

FINANCIAL RECOVERY PLAN

Prepared for the

WALTER SISULU LOCAL MUNICIPALITY

JULY 2023



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1. EXECUTIVE SUMMARY

The Provincial Executive Council in its sitting of 23 February 2022, resolved to place Walter Sisulu Local Municipality under intervention in terms of section 139(5)(a) of the RSA Constitution read with MFMA section 139 and requested the National Treasury on 23 March 2022 to prepare a Financial Recovery Plan. The Provincial Government together with the National Treasury embarked on a process to develop a Financial Recovery Plan for the WSLM, which plan is preceded by a Status Quo Assessment report. It is prescribed that once the Status Quo Assessment report is signed, the Financial Recovery Plan must be developed, consulted, and approved within a period of 90 days.

Walter Sisulu Local Municipality (WSLM) is a category B municipality which was characterized by administrative instability and has since stabilized its political and administrative governance structures during the 2021/22 financial year. However, the inability of the municipality to service its Eskom debt is posing a serious crisis to the municipality's financial health as it fails to honor its financial commitments including the full monthly ESKOM current account.

Although the incumbent Municipal Manager and his senior management team are working tirelessly in improving the governance and institutional affairs of the municipality, there are still significant challenges with respect to financial management and service delivery:

- a) **Financial Management:** Low revenue collection attributable to poor integrity of data and billing inefficiencies, challenges with the new financial system (Sage), poor audit outcomes due to ill-prepared annual financial statements, ESKOM arrear debt which exceeded the R500 million threshold in October 2022, and amounted to R540 203 349 as at 28 February 2023, inconsistent implementation of the debt collection and credit control policy, increasing debt owed by government structures more particularly the district, fraud and misuse of municipal assets and funds, arrears in pension fund payments. The municipality owed SALA pension fund R 17 873 507 and the CRF an amount of R 2 002 933 as at 31 May 2023.

There are poor financial management and inadequate systems of internal controls and accountability in place. There have been high incidences of UIFW directly linked to the budget deficit, fruitless and wasteful expenditure as a result of, amongst other penalties and interest on the bulk Eskom account, and irregular expenditure as a result of the SCM unit which collapsed over the years, resulting in decentralized SCM processes, non-adherence to regulations, and improper specifications, evaluation and awarding of bids. The high outstanding debtors' balances are attributed to disputed consumer accounts, which in turn creates problems for issuing clearance certificates.

The past 3 financial year's audit findings included the assessment of INEP and MIG-funded projects, identifying misstatements in the accounting for expenditure and irregularities in the procurement of goods and services on projects.

- b) **Service Delivery:** The key factors affecting service delivery in the municipality are inadequately trained staff, lack of critical resources (human and capital) and maintenance of existing aging infrastructure. Currently, the backlog includes bulk services infrastructure for electricity, roads, and stormwater. The municipality does not have an approved spatial development framework, there is poor management of capital grants coupled with underspending over the past three financial years. The municipality does not have an integrated waste management plan and there are illegal dumping sites. The closure license has expired for the Burgersdorp landfill

sites. The municipality's electricity losses are above the norm at 18 percent and the cost of supply study suggests that in order for tariffs to be cost-reflective increases must be considered at approximately 38 percent.

- c) Governance: Adverse of opinion, UIFW (focus on irregular expenditure), unfunded and underfunded mandates and poor contract management, accountability on immovable property portfolio
- d) Institutional: The municipality does not have an ideal operating model that is responsive to the needs of the community. It does not have the critical capacity to fulfill its mandate due to the vacancy rate of 52%. The municipality's job grading and evaluation system remains inconsistent with the Municipal Staff Regulations.

The Office of the Auditor-General of South Africa further raised concerns on issues concerning leadership, governance, service delivery, supply chain management, and other, repetitive findings which remain recurring without being corrected. The audit outcomes for the past 5 years are:

- 2017/2018 – **Disclaimer of opinion**
- 2018/2019 – **Disclaimer of opinion**
- 2019/2020 – **Qualified opinion**
- 2020/2021 – **Disclaimer of opinion**
- 2021/2022 – **Adverse opinion**

This Financial Recovery Plan is submitted in compliance with the relevant prescripts and encourages a strong political and organisational will to implement the following:

- a) The **establishment of a combined task team** including external specialists and appointed officials.
- b) The **adoption and implementation of a comprehensive change management programme**, consisting of the presence of uncontaminated and strong change agents to address the following focus areas:
 - i. **Consequence management:** The lack of consequence management and accountability arrangements are systemic and symptomatic of a municipality where oversight is lacking.
 - ii. **Capacity development:** An extensive mentorship, coaching, training, and change management effort is required. A skills audit, new staff structure, well trained and equipped elected officials and adherence to codes of conduct, consequence management and accountability would be a minimum first step in the right direction.
- c) The **activation of the detailed Financial Recovery Implementation Plan** activities is premised on a two-pronged approach running in parallel, namely:
 - i. **Rescue team:** A tactical and operational team (80 % outsourced and 20% in-house) to address the rescue activities within the municipality, namely the immediate and continuous

provision of basic municipal services. This team will be operational for a period of three-years, whereafter the capacitated municipal resources appointed through the Stability and sustainability team will take over the full responsibility.

- ii. **Stability and sustainability team:** A strategic and tactical team (40 % outsourced and 60% in-house) to address the stabilisation and sustainability activities related to establish a soundly governed municipality. This team will be operational for a period of three-years, whereafter the municipal leadership will take over the full responsibility.

The above should be considered given the 52% vacancy rate. A skills audit and the staffing regulations should guide the process of developing a new structure and the strategy of filling critical vacancies.

2. SETTING THE SCENE

2.1. BACKGROUND

Walter Sisulu Local Municipality (WSLM) is politically and administratively stable, however the primary key driver for the current financial crisis is the ESKOM debt. The municipality has not been consistent in paying its ESKOM current account in full for the period prior to April 2023. However, there has been an improvement post April 2023 where the municipality has started to pay for the monthly consumption short of interest and penalties which instill hope that appropriate activities in the FRP including the application for debt relief in terms of MFMA Circular 124 will expeditiously seek to resolve current financial crisis.

The current senior management has been in place for approximately three (3) years and has brought stability to the administrative component of the municipality. Consumer accounts are mostly disputed, which put into question the accuracy of consumer figures, which might possibly impact negatively on the timeous issuing of clearance certificates. This also negatively affects revenue collection and therefore, the financial health of the municipality.

The Office of the Auditor General South Africa raised concerns on issues concerning leadership, governance, service delivery, supply chain management, and other, repeat findings which continue without being addressed.

The Provincial Executive Council resolved in its sitting of the 23 February 2022 to invoke a mandatory intervention in terms of section 139(5)(a) of the RSA Constitution read with MFMA section 139 and requested the National Treasury on 23 March 2022 to prepare a Financial Recovery Plan for the Walter Sisulu Local Municipality.

Subsequently, the MFRS¹ within National Treasury commenced with the preparation of a mandatory Financial Recovery Plan (FRP), which is preceded by a Status Quo Assessment [SQA].

The SQA identified the current situation, key problem challenges and root causes. The SQA focuses on four pillars, namely (1) Governance, (2) Institutional Development and Human resources, (3) Financial management and (4) Service delivery and Infrastructure development.

¹ MFRS – Municipal Financial Recovery Service.

The SQA report was prepared and properly consulted with all relevant stakeholders prior to submission to the MEC of Finance in the Eastern Cape. The SQA and stakeholder consultative processes were very fundamental in the preparation of the financial recovery plan including the implementation plan attached hereto. This report, therefore, serves as the financial recovery plan which together with the implementation plan were prepared in terms of section 141(2) of the MFMA and is informed by a combination of the consultative processes and the final status quo assessment report.

2.2. STATUTORY AND LEGISLATIVE CONTEXT

2.2.1. THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, 1996 (ACT NO.108 OF 1996)

The intervention at WSLM was instituted through the Provincial Executive in terms of section 139 (5)(a) of the Constitution², read in conjunction with section 139 of the MFMA. This entails the imposition of the Financial Recovery Plan aimed at securing the municipality's ability to meet its obligations to provide basic services or financial commitments.

2.2.2. THE MUNICIPAL FINANCE MANAGEMENT ACT, 2003 (ACT NO. 56 OF 2003)

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:

Section 142(1) prescribes that 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*

² <https://municipalities.co.za/overview/1235/walter-sisulu-local-municipality> accessed on 22 June 2023

(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.”

In conclusion, unlike a voluntary or discretionary financial intervention, the National Treasury, through the Municipal Financial Recovery Service must develop the financial recovery plan for the Walter Sisulu LM. 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.

2.3. OVERVIEW OF THE FINANCIAL RECOVERY PLAN

To ensure buy-in and a holistic approach, the MFRS coordinated the FRP development process in consultation with the Municipal Manager, his senior staff and the core support team experts identified by the province and the national government for support.

An intervention roadmap has been developed to facilitate the development of the Walter Sisulu LM FRP.

The FRP process is executed within four functional workstreams namely (1) Governance, (2) Institutional and Human Resources, (3) Financial Management and (4) Service Delivery, graphically depicted as follows:



The status quo assessment was signed off on 31 July 2023, through which several challenges were identified. This report quotes facts from the status quo assessment in terms of section 142 of the MFMA to identify the root causes of the financial challenges that the municipality is facing³.

Additionally, to ensure that financial recovery is not only achieved, but more importantly, that progress is institutionalised and sustained within the WSLM, the FRP adopts a strategic, focused approach

³ NOTE that the consultant relied on the status quo assessment (SQA) as it was contractually agreed that the SQA will be used for the financial recovery plan (FRP) and that limited verification would be required.

which is time-bound yet comprehensive enough to ensure that the underlying 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 recovery plan is divided into three distinct but interdependent phases. These include a:

- a) **Rescue Phase (Phase 1)** which focuses primarily on cash and restoring the cash position of the municipality. 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 (or demonstrating that the municipality is on a credible path to a funded budget), monitoring of the daily cash and cash balances, cost containment measures, focusing on improving the debtor's collection rate, the ring-fencing of conditional grants and ensuring that creditors are paid timeously and that negotiations are entered into to settle any outstanding debt. There is 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 up to one year from the approval date of the FRP.
- b) **Stabilisation Phase (Phase 2)** which expands on the financial indicators to be monitored and emphasises key governance and institutional issues which must simultaneously be addressed. The bulk of the recovery process takes place in the second phase of the recovery plan. 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 according and other similar measures. This phase is expected to last between 12 to 24 months or longer depending on progress made by the municipality.
- c) **Sustainability Phase (Phase 3)** to ensure that indicators are developed that will give effect to the long-term financial sustainability of the municipality. Phase 3 of the recovery plan precedes the exit of the Provincial Intervention Team. 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 practices. In this phase, it is also important to include indicators that have an effect on the long-term financial sustainability of the municipality. These would be derived from the strategic development review of the municipality and the long-term financing strategy.

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. The choice of methods is at the discretion of the MEC and the Intervention Team who will be monitored on the progress made in achieving the set targets.

2.4. PREPARATION, CONSULTATION AND APPROVAL OF THE MANDATORY FINANCIAL RECOVERY PLAN

2.4.1. PREPARATION

A wholistic processes was followed in the preparation of this mandatory financial recovery plan as guided by section 142 of the MFMA. Firstly, a Status Quo Assessment (refer to Annexure B) was performed which involved a brief diagnostic assessment, identification of the key findings that resulted in the municipality being in financial crisis, the root causes and the strategies to resolve were proposed. The status quo assessment was conducted by 4 functional workstreams composed of officials from CoGTA, NT, PT, Provincial CoGTA, SALGA and the relevant sector departments and officials from the Walter Sisulu LM. An Implementation Plan (refer to Annexure A) was developed for all the three phases which are Rescue Phase, Stabilisation Phase and Sustainability Phase.

Furthermore, a financial modelling was developed setting spending limits, budget parameters, as well as proposing strategic revenue raising measures. The financial recovery plan was then developed to improve the financial viability of the municipality. Consultations with the municipality, stakeholders, creditors, organised labour were done throughout the process in line with the requirements of the MFMA.

2.4.2. CONSULTATION

An introductory workshop with the municipality was held on 09 March 2023. Further workstreams meetings with the municipality and stakeholders were held on the 18 of April 2023 and 31 May 2023.

Consultation sessions were also conducted with organised labour on the 31 May 2023 to orientate them on mandatory intervention as well as major creditors and councillors on the 01 June 2023. Important to note is, major creditors consultation was held with those creditors that showed interest and were reasonably contactable. Eskom is the primary creditor and was present for the session. The draft status quo report was presented, and all participants were reminded that they could submit further comments in writing.

In the finalisation of the FRP, consultation meetings (in person and virtually) attended by inter alia WSLM Senior Management, Provincial Treasury, Provincial CoGTA and the South African Local Government Association (SALGA) and sector departments were held on

2.5. IMPLEMENTATION OF THE MANDATORY INTERVENTION AND FINANCIAL RECOVERY PLAN

The Provincial Executive Council has exercised its rights in terms of section 139(5) of the Constitution, imposed a Mandatory FRP to be prepared by the NT MFRS.

As this is a mandatory intervention, the municipality must implement the FRP. The FRP sets spending limits and revenue targets and provide budget parameters which bind the municipality and identify specific revenue-raising measures that are necessary for financial recovery in terms of sections 142(2)(a) of the MFMA. All revenue, expenditure and budget decisions must be taken within the framework of and subject to the limitations of the financial recovery plan in terms of sections 146(1)(a) and (b) of the MFMA.

The municipality is also required in terms of section 146(1)(c) of the MFMA to report monthly to the MEC for Finance on the implementation of the FRP. The strategies set out in this FRP 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 their revised performance agreements.

2.6. MONITORING AND OVERSIGHT OF THE INTERVENTION AND THE FINANCIAL RECOVERY PLAN

The intervention in the WSLM will be subject to oversight by a **Technical War Room Oversight Committee** to be established by the HoD (PT), that will direct the intervention, monitor progress, unblock, and escalate any political challenges that may hinder the success of this intervention and will report directly to the MECs for Finance and CoGTA in the Province (COGTA) jointly and separately.

The **Political Oversight Committee** will direct the intervention, monitor progress, and unblock any political challenges.

The **War Room Oversight Committee** will be established consisting of:

- a) The HOD: Finance, Eastern Cape (Chairperson).
- b) The HOD: CoGTA, Eastern Cape
- c) Head: NT MFRS
- d) The Municipal Manager and his senior managers
- e) Representatives from sector to be co-opted, as and when necessary.

Mindful of the risk areas identified during the status quo assessment and development of the FRP and its Implementation Plan for the WSLM, it is recommended that the activation of the required FRP activities focus on the following two distinct levels which run in parallel, each with its own implementation team being:

- a) **Strategic level** being called the Stability and Sustainability Task Team: A strategic and tactical team (40 % outsourced and 60% inhouse) to address the stabilisation and sustainability activities related to establishing a soundly governed municipality. This team will be operational for a period of three-years, whereafter the municipal leadership will take over the full responsibility.
- b) **Operational and tactical level** being called the Rescue Task Team: A tactical and operational team (80 % outsourced and 20% inhouse) to address the rescue activities within the municipality, namely the immediate and continuous provision of basic municipal services. This team will be operational for a period of three years, whereafter the capacitated municipal resources appointed through the Stability and Sustainability team will take over the full responsibility.

2.7. RISKS ASSOCIATED WITH THE IMPLEMENTATION OF THE FINANCIAL RECOVERY PLAN

The following risks have been identified which must be mitigated for the 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 maintained by the municipal Chief Risk Officer [CRO], once appointed.

The emerging risks identified, include amongst others:

- a) Lack of political and administrative commitment for the intervention.
- b) Lack of political and administrative support for identified intervention activities.
- c) Inadequate internal capacity to implement the intervention activities.
- d) Insufficient communication on intervention activities to ensure commitment.
- e) Labour unrest owing to a lack of suitable communications and change management and resistance to the changes due to any organisational restructuring or realignment and the implementation thereof.
- f) Non-compliance with Human Resources Management laws/policies and inadequate Human Resources Policies.
- g) Limited revenue base.
- h) Potential resistance to change by certain internal and external stakeholders.
- i) Loss of grant funding due to non-compliance with grant conditions.
- j) Continued non-collection of revenue and increase in the debtors' book.
- k) Failure to materially control and reduce non-revenue electricity and water losses, which losses will negate the impact of other interventions.
- l) Failure to reverse the trend of under-maintenance and timely replacement of aged infrastructure.
- m) Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives.
- n) Inadequate systems of delegation that impact governance, administration, and operational efficiency.
- o) Litigation and SCM challenges.
- p) Inadequate implementation of internal controls.

2.8. COMMUNICATION PLAN

It is proposed that the municipal manager draft an internal and external communication plan to support effective communication throughout the intervention. The communication plan must seek to address and mend the relationship between the municipality, stakeholders, beneficiaries and role-players to the extent that there is mistrust that exists according to reports and the fact that this is perceived as yet just another intervention. This plan needs to be executed in the context of a change management process.

3. STATUS QUO ASSESSMENT

In this status quo assessment, the information provided during the consultation session as well as a total number of 91 information sources were reviewed and considered, as reflected below:

PORTFOLIO OF EVIDENCE INDEX - WALTER SISULU LOCAL MUNICIPALITY FRP		
NUMBER	NAME OF DOCUMENT	DATE
1	AGSA Management Report 2021/2022	June 2022
2	5 year performance framework (word)	Undated
3	Adjustment Budget – 2021/2022	15 June 2022
4	Annual Financial Statements 2020/2021	June 2021

PORTFOLIO OF EVIDENCE INDEX - WALTER SISULU LOCAL MUNICIPALITY FRP		
NUMBER	NAME OF DOCUMENT	DATE
5	Annual Financial Statements 2021/2022	June 2022
6	Annual performance report 2021/2022	31 August 2022
7	Annual Report 2021 /22: Financial Statements for the Year ended June 30, 2022 (draft)	June 2022
8	Approved Council Calendar	December 2022
9	Audit Committee Charter and Tor, 2023	June 2022
10	Audit Report 2020/2021 & 2021/2022	June 2021 & June 2022
11	Budget Policies	Undated
12	Commitment register 2020	June 2020
13	Commitment register 2022/2023	June 2021
14	Contingent Liability Analysis, 2021 and 2022	Undated 2023
15	Contract Register 2021	Undated
16	Council Induction Training Programme, 2021	November 2021
17	Council Resolution Registers from 2021 to 2023	2021 to 2023
18	Council Standing Rules 2021	November 2021
19	Councillors in arrears March 2023 (Excel)	Undated
20	Credit Control and Debt Collection Policy, 2023	October 2022
21	Creditors Analysis, 2021 and 2022	Undated
22	Data Back-Up Recovery and Retention Policy, 2022/2023	May 2021
23	DC TOR, 2019	March 2019
24	DC Training Material, Reports and Meeting Minutes	April 2019
25	Delegation Framework 2021	Undated
26	Disposal of Strategic Land Parcels for Groundbreaking Projects Report	Undated
27	Draft asset management policy	Undated
28	Draft Indigent Support Policy, 2023	Undated
29	Draft Litigation Policy	Undated
30	Draft Property Rates Bylaw, 2023	Undated
31	Draft Property Rates Policy, 2023	Undated
32	Fixed Asset Register 2021/2022	June 2022
33	Fraud Prevention Plan, 2022	Undated
34	Fruitless and wasteful register (2020)	June 2021
35	Fruitless and wasteful register (2021)	June 2020
36	Gazetted Bylaws	August 2019
37	GoMuni Website - https://lg.treasury.gov.za/ibi_apps/welcome	N/A
38	GV Roll 2019 final (Excel)	Undated
39	ICT Assessment Implementation Report, 2023	March 2023
40	ICT Governance and Infrastructure Assessment Report, 2023	February 2023
41	ICT Project and Portfolio Management Policy, 2022/2023	September 2016 as reviewed
42	ICT Steercom Charter, 2022/2023	Undated

PORTFOLIO OF EVIDENCE INDEX - WALTER SISULU LOCAL MUNICIPALITY FRP		
NUMBER	NAME OF DOCUMENT	DATE
43	IDP 2022 -27	15 June 2022
44	Infrastructure Additions 2021/2	June 2022
45	Internal Audit Plan, 2023	June 2022
46	Irregular Expenditure Register 2021/2022	June 2022
47	Irregular register (2021)	June 2021
48	Irregular register (2020)	June 2020
49	IT Service Level Management Policy, 2022/2023	May 2021
50	Letter Dispute lodged with NERSA	June 2022
51	Letter WSLM to Eskom	June 2021
52	MFMA Circular 115 –	N/A
53	MFMA Circular 71 Ratio Analysis	N/A
54	MM Follow-Up Questionnaire	April 2023
55	MM Presentation	March 2023
56	MTREF Budget 2022/23, 2024/25	July 2022
57	Municipal Systems Act - Schedule 1 Code of Conduct for Councillors	July 2004
58	Municipal Website - https://www.wslm.gov.za/waste_mgt-index	N/A
59	News Article (DA lays criminal charges over sewerage spill in Burgersdorp)	January 2023
60	News Article Stadium (Danie Craven Stadium in Burgersdorp)	October 2022
61	Operational Risk Register, 2022	December 2022
62	Organogram, 2022/2023	July 2023
63	Original Budget - 2022/2023 MTREF A Schedule	2022/2023
64	Performance agreements of managers as per website (July 2022 – June 2023)	Undated
65	Presentation by Municipal Manager	April 2023
66	Procedure Manual Asset Management	February 2020
67	Procedure Manual Consequence Management	November 2019
68	Procedure Manual Revenue Processes	Undated
69	Procedure Manual: Budget	Undated
70	Procedure Manual: SCM	February 2020
71	PSC MOU	September 2022
72	PT Initial Assessment	Undated 2022
73	Revenue Streamlining – Status Quo Assessment Report - Phase 1 & 2	May 2023
74	Risk Management Committee Charter, 2022/2023	December 2022
75	Risk Management Policy, 2022/2023	December 2022
76	SDBIP	28 June 2022
77	Section 80 Council Resolution, 2022	January 2022
78	Security Services SLA	June 2022
79	Special adjustment Budget – 2021/2022	28 June 2022
80	Staff account arrears March 2023 (Excel)	Undated

PORTFOLIO OF EVIDENCE INDEX - WALTER SISULU LOCAL MUNICIPALITY FRP		
NUMBER	NAME OF DOCUMENT	DATE
81	Supplementary valuation roll 1&2 (pdf)	29 October 2019
82	Supplementary valuation roll 3(pdf)	05 June 2020
83	Supplementary valuation roll 4(pdf)	06 April 2021
84	Supplementary valuation roll 5 (Excel)	Undated
85	Tariff List 2022/2023	Undated 2023
86	UIF&W Registers	June 2022
87	Updated grant register (Excel)	Undated
88	WIP Register 2021/2022	June 2022
89	Workstream Engagements (Attendance registers 01.04.2022 & 18.04.2023)	April 2022 & 2023
90	WSLM Staff and Councillors Accounts with Stop order and Arrangements March 2023 (Excel)	Undated
91	Management Committee Meeting	12 April 2023

3.1. KEY ISSUES IDENTIFIED AS PER THE STATUS QUO ASSESSMENT

The key issues identified from the status quo assessment are presented in terms of the following 4 municipal sustainability pillars:

- a) Governance.
- b) Institutional stability and capability.
- c) Financial health.
- d) Service Delivery.

3.2. GOVERNANCE STATUS QUO ASSESSMENT KEY FINDINGS

The current situation, key problem challenges and root causes per focus area identified from the status quo assessment regarding the governance matters, are the following:

No	Focus area	Diagnostic finding
1.	Governance model (Council and committees)	<ul style="list-style-type: none"> • The municipal council has a membership of 22 and is governed by the African National Congress (12). • Other political parties are the Democratic Alliance (5), Economic Freedom Fighters (3) and Maletswai Civic Association (2). • 14 New councillors were appointed in December 2022. • Council meets as per an approved calendar. • The municipality functions as a collective executive type, with an EXCO of four (4) members including the Mayor, and four (4) section 80 committees – Infrastructure Services, Corporate Services, Community Services and Financial Services. • The committees are functional. • The mayor and the speaker are the only full-time office bearers and all political office bearers are paid in terms of the application system for the remuneration of councillors. • The Council Whip is not permanent. The council whip also wears the cap of an executive committee member and is paid as a part-time executive committee member • Except for MPAC, the section 79 committees are dysfunctional. • Although the MPAC is functional, the committee members are not yet fully capacitated • Councillors and staff municipal accounts in arrears for more than 90-days. With regards to the staff accounts in arrears, the Municipal Manager agreed to payment arrangements with them and stop orders were activated. With regards to the councillors’ accounts in arrears, the Municipal Manager prepared a report with relevant details and submitted it to Speaker for furtherance.

No	Focus area	Diagnostic finding
		<ul style="list-style-type: none"> • Councillors' declaration of interest is not maintained • Councillors' Code of Conduct is not maintained • Councillors' training programme is inadequate (last training programme was November 2021). • Council has a manual resolution register and is in the process to institutionalise an electronic version. • A quarterly progress report is submitted to Council and shared with management to implement Council resolutions. • The municipal top management executes technical working committee functions, overseeing holistic management (preventing silo decision-making)
2.	Contract management	<ul style="list-style-type: none"> • The municipality does not compile monthly performance monitoring reports on contracts. • The municipality compiled a list of goods and services regularly procured; however, the method of procurement has not yet been decided. • No audit and review of all contracts for performance, compliance, and possible consequence management. • The municipality has a contract register; however, it is not updated with the latest contracts. • There are currently no evergreen contracts in place. • Contract extensions not following proper SCM procedures.
3.	Litigation and contingent liabilities	<ul style="list-style-type: none"> • The municipality has a huge contingent liability potential exposure of 2021/22 = R26 million, having increased from R5 million (excluding Eskom), as follows: <ul style="list-style-type: none"> ○ R 11m = Damages claim due to poor infrastructure. ○ R 1,8 m = stormwater claim. ○ R 8,6m = dispute re valuers' contract. ○ R 800k = FMS dispute. ○ R 5m = Engineering contract dispute. • The municipality has a panel of attorneys who incurs high professional and consulting costs from litigation cases. • The growth of the Eskom debt for bulk purchases has been phenomenal over the past six years, breaching the R500 million threshold in October 2022, and currently sits at R540 203 349 on 28 February 2023. • For 2021/2022 the municipality paid 20% of the monthly bills rendered and for the period July 2022 to December 2022, the level of payment improved marginally to 35%. • This is the main base for the spiral of the Eskom debt over the years. • The municipality's indebtedness to SALGA has surpassed R11 million • Auditor General – R7 million • Pension funds - R 17,8 m
4.	System of delegations	<ul style="list-style-type: none"> • There is no adopted delegation framework approved by the Council as well as a set of delegations and sub-delegations, including Finance, SCM, and administrative. • The delegation register is not updated and maintained as and when necessary.

No	Focus area	Diagnostic finding
5.	Bylaws and Policies	<ul style="list-style-type: none"> • Most Bylaws are old and must be reviewed. • The council has 69 Policies (18 = Finance and 51 = Corporate services) awaiting review and approval. • No financial reporting on revenue generated from the enforcement of by-laws. • Inadequate by-law enforcement. • No reporting on revenue generated from enforcement of by-laws.
6.	UIF&W and consequence management	<ul style="list-style-type: none"> • There has been a high incidence of UIFW directly linked to the budget deficit, fruitless and wasteful expenditure as a result, amongst other penalties and interest on the bulk Eskom account, and irregular expenditure as a result of an SCM unit which collapsed over the years, resulting in decentralized SCM processes, non-adherence to regulations, and improper specifications, evaluation and awarding of bids. <ul style="list-style-type: none"> ○ Unauthorized exp 30/6/2022 – R156 m ○ Fruitless & Wasteful 30/6/2022 – R249 m ○ Irregular expenditure 30/6/2022 – R84 m • MPAC did not put measures in place to investigate UIF&W expenditure. • No official was subjected to consequence management related to UIF&W expenditure. • Quarterly reporting of UIF&W expenditure is not affected. • DC Board was established, it is functional, and members were trained.
7.	Audit action plans	<ul style="list-style-type: none"> • The municipality developed and adopted an audit action plan in December 2022 and monitors it actively • The municipality has obtained the following Audit Opinions for the preceding financial years: <ul style="list-style-type: none"> ○ 2017/2018: Disclaimer ○ 2018/2019: Disclaimer ○ 2019/2020: Qualified ○ 2020/2021: Disclaimer ○ 2021/2022: Adverse • The municipality appointed a service provider at a cost to prepare the 2021/22 AFS.
8.	Risk management	<ul style="list-style-type: none"> • The Risk Policy and registers are up to date. • Risk management committee is established and meets regularly. • Municipality in the process of appointing a CRO. • COGTA provides support to the Municipality. • Quarterly risk management reports are submitted since 2022. There is no approved business continuity plan in place.
9.	Powers and functions	<ul style="list-style-type: none"> • The municipality performs vehicle registration services as well as processing the renewal of licenses and permits on behalf of the Department of Transport. • There is an SLA on Vehicle Licensing where the municipality gets 20% of collections. The municipality conducts the following unfunded mandates: Libraries, Vehicle Control (vehicle licenses), and Disaster Management. Some SLA's are not in place.
10.	Information and communication technology	<ul style="list-style-type: none"> • The ICT environment has 10 adopted policies in place as well as an ICT Steercom which meets quarterly. • The ICT plan was approved on 28 June 2022 and effective the same date under council resolution 81/06/2022/OCM/LLF31/03/22/EXCO27/06/22. • Walter Sisulu Local Municipality had conducted an ICT Infrastructure assessment with the assistance from a service provider (ICT Choice). A five-year implementation plan was submitted to WSLM for implementation purposes. As per the report, Management has identified four critical projects to be implemented during the 2023-2024 financial year. <ul style="list-style-type: none"> • Identified Projects include: <ul style="list-style-type: none"> • VPN/MPLS and Internet Connection Solution • Microsoft 365 e3 licenses or equivalent software • Installation and monitoring of CCTV cameras • Data Backups • The municipality does have an approved acquisition, backup and retention strategy and a disaster recovery plan in place, but no funding to implement recommendations. • Data is currently being stored with service providers.

No	Focus area	Diagnostic finding
11.	Immovable property management	<ul style="list-style-type: none"> Some Council properties are occupied by council staff (Rentals are deducted from salaries) and private parties. There are lease agreements, but some staff members and private parties have ramped up huge debts due to inadequate deductions. Without updated and audited registers, it is not possible to determine the actual value of debts. The Asset Management section, however, enters into agreements with renters without informing the finance department, and no list of properties rented is submitted to the finance department monthly. No controls are in place to ensure that all properties rented out are billed accurately and regularly, which may lead to financial losses. The fixed asset register of immovable and leased assets has not been reconciled with the financial data and there are weak controls in property management. Strategic land parcels report developed and not yet tabled to council for approval. Title deeds of some properties are not in place.
12.	Internal audit	<ul style="list-style-type: none"> The internal audit function and audit committee are functional. The internal audit function is a combination of internal capacity and outsourced support and the 3-year rolling audit plan has been submitted to the chairperson of the audit committee on 13 June 2022 by the CAE, Ms. N Gedze, a registered government auditor with 14 years of auditing experience. An audit committee charter and TOR were established for 2022/23 under 102/06/2022/EXCO27/06/22/OCM. The reporting by the Audit Committee to the Council has been a bit erratic, due to sometimes poor synchrony between the Council calendar and the diary of the Audit Committee chair. The Chief Audit Executive was however in attendance in the last council for the financial year held on 27 June 2023 and presented all the Audit Committee reports
13.	Security arrangements	<ul style="list-style-type: none"> The municipality outsources its security services and the contracts have been renegotiated to ensure that service providers are liable for theft losses. A service level agreement dated 20 June 2022 indicates that security has been outsourced to World Focus Trading 1818 Services for 3 years were provided. Another SLA between WSLM and Eastern Guard Security for 3 years from 1 July 2022 to 30 June 2025 was provided. The companies were appointed with effect from 1 July 2022 over a period of three years, at an amount of R32 million. Thus, the monthly payment to the security companies is around R890 000.
14.	Fraud management	<ul style="list-style-type: none"> The municipality implemented a fraud prevention plan and fraud hotline via the PSC, which is managed through a service-level agreement. There have been no allegations of fraud, maladministration and corruption that have been registered with the hotline.

3.3. INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES STATUS QUO ASSESSMENT KEY FINDINGS

The current situation, key problem challenges and root causes per focus area identified from the status quo assessment regarding the institutional, organisational, and human resource matters, are the following:

No	Focus area	Diagnostic findings
1	HR Strategy and policies	<ul style="list-style-type: none"> The HR standard operating procedures are outdated. Reviewed HR strategy should be guiding HR functions over the medium to long-term. No internal capacity to develop policies. Gaps exist in the following key policies: <ul style="list-style-type: none"> Recruitment & Selection. Placement. Promotion-Demotion-Transfer. Subsistence & Travelling. Job evaluation policy.

No	Focus area	Diagnostic findings
2	Change management	<ul style="list-style-type: none"> Inadequate Program Change Management initiatives - The municipality does not have a change management framework. A previous FRP indicates limitations in the change management practices of WSLM.
3	Operating model	<ul style="list-style-type: none"> The WSLM did not have a defined operating model as at June 2023. The Operating model best describes how the municipality intends to provide its services, given that Maletswai and Gariiep have been integrated into WSLM and the new IDP demands a fit for purpose structure.
4	Organisational structure	<ul style="list-style-type: none"> The vacancy rates are at 52%. It is however evident that the vacancies will ultimately impact service delivery in certain areas, and it should be closely monitored. Organisational structure is not compliant with the new staffing regulations of 1 July 2022.
5	Employee costs	<ul style="list-style-type: none"> Budgeted Employee Related Cost is 29% of the Total Operating Expenditure for 2022/23 MTREF. The-ratio is in line with the Circular 71 norms. The vacancy rate is addressed through a placement policy and although, according to the DCS should not have a significant effect on the current staffing budget. The vacancy rate of 52% will ultimately catch up with the municipality's ability to contain the Total Cost of Employment. COAF 15: ISS.35: Employee-related costs. Difference between General ledger and Payroll Leave management system controls not sufficient. An 83-page report was provided to substantiate individual leave entitlement and balances carried forward. Insufficient financial controls lead to Incorrect calculation of Bonus provision for 2021, which were not corrected. No regulatory framework exists to regulate bonus payment in accordance with municipal staff regulations. COAF 62: ISS.109 -Incorrect calculation of Bonus provision for 2021 not corrected: Overtime summary form dated March 2023 indicates approval of overtime worked and controls in place. The overtime analysis report for October 2022 to March 2023 indicates an increase in overtime cost from a baseline of R145 040,07 in October 2022 and a decrease to March 2023. A previous FRP mentioned differences in calculations of overtime-it did not seem to be a recurring problem according to the AGSA. Overtime approval is at the discretion of the accounting officer and must be motivated by HODs. The overtime cost amounted to R2 479 522.77 for 2021/22. A year-on-year analysis was not available.
6	Skills and competencies	<ul style="list-style-type: none"> Limited SCM and contract management skills. This was confirmed at a working session on 18 March 2023.
7	Skills transfer	<ul style="list-style-type: none"> COAF 83: ISS.138 -Lack of evidence of training and transfer of skills from consultants to employees. COAF 83: ISS.139 Inadequate performance management and monitoring of consultants.
8	Performance management	<ul style="list-style-type: none"> PMS of the municipality is inadequate. An individual performance management policy and procedure manual served at LLF on 22 September 2022. No proper record keeping of performance management exists. COAF 03: ISS.3. SDBIP KPIs not updated with the Adjustment Budget. COAF 85: ISS.124 AOPO: Difference between POE File and the APR. Performance agreements for senior managers for 2022/23 were available for inspection. Performance management has not been cascaded down to all employees, but a policy was adopted and WSLM is currently consulting with labour and stakeholders on the next steps.

No	Focus area	Diagnostic findings
9	Records management	<ul style="list-style-type: none"> Record management practices are not at a best practice level. The Department of COGTA appointed the service provider, Eton Group, for the improvement of records management and is currently busy with phase 2 of the project. Positive progress was made in terms of recommendations. A records management policy indicates that it was approved on 28 June 2022 and effective the same date under council resolution 81/06/2022/OCM/LLF31/03/22/EXCO27/06/22. COAF 63: ISS.108 -Differences in leave days taken on leave schedule and employee file: Management agrees with the finding the leave forms were not on file, management also submits the leave files with this response. Date: 11 November 2022. Controls are insufficient to prevent leave balance inaccuracies. COAF 61: ISS.106. Difference between Leave pay schedule days and employee file leave day-prior year. COAF 14: ISS.36 Employment practices: Employee contract not renewed.

3.4. FINANCIAL MANAGEMENT

Walter Sisulu LM is faced with severe liquidity challenges caused by a decline in the revenue collected inhibiting the municipality’s ability to pay salaries and creditors in a sustainable manner. Creditors’ balances have grown exponentially over the last few years as the municipality has been unable to generate sufficient cash flows to service the monthly operational requirements.

The financial challenge in the municipality stems from various inefficiencies which should be viewed and evaluated holistically to enable sustainable financial recovery. The financial difficulties in Walter Sisulu LM are impacted by a combination of factors, including:

No	Focus area	Diagnostic finding
1.	Funded budget and budget parameters	<ul style="list-style-type: none"> The MTREF budget analysis is performed on the main budget schedules, A4, A6 and A7 to assess if the budget figures are credible and realistic given historic trends. Budgeted Financial Performance (revenue and expenditure) is not credible or realistic. The total budget revenue is understated, and expenditure is overstated. Budgeted Statement of Financial Position is not credible or realistic. Significant variances were identified in Current Assets, Non-current Assets, Current liabilities, non-Current liabilities, and Accumulated Surplus. Budgeted Cash flow projections included in the MTREF budget is not credible or realistic based on historic payment- and recovery rates.
2.	Budget-related policies (Finance & HR)	<ul style="list-style-type: none"> The implementation of existing policies may be problematic based on the extensive list of audit findings. The budget-related policies may need to be developed and/or reviewed as various shortcomings may be addressed through these policies
3.	Revenue Management (metered services and vending)	<ul style="list-style-type: none"> No revenue-related reconciliations are being performed No meter audit performed No meter audit performed Outdated standard operating procedures Agency services from vehicle registrations handled on behalf of province are not reconciled Meter reading and input shortcomings Billing for service charges is inaccurate
4.	Customer care and data accuracy	<ul style="list-style-type: none"> The municipality’s SDBIP for 2023/2024 provides for (1) the development of the Service Standards Charter and the and (2) an integrated customer care strategy Estimate meter readings are corrected after-the-fact when actual readings are obtained and are only done when customers query the balance Inconsistent amounts reflected on accounts provided to customers on a month-to-month basis. When the billing process is concluded and the account is sent to the consumer, no adjustments should be made to the account for that period.

No	Focus area	Diagnostic finding
		<ul style="list-style-type: none"> • Currently, the municipality amends consumer accounts retrospectively when readings are obtained which changes amounts previously billed as well as opening and closing balances • The interest rate levied on outstanding debt is incorrect. • No interest rate is specified for outstanding debtors. • The debt and credit collection policy does not indicate the interest rate applicable to outstanding debt • Lack of records and poor debtors' data management
5.	Revenue Management (Property rates)	<ul style="list-style-type: none"> • Property rates are not levied on all categories of properties. • General Valuation Roll GVR is not reconciled with the financial system • The general valuation roll and supplementary valuation roll have not been made public
6.	Debtors Management and Revenue collection	<ul style="list-style-type: none"> • The collection rate of outstanding debtors for 2021/22, as contained in the Draft Annual report is insufficient. • Low collection rate of 68% from conventional services (without prepaid) • Debtor's days increased from 187 days in 2021 to 323 days in 2022 • Inadequate Debt collection processes Lack of commitment to the implementation of council policies in terms of debt collection • Councillors in arrears • Incomplete debtors' information • Unallocated receipts due to incorrect banking references • Misallocation of payments not offset to the services for each account. • Duplicate accounts
7.	Cost-reflective tariffs	<ul style="list-style-type: none"> • Approved municipal tariffs are not cost-reflective • Tariffs are not applied consistently throughout the municipality
8.	Indigent management	<ul style="list-style-type: none"> • Indigent register and applications are not regularly updated • Insufficient validation of indigents
9.	SCM compliance and value for money	<ul style="list-style-type: none"> • Poor contact management and oversight controls • Various instances of non-compliance with SCM policy • Commitments - Proper records not kept of commitments (value of contracts, payments occurred)
10.	Cost containment and realistic cash flow management	<ul style="list-style-type: none"> • Lack of evidence of any cost containment measures implemented • No evidence of a cost containment policy identified
11.	Financial control environment	<ul style="list-style-type: none"> • Weak internal control environment
12.	Debt restructuring	<ul style="list-style-type: none"> • Repayment arrangements with creditors
13.	MFMA circular 71 financial ratio analysis against set norms	<ul style="list-style-type: none"> • Debtors Collection rates - Actual collection rate is in decline based on the last 3 financial years. The combined recovery of consumer- and rates debtors has retracted from 75% to 55% which relates to a 26% decline. • Current ratio - Current ratio for the last 3 years is between 0,3 and 0,4: 1. Efficiency of financial performance is measured as the surplus in relation to revenue. The norm is that the percentage should be more than >0% (i.e., no losses). The net operating surplus/deficit relating to Technical Services was calculated to determine if the services were provided profitably. Analysis of the 2 preceding years indicates that the services are being rendered at a massive loss and more alarmingly that it is in a steep decline. The 2021 ratio for technical department is calculated as (-30%) in and (-58%) in 2022. • Electricity distribution losses substantially exceed the norm of between 7% and 10%. • The revenue growth rate for the 2023 MTREF budget shows a reduction of 8% rather than an inflation-related increase. • Creditors' payment period exceeds the norm of 30 days significantly: • Budget implementation indicators have improved, but Operating revenue indicators is still unsatisfactory.
14.	Technical vs financial	<ul style="list-style-type: none"> • Poor internal communication between the technical department and the finance department. • The property rental register is managed and maintained by the technical department. • The municipal lease register is not reconciled with the financial system leading to a loss of income.

No	Focus area	Diagnostic finding
		<ul style="list-style-type: none"> • Meter audits are required as the meter information is not accurately captured on the financial system
15.	Financial reporting and AFS preparation	<ul style="list-style-type: none"> • Very little progress in effectively addressing audit findings reported in the 2021 audit report. In most cases, the nature of the prior year findings was resolved, but these were replaced by other shortcomings identified by the auditors. • There has been a slight improvement in financial records as the auditor's reference to the 'poor status of accounting records' are much less prevalent which means that information was available for audit purposes. • The change in the financial system majorly contributed to the lack of significant improvement in audit opinions. • Audit action plan for 2022 at 90%. • Inadequate review of financial reports by senior management. • Inconsistent reporting by the Audit Committee to Council.
16.	Unauthorised, Irregular, Fruitless and Wasteful expenditure	<ul style="list-style-type: none"> • There has been a high incidence of UIFW directly linked to the budget deficit, fruitless and wasteful expenditure as a result, amongst others in the main, of penalties and interest on the bulk Eskom account, and irregular expenditure as a result of an SCM unit which collapsed over the years, resulting in decentralized SCM processes, non-adherence to regulations, and improper specifications, evaluation and awarding of bids: <ul style="list-style-type: none"> ○ Unauthorised exp 30/6/2022 – R156 m ○ Fruitless & Wasteful 30/6/2022 – R249 m ○ Irregular expenditure 30/6/2022 – R84 m • Safekeeping of documents such as bidder documentation and vouchers • No mechanisms were implemented to identify possible Unauthorised expenditure proactively during the year. Unauthorised expenditure is generally identified during the AFS compilation process • Proper and complete registers not kept for Unauthorised, irregular, and fruitless expenditure. • The municipality did not promptly inform the MEC for local government in the province and the Auditor-General, in writing of UIFW expenditure incurred in line with s32(4)(a)(b) & (c) of the MFMA. • The vacancies and the high turnover of key personnel also contributed to certain SCM contraventions.
17.	mSCOA implementation	<ul style="list-style-type: none"> • AFS 21/22 not compiled in accordance with mSCOA for example expenditure - no disclosure of inventory consumed or contracted services. • Disclosure of general expenditure • Not all modules of the financial system are implemented for example asset management. • Over and above the business reforms in terms of mSCOA, the mSCOA charts standardises municipal reporting to National Treasury. The lack of which constitutes non-compliance with the MFMA and makes oversight by treasury problematic. • Budget verification by the National Treasury is performed based on the mSCOA 'data strings' which must be extracted directly from the financial system. • No functional Steering committee for MSCOA implementation • No mSCOA Road Map developed. • Data Strings not credible • The municipality does not fully make use of mSCOA modules on all business Processes. • ICT infrastructure is not compatible with mSCOA minimum requirements. • Challenges integrating mSCOA modules with the financial system resulting in transactions being incorrectly recorded/classified
18.	Asset management	<ul style="list-style-type: none"> • Poor record management • Maintenance vs new infrastructure: Maintenance of key assets is not prioritised, and the lack of asset maintenance is leading to infrastructure breakdowns and service delivery limitations. Assets are rapidly deteriorating at an unsustainable rate. • No updated asset management policy in place. • The current state of fleet is unsatisfactory in relation to service delivery needs.
19.	Cash Flow Management	<ul style="list-style-type: none"> • Significant contingent liabilities - 2021/22 - R168 415 286 • Unallocated deposits

No	Focus area	Diagnostic finding
		<ul style="list-style-type: none"> • Outflow of cash higher than inflow of cash not sustainable • WSLM is over-reliant on government grants to fund expenditure: Government grants 64 % of total income. • Non-payment of third parties (pension and medical aid): Total outstanding 2021/2022 - R33 130 795 • Invoices not paid within 30 days and resulting in high-interest cost (2021/22 AFS - R28 752 157
20.	Expenditure / Creditor Management	<ul style="list-style-type: none"> • Employee related cost ratio • High Audit fees • High Bulk purchases • Lack of creditor management • Unidentified Deposits - The balance of deposits yet to be identified is growing year-on-year

3.4.1. Brief Financial Analysis

Financial analysis comprises two main areas. Analysis of actual results provides a view of historical events and circumstances that led to the financial deterioration, whereas analysis of the MTREF budget indicates how the municipality intends to address the key financial challenges.

3.4.2. MTREF 2022/23 BUDGET AND STATUS

Analysis of the MTREF budget is an appropriate starting point for analysis as it guides financial targets.

- a) The budget can broadly be viewed as the financial plan of the municipality and must be funded, credible and realistic.
- b) A funded budget is one that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year and cash backed surpluses of previous years.

A credible budget describes the ability of the municipality to meet their expenditure and revenue targets accurately and consistently. Based on the NT interpretation contained in the MTREF budget schedule, the funded budget assessment is based on the projected cash available as well as working capital requirements which are primarily driven by the outstanding Creditors and Net Debtors balances.

The WSLM will, by default, have an unfunded budget based on the Table A8 determination as its creditors far exceeds any reasonable cash and debtors' balances at the end of the budget year, but this does not relieve the municipality from the obligation to project and budget for realistic revenue and expenditure in line with the service delivery needs.

Credible budget information is key to achieving a funded budget status and is an essential driver to achieve financial recovery. Analysis of the 2022/23 MTREF budget information is performed based on the audited AFS balances for 2022, adjusted for inflation as per MFMA circular 115. Information prior to 2020 is not reliable nor accurate enough to perform detail analysis and the municipality received disclaimers of audit opinions for that period. The approved *2022/2023 MTREF budget schedule is incomplete, unrealistic, and not credible.*

Table A1: 2022/23 MTREF revenue budget

EC145 Walter Sisulu Local Municipality - Table A4 Budgeted Financial Performance (revenue and expenditure)						
Description	2021/22	2022/23 MTREF				
R thousand	Audited Outcome	Budget Year 2022/23	Inflation/ Tariff increase	2023 projected (Escalated per budget circular)	Variance	% Variance
Total Revenue (excluding capital transfers and contributions)	306,781	315,862	4.8%	405,051	89,189,467	-22%

The 2022/2023 MTREF budget operating revenue is significantly understated when compared to the projections made based on the actual 2022 results as the operating revenue is expected to decline by 22%.

This is mainly due to a 9% decline in the budgeted revenue from service charges which is compounded by an expectation of at least inflation-related growth. This constitutes around R27 million variance between budgeted amounts and the expected revenue which is escalated based on CPI.

Table A2: 2022/23 MTREF expenditure budget

EC145 Walter Sisulu Local Municipality - Table A4 Budgeted Financial Performance (revenue and expenditure)						
Description	2021/22	2022/23 MTREF				
R thousand	Audited Outcome	Budget Year 2022/23	Inflation/ Tariff increase	2023 projected (Escalated per budget circular)	Variance	% Variance
Total Expenditure	369,493	375,031		392,130	(17,098,676)	-4%

The total expenditure is only 4% less than the expected projections. The variances identified on the individual budgeted line items are however concerning as they lack any basis of credibility when compared to actual outcomes.

- a) Non-cash-related expenditure items are overstated by around R37million – this includes Debt Impairment, Depreciation and Asset Impairment and Losses.
- b) Cash-related expenditure is significantly understated by R54million.
- c) The above results in the net understatement of R17million.

It therefore appears as if there are austerity measures being implemented for budgeted cash-related expenditure items through the decrease in the balances. This perceived saving is however counteracted by an unrealistic increase in non-cash expenditure line items to balance the overall expenditure budget. The expenditure budget line items are not credible, and the balances provide no guidance in terms of budget implementation as it cannot be realistically implemented or monitored.

Table A3: 2022/2023 MTREF expenditure budget – Cash vs non-Cash

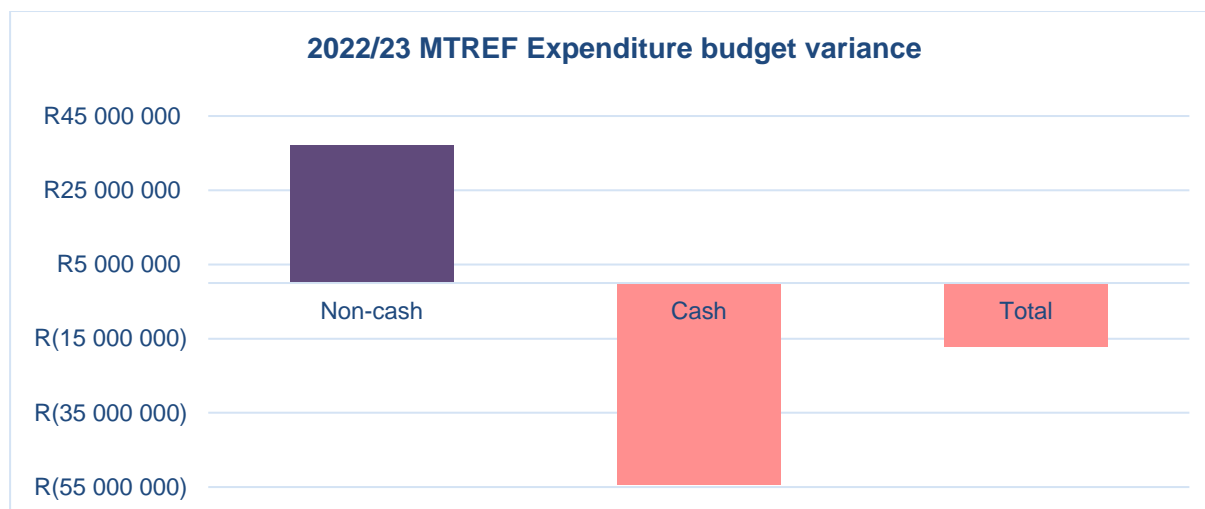


Table A4: 2022/2023 MTREF revenue budget – Debtors collection rate (MFMA Circular 71)

	Ratio for 2020/21 Actual	Ratio for 2021/22 Actual	Ratio for 2022/23 Budget
Gross Debtors <u>Opening</u> Balance - Service Charges & Rates	176,921,289	224,589,289	313,562,066
Service Charges - Rates and Services	192,058,005	198,587,683	195,008,000
Bad debts written-off	(0)	(0)	(0)
Gross Debtors <u>Closing</u> Balance - Service Charges & Rates	(224,589,289)	(313,562,066)	(297,311,068)*
Debtors collection rate	75%	55%	108%
* - Balance not accurately presented in 2022/23 MTREF Budget. Balance recalculated based on available budget information.			

Debtor collection rates and creditor payment rates are also not credible as they bear no relevance to historic results. The debtors balance disclosed in the budget schedule lacks credibility (credit balance of R34million) and recalculation of the Debtors closing balance based on budget information (opening balance, billing, debt impairment and cash flows) projects an unrealistic debtors collection rate in excess of 100%.

Actual debtors’ collection rates per year declined from 75% in 2020/21 to 55% in 2021/22 and are therefore not reliable nor sensibly comparable to the budgeted ratios and does not provide any useful context of actual circumstances.

Table A5: 2022/2023 MTREF revenue budget – Annual revenue collection rate

	Ratio for 2020/21 Actual	Ratio for 2021/22 Actual	Ratio for 2022/23 Budget
Cash Flow - Service Charges & Rates (A7)	148,477,339	159,410,506	185,258,000
Service Charges & Rates - Billing (A4)	192,058,005	198,587,683	195,008,000
Revenue collection rate	77%	80%	95%

Another assessment ratio which can be used is the annual “Revenue Collection Rate” which is based on the cash flow receipts in relation to the total amount billed for a specific year. This ratio is not ideal as gross debtor balances are growing, leading to increased recoverable amounts each year, but it provides some insights into the reasonability of the budgeted collection rates used.

The budgeted revenue collection rate of 95% is also unrealistic and excessive when compared to the actual revenue collection rates calculated (2019/20 to 2021/22 at a 3-year average of 77%).

The expenditure cash flow budget also projects a payment ratio of 100% of the total “cash-related” expenditure budget whereas the actual ratio achieved in the 2021/2022 financial year was only around 67%. This leads to an unrealistic expectation of the municipality’s capacity to incur further expenditure and limits management’s ability to implement the expenditure budget and cash flow effectively.

3.4.3. WSLM FINANCIAL MANAGEMENT ENVIRONMENT

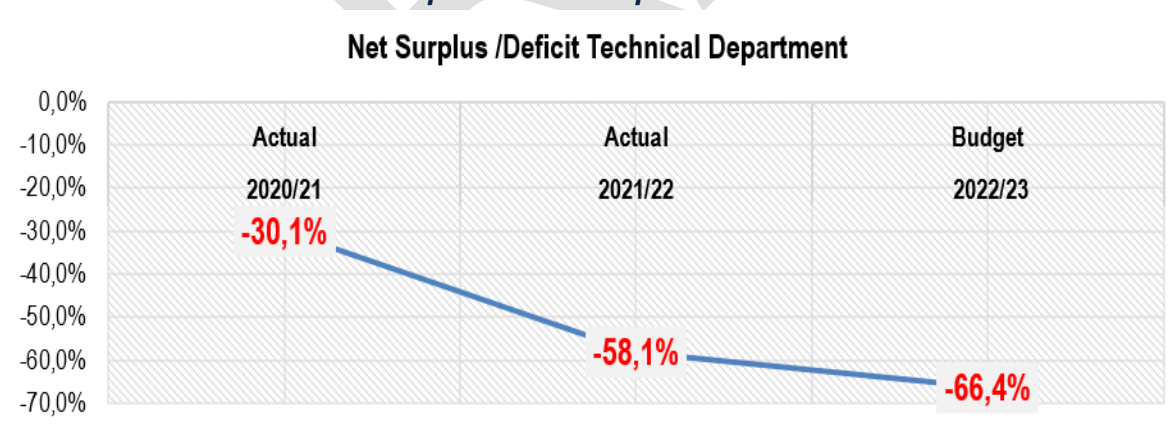
Table B: Summary of the Financial Performance for the past 2 audited financial years and the 2022/23 MTREF budget

Description	2020/21 Audited AFS '000	2021/22 Audited AFS '000	2022/23 Full year forecast (MTREF Budget) '000	Actual increase 2020/21 to 2021/22
Total Revenue (excluding capital transfers and contributions)	300 693	306 781	352 802	2,0%
Total Expenditure	348 314	381 762	384 364	9,8%
Surplus/(Deficit)	(47 621)	(74 982)	(31 562)	

Actual results for 2020/21 and 2021/22 financial year show a further increase in operating deficit driven by slowed revenue growth and an increase in expenditure which far exceeds annual CPI-based inflation.

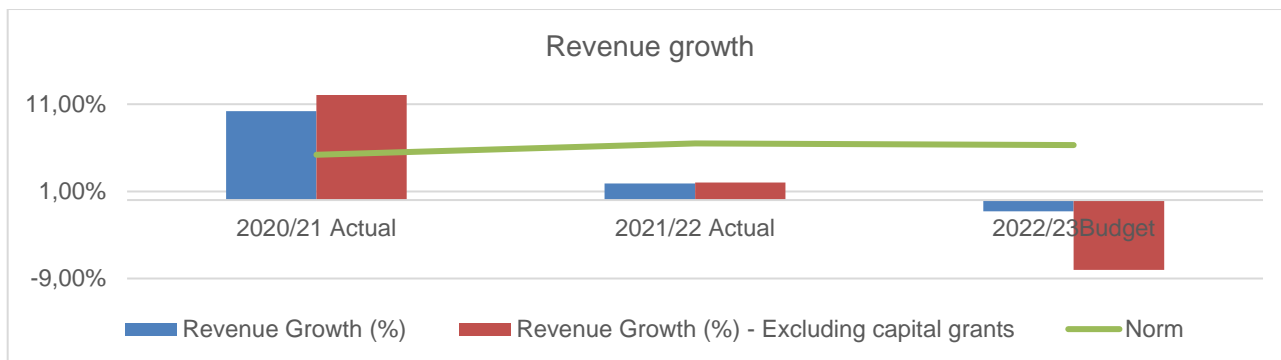
The current financial difficulties are compounded by increasing operating deficits and this must be halted through proactive financial planning, sufficient revenue recovery, and containment of growing expenditure.

Table A2: WSLM Technical Department – Surplus/deficit



The net/surplus per service department could not be determined based on the audited 2021/2022 financial information, but a high-level net deficit for the Technical Department could be established, which shows an alarming downward trend. Based on the department results, services are being rendered at an unaffordable level and the continued downward trend is not sustainable.

Table B1: Revenue growth



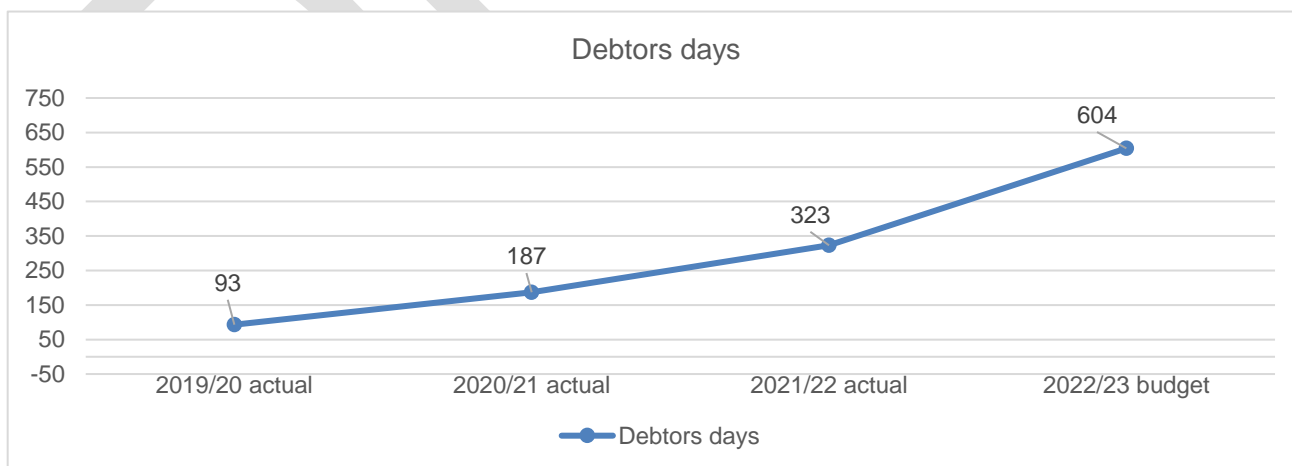
Revenue growth is not sufficient to cater for the growing needs of the municipality. The revenue growth contained in the 2022/23 MTREF budget projects an alarming regression in revenue from the previous audited information.

The overall revenue management section is problematic driven by severe billing complications which inhibit any improvement in the sub-standard debt collection rates. Revenue is the lifeblood of the municipality, and any financial recovery will be dependent on efficient and effective revenue generation and collection strategies.

The revenue-related issues mainly pertain to:

- a) Consumption readings– meter readings and/or inputs and system limitations where the financial system billing module is not providing accurate outputs;
- b) Property Rates billing due to inconsistencies between the general valuation roll (including supplementary valuations) and the financial system information;
- c) Indigent consumer management – a significant number of indigents which are not sufficiently validated;
- d) Unmetered consumption; and
- e) Financial system limitations (Debtor management) - debtor payments not allocated to the service it relates to, duplicate debtor accounts, etc.

Table B2: Debtors days



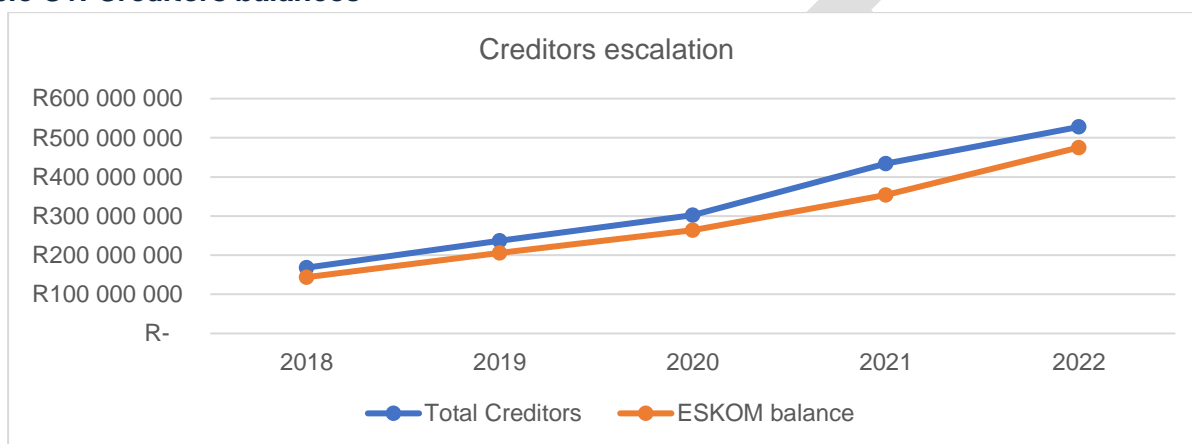
There has been a significant increase in customer queries primarily due to the problems listed above, which has a distinct negative impact on customer perception and ultimately, the revenue collection rates. This is evident from the steep decline in debtors’ collection rates which has declined to 55% in

the 2021/22 financial year and debtor days which has increased by 72% from 2021 to 2022 financial year. Limitations in revenue generation and collection is compounded by the fact the that municipality is yet to implement cost-reflective tariffs which continues to have a negative financial impact.

3.4.4. Operating and Capital expenditure

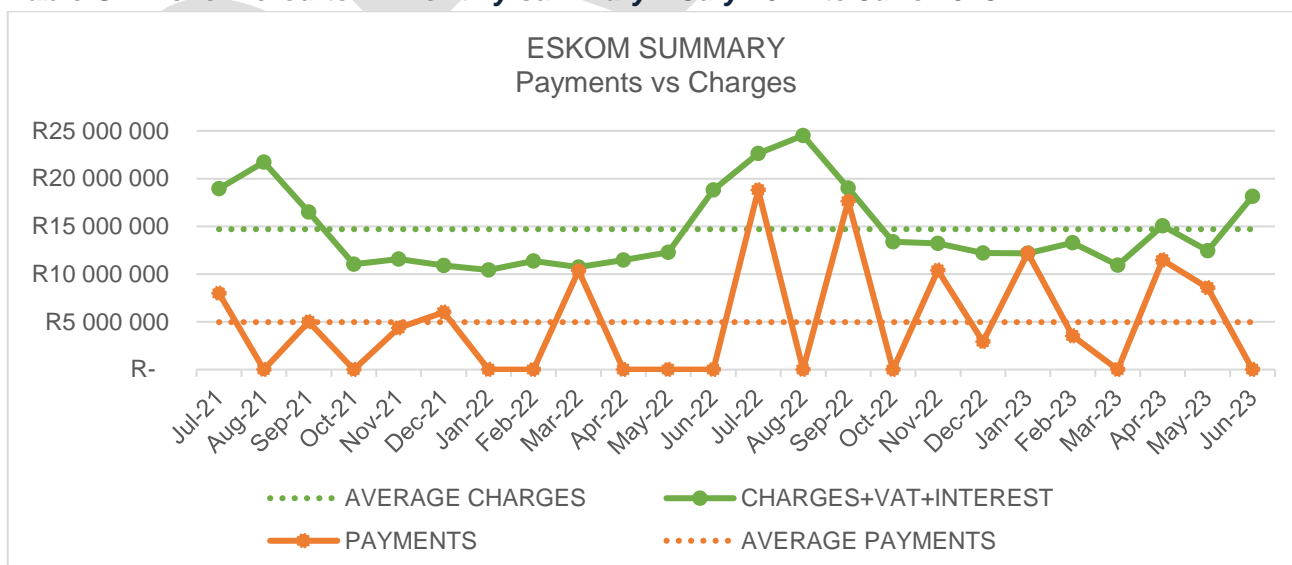
Creditor balances are escalating at an alarming rate which is having a debilitating impact on financial operations. The creditor’s balances are predominantly driven by the sharp increase in the outstanding Eskom balance as the revenue collection and cash levels are insufficient for the monthly requirements.

Table C1: Creditors balances



Revenue collection is insufficient to allow for the expenditure required to deliver quality services and must improve urgently. Given the limited available revenue base municipal expenditure must be reduced, but care should be taken to ensure that expenditure reductions are done in a realistic and sustainable manner.

Table C2: Eskom creditor – monthly summary – July 2021 to June 2023



Cost reduction must be planned for and implemented in terms of targeted expenditure reduction strategies and/or cost containment plans.

Improvements have been noted in capital expenditure and spending of capital grant funding. Capital expenditure in relation to Operating expenditure is, however, still below the norm and capital projects should be prioritised to ensure the municipality will be able to deliver to the future needs of the community.

3.4.5. Analysis of key Financial Ratios

Ratio	2020/21 Actual	2021/22 Actual	2022/23 Budget	INTERPRETATION
Asset Management				
<p>Capital Expenditure to Total Expenditure – indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services.</p> <p>The norm is 10% - 20%.</p>	6%	5%	8%	Capital expenditure in relation to total expenditure is expected to increase from 5% to 8% due to an increased capital grants allocation. The ratio is still below the norm.
<p>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.</p> <p>The norm is 8%.</p>	0.4%	0.9%	1.4%	Actual and projected spending on repairs in relation to the Property, Plant and Equipment is significantly below the norm of 8%. Maintenance of key assets are not prioritised and the lack of asset maintenance is leading to infrastructure breakdowns and service delivery limitations. Assets are rapidly deteriorating at an unsustainable rate.
Debtors Management				
<p>Annual Collection Rate – indicates the level of payments by debtors as a percentage of revenue billed on credit.</p> <p>The norm is 95%.</p>	75%	55%	108%	2022/23 budget collection rate is significantly above actual results and is completely unrealistic. Revenue collection is the lifeblood of the municipality and steps must be taken to plan, monitor and implement proper revenue management strategies and budget projections. Actual results are way below the norm and are deteriorating. The prolonged underperformance to this extent is a key contributor to the severe financial challenges highlighted in the SQA.
<p>Bad Debts Written-off as % of the Bad Debt Provision</p> <p>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.</p> <p>The norm is 100%.</p>	0%	0%	0%	No bad debts were written off over the two years under review and no write-offs are included in the budget. This is an indication of poor debtors management.
<p>Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts.</p> <p>The norm is 30 days.</p>	187 Days	323 Days	604 Days (Estimated)	Debtors days for the 2 years under review are significantly above the norm of 30 days and the exponential growth in debtors days is of grave concern. Debtors days increased from 187 days in 2021 to 323 days in 2022. If the same rate were to be maintained, debtors days are expected to exceed 600 days by the end of 2023. The inability to collect outstanding amounts is a major contributor to the severe financial challenges and will continue to inhibit operations and overall financial recovery.
Liquidity Management				

Ratio	2020/21 Actual	2021/22 Actual	2022/23 Budget	INTERPRETATION
<p>Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants)</p> <p>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.</p> <p>The norm is 1-3 months</p>	0.23	0.72	-0.90	The ratio is significantly less than the benchmark of 1-3 months indicating that the municipality is unable to sustainably fund monthly operational expenditure and continue the services delivery. The budget ratio for 2022/23 is not credible due to a negative cash and cash equivalents balance.
<p>Current Ratio –</p> <p>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.</p> <p>The norm is 1.5 - 2:1.</p>	0.30	0.42	Not Measurable	Current ratio is below norm. The budget ratios are not credible of reliable as the full extent of payables and debtors balances are not reflected. The unmitigated increase in current liabilities driven by the increasing payables balances and non-collection of debtors means that the ratio is expected to decline further if action is not taken imminently.
Liability Management				
<p>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.</p> <p>The norm is 6% - 8%</p>	0%	0%	0%	Municipality has does not have any significant/material external borrowings.
<p>Debt (Total Borrowings)/ Revenue –</p> <p>indicates the extent of total borrowings in relation to total operating revenue.</p> <p>The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings.</p> <p>The norm is 45%.</p>	1%	1%	0%	Municipality has does not have any significant/material external borrowings.
Efficiency				
<p>Net Operating Surplus Margin</p> <p>– measures the net surplus or deficit as a percentage of revenue.</p> <p>The norm is > 0%</p>	-11%	-15%	-19%	Municipality had a Net Operating Deficit for all periods under review. The 2022/23 MTREF budget indicates further deficits projected and the operating surplus margin is declining year-on-year.
Distribution Losses				
<p>Electricity Distribution Losses (%)</p> <p>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.</p> <p>The norm is 7% - 10%</p>	20%	20%	Not measurable	Distribution losses are above the norm indicating a lack of control over and safeguarding of electricity distribution. Electricity losses is result of illegal connections, unmetered connections and a dilapidated electricity network. The estimated rand value is in excess of R25 million per year and is another key contributor to unmitigated increases in the Eskom debt. These losses are over and above the impact of poor debt collection of billed amounts.
Water Distribution Losses (Percentage)				

Ratio	2020/21 Actual	2021/22 Actual	2022/23 Budget	INTERPRETATION
<p>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.</p> <p>The norm is 15% - 30%.</p>	Not measurable	Not measurable	Not measurable	Not measurable due to a lack of information
Revenue Management				
<p>Revenue Growth (%) – measures the growth in revenue year on year.</p> <p>The norm is at the rate of CPI CPI 2020/21 (2.9%)–MFMA Circular 115 CPI 2021/22 (4.9%)–MFMA Circular 123 CPI 2022/23 (6.9%)–MFMA Circular 123</p>	10%	2%	-1%	Revenue growth was above CPI in 2020/21 theoretically reflecting growth which may have been impacted by strict lockdown restrictions. Nominal revenue growth was recorded in 2021/22 and a decline in revenue is expected in 2022/23. Revenue growth together with subsequent collection thereof should be prioritised.
<p>Revenue Growth (%) - Excluding Capital Grants</p> <p>Measures the growth in revenue excluding capital grants year on year.</p> <p>The norm is > 5%.</p>	13%	2%	-8%	Similar trends to above are observed when comparing revenue growth excluding capital grants. The projected negative growth in revenue is even more pronounced when capital grants are excluded.
Expenditure Management				
<p>Creditors Payment Period</p> <p>This ratio indicates the average number of days taken for trade creditors to be paid.</p> <p>The norm is 30 days.</p>	921 days	923 days	1079 days	<p>The municipality's ratio is significantly above the norm. Delayed payment of creditors increases risk that suppliers of service providers withdraw their service or provision of goods which will disrupt service delivery. This is also an indication of liquidity challenges which the municipality is facing.</p> <p>Creditor days stabilised during 2022, but budget projections show further decline in creditors days based on the 2022/23 MTREF. Non-compliance with MFMA regulations that requires creditors be paid within 30 days of invoices.</p>
<p>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.</p> <p>The norm is 0%.</p>	42%	19%	Not measurable	<p>The municipality's ratio for the past 2 financial years is significantly above the norm. Only the expenditure for the year was considered rather than the cumulative balance disclosed in the 2022 AFS.</p> <p>This indicates weaknesses within the municipality's SCM processes, non-compliance with procurement regulations, significant payments made in vain and overspending of the approved budget.</p> <p>The municipality must investigate all instances of this Unauthorised, Fruitless and Wasteful Expenditure in line with its policies and applicable legislation.</p>
<p>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.</p> <p>The norm is 25% - 40%.</p>	32%	31%	29%	The results are within the norm, but skills and competency are still lacking in certain areas which may affect the ratio in future.

Ratio	2020/21 Actual	2021/22 Actual	2022/23 Budget	INTERPRETATION
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%.	Not measurable	Not measurable	Not measurable	Insufficient information to calculate the ratio
Budget Implementation				
Capital Budget Implementation Indicator This ratio measures the extent to which Budgeted Capital Expenditure has been spent during the financial year, under review. The norm is 95% to 100%	45%	131%	Not measurable	Based on the assessments performed on budget amounts and discrepancies found, budget implementation indicators are not reliable enough to make any comments on success of budget implementation. Any performance within the norm may be purely coincidental.
Operating Expenditure Budget Implementation Indicator This ratio measures the extent to which Budgeted Operating Expenditure has been spent during the financial year, under review. The norm is 95% to 100%	128%	99%	Not measurable	Based on the assessments performed on budget amounts and discrepancies found, budget implementation indicators are not reliable enough to make any comments on success of budget implementation. Any performance within the norm may be purely coincidental.
Operating Revenue Budget Implementation Indicator This ratio measures the extent of Actual Operating Revenue (Excl. Capital Grant Revenue) received in relation to Budgeted Operating Revenue during the financial year, under review. The norm is 95% to 100%	111%	85%	Not measurable	Based on the assessments performed on budget amounts and discrepancies found, budget implementation indicators are not reliable enough to make any comments on success of budget implementation. Any performance within the norm may be purely coincidental.
Billed Revenue Budget Implementation Indicator	118%	88%	Not measurable	Based on the assessments performed on budget amounts and discrepancies found, budget implementation indicators are not reliable enough to make any comments on success of budget implementation. Any performance within the norm may be purely coincidental.

3.5. SERVICE DELIVERY

The current situation, key problem challenges, and root causes per focus area identified from the status quo assessment regarding the service delivery matters, are the following:

No	Focus area	Diagnostic findings
1.	SDF	<ul style="list-style-type: none"> No council adopted Spatial Development Framework (SDF) As per the provisions of Section 20(2)(a)(b) of the Spatial Planning and Land Use Management Act 16 of 2013, the municipality placed a notice in the Provincial Gazette, for the SPLUMA Bylaw. The municipality has submitted the letter to the MEC for the development of an SDF for WSLM. There are delays on the project due to issues of non-payment by DBSA. The municipality is at this stage in the process of developing its Spatial Development Framework and Land Use Scheme concurrently through funding by the DBSA and is currently in the consultation stage. Limited spatial planning.

No	Focus area	Diagnostic findings
		<ul style="list-style-type: none"> The municipality wants to integrate the SDF and LUMS into its own fully integrated GIS system.
2.	Capital and Grant Funded Projects	<ul style="list-style-type: none"> Poor management of Capital and Grant Funded Projects The Grants are invested in a ring-fenced investment until utilised and can only be spent on identified and approved projects. The Capital Grants allocated to WSLM are: <ul style="list-style-type: none"> Municipal Infrastructure Grant (MIG) <ul style="list-style-type: none"> 2018/19: Underspent 2019/20: Underspent 2020/21: Underspent 2021/22: Underspent Integrated National Electricity Programme (INEP) <ul style="list-style-type: none"> 2018/19: Underspent 2019/20: Underspent 2020/21: No allocation 2021/22: No allocation
3.	Asset Management	<ul style="list-style-type: none"> There is no integration between the various asset registers of amalgamated municipalities. No existing processes of effectively maintaining, upgrading, operating, and renewing assets with sound business and economic rationale to meet the desired levels of service. No existing processes to effectively determine the capital and operational budgets for future financial years. There is no funding available for the maintenance backlog. The Asset Management Standard Operating Procedure (SOP) is very high level and does not outline the steps or processes involved in completing a specific task or activity. Unavailability of technical and financial information on completed infrastructure projects and other capital expenditures. A disconnect between the Financial and Technical Departments regarding their roles and responsibilities in IAM.
4.	Revenue Improvement	<ul style="list-style-type: none"> WSLM is raising its revenue from rates and taxes, electricity trading activities, and refuse. WSLM is made up of eleven (11 Wards and must include Ward priorities to improve its revenue collection strategy to ensure a financially viable and sustainable institution.
5.	Waste and Refuse Removal / Solid Waste Infrastructure	<ul style="list-style-type: none"> No Integrated Waste Management Plan (IWMP) All 5 major Towns each have a landfill: <ul style="list-style-type: none"> Aliwal North - License lapsed in 2009, Rehabilitation date 2026 Burgersdorp - Closure license expired, decommissioning license was issued in 2014 Venterstad - Closure license expired, decommissioning license was issued in 2014 Jamestown - Operational license issued 2015, Rehabilitation date 2032 Steynsburg - Operational license issued 2015, Rehabilitation date 2028 Refuse collection for households (23 903) is done once a week and at businesses at least twice a week with an approved schedule for refuse collection Illegal dumping sites are removed with the assistance received from EPWP & CWP participants. Poor condition and lack of solid waste infrastructure. The condition of solid waste infrastructure has an average condition grading scale of "Fair" which indicates that significant maintenance is required. Lack of specialised waste vehicles available for waste removal and currently the fleet consists of: <ul style="list-style-type: none"> 2 x Compactor trucks 5 x Tractors and trailers 1 x Front-end-Loader 1 x TLB

No	Focus area	Diagnostic findings
		<ul style="list-style-type: none"> ○ 5 x LDV ○ Procurement of specialised vehicles through MIG secured two additional new trucks.
6.	Planning and Building Control	<ul style="list-style-type: none"> • No land audit has been conducted by WSLM and an application for financial assistance has been submitted to DBSA. • Land is available for development through the municipalities' (former Gariep and Maletswai) SDF and a Strategic Land Parcel Report. • Sites across all towns have been allocated for human settlements projects and potential business investments. • The municipality has embarked on a revenue enhancement project, Building Control being one of the revenue streams identified. • The municipality is in the process of drafting a Building Control Bylaw to assist in regulating non-compliance with the submission of building plans. • Information awareness has been developed to ensure proper communication is made to the general public to increase compliance and revenue. • The municipality achieves 85% for processing of building plans within the statutory timeframe (30 days) in accordance with NBRBSA - 103/1977 • The municipality achieves only 30% of its actual target to issue notices within 7 days for buildings without approved building plans. This is due to the shortage of required staff, tools of the trade, no vehicle for the Department to conduct inspections and the absence of peace officers. • Illegal invasion of land.
7.	Fleet Management	<ul style="list-style-type: none"> • The department has done a Technical Assessment Report for the fleet used by waste services only and contains the state of the vehicles. • There is no Maintenance Plan for the municipal fleet. • The municipal workshop maintains the municipal fleet on an ad hoc basis. • Insurance of the fleet is covered in the Asset Management Policy. • Tyre and fuel management are covered in the Fleet Management Policy.
8.	Housing Delivery	<ul style="list-style-type: none"> • The Housing Delivery function is vested with the Human Settlement Department function and facilitated by the WSLM Planning and Economic Development (PED). • The Housing Sector Plan is outdated and merged with the former Gariep LM and Maletswai LM. • The municipality does not have a housing accreditation with the Department of Human Settlements but intends to apply for accreditation in the next few years pending if there are sufficient resources to undertake the responsibilities. • The bulk services backlog includes roads, electricity, water and sanitation. • To enable development to proceed, approximately R16.2 million is required for water services and R84.2 million for sanitation services (a total of R100 million). • The challenge in electricity is capacity in terms of notified maximum demand contracted from Eskom which is not enough for new developments.
9.	Roads and Storm Water Infrastructure	<ul style="list-style-type: none"> • Outdated Roads and Stormwater Master Plan • The condition of roads and stormwater infrastructure has an average condition grading scale of "Fair" which indicates that significant maintenance is required. • The total kilometres of road infrastructure: <ul style="list-style-type: none"> ○ Asphalt - 82.1km ○ Concrete - 0.1km ○ Gravel - 187.4km ○ Pavers - 42km • The total of stormwater infrastructure: <ul style="list-style-type: none"> ○ Kerb inlets – 57 ○ Culverts (pipe & box) – 316 ○ Channels – 78km

No	Focus area	Diagnostic findings
		<ul style="list-style-type: none"> Department of Transport - Service Level Agreement for maintenance of Gravel Roads (blading and patching gravel)
10.	Parks and Cemeteries	<ul style="list-style-type: none"> The number of parks and open spaces (18) is maintained with assistance received from CWP participants in all Wards. The Municipality has a total of 20 cemeteries and 5 of these cemeteries are in operation. The other cemeteries in Burgersdorp, Steynsburg, and Venterstad are nearing closure. The number of cemeteries (14) is maintained with the assistance received from EPWP & CWP participants. New cemetery sites have been identified in Burgersdorp and Steynsburg. No scientific analysis has been conducted for tariff charges for rendering these services. Tariffs are sold at a reasonable cost given the socio-economic conditions affecting our communities.
11.	Security Services	<ul style="list-style-type: none"> Public infrastructure vandalism has direct service delivery implications for residents and local economies.
12.	Local Economic Development	<ul style="list-style-type: none"> There is an area-based plan for all Municipalities in the District designed in 2010 and there is a land asset register which is audited annually. Municipal land owned equates to 883 673ha and is a major resource. The municipality has many tourism attractions and needs to target tourism projects and initiatives that have the growth potential and to generate economic spin-off: <ul style="list-style-type: none"> Oviston Nature Reserve Buffelspruit Nature Reserve bordering the town of Aliwal North Aliwal Spa Lake Gariep Resort JL De Bruin Dam Resort in Burgersdorp.
13.	Frictionless Payments	<ul style="list-style-type: none"> Frictionless payments as a seamless, quick, and hassle-free option for revenue collection. Contour Technology is a vending partner in Aliwal North
14.	Electricity bulk meters and supply	<ul style="list-style-type: none"> The municipality has a NERSA electricity distribution license for Burgersdorp, Aliwal North, Steynsburg, and Venterstad. Jamestown, Nozizwe, and Khayamnandi townships are supplied by ESKOM. <ul style="list-style-type: none"> Aliwal North: NMD 12 MVA / CD 14 MVA / Additional Capacity 15 MVA Burgersdorp: NMD 3,8 MVA / CD 4,5 MVA / Additional Capacity 5 MVA Steynsburg: NMD 400 KVA / CD 400 KVA / Additional Capacity 800 KVA Venterstad: NMD 400 KVA / CD 400 KVA / Additional Capacity 800 KVA Oviston: NMD 400 KVA / CD 400 KVA / Additional Capacity 800 KVA In Burgersdorp there is a wheeling agreement with Eskom, in Mzamomhle and Eureka. There is also capacity constraints but due to the lack of bulk metering, it cannot be confirmed who is exceeding the supply capacity. The electrical losses for 2020/21 financial years are recorded at 18%. A full Cost of Supply Study will be conducted during the 2023/24 financial year funded by SALGA. An interim Cost of Supply Study at the end of May 2023 (outside scope of SQA) concluded an application of 38% increase sent to NERSA.

No	Focus area	Diagnostic findings
15.	Electricity Infrastructure	<ul style="list-style-type: none"> • Outdated Electricity Master Plan: <ul style="list-style-type: none"> • An outdated master plan exists for Electricity. • Old masterplans exist for former Maletswai only. • Condition of electrical infrastructure: <ul style="list-style-type: none"> • Aging infrastructure • Streetlight repairs and maintenance • Unpredictability in electricity supply • Illegal connections • Budget constraints • Currently, there are no procedures to report theft and vandalism of infrastructure. • Vacant skilled positions in the electricity department. • Electricity distribution losses are not monitored. • Existing electricity grid face constraints. • Loss control – electricity: <ul style="list-style-type: none"> • Inadequate meter readings. • Inadequate Billing system • The poor condition of meters. • Non-technical losses due to meter tampering, illegal connections • Unmetered consumption • Need for meter audits and 'SMART' Technologies

4. THREE-PHASED RECOVERY PLAN

As discussed earlier in this FRP, to ensure that financial recovery is not only achieved but more importantly, that progress is institutionalised and sustained within the Walter Sisulu LM, the FRP adopts a strategic, focused approach that is time-bound yet comprehensive enough to ensure that the underlying causes of the crisis are adequately and for that purpose the FRP distinguishes between the following activation phases:

- a) Rescue.
- b) Stability.
- c) Sustainability.

The Excel FRP Implementation Plan attached to this report, provides details per focus area of each Pillar addressing the strategy to solve, key activities, the responsible person, as well as the required timeline, measurable outcomes/KPI, Portfolio of Evidence, financial impact, support required and target dates.

The following, therefore, serves to merely summarise the key activities identified per focus area per Pillar for easy reading purposes.

4.1.1. PHASE 1: MUNICIPAL RESCUE PHASE

4.1.1.1. GOVERNANCE (RESCUE PHASE)

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

Focus area	Key activities
Governance model	<ul style="list-style-type: none"> • Develop Council item for approval to re-establish committees and appoint members • Include meetings in Council meeting calendar • Monitor impact of Committee recommendations versus successful outcomes • Review current members' experience and replace them with more experienced Councillors (Council item) • Request PT to nominate a technical expert to attend meetings and provide guidance • Develop and implement top management meeting register reflecting strategic planning.
Contract management	<ul style="list-style-type: none"> • Update contract and commitment register • Design and activate contract management and administration SOP, business processes and relevant templates • Commission an audit and review of all contracts to determine procurement methods apply. • Institute improved sourcing strategies based on trends identified. • Audit all contracts for performance. • Institute enforcement actions or consequence management where relevant. • Commission an audit for value-for-money assessments including irregular month-to-month contracts for goods and services and conduct a duplicate costs analysis for contracted services and employed staff. • Expand the mandate of the BAC to perform the function as a contract management committee. • Develop and implement a contract monitoring mechanism. • Improve record management system by aligning awards with purchase orders/contracts and monitoring commitments. • Develop and agree on payment agreements with creditors. • Develop and implement transaction checklists to ensure alignment between invoices submitted, verification by SCM and then payment by BTO. • Implement monthly monitoring mechanism and institute timely corrective actions
Litigation and contingent liabilities	<ul style="list-style-type: none"> • Audit the current situation and submit a report to Council on diagnostic analysis of root causes of litigation and claims. • Update litigation register and reflect total contingent liability. • Adopt and implement the current draft litigation procedure manual. • Conduct a legal assessment on reasonable prospects of success on all pending litigation and implement approved recommendations. • Assign case management to appropriate individuals. • Investigate default judgments and effect consequence management. • Activate and monitor MFMA circular 124 solutions. • Activate and monitor agreed payment plans.
System of delegations	<ul style="list-style-type: none"> • Prepare and adopt a delegation framework and a set of delegations and sub-delegations, including Finance, SCM, and administrative. • Align delegations with Council's own standard rules and municipal Bylaws and Policies. • Maintain a delegation register. • Workshop delegations.
Bylaws and Policies	<ul style="list-style-type: none"> • Establish an inter-departmental task team to review and align all Bylaws and Policies. • Consult well-performing municipalities to obtain best practice Bylaws and Policies. • Inter-departmental task team to review and align all Revenue related Bylaws and Policies. • Consult well-performing municipalities to obtain best practice Revenue related Bylaws and Policies. • Design and activate SOP's and business processes for credit and debt management activities • Develop reporting mechanism to monitor revenue generation from new Bylaws and Policies.

Focus area	Key activities
UIF&W and consequence management	<ul style="list-style-type: none"> • Conduct investigations on UIFW expenditure in accordance with sec 32 of the MFMA and investigation of financial misconduct aligned to an adopted schedule of investigations with timelines. • Adopt and implement UIF&W expenditure SOP and reduction plan aligned to MFMA circulars 68 and 111. • Refer to recommendations at Finance Pillar to improve SCM efficiencies • Develop reporting mechanism to monitor UIFW reduction • Activate a UIFW consequence management SOP and templates
Risk management	<ul style="list-style-type: none"> • Develop and approve a business continuity plan
Powers and functions	<ul style="list-style-type: none"> • Conduct an in-depth analysis of cost implications and effectiveness of rendering agency services and develop report for management consideration of future actions • Implement improvement recommendations
Immovable asset management	<ul style="list-style-type: none"> • Review all lease agreements including the collection of rentals from tenants and whether it is market related. • Review all lease agreements including the collection of rentals from tenants and whether it is market related. • Evict non-paying tenants from properties. • Update relevant registers and financial data • Conduct a land audit and implementation of the recommendations of the audit, including a cost-benefit analysis (operational expenditure against revenue collected). • Implement recommendations from the report • Assess all properties for title deeds and initiate processes to acquire title deeds and reconcile alienation transactions with Deeds office records for the past five years. • Conduct a reconciliation of transactions on council owned immovable properties at the deeds office with investment property register.

4.1.1.2. INSTITUTIONAL (RESCUE PHASE)

To support the achievement of the financial recovery plan and the targets specified for Phase 1, it is recommended that the Rescue Task Team focus on the following institutional issues:

FOCUS AREA	RESCUE PHASE ACTIVITIES
HR strategy and policies	<ul style="list-style-type: none"> • Draft an action plan for execution and compliance and monitor accordingly. • Ensure that SOP for HR is adopted, implemented and complied with. • Appoint an external specialist to assist management in facilitating the development of an HR Strategy which addresses all of the HR-related Strengths and Weaknesses of the Municipality as well as its threats and opportunities.
Change management	<ul style="list-style-type: none"> • Draft a change management framework for WSLM.
Operating model	<ul style="list-style-type: none"> • Conduct strategic planning. • Develop an operating model and communicate same to stakeholders. • Assess ability to execute IDP with current organisational structure and capacity. • Skills audit to be conducted to guide placement and areas of need. • Assess all service delivery functions and ringfence according to revenue sources. Unfunded and underfunded mandates should be explored for alternative service delivery mechanisms.
Organisational structure	<ul style="list-style-type: none"> • Assess organisational structure for effectiveness. Assess structure in terms of applicable regulations. • Test structure for ability to execute IDP. • Conduct skills audit if required. • Conduct staff surveys, meet labour, and assess organisational climate and respond as required. • Conduct exit interviews.

FOCUS AREA	RESCUE PHASE ACTIVITIES
	<ul style="list-style-type: none"> • Establish responsive action plan. • Training on staffing regulations, consider impact of staffing regulations, report on impact to council and MM. • Determine compliance of staff structure to staffing regulations. • Monitor implementation of placement policy for compliance. • Develop strategy for critical posts, review relevant policies and practices. • Maintain action plan for critical positions. • Implement regular reporting on staffing requirements for every department and organisation as a whole. • Develop strategy for critical posts, review relevant policies and practices. • A strategy should be developed to identify the most critical posts and to fill vacancies over a period that the WSLM budget would allow without impacting the service delivery standards and affordability of services negatively. • Implement a vetting process for all employees.
Employee costs	<ul style="list-style-type: none"> • Establish relevant controls and action plans to mitigate against abuse and escalating employee related cost. • LLF matters should be recorded and monitored for implementation and compliance. • Monitor compliance with the agreements for arrear payments. • Establish relevant controls and action plans for leave management. • Consider and adopt appropriate controls to address the audit findings on bonus discrepancies. • Consider and adopt appropriate controls to address the calculation of possible overtime discrepancies
Performance management	<ul style="list-style-type: none"> • Engage Unions, evaluate SDBIP for completeness and alignment of budget and IDP to ensure accountability cycle is adhered to in terms of targets and KPIs and that targets in SDBIP are all assigned in performance agreements. • The system of monitoring and evaluations should also comply with the policy and adequate controls should be put in place to ensure this.
Records management	<ul style="list-style-type: none"> • Consider and adopt appropriate controls to address the audit findings on leave discrepancies. • Establish an integrated and credible records management system. • Consider and adopt appropriate controls to address the audit findings on employment contract discrepancies

4.1.1.3. FINANCIAL (RESCUE PHASE)

Given that this intervention has been invoked because 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. Cost-cutting measures must be implemented. However, an emphasis on cash and municipal finances does not preclude the municipality 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 between 8 to 12 months. A few critical, high-level indicators were selected to guide this phase of the recovery plan. Progress on meeting these indicators will be monitored monthly by the Oversight and Monitoring Committee (or the working group if monthly monitoring is delegated to them) as well as the Implementation Team. The Oversight and Monitoring Committee can also approve updating of the targets as the implementation of the plan progresses.

The 7 high level indicators selected for this Phase are:

- a) Progress towards a Funded Budget including a budget funding plan.
- b) Cash flow management and periodic cash balancing.
- c) Cost Containment.
- d) Revenue billing and collection.
- e) Decrease in water and electricity losses.
- f) Payment of Creditors.
- g) 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 and service delivery are specified separately.

PHASE 1, 2 and 3: BUDGET PARAMETERS FINANCIAL TARGETS:

NO	PERFORMANCE AREA	ASSUMPTION/ BUDGET PARAMETER	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET
1	Property Rates Targets	Revenue Management Value Chain efficiencies. Valuation roll reconciled with billing system monthly. Ensure accuracy of tariffs loaded on the financial system	Valuation Roll reconciled with Billing System (calculated tariff for CPI adjustment) Collection rate - 95%	2023/24 Budget + CPI (4,9%) + Growth (2,7%) + 10% (new valuation roll implemented) Collection rate - 95%	2024/25 Budget + CPI (4,7%) + Growth (2,7%) Collection rate - 98%
2	Service Charges Targets	Revenue Management Value Chain efficiencies in line with FRP Implementation Plan Reduction in unbilled consumption	Recalculated per approved Budget Funding Plan. Baseline +5% improvement 5% increase from: • Improved metering • Improved data integrity and billing • Improvement in controls leading to decreased illegal connections Collection rate – 85%	2023/24 + CPI (4,9%) + Growth (2,7%) (in accordance with consumer demand and revised tariff structure and levels) + 5% improvement 5% increase from: • Improved metering • Improved data integrity and billing • Improvement in controls leading to decreased illegal connections • Phasing in of cost-reflective tariffs Collection rate – 90%	2024/25 + CPI (4,7%) + Growth (2,7%) (in accordance with consumer demand and revised tariff structure and levels) + 5% improvement 5% increase from: • Improved metering • Improved data integrity and billing • Improvement in controls leading to decreased illegal connections • Phasing in of cost-reflective tariffs Collection rate – 95%
3	Unbilled consumption	Baseline: Calculated water and electricity balance breakdown per FRP Phase 1 activity	5% reduction in unbilled consumption	5% reduction in unbilled consumption	5% reduction in unbilled consumption

NO	PERFORMANCE AREA	ASSUMPTION/ BUDGET PARAMETER	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET
4	Bulk purchases	Improved efficiencies per approved Budget Funding Plan	Baseline – WSLM Approved budget parameter Baseline + Growth (2,7%) - 10% (reduction in electricity losses) 10% reduction in electricity losses through improved metering and decreasing illegal connections	2023/24 + NERSA increase (14.7%) + Growth (2,7%) - 10% reduction is electricity losses 10% reduction in electricity losses through improved metering and decreasing illegal connections	2024/25 + NERSA increase (17.7%) + Growth (2,7%) - 10% reduction is electricity losses 10% reduction in electricity losses through improved metering and decreasing illegal connections
5	Debt impairment	Debt Impairment: 100% of billed revenue minus Budgeted Collection Rate	Based on a general collection rate of 85% and 95% for Property Rates	Based on a general collection rate of 90% and 95% for Property Rates	Based on a general collection rate of 95% and 98% for Property Rates
6	Irrecoverable debts written off	Irrecoverable debts written off Write-off of gross debtors not recoverable	20% of Gross debtors balance to be written off	15% of Gross debtors balance to be written off	10% of Gross debtors balance to be written off
7	Operating Expenditure Targets	Employee Cost: <30% of OPEX Councillor REM: 100% per Gazetted maximums, subject to FRP Progress Depreciation: 100% per GRAP 17 Standard Contracted Services – Norm 2% to 5% of OPEX: Target <5%. Actual less 10% (reduction - cost containment) Other expenditure: CPI increase + Growth – 10% reduction from cost containment measures Other: BFP Parameters	Per approved Budget Parameters	Per approved Budget Parameters	Per approved Budget Parameters
8	Cash/ Bank Balances	Adherence to approved Budget	Targeted ratios: • Cash Coverage: 1 Month - 0,9:1	Targeted ratios: • Cash Coverage: 1 Month - 1,1:1	Targeted ratios: • Cash Coverage: 1 Month – 1,7:1
9	Consumer debtor's collection rate	Adherence to approved Budget	Property Rates – 95% Service charges and other revenue– 85%	Property Rates – 95% Service charges and other revenue – 90%	Property Rates – 98% Service Charges and other revenue – 95%
10	Creditor's payment plan	Adherence to payment plan when agreements are reached	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement
11	Ring-fencing of Conditional Grants	Adherence to SOPs 100% Cash-backed			
12	Repair and Maintenance Budget allocation	National Treasury Norm = 8% of Asset carrying value Improve to 8% of OPEX	Baseline recalculated Baseline +30%	2023/24 Budget + CPI (4,9%) + Growth (2,7%) +	2024/25 Budget + CPI (4,7%) + Growth (2,7%) +

NO	PERFORMANCE AREA	ASSUMPTION/ BUDGET PARAMETER	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET
		Repairs and maintenance assumed to relate to Inventory consumed. Expenditure to be recognised according to its nature (GRAP 1) and in line with mSCOA requirements.	Target - 4% of OPEX	30% (increase in repairs and maintenance) Target - 6% of OPEX	30% (increase in repairs and maintenance) Target - 8% of OPEX
13	Cost-containment		Maintain savings from 2023/24 BFP and ensure full compliance with regulations + further savings	Maintain savings from 2024/25 BFP and ensure full compliance with regulations + further savings	Maintain savings from 2025/26 BFP and ensure full compliance with regulations + further savings

A financial forecasting model has been developed to set financial targets for the Walter Sisulu LM FRP over the MTREF period. The financial model escalation formulas uses the following rates per annum over the recovery period:

CPI (MFMA circular 123) –

- 5,3% for 2023/24,
- 4,9% for 2024/25, and
- 4,7% for 2025/26

Local growth –

- 2,7% per annum (Stats SA)

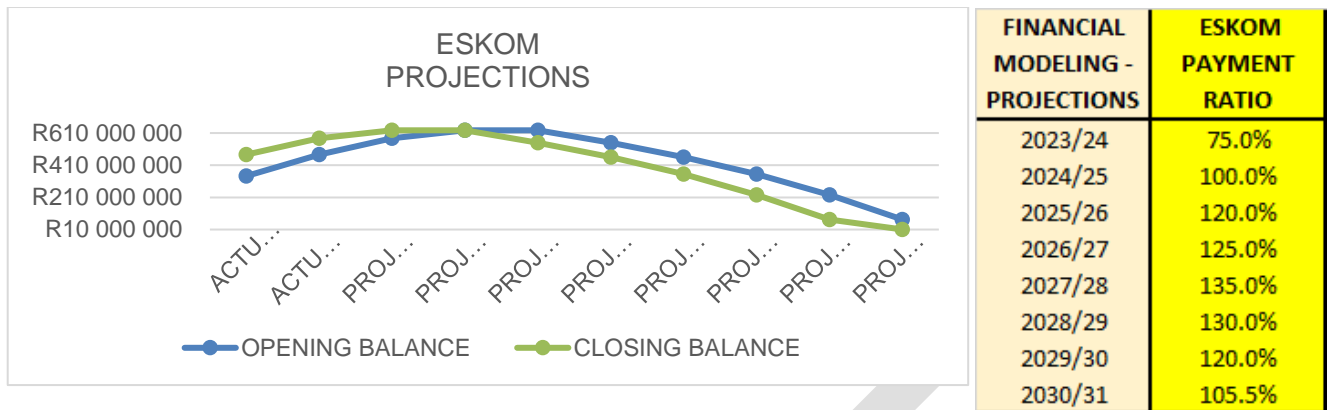
Grounded in the adherence to the above budget parameters, it is anticipated that the municipality will progressively move towards a position of improved financial sustainability over the 3-year period as illustrated in the financial forecasting model below. If key operational efficiencies are achieved in line with FRP Implementation Plan, it is expected that the projected cash shortfall of R460 million at the end of the 2022/23 financial year (based on budget projections and not actual results) will decline to a projected R485 million in 2023/24 but will improve to a cash shortfall of R474 million at the end of the 2024/25 financial year and improve further to R392 million at the end of the 2025/26 financial year.

The net cash position should improve to levels sufficient to boost the cash coverage ratio to within acceptable norms over the MTREF period. Any surplus cash, over and above the required levels, should also be prioritised towards payment of outstanding creditors balances.

The growing outstanding ESKOM balances, due to the poor collection rates leading to the inability to pay, are a significant contributor to the current financial position and is an essential element to allow for financial recovery.

ESKOM projections, in terms of the financial modeling, are based on incremental and sustainable improvement in the creditor payment ratios. The improved appetite to pay creditors will enhance the public perception and re-establish supplier confidence in the municipality. If the positive trends can be achieved and sustained, it could realistically be expected that it will take the municipality a period of 7-10 years to move to a fully cash-backed funding position.

ESKOM – Projected payment ratios and impact on annual balance:



The forecasting model is flexible, and figures will be adjusted annually to align with the revised FRP activities and 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 WALTER SISULU LM FINANCIAL RECOVERY PLAN

BUDGET ITEM	2020/21 AFS AUDITED R'000	2021/22 MTREF BUDGET R'000	2022/23 MTREF BUDGET R'000	TARGETS: 2023/24 MTREF BUDGET R'000	TARGETS: 2024/25 MTREF BUDGET R'000	TARGETS: 2025/26 MTREF BUDGET R'000
Property rates	43,386	48,862	52,102	53,922	63,901	68,710
Service charges - electricity revenue	130,153	130,248	145,976	199,008	246,146	318,497
Service charges - refuse revenue	18,519	19,477	21,848	23,124	24,912	26,788
Rental of facilities and equipment	2,463	2,114	2,899	2,597	2,798	3,009
Interest earned - external investments	-	-	1,765	-	-	-
Interest earned - outstanding debtors	16,731	24,609	30,205	24,647	20,950	18,855
Fines, penalties, and forfeits	294	350	386	387	417	448
Licenses and permits	2,074	2,431	7,574	3,721	4,009	4,310
Agency services	3,947	280	4,594	2,403	2,589	2,784
Transfers and subsidies - Operational	81,048	75,552	82,334	82,899	87,444	89,339
Other revenue	2,079	2,857	3,119	3,438	3,703	3,982
Total Operational Revenue	300,693	306,781	352,802	396,145	456,868	536,721
Employee related costs	103,644	106,529	107,824	125,910	131,954	138,288
Remuneration of councilors	8,307	8,504	8,760	9,037	9,471	9,925
Debt impairment	27,377	9,980	-	37,323	16,748	8,280
Irrecoverable debts written off	-	-	19,000	64,000	38,400	21,760
Depreciation & asset impairment	25,729	25,664	24,670	29,669	31,963	34,369
Finance charges	14,286	35,869	30,098	48,875	31,593	20,382
Bulk purchases - electricity	106,094	128,381	141,711	150,710	159,778	173,823
Inventory consumed	5,407	11,955	-	20,559	28,793	40,248

BUDGET ITEM	2020/21 AFS AUDITED R'000	2021/22 MTREF BUDGET R'000	2022/23 MTREF BUDGET R'000	TARGETS: 2023/24 MTREF BUDGET R'000	TARGETS: 2024/25 MTREF BUDGET R'000	TARGETS: 2025/26 MTREF BUDGET R'000
Contracted services	30,902	25,454	30,095	24,253	22,209	21,137
Transfers and subsidies paid	-	-	451	-	-	-
Operational cost	24,705	29,428	21,755	29,813	28,906	29,528
Losses	1,862	1,392	-	1,200	1,259	1,318
Total Operational Expenditure	348,314	381,762	384,364	541,349	501,074	499,059
Surplus/ (Deficit)	(47,621)	(74,982)	(31,562)	(145,204)	(44,206)	37,663
Cash backed reserves/accumulated surplus reconciliation – A8						
Cash and Investments available						
Cash Equivalents at year end	10,829	24,449	(24,141)	31,462	39,196	63,731
Application of Cash and Investments						
Unspent Conditional Grants	(1,806)	-	-	-	-	-
Working Capital Requirements (Debtors minus creditors)	(323,628)	(378,906)	(436,623)	(516,477)	(514,080)	(455,838)
Total	(325,434)	(378,906)	(436,623)	(516,477)	(514,080)	(455,838)
Surplus/ (Shortfall)	(314,605)	(354,457)	(460,764)	(485,015)	(474,884)	(392,108)

To support the achievement of the financial recovery plan and the targets specified for Phase 1, it is recommended that the Rescue Task Team focus on the following financial services issues:

FOCUS AREA	RESCUE PHASE ACTIVITIES
Funded budget and budget parameters Budget related policies	<ul style="list-style-type: none"> Review the mSCOA segments as per the trial balance and adjustments to be made where required to align it with the latest mSCOA chart. Follow up with the system provider on changes required and how to address system issues. Engage with financial system service providers in terms of challenges and limitations with the financial system and obtain workable solutions for the issues raised. Compile and approve realistic cash flow projections and budget funding plan. Budget related policies to be developed where required policy is not in place. Revise the current budget related policies to be in line with operations of the municipality.
Revenue management value chain/revenue raising measures (revenue targets)	<ul style="list-style-type: none"> Meeting to be held with system service provider to discuss system changes required and how changes can be implemented to obtain required data. Monthly revenue reconciliations to be performed by Accountant Revenue and signed off by Manager: Income as reviewed. Meter audit to be completed on electricity meters. SOP for revenue to be revised to be in line with the current municipal operations and workshop with billing section. Monthly reconciliation to be done on agency fees received (bank) and recorded. Implementation of electronic handheld devices for meter readings Complete the installation of prepaid meters for residential consumers. Engage with service provider to obtain understanding of estimate calculation and incorporate process in revised SOP. Engage with service providers to find a viable solution for system limitations. Engage with the Service Provider to provide training on the billing system.

FOCUS AREA	RESCUE PHASE ACTIVITIES
	<ul style="list-style-type: none"> Reconciliation to be performed between the general valuation roll and the system valuation roll on quarterly basis. Reconciliation to be done between system valuation roll and supplementary valuation roll (per legislation can only bill in accordance with expert's valuation roll) Publish revised GVR (1 July 2024) on the municipal website
Debtors Management, Customer care and data accuracy	<ul style="list-style-type: none"> Compile/revise SOP regarding the debt collection process. Revise SOP relating to revenue processes and workshop with municipal employees. Letters to be send to government entities with debt older than 30 days, to urge payment or alternatively electricity to be cut (pending confirmation of outstanding amounts). Communication by letter to the sent to councilor for settlement of debt. Data cleansing to be performed on debtors to confirm credibility/completeness of information. Meeting with primary bankers to confirm parameters of payments made. Meeting to be held with service provider to request required adjustments (pre-set paraments) to the financial systems. Meeting to be held with the service provider to confirm how system can be adjusted to calculate compounded interest and use of correct interest rate.
Cost reflective tariffs	<ul style="list-style-type: none"> Compile/revise tariff policy and SOP's. The SOP should clearly indicate the steps to follow to set cost-reflective tariffs for each department (tariff-setting model). The setting of tariffs will be part of the budget process.
Indigent management	<ul style="list-style-type: none"> Full verification of indigent debtors to be prioritised. Application and support of indigent debtors should be done in accordance with the policy (proof of pay slip, ID, sworn affidavit gross income, certificate councilor). Review all indigent debtors per the system to supporting documentation. Invalid indigent debtors to be removed from the system and further steps should be considered. With tender process, SCM manager to confirm that supplier is not registered as an indigent debtor before application is considered.
SCM compliance and value for money	<ul style="list-style-type: none"> Monthly review of the contract register/s to be performed by the SCM manager & signed off by the CFO. Ensure all details are completed e.g., supplier, service, contract amount, period. Signed SLA to be kept for all suppliers (relevant to the period). No month-to-month contracts. Where contracts expired, a new SCM process to be followed. Revision of SCM policy to be in line with the latest SCM regulations (effective Jan 2023). Updated SCM policy to be workshopped with all senior manager (finance and user departments). Consequence management implemented for all transgressions identified. Progress reports to be kept for all suppliers and filed at SCM. For all statements, progress report should be available before payment is made to the supplier. The commitment registers to be updated monthly by the SCM accountant and reviewed by the SCM manager (register should clearly indicate contract value, period, payments to date).
Cost containment and realistic cash flow management	<ul style="list-style-type: none"> Approved cost containment policy which aligns to the budget parameters.
Financial control environment	<ul style="list-style-type: none"> Develop/revise SOPs for each business cycle to be in line with current operations (e.g., budget, revenue, assets, SCM). Workshop with employees to ensure that officials have a clear understanding of required procedures.

FOCUS AREA	RESCUE PHASE ACTIVITIES
MFMA circular 71 financial ratio analysis against set norms	<ul style="list-style-type: none"> • Compile and implement policy for reporting by community regarding tampering of meters. • Meter audit to be completed. • Development and implementation of a maintenance plan, to ensure timely repair of electricity meters. • Establish cash flow committee to monitor cash flow and payments made to suppliers.
Financial reporting and AFS preparation	<ul style="list-style-type: none"> • Redesign the municipality's current chart of accounts in line with the requirements of mSCOA. • A targeted Audit Action Plan must be developed, implemented, and monitored by senior officials. • Monitoring of audit action plan to ensure all findings of previous year is adequately addressed.
Technical vs financial	<ul style="list-style-type: none"> • Monthly reconciliation to be performed between financial system and property rental register by Accountant Income and signed-off by Manager: Income. Variances to be followed up and resolved with technical department. • Copy of all lease agreements to be kept at revenue department.
mSCOA implementation	<ul style="list-style-type: none"> • Implement an account structure which complies with the requirements of mSCOA on a transactional level.
Expenditure management	<ul style="list-style-type: none"> • Monthly payroll reconciliation to be performed and signed off by preparer (accountant payroll) and reviewer (Manager: Financial Accounting). • Cost containment measures and policy to be implemented. • Enter into payment arrangement with Eskom and apply for debt relief in terms of the NT MFMA Circular 124. • Training to be provided to officials on creditor reconciliations. • Data cleansing to be performed on suppliers.
Asset management	<ul style="list-style-type: none"> • Asset management policy to be updated and approved with the 23/24 budget.
Cash management	<ul style="list-style-type: none"> • Legal confirmation to be obtained with 2022/2023 AFS to confirm obligations and adjust AFS accordingly. • Unallocated deposit register to be updated monthly by Manager: Income and reviewed by CFO. • Enter into payment arrangements pending affordability assessment
UIF&W	<ul style="list-style-type: none"> • UIF reduction strategy to be compiled and approved by council. • Training to be provided to MPAC committee members by technical experts. • Development of SOP regarding the safekeeping of documents. • Irregular: Register to be updated on monthly basis by SCM manager and reviewed by CFO.

4.1.1.4. SERVICE DELIVERY (RESCUE PHASE)

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

Focus area	Key activities
SDF	<ul style="list-style-type: none"> • Develop and ensure SPLUMA-oriented Spatial Development Framework (SDF) is approved by Council. • Implement the approved SDF.

Focus area	Key activities
Capital and Grant Funded Projects	<ul style="list-style-type: none"> PMU must spend 100% of capital grants receipts. PMU must monitor monthly progress and performance of each project. Implement regular reporting on the progress of projects as per the MFMA, Chapter 4 of System Act, Section 19, and Generally Recognised Accounting Practice (GRAP) principles and statements. PMU must hold monthly progress meetings with all capital projects service providers. Implement a quality management system for PMU in line with the Records Management Policy 2022/2023. Staff must be trained by the Registry Official in proper records management procedures according to the National Archives and Records Service of South Africa Act. Submit applications for all infrastructure grants.
Asset management	<ul style="list-style-type: none"> Development and implementation of an Asset Management Policy. Develop infrastructure business plans across all sectors that identify critical projects for funding from government grants and private sector financing. Increase percentage expenditure in repairs and maintenance from 0,9% to 8%. Develop and implement Asset Management SOP. Proper implementation of asset management principles. Internal training workshops with key personnel from the financial and technical departments.
Waste and Refuse Removal / Solid Waste Infrastructure	<ul style="list-style-type: none"> Engage the services of experts to determine the landfill's useful lives. Put measures in place to comply with the license requirements of landfill sites. Finalise the appointment of a Service Provider to conduct the EIA and Geotechnical investigations to get license approval for the construction of x2 new landfill sites. Allocate dedicated personnel to waste management functions. Prioritise investment in new infrastructure to upgrade landfill sites.
Planning and Building Control	<ul style="list-style-type: none"> Allocate dedicated personnel to building control functions.
Fleet Management	<ul style="list-style-type: none"> The municipality needs to develop a Fleet Management and Strategy Plan that considers the entire municipal fleet requirements and the current scenario and a plan that anticipates changes in the future. Prioritise the purchase of plant to conduct repairs and maintenance on roads. Prioritise investment in specialised waste removal vehicles. Prioritise investment in specialised waste earthmoving plant. Evaluate the budget available for the purchase or lease of plant and consider any alternative financing options. Engage with DPW to assist with loaning earthmoving plant. Prioritise investment in vehicles dedicated to building control functions.
Housing Delivery	<ul style="list-style-type: none"> The municipality must prioritise the transfer of title deeds to beneficiaries.
Roads and stormwater	<ul style="list-style-type: none"> Prioritise the purchase of tools and material to conduct repairs and maintenance on roads. Clean stormwater drainage systems. Implement term tenders for routine works to enable rapid service delivery i.e., road maintenance. Submit MIG applications. Blading and patching gravel roads.
Parks and Cemeteries	<ul style="list-style-type: none"> Development of a short-term maintenance management plan for parks and open spaces. Clean-up parks and open spaces. Prioritise investment in new equipment and train the staff available to use the equipment. Conduct public awareness campaigns. Development of a short-term maintenance management plan for cemeteries Form a community collaboration for securing municipal infrastructure and prevention of vandalism of property and equipment.
Security Services	<ul style="list-style-type: none"> Prioritise investment in security measures at strategic facilities.

Focus area	Key activities
<p>Electricity infrastructure</p>	<ul style="list-style-type: none"> • Develop a demand side management plan to clearly define activities to reduce electricity losses. • Develop and implement a small-scale embedded generation policy including feed-in-tariffs. • Apply for above Nersa approved tariffs in line with the outcome of the cost of supply study. • Installation of new bulk meters. • Development of a Master Plan for Electricity that is aligned with the IDP and SDF. • Develop an Asset Management Maintenance and Renewal Policy and Strategy. • Prioritise investment in maintenance plant, tool and spares. • Regular meter audits. • Provide training to meter readers to identify meter tampering. • Issuing of fines related to illegal meter tampering. • Upgrade and replace bulk electricity infrastructure to increase network capacity and renewal of strategic electricity infrastructure. • Allocate personnel dedicated to maintenance and management of electrical infrastructure. • Ensure compliance with general Occupational Health Safety measures. • Full meter audit including municipal supply points and consumption meters. • Collaboration between Finance and Engineering, ensuring that roles and responsibilities are understood. • Define roles and responsibilities between Finance and Engineering Departments for meter readings. • Implement systems and controls to improve meter reading processes. • Train meter readers to identify and record any acts of tampering, damages and defects to meters. • Implement a vetting process for all meter readers employed. • Develop and implement maintenance schedules for calibrating meters. • Develop and implement maintenance schedules for replacing damaged meters. • Set up a Customer Care Services Hotline (e.g. WhatsApp line). • Issue of fines related to illegal meter tampering. • Utilise meter readers to undertake inspections monthly and report illegal activities. • Perform a meter audit across the municipality to ensure that every customer is metered. • Use the Electricity Cost of Supply study to determine the expenses associated with generating, transmitting, and distributing electricity to end consumers.

4.1.2. PHASE 2: STABILISATION/RECOVERY PHASE (12 - 24 MONTHS)

In this phase of the recovery process, the focus is intended to shift from quick, visible wins to addressing stability through the institutionalisation of 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 the rescue phase.

In addition to the high-level indicators listed in Phase 1, improvement in audit outcomes is another key indicator to be assessed in terms of financial stability.

4.1.2.1. GOVERNANCE (STABILISATION PHASE)

To support the achievement of the financial recovery plan and the targets specified for Phase 2, it is recommended that the Stability and Sustainability Task Team focus on the following stabilisation issues:

Focus area	Key activities
Governance system	<ul style="list-style-type: none"> • Develop and adopt committee-relevant Terms of References. • Monitor the impact of recommendations versus successful outcomes. • Include standing item in Council, Section 79-committee and Management committee agendas to monitor payment compliance. • Report quarterly to Council on outstanding payments from Councillors and officials. • Include standing item in relevant section 79 committee's agenda to monitor code of conduct compliance and addressing of breaches. • Develop annual training programme. • Provide training to Councillors by requesting NT, PT, COGTA, SALGA, NSG and sponsored training providers to subsidise training.
Contract management	<ul style="list-style-type: none"> • Update delegation register to distinguish between contract managers and contract administrators. • Provide training to relevant staff members. • Review possibility to maintain electronic contract register and contract POE's. • Submit monthly reports to MM and CFO. • Implement and monitor corrective and improvement recommendations.
Litigation and contingent liabilities	<ul style="list-style-type: none"> • Maintain monthly update litigation register. • Negotiate and activate more favourable rates with attorneys. • Review the business plan for a legal services unit (In-house versus outsourced) and activate recommendations.
System of delegations	<ul style="list-style-type: none"> • Update delegation register on a regular basis.
Bylaws and Policies	<ul style="list-style-type: none"> • Maintain a Bylaw and Policy register. • Develop and implementing a reporting mechanism to monitor revenue generation from new Bylaws and Policies.
UIF&W and consequence management	<ul style="list-style-type: none"> • Develop reporting mechanism to monitor UIFW reduction
Risk management	<ul style="list-style-type: none"> • Ensure appointment of CRO
Powers and functions	<ul style="list-style-type: none"> • Re-negotiate mandate agreements and activate improvements agreed
Information and communication technology	<ul style="list-style-type: none"> • Develop and implement ICT governance framework. • Activate adopted ICT policies and monitor improvements. • Budget for ICT infrastructure and scan for funding opportunities and sources. • Develop business case and source funding for data back-up system.
Immovable property management	<ul style="list-style-type: none"> • Develop and implement business processes and SOPs to improve the management of municipal leases. • Implement adequate monitoring and reporting mechanisms. • Develop and implement SOPs with appropriate controls and develop GRAP-compliant asset registers. • Identify immovable properties not required for basic municipal services and conduct appropriate disposal actions. • Maintain auditable registers of Internal Audit and Risk Management Committee's quarterly reports submitted to Council.
Security arrangements	<ul style="list-style-type: none"> • Conduct an analysis of cost for services versus losses and activate corrective actions.

4.1.2.2. INSTITUTIONAL (STABILISATION PHASE)

To support the achievement of the financial recovery plan and the targets specified for Phase 2, it is recommended that the Stability and Sustainability Task Team focus on the following institutional issues:

FOCUS AREA	STABILITY PHASE ACTIVITIES
HR strategy and policies	<ul style="list-style-type: none"> External Specialist needs to transfer skills for purposes of regular updating of this strategy and business plan and its implementation, to dedicated Senior Managers.
Employee costs	<ul style="list-style-type: none"> Determine a parameter for staff spending i.t.o. the Staff establishment and its focus. Controls for compliance with staff expenditure should be reviewed for effectiveness. One baseline assessment report on staff cost and future needs determined as a ratio for the next 5 to 10 years.
Skills and competencies	<ul style="list-style-type: none"> Baseline assessment/360 assessment on SCM value chain. Identify all staff and required training via i-develop SCM tool. Training on all relevant SCM competencies to all relevant staff. Coaching and mentorship where required.
Skills transfer	<ul style="list-style-type: none"> Develop a strategy and skills transfer plan and monitor for compliance. Monitor implementation of training programme for compliance and claims submitted.
Performance management	<ul style="list-style-type: none"> Get support from Cogta or SALGA and source best practice PMS policy and strategy from relevant municipality. Train all relevant staff on the elements of individual and organisational performance management. Baseline assessment of performance and introduce productivity enhancement interventions in areas required. Implement Performance Management Framework. Implement Performance Agreements for SMs must be signed. PMS must be cascaded to all employees within the organization.
Records management	<ul style="list-style-type: none"> Conduct baseline assessment, gap analysis, develop best practice file plan, develop an approve record management policy, approve policy, establish, and implement controls. Facilitate transfer of skills from Eton Group to incumbent and relevant staff, adopt, implement and monitor Eton Group recommendations. Monitor Eton Group recommendations for implementation and compliance to action plan and timelines.

4.1.2.3. FINANCIAL (STABILISATION PHASE)

To support the achievement of the financial recovery plan and the targets specified for Phase 2, it is recommended that the Stability and Sustainability Task Team focus on the following financial services issues:

FOCUS AREA	STABILITY PHASE ACTIVITIES
MFMA circular 71 financial ratio analysis against set norms	<ul style="list-style-type: none"> Enter into payment arrangements with major creditors such as Eskom, Continuous adherence with other major creditors for which agreements have already been entered into, Auditor-General and SALA Establish a cash flow committee to monitor cash flow and payments made to suppliers. Compile and implement policy for reporting by community regarding tampering of meters
Financial reporting and AFS preparation	<ul style="list-style-type: none"> Continuous monitoring of audit action plan to ensure all findings of the previous year is adequately addressed
Cash flow management	<ul style="list-style-type: none"> Legal confirmation to be obtained in preparation for AFS to confirm obligations and adjust AFS accordingly

4.1.2.4. SERVICE DELIVERY (STABILISATION PHASE)

To support the achievement of the financial recovery plan and the targets specified for Phase 2, it is recommended that the Stability and Sustainability Task Team focus on the following service delivery issues:

Focus area	Key activities
SDF	<ul style="list-style-type: none"> • Implement the GIS system. • Appoint suitably qualified personnel to manage the GIS system.
Asset management	<ul style="list-style-type: none"> • Development of the Asset Care Program with DBSA assistance. • Audit of current infrastructure (conditional assessment, determination of RUL and impairment reviews). • Approval and implementation of Asset Management Maintenance and Renewal Policy and Strategy. • Develop infrastructure business plans across all sectors that identify critical projects for funding from government grants and private sector financing. • Develop and implement Asset Management SOP. • Implement a quality management system in line with the Records Management Policy 2022/2023. • Staff must be trained by the Registry Official in proper records management procedures according to the • National Archives and Records Service of South Africa Act. • Train the Registry Official to understand the type of records critical to the Technical Departments. • Develop an audit schedule to implement a formal internal audit program of records management compliance for all staff. • Invest in modern technologies, cloud computing and the Internet of Things (IoT) for effective management of records.
Revenue Improvement	<ul style="list-style-type: none"> • Conduct an assessment to identify viable revenue-generating infrastructure projects per Ward.
Waste and Refuse Removal / Solid Waste Infrastructure	<ul style="list-style-type: none"> • Obtain funding for landfill management and an approved and implemented Integrated Waste Management Plan. • Monitor of landfill operations. • Feasibility Study for commissioning transfer stations. • Submit application for waste management activities funded by MIG. • Develop and implement an Integrated Waste Management Plan. • Proper implementation of asset management principles. • Implement access controls at Landfill sites. • Appoint staff to control access to the dumpsite and to classify waste. • Compile/revise tariff policy and SOPs to include waste management. • Implement cost reflective tariffs.
Planning and Building Control	<ul style="list-style-type: none"> • Peacemaker training and accreditation for easy issuing of contraventions related to land use and illegal building. • Finalise and approve the Prevention of Land Invasion Policy
Fleet Management	<ul style="list-style-type: none"> • Implement the Fleet Management Strategy and Plan and submit monthly progress reports to management and council. • Prioritise investment in vehicles to reduce the 50% backlogs in the municipality's fleet requirements.
Housing Delivery	<ul style="list-style-type: none"> • The municipality needs to develop a Housing Sector Plan that considers the current scenario and a plan that anticipates changes in the future. • Finalisation, approval, and implementation of the Housing Sector Plan, Informal Settlement Policy, and Allocation Policy. • Conduct a Land Audit to determine the land available for housing developments. • JGDM and ESKOM to come and present a business plan to address upgrades of bulk infrastructure. • ESKOM to come and present a business plan to address Electrification of housing projects.

Focus area	Key activities
Roads and Storm Water Infrastructure	<ul style="list-style-type: none"> • Development of a Master Plan for Roads and Stormwater that are aligned with the IDP and SDF. • Participate in the District Rural Road Asset Management System (RRAMS) programme.
Parks and Cemeteries	<ul style="list-style-type: none"> • Conduct a Land Audit for the availability and suitability of land for cemetery sites to ensure compliance with local zoning regulations and environmental regulations. • Allocate dedicated personnel at cemeteries.
Local Economic Development	<ul style="list-style-type: none"> • Develop LED strategy and implementation plan. • Allocate dedicated personnel to LED initiatives. • Conduct a Land Audit for the availability and suitability of land for alternative revenue enhancement projects.
Electricity Infrastructure	<ul style="list-style-type: none"> • Implement an Asset Management Maintenance and Renewal Policy and Strategy. • Prioritise investment in security measures. • Upgrade and replace bulk electricity infrastructure and strategic electricity infrastructure.

4.1.3. PHASE 3: SUSTAINABILITY PHASE (BEYOND 24 MONTHS OR THE TERMINATION OF PHASE 2)

In this phase of the recovery process, the focus is to ensure the institutionalisation of processes in Phase 1 and 2 of the recovery processes. It is also envisaged that the municipality will consider long-term planning and issues necessary to ensure the sustainability of the municipality’s finances.

The Oversight Committee will recommend when it is appropriate for the implementation of the FRP to move from phase 2 to phase 3. The National Treasury’s MFRS unit will be asked to confirm that they agree with this assessment. At this point, it will be necessary to develop and agree on the details of the activities and targets for the third phase of the FRP. This will be approved by the Oversight Committee.

The following reflects a few suggestions from the team in relation to the Governance, Institutional and Service delivery pillars, but from the limited content it would become clear that it is difficult to predict the situation at Phase 3 and for that purpose, this FRP encourages strong project management oversight during phases 1 and 2 to guide the move towards stabilisation.

4.1.3.1. GOVERNANCE (SUSTAINABILITY PHASE)

To support the achievement of the financial recovery plan and the targets specified for Phase 3, it is recommended that the Stability and Sustainability Task Team focus on the following sustainability issues:

FOCUS AREA	SUSTAINABILITY PHASE ACTIVITIES
Governance system	<ul style="list-style-type: none"> • Provide refresher training. • Provide refresher training to members. • Monitor and report on the impact of recommendations versus successful outcomes. • Develop and present training guiding MPAC members on decision making. • Update declarations quarterly formally at Council meeting. • Activate electronic resolution register. • Submit quarterly progress reports to Council.
Information and communication technology	<ul style="list-style-type: none"> • Audit ICT environment to monitor efficiency and activate improvement recommendations including an audit of all licenses and related costs.
Fraud management	<ul style="list-style-type: none"> • Maintain record of hotline cases and actions to resolve issues. • Report quarterly on efficiency of fraud management practices.

4.1.3.2. INSTITUTIONAL (SUSTAINABILITY PHASE)

To support the achievement of the financial recovery plan and the targets specified for Phase 3, it is recommended that the Stability and Sustainability Task Team focus on the following institutional issues:

FOCUS AREA	SUSTAINABILITY PHASE ACTIVITIES
HR strategy and policies	<ul style="list-style-type: none"> • Conduct a review of all HR-related policies for suitability and compliance. • Draft an action plan for drafting and amending policies and execute plan. • Bear in mind that Policy and Operational models follow strategy. • Policies to be recorded on a register that need to be reviewed annually for compliance and best practices. • Controls for compliance with leave policy should be reviewed for effectiveness.

4.1.3.3. FINANCIAL DELIVERY (SUSTAINABILITY PHASE)

This phase of the recovery process, the focus is to ensure the institutionalisation of processes in phases 1 and 2 of the recovery process. It is also envisaged that the municipality will consider long-term planning and issues necessary to ensure the sustainability of the municipality’s finances. The municipality is expected to conform to norms set for financial ratios and to ensure that plans are put in place to buffer the municipality in the event of national or provincial economic and fiscal shocks. The municipality will be expected to execute all the property, plant, and infrastructure strategies that would be developed and refined during phases 1 and 2. All the strategies must be realistic and implemented timeously.

The Oversight Committee will recommend when it is appropriate for the implementation of the FRP to move from Phase 2 to Phase 3. The National Treasury’s MFRS unit will be asked to confirm that they agree with this assessment. It will be necessary to develop and agree on the details of the activities and targets relating to the sustainability phase of the FRP, but this will be guided by the level of success achieved in Phases 1 and 2. This will be approved by the Oversight Committee.

4.1.3.4. SERVICE DELIVERY (SUSTAINABILITY PHASE)

To support the achievement of the financial recovery plan and the targets specified for Phase 3, it is recommended that the Stability and Sustainability Task Team focus on the following service delivery issues:

Focus area	Key activities
Asset management	Conduct a feasibility study for the procurement and implementation of an Asset Management System.
Local and economic development	Activate the LED Forum to spur economic development through sustainable LED projects that are implemented in cooperation between the public and private sectors. Evaluate value for money to use Private Partnerships (comparing cost, revenue and risks, benefits, infrastructure requirements, and cash flow terms).
Frictionless Payments	Feasibility study to develop a Mobile Application and e-services on the Municipal website.
Electricity infrastructure	Procurement of Smart Meters to alleviate illegal bridging of meters.

5. REPORTING

MONTHLY REPORTING ON ACHIEVEMENT OF TARGETS:

The following approach to reporting and oversight will be required:

- The MM must submit monthly progress reports to NT MFRS and the Municipal Council, and:
 - Conducts necessary quality assurance processes to verify performance.
 - Confirms/certifies that decisions of the Council/Executive Committee/Mayor are consistent with the FRP.
 - Maintains a record of decisions on FRP implementation.
- The MM must submit quarterly implementation progress reports to the Executive Committee and Council.
- PT must conduct quarterly reviews on the effectiveness of the FRP and whether the root causes are being progressively being addressed.
- The MM must submit Portfolio of Evidence for claimed performance on a quarterly basis to PT and MFRS for review.
- The MM and heads of directorate must sign individual performance scorecards/ agreements for each financial year that incorporates the FRP.
- The SDBIP and IDP and ‘Strategic Plan’ must be revised for alignment with the FRP.
- All monthly FRP reports must be tabled and discussed in monthly Top Management meetings.
- No decision (Executive, Legislative or Administrative) should be approved by Council, Mayor and Accounting Officer that contravenes or defeats the FRP and its objectives.
- The MM must assign an official in his office to coordinate implementation and reporting on the FRP.
- The MM must sign-off all FRP implementation progress reports before submission to MEC of Finance/ PT, NT MFRS, Executive Committee and Council.

IT IS SUGGESTED THAT A SCHEDULE OF REPORTING AND COMMITTEE MEETING DATES BE APPROVED AT THE FIRST TECHNICAL WAR ROOM MEETING PER EXAMPLE BELOW:

5.1. MONTHLY REPORTING ON ACHIEVEMENT OF TARGETS: WALTER SISULU LM

No	Report for the month OF	Report due from Provincial Executive Representative Intervention Team ON	NT/CoGTA Progress Discussion Meeting ON	The report considered by Technical War Room ON	Considered by Political Oversight Committee ON
1	October 2023	31 October 2023	06 November 2023	10 November 2023	16 November 2023
2	November 2023	30 November 2023	04 December 2023	08 December 2023	13 December 2023
3	December 2023	31 December 2023	08 January 2024	12 January 2024	16 January 2024
4	January 2024	31 January 2024	05 February 2024	08 February 2024	15 February 2024
5	February 2024	29 February 2024	04 March 2024	08 March 2024	15 March 2024
6	March 2024	31 March 2024	05 April 2024	10 April 2024	15 April 2024
7	April 2024	30 April 2024	03 May 2024	10 May 2024	14 May 2024
8	May 2024	31 May 2024	03 June 2024	10 June 2024	14 June 2024
9	June 2024	30 June 2024	05 July 2024	10 July 2024	15 July 2024
10	July 2024	31 July 2024	8 August 2024	13 August 2024	19 August 2024
11	August 2024	31 August 2024	10 September 2024	13 September 2024	19 September 2024
12	September 2024	30 September 2024	10 October 2024	14 October 2024	21 October 2024

5.2. REPORTING FRAMEWORK: PROGRESS AGAINST TARGETS

The municipality must report monthly on each key activity included in the FRP Implementation Plan (Annexure A). The implementation plan will be used as the basis to develop a progress reporting dashboard with the following fields:

(Example only for illustrative purposes)

PER FRP IMPLEMENTATION PLAN:		INFORMATION:
Phase	Financial Rescue	
Pillar	Institutional	
Focus area	HR strategy	
Key Activity	<ul style="list-style-type: none"> ▪ Appoint an external specialist to assist management in facilitating the development of an HR Strategy which addresses all HR related Strengths and Weaknesses of the Municipality as well as its threats and opportunities. 	
Problem Statement	Separate HR strategy should be guiding HR function over medium to long-term. Gap exist in the following key policies: Recruitment & Selection, Placement-Promotion-Demotion-Transfer, Subsistence & Travelling.	
Responsible	Director Corporate Services was supported by the rescue task team	
Start Date	At the initiation of the rescue phase probably 1 August 2023	
End Date	During rescue phase	
Key Performance Indicator	1 HR strategy developed and adopted	
Financial Target	Use resources mobilised in terms of this plan and as agreed to by the various oversight task teams. Quantify as relevant.	
Progress Report by Municipality:		
Steps taken	The rescue task team determined the need for insourcing a specialist consultant and proceeded with the procurement and management of consultant's performance during the assignment.	
Progress made	HR strategy and plan was completed within the agreed timeframe.	
Financial impact recorded	Not quantifiable but staff morale has improved, and the strategy assisted in the optimal use and deployment of resources which would assist in improved service delivery and eradicating some of the discrepancies in record keeping, accounting, and invoicing. This should have a positive effect on the public trust and payment ratios.	
Other noteworthy developments	The stability of the workforce and the morale of staff shows improvement, and the number of disciplinary cases has shown a marked decline fromper month to ... per month.	

6. RECOMMENDATIONS

The following recommendations are made for consideration:

- a) The Walter Sisulu LM Mandatory Financial Recovery Plan be approved by the MEC of Finance in terms of Section 143(2) of the MFMA.
- b) The Political Oversight Committee be established by the Office of the Premier supported by the HoD (PT) to provide for political oversight.
- c) The Technical War Room Oversight Committee be established by the provincial HoD (PT) to direct the intervention, monitor progress, unblock any political and strategic challenges that may hinder the success of this intervention from a National and Provincial government level and report to the MECs for Finance and CoGTA in the Eastern Cape Province on progress and issues for escalation.
- d) The **establishment of a combined task team** including external specialists and appointed officials.

- e) The **adoption and implementation of a comprehensive change management programme**, consisting of the presence of uncontaminated and strong change agents to address the following focus areas:
- i. **Consequence management:** The lack of consequence management and accountability arrangements are systemic and symptomatic of a municipality where oversight is lacking.
 - ii. **Capacity development:** An extensive mentorship, coaching, training, and change management effort is required. A skills audit, new staff structure, well trained and equipped elected officials and adherence to codes of conduct, consequence management and accountability would be a minimum first step in the right direction.
- f) The **activation of the detailed Financial Recovery Implementation Plan** activities is premised on a two-pronged approach running in parallel, namely:
- i. **Rescue team:** A tactical and operational team (80 % outsourced and 20% in-house) to address the rescue activities within the municipality, namely the immediate and continuous provision of basic municipal services. This team will be operational for a period of three-years, whereafter the capacitated municipal resources appointed through the Stability and sustainability team will take over the full responsibility.
 - ii. **Stability and sustainability team:** A strategic and tactical team (40 % outsourced and 60% in-house) to address the stabilisation and sustainability activities related to establishing a soundly governed municipality. This team will be operational for a period of three years, whereafter the municipal leadership will take over the full responsibility.

APPROVAL

This FRP is submitted by the NT MFRS in terms of section 141(4)(c) of the MFMA.

"I, _____ Member of the Executive Council in the Eastern Cape Provincial Cabinet responsible for finance hereby confirm that I have verified and confirmed that all statutory processes as set out in section 141 of the MFMA has been followed and that the criteria contained in section 142 has been met.

I therefore approve the Financial Recovery Plan in terms of the powers vested in me under section 143(2) of the MFMA."

Signed on this ____ day of _____ 2023 at Bhisho, Eastern Cape Province.

MEC of Finance

ANNEXURE A: FRP IMPLEMENTATION PLAN

The FRP Implementation Plan is attached to this report in an Excel format to ease project implementation, monitoring and oversight and consists of four sheets addressing each of the pillars, being (1) Governance, (2) Institutionalisation/HR, (3) Financial and (4) Service Delivery and is structured per column as follows:

- 1) Item number.
- 2) Focus area.
- 3) Current situation.
- 4) Problem key issues.
- 5) Root causes.
- 6) Strategy to solve.
- 7) Key activities.
- 8) Responsible person.
- 9) Timeline (Rescue/Stability/Sustainability).
- 10) Measurable outcome/KPI.
- 11) PoE.
- 12) Financial impact.
- 13) Support required.
- 14) Start date.
- 15) End date.
- 16) Progress and reporting.

ANNEXURE B: STATUS QUO ASSESSMENT

The approved Status Quo Assessment supporting the Financial Recovery Plan and Implementation Plan.