates a summary score sheet and the average scores of all modules is automatically calculated.
- The scoring for each question is between 1 and 3, and also for the module and the entire model.
- This scoring is in line with the “levels of maturity”. According to statistics and trends, most municipalities in South Africa currently fall between Levels 1 and 2; i.e. *Start Up and Developmental* levels, with a few municipalities at level 3 - *Control level*. Therefore the questions have been aimed at this level and tend to focus more on compliance related disciplines but as the municipalities mature, Level 4, 5 and 6 questions may be introduced into the model.
- A “Comments” column requires input for all “Partial” responses and it is also recommended for all “No” responses.
- The file must be saved using the standard National Treasury naming convention
Muncde_FMCMM_ccyy_period
The period to be used is 08 (February)
For example: “EC101_FMCMM_2014_08”

This model has links, “Conditional Formatting” and “Data Validations” and worksheets are protected. If separate modules are sent electronically to officials for completion the following must be done:

- The sheets have “Data Validations” linked to the “Instructions” sheet therefore every sheet sent to officials must include the “Instructions” sheet.
- When copying the work done by the official onto the master, only the “Response” (column E) and “Comments” (Column G) must be copied ~~and the comments~~ and pasted Special.
- Paste Special and select “Merge Conditional Formatting” when pasting onto the master copy to avoid losing the Conditional and Data Validation formats.

No.	Ref.	Questions	Response	Score	Comments (Compulsory if 'Partial')	Associated Risks	Associated Controls
1		Is there effective executive and management oversight over the asset management activities (PPM, investment properties & inventory)?	Partial	2		There might not be organisational commitment to asset management.	The asset management function should be monitored/directed by a senior manager or steering committee.
2		Is there an integrated asset management strategy based on the overall municipal strategy?				Asset management may not be based on the overall municipal strategy.	The asset management strategy should be based on the overall municipal strategy.
3		Does the asset management strategy have detailed plans for acquisitions, and replacements, operation & maintenance and disposals in terms of policies? (Particularly infrastructure assets)				Acquisitions, & replacements, operation & maintenance and disposals may not be in terms of policies.	Capital requirements to provide for assets to cater for growth and the provision of associated services should be addressed in strategic plans and budgets.
4		Does the asset management strategy inform the IDP and budget?				The IDP and budget may not be aligned to the management.	The asset management strategy should inform the IDP and budget using the detailed plans.
5		Does the asset management strategy indicate the funding of each approved plan through the budget?				Plans may not be supported by the budget.	The asset management strategy should indicate the funding of each approved plan for incorporation in the budget.
6		Is asset service delivery performance measured against the SDBIP & budget on a regular scheduled basis?				SDBIP & budget may not accurately reflect asset service delivery.	Asset service delivery performance should be measured against the SDBIP & budget, at least on a quarterly basis.
7		Is there an approved organisational structure for asset management and are the positions filled by appropriately skilled officials?				Functions will not be adequately performed.	An approved organisational structure should be available and staff with the required skills should be appointed. Vacancies should be filled timeously.
8		Is there evidence that staff have appropriate knowledge of the relevant GRAP standards?				Staff may not maintain the records in accordance with the applicable GRAP standards.	Staff should have knowledge of and attend regular GRAP training to remain abreast of the GRAP standards.

Action Plans

The municipality may want to use this model as an action plan to address the processes that are not being performed or only partially performed.

Column M: Responsible person

The name of the person who has been assigned the responsibility to address the process should be informed

Column N: Completion date

The column could be used to record expected completion dates or if there are milestones in a project.

Column O: Resources required

This column may be used to indicate the resources required to achieve the process or if more than process is required the cell may be used as a progress report.

The FMCMM modules

The 21 modules (with sub-headings) are as follows;

1. Reporting

1.1 Banking, Cash and Investments.

These reports are not repeated under the separate module.

1.2 Budgeting and performance

These reports are not repeated under the separate module.

1.3 Expenditure and Supply Chain Management

These reports are not repeated under the separate module.

1.4 Year end and general

The details required in the annual financial statements and annual report have been included in a separate module.

1.5 Entities

These reports are not repeated under the separate module.

2. Annual Financial Statements

2.1 Preparation of the annual financial statements

- The financial management processes during the year and at year end,
- The capability to draft annual financial statements and
- Disclosure in the annual financial statements.

2.2 Audit file

- Questions relate to the planning/ preparation, readiness and submission of the audit file.

2.2 Audit process

- The availability of key officials,
- The communication and response with the auditors,
- Progress to remedy past matters of concern,
- Processes to respond and address audit queries and qualifications

3. Annual Reports

- Compliance
- Content
- Public participation and oversight

4. Budget Management

- Planning
- Strategizing
- Preparation
- Tabling
- Approving
- Adjustment budgets

5. Budget & Treasury Office

- Capacity,
- Responsibilities of the CFO,
- Internal controls.

6. Bank, Cash & Investments

- Compliance
- Controls
- Petty cash
- Cash management
- Investments

7. Asset Management

- Strategic considerations
- Governance and internal controls
- Asset registers
- Accounting for capital assets
- Revaluations

8. Risk Management

The focus has been the implementation of policies

9. Internal Audit

The Internal Audit and Audit Committee functions are addressed.

10. Revenue Management

This module assesses revenue and debtors.

- Property
- Services
- Other revenue
- Debtors and credit control
- Administration

11. Transfers & Grants

- Grants received
- Grants reporting
- General
- Transfer payments

12. Expenditure Management

This module includes expenditure and trade creditors

- Internal controls for payments and creditors
- Unauthorised, irregular and fruitless & wasteful expenditure

13. Liability Management

This module looks at the legal liabilities of the municipality and not Accounts Payable

- By-laws
- Policies, procedures and plans.
- Operations

14. Borrowing

This module looks at Short Term borrowings and Long Term loans and the raising thereof and their disclosure. This module does not address Accounts Payable.

- Raising of loans
- Borrowing instruments
- Securities, guarantees and disclosure

15. Supply Chain Management

The reporting requirements of supply chain management are included under the Reporting module.

- General
- Demand management
- Acquisition management
- Logistics and disposal management
- Contract and performance management

16. Information Technology

- Governance framework and service continuity
- Facilities and environmental controls
- Security
- Financial management system evaluations.

17. Human Resources

- Structures
- Appointments, retention and termination of employees
- Administration
- Labour relations

18. Capacity Building

- Individuals
- Organisational
- Institutional
- External environment

19. Compensation of Employees

This module assesses the payroll function which normally administers upwards of 30% of operating expenditure

- Working hours, overtime and leave
- Administration

20. Management of Entities

This module deals with the management of entities from the parent municipality perspective.

21. Public Private Partnerships

This module deals with deals with public private partnerships from the perspective of the municipality and its associated responsibilities.

DRAFT

NATIONAL TREASURY WORKSHOP: ROLL OUT OF THE FINANCIAL MANAGEMENT CAPABILITY MATURITY MODEL (FMCMM) TOOL AND UNIFORM FINANCIAL RATIOS FOR MUNICIPALITIES

CONFIRMATION OF ATTENDANCE

To RSVP, please complete this form and email it to Nangamso.Sigwela@westerncape.gov.za

MUNICIPALITY:

Please reserve a seat for *:

NAME	
SURNAME	
DESIGNATION	
CELL NO	
EMAIL ADDRESS	

NAME	
SURNAME	
DESIGNATION	
CELL NO	
EMAIL ADDRESS	

*Kindly note that only two delegates may be nominated per municipality.



**IMPLEMENTATION OF FINANCIAL RATIOS AND NORMS
(MFMA CIRCULAR 71) AND FINANCIAL MANAGEMENT CAPABILITY
MATURITY MODEL (FMCMM)
AGENDA**

Western Cape

DATE : 30 January 2015

TIME : 08:00 – 15:30

VENUE: Council Chambers, 51 Trappes Street, Worcester

Item	Topic	Presenter(s)
1.	Opening and Welcome <ul style="list-style-type: none">• Introductions• Background	Provincial Treasury National Treasury
2.	Session 1 – Implementation of Financial Ratios (MFMA Circular 71)	National Treasury
3.	Session 2 – FMCMM	National Treasury
4.	Closure	Provincial Treasury

ANNUAL REPORTS

Province:	Please Select	Municipality:	Please Select	Reporting Date:	00 January 1900
Average Score :		Questions still to be answered:	56		

Action Plan		
<u>Responsible Person</u>	<u>Completion Date</u>	<u>Resources required</u>

No.	Ref.	Questions	Response	Score	Comments (Compulsory if 'Partial')	Associated Risks	Associated Controls
Capacity							
1		Was the annual report prepared "in house"?				Staff may become reliant on external service provider and officials may not accept responsibility to prepare the	Appoint officials with the ability to prepare the annual report.
Compliance							
2	MFMA s121(1)	Did the municipality and every municipal entity prepare an annual report for each financial year and did the council deal with the annual report of the municipality and of any municipal entity under the municipality's sole or shared control within nine months after the end of each financial year?				Delays in submitting un-audited annual reports could result; Corrective decisions taken late , slowing down service delivery and impacting negatively on accountability, and the functional areas not being aligned to the IDP and budgets.	Un-audit performance report to be submitted with the financial statements to the Auditor-general by the 31st August.
3	Circular 63	Was the annual report submitted to the Auditor-General, together with the annual financial statements by, the 31st August and where applicable a consolidated annual report by the 30th September if there was an entity?				An audit qualification for the late submission of the annual financial statements is possible.	Proof of submitting the annual report to the Auditor-General should be retained, which should be submitted with the annual financial statements by, the 31st August and where applicable a consolidated annual report by the 30th September if there was an entity.
4	MFMA s132	Has the annual report of the municipality and entities, or the completed components of the annual report and the oversight reports been submitted to provincial legislatures within seven days of the oversight report being adopted by council?				There may be delays finalising the reporting of annual reports.	Proof of submitting Annual and Oversight reports to provincial legislatures must be retained.
Content							
5	Circular 63	Does Chapter 1 of the annual report include; - The Mayor's/Executive mayor's foreword, - The municipal manager's foreword, - Municipal overview?				Stakeholders may be given inadequate and inaccurate information.	The mayor to provide an introduction and overview of the functions, geographical area and performance of the municipality. The municipal manager to give a public account, guidance and advice on the administrative performance of the municipality. Provide an overview on how the municipality has functioned based on its relationship with other political structures, office bearers, administration and the community. Information on the demographics, economic growth, population, growth & development structure of the municipality and the outcomes of initiatives embarked on.
6	Circular 63	Does Chapter 2 of the annual report include the Governance Structures, both Political and Administrative?				The community and stakeholders may not understand the governance structures at the municipality.	Outline both the political and administrative structures.
7	Circular 63	Does Chapter 2 of the annual report include details of Intergovernmental relations?				The community and stakeholders may not understand the work performed to address intergovernmental relations.	Outline the intergovernmental relations that were in place during the period under review.
8	Circular 63	Does Chapter 2 on Governance in the annual report include details on all public accountability and public participation meetings and the IDP participation & alignment?				Public accountability may not be accurately informed.	Details of all public meetings and the IDP participation and alignment must be clearly stated in the annual report.
9	Circular 63	Does Chapter 2 on Governance in the annual report address risk management issues?				The opportunity to create risk awareness may be neglected.	The extent of all risk management functions performed to be outlined.
10	Circular 63	Does Chapter 2 of the annual report address anti-corruption and fraud?				Anti-corruption and fraud may not be high lighted.	Information on anti-corruption and fraud activity and actions taken should be outlined in the annual report.
11	Circular 63	Does Chapter 2 on Governance in the annual report address supply chain management issues?				The supply of goods and services may not have complied with the regulatory framework.	All supply chain management issues and exceptions to be outlined in the annual report.
12	Circular 63	Does Chapter 2 on Governance in the annual report address By-laws?				Awareness of by-laws may not be recognised.	A summary of by-laws in place together with contraventions and convictions to be outlined in the annual report.
13	Circular 63	Does Chapter 2 on Governance in the annual report address the website(s) where information is available?				Stakeholders may not be aware of available information.	All websites and an outline of contents to be disclosed in the annual report.
14	Circular 63	Does Chapter 2 on Governance in the annual report share information on public satisfaction on municipal services?				The public may have a different opinion regarding service delivery.	An outline of public satisfaction to be included in the annual report.
15	Circular 63	Does Chapter 2 in the annual report address the municipal oversight committees?				Municipal oversight may be compromised.	Oversight committees, members and their attendance should be documented in the annual report.
16	Circular 63	Does Chapter 3 in the annual report demonstrate what service delivery has been achieved and what is outstanding?				Inadequate and inaccurate information will not inform stakeholders	Performance derived from IDP objectives, translated into SDBIP and data on community needs and resource deployment should be outlined.

17	Circular 63	In Chapter 3 of the annual report, are the service delivery issues structured, captured and reflected under each priority as contained in the IDP to allow for easy comparisons on achievements against budget and SDBIP?				The annual report may not demonstrate, in terms of service delivery, what is being achieved and what remains outstanding.	Service delivery issues under each priority as contained in the IDP and compared to budgets and SDBIP should be reported.
18	Circular 63	Does Chapter 4 of the annual report provide information pertaining to the implementation of an effective performance management system, organisational development and performance of the municipality?				Stakeholders may not be aware of organisational development performance challenges faced by the municipality.	The annual report should outline the performance management system utilised, how targets are set and measured.
19	Circular 63	Does Chapter 4 of the annual report provide information on planning, service delivery, organisation, job evaluation, remuneration, benefits, personnel expenditure, affirmative action, recruitment, promotions, termination of services, performance management, skills development, injury on duty, labour relations, leave and discharge due to ill-health?				Stakeholders may not be aware of organisational development performance challenges faced by the municipality.	The annual report should outline the human capital aspects of the municipality both challenges and achievements.
20	Circular 63	Does Chapter 4 of the annual report provide information to identify skills gaps and plans for the development of such skills?				Stakeholders may not be aware of organisational development performance challenges faced by the municipality.	The annual report should outline any skills audits performed and all gaps identified.
21	Circular 63	Has Chapter 5 of the annual report on financial performance include information divided into the following framework: a) Statement of financial performance b) Spending against Capital budget c) Cash flow management and investment d) Other financial matters?				Weak and opaque financial management practises and reports result in misdirected and under-utilisation of resources.	Provide an overview of the financial performance of the municipality through measuring of results. Include: a) Statement of financial performance b) Spending against Capital budget c) Cash flow management and investment d) Other financial matters
22	Circular 63	Does Chapter 6 of the annual report include the Auditor-General's Report as submitted by the Auditor-General?				Stakeholders may not be aware of the reliability of the annual financial statements.	The Auditor-General's report (unchanged) to be included, and details on issues raised during the previous financial year and remedial action to address the issues and preventive measures.
23	Circular 63	Does Chapter 6 of the annual report include details on issues raised during the previous financial year by the Auditor-General?				Stakeholders may not be informed about recurring audit issues.	Details of the previous year's audit findings to included in the annual report.
24	Circular 63	Does Chapter 6 of the annual report include remedial action taken to address issues raised during the previous financial year by the Auditor-General and preventative measures? (Ch. 6)				Remedial action and preventative measures may not be taken to address audit findings.	Details of remedial action taken to address previous year's audit findings to be included in chapter 6 of the annual report.
25	Circular 63	Is an Appendix A on Councillors; Committee allocation and council attendance included?				Councillors may not be attending council meetings.	An Appendix A on Councillors; Committee allocation and council attendance should be included.
26	Circular 63	Is an Appendix B on Committee and Committee purpose included, listing all committees of the council, the purpose of each committee and the names of councillors serving on them and the attendance of each councillor?				Stakeholders may not be aware of the purpose of committees and which councillors are serving on committees.	An Appendix B on Committee and Committee purpose included, listing all committees of the council, the purpose of each committee and the names of councillors serving on them and the attendance of each councillor should be included.
27	Circular 63	Is an Appendix C include an organogram of the administrative structure?				Stakeholders may not be aware of the organogram of the administrative structure.	An Appendix C with an organogram of the administrative structure should be included.
28	Circular 63	Is an Appendix D included on what constitutes a municipal function and the applicable functions of the municipality?				Stakeholders may not be aware of the functions of the municipality.	An Appendix D explaining the applicable functions of the municipality should be included.
29	Circular 63	Is an Appendix E on Ward reporting included with information on the functions of ward committees, the sector of community representation, reports submitted by each of these committees challenges experienced and measures taken to address them?				Stakeholders may not be aware of the functions and the work done by ward councillors.	An Appendix E on Ward reporting should be included with information on the functions of ward committees, the sector of community representation, reports submitted by each of these committees challenges experienced and measures taken to address them.
30	Circular 63	Is an Appendix F on Ward information included outlining the name/number of the ward, listing the seven largest projects in each ward with start & end dates, their total value, progress and information on the top four delivery priorities per ward?				Stakeholders may not be aware of the projects undertaken in wards.	An Appendix F on Ward information should be included outlining the name/number of the ward, listing the seven largest projects in each ward with start & end dates, their total value, progress and information on the top four delivery priorities per ward.
31	Circular 63	Is an Appendix G included on recommendations of the audit committee, those adopted, those that were not adopted and the meetings held?				Stakeholders may not be aware of the work done by the audit committee and whether their recommendations are being implemented.	An Appendix G of the audit committee recommendations; those adopted, those that were not adopted and the meetings held should be included.
32	Circular 63	Is an Appendix H included on information related to the largest projects, agreements and contracts and any Public, Private Partnerships?				Stakeholders may not be aware of the large projects, agreements, contracts including PPP's.	An Appendix H reflecting information related to the largest projects, agreements and contracts and any Public, Private Partnerships should be included.
33	Circular 63	Is an Appendix I include a municipal entity/service provider performance schedule from the top four priority indicators in the IDP?				Stakeholders may not be aware of the performance of service providers.	An Appendix I should include a municipal entity/service provider performance schedule from the top four priority indicators in the IDP.

34	Circular 63	Is an Appendix J included with senior managers disclosures of financial interest?				Stakeholders may not be aware of the financial interest of senior managers.	An Appendix J with senior managers disclosures of financial interest should be included.
35	Circular 63	Is an Appendix K included on Revenue collection by votes and by source based on prior year and current year actual collections?				Stakeholders may not be aware of the functions of the municipality.	Is an Appendix K included on Revenue collection by votes and by source based on prior year and current year actual collections?
36	Circular 63	Is an Appendix L included on Conditional Grants received (excluding MIG) received during the year indicating adjustments budget and the actual, showing percentage variances and any major conditions applied by donors on each grant?				Stakeholders may not be aware of the performance of conditional grants.	An Appendix L on the performance of Conditional Grants received (excluding MIG) should be included.
37	Circular 63	Is an Appendix M included on capital expenditure (a) on new assets programme, and (b) on upgrade/renewal programmes showing the actual of the prior year, the adjusted budget and actual expenditure in the current year?				Stakeholders may not be aware of expenditure spent on new and upgrade/renewal capital projects.	An Appendix M detailing capital expenditure new assets programmes and upgrade/renewal programmes should be included.
38	Circular 63	Is an Appendix N on all capital projects in the current financial year, indicating the adjusted budget, actual in the current year and the variance?				Stakeholders may not be aware of the progress of capital projects.	An Appendix N on progress with capital expenditure should be included.
39	Circular 63	Is an Appendix O included on all capital projects per ward in the current financial year and if the work was completed or not?				Stakeholders may not be aware in which wards capital projects are being undertaken.	An Appendix O should indicate all capital projects per ward in the current financial year and if the work was completed or not.
40	Circular 63	Is an Appendix P included on service connection backlogs at schools and clinics with there names and location?				Stakeholders may not be aware of the service connection backlogs at schools and clinics.	An Appendix P should indicate all service connection backlogs at schools and clinics .
41	Circular 63	Is an Appendix Q included with all service backlogs experienced by the community where another sphere of government is responsible for providing the service?				Stakeholders may not be aware of service backlogs being experienced by the community where another sphere of government is responsible for providing the service.	An Appendix Q should indicate all service backlogs experienced by the community where another sphere of government is responsible for providing the service.
42	Circular 63	Is an Appendix R included listing all organisations or person in receipt of loans and grants; stating the nature of the projects funded, conditions attached and the rand value?				Stakeholders may not be aware of organisations or persons receiving loans and grants.	An Appendix R should detail all organisations or person in receipt of loans and grants; stating the nature of the projects funded, conditions attached and the rand value.
43	Circular 63	Is an Appendix S included listing all monthly MFMA S71 budget statements not submitted in time?				Stakeholders may not be aware of the inaccurate and irregular reporting.	An Appendix S should list all monthly MFMA S71 budget statements not submitted in time.
44	Circular 63	Is an Appendix T included for powers and functions not covered in other sections of the annual report?				Stakeholders may not be aware of all the powers and functions being delivered.	An Appendix T should indicate powers and functions not covered in other sections of the annual report.
45	Circular 63	Have all components of the audited financial statements, as signed by the auditor-General, been included in the annual report in Volume 2?				Stakeholders will not have assurance that the financial information fairly presents the financial position of the municipality.	The audited financial statements to appear in Volume II of the annual report. a) Summary of operating results presented by the CFO, including - Operating revenue - Operating expenditure - Operating results per service - Capital expenditure and financing - external loans, investments and cash b) Statement of financial position c) Statement of financial performance d) Statement of changes in net assets e) Cash flow statement f) Accounting policies g) Notes to financial statements
Public Participation and Oversight							
46	MFMA s127(5)	At the end of the most recent financial year, immediately after the annual report was tabled in council, was the annual report; - made public and the local community invited to make representations, and - submitted to the Auditor-General, provincial treasury and the provincial department responsible for local government?				Compliance procedures may be omitted.	Proof of: - how the annual report was made public and the local community were invited to make representations, and - submissions to the Auditor-General, provincial treasury and the department responsible for local government must be retained.
47	MFMA s127(1)	Did all municipal entities submit their annual reports to the parent municipality within six months of the financial year end?				Completion of the municipality's annual report may be delayed.	Proof of submitting the annual report must be retained.
48	MFMA s127(2)	Did the mayor table the annual report of the municipality and any entity, in council within seven months after the end of the financial year?				Completion of the municipality's annual report may be delayed.	Minutes of the council meeting where the Mayor tabled the annual report must be drafted, approved and filed in a safe place.
49	MFMA s127(3)(a)	If the report was not submitted within seven months of the financial year end, did the mayor submit to council written explanations why the annual report was not submitted within seven months, setting out the reasons for the delay, together with components of the annual report that were ready?				Completion of the municipality's annual report may be delayed.	Minutes of the council meeting where the Mayor tabled the explanations and reasons must be drafted, approved and filed in a safe place.
50	MFMA s127(3)(b)	If applicable, were the outstanding components of the annual report subsequently submitted to council?				Completion of the municipality's annual report may be delayed.	Minutes of the council meeting where the outstanding components were submitted must be drafted, approved and filed in a safe place.
51	MFMA Circular 32	Are executive councillors and municipal officials precluded from being members of the MPAC or Oversight committees?				There cannot be oversight if officials and executive report on their own work.	Non-executive councillors and municipal officials must not form part of an Oversight Committee. Assistance from the Audit Committee and the community is recommended.

52	MFMA S129	Did council adopt the oversight report containing the council's comments on the annual report, within two months after the annual report was tabled in the council?				The completion of the annual report may be delayed.	The council resolution at which the oversight report was adopted should be attached to the Oversight Report.
53	MFMA S129(1)	Did the oversight report state an opinion on the annual report?				The annual report may not be a fair reflection on the state of affairs.	The oversight report must state whether council either; (i) approved the annual report with or without reservations; (ii) rejected the annual report; (iii) referred the annual report back for revision of those components that can be revised.
54	MFMA S129(2)	Did the accounting officer attend council and council committee meetings where the annual report was discussed and were copies of the minutes of the meetings submitted to the Auditor-General, Provincial Treasury and the Provincial Department responsible for local government?				The municipal manager may not be available to account and respond to issues in the annual report.	The municipal manager must attend all meetings where the annual report is discussed and minutes should be taken, approved and attached to the annual report.
55	MFMA S129(3)	Was the oversight report made public within seven days of its adoption, by displaying the documents (i) at the municipal head offices, satellite offices and libraries, (ii) the municipality's official website, (iii) By notifying the community the place where detailed particulars of the oversight report can be obtained.				Clear accountability to the public may be compromised.	The public should be given a fair opportunity to give input into the oversight report.
56	MFMA S130	Were the public and organs of state allowed a fair opportunity to give inputs to the annual report?				The public and other organs of state may not agree with the final contents of the annual report if they were not given an opportunity to comment.	The meetings of the council at which the annual report is discussed or at which decisions concerning the annual report were taken must be; (i) open to the public and any organs of the state, and (ii) reasonable time allowed for the discussion of any written submissions received from the local community or organs of the state on the annual report.

Summary Score Sheet



Uniform Financial Ratios and Norms

The purpose of this Circular is to provide a set of uniform key financial ratios and norms suitable and applicable to municipalities and municipal entities. Section 216 (1)(c) of the Constitution and section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities.

A number of institutions currently use a variety of financial ratios and norms to assess and compare the financial health and performance of municipalities. Municipalities also use different financial ratios and norms to assess their own performance and set benchmarks for improvement to be measured over time. Results of our research show that there are in excess of two hundred different sets of financial ratios, with different derivatives used to assess municipality's financial status. This results in conflicting interpretation, inconsistent application and misunderstanding of the financial status of a municipality, often with incorrect diagnosis of the challenges and therefore inappropriate responses.

This Circular aims to bring consistency in interpretation and application of certain financial information using standardised financial ratios. It is important that any one of these ratios should not be read in isolation of one another, as this could lead to distortions in interpretation. Ideally, a number of interrelated ratios should be analysed together in order to get a broader picture of a municipality's or municipal entity's financial performance. When used in a combined manner analysis of different ratios will provide policy makers and the public with a very good sense of the financial status of the municipality and its entity. This Circular will also assist in municipalities being able to identify areas of financial management that need constant monitoring and improvement.

The Circular addresses different categories of ratios norms, interpretation and covers various aspects of a municipality's finances, such as financial position, financial performance and budget implementation, so that these can be used as part of in-year and end of year analysis. This will also aid in long-term financial planning and can be used to track progress over a number of years. Each ratio is explained to remove ambiguity and misinterpretation. The source of such information is also explained in the annexures to this Circular. Norms or standards have been assigned to each financial ratio, which are explained later in this Circular.

Categorisation Financial Ratios, Formulas, Norms and Interpretation

Categorisation

In order to perform a holistic financial analysis of a municipality or municipal entity all financial aspects of the institution should be considered. Ratios are divided into various

categories to address the different financial aspects and operations of a municipality or municipal entity.

- 1) **Financial Position**
- 2) **Financial Performance**
- 3) **Budget Implementation**

Financial Ratios, Formulas, Norms and Interpretation

The ratios presented in this Circular are categorised in accordance with the previous section, and are presented in further detail to include the following:

- Purpose/ description of the Financial Ratio;
- Formula to be Used;
- Norms per Ratio; and
- Interpretation of Ratio Analysis Results.

Tables that provide a summary of the financial ratios, formulas, data source and norms are presented in Annexure 1.

1. FINANCIAL POSITION

A. Asset Management

1. Capital Expenditure to Total Expenditure

Purpose/Description of the Ratio

This Ratio is used to assess the level of Capital Expenditure to Total Expenditure, which indicates the prioritisation of expenditure towards current operations *versus* future capacity in terms of Municipal Services.

Formula

Total Capital Expenditure / Total Expenditure (Total Operating Expenditure + Capital Expenditure) × 100

Norm

The norm range between **10% and 20%**

Interpretation of Results

When assessing the level of Investment in Assets, a ratio less than 10% reflects lower spending by the municipality in infrastructure and holds potential risks to service delivery. A ratio of more than 20% reflects higher spending on infrastructure and acceleration in service delivery, but could also hold financial sustainability risks if the infrastructure do not include both economic (revenue generating) and social type infrastructure.

The environment of the municipality should be considered when assessing the level of Investment in Assets. A municipality that has already invested in assets to address service delivery backlogs, would be required to maintain and improve such service levels, and therefore the percentage of spending allocated to new assets may not be significant higher.

On the other hand a municipality where the infrastructure and level of services provided is low and the associated expenditure is also low, the percentage of investment in new assets to total expenditure would be significantly higher.

The results from this ratio should be read together with the results from the analysis of the funding mix for capital expenditure.

It is critical that capital expenditure is largely directed toward service delivery infrastructure and not administrative assets.

2. Impairment of Property, Plant and Equipment and Investment Property and Intangible Assets (Carrying Value)

Purpose/ Description of the Ratio

Asset impairment refers to the loss in future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

This implies that the utilisation of assets did not deliver the value or service levels envisaged when approval was originally obtained for procuring the assets. When the approval is obtained to invest in Property, Plant and Equipment or Intangible Assets by the Municipality or Municipal Entity, the value should be realised through utilisation and reflected as Depreciation and not through unexpected losses due the Impairment of Property, Plant and Equipment or Intangible Assets. Impairment is therefore unexpected and only detected when the assessment for Impairment is performed as per the requirements of the applicable GRAP standards. It is therefore not planned for or expected and will not be budgeted.

Formula

Property, Plant and Equipment + Investment Property + Intangible Assets Impairment/ (Total Property, Plant and Equipment + Investment Property + Intangible Assets) x 100

Norm

The norm is **0%**

Interpretation of Results

The purpose of the Ratio is to indicate the percentage of Impairments compared to the Carrying Value of the Assets; a ratio above 0% reflects a risk in service delivery and therefore corrective measures should be implemented.

3. Repairs and Maintenance as a % of Property, Plants and Equipment and Investment Property (Carrying Value)

Purpose/ Use of the Ratio

The Ratio measures the level of repairs and maintenance to ensure adequate maintenance to prevent breakdowns and interruptions to service delivery. Repairs and maintenance of municipal assets is required to ensure the continued provision of services.

Formula

Total Repairs and Maintenance Expenditure / Property, Plant and Equipment and Investment Property (Carrying Value) x 100

Norm

The norm is **8%**

Interpretation of Results

A ratio below the norm is a reflection that insufficient monies are being spent on repairs and maintenance to the extent that it could increase impairment of useful assets.

An increasing expenditure trend may be indicative of high asset-usage levels, which can prematurely require advanced levels of Repairs and Maintenance or a need for Asset Renewal / Replacements. Also, should an increasing expenditure trend suddenly drop to lower levels without an increase in the fixed asset value, this may be indicative of challenges in spending patterns. This may also indicate that the Municipality is experiencing cash flow problems and therefore unable to spend at

appropriate levels on its repairs to existing assets or purchase of new assets thus impacting negatively on service delivery.

B. Debtors Management

1. Collection Rate

Purpose/ Use of the Ratio

The Ratio indicates the collection rate; *i.e.* level of payments. It measures increases or decreases in Debtors relative to annual billed revenue. In addition, in order to determine the real collection rate bad debts written-off is taken into consideration.

Formula

Gross Debtors Opening Balance + Billed Revenue – Gross Debtors Closing Balance - Bad Debts Written Off) / Billed Revenue x 100

Norm

The norm is **95%**

Interpretation of Results

Assessing the Collection Ratio will provide an indication of the performance against a number of areas, for example:

- Quality of Credit Control - ensuring that what is billed is collected; and
- Quality of Revenue Management - the ability to set affordable tariffs and bill correctly.

If the ratio is below the norm this is an indication that revenue collection of the municipality requires urgent attention and corrective measures should be implemented. A municipality with outstanding debtors should aim at achieving a collection rate of more than 100%. The results from this ratio should be viewed along with results from the age analysis and net debtor's day's ratio.

2. Bad Debts Written-off as % of the Bad Debt Provision

Purpose/ Use of the Ratio

The Ratio compares the value of Bad Debts Written-off on Consumer Debtors to Bad Debts Provided for Consumer Debtors to ensure that the Provision for Bad Debts is sufficient.

Formula

Bad Debts Written-off (Period under review)/ Provision for Bad Debt (Period under review x 100

Norm

The norm is **100%**

Interpretation of Results

Municipality should only write-off Bad Debts already provided for and, if the results are less than 100%, it should be ideally due to the recoverability of debtors. When 100% is exceeded, it indicates that the Municipality had not previously identified the Debtor/s as having the potential for defaults, which could indicate weakness in calculation of the Provision for Bad Debt, the methodology used and/or poor credit control processes.

3. Net Debtors Days**Purpose/ Use of the Ratio**

This ratio reflects the collection period. Net Debtor Days refers to the average number of days required for a Municipality or Municipal Entity to receive payment from its Consumers for bills/invoices issued to them for services.

The Ratio exclude balances for Debtors, which the Municipality or Municipal Entity has assessed as potentially irrecoverable, and is also a good indication of the effectiveness of credit control procedures within the Municipality or Municipal Entity as well as the extent to which the Municipality or Municipal Entity has provided for Doubtful Debts.

Formula

$((\text{Gross Debtors} - \text{Bad Debt Provision}) / \text{Billed Revenue}) \times 365$

Norm

The norm is **30 Days**

Interpretation of Results

This Ratio adjusts for Municipality's who have had significant write-offs of Irrecoverable Debtor balances in the Gross Debtors Days analysis as it only assesses the performance of collectable Debtors. In addition, it provides an indication of the quality of credit control policy, effectiveness of the implementation thereof and quality of revenue management. If the ratio is above the norm, this indicates that the Municipality is exposed to significant Cash Flow risk. This is also an indication that the municipality is experiencing challenges in the collection of outstanding amounts due to it. In addition,

this indicates that a significant amount of potential cash is tied up in consumer debtors and the municipality must improve its revenue and cash flow management.

C. Liquidity Management

1. Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants)

Purpose/ Use of the Ratio

The Ratio indicates the Municipality's or Municipal Entity's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue, during that month.

The Ratio is adjusted for Unspent Conditional Grants as the cash is not available for normal Municipal day-to-day operational expenditure but rather reserved for Grant related expenditure.

Formula

((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, and Provision for Bad Debts, Impairment and Loss on Disposal of Assets)).

Norm

The norm range between **1 month to 3 months**.

Interpretation of Results

If a municipality has a ratio below the norm it would be vulnerable and at a higher risk in the event of financial "shocks/set-backs" and its ability to meet its obligations to provide basic services or its financial commitment is compromised. The results from this ratio should be viewed along with results from analysis on Debtor Management to fully assess Cash Flow Risk. The more cash reserves a municipality or municipal entity has available the lower the risk of it being unable to fund monthly fixed operational expenditure and to continue rendering services.

2. Current Ratio

Purpose/ Use of the Ratio

The Ratio is used to assess the Municipality's or Municipal Entity's ability to pay back its Short-term Liabilities (Debt and Payables) with its Short-term Assets (Cash, Inventory, Receivables).

Formula

Current Assets / Current Liabilities

Norm

The norm range between **1.5 to 2 :1**

Interpretation of Results

The higher the current Ratio, the more capable the Municipality or Municipal Entity will be to pay its current or short-term obligations and provide for a risk cover to enable it to continue operations at desired levels. A financial ratio under 1 suggests that the Municipality or Municipal Entity would be unable to pay all its current or short-term obligations if they fall due at any specific point.

If current liabilities exceed current assets, it highlights serious financial challenges and likely liquidity problems *i.e.* insufficient cash to meet short-term financial obligations. Current assets must therefore be increased to appropriately cover current liabilities otherwise there is a risk that non-current assets will need to be liquidated to settle current liabilities.

D. Liability Management**1. Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure****Purpose/ Use of the Ratio**

The Ratio indicates the cost required to service the borrowing. It assesses the Borrowing or Payment obligation expressed as a percentage of Total Operating Expenditure.

Formula

Capital Cost (Interest Paid and Redemption) / Total Operating Expenditure x 100

Norm

The norm is between **6% to 8%**

Interpretation of Results

Operating below the Norm could indicate that the Municipality has the capacity to take on additional financing from borrowing to invest in infrastructure projects or it could relate to cash flow problems where it is unable to access borrowed funds or the funding decisions of the municipality impacts of these levels. On the other hand, exceeding the Norm could pose a risk to the Municipality should changes or fluctuations in financing costs arise.

When assessing this ratio, the cash flow requirements of the Municipality or Municipal Entity should also be considered.

2. Debt (Total Borrowings)/ Total Operating Revenue

Purpose/ Use of the Ratio

The Ratio indicates the extent of Total Borrowings in relation to Total Operating Revenue. It indicates short and long term debt financing relative to operating revenue of the municipality.

The purpose of the Ratio is to provide assurance that sufficient Revenue will be generated to repay Liabilities. Alternatively stated, the Ratio indicates the affordability of the Total Borrowings.

Formula

Debt (Short Term Borrowing + Bank Overdraft + Short Term Lease + Long Term Borrowing + Long Term Lease) / Total Operating Revenue - Operating Conditional Grant

Norm

The norm is **45%**

Interpretation of Results

If the result of the Ratio analysis indicates less than 45% then the Municipality still has capacity to take increase funding from borrowings, however, this should be considered within the cash flow requirements of the Municipality or Municipal Entity.

E. Sustainability

1. Level of Cash Backed Reserves (Net Assets - Accumulated Surplus)

Purpose/ Use of the Ratio

The Ratio measures the extent to which the Other Reserves, which are required to be cash backed are actually backed by Cash Reserves.

Formula

(Cash and Cash Equivalents - Bank Overdraft + Short Term Investment + Long Term Investment - Unspent Conditional Grants) / (Net Assets - Accumulated Surplus – Non Controlling Interest – Share Premium – Share Capital – Fair Value Adjustment – Revaluation Reserve)

Norm

The norm is **100%**

Interpretation of Results

If a Municipality or Municipal Entity has less than 100% Cash Reserves it could negatively impact the Municipality's or Municipal Entity ability to comply with the conditions for creating the Reserves and on its ability to fund current and future operations.

2. FINANCIAL PERFORMANCE**A. Efficiency****1. Net Operating Surplus Margin****Purpose/ Use of the Ratio**

The Ratio assesses the extent to which the Municipality generates Operating Surpluses.

Formula

$(\text{Total Operating Revenue} - \text{Total Operating Expenditure}) / \text{Total Operating Revenue} \times 100\%$

Norm

The norm is equal to or greater than **0%**

Interpretation of Results

Municipalities should at least recover operational costs for the services being delivered. In addition, a ratio which is greater than 0% will enable the municipality to generate a surplus which will assist to contribute towards its capital funding requirements. If the result is less than 0% it implies that the municipality is operating at a deficit and measures must be implemented to address this situation to ensure sustainable service delivery. In a case of an operating deficit it is critical to ascertain the extent to which the accounting policy, i.e. revaluation method has impacted on the calculations to avoid any distortions in interpretation of the outcome. Refer to Circular 58 section 4.3 regarding revaluation in terms of GRAP 17 and treatment of depreciation and GRAP 24.

2. Net Surplus /Deficit Electricity**Purpose/ Use of the Ratio**

This ratio measures the extent to which the municipality generates surplus or deficit in rendering electricity service. The purpose of the Ratio is to determine the contribution

made by the provision of Electricity Services, being one of the major functions of a municipality.

Formula

Total Electricity Revenue less Total Electricity Expenditure / Total Electricity Revenue x 100%

Norm

The Norm range between **0% and 15%**

It should be noted that this norm will be superseded by sector determinations from time to time, as other regulatory bodies address the appropriate level of tariffs and surpluses.

Interpretation of Results

A ratio below 0% depicts that electricity service is rendered at a deficit/loss and will be unsustainable if other revenue is not allocated to fund such services. The results must be between the range to ensure services are sustainable and that all costs associated with the delivery of Electricity Services are at least recovered with a margin for future growth and/ or capital funding for electricity assets.

3. Net Surplus / Deficit Water

Purpose/ Use of the Ratio

This ratio measures the extent to which the municipality generates surplus or deficit in rendering water service. The purpose of the Ratio is to determine the contribution made by the provision of water service being one of the major functions of a municipality.

Formula

Total Water Revenue less Total Water Expenditure / Total Water Revenue x 100%

Norm

The norm is equal to or greater than **0%** and will be superseded by the sector determination from time to time, as other regulatory bodies address the appropriate level of tariffs, surpluses and subsidisation.

Interpretation of Results

A ratio below 0% depicts that water service is rendered at a loss and unsustainable. The results must not be below the norm so as to ensure that the Services are sustainable and that all costs associated with the delivery of Water Services are at least recovered with a margin for future growth and/ or capital funding for water assets.

4. Net Surplus /Deficit Refuse

Purpose/ Use of the Ratio

This ratio measures the extent to which the municipality generates surplus or deficit in rendering refuse service. The purpose of the Ratio is to determine the contribution made by the provision of refuse service being one of the major functions of a municipality.

Formula

Total Refuse Revenue less Total Refuse Expenditure /Total Refuse Revenue x 100%

Norm

The Norm is equal to or greater than **0%** and will be superseded by the Sector determination from time to time, as other regulatory bodies address the appropriate level of tariffs, surpluses and subsidisation.

Interpretation of Results

A ratio below 0% depicts that refuse service is rendered at a loss and unsustainable. The results must not be below the norm so as to ensure that the Services are sustainable and that all costs associated with the delivery of Refuse Services are at least recovered with a margin for future growth and/ or capital funding for Refuse assets.

5. Net Surplus / Deficit Sanitation and Waste Water

Purpose/ Use of the Ratio

This ratio measures the extent to which the municipality generates surplus or deficit in rendering sanitation and waste water service. The purpose of the Ratio is to determine the contribution made by the provision of sanitation and waste water services being one of the major functions of a municipality.

Formula

Total Sanitation and Waste Water Revenue less Total Sanitation and Waste Water Expenditure / Total Sanitation and Waste Water Revenue x 100%

Norm

The norm is equal to or greater than **0%** and will be superseded by the sector determination from time to time, as other regulatory bodies address the appropriate level of tariffs, surpluses and subsidisation.

Interpretation of Results

A ratio below 0% depicts that sanitation and waste water is rendered at a loss and unsustainable. The results must not be below the norm so as to ensure that the Services are sustainable and that all costs associated with the delivery of sanitation and waste water are at least recovered with a margin for future growth and / or capital funding for assets.

B. Distribution Losses

1. Electricity Distribution Losses (Percentage)

Purpose/ Use of the Ratio

The purpose is to measure the percentage loss of potential revenue from Electricity Services through electricity units purchased and generated but not sold as a result of losses incurred through theft (illegal connections), non or inaccurate metering or wastage. It is expected that implementation of the free basic service policy is included in the calculation for sale of electricity.

Formula

(Number of Electricity Units Purchased and / or Generated - Number of Electricity Units Sold) / Number of Electricity Units Purchased and / or Generated) x 100

Norm

The Norm is between **7% and 10%** and will be superseded by the sector determination.

Interpretation of Results

A ratio below the norm depicts that electricity losses are well managed. If the Ratio exceeds the norm it could indicate various challenges, for example, deteriorating electricity infrastructure or poor management of the networks, affecting the Municipality or Municipal Entity, which would require further analysis to determine the reasons for such losses. In addition, the root causes should be addressed.

2. Water Distribution Losses (Percentage)

Purpose/ Use of the Ratio

The purpose of this ratio is to determine the percentage loss of potential revenue from water service through kilolitres of water purchased but not sold as a result of losses incurred through theft (illegal connections), non- or incorrect metering or wastage as a result of deteriorating water infrastructure. It is expected that implementation of the free basic service policy is included in the calculation for sale of water.

Formula

$$\frac{(\text{Number of Kiloliters Water Purchased or Purified} - \text{Number of Kilolitres Water Sold})}{\text{Number of Kiloliters Water Purchased or Purified}} \times 100$$

Norm

The Norm is between **15% and 30%**

Interpretation of Results

A ratio within the norm depicts that water losses and water infrastructure are well managed. If the Ratio exceeds the norm it could indicate various challenges, for example, ageing water infrastructure or poor management, affecting the Municipality or Municipal Entity, which would require further analysis and explanation to determine the reasons for such losses. In addition, the root causes should be addressed.

C. Revenue Management**1. Growth in Number of Active Consumer Accounts****Purpose/ Use of the Ratio**

The ratio measures the actual growth in the Revenue base of the Municipality brought about by an increase in the Consumer base rather than tariff increases.

Formula

$$\frac{(\text{Period under Review's Number of Active Debtor Accounts} - \text{Previous Period's Number of Active Debtor Accounts})}{\text{Previous Period Number of Active Debtor Accounts}} \times 100$$

Norm

No Norm is currently being proposed for this Ratio but will be monitored and a determined in the future. Municipalities are requested to report on this aspect to its Council.

Interpretation of Results

The results from this analysis will have to be taken into consideration when assessing the Growth in Revenue to determine the Real Growth in the Customer base vs growth due to tariff and inflationary adjustments. Growth in number of active consumers indicates an increase in revenue base.

Further, the impact of growth on the Indigent Base vs Growth in Paying Consumers should be assessed regularly as this must be used to inform Councils policy.

2. Revenue Growth (%)

Purpose/ Use of the Ratio

This Ratio measures the overall revenue growth. In addition, this ratio will assist in determining if the increase in Expenditure will be funded by an increase in Revenue base or by some other means.

Formula

$$\frac{(\text{Period Under Review's Total Revenue} - \text{Previous Period's Total Revenue})}{\text{Previous Period's Total Revenue}} \times 100$$

Norm

The norm is at the rate of **CPI**

Interpretation of Results

The Revenue Growth has to be assessed in conjunction with the growth in the Revenue base and number of consumer accounts to determine the real Growth in Revenue.

3. Revenue Growth (%) - Excluding Capital Grants

Purpose/Use of the Ratio

This Ratio measures the overall Revenue Growth adjusted for Capital Grants. In addition, this ratio will assist in determining if the increase in Expenditure will be funded by the increased Revenue Base or by some other means.

Formula

$$\frac{((\text{Period Under Review's Total Revenue Excluding Capital Grants} - \text{Previous Period's Total Revenue Excluding Capital Grants}))}{\text{Previous Period's Total Revenue Excluding Capital Grants}} \times 100$$

Norm

The norm is at the rate of **CPI**

Interpretation of Results

The Revenue Growth has to be assessed in conjunction with the growth in the Revenue base, number of consumer accounts to determine the real Growth.

D. Expenditure Management

1. Creditors Payment Period (Trade Creditors)

Purpose/ Use of the Ratio

This ratio indicates the average number of days taken for Trade Creditors to be paid.

Formula

Trade Creditors Outstanding / Credit Purchases (Operating and Capital) × 365

Norm

The norm is **30 days**

Interpretation of Results

A period of longer than 30 days to settle creditors is normally an indication that the Municipality may be experiencing cash flow problems, however in certain instances this may be as a result of disputes, processing of payments, etc. In addition, a ratio that exceeds the norm indicates that the Municipality may not be adequately managing its Working Capital or that effective controls are not in place to ensure prompt payments. The municipality will be required to provide further explanations in this regard.

2. Irregular, Fruitless and Wasteful and Unauthorised Expenditure/ Total Operating Expenditure

Purpose/ Use of the Ratio

The ratio measures the extent to which the Municipality has incurred Irregular, Fruitless and Wasteful and Unauthorised Expenditure.

Formula

(Irregular, Fruitless and Wasteful and Unauthorised Expenditure) / Total Operating Expenditure × 100

The net amount after condonement should be used in this calculation.

Norm

The norm is **0%**

Interpretation of Results

A ratio that exceeds 0% must be investigated and acted upon.

3. Remuneration (Employee Related Costs and Councillors Remuneration) as % of Total Operating Expenditure)

Purpose/ Use of the Ratio

The ratio measures the extent of Remuneration to Total Operating Expenditure.

Formula

Remuneration (Employee Related Costs and Councillors' Remuneration) / Total Operating Expenditure x 100

Norm

The norm range between **25% and 40%**

Interpretation of Results

If the ratio exceed the norm it could indicate inefficiencies, overstaffing or even the incorrect focus due to misdirected expenditure to non-essentials or non-service delivery related expenditure. Various factors need to be considered when commenting on this ratio, such as the powers and functions performed by the municipality or entity, as this can create distortions in the outcomes, if the analysis ignores such factors.

4. Contracted Services % of Total Operating Expenditure

Purpose/ Use of the Ratio

This ratio measures the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions.

Formula

Contracted Services / Total Operating Expenditure x 100

Norm

The norm range between **2% and 5%**

Interpretation of Results

A ratio in excess of the Norm could indicate that many functions are being outsourced to Consultants, or that Contracted Services are not effectively utilised. This also depends on the model of service delivery selected by the municipality. In addition, outsourcing decisions will have to be weighed against the ability to attract skills; however, increases in this ratio can further expose the municipality to other risks, such as its inability to build capacity and ongoing reliance on Contractors.

E. Grant Dependency**1. Own Funded Capital Expenditure (Internally Generated Funds + Borrowings) to Total Capital Expenditure****Purpose/ Use of the Ratio**

The Ratio measures the extent to which the municipality's Total Capital Expenditure is funded through Internally Generated Funds and Borrowings.

Formula

Own Funded Capital Expenditure (Internally Generated Funds + Borrowings) / Total Capital Expenditure x 100

Norm

No norm is proposed at this time. It is critical that the funding mix of capital expenditure is undertaken in such a manner that affordable borrowing is directed towards addressing service delivery needs and that there is also opportunity for increased capacity on internally generated funding to attain an improved balance of the funding sources.

2. Own Funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure**Purpose/ Use of the Ratio**

The Ratio measures the extent to which Total Capital Expenditure of the Municipality is funded through Internally Generated Funds.

Formula

Own funded Capital Expenditure (Internally Generated Funds) / Total Capital Expenditure x 100

Norm

No norm is proposed at this time. The funding mix for capital expenditure is dependent on the municipal policy and ability to raise revenue from different sources. Increased capacity for internally generated funding is required in some circumstances, which could also improve the balance in funding sources.

3. Own Source Revenue to Total Operating Revenue (Including Agency Revenue)**Purpose/ Use of the Ratio**

The Ratio assesses the extent of Own Source Revenue to Total Operating Revenue, including Agency Revenue hence self-sufficiency.

Formula

Own Source Revenue (Total Revenue - Government Grants and Subsidies – Public Contribution and Donations)/ Total Operating Revenue (Including Agency Services) x 100

Norm

No norm is proposed at this time. The municipal specific circumstances, including the powers and functions assigned to it, must be considered when assessing the level of own source revenue or its self-sufficiency. An analysis of the trends and levels of own source of revenue will also inform the municipality and users of measures taken to optimise own revenues. The ratio measuring own source revenue should be increasing over time as it reflects municipal efforts towards self-sufficiency.

3. BUDGET IMPLEMENTATION**1. Capital Expenditure Budget Implementation Indicator****Purpose/ Use of the Ratio**

This ratio measures the extent to which Budgeted Capital Expenditure has been spent during the financial year, under review. Further, this ratio measures the municipality's ability to implement capital projects and monitor the risks associated with non-implementation. The ratio also assess whether the municipality has effective controls in place to ensure that expenditure is incurred in accordance with an approved budget.

Formula

Actual Capital Expenditure / Budget Capital Expenditure x 100

Norm

The norm range between **95% and 100%**

Interpretation of Results

This can be used in-year to monitor progress. Any variance below 95% indicates discrepancies in planning and budgeting, capacity challenges to implement projects and/or Supply Chain Management process failures, which should be investigated and corrective measures implemented.

Under-spending is also an indicator that the Municipality might be experiencing possible cash flow difficulties to implement projects. Ideally, under-spending should be the result of improved efficiencies and not as a result of non-implementation of programmes and/or projects.

Overspending may also indicate inaccurate budgeting or poor financial management control.

2. Operating Expenditure Budget Implementation Indicator

Purpose/ Use of the Ratio

This ratio measures the extent to which Budgeted Operating Expenditure has been spent during the financial year, under review. The ratio also assess whether the municipality has effective controls in place to ensure that expenditure is incurred in accordance with an approved budget.

Formula

Actual Operating Expenditure / Budgeted Operating Expenditure x 100

Norm

The norm range between **95% and 100%**

Interpretation of Results

Any variance from 100% indicates either challenge in capacity to implement, issues of financial controls and management and/or poor budgeting.

Under-spending normally is an indicator that the Municipality experiences possible Cash Flow difficulties or capacity challenges to undertake Budgeted/ planned service delivery, and/ or does not prepare accurate and credible Budgets. Ideally, under-spending should be the result of improved efficiencies and not as a result of non-implementation of programmes and/or projects.

Overspending may also indicate inaccurate budgeting or poor financial management control in respect of budget control.

3. Operating Revenue Budget Implementation Indicator

Purpose/ Use of the Ratio

This ratio measures the extent of Actual Operating Revenue (Excl. Capital Grant Revenue) received in relation to Budgeted Operating Revenue during the financial year, under review.

Formula

Actual Operating Revenue / Budgeted Operating Revenue x 100

Norm

The norm range between **95% and 100%**

Interpretation of Results

A ratio below 95% indicates either a challenge in capacity to implement, ineffective billing and credit control, weakness in compilation of budgets or issues of financial controls and management of the Municipality.

4. Service Charges and Property Rates Revenue Budget Implementation Indicator**Purpose/ Use of the Ratio**

The ratio measures the extent of Actual Service Charges and Property Rates Revenue received in relation to Budgeted Service Charges and Property Rates Revenue during the financial year, under review.

Formula

Actual Service Charges and Property Rates Revenue / Budgeted Service Charges and Property Rates Revenue x 100

Norm

The norm range between **95% and 100%**

Interpretation of Results

A ratio below 95% indicates either a challenge in capacity to implement, ineffective billing and credit control, weakness in compilation of budgets or issues of financial controls and management of the Municipality.

Monitoring

It is important that these indicators are not seen or used in isolation of one another but used in a combined manner so as to provide a holistic picture of the financial status of the municipality or municipal entity. Poor outcomes with relation to these indicators can also point to weaknesses in Institutional and Governance aspects in a municipality that need attention. Therefore, Councillors, Municipal Managers, Chief Financial Officers, Accounting Offices of Municipal Entities, and all financial officials should derive benefits from a deeper understanding of these Ratios and Norms and their implications. The primary responsibility to avoid, identify and resolve financial problems in a municipality rests with the municipality and proper monitoring and use of these indicators, will support decision-makers overcome such challenges.

The use of these Ratios and Norms should assist Municipalities and Municipal Entities to predict, identify, prevent, avoid, and resolve financial problems/crisis timeously and serve as an early warning mechanism. Moreover, this will ensure that Municipalities and Municipal Entities make strategic decisions based on empirical and factual information and analysis for a sustainable outcome. Monitoring and trend analysis of these ratios is critical to ensure that measures are introduced to address areas needing attention and that there is progressive improvements of municipalities own position against the norms. These indicators and their norms, when viewed holistically, provide an overview of the financial position and performance of the Municipalities and Municipal Entities, while recognising institutional differences. Sound and effective financial management practices form the basis for an effective long term sustainable municipality.

The oversight role played by the Municipal Executive, Audit Committee, and Municipal Public Account Committee will also be enhanced with the use of these financial Ratios and Norms through implementation and reporting of financial information. The financial ratios and norms will strengthen financial management and accountability and be used throughout the cycle - integrated development plans (including long term financial plan), budgets, in-year reports for example section 52, 71 and 72 reports, annual financial statements, annual report and oversight reports. Comparison with other municipalities is now possible.

An Excel template has been developed (Annexure 2 of this Circular) to assist municipalities and Municipal Entities to populate relevant financial information, automate calculations, and assist in interpretation thereof.

These Ratios and Norms will be used to assess financial position and performance, quality of budgeting, management, and other characteristics of Municipalities and Municipal Entities, and should holistically provide an overview of the financial health of the Municipality or Municipal Entity, taking the respective and unique circumstances into account. Benchmarking and comparisons between Municipalities and Municipal Entities can also be undertaken, made simpler in future, and will further assist in targeting assistance and support, where needed.

Different institutions including, financial institutions, research organisations, rating agencies, national and provincial government, legislatures, amongst others, can use these uniform set of financial indicators, ratios and norms to monitor the financial position and performance of municipalities.

Implementation

The ratios and norms provided in this Circular and elaborated in the annexures are to be understood in an aspirational context and utilised as soon as possible to enable municipal councils to commence with the process of introducing measures to address areas needing attention. Municipalities and Municipal Entities should take advantage of the transition period, covering the medium term, to allow for progressive improvements of their own status against the ratios and norms.

Conclusion

The variety of financial ratios and norms, over 200, used by various institutions to assess and compare the financial health and performance of Municipalities and Municipal Entities has resulted in confusion across the sector, as users formulate assumptions based on different interpretation of the same financial information.

The Circular creates a uniform categorisation of ratios, standardising formulas and inputs, providing guidance on norms and interpretation of the financial ratio analysis, as applicable to Municipalities and Municipal Entities. There may be other ratios and norms used by analysts that are more appropriate to the financial status of private sector institutions, therefore, the use, differentiation and range described in this Circular should be understood within the context of a public sector institution.

This Circular therefore attempts to address the above challenges and also provide a more structured approach for holistic analysis, taking into cognisance the different type of Municipalities and Municipal Entities. The consistent use of these ratios and norms will assist in reporting accurately the status of municipal finances.

Institutions performing financial ratio analysis for Municipalities and Municipal Entities should therefore refer to this Circular and interpretation therein to ensure uniformity and consistency of application.

It is important that the Municipal Manager ensure that this Circular is brought to the attention of the Municipal Council, Board of Directors of Municipal Entities, relevant oversight structures (Municipal Executive, Audit Committee, and Municipal Public Account) and all other relevant stakeholders. Training providers are also requested to bring this Circular to the attention of trainees.

The introduction and application of these uniform norms, coupled with other financial reforms, will allow for comparisons with different type of municipalities and municipal entities and it is expected that they will replace earlier regulations issued that cover financial ratios and norms as these are based on the latest reforms in financial management.



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Annexure 1: Summary of the financial ratios, norms, formulae and data sources

Annexure 2: Excel template for calculation of the ratios and interpretation of results