FINAL DRAFT FINANCIAL RECOVERY PLAN

Prepared for the

TSWAING LOCAL MUNICIPALITY

MAY 2023

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EXECUTIVE SUMMARY:

The North West Provincial Executive, on its sitting of the 1st of May 2022, instituted an intervention in terms of section 139(5) (a) and (c) of the Constitution in respect of the Tswaing Local Municipality (Tswaing). The intervention occurred in response to many crises Tswaing is facing including difficulties in providing basic services and lack of long-term financial sustainability. The municipality was faced with numerous financial problems which impacted, amongst others, its ability to meet its financial commitments and the provision of basic services. Given the above and the urgency to ensure service delivery is heightened to communities and the financial viability of the municipality restored, the development and implementation of a Financial Recovery Plan (FRP) has been seen as a critical way forward for Tswaing.

The deepening crisis at Tswaing local Municipality is characterized by a lack of accountability as well as ineffective oversight due to instability in senior management positions and Council statutory structures. The municipality has contracts register that is incomplete making it difficult to assess matters around irregular ever-green contracts. The Register is not updated regularly and only captures a few selected suppliers with information gaps on transaction details and contract period dates.

AGSA audits for 2019/20, 2020/21 and 2021/22 have highlighted too many repeat findings for Supply Chain and Contract Management issues. This has contributed to the high amounts of UIF&W.

The Annual Financial Statement (AFS) for the financial year 2021/22 of the municipality indicates that the historical UIF&W expenditure as follows:

Unauthorized expenditure:	R619.9 million
Irregular expenditure:	R584.9 million
Fruitless and Wasteful expenditure:	R 79.4 million

UIF&W expenditure is not identified, investigated, and reported because a Disciplinary board/committee has not been established. There is therefore a culture of no accountability and consequence management for UIF&W.

There is currently no Audit Committee and Internal audit function meaning that there is no oversight over the implementation of audit action plans. The annual financial statement for the financial year 2021/22 of the municipality indicates that the contingent liability declared amounts to R9.3 million which has increased from R8.8 million in the financial year 2020/21.

The municipality adopted an unfunded budget for the past 5 financial years including for the financial period of 2021/22. This therefore, indicates that the Municipality is unable to service its creditors within 30 days due to inadequate cash flow, while the Municipality is unable to collect outstanding debts due to the low collection rate and inadequate political will to implement the credit control policy.

The municipality has long outstanding creditors that are over 90 days. Eskom (121 M), and Pension fund (R37 M) are some of the long outstanding debts over 90 days. The municipality is unable to settle these debts as they are currently not making adequate surpluses to repay the debts.
The creditor's payment for the municipality for 2021/22 was 297 days and in 2020/21 was 299 days.

Tswaing Municipality has to consider undertaking the process of debt restructuring as part of financial recovery measures and consider applying for debt relief under circular 124 of MFMA with regards to Eskom debt. The Municipality has losses for water and electricity that are above the norm, currently, the Municipality has no system in place to calculate those losses. It is unable to determine Water and Electricity losses due to lack of meters, meters bypassed or malfunctioning, illegal connections on electricity or unmetered connections, and generally poor infrastructure maintenance.

The municipality currently does not have a complete and approved indigent register as of March 2023.

The FRP will be used as an instrument to guide the municipality in addressing the financial crisis in the municipality as well as to ensure that the municipality regains its financial health within the shortest timeframe whilst ensuring that all issues which adversely affect the financial health of the municipality are comprehensively addressed.

The FRP adopts a strategic, focused approach that is time-bound yet comprehensive enough to ensure that the underlying root causes of the crisis are adequately addressed. To achieve this objective, the FRP presents a phased approach to recovery, differentiating between issues to be addressed in the short, medium and long term. The FRP is divided into three distinct but interdependent phases. These include a Rescue Phase (Phase 1) which focuses primarily on cash and restoring the cash position of the municipality, followed by a Stabilisation Phase (Phase 2) which expands on the financial indicators to be monitored and emphasizes key governance and institutional issues which must simultaneously be addressed and finally, a Sustainability Phase (Phase 3) to ensure that indicators are developed that will give effect to the long-term financial sustainability of the municipality. The approach is designed to ensure that financial recovery is not only achieved, but more importantly, that progress is institutionalized and sustained within the Tswaing Local Municipality.

This FRP gives an account of the challenges faced by the municipality in the status quo assessment in Part 2 of this report. Part 3 of the recovery plan also indicates the budget parameters and limits which are set for the municipality for the recovery phases. Part 4 indicates the schedule of reporting and Part 5 gives a description of the reporting framework and escalation mechanism for the recovery plan. The detailed implementation plan dashboard is attached as Annexure A.

PART ONE:

BACKGROUND

Tswaing Local Municipality (TLM) is a Category B municipality and is one of the five local municipalities in the area of jurisdiction of Ngaka Modiri Molema District Municipality in the North West province. Tswaing Local Municipality provides all the basic services in its area of jurisdiction except for water and sanitation, which are provided by the Ngaka Modiri Molema District Municipality. Tswaing covers an area of 5 875 km2. The main towns within the municipality are Delareyville, Sannieshof and Ottosdal with the main economic sectors being agriculture and small-scale mining.

Figure 1: Map of juridistic areas within the Ngaka Modiri Molema District Municipality

According to Census 2011 Tswaing Local Municipality has a total population of 124 218 people translating into a population density of 21 persons per km2. The population growth rate between 2001 and 2011 was 0.84%. According to the Stats SA Community Survey 2016, TLM’s population had grown to 129 052. Population growth directly and indirectly impacts employment and unemployment, as well as other economic indicators such as economic growth and per capita income.

The municipality has had a history of challenges that have included institutional matters, vacancies in key positions, lack of capacity, lack of skills audit and a non-functional Local Labour Forum (LLF). The municipality had qualified audit opinion for the past four financial years of 2018/19, 2019/20, 2020/21 and 2021/22

The municipality owed Eskom more than R121 million as of 30 March 2023.

Tswaing has faced a number of challenges in the past and other interventions have been undertaken.

In 2016. The municipality faced challenges with maladministration, poor governance and poor financial administration amongst others which impacted negatively on service delivery.

Given the deteriorating situation at the municipality, the Cabinet resolved in 2015 to approve an intervention in terms of Section 139(1). The Department of Corporative Governance and Traditional Affairs (CoGTA) appointed an Administrator with effect from 01 May 2015 for Tswaing Local Municipality.

As there was no improvement in municipality finances and service delivery, on the 01st of May 2022 new intervention was instituted in terms of section 139(5) (a) and (c) of the Constitution. The MEC for Finance requested the Minister of Finance, in terms of Section 144 of the MFMA to prepare an FRP.

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) 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".

S139(5)(c) of the Constitution reads as follows: assume responsibility for the implementation of the recovery plan to the extent that the municipality cannot or does not otherwise implement the recovery plan.

In terms of the Constitution, the North West Provincial Executive Council 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 municipal council and the administrative executive in any matter or area that impacts on the finances of the municipality. Section 139(5)(a) 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 Tswaing 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 among other things, 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 Executive Council to request the Municipal Financial Recovery Service (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). In line with S139 of the MFMA, it is incumbent upon the MFRS unit to prepare a mandatory FRP.

S139(1)(a)(iv) of the MFMA 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) of the MFMA, 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 **–**

i. identify the financial problems of the municipality;
ii. be designed to place the municipality in a sound and sustainable financial condition as soon as possible;
iii. state the principal strategic objectives of the plan, and ways and means for achieving those objectives;
iv. 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;
v. identify the human and financial resources needed to assist in resolving financial problems, and where those resources are proposed to come from;
vi. describe the anticipated timeframe for the financial recovery, and milestones to be achieved; and
vii. 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.

With regard to 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 Tswaing Local Municipality. The plan binds 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 OVERVIEW OF THE FINANCIAL RECOVERY PLAN

This financial recovery plan is prepared in accordance with the requirements of the Municipal Finance Management Act, 2003. It is based on the Status Quo Assessment that was conducted in 2022 further updated in April 2023.

Additionally, this financial recovery plan is aligned to the 4 pillars used by the National Treasury to assess municipal sustainability. These 4 pillars are: Governance, Institutional Stability, Financial Management and Service Delivery.

The strategic objective of this financial recovery plan is to address the current financial distress by focusing on improving the short-term financial liquidity of the municipality and by improving the long-term financial sustainability of the municipality.

This will be achieved in a phased approach, as indicated previously in this document, with a focus on high level targets to be achieved in each phase. Issues pertaining to governance, institutional stability and service delivery will also be addressed in so far as they undermine the financial recovery of the municipality.

To facilitate implementation, the financial recovery plan is divided into three key phases, namely:

Phase 1: Rescue → **Phase 2: Recovery/ Stabilisation** → **Phase 3: Sustainability**

Phase 1: Rescue Phase

In this phase, the focus is primarily on cash and restoring the cash position of the municipality. The indicators for rescue phase include 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 some focus on service delivery and governance matters, however, these are limited to addressing the most visible and easy to resolve issues. However, as resources become available through better cash management, the collection of outstanding debt and the prioritisation of expenditure, service delivery issues can be addressed more comprehensively to secure the revenue base.

This is a short-term phase and is anticipated to last six months from the approval date of the FRP.

Phase 2: Stabilisation Phase

The bulk of the recovery work takes place in the second phase of the recovery process. This phase is referred to as the stabilisation phase. In this phase, a strong focus on cash, finances and financial management is still maintained but greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality, such as the design of a fit for purpose organogram, plans to address the repairs and maintenance and renewal of infrastructure for the water and electricity network through which the municipality loses significant revenues, ensuring that the property valuation roll is updated and that all customers are billed accordingly and other similar measures.

This phase is expected to last between 06 to 12 months or longer depending on progress made by the municipality. This phase commences immediately after the rescue phase.

Phase 3: Sustainability Phase

Phase 3 of the recovery plan is the final phase of the intervention. Prior to concluding the intervention, there must be a reasonable assurance that measures implemented in Phases 1 and 2 are sustainable, that the municipality is committed to ensuring the implementation of good practice.

In this phase, it is also important to include indicators that give effect to the long-term financial sustainability of the municipality.

In each of the phases and each of the pillars, appropriate targets have been selected to guide the recovery process. These targets have been identified as most appropriate given the nature of issues confronting the municipality. These targets provide an indication of high-level outcomes that must be achieved but do not specify the steps to be taken or the methods to be used to achieve those outcomes.

1.3 PREPARATION, CONSULTATION AND APPROVAL OF THE MANDATORY FINANCIAL RECOVERY PLAN

PREPARATION

In a mandatory intervention, S141(2) of the MFMA requires that the financial recovery plan only be prepared by the Municipal Financial Recovery Service unit within the National Treasury. In terms of S139 (1) of the MFMA, the Provincial Executive Council must request the Municipal Finance Recovery Services unit to prepare an appropriate recovery plan for the municipality.

A request to this effect was received by the National Treasury from the MEC: Finance in the North West Province. S139(1)(v) (bb) of the MFMA requires that the financial recovery plan be prepared within a period not exceeding 90 days after the approval of the request from the Minister of Finance.

CONSULTATION

In preparing this financial recovery plan, the MFMA requires the Municipal Financial Recovery Service to consult with the municipality, the municipality's suppliers, and creditors, the MEC's for Finance and Local Government in the Province and organised labour (MFMA: Section 141(3)(a)).

All the required consultation processes as dictated by section 141(3)(a)(i) - (iv) of MFMA were undertaken. The following stakeholders and roles players were consulted as follows:

Stakeholder	Date(s)
Tswaing Local Municipality (MLM)	Multiple meetings & working sessions10/05/2023
North West CoGTA and Provincial Treasury consultation (Commencement meeting)	TBC
Municipality, CoGTA, PT (Status Quo Assessment Presentation)	16/03/2023 25/04/2023
Principal suppliers and creditors	10/05/2023
Organised Labour	10/05/2023

Furthermore, fourteen (14) days prior to the finalisation of the financial recovery plan, the MFRS unit, as per S141(3)(c), invited comments on the financial recovery plan from the municipality, the MECs for Finance and Local Government in the Eastern Cape Province, organised local government (Provincial SALGA), organized labour and the municipality's suppliers and creditors. The MFRS Unit also, as required in terms of the MFMA, published in a local newspaper, the Mo-Media, local newspaper on the 10/05/2023 and on the municipality's website (www.tswaing.gov.za), details of where copies of the draft financial recovery plan can be accessed for free and invited comments from the public.

APPROVAL

This Plan will be submitted for approval to MEC for Finance as per section 143 (2) of the MFMA.

1.4 IMPLEMENTATION OF THE MANDATORY INTERVENTION AND FINANCIAL RECOVERY PLAN

The Provincial EXCO has exercised its rights in terms of S139(5)(a) of the Constitution and assumed responsibility for the implementation of the financial recovery plan.

As this is a mandatory intervention, the municipality must implement the financial recovery plan. All revenue, expenditure and budget decisions must be taken within the framework of and subject to the limitations of the financial recovery plan (MFMA: S146(1) (a)and(b)).

The municipality is also required in terms of S146(1)(c) to report monthly to the MEC for Finance on the implementation of the financial recovery plan. Given that a Provincial Intervention Team has been deployed, reporting to the MEC for Finance will be done through the Provincial Executive Council representative.

It must be emphasized that the strategies set out in this financial recovery plan relate to activities that must be institutionalised and performed by various municipal officials, as part of their routine duties and tasks. Those appointed to such positions, even in acting capacities, must be given specific roles and responsibilities, which must be captured in a revised performance agreement. The Provincial Intervention Team will oversee this process.

The **financial resources** required to support the implementation of the financial recovery plan, will be realised through restructuring of the budget, implementing the revenue collection strategy and revenue enhancement initiatives and a commitment to stringent expenditure controls, with particular emphasis on the elimination of non-essential expenditure and non-revenue generating activities.

1.5 MONITORING AND OVERSIGHT OF THE INTERVENTION AND THE FINANCIAL RECOVERY PLAN

In ensuring that the directives of the Provincial EXCO are implemented, different structures are established in order to give effect to the directives. The different structures are the following:

- Political Intervention Steering Committee (PISC)
- The Technical Intervention Steering Committee (TISC)
- A Provincial FRP Intervention Team Leader (Coordinating Workstreams)
- Workstreams: Finance, Governance, Service Delivery and Institutional Matters (reporting to the Provincial FRP Intervention Team Leader)

POLITICAL INTERVENTION STEERING COMMITTEE (PISC)

The PISC, as established, comprise of the Deputy Ministers of CoGTA & Finance; Premier; MEC responsible for cooperative governance and traditional affairs, MEC for responsible for Finance, the Chairperson of SALGA and the Executive Mayor of the municipality.

- PISC shall be chaired by the Premier or MEC responsible for Cooperative Governance if the Premier is not available, or any representative designated by the MEC.
- The PISC shall meet at least once bi-monthly, however, special meetings may be convened as and when necessary.
- The PISC shall unblock any political and unresolved challenges that may be beyond the capabilities of the TISC.
- The PISC, supported by the TISC, shall conduct scheduled visits to the municipality for the purpose of monitoring progress on the intervention.
- The PISC shall require the MEC responsible for Cooperative Governance, with the

assistance of the Head of Department, to present quarterly progress reports to the Provincial Executive Council; and

- The PISC shall receive quarterly progress reports from the TISC.

TECHNICAL INTERVENTION STEERING COMMITTEE (TISC)

(a) The TISC comprise of the Heads of Departments, DDGs (responsible for local government affairs) of the following departments/entities:
(i) National Department of Cooperative Governance
(ii) Provincial Department of Cooperative Governance
(iii) National Treasury
(iv) Provincial Treasury
(v) Provincial South African Local Government Association - PEO
(vi) Municipal Infrastructure Support Agency (MISA) – CEO
(vii) The Municipal Manager and
(viii) Any other party that may be invited for the purposes of providing technical support throughout the intervention for the municipality.
(b) The TISC shall be convened and co-chaired by the CoGTA & Provincial Treasury HODs or any person designated by them.
(c) Department of Cooperative Governance and Traditional Affairs shall provide secretariat support to the TISC.
(d) CoGTA, supported by the secretariat, shall convene the TISC meetings fortnightly with the workstreams meeting weekly during the first two months of the intervention. This may be reviewed after the first two or three months and
(e) The TISC shall be responsible for, amongst others, the following:
(i) Monitor and oversee the implementation of the FRP monthly.
(ii) Receive reports of the work-streams fortnightly.
(iii) Unblock any administrative challenges faced by the municipality during implementation of the FRP as may be referred to it by the FRP Intervention Team Leader.
(iv) Leveraging of necessary resources to support the FRP Intervention Team Leader

WORK STREAMS OF THE TECHNICAL INTERVENTION STEERING COMMITTEE

(a) Work Stream Conveners will facilitate meetings of the work streams for purposes of compiling implementation plans consistent with the objectives of the FRP for approval by the FRP Intervention Team Leader.
(b) Work Stream Conveners will prepare and submit consolidated progress reports fortnightly on the implementation plans to the FRP Intervention Team Leader and Secretariat of the TISC.
(c) Each work steam shall engage with the municipality on their respective areas of focus and determine which other sector departments and state-owned entities should participate to support the municipality in their relevant areas of competence to ensure implementation of the FRP intervention plans.
(d) The Work Streams will be guided by the activities of the strategies contained in the Financial Recovery Plan of the municipality.
(e) The Work Stream Conveners will appoint a secretariat for their respective work streams to, amongst others, schedule meetings, take minutes and compile reports for TISC meetings.

1.6 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 Accounting Officer.

The emerging risks identified, include amongst others:

- Lack of MoU/Service Level Agreement that guides the responsibilities of Tswaing and the district municipality leading to waters service delivery challenges.
- Industrial actions owing to communications and resistance to the change due to any organisational restructuring or realignment and the implementation thereof.
- High costs of employment which are currently at 35% of the total operating expenditure budget before filling of vacant critical post which threatens financial recovery and long-term sustainability of the municipality.
- High rate of contracted services which is currently at 6% of the total operating expenditure budget, this threatens financial recovery and has the potentially of causing labour unrest through possible outsourcing of functions as well as duplication of functions.
- Community service delivery and other protests.
- Loss of grant funding due to non-compliance with grant conditions.
- Continued non-collection of revenue and increase in the debtors' book.
- Failure to materially control and reduce non-revenue electricity losses, which losses will negate the impact of other interventions due to municipality inability to measure losses.
- Failure to reverse the trend of under-maintenance and failure of timely replacement of aged infrastructure.
- Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives.
- Inadequate systems of delegation that impact on governance, administration and operational efficiency.
- Litigations issues due to SCM challenges.
- Failure to implement the required internal controls that will safeguard the operations of the Municipality within the confines of the policies.

1.7 COMMUNICATION PLAN

It is proposed that the municipality drafts an internal and external communication plan to support effective communication throughout the intervention. Change management processes will also assist with communicating and canvassing of the necessary support and buy-in.

Change is ideally led by the Accounting Officer assisted by the members of the Executive Management Team.

Type of Communication	Communication Schedule	Typical Communication Mechanism	Who initiates	Recipient
Consultation with all the stakeholders	At the commencement of the FRP	Face to face meeting or virtual	DLG, NWPT NT-MFRS	Creditors SALGA Organized labour
Phase 1 Rescue Phase	Weekly to track progress and review all financial policies and strategies	Email & Virtual meetings	DLG, NWPT & NT-MFRS	Tswaing Management (BTO) SALGA HOD NWPT & LG
Phase 2 Stabilization Phase	Bi-weekly: to review and assess adherence to reforms established in phase 1	Face to face/Meeting or Virtual	DLG, NWPT & NT- MFRS	Council HOD-NWPT & LG SALGA
Phase 3 Sustainability Phase	Monthly engagement to review whether performance targets are met	Face to face/Meeting Or Virtual	Tswaing Senior Management	Council NWPT and DLG SALGA NT-MFRS
Handover	After 36 months	Face to face engagement	NT-MFRS	Council SALGA Organized labour Creditors NWPT and DLG

PART TWO:

2.1 THE STATUS QUO ASSESSMENT

The North West Provincial Executive Council initiated an intervention process in terms of Section 139(5)(a) of the Constitution with the support of the municipality's political leadership, National Treasury (NT), the National Department of Cooperative Governance and Traditional Affairs (CoGTA). A status quo assessment was subsequently undertaken through which a number of challenges were identified.

In developing this financial recovery plan, the following information sources were utilised:

- Audit reports by the Auditor-General of South Africa for 2020-2022 financial years.
- The Mid-year Budget and Performance Assessment Report and the Medium-Term Revenue and Expenditure Framework (MTREF) Budget for 2020-2021
- The Integrated Development Plan 2022 - 2025
- Financial Ratios in accordance with MFMA Circular 71
- The Annual Financial Statements for 2020/21 and 2021/22

2.2 KEY ISSUES IDENTIFIED

The status quo assessment will be ordered in terms of the following categories:

a) Governance;

b) Institutional and Human Resources;

c) Financial Management; and

d) Service Delivery.

2.2.1 GOVERNANCE

This part of the assessment report relates to all governance related matters within the municipality in so far as it relates to the manner in which these matters are being managed and implemented.

2.2.1.1 Contract Management

Contract management is the process of managing contract creation, execution and analysis to maximize operational and financial performance within the municipality while reducing financial risk and exposure. There is an overall internal capacity issue in the legal / contracts space as the function is outsourced (not internal in-house capacity for contract management). Procurement planning is sub-optimal. There is a procurement plan in place but not executed timely due to many RFQ practices, reflective of short-term buying and hampers contracting for value

The municipality has contracts register which is incomplete making it difficult to assess matters around: irregular month-to-month contracts, pick up the existence of ever-green contracts, irregularities and compliance matters. The Register is not updated regularly and only captures few selected suppliers with information gaps on transaction details and contract period dates.

AGSA audits for 2019/20, 2020/21 and 2021/22 has highlighted too many repeat findings for Supply Chain and Contract Management issues. This has contributed to the high amounts of UIF&W

Main root cause has been lack of staff in contract management department and SCM department. The municipality should appoint of internal legal expert or staff with experience in contract management and drafting of Service Level Agreement (SLA).

A contract management framework needs to be developed to assist the officials of the municipality to properly manage contracts by addressing transition management, performance monitoring and by helping to ensure that both parties fulfil their contractual commitments.

The framework will further assist with early warning systems for contract about to expire in order to trigger procurement processes to avoid potential irregular month to month contracts and usage of outdated contracts.

The municipality must further conduct an audit of all contracts and develop an updated contract register.

2.2.1.2 Governance Model

2.2.1.2.1 Committees of Council

Tswaing Council Is composed of 28 members: 14 PR Councillors and 14 Ward Councillors. The Council has been facing issues of non-attendance of Council meetings by Councillors and halting of these meetings without consequences been taken.

Speaker, Mayor, and Committees structures in place, but Council faced a number of challenges over the past three (3) years, which include:
- Instability within the political and administrative components.
- Poor service delivery and community protests.
- qualified audit opinion over past three 3 years and limited remedial action.
- Several motions of no confidence in political office-bearers.
- Late submission of statutory reports.
- Non-attendance and halting of Council meetings without consequences.
- Eventual collapse of Council.

Above was caused by Poor meeting attendance by various Council members and it has resulted in delays in processing of key administrative matters affecting decision-making on implementation and statutory reporting. The integrated development plan (IDP) was not reviewed annually as required by section 34 of the MSA and Annual Report was not tabled in the Council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

Speaker should enforce Code of Conduct through training and monitoring to attend to issues of non-attendance of meetings. Also, Council Speaker should ensure adherence to Council approved institutional annual calendar for Council and Committee meetings with work plan and quarterly reporting topics and requirements from the Administration.

2.2.1.2.2 Council Oversight Committees

Municipal Public Accounts Committee (MPAC)

Municipal Public Accounts Committee (MPAC) was established by Council in September 2011 in terms of Section 79, Municipal Structures Act. MFMA, Act No. 56 of 2003 and renders oversight function and advise Council on issues of legislative compliance and the efficiency and effectiveness of the delivery of municipal programs. The Committee Is constituted and composed of 7 members appointed during December 2021

The Committee is not fully effective, which is of significant concern from a governance perspective as incidences of non-compliance with legislation are more frequent. MPAC has not been functioning optimally during past two years. No meetings were held from July to 31 December 2021 and there are backlogs in processing of reports from 2018/19 and MPAC reports have not been submitted to Council. MPAC was not functional and/or effective during the 2021/22 financial year.

Risk Management

The municipality does not have Chief Risk Officer (CRO) and there is absence risk management framework and plans. Risk Committee have not been established and as such there is no monitoring, mitigation, and reporting to Council of risk management matters. There is No council approved strategic risk profile for 2022/23

Internal Audit Function

Municipality is operating without Internal Audit (IA) function and does not have an annual IA plan.

Audit Committee Function

Municipality is operating without Audit Committee (AC) in place. No oversight and monitoring of the adequacy and effectiveness of internal controls and slow implementation of audit action plans.

To ensure that it has a functional and effective oversight committee in place the municipality should consider shared model with the district for Audit Committee, Internal Audit function and MPAC.

2.2.1.3 Unauthorized, irregular, fruitless and wasteful expenditure (UIF&W)

The Annual Financial Statement (AFS) for the financial year 2021/22 of the municipality indicates that the **historical UIF&W expenditure** noted is as follows:

Unauthorized expenditure:	**R619.9 million**
Irregular expenditure:	**R584.9 million**
Fruitless and Wasteful expenditure:	**R 79.4 million**

The municipality has seen an increase in unauthorized expenditure and non-compliance to Section 32 of the MFMA. This is due mainly to Unfunded budget for the past 5 years, Non-compliance with SCM regulations and contract management principles and that the municipality has not established SCM bid committees as required by Regulations 27, 28 and 29 of MFMA

Lack of adequate capacity for the SCM unit coupled with lack of personnel for contract management unit is of concern as there is nobody monitoring adherence to regulations which results in UFI&W. It is of critical importance to ensure that the position for these vacancies are filled to ensure that there are personnel to implement and monitor the system of internal controls.

UIF&W expenditure is not identified, investigated, and reported because a Disciplinary board / committee has not been established. There is therefore a culture of no accountability and consequence management for UIF&W.

The municipality should establish functional and effective disciplinary boards for oversight, investigation and consequence management on UIF&W.

The historical UIF&W expenditure is high and therefore it is imperative for the Accounting Officer to develop a reduction plan to address same.

2.2.1.4 By-Law Enforcement

By-laws are not current as they were last reviewed in 2007. In the 2019/20 cycle some by-laws were approved by Council without public participation. Communication with the communities is sub-optimal (i.e., the Municipality website is not updated and maintained with current information). There is no evidence of training political office bearers and administrative staff on by-laws and their strategic importance.

The Municipality should review all by-laws for legal compliance, train political office bearers and administrative staff on by-laws and their strategic importance.

2.2.1.5 Audit Action Plans

The municipality audit actions plans are not effective as evidence by many repeat findings from the AGSA audit. Municipality has also been having qualified audit opinion for the past three years with no improvements on the audit outcomes.

There is currently no Audit Committee and Internal audit function meaning that there is no oversight over the implementation of audit actions plans. The municipality also has also of acting position which hampers the implementation of audit actions plans (i.e., Municipal manager is acting, CFO is acting and Director Technical is acting).

The municipality should re-establish the internal audit function and audit committee to maintain oversight over the implementation of the audit action plans. Critical vacant post should be filled with personnel so that they can drive the implementation of the audit action plans.

2.2.1.6 ICT Management

State of IT risks facing the municipality are undocumented, unknown and remain unmitigated. ICT in the Municipality is in a state of decline - software updates are lagging, and infrastructure is aged. There is no ICT committee in place. There is no ICT Governance framework and adequate polices (only two policies where received) in place. There is lack of dedicated IT resources.

An ICT management committee (chaired by an audit committee member) needs to be established to monitor conduct oversight on ICT governance issues.

It is therefore imperative for the municipality to prioritize the design and the implementation of ICT general controls around the above strategic focus areas, plans and associated policies to give effect to compliance with ICT governance requirements.

This will enable the municipality to maintain alignment of strategic ICT functions to meet their needs and apply best practices that will enable the municipality to be cost-effective and derive maximum benefits from the implementation of ICT governance in the delivery of services to the local community.

2.2.1.7 System of Delegations

The System of Delegations is not effective: there are still accountability issues in the Municipality at executive and administrative levels. There is no evidence of written and signed instructions on execution of delegations from Municipal Manager's office. There is no clarity on whether a delegations register exists and how it enables the Municipal Manager, Chief Financial Officer, Directors and Senior Managers to delegate some of their delegated powers to personnel below them, in their department/unit.

The municipality should conduct an organization-wide training on the system of delegations to all end-users to ensure awareness and appropriate delegations are cascaded with the political sphere, relevant governance committees and administration.

2.2.1.8 Litigation and Contingent Liability

The annual financial statement for the financial year **2021/22** of the municipality indicates that the contingent liability declared is **R9.3 million** which has increased from **R8.8 million** in the financial year **2020/21.**
There is no evidence of Council approved litigation policy and strategy. In the absence of guidance, there is no basis for litigation decisions, which affects service continuity and contributes negatively towards the Municipality's financial viability. The Municipality does not have a legal manager. Legal services are outsourced and there appears to be no formal contract management function in place.

The municipality should develop he litigation policy and strategy for approval. They should also appoint the legal expert to monitor legal matters and give direction on which matters the municipality can defend and which settle.

The Auditor-General has found that the management failed to ensure compliance with laws and regulations, and it is therefore recommended that the municipality must develop a legal compliance matrix for implementation and compliance with the Local Government Municipal Finance Management Act, 2003.

SUMMARY KEY ISSUES

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Governance Model	Non-attendance of council meetings	Delays in processing of key administrative matters affecting decision-making on service delivery (implementation) and statutory reporting	Poor meeting attendance by various Council members Culture of no accountability and consequence management.	Speaker to enforce Code of Conduct through training and monitoring. Speaker to ensure adherence to Council approved institutional annual calendar for Council and Committee meetings with workplan and quarterly reporting topics and requirements from the Administration	TLM Annual Reports 2018/19 2019/20 2020/21
Governance Model	lack of functional Council oversight committees	The following council and oversight committee were not functional: • Audit committee • Municipal Public accounts committee (MPAC) • Internal audit • Risk committee	Leadership instability and lack of focus in implementing the required assurance frameworks and structures leading to governance failures by those charged with responsibility.	Re-establishment of oversight committees	TLM Audit Management Report 2021/22 2020/21

System of Delegation	System of delegation not effective	There is no evidence of written and signed instructions on execution of delegations from Municipal Manager's office. There is no clarity on whether a delegations register it exists and how it enables the Municipal Manager, Chief Financial Officer, Directors and Senior Managers to delegate some of their delegated powers to personnel below them, in their department/unit.	Lack of ownership, accountability and clarity of roles and responsibilities. Lack of awareness by end-users.	Organization-wide training on the system of delegations to all end-users to ensure awareness and appropriate delegations are cascaded with the political sphere, relevant governance committees and administration	Council Resolution of December 2021. Resolution no. 007/12/2021
Contract Management	Lack of effective controls for contract management	Procurement planning is sub-optimal and poorly aligned to contract management processes, facilitating short-term procurement methods.	Lack of competent senior Management No formal contract management function in place: legal services function is outsourced.	• Appointment of senior management personnel for contract management • Appointment of internal legal expert or staff with experience in contract management and drafting of SLA • Review the whole contract register and compare it with the all the current contracted services. • Update the contract register based on the above	TLM Audit Reports 2018/19 2019/20 2020/21 2021/22

Litigations	On going high level of litigations against the municipality	High litigation level and increase in contingent liability due to many cases the municipality is defending. No evidence of the existence of litigation policy and strategy being in place	Legal function is outsourced. Unstructured approach to the management of cases and legal challenges.	• Appointment of internal in-house legal function manager • Development of legal policy and strategy to guide approach in management of cases. • Review the current cases the municipality have with a view of determining if there is value for money in continuing defending the matter and/or reach a settlement agreement. • Update the litigation register based on above processes	TLM Annual Reports 2019/20 2020/21
UIF&W and Consequence management	continual increase in UIF&W cases and/or amounts over the previous years	Non-compliance with SCM regulations and contract management principles is main contributor to increasing UIF&W.	Inadequately resourced SCM function. Lack of consequence management for non-compliance with regulations	• Capacitation of the SCM unit with sufficient personnel with skills and competencies on SCM • Ensure entire team is re-skilled and trained on SCM laws and regulations. To drive compliance • Institute consequence management and zero-tolerance for non-compliance	TLM Audit Reports 2018/19 2019/20 2020/21 2021/22

2.2.2 INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES

This section of the financial recovery plan status quo assessment mainly focuses on areas of Institutional Arrangements and Human Resources.

2.2.2.1 Organizational Structure and Vacancies

The municipality revised organizational structure has been developed but it's not yet approved. Approval of the Job Descriptions and job evaluation is outstanding. The Revised Organizational Structure of the Municipality has four directorates which are aligned to four Key Performance Areas of the Municipality namely, Municipal Transformation and Institutional Development, Basic Service Delivery and Infrastructure Development, Financial Viability and Management, Good Governance. The revised structure is aligned to the operating model of the municipality.

There are vacant critical positions within the organization both at the Management level and the lower staff levels.

There are instabilities because of long-acting appointments which impedes decision making and implementation of strategies.

Municipal Manager and CFO were suspended. There are currently several acting positions. The following are some of the positions:

- Municipal Manager (MM)
- Director Finance: Acting
- Director Corporate Services: Suspended
- Director Community Services: Acting
- Director Technical Services: Acting.

To address these challenges the municipality needs to move with speed to approve the organizational structure and the placement policy which will enable the municipality to fill the critical vacant post urgently. Also, to develop and implement the model for filling of critical vacant positions that are identified and also funded.

2.2.2.2 Employee Costs

The Employee costs are currently at 35% of the budget (which is within the National Treasury prescribed norms of 25% - 40% of total expenditure budget), however, these exclude the critical vacant position which are yet to be filled as the municipality has high level of critical vacancies and general understaffing.

There is high risk that while the municipality has the vacancy in critical position the filling of this position will results in the municipality exceed the 40% norm.

The municipality should cost the structure to ensure that it does not exceed the norm and also develop the recruitment plan that will priorities the filling on critical position that are funded.

2.2.2.3 Labour Relations

Municipality's LLF is not adhering to its calendar of activities. Only 50% of the meeting planned with the LLF were held. There are however challenges faced from the LLF as pertains to implementation of Performance Management System (PMS) for lower levels of staff.

The municipality should hold regular LLF meeting to ensure constant engagement with labour on key employee related matters of the municipality. This includes the matter of cascading the PMS to lower-level stuff which requires the buy-in of LLF.

2.2.2.4 Skills and Competence:

An Annual Skills Audit has not been Performed thereby raising high risk that existing skills and competencies of staff might not be in line with the municipal needs. The funding received to implement the training has been utilized for other purposes.

The municipality should conduct a skills audit to establish if they are adequately skilled to deliver on their mandate. The budget for training should be ring fenced and utilized for its intended purpose of staff skill development.

2.2.2.5 Staff Discipline and Disciplinary Board

There is no Disciplinary Board as a Governance Structure and there is lack of internal capacity to handle internal disciplinary matters. No training on code of conduct conducted to municipal employees. Due to this no consequences management is taken against employees.

The municipality should establish a disciplinary board, where these is not possible (to do this immediately) the municipality should consider the using the shared disciplinary board with the district. Municipality should also train Managers and supervisors as initiators and Presiding officers for internal Disciplinary matters.

2.2.2.6 Performance Management Systems (PMS)

Performance management system has only been implemented at senior management level, it has not yet been cascaded to lower-level staff.

There should be adoption and implementation of the Performance Management System at all levels of the municipality. The municipality should engage the LLF in implementing this to ensure that there is no resistance from staff.

2.2.2.7 Key HR Policies:

The municipality has reviewed and approved some policies, however there are still some key policies namely the Placement Policy and Task Job Evaluation Policy have not been approved for implementation.

The municipality should fast track the approval of the key outstanding policies and workshop employees on the current existing policies. They should engage LLF in this process.

2.2.2.8 HR Strategy

The HR Plan was approved by Council on the 31st of May 2022 and highlights the challenges that need to be addressed from a Human Capital Perspective however, there has been delays in in implementing the HR Strategy and Plan.

The municipality should fast track the implementation of the approved HR strategy.

SUMMARY KEY ISSUES

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Organizational Structure	The Municipality is inadequately resourced from a human capital perspective as there are vacancies in the organizational structure	Key position below are filled with acting personnel • MM • CFO • Director Technical • Director community services	Lack of internal capacity. Delays in the recruitment processes	• identify and prioritize the recruitment of critical vacant and budgeted posts. • Filling of vacancies must align to budget affordability rations.	Municipal Organogram
Labour relations	Only 50% of the planned LLF were held	LLF not adhering to its calendar of activities.	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. • Code of conduct should be communicated to the members of the LLF and staff.	Annual Report 2022/2021 FY Workstream Meeting inputs

Staff discipline and Disciplinary Board	There is no disciplinary board as a governance structure	Implementation of Disciplinary Processes is conducted using external Legal experts seconded to the Municipality by COGTA	Instability in the key Senior management Positions.	• 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. • Develop and implement a training plan on the Employee Code of Conduct as this will sensitize the employees on what is required of them and thereby reduce disciplinary matters.	Jan 2022 -FRP Progress Report AGSA - Management report - June 2021
Performance Management	Not yet fully implemented	The Performance Management Framework has been cascaded to Senior Managers only	Lack of accountability Lack of employee engagement	• Development/Review, adoption, and implementation of the Performance Management System. • Cascade performance management to all employees. • Implement consequence management for non-performance.	Inputs from Workstream Meetings AGSA Management Report for the FY 2020/2021
HR Strategy	Delay in implementing the HR strategy and plan	The HR Plan was approved by Council on the 31st of May 2022 and is not being implemented	Lack of capacity	• Implementation of the approved HR Plan. •	Human Resource Management Strategy and Implementation

2.2.3 FINANCIAL MANAGEMENT

This part of the assessment report focuses on all key and critical areas of financial management and how the municipality is managing these areas.

2.2.3.1. Unfunded Budget

The municipality adopted an unfunded budget for the past 5 financial years including for the financial period of 2021/22. The main causes of these unfunded has been:

- Unrealistic revenue estimates
- Poor revenue collections compared to budgeted ones.
- Poor expenditure management
- Forecasted budgeted surpluses that are insufficient to cover the outstanding creditor balances from prior financial periods.

Tariffs are not cost reflective. The municipality has not conducted a tariff study and has consequently been charging non-cost-reflective tariffs.

Municipality should Prepare budgets in accordance with S18(a) which stipulates that budget can only be funded through realistic projected revenue to be collected and Implement interventions to improve accuracy of billing and collections.

Cost of supply study should be done to ensure that tariffs charged are cost reflective.

2.2.3.2. Revenue Management

Persistent under collection of revenue for the past three years below the National Treasury norm of 95%.

- Audited collection rate for 2018/19: 62%.
- Audited collection rate for 2019/20: 51%.
- Audited collection rate for 2020/21: 28%

Inadequate human resource capacity to manage revenue function is a cross cutting issue that negatively affects all stages of the revenue management value chain cycle. The position of Revenue Manager is vacant leading to inadequate leadership in revenue management.

The municipality should fill the vacant key critical position that are vacant and enforce strict credit controls and collection measures.

2.2.3.3. Customer Care and Data Accuracy

Customer service is performing poorly as evidenced by unsatisfied customers and delays in resolving customer queries. The customer satisfaction survey was not conducted in 2019/20 and 2020/21 financial year.

Data accuracy is poor as evidenced by, among other observations of restatement of prior figures for revenue.

The municipality should Conduct a data-cleansing process to determine accuracy of all customer and accounts data.

2.2.3.4. Indigent Management

Currently, there is no updated indigent register. A process to update the register commenced in May 2022 and is ongoing. The municipality currently does not have a complete and approved indigent register.

The municipality should have a continuous process to update the indigent register to keep it reflective of the actual state of indigency in the municipality.

2.2.3.5. Supply Chain Management and Value for money procurement

The SCM function is dysfunctional and a key contributing factor to the prevalence of UIF&W. Key positions like the contract manager position are vacant. SCM Bid Committees have not been established in line with Regulations 27, 28 and 29 of the MFMA. The SCM module in the financial system is not MSCOA compliant. This has contributed to the increase in in UIF&W

The municipality should appoint bid committees in line with SCM regulations and fill all the critical funded key positions with the SCM unit.

2.2.3.6. Cost Containment Measures

The municipality has a cost containment policy for 2022/23 however there is no capacity within the finance function to execute, monitor and control the actions required by the cost containment policy.

Though there has been noticeable decrease in spending from previous to current year, the municipality is still spending a sizeable amount on the below items:

- Consulting and professional fees: 2020/21 R 13 million and 2021/22 R8 million
- Community development and training: 2020/21 R 5 million and 2021/22 R3.1 million
- Telephone and fax: 2020/21 R 3.7 million and 2021/22 R2.9 million
- Travel – local: 2020/21 R 1 million and 2021/22 R3 million
- Consumables: 2020/21 R 1.3 million and 2021/22 R1 million

There should be staffing of requisite roles with the Finance function in order to build up capacity to execute the cost containment policy. Consequence management to be implemented for non-compliance to policy on cost containment.

2.2.3.7. Debt Restructuring

The municipality has long outstanding creditors that are over 90 days. Eskom (R90,9 M), Pension fund (R25.4 and R5.2 M) are some of long outstanding debts over 90 days. The municipality is unable to settle these debts as they are currently not making adequate surpluses to repay the debts.

Creditors payment for the municipality for 2021/22 was 297 days and in 2020/21 was 299 days.

Municipality to consider undertaking the process of debt restructuring as part of financial recovery measures. The municipality should consider applying for debt relief under circular 124 of MFMA with regards to Eskom debt.

2.2.3.8. AFS preparations

Municipality has been received qualified opinion for the past three years with several items of AFS qualified. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Financial statement prepared should be subjected to internal quality assurance by the internal audit function and further oversight and review by the internal audit function.

Analysis of key financial ratios and norms:

The following table provides an analysis of all key and critical financial ratios that are used to monitor the financial performance of the municipality. These uniform financial ratios and norms are determined under Circular 71 published in 2014 of MFMA. These ratios and norms assist in the assessment of the performance of the municipality.

Ratio	Ratio for 2018/19	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	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%.**	**12%**	**13%**	**15%**	**35%**	The period under review indicates that the ratio falls outside of the norm/ benchmark of 10% to 20%. The municipality's investment in capital expenditure appears to be at an excessive level for purposes of supporting service delivery as per section 71 norms. The high percentage can also be attributed to the abnormal/unusual negative debt impairment expenditure of R171 million. If this is discounted and/or not factored on the calculations the percentage is 22%
Impairment of Property, Plant and Equipment and Investment Property and Intangible Assets – indicates the extent and efficiency to which economic benefits are drawn from employed assets based on initially assessed future economic benefits or service potential envisaged when approval was originally obtained for procuring the assets. **The norm is 0%.**	**0%**	**1,4%**	**0,4%**	**3%**	The municipality's assets have been impaired at an average rate of 3% of their closing book value for 2021/22 financial year against a target of 0% as per the benchmark/norm. On the face of it, this is indicative that assets still have the capacity to deliver on the intended economic benefits for which they were acquired and/or employed. However, the assessment of impairment should be viewed in conjunction with that of repairs and maintenance expenditure (see below).
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%.**	**0,2%**	**0,5%**	**0,2%**	**4%**	The observed average of this ratio in the period under review is 4%. This appears to be very low when viewed against the set norm of 8%. This is indicative that the municipality has greatly under invested in maintenance. This observation is at odds with the observation of relatively low provisions for impairment and is indicative that inadequate maintenance will have a negative impact on assets in the future and lead to significant impairment at that point in time.
	Debtors Management				
Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit. **The norm is 95%.**	**62%**	**51%**	**28%**	**237%**	From the calculations it appears that the municipality has performed well in terms revenue collection with an average collection of 237%, however this is because of the abnormal/unusual negative debt impairment expenditure of

					R171 million which has skewed the rate calculation. The municipality is still experiencing a poor collections rate and cash flow challenges which is at odds with this percentage
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%**	**0,4%**	**3%**	**0%**	The municipality is writing off debt at a minimal rate indicating that, in the opinion of the municipality, debtors are highly recoverable. This is at odds with the indication given by an assessment of net debtor days (see below)
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. **The norm is 30 days.**	**105 days**	**155 days**	**680 days**	**826 days**	The municipality has been significantly above the recommended benchmark of 30 days since 2018/19 financial year to date (2021/22), showing an alarming deterioration in debtor days. This is a negative indicator of poor credit and revenue management with the municipality not being able to convert its sales into cash expeditiously. This presents a serious cash flow risk. This is also an indicator that the actual level of bad (irrecoverable) debts is significantly higher than that indicated by assessing the bad debts as a percentage of the bad debts provision.
	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. **The norm is 1-3 months**	**0,04 Months**	**0,2 Months**	**0,9 Months**	**0 Months**	Based on this measure, the municipality has very high cash flow risk with the key contributor to this being the poor conversion of debtors into cash as indicated by high debtor days and poor collection rate. The rate has even deteriorated further from 2020/21 rate at 0.9 month to 0 month in 2021/22.
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.**	**0,2**	**0,3**	**0,4**	**1.01**	The observed ratios fall well below the norm of 1.5x to 2.1x. As such, the municipality is unable to meet its short-term financial obligations as and when they arise.
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%**	**3%**	**0%**	**0%**	**9%**	The municipality primarily utilises grant and own revenue to invest in its capital projects. This indicates the municipality has very low debt carrying capacity in that its financial position does not allow it to borrow money to supplement its budget funding. With a turnaround in its financial position. The municipality can have greater latitude to supplement cashflow shortages through debt facilities.
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.	**0%**	**0%**	**0%**	**0%**	The municipality primarily utilises grant and own sources to invest in capital projects. the municipality's weak financial position is its largest impediment to supplementing budget funding shortfalls through debt facilities

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%**	**-35%**	**-26%**	**-14%**	**61%**	Though the percentage calculation shows a good performance, this should be read into context because of the abnormal/unusual negative debt impairment expenditure of R171 million which has skewed the rate calculation (resulted in total annual expenditure being R121 million due to the negative debt impairment). The municipality is still experiencing a poor collections rate and cash flow challenges which is at odds with this percentage.
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%**	**36%**	**38%**	**6%**	**N/A**	2021/22 Financial Year N/A – The municipality did not disclose the electricity distribution losses for the 2021/2 financial year. 2020/21 Financial Year Electricity distribution losses are calculated on the basis of Rand values[1]. Based on this methodology, the distribution losses average 27% in the period under review, which is nearly three times the norm of 7% to 10%. The high rate of distribution losses is indicative of inadequate investment in the maintenance of the electricity distribution network (see ratio *of Repairs and Maintenance to Property, Plant and Equipment and Investment Property.* The apparent improvement observed in 2020/21 calls into question the accuracy of reporting based on the fact that such marked improvement would most likely be the result of observable investment in capital expenditure (network infrastructure) and/or maintenance, both which have not shown any marked increase in the period. Consequently, the apparent improvement does not negate the gravity of the electricity distribution losses problem observed in prior years.
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%.**	**N/A**	**N/A**	**N/A**	**N/A**	Water distribution losses metrics were not readily available or calculatable on account of the municipality sourcing a large portion of its water supply from boreholes. With inadequate measures of the volumes extracted, the water distribution losses have not been ascertained.
Revenue Management					
Revenue Growth (%) – measures the growth in revenue year on year. The norm is at the rate of CPI	**-14%**	**28%**	**27%**	**-17%**	Revenue has decreased from last year revenue (2020/21) of R370 million to current year revenue (2021/22) of R306 million. Municipality should focus on revenue data cleansing to ensure that accurate revenue is billed which will not results in odd revenue decrease percentage.

[1] Calculation of distribution losses is more appropriately performed at the level of actual units purchased and supplied rather than the corresponding Rand values.

Revenue Growth(%) -Excluding Capital Grants Measures the growth in revenue excluding capital grants year on year. **The norm is > 5%.**	-29%	28%	34%	-16%	Revenue has decreased from last year revenue (2020/21) of R370 million to current year revenue (2021/22) of R306 million. Municipality should focus on revenue data cleansing to ensure that accurate revenue is billed which will not results in odd revenue decrease percentage.
Service Revenue Growth (%) – measures the growth in revenue attributable to utility service delivery year on year. The norm is at the rate of CPI	11%	39%	34%	-23%	Revenue has decreased from last year revenue (2020/21) of R119 million to current year revenue (2021/22) of R93 million. Municipality should focus on revenue data cleansing to ensure that accurate revenue is billed which will not results in odd revenue decrease percentage.
Grant Revenue Growth (%) – measures the growth in grant revenue year on year.	-2%	29%	22%	-42%	Grant revenue has decreased from last year revenue (2020/210) of R217 million to current year revenue (2021/22) of R171 million. Municipality should improve its grant management so that it can realise more revenue on grant by accelerating spending on grants.
Expenditure Management	**2018/19**	**2019/20**	**2020/21**	**2021/22**	
Creditors Payment Period This ratio indicates the average number of days taken for trade creditors to be paid. **The norm is 30 days.**	360 days	375 days	299 days	297 days	The municipality is significantly outside the recommended norm for creditor payments highlighting high levels of cashflow risk and an inability to meet its short-term obligations as and when they arise.
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%.**	66%	74%	174%	594%	Based on this measure the municipality is materially lacking in procurement management or asset utilisation as majority of the current operating expenditure is classified as Irregular and Fruitless
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%.**	36%	35%	30%	87%	The municipality is outside the norm of 25% to 40%. This is due to the odd operating expenditure of R121 that has resulted in a skewed rate calculation (resulted in total annual expenditure being R121 million due to the negative debt impairment of R171 million).
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%.**	3%	5%	7%	15%	Contracted services are at 15% of operating expenditure which is outside the range of the set norm. The rate has even deteriorated further from 2020/21 rate of 7% to 15% in 2021/22.
Grant Dependency					
Own Source Revenue to Total Operating Revenue (Including Agency Revenue) - indicates the extent of Own Source Revenue to Total Operating Revenue, including Agency Revenue hence self-sufficiency	47%	43%	48%	31%	In the period under review, the municipality generates just 31% of revenue from its own service departments indicating the municipality is highly dependent on grants and fine revenue. In the long run, this dependency is not only unsustainable but potentially detrimental to service delivery capacity.
Budget Implementation					
Capital Budget Implementation Indicator **The norm is 95% to 100%**	N/A	N/A	N/A	N/A	The capital budget data is still to be confirmed
Operating Expenditure Budget Implementation Indicator	139%	116%	145%	33%	The low percentage (under spending) can also be attributed to the abnormal/unusual negative debt

The norm is 95% to 100%					impairment expenditure of R171 million. This has resulted in total operating expenditure being R121 million instead of being R292 by discounting the odd negative debt impairment.
Operating Revenue Budget Implementation Indicator **The norm is 95% to 100%**	**81%**	**106%**	**105%**	**96%**	The rate indicates a good performance which is within range of 95% to 100%. Municipality still need to tighten credit control to ensure that the revenue billed is collected.
Billed Revenue Budget Implementation Indicator **The norm is 95% to 100%**	**87%**	**152%**	**131%**	**96%**	The rate indicates a good performance which is within range of 95% to 100%. Municipality still need to tighten credit control to ensure that the revenue billed is collected.

SUMMARY KEY ISSUES

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Funded Budget	municipal budget is not funded	The municipality adopted an unfunded budget for the past 5 financial years including for the financial period of 2021/22	Poor revenue collections Unrealistic revenue projections	• Prepare budgets in accordance with S18(a) which stipulates that budget can only be funded through realistic projected revenue to be collected. • Implement interventions to improve accuracy of billing and collections.	PT assessments on all budget Workstream consultations with municipal officials
Revenue Management Value Chain/ revenue raising measures	low and/or less than optimal revenue generated	The municipality has not conducted a tariff study and has consequently been charging non-cost-reflective tariffs. Poor collection of revenue and/or enforcement of credit control and management of debtors	Lack of understanding on tariff model by the municipality staff. Poor governance that has led to the lack of recruitment of competent individuals into key roles.	• Recruit a competent revenue manager. • Conduct tariff optimisation / cost of supply studies to align tariffs charged to the true cost of providing the corresponding services. • Improve collection rate by enforcement of existing credit control policies as a first resort and (where necessary	FRP Consolidated Progress Report Jan 2022 Audit report (AGSA) Inputs from Workstream Meetings Approved Tariff calculations

				and applicable)	
Cost containment and realistic cash flow management	poor cost containment and cash flow management	No approve policy on cost containment and the current draft for 2022/23 is still awaiting approval. Severely constrained cash flow position attributable to poor cash flow management	Lack of capacity within the finance function Non-compliance to cost containment measures.	• Approval of the draft cost containment policy for 2022/23 by Council • Staffing of requisite roles with the Finance function in order to build up capacity to execute the cost containment policy. • Prepare and implement a cash flow management tool.	Report on implementation of SCM policy Workstream Meeting
Debt restructuring	debt restructuring not yet considered even though the municipality is facing cash flow challenges	Municipality is unable to pay its long outstanding creditors due to cash constrained challenges. Eskom (R121 M), Pension fund (R37 M) are some of long outstanding debts.	Cash flow challenges	Municipality to consider undertaking the process of debt restructuring as part of financial recovery measures.	MFMA
Supply chain management compliance and value for money procurement	SCM unit is currently dysfunctional and a key contributing factor to the prevalence of UIF&W	Non-adherence to SCM Policy and relevant laws and regulations and lack of leadership	SCM unit not capacitated.	• SCM unit to be adequately capacitated. • Appointment of Bid Committees members	Municipal organisational structure

2.2.4 SERVICE DELIVERY

2.2.4.1 Revenue Management

The revenue management and cost recovery measures in the Tswaing Local Municipality are at very low levels. Additionally, the indigent policy (including the register) is not properly managed resulting in the equitable share not been properly used.

The municipality has losses for water and electricity that are above the norm which currently the Municipality has no system in place to calculate those loses. The municipality has an Eskom outstanding debt of more than 90-days which is R121-million (31 March 2023). The payment arrangement needs to be made so that the municipality services are not cut. Not all customers are being billed.

2.2.4.2 Water

Water Losses

Water Losses must be less than 30%.

Tswaing Local Municipality is unable to determine Water losses due to lack of meters, meters bypassed or malfunctioning, illegal connections, and poor maintenance.

Water Resources

NMM District Municipality (in conjunction with Sedibeng water Board) is the Water services authority (WSA) that provides water to Tswaing Local Municipality via boreholes and reservoirs. The District Municipality is failing to supply adequate bulk water and there appears to be challenges in terms of the partnership between NMMDM and Tswaing LM with respect to the responsibilities for water delivery.

The reliance on boreholes is also a challenge as they are prone to drought. These challenges mean that the Municipality must resort to tankering services.

Tswaing Municipality as a Water Services provider (WSP) provides bulk water services via boreholes and reservoirs, and reticulation services via household street connections (6455 in total) to the 4 main “towns”, namely Delareyville, Ottosdal, Sannieshof and Atamelang. The municipality also provides tanker services to supplement where required.

Tswaing’s water supply is mainly from ground water reserves and the municipality experiences water shortages due to an overburden on the available supply where recharge has been less than usage. It is therefore critical that the municipality ensures that water distribution losses are minimized. Development of a water distribution losses plan is of urgency.

Due to the challenges in terms of the partnership between NMMDM and TLM with respect to the responsibilities for water delivery, it is crucial to have The Service Level of Agreement between the two Municipalities which will indicate the powers and the functions of each municipality.

The Service Level Agreement between the Local and District Municipalities has been the subject of much discussion over the period, particularly relating to water services and has not been signed. The powers and functions are therefore somewhat in a state of flux.

The municipality has a backlog to provide water services while poor maintenance of the municipality's ageing infrastructure underlies the high volume of water losses.

The municipality needs to identify and strategically produce an operations and maintenance plan. This will be achievable only after an asset register (report) with all functional and non- functional infrastructure is developed.

Provisioning of water consumed using water tankers from municipality and donor organizations is not metered and the municipality does not have a recovery strategy for this water dispensed.

It has been reported that there is a shortage of water tanks in the community for water supply.

2.2.4.3 Electricity

Eskom provides Bulk electricity to the urban areas of TLM. Eskom provides electrical bulk and reticulation services to the surrounding 24 "villages. Tswaing Municipality provides electrical reticulation services via household street connections to the 4 main "towns", namely Delareyville, Ottosdal, Sannieshof and Atamelang. This includes town ring feeders, poles, transformers x 97, and switchgears x 400.

Tswaing Local Municipality owes R121 million (31 March 2023) to Eskom. The municipality needs to have a credible arrangement for payment of Eskom. The municipality must monitor electricity purchases against billing, not all customers are not billed. TLM is failing to materially control and reduce non-revenue electricity (electricity losses averaged 27% or R10.1m over the past three years)

The majority of Tswaing has access to electricity for lighting, but in some areas, cooking is still conducted using other forms of energy (gas, wood). There is a potential for renewable energy in both the urban and rural settings. However, the electricity distribution networks are old and are failing and are not properly maintained. 73,6% of households use electricity for lighting but only 61.3% of households use electricity to cook food (28,3% use wood)

2.2.4.4 Solid Waste Management (Waste Collection and Landfills)

The municipality is responsible for Refuse removal, refuse dumps and solid waste disposal.

Tswaing Local Municipality has 4 waste disposal facilities namely: Sannieshof Landfill Site, Ottosdal Landfill Site, Delareyville Landfill Site and Atamelang Landfill Sites. The Sannieshof landfill site is licensed for closure and rehabilitation while the remaining sites are licensed for operation.

Many households do not receive refuse removal services from the municipality. The municipality only serves about 3 500 households. Letsopa Townships also enjoy limited refuse collection services.

Landfill sites are not maintained to legislative standards.

Refuse removal is only supplied to the urban areas with no service in Rural Villages. The municipality is providing refuse removal to approximately 48% of the households on a weekly basis, while the rest of the households perform their own refuse removal.

All the sites lacked proper landfill operations such as compaction and covering, yellow fleet, security control as well as record keeping amongst other things.

2.2.4.5 Fleet Management

The municipality has indicated that it faces challenges in terms of fleet adequacy to implement repair and maintenance for infrastructure projects.

Fleet management is not centralized and there is lack of centralized SCM due to capacity challenges within the SCM unit. There is also inadequate funding for fleet maintenance and procurement.

2.2.4.6 Sanitation Services

Tswaing Municipality provides sewer reticulation services via household street connections to Delareyville and Atamelang.

Tswaing Municipality provides septic tank services to Ottosdal and Sannieshof.

Ngaka Modiri Molema District Municipality provides on-site Ventilated Improved Pit latrines (VIPs) to the surrounding 24 “villages”.

Sanitation services are impacted by the challenges that impact water services as the sewer network cannot operate as designed without sufficient water supply.

There are backlogs with households not receiving the minimum standard of sanitation with the remoteness of some settlements exacerbating the problem.

No VIP sanitation were implemented except for those that the Department of Human Settlements provided when constructing the RDP housing units.

Sanitation statistics within the Municipality:

- Flush Toilet (26.1%)
- Flush Septic Tank (4.9%)
- Chemical Toilet (0.7%)
- VIP (6.5%)
- VIPs as % of on-site sanitation (15%)
- Pit Latrine (43.1%)
- None (14.3%)

75% of rural village cluster has access to sanitation.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Backlog	There are backlogs in terms of municipal services such as water, sanitation, electricity supplies and no refuse services rendered in some areas.	municipality is battling to reduce backlogs while maintaining, the existing infrastructure and building new infrastructure required to serve the new population.	The Municipality inability to maintain infrastructure	Develop infrastructure maintenance plan and also that it should be approved by Council. Improve project planning and monitoring by capacitating the monitoring unit and align with IDP.	IDP 2022 – 2025 Workstream Consultation
Inadequate water supplies	No signed SLA with district municipality on water There are households that are not receiving the minimum standard of water supply.	The Municipality is currently short supplied by approximately 13Mℓ/d.	Lack of signed SLA with district	Signing of SLA on waters service delivery with district Develop Maintenance plan and implement it.	IDP 2022 – 2025 Workstream Consultation
Sanitation Services	Sanitation services are impacted by the challenges that impact water services as the sewer network cannot operate as designed without sufficient water supply.	The waterborne sewer network cannot operate as designed without sufficient water.	The system is impacted by the major shortfalls in bulk water from NMMDM	Implement processes within the Water Unit that will augment water supply to ensure sufficient water supply. Procurement / SCM must be harmonised between NMMDM and Tswaing LM to avoid the duplication of services.	IDP 2022 – 2025 Workstream Consultation

Inadequate supply Electricity	The majority of Tswaing households have access to electricity for lighting, but in some areas, cooking is still conducted using other forms of energy (gas, wood).	Electricity infrastructure is not well maintained. Old switchgear, transformers and medium voltage (MV) cables need to be replaced.	Electricity supplies are plagued by the high losses experienced by the municipality, in terms of technical and non-technical losses	Old switchgear, transformers and medium voltage (MV) cables need to be replaced to ensure sustainable.	Electrical Infrastructure Masterplan 2017 Workstream Consultation 15/07/2022
Roads and Stormwater services	TLM is not maintaining the roads under its responsibility.	It is highlighted in the IDP that internal roads are in a bad state and Tswaing local municipality lacks financial and human resources to rectify this issue	Inadequate budget / unfunded budget due to poor governance planning	• Improve road maintenance and increase capacity (human and finance) to develop tarred roads that are urgently needed to service rural communities. •	IDP Draft Annual Report 2019/2020 MFRP Consolidated Implementation Progress Report 2022 Workstream Consultation 15/07/2022
Waste and Refuse Removal	A large number of households do not receive refuse removal from the municipality. The municipality only serves about 3 500 households. Landfill sites are not maintained according to legislative standards.	Refuse removal is only supplied to the urban areas with no service in Rural Villages	Inadequate budget / unfunded budget due to poor governance planning	• Repair landfill maintenance plant and equipment and procurement of trucks to transport the waste should be prioritised.	IDP 2022 – 2025 Workstream Consultation

PART THREE:

3.1 PHASE 1: MUNICIPAL RESCUE PHASE

Given that this intervention has been invoked as a result of a crisis in the financial affairs of the municipality, in this phase of the recovery plan, emphasis will be placed on the cash and cash position of the municipality, as well as restoring some of the basic principles of good financial management. The strong emphasis on improving the cash position is to create an availability of resources to address some of the most immediate and visible service delivery challenges. However, an emphasis on cash and municipal finances does not preclude the Provincial Intervention Team from addressing governance and institutional issues.

In this phase, emphasis also leans towards “quick wins” - what are the issues that require relatively little effort or resources to be addressed, but would make meaningful inroads towards the overall recovery process.

The phase is expected to last for 6 months. A few critical, high-level indicators have been selected to guide this phase of the recovery plan. Progress on meeting these indicators will be monitored monthly by MFRS team.

The 6 high level indicators selected for this Phase are:

- A funded budget;
- Daily cash and cash balances;
- Cost containment;
- Debtors’ collection rate;
- Payment of creditors; and
- Ring-fencing of conditional grants.

In addition, indicators relating to the capital programme and the reduction of unaccounted, irregular, fruitless and wasteful expenditure have been included. High level targets for governance, institutional and human resource and service delivery are specified separately.

3.1.1 FINANCIAL MANAGEMENT

Phases 1:- Rescue phase

a) Funded budget

The 2022/23 budget is funded over the MTREF. The cash position does not reflect a positive outlook and/ nor provide reasonable assurance that municipality could meet its financial obligations when prudently managing its financial affairs (cash position was an overdraft/negative cash of R52 million). It should however be noted that the collection rate of 51% is ambitious given that the audited average.

collection rate for the past three financial years was 47%. It should also be noted that the municipality had been persistently adopting unfunded budget in the previous financial years.

Based on the aforementioned, the financial targets as per the financial forecasting model in this financial recovery plan will assist to monitor adherence to the budget parameters, hence the municipality will be expected to continue increasing revenue and reducing expenditure to sustain the funded budget.

b) Daily cash and cash balances

The municipality has four main sources of income, namely Transfers and Grants, Property rates, Service Charges from Electricity and Water and Sanitation Charges. The municipality has a collection rate that is below the budgeted rate thus putting additional pressure on the municipality.

The municipality should undertake cashflow management and investment framework/policy as per Section 13 of the MFMA.

In addition, the municipality should collect more than 55% during the 2023/24 financial year as this will result in cash increases `

c) Cost containment

The municipality should review, update and implement the cost containment policy in line with the cost containment regulations. The cost containment should be embedded within the budget and reported on monthly through the S71 reports when undertaking variance analysis.

d) **Debtors' management**

According to MFMA Circular 71, as a norm the collection rate is 95%. The municipality is below this collection rate based on the calculations done by the PT using the Funding Assessment tool. Both the municipality and the PT have calculated the collection rate as 51% in 2019/20 and also 28% in 2020/21.

The NT is aware that municipality may not achieve the 95% collection rate without undertaking extensive data cleansing, intensify credit control and issue accurate bills on time. The collection targets are therefore set at 55% in 2023/24; 65% in 2024/25 and 75% in 2025/26.

e) Payment of Creditors

The municipality's creditors are at R230 million as of 31 March 2023. The reduction of creditors is depended on additional cash resources being generated based on the revenue management, cash management and collection rate success. An increase in collection rates by more than 10% during the 2023/24 financial year, all things being equal may yield an additional cash over the MTREF period. The additional money may be used to pay off some of the creditors.

The financial target would be to pay all creditors and negotiate with Eskom for payment terms. The municipality should consider the debt relief for Eskom under circular 124 of MFMA.

f) Ring fencing of conditional grants

All conditional grants should be ringfenced. The target amount is equivalent to all the capital grants anticipated during the period under review.

3.1.2 SERVICE DELIVERY, INSTITUTIONAL AND GOVERNANCE (RESCUE PHASE):

To support the achievement of the financial recovery plan and the targets specified for Phase 1, it is recommended that the Provincial Intervention Team focus on the following service delivery and governance issues:

- Implement cost cutting measures.
- Commence the processes of costing the reviewing the Organisation Structure
- Conduct staff verification and validation of qualifications
- Review of key and critical HR related policies
- Records Management
- Management of discipline, consequence management and disciplinary boards
- Management of Overtime
- Improve the functionality of the LLF
- Improve PMS and ensure that it's cascaded to all managers.
- Limit appointment of non-critical staff appointments and contract appointments.

- Prioritise the repair of all visible water losses and sewer leaks.
- Prioritise collection on all current and outstanding accounts.
- Ensure that grants are ring-fenced and spent timeously.
- Ensure that Eskom and all other creditor accounts are paid as per arrangement.
- Prioritize compliance with all environmental requirements for the landfill sites.
- Prioritize effective models for acquiring skilled human resources to ensure that the plan can be executed.
- Ensure that governance and oversight committees are appropriately constituted, functional and that their capacity is strengthened.
- Review the system of delegations and ensure that an interim delegation framework to support this financial recovery plan is in place.
- Ensure that an audit committee is established and have regular meetings to deal with the issues raised by the Auditor-General.
- Prioritise all litigation matters and update the litigation register.
- Establish a qualified disciplinary board to investigate and deal with issues of maladministration and fraud.

3.2 PHASE 2: STABILIZATION/RECOVERY PHASE (13-18 MONTHS)

In this phase of the recovery process, the focus is intended to shift from quick and visible wins to addressing and institutionalizing the achievements of Phase 1. Financial targets under Phase 1 will still be monitored and additional targets may be added as necessary from the work undertaken in Phase 1.

This phase is largely about improvement of efficiencies and systemic improvements across municipality to ensure best practises around governance and institutional matters are identified and implemented.

This requires a systematically approach to redesign processes and policies to change the work climate within units and realignment of responsibilities and delegation to enhancement governance and productivity.

Goal to ensure all structures of municipality are aligned and stable to provide basic required performance to stabilize environment.

With regard to the maintenance of infrastructure, the emphasis will be on strategies to address longer term reductions in water losses. Issues of organisational overstaffing will also be addressed by redesigning an organogram that is fit for purpose. The focus of the financial recovery plan is to address the underlying financial crisis. Organisational and governance issues will be considered in so far as they contribute to the financial crisis.

3.2.1 <u>FINANCIAL TARGETS (STABILISATION/RECOVERY PHASE):</u>

a) Funded budget

The 2022/23 budget is funded over the MTREF. The cash position reflects a positive outlook and does provide reasonable assurance that municipality could meet its financial obligations when prudently managing its financial affairs. It should be noted that the municipality had been persistently adopting unfunded budget in the previous financial years.

Based on the aforementioned, the financial targets as per the financial forecasting model in this financial recovery plan will assist to monitor adherence to the budget parameters, hence the municipality will be expected to continue increasing revenue and reducing expenditure to sustain the funded budget.

b) Cashflow management

- Implementation of a credible cashflow projection for the 2023/24 MTREF budget including adjustments budget
- Management of the cash-flow on a daily basis with weekly reporting to the Administrator, MM and management meetings
- Implementation of cost containment measures

c) Trading debtors and collection rate

- Implement the credit control and debt collection policy.
- Review debtors' book and implement prioritised debt collection.
- Focus collection on Provincial government and Business, etc.
- Ensure government debts are paid as per the payment agreement.
- Ensure local municipalities' debts are paid as per the payment agreement.
- Ensure businesses and other debts are paid as per the payment agreement.
- Ensure households debts are paid as per the payment agreement.
- Repair and replacement of faulty meters.
- Identification and registration of Indigent Households for free basic services (to reduce debtors).

d) Revenue

- Implementation of revenue management (including data cleansing, tariff modelling, standard operating procedures, policies/ by-laws, credit control, debt collection and indigent management).
- Reconcile General Valuation Roll (GVR) information with the billing Debtors Master File.
- Verify all the identified irrecoverable debt as a result of recon between GVR and Debtors Master File.
- Commence the process of considering possible writing off all the identified irrecoverable debt as a result of recon between GVR and Debtors Master File.
- Verify all the identified irrecoverable debt as a result of recon between GVR and Debtors Master File.
- Finalise writing off all the identified irrecoverable debt as a result of recon between GVR and Debtors Master File.
- Establish synergy Draft a Business Process between BTO and all departments for revenue maximisation.
- Table the Draft Revenue Business Process for approval.
- Implement the Revenue Business Process to maximise revenue.
- Profile customers according to the size of the debt and affordability to pay.

e) Expenditure management

- Expenditure management (including SCM, value for money, cost containment, efficiency and effectiveness).
- Cash management (ensuring that procurement is based on realistic cashflows).
- Maintain robust cash management tool.
- Compile a cash-flow projection for the financial year upon completion of the 2022/23 Budget, showing realistic monthly projections.

- Management of the cash-flow daily with weekly reporting to the MM and management meetings.
- Ensure that all contracts are current. Continue to review committed contracts to determine which contracts have lapsed or which can be cancelled without the risk of legal action against the Tswaing Local Municipality.
- Continue to investigate contingent liabilities and meetings with claimants to be held where legal action can be suspended to resolve claims amicably.

f) Indigent management

- Review and approve Indigent Policy.
- Implement approved Reviewed Indigent Policy.
- Ensure strict compliance with the Indigent Policy.
- Ensure that the continuous update to the indigent register is done.

g) Budget and Treasury Office (BTO)

- Review of current delegations and sub-delegations for BTO staff.
- Skills development of BTO staff and assigning of responsibilities to appropriately skilled staff.
- Ensure IT systems are utilised fully to assist with revenue management and enhancement.

h) Supply Chain Management

- Properly capacitate the SCM for critical vacant positions
- Develop Standard Operating Procedures.
- Review and updating of all financial internal controls including procurement, contract and supplier management.
- Training of Bid Committees.
- Improve SCM System.
- Undertake a strategic review of SCM and SCM functions across the organisation with NT support.
- Enforce compliance with SCM regulations, and other guidelines such as MFMA Circular No 62.
- 100% compliance to the SCM legislation and related policies

i) Customer Care

- Develop Customer Care Service Charter and Service Standards.
- Approve and workshop Customer Care Service Charter and Service Standards.
- Implement Customer Care Service Charter and Service Standards.

j) mSCOA

- Establish a functional financial management and accounting system by implementing all mSCOA reforms.
- Ongoing implementation in line with Implementation Plan.

3.2.2 SERVICE DELIVERY, INSTITUTIONAL AND GOVERNANCE (STABILIZATION PHASE):

- Continue with the review and finalisation of key and critical HR related policies.
- Records Management.
- Management of discipline.
- Management of Overtime.
- Improving the functionality of the LLF.
- Review of Human Resources Strategy.
- Continue with facilitation of change processes.
- Ensure that the reviewed Organisation Structure is properly costed and implemented in a phased approach.
- Develop a Placement Policy to assist with the implementation of the reviewed Organisation Structure.
- Conduct monthly staff establishment audit.
- Ensure finalization of skills audit.

3.3 PHASE 3: SUSTAINABILITY PHASE (12 – 36 MONTHS)

The approach in this phase will be guided by outcomes of first two phases. FRP activities will be identified for continued implementation, monitoring and support. The consistent monitoring of financial recovery against key financial ratio norms will be prioritised for a period of at least one year to ensure that the municipality has reached acceptable levels of financial sustainability. Exiting will be considered at the end of this phase if acceptable municipal financial health levels have been achieved.

3.3.1 PHASE 1, 2 and 3: FINANCIAL TARGETS:

No #	PERFORMANCE AREAS	ASSUMPTIONS/BUDGET PARAMETERS	2023/24 ADJUSTMENT BUDGET (FEB 24)	2024/25 BUDGET TARGET	2025/26 BUDGET TARGET
1	Property Rates	Good efficiencies in Revenue Management Value Chain and Valuation roll regularly reconciled to billing system	100% Budget (valuation roll billed)	2023/24 + CPI	2024/25 + CPI
2	Service Charges	Good efficiencies in Revenue Management Value Chain	100% budget	2023/24 + CPI + 2% Growth	2024/25 + CPI + 2% Growth
3	Operating Expenditures Targets	**Employee Costs**: <35%	Per Approved Budget Parameters	Per Approved Budget Parameters	Per Approved Budget Parameters
		Councillors REM: 100%			

		Depreciation: Per GRAP 17			
		Debt impairment: 100% based on budgeted collection rates			
		Contracted Services: 5.5% (2023/24), 5% (2024/25), 5% (2025/26) of OPEX			
4	Cash/Bank Balances	Adherence to approved budget	Per Funded Budget	Per Funded Budget	Per Funded Budget
5	Consumer Debtor's Collection Rates	Adherence to approved budget	55%	65%	75%
6	Government Debtor's Payment Plan	Adherence to payment plan	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements
7	Major Creditors' Payment Plan	Adherence to payment plan	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements
8	Ring Fencing of Conditional Grant	Adherence to SOP's 100% Cash-backed	All bank accounts and sub-accounts reported monthly		

A financial forecasting model has been developed to set financial targets for the FRP over the MTREF period. The financial model escalation formulas used an average annual inflation rate (CPI) of 2% and local growth of 2% per annum over the recovery period. Grounded on adherence to the above budget parameters, it is anticipated that the municipality will progressively return to financial sustainability over a 3-year period as illustrated in the table below. If key operational efficiencies are achieved in line with FRP Implementation Plan, it could be expected that the projected cash shortfall of R113.5 million at the end of the 2022/23 Financial Year will reduce to a cash shortfall of R13.6 million at the end of the 2023/24 Financial Year where after the cash position will likely improve to a surplus of R36.4 million at the end of the 2024/25 Financial Year and a Cash backing surplus of R120 million at the end of the 2025/26 Financial Year.

The forecasting model is flexible, and figures will be adjusted annually aligned with the revised FRP activities to facilitate sustained financial health improvement. The municipality's adherence to the Financial Recovery Plan will be monitored in terms of its achievement of the targets for revenue and expenditure set out in the financial forecasting model.

Financial forecasting model for implementation of the Tswaing LM Financial Recovery Plan

BUDGET ITEM	2021/22 AFS AUDITED R'000	2022/23 (Unaudited) R'000	FRP TARGETS: 2023/24 R'000	FRP TARGETS: 2024/25 R'000	FRP TARGETS: 2025/26 R'000
REVENUE					
Property Rates	26,536	35,554	36,265	36,990	37,730
Electricity	62,034	76,853	79,927	83,124	86,449
Water Revenue	6,340	8,221	8,550	8,892	9,248
Sanitation Revenue	12,643	12,962	13,480	14,020	14,580
Refuse Revenue	11,981	25,387	26,402	27,459	28,557
Rental of facilities and equipment	26		-	-	-
Interest: Internal Investments	197	12	12	12	13
Dividends received	27	19	19	20	20
Fines, Penalties& forfeits	636		-	-	-
Licences and permits	2,732	1,943	1,982	2,021	2,062
Transfers and subsidies	171,906	152,560	155,611	158,723	161,898
Donations	11,011		-	-	-
Total Operational Revenue	**306,069**	**313,511**	**322,249.68**	**331,261.87**	**340,557.00**
EXPENDITURE					
Employee Cost	91,381	97,811	102,702	106,810	111,082
Remuneration of Councillors	10,850	10,814	11,247	11,696	12,164
Depreciation and impairment	30,278	43,831	41,639	39,557	39,557
Debt Impairment	(171,860)	81,246	74,081	59,670	44,141
Finance Charges	11,446	862			
Bulk Purchases	51,554	52,623	54,938	52,191	49,582
Inventory consumed		3,850			
Contracted Services	18,342	18,429	17,724	16,563	17,028
Other expenditure	75,458	12,964	11,668	10,501	9,451
Total Operational Expenditure	**117,449**	**322,430**	**313,998**	**296,988**	**283,005**
Surplus/ (Deficit)	**188,620**	**(9)**	**8,251.54**	**34,273.68**	**57,552.02**

CASH FLOW PROJECTIONS

BUDGET ITEM	2021/22 AFS AUDITED R'000	2022/23 (Unaudited) R'000	FRP TARGETS: 2023/24 R'000	FRP TARGETS: 2024/25 R'000	FRP TARGETS: 2025/26 R'000
Cash Flow from Operating Activities					
Surplus/(Deficit) for the year		(9)	8,251.54	34,273.68	57,552.02
Add Back depreciation		43,831.00	41,639.45	39,557.48	39,557.48
Cash Flow before Working Capital		34,912.00	49,890.99	73,831.16	97,109.50
Application of Cash (repayment of creditors)		(149,587.00)	(105,075.63)	(23,725.85)	(12,775.46)
Cash Flow after Working Capital		(114,675.00)	(55,184.65)	50,105.31	84,334.04
Cash at opening (beginning of year)		1,080.00	1,071.00	(54,113.65)	(4,008.33)
Cash at end of year		**(113,595.00)**	**(54,113.65)**	**(4,008.33)**	**80,325.71**
MFMA Circular 124 Impact Add back Eskom Repayments			**40,506.33**	**40,506.33**	**40,506.33**
Cash at end of year		**(113,595.00)**	**(13,607.31)**	**36,498.00**	**120,832.05**
<u>Working Capital Requirements:</u>	**31-Mar-23**				
Other Current Liabilities	109,182		109,182.00	-	-
Eskom	121,519		40,506.33	40,506.33	40,506.33
****Debtors (after impairments)***	81,114	-	44,613	23,726	12,775
		-	**105,076**	**23,726**	**12,775**

Notes

Other Current Liabilities Total current liabilities of R230m minus Eskom debt of R121m

Debtors Total exchange and non-exchange receivables

3.3.2 SERVICE DELIVERY, INSTITUTIONAL AND GOVERNANCE (SUSTAINABILITY PHASE)

To be developed at the end of phase 2.

PART FOUR:

4.1 MONTHLY REPORTING ON ACHIEVEMENT OF TARGETS: TSWAING LOCAL MUNICIPALITY

COMPREHENSIVE SCHEDULE OF REPORTING AND COMMITTEEE MEETING DATES

No.	Report for month of	Report due from Municipality Team ON	Report considered by War Provincial CoGTA/Treasury	Considered by NT MFRS	Considered by Political Oversight Committee BY
1	July 2023	05 August2023	12 August2023	19 August2023	25 October 2023
2	August 2023	05 September2023	12 September2023	19 September2023	
3	September 2023	05 October 2023	12 October 2023	19 October 2023	
4	October 2023	05 November 2023	12 November 2023	19 November 2023	19 January 2024
5	November 2023	05 December 2023	12 December 2023	15 December 2023	
6	December 2023	05 January 2024	12 January 2024	19 January 2024	
7	January 2024	05 February 2024	12 February 2024	19 February 2024	25 April 2024
8	February 2024	05 March 2024	12 March 2024	19 March 2024	
9	March 2024	05 April 2024	12 April 2024	19 April 2024	
10	April 2024	05 May 2024	12 May 2024	19 May 2024	25 July 2024
11	May 2024	05 June 2024	12 June 2024	19 June 2024	
12	June 2024	05 July 2024	12 July 2024	19 July 2024	
13	July 2024	05 August 2024	12 August 2024	19 August 2024	25 October 2024
14	August 2024	05 September 2024	12 September 2024	19 September 2024	
15	September 2024	05 October 2024	12 October 2024	19 October 2024	
16	October 2024	05 November 2024	12 November 2024	19 November 2024	19 January 2025
17	November 2022	05 December 2024	12 December 2024	15 December 2024	
18	December 2024	05 December 2024	12 December 2024	15 December 2024	

The monthly reporting schedule will be reviewed during the month of December 2023 and make provision for further reporting and meeting schedules post December 2022. The reviewed schedules will be consulted with all stakeholders and thereafter circulated to all concerned to accordingly note the dates and reporting intervals.

PART FIVE:

5.1 REPORTING FRAMEWORK

In terms of section 146(1)(c) of the MFMA 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 terms of section 147
(1) The MEC for finance in a province must at least every three months—

(a) review the mandatory provincial intervention, including—
   (i) progress with resolving the municipality's financial problems and its financial recovery; and
   (ii) the effectiveness of any financial recovery plan; and

(b) submit progress reports and a final report on the intervention to—
   (i) the municipality;
   (ii) the Minister;
   (iii) the Cabinet member responsible for local government;
   (iv) the provincial legislature; and
   (v) organised local government in the province.

(2) The MEC for finance may request the Municipal Financial Recovery Service, to assist the MEC in complying with subsection (1).

The Municipal Manager should ensure that throughout the period of intervention all the relevant stakeholders are continuously kept in the loop regarding progress with the intervention. He or she should ensure regular reporting to the municipality as well as to provincial and national treasury and reports should be available to SALGA. The Municipal Manager should also regularly update stakeholders within the municipalities including community organisations, local media and municipal departments to ensure transparency in the process. This should include aspects of financial turnaround and the cash-flow position of the municipality in the context of the intervention.

PHASE 1: FINANCIAL RESCUE															
NO	FOCUS AREA	KEY ASSESSMENT FINDING (BASELINE)	KEY ACTIVITIES	RESOURCES REQUIRED	RESOURCES MOBILISED	RESPONSIBLE	START DATE	END DATE	KEY PERFORMANCE INDICATOR	PORTFOLIO OF EVIDENCE	BUDGET PARAMETER/ REVENUE TARGET/ SPENDING LIMIT	MUNICIPAL PROGRESS REPORT			
												STEPS TAKEN	PROGRESS MADE	FINANCIAL IMPACT	OTHER NOTEWORTHY DEVELOPMENTS
PILLAR ONE: GOVERNANCE															
1	Governance Model-	Non-attendance and halting of Council meetings without consequences(including ward committees)	Speaker to enforce Code of Conduct through training and monitoring	Inhouse	Inhouse	Mayor Council Speaker	1-Jul-23	31-Dec-23	Attendance of meeting rate	Improved attendance rate of meetings					
			Manager in Speaker's office to give administrative support to Councillors and schedule meetings in their diaries, destribute agenda packs timeously before the meeting	Inhouse	Inhouse	Mayor Council Speaker	1-Jul-23	31-Dec-23	Approved scheudle of meetings distributed to members	Approval of Statutory reports by Council before legislature due dates					
			Speaker to ensure adherence to Council approved institutional annual calender for Council and Committee meetings with workplan and quartely reporting topics and requirements from the Administration	Inhouse	Inhouse	Mayor Council Speaker	1-Jul-23	31-Dec-23	Approved scheudle of meetings distributed to members	Approved meeting calender with draft standing agenda for all Council and Council meetings					
			Speaker to hold members who do not attend to account	Inhouse	Inhouse	Mayor Council Speaker	1-Jul-23	31-Dec-23	Approved scheudle of meetings distributed to members	Evidence of consequence taken for non-attendance					

Figure 5: Implementation Plan Format

The municipality is expected to report on a monthly basis on the actions taken to implement the financial recovery plan using the implementation plan in annexure A. Figure 5 is an extract from the implementation plan and is shown here in order to illustrate to what the municipality is expected to do to comply with reporting requirements. The monthly report must indicate the steps taken in the month under review for each key activity. The municipality must indicate the progress made against the completion date. It is also a requirement that the municipality must report on the financial impact and any other noteworthy developments for each key activity. All monthly reports need to be accompanied by the associated portfolio of evidence as stipulated in the implementation plan. The municipality needs to submit the report and portfolio of evidence on the 05th of each month.

PART SIX:

6.1 CONCLUSION

The preparation of this mandatory FRP was necessitated by the persistent financial and institutional crisis that have been experienced by Tswaing LM over a number of years as stated under the background section of this FRP document. These crises have amongst others compromised service delivery, governance, financial management and institutional management processes. It is hoped that with the implementation of this FRP the municipality will be improved and thereby impacting in all the problematic areas.

The following key success factors will play a major role in the successful implementation of this FRP:

Political Buy-in: Political problems need political solutions and support from employees and organized labour.

Change Management has proven to create deeper understanding of the problems and solutions.

Link FRP activities to key financial outputs i.e., increasing revenue and decreasing expenditure.

Identify and mobilise human and financial resources needed, and roles and responsibilities of other parties beside the municipality to implement the FRPs in terms of Section 142 of the MFMA.

Provincial S154 Support Packages to be aligned with the FRP.

Importance to address assurance level of claimed performance against FRP targets (POE).

Institutionalise IGR structure/steering committee to monitor implementation of FRP with Terms of Reference.

Quarterly measuring of implementation financial outcomes to ensure success of the FRP.

Consequence Management:

FRP strategies aligned with Performance Agreements

The MFMA provides for consequences in the case of non-compliance.

Invoke Section 216(2) of the Constitution – STOP Equitable Share!