IN THE HIGH COURT OF SOUTH AFRICA
(NORTH WEST DIVISION, MAHIKENG)

Case No: M311/2021

In the matter between:

SAKELIGA NPC	Applicant
and	
THE MEMBER OF THE EXECUTIVE COUNCIL: NORTH WEST PROVINCE HUMAN SETTLEMENT AND TRADITIONAL AFFAIRS	First Respondent
THE MEMBER OF THE EXECUTIVE COUNCIL: NORTH WEST PROVINCE: FINANCE	Second Respondent
THE MINISTER: NATIONAL DEPARTMENT OF COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS	Third Respondent
THE MINISTER OF FINANCE	Fourth Respondent
DITSOBOTLA LOCAL MUNICIPALITY	Fifth Respondent
NALEDI LOCAL MUNICIPALITY	Sixth Respondent
THE PREMIER: NORTH WEST PROVINCE	Seventh Respondent
ESKOM SOC LIMITED	Eighth Respondent
MAGALIES WATER BOARD	Ninth Respondent
SEDIBENG WATER BOARD	Tenth Respondent

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FOURTH RESPONDENT'S SUPPLEMENTARY AFFIDAVIT

I, the undersigned,

MALIJENG NGQALENI

do hereby make oath and state that:

1 I am the Deputy Director-General: Intergovernmental Relations of the National Treasury, whose Executive Authority is the Minister of Finance, the fourth respondent in this matter.

2 By virtue of my position, I am duly authorised to make this supplementary affidavit on behalf of the Minister of Finance, the purpose of which is to update the Court on the developments that have taken place in respect of the fifth respondent ("**Ditsobotla Local Municipality**" or "**Ditsobotla**") and the sixth respondent ("**Naledi Local Municipality**" or "**Naledi**") since the Minister of Finance filed his answering affidavit on 25 August 2021.

3 The facts to which I depose are within my own knowledge, or derived from records under my control, and are true and correct. Where I deal with questions of law, I do so on the advice of the Minister of Finance's legal representatives.

4 As the Minister of Finance does not have an automatic right to file the affidavit, I seek the leave of the Court to file the affidavit. I explain below why I submit with

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respect that leave to file the affidavit ought to be granted in the interests of justice.

5 When the answering affidavit was deposed to, the second respondent ("**North West MEC: Finance**") had met with the mayor and councillors of the fifth respondent on 8 July 2021 and the sixth respondent on 6 July 2021. The parties had engaged on the diagnostic assessment of the state of affairs at each municipality and the MEC had presented the intention to invoke section 139(5)(a) and (c) of the Constitution of the Republic of South Africa, 1996, read with section 139 of the Local Government: Municipal Finance Management Act, no 56 of 2003 ("**MFMA**") ("**the mandatory provincial interventions**").[1] At those meetings, it was agreed, amongst other things, that:

5.1 The municipalities would work with the Provincial Treasury to determine the root causes and the extent of their performance failures.[2]

5.2 Municipal Finance Recovery Services, a unit in National Treasury working with the support of North-West Provincial Treasury would conduct the status quo assessment which would inform the preparation of the financial recovery plan.[3]

6 In Ditsobotla, the status quo assessment was developed as a result of the following processes:[4]

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1 Min of Finance AA para 26 p 627.
2 Min of Finance AA para 26.2 p 627
3 Min of Finance AA para 26.4 p 627.
4 Min of Finance SA annexure "SA1" p 9.

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6.1 An induction session was held for councillors on the section 139 intervention framework in order to get their buy-in as the political leadership of the municipality.

6.2 A formal letter was written to the municipality to request the information needed to perform the status quo assessment.

6.3 A desktop analysis was conducted to assess the state of municipal finance and performance.

6.4 The Project Team engaged municipal officials and other stakeholders in a meeting held on 14 July 2022 to obtain an update on the current status of affairs at the Municipality.

6.5 A meeting was held with representatives of organised labour on 26 July 2022 to provide them with information on the findings emanating from the status quo assessment and to sensitize them to the process being undertaken to develop a Financial Recovery Plan.

6.6 Attempts were made to meet with Ditsobotla's main creditors, but the creditors did not show up.

6.7 Review meetings were held with National Treasury's Municipal Finance Recovery Services ("**MFRS**") unit; North West Provincial Treasury; the Ministry of Cooperative Governance and Traditional Affairs ("**COGTA**"); the South African Local Government Association ("**SALGA**"); and the Municipal Infrastructure Support Agent to obtain input on the draft report

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so as to ensure that the report fulfilled the requirements and the expectations of National Treasury's MFRS unit.

7 Ditsobotla's status quo assessment was completed in August 2022. It is annexed hereto marked "**MN1**".

8 Since a voluntary financial recovery plan had already been developed for Naledi in 2018, its status quo assessment required a detailed analysis of why the 2018 intervention had failed to yield the anticipated results. For this reason, National and Provincial Treasury were intimately involved in the analysis process, including at meetings on 27 July 2022, 12 August 2022, 16 August 2022.[5] Naledi's status quo assessment was also completed in August 2022. It is annexed hereto marked "**MN2**".

9 Both municipalities' status quo assessments explained that the municipalities had been experiencing perennial political and administration challenges, which had impacted adversely on governance, financial management and service delivery.[6]

10 The assessments identified root causes of, and predicted solutions for, the municipalities' financial challenges and arranged them according to "governance", "institutional", "financial management" and "service delivery" pillars.[7]

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5 Min of Finance SA annexure "SA2" p 15.

6 Min of Finance SA annexure "SA1" p 3 ; annexure "SA2" p 3.

7 Min of Finance SA annexure "SA1" pp 4-5, 17-82 ; annexure "SA2" pp 4-5, 33-100.

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11 Naledi's assessment also included a list of additional interventions that would be critical to the success of the new financial recovery plan. This list reads:

> "•A major contributor to the 2018 FRP's Failure was poor reporting – a new FRP will need to ensure that a Reporting Officer is designated from possibly the PMU.
>
> • The NLM had previously begun installing smart metres – the roll out of smart metres needs to be prioritised. It is the only mechanism through which the municipality will be able to stop bleeding cash.
>
> • Debt Restructuring – poses a conundrum in that the municipality does not have the requisite resources to be able to service the existing mountain of debt. The municipality needs to approach the High Court for initially a Section 153 stay of debt order and in the ninety-day period following begin the process of liquidating assets that are not necessary for the provision of core functions.
>
> • Water and Sanitation services – the function is a loss-making exercise currently; the function needs to be transferred to the district for, at the very minimum the next three years to afford the municipality an opportunity to stabilise and come out of the crisis. The function should be transferred inclusive of its staff compliment.
>
> • The municipality needs to begin the process of transferring non-core functions to other organs of the state (e.g., transfer libraries and museums)."[8]

12 While both assessments recognise the serious financial and other difficulties facing the municipalities, they chart a path forward that is the result of complex economic modelling, is feasible, and is likely to bring the municipalities closer to financial stability.

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8 Min of Finance SA annexure "SA2" p 101.

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13 Ditsobotla's status quo assessment underwent an extensive consultative process[9] before being shared with the Department of Finance, which requested that National Treasury's MFRS unit commence with the financial recovery plan preparation process and, in the interim, inform the North West Provincial Treasury of the strategic focus areas for interim intervention while the financial recovery plan was being developed.[10] Similar consultations occurred in respect of Naledi's assessment in July and August 2022.[11]

14 On 15 December 2022, the Acting Head of National Treasury's MFRS unit wrote to the North West Provincial Treasury. She acknowledged that their respective departments had jointly prepared and finalised the status quo assessment for Ditsobotla and recommended that the North West Provincial Treasury consider the proposed key strategic focus areas for prioritisation in the interim rescue phase — a phase that focuses primarily on cash and restoring the cash position of a municipality.[12]

15 The letter included (as Annexure A) a proposed 'interim rescue plan' to guide the MFRS unit, National Treasury's service provider, and the North West Provincial Treasury while the financial recovery plan was still being prepared. The plan covered, among other things: focus areas; key baseline findings; short-term

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9 Min of Finance SA annexure "SA9" pp 6-7.

10 Min of Finance SA annexure "SA9" p 7.

11 Min of Finance SA annexure "SA2" p 15.

12 Min of Finance SA annexure "SA5" p 1.

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activities/deliverables; target dates; the responsible officials; the output indicators; and the portfolio of evidence for claimed performance.[13]

16 The indicators of success for this interim phase included, among others, developing a funded budget (or demonstrating that the municipality was on a credible path to a funded budget); monitoring the municipality's daily cash and cash balances; implementing cost containment measures; focusing on improving the debt collection rate; ring-fencing conditional grants; and ensuring that creditors are paid timeously and that negotiations are entered into to settle any outstanding debt.[14] The letter and the attached interim rescue plan for Ditsobotla are annexed hereto marked "**MN3**" and "**MN4**", respectively.

17 A similar letter and attachment were sent to Naledi on 17 January 2023. The letter and the attached interim rescue plan for Naledi are annexed hereto marked "**MN5**" and "**MN6**", respectively.

18 On 8 February 2023, another memorandum was sent by Ms Ngqaleni to the Minister of Finance in order to update him on the intervention into Ditsobotla.

19 The memorandum explains that there were delays in introducing the administrator to the municipality and the administrator's contract then ended in December 2022. Nevertheless, a new council was inaugurated on 9 January 2023 and a new mayor and speaker were elected. In lieu of an administrator, the

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13 Min of Finance SA annexure "SA6".

14 Min of Finance SA annexure "SA5" para 1.

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North West COGTA seconded Mr Mothusi Ogaile to Ditsobotla to oversee the proceedings of the first council meeting.[15]

20 Mr Ogaile was subsequently appointed as the acting municipal manager on 27 January 2023, for a period of three months. At the date on which the memorandum was written, Mr Ogaile had already embarked on a much-needed process of filling senior management positions.[16]

21 On 21 February 2023, Ms Ngqaleni wrote to the North West MEC for Finance, providing her with the final status quo assessment reports for seven North West municipalities (including Ditsobotla and Naledi). The covering letter reminded the MEC of her obligation to submit a copy of the reports to the respective municipalities, the Minister of COGTA and the Minister of Finance for information purposes.[17] The letter stated that once the reports had been submitted, National Treasury's MFRS unit would prepare the mandatory financial recovery plans within 90 days and submit them for the MEC's approval.[18] The covering letter is annexed hereto marked "**MN7**".

LEAVE TO FILE THE AFFIDAVIT

22 The events covered in this affidavit continued until February 2023. They cover material that is key to the relief that the applicant seek. The facts set out place

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15 Min of Finance SA annexure "SA9" p 5-6.

16 Min of Finance SA annexure "SA9" p 6.

17 MFMA s 139(2); Min of Finance SA annexure "SA10" p 1.

18 Min of Finance SA annexure "SA10" p 2.

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the Court in a proper position to determine an appropriate remedy that may be granted if a case is made out. It would be in the interests of justice to grant leave so that the facts in this affidavit are placed before the Court. In that way the matter will be decided on the full facts – brought up to date by this affidavit.

23 In preparing for the hearing of the matter, counsel advised that it would be appropriate to file this affidavit to inform the Court of what has happened since the Minister of Finance filed his answering affidavit. Due to the budget preparation and finalisation process that takes place throughout February of each year, the relevant officials were unable to consult until after the process had been completed. It was during the course of this preparing for this hearing that we were able to consult in order to finalise this affidavit. I respectfully submit that none of the parties will be prejudiced by the filing of this affidavit. Instead, the Court will be placed in possession of the full facts in order to properly determine the matter and decide on an appropriate remedy in the interests of justice. Also, a remedy that properly respects the constitutional scheme regarding interventions in local government affairs.

24 I respectfully submit that this Court should permit the filing of this affidavit in the interests of justice.

CONCLUSION AND REMEDY

25 I ask that leave be granted to file this affidavit.

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26 National Treasury's MFRS unit is currently in the advanced stages of developing financial recovery plans for the two municipalities. In the meantime, the municipalities are implementing straightforward interim rescue plans with clearly stipulated key performance areas, indicators and targets.

27 As National Treasury has been at pains to emphasise, municipalities are crucial for ensuring that basic services are delivered to the people. There is ongoing work being done within the legal and constitutional framework to address the challenges faced in Ditsobotla and Naledi municipalities.

28 One of the challenges that were faced by the MFRS was that it was under-capacitated in dealing with the challenges faced by Municipalities. National Treasury has also addressed the capacity challenges by appointing additional service providers to ensure that there is the necessary capacity to assist and turn around municipalities.

29 In the circumstances, the relief sought against the Minister of Finance is not appropriate and falls to be dismissed.

DEPONENT

I certify that:

I. the Deponent acknowledged to me that :
   A. He knows and understands the contents of this declaration;
   B. He has no objection to taking the prescribed oath;
   C. He considers the prescribed oath to be binding on his conscience.

II. the Deponent thereafter uttered the words, "I swear that the contents of this

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declaration are true, so help me God".

III. the Deponent signed this declaration in my presence at the address set out hereunder on

COMMISSIONER OF OATHS

Designation and Area: ADMINISTRATIVE CLERK, DPP PRETORIA
Full Names: OFFICIATING BOSTICOMATIVE

Street Address 28 CHURCH SQUARE, PRETORIA CENTRAL, PTA

DIRECTOR OF PUBLIC PROSECUTIONS
PRIVATE BAG X300
2023 -03- 22
DOCKET
PRETORIA 0001
NORTH GAUTENG: PRETORIA

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"MN1"

FINANCIAL RECOVERY PLAN

FINAL STATUS QUO ASSESSMENT

Prepared for

DITSOBOTLA LOCAL MUNICIPALITY

AUGUST 2022

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

provincial treasury
Department:
Provincial Treasury
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

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EXECUTIVE SUMMARY

Ditsobotla Local Municipality has been experiencing perennial political and administration challenges, which have impacted adversely on governance, financial management and service delivery. The interface between the political and administrative leadership is non-existent. There have been rigorous changes in the Municipal Manager`s position as well as Senior management positions. This marked the deepening crisis and lack of accountability in the municipal environment. Ineffective oversight continues to prevail due to lack of stability in senior management positions. The Municipality is one of the top ten (10) defaulting municipalities for bulk electricity supplied by Eskom. Eskom debt has been recorded at approximately R 913 million in July 2022. The historical dysfunctionality on Ditsobotla local Municipality contributed greatly to the dire financial state and poor service delivery in the area.

The Provincial Government intervened using discretionary model through section 139(b) of the Constitution. However, the desired results were not obtained due to continued infighting, malicious use of employees and community members. ABSA bank and other companies suffered the impact to this effect. Community members lost employment and this has further adverse implications, and has been raised sharply as companies like Clover SA have relocated to another Province. Consumer accounts are mostly disputed and this has implications on figures and therefore affects the issuing of clearance certificates. This negatively affects revenue collection and therefore financial sustainability of the municipality. Persistence non-compliance to Laws and Regulations continues to prevail as divisions deepens within Council under rooted by contestation for systems of patronage.

The above is a clear indication that Council is not effectively playing its role as it cannot unanimously agree on the critical council business. The municipality is vulnerable to abuse of power, which may result in fraud and corruption prevailing. The Office of the Auditor General South Africa raised concerns on issues concerning leadership, governance, service delivery, supply chain management, and other, repetitive findings which continue without being corrected. The municipality has a bloated organisational structure from 2016 to 2021, no proper job evaluations were performed, and positions filled were at the general worker level. Notably, the critical positions were not filled, resulting in the organisational structure not being fit for purpose of the Municipality.

The district municipality in this regard is not adequately executing their functions on the water and sanitation business. Ditsobotla LM is facing interruptions in bulk water supply which in turn affects supply of water to residents. Furthermore, blockages on the bulk sewer treatment plant and main lines create back flows into the households and streets of the municipality. The disjuncture emanates from the service level agreement that is not properly documented between the water services authority and the water service provider. The local municipality takes the financial burden and incurs expenditure for unfunded mandates to repair or maintain the assets belonging to the district.

The Provincial Treasury conducted an assessment in terms of Section 140 of the Municipal Finance Management Act (MFMA) and Ditsobotla Local Municipality met the criteria of a Municipality in a financial crisis. As a result, the Northwest Provincial Executive Council (hereinafter referred to as EXCO) resolved on placing Ditsobotla Local Municipality (DLM/ the Municipality) under mandatory intervention by invoking Section 139 (5) (a) and (c) of the Constitution read together with Section 139 of the MFMA.

The North West Provincial Executive requested the MFRS within National Treasury to prepare a mandatory Financial Recovery Plan) FRP). A status quo assessment was then undertaken through which several challenges were identified.

This report serves as the status quo assessment in terms of section 142 of the MFMA to identify the

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root causes of the financial challenges that the municipality is facing. The status quo assessment will inform the development of the financial recovery plan, which adopts a strategic, focused approach which is time-bound, yet comprehensive enough to ensure that the underlying causes of the crisis are adequately addressed.

The status quo assessment focused on the four pillars, Financial Management, Governance, Institutional Development and Human resources, Service delivery and Infrastructure development. For each pillar a diagnostic analysis was performed followed by the identifications of failures, root causes and the strategy to remedy the situation.

KEY CHALLENGES WITHIN THE DITSOBOTLA LOCAL MUNICIPALITY

The following key issues were identified during the status quo assessment:

PILLAR 1 – GOVERNANCE
• There are no appropriate mechanisms in place to ensure good governance and accountability. • Over the past three (3) years, the municipality has received disclaimer audit opinions, and repeat audit findings have not been attended to adequately. • Based on the negative audit outcomes it shows that the municipality has not been able to support the information in their financial statements for the past 4 years • MSA Section 79 committees are not functional • The leadership has not prioritised the communication and instilment of a code of conduct to ensure that employees understand expectations. • Acts of financial and other misconduct are not investigated and dealt with effectively by Council Committee's and Management alike • Senior officials being suspended reflects ethics and conduct concerns. • There is weak contract management as there is no contract management unit nor officials assigned the responsibility. • The municipality is facing on-going high levels of litigation mostly due to failure to pay for services rendered by service providers, poorly constructed contracts and material non-compliance with legislation. • There is high levels of UIF & W expenditure as a result of non-compliance with supply chain management processes and legislation and the municipality has not conducted any investigations relating to UIF & W nor taken any corrective actions. • The municipality does not have an adequate implementation plan to address the audit findings. • The municipality does not have a Chief Risk Officer or a separate risk unit to efficiently carry out the risk management function, in addition, the municipality does not have a risk management framework and plans in place. • The municipality's ICT unit does not have a policy or framework to govern IT operations.
PILLAR 2 – INSTITUTIONAL
• Critical Senior Management positions are vacant, resulting in ineffective operations of the municipality. • The municipality has a growing employee cost budget despite the structure not being oriented towards service delivery and despite the high number of vacancies within key positions. • There is instability within the municipality caused by high labour turnover and political interference in the day to day operations. • There are serious concerns over staff discipline, integrity and accountability which emanates from the lack of an ethical culture within the organization, as well as lack of oversight from the MPAC and the disciplinary board.

PILLAR 3 - FINANCIAL MANAGEMENT

- Council has been tabling unfunded budgets for the past three years mainly due to poor expenditure management and a weak revenue base,
- Use of non-cost reflective tariffs,
- Municipality is grant dependent, the Equitable Share has been withheld by National Treasury from July 2022 due to concerns over several administration and grant management issues which will be discussed in detail in this report.
- The municipality's operational budget deficit indicates that the municipality is unable to collect revenue as anticipated
- There are serious challenges and an inability to generate sufficient revenue to create reserves for assets replacement and augment capital grant funding.
- The municipality is also faced with a dire liquidity challenge emanating from low collection rates, long outstanding debtors' payment periods and a weak revenue base, this has resulted in growing payables balance over the years which now sits at approximately R1,1 billion.
- There is high creditors payment period which further results in non-compliance with the MFMA.
- The municipality continues to experience challenges with the billing module and this has been the case during the previous financial year. Municipal billing has been done using estimates to bill consumers. Therefore, the underperformance is as a result of incomplete and inaccurate billing by the municipality which adversely impact on the ability of the municipality to collect revenue.
- The municipality's outstanding creditor balance exceeds the available cash at 30 June 2021. This indicates that the municipality is unable to fund its obligation in a financial year and further confirms that the municipality is financially distressed

PILLAR 4 – SERVICE DELIVERY

- The municipality is currently facing several service delivery challenges amongst them ageing infrastructure, constant water and electricity losses, insufficiently paved water network. As a result of this, there is service back logs and customer complaints. This exposes the municipality to service delivery protests by the communities and damage to existing property.
- The municipality does not have Master plans in place.
- Operational staff not trained nor qualified to operate the water schemes .
- No procedure manuals or working instructions accessible for the operational staff such upkeep of sites, data management and reporting.
- Lack of effective meter management to ascertain system capacities , demand, consumption, and losses.
- High distribution losses due to aging infrastructure and poor workmanship on the new projects
- Lack of water quality monitoring compromising the health of water consumers
- Aging fleet and some departments not allocated operating equipment and vehicles
- Water demand scheme failing to meet the demand and placing reliance on boreholes
- Under funded functions such licensing functions
- No master plans in place such as Water conservation and Demand Management Plans
- Non-existent of Service level agreement between Ditsobotla and `Ngaka Modiri Molema District Municipality.

BACKGROUND

The Northwest Provincial Executive Council has placed Ditsobotla Local Municipality under mandatory intervention in terms of section 139 of the Constitution on three occasions in the past, despite all the interventions by the province, the situation has continued to deteriorate severely to the extent that the municipality is now in a worse off situation than before the interventions by the province.

The Municipality is unable to service its creditors within 30 days due to inadequate cash flow, while unable to collect outstanding debts due to the low collection rate and inadequate political will to implement the credit control policy.

Ditsobotla Local Municipality has infrastructure that is not coping with the current demand and is subjecting the community and local business to severe inconvenience. This is evidenced by the disinvest of one of the big companies, Clover SA, from the municipality recently. There is infrastructure that has failed or is in the verge of failure, exposing communities to health and safety hazards and need immediate attention.

Ditsobotla Local Municipality is one of the municipalities that were identified to have financial challenges in the Northwest Province. This was as a result of an assessment conducted by NT and CoGTA to identify municipalities with financial crisis nationally in terms of section 138 and 140 of the MFMA.

The Provincial Executive Committee intervened and placed Ditsobotla Local Municipality under Section 139 (5) (a) and (c) of the Constitution read together with section 139 of the Municipal Finance Management Act (MFMA). This status quo assessment has been prepared in terms of Chapter 13 of the MFMA.

1.1 STATUTORY AND LEGISLATIVE CONTEXT

The Constitution of The Republic of South Africa, 1996 (Act No.108 Of 1996)

The intervention was instituted in terms of S139 (5)(a) and (c) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read in conjunction with Section 139 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

S139(5)(a) of the Constitution reads as follows: "the provincial executive must impose a recovery plan aimed at securing the municipality's ability to meet its obligations to provide basic services or its financial commitments, which:

i. is to be prepared in accordance with the national legislation; and
ii. binds the municipality in the excise of its legislative and executive authority but only to the extent necessary to resolve the crisis in its financial affairs"

In terms of the Constitution, the North West Provincial EXCO has an obligation to ensure that a recovery plan aligned to the national legislation, in this context, the Municipal Finance Management Act, 2003 is prepared. The recovery plan may also restrict the authority of the Council and the Executive in any matter or area that impacts on the finances of the municipality. Section 139(5)(c) requires the Provincial Executive to assume responsibility for the implementation of the recovery plan to the extent that the municipality cannot or does not otherwise implement the recovery plan.

The North West Provincial EXCO is responsible for ensuring that the financial recovery plan is implemented by the Ditsobotla Local Municipality. Failure of the Provincial EXCO to oversee the process and ensure full implementation of the recovery plan may result in national intervention in terms of S139 (7) of the Constitution.

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

Chapter 13 of the MFMA deals with the resolution of financial problems in municipalities and outlines the processes that must be followed in terms of mandatory interventions invoked in terms of S139 (4) and (5) of the Constitution.

- S139 (1) of the MFMA places the responsibility on the Provincial EXCO to request the Municipal Financial Recovery Services (MFRS) unit in the National Treasury to prepare a financial recovery plan, which considers the reasons for the financial crisis and an assessment of the municipality's financial status (status quo assessment).
- Only the MFRS may prepare a financial recovery plan for a mandatory provincial intervention referred to in S139.
- S139(1)(a)(iv) also empowers the MFRS to recommend appropriate changes to the budget and revenue raising measures that will support the implementation of the recovery plan.
- In terms of S139(1)(b), the Mayor of the municipality must be consulted on the recovery plan to obtain cooperation (political support) for the implementation and ensure that the budget and any other legislative measures to support the implementation of the recovery plan are approved.

Section 142 of the MFMA specifies the criteria for financial recovery plans irrespective of whether the plan is discretionary or mandatory in nature. In this regard, the following subsections are important:

S142 (1) A financial recovery plan must be aimed at securing the municipality's ability to meet its obligations to provide basic services or its financial commitments, and such a plan, whether for a mandatory or discretionary intervention –

a) Must –

Identify the financial problems of the municipality;

i. Be designed to place the municipality in a sound and sustainable financial condition as soon as possible;
ii. State the principal strategic objectives of the plan, and ways and means for achieving those objectives;
iii. Set out a specific strategy for addressing the municipality's financial problems, including a strategy for reducing unnecessary expenditure and increasing the collection of revenue, as may be necessary;
iv. Identify the human and financial resources needed to assist in resolving financial problems, and where those resources are proposed to come from;
v. Describe the anticipated timeframe for the financial recovery, and milestones to be achieved; and
vi. Identify what actions are necessary for the implementation of the plan, distinguishing between actions to be taken by the municipality and actions to be taken by other parties.

Section 142 (2) states that in addition, a financial recovery plan –

a) For a mandatory intervention **must** –

   i. Set spending limits and revenue targets;
   ii. Provide budget parameters which bind the municipality for a specified period or until stated conditions have been met; and
   iii. Identify specific revenue-raising measures that are necessary for financial recovery, including the rate at which any municipal tax and tariffs must be set to achieve financial recovery.

Regarding the implementation of the financial recovery plan in mandatory provincial interventions, the municipality's attention is drawn to the following provisions of S146 of the MFMA.

S146 (1) If the recovery plan was prepared in a mandatory provincial intervention referred to in section 139 –

a) the municipality **must** implement the approved recovery plan;
b) all revenue, expenditure and budget decisions must be taken within the framework of, and subject to the limitations of, the recovery plan; and
c) the municipality **must** report monthly to the MEC for Finance in the province on the implementation of the plan in such manner as the plan may determine.

In conclusion, unlike a voluntary or discretionary financial intervention, the National Treasury, through the Municipal Finance Recovery Service must develop the financial recovery plan for the DLM. The plan must bind the municipality in terms of its spending and budget parameters and the municipality is obligated to ensure that such a recovery plan is implemented within the timeframes outlined.

1.2 APPROACH AND METHODOLOGY OF STATUS QUO ASSESSMENT

The following process was followed in assessing the status quo of the municipality:

Councillors Induction
An induction session was held on the 21st of April 2022 for councillors on the section 139 intervention framework in order to get their buy-in as the political leadership of the municipality.

Request for information
A formal letter was written to the municipality to request the information which was used to perform the status quo assessment and complete this report.
.

Desktop Analysis
A desktop analysis was conducted to assess the state of municipal finance and performance based on the four pillars namely Governance, Institutional Arrangements, Financial Management and Service Delivery.

Workstream Engagements
The Project Team engaged Municipal Officials and other stakeholders in a meeting held on the 14th July 2022 to obtain an update on the current status of affairs at the Municipality

Engagements with Organised labour
A meeting was held with representatives of Organised labour on the 26th of July 2022; to provide them with information on the findings emanating from the status quo assessment and to sensitize them on the process being undertaken to develop a Financial Recovery Plan.

Engagements with top 10 creditors
Attempts to have a meeting with Ditsobotla Municipality's main creditors on the 26th of July 2022 and on the 1st August 2022 were not successful.

Review meetings with Stakeholders MFRS, PT, COGSTA, SALGA, MISA
Review meetings were undertaken to obtain input from the Project team and other stakeholders on the draft report so as to ensure that the report fulfils the requirements and the expectations of the National Treasury MFRS unit.

1.3 RISKS ASSOCIATED WITH THE IMPLEMENTATION OF THE FINANCIAL RECOVERY PLAN

The following risks have been identified which must be mitigated for successful implementation of the financial recovery plan. These risks relate primarily to financial administration, budgeting, financial discipline, and governance. It is proposed that a risk matrix be developed and that appropriate mitigation measures be instituted. The risk management matrix must be developed by the Administrator.

The emerging risks identified, include amongst others:

PILLAR 1 – GOVERNANCE
• Lack of Approved System of Delegations • Lack of a proper Performance Management System • Ineffective governance ▪ Dysfunctional Committees, ▪ Noncompliance to applicable legislation due to ineffective ward committees. ▪ Lack of Disciplinary Board ▪ No consequence management ▪ High UIF&W ▪ MPAC not investigating cases ▪ High contingent liabilities ▪ Persistent disclaimer from the Auditor General
PILLAR 2 – INSTITUTIONAL
▪ Non-filling of critical vacant positions due to lack of accountability resulting in lack of service delivery ▪ HR related committees not functional ▪ Lack of internal HR capacity and competencies. ▪ No HR Strategy ▪ Non-compliance with Human Resources Management laws/policies and inadequate Human Resources Policies. ▪ Potential resistance to change by certain internal and external stakeholders. ▪ Lack of effective operation model and performance management.
PILLAR 3 - FINANCIAL MANAGEMENT
▪ Inadequate management of cash ▪ Lack of internal controls. ▪ Inadequate billing and meter management ▪ No consequence to contravention of policies, laws, and regulations. ▪ No adherence to policies, especially SCM policies. ▪ Inadequate internal capacity to implement the intervention activities. ▪ Ineffective debt and credit control management. ▪ Financial sustainability continues to be under threat
PILLAR 4 – SERVICE DELIVERY
▪ Lack of an Integrated Infrastructure Delivery Management System ▪ Lack of standard operating procedures. ▪ Poor asset management practices ▪ Insufficient coordination between stakeholders and lack of tailored economic development planning ▪ Service delivery backlogs ▪ Community service delivery and other protests. ▪ Aged infrastructure ▪ Lack of effective service level agreement between NMMDM and DLM ▪ Aged fleet and inadequate fleet management

1.4 OVERVIEW AND DEMOGRAPHICS OF THE MUNICIPALITY

MUNICIPAL OVERVIEW

Ditsobotla Local Municipality is a Category B Municipality, that covers approximately 6 500 km^2, situated in the Ngaka Modiri Molema District of the North West Province. The principal towns in the municipality are Lichtenburg and Coligny and four semi-urban areas (townships) of Itsoseng, Tlhabologang, Itekeng and Boikhutso. It is surrounded by a vast number of rural areas (villages) including commercial farming areas. The village composition of the municipality includes among others the following main residential areas: • Bodibe; • Matile; • Springbokpan; • Verdwaal; • Bakerville; • Ga-Motlatla; and • Putfontein.

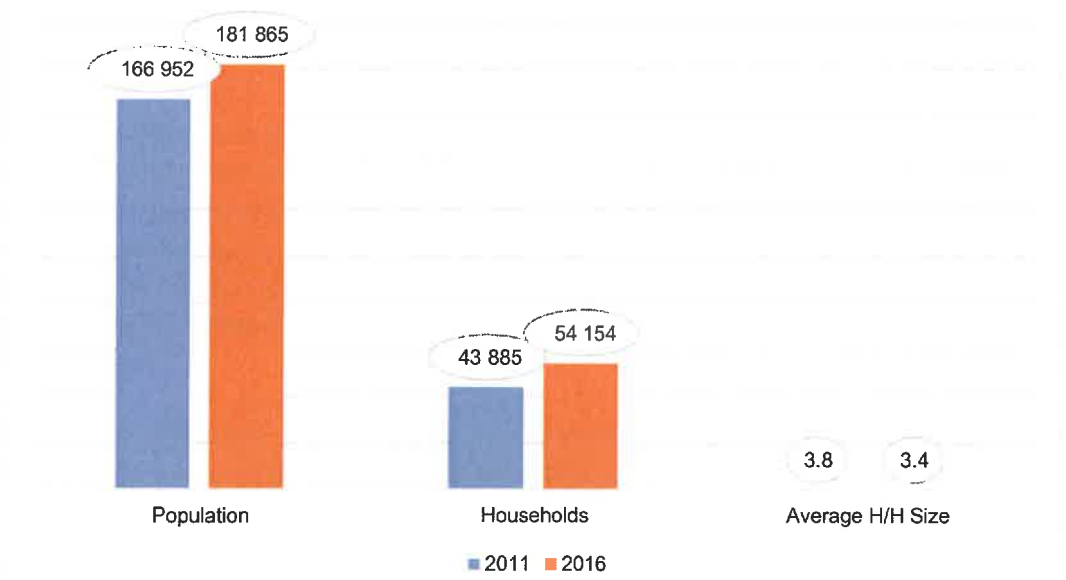
The municipality is licensed to provide electricity in the areas of Lichtenburg, Blydeville, and Coligny while the remainder is serviced by Eskom. In terms of the current powers and functions Ngaka Modiri Molema District Municipality is a water services authority and the Ditsobotla Local Municipality is a water services provider. The municipality provides all other basic services in its area of jurisdiction.

Province Map Overview



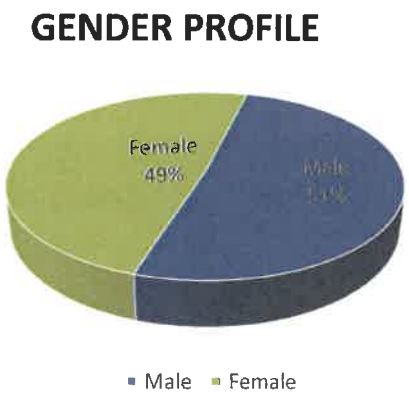
Population & Households Profile

The population growth of Ditsobotla Local Municipality has shown a steady average growth of 1% between 1996 and 2016. The graph below illustrates this population growth trend. The number of households have increased from a base of 44 500 during 2011 to an estimated 54 500. The average household size has declined from 3.8 to 3.4 family members during the same period. This figure supports the upward trend movement of people migrating from farms to urban centres (Lichtenburg) in search of economic opportunities, employment and access to services.



Gender Profile

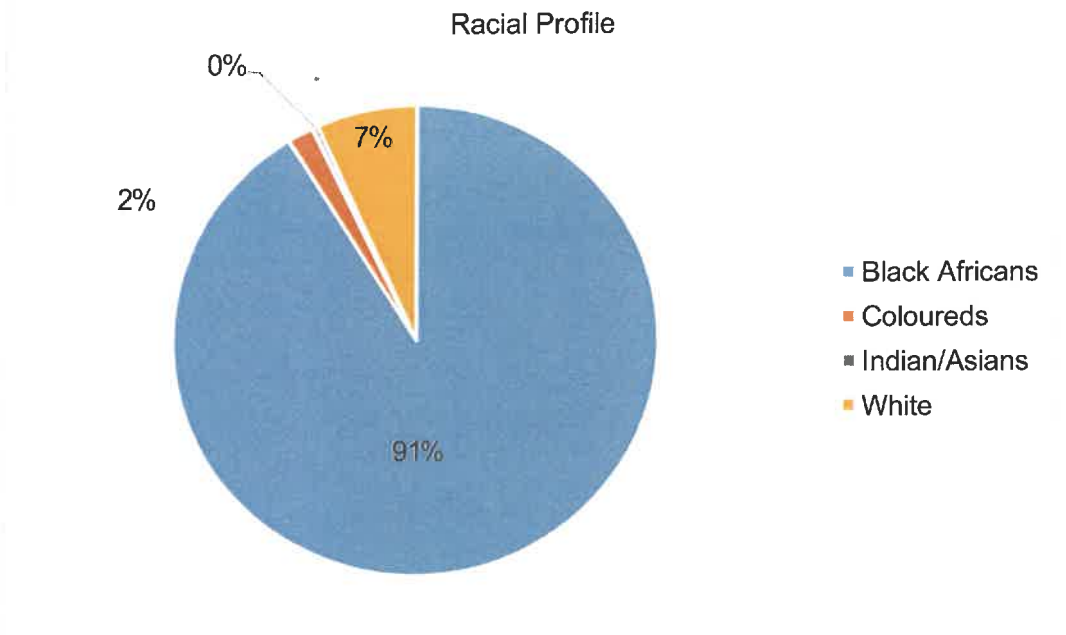
According to the Community Survey 2016, Ditsobotla had a population of 181 865 is male dominated municipality with male population is 93 421 compare to the female figure of 88 444 people.



Racial Profile

The population breakdown indicates a predominant presence of Black Africans (91%) followed by Whites (7%) and Coloured (2%).

Racial Profile

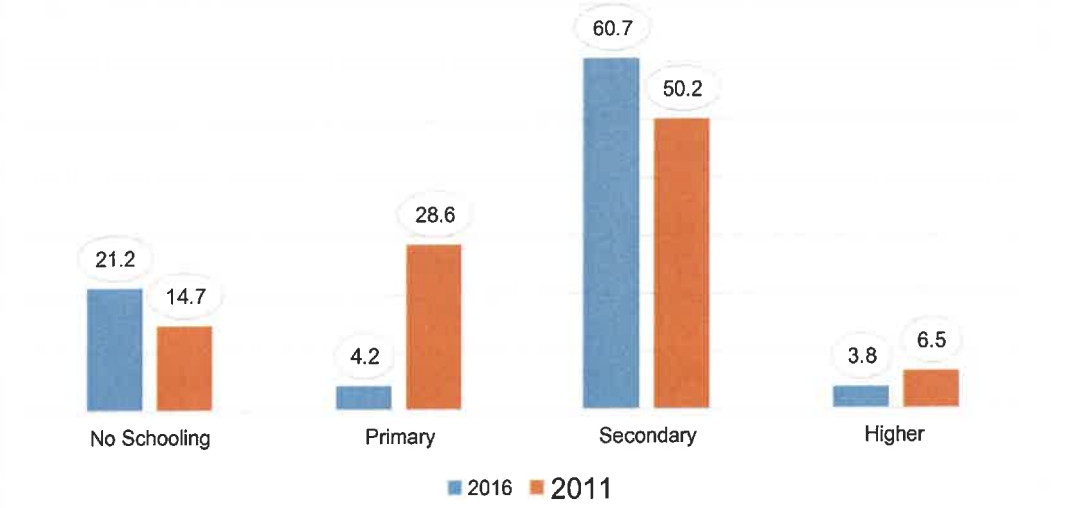


Source: Stats SA, Community Survey 2016

Education Profile

The education distribution of Ditsobotla reveals low skills and education levels mostly in the rural areas. The highest education and skills levels are concentrated in the urban areas of Lichtenburg and Coligny. Villages often have population that have not had any formal education. As a result of the low rate of formal education, a lot more opportunities for learning should be availed in order to improve quality of life.

Educational Levels



Employment Rate

Ditsobotla Municipality have employment rates of 62% and 72% of the economically active population being employed respectively, while 38% and 28% of the economic active population is respectively unemployed (Global Insight 2013).

ECONOMIC ASSESSMENT

The table below shows the share of GDPR contributed by each sector in Ditsobotla Local Municipality.

Sector	Ditsobotla Local Municipality	
	2011	2012
Agriculture	9%	10%
Mining	13%	13%
Manufacturing	17%	17%
Electricity and Water	0%	0%
Construction	2%	3%
Trade	11%	11%
Transport	8%	8%
Finance	15%	13%
Community Service (including government)	24%	25%
Total	100%	100%

Source: IHS Global Insight 2013

The table above indicates that the GDPR of the municipality was slightly more than R5 billion during 2012. The Community Services (including Government) sector made the biggest contribution with 25% to the economy of Ditsobotla Municipality in 2012.

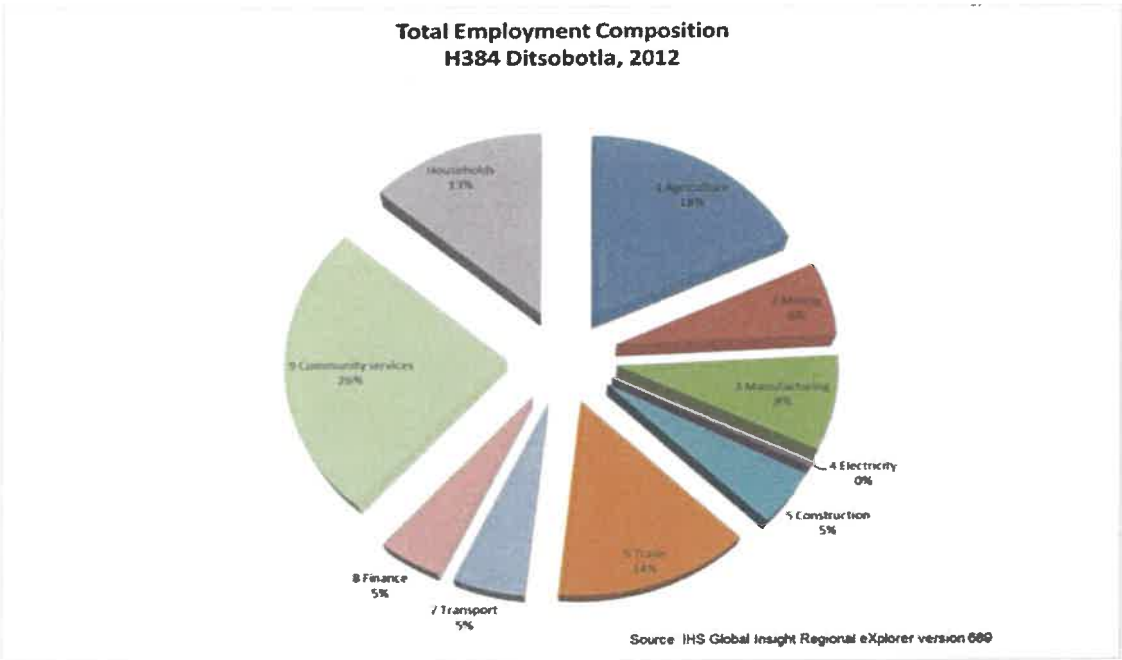
The second highest GDP contributing sectors in the municipality is that of the manufacturing sector (17%) followed by mining and the finance (13%) respectively. In the instance of both the manufacturing and mining sectors, they are much more than the average of the district and are not far behind that of the province. The main three contributors to the manufacturing sector are in the cement production line; of which two are located around the Lichtenburg town and the third one is around Springbokpan village. This probably contributes towards the strong trade sector in the municipality and the spin-offs created by the trade sector towards the finance sector.

The agriculture sector contributed approximately 10% to the economy of the municipality, constituting a higher share in its economy than in the province (8%) and district with 6%. The agriculture share to the municipality's economy has however increased from the 9% contribution in 2011.

The electricity and water, construction transport sectors share has remained relatively constant over the aforementioned period and are well within the average range of both the district and the provincial contributions.

Interestingly the manufacturing sector is the second highest contributor to GDP, even higher than both district and province. This shows that there is great scope for local manufacturing and further beneficiation in this area.

Sectoral Percentage distribution of employment, 2012



Source: IHS Global Insight 2013

In 2012, the community services sector by far made the largest contribution to the employment in Ditsobotla Municipality, absorbing more than a quarter (26%) of the local employment. The share of contribution from this sector to employment is slightly larger than the share of the same sector to the contribution of GDPR. This indicates that, while the wholesale and trade industry remain an important economic sector for the municipality, it is an even more important sector in terms of supplying a large number of job opportunities.

Trade (14%) and agriculture (18%) sectors also made significant contributions to local employment. The agriculture sector is a large employment creator. However, the agriculture sector is a far smaller GVA R contributor. This indicates that, while the agriculture sector is an important job-creating sector for the municipality, it is not supplying high paid job opportunities and it is not contributing equally to the economic contribution of the economy.

STATUS QUO ASSESSMENT

In this status quo assessment, the following information sources were utilised:

- 2020/21 Annual Financial Statements
- AG Management Report 2020/21
- Risk Register
- Quarterly Supply Chain Implementation Report
- IDP 2022- 27
- 2016 Community Survey
- 2022/23 Medium-Term Budget and Performance Assessment Report
- Budget Assumptions and mSCOA funding tool
- MTREF Midterm Budget and Performance Review
- Workstream meetings
- Annual Report 2019/20
- Reporting string summary
- Financial Plan 2021/22
- Internal Audit Plan
- Post Audit Action Plan
- Unauthorised Expenditure, Irregular and Fruitless and Wasteful Expenditure Reduction Strategy
- Grant schedule
- Integrated Waste Management Plan

KEY ISSUES IDENTIFIED

The key issues Identified will be presented in terms of the following pillars

a) Governance

b) Institutional stability and capability

c) Financial health

d) Service Delivery

2.1 GOVERNANCE

Governance Model:

The Ditsobotla Local Municipality has a collective executive committee system with the Mayor, Council Whip and Speaker designated as fulltime Councillors. The Municipal Council is made up of 39 (thirty-nine) Councillors of which an equal number of 19 (nineteen) are elected on a proportional representative basis (PR) and wards (Ward Councillors) respectively. The council started its term on 9th November 2021 after the Local Government Elections. The objective of the Municipal Council is to play effective oversight role and to ensure the improvement of the provision of services.

There are 20 (twenty) ward committees. These committees serve as an important link between Council and the community on matters such as municipal budgeting, integrated development planning, consideration of policies and by-laws and other matters directly affecting communities.

Community Development Workers complement the work of ward committees and through their unique skills base, they communicate and respond to challenges faced by vulnerable sectors of the municipal community such as the disabled, women and the aged.

There are no appropriate mechanisms in place to ensure good governance and accountability. The leadership has not prioritised the communication and instilment of a code of conduct to ensure that employees understand expectations. Senior officials being suspended reflects ethics and conduct concerns.

There is no Technical Working Committee which ensures that issues raised at all levels are addressed in a holistic manner because of political and administrative instability, the committees have not been able to effectively work. There were no UIF&W cases that were referred to the committee for further investigation.

Powers and Functions:

The municipality is guided by the Constitution as well as sections 83, 84 and 85 of Municipal Structures Act on the matters of powers and functions of municipalities. Municipality mandated to provide sanitation, refuse removal, water, electricity, roads, library, vehicle licences, parks and cemetery services. There are poor co-operation agreements and memorandum of understanding for support on certain mandates.

Contract Management:

A contract management committee was established but is not functional. A contract management framework is in place. The framework was developed by Provincial Treasury for use by the whole district. There is weak contract management as there is no contract management unit or officials assigned the responsibility and the Annual Procurement Plan is not always adhered to.

Litigations and contingent liabilities:

The municipality is facing on-going high levels of litigation mostly due to failure to pay for services rendered by service providers, badly constructed contracts and material non-compliance with legislation. The municipality does not have a litigation strategy this has had a negative impact on litigation decisions, which affects service continuity and prudent financial management.

System of delegations:

The municipality does not have a system of delegation in place which is non-compliance with the Municipal Systems Act. There is lack of understanding within management of rationale behind system of delegations. There is high disregard to compliance with laws and regulations by management.

By-laws and enforcement:

Most By laws currently at draft stage, the municipality is finalising the following by laws: - Parks and Gardens, Street tree, Sports & Recreation, Cemetery, Caravan & Camping policies which are also awaiting review and approval at a Policy workshop that is yet to take place. Revenue generation from by-laws is not satisfactory as there is selective enforcement and monitoring which affects revenue generation. There is no reporting on revenue generated from enforcement of by-laws.

UIF&W and Consequence Management:

There is high level UIF & W as a result of non-compliance with supply chain management processes and legislation. The municipality did not conduct any investigation of instances of UIF&W and did not apply any preventative measures to limit re-occurrence of UIF & W. The municipality has also been incurring interest and penalties on late payments of creditors. There was also unauthorised expenditure of R61 725 999 in 2020/21 due to overspending on the budget.

Audit action plans (internal and external):

The municipality does not have adequate implementation plan to address the audit findings and has slow response when it comes to attending to audit findings. An audit finding register was issued by Auditor General dated June 2021, however, none of the finding have been addressed. Implementation of audit action plan for 2020/21 had little progress with the implementation of recommendations from the External audit plan sitting at 1.7%. For 2020/21, the municipality was advised to use electronic system (web-based system) however there is very little progress on implementing this system, there is no updated in updating the web-based system.

Internal audit and Risk Management:

Internal audit is a newly established unit headed by a manager. Internal Audit Unit has two vacant positions per organisational structure. There is lack of independence of the Internal Audit manager as she was the acting CFO prior to her appointment. She was appointed as Internal Audit Manager effective 1 November 2021 and as Acting CFO for 3 months effective 31 March 2022.

The municipality does not have a Chief Risk Officer or a separate risk unit to efficiently carry out the risk management function, in addition, the municipality does not have risk management framework and plans in place. Risks are therefore not identified, and no risk assessments are conducted. Management has inadequate understanding of the importance of regularly assessing and managing risks within the Municipality. Instability in the Municipality caused constant changes in administration making it a challenge to establish a process for risk identification, mitigation and monitoring.

Information & Communications Technology:

The municipality's ICT unit does not have a policy or framework to govern the IT operations since the council has not yet approved it. There is no ICT steering committee. The municipality has not performed IT risk and control assessments to ensure safety and integrity of information. The municipality's employees are making use of their own IT equipment and do not have corporate emails exposing the Municipality to cyber-crime. The municipality does not have appropriate ICT infrastructure.

Immovable Property Management:

Some Council properties are occupied by council staff. It could not be ascertained whether they are leased out at market related rentals or not. Rentals are deducted from salaries. There are weak controls in property management with some property records not being kept properly as some were missing and could not be located. Municipality has challenges buying additional unused land as a result of resistance by tribal authorities. Some investment properties listed in the investment asset register could not be physically verified. Building projects reported as completed could not be identified during physical verification.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
GOVERNANCE MODEL (COUNCIL AND SECT. 79 & 80 COMMITTEES)	The municipality has a collective executive committee system council in place with the Mayor, Council Whip and Speaker designated as fulltime Councillors. The Council has 39 Councillors. The municipality's council and its committees are not functional. There is political and administrative instability. Weakened oversight on administration There is persistent infighting within council Council sittings are often disrupted Ineffective public participation. There are no resolutions register or a system to track resolutions There are perpetual delays in processing and submission of statutory reports There are municipal accounts of councillors in arrears for more than 90 days	Persistent infighting within council Council is always divided in decision making which leads to council resolutions not implemented (Council cannot unanimously agree on matters of compliance). Delays in processing of reports which affects decision-making on strategic and operational issues. Unfavourable audit outcomes and not implementing the audit action plan No investigation of instances of UIF&W and no consequence management. Some councillors' municipal accounts are in arrears for more than 90 days in contravention with the MSA There is limited public engagement as well as participation Resolutions may not be implemented	The Mayor allegedly appointed the suspended acting MM despite the court ruling that the appointment was unlawful (the appointment process was not tabled and approved by council) Divided Council: 2 Mayors, 2 MMs and also 2 HRM Acting managers Dysfunctional council Weakened oversight on administration Persistent infighting within council Lack of capacity in political office bearers' office to make decisions. Non-existent governance systems. No consequence management for delays in decision-making and poor performance. No implementation and enforcement of the code of conduct on councillors	Implementation of institutional calendar for meetings for council and committees. Implementation and enforcement of Code of Conduct for Councillors and conduct training on Code of Conduct for councillors Review and align established section 80 committees with powers and functions, and administrative directorates. Increase frequency of meetings for counsel. Convene meetings of TROIKA. Speaker to hold members who do not attend meeting accountable and take necessary steps. Persuade Councillors to settle all municipal outstanding debts and to stay up to date	2021/22 Council Minutes Draft Annual Report 2020/21. Pg. 34 AGSA Final Management Report 2020/21

RC
MN

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	There is no record of councillors' declaration of interest. There is no code of conduct that addresses ethical behaviour by councillors. There are delays in processing and decision making on statutory reports There were recent community protests on provision of water, roads and sewerage spillages. d There is no institutional annual calendar for council and committee meetings. There is no training programme for councillors on governance, financial management, code of conduct and service delivery. There is no political interface in procurement matters and recruitment processes TROIKA meetings that include the Municipal manger are not sitting Municipal Manager does not receive support on timeous consideration of statutory reports Office bearers do not observe protocol when requesting information and reports and issuing directives to the administrative components There is Political Intervention in recruitment process	timeously or not at all. Council delays in making decisions and approvals, the municipality has not implemented By-Laws since they have not been approved by Council Contravention of the MSA as councillors did not declare their interest before getting into office. This could imply that some of the councillors are not independent of the affairs of the municipality. Contravention of MSA as there is no code of conduct to govern councillor's behaviour which could lead to unfavourable behaviour by councillors with no consequence management Consistent service delivery protests by the community members	Political and administrative instability. Council meetings not quorum There is no accountability, coupled by a defective internal control environment. There is distorted information channelled to the public from councillors emanating from infighting. Council has not approved and implemented a stakeholder engagement strategy and public participation policy There are no resolutions register or a system to track resolutions	Council must approve the stakeholder engagement strategy and public participation policy and ensure its implementation Implement a training programme for councillors on governance, financial management, code of conduct and service delivery Implement resolutions register and track the resolutions. By-Laws and all other statutory documents must be tabled at Council meetings and remain in the agenda until approved. Councillors must be made aware of the importance of prioritising approval of statutory documents.	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	of top management and SCM functions There is unwarranted and inappropriate interventions and undue influence by external law firms and other forces that impacts on relations between political office bearers and administration.				
	The municipality has not established and aligned portfolio committees to directorates	Lack of oversight and monitoring of governance, financial and service delivery.	Non-existent governance systems. Non-implementation of Municipal systems. Political interferences. Political and administrative instability	The municipality should establish and align portfolio committees to directorates.	Draft Annual Report 2020/21.
	There is no Technical Working Committee which ensures that issues raised at all levels are addressed in a holistic manner	Backlog in processing of Oversight Reports. UIF&W cases are not referred to the committee for further investigation. No cases have been investigated, finalised and monies recovered.	Poor record keeping/management Non-existent governance systems. Lack of accountability. Lack of competent senior management.	Constitute a technical working committee. Implement effective terms of reference for the technical working committee to include all oversight responsibilities.	Draft Annual Report 2020/21.
	We also noted that one forensic investigation was underway for possible misconduct relating to use of grant funds (22 July Minutes)	Misappropriation of grant funds	Lack of accountability by management. Poor record keeping/management Unethical conduct for personal gain	Establish a disciplinary board to investigate and deal with issues of maladministration. Disciplinary Board must report quarterly to Council. Implement recommendation of section 106	2022 Council Minutes Draft Annual Report 2020/21 Disciplinary Plan – Riol Substation Workstream Presentation

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				forensic investigations.	
	MPAC is properly constituted in terms of Section 79, Municipal Structures Act. MFMA, Act No. 56 of 2003. The committee has not been effective been.	Poor interface between political and administrative components. Political and administrative instability. There has been ongoing non-adherence to protocols in both supply chain and staff recruitment.	Lack of skills capacity of the committee. Lack of competent senior management. MPAC dysfunctional as most of the meetings are postponed No consequence management for delays in decision-making on service delivery and poor performance.	Review and align established section 80 committees with powers and functions, and administrative directorates. Review terms of reference for MPAC committee to add more oversight responsibilities. Equip MPAC committee through training	Draft Annual Report 2020/21.
	Ward committee not functional Council approved ward committee operational plans were not provided	No monthly reports issued to the Speaker's office. Monthly ward meetings are not being consistently held by ward councillors Ward Committees have been dysfunctional	Non-existent governance systems. Unavailability of venues / offices has been a challenge in all ward committees. Poor Coordination and Skills Set among committee members	Institute planning and scheduling of annual meetings calendar. Source more meeting venues Conduct training for Ward Committees members and enroll them in the District Ward Committee Functionality Support Forums	Workstream Presentation
Powers and functions	The municipality performs vehicle registration services as well as processing the renewal of licences and permits on behalf of the department of transport. There is an SLA on Vehicle Licensing where the municipality gets 20% of collections The municipality conducts the following unfunded mandates: Libraries, Vehicle Control,	The municipality does not have adequate funding to perform all its functions. The bulk of employee costs incurred by the municipality is on the Water and Sanitation directorate The lack of the SLAs could potentially result in unforeseen costs as the cost implications are not clearly defined	Poor coordination between mandates of the state's departments coupled with the lack of follow up from management and those charged with governance concerning the funding of the core activities of the mandate of the municipality. Inadequate Mandate or Service Level agreement	Conduct an in-depth analysis of cost implications. Finalise the new SLA for Water and Sanitation with the district Initiate waste recycling projects in rural and village communities. A higher agency fee rate should be negotiated with the department of	IDP Annual report. SLA with the District Municipality

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Disaster Management and bulk water and Sanitation services). No SLAs are in place. The municipality is currently not receiving licencing fees due to a debt they accrued with the Department of Transport. All collections are currently being paid directly to the Dept of Transport	Ditsobotla does not get additional funding to conduct the required operations or finance the administration processes on behalf of the department of transport. The agency fees are inadequate to cover the operational costs of these services. Inability/delays in paying off the monies collected on behalf of other departments due to liquidity challenges		transport. Income from activities performed on behalf other departments should be ring fenced Redesign and negotiate mandate agreements	
Risk Management	There is no separate risk unit to efficiently carry out the risk management function	Risks are not identified, and no risk assessments are conducted. There is no process for risk identification, mitigation and monitoring.	Absence of risk management framework and plans. There is no Chief Risk Officer (CRO) appointed. Risk management not institutionalised. Lack of capacity to set up standalone risk management unit Inadequate understanding of the importance of regularly assessing and managing risks in the Municipality Instability in the Municipality led to constant changes in administration making it a challenge to establish a functional risk unit	Independent risk management unit must be established. Policy setting out concepts of risk assessment and management in the Municipality as a guide for assessments and ways to mitigate risk must be established and implemented. Regular assessment of the environment to identify strategic and operating risks Risk committee must be invited to strategic municipal meetings	AG Management Report Risk Register
	Risk register was compiled but it is not regularly updated	Decision making on strategic and operational issues is adversely affected since it is based on a risk	Inadequate understanding by management of the importance of regularly assessing and managing risks	Enforcement of regularly updating the risk register. Policy setting out	Risk Committee Report Q2 Risk Register

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		register that is not updated. There is no documented process on reporting fraud risks;	in the Municipality Inadequate understanding of the importance to assess risks in all instances even meetings	concepts of risk assessment and management in the Municipality as a guide for assessments and ways to mitigate risk	
	No risk management documents approved for 2022/23 There is no approved risk management policy risk management strategy, risk management implementation plan, and risk register. There is no approved business continuity plan in place.	Risk monitoring, mitigation, and reporting not adequately implemented. Poor internal Control Deficiencies.	Failure to institute risk management processes Instability in the Municipality caused constant changes in administration making it a challenge to establish a process for risk identification, mitigation and monitoring Non-existence of an independent risk management unit to follow through risk issues	Independent risk management unit must be established Policy setting out concepts of risk assessment and management in the Municipality as a guide for assessments and ways to mitigate risk The Risk Management Policy must be updated, adopted and approved by Council and be implemented	AG Management Report
Information & Communications Technology	IT unit does not have a policy or framework to govern the operations. No ICT steering committee	No oversight or guidance on ICT There is no proper implementation of ICT including taking the necessary precautions to prevent unforeseen accidents and damage to ICT	Lack of accountability Lack of oversight from the accounting officer to ensure implementation of policies and frameworks Lack of oversight from the Mayor and the council over constitution the ICT committee	The municipality should develop and implement the IT policy or framework that governs the IT operations. Establishment of ICT steering committee	AG Management Report. Pg.29
	The IT environment has weak internal controls	No IT risk and control assessments have been performed to ensure safety and integrity of information Employees have to make use of their own IT equipment and do not have	Inadequate staff and resources within the IT unit Lack of oversight from the accounting officer to ensure implementation of proper internal controls to safe guard ITC	Design and implement IT strategy to ensure the reliability of the IT systems Design and implement effective IT controls to ensure availability,	AG Management Report. Pg.29

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		corporate emails exposing the Municipality to cyber crime	Unavailability of ITC equipment for employees to use	accuracy and protection of information.	
	Municipality does not have an approved backup and retention strategy or a disaster recovery plan in place	The municipality has not taken the necessary precautions to prevent unforeseen accidents and damage to municipal's ICT No risk management unit that assists departments to assess risk.	Lack of IT governance structures Lack of funds to invest in infrastructure as a result of cash flow challenges Failure to perform IT risk and control assessments ensure safety and integrity of information	Design and implement effective IT controls to ensure availability, accuracy and protection of information. Secure data storage, off-site backup, and recovery	AG Management Report.
	Lack of funding to invest in appropriate ICT infrastructure	Stores have no network cables and financial system resulting in recording and some processing being manual. There is the risk of errors and mismanagement	Inadequate staff and resources within the IT unit Lack of funds to invest in infrastructure as a result of cash flow challenges	Design and implement effective IT controls to ensure availability, accuracy and protection of information.	AG Management Report.
UIF&W and Consequence Management	The municipality's UIF & W is very high <u>Expenditure identified</u>: Unauthorised Expenditure for 2020/21: R61 725 999 2019/20: R 78 77 565 F& W for 2020/21 was R19 148 746 2019/20: R 54 529 692 Irregular Expenditure: R141 096 758 2019/20: R 19 896 948 <u>Cumulative Values</u> Unauthorised Expenditure: R 203 571 244	Overspending on budget. Incurring of interests and penalties on late payments of creditors. The following instances of UIF&W expenditure were noted: • service providers appointed without following supply chain management processes and legislation • Non-adherence to three written quotations • Regulation 36 Deviation • 100% of the contract ceded to third party	Disregard of laws and regulations by management resulting in non-compliance with SCM Regulations No consequence management system in place Inefficient financial management system Implementation of Unfunded budget. Allegations of financial misconduct not systematically investigated. Officials are not being subjected to consequence management related to UIF&W expenditure.	Establish a disciplinary board to investigate and handle UIF&W cases Identify, investigate, and report on irregular, unauthorised, fruitless and wasteful expenditure as per legislation. Development and approval of UIF&W expenditure reduction plan. Investigate reported allegations of financial misconduct against the officials. Training on the	AG Management Report. Pg.28 SCM Compliance Report Q3 UIF&W Reduction Plan. Pg.3 Audited AFS

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	F & W: R 228 208 518 Irregular Expenditure: R 355 567 932 UIF & W policy still at draft stage UIF&W reduction plan was approved in Oct 2021 and not in line with Circular 111 MPAC did not put measures in place to investigate UIF&W expenditure UIF&W registers not updated timeously No official was subjected to consequence management related to UIF&W expenditure Quarterly reporting of UIF&W expenditure not effected	• Emergency Appointment • Interest payment on overdue accounts The UIF&W expenditure register is not being updated and it does not reconcile with the AFS No preventative measures to limit re occurrence of UIF & W UIFW was not investigated as required by Section 32(2)(a) of the MFMA which results in non-compliance. Disciplinary steps not taken against officials responsible for UIF & W expenditure. Consequently, no processes to recover the funds can be undertaken. Amounts disclosed in the financial statements for UIF & W expenditures does not agree to the supporting registers	No disciplinary board to hold staff accountable for misconduct UIF& W policy not in place MPAC not having the capacity to investigate and conclude on UIF & W. Lack of understanding of SCM regulations. Lack of proper planning to appoint service providers in line with SCM policies The municipality has not developed and implemented a UIF&W expenditure reduction plan. Lack of follow through by MPAC on updating and reconciling of the UIF&W register to audited AFS	identification, recording and reporting on UIF&W Hold the officials responsible for misconduct by appropriate consequence management Monitor and updated UIF & W register Table policy for approval by Council MPAC to institute processes to reclaim UIF&W expenditure from liable officials and propose to Council for resolution. Take steps to recover or rectify UIF&W and to prevent recurrence as prescribed by section 32 of the MFMA. Internal auditors must provide pre-assurance on awarding of bidders. Compilation of the contract register and contract management policies. Review all outstanding payments on a monthly basis and ensure payment are done within 30 days of receipt of invoice. Raise awareness on the importance of updating and reconciling	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				UIF&W with the audited AFS on Senior management and MPAC	
System of Delegation	Municipality does not have a system of delegation in place	Non-compliance with the Municipal Systems Act Council has not ensured the implementation of systems of delegation	Failure by Council to review and approve a system of delegation Lack of understanding by council and management of rationale behind system of delegations. Disregard to compliance with laws and regulations by management	A system of delegations must be developed to address all powers and functions of organs, political office bearers, administrative officials and committees Sign-off of sub delegations and maintain delegations register. Review the delegations of powers and functions on supply chain management by MM	Workstream Presentation
Audit action plans (internal and external)	Inadequate implementation of the audit action plan and slow response Poor quality annual financial statements External audit findings were not addressed by the municipality Stagnation in unfavourable outcomes. The municipality has not yet submitted the 2021/2022 AFS The municipality has an audit plan in place however, however there is slow movement in the progress of addressing the misstatements identified by AGSA	External audit action plan for 2020/21 has very little progress on implementation of recommendations from the External audit plan (1.7%) No findings addressed at time of analysis. The municipality does not adequately report progress A disclaimer audit opinion with material findings was issued in the prior audit cycle, with the audit outcomes having been stagnant for the past three consecutive financial years A total of 145 Issues were identified by the	Lack of appropriate coordination on the implementation of audit action plan. Disregard of legislation by management Lack of accountability by department leadership. Insufficient monitoring of internal controls which result in slow progress. Inadequate skills capacity to prepare proper annual financial statements The audit committee and internal audit functions lack initiative and skill in	Develop strategy to monitor the implementation of action plans to address internal control deficiencies Assign responsibility to department heads to ensure findings are addressed. Internal audit should provide monthly assurance on the reported progress and PoE. Internal Audit should provide assurance that all issues in the management report are responded and recommendations from stakeholders are being considered.	Post external audit action plan. Pg.2 AG Management Report. Pg.29

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Prior years issues not followed up No evidence available that there is oversight of the audit committee and the internal audit functions on the action plan	AGSA during the audit however the municipality has not started taking decisive steps to address these issues. The municipality has not been following up on audit issues for a number of years now thus the successive disclaimer of opinions No reflection on retrieval of supporting; documents that were not provided in prior year. This may have implication on the opening balance/ comparative figures Monthly/regular reconciliation of accounting records remain a challenge. Financial misstatement findings are yet to be cleared	handling the audit action plan. More so, these committee do not meet often enough to discuss such important issues as the action plan.	Municipality should solicit assistance from stakeholders on technical issues or interpretations. The internal audit and audit committee should take full responsibility of the action plan, regular meetings should be scheduled to discuss the progress. The action plan completion and review should be included as part of the KPIs of the internal audit and audit committee Bi-weekly Audit steering committee to monitor progress. Introduction of performance management measures to instil culture of accountability. Progress report should be reported to the executive authority on regular basis to evaluate the extent which the findings are being addressed Internal audit unit should be capacitated on the AFS review process and handling the audit action plan.	
Internal Audit	Internal audit is a newly established unit headed by a manager. Internal Audit Unit has two vacant positions per	Lack of independence of the Internal Audit manager who was acting CFO prior to her appointment.	Internal audit function not institutionalised. Insufficient staff in Internal Audit unit	Co source services from District Internal Audit to ensure that the unit is fully functional	Workstream Presentation AG Report 2020/21. Pg.31

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	organisational structure Constant change in management affected administration including signing of administrative documentation	She was appointed as Internal Audit Manager effective 1 November 2021 and as Acting CFO for 3 months effective 31 March 2021 Weak internal controls resulting in failure to comply with key laws		and independent Quarterly reports on internal audit	
	Internal audit plan not signed and the Charter has not been approved	Internal audit plan has not been signed and Internal Audit Charter has not been approved therefore no reports have been submitted to Council	Lack of accountability. Lack of competent Senior management. Insufficient staff in IA unit Weak internal controls resulting in failure to comply with key laws	Table Internal Audit Charter at Council for approval and implementation Approve and implement the Internal Audit Plan	Internal audit half year plan Workstream Presentation AG Report 2020/21. Pg.31
Immovable Property Management	Some Council properties are occupied by council staff. It could not be ascertained whether they are leased out at market related rentals Rentals are deducted from salaries There are weak controls in property management Municipality has challenges buying additional unused land as a result of resistance by tribal authorities The asset registers of the municipality are not complete and do not contain accurate information with regards to donated assets, work in progress and fully depreciated assets. The municipality does not have an	Some property records could not be found There is no system of determining rentals for properties rented by council staff. Lack of review of lease agreements. Building projects reported as completed could not be identified during physical verification Some properties (land, buildings and infrastructure) reported as owned/assets could not be verified Some investment properties listed in investment asset register could not be physically verified	Poor record keeping Poor asset management practices. Weak controls in property management No lease agreements in place with tenants in municipal's properties Lack of capacity, review, and supervision mechanisms for maintenance of credible asset registers. Periodic physical verification of assets not fostered by management No systematic filing measures for important documents	Management must ensure that asset register is complete and accurate Review rentals and charge market related rental to the tenants. Review lease agreements. Collection of market related rentals from tenants. Confirm ownership of properties with the Deeds Registry Periodic review of assets and the asset registers should be fostered by management. The filing system of the municipality	Workstream Presentation AG Management Report. Pg. 9,10

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	updated register of leased assets. Title deeds of some properties not in place	Some immovable properties could not be traced to the asset registers by AGSA Work in progress infrastructure projects could not be located by AGSA Fair values of Investment properties could not be verified by AGSA		should be revived, especially with regards to important strategic documents.	
Litigation and Contingent liability	Ongoing high levels of litigation mostly against the Municipality, increasing its exposure. Failure to pay for services rendered Under-staffing The municipality has a huge contingent liability potential exposure of about R84 million. The increase from the prior financial year was around million. Municipality does not have a sound legal division to follow up on litigation cases with the attorneys; as well, no proper filing systems in place for legal files Over 85% of the contingent liabilities emanate from failure to pay for services rendered to the municipality The municipality incurs high professional and consulting costs from litigation cases Poor case management.	The absence of a litigation strategy has a negative impact on litigation decisions, which affect service continuity and prudent financial management. High risk of financial exposure. Badly constructed contracts leading to litigations. Litigation against the municipality caused by contractual issues Amounts recorded under litigation and contingent liabilities could not be verified as there were no case files neither was there confirmations/correspondence from the attorneys. The completeness of contingent liabilities hence could not be ascertained. The liquidity and going concern of the municipality under severe threat from legal claims and the costs involved. Municipality might struggle to secure service providers	Lack of competent senior management and staff responsible for drawing up contracts. Poor contract management The legal division of the municipality is incapacitated Lack of oversight senior management and those charged with governance.	Report to Council on diagnostic analysis of root causes of litigations and claims. Conduct a legal assessment on reasonable prospects of success on all pending litigations. Development and implementation of MFMA Legal compliance matrix Maintain updated litigation and claims register Manage contingent liabilities to minimise the exposure of financial risk Capacitation of the legal division of the municipality by hiring qualified personnel and by providing required training	u

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		for different services in the future			
Contract Management	A contract management committee was established but is not functional. A contract management framework is in place. This framework was developed by Provincial Treasury for use by the whole district, however there is no evidence that this framework was formally adopted by council No contract performance monitoring measures in place An Annual Procurement Plan is in place	Weak contract management An Annual Procurement Plan not always adhered to Poor performance by contractors as there are no monitoring measures in place. This is also in contravention of section 116(2)(c) of the MFMA	Lack of competent Senior management and staff responsible for drawing up contracts. Lack of competency skills to efficiently and effectively run contract management Badly drafted contracts. Lack of capacity to review policies There is no contract management unit or officials assigned the responsibility	Audit and review all contracts. Identify goods and services required on an ongoing basis and appoint service providers on three-year contracts. Submission of monthly performance monitoring reports on contracts. Review annual procurement plan. Affordable payment arrangements with creditors Implementation of contract management framework developed by provincial treasury Appoint competent officials in the contract management unit and conduct training	SCM Implementation Report Q3 2021/22. Pg.2, 7 Contract Register AG Report. Pg.27 AFS 2021/22 Workstream Presentation
	Municipality compiled a list of goods and services regularly procured however method of procurement has not yet been decided. List will ensure that potential suppliers are on hand and procurement can be done quickly. (closed bids or quote system to suppliers from a pre-selected panel) Total contracted	Some contracts expired without procurement processes having commenced Contract register has some suppliers with no contracts/contract value despite having expenditure to date There were no 2021 contracts identified on the	Ineffective contract management Lack of accountability SCM Processes not adhered to Poor records management and keeping Lack of competency skills to efficiently and effectively run	Audit all contracts and make recommendations Establish if there are irregular month to month contracts? Establish if there are contracts emanating from unauthorised expenditure? Establish if there	Contract register Quarterly SCM implementation report AGSA management report Audited AFS

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	services: R 20 742 003 Total expenditure; R 609 728 035 Percentage of contracted services against expenditure is 3,4% within acceptable range based on Treasury Norm There are currently no evergreen contracts in place The municipality has a contract register; however, it is not updated with the latest contracts. Contract extensions not following proper SCM procedures Municipality does not compile monthly performance monitoring reports on contracts	contract register, which indicates it is not updated, this could lead to limitation of scope findings raised by the AGA No audit trail of authorization of certain contract extensions and instances were contract extensions were not approved by a sanctioned official	contract management Lack of capacity and/or experienced skill in the SCM division of the municipality	are duplicate service providers and for which services. Appoint competent officials in the contract management unit and conduct training	
By Laws and Enforcement	Most By laws are currently at draft stage. Policies are awaiting review and approval at a Policy workshop that is yet to take place Revenue generation from by-laws is not satisfactory as there is selective enforcement and monitoring affects revenue generation. No reporting on revenue generated from enforcement of by-laws.	By laws have not been implemented and cannot be enforced. Council sitting schedules disrupted by instability Non-compliance with Municipality laws and regulations.	Dysfunctional council – By-laws have been drafted but not approved by Council. Lack of prioritisation by leadership to hold Policy workshop to fast-track approval of By-laws. Poor human resources management. Poor reporting processes Lack of discipline	Schedule and undertake policies workshop Review all by-laws for legal compliance. Enforcement of By-laws. Review institutional arrangements to strengthen enforcement unit. Promulgate outstanding approved by-laws. Review by-laws approval processes, create checklist for consultation of all stakeholders for input prior to Council approval. Publish by-laws	Work Stream Presentation

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
				on municipality website	

2.2 INSTITUTIONAL ARRANGEMENTS/ HUMAN RESOURCES

INSTITUTIONAL ARRANGEMENTS/ HUMAN RESOURCES

One of the major challenges facing Ditsobotla Local Municipality is in trying to ensure that the current structure is re-oriented towards effectively and efficiently addressing the current challenges (service delivery and infrastructure maintenance) faced by the communities. Furthermore, in as much as there is inadequate capacity in the technical functions of the municipality, the provision of necessary infrastructure and tools of trade also needs special attention – the Labour Department inspections have in the recent period found the municipality to be lacking in these areas.

Organisational Structure and Employee related costs

Senior positions have been vacant from time to time, and this poses a risk of inefficiency in operations and unaccountability in the municipality. The position of the accounting officer of the municipality has been vacant for more than three years and, as at the time of assessment, all the senior management positions were vacant; only being occupied by officials in an acting capacity. The constant change in leadership causes delays in administrative processes that require management approval such as the signing of contracts as well as the approval of payments. The gap in leadership also results in challenges in monitoring the implementation of policies.

The structure was internally reviewed in October 2021 however no assessment of job descriptions or job evaluations were performed in the process of the review. Each member of staff was automatically included in the new structure although some positions may be redundant because of the evolving environment such as technological advancement.

Employee related costs is the main cost driver of operating expenditure, contributing 46% of the total budget; however, this is above the norm of 25-40% according to the treasury circular 71; this implies that the structure of the municipality is blotted with an organogram that is not oriented towards service delivery as there is still high vacancy rates on key positions despite the high employee related costs.

Human Resources Development Strategy:

There is no Human Resource Development strategy in place. This means municipal officials will not be able to improve efficiency in their day-to-day activities. There is lack of capacity and without additional development and capacitation, their performance capabilities are further impaired. A development strategy would also assist by forecasting the Municipality's human resource needs to put plans in place to be able to meet staffing needs as they arise. At present, there are senior positions that have been vacant for a more than a year and had there been a plan, strategies would have been in place to ensure that key positions are filled within a short time to ensure that operations are efficient.

Staff discipline and Disciplinary Board:

The code of conduct of the municipality is not being enforced. The disciplinary board was established but is not functional, the terms of reference have not been approved by Council. The municipality did not adopt systems (policies) to investigate allegations of misconduct and disciplinary procedures. The overall culture shows that staff lacks accountability and integrity as much as there is no consequence management for misconduct.

Performance Management:

The municipality does not have documented and approved internal policies and procedures to address

the process of collecting, recording, processing, monitoring, and reporting performance information. This results in inaccurate performance reporting which in turn affects service delivery. The 2020/21 overall performance results reflect a 46% under-performance rate caused by a mix of administrative challenges and financial constraints.

More so, there is poor record keeping in the municipality which makes it a challenge to monitor the performance of different departments. The lack of proper records management has been the major reason for successive disclaimer of opinions on performance information issued by the AGSA for the past three consecutive financial years.

Consequence Management

The municipality has no consequence management framework/policy in place. Promotion of fundamental principles of effective and efficient utilisation of public resources and transparent and accountable financial management practices, require an effective consequence management system.

Records Management

Documents supporting reporting of financial and non-financial performance are not properly kept as required by the MFMA legislation. A records management system must be put in place to ensure safe keeping of documentation.

Filling of Critical positions

All senior positions are vacant and are being advertised. These critical positions have been vacant for periods of more than 3 months, and some have been occupied by officials in an acting capacity, which is against the acting policy of the municipality which states that an official can only act for a maximum of 3 months.

Employee Verifications

The municipality must conduct an employee head count and identify any ghost employees or employee's surplus to the organization and the payroll. Qualifications of all employees also needs to be verified and validated to ensure all positions are being held with personnel with requisite qualifications. There is no documented evidence to show that these exercises are currently being done.

Management of Overtime:

AGSA report indicates that they were unable to obtain sufficient appropriate audit evidence supporting employee related costs due to the poor status of the accounting records as overtime recalculations did not agree with the payroll figures.

During Workstream meetings with the Municipality's management it was highlighted that overtime payments is an area of concern as claims are made for work that cannot be proved/ascertained, additionally it was noted that the employees claiming overtime did not have the tools of trade required to implement the work for which the overtime was being claimed for.

The table below reflects on matters that have been noted under this segment and provides an analysis of the problems and possible solutions:

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
Organizational structure	Structure has 727 posts excluding councillors Structure was last reviewed in October 2021. The review disregarded review of job descriptions and job evaluations. The new structure is not aligned to the needs of the Municipality.	The organisational structure does not respond to service delivery challenges. Old positions were not assessed to determine relevance. All employees from the previous structure were placed in the current structure.	Dysfunctional council Lack of competent Senior management.	Review the Organisational Structure in line with the Municipal Staff Regulations, Section 12 notice, and the strategic objective of the Municipality. Review and evaluate all job descriptions in the organisational structure. Development and approval of the placement policy, process be undertaken to place employees appropriately for full utilization.	Organisational Structure AGSA Management Report AFS 2020/21 Workstream Presentation 2021/22 IDP 2020/21 AFS Ratio Analysis
	Employee costs are high contributing 46% of the total OPEX; which is above the norm of 25-40% according to the treasury circular 71.	The organisation has a blotted structure and a high vacancy rate on key positions despite the high employee related costs.	Organisational structure not aligned with current municipal needs. Lack of HR planning Critical Vacant Key Positions	The organisational structure should be reviewed properly to align it to the mandate of the municipality for efficient service delivery. Perform a Salaries benchmarking exercise to ensure employees are paid based according to the correct grading. Given the liquidity position of the Municipality, it will be wise for the Municipality to control its payroll budget but plan for the acquisition of skills in line with cash flow improvements.	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Capacity and competence challenges within the structure	Numerous acting positions and suspensions of senior members of management (Suspension of chief financial officer, suspension of Director corporate Services, acting positions for municipal manager, acting PMU manager.) results in instability and lack of accountability. Delays in filling critical vacant roles	Lack of competent Senior management.	Determine and include the anticipated date to fill the vacant/acting positions and the source of funds which will be used to fund the critical and scarce positions.	
Staff discipline and Disciplinary Board	Code of conduct not enforced Disciplinary cases for junior staff members are handled by appointed internal officials No training on Code of Conduct	Staff behaviour and expectation is not governed by a code of conduct: Senior management not enforcing the code of conduct The disciplinary board was established but is not functional as its Terms of Reference have not been approved by Council. Disciplinary cases for Senior managers are presided over by individuals appointed by the Municipal Manager based on a request from HR department Staff lacks accountability and transparency	Lack of accountability Lack of discipline	Train s56 and other managers and supervisors to be utilised as initiators and Presiding Officers. Utilise officials from other government departments, municipalities and or SALGA database to conduct disciplinary cases on behalf of the municipality. Adoption of the DB TOR. Consult with COGTA and SALGA regarding training for the Disciplinary Board. Develop and regularly update the disciplinary case management register. All employees to be workshopped on the code of conduct.	Workstream Presentation AG Management Report.
Performance Management	Insufficient capacity in performance management unit to carry out its functions No performance contracts in	The performance management unit does not have sufficient capacity to plan, manage and report on organisational performance. Performance Management	Lack of competent Senior management. Lack of formalized Standard Operating Procedures to	Development, adoption, and implementation of the Performance Management System. Management should design and implement internal	AG Report 2020/21. SDBIP

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	place as all the Senior positions are occupied in an acting capacity No performance management policy PMS not cascaded to staff below s56/57 managers.	Framework not approved The municipality does not have documented and approved internal policies and procedures to address the process of collecting, recording, processing, monitoring, and reporting performance information. Failure of Municipal Manager and Senior Managers to sign annual Performance Agreements in line with Section 57(20)(a) of MSA	manage performance reporting, the effective monitoring and evaluation of reported performance information. Lack of consequence management for poor performance	policies and procedures to ensure proper record management of all supporting information relating to the performance. Management should establish a division in the organisation dedicated to this function. Cascade PMS to staff below s56/57 managers.	
Consequence Management	There is disregard to compliance with key legislation, with no consequence management for transgression No updated consequence management polices	Lack of accountability No disciplinary board in place. Lack of Consequence management	Lack of Capacity General disrespect for financial legislation	Development and approval of a consequence management policy/Framework. Establishment of a disciplinary board Development and approval of the TOR for the DB.	AG Management Report 2020/21. SCM Implementation Report Q3.
HR Strategy	No HR Strategic Plan	The Municipality does not have an HR Strategic Plan. A plan to ensures that staff needs are forecast and addressed in time	Lack of competent Senior management. Inadequate training.	Management should design and implement HR Strategic Plan to address the HR strategic issues within the municipality	AG Management Report 2020/21 Draft Annual Report 2020/21.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
Records Management	The municipality does not have a proper system to ensure the safekeeping of documentation that supports the financial statements and the annual performance report There is no record management policy.	IT has limited capacity resulting in weak ICT controls resulting in risk of loss of operational and strategic data critical to the functioning of the Municipality Documents supporting reporting of financial and non-financial performance are not kept (hence disclaimer of opinions) Record Management shortfalls is a major contributor to Disclaimers of Opinion over the years No policy governing document/management of records	Lack of Internal controls and accountability.	Documents management and retention policy should be developed Centralization of all records of the municipality. Improve IT infrastructure and enable Municipality to transition to being paperless as far as possible. Create and implement approved file plan in all departments.	Risk Register AG Management Report 2020/21.
Operating Model	No plans and efforts to insource most of the critical functions. Over reliance on contractors	Most of the core functions of the municipality are contracted out without proper performance monitoring measures in place, this has resulted in underperformance by contractors in these core functions.	Lack of competent Senior management Poor performance of the Municipality.	Review the municipal operating model in line with the Municipal Staff Regulations Improve capacity of municipal officials Controls over the management of the consultants.	
Filling of Critical positions	All senior positions are vacant and are being advertised. Critical positions are vacant for periods of more than 3 months	Instability in the key senior management positions. High vacancy rate.	High level of misconduct.	FastTrack recruitment process for the senior management positions in accordance with the relevant legislative prescripts. Review the operating model for the identification and filling of critical vacant positions.	AG Management Report Organisational Structure Workstreams Presentation
Key HR Policies	Key HR Policies are set to be reviewed at a policy workshop.	Human Resource Policies in draft stage Last approved updates were in 2019: -Travel and Removal Policy -Overtime Policy -Acting policy -Annual Leave policy -Housing Allowance	Dysfunctional council Lack of competent Senior management. Risk for financial losses,	Schedule policy workshop and table policies for approval by Council Review, approve and implement all other HR related policies.	Workstream Presentation Draft HR Policies

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		Policy -Student Assistance Policy -Attendance and Punctuality Policy -Chronic illness Policy -Code of Conduct for - Municipality Employees Confidentiality Policy -Dress Code Policy -Employee Assistance Policy -Employing Non-Fulltime Staff Policy -Exit Management Policy -Gift Policy -Imprisoned Employee Policy -Incapacity due to poor work performance policy -Legal Aid Policy for - Councillors and Employees Nepotism Policy -Occupational Health and Safety Policy -Payroll Management and Administration Policy -Personal Protective Equipment Policy -Policy on Acting in other Positions -Private work policy -Recruitment and Selection Policy -Retirement Policy -Scare Skills Policy -Secondment Policy -Sexual Harassment Policy -Smoking policy -Study Aid and Leave Policy -Substance Abuse Policy -Succession Policy -Training and Development Policy -Abscondment policy Policies not tabled for review		Awareness to various departments to workshop employees on policies. Development of procedure manuals to give guidance to management when implementing approved policies.	
Labour Relations	Code of conduct not enforced Hostile relations between employer and employees. Senior management does not hold	Inability by management to effectively manage employees. LLF dysfunctional One disciplinary case pending	Poor labour relations	All outstanding disciplinary matters to be prioritized and concluded. Conduct ethics and code of conduct training Develop and maintain a	Council Minutes AG Management Report Work skills plan

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	people accountable for bad behaviour.			disciplinary case register.	
Physical Verification of staff and qualifications	There was no employee verification exercise conducted.	There is no documented evidence of regular physical verification of employees against the payroll. There were no verifications of employee qualifications	Poor Human Resource management practice.	Employees should be regularly verified against the payroll. Current employees should be requested to provide copies of certified certificates (as a start) and/or originals for verification or the municipality can engage third parties to undertake the verification.	Workstream Presentation
Skills & Competencies	The municipality lacks skilled employees in critical operational functions No employee development plans.	Skills and competencies not in line with the municipal needs. Limited capacity and skills to facilitate compliance with the Municipal Minimum Competency Framework	Inadequate skills levels and inadequate qualifications. Lack of training Lack requisite skills to perform key and core functions.	Ensure that all affected employees (BTO/SCM) and managers are assisted to meet the minimum competency levels as required by the regulations. Conduct a skills audit using Department of Cooperative Governance Gap Skills tool. Conduct verification of qualifications of all the employees.	Workstream Presentation Draft Annual Report 2020/21.
	Labour and Training Committee is in place. Work Skills plan in place. No training and development policy	Training was only for 10 Road works staff in 2020/21. No training performed to upskill staff despite the lack of skills and experience in most departments No employee development plans. Competency assessments performed for Finance officials only (none in SCM)	Lack of training facilitated by the municipality. Budget constraints in the implementation of the WSP	A training and development policy should be developed and approved by council Employee development plans should be signed every year. Budget allocation for the implementation of the WSP. Ringfence mandatory grant from LGSETA and other related	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of information
				capacity building grants for training and development of staff. A competent, accredited service provider to be appointed to assist with the WSP implementation.	

2.3 FINANCIAL MANAGEMENT

SUMMARY OF MTREF 2022/23 BUDGET AND STATUS

Table below shows a summary of the A4 Budgeted Financial Performance for the past five (05) budget years.

Description	2018/19	2019/20	2020/21	2021/22	2022/23
Total Revenue (excluding capital transfers and contributions)	516 137	578 280	605 621	629 212	584 888
Total Expenditure	511 107	931 325	608 009	612 600	616 618
Surplus/(Deficit)	5 030	(353 045)	(2 388)	16 612	(31 730)

The Municipality has tabled a surplus budget in 2018/19 and 2021/22.and a deficit budget in 2019/20, 2020/21 and 2022/23.

Although there were surplus budgets in the years stated above the following other factors contributed to the budget being unfunded:

1. Revenue has been overstated.
2. Some expenditure items have been understated.
3. The available cash is not sufficient to cover payment plans entered into with Eskom and water board.
4. Creditors exceeds available cash and investments, meaning the Municipality is unable to service the financial obligations as they are due and payable.

The real status is that the municipality has tabled and adopted unfunded budget for the past five years, including the current year

Tabling and adopting an unfunded budget might be an indication that the Municipality is struggling to generate as well as collecting billed revenue for appropriation into funding the expenditure priorities, or the Municipality might be collecting sufficient revenue but struggling with expenditure management, thereby spending on non-core and non-essential expenditure items.

Overspending is normally caused by the Municipality incurring more expenditure than the anticipated revenue, this inevitably leads to the Municipality being unable to settle the invoices received from service providers and as a consequence, increasing the creditors book. The creditors book that does not have concomitant cash reserves results in the budget being unfunded, Ditsobotla Local Municipality has for a long period of time been exposed to these challenges which eventually escalated to become a crisis.

CASH AND LIABILITIES MANAGEMENT ANALYSIS

The municipality is facing liquidity challenges as evidenced by the increasing creditors balances, which amounted to almost R1,1 billion as at 30 June 2021; on this note, it is important to note that the IT financial system of the municipality is not working correctly and this poses the risk that the financial information recorded thereon could be incorrect; which would lead to a misleading financial position of the municipality as per financial reports like AFS.

It was also noted that the billing for June 2022 has not been finalized, implying that the municipality is losing revenue on a monthly basis and that the billing will be inaccurate, resulting in disputed accounts.

The cash equivalents of the municipality as of 31 June 2021 amounted to R14 million; whilst the current assets in total amounted to R493 million which is significantly below the current liabilities totalling almost R1,1 billion. Ditsobotla Local Municipality does not have any outstanding loans which is a favourable position as there are no finance and loan redemption costs to be considered which would cause further strain on the municipality's liquidity status. Currently, the municipality has a Financial Plan aimed at reducing the budget deficits; however, results are yet to be seen.

OPERATING REVENUE BUDGET

The Municipality has two main revenue sources, which are: property rates taxes and service charges for the sale of water and electricity, collection of solid waste and waste water. Secondary sources include fines, interest on debtors and agency fees.

The following are the tariff increases that were used to compile the budgets:

- Property rates increase 4.8%
- Refuse removal increase 4.8%
- Water increase 4.8%
- Electricity is 9.8 %

The tariff increases are not cost reflective because different direct and indirect costs incurred for the service delivery are not covered by the current tariffs.

Table 1. Reasonability of tariff increase

	2018/19	**2019/20**	**2020/21**
Property Rates			
Actual Revenue	59 996 429	66 132 851	68 444 102
Budget Revenue	55 000 000	61 000 122	62 766 548
Budget revenue increase amount from prior year		**6 000 122**	**1 766 426**
% change in budget revenue		11%	3%

In 2019/20 the budgeted rates increased by 11% in the pre COVID period. The change from 2019/20 to 2020/21 was 3%, reflecting the effect of COVID which was considered in the budget compilation and which is still a current consideration as the 2022/23 increase is only 4.8%. The increase in the budget tariff amount may be considered reasonable considering that it is in line the increase effected in the prior year, however there this has no bearing that the tariffs are cost reflective.

Property Rates

Rates tariffs increased by 4.8% for the 2022/23 budget, with a projected collection rate of 42%. The valuation roll which impacts how much is billed for property rates is in the process of being corrected, this could affect the current budgeted property rates revenue due to the effect of the changes that may come about from the corrections of the valuation roll.

Service Charges

According to the 2022/23 MTREF Budget Performance Assessment Report, the following depicts the

overall change in revenue from the different services provided by the municipality.

- Refuse removal revenue forecast to decline by 48% to align it with prior year audited figures
- Sanitation revenue to increase by 22%
- Water revenue projected to increase by 16.3%.
- Electricity revenue estimated increase is 16.8% despite that this is not in line with NERSA rates The Municipality was advised in the review to consider only an increase of 7.47% as stipulated by NERSA considering that there were no major changes within the Municipality

The projected collection rate of revenue attributable to service charges is expected to be 50% which is in line with the 2020/21 collection rate of 48%; however, this is a very low figure which is not sustainable for the financial viability of the municipality.

Contribution of revenue sources to total projected revenue

The table below reflects the contributions of the different revenue streams of the municipality to the total budgeted revenue for the year:

North West: Ditsobotla (NW384) - Table A4 Budgeted Financial Performance (All) for 4th Quarter ended 30 June 2022

Description	2018/19	2019/20	2020/21	Current year 2021/22				
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit Outcome	Budget Year 2022/23
Revenue By Source								
Property rates	71,626	76,934	68,444	68,165	68,165	68,165	10	71,700
Service charges - electricity revenue	139,692	140,523	189,494	170,634	170,634	170,634	11,031	199,348
Service charges - water revenue	71,596	102,813	72,894	65,700	65,700	65,700	581	76,390
Service charges - sanitation revenue	33,947	31,808	42,371	36,200	36,200	36,200	253	44,404
Service charges - refuse revenue	16,588	9,248	21,011	42,657	42,657	42,657	150	22,019
Rental of facilities and equipment	362	441	-	565	565	565	-	565
Interest earned - external investments	(4,786)	1,473	419	3,000	3,000	3,000	-	-
Interest earned - outstanding debtors	55,909	62,073	38	66,286	66,286	66,286	2	479
Dividends received	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	12,837	8,087	3,981	2,400	2,400	2,400	-	3,607
Licences and permits	(2,876)	1,326	8,482	2,860	2,860	2,860	-	8,889
Agency services	-	-	3,126	8,105	8,105	8,105	-	3,276
Transfers and subsidies	119,937	132,372	151,063	151,204	151,204	151,204	58,866	164,467
Other revenue	1,304	1,008	93	11,436	11,436	11,436	3,260	222
Gains	-	10,174	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)	**516,137**	**578,280**	**561,417**	**629,212**	**629,212**	**629,212**	**74,153**	**595,366**

The total operating revenue of the municipality indicates a decline of 5,4% from R629 million to 595 million. The contribution of grant is 26,7% of the total revenue which indicates that the municipality is capable of generating own revenue from municipal operation despite the challenge of low collection rates.

OPERATING EXPENDITURE BUDGET

North West: Ditsobotla (NW384) - Table A4 Budgeted Financial Performance (All) for 4th Quarter ended 30 June 2022

Description	2018/19	2019/20	2020/21	Current year 2021/22				
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit Outcome	Budget Year 2022/23
Expenditure By Type								
Employee related costs	185,388	182,744	195,567	187,361	187,361	187,361	166,692	245,232
Remuneration of councillors	17,398	16,282	17,127	18,883	18,883	18,883	11,590	18,000
Debt impairment	465	390,720	108,739	163,600	163,600	163,600	-	144,110
Depreciation and asset impairment	36,102	32,650	32,740	32,785	32,785	32,785	-	32,739
Finance charges	63,977	61,235	19,149	11,782	11,782	11,782	2,040	11,000
Bulk purchases - electricity	150,850	143,712	146,673	145,694	145,694	145,694	14,724	61,428
Inventory consumed	4,121	(9,912)	8,612	5,920	5,200	5,200	3,512	9,500
Contracted services	30,396	38,713	53,987	34,517	35,599	35,599	16,831	35,599
Transfers and subsidies	167	686	-	-	-	-	-	-
Other expenditure	22,244	38,890	23,226	12,057	10,975	10,975	6,332	11,149
Losses	-	35,604	2,189	-	-	-	-	-
Total Expenditure	511,107	931,325	608,009	612,600	611,880	611,880	221,721	568,758

Total operating expenditure is projected to decline by 7% from R611 million to R568 million driven by a huge decline in the debt impairment, which is a concern considering the increase in debtors and the low collection rates. Employee related costs is the main cost driver of operating expenditure, contributing 46% of the total budget; however, this is above the norm of 25-40% according to the treasury circular 71; this implies that the structure of the municipality is blotted with an organogram that is not oriented towards service delivery as there is still high vacancy rates on key positions despite the high employee related costs.

WITHELD GRANT FUNDING

The municipality has had persistent non-compliance with various legislations, this has led to National Treasury invoking MFMA Section 5.2 (e) which allows withholding of funds due to a Municipality's serious or persistent breach of the MFMA. A notification signed by the MECs of Finance and COGHSTA (04/07/2022) was sent to the Municipality informing them that Equitable Share and other conditional grants due in July 2022 will be withheld with the intention to ensure the Municipality remedy breaches identified. The notification also specifies conditions to be fulfilled in order for the funds to be released. These conditions include: a report on unspent INEP grant intended for a power station, addressing AG post audit action plan, resolution of how Eskom debt will be resolved and process plan for filling senior management vacant positions. According to the notification COGTA and Provincial Treasury will be responsible for assessment of compliance with conditions before the funds can be released.

The withholding of the grants by National Treasury will have a serious impact on Municipality operations given they are already in financial crisis.

REVENUE IMPROVEMENT

The following key suggestions will assist the municipality to increase its revenue generation to avoid over-dependence on grant funding:

- The municipality should develop and table for approval budget related policies like tariffs policy, rates policy, credit control and debt collection policy.
- The municipality should review its tariffs to make sure they are cost reflective.
- The municipality should work on ensuring that the billing system is fully functional and that it reconciles to the valuation roll.

- The municipality should reduce unbilled consumption of its services by ensuring that there are enough workers to collect meter readings and also taking decisive actions against illegal connection.

OVERALL STATE OF FINANCES

The municipality is in a dire financial situation as evidenced by successive financial performance deficits or minimal surpluses over the years; an increasing payables balance and severe liquidity challenges. Besides governance, management and institutional problems discussed in other sections of this report, one of the biggest causes of the financial woes the municipality is facing emanates from low revenue collection rates; in 2020/21, the revenue collection rate was at 46% which negatively impacted the cash flows and liquidity of the municipality. Furthermore, the debtor's collection period is super high, further putting severe pressure on liquidity; on average, it took an average period of 992 days from the 2019/20 financial year and 1240 days from 2020/21 for the municipality's debtors to settle their accounts. Moreover, even some officials of the municipality and councilors took way more than 90 days to pay their municipality bills which is also a contravention of the MFMA. Efforts need to be made to improve collection of revenue by implementation stronger credit controls as well as debtors' management measures like effective follow ups.

Apart from the late or non-payment of municipal service charges; the expenditure management, SCM management, contract management processes of the municipality are poorly managed as evidenced by high amounts of fruitless and wasteful expenditure, irregular expenditure and unauthorized expenditure, this further puts strain on the municipality as it spends the little resources it has on goods, services or capital assets that do not add any value to its operations and service delivery capacity.

Furthermore, the municipality has been facing challenges with changing over its financial system from EMS to Sage which has affected the customer billing function. At present, both the service providers for the financial systems have to be paid by the municipality as they simply cannot fully launch all its finance related functions on Sage due to system migration challenges. EMS system is being used as a reference point to estimate historical amounts for use in the current system SAGE as the accuracy and integrity of the data on SAGE is questionable. The estimation of historical amounts also made it a challenge to formulate the budget since baseline figures are inaccurate. The Municipality is however working on resolving the financial system challenges.

Another factor affecting the billing process and, ultimately, the municipality's revenue generation capacity is the lack of skilled meter readers, as the contract with the service provider for meter readings for both water and electricity expired in March 2022. The lack of appropriately skilled readers reduces the accuracy and completeness of meter readings, which affects billing and, as a result, accounts are inaccurate, and payments are delayed. To compensate for the lack of capacity, community members are being asked to submit their own meter readings in order to be billed; however, this exposes the meter readings to errors and/or false readings. Furthermore, if the municipality's officials do not take meter readings and the relevant customers do not submit their own readings, no billing is possible and cash flow is impacted.

Key Issues Identified:

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
Funded Budget Status	The municipality's 2022/23 Budget is unfunded: Cash Flow Budget: there is a surplus of R35 Million from the 2022/23 operations. The municipality is Unfunded with R839 Million after all the municipality's liabilities are considered. Increasing debt impairment costs due to poor debt management	The revenue baseline of the municipality is insufficient to cover the operating costs. A budgeted deficit of R61,3 million exists for the 2022/23 financial year on the financial performance Expenditure increases on a yearly basis indicating the municipality is using incremental budgeting; with no needs analysis being performed Low collection rates and negative cash flows Inability to pay long outstanding creditors	Ineffective planning and budgetary control measures Non-implementation of Credit Control and Debt Collection Policy Non-cost reflective tariffs Payment arrangement for creditors not concluded	Develop a credible Budget funding plan with clear activities and goals Tariff Review to reflect cost (include cost-of-supply exercise) Stringent cost containment measures Zero based budgeting of expenditure based on needs assessments Consideration of ways to improve revenue: Increase tariffs for non-core services such as parking Renovation of Municipal buildings to rent them out Line-item analysis revenue losses for the purpose of review of tariffs Implementation of credit control measures	Council Draft Budget Resolution 2022-2023 MTREF budget assessment report 2019.20 Annual report 2021 Audited AFS
	The July 2022 equitable share grant funding of the municipality has been withheld.	Due to the municipality's mismanagement of grant funding over the years, National Treasury invoked MFMA Section 5.2 (e) which allows withholding of funds due to a Municipality as a result of a serious or persistent breach of the MFMA	Persistent infighting within council Persistent non-compliance Service delivery issues not prioritized and addressed by council	Monitoring the implementation of the system of municipal systems act and the municipal structures act. Implementation of the municipal councillors' code of conduct	Letter to the municipality from provincial treasury
Budget related policies	Budget-related policies not updated/not in place	The municipality has no updated budget related policies including the tariff policy, rates policy, credit control and debt	Lack of oversight from the accounting officer and those charged with governance	Develop and Implement a Budget-related policies.	Workstream meetings

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		collection policy			
Revenue Management (Metered services and vending):	Non-collection of meter readings Lack of capacity to collect readings by the municipality. Community members encouraged to send their own meter readings	The Municipality has no meter readers as the contract with the service provider for meter readings for both water and electricity lapsed in March 2022. Staff employed as meter readers do not have the skills to carry out the task. Not all consumers are metered and there are unknown consumers. Consumer meters not read on monthly basis but billed on estimates. Prepaid vendor reconciliation not performed monthly	Shortage of skilled meter readers. Contract with meter readers not renewed on time Lack of internal controls on the vendors selling Prepaid electricity	Meter reading should be done monthly, and variances be attended promptly Municipality to perform monthly Reconciliations. Establish weekly formal meeting between Technical and Finance Municipality should hire and train meter readers and avoid outsourcing the function for sustainability.	MTREF Budget and performance assessment Workstream meetings
	Broken/Faulty meters	Incomplete/inaccurate meter readings	Lack of routine maintenance. Budget constraints to invest into improving/maintaining infrastructure.	Protection of meters from vandalism and illegal connections. Scheduled routine maintenance of meters Budget prioritization of repair and maintenance of meters	
	Illegal connections	Unmetered consumption by residents	Lack of monitoring and investigation by the municipality	Installation infrastructure to enable accurate electricity and water meter readings and disconnection/ reconnection to separate and identifiable consumers. Introduce an incentive scheme for whistle-blowers of illegal connections	
Revenue Management: (Property rates)	Valuation roll and the billing system contains	Incorrect tariffs linked to property categories leading to incorrect billing.	Tariffs not checked by responsible senior official	Valuation roll to be uploaded on Financial Management	Reporting data string analysis

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	errors	Valuation roll does not reconcile to the billing system.	Lack of integration of the revenue value chain with town planning.	System. Municipal valuer to correct all errors on valuation roll Reconciliation of tariffs structure with properties on valuation roll	Workstream meetings
Revenue Management: (Revenue collection)	Misappropriation of revenue collected.	General Misappropriation of funds received by municipality.	Lack of competent managers Weak internal controls over cash collected.	Capacity building for BTO officials Consequence management.	Reporting data string analysis Workstream meetings
	Low revenue collection rates	Non-collection of billed amounts. Projected collection rate for 2022/23 is 50%	No credit control measures in place	Municipality should implement credit control measures for all credit sales	
	Billing and financial system errors	Incorrect billing due to incorrect billing data on Financial Management System Insufficient support and training by the system vendor	Inadequate training on the use of financial system	Training on use of financial systems Constant and periodic review and monitoring of the work done by consultants for skills transfer Approved tariff structure to be correctly loaded onto Financial Management System.	
Cost-reflective tariffs	Non-cost reflective tariffs	The Current tariff structure for service charges is based on prior period rates with proposed increases based on CPI guidelines, however there is no evidence that these tariffs are cost reflective, which has led to successive budget deficits over the years. There no calculations/schedules to support the base of tariff rates	Not all operational costs of the municipality were considered in calculation of tariffs	The tariff structure of the municipality should be reviewed to align to the tariff setting methodology issued by the national treasury on the 5th of November 2019. In-line with MFMA Circular 98. Consideration of the cost of supply for all trading services.	Mid Term Budget and Performance Assessment Report 2022/23 Draft Tariffs report for the year 2022/23

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		whether done in the current year or in the previous years to indicate how the operational costs of the municipality were factored into the tariff setting exercise.			
	Year on year tariff adjustments with no substantive justification.	Rates of increase in tariffs rates is lower than that of pre Covid 19 periods despite the inflation being much higher in the current years. In 2019/20, revenue from services increased by 11% whereas for the 2022/23 financial year the budgeted revenue increase is about 4,8%.	No frequent review the tariff structure of the municipality in place.	The tariff structure of the municipality should be reviewed to align to the tariff setting methodology issued by the national treasury on the 5th of November 2019.	
	No tariff policy in place	The municipality does not have an approved tariffs policy in place. The draft tariffs for the year 2022/23 have not been approved by council nor by the accounting officer.	Lack of oversight by the accounting officer and those charged with governance	A tariff policy should be developed by the municipality to ensure regular review of the tariffs structure.	
Supply chain management compliance and value for money procurement	The SCM unit is functional and currently consists of nine officials however there is a concern with regards to the competence levels of the staff members.	The Composition of the staff members in the unit is less than satisfactory with 5 SCM financial clerks who are apparently in an acting capacity. This indicates a lack of competence in the function. More so, the municipality has two positions that are vacant in the SCM function, which could lead to reduced capacity.	High labour turnover and lack of an HR strategy Oversight of the of the SCM function by accounting officer and council is not consistent due to instabilities in these posts	The accounting officer and council must be trained and encouraged to take on the responsibility of oversight over the SCM function of the municipality. The municipality should fill all the critical roles in the SCM function that are vacant and also should have a strategy in place to ensure staff is retained for longer periods and that staff replacements are done more promptly	SCM Implementation Report Q3 2021/22 Municipal Organogram
	SCM Committees not properly	Bid committees not fully established in terms of	SCM procedures are not documented and	SCM bid committees should be established and hold	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	functional	composition and functionality, this has led to some instances of irregular expenditure.	hence not communicated to the officials for clarity.	regular meetings to ensure procurements of the municipality are properly sanctioned	
	No procurement plan in place	The municipality does not have a procurement plan in place which is aligned to the IDP and MTRRF.	Lack of competence and inadequate training in the SCM function Oversight of the of the SCM function by accounting officer and council is not consistent due to instabilities	Regular training for Supply Chain officials The accounting officer and council must be trained and encouraged to take on the responsibility of oversight over the SCM function of the municipality	
	Outdated SCM related policies	The following policies are outdated and need to be reviewed: -Code of conduct for SCM officials -SCM policy -Contract management policy	Oversight of the of the SCM function by accounting officer and council is not consistent due to instabilities in these positions.	SCM, contract management policies and the code of conduct should be reviewed and approved by council.	
Cost containment	No cost containment policy Cash flow management committee not in place Excessive overtime due to non-filling of critical vacancies	Municipality is operating without a policy on cost containment measures Lack of internal controls to manage overtime	Lack of management and governance oversight and policies Lack of accountability Lack of internal controls	The municipality should table the cost containment policy for approval by the Council as per the Cost Containment Regulation Establishment of cash flow management committee Limit expenditure to only critical services Review Overtime and Standby policy Monitor overtime in-line with the policy	Policy register. Audit report
Financial control environment	Consultants are contracted for critical finance functions without proper performance monitoring	Inadequate review of work done by consultants has resulted in gross underperformance by these contractors which has messed up some key functions of the municipality like the financial system implementation,	Over reliance on consultants	Performance monitoring on the work of consultants Transition to insourcing critical functions of the municipality	Risk Register MTREF Budget and Performance Assessment Report 2021/22. Pg. 2 AG Management Report

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		the valuation roll preparation and financial statements preparation.			2020/21. Pg.8,31,38
	Financial system challenges have affected billing and reporting since 2020.	Poor records management due to financial system challenges which has led to successive disclaimer of opinions by AGSA System migration challenges from EMS to Sage	IT has limited capacity to implement effective controls Over reliance on contractors	Improve IT controls and capacity. Hire enough sufficiently qualified IT staff to make the division function efficiently and to avoid outsourcing.	
	Staffing constraints in critical finance roles	Segregation of duties is not always possible when processing transactions due to the fact that the municipality is under staffed due to the high labour turnover which mostly affect critical finance roles.	High labour turnover due to political interference A toxic work environment	Train existing finance department staff to be able to perform all critical functions in the department Labor relations need to improved	
	Some key finance related policies not in place or are outdated	No finance procedure manual and a financial records maintenance policy in place. Other specific policies missing are discussed under specific focus areas.	Lack of capacity in BTO, Accounting officer and council due to political instability. Lack of skill and competence with on best practices by BTO, Accounting officer and those charged with governance.	Implement effective financial control policies, including developing a finance procedure manual and a records management policy The senior management and accounting officer functions should be occupied by competent people with integrity.	
mSCOA implementation	Non-adherence to MSCOA legislation.	No functional Steering committee for MSCOA implementation No mSCOA Road Map developed Data Strings not credible	Incompetent senior managers None adherence on month-end closure resulting in incomplete financial records processed Poor integration of sub systems and core system.	Establish mSCOA Steering Committee Development of mSCOA Road Map Timeously Submission of credible data strings	Reporting data string analysis MTREF Budget and Performance Report 2022/23. Pg. 2

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Key Functional mSCOA Modules not implemented	The municipality does not fully use of mSCOA modules on all business processes	Not all modules offered by the core financial system are being utilised by municipality resulting third party system being utilised at costs. Incompetent consultants and lack of proper performance management.	Development of implementation plan for non-functional modules such as asset management modules etc.	
		Challenges integrating mSCOA modules with the financial system resulting in transactions being incorrectly recorded/classified ICT infrastructure is not compatible with mSCOA minimum requirements	Incompetent consultants and lack of proper performance management	Performance monitoring on the work of consultants with consequence management	
Financial reporting	Lack of capacity and competence to carry out the financial reporting function;	The function of financial reporting has always been contracted out to consultants in the past 3 financial years despite it not helping better the quality of the financial reports. There is lack of capacity within the municipality to conduct or monitor this function inhouse.	Shortage of appropriate skills and competence in house within the finance team to carry out the functions of financial reporting. Lack of skills transfer from consultants	Upskilling current employees within finance to take responsibility for the preparation of AFS Put processes in place to enable skills transfer from consultants	2020/21 AFS Reporting data string analysis submissions MTREF Budget and Performance Assessment 2022/23. Pg., 2 AGSA Management and auditor's reports.
	The financial reporting function has been grossly mishandled by consultants as evidenced by the consecutive disclaimer of opinions from AGSA	Consultants used in the preparation of AFS may have inadequate skills as reflected by the prior period errors in the reports, several restatements and continuous disclaimer of opinions. This also shows inadequate review of financial reports by senior	Inadequate training to use the financial system No internal audit unit to review financial statements before submission	Additional training on use of the financial reporting system should be provided to stuff Improve review of work performed by consultants prior to issue of AFS An internal audit unit must review AFS to prepared by consultants in detail	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		management. A disclaimer of audit opinion means that most of the line items presented/disclosed in the financial records are wrong/unverifiable.		and also have performance management measures in place.	
	The underlying financial records for financial reporting affected by IT systems challenges	An IT billing system changeover was done in 2020 which caused billing problems which are still being resolved; this has also affected the accuracy of information for financial reporting	Inadequate system migration/change monitoring by senior management. IT unit that has no technical capacity to assist with financial reporting related challenges	Management should ensure that an IT unit is adequately capacitated to support the financial reporting function Improve IT system controls to prevent errors when changeover occurs	
	Non-adherence to AGSA and NT submission timeframes.	Non-adherence to NT submission timeframes; also, the financial statements of the municipality are not being submitted to the AGSA within two months of the end of a financial year as required by the MFMA.	Delays in closing off the financial system at year end. The poor state of the records makes it difficult to compile financial statements within stipulated timeframes.	AFS preparation should be adequately planned and management should assume full responsibility to follow up with consultants to ensure the plan is adhered to. The state of IT financial system should be improved	
Debtors Management	Debtors book could be overstated because it is not reviewed regularly to determine how much can realistically be collected	Due to non-paying customers, the debtor's book could be significantly overstated and could require further write offs which management have not affected.	Lack of competence and/capacity in the finance division	Outstanding debts must be regularly evaluated for recoverability and as a result, an accurate provision for write offs developed. Senior management must assume/oversee this function for accuracy.	Section 71 Ratios AGSA management and auditor's reports.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Municipality has weak controls in debtor's management	Interest is not being charged on all accounts in arrears as required by section 64(2)(g) of the MFMA No follow ups made on long outstanding debts	No credit control policies in place to guide provision of services to non-paying customers	Management must develop and enforce a credit control policy to discontinue service delivery to non-paying customers; as well regular and well documented follow ups must made for outstanding debts. The interest accrual function must be embedded as an automatic function on the new debtors' management system. The interest rate to be applied must be approved as part of the tariff by council and rate monitored if linked to national lending rate.	
	Collection rate is lower that Treasury benchmark	Collection rate improved from 19% in 2019/20 to 46% in 2020/21. This is however significantly below Treasury's benchmark of 95%. Disputes over ownership of land and properties which affects collection of debts from properties rates	No credit control policies in place to guide provision of services to non-paying customers No legal action taken with regards to disputes in property rates	Management must develop and enforce a credit control policy to discontinue service delivery to non-paying customers; as well regular and well documented follow ups must made for outstanding debts. Legal action must be instituted to resolve disputes over land over ownership Debt profiling to determine collectable debts and prescribed debt	
	Some of the major debtors are councillors and government institutions which do not pay their utilities on time.	Councilors owing the municipality for more than 90 days contravening the MSA. Some government institutions have accounts which are outstanding for long periods of time which is a	No credit control policies in place to guide provision of services to non-paying customers	Management must develop and enforce a credit control policy to discontinue service delivery to non-paying customers; as well regular and well documented follow ups must made for outstanding debts.	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		contravention of MFMA requirement for payments to be made within 30 days of the invoice date.		Treasury intervention could assist with recovery of debts from other government institutions.	
	Net debtors' days increased from 992 days in 2019/20 to 1240 days in 2020/21.	Due to incorrect billing, the municipality is facing a challenge in making follow ups with its customers who always dispute amounts billed.	No credit control policies in place to guide provision of services to non-paying customers	Management must develop and enforce a credit control policy to discontinue service delivery to non-paying customers; as well regular and well documented follow ups must made for outstanding debts.	
	Billing System issues	Due to IT system errors and the lack of skilled meter readers, the billing and debtors' balances of the municipality could be Misstated.	Lack of adequate skill and competence in the IT division	The billing system remedy should be ramped up, so that billing can be accurate, to enable follow-ups to be made.	
Expenditure Management	No grant management policy in place	Inadequate control over the use of grants which would amount to misappropriation of funds	Lack of oversight from the accounting officer and those charged with governance as required by the MFMA Unethical conduct for personal gain by municipality employees/governance	Ring fence grant funds through a grant management policy.	2022/23 MTREF AFS 2020/21 Section 71 Ratios AGSA management and auditors report
	Non-payment of services within 30 days of receipt of the invoice as required by the MFMA	The Municipality is struggling to pay creditors within 30 days. The main creditor is Eskom with whom a payment arrangement is yet to be made At the end of July, it was established that the Municipality had not been making use of the SAGE system because the service provider locked the system because of non-payment.	Lack of additional income streams that are cash based to improve cash flow	Negotiate payment plans with creditors to avoid disruptions in service delivery Prepare creditors reconciliation for bulk suppliers Enter into payment plans with major creditors Implement the financial plan to increase collections	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
		Creditors days increased from 954 days in 2019/20 to 1054 days in 2020/21 which means the Municipality is taking a very long time to settle amounts owed			
	Irregular payments made from the bank accounts	Payments from the bank not always approved by the authorized officials.	Weak controls over cash and bank	Consequence Management for misappropriation of funds	
Asset Management	No standalone asset management unit that ensures assets are maintained and safeguarded Sound asset management practices like physical verifications not implemented as there is no standalone asset management unit	Misappropriation of assets due to lack of controls and a standalone asset management division; for example, building projects reported as completed could not be identified during physical verification	Lack of competent senior managers Lack of capacity in BTO	Assign staff to asset management function Appointment of asset custodians and training on asset insurance, audits, reporting. Institutionalise asset transfer , acquisition and disposals controls Train assigned staff on best practices for efficient and effective asset management	AG Management Report 2020/21 SCM Implementation Report Q2
	No fleet management plan to ensure efficient service delivery	Disruptions in service delivery due to the unavailability of fleet or due to fleet being not in a working condition	Lack of accountability Lack of regular/routine assessment of the condition and existence of assets.	Train assigned staff on best practices for efficient and effective asset management	
	No up to date asset management policy	Accelerated deterioration of the assets of the municipality due to lack of maintenance emanating from the lack of an asset management policy nor the relevant division.	Lack of oversight from the accounting officer and those charged with governance	An asset management policy should be tabled to council for approval; which contains best practices for procuring and maintaining assets. Council and the accounting officer should also oversee the implementation of the policy	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
Unauthorized, Irregular, Fruitless & Wasteful Expenditure	Increased UIF & W expenditure incurred as there are no systems in place to address and reduce UIF&W expenditure UIF&W registers not updated timeously	Non-compliance with supply chain management processes and legislation. Reasonable steps not taken to prevent: Unauthorised Expenditure which increased by 44% from R141,8 Million in 2019/20 to R203,6 Million in 2020/21 Increase in Fruitless and wasteful expenditure of 9% from R209 Million in 2019/20 to R228,2 Million. Irregular expenditure which increased by 122% from R159,8 Million in 2019/20 to R355,5 Million in 2020/21; mostly emanating from incurring interest on overdue accounts	Ineffective Consequence management. Implementation of unfunded budget Inadequate system in place to identify and record irregular expenditure.	Update SCM related policies and get them approved by council MPAC should be set up and trained to ensure it carries its functions of investigating UIF&W expenditure regularly. MPAC should monitor and review updated UIF & W registers regularly.	2020/21 SCM Implementation Report Q2. Pg. 8 AGSA management and auditors' reports.
	MPAC did not put measures in place to investigate UIF&W expenditure	UIFW was not investigated as required by Section 32(2)(a) of the MFMA which results in non-compliance. UIF&W incurred in the past not being investigated to identify and address the root courses for the sake of preventative measures being taken on future expenditures	Lack of oversight by council due to instabilities and disputes	Council should be reminded of their responsibility of establishing and overseeing the functions of MPAC. Agenda of council meetings should always include feedback from MPAC	

2.3.1 ANALYSIS OF KEY FINANCIAL RATIOS

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
Capital Expenditure to Total Expenditure – indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services. **The norm is 10% - 20%.**	4%	10%	Capital expenditure in relation to total expenditure has increased from 4% to 10%. This is mainly a result of a higher capital budget being allocated
Repairs and Maintenance to Property, Plant and Equipment and Investment Property – measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to services delivery. **The norm is 8%.**	0%	0%	Spending on repairs in relation to the Property, Plant and Equipment was significantly below the norm of 8% which is a reflection that repairs and maintenance are not being performed adequately. Repairs and maintenance of municipal assets is required to ensure the continued provision of services by limiting downtime and improving efficiency
Debtors Management			
Annual Collection Rate - indicates the level of payments by debtors as a percentage of revenue billed on credit. **The norm is 95%.**	19%	46%	The municipality had challenges in 2020/21 because of a financial system changeover which resulted in them not billing correctly for part of the year adversely affecting the revenue. This implies that the revenue and debtors' amount is not reflective of what the municipality should have charged. Please include implementation of debt and credit control policy
Bad Debts Written-off as % of the Bad Debt Provision **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.** **The norm is 100%.**	0	0	No bad debts written off and no provision made over the two years in review. This is an indication that debtors are not being assessed adequately to determine collectability of amounts owed to the municipality.
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. **The norm is 30 days.**	992 days	1 240 days	Debtors days over the 2 years under review are significantly above the norm of 30 days. With debtors taking an average of 992 days and 1240 days to settle accounts. This significant increase in number of debtors' days is of great concern reflecting that revenue debt collection policy is not being enforced. Debtors taking long periods to pay also impacts availability of funds to efficiently provide services to the community. Municipality does not provide for bad debts which results in an inaccurate debtors' amount. Municipality's debt collection controls are weak and policies are ineffective as over the years it is taking longer for customers to pay.
Liquidity Management			
Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants)	0 Month	0 Month	The ratio was less than the benchmark of 1 month indicating a shortage of cash reserves which means

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. **The norm is 1-3 months**			the municipality is unable to fund monthly operational expenditure and to continue rendering services.
Current Ratio - this ratio indicates the extent to which current **assets** can be used to settle short-term liabilities. If current assets do not exceed current liabilities, it means a liquidity problem i.e., insufficient cash to meet financial obligations. **The norm is 1.5 - 2:1.**	0,38	0,44	Current ratio was below benchmark for the 2 years under review indicating that they were not able to settle short term obligations as they became due. This is particularly because of cash flow challenges experienced
Liability Management			
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure - indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure. **The norm is 6% - 8%**	N/A	N/A	Municipality has does not have external borrowings
Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue. 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. **The norm is 45%.**	N/A	N/A	Municipality has does not have external borrowings
Efficiency			
Net Operating Surplus Margin **–** measures the net surplus or deficit as a percentage of revenue. **The norm is > 0%**	-52%	1%	Municipality had a Net Operating Deficit in 2019/20 and minimal surplus in 2020/21. One of the factors contributing to a significant improvement was lower debt impairment on consumer debtors in 2020/21 compared to 2019/20
Distribution Losses			
Electricity Distribution Losses (%) The purpose is to measure the percentage loss of potential revenue from Electricity Services through electricity units purchased and generated but not sold because of losses incurred. **The norm is 7% - 10%**	28%	No Disclosure	Distribution losses in 2019/20 were above acceptable norm indicating more losses were incurred during distribution as a result of illegal connections and infrastructure challenges No distribution losses disclosed in the AFS. No units sold disclosed in 2020/21 with no percentage distribution loss disclosed. Non-disclosure of distribution losses is non-compliance with MFMA

Water Distribution Losses (Percentage) 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 because of losses. **The norm is 15% - 30%.**	No disclosure	19%	The municipality did not disclose water distribution losses percentage or number of units lost in 2019/20 therefore trend could not be established required by section 125 of the MFMA. Water distribution losses were within acceptable range
Revenue Management			
Revenue Growth (%) – measures the growth in revenue year on year. The norm is at the rate of CPI –	9%	0%	CPI in 2019/20 (3.2%) CPI in 2020/21 (4.9%) Revenue was above CPI in 2019/20 theoretically reflecting growth which may not be a true reflection as CPI was very low owing to strict lockdown restrictions. No total revenue growth was recorded in 2020/21, this was due to the fact that revenue from government grants increase by almost an equal margin which compensated for the decline in revenue from service charges and other exchange transactions.
Revenue Growth (%) - Excluding Capital Grants Measures the growth in revenue excluding capital grants year on year. **The norm is > 5%.**	10%	-4%	The revenue excluding grants declined over the 2-year period under review. Revenue without considering capital grants fell reflecting overall increased reliance on grants. Grants allocated in 2020/21 were higher than 2019/20
Expenditure Management			
Creditors Payment Period This ratio indicates the average number of days taken for trade creditors to be paid. **The norm is 30 days.**	958 days	1 054 days	The municipality's ratio is significantly above the norm Delaying payment to creditors increases risk that suppliers of service providers withdraw their service or provision of goods which will disrupt service delivery. This is also an indication of liquidity challenges which the municipality is facing. Non-compliance with MFMA regulations that requires creditors be paid within 30 days of invoices
Irregular, Fruitless and Wasteful and Unauthorized Expenditure to Total Expenditure – this ratio measures the extent of irregular, fruitless and wasteful and unauthorized expenditure to total expenditure. **The norm is 0%.**	9%	37%	The municipality's ratio for the 2 financial years in review is above the norm. Only the expenditure for the year was considered rather than the cumulative balance This indicates weaknesses within the municipality's SCM processes and non-compliance with procurement regulations and guidelines. The municipality must investigate the incurrence of this expenditure in line with applicable legislation.
Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure - Indicates the extent to which expenditure is applied to the payment of personnel. **The norm is 25% - 40%.**	22%	35%	Remuneration as a percentage of Total Operating Expenditure has been within the norm for the 2 years in review One of the reasons for increased remuneration at the higher levels management is because of acting allowances causes by high vacancy rate
Contracted Services as a % of Total Operating Expenditure - indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions. **The norm is 2%-5%.**	2%	3%	Contracted services have been within the acceptable however consideration must be made to have a contract management system in place to reduce the risk of unnecessary expenditure

Budget Implementation			
Capital Budget Implementation Indicator **The norm is 95% to 100%**	51%	90%	There was underspending on capital budget in the 2 years under review however there is an improvement in the level of capital investment. This is attributable to higher capital grants in 2020/21
Operating Expenditure Budget Implementation Indicator **The norm is 95% to 100%**	148%	105%	There has been overspending on operating expenditure for the 2 years in review. This is an indication of poor financial management and inaccurate budgeting. In addition, it reflects non-compliance with SCM policies which result in high irregular expenditure and fruitless and wasteful expenditure
Operating Revenue Budget Implementation Indicator **The norm is 95% to 100%**	108%	108%	Variances between budget and actual revenue outside acceptable benchmark with the highest variance being in 2017/18 reflecting over performance
Billed Revenue Budget Implementation Indicator **The norm is 95% to 100%**	118%	110%	There is an overachievement in the two years in review which indicates ineffective budget planning. It may also have been a result of problems with the valuation roll

2.4 SERVICE DELIVERY

ELECTRICITY

The municipality is licensed to provide electricity in the areas of Lichtenburg, Blydeville, and Coligny, which are urban centres. More than 80% of Ditsobotla residents where the municipality is providing electricity, have pre-paid meters. Eskom services all other villages and townships.

Ditsobotla has approximately 48 201 households (Community Survey, 2016) connected to the electricity grid which is a significant increase from the 32 933 recorded during Census 2011. This translates to approximately 89%. According to the Community Survey (2016) approximately 192 households were reliant on other sources of energy while 5 759 do not have access to electricity. According to the Spatial Framework, by 2012, the ratio had dropped to 67.2% of households using electricity for lighting, 31.3% utilising candles. The backlog is also reflective of the informal settlements in Itekeng, Blydeville and Tlhabologang Extension 8.

Illegal connections, faulty meters and aged infrastructure are the major challenges faced. Overloading and burning of cables also result in losses.

The total electricity infrastructure for Lichtenburg and Coligny areas need urgent upgrading as it experiences maximum demand problem. Biesiesvlei is under Eskom supply. The following is a summary of the key electricity challenges as identified in the draft electricity master plan:

- Aging network
- Most switch stations without ceilings
- Current sub-station buildings require upgrading due to structural damages
- Sub-station transformers are overloaded +/- 95 to 100% capacity
- HT cable feeders are inadequate and underground cables in service of over 40years Lack of continues maintenance of the high-mast lights
- Street lights are in excess of 35 to 50 years, non-energy efficient and are a huge risk to the public

ELECTRICITY DEMANDS

- Agrico requires 1600 kva as their operations are currently interrupted by load shedding
- Opti Chiks in Dauth Street needs additional 1750 kva for future expansions
- Opti Feeds at the Industrial area needs additional 500kva for future expansions Due to shortage of electricity, the planned developments have been delayed until capacity can be increased.

INTERVENTIONS

To respond to this need, a study has been completed and a master plan developed and approved by council to ameliorate the situation. Part funding has been secured to purchase the transformer and the project is expected to kick start during the current financial year.

The municipality struggles to pay Eskom in time due to low cash-flow constraints. There is also an electricity loss that needs to be given urgent attention too.

INEP PROGRAMME

The following number of households per village has been connected as part of the INEP programme. The worry is connection of informal settlement that gets electricity from the municipal power station which is currently already over stretched.

VILLAGES	NO OF HOUSEHOLDS
Boikhutso Extension	2223
Ditsobotla Villages	256
Ga-Motlatla ward 13	48
Putfontein	149
Tlhabologang Ext 4	188
Tlhabologang Ext 5	256
Tlhabologang Ext 6	140
Verdwaal Phase 2 Ext 2	140
Total	**3400**

A service provider is used to sell prepaid electricity for a commission.

WATER SERVICES

The Municipality is responsible for provision of water services in towns and Sedibeng Water Board provides for the other areas. The main source of water is derived from boreholes, spring, rain water. The Lichtenburg Water Treatment Works Plant is very old and needs to be properly managed to avoid unnecessary maintenance or repairs. The bigger water supply system in the jurisdiction of the municipality is raw water which is extracted from the surface water resource and purified at the plant, which then supply reservoirs which feed internal water reticulation systems predominantly in towns, largely disadvantaging rural households.

At this stage the municipality is having erratic and unreliable water supply in all its schemes. Consumers are experiencing low water pressures or no water from its schemes. In all the schemes the water is sourced from the boreholes. There is need to upgrade the water scheme capacity to meet the demand for the connected consumers.

Based on own municipal analysis the number of households without access to water increases largely because of the emergence of informal settlements. In 2019/20, twenty nine percent had access to water points. Currently indigents receive 25 litres a day or 6000 litres for free a month. Some parts of the Boikhutso township and rural areas do not get water at all and residents rely on communal tankers. Use of tankers is expensive especially because of the cost of maintenance of the vehicles.

To service the community, the municipality plans to implement water conservation and demand management strategies, undertake water audit, undertake infrastructure leakages index through preventative maintenance of water supply schemes. In addition, water services legal framework and policies must be adopted and implemented.

The municipality does not have enough underground water infrastructure. Despite being a water authority, the district municipality (Ngaka Modiri Molema) assists with water supply purchased from Sedibeng Water for Itsuseng community and not Lichtenburg Residence. The contract with Sedibeng Water was entered into with the initial plan being that Ngaka Modiri Molema (NNMDM) would also be a party to this contract. Despite this plan, NNMDM did not become a party to the contract leaving Sedibeng and Ditsobotla which was being billed directly for water. A process of reconciling invoices and payments made to Sedibeng Water is underway to determine how much Sedibeng billed both Ngaka Modiri and Ditsobotla for purchase of the same bulk water. Ditsobotla was also instructed by the District to no longer make payments to Sedibeng Water. Invoices paid in duplicate (to both the District and Sedibeng for same purchase) are yet to be recovered.

Electricity affects pumping of water and in some instances, generators have to be used to pump water

which becomes an expensive process.

The challenge is that water is supplied in slots and infrastructure is aged which affects distribution of water as lifespan of meters is affected. Capacity of pipes is too low for the growing population. These old pipes are made of asbestos which leaks easily thereby needing attention.

Meters are vandalised and some customers do not have meters because they are stolen and residents bypass the pipes leading to loss of revenue as it is not possible to bill them.

Blue Drop Progress Assessment.

Municipal BDRR Score: 82.5%.

Assessment Areas	**NMMDM Ditsobotla LM Biesiesvlei**	**NMMDM Ditsobotla LM Coligny**	**NMMDM Ditsobotla LM Ga-Motlatla**	**NMMDM Ditsobotla LM Itsoseng**
BULK / WSP				
A: Total Design Capacity (Ml/d)	N/I	N/I	N/I	25
B: % Operational Capacity in terms of design	N/I	N/I	N/I	15.52%
C1a: % Microbiological Compliance	0%	0%	0%	0%
C1b: % Microbiological Monitoring Compliance	0%	0%	0%	0%
C2a: % Chemical Compliance	0%	0%	0%	0%
C2b: % Chemical Monitoring Compliance	0%	0%	0%	0%
D: % Technical Skills	0%	0%	0%	25%
E: % Water Safety Plan Status	0%	0%	0%	0%
%BDRR/BDRR max	**100%**	**100%**	**100%**	**76.8%**

Source: Blue Drop Progress Assessment Report 2022

The Regulator is concerned with drinking water quality management by Ngaka Modiri Molema district municipality and urges the municipality to implement the following measures to ensure delivery of safe drinking water for all consumers and improve risk ratings:

- A and B: Classification and linking of WTW or boreholes to all supply system which do not have linked WTW or boreholes on IRIS.
- A and B: Installation and calibration of inflow meters to verify operational capacity for all supply systems where this is not taking place.
- C: Development and implementation of microbiological and chemical monitoring programmes with sufficient samples and adequate frequency based on population size as outlined in SANS 241:2015. Subsequent water quality results should then be submitted to the Regulator through IRIS.
- D: Appointment of suitably qualified staff (supervisors, process controllers and maintenance teams) aligned to set criteria. Existing staff can also be subjected to relevant training in order to meet the requirements.
- E: Development and implementation of Water Safety Plan as per SANS 241:2015 and WHO guidelines including risk assessment of entire supply system, water quality evaluation based on full SANS 241:2015 analysis of raw and final water, development of risk-based monitoring programmes, and implementation of mitigating measures to address all medium and high risks.

REFUSE AND WASTE REMOVAL

Provision of formal refuse removal services by the municipality occurs only in formal towns or residential areas of Lichtenburg, Blydeville, Boikhutso, Coligny, Tlhabologang, Itsoseng and Itekeng. Household waste collection scheduled to be done once a week and three times for businesses.

The challenge facing the municipality is to extend the refuse removal service to the rural and village communities in the long-term and to initiate waste recycling projects. Municipality has five compactor trucks for refuse and waste removal but only two are operational. The other three have not been operational for years due to mechanical problems. As a result of shortage of vehicles and the fact that some spend a lot of time in the workshop for repairs, tractors are used or collection is done after long period of time. Use of tractors is a health hazard by nature of the tasks involved in refuse and waste removal. In some instances, the staff do not have protective clothing. Lack of resources such as specialised waste management vehicles also makes it a challenge to adhere to a weekly schedule for refuse collection which sometimes results in illegal dumping.

Coligny and Lichtenburg landfills have not been maintained properly and both of them are not compliant with the minimum requirements for landfill sites. Lack of equipment impacts negatively on day to day landfill operations. The landfill site is not fenced and has informal waste recyclers operating and living at the site. Other communities within the municipality utilize informal communal dumping sites and undertake their own waste disposal.

SANITATION

The spatial distribution of access to sanitation clearly dictates that most of the formal towns such as Lichtenburg, Boikhutso, Coligny, Tlhabologang and Itsoseng do have access to waterborne sanitation system. The villages mostly rely on pit-latrines and chemical toilets. In 2019/20 only 40% of the households had access to sanitation services.

Sewer network has an old design with small pipes that causes leakages because of the pressure on the pipes which have limited capacity for the growing population. Lines can be unblocked by using jet system however, this is not sustainable. In townships there are no sewer networks. The community in some instances block the pipes by disposal of rubbish in the sewer system and damage the plant.

WASTE WATER

The demand for construction of roads and storm water drainage is found in former townships of Boikhutso, Itekeng and Coligny and largely in all rural areas. The municipality does not have a storm water drainage master plan in place. Construction of drainage systems is part of some newly constructed roads.

TABLE 2: Households with access to basic services (2019/20)

Service Type	Households with access to services
Electricity – below minimum level – Formal Settlements	25%
Electricity – below minimum level – Informal Settlements	7%
Water - Access to water points	29%
Water – Access to tap water	39%

Sanitation	40%

FLEET MANAGEMENT

Some departments do not have allocated vehicles for use in daily operations. Most of the trucks are twenty to thirty years old and require regular maintenance. The limited fleet is not adequate to meet service delivery as there are twenty wards. Live tracking of vehicles, proper scheduling for maintenance and fuel maintenance would make a difference.

ROADS AND STORM WATER INFRASTRUCTURE

Due to the municipality's cash flow issues, road maintenance will be undertaken by Public Works, particularly where there are trucks or large vehicles that damage the roadways. However, the deal has not yet been finalized. Potholes were formerly fixed internally, but the asphalt plant (one of the prerequisites for creating tar) was vandalized, and the municipality does not have the capacity to repair roads, therefore it relies on service providers. Repairs must be performed in certain cases due to the service provider's lack of abilities. The roads near Lichtenburg and Burgersdorp were constructed and designed overly broad, making maintenance and rehabilitation extremely expensive given current material prices. There is no storm water management system.

Roads and storm-water infrastructure especially in Lichtenburg CBD were originally designed and constructed for low traffic volume and low rainfall density respectively. Over time there has been deterioration of the infrastructure because of increased traffic volumes. There are cracks and potholes as a result of aging. The municipality had undertaken projects of paving/tarring main access roads into rural areas (Sheila, Verdwaal, Bodibe, etc.) with access roads in other rural areas (Bakerville, Welverdiend, Meetmekaar, Springbokpan) only been re-gravelled due to a lesser number of vehicles in those areas.Traffic lights and streetlights also need replacing, and regular maintenance.

MUNICIPAL BUILDINGS

The municipality has five halls which are worn out or dilapidated which results in loss of income as the community cannot rent space for events in that state. The main reason is because of lack of regular maintenance and lack of security to ensure that halls are not vandalised. Municipal offices are worn out as a result of lack of maintenance.

TRAFFIC AND LICENCING

This service is provided on an agency basis for the Department of Human Settlement. An agreement was entered into in 2013 which reflects that the Municipality will receive 20% of all revenue collected on the behalf of the Department. Consideration should be made by the Municipality to request or negotiate an increase in the agency fees considering the cost of providing the services have gone up since the signing. In Addition, traffic fines are not processed and collected, resulting in additional revenue loss or revenue written off due to prescription.

There are concerns regarding drinking and driving by the community but there is an inadequate number of traffic officers to help reduce the number of unroadworthy vehicles as well as monitoring traffic. In order to alleviate this problem, a learnership can be introduced which will not cost as much as actually employing staff. Learnerships assist in community development and at the same time reduce unemployment. There are a few speed measuring machines and software to record tickets.

Staff within the department are unable to efficiently discharge duties because of lack of skills however plans for training are in progress. The department does not have enough administrative infrastructure such as phones and fax machines which makes it a challenge to communicate with members of the community.

All testing stations risk being closed down by the inspectorate because of non-compliance. As a result of cash flow challenges licence fees are paid late to the service provider which leads to a delay in issue of driver's licence cards to members of the community.

SECURITY CONCERNS

There is grave concern about the security and safeguarding of employees and assets. An immediate intervention is required to assess the risks and develop solutions to the problems. The issue of employees not being able to enter the building is impeding progress in implementing the intervention plans.

LOCAL ECONOMIC DEVELOPMENT

Essentially the municipality aims to identify the competitive advantage of the municipal area and develop strategic initiative to facilitate the optimisation of investment opportunities to promote sustainable economic growth and employment creation.

- Created 5 permanent and jobs exceeding 3 months through the Municipality`s local economic development
- 4 Cooperatives in villages are been resuscitated and functional
- Conduct 4 SMME workshops to capacitate SMME`s

CHALLENGES

Lack of approved policies and by laws within the directorate, where draft by-laws and policies are in place. The directorate does not have enough personnel, and shortage of tools of trade to enable them attend to all duties that need their attention. The municipality does not have enough industrial site, for establishment of new businesses and growth/expansion of current ones where there is a need to grow. Not enough funds are allocated to the directorate for SMME's support, settlement planning, and formalization. Disposal of Municipal land by unauthorised people which leads to the mushroom of informal settlement.

KEY FINDINGS

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
SDF and Master Plans	-A spatial vision was formulated for the municipality in order to guide future spatial planning in the area. -The municipality has developed the SDF and has gazette it. -The Land tribunal is in a process of being established in line with SPLUMA. -The land use management scheme is not yet amended.	-The organizational design does not conform adequately to service delivery challenges. -Huge backlog in the provision of social services, infrastructure, and economic activities	No Master plans in place and poor records management -Insufficient funding Lack of capacity as result of vacancies in the department	Appoint expert consultants for production of all Master Plans. The municipality needs to put in place Masterplans, policies and by-laws, including fines for enforcement of the by-laws.	IDP Annual Report Work Stream Presentation
	-No GIS system in place because of funding. -no Urban Renewal Plan in place	-Municipality unable to collect data easily which will enable the planning purpose and management of various services offered by Municipality. -Ineffective system to assist with completeness and existence of land	Lack of skilled personnel No approved building By-laws. Lack of skilled personnel with capacity to draw the urban renewal plans.	Appoint qualified personnel to manage the system Perform skills audit Implement the GIS system Develop and enforce Building By-Laws Develop and implement the Urban Renewal Plan.	
	The municipality needs to have number of Masterplans, policies, and by-laws in place. The municipality needs to have all the relevant by-laws in place, including fines for enforcement of the by-laws. The key plans with associated policies and by-laws that need to be in place are: - Integrated Infrastructure Asset Management Plan - Water and Sanitation Master Plan - Water Service Delivery Plan -Water Conservation and Water Demand	Loss of Revenue Riots and Protests Quality of Service Infrastructure is not adequately managed and maintained Aging Infrastructure need to be prioritised	Poor planning Lack of consequence management Instability in the leadership position which has delayed the appointments of key positions Absence of Technical Expertise Non-implementation of guidelines and legislation	Develop Bulk Infrastructure Master Plans Collaborate and seek assistance from other Government Departments that currently assist with developing Bulk Infrastructure master plans for some of the municipalities Implement guidelines and legislation	Working Session Presentation Draft Annual Report 2020/21

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STATUS QUO ASSESSMENT

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EXECUTIVE SUMMARY

Naledi Local Municipality has been experiencing perennial political and administration challenges, which have impacted adversely on governance, financial management and service delivery in the municipality. These weaknesses have collectively resulted in an inability by the municipality to deliver acceptable levels of basic services to its communities and has so adversely affected the liquidity of the municipality that the institution has effectively been held hostage in a prolonged state of financial crisis for the preceding five financial years, as aptly captured by the – Financial Recovery Plan 2018 (Treasury, Financial Recovery Plan - 2018, 2018)Earlier attempts to assist the municipality in July 2018 through the development of a Voluntary Financial Recovery Plan and a Strategic Development Review, seem to have only resulted in giving contextual and analytical spectrum to the municipality's crisis without any causative elements of the crisis being resolved. In essence the municipality is contending with the consequences of legacy issues of political instability in the previous administration which had the consequential effect of destabilising the municipality's administrative management.

The historic situation seems set to repeat itself in that the lack of continuity management due to political instability in that the Municipal Manager contract of employment has signed for 24 months from September 2021 ending September 2023. This is in contravention with the regulation requiring all municipal manager contracts to come to an end by October 2022, to allow newly elected Councils to appoint their own Accounting Officers and Management Teams. This is a major strategic risk to the municipality, and it denotes another stage of political instability is imminent.

At the level of IGR, tensions are brewing between the NLM and the Dr RSM district municipalities – primarily caused by the issues emanating from the SLA provision of water services. The water service authority is the district while the provisioning agent is the NLM, of concern is that the water service authority – is not performing its duties in as far as ensuring that infrastructure is maintained and refurbished on an ongoing basis. This is notwithstanding the fact that the district is allocated funding for that specific function from MIG allocations.

This report serves as the status quo assessment in terms of section 142 of the MFMA to identify the root causes of the financial challenges that the municipality is facing. The status quo assessment will inform the development of the financial recovery plan, which adopts a strategic, focused approach which is time-bound, yet comprehensive enough to ensure that the underlying causes of the crisis are adequately addressed.

The status quo assessment focused on the four pillars, Financial Management, Governance, Institutional and Service delivery. For each pillar a diagnostic analysis was performed followed by the identifications of failures, root causes and the strategy to remedy the situation.

KEY CHALLENGES WITHIN THE NALEDI LOCAL MUNICIPALITY

The major challenges identified as a result of the financial crisis as confirmed by the status quo assessment included amongst others:

PILLAR 1 – GOVERNANCE
• Historic absence of permanent heads of department, a Chief Financial Officer and Accounting Officer had a direct correlate effect to the issues that have resulted in this ensuing financial crisis. • Acts of misconduct and financial misconduct are not being investigated and dealt with effectively by Council Committees and Management alike. • Council committees while functional are not appreciative of their powers and the mechanisms available to them to institute corrective consequence management to rectify management failures – endemic, historical systems of patronage complicate the ability of political oversight structures to perform their role. • The municipality's leadership did not exercise adequate oversight over financial and performance reporting, compliance monitoring and related internal controls. • Irregular, unauthorised and fruitless and wasteful expenditure (UIFW) identified in the previous year was not investigated to determine whether any person was liable for the expenditure as required by Section 32 of the MFMA • Investigation of UIF&W expenditure in accordance with Section 32 of the MFMA is not being done. • The timeous development of Post Audit Action Plans is a significant challenge in addition no consistent engagement with the AG following the audit, during the financial year, speaking to significant skills gaps in the municipality's BTO coupled with incapacity of the MPAC. • The municipal System of Delegations has not been reviewed in the past three financial years and this causes significant deficiencies in management's capacity to delegate functions and hold staff accountable. Council is not adequately processing its functions. • Contract Management is virtually non-existent in the municipality – with no implementation of a MFMA Legal compliance matrix to address the high-levels of contingent liabilities. • Deteriorating IGR relations between NLM & Dr RSM District Municipality– tensions due to disputes arising from the Water Services SLA & Fire Services. • The functionality and capability of the financial management system is a challenge thus causing inefficiencies. and procurement process through a transversal process is recommended. • ICT framework and related policies are not in place.
PILLAR 2 – INSTITUTIONAL
• Critical Senior Management positions are vacant, resulting in ineffective operations of the municipality. • The Organisational Structure is not informed by the municipal functions, in the absence of a technical SD-BIP that is informed by the IDP and an aligned budget. The municipality does not have a staff establishment in place. • Change management process needs to be undertaken in order to implement a newly developed Financial Recovery Plan to ensure that management and staff are fully on board in terms of implementation and that they are empowered to take ownership of the process. There is a need to designate a reporting officer that will be tasked with ensuring the collection, collation and processing of key performance indicators established for the new Financial Recovery Plan. • Staff qualifications need to be verified throughout the organisation, as poor performance creates significant doubt that incumbents have the requisite skill sets for their functions.

- Progress in filling of critical posts has been registered with the appointment of the management team on fixed term contracts is now done. It is worth noting a disjuncture exists between the Accounting Officers contract (24 months) and the term of council and that needs to be addressed in order to ensure alignment and mitigate the risk of future instability. This needs to be extended to other positions.
- Management of Overtime, while there is a policy in place, there was a 57, 2% increase on overtime costs 2021 financial year (2021: R 3, 391, 871. 2020: R 1, 941, 521) – when analysing the Leave Provision Expenditure, a direct correlate exists.
- Management of leave and overtime is pointing to a weakness in the internal control environment
- The Local Labour Forum is in existence however effort needs to be made to improve the quality of the working relationship between management and labour. During the work stream consultations, management indicated that they had a good working relationship with the LLF and yet during the stakeholder consultations the LLF was conspicuously absent, suggesting that historic tensions maybe resurfacing.

PILLAR 3 - FINANCIAL MANAGEMENT

- The quality of the existing Budget Funding Plan to move the municipality to a funded budget needs significant work and Provincial Treasury ought to assist with this.
- Limited tax base potential of some R 250 000 000-00 plus, per annum of the municipality's catchment area is a significant risk to the continued stability of the municipality to remain a going concern.
- Cost containment measures are not implemented aggressively, and this is exacerbated by a poor internal control environment. The current municipal debt is standing over R800 million.
- Revenue improvement efforts need to be galvanised – the identification and liquidation of non-core assets is urgently required.
- Debt restructuring – the municipality is technically insolvent. As a result, the successful implementation of any financial recovery plan will be hinged upon its ability to successfully pursue an MFMA Section 155 Termination of Debt court application process.
- Cost-reflective tariffs and activities for basic services need to be investigated as current tariffs are insufficient to maintain sustainable provision of basic services.
- Haphazard and low revenue reported on the enforcement of By-Laws except for Traffic Fines the municipality.
- The municipality's operational budget deficit indicates that the municipality is unable to collect revenue as anticipated and inability to generate sufficient revenue to create reserves for assets replacement and augment capital grant funding.
- The municipality is also faced with a dire liquidity challenge emanating from low collection rates, long debtors' payment periods and a weak revenue base, this has resulted in growing payables balance over the years which now sits at close to R1,1 billion as well a high creditors payment period further resulting in non-compliance with the expenditure management prescripts of the MFMA.
- The municipality has been experiencing challenges with billing module for the past financial year and relied on estimates to bill consumers as a reason for the underperformance. Therefore, the underperformance is as a result of incomplete and inaccurate billing by the municipality which adversely impact on the ability of the municipality to collect revenue.

• The municipality's outstanding balance exceeds the available cash on 30 June 2021. This indicates that the municipality is unable to fund its obligation in a financial year and further confirms that the municipality is financially distressed
PILLAR 4: SERVICE DELIVERY
• Cash flow constraints have impacted negatively on service delivery – with ageing infrastructure remaining a risk for the NLM. • Poor collection of rates and taxes remains a significant impediment to the sustainability of providing basic services, water provision for example is a loss-making exercise. • IGR Tensions between District and NLM are beginning to services with the core bone of contention being the Water Service SLA between the two. • Funding for smart metres is the critical success factor for the NLM's financial recovery in the absence of which the provision of basic services will remain loss making exercises. • Aging fleet and some departments not allocated fleet for service delivery • Municipality is under-collecting and losing no less than R18 million per month. Smart meters are key driver for losses experienced. • The municipality's waste landfill sites did not comply with most license conditions or latest national norms and standards for disposal to waste landfill with both assessed as critical.

Process Methodology Employed

Reliance was placed in the development of this document on a number of data sources ranging from reports, plans and strategies directly sourced from the municipality to reports by the provincial department of COGTA, the National and Provincial Treasuries, the Financial and Fiscal Commission to statistical data sets prepared by Statistics South Africa and academic reviews relating to local government and the challenges the sector faces particularly when it comes to service delivery by the Public Affairs Research Institute.

The municipality has an albatross around its neck in terms of almost a billion rands worth of debt and climbing. The municipality will only survive as a going concern should it approach the court for a Section 155 Termination of Debt application. This will require the municipality to transfer non-core functions, such as Water and Sanitation for which the municipality does not receive adequate funding, to other organs of state for the time being (i.e., 3 years) until it has been able to stabilise its finances.

Part One – Legislation, Intervention & Oversight Context

1. BACKGROUND

Naledi Local Municipality is a category B Municipality situated in the Dr Ruth Segomotsi Mompati District in the Northwest Province of South Africa. The municipality covers an area of approximately 7 264km^2 with a total population of 68 803 – according to the Stats.SA Community Survey of 2016 and it is located 160km from the provincial capital of Mafikeng, 205km from Kimberly and 380km from Johannesburg on the N14 road.

The municipal area is demarcated into nine (9) wards representing the interests of the communities of Vryburg, Kismet Park, Huhudi, Colridge, Dithakwaneng, Stella, Devondale, Broedersput and the newly developed Extension 25/28.

The municipality is doing very poorly when it comes to service delivery with - 59, 1% of households not having access to piped water inside the dwelling, 34,6% of households not having access to flushing toilets and 23, 3% of households not having access to electricity. (2011 Stats.SA Census)

On 2 May 2019, the North West Provincial Executive Council (hereinafter referred to as EXCO) resolved to place the Naledi Local Municipality (NLM/ the Municipality) under mandatory intervention in terms of Section 139 (5)(a) and (c) of the Constitution read with section 139(1) of the MFMA

The basis for the intervention stemmed from the prolonged crisis in the financial affairs of the NLM as evidenced by its historic and sustained governance, financial and institutional challenges and failures.

These weaknesses have collectively resulted in an inability by the municipality to deliver acceptable levels of basic services to its communities and has so adversely affected the liquidity of the municipality that the institution has effectively been held hostage in a prolonged state of financial crisis for the preceding five financial years, as aptly captured by the – Financial Recovery Plan 2018 (Treasury, Financial Recovery Plan - 2018, 2018).

The municipality's financial woes have persisted stubbornly in the period since the development of the 2018 FRP and in many respects, they have been exacerbated and further entrenched by time. Earlier attempts to assist the municipality in July 2018 through the development of a Voluntary Financial Recovery Plan and a Strategic Development Review, seem to have only resulted in giving contextual and analytical spectrum to the municipality's

financial crisis, however, due to the total failure in implementing the financial recovery plan set out, no recovery was realized.

1.1 STATUTORY & LEGISLATIVE FRAMEWORK

The Constitution of The Republic of South Africa, 1996 (Act No.108 Of 1996)

The intervention was instituted in terms of S139 (5)(a) and (c) of the Constitution of the Republic of
South Africa, 1996 (Act No. 108 of 1996), read in conjunction with Section 139 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

S139(5)(a) of the Constitution reads as follows: "the provincial executive must impose a recovery
plan aimed at securing the municipality's ability to meet its obligations to provide basic services or
its financial commitments, which:

i. is to be prepared in accordance with the national legislation; and
ii. binds the municipality in the excise of its legislative and executive authority but only to the extent necessary to resolve the crisis in its financial affairs"

In terms of the Constitution, the North West Provincial EXCO has an obligation to ensure that a recovery plan aligned to the national legislation, in this context, the Municipal Finance Management Act, 2003 is prepared. The recovery plan may also restrict the authority of the Council and the Executive in any matter or area that impacts on the finances of the municipality. Section 139(5)(c) requires the Provincial Executive to assume responsibility for the implementation of the recovery plan to the extent that the municipality cannot or does not otherwise implement the recovery plan.

The North West Provincial EXCO is responsible for ensuring that the financial recovery plan is implemented by the Ditsobotla Local Municipality. Failure of the Provincial EXCO to oversee the process and ensure full implementation of the recovery plan may result in national intervention in terms of S139 (7) of the Constitution.

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

Chapter 13 of the MFMA deals with the resolution of financial problems in municipalities and outlines
the processes that must be followed in terms of mandatory interventions invoked in terms of S139 (4) and (5) of the Constitution.

- S139 (1) of the MFMA places the responsibility on the Provincial EXCO to request the Municipal Financial Recovery Services (MFRS) unit in the National Treasury to prepare a financial recovery plan, which considers the reasons for the financial crisis and an assessment of the municipality's financial status (status quo assessment).
- Only the MFRS may prepare a financial recovery plan for a mandatory provincial intervention referred to in S139.
- S139(1)(a)(iv) also empowers the MFRS to recommend appropriate changes to the budget and revenue raising measures that will support the implementation of the recovery plan.
- In terms of S139(1)(b), the Mayor of the municipality must be consulted on the recovery plan to obtain cooperation (political support) for the implementation and ensure that the budget and any other legislative measures to support the

implementation of the recovery plan are approved.

Section 142 of the MFMA specifies the criteria for financial recovery plans irrespective of whether the plan is discretionary or mandatory in nature. In this regard, the following subsections are important:

S142 (1) A financial recovery plan must be aimed at securing the municipality's ability to meet its obligations to provide basic services or its financial commitments, and such a plan, whether for a mandatory or discretionary intervention –Must –identify the financial problems of the municipality.

i. Be designed to place the municipality in a sound and sustainable financial condition as soon as possible.
ii. State the principal strategic objectives of the plan, and ways and means for achieving those objectives.
iii. Set out a specific strategy for addressing the municipality's financial problems, including a strategy for reducing unnecessary expenditure and increasing the collection of revenue, as may be necessary.
iv. Identify the human and financial resources needed to assist in resolving financial problems, and where those resources are proposed to come from.
v. Describe the anticipated timeframe for the financial recovery, and milestones to be achieved; and
vi. Identify what actions are necessary for the implementation of the plan, distinguishing between actions to be taken by the municipality and actions to be taken by other parties.

Section 142 (2) states that in addition, a financial recovery plan –For a mandatory intervention

a) **must** –

i. Set spending limits and revenue targets.
ii. Provide budget parameters which bind the municipality for a specified period or until stated conditions have been met; and Identify specific revenue-raising measures that are necessary for financial recovery, including the rate at which any municipal tax and tariffs must be set to achieve financial recovery.
iii. Regarding the implementation of the financial recovery plan in mandatory provincial interventions, the municipality's attention is drawn to the following provisions of S146 of the MFMA.

S146 (1) If the recovery plan was prepared in a mandatory provincial intervention referred to in section 139 –

a) the municipality **must** implement the approved recovery plan.
b) all revenue, expenditure and budget decisions must be taken within the framework of, and subject to the limitations of, the recovery plan; and
c) the municipality **must** report monthly to the MEC for Finance in the province on the implementation of the plan in such manner as the plan may determine.

In conclusion, unlike a voluntary or discretionary financial intervention, the National Treasury, through the Municipal Finance Recovery Service must develop the financial recovery plan for the DLM. The plan must bind the municipality in terms of its spending and budget parameters and the municipality is obligated to ensure that such a recovery plan is implemented within the timeframes outlined.

RC MN

.2 OVERVIEW OF 2018 FINANCIAL RECOVERY PLAN INTERVENTION

1.2.1 Challenges Identified by 2018 FRP

All the historic challenges that created the ensuing financial crisis which necessitate the 2018 FRP still persist to date. Essentially the 2018 FRP was never implemented due to a lack of continuity management in the administration which was a consequence of political instability in Council. The key issues causing the financial crisis that it sought to address in order to restore financial stability in the municipality included the following (Treasury, Financial Recovery Plan - 2018, 2018, p. Page 12):

FUNCTION	IDENTIFIED CHALLENGES
Water	• Inadequate supply of bulk water (i.e., boreholes and District Municipality supply). • Lack of monitoring equipment on water (distribution losses). • External and reticulation water lines in need of upgrading. • Service delivery vehicle shortages.
Sanitation	• Relative roles of responsibility for service provision by becoming a Water Service Authority. • Bulk and reticulation sewer lines in need of rehabilitation and upgrading to address future growth requirements. • Service delivery vehicle shortages.
Electricity	• Non-monitoring of Bulk Electricity / Purchases. • Loss of electricity / revenue (distribution losses). • Installation of smart meters throughout the municipal area; and • Revenue enhancement and economic stimulation from electricity sales – Solar Farm.
Roads	• Engagement with SANRAL to address maintenance of national roads. • Engagement with District Municipality on access roads. • Provision of new internal connector roads; and • General rehabilitation and maintenance of internal roads;
Community Services & LED	• Obsolete vehicles and equipment. • Poor housing services management. • Poor management of Traffic and licencing services. • Illegal dumping crises; and • Review of operating model of game reserve and resort.
Planning	• Unavailability of Information on Spatial Planning and Geographic Systems: o Assets cannot be spatially located onto the system

1.2.2 Core Drivers for Failure of 2018 FRP

Like the majority of well-designed plans, the FRP 2018 – central reason for failure can be broadly attributed to poor implementation of the tasks that had been set as the incremental requirements for the municipality to extricate itself out of the financial crisis it faced which has since deepened. Lack of continuity management is at the heart of all the challenges faced by the NLM, caused by its historical political instabilities.

The (Implementation Progress Report , June 2021) found that the overwhelming majority of intervention actions prescribed by the FRP 2018 were still outstanding. Segmented according to the eight intervention strategies above the progress report noted:

(i) Strengthening Governance:

a. *Development & Implementation of Unauthorised Irregular Fruitless & Wasteful Expenditure Policy; Review & investigate UIF&W expenditure* – council to respond and conclude appropriately in accordance with legislation. Compilation and regular updating of UIF&W expenditure register not done. The delay in the investigation and implementation of consequence management contributes towards governance failures, inefficiencies, lack of accountability, high costs of service delivery and non-compliance with supply chain management policy, regulations and legislation.

b. *Develop Contract Register & Contract Management Framework:* Audit of all contracts to ensure legal compliance outstanding. All project managers must ensure that deliverables are in line with the contract and reports.

c. *Acquisition of a new server, Development & Implementation of ICT Strategy, functional server room, review of IT Policy to incorporate King (III) principles, resuscitate ICT steering committee.*

d. *Constant review, updating and implementation of the Audit Action Plan* to address outstanding audit findings including the update of the audit file, submission of progress report relating to the implementation of PAAP to Council, Audit Committee and MPAC table oversight reports to Council. Review of SLA and shared service model, implementation of internal audit recommendations register, regular assessment of audit committee performance, quarterly reporting to council, finalization of appointment of audit committee.

e. Management to adhere timeously to the *Risk Management Cycle*: form part of Performance Agreements of senior managers.

f. Review of the NLM *System of Delegations*.

g. Develop, update and management of *litigation register* to contain the legal cost per case. Additionally, develop a litigation strategy in order to assess the prospects of success for each case.

(ii) Organisational Restructuring:

a. Review *Organisational Structure*, align to municipal strategy and IDP, finalize a comprehensive organisational structure considering affordability, service delivery mechanisms, legislative requirements, powers and functions and the core mandate of the municipality. Contingent on the development of a technical SD-BIP.

b. Development and review of all job descriptions.

c. Termination of contracts of employment on expiry date (posts not on the structure) – retrenchments.

d. Adjustment of powers and functions (firefighting) and transfer agency functions (libraries, traffic and licensing).

e. Change Management Program – to give effect to some of the changes envisaged to improve the operations of the municipality as part of the FRP.

f. Development of a model for filling of critical posts – as currently critical posts are filled on an as and when basis.

g. Cascading PMS to all levels in the municipality and development of a Human Resource Plan.

h. NLM using district shared services on presiding over and the prosecution of disciplinary cases of employees, more officials need to be trained internally on disciplinary matters to avoid delays.

(iii) Restructuring the Budget:

a. Successive municipal *budgets have remained unfunded*.

b. Review of the tariff policy to make provision for cost reflective tariffs – it was unclear if the NLM had indeed revised its tariffs to address the cost of rendering services while remaining affordable and sustainable and reflective of value for the service obtained.

(iv) Service Delivery and Infrastructure Improvements:

a. Infrastructure Services Sector Plans – still outstanding as the municipality does not have the internal capacity to develop these. This includes the development of maintenance plans for all infrastructure assets.

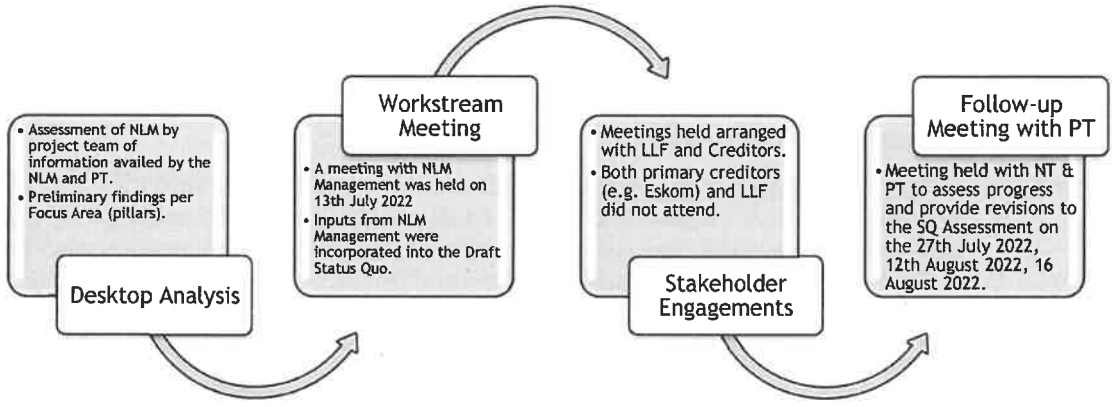
b. Monitoring of Bulk Electricity Supply – auditing of electricity sales still has not commenced. Significant distribution losses due to illegal connections and unaccounted electricity still persists.

c. Information on Spatial Planning and Geographic Systems: no progress activities under the GIS due to a lack of funding.

1.3 SQ ASSESSMENT DEVELOPMENT & CONSULTATIONS

1.3.1 SQ Assessment Approach

The process followed to develop this Status Quo Assessment Report entailed the following key steps:



1.4 MUNICIPAL OVERVIEW OF NALEDI LOCAL MUNICIPALITY

1.4.1 Council & Management

Effective Oversight Structures

Council has a total of eighteen 18 seats – ((9) proportional representatives – PR Councillors), with the remaining nine (9) councillors from the different wards within the municipality. Only five (5) of the municipality's eighteen councillors are female. The Mayor and Chairperson: Executive Committee is Cllr. CJ Groep, the Speaker of Council is Cllr PGC Gulane, and the Single Whip of Council is Cllr ME Letshwene. NLM is governed in terms of an Executive Committee System. Council has five (5) Council Committees (Section 79 Committee's), namely:

(i) Community Services, Housing and Tourism Portfolio Committee.
(ii) Finance / Budget & Treasury Office and Corporate Services Portfolio Committee.
(iii) Infrastructure, Basic Services and Economic Development Portfolio Committee.
(iv) Municipal Public Accounts Committee, and
(v) The Executive Committee.

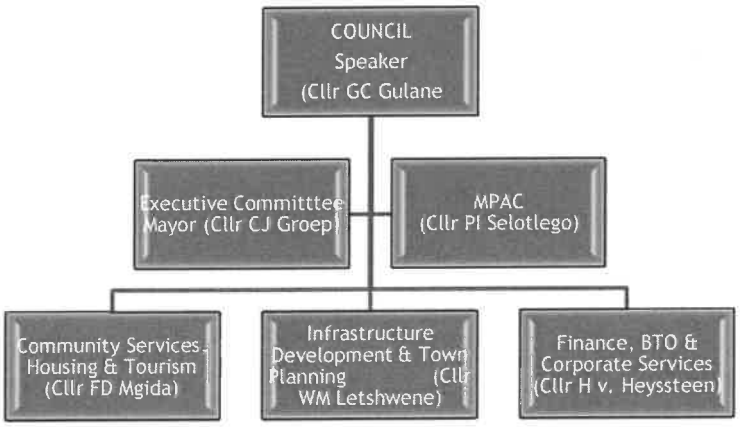


Figure 1: Section 79 Committees of Council

It is important to note that the incumbent council was only elected in November 2021 and as, yet it wouldn't be accurate to gauge their effectiveness in terms of oversight on the basis of historic data. What is motivating is that Council and its oversight structures have been established and are currently functional. Additionally, All Council committees have adopted their annual timetables as set out in the recently adopted IDP.

In addition, Section 73 Ward Committees have been established however they aren't very functional. Challenges that have been recorded though are that in most instances ward committees haven't been calling meetings, most ward committee members do not know their wards properly particularly demarcation. Historically, the ward committees in this municipality had not been effective.

Administrative Stability

In terms of administrative stability, the filling of senior management positions has finally been concluded in the municipality, with a substantive Municipal Manager and CFO finally in place. We note, however, that the Municipal Manager has been appointed for only 24 months. The Municipality needs to ensure that the MM's appointment is made in line with the provisions of Section 57 of the Systems Act.

The appointment of senior managers was cited as a major concern in the 2018 FRP as the implementation of the plan was designated to be the responsibility of the municipality's MM and senior management team in the main.

Demographic & Socio-Economic Factors Contributing to Financial Crisis

Poor revenue collection has been identified as significant operating risk for the municipality. Naledi is dominated by households built of Bricks and Mortar with an urban setting, where most of the households, except for rural feeder areas within the area of jurisdiction, have access to Basic Level of Services with regards to water, sanitation, electricity, roads and solid waste management. The Rural and Semi-Rural feeder areas such as Geduldspan, Kameel, Devondale, Dithakwaneng and Tlhakeng (Broederspruit) have access to Low-Cost Housing services with rural settings on sanitation and electricity in those areas is provided by Eskom, representing a loss of income stream for the municipality.
Mud and Tin Houses in the feeder areas are minimised by construction of Low-Cost Houses built in those areas. Important demographic considerations for the municipal area include:

- The average growth rate of the population from 2011 to 2016 was 2.94%,
- Using the same estimates, the population of NLM is estimated at 79218 by 2022,
- The total number of households in the Naledi Municipal Area was 20692 in 2016,
- The average growth rate of households from 2011 to 2016 was 10.24%,
- NLM is currently standing at 23000 H/H with access to Basic Services.

Table 1: Employment Status

Employment Status	# of People		Sector	# of People
Employed	18 201		Formal	10710
Unemployed	6415		Informal	3508
Discouraged Work Seekers	1780		Private Household	4041
Not economically active	16344		Do not know	416
Not applicable	24040		Not applicable	48106
Total	66781		Total	66781

The table above indicates the high rate of unemployment in its area of jurisdiction, this in essence implies that the municipality should plan along the lines of economic development to reduce the unemployment and poverty levels in the communities under its jurisdiction.

Formal employment contributes approximately 16% to the employment rate in the municipal area.

It further implies that the majority of households would fall within the definition of indigent households and as such would not be in a position to pay for basic services provided by the municipality. Given the significant projected growth of households in the area since the last official census – it can be postulated that the municipality may be losing a significant amount in subsidies given the supposed under count of indigents in the municipal area.

Ancillary Governance Matters

Immovable Property Portfolio: the AG found in the NLM Management Report dated 30 June 2021 (Africa, 30 June 2021), that material misstatements were not corrected. Depreciation and Amortisation were unable to be recalculated as the take-on dates of various assets were not recorded and could not be determined by other means. Consequently, the AG was unable to confirm the accuracy of the carrying value of property assets.

The AG noted that he had identified assets in the 2016/17 asset register which could not be traced in the 2020 asset register and there was no evidence of disposal, thus the misstatement was unquantifiable. Some identified assets in the asset register had not cost / value.

The AG directed that non-compliance with Section 62(1) (b) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance. The

advised action should be to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by Section 62(1) (b) of the MFMA.

In addition, a complete asset registers of all of the municipality's infrastructure assets, property, plant and equipment, including work-in-progress, as well as information for assets that have been fully depreciated but still in use needs to be developed. A reconciliation of property rates income to the valuation rolls also need to be done.

The disposal of council-owned immovable property in the Vryburg Industrial Area, may be a revenue generation opportunity. There is a demand in the market for these properties, but the Council needs to put policy in place to facilitate such transactions.

There is an urgent need for the current valuation roll to be reviewed to ensure market related rates and services are charged. The rent charged for municipal properties are way below market value and should be adjusted. This review should also take note of the trend identified in the Spatial Development Framework (SDF) of businesses decentralising towards suburban areas and being located on residential stands.

Litigation and Contingent Liabilities: in the year ended 2021/2020 an increase in litigation costs was identified. Contingent Liabilities stood at R28, 813, 848 – 00 at the end of 2019/2020 according to the Annual Financial Statements for 2019/20. It is very concerning that these contingent liabilities include outstanding payments towards 3rd party employee costs such as retirement/pension funds, in addition, the current municipal IDP has identified the risk of litigation from employees due to non-payment of third-party employee costs as a serious threat. It is worth noting that unnecessary litigation due to contingent liabilities is a major contributor to fruitless and wasteful expenditure for the municipality at present.

System of Delegations: the municipality has still not reviewed its system of delegations which has been identified by the AG as an audit query.

1.5 DEMOGRAPHICS & SYNOPSIS OF SOCIOECONOMIC FACTORS

Naledi Local Municipality is a category B Municipality situated in the Dr Ruth Segomotsi Mompati District in the North West Province of South Africa. The municipality covers an area of approximately 7 264km^2 with a total population of 68 803 – according to the Stats.SA Community Survey of 2016 and it is located 160km from the provincial capital of Mafikeng, 205km from Kimberly and 380km from Johannesburg on the N14 road.

The municipal area is demarcated into nine (9) wards representing the interests of the communities of Vryburg, Kismet Park, Huhudi, Colridge, Dithakwaneng, Stella, Devondale, Broedersput and the newly developed Extension 25/28.

1.5.1 General Demographic Indicators

- The total population of the Naledi Municipal area was 68803 in 2016 which is 15% of the total population in the Dr Ruth Segomotsi Mompati District Municipal area.
- The average population growth rate of the population from 2011 to 2016 was 2, 94%.
- The total number of households in the municipal area in 2016 stood at 20 692.

- 81,2% of the population lives in informal dwellings (2011 Stats.SA Census).
- The average growth rate of households from 2011 to 2016 was 10, 24%.
- Naledi's population by gender was as follows: Male – 34771 and Females 34032.

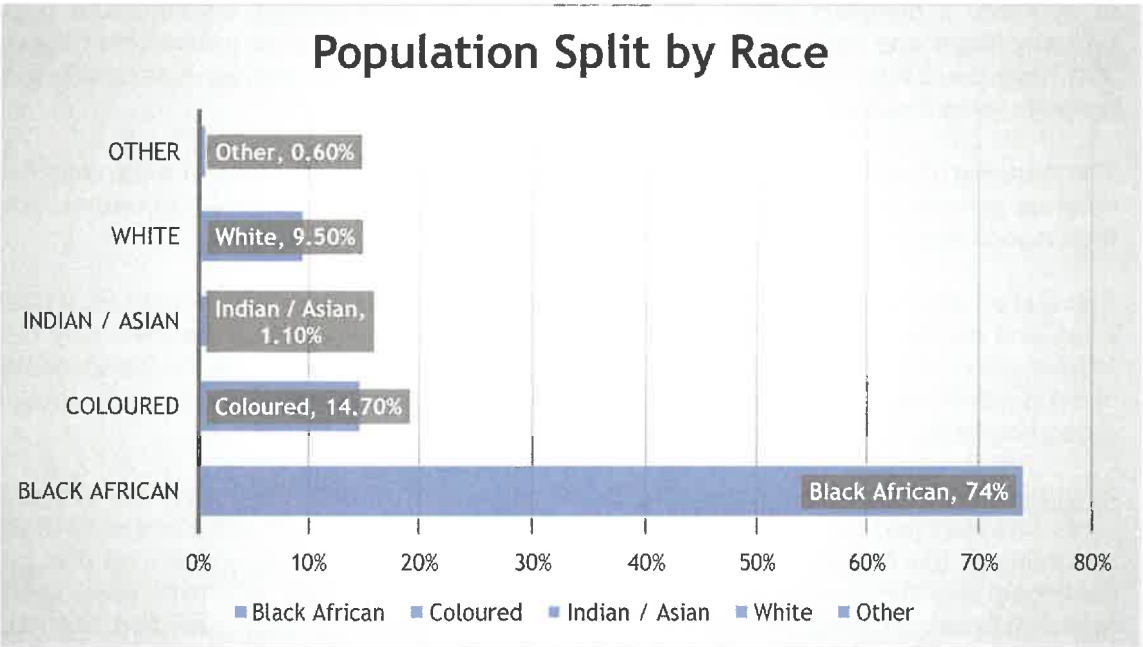


Figure 2: Population Split by Race

1.5.2 Service Delivery Statistics

Access to Services

- 59, 1% of households do not have access to piped water inside the dwelling (2011 Stats.SA Census).
- 34,6% of households do not have access to flushing toilets (2011 Stats.SA Census).
- 23, 3% of households do not have access to electricity (2011 Stats.SA Census)

Sources of Water

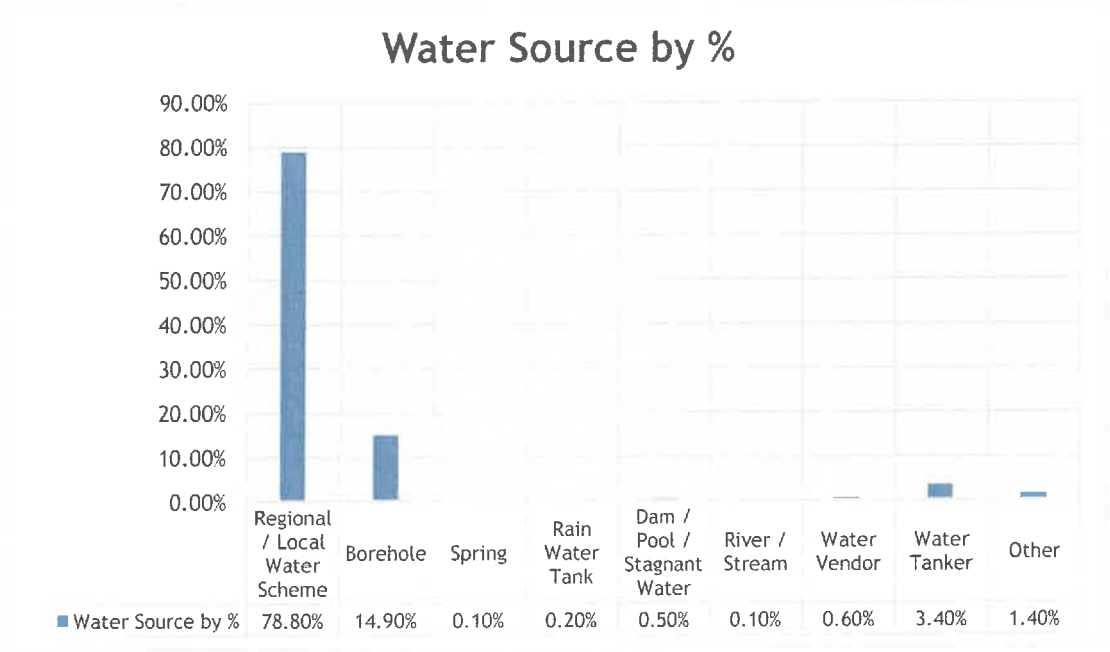


Figure 3: Water Sources by Percentage

Refuse Disposal

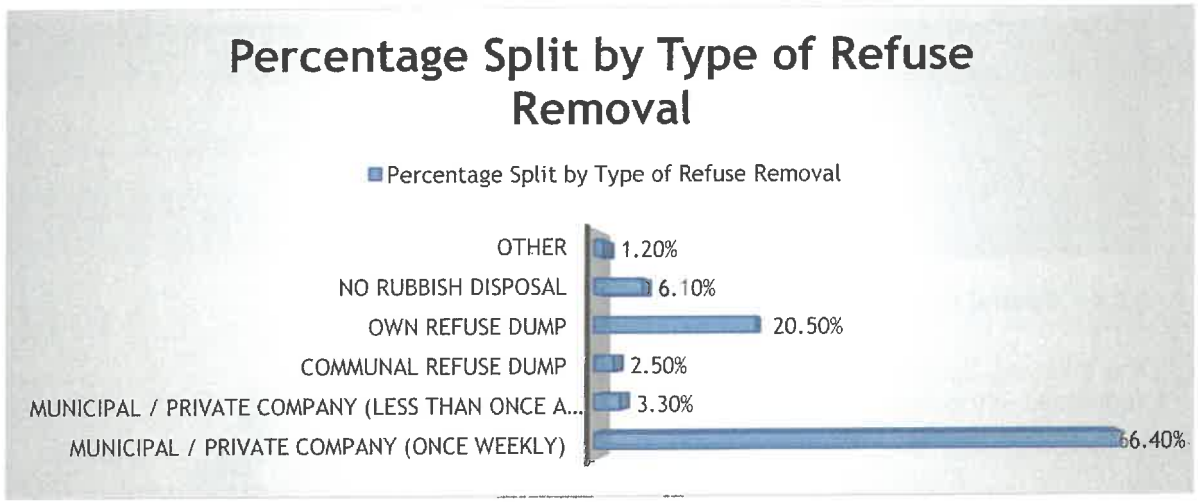


Figure 4: Percentage Split by Type of Refuse Removal

Access to Electricity

Table 2: Number of Households with Access to Electricity by Type

Number of Households with Access to Electricity by Type	
Access to Electricity	16 612
Connected to other source which household is not paying for	50
Generator	--
Solar Home System	83
Battery	--
Other	91
No Access to Electricity	3856

Sanitation Access

Table 3: Sanitation Access by Type to Households

Facility Type	Number of Households
Flushing toilet connected to a public sewerage system	14 358
Flushing toilet connected to a septic tank or conservancy tank	588
Chemical Toilet	615
Pit Latrine / toilet with ventilation pipe	2017
Pit Latrine / toilet without ventilation pipe	1085
Ecological toilet	--
Bucket toilet (collected by municipality)	282
Bucket toilet (emptied by household)	134
Other	495
None	1119
Total	20 692

1.5.3 Poverty Levels & Employment Statistics

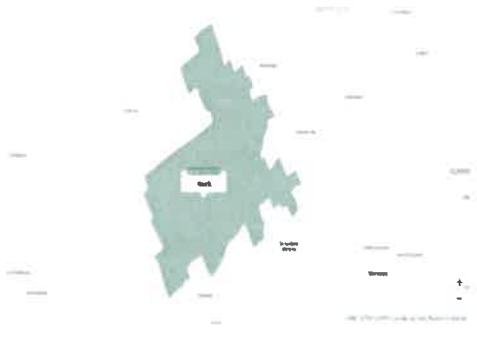
A total of 6, 415 people are unemployed with 36, 7% of the population earning no income (2011 Stats.SA Census).

Table 4: Rate and Types of Unemployment

Employment Status	Number of People
Employed	18 201
Unemployed	6 415
Discouraged work seekers	1780
Not economically active	16 344
Not Applicable	24 040
Total	66 781

1.5.4 Spatial Context

The following Spatial issues that need to be addressed in the Naledi Municipal Area of jurisdiction are:



- Optimal utilization of tourism potential (Leon Taljaard Nature Reserve and Swartfontein Holiday Resort).
- Protection of sensitive environmental areas.
- N18 Road between Vryburg and Stella which is congested with trucks.
- Optimization of N14 and N18 Corridors to stimulate local economic development. (Tourism Centre and Weighbridge).
- Alignment of SDF with IDP and sector plan is required.
- Revitalization of CBD areas to improve service functions of Vryburg and Stella.
- Guidelines for densification need to be implemented.

- Delineation of urban edges (including rural areas).
- According to the NLM IDP, a number of spatial related issues were identified that should be addressed in order to ensure sustainable development and to guide the formulation of spatial proposals for the municipal area.
- The north-eastern municipal boundary was recently extended by the Demarcation Board to include a portion of Ratlou Local Municipality into Naledi Local Municipality. No notable spatial attributes exist in this area.
- The eastern municipal boundary was also extended by the Demarcation Board to include the farms of Broedersput 213, Wonderfontein 211 and Blaauwboschpan 237.

1.7.5 Societal Challenges & Local Economy

Table 5: Difficulties Faced by Communities in terms of Households

Difficulties Faced by Communities in terms of Households	
Type of Difficulty	# Households
Access to Water	1454
Lack of reliable electricity supply	956
Cost of Electricity	1908
Inadequate Sanitation / Sewerage / Toilet Services	1132
Inadequate refuse / waste removal	110
Inadequate housing	1317
Inadequate Roads	1526
Inadequate Street Lights	87
Lack of / Inadequate employment opportunities	4431
Lack of / Inadequate education facilities	194
Violence and Crime	689
Drug Abuse	66
Gangsterism	85
Lack of / Inadequate parks and recreational area	172
Lack of / Inadequate healthcare services	701
Lack of / Inadequate public transport	185
Corruption	347
Other	272
None Indicated	1001

Part Two – Diagnostic Assessment

2. STATUS QUO ASSESSMENT

2.1 SOCIO-ECONOMIC ANALYSIS (Microenvironment Scan)

Table 6: Socio Economic Statistics Community Survey Stats.SA 2016

	2016	2011
Population	68 803	66 781
		Age Structure
Population Under 15	29, 6%	31, 0%
Population 15 – 64	65, 7%	64, 0%
Population Over 65	4,6%	5,0%
		Dependency Ratio
Per 100 (15-64)	52.1	56.2
		Sex Ratio
Males per 100 Females	102.2	100.7
		Population Growth
Per Annum	0.68	n/a
		Labour Market
Unemployment Rate (Official)	n/a	26.1%
Youth Unemployment Rate (Official) 15-34	n/a	35,5%
		Education (Aged 20+)
No Schooling	10.2%	16.6%
Matric	30.0%	22.2%
Higher Education	7.3%	9.1%
Household Dynamics		
Households	20 692	18 572
Average Household Size	3.3	3.4
Female Headed Households	35.5%	35.3%
Formal Dwellings	84.9%	8%1.2%
Housing owned	45.3%	41.8%
		Household Services
Flushing toilet connected to sewerage	69.4%	65.4%
Weekly refuse removal	67.8%	66.4%
Piped water inside dwelling	39.2%	40.9%
Electricity for lighting	80.2%	76.7%

2.1.1 Local Government Fiscal Environment

Both structural and organisational factors contribute to the financial (and operational) outcomes of a municipality, but comparatively little attention is paid to structural factors. The most important contributing structural factor in our assessment is the overarching fiscal framework within which a municipality is located.

The post-1994 fiscal framework for local government was designed to ensure that there was sufficient revenue available to pay for the extended range of services and responsibilities that municipalities would have. The foundation of the framework was the assumed ability of municipalities to raise significant amounts of own revenue: The White Paper on Local

Government assumed that 73 per cent of all operating expenditure requirements in local government could be funded through property rates and service charges.

"Our research suggests that in aggregate, local government is probably only able to fund less than 50 per cent of (current budgeted) operating expenditure from property rates and service charges, with the funding gap being greatest outside of the metro areas." (Source: Public Affairs Research Institute 2020)

2.1.2 Social Factors

In 2018, there were 367 000 people living in poverty, using the upper poverty line definition, across Dr RSM – this is 2.91% higher than the 357 000 in 2008. The percentage of people living in poverty has decreased from 78.27% in 2008 to 71.13% in 2018, which indicates a decrease of 7.14 percentage points. In 2018, the poverty gap rate was 31.2% and in 2008 the poverty gap rate was 33.6%.

In terms of the poverty gap rate for each of the regions within DR RSM, Greater Taung Local Municipality had the highest poverty gap rate, with a rand value of 31.4%. The lowest poverty gap rate can be observed in NLM with a total of 30.7%.

2.1.3 Risk Assessment

The following risks have been identified which must be mitigated for successful implementation of the financial recovery plan. These risks relate primarily to financial administration, budgeting, financial discipline, and governance. It is proposed that a risk matrix be developed and that appropriate mitigation measures be instituted. The risk management matrix must be developed for implementation

The emerging risks identified, include amongst others

	Risk	Further Actions
Governance	Lack of Approved System of Delegations fostering the risk of noncompliance with relevant legislation, lack of accountability and maladministration. Including adverse audit outcomes.	• Review System of Delegations • Facilitate consultation sessions with stakeholders. • Develop technical SD-BIP. • Submit to Council for adoption. • Implementation of Delegations
	Lack of a proper Performance Management System resulting in noncompliance, lack of strategic direction/plans and enforcement of consequence management.	• Enforcement of HR Policies (Disciplinary Codes). • Signing of performance agreements – aligned with Circular 88 of the MFMA indicators. • Facilitating strategic sessions and development of a strategic plan for approval by Council. • Monitoring and ensuring the implementation of strategic plans. • Cascading performance management to all levels. • Ring-fencing the skills development levies and implement the skill development plan aligned with technical SD-BIP.

	Risk	Further Actions
		• Facilitate workshops and training for Councillors on the PMS and their function.
	Ineffective governance due to Section 79/80 Committees not acting to correct management failures.	• Facilitate workshop(s) on the Code of Conduct for Councillors and ensure implementation thereof. • Ensure appropriate contract terms (5 years) for senior management positions. • Strengthen Council Administration
	Noncompliance to applicable legislation due to ineffective ward committees.	• Capacitate Unit responsible for the Ward Committees Administration by filling the posts of Public Participation Officers • Develop and implement operational plans for Ward Committees • Effect outstanding payments to Ward Committee members • Strengthen the functioning of the existing Ward Committees. • Enroll Ward Committee's in – District Ward Committee Functionality Support Forums.
	Lack of understanding of Councillors on their oversight role resulting in non- oversight and noncompliance to applicable legislation.	• Facilitate training of Councillors and relevant Ward Committees • Provide Councillors with briefing documents aligned to policy and legislation for public participation initiatives • Enforcement of Code of Conduct. • Train councilors on conflict resolution models. • Implementation of resolution tracking system. • Development of a public participation policy and strategy.
	Persistent disclaimer from the Auditor General due to a lack of an Unauthorized, Irregular and Fruitless and Wasteful Expenditure Policy.	• Ensure consequence management practices • Development and implementation of an Unauthorized, Irregular and Fruitless and Wasteful Expenditure Policy • Review/develop and implement an adequate Audit Action Plan. • Finalise appointment of Audit Committee and ensure regular sittings of the Committee. • Attendance of Committee meetings by Senior Management

	Risk	Further Actions
		• Ensure quarterly reporting to Council.
Organisational Development (OD)	Inadequate communication (Internal and External) resulting in inconsistent and confusing communications and service delivery protests.	• Effective internal communication within the organisation needs to be strengthened by finalising and implementing the communication policy and updating the municipality's website. • Capacitate the Communication Unit • Develop and implement a Customer Care Policy • Implementation of a complaint management system. • Facilitate a series of communication actions in order to convey accurate information • However, active communication is needed from management cadre to manage information flow – definite action is needed to show that the leadership and management in particular, are in control of the restructuring process. • Leadership and strategic HR intervention is another important criterion for the OD project, which is currently lacking to a certain extent. • Change management driven from both political and administration components.
	Inability to implement organisational changes. For instance, when overtime costs come down, leave provision expenditure skyrockets pointing to a culture of collusion between management and workers.	• Establish an Organisation Development (OD) Implementation Task Team to facilitate and monitor the implementation of OD issues such as: ➢ Management Assessment Appraisal Program ➢ Team Development ➢ Career Path Mapping ➢ Organisational Culture Assessments ➢ Organisational Identity ➢ Planning, implementing and reporting on progress regarding Business Plans (IDP and SDBIP) ➢ Team Building ➢ Relevant and updated organisational structures, job descriptions and staff establishment (right sizing of work force per organisational unit) • Develop and constitute an Implementation Task Team, establish terms of reference for the Task Team and role clarification for all stakeholders. • Develop and adopt OD implementation action plan regarding several matters, e.g., Placement policy, implementation and commination of approved HR Polices and filling of critical vacancies to establish stability in the municipality.
	Dysfunctional ICT resulting in loss of information, non-compliance, lack of disaster recovery plan	• Procurement of an ICT server and creation of a dedicated server room for ICT. • Incorporation of Microsoft BI software to develop better and more efficient reporting and monitoring applications.

	Risk	Further Actions
	Poor supervision resulting in poor service delivery, low staff morale and poor performance	• Implementation of consequence management. • Training of supervisors and managers. • Integration of ICT
Change Management	Interference Labour in filling of posts	• Change management from highest political level. • Re-engagement of LLF and restoration of functionality thereof.
	No political and/ or managerial will to change.	• Change management needs to be driven from both political and administration components. • Change management needs to be driven from highest political level including where appropriate Northwest Provincial Executive. • Communication and consultation are critical. • Empower NLM management and political leadership to appreciate the advantages of change.
	Negative impact on morale	• Communication and consultation are critical. • Change management driven from both political and administration components.
	Inability to re-organise and finalise the Organisational Structure	• Change management driven from both political and administration components. • Need to consult and involve all role-players to include possible negotiations with labour as well as address the matter of HR anomalies related to placement process. • Engage with DLGH, Labour Unions and SALGA early on in the process. Have clear organisational structures developed and communicate with staff. • Organisational Structure must be fit for purpose (form follows function) – needs to be preceded by technical SD-BIP.
Finance/Budget/Controls	Inadequate budget to meet commitments. Contracts and commitments entered into without adequate budget – inaccurate projections for multi- year contracts.	• Start with the plans that may be done internally without using outside resources. Plans must have merit and not represent a wish list. Leverage LED Unit staff to assist PMU in the development of bankable business plans. • Allocate funds based on proper operational plans e.g., accounting for resources required, comprehensive running costs, and maintenance, transport and administration overheads. • Robust budgeting for this planning period. • Formulating an appropriate tariff structure • Implement contract management. • Review contracts, renegotiate or cancel contracts.
	Budget cuts not done in line with municipal priorities.	• Establish rationale behind budget cuts through consultative process. • Communicate budget cuts and rationale to management and Council. • Annual budget circular must be communicated to all stakeholders.

	Risk	Further Actions
		• Improve budgeting and ensure active participation at political, administrative and community level.
	Inadequate management of cash	• Expenditure management to ensure that cash spent is line with priorities. • Prepare daily cash flow projections and weekly cash flow reports with actual cash flows inserted against the projections, implement corrective measures on deviations. • Reporting mechanism between BTO and Departments to ensure that payments are for valid work completed. This should include the monitoring of consultants' performance. • Internal reporting to management and Council on finances is critical to ensure timeously corrective action implemented.
	Lack of internal controls. No consequence to contravention of policies. No adherence to policies, especially SCM policies.	• Streamline financial management policies – manage delegations and take swift action against non-compliance. • Budgets must have realistic cash flow projections and Technical Services departments must provide claims schedules on all projects. • Timely completion of audit action plans, that have been properly consulted with senior management and approved by MM. • Monitoring of audit action plans by management and review through internal audit. • Post Audit Action Plan – utilise web-based platform provided by NT.
	Lack of leadership and accountability due to the non-filling of critical posts	• Strengthen the LLF to ensure regular sittings • Ensure that strategic planning sessions is held annually • Develop a model for the identification and prioritisation of other critical vacant posts • Fast track the review of the organisational structure • Appropriate placement of staff
Human Resources Management	A culture of non-performance	• Implementation of Individual PMS and cascade to the entire staff establishment with consequences for poor or non-performance including applying disciplinary action which could result in dismissal.
	Outdated/non existing of HR Policies resulting in noncompliance with relevant legislation, lack of discipline and persistent disclaimers from the AG	• Facilitate the review of the HR Policies including the Vehicle Allowance Policy. • Facilitate proper consultation with Labour • Facilitate Workshops for Staff and Council • Submit to Council for adoption • Ensure enforcement of approved HR Policies

	Risk	Further Actions
	Poor labour relations resulting in low staff morale, poor performance and non-compliance to collective agreement	• Ensure regular sittings of the LLF • Explore shared service with the district regarding presiding and prosecution • Ensure proper use of LLF schedules and agendas • Improve communication between labour and management.
	Low staff morale and discipline resulting in non-performance and lack of services	• Ensure implementation of consequence management practices • Ensure training of staff on Disciplinary Code • Ensure training and development initiatives • Conducting regular skills audits • Appointing staff with the appropriate skills and experience • Conduct a head count of existing staff • Designing an efficient system of control • Implement a performance agreement for all staff • Ensure updated job descriptions for all posts and submit for job evaluation • Ensure vetting of staff • Ensure disclosure of interests of staff • Finalisation of all disciplinary cases.
	Lack of adequate control over leave and absenteeism resulting in potential incorrect record keeping/payments being processed for Overtime, Stand-by, Callouts, Annual Leave, Sick Leave, Long Service Leave, Family Leave and Maternity Leave.	• Workshop all staff on leave & absenteeism policy (impact on pension) • Capacitate Supervisors to ensure leave administration implementation • Implement consequence management • Conduct change management advocacy • Enforce procedures and disciplinary action. • Enforce Leave Policy and ensure administration of leave management system such as introduction of Leave Roster, analysis and trends for planning purposes
	Lack of overall service delivery due to cash flow problems	• Proper planning • Prioritize service delivery
	Bloated structure and huge wage bill lead to low staff morale and non-payment of 3rd parties.	• Organisational review to eliminate unnecessary posts • Change management programme to address low morale. • Form to follow function, organisational structure must be fully aligned with technical SD-BIP.
	Non-filling of critical vacant positions due to lack of accountability resulting in lack of service delivery	• Filling of critical vacancies especially the top management level to take responsibility and accountability • Management to adhere timeously to Risk Management Cycle (to be included in performance agreements)

	Risk	Further Actions

Infrastructure and Planning	*Water and Sanitation*
	• Water
	  ○ Inadequate supply of bulk water
	  ○ Lack of monitoring equipment on water
	  ○ External and reticulation water lines in need of upgrading
	  ○ Service delivery vehicles shortage
	• Sanitation
	  ○ Relative roles of responsibility for service provision.
	  ○ Bulk and reticulation sewer lines in need of upgrading
	• Service delivery vehicles shortage
		• Become a WSA.
		• Revisiting of SLA.
		• Assume responsibility for all bulk services or alternatively – transfer the enter Water and Sanitation function to the district.
		• Currently water and sanitation function are unsustainable.
		• Ensure logging systems to control fleet expenses

	Electricity • Non-monitoring of Bulk Electricity/ Purchases. • Loss of Electricity/Revenue • Provide integrated service to Huhudi because of proximity. • Revenue enhancement from electricity sales - Solar Farm	• Revisit SLA with ESKOM • Install and ensure functional smart pre-paid meters, throughout the municipal area. • Ensure payment of services by Huhudi • Confirmation of long-term capability. • Apply for a Section 155 Termination of Debt order through the high court.
	Roads Long term maintenance plan	• Ensure viable maintenance plan and available equipment/ service providers
	Planning and Land-Use Unavailability of Information on Spatial Planning and Geographic Systems.	• Ensure proper training and capacity in department. • Establish Special Rating Areas for affluent areas and adjust tariffs accordingly.

	Water and Sanitation
	• Water
	  ○ Inadequate supply of bulk water
	  ○ Lack of monitoring equipment on water
		• Become a WSA.
		• Revisiting of SLA
		• Assume responsibility for all bulk services
		• Ensure logging systems to control fleet expenses
		• Service delivery vehicles shortage, budget accordingly to acquire vehicles in a phased manner.

	Risk	Further Actions
	○ External and reticulation water lines in need of upgrading ○ Service delivery vehicles shortage • Sanitation ○ Relative roles of responsibility for service provision. ○ Bulk and reticulation sewer lines in need of upgrading	

2.2 SQ ASSESSMENT – SYNOPSIS OF OUTPUTS PER SUSTAINABILITY PILLAR

2.2.1 Governance Pillar

The newly elected Council has established its Section 79 & 80 Committees, which are meeting regularly. It is imperative to note that, the majority of the incumbent councillors were part of the previous council. Essentially, all the ingredients that led to the historical political instabilities are still present. The inertia shown by Council to institute consequence measures in instances that they themselves have highlighted as unacceptable such as UIF&W – is illustrative of how systems of patronage may be causing oversight structures to be conflicted in the execution of the responsibilities.

The municipality has an Audit and Performance Committee which is a shared service for that was established by the district municipality. It is an independent advisory body which advise the council, political office bearers, accounting officer and management on matters outlined in section 166(2) (i-ix) of MFMA. The committee is appointed on three-year contract period. NLM is in the process of establishing its Internal Audit & Risk Management Committee. Manager – Internal Audit & Risk Manager has already been appointed (former District Head Internal Audit Committee). The remaining challenge is the staffing of the unit to become fully functional (Source: Work stream Corporate Services Presentation).

Powers and Functions:

The municipality is guided by the Constitution as well as sections 83, 84 and 85 of Municipal Structures Act on the matters of powers and functions of municipalities. Municipality mandated to provide sanitation, refuse removal, water, electricity, roads, library, vehicle licences, parks and cemetery services. There are poor co-operation agreements and memorandum of understanding for support on certain mandates.

Contract Management:

A contract management committee was established but is not functional. A contract management framework is in place. The framework was developed by Provincial Treasury for use by the whole district. There is weak contract management as there is no contract management unit or officials assigned the responsibility and the Annual Procurement Plan

is not always adhered to.to this end, contract performance and monitoring measures are not sufficient as required by section 116 (2) (c) of the MFMA. The matter is exacerbated by the material irregularity audits on the projects.

Litigations and contingent liabilities:

The municipality is facing on-going high levels of litigation mostly due to failure to pay for services rendered by service providers, badly constructed contracts and material non-compliance with legislation. The municipality does not have a litigation strategy this has had a negative impact on litigation decisions, which affects service continuity and prudent financial management to address the R 12.4 million contingent liabilities as audited in 2020/21 financial year.

System of delegations:

The municipality does not have a system of delegation in place which is non-compliance with the Municipal Systems Act. There is lack of understanding within management of rationale behind system of delegations. There is high disregard to compliance with laws and regulations by management.

By-laws and enforcement:

Most By laws currently at draft stage, the municipality is finalising the following by laws: - Parks and Gardens, Street tree, Sports & Recreation, Cemetery, Caravan & Camping policies which are also awaiting review and approval at a Policy workshop that is yet to take place. Revenue generation from by-laws is not satisfactory as there is selective enforcement and monitoring which affects revenue generation. There is no reporting on revenue generated from enforcement of by-laws.

UIF&W and Consequence Management:

There is high level UIF & W because of non-compliance with supply chain management processes and legislation. The municipality did not conduct any investigation of instances of UIF&W and did not apply any preventative measures to limit re-occurrence of UIF & W. The municipality has also been incurring interest and penalties on late payments of creditors.

Audit action plans (internal and external):

The municipality does not have adequate implementation plan to address the audit findings and has slow response when it comes to attending to audit findings. An audit finding register was issued by Auditor General dated June 2021, however, none of the finding have been addressed. Implementation of audit action plan for 2020/21 had little progress with the implementation of recommendations from the External audit plan sitting at 1.7%. For 2020/21, the municipality was advised to use electronic system (web-based system) however there is very little progress on implementing this system, there is no updated in updating the web-based system.

Internal audit and Risk Management:

The municipality is part of Dr Ruth Segomotsi Mompati District Internal audit shared services. The internal audit fulfilled its functions according to 2020/21 audit report; however management did not take action to address the internal control deficiencies identified by the internal audit unit and audit committee. These matters resulted in the intervention by the internal audit not having an impact on the implementation of the audit action to improve the audit outcome and thus improving the internal control environment.

Naledi Municipality used the Dr. Ruth Segomotsi Mompati District Municipality's Risk Management Unit Shared Services, and the risk register and committee are fully functional. The Risk Management, Fraud and Anti-Corruption Committee consists of standing members representing each department and/or unit within the Naledi Local Municipality.

Information & Communications Technology:

The municipality needs to begin optimising its ICT into its processes by up skilling existing staff. The NLM has bemoaned the incapacity of its financial management system as a major challenge, however – the municipality isn't complying with mSCOA pointing to a skills deficit as a central cause of systems failures in some respects.

Immovable Property Management:

The asset register was disclaimed by the AG SA and the municipality must check conduct a full audit of the immovable properties and compare that with the valuation roll. All the contracts for leases be verified as the assets may be illegally occupied or the contracts may be due for review. The following activities must be performed by Property Management and Administration Unit for the financial year:

a) Audit of all land and buildings.
b) Identification of land for disposal.
c) Perking of Erven.
d) Informal settlement (control versus legal ownership).
e) Rental Stock of The Municipality; and
f) Reconciliation of asset register to the Valuation roll.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
GOVERNANCE MODEL (COUNCIL AND SECT. 79 & 80 COMMITTEES)	Mayoral Collective Council in terms of the Executive Committee System and Council committees are in place and sitting as required. Oversight Committees aren't effective. Not instituting corrective measures.	Consistent sittings of committees without fail do not result in improved good governance as not implementing corrective measures. Lack of continuity management, historically Sect. 56 & 57 Managers were not permanent.	Political instability under rooted by contestation for systems of patronage.	Provide training to councillors about their oversight role and how to go about ensuring compliance and implementation of their resolutions/recommendations by the administration and how to hold them accountable through the Disciplinary Board and other mechanisms. Implement best practices in line with Public Service and Administration Frameworks on the appointment of senior management. For ensuring that incumbents to senior management positions are not consistently at the mercy of political office bearers in regard to job security and improved political stability.	Public Service and Administration Framework on Senior Management
	Political & Administrative stability is in place for now. Historically municipality was very unstable under the leadership of the same councillors who are currently in office.	Historical Council was very unstable due to political infighting. Issue of Council being divided over the appointment of senior management (i.e., MM & CFO) Currently the MM is appointed only for 24 months, contrary to the	Access to resources through political influence. Inter-party strife amongst political parties.	Appoint the MM for the period equivalent to Council's Term of Office. Regulation on the appointment of senior managers must be implemented.	Performance Management Agreement. Public Service and Administration Framework on Senior Management

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
		regulations (which stipulate MM's must vacate after 12 months after the new council). Which will cause major instability in the Municipality.			
	Roles and responsibilities of the political and administrative arms are well defined.	Political interference remains a lurking possibility which may negatively affect/blur the lines.	Access to resources and inter-party strife amongst political parties which affect the functionality of the Council due to Council not working in unison.	Conduct workshops for councillors on proper political management of relationships amongst political parties and the administration. The relationship between the political and administrative interfaces are fraught with opportunities for abuse, the proposed solution is the implementation for best practice to mitigate against said risks.	Draft IDP (2022-2027) page 14-15.
	The following council committees were established: MPAC, Community Services Housing and Tourism Portfolio Committee, Infrastructure Development and Town Planning Portfolio Committee,	Committees are sitting regularly as scheduled but ineffective in instituting corrective measures to rectify management failures in line with Chapter 15 of the MFMA.	Historical systems of patronage re-emerging in this administration. Oversight structures are conflicted. The need for access to resources and political influence over administrative	Public Participation Workshops need to be strengthened to ensure that we have an active and engaged citizenry. Implementation of Municipal Systems Act Schedule 1 and Code of Conduct to ensure that committees become	Draft IDP (2022-2027) page 11. Committee Meetings Minutes for 2021/2022 FY 2019/20 MTSF Priorities

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	Finance/Budget Treasury Office and Corporate Services Portfolio Committee, and Executive Committee. All meeting schedules approved and sitting	Consistent sitting of the committees without any results, constitute fruitless and wasteful expenditure.	decision-making are the root causes. Historic, systematic systems of capture. Communities bemoan service delivery and the performance of public representatives however they do not enforce consequence management through democratic processes.	effective as contemplated by the Systems Act and the active civil society will deter the municipality from focusing on things that impact service delivery negatively.	
	There have not been any community protests since 1 November 2021 directed at the Municipality.	Historically there have been a number of service delivery related protests. Lack of clean and drinkable water and Electricity were the core causes of historic protests.	Non-provision of Water to certain areas. High cost of electricity and problems with the billing system issuing incorrect readings.	Monthly Ward Meetings need to be held consistently. Cleansing of Billing Data and Correction of historic billing errors. Executive Committee need to call Imbizo's. Indigent registration needs to be augmented.	Section 4 Schedule of Protests
	Council approved stakeholder engagement	Strategy in Place and functional programmes such as: Ward Committee	Approved Public Participation Strategy not well implemented.	Need to ensure quarterly reporting on the implementation of the strategy. Council	Quarterly and Annual Reports.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	Strategy and public participation policy. Reports submitted haphazardly.	Meetings, Public Meetings, IDP Structures Meetings, Mayoral Imbizos - conducted.	Lack of Political Accountability on the part of Ward Councillors who are seemingly not accountable to their constituencies.	resolutions must be implemented and institute corrective measures when required.	KPI - GG5 Top layer SD-BIP 2021-2022
	Council oversight over the executive and administration Oversight established but dysfunctional.	Challenge of Administration Implementing committee findings. Disciplinary board not functioning effectively.	Historic challenge of Sect. 56 & 57 Managers being on an acting basis. (e.g., MM on 24-month contract) Lack of continuity in management. Friction between the political and administrative interfaces historically are the root cause, the appointment of the MM is a specific instance.	Management contracts to be aligned to the term of office of council.	MPAC Annual Work Programme 2021/2022
	MPAC and Disciplinary Board established and not very functional, not instituting corrective action to rectify	Lack of capacity of the committee. UIF&W continues to increase in spite of the committee being in place.	Lack of continuity in the management team historically. MPAC & other oversight committee	Effective consequence management. Training of the Disciplinary Board Members.	MPAC Annual Work Program. AGSA Management Report 2021

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	management failures.	Municipality in financial crisis.	findings not implemented. Policies and Procedures did not adequately guide financial performance and compliance activities and consequence management measures were not fully implemented.	Committee needs to be bolstered in terms of capacity.	
	Ward Committees established, inducted and functional (Current council).	Historically, due to Covid-19 restrictions and regulations and the fact that municipality didn't have adequate resources (ICT related) to conduct virtual meetings, no ward committees and ward public meetings were conducted.	Caused by Covid-19 & ICT inefficiencies. Poor coordination and commitment by councillors (previous council).	Municipality needs to invest in training councillors in terms of the use of their tools of trade. Enrol into the District Ward Committee Functionality Support Forums	Annual Report 2020/2021
	Council approved ward committees operational plan.	Ward Committees have been dysfunctional historically. The above must refer to now under new Council as this might create confusion with one of the findings on	Poor Coordination and Skills Set among committee members.	Enrol Ward Committees in the District Ward Committee Functionality Support Forums	Dr RSM – District Development Model One Plan 2022

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
		functionality of ward committees. The statement was materially informed by the fact that the majority of current councillors were present in the previous council and as such, no evidence has been presented to suggest that history would not repeat itself. Equally, ward committee functionality must be examined against past performance.			
	Councillors' municipal accounts are not up to date although constantly monitored for improvement.	Total Owing by councillors currently sits at R 3 283 388 – 73.	A lot of the amounts owing are in excess of 120 days. Lack of Implementation Systems Act Schedules.	Speaker should invoke the provisions of the Code of Conduct for Councillors. Chief Whips of Political Parties should institute corrective disciplinary action.	Councillors Debtors Age Analysis Report
	Councillors have not declared their financial interests.	Violation of Code of Conduct of Councillors and also causes an Audit adverse finding.	Poor internal control environment coupled with non-implementation of the councillor code	Institute consequence management.	AGSA Management Report 2021

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
		Risk of Councillors doing business with council.	of conduct by the Speaker.		
	NLM does not have any municipal entity	No Municipal Entity	No Municipal Entity	No Municipal Entity	No Municipal Entity
POLITICAL/ ADMINISTRATIVE INTERFACE	Incumbent Council is newly elected and still in its first year in office. Currently interface is not stable.	Lack of Reporting, currently and historically on mandatory Council & Portfolio Committee Meetings.	Ineffective, Decentralised & Dysfunctional Record Management System. Department heads need to be held accountable by council. Lack of continuity management which led to the collapse of system.	Acquisition of Digital Record Management System has been budgeted for in current FY. MPAC & Disciplinary Board need to be beefed up.	Consolidated 3rd Quarter Performance Report[1] MPAC Work Programme 2021/2022
	Council's political interference in procurement and recruitment processes has not been detected so far; requires constant monitoring	The level of procurement through deviations poses a threat in the municipality and remains a cause for concern.	Lack of planning and poor internal controls; on technical and operational plans.	Alignment of IDP and Budget. Technical SD-BIP needs to be developed. IDP & Budget misalignment need to be corrected.	AFS 2020-2021 IDP & MTREF Budget 2022/23 Procurement Plan AGSA Management Report SD-BIP Top Layer 2021-2022

[1] Ref: Insert 3rd Qtr. Report (page 23)

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	The administration does not implement council resolutions on time.	Poor coordination of work by departments.	Municipal Manager was previously not appointed.	Term of Office of senior management to be linked to that of the council.	Council Resolution Register
	Council resolution tracking and resolution register in place and up to date.	Slow pace of implementation of council resolution & ineffective follow-up.	Lack of consequence management by council. Poor oversight by council.	Implement consequence management. Central council resolution register needs to form part of senior management meetings.	Council Resolution Register
	No external undue influence being exerted on the relationship between the political office-bearers and the administration has been detected so far.	None Reported	The current council is still new, and no incidents have been reported. Historically it is difficult to get a solid indication.	The Dr. Ruth S. Mompati District Municipality Risk Management Unit Shared Services has adopted the Fraud and Anti- Corruption Manual 2020/2021 which is applicable for all the Local Municipalities within Dr Ruth S. Mompati District Municipality.	Annual Report 2020-2021
	Monthly meetings between the Mayor, the Speaker and Chief Whip taking place regularly.	Troika meetings not included in the annual timetable of council.	Troika isn't an official structure of council.	None (troika is political) not advisable to interfere.	Schedule of Meetings & Minutes
CONTRACT MANAGEMENT	Contract management function not in place. For instance, Annasa Management is a contract of R 5, 949, 180 – 00 p/for	• Contracts not being terminated on time and going beyond their intended lifespans.	Lack of contract performance monitoring measures. Contract approvals by unauthorised personnel, as found	Development and approval of contract management framework which will also address the monthly monitoring of contract submission of performance monitoring	Draft IDP (2022-2027) page 60. AG Management Report NLM – 26 February 2022

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	management services and yet the municipality is unaware of what that actually entails. The following issues were still not addressed despite previous guidance provided: The municipality does not have a list of goods and services required on an ongoing basis. The majority of transactions are conducted on a quotation basis, only major procurement items are procured through a bidding process. There are irregular month to month contracts, Annasa Management Contract is one.	• Contributing to Irregular Expenditure. • AG adverse audit finding. Cash Flow constraints limit the municipalities capacity to procure in a structured, systematic fashion.	by the AG due to the System of Delegations not being in place. Ineffective Record Management System.	reports. Proper contract monitoring Audit and review all contracts with the aim of imposing penalties on non-performance which will assist the Municipality with revenue and ensure that contract is implemented on time, within budget and according to specifications. Terminate the evergreen contracts and investigate the possibility of recovering some of the monies paid thereunder. Disclose these in the AFS and regularise.	Financial Plan (Plan

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	There are evergreen contracts in the municipality, Annasa Management Contract. There is no contract register in place, as set out in the contract management section. The municipality does have services contracted even though there are employees/resources to do the work, e.g. As in the case of smart meter installers who have recently been terminated.				
	Political office-bearers requests information from the administration through the office of the MM.	Reports are often submitted late or required data is not reflected, historically.	Lack of synergy between council committees and ineffective records management.	Capacity building in in terms of Records Management. Enrolment of the Municipality into the	MPAC Work Programme 2021/2022. SD-BIP 2021-2022. Circular 113

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	Council does not timeously consider the statutory reports	Delays in the submission of PAAP.		Online Web Enabled Audit Action Plan System.	
	Value of Contracted Services is R 7 868 000-00 projected to be R 56 802 000-00 in the current FY. This constitutes 6% of Total Operating Expenditure	Draft IDP in 2021 draft report submitted 85 days after the due date. The problems occasioned by the contracted percentage are Constrained Cash Flow, Poor Gearing,	Management and those charged with governance did not address the failing control environment during the financial year Lack of Consequence Management Coupled with Ineffective Political Oversight	However, the appointment of the MM and CFO after year end and the appointment of consultants contributed to the reduction in material findings. Fixed term contracts in line with statutory prescripts will reduce the endemic lack of accountability due to high management staff turnover.	AGSA Management Report 22 February 2022. C4 Monthly Budget Statement – Financial Performance
	No Approved contract management framework and policy	Poor internal control environment.	No consequence management on poor performance affecting issues of compliance.	Training of officials on the mSCOA financial modules. Develop and adopt contract management framework and policy.	Annual Report and 3rd Quarter Performance Report
	Non-compliance with Section 116 of the MFMA monthly monitoring reports.	Lack of administrative capacity in terms of the BTO.	Poor internal control environment.	Training of BTO Reporting Staff. Institution of Consequence Management. Implementation of PAAP.	Confirmed by BTO
FOCUS AREA	**BRIEF DIAGNOSTIC ANALYSIS**	**PROBLEM/ KEY ISSUES**	**ROOT CAUSES**	**STRATEGY TO SOLVE**	**SOURCE OF INFORMATION**

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
LITIGATIONS	Litigation register is in place and updated regularly. Contingent liability: (R 13 563 676-58) Impact of the liability on the Municipality has been adverse.	Prospects of success not quantified. Interest, legal fees and Fines contribute to Fruitless & Wasteful Expenditure This has led to adverse audit findings due to an increase in fruitless expenditure.	Inadequate capacity in terms of legal unit – not verifying the prospects of success prior to determining whether to proceed with legal matters. As stated above the municipal legal unit has poor legal skills capacity coupled with attorneys being unaccountable for poor performance. Ineffective Record Management System. Protracted cases beneficial to attorneys	Audit Committee –develop Cost vs. Benefit Analysis Framework & Policy on determining prospects. Training of Legal Unit Staff. Monthly Reports to Audit Committee. Incorporate into PM Agreements & Job Descriptions. Institute claims to recover costs against officials and councillors who pursue litigation despite sound legal advice to the contrary.	NLM GRAP - AFS 2022 (Note: 39 Contingencies, pg. 63). Litigation Register Draft IDP 2022–2027 (pg. 60)
	High level of exposure to the municipality due to litigation against the municipality. There is no legal support operational	Suppliers are not being paid on time. Repairs and maintenance of roads & sewer infrastructure leading to unnecessary litigations.	Poor cash flow management. Insufficient budget allocation for infrastructure maintenance. Poor alignment of budget and IDP	Audit Committee –develop Cost vs. Benefit Analysis Framework & Policy on determining prospects. Training of Legal Unit Staff. Monthly Reports to Audit Committee.	Litigation Register. AFS 2020/2021 FY. MTREF Budget Framework

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	plan or protocols in place.		over the MTEF planning cycle.	Incorporate into PM Agreements & Job Descriptions	
	NLM has appointed a deputy manager for legal services.	Will assist in the development and implementation of a litigation reduction plan. The AG has previously raised concerns of the capacity of the unit.	Appointment was delayed due to absence of permanent departmental head previously, currently resolved.	Training of legal staff.	Contract of Deputy Legal Services Manager Work Stream Presentation by Corporate Services
	Panel of Attorneys Appointed	Litigation matters not being resolved efficiently and cost effectively.	Protracted litigation is to the benefit of attorneys.	Establish a cost benefit analysis framework for litigation. Establish minimum performance indicators for attorneys.	Corporate services work stream presentation. Litigation register. AFS 2020-2021
	There are no current Court Orders Identified against the municipality	Contributing to Increase in Fruitless Expenditure	Poor planning capacity by management coupled with vested interest of Panel of Attorney members to litigate due to financial benefit of extending cases.	Develop cost benefit analysis framework for legal services unit. Review of key performance indicators and areas for legal unit. Skills development for legal services staff.	Litigation register.
SYSTEM OF DELEGATIONS	Delegations of Authority last updated in 2014	Non-compliance with; Creating adverse audit findings. Compromises	Lack of Skills and Capacity among councillors on their oversight responsibilities.	NT, PT and SALGA need to provide training for Councillors & Administration.	AG's Report. 2014 Delegations of Authority.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	NLM does not have a system of delegations or delegations register. There are no updated delegations of authority in place. Currently there are no sub-delegations below the Municipal manager. There is currently no clarification of roles as required by law.	contract management function. Compromises management & council capacity to institute consequence management. Leading to all decisions with financial implications producing irregular expenditure.	Ineffective council oversight. Ineffective Section 79 Council Committee Structures. Budget Steering Committee not capacitated and not sitting regularly.	Review & Adopt system of delegations. Implementation Circular 73 of the MFMA	Circular 73 of the MFMA. IDP and Annual Report.
MUNICIPAL BY-LAWS	Municipal By-Laws are in place, however, By-Laws are not adequately enforced Haphazard and low revenue reported on the enforcement of By-Laws except for Traffic Fines	Enforcement of by-laws is a challenge. Lack of internal capacity such as environmental compliance inspectors and traffic wardens. Loss of potential opportunity to increase NLM revenue. Number of by-laws not reviewed annually.	Revenue Enhancement Policy not being implemented aggressively. Poor Monitoring & Evaluation of internal controls. Ineffective Section 79 Committee Oversight.	Repurpose existing human resources (e.g., EPWP's) to perform functions such as being parking wardens – (revenue generation potential) and similarly empower EPWP's to issue fines for illegal dumping.	Annual Report 2020-2021 (pg. 73) Budget Related Policies. IDPS 2021-2022 Review
	The municipality does not have a code of by-laws.	Fragmented & haphazard updating and revision of by-laws.	Ineffective Records Management.	Skills training and development for sect. 79 members. Corporate services to develop code	Annual Report 2020-2021

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
			Poor Oversight by Council Section 79's.	of by-laws for adoption by council.	Budget Related Policies
	Promulgated by-laws do not cover most of the basic services of the municipality.	Environmental health by-laws need to be updated to include all basic services.	No code of by-laws. By-laws not being reviewed annually.	Annual by-law revision should form part of the budget steering committee work stream.	IDP (List of By-Laws)
	The municipality is reporting on the revenue generated from the enforcement of the by-laws.	Municipal by-law generated income reporting needs to be augmented.	Poor implementation of revenue enhancement strategy. Poor internal control environment.	Link revenue collection from all related by-laws to the performance agreements of all Heads of Department.	AGSA Audit Report 2020-2021
AUDIT ACTION PLANS (INTERNAL AND EXTERNAL)	No Internal Audit Committee in the NLM	Poor oversight of the PAAP.	Existing function is at Dr RSM Shared Service Model	Internal Audit function being established by Administration. Council to establish Internal Audit Committee.	Work stream Presentation
	The Audit Action Plan has historically been compiled late due to late submission of AFS's. Results in ineffective implementation and monitoring. NLM received a disclaimer AG audit opinion for the FY2020/2021.	Sporadic and ineffective monitoring and implementation of the plan. Lack of Skills Transfer by AFS compilers due to poor contract management. No continuous engagement with AGSA after Audit;	Internal Capacity to implement and monitor the plan. Inadequate & Ineffective Financial Management System Audit Committee findings and recommendations not implemented.	Beefing up the current plan. Regular PAAP meeting (twice a month for the next 3 months). PAAP should be a standing item in Management Meeting, incorporate into Performance Agreements.	Audit Action Plan. AGSA Management Report – 22 Feb 2022 (pg.15)

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	The audit outcomes for 2020-2021 are stagnant & persistently adverse compared to the 5 financial years prior to the 2016 where the municipality received an unqualified audit opinion in one year and disclaimers in 4.	No consistency in communication with AG following the audit process. Internal Audit & Risk Management Committee reports not being implemented.	Poor capacity in the BTO. PAAP being developed too slowly.	Appointment of Internal Audit Unit Manager will assist with the situation. NT should assist with enrolment of the Municipality into the Online Web Enabled Audit Action Plan System.	AGSA Management Report 2022
	Management does not report quarterly to Mayor and council on the implementation progress of the approved audit action plan.	No reports being submitted to Mayor on a Quarterly Basis (Reports were requested and municipality indicated they were in place, but nothing was produced.)	Poor Records Management, Poor Internal Control Environment. Lack of capacity in the BTO	NT should assist with enrolment of the Municipality into the Online Web Enabled Audit Action Plan System.	Reports requested on multiple occasions, via email and in person. To date, no reports have been produced.
	Management updated the audit action plan for the 2020-2021 FY.	PAAP being developed too slowly.	Lack of capacity in the BTO, historically Internal Audit reports not implemented by management.	NT should assist with enrolment of the Municipality into the Online Web Enabled Audit Action Plan System.	AGSA Management Report 2022
RISK MANAGEMENT	Shared Service with District currently. NLM establishing own internal unit.	Deteriorating IGR relations between NLM & District. Financial implications of establishing unit	Tensions due to disputes arising from the Water Services SLA and Fire Services	Developing internal capacity. Unit should be established gradually over MTREF period to mitigate	NLM Corporate Services Presentation (Work Stream Workshop).

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	Chief Risk Officer not appointed. Function currently performed by Internal Audit Unit	may not propose value for money. Council has not approved risk management plan and strategy as they are only being developed in this financial year.	Inefficient coordination of IA services rendered to NLM. Lack of continuity management.	unnecessary financial obligations on NLM With the establishment of the IA Unit and Risk Management the following should be put in place: Establish a Risk Register. Risk Management Committee Risk Management Policy & Strategy Implementation.	Water Services SLA Appointment letter of CAE Letter by the MM to DR RSM severing IA ties
	The municipality does not have a business continuity plan in place currently.	Council has not approved risk management plan.	IA & Risk Management Unit only being established internally in this FY.	Appointment of IA & RM Unit Manager	NLM Corporate Services Presentation (Work Stream Workshop);
	Management did not submit quarterly reports on implementation of mitigating measures against identified risks to Risk Management Committee and Council	IA & RM Committee at District has been a shared service with NLM. The municipality does not have a Risk Management Committee as this was located at the District Municipality as a shared service.	IA & RM Committee Findings not implemented The current Internal Audit Manager doubles as a Chief Risk Officer of the Municipality for purposes of establishing the unit.	Establishment of IA&RM internally will assist to optimise the reporting process of the Management Team. IA&RM needs to be staffed adequately with capacitated officials.	Work Stream Presentation Corporate Services Annual Report 2020-2021
INFORMATION AND COMMUNICATION TECHNOLOGY	NLM has ICT strategy in place, but the function is facing challenges such as	Insufficient budget resource capacity to upgrade existing software.	Lack of planning and skills capacity in terms of the ICT unit.	Improve Asset Management Function	Annual Report 2021-2022 ICT Strategy

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	MS records being withheld by Telkom until new contract of 3 years is offered. This resulted in the municipal emails not functioning.	IT Security is an issue for the NLM.	Inadequate financial resources allocated for needed ICT due to poor cash flow. Inadequate Asset Management capacity and cash flow crisis.	Explore utilising Transversal Contracts to reduce the cost of ICT acquisition costs. Training of ICT staff in terms of ICT asset planning. Need to integrate MISS Circular on ICT security.	AFS 2020-2021

2.2.2 Institutional, Organisational & Human Resources Pillar

The following institutional, organizational, and human resource challenges are noted:

- **Operating Model:** Category B Municipality with a Mayoral collective System in place. Municipality renders its functions through departmental structures, namely Office of the Municipal Manager, Budget and Treasury Office, Corporate Services and Administration, Technical Services and Community Services and Housing and Human Settlement. The departments are headed by Directors.
- **Organisational Structure:** The structure of the Municipality is currently bloated. and thus, the head count needs to be reduced. The Organisational Structure was adopted in October 2021. The Municipality is exploring options on how to reduce the head count by firstly inviting those who are interested in taking voluntary severance packages and early retirement. This is still at an early stage as LLF is still to be consulted on these proposals. NLM has developed placement policy in 2018, however, the policy has not been implemented. NLM will be implementing the policy after the adoption of the new organisational structure.
- **Employee cost:** Structure is bloated with semiskilled & general workers. Huge and unaffordable salary bill. The salary bill is 43% of the total operating expenditure.
- **Skills Development and Competency Levels**: NLM has reviewed their skill development plan as part of the policy review to ensure that there is on-going skills development in the organisation.
- **Management of Overtime:** NLM adopted Overtime Policy as per resolution NR 709/2018 which is intended to regulate and restrict all over time worked by Council employees, such that it is reasonable and within the scope of work and budget. Although there is a policy on

regulating and managing overtime there has been a 57, 2% increase on overtime costs in 2021 financial year (2021: R3, 391,871. 2020: R1, 941,521).

- **Key Human Resources Policies:** NLM has reviewed all its policies during a strategic session held in May 2022. Reviews and Comments and tabling of various policies have been work shopped and tabled on various portfolio committees. The policies will be presented in the next council sitting for adoption.
- **Staff discipline and disciplinary board:** No Consequence Management being implemented. No Disciplinary Committee in place as the function is shared with District Municipality.
- **Human Resources Development Strategy:** Strategy developed but not yet approved by council for implementation.
- **Change Management:** Nothing has been done to date to ensure that measures are put in place dealing with Change Management.
- **Local Labour Forum (LLF):** Meetings with LLF were reported to be held regularly.
- **Performance Management:** NLM has adopted performance management system for all officials, however, the system has not been cascaded down to lower-level tear as the municipality does not have budget to implement at all levels. Currently, the NLM is implementing PMS for executive management.
- **Physical verification of staff and qualifications:** No physical verification of employees and their qualifications ever conducted.
- **Records Management:** Manual filing due to the collapse of records management system.
- **Third parties:** NLM still owes third parties, and it is currently working on a plan to reduce the debt and enter payment arrangements. The total amount owed to third parties is R 25 918 832, 07 per the 2020/2021 Audited Financial Statements. The following is a list of Third Parties Owed:
    - Municipal Workers Retirement Fund – R 3 184 243, 90.
    - Consolidated Retirement Fund – R 23 283 655, 88.
    - South African Local Authority Pension Fund (-R518 214 – 96).
    - Municipal Gratuity Fund – (-R 32 843 – 44).
    - Municipal Councillors Pension Fund - R 1 990 – 69.

The table below reflects on matters that have been noted under this segment and provides an analysis of the problems and possible solutions:

Table 7: Institutional, Organisational Human Resource Pillar Assessment

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
OPERATING MODEL	Category B Municipality with a Mayoral collective System in place. Municipality renders its functions through departmental structures, namely Office of the Municipal Manager, Budget and Treasury Office, Corporate Services and Administration, Technical Services and Community Services and Housing and Human Settlement. The departments are headed by Directors.	The importance of efficient distribution of services to local communities.	Effective & Efficient strategic management.	Alignment of the model with the strategic objectives of the Municipality's IDP, the Municipal Staff Regulations and Section 12 notice.	IDP 2022-2027
ORGANIZATIONAL STRUCTURE	The current organisational structure has been reviewed and adopted during October 2021. Not aligned to the powers and functions of the municipality. Vacancies & contracted services not informed by core functions of NLM.	Structure is bloated with general workers, contracts not aligned to functions.	Failure to meet targets and achieve goals and objectives as set in the IDP.	Ensure that the Organisational Structure is aligned to the Municipal Staff Regulations. Develop/Revise all job descriptions. Conduct Job evaluation. Development and implementation of the Placement Policy.	Northwest SA 24 Schedule (National Treasury) Staff reduction strategy, annual report 2020-2021 Cost Containment Policy.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
EMPLOYEE COST	Huge and unaffordable salary bill. The salary bill is 43% of the total operating expenditure.	Structure is bloated with semiskilled & general workers. Job Evaluation Process not done.	Lack of internal capacity to undertake the municipal functions.	Physical verification of employees required to ensure that there are no ghost workers. Perform a Salaries benchmarking exercise to ensure employees are paid based according to the correct grading. Review of Contracts for service providers/workers that can be internalized in a cost -effective manner in a bid to reduce the contracted services costs. Given the liquidity position of the Municipality, it will be wise for the Municipality to control its payroll budget but plan for the acquisition of skills in line with cash flow improvements.	AFS 2020/2021. Top Layer SD-BIP.
LABOUR RELATIONS	Local Labour Forum in place. Historically, the LLF was not functional.	LLF is dysfunctional. No Calendar of LLF meetings.	Lack of Sound Labour Relations.	Institutionalization of attendance of LLF meetings. Provide training for Organized Labour on local labour forum issues Enforce consequence management on non-attendance of members to the planned meetings. Conduct training on the Code of conduct to the members of the LLF and staff.	NLM 2018 FRP.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
				Develop a calendar of LLF activities and incorporate into the corporate calendar of council.	
SKILLS & COMPETENCIES	Sect 56 & 57 – competency assessments done. Work Skills Plan in place. Skills Audit Outstanding. Technical Skills sets lacking in key units like Tech Services & BTO.	Competency assessment of middle management & technical staff outstanding. Recognition of prior learning & tacit skills required. Work skills plans not linked to functions.	Lack of training. Lack of skills & competencies.	Conduct a skills audit using Department of Cooperative Governance Gap Skills tool. Conduct verification of qualifications of all the employees. Revise and Implement Workplace Skills Development Plan and align to the needs of the Municipality.	Annual Report 2021/2022 Work Skills Plan.
STAFF DISCIPLINE AND DISCIPLINARY BOARD	Staff discipline low. No register for disciplinary cases in place. No Disciplinary Committee in place as the function is shared with District Municipality. Most cases are brought against the Municipality by the employees or their unions for unfair labour practices or other reason	No Consequence Management being implemented. Disciplinary Board not in place. Absenteeism. Abuse of Overtime. Recovering Financial Losses not pursued. Delays in the conclusion of cases	Poor Internal Control Environment. Inadequate Management of Staff Attendance. Poor Management of Overtime. Inability to monitor referred cases to both the District Disciplinary Board and the external outsourced legal/disciplinary matters. Ineffective LLF. Lack of training of the Officials responsible for Disciplinary matters	Enforcement of internal controls. Regular review and enforcement overtime policy in line with the Basic Conditions of Employment Act. Establish a functioning Disciplinary Board as a Governance Structure within the Municipality Train Managers and supervisors as initiators and Presiding officers for internal Disciplinary matters. Utilisation of the SALGA database and other neighbouring Municipal staff on	AFS – GRAP 2021-2022. AG Management Report 2020/2021. Naledi Dispute Register 2021/2022. Naledi Dispute Register 2021/2022 Leave Policy. Overtime Policy.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
				the handling of internal disciplinary cases.	
PERFORMANCE MANAGEMENT	Performance Management Policy Framework last updated in 2013.	NLM is implementing PMS for executive management. NLM is still paying bonuses including Senior Management in the mist of crisis denoting poor Performance against the agreed KPI's (i.e., Financial Crisis, Disclaimer Opinion).	Lack of accountability Lack of Employee Engagement. Low Employee Self-Esteem Damage employee Relationships	Review, adopt, and implement the Performance Management System. Cascade performance management to all employees. Implement Moratorium on Performance Bonuses until FRP Successfully achieved.	AGSA Management Report February 2022 (Par. 34, pg. 6) Top layer SD-BIP
CONSEQUENCE MANAGEMENT	No Institutional Framework and consequence management policy adopted and implemented by the Municipality.	Lack of accountability and consequence management.	Poor internal controls. Poor Leadership Lack of Capacity General disrespect for financial legislation	Workshops to be arranged to communicate the Code of Conduct for staff and Councillors. Improve on monitoring of processes and all transgressions to be reported. Develop and implement the Consequence Management Framework/Policy.	AGSA Audit Report – 2022 (page 7).
KEY HR POLICIES	Policies drafted and due for council approval. Top key HR Policies – Leave Management Policy, Travel & Subsistence and Overtime Policy.	Outdated policies.	Poor Internal Controls. No Consequence Management. Non-Compliance with laws and regulations.	Institute Moratorium on issues such as Overtime, Leave Provision and Travel Claims. Review and update the Financial related HR Policies and others annually.	AGSA Management Report.
HR STRATEGY	Strategy developed and due for council approval.	Poor Human Resource Planning.	Lack of capacity	Review and implement the HR Plan.	Draft HR Strategy.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
			Lack of management vision		
PHYSICAL VERIFICATION OF STAFF AND QUALIFICATIONS	No physical verification of employees and their qualifications ever conducted.	Possible existence of employees unaccounted for ('ghost workers'). Incapacity and poor performance amongst middle management.	Poor and Inadequate Internal Control Environment. Lack of Consequence Management.	Conduct physical verification of employees (head count) and qualifications.	Annual Report 2021-22 (pg. 101)
RECORDS MANAGEMENT	Manual filing due to the collapse of records management system. Records Management Policy last updated in 2014. Records Control Schedule approved in 2020. File Plan last updated in 2013. PAIA Manual developed and adopted in 2015.	Absence of digital records management system. Material Irregularity finding by AG. Non-compliance with Minimum Security Standards.	Lack of funding for Digital Records Management system. Inadequate skills of the Unit. Poor internal control environment.	Review and update Records Management Policy. Review and update File Plan. Review and update PAIA Manual. Provide training to staff in the records management unit.	AGSA Management Report (page 15). Records Management Policy. Records Control Schedule. File Plan. PAIA Manual.
EMPLOYMENT EQUITY & TRANSFORMATION	The municipality has an employment equity plan in place.	No transformation plan or strategy in place.	Lack of continuity management because of historic instability.	Implement Transformation Plan informed by adopted Organisational Structure	HR Strategy

2.2.3 Financial Management Pillar

Include the following information:

- Summary of the 2022/23 MTREF Budget.
- The Municipality failed to comply with submission timelines of the tabled budget to Treasury as required by MFMA 22(b) (i).
- Municipality prepared a budget out of the financial system, not all budget tables are fully populated, and the narrations does not provide sufficient information to allow PT to comprehensively assess the budget.
- The municipality budgeted for highly inflated collection rate of 110% thereby inflating the cash balance of the municipality over the MTREF.
- Operating grants are overstated over the MTREF as allocations are not aligned to the DORA i.e., EPWP.
- Employees' basic salary projected growth is above the inflation, and it is not aligned to the guidelines provided on budget circulars.
- Employee related costs (Councillors' remuneration included) and contracted services ratios are above the norms set out in circular 71 which indicates misdirection of funds to non-service delivery services like salaries and consultants.
- The Municipality tabled a budget with an operating deficit of R87.7 million for 2022/23 financial year. This indicates that the Municipality is not generating enough revenue to meet its demands

Analysis on the Funding Status of the Budget

Table 8: Analysis on the Funding Status of the Budget

2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23
Tabled budget	Adopted budget	Tabled budget	Adopted budget	Tabled budget	Adopted budget	Tabled budget	Adopted budget
Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded
Deficit	R201m		R478m		R629m		R 883,1m

- ***Observations:*** *Due to misstatements on the cash flow and statement of financial position, the projected surplus on Table A8 is not credible and it does not reflect an accurate financial position of the Municipality. For 2022/23 financial year the cash flow balance is overstated by R904.9 million. This is an indication that the budget was prepared outside the financial system.*
- **Treasury Calculations**
  - Other working capital requirements of R226 million was understated by R415 million. Unspent grants of R2.1 million, statutory requirements of R25.2 million and other provisions of R3.3 million were all omitted.
  - After taking into consideration the above information, Provincial Treasury concludes that the municipality has a shortfall of R883 million. The municipality's budget is therefore unfunded and unsustainable over the MTREF.
  - ***Summary of Operating Revenue Budget: Analysis, key findings, and recommendations:***
    - **Property Rates**[2]

      Revenue anticipated from property rates for 2022/23 is R51.4 million which is a decrease of 25.5% from 2021/22 financial year. Based on the past performance and tariff increase, the item seems to be understated. The municipality did not indicate any issues with the category rating that justifies the decline. Furthermore, the Rates policy show categories that are not aligned to the rating tariffs in the tariff schedule which adversely impacts on the anticipated revenue of property rates.

    - **Service Charges**

      Electricity and water revenue projected an increase of 17.2% and 18.2% respectively from the adjustment budget of 2021/22 financial year. The huge increase, result from the cost of FBS[3] that is erroneously captured as a debit amount, instead of a credit amount thus overstating the revenue. This will negatively affect the collection rate and needs to be corrected. The two outer years increase are in line with NERSA approved increase and CPI increase.[4]

- **Fines:** The municipality has budgeted R 4, 7 million for fines which are in line the current collection on fines.

[2] Note: Misalignment with Valuation Roll and Tariffs on the System. Need to recon.
[3] Note: Indigent Roll understated.
[4] Note: Tariffs are not cost effective - cost of providing the services is above revenue. NT need to assist with implementing cost effective model.

- **Reliance on Grant funding**
- The grants account for 78% of the total capital budget while internally generated funds are at 22%. This indicates that the municipality relies on grants to provide services to the community. All capital grants are aligned to DORA allocations.
- **Revenue Improvement**
    - The municipality developed budget funding plan, but the plan did not yield the required results as it seems like it has mainly been utilised by the BTO and not the municipality as a whole.
    - The municipality indicated on its budget funding plan, that it is implementing revenue enhancement incentive from April 2021 to March 2022.
- **Conclusion: Overall State of Finance:** The municipality is in dire financial constraints as it cannot meet its financial obligations as and when they fall due. The situation is deteriorating further due to the low collection rate coupled with aging infrastructure which are minimum requirements in providing revenue generating services to local communities.

Table 9: Financial Management Pillar Assessment

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
FUNDED BUDGET STATUS	**Municipal budget has been unfunded for the past five consecutive years.** Under budgeting on the following critical items: service charges, interest	1. Low collection rate. 1. Two main cost drivers of the municipality, i.e., Salaries and Bulk purchases (Electricity) In 2020/21 employee costs	1. Historical lack of proper implementation of the debt collection and credit control policy. 2. Aging infrastructure.	The municipality must implement credible and sustainable budget funding plan, which must be adopted by council during adoption of final MTREF budget.	Municipal Budget and PT Budget Analysis MTREF Budget 2022/2023

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	income and property rates revenue. Unrealistic monthly cash flow projections. The municipality over inflated their collection rate at 110%, thus inflating the cash balance of the municipality over the MTREF.	were 48% of the operating expenditure and is budgeted at 50% for 2022/23. 2. Over consumption by indigents. 3. There are 5627 registered indigents. The Indigent Policy for 2021/22 provides for a monthly subsidy of R3500 per indigent. However, some indigents consume more than the subsidy and are unable to 4. Lack of proper implementation of the budget funding plan. 5. Financial system problems. (Property rate vs	3. Unfunded mandates (Allocation from the DM to the municipality for executive its water function.) 4. Continuity Management Issue 5. Poor collection rate coupled with limited metering capacity. 6. Inefficient financial system.	Install smart meters across the municipal area. Procure new financial system through transversal contract.	

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
		valuation roll). The municipality has rezoning challenges. 6. High electricity distribution losses. The municipality recorded distribution losses of 15% in 2019/20 and 17% in 2020/21			
BUDGET RELATED POLICIES (FINANCE AND HUMAN RESOURCES)	Although the budget related policies are reviewed annually, there are some discrepancies within the policies	• Indigent policy: The capacity of the municipality to register indigent customers. • Credit control policy: -Lack of revenue enhancement strategies. • No procedures and controls on opening and closing of accounts. • Property Rates:	Unreliable Indigent database, not aligned to Treasury guidelines. Not creating and implementing new incentive programmes and new revenue enhancement strategies. No technical SD-BIP to serve as a baseline for the	-Annual verification of the indigent register. - Review of the policy. Review and Updating of the indigent database.	Municipal reviewed policies. (Asset Management, Indigent, Cash Management, Conditional Grants, Cost Containment, Tariff Policy etc.) Annual Budget 2022-2023 MTEF

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
		Misalignment with SCM Policy.	functions of the municipality.		
REVENUE MANAGEMENT VALUE CHAIN/ REVENUE RAISING MEASURES	**Lack of integration of different roles and functions within the revenue value chain.** Under budgeting on critical revenue items, like service charges, interest income and property rates revenue when comparing A Schedule trends.	**Billing-** Inaccurate billing system. **Customers Care-** Long turnaround time, which impact negatively on the debtor's book. **Collection and payment-monthly bank reconciliation not performed timeously.** **Clearances-** Delays in the issuing of clearance certificate which also impact on the revenue of the municipality. **Credit Control-** no measures in place to curb over consumption by Indigents. Slow turnaround time for the payment of invoices for goods and services required by the technical services	1. Ineffective Billing system. 2. No synergy on the revenue value chain of the municipality. 3. VALUATION ROLL & Financial System misaligned resulting in loss of revenue. 4. Inefficient financial management system. Municipal cash flow is highly constrained and in the absence of greater revenue generation the status quo will remain. Accurate billing system not in place	1. Financial to correct the municipal billing information to be procured. 2. Introduction of Incentives like interest reduction on full settlement of accounts. 3. Annual verification of the indigent register to check validity. (TransUnion etc.) 4. Ward specific reports on payment (billing vs payment) monitoring by Councillors. Will improve collection in problematic areas. 5. Payment awareness campaigns	NT Revenue Value Chain Model Indigent Policy (refer to NLM DOC029) Credit Control Policy (Refer to NLM DOC030) Work stream – NLM Finance Presentation (refer to NLM DOC031)

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
		department has shown marginal improvement. Technical services still not receiving adequate budget resources to perform core functions (PMU). Technical Services under-performing on the budget spending (Capital Expenditure	coupled with insufficient resources to purchase smart meters rollout. Lack of planning and the absence of the technical SD-BIP.	6. Aggressive pursuit of Cost containment and Revenue generation strategy.	Mid-term Report
CUSTOMER CARE AND DATA ACCURACY	The municipality does not have a clear customer care policy and by-law. The current financial system is ineffective. The Debt Collection and Credit Control Policy is silent on customer care issues.	1. Long turn-around time on customer queries. 2. Lack of regular update of customer data/information. 3. Inaccurate Billing Statements leading disputes by customers.	1. Deficiencies on the financial management system. 2. Lack of Internal controls on updating customer data/information. 3. Lack of Customer Care Policy	1. Develop customer care policy and by-law that will be work shopped to all BTO officials. 2. Designated officials within the BTO to update customer data/information on regular basis. 3. New Financial System to be procured this year.	Reviewed Debt Collection and Credit Control Policy. Annual Budget 2022-2023 Work Stream Finance Presentation
COST-REFLECTIVE TARIFFS	The municipality is operating all its	1. Lack of cost reflective tariffs, which contributes	Tariff structure is not cost reflective.	1. The municipality must develop cost reflective	Municipal Tariff Structure.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	trading services at a loss.	to the 2022/23 MTREF budget being unfunded. 2. Serious cash flow constraints due to tariffs not being cost reflective.	Aging infrastructure. High Electricity distribution losses. Financial System not effective.	tariffs using the National Treasury model. 2. The municipality need to allocate sufficient budget towards maintenance budget.	2022/23 MTREF Budget Work-Stream Technical Services Presentation
INDIGENT MANAGEMENT	The municipality has an Indigent register and a reviewed Indigent Policy. The municipality has no control over consumption of services by Indigents in terms of limiting consumption to free monthly allocation.	• Indigent register significantly understated. • The municipality is losing a portion of equitable share contribution due to under stating the actual Indigent figures.	Regular update of the Indigent Register. Distribution losses.	• Implement restrictions on over consumption by Indigents to National Policy limits. • Need to aggressively begin registering indigents; Task Team to administrate indigents being established.	Municipal Indigent register. Work stream meetings – Finance Presentation
SUPPLY CHAIN MANAGEMENT COMPLIANCE AND VALUE FOR MONEY PROCUREMENT	The SCM Unit has shown poor capacity to adhere to the cost containment policy. Procurement Planning and Accurate Budgeting is Poor	Non-compliance with SCM Regulations. Late Payment of Suppliers. Quotations accepted from non-compliant bidders.	Poor skills levels in SCM Unit. Inadequate Internal Control Environment. Lack of Consequence Management.	Council to Review and update Systems of Delegation. Skills Audit & Training Plan for SCM Officials by NT.	Municipal SCM Policy AGSA Management Report – February 2022

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
		Deviations were approved even where bidding was possible. Contracts extended & modified without approval.	Non adherence to Procurement Plan Outdated Systems of Delegation coupled with ineffective Contract Management	MPAC to be more hands on in terms of investigating financial misconduct matters.	
COST CONTAINMENT AND REALISTIC CASH FLOW MANAGEMENT	Policy Aligned with NT Regulations however implementation is poor.	The policy is in line with the National Treasury Regulation No Consequence Management. Absenteeism Abuse of Overtime Abuse of Leave Policy Excessive Claims Referral of Cases to Disciplinary Board Recovering Financial Losses not Done	Lack of internal controls on monitoring of the policy through issuing of Memo's so that all municipal officials are aware to the policy threshold.	Monitoring of effective implementation of the policy. Capping of Overtime instituted by Council Travel & Claims capped. Link Consequence Management Functions to Middle Manager Performance Agreements Revision of Leave Management Policy;	Municipal Cost Containment Policy AFS – GRAP 2021-2022
FINANCIAL CONTROL ENVIRONMENT	Ineffective financial control environment.	Lack of capacity and skills in BTO	Non-implementation of PAAP.	New Financial Management System to be procured.	Work stream – NLM Finance Presentation

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
		Non implementation of Internal Audit & Committee Recommendations	Poor skills & capacity in BTO – particularly on Standard Operating Procedures. Dysfunctional Financial Management System	BTO Skills Audit & Training Plan.	2022/23 Annual Budget AGSA – Management Report
DEBT RESTRUCTURING	Assess Contractual Relationship from the onset Current interest accruing on debts unaffordable for the municipality. Operating revenue from both internally generated sources to grant allocations too low to finance existing debt levels.	Usage of Electrical Infrastructure – quantify how much is owed to the municipality by Eskom. Conflicting figures on the true extent and nature of the financial crisis led to the AG disclaiming the financial situation of the municipality.	Municipality technically insolvent. Own revenue generating capacity materially flawed due to poor capacity to purchase and roll out metering.	Develop – Debt Repayment 90 Day Moratorium application per Section 153 (1) (a) of the MFMA needs to be done. Potential non-core assets need to be identified and valuated for the purposes of liquidation as contemplated under Sectoin155 of the MFMA. Section 155 termination of financial obligations and settlement of	AFS – 2021/22

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
				claims needs to be considered. Establish the true extent of the crisis and the credibility of the source documents.	
CREDITOR MANAGEMENT	The municipality is unable to pay its creditors including third parties due to the current financial crisis it is experiencing	Creditor Repayment period in excess of 30 days. Adverse effect on cash flow as goods procured often unbudgeted. Non-compliance with regulations causing adverse Audit Findings	Line Function Departments Procuring on their own, contravening SCM Regulations Skills Set and Capacity of SCM Unit Ineffective Internal Control Environment	All procurement to be centralized in SCM, per regulations. All line function departments to submit requests for services to SCM & SCM to source Suppliers.	Municipal age creditor's analysis.
GRANT MANAGEMENT	The municipality is highly depended on grants as it is not collecting revenue and the debtors' book is increasing.	The municipality is reverting conditional grants money to the National fiscus on year basis, and this hampers service delivery as the municipality is grant dependent.	1. Lack of proper planning. 1. Adherence to the procurement plan of the municipality.	Bid committees must sit regularly to ensure that tenders are awarded in line with the procurement plan.	2021 AFS and 2022/23 MTREF Budget.
mSCOA IMPLEMENTATION	The municipality is not utilising all	Municipal officials need to be trained on	Financial system deficiency and	Engage system vendor.	Section 71 Report.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	mSCOA modules (Inventory and Asset Management module) Non-compliance with section 71 of the MFMA.	all modules on the system so that they can all be utilised.	integration of all modules to the main financial system. Skills set of BTO Staff.	Develop detailed mSCOA road map for implementation.	AG Management Report
FINANCIAL REPORTING	The municipality is submitting legislated reports late.	Late submission of legislated reports. (E.g., Section 71 reports (M1-M11 were submitted late) Draft budget was submitted late, SDBIP is not loaded on the Go-Muni portal	Financial system deficiency as well as training of BTO official.	Engage with system vendor. Train BTO officials.	Go-Muni reports.
PREPARATION OF AFS	2020/21 AFS were submitted late on the 26 February 2021	Skills shortage within the BTO	Over reliance on consultants as well lack of effective monitoring and implementation of the Audit Action Plan.	Internal skills transfer by consultants who are compiling the AFS.	AGSA Management report.
FINANCE/ TECHNICAL INTERFACE	The relationship has improved since the permanent appointment of department heads.	Slow turnaround time for the payment of invoices for goods and services required by the technical services department has	Municipal cash flow is highly constrained and in the absence of greater revenue generation the status quo will remain.	Aggressive pursuit of Cost containment and Revenue generation strategy.	Mid-term Service Delivery Performance Report.

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	Billing and Metering remain single biggest challenge. District not performing its function as Water Service Authority – not upgrading and maintaining infrastructure. Leading to irregular expenditure.	shown marginal improvement. Technical services still not receiving adequate budget resources to perform core functions (PMU). Technical Services under-performing on the budget spending (Capital Expenditure).	Accurate billing system not in place coupled with insufficient resources to purchase smart meters rollout. Lack of planning and the absence of the technical SD-BIP.	Alignment of budget and IDP. Development of technical SD-BIP.	Top-Layer SD-BIP.
UIF&W AND CONSEQUENCE MANAGEMENT	Fruitless and Wasteful Expenditure: Unauthorised Expenditure: Irregular Expenditure: R111 815 159-00 UIF&W Policy Not in place. UIF & W Reduction Framework recently adopted.	Poor implementation of the framework. Adverse audit findings. Poor monitoring of performance appraisals of Senior Management by Council. Ineffective PMS. NLM is overspending on budget	Possible abuse of SCM system;' Failure to investigate UIF&W expenditure by MM. Inadequate & Ineffective Financial Management System. Non-implementation of Internal Audit finding. Non adherence to treasury regulations	Enforcement of Consequence Management. Review of Systems of Delegation. Monitoring & Evaluation through incorporating KPI's into Performance Agreements of all affected officials. Develop and approve a policy dealing with irregular, unauthorised, fruitless and wasteful expenditure.	AGSA Management Report Feb 2022 (pg. 17-18). AGSA Management Report Par. 64 MPAC Oversight Report UIF&W expenditure Reduction Framework

FOCUS AREA	BRIEF DIAGNOSTIC ANALYSIS	PROBLEM/ KEY ISSUES	ROOT CAUSES	STRATEGY TO SOLVE	SOURCE OF INFORMATION
	No Disciplinary Matters in the entire NLM (Disregarding AG Findings for disciplinary actions to be initiated)	Non-compliance with SCM process and legislation	directing the treatment of UIF&W expenditure.	Council to investigate all reported cases of financial misconduct against officials Monitor and Report on a regular basis on the implementation of the UIF&W expenditure Reduction Plan	

UIF&W Movements

Table 10: UIF&W Movements (3 past Financial Years)

Description	FY: 17/18			
	O/B	Financial Year Movement	Written Off	Closing Balance
Unauthorised Expenditure	53 457 133	19 178 365		72 635 498
Irregular Expenditure	111 640 711	20 159 190		131 799 901
Fruitless and Wasteful Expenditure	4 098 301	1 748 047		5 846 348

Description	FY 18/19			
	O/B	Financial Year Movement	Written Off	Closing Balance
Unauthorised Expenditure	91 726 429	4 123 020		95 849 449
Irregular Expenditure	130 053 803	12 447 097		142 500 900

Fruitless and Wasteful Expenditure	5 846 348	791 854		6 638 202

Description	FY 19/20			
	O/B	Financial Year Movement	Written Off	Closing Balance
Unauthorised Expenditure	95 849 449	11 525 347	86 271 046	21 103 750
Irregular Expenditure	142 500 900	17 958 489	48644230	111 815 159
Fruitless and Wasteful Expenditure	6 638 202	2 027 907	6 010 739	2 655 370

Deviations	**5 336 055**

Cost Reflective Tariffs

NW392

NW392 Naledi - Table A2 Budgeted Financial Performance (revenue (A4) and expenditure (A2))

Functional Classification Description	2018/19	2019/20	2020/21	Current year 2021/22			2022/23 Medium Term Revenue & Expenditure		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2022/23	Budget Year 2023/24	Budget Year 2024/25
Energy sources	(31 922)	(5 593)	(9 333)	(8 357)	(8 357)	(8 357)	(10 001)	(10 748)	(11 551)
Water management	16 415	(6 400)	(8 457)	(8 981)	(8 981)	(8 981)	(8 895)	(9 287)	(9 704)
Waste water management	18 911	(4 636)	(6 287)	(6 106)	(6 106)	(6 106)	(6 615)	(6 906)	(7 217)
Waste management	7 468	(6 043)	(7 300)	(7 146)	(7 146)	(7 146)	(7 386)	(7 711)	(8 058)
Total	**10 872**	**(22 673)**	**(31 377)**	**(30 591)**	**(30 591)**	**(30 591)**	**(32 897)**	**(34 652)**	**(36 530)**

Analysis of key Financial Ratios

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
Asset Management Utilization			
Capital Expenditure to Total Expenditure – indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services. **The norm is 10% - 20%.**	3%	6%	The ratio shows that the municipality is not investing enough on its capital infrastructure this might impose potential risks to service delivery.
Repairs and Maintenance to Property, Plant and Equipment and Investment Property – measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to services delivery. **The norm is 8%.**	0%	0%	The outcome of the ratio shows that the municipality is not prioritizing budgeting for repairs and maintains and this could jeopardize the safe guarding of assets as well its lifespan. When assessing the 2022/23 MTREF budget that the municipality is going to implement, R25, 5 million or 80% of its capital budget is directed towards new assets and only 20% towards upgrading of the current existing roads infrastructure. The municipality has to improve budgeting towards maintains of the existing infrastructure in order to avoid service delivery interruptions as well as shorting the lifespan of its new infrastructure assets.
Debtors Management			
Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit. **The norm is 95%.**	73%	82%	Municipal collection rate is below the norm of 95% collection rate. This is a clear indication that the debtor's book of the municipality is overstated by irrecoverable debt.

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
Bad Debts Written-off as % of the Bad Debt Provision **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.** **The norm is 100%.**	0%	0%	The municipal norm is at 0% for both financial years, which is an indication that the municipality did not write-off 100% of the bad debt provision. The debtor's book is therefore overstated by irrecoverable debt.
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. **The norm is 30 days.**	605 days	203 days	The ratios depict the inability of the municipality to efficiently collect it outstanding debtors. When comparing the ratios for the two financial year it looks like the number of collection day is decreasing, however the 2021 AFS disclosed and increased amount on provision, hence the decrease when compared to the 2020 AFS.
Liquidity Management			
Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants) **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.**	1 Month	1 Month	The ratio above shows that the municipality will be able to meet its obligations to provide basic services or its financial commitment in event of any financial "shocks/set-backs" for only one month. However, when analysing the debtors' book of the municipality, is clear that the municipality will not have cash for 1 month in absence of government grants as debt collection is very low and impedes on the cash flow of the municipality.

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
The norm is 1-3 months			
Current Ratio - this ratio indicates the extent to which current **assets** can be used to settle short-term liabilities. If current assets do not exceed current liabilities, it means a liquidity problem i.e., insufficient cash to meet financial obligations. **The norm is 1.5 - 2:1.**	0.22	0.27	The ratio above at 0.27, shows that the municipality's current liabilities exceed current assets, and it highlights serious financial challenges and likely liquidity problems *i.e.* insufficient cash to meet short-term financial obligations.
Liability Management			
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure - indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure. **The norm is 6% - 8%**	5%	6	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
Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue. The purpose of the ratio is to provide assurance that sufficient revenue will	0%	3%	The ratio shows a favourable 3%, which well within the norm, however when assessing the cash flow of the municipality against the municipal commitment and its ability to settle the current DBSA loan it is clear that the municipality is not in a position to take up any addition loans currently.

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings. **The norm is 45%.**			
Efficiency			
Net Operating Surplus Margin – measures the net surplus or deficit as a percentage of revenue. **The norm is > 0%**	-28%	-7%	The ration shows the inability of the municipality to generate operating surpluses at the current collection vs expenditure.
Distribution Losses			
Electricity Distribution Losses (%) The purpose is to measure the percentage loss of potential revenue from Electricity Services through electricity units purchased and generated but not sold because of losses incurred. **The norm is 7% - 10%**	15%	17%	The ratio is way above the acceptable norm at 17%. Electricity revenue is one of the critical cash generating source if appropriately managed. The ratio might indicate serious lack of electricity infrastructure maintenance.
Water Distribution Losses (Percentage) The purpose of this ratio is to	N/A	N/A	The District Municipality is the Water Service Authority.

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
determine the percentage loss of potential revenue from water service through kilolitres of water purchased but not sold because of losses. **The norm is 15% - 30%.**			
Revenue Management			
Revenue Growth (%) – measures the growth in revenue year on year. The norm is at the rate of CPI	1%	10%	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. The municipality is operating all its trading services at a loss. This is mainly due to high distribution losses, low collection rate, tariffs that are not cost reflective as well as aging infrastructure.
Revenue Growth(%) - Excluding Capital Grants Measures the growth in revenue excluding capital grants year on year. **The norm is > 5%.**	0%	10%	The municipal revenue base is very limited and as a result the municipality is highly dependent on government grants.
Expenditure Management			
Creditors Payment Period This ratio indicates the average number of days taken for trade creditors to be paid.	1427 days	1354 days	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

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Mgmt. Plan - Fleet Management Plan - Roads and Stormwater Plan - Integrated Transport Plan -Integrated Waste Management Plan				
Capital and Grant Funded Projects	There is underspending on capital projects because of administrative challenges. An investigation is underway by the Municipality for alleged misconduct of INEP grant funds and is due to be complete by August 2022 (no dates or signature on the plan submitted Notification of intention to withhold Equitable Share and other grants was issued by Treasury as a result of persistent non-compliance with legislation	Underspending on capital projects No procurement committees appointed to be responsible for MIG approved projects Persistent non-compliance with legislation	Political instability and regular changes in management and accounting officers has resulted in delays in processing payment and delays in appointment of Service Providers. Lack of planning Lack of capacity in the Municipality to appoint sound procurement committees Lack of monitoring by management of project management and grant management for compliance with legislation	Creation of conducive environment to promote stability in Senior management including the accounting officer. Rollover budget to implement 2021/2022 projects that could not be implemented. Appointment of procurement committees to be responsible for MIG approved projects. Conduct capacity building on committee members Improve performance of the project management unit and grant management. Intensify monitoring of compliance to legislation by management	Workstream Presentation Disciplinary Plan – Riol Substation Treasury Notification of Intention to withhold grants
Asset Management	The municipality has water meters that are old, damaged and not readable. The municipality has no approved Asset Management Policy. Inability to supply and install meter in all households	Some households are either unmetered or have old and unreadable meters leading to loss of revenue and poor service delivery Poor asset management practices Reliance on	Lack of asset management administration by not repairing and/or replacing old meters timeously. Lack of funds to procure new meters. Lack of maintenance plan.	Development and implementation of maintenance plan. Conduct repairs and maintenance on meters a s and when necessary and replace old non-functional meters	AG Management report Draft Annual Report 2020/21. Pg. 20

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of information
	The municipality is in shortage of maintenance equipment which make it more challenging to maintain water and electricity infrastructure. Lack of monitoring and proper record keeping on properties Lack of monitoring and proper record keeping on properties	customers to purchase and read own meters. The municipality is in shortage of maintenance equipment which make it more challenging to maintain water and electricity infrastructure. Building projects reported as completed could not be identified during physical verification Some properties (land, buildings and infrastructure) reported as owned/assets could not be verified	Lack of implementation of approved asset management policy Lack of funds to invest in infrastructure Poor asset management practices and lack of funds Inadequate monitoring of work in progress Poor records management	Approval and implementation of Asset Management Policy Improve cashflow management to buy meters. Have regular meter audits Prioritisation of acquisition of repairs and maintenance equipment Improve monitoring of projects in progress Improve controls over immovable assets	
Loss control water	It was noted that the bulk of water losses occur during distribution of water as a result of infrastructure challenges. Water loss due to outdated pipes and damaged water meters	Losses are not recorded therefore it becomes difficult to quantify in order to find cost saving solutions The municipality is not quantifying water losses Cracking of old asbestos pipeline and absorption of water. Some of the water meters are damaged making it difficult to monitor consumption as well as water losses	Failure by management to implement adequate controls for tracing, tracking and monitoring losses bulk meters at outlet points are not operational due to ageing infrastructure. There is no official responsible for bulk water meter reading at outlet points Failure to replace outdated asbestos pipelines.	Implement systems and controls to identify and measure water losses. Maintenance of meters and replace damaged ones Appoint personnel dedicated to maintenance of meters. Replace old asbestos pipeline with PVC pipes Prioritising areas with the highest occurrence of leakage or breaking of pipes for repairs in the short term	Management Report Workstream presentation

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
			There is no maintenance plan in terms of calibrating and replacing damaged meters.	Develop and implement a maintenance that includes calibrating and replacing damaged water meters.	
	No customer care plan and call center	There is no approved customer care plan and call centre, each department handles their own queries	Lack of responsibility and accountability to ensure a customer care plan is in place to assist with service delivery and administrative queries	Develop customer care plan setting out conduct that increases service delivery efficiency. Institute call centre to track queries that are submitted to different departments	
Loss control - electricity	The municipality is licensed to provide electricity at Lichtenburg, Blydeville and Coligny. The remainder of electricity is provided by Eskom. The total electricity infrastructure for Lichtenburg and Coligny areas need urgent upgrading as it experiences maximum demand problem. The municipality is facing a challenge of burning of cables, circuit breakers, transformers and switch gears due to overloading The municipality is facing Illegal connections, faulty meters resulting in high consumption making it a challenge to bill customers.	Electricity overload Inability to bill some customers.	Ageing infrastructure and the increasing population resulting in infrastructure being overloaded. Poor maintenance of electricity infrastructure. Inadequate infrastructure to service the whole community. Old and damaged meters. Use of fake electricity coupons by the community.	Upgrading of electrical network Use of circuit breakers Procurement of smart meters to alleviate illegal bridging of meters. Procurement of smart meters to alleviate illegal bridging of meters. Improved billing system and control. Regular meter audits. The municipality must divide the municipality into regions/zones/wards based on the area identified with the highest losses and do audits.	Workstream presentation Annual Report

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
Bulk Meters	The Municipality has old and insufficient Bulk meters causing water and electricity losses.	The municipality is unable to account for the amount of water it purchases. Bulk meters in the outlet points of the network have aged and already dysfunctional.	Lack of maintenance	Installation of bulk meters The municipality must conduct a monthly water balance to confirm its water use.	Work stream Consultations
Non-technical losses due to meter tampering, illegal connections	Electricity and water losses due to illegal connections. Electricity and water losses due to by-passed connections.	Management of prepaid electricity is completely outsourced to a service provider. There is minimal monitoring from the side of the municipality.	Lack of skills capacity. Inadequate fleet for the technical department.	Utilize meter readers to undertake inspections monthly. Acquire sufficient and reliable fleet for the technical department.	Workstream Meetings IDP Annual Report 2021-2022
Unmetered consumption	No installed Meters in some of areas	Non-installation of meters in many areas.	Lack of funding for smart metering.	Improved Credit Control (register consumers)	Workstream Meetings IDP Annual Report 2021-2022
Need for meter audits and 'SMART' technologies	No information was provided on whether audits are performed or not	DLM is losing revenue due to unreachability of meters in certain areas.	Poor planning Unskilled personnel.	Review and revise the plans to implement smart technologies. Conduct meter audits.	Work stream presentation. Annual Report 2021/2022
Performance Management	Challenges in accurately measuring and reporting performance in service delivery. The municipality does not adequately use Rural Road Asset Management reports, the municipal asset register which contain conditional assessment of its equipment in order to adequately plan using limited resources	Municipality does not accurately measure and report performance resulting in challenges in identifying problems being encountered. Inability to provide efficient services to the society as mandated	Lack of effective controls and processes that enforce proper performance management. Lack of an Integrated Infrastructure Delivery Management System Lack of standard operating procedures. Failure to identify technical challenges including conditional assessment of assets early enough to avoid disrupting	Training in performance management and its importance Enforce effective performance management policies Make use of the Rural Road Asset Management reports and effectively plan repair and maintenance based on conditional assessments	AG Management Report Financial Plan AFS 2020/21 Draft Annual Report 2020/21. Pg. 20

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
			service delivery		
Revenue Improvement	The municipality has no Wayleave policy and related rates and tariffs resulting in vandalism by contractors. Revenue Overall collection rate has been very low and for 2020/21 financial year was 46%. Collection rate for service charges for 2020/21 was 48% and is also well below optimal level.	Contractors accessing municipal property and digging streets are unregulated. Contractors are not paying the municipality for damages.	Lack of Wayleave policy and regulations and its implementation Lack of implementation of Wayleave policy and imposition of rates and tariffs	Establish and enforce Wayleave policy Development and implementation of Wayleave policy and imposition of rates and tariffs \	Workstream presentation Draft Annual Report 2020/21. Pg. 87 Adjusted Financial Plan. Pg. 13
Waste and Refuse Removal	-Collection of waste both domestic and industrial is done on a weekly basis. - The situation in Itsoseng is receiving attention as waste has been collected by a private contractor on a month to month basis. -Some of the landfill sites have to be closed as they are not permitted. -Illegal dumping remains a challenge. -The municipality also has to extend the service to rural areas as such several innovations are being explored. -The municipality has four landfill sites, Zero transfer stations, Zero material recovery facilities. -Unlicensed landfill sites -Landfill sites useful lives not monitored -Inadequate equipment to service waste removal Dysfunctional landfill	-The landfill site is not properly secured and safeguarded. -There is ease of access by the public to the sites to high value equipment Three land fill sites (Itsoseng, Tlhabologang & Beisievlei) are not functional as they were issued with waste management licences for closure and rehabilitation Coligny and Lichtenburg landfill has not been maintained properly and both are compliant with regulations for landfill sites Failure to finalise, approve and implement By-laws	Lack of access controls and poor landfill management. Lack of fencing in both landfill sites attributes to free access to the landfill sites and equipment such as dozers going to dump in the landfills Lack of follow through on compliance with laws and regulations by management Poor asset management practices Lack of specialized waste management vehicles in addition to poor turnaround times from the Municipal workshop to repair broken vehicles.	Implement access controls such as fencing the landfill sites. Obtain funding from capital grant for landfill management. Put measures in place to comply with the licence requirements and apply for a licence. Proper implementation of asset management principles. Engaging services of experts to determine the landfill useful lives. Purchase of specialised refuse removal trucks to increase capacity. Regular maintenance of existing vehicles to reduce the frequency of breakdown. Improve workshop capacity and turnaround times	Workstream Presentation Integrated waste management plan Draft Annual Report 2020/21

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	sites			Prioritise funds to the rehabilitation of dysfunctional landfill sites	
	Failure to properly maintain landfill sites		Lack of funding to rehabilitate the dysfunctional landfill sites as well as purchasing additional required vehicles and also to develop transfer stations and recovery facilities	Purchase of waste management vehicles. Recommissioning and improving the capacity and efficient running of transfer stations and recovery facilities	
			Lack of specialized waste management vehicles, transfer stations and recovery facilities	Finalisation, approval and implementation of By -laws.	
			Lack of follow through on finalisation, approval and implementation of By -laws.		
Planning and Building Control	Assessment of Town planning applications in progress and liaison with the Department of Human settlements for housing development and township establishment	One township establishment with objections (Itekeng 3)	Delays from service providers appointed by the Department in finalising townships establishment	Constant emails and telephonic follow ups on progress made by appointed service providers	Workstream Presentation IDP Review 2022 Draft Annual Report 2020/21
	No connection to bulk services	One township establishment with pending EIA (Itekeng 2) Blydevile Ext 4 township finalised with no connection to bulk services therefore allocations cannot start	Lack of follow through with the District on connection to bulk services	Continuous engagement with the District regarding Blydeville Ext 4 bulk supply connections	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	There are challenges with identifying land for housing development and human settlement Illegal land uses and buildings Insufficient building inspections	Limited housing and land development The compliance with bylaws is not monitored and enforced. Unlawful land uses and illegal buildings Resistance to the issue of contraventions notices Regular building inspections are not conducted	Challenges in identification of municipal land Communities lacking knowledge on building control procedures. Building control By-laws at draft stage therefore cannot be enforced. Unavailability of transport for inspectors to carry out building inspections Poor planning and scheduling of site inspections	Land acquisition processes through Housing Development Agency Public awareness on procedures and processes on building control Training inspectors ensure they have people skills Strengthen IGR capacity Peacemaker training and accreditation for easy issuing of contraventions related to land use and illegal building Inspectors must schedule monthly visits and book vehicles in advance with fleet department.	
Fleet Management	Municipality currently does not have a fleet management policy in place	No fleet management policy	Lack of administrative oversight to ensure that approved policies are in place	Fleet management policy must be drafted and approved by Council	Workstream Presentation Draft Annual Report 2020/21

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	The municipality is currently struggling to collect refuse because of an inappropriate fleet, and this also presents Occupational Health and Safety Hazards to the employees within the refuse collection section. Most vehicles are very old (20-30 years) There are currently 145 licensed vehicles with 64 functional vehicles and 81 trailers (for loading equipment) Inadequacy of vehicles for efficient service delivery.	Inadequate number of refuse vehicles to efficiently service the community Increasing costs makes it a challenge to operate efficiently We could not establish the number of vehicles to ensure efficient service delivery as information could not be provided.	Lack of funding to invest in vehicles and fleet maintenance. Ageing vehicles causing an increase in repairs and maintenance Lack of maintaining proper records and asset management principles	The municipality needs to develop a fleet management plan that considers the current scenario and also a plan that anticipates changes in the future. Prioritise investment in vehicles. Develop a Management and Strategy Plan which will include the following elements: • Assessment of fleet requirements • Procurement of vehicle, equipment and machinery • Allocation and utilisation • Maintenance • Management and monitoring function for fleet availability • Replacement/ Disposal of aged vehicles	
Housing Delivery	There has been an increasing housing backlog within Municipal area that's dates back to 2016 both in villages and townships in addition to incomplete housing projects within municipal area There is a backlog of 7 800 units in the following areas: Tlhabologang 2000 Boikhutso: 2000 Itekeng:1500 Blydeville:1500	Municipality is waiting for notification from the Department of Housing regarding how many units allocated to Ditsobotla In 2016/2017 only 69 units were allocated in Sprinbokpan; 29 in Matile and 1 in Meetmakar Houses were left at foundation levels by service providers for example in Itsoseng	Capacity constraints Poor planning IDP not aligned to budget Delays from Department of Human Settlement with intervention/ allocation of housing units Department delaying to present to the municipality the business plan for the municipality to know when	Department to come and present a business plan for Ditsobotla housing projects Letters have been written to department, HOD and MEC to intervene Develop and Implement the Spatial Development plan. Implement project management principles to ensure	Workstream Presentation Draft Annual Report 2020/21

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Verdwaal: 800		how they are allocated for UIS Failure to project manage the service provider to complete projects	completion of projects including imposition of strict consequences and penalties to defaulting service providers	
	Title deeds not transferred to beneficiaries	The municipality has not transferred some properties to beneficiaries so they can have their title deeds.	Failure to prioritise the transfer of title deeds to beneficiaries	The municipality must prioritise the transfer of title deeds to beneficiaries	
	Increase in informal settlements	Mushrooming of informal settlements around the Municipal area	Housing Sector Plan, Informal Settlement policy and Allocation Policy still at draft stage therefore cannot be implemented and enforced	Upgrading of informal settlement at Elandsfontein 34 IP Finalisation, approval and implementation of Housing Sector Plan, Informal Settlement policy and Allocation Policy	
Roads and Storm Water Infrastructure	Deterioration of roads and storm water systems The municipality has identified areas needing tarring of streets or public routes especially those facilitating movement of commercial goods and services,	Severe deterioration of the roads with potholes and flooding of properties due to blocked or inadequate storm water systems. -Gravel roads were not constructed nor maintained -No new Tar roads or re-worked were performed in the prior year only maintenance and repairs.	No Roads Master Plan due to inadequate capacity to draw them up. No storm water management system Lack of accountability and responsibility to ensure that efficient systems are in place as senior positions are vacant for long periods Lack of tools and machinery for infrastructure repair maintenance. Lack of funds to invest in repair equipment and infrastructure No asset	Engage skilled and experienced consultants to assist with the drawing up of plans Implement the drawn-up plans Prioritise purchase of equipment to conduct repairs and maintenance	IDP 2022-27.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
			management unit or official with the responsibility to plan repairs and maintenance	Prioritise allocation of funds to equipment for repairing and maintaining road infrastructure Allocate asset management responsibility to staff	
Environmental Awareness Campaigns	No awareness campaigns held to educate the community about taking care of the environment	No awareness campaigns held	Budget constraints	Prioritise funds towards conducting awareness	Workstreams Presentation
Parks and Cemeteries	There is free access to parks however they are, in some instances, vandalized by patrons Burial sites record keeping is not efficient and some documents are lost or misplaced because there is no record management system at some cemeteries.	Misuse of parks and gardens No proper burial documentation and record keeping at some cemeteries Challenges in digging of graves Graves are not dug properly and sometimes there are delays	Vandalism of parks and recreational facilities Lack of maintenance of the facilities by the Municipality Lack of proper record management system and access controls No dedicated staff at satellite offices and personnel at cemeteries Lack of funds Lack of equipment Staff lack skills Recruitment process not always transparent	Introduce a fee for entry into some of the parks Establish records management system at satellite offices Allocate municipal official to be responsible for satellite offices Controls over recruitment process to ensure that staff employed based on meeting the requirements of the position Train the staff that is available to use the equipment Purchase new equipment	Workstreams Presentation Annual Report 2019/20
Security Services	The municipality is unable to adequate provide security within internal structures resulting in hiring	Vandalism of municipal property Riots and Protests	Lack of personnel to execute security services due to lack of funding	Appointment of dedicated personnel and prioritising reallocation of funds to internal security Constant community	Workstreams Presentation Annual Report 2019/20

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	external security services			engagements to use the communities as watchdogs of municipal infrastructure.	
Local Economic Development	The economic development opportunities identified include the following ➢ Itsoseng rehabilitation of shopping complex ➢ Itsoseng economic rehabilitation programme ➢ Projects in Rietvlei, Grootfontein, Vlakpan, Bakerville and Welverdient. Longer and short-term LED prospects: ➢ Mining diamond ➢ Quarrying of limestone deposits by AFRISAM and Lafarge ➢ Farming activities (Crop and Livestock)	- The organizational design does not conform adequately to service delivery challenges. There is a high-level of unemployment skills shortage and inequalities. Huge backlog in the provision of social services, infrastructure, and economic activities. ,-The directorate does not have enough personnel. -shortage of tools of trade to enable them attend to all duties that need their attention. -The municipality does not have enough industrial site, for establishment of new businesses and growth/expansion of current ones where there is a need to grow. -. -Disposal of Municipal land by unauthorised people which leads to the mushroom of informal settlement	Insufficient coordination between stakeholders and lack of tailored economic development planning --Lack of approved policies and by laws within the directorate -Not enough funds are allocated to the directorate for SMME's support, settlement planning, and formalization	Activate the LED Forum to spur economic development through sustainable LED projects that are implemented in cooperation between the public and private sectors	Annual Report 2019

CONCLUSION

The assessment of the current state of affairs based on a desktop analysis and interviews with municipal officials revealed that municipal instability, lack of strong leadership, and poor employee conduct are the most significant contributing factors. Identified areas for improvement within the four pillars, some of which can be implemented prior to the completion of the Financial Recovery Plan in order to improve the state of affairs, increase financial sustainability, and reduce reliance on government grants.

On each of the four pillars (Governance, Institutional, Financial Management, and Service Delivery), the outcome of the status quo assessment reflects the municipal financial crisis. The result confirmed that Ditsobotla had persistently failed to provide services and meet its own financial obligations.

This report will used to prepare a mandatory financial recovery plan (FRP) . The success of the FRP will be dependent on the leadership commitment ,stability, stakeholder validation, participation,

monitoring ,and strategic direction.

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
			Under-spending is also an indicator that the Municipality is be experiencing possible cash flow difficulties to implement projects. This is also evident on the small amount of internally generated funds the municipality budgets/allocates for its capital expenditure.
Operating Expenditure Budget Implementation Indicator **The norm is 95% to 100%**	121%	94%	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. The municipality underspent on the following operating expenditure items, namely: Employee related costs, contracted services and general expenses. The under spending on such items could be as a result of an attempt by the municipality put measures in place to reduce unnecessary expenditure. Ideally, under-spending should be the result of improved efficiencies and not as a result of non-implementation of programmes and/or projects.
Operating Revenue Budget Implementation Indicator **The norm is 95% to 100%**	90%	104%	A ratio is above the acceptable norm of 100% which might indicate weakness in compilation of credible budgets that takes into account past trends to efficiently budget for revenue to be generated from services. Under budgeting occurred on the following items, service charges, interest income and property rates revenue.

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
Billed Revenue Budget Implementation Indicator **The norm is 95% to 100%**	89%	103	***Interpretation of Results*** A ratio is above the acceptable norm at 103%, which might be an indication of ineffective billing system which results in weakness in the compilation of municipal budget.

2.2.4 Service Delivery Pillar

Service Delivery

The Technical Services Department and Community Services Department is responsible for Basic service delivery and infrastructure investment in the Municipality. Cash flow problems impacted negatively on service delivery. 100% of the MIG allocation was spent by the municipality. Ageing Infrastructure remains a risk for NLM in providing services and this have been identified in the Risk Management Matrix of NLM. Water The provision of water by NLM to residents is through District as it is the Water Authority. The District Municipality thus is also responsible for the maintenance of water network infrastructure. The District Municipality received money to be spent in Naledi on boreholes, reservoirs and some maintenance work. A contractor was appointed to assist the municipality to overhaul all pumps and equipment which deliver water to Naledi.

The District Municipality appointed Moedi Consulting Engineers on a turn-key project to install new bulk meters at the boreholes and reservoirs. This will assist in a water balance exercise. Part of this project is to replace all consumer meters in town. A total of 533 meters have already been replaced. The percentage of faulty meters and recovery of water losses will be established within the next two months.

Two extra bore holes are in operation in Stella and a new transformer has been installed to optimize the pumping. An electronic monitoring system is in place in Stella. This enables the Water Section to remotely monitor the water levels of reservoirs and control the pumps on bore holes. This system proofs to be effective and will contribute towards savings on the salary bill as standby and overtime will be reduced significantly.

Sanitation

The DR Ruth Segomotsi Mompati District Municipality is responsible for bulk infrastructure with regards to sanitation, while Naledi is responsible for maintaining the infrastructure thereof. The effective provision of Sanitation services by NLM will be optimized should NLM address the following challenges identified in the IDP: Upgrading of internal sewer network, Eradication of bucket system, Provision of full water borne system and

Regular maintenance of sewer infrastructure. The New Waste Water Treatment Plant construction started in May 2016 and is yet to be completed and commissioned. The project is a multiyear project that is expected to be completed within 3 years with a total cost of 180 million rand. NLM should expedite the completion of this project in order to ensure that the costs associated with it are managed. Failure to do so will result in the Municipality paying more than what is budget for.

Sewer blockages and overflows was reported as a continual concern, polluting the environment with various nuisances emanating. Communities dispose of anything into the sewer systems, causing regular blockages and overflows at release points, drains and / or alternatives these challenges resulted in the Municipality being sued for R 4,041,960.00.

Electricity:

NLM is currently being sued for R396, 988,706-00 by Eskom and it remains one of the Top-Ranking Risks related to service delivery with the possibility of Eskom cutting electricity supply. NLM does not have Energy Master Plan ("EMP"). NLM should develop EMP which will address issues relating to maintenance and infrastructure investment.

Waste Disposal & Refuse Removal

Naledi Local Municipality provides waste removal services to the majority of Naledi including businesses at least once a week, while areas like Devondale and Dithakwaneng do not receive this service. One of the major issues identified is illegal dumping, while the provision of additional transfer stations intends to curb this.

The municipality's waste landfill sites did not comply with most license conditions or latest national norms and standards for disposal to waste landfill with both assessed as critical. Operations at the relatively new Vryburg Waste Landfill site totally collapsed, with infrastructure vandalised or stolen and waste dumped haphazardly from the road entrance to the actual site and surrounds. Some concerns also noted and reported at both the Huhudi- and closed Vryburg waste transfer stations. Furthermore, the municipality did not implement and monitored plans and strategies towards effective management and clearing of illegal waste dumping and pollution.

The Municipality intends to implement the following with regards to waste removal which implemented effectively may contribute to revenue enhancement by encouraging residents to pay for services (i) regular collection of refuse (ii) waste management route plan, (iii) provision of refuse bins and provision of refuse plastics.

In addition, the municipality did not bill all consumers for waste management service charges resulting in an understatement of service charges and receivables from exchange transactions of R14 108 002 and revenue from the sale of pre-paid electricity have been recorded inclusive of the VAT resulting in an overstatement of service charges and VAT receivable of R10 443 140. The municipality's wastewater treatment and

disposal activities did not comply with the wastewater treatment and disposal licensing and other legislative requirements. The wastewater treatment facilities and infrastructure are dilapidated, not properly operated and maintained. Continual raw sewer pollution noted and incur to the receiving environment and subsequent water resources.

Roads

Naledi Manages a broad area of road infrastructure, however the major challenge is maintaining this infrastructure due to cash flow problems. There is always room for improvement with regards to road infrastructure, and certain areas need new tarring altogether. The Municipality had identified the following key strategies with regards to roads patching of potholes, maintaining road infrastructure, improve response time on repair of economic corridors. Lack of road maintenance e.g., Pothole filling has led to NLM being sued by road users. Litigation in this respect is R180, 570.73. Although the amount is low in relation to the total contingent liability register, there exist a possibility of loss of life. Further, NLM should implement a maintenance plan which will help the Municipality to avoid such cost which at the end will amount to fruitless and wasteful expenditure.

Security Services

Furthermore, is vandalism and theft to property plant and equipment escalating and also impeding wastewater operations and treatment processes. According to the Top Institutional Strategic Risks: 2020/2021: Theft and vandalism of Municipal properties remains high as a result the Municipality of Municipal. The Municipality has taken a decision to deploy security personnel to the identified site as part of the preventative measure the curb vandalism and theft. The cost of security in the 2021 AFS is R 7,362, 183 (2020: R 4,351,170) which is a 59% percent increase.

However, in the AR and the AG report theft and vandalism is identified as a common feature and thus the Municipality should put in place measure to monitor the effectiveness of security services because the 59% increase in expenditure should mitigate against the reported vandalism and theft in areas such as grave yards, Waste Water Treatment Plant and the Nature Reserve.

Fleet Management

The Municipality does not have a fleet management system in place, and this has been identified as a weakness in the SWOT Analysis by the Municipality, however, according to the 2018 FRP Implementation Plan, the Municipality indicated that it has revised a Fleet Management System which all for basis servicing of trucks. The Municipality needs to develop a process on verify the integrity of reported information as it appears that information is reported differently on different documents. The lack of Fleet Management System will severely hamper the municipality in effectively rendering services to the residents.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
SDF and **Master Plans** (SPLUMA)	NLM has not been able to procure GIS system on account of availability of funding. SDF reviewed and awaiting council approval. SDF is SPLUMA compliant	NLM is unable to collect data easily which will enable the planning purpose and management of various services offered by Municipality.	Lack of funding Incapacity of the Technical Services departments planning unit. Legacy issues of continuity management.	▪ NLM through a process of revenue enhancements should consider prioritising the procurement of GIS system. ▪ NLM consider other sources of funding to develop Master Plans	NLM FRP Plan and sub stream engagements with Technical Services. Draft SDF. Letter to the MEC dated 21 December 2021
SDF and Master Plans (Water Supply)	NLM have a water master plan which is of poor quality. Borehole water infrastructure maintenance plan in place but no other plan available. No Water Conservation and Water Demand Management Plan (WCWDMP) in place as the district has not commissioned it. Network Maintenance is not done due to lack of support from district municipality.	NLM has an acute water shortage and water is sourced and distributed through water tanks to the communities. 41 Boreholes in total with 16 metered and 3 reservoirs metered. Demand during summer months outstrips supply by approximately 22.5% Only 1454 Households have access to water Level control at reservoir out by 10% either way. 7 200 000 litres pumped from boreholes daily.	Arid nature of the municipal jurisdiction contributor to water scarcity. Dr RSM District is the water services authority and NLM is the water services provider. Funding for maintenance and refurbishment critically hampered by the fact that this is allocated to the Water Service Authority (i.e., District) Significant challenge of water metering contributes directly to	Install smart water meters. Enter into SLA with District. Explore transferring the entire water functions to the district – currently the function is a loss-making exercise. Need to develop funding proposals in order to secure a budget for infrastructure maintenance. Need to place pressure on District to complete process of	Water Master Plan Letter to the MEC dated 21 December 2021. Water and Sanitation Unit Report Annual Report 2020-2021 Stats.SA Community Survey

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Water meter audits are not done due to lack of support from district municipality. Billing database cleansing has not taken place resulting in revenue losses of up to R2 million a month. Tariff Policy reviewed. No bulk contribution policy and fees in place. Water by-laws drafted but not gazetted in 2008 and has not been reviewed by the district municipality. Poor enforcement to deal with disconnection of illegal connections. Customer services: turn-around times between 3 hours and 8 hours depending on the nature of the problem, availability of material and equipment. New water reticulation development required for new human settlements being	Funding is allocated to the Water Service Authority. 16 installed bulk water meters for boreholes and 3 for reservoirs and no zonal meters. Billing inaccuracies still major challenge. Contributing to financial crisis as revenue generation is constrained. Debt of R39 million to Vaalharts and no repayment arrangements in place Slow turnaround times for leaks and overflows Dithakwaneng is supplied from one borehole and one reservoir (350 Kl). A backup pump exists but need to be connected to the network. Dithakwaneng is now supplied with 600 new standpipes in the yards of residents which mean that the demand	distribution losses in terms of water. Poor maintenance of existing water infrastructure due to limited cash flow. Usage (taking into consideration the drop in level by up to 9% per day) amounts to approximately 8 820 000 litres per day. The fact of the matter is that there is an under supply of 1 620 000 litres per day, Central cause is lack of continuity management. Master Plans are not being updated annually, last developed in 2014.	commissioning demand management plan. Apply for a Section 155 Debt Termination process through the court.	Vaalharts Tax Invoice Tariffs Policy Water by-laws

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure - Indicates the extent to which expenditure is applied to the payment of personnel. **The norm is 25% - 40%.**	39%	44%	The ratio exceeds the norm and indicates inefficiencies, which might be relating to unrolled overtime payments, overstaffing (Historical) recruitment processes. The municipality is not a water authority and part of funding/financing of employee related cost contributes to this huge salary bill. The District Municipality has not been transferring any money in a form of grant to Naledi LM for executive the function of water on its behalf. **If powers and functions between the DM and LM are ignored, the situation analysis will not change.**
Contracted Services as a % of Total Operating Expenditure - indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions. **The norm is 2%-5%.**	5%	6%	The outcome of the ration shows a slight misalignment of the services of the municipality that are outsourced to the tune of 1%. The ratios outcome will change once the municipality has concluded the process of filling of key critical positions which are currently vacant in relevant key departments. Therefore, filling vacant positions may actually increase employee costs and some roles may be active during certain periods. The municipality to do a cost benefit analysis.
Budget Implementation			
Capital Budget Implementation Indicator **The norm is 95% to 100%**	57%	60%	The municipality ratio on its capital spending is way below the norm at 60%, which can be an indication of discrepancies in planning and budgeting, capacity challenges to implement projects and/or Supply Chain Management process failures. The municipality has further been reverting MIG funds to the National Fiscus due to under-spending for the past two years.

Ratio	Ratio for 2019/20	Ratio for 2020/21	INTERPRETATION
The norm is 30 days.			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. The above norm clearly indicates that the municipality is unable to settle it creditors as and when they fall due and as a result of historical outstanding creditors who are were not correctly captured on the financial system as and when they were paid or not valid. NB: Historical financial system deficiencies may also create a huge outstanding creditors book for the municipality if not cleared/attended to as and when it is deemed necessary.
Irregular, Fruitless and Wasteful and Unauthorized Expenditure to Total Expenditure – this ratio measures the extent of irregular, fruitless and wasteful and unauthorized expenditure to total expenditure. **The norm is 0%.**	126%	172%	The municipality should start investigating such expenditure in line with the MFMA and relevant applicable circulars. 1. Improve internal control management systems to reduce and limit the UIF&W expenditure. 2. Capacitate the municipality on the NT SOP's and relevant circulars in addressing the UIF&W expenditures to limit these expenditures and avoid recurrence. 3. Provide training to the Council Committee that is discharged with the responsibility of investigating the UIF&W expenditure to ensure proper consequence management.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	established in peri-urban areas not planned for. NLM not responsible for conditions and capacities of Water Treatment Works as they are the mandate of the district municipality. NLM not competing for Blue drop due lack of support from district municipality. Review of bulk water supply SLAs with WSA is done annually.	will increase significantly. NLM does not report on water services backlogs, but it is the responsibility of the district municipality.			SLA with WSA
SDF and Master Plans (Sanitation)	No Sanitation Master Plan exists. No Sanitation infrastructure maintenance plan exists. Poor network and maintenance due to lack of support from district municipality. Turn-around times attending to all reported	NLM is the Water Service Provider, but Water Service Authority is at district. Inadequate internal human resources to develop maintenance plan. Low internal funding capacity available to conduct the works.	Disjuncture between IDP and Budget. Inadequate Financial Capacity of the municipality to fund operations. Pervasive nature and impact of distribution losses. No yellow fleet.	MISA and relevant units need to assist with training. Transfer Water and Sanitation to the District Municipality. Technical SD-BIP	SDF Top Layer SD-BIP

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	faults and blockages, sewer spillages and reducing sewer blockage is between 3 to 8 hours depending on the nature of the problem, availability of materials and equipment. Provision of additional VIP toilets to reduce backlogs is done by district municipality. Provision of sceptic tanks is free. New sewer reticulation development required for new human settlement development in peri-urban areas not planned for due to lack of support from district municipality. Green drop compliance is shared with the district municipality, and it is lacking. WWTW effluent compliance with regulations is very poor due to lack of support	Poor turnaround time attending to faults and blockages. Limited capacity of yellow fleet to respond adequately to the needs of the department. Provision of VIP toilets is unsustainable and exorbitant. Construction of chemical toilets should be interrogated. Disjuncture between planning and budget is an impediment. Waste Water Treatment Works: Capacity is 6.5 ML, construction of 8 ML WWTW stopped due to lack of supervision and proper management by the district municipality. Only 1132 Households have access to sanitation in the municipality.	Aging infrastructure. Non-existence of technical SD-BIP		

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	from district municipality. Monitoring of effluent quality not regularly conducted. Report of service backlogs				Statistics Report and Letter to the MEC
SDF and Master plans (Roads and Storm water drainage)	Roads and Storm water master plan. NLLM does have the Road and Storm Water Master Plan completed in 2020. NLM has appointed consultant in May 2022 to develop the Storm Water Management System and Master Plan The absences of the Master Plan affect the budgeting and maintenance planning Urban roads and rural roads surfaced and unsurfaced roads. NLM has 17 643 gravel road and only 100 were services in 2021 (2020: 120) which is not maintaining: 100 of 17643 road network is	Failure to maintain road has an impact on service delivery. NLM is exposed to litigation for vehicles damages and possible damages for fatalities which might ensure a result of hazardous road. Unmaintained roads have an impact on durability of fleet used in service delivery and increase the cost of fleet maintenance. Inadequate budgeting by NLM. 1526 Roads identified as inadequate.	Inadequate repairs and maintenance budget Old and Ageing infrastructure fleet to assist with repairs. The municipality needs to focus on providing adequate maintenance and rehabilitation budget for existing roads and capital budget to upgrade the gravel roads to paving. The absence of a Master Plan indicated lack of planning at the Municipality and as such the Municipality is responding to maintenance and repairs as a stop gap approach.	NLM to finalise the development of the Storm Water Management System and the Master Plan. NLM to ensure that adequate budgeting is allocated for the maintenance NLM to ensure regular monitoring of the Maintenance Plan. NLM to attend to all reported potholes and implement a system to monitor and track all reported pothole and storm drainage cases There is a stronger need to increase the capital budget of the assets to make them	2021 Annual Report IDP 2022/2023 Review Stats.SA Community Survey 2016

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	being maintained. Tared roads network is 85 Kilometres. The maintenance reports submitted by Infrastructure and Facilities Management on a monthly basis shows a challenge of construction equipment, material and transport.			useful for 10-20 life cycle. The Municipality has recently appointed a consultant to do major patch works on potholes	
SDF and Master Plans (electricity supply)	Electricity Supply Master Plan since 2015. Electricity maintenance and refurbishment plan is in place Meter audits are conducted and billing database needs cleansing. Huge Eskom debt of over R600m and unaffordable debt payment arrangement. The matter is in court. Condition of electricity infrastructure and maintenance: old transformers and poles replaced.	Lack of maintenance of existing infrastructure. Disjuncture between IDP & Budget Process. Contributing to Distribution Losses in terms of Electricity. Negatively impacting on the cost containment strategy of Council. Contributing to constrained cash flow and fruitless expenditure. Gradual repairs and maintenance determined by availability of funds.	No own revenue to review and update electricity master plans. Lack of planning capacity in the PMU section of Technical Services. Insufficient collection of receivables from electricity sales. No technical SD-BIP.	Secure funding to review and update the current Master Plan Training to upskill the PMU staff. Data cleansing is urgently required. Replacing the financial management system. Implementation of Circular 77 of the MFMA (Model SCM Policy for infrastructure procurement and delivery management).	Electricity Master Plan Circular 77 of the MFMA Top-Layer SD-BIP IDP Maintenance Plan 2020-2021

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Expansion plans are catered for by the projections in the Master plan. Substation supplying Extensions 25 and 28 to be increased from 5 MVA to 10 MVA. Refurbish/upgrade electrical network. Review SLA with Eskom to adequately address technical, service delivery and financial matters. Tariff policy updated and adopted annually with the budget.	Increased instances of electricity blackouts to local communities. Contributor to service delivery protests by residents. Old SLAs were once off upon connection and are required only for upgrades which have not been necessary. Increase in tariffs causing socio-political instability.	Poor maintenance of existing infrastructure and the decreasing tax-base.	Develop a technical SD-BIP. Initiate section 153 process to address the Eskom debt. Install own bulk metering to verify Eskom's readings. Prioritise maintenance of network infrastructure.	Budget.
Asset Management	Asset management policy is not signed to confirm that it is reviewed regularly. Furthermore, there is no information relating to intangible assets on the Asset Management Policy.	There is a risk associated with non-compliance with the Asset management policy. There is also a risk that useful lives of assets are not updated as there is no evidence of review and approval of the policy.	Weakens in control environment Asset Management capacity is inadequate. Poor maintenance and repair of existing assets.	NLM must ensure that the Asset Management Policy which forms part of the policies that have been reviewed is tabled before council for approval	Internal Control assessment and Training Report to Management and Provincial Treasury
Loss control (water and electricity)	Municipality is under-collecting and losing no less than R18 million per month. Smart	Incomplete indigent register, Unregistered consumers on the	1. Unclean data, 2. Funding for Smart Meters,	1. Data cleansing. 2. Unlocking funding streams	Presentation by Technical Services

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	meters are key driver for losses experienced.	Municipal financial system, Leadership changes			
Non-technical losses due to meter tampering, illegal connections	Losing R2,5 million, Customer manipulation of meters.	Faulty metering/tampered.	Current metering system problematic Lack of by-law implementation	Migration to GPRS metering (Veta System) Implement by-laws	Presentation by Technical Services IDP Annual Report 2021-2022
Unmetered consumption (Value of revenue forfeited?)	Losing R9,4 million per month	Non installation of meters in many areas.	Poor Credit Control. Lack of funding for smart metering.	Improved Credit Control (register consumers)	Presentation by Technical Services
Need for meter audits and 'SMART' technologies	Identified and piloted	Halted due to difference in approach	Change in leadership	Obtain the buy-in of both administrative and political leadership	Work stream presentation. Annual Report 2021/2022
Revenue assets provision and maintenance (bulk meters and meters)	Huhudi Township not part of the revenue generation (Only 4% is collected from there)	Eskom supplying the township with electricity directly using the Municipal infrastructure	Re-applying for Nersa licence	Fast-tracking the license application	Presentation by Technical Services
Fleet Management	NLM developed a repairs and maintenance plan which is currently assisting with minor repairs. Fleet management Strategy and Plan not in place. Vehicle maintenance plan is only for the new vehicles (service plan for 90 000km) Insurance and fuel management policy is	Maintenance of fleet remains a challenge for the Municipality. NLM has a council approval to procure a compactor truck through NT. Procurement has not started Old vehicles are exposed as there is no maintenance plan in place for them. Municipality does not have yellow fleet.	There are delays in finalising procurement processes for compactor truck. Poor management and no consequence management. Lack of proper planning. No funding for the purchase of a proper fleet.	A procurement plan for the NLM should be monitoring for implementation and where there are delays a catch-up plan should be implemented. To include as part of KPIs for Senior Managers. Purchase extended maintenance plan to cover functional vehicles.	Fleet Management Policy (not updated since 2013) Annual Report.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	in place (asset management policy)				
Planning and Building Control	Operations and process of building plans approval Cost reflective building approval tariff's Addressing building contraventions and enforcing the building by-laws. This includes compliance with zoning status.	Building regulations forms part of the municipal functions. Cost reflective tariffs are in place increased by 5.6% which is insufficient to keep up with inflation. By-law enforcement is poor due to staffing incapacity of the unit.	Under capacity in terms of human resource in the planning unit to enforce by-law. Budget and SDF not aligned. Poor implementation of revenue enhancement strategy.	Additional staff required in town planning unit. Development of technical SD-BIP. Training and capacity development of unit staff.	Naledi Local Municipality Property Rates By-Law No. 825 – 11 August 2017 Spatial Development Framework 2021 Naledi SPLUMA By-Law

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
Land Development	Township establishment process Making land available and attracting private sector developer's Development and land use tariffs Rezoning costs. By-laws Implementation of SPLUMA	Regulated by Chapter 5 – Part B of the By-Law Limited land availability in the area particularly for agricultural process. Tariffs are in place, need for greater enforcement exists. Set out in by-law. Well implemented in the town area with poor implementation in the historical township areas	Lack of staffing capacity amongst building inspectors and planning team in the department. Training of the development of bankable business plans required. Adjustment of tariffs to be more cost effective needs to be done.	Recruitment and training of additional staff for the unit. Area Based Plans need to be developed in order to assist with making land available.	Spatial Development Framework Naledi SPLUMA By-Law Naledi Local Municipality Property Rates By-Law No. 825 – 11 August 2017
Local Economic Development	LED Forum Functioning LED Strategy and Implementation Plan Exploiting tourism, mining development and other readily available private development opportunities.	Functional at the District Level Not in place. LED Policy last updated in 2014 No LED Strategy or Policy in place and even the Annual Reported noted no success could be cited.	Incorrect measures of performance (i.e., number of workshops) and not on tangible impacts. Technical SD-BIP needs to be developed.	Seriou's capacity issues in terms of staff Repurpose the LED Unit to develop bankable business plans in order to secure funding to municipal projects and all infrastructure requirements.	Annual Report 2020-2021

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
Housing Delivery	8500 pipeline of housing units over the MTEF period	Infrastructure development	Inter-governmental relations (poor communication) Funding.	Funding for infrastructure development	Community Services
Capital Projects and Grant Funded Projects (PMU and performance)	The municipality directed 80% of grants towards new assets, whereas only 20% was directed towards new assets. Annual grant performance and percentage spent. Annual grant performance and percentage spent. Misappropriation of grant funds for operational purposes. Capital projects included in the internal audit plan. Procurement process efficiency. Improve administration and unlock the grant funded projects.	1. The municipality is grant reliant. The municipality is not budgeting enough towards renewal of its infrastructure assets. Poor annual grant performance. Rollovers common. • The grants account for 78% of the total capital budget while internally generated funds are at 22%. This indicates that the municipality relies on grants to provide services to the community. All grants are aligned to DORA allocations. Misappropriation of grant funds common. Controls have improved since the appointment of the CFO.	Cash flow constraints Lack of alternative revenue generating mechanisms. Development of Technical SD-BIP Alignment of Budget and IDP urgently needed. Provide training in grant conditions and guidelines. Capacity weaknesses in SCM and Bid Committee. Capacity weaknesses in the PMU.	The municipality effectively implement the Budget Funding Plan. Budget towards renewal of existing assets must be increase to 40% in line with the acceptable norm Ring fence capital grant funding National Treasury Should assist with skills development and training. Implementation of Model SCM Policy for	2022/23 MTREF budget

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Operational Capacity and availability of key technical skills in the Technical Services Unit sand the PMU MISA, DM etc. to assist. Improve planning and implementation. Table feasibility studies for projects. Continuous oversights on the Projects' Scope.	Procurement process inefficient. Money being reverted back to the national fiscus due to underspending.	Requisitely skilled personnel not in place in SCM Unit SCM and Technical Services Interface is poor and needs stronger alignment.	Infrastructure Procurement and Delivery Management needed.	List of Capital Projects Below
Waste and Refuse Removal	Erratic collection Landfill Management Integrated Waste Management Plan Condition of maintenance plant and equipment front end loader bulldozer. Compliance of landfill sites in terms of legislation. Access to MIG grant for landfill site development. Tariffs and policy – are by-laws updated?	Aging infrastructure Issues The municipality's waste landfill sites did not comply with most license conditions or latest national norms and standards for disposal to waste landfill with both assessed as critical. Operations at the relatively new Vryburg Waste Landfill site totally collapsed, with infrastructure vandalised or stolen and waste dumped haphazardly from the road entrance to the actual site and surrounds. Some	Planning incapacity due to legacy issue of continuity management. No Yellow Fleet hampering service delivery. Poor collection rate over multiple financial year.	Obtained permission to use 5% of the MIG Funds to procure one truck. Cost Containment and Revenue and Enhancement at core. Need to purchase plant and equipment as leasing makes the provision of the services unaffordable.	Community Services Department Report Cost Containment Treasury Instruction Note. Annual Financial Statements. Annual Report

Focus Area	Brief diagnostic analysis	Problem/ Key Issues	Root Causes	Strategy to solve	Source of Information
	Weighbridges on landfill sites, fence and electrify the landfill sites? Collect revenue from users at landfill sites.	concerns also noted and reported at both the Huhudi- and closed Vryburg waste transfer stations.			Tariff Policy
	Refuse Removal Refuse removal management maintenance and refurbishment plan. Regular refuse removal schedule and adherence Condition of equipment for maintenance and operations or refuse removal. Are tariffs to cost reflective – updated by-laws. Illegal dumping status and awareness campaigns.	Municipality did not bill all consumers for waste management service charges resulting in an understatement of service charges and receivables from exchange transactions of R14 108 002 and revenue from the sale of pre-paid electricity have been recorded inclusive of the VAT resulting in an overstatement of service charges and VAT receivable of R10 443 140. Equipment maintenance not done with regular breakdowns. Haphazard collection problems	37% Vacancy Rate in the Department Inadequate capacity of the vehicles. Poor awareness by residents. No environmental inspectors to enforce by-laws.	Recruitment of Environmental By-law inspectors. Review of SLAs of refuse removal service providers.	Annual Report IDP Review 2022
Cemeteries	Verification of the Indigent Register Capacity of Cemeteries	14 Graveyards with 11 in use. 3 graveyards haven't been operationalized as yet.	Insufficient operational budget for security needs augmentation.	Municipality planning to station 24-hour security at graveyards.	Annual Report

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
	Land to develop cemeteries Shortage of personnel for digging and maintenance of the cemeteries	Vandalism of the tombstones are being due to the fact that the cemeteries are not fenced. No ablution facilities and store rooms in all Cemeteries except Stella Cemetery. No tools and TLB for digging of graves. No vehicle for effective monitoring of the employees at Cemeteries. The fence was stolen and there is a need for fencing and construction of new ablution facilities and deployment of the security			
Municipal Buildings	Conditions and Repairs of municipal buildings.	Buildings generally in a state of disrepair.	Aging infrastructure	No maintenance plans in place.	Annual Report
Security Services	Security Policy covering internal and outsourced security services. Review of SLAs with Security Firms to ensure effectiveness	No information provided. Awaiting copies of SLA	Poor Records management. Lack of Continuity Management	Need for contract management.	Engagements with the municipality.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Root Causes	Strategy to solve	Source of Information
Public Safety, Traffic and Licensing	Traffic and Law Enforcement Funded Mandate License Renewal Service Escort Services – funeral, abnormal, marathons, and abnormal freight.	The traffic enforcement function is in place in the municipality. The mandate is funded. License renewal, escort services are also provided, however vehicle fleet is required.	Incapacity in terms of vehicle fleet identified.	Incrementally purchase vehicle fleet.	Annual Report

List of Capital Projects

MIS Form ID	Nat./ Prov Project Registration Number (as on the registration letter)	Project Title	Project Type (water, sanitation etc.)	Total Project Cost	Registered MIG Funds
261960	NW/2405/CF/16/17	Construction of a Community Hall at Broedersput	Community Facility	R 7 000 000,00	R 7 000 000,00
238658	NW 2184/R/16/17	Huhudi Taxi Route Upgrade Phase 1	Roads and Storm water	R 17 997 638,55	R 15 000 000,00

414862	NW2806/R/21/22	Construction of Extension 25 road phase 1	Roads and Storm water	R 18 260 882,99	R 11 422 500,00
427244	NW2860/CF/22/23	Construction of Vryburg Cemetery	Community Facility		R 5 485 500,00
427184	NW2861/CF/22/23	Construction of Huhudi Cemetery	Community Facility		R 4 150 350,00
439767	NW2869/CF/22/23	Construction of Colridge Cemetery	Community Facility		R 5 485 500,00
427481	NW2852/R/22/23	Construction of Internal Streets in Huhudi	Roads and Storm water		R 15 000 000,00
		Construction of Extension 25 road phase 2	Roads and Storm water		R 14 883 645,00
		Construction of Roads in Colridge Phase 1	Roads and Storm water		R 12 000 000,00
	NW/2635/CF/20/21	Extension 25 - Community Hall	Community Facility		R 8 000 000,00

		Paving of Rekgaratlhile roads	Roads and Stormwater		R 12 000 000,00
		Stella landfill site	Community Facility		R 10 000 000,00
		Upgrade of roads in Kismet	Roads and Stormwater		R 15 000 000,00

Part Three: Additional Interventions

3. PROPOSED INTERVENTION STRATEGIES AND ACTIVITIES

3.1 CRITICAL SUCCESS FACTORS

- A major contributor to the 2018 FRP's Failure was poor reporting – a new FRP will need to ensure that a Reporting Officer is designated from possibly the PMU.
- The NLM had previously begun installing smart metres – the roll out of smart metres needs to be prioritised. It is the only mechanism through which the municipality will be able to stop bleeding cash.
- Debt Restructuring – poses a conundrum in that the municipality does not have the requisite resources to be able to service the existing mountain of debt. The municipality needs to approach the High Court for initially a Section 153 stay of debt order and in the ninety-day period following begin the process of liquidating assets that are not necessary for the provision of core functions.
- Water and Sanitation services – the function is a loss-making exercise currently; the function needs to be transferred to the district for, at the very minimum the next three years to afford the municipality an opportunity to stabilise and come out of the crisis. The function should be transferred inclusive of its staff compliment.
- The municipality needs to begin the process of transferring non-core functions to other organs of the state (e.g., transfer libraries and museums).

3.2 CONCLUSION

This "As-Is" Assessment was developed using a variety of information sources, including documents, past investigations, and interactions with municipal officials. The information (obtained in multiple forms and formats) was utilized for comparative corroboration analysis. The outcome of the status quo report is reflective of the current situation on the four pillars (Governance, Institutional, Financial Management and Service Delivery.

This report will be used to prepare a financial recovery plan outlining strategies to resolve the current financial crisis in a phased manner. An interim intervention during the rescue phase is critical to improving the municipality's financial liquidity, which will positively affect the financial environment and result in optimal decisions. The success of the mandatory FRP implementation will be determined by a leadership commitment to monitoring the implementation in accordance with the key strategic objectives.



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FROM: Kavitha Ruplal, Tel: 021 315 5825, **Email:** Kavitha.Ruplal@treasury.gov.za

Ms. Linda Nengovhela
Chief Director: Municipal Finance Management
North West Provincial Treasury
Private Bag X2060
Mmabatho,
2735

Dear Linda

THE INTERIM FINANCIAL RECOVERY PLAN RESCUE PHASE-DITSOBOTLA LOCAL MUNICIPALITY

The meeting held on 6 December 2022 between the National Treasury Municipal Financial Recovery Service (NT MFRS) and the North West Provincial Treasury (NWPT) refers.

The (NT) (MFRS) working jointly with the North West Provincial Treasury has prepared and finalised the status quo assessment report for Ditsobotla Municipality. We therefore recommend that NW PT should consider the proposed key strategic focus areas and indicators for inclusion in the interim rescue phase for implementation by Ditsobotla municipality while the preparation of the holistic Financial Recovery Plan (FRP) is underway.

The interim rescue phase of the FRP focuses primarily on cash and restoring the cash position of the municipality. The indicators include a funded budget (or demonstrating that the municipality is on a credible path to a funded budget), monitoring of the daily cash and cash balances, cost containment measures, focusing on improving the debtor's collection rate, the ring-fencing of conditional grants and ensuring that creditors are paid timeously and that negotiations are entered into to settle any outstanding debt. There is also some focus on governance, institutional and service delivery matters, however, these are limited to addressing the most visible and issues that contributes towards reduction of operational expenditure and revenue enhancement.

Based on the outcome of the concluded status quo assessment for Ditsobotla LM, seventeen (17) priority areas have been identified as crucial for rapid financial turnaround in the interim phase.

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It is critical to indicate that a service provider has been appointed to support NT MFRS with the preparation of the FRP for Ditsobotla Municipality. The NWPT will be contacted soon to assist with arrangements to introduce the service provider to the municipal administration. The NT MFRS and its service provider will be working closely with the NW PT and the municipality to ensure that all milestones are achieved as outlined in the FRP Preparation Roadmap.

Furthermore, annexure A, details the structure of the proposed interim rescue plan whilst the process of preparing the Financial Recovery Plan is underway. The plan covers, amongst others; the focus areas, key baseline findings, short-term activities/deliverables; target dates, the responsible officials, the output indicators and portfolio of evidence for claimed performance.

In terms of the legislative requirements the FRP must be finalised within 90 days from the approval of the status quo assessment report. The NT MFRS will however endeavour to submit the FRP within 60 days to the MEC for Finance for approval.

Let me use the opportunity to express my appreciation to your department for their assistance with the FRP status quo assessment in Ditsobotla LM.

Yours sincerely

Kavitha Ruplal

KAVITHA RUPLAL
ACTING HEAD: NT MFRS
DATE: 15 December 2022

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Annexure A: Interim Rescue Plan: Ditsobotla Local Municipality

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
Governance	**UIFW Expenditure**	**The municipality's UIF & W is very high** **Expenditure identified:** **Unauthorised Expenditure for 2020/21: R61 725 999** **2019/20: R 78 77 565** **F& W for 2020/21 was R19 148 746** **2019/20: R 54 529 692** **Irregular Expenditure: R141 096 758** **2019/20: R 19 896 948** **Cumulative Values** **Unauthorised Expenditure: R 203 571 244** **F & W: R 228 208 518** **Irregular Expenditure: R 355 567 932**	Investigate all reported allegations of financial misconduct against officials and apply consequence management	Quarterly	MPAC/Disciplinary Board	Section 32 Investigation reports with recommendations
			Develop and approve UIF&W expenditure reduction plan	31 January 2023	CFO	Approved UIF&W expenditure reduction plan and signed Council resolution
			Implement Consequence Management for historical Irregular expenditure/take steps to recover or rectify such expenditure and to prevent recurrence as prescribed by section 32 of the MFMA.	Monthly	MM	Consequence management register on UIF&W expenditure transgressions
			Review SOPs for procurement	28 February 2023	CFO	Approved reviewed SOP's
			Pre assurance to be given by internal audit or any independent assurance provider before approval and award by final authority e.g., MM	Before award	CFO	Legislative compliance
			Reports on UIF&W expenditure to Accounting Officer	Monthly	CFO	Acknowledgement of Receipt of Monthly reports
			Capacitate and training staff on supply chain management	Monthly	CFO	Reduced UIFW Improved Consequence Management

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		UIF & W policy still at draft stage UIF&W reduction plan was approved in Oct 2021 and not in line with Circular 111 MPAC did not put measures in place to investigate UIF&W expenditure UIF&W registers not updated timeously No official was subjected to consequence management related to UIF&W expenditure Quarterly reporting of UIF&W expenditure not effected				
	Powers and Functions	The municipality performs vehicle registration services as well as processing the renewal of	The management should establish a credible service level agreement and council should follow up and approve the agreement. This will allow the municipality to recover money from local	28 Febraury 2023	MM	Signed SLA

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		licences and permits on behalf of the department of transport. There is an SLA on Vehicle Licensing where the municipality gets 20% of collections The municipality conducts the following unfunded mandates: Libraries, Vehicle Control,	municipalities on the bulk water being supplied.			
			Council to ensure that services of emergency fire services are costed and included in the budget Money should be set aside during the budgeting process to allow for recruitment of enough fire fighters.	28 February 2023	CFO and HOD	2022/23 Adjustment Budget
	Immovable Property Portfolio	Some Council properties are occupied by council staff. It could not be ascertained whether they are leased out at market related rentals Rentals are deducted from salaries There are weak controls in property management Municipality has challenges buying additional unused land as a result of	Council and internal audit committee should facilitate the conclusion of the land audit and implementation of the recommendations of the audit.	28 February 2023	Executive Director: Corporate Services	Land Audit Report
			Develop and approve process plan and mobilisation of resources for an audit of Council owned immovable property	31 January 2023	Executive Director: Corporate Services	Approved report with process plan and signed Council resolution
			Review all lease agreements	31 January 2023	Executive Director: Corporate Services	Market related rentals payable
			Report on revenue collected from all tenants in Council owned immovable properties	Monthly	CFO	Financial report

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		resistance by tribal authorities The asset registers of the municipality are not complete and do not contain accurate information with regards to donated assets, work in progress and fully depreciated assets. The municipality does not have an updated register of leased assets. Title deeds of some properties not in place				
	Contract Management	A contract management committee was established but is not functional. A contract management framework is in place. This framework was developed by Provincial Treasury for use by the whole district, however there	Audit all contracts and value-for-money assessment including evergreen or irregular month-to-month contracts for goods and services.	28 February 2023	Chief Audit Executive	Audit report
			Review and terminate evergreen or irregular month-to-month contracts for goods and services and consider signing long-term contracts.	Monthly	CFO	Reduced irregular expenditure
			Update contract register	31 January 2023	CFO	Updated Contract register
			Weekly contract management committee meetings	weekly	CFO	Minutes of meetings
			Conduct duplicate costs analysis for contracted services and employed staff	28 February 2023	CFO and Exec Director: Corporate Services	Financial report with recommendations

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		is no evidence that this framework was formally adopted by council No contract performance monitoring measures in place An Annual Procurement Plan is in place				
	Litigation and Contingent Liability	Ongoing high levels of litigation, mostly against the Municipality, increasing its exposure. Failure to pay for services rendered Under-staffing The municipality has a huge contingent liability potential exposure of about R84 million. The increase from the prior financial year was around million.	Update litigation register and reflect total contingent liability	31 January 2023	Executive director: Corporate Services	Updated Litigation Register
			Conduct an integrated diagnostic analysis of root causes and make recommendations on mitigating measures to be implemented	28 February 2023	Executive director: Corporate Services	Diagnostic report and signed Council resolution
			Negotiate payment arrangements for goods and services rendered by creditors and suppliers	Monthly	CFO and Exec Director: Corporate Services	Negotiated payment arrangements
			Determine the total legal costs incurred in the financial year 2021/22	31 January 2023	Executive director: Corporate Services	Financial Report
			Honouring of renegotiated payment arrangements	Monthly	CFO	Financial report

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		Municipality does not have a sound legal division to follow up on litigation cases with the attorneys; as well, no proper filing systems in place for legal files Over 85% of the contingent liabilities emanate from failure to pay for services rendered to the municipality The municipality incurs high professional and consulting costs from litigation cases Poor case management.				
	Governance Legislative Matters	The municipality has a collective executive committee system council in place with the Mayor, Council Whip and	Enforcement of the Code of Conduct for Councillor	Monthly	Speaker	Consequence management Register for Councillors
			Schedule quarterly training for Councillors on governance, oversight,	15 January 2023	MM	Council Training Schedule

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		Speaker designated as fulltime Councillors. The Council has 39 Councillors. **The municipality's council and its committees are not functional.** **There is political and administrative instability.** **Weakened oversight on administration** **There is persistent infighting within council** **Council sittings are often disrupted** **Ineffective public participation.** **There are no resolutions register or a system to track resolutions** **There are perpetual delays in processing**	financial management and articulation of roles and responsibilities.			
			Council should be consistently reminded to make decisions that promote service delivery and benefit the community	31 January 2023	MM	Signed acknowledgement of debt and payment arrangements
			Council and committee meetings held as per approved annual institutional calendar	Quarterly	Speaker	Approved institutional calendar Minutes of Council and committee meetings
			Development and implementation of stakeholder engagement strategy	28 February 2023	Executive Director: Corporate Services	Approved stakeholder engagement strategy and signed Council resolution Monthly report on activities implemented to give effect to the strategy
			Councillors to declare private and financial interests	28 February 2023	Executive Director: Corporate Services	Register for declaration of interests

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		and submission of statutory reports There are municipal accounts of councillors in arrears for more than 90 days There is no record of councillors' declaration of interest. There is no code of conduct that addresses ethical behaviour by councillors. There are delays in processing and decision-making on statutory reports. There were recent community protests on provision of water, roads and sewerage spillages. There is no institutional annual calendar for council and committee meetings.				

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		There is no training programme for councillors on governance, financial management, code of conduct and service delivery. There is no political interface in procurement matters and recruitment processes TROIKA meetings that include the Municipal manger are not sitting Municipal Manager does not receive support on timeous consideration of statutory reports Office bearers do not observe protocol when requesting information and reports and issuing directives to the administrative components There is Political Intervention in recruitment process				

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		of top management and SCM functions There is unwarranted and inappropriate interventions and undue influence by external law firms and other forces that impacts on relations between political office bearers and administration.				
	System of Delegations	Municipality does not have a system of delegation in place	Prepare and adopt process plan for review of system of delegations	31 January 2023	Executive Director: Corporate Services	Approved report and process plan. Signed Council resolution
			Maintain an updated Delegations Register	31 January 2023	Executive Director: Corporate Services	Updated Delegations Register
			Review delegation of powers and functions for procurement matters and establishment of Bid committees	31 January 2023	Municipal Manager	Approved delegation of authority
Institutional	**Overtime**	Excessive overtime due to non-filling of critical vacancies Employee costs are high, contributing 46%	Review and implement all HR financial related policies with the help of SALGA and COGTA. Introduce measures and procedures to approve, monitor overtime work and compensations – use Divisional Agreement and BCEA to guide internal processes.	Monthly	MM and HOD	Reduced Overtime Cost Revised HR Policies

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		of the total OPEX, which is above the norm of 25-40% according to the treasury circular 71.	Introduce and conclude an Essential Services Agreement with Organised Labour. The Municipality should conduct a cost-benefit analysis of a shift system. Conduct staff verification regularly.			
Finance	**Funded Budget**	**The municipality's 2022/23 Budget is unfunded:** **Cash Flow Budget: there is a surplus of R35 Million from the 2022/23 operations.** **The municipality is Unfunded with R839 Million after all the municipality's liabilities are considered.** **Increasing debt impairment costs due to poor debt management** **The July 2022 equitable share grant funding of the**	Prepare, approve, and implement a Budget Funding Plan (BFP) BFP progress must be reported monthly/ include BFP targets in performance plans. Implement accurate budgeting for non-cash items to generate cash to move the municipality to a funded position. Adjust the 2022/23 MTREF Budget in line with BFP	28.02.2023	MM, CFO	Approved BFP Approved 2022/23 Adjustment Budget

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		municipality has been withheld.				
	Cash Flow Management	The municipality had a Cash/Cost Ratio below the minimal norm of one month in 2019/20, 2020/21 and 2021/22: This poses a challenge for the municipality pay its liabilities as they fall due. Municipality is vulnerable and at high risk in event of financial shocks/setbacks and this affects its ability to meet its obligations to provide basic services or its financial commitment is compromised.	Establish a cashflow committee. Adopt an active cash management system to enable it to maintain sound liquidity. Reduce spending and increase collection	Monthly	MM, CFO	Monitor revenue targets and spending patterns and report unnecessary deviations. Improved Cash/Cost Ratio
	Cost Containment	No cost containment policy Cash flow management committee not in place	Revise the Cost containment Policy in line with NT Municipal Cost Containment Regulations (2019) Implement the approved cost containment policy. Set targets for reduced expenditure	Monthly	MM and Top Management	Reduced expenditure Improved liquidity ratios

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
	Revenue Management	**Valuation roll and the billing system contain errors** **Billing and financial system errors** **No tariff policy in place** **Year on year tariff adjustments with no substantive justification** **Non-collection of meter readings** **Lack of capacity to collect readings by the municipality. Community members encourage.d to send their own meter readings** **Net debtors' days increased from 992 days in 2019/20 to 1240 days in 2020/21.**	Encourage the District Municipality to have a workable Service Level Agreement with the Local Municipalities which allows them to realise revenue for the provision of bulk water services. Review, update and implement a Revenue Enhancement Strategy.	Monthly	MM and CFO	Increased collection from LMs Increased cash inflow Revised Revenue Enhancement Strategy

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		Revenue Overall collection rate has been very low and for 2020/21 financial year was 46%. Collection rate for service charges for 2020/21 was 48% and is also well below optimal level.				
	Creditor Management	**Non-payment of services within 30 days of receipt of the invoice as required by the MFMA** **Irregular payments made from the bank accounts**	Negotiate the payment of outstanding balances and approval of payment plans, including the current account	Monthly	CFO	Approval of the favourable payment plans Improved creditor payment ratio
	Ring-fenced Conditional Grants	**The conditional grants are not 100% cash-backed and are used to subside the operations**	Monthly reconciliation Separate account reconciling to the disbursement schedule	Monthly	CFO	Disbursements of grants in accordance with the approved DORA conditions All CGs 100% cash-backed
	Supply Chain Management	**The SCM unit is functional and currently consists of nine officials however**	Comply with SCM policy and legislation.	Monthly		Reduced procurement costs

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		there is a concern with regards to the competence levels of the staff members. **SCM Committees not properly functional** **No procurement plan in place** **Outdated SCM related policies**	All municipal items for procurement should be included in the procurement plan. Consequence management policy to be incorporated in HR. Training of staff regarding the SCM processes. Procurement to linked to cashflow and set spending limits Monitor the procurement in accordance with the approved plan and ensure alignment with cashflow targets and spending limits Pre assurance by internal audit or any independent assurance provider before approval and award by final authority e.g. MM or Council.			Reduced deviations and transgressions Reduced UIFW
Service Delivery	**Loss Management**	**Loss of revenue due to increases in water (19%) and electricity losses (28%)**	Implement leak detection programme and carry out repairs on bulk water	Monthly	CFO and Technical Director	Reduced non-revenue water

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FROM: Kavitha Ruplal, Tel: 021 315 5825, **Email:** Kavitha.Ruplal@treasury.gov.za

Ms. Linda Nengovhela
Chief Director: Municipal Finance Management
North West Provincial Treasury
Private Bag X2060
Mmabatho,
2735

Dear Linda

THE INTERIM FINANCIAL RECOVERY PLAN RESCUE PHASE- NALEDI LOCAL MUNICIPALITY

The meeting held on 6 December 2022 between the National Treasury Municipal Financial Recovery Service (NT MFRS) and the North West Provincial Treasury (NWPT) refers.

The (NT) (MFRS), working jointly with the North West Provincial Treasury, has prepared and finalised the status quo assessment report for Naledi Municipality. We therefore, recommend that NW PT should consider the proposed key strategic focus areas and indicators for inclusion in the interim rescue phase for implementation by Naledi municipality while the preparation of the holistic Financial Recovery Plan (FRP) is underway.

The interim rescue phase of the FRP focuses primarily on cash and restoring the cash position of the municipality. The indicators include a funded budget (or demonstrating that the municipality is on a credible path to a funded budget), monitoring of the daily cash and cash balances, cost containment measures, focusing on improving the debtor's collection rate, the ring-fencing of conditional grants and ensuring that creditors are paid timeously, and that negotiations are entered into to settle any outstanding debt. There is also some focus on governance, institutional and service delivery matters, however, these are limited to addressing the most visible and issues that contribute towards the reduction of operational expenditure and revenue enhancement.

Based on the outcome of the concluded status quo assessment for Naledi LM, sixteen (16) priority areas have been identified as crucial for the rapid financial turnaround in the interim phase.

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It is critical to indicate that a service provider has been appointed to support NT MFRS with the preparation of the FRP for Naledi Municipality. The NWPT will be contacted soon to assist with arrangements to introduce the service provider to the municipal administration. The NT MFRS and its service provider will be working closely with the NW PT and the municipality to ensure that all milestones are achieved as outlined in the FRP Preparation Roadmap.

Furthermore, annexure A, details the structure of the proposed interim rescue plan whilst the process of preparing the Financial Recovery Plan is underway. The plan covers, amongst others; the focus areas, key baseline findings, short-term activities/deliverables; target dates, the responsible officials, the output indicators and portfolio of evidence for claimed performance.

In terms of the legislative requirements the FRP must be finalised within 90 days from the approval of the status quo assessment report. The NT MFRS will however endeavour to submit the FRP within 60 days to the MEC for Finance for approval.

Let me use the opportunity to express my appreciation to your department for their assistance with the FRP status quo assessment in Naledi LM.

Yours sincerely

Pp

KAVITHA RUPLAL
ACTING HEAD: NT MFRS
DATE: 17/01/2023

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Annexure A: Interim Rescue Plan: Naledi Local Municipality

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
Governance	**UIFW Expenditure**	**Fruitless and Wasteful Expenditure: R 2 655 370.00** **Unauthorised Expenditure: R 21 103 750.00** **Irregular Expenditure: R111 815 159-00** **UIF&W Policy Not in place.** **UIF & W Reduction Framework recently adopted.** **No Disciplinary Matters in the entire NLM (Disregarding AG Findings for disciplinary actions to be initiated)**	Investigate and report quarterly to Council on all reported allegations of financial misconduct against officials and apply consequence management	Quarterly	MPAC/Disciplinary Board	Section 32 Investigation reports with recommendations
			Develop and approve the UIF&W expenditure reduction plan	28 February 2023	CFO	Approved UIF&W expenditure reduction plan and signed Council resolution
			Implement Consequence Management for historical Irregular expenditure/take steps to recover or rectify such expenditure and to prevent recurrence as prescribed by section 32 of the MFMA.	Monthly	MM	Consequence management register on UIF&W expenditure transgressions
			Review SOPs for procurement	28 February 2023	CFO	Approved reviewed SOPs
			Pre assurance to be given by internal audit or any independent assurance provider before approval and award by final authority, e.g., MM	Before award	CFO	Legislative compliance
			Reports on UIF&W expenditure to Accounting Officer	Monthly	CFO	Acknowledgement of Receipt of Monthly reports
			Capacitate and train staff on supply chain management	Monthly	CFO	Reduced UIFW Improved Consequence Management

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
	Powers and Functions	**The municipality performs vehicle registration services as well as processing the renewal of licences and permits on behalf of the department of transport.** **There is an SLA on Vehicle Licensing where the municipality gets 20% of collections** **The municipality conducts the following unfunded mandates: Libraries, Vehicle Co**	Conduct an in- depth analysis of cost implications.	31 January 2023	CFO	Financial analysis report
			Re-negotiate or terminate mandate agreements	31 March 2023	CFO and HOD	Signed re-negotiated mandate agreement or termination of mandate agreement
	Immovable Property Portfolio	**Market-related rental is not charged on properties leased by the municipality** **No updated Council owned immovable properties** **Material misstatements on the disclosed amounts relating to investment properties.**				
			Develop and approve process plan, and mobilisation of resources for an audit of Council owned immovable property	15 February 2023	Executive Director: Corporate Services	Approved report with process plan and signed Council resolution
			Review and sign market related rentals on all lease agreements related to Council owned immovable properties	28 February 2023	Executive Director: Corporate Services	Market-related rentals payable Signed reviewed lease agreements
			Report on revenue collected from all tenants in Council owned immovable properties	Monthly	CFO	Financial report

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
	Contract Management	**Value of Contracted Services is R 7 868 000-00 projected to be R 56 802 000-00 in the current FY. This constitutes 6% of Total Operating Expenditure** **No Approved contract management framework and policy** **Non-compliance with Section 116 of the MFMA monthly monitoring reports.** **No contract register is in place, as set out in the contract management section.** **There are irregular month to month contracts, Annasa Management Contract is one** **There are evergreen contracts in the municipality, Annasa Management Contract.**	Audit all contracts and value-for-money assessment including evergreen or irregular month-to-month contracts for goods and services.	28 February 2023	Manager: Internal Audit	Audit report
			Review and terminate evergreen or irregular month-to-month contracts for goods and services .	Monthly	CFO	Reduced irregular expenditure
			Update contract register	31 January 2023	CFO	Updated Contract register
			Develop and table in Council for approval the contract management framework	31 March 2023	CFO	Approved Contract management Framework and signed Council resolution
			Weekly contract management committee meetings	weekly	CFO	Minutes of meetings
			Conduct duplicate costs analysis for contracted services and employed staff	28 February 2023	CFO and Exec Director: Corporate Services	Financial report with recommendations

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
	Litigation and Contingent Liability	**The litigation register is in place and updated regularly.** **Contingent liability: (R 13 563 676-58)** **The impact of the liability on the Municipality has been adverse** **High level of exposure to the municipality due to litigation against the municipality.** **There is no legal support operational plan or protocols in place.**	Update the litigation register and reflect the total contingent liability	31 January 2023	Executive director: Corporate Services	Updated Litigation Register
			Conduct an integrated diagnostic analysis of root causes and make recommendations on mitigating measures to be implemented	28 February 2023	Executive director: Corporate Services	Diagnostic report and signed Council resolution
			Negotiate payment arrangements for goods and services rendered by creditors and suppliers	Monthly	CFO and Exec Director: Corporate Services	Negotiated payment arrangements
			Determine the total legal costs incurred in the financial year 2021/22	31 January 2023	Executive director: Corporate Services	Financial Report
			Honouring renegotiated payment arrangements	Monthly	CFO	Financial report
	Governance Legislative Matters	**Mayoral Collective Council in terms of the Executive Committee System and Council committees are in place and sitting as required. Oversight Committees aren't**	Enforcement of the Code of Conduct for Councillors	Monthly	Speaker	Consequence management Register for Councillors
			Schedule quarterly training for Councillors on governance, oversight, financial management and articulation of roles and responsibilities.	15 January 2023	MM	Council Training Schedule

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		effective. Not instituting corrective measures. MPAC and Disciplinary Board established and not very functional, not instituting corrective action to rectify management failures. The administration does not implement council resolutions on time. Councillors' municipal accounts are not up to date although they are constantly monitored for improvement. Councillors have not declared their financial interests.	Council should be consistently reminded to make decisions that promote service delivery and benefit the community	31 January 2023	MM	Signed acknowledgement of debt and payment arrangements
			Council and committee meetings are held as per the approved annual institutional calendar	Quarterly	Speaker	Approved institutional calendar Minutes of Council and committee meetings
			Development and implementation of stakeholder engagement strategy	28 February 2023	Executive Director: Corporate Services	Approved stakeholder engagement strategy and signed Council resolution Monthly report on activities implemented to give effect to the strategy
			Develop and maintain resolution tracking system	31 January 2023 Monthly	Executive Director: Corporate Services	Updated resolution Tracking system
			Sign payment arrangements with councillors and officials owing arrears for services rendered	Monthly	CFO	Signed acknowledgement of debt and payment arrangements
			Councillors to declare private and financial interests	28 February 2023	Executive Director: Corporate Services	Register for declaration of interests
	System of Delegations	**Delegations of Authority last updated in 2014**	Prepare and adopt a process plan for review of the system of delegations	31 January 2023	Executive Director: Corporate Services	Approved report and process plan.

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		NLM does not have a system of delegations or a delegations register. There are no updated delegations of authority in place. Currently, there are no sub-delegations below the Municipal manager. There is currently no clarification of roles as required by law				Signed Council resolution
			Maintain an updated Delegations Register	Monthly	Executive Director: Corporate Services	Updated Delegations Register
			Review delegation of powers and functions for procurement matters and establishment of Bid committees	31 January 2023	Municipal Manager	Approved delegation of authority
Institutional	**Overtime**	There is a policy on regulating overtime; however, overtime increased to 57% in the 2021 financial year (2021: R3, 391,871. 2020: R1, 941,521).	Introduce measures and procedures to approve and monitor overtime work and compensations – use Divisional Agreement and BCEA to guide internal processes. Introduce and conclude an Essential Services Agreement with Organised Labour. Conduct an analysis of the overtime expenditure for the period ending 2020/2021 and 2021/2022 to determine trends and areas of excessive overtime and the cause and recommend and implement measures to reduce the expenditure.	Monthly	MM and HOD	Reduced Overtime Cost Copy of the SOP and S71 report on overtime.
Finance	**Funded Budget**	The municipal budget has been unfunded for	Prepare, approve, and implement a Budget Funding Plan (BFP)	28.02.2023	MM, CFO	Approved BFP

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		the past five consecutive years. **Under budgeting on the following critical items: service charges, interest income and property rates revenue.** **Unrealistic monthly cash flow projections and the PT estimated a negative cash flow balance of R 883 million.** **The municipality over-inflated their collection rate at 110%, thus inflating the cash balance of the municipality over the MTREF.**	BFP progress must be reported monthly/ include BFP targets in performance plans. Implement accurate budgeting for non-cash items to generate cash to move the municipality to a funded position. Adjust the 2022/23 MTREF Budget in line with BFP			Approved 2022/23 Adjustment Budget
	Cash Flow Management	**The municipality had a Cash/Cost Ratio below the minimal norm of one month in 2019/20, 2020/21 and 2021/22: This poses a challenge for the municipality to pay its liabilities as they fall due.** **The collection rate was 73% (19/20) and 82%**	Establish a cash flow committee. Adopt an active cash management system to enable it to maintain sound liquidity. Reduce spending and increase collection	Monthly	MM, CFO	Monitor revenue targets and spending patterns and report unnecessary deviations. Improved Cash/Cost Ratio

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		(20/21), which is below the norm, and the monthly expenses are high, which results in a negative cashflow balance. The estimated negative cash flow balance is R 883 million. The municipality is vulnerable and at high risk in the event of financial shocks/setbacks. This affects its ability to meet its obligations to provide basic services or its financial commitment is compromised.				
	Cost Containment	Policy Aligned with NT Regulations; however, implementation is ineffective.	Revise the Cost containment Policy in line with NT Municipal Cost Containment Regulations (2019) Implement the approved cost containment policy. Set targets for reduced expenditure	Monthly	MM and Top Management	Reduced expenditure Improved liquidity ratios
	Revenue Management	Billing- Inaccurate billing system leading to accounts being disputed by customers	Encourage the District Municipality to have a workable Service Level Agreement with the Local Municipalities which allows them to	Monthly	MM and CFO	Increased collection from LMs Increased cash inflow

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		Financial system problems. (Property rate vs valuation roll). The municipality has rezoning challenges **Lack of cost-reflective tariffs contributing to unfunded budget.** **Customers Care- Long turnaround time, which impacts negatively on the debtor's book. Collection and payment-monthly bank reconciliation not performed timeously.** **Clearances- Delays in the issuing of clearance certificates which also impact on the revenue of the municipality.** **Credit Control- no measures in place to curb over consumption by Indigents.** **Slow turnaround time for the payment of invoices for goods and services required by the technical services**	realise revenue for the provision of bulk water services. Meter reading should be done monthly, and variances be attended promptly. Designated officials within the BTO to update customer data/information on regular basis. Introduction of Incentives like interest reduction on full settlement of accounts Valuation roll reconciliation to the billing data Resolve accounts disputes and track the issuance of the clearance figures. Review, update and implement a Revenue Enhancement Strategy.			Revised Revenue Enhancement Strategy

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		department has shown marginal improvement. Lack of integration of different roles and functions within the revenue value chain Lack of regular update of customer data/information				
	Creditor Management	Non-payment of services within 30 days of receipt of the invoice as required by the MFMA Creditors' payment period above the norm at 1427 and 1354 days for the three years 2019/20 and 2020/21, respectively.	Negotiate the payment of outstanding balances and approval of payment plans, including the current account Develop – Debt Repayment 90 Day Moratorium application per Section 153 (1) (a) of the MFMA needs to be done.	Monthly	CFO	Approval of the favourable payment plans Improved creditor payment ratio
	Ring-fenced Conditional Grants	Use of conditional grants to fund operational expenditure as the spending is at 60% on average. Risk of unspent conditional grants not	Monthly reconciliation Separate account reconciling to the disbursement schedule	Monthly	CFO	Disbursements of grants in accordance with the approved DORA conditions All CGs are 100% cash-backed

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		backed/supported by bank balance.				
	Supply Chain Management	The SCM Unit has shown a poor capacity to adhere to the cost containment policy. Poor planning on the procurement resulting in irregular expenditure	Comply with SCM policy and legislation. All municipal items for procurement should be included in the procurement plan. Consequence management policy to be incorporated in HR. Training of staff regarding the SCM processes. Procurement to linked to cashflow and set spending limits Monitor the procurement in accordance with the approved plan and ensure alignment with cashflow targets and spending limits Pre-assurance by internal audit or any independent assurance provider before approval and award by final authority, e.g., MM or Council.	Monthly		Reduced procurement costs Reduced deviations and transgressions Reduced UIFW
Service Delivery	**Loss Management**	The municipality is under-collecting and losing no less than R18 million per month. Losing R2,5 million, Customer manipulation	Implement a leak detection programme and carry out repairs on bulk water. Conduct a supply area meter audit to determine if all customers are metered.	Monthly	CFO and Technical Director	Reduced non-revenue water. Percentage of no. of repairs effected compared to faults reported.

Pillar	Focus Area	Baseline Finding/Key Issues	Key Intervention Activities (Deliverables)	Deliverable Due Date	Responsible person	Output Indicator
		of meters and technical losses **Losing R9,4 million per month on unmetered consumption** **High electricity distribution losses. The municipality recorded distribution losses of 15% in 2019/20 and 17% in 2020/21**	Implement a meter replacement program for meters that are missing or not functional. Monthly progress meetings must be held with the service provider to ensure that there is adequate billing and support is given to the municipality to maximize revenue.			100% audit per metering area or ward or water management area, or substation zone An exception report for areas without meters or dysfunctional meters Demonstrate that meters have been installed as per the exception report generated above Progress report on total billing and an exception report of properties that are not billed.

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FROM: Ms Malijeng Ngqaleni, Tel: 012 315 5164, **Email:** Malijeng.Ngqaleni@treasury..gov.za

Honourable Motlalepula Rosho, MPL
MEC for Finance
North West Provincial Government
Private Bag X2060
MMABATHO,
2735

Dear Honourable MEC Rosho

SUBMISSION OF FINAL STATUS QUO ASSESSMENT REPORTS PREPARED FOR THE SEVEN (7) NORTH WEST MUNICIPALITIES (DR RUTH SEGOMOTSI MOMPATI DISTRICT MUNICIPALITY, NALEDI LM, TSWAING LM, DITSOBOTLA LM, RAMOTSHERE MOILOA LM, KGETLENGRIVIER LM, MADIBENG LM) IN FINANCIAL CRISIS IN TERMS OF SECTIONS 139(1)(a)(v) AND S139(2) OF THE MFMA, ACT NO. 56 OF 2003

I refer to the resolution of the Provincial Executive Council to intervene in seven (7) municipalities in financial crisis in the North West in terms of section 139(5)(a) and (c) of the Constitution of the Republic of South Africa.

In line with section 141(2), the NT: MFRS commenced with the processes to prepare mandatory financial recovery plans (FRPs) for the seven (7) municipalities. In this regard the NT: MFRS has been supported by the North West Provincial Treasury (NWPT) through contracted service providers to conduct status quo assessments in the municipalities. The status quo reports have subsequently been completed with input and quality assurance from NT: MFRS.

The final status quo assessments are attached in terms of section 139(1)(a)(v) of the MFMA that requires that the FRP status quo assessments must be submitted by NT: MFRS to the MEC for Finance. Following this action, section 139(2) of the MFMA determines that the MEC for Finance must submit a copy of the status quo assessment reports to the respective municipalities, the Minister of CoGTA and the Minister of Finance for information purposes.

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Following the submission of the status quo assessment reports and the issuing of the required notification letters by the Office of the MEC, the NT: MFRS will continue to prepare the mandatory FRPs within a period of 90 days and submit same to the MEC for approval.

The NT: MFRS team will continue to depend on the professional assistance provided by the Provincial Treasury to warrant the successful completion of the FRP preparation processes. We are looking forward to work with your department towards sustainable municipalities in the North West Province.

Yours sincerely

MALIJENG NGQALENI
DEPUTY DIRECTOR-GENERAL INTERGOVERNMENTAL RELATIONS
DATE: 21 February 2023

CC: Head Official, North West Provincial Treasury
MFMA Co-ordinator: North West Provincial Treasury