



Ratings Afrika

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Press Release:

Update of the Municipal Financial Stability Index (MFSI)

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Introduction

Governance ratings agency Ratings Afrika has published an update of their Municipal Financial Stability Index (MFSI) that was published for the first time last year.

The public attention received by municipalities as a result of poor service delivery, corruption, deteriorating infrastructure and financial mismanagement inspired Ratings Afrika to introduce an independent objective view of the financial stability of the municipalities. The index evaluates the financial position, operating performance, indebtedness and liquidity position of a municipality and scores these components out of 100.

Ratings Afrika defines financial sustainability for a municipality as: "The financial ability to deliver services, develop and maintain the infrastructure required by its residents without unplanned increases in rates and taxes or a reduction in the level of services and the capacity to absorb financial shocks caused by natural, economic and other adversities without external financial assistance."

Results

Ratings Afrika has updated the MFSI with the 2011 financial results of 102 municipalities with interesting results.

The first observation is that it appears as if the general deterioration in the financial stability of the municipalities has been arrested in a number of cases. While the average score had declined from 57 in 2007 to 48 in 2010, it surprisingly moved up one point to 49 in 2011. Although the average is slightly better it might not be a

complete reflection of the facts, since a number of the municipalities that received low scores in 2010 were excluded from the current sample because their 2011 financial statements have not yet been finalised and made available to us.

Average index scores					
Metro/ Province	2007	2008	2009	2010	2011
Metros	56	55	42	41	45
Eastern Cape	47	49	48	49	50
Free State	43	38	35	35	36
Gauteng	60	46	41	40	39
KwaZulu-Natal	57	50	51	51	56
Limpopo	56	51	52	49	48
Mpumalanga	59	55	47	40	42
Northern Cape	54	51	48	56	53
North West	55	52	55	44	43
Western Cape	72	67	65	59	59
Sample average	57	53	50	48	49

Table 1

Although the overall average has improved marginally, the averages of the provinces and metros show mixed results with the metros improving five points; municipalities in four provinces scored better, four weaker and one remained stable.

Because of the importance of the metros as economic hubs and drivers of economic growth in the provinces, we disclose their individual scores. They reveal considerable financial weakness in some while others reflect good stability even while they experience huge service delivery challenges.

Individual scores of the metros					
Metro	2007	2008	2009	2010	2011
Buffalo City	64	65	52	60	59
Cape Town	63	52	53	57	63
Ekurhuleni	71	67	46	35	47
eThekweni	55	70	49	47	53
Johannesburg	35	30	23	22	26
Mangaung	40	49	34	36	43
Nelson Mandela Bay	74	66	45	43	36
Tshwane	46	44	35	34	32

Table 2

Although the average score for the metros improved in 2011 to 45, underpinned by the improvement by five of the eight metros, their average is below the 49 average of the sample which is representative of the national situation.

The lower financial stability of the metros is caused by the huge pressure to develop infrastructure which is only partially funded from own sources, the remainder being funded by borrowed funds. The metros have generally higher leverage than the local municipalities and consequently higher debt servicing costs that impact their operating performance. Because of the higher debt burden the liquidity positions of some of the metros such as Johannesburg and Tshwane have weakened. Johannesburg's liquidity was further hampered by its billing crisis and low revenue collection.

Another possible indication that the municipal finances have reached a turning point, is a reduction in the number of weak municipalities.

Results summary					
Attribute	2007	2008	2009	2010	2011
Number of municipalities with score <35	17	27	27	33	33
Number of municipalities with score <50	36	45	54	62	56
Number of municipalities with score >80	12	7	6	6	5

Table 3

Table 3 indicates that one third of the sample of 102 municipalities have a very low score of less than 35. From 2007 the number of very weak municipalities continued to increase but in 2011 the number seems to have stabilised. Furthermore the number of municipalities with a score of less than 50 has declined from 62 to 56 in 2011, indicating that almost one half on the sample municipalities are now on their way to financial stability.

Although only a handful have scored better than 80, it demonstrates that in spite of the challenges there are still well managed municipalities around. These municipalities normally adhere to good budgetary practices, strict financial control and good revenue collection even during tough economic conditions. Furthermore, they have been consistently receiving high scores since 2007, except for Metsimaholo that has improved dramatically during the review period.

In 2011 KwaDukuza, with its score of 86, is the best performing municipality in the country. It demonstrated very good overall performance with high revenue collections, sound liquidity, modest level of interest-bearing liabilities and a self-funded operating and capital budget. Its operating performance was somewhat hampered by increasing staff costs and its operating margin is considered only average. These were the items that were weaker compared with the other components that make up its overall score.

The results of the best performing municipalities in 2011 by province are:

Best performing by province					
Municipality	2007	2008	2009	2010	2011
EC – Amahlathi (Stutterheim)	75	70	79	80	80
FS – Metsimaholo (Sasolburg)	35	32	48	52	73
GP – Midvaal	56	38	31	38	50
KZN – KwaDukuza (Stanger/Ballito)	80	79	87	84	86
LP – Mogalakwena (Potgietersrus)	83	75	74	79	80
MP – Steve Tshwete	90	88	84	78	74
NC - Emthanjeni (De Aar)	31	31	48	68	66
NW – Tlokwe (Potchefstroom)	80	79	79	80	82
WC – Stellenbosch	86	84	71	80	85
Table 4					

It is also interesting to note that the only other two municipalities with marks higher than 80 are the university towns Stellenbosch and Potchefstroom.

Unfortunately there are also municipalities that reflect extremely low financial stability and they are a cause for concern, as service delivery is adversely affected by the financial constraints of the municipality.

The results of the lowest scoring municipalities in 2011 by province are:

Lowest scoring by province					
Municipality	2007	2008	2009	2010	2011
EC – Kouga (Jeffreys Bay)	75	78	54	23	21
FS – Dihlabeng (Bethlehem)	28	31	32	24	14
GP – Lesedi (Heidelberg)	70	66	51	54	33
KZN - Mtubatuba	61	26	29	42	21
LP – Bela Bela (Warmbaths)	65	59	37	35	26
MP - Lekwa (Standerton)	46	37	17	31	25
NC – Gamagara (Kathu)	62	48	13	42	37
NW – Naledi (Vryburg)	19	23	17	10	10
WC – Bitou (Plettenberg Bay)	86	79	70	31	24
Table 5					

The liquidity positions of the municipalities with the lowest scores, Naledi and Dihlabeng, are very weak. They operate at a deficit and their budgets are unfunded. It is difficult to contemplate how they can operate as going concerns.

Conclusion

From these analyses that constitute the MFSI, it appears as if the municipalities have reached the turning point regarding their financial stability. However, to make such a statement the sample would have to be expanded and we will have to wait for the

2012 financial results to be able to determine if the trend is indeed supported. While this is welcomed, it remains an indictment that more than half of the sample could not achieve a mark of 50, and yet there are others that distinguish themselves by scoring 80 or more. The high scoring municipalities are all over the country, operating in localities with different economic bases. The strongest differentiating factors are probably the skills, experience and quality of management and guidance of the political leadership at the municipal level.