

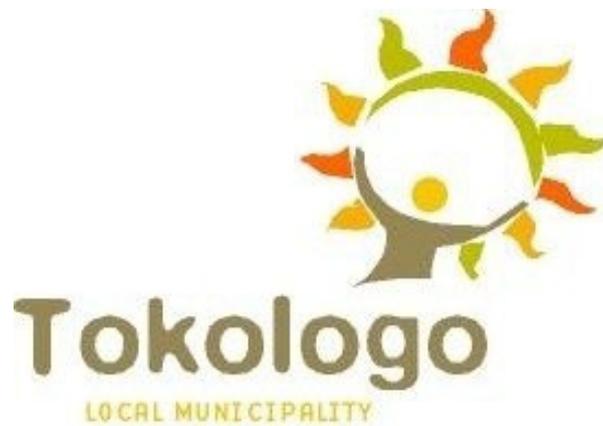
**SECTION 139(5) MANDATORY INTERVENTION**

**FINANCIAL RECOVERY PLAN**

*Prepared for the*

**TOKOLOGO LOCAL MUNICIPALITY**

**JULY 2023**



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## ABBREVIATIONS

The following is a list of abbreviations used in this document and its related attachment/s:

ABBREVIATION	DEFINITION
<b>AG</b>	Audit General (South Africa)
<b>CFO</b>	Chief Financial Officer
<b>COGTA</b>	Cooperative Governance and Traditional Affairs
<b>TLM</b>	Tokologo Local Municipality
<b>FRP</b>	Financial Recovery Plan
<b>ICT</b>	Information Communication and Technology
<b>IDP</b>	Integrated Development Plan
<b>SDBIP</b>	Service Delivery and Budget Implementation Plan
<b>MTREF</b>	Medium-Term Revenue and Expenditure Framework
<b>MFRS</b>	Municipal Finance Recovery Service
<b>MM</b>	Municipal Manager
<b>MPAC</b>	Municipal Public Accounts Committee
<b>PEC</b>	Provincial Executive Committee
<b>PER</b>	Provincial Executive Representative
<b>SALGA</b>	South African Local Government Association

## EXECUTIVE SUMMARY

Tokologo Local Municipality (TLM) has been experiencing financial difficulties which has had a significant adverse impact on service delivery in the municipality. The Free State Executive Council, on 19<sup>th</sup> of May 2022, resolved to invoke Section 139 (5) (a) and (c) and placed the municipality under administration.

Tokologo Local Municipality (TLM) municipal council was established in 2001 consisting of a plenary of 8 Council members and subsequently became a full Council with 12 members. This is comprised of proportional representation and wards (5 PR Councillors and 7 ward Councillors). The move from plenary to full Council also impacted further financial strains as more Councillors have to be paid from the same budget, thereby further impacting service delivery and the municipality's financial wellbeing. Furthermore, an MPAC which must deal with legacy issues of increasing UIF&W without consequence management is not yet functional.

There is currently no disciplinary board established and terms of reference for this committee. There is also no consequence management taken so far for UIF&W. There is no UIF&W reduction plan and as such UIF&W remain high. In the 2021/22 financial year unauthorised expenditure was reported as R688 million which is an increase from R617million in 2019/20. Irregular expenditure was reported as R439 million in the 2021/22 financial year which is an increase from R314 million in 2019/20. Fruitless and Wasteful expenditure was reported as R51,3 million in the 2021/22 financial year, an increase from R28,4 million in 2019/20.

It remains a high risk for the municipality as critical leadership position of Municipal Manager remains vacant for over 12 months and other critical managerial positions remains vacant as well. The vacancy of these positions affects the stability and compromise the implementation of key service delivery decisions of the municipality.

The Municipality received qualified audit opinions for 219/20 and 2020/21 from the AGSA audit. In 2021/22 the municipality regressed further obtaining a Disclaimer of audit opinion

Tokologo Local Municipality has been adopting and operating an unfunded budget for the past five (5) successive years. It is unable to service most of its creditors within 30 days due to inadequate cashflows, and on the other hand the municipality is unable to collect outstanding debts due to the low collection rates caused by customers dissatisfaction as a result of poor service. The municipality has legacy debt. Eskom is the highest owed creditor sitting with a balance of R208 381 206 as of 23 March 2023. The other top creditors are DWS with a balance of R62 775 000.00 as at 30 November 2022, Pension fund of R8 229 214 and Auditor General with a balance of R9 974 145 as at 31<sup>st</sup> March 2023. The situation is worsened by the fact that the municipality has taken ESKOM to court with

regards to alleged non-payment for property rates. The municipality needs to urgently enter into payment arrangement (debt restructuring) with these creditors to avoid its impact on service delivery.

The challenges ventilated in the governance, institutional and finance pillars have also led to the collapse of service delivery. Inadequate infrastructure development and ageing infrastructure has further impacted the ability of the municipality to service its community needs and growth. Lack of repairs and maintenance on infrastructure resulted in interruptions of service delivery to the consumers.

The FRP will be used as an instrument to guide the municipality in addressing the financial crisis in the municipality as well as to ensure that the municipality regains its financial health within the shortest timeframe whilst ensuring that all issues which adversely affect the financial health of the municipality are comprehensively addressed. This will allow the Municipality and Administrator and his team to give effect to the financial recovery plan and the overall recovery process.

The financial recovery plan adopts a strategic, focused approach which is time-bound yet comprehensive enough to ensure that the underlying causes of the crisis are adequately addressed. To achieve this objective, the draft financial recovery plan 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 Rescue Phase (Phase 1) which focuses primarily on cash and restoring the cash position of the municipality, followed by a Stabilisation Phase (Phase 2) which expands on the financial indicators to be monitored and emphasises key governance and institutional issues which must simultaneously be addressed and finally, a Sustainability Phase (Phase 3) to ensure that indicators are developed that will give effect to the long-term financial sustainability of the municipality. The approach is designed to ensure that financial recovery is not only achieved, but more importantly, that progress is institutionalised and sustained within Tokologo Local Municipality.

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

# 1. PART ONE: INTRODUCTION, LEGISLATIVE CONTEXT AND OVERSIGHT

## 1.1 MUNICIPAL OVERVIEW

Tokologo is a category B municipality located within Lejweleputswa District Municipality. The area covers 9 326 square kilometres and consists of three former Transitional Local Councils namely Boshof, Dealesville and Hertzogville, as well as a portion of a former Transitional Rural Council (Moddervaal), which consists of approximately 1 480 farms. Tokologo Local Municipality is in the western Free State. Boshof (the capital town) is situated in the centre; Dealesville is further east, and Hertzogville is situated in the north of the municipal area. The total estimated residents in the Tokologo Region, was 28 986, as per census 2011. As per community survey conducted by Statistic South Africa in the year 2016, the population of Tokologo Local Municipality increased, from 28 986 as per census 2011 to 29 149 in 2016.

### Map Overview



As stated on the executive summary above the municipality (TLM) has been experiencing financial difficulties which has had a significant adverse impact on service delivery in the municipality. The Free State Executive Council, on 19th of May 2022, resolved to invoke Section 139 (5) (a) and (c) and placed the municipality under mandatory administration.

## **1.2 STATUTORY AND LEGISLATIVE CONTEXT**

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

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

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

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

S139(8) provides that the national legislation may regulate the implementation of this section, including the processes established by this section. The Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is one piece of legislation that is referred to in section 139(8) of the Constitution which regulates the implementation of section 139 intervention inclusive of related processes.

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

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

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

plan to obtain cooperation (political support) for the implementation and ensure that the budget and any other legislative measures to support the implementation of the recovery plan are approved.

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

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

(a) Must –

- 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) (a) states that in addition, a financial recovery plan –

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

- i. Set spending limits and revenue targets;
- ii. Provide budget parameters which bind the municipality for a specified period or until stated conditions have been met; and

- iii. Identify specific revenue-raising measures that are necessary for financial recovery,  
including the rate at which any municipal tax and tariffs must be set to achieve financial recovery.

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

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

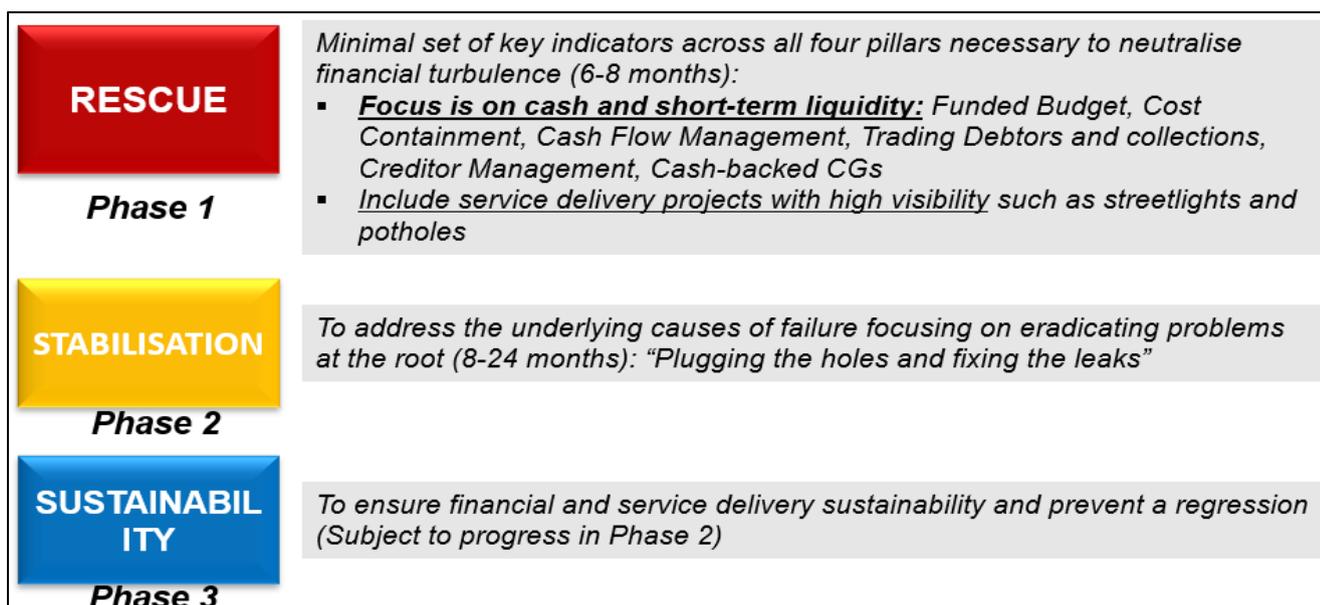
- a) the municipality **must** implement the approved recovery plan;
- b) all revenue, expenditure and budget decisions must be taken within the framework of, and subject to the limitations of, the recovery plan; and
- c) the municipality **must** report monthly to the MEC for Finance in the province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

S146 (2) The financial recovery plan binds the municipality in the exercise of both its legislative and executive authority, including the approval of a budget and legislative measures giving effect to the budget, but only to the extent necessary to achieve the objectives of the recovery plan.

## 1.3 OVERVIEW OF THE FINANCIAL RECOVERY PLAN

### 1.3.1 IMPLEMENTATION PHASES

TLM's FRP project flow can be set out into the following three interdependent implementation phases:



### 1.3.2 Phase 1 – Rescue Phase

The rescue phase's emphasis will be primarily on cash and restoring the cash position of the municipality as well as instilling financial managed good practices.

The indicators for the rescue phase include existence of policies and strategies to enhance revenue, instilling good practices for revenue management, adoption of a funded budget, monitoring of the daily cash and cash balances, application of cost containment measures, focusing on cleansing the billing system, ring-fencing of conditional grants, improving the utilisation of grant funding as well as entering into payment arrangements with creditors. Some focus is placed on service delivery, governance, and institutional matters; however, they are limited to addressing the most visible and critical issues, with an attempt to ensure that the situations does not deteriorate further.

As the billing is cleansed this will allow the municipality to correctly bill its customers and improve on service delivery. In addition, the availability of Standard Operating Procedures as well as council approved policies will improve the way the municipality runs its business, revenue collection and cost containment.

This is a short-term phase and is anticipated to last up to six (6) months to eight (8) months from the approval date of the FRP.

### **1.3.3 Phase 2: Stabilisation Phase**

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 are still maintained with a greater attention placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality. These include monitoring of the implementation of the approved and costed organogram; implementation of service delivery sector plans, by-laws, and policies; curbing illegal connections; refurbishment of infrastructure; replacement of ageing infrastructure; and repayment of creditors.

It is imperative that all the recurring strategies from the Rescue Phase are monitored to prevent regression.

This phase is expected to last between twelve (12) to twenty-four (24) months or longer depending on the progress made by the municipality.

### **1.3.4 Phase 3: Sustainability Phase**

There must be a reasonable assurance that measures implemented in Phases 1 and 2 are sustainable and that the municipality is committed to ensuring the implementation of good practice prior to concluding the intervention. In this phase, it is also important to include indicators that give 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 indicate high-level outcomes that must be achieved but do not specify the steps to be taken or the methods to be used to achieve those outcomes.

## **1.4 PREPARATION, CONSULTATION AND APPROVAL OF THE MANDATORY FINANCIAL RECOVERY PLAN**

### **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 was performed which

involved a brief diagnostic assessment, identification of the key findings that resulted in the municipality being in 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. A financial recovery plan was therefore 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 MFMA requirements financial crisis, their root causes thereof and the strategies to resolve were proposed. An.

## **CONSULTATION**

The preparation of the Financial Recovery Plan involved initial discussions among key stakeholders, including the National Treasury's Municipal Financial Recovery Service (MFRS), the Provincial Treasury, the Department of Cooperative Governance and Traditional Affairs (CoGTA), the South African Local Government Association (SALGA), and the Municipal Infrastructure Support Agent (MISA). These discussions laid the foundation for the subsequent planning process.

On the 24th of February 2023, an introductory workshop was conducted with the municipality to initiate the development of the plan. This workshop provided an opportunity for stakeholders to come together and align their objectives and strategies.

Subsequently, work stream meetings were held on the 17<sup>th</sup> and 18<sup>th</sup> of April 2023, involving the municipality management. These meetings served as collaborative platforms to discuss and refine the aspects and contents of the financial recovery plan.

To ensure comprehensive stakeholder involvement, consultation sessions were conducted on the **13<sup>th</sup> July 2023, 17<sup>th</sup> July 2023 and 18<sup>th</sup> July 2023**. These sessions engaged major creditors, suppliers, and labour representatives, providing them with detailed information about the mandatory intervention. During these consultations, a draft financial recovery plan was presented, and stakeholders were encouraged to provide written comments within a 14-day period. Their valuable insights and feedback were then carefully considered and incorporated into the plan's final version.

Furthermore, the municipal council was actively engaged on the **13<sup>th</sup> of July 2023**. These engagements aimed to gather the council's insights and perspectives on the plan. All contributions from the municipal council were taken into account during the finalization of the Financial Recovery Plan.

By involving key stakeholders, conducting consultation sessions, and engaging the municipal

council, the Financial Recovery Plan was enriched with diverse perspectives and expertise. This collaborative approach ensured that the final plan was comprehensive, well-informed, and reflected all stakeholders' collective efforts and contributions.

## **1.5 IMPLEMENTATION OF THE MANDATORY INTERVENTION AND FINANCIAL RECOVERY PLAN**

The Provincial EXCO has exercised its rights in terms of Section 139(5)(a) and (c) of the Constitution and assumed the responsibility for the implementation of the financial recovery plan. The Provincial EXCO requested National Treasury to deploy the services of MFRS to amongst others to prepare a financial recovery plan, which considers the reasons for the financial crisis and an assessment of the municipality's financial status (status quo assessment) as required by S139 (1) of the MFMA.

As this is a mandatory intervention, the municipality must implement the financial recovery plan. In terms of s146 (2) the imposed FRP binds the municipality in the exercise of both its legislative and executive authority including approval of a budget and legislative measures giving effect to the budget to the extent necessary to achieve the objectives of the recovery plan.

It is therefore crucial to note that the strategies in this financial recovery plan must be institutionalised and performed as part of the daily control activities by the municipal employees. All employees whether in acting, contractual or permanent capacity **must** be assigned roles and responsibilities to execute towards the success of this plan.

In addition, the municipality is **required** in terms of S146(1)(c) to report monthly to the MEC for Finance on the implementation of the financial recovery plan. The reporting to the Provincial Executive will be done by the appointed provincial Exco Representative through the MEC for Finance.

The **financial resources** required to support the implementation of the Plan, will be realised through adopting of a funded budget, implementation of revenue collection strategies and or revenue enhancement initiatives, reduction of expenditure through implementation of cost containment measures, and preventing filling of non-critical positions.

## **1.6 MONITORING AND OVERSIGHT OF THE INTERVENTION AND THE FINANCIAL RECOVERY PLAN**

The intervention will be subject to oversight by a Political Oversight and Monitoring Committee which will report directly to the Premier and the provincial executive council. The Political Oversight

Committee will direct the intervention, monitor progress, and unblock any political challenges that may hinder the success of this intervention.

The Political Oversight Committee will consist of the following representatives:

- a. MEC for Finance Chairperson)
- b. MEC for COGTA
- c. Executive Mayor
- d. Speaker

A Technical War Room Committee should be established to support the political oversight committee and to be constituted by the following:

- a. The HOD: Finance, Free State (Chairperson).
- b. The HOD: CoGTA, Free State.
- c. The Provincial Commissioner of Police.
- d. Head: NT MFRS and advisors.
- e. The Provincial Executive Representative (PER).
- f. The Municipal Manager and his/her senior managers.
- g. Representatives from the sector to be co-opted, as and when necessary.

In addition to the oversight committee, a Technical Intervention Team representative of all the four pillars must be established to support the PER in the implementation of the financial recovery plan. The PER should undertake quality assurance processes required to submit monthly performance progress reports in terms of the prescribed framework to Member of the Executive Council for Finance, NT MFRS, EXCO and Municipal Council on implementation of the FRP.

## **1.7 RISKS ASSOCIATED WITH THE IMPLEMENTATION OF THE FINANCIAL RECOVERY PLAN**

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

### **Pillar 1 Governance:**

- Council not leading by example in paying their rates and taxes thereby setting a tone at the top for the residents to pay their rates and taxes.
- Ineffective oversight committees.

- Inadequate systems of delegation that impact on governance, administration, and operational efficiency.
- Lack of consequence management.
- Risk of unforeseen litigations due to poor systems of internal controls over Contract Management.
- High levels of UIF&W expenditure.
- Loss of important information due to lack of records management policies and controls.

### **Pillar 2 Institutional and Human Resources:**

- Filling of positions in the organisational structure not being informed by need and budget as the structure is not yet costed.
- Use of outdated HR policies that are not aligned to current human resources regulations.
- Excessive employee related costs resulting in worsened financial constraints.
- Lack of adequate skills and competences.
- Internal and external stakeholders, there might be resistance to change.

### **Pillar 3 Financial Management:**

- Rise in interest costs as well as fruitless and wasteful expenditure due to late creditors payments.
- Failure to agree payment plans with major creditors.
- Loss of revenue because of low collection rates resulting in an excessive increase in the debtor's book.
- Not applying cost-containment measures resulting in excessive expenditure.
- Inability to apply revenue enhancement strategies.
- Lack of consequence management over UIF&W expenditure.
- Not implementing systems of internal controls over the financial environment.

### **Pillar 4 Service Delivery:**

- Increase in lawsuits and protests due to poor service delivery.
- Service delivery backlogs
- Loss of grant funding due to breach of grant conditions.

- Inability to replace aged infrastructure.
- Lack of adequate infrastructure maintenance.
- Failure to control electricity and water losses.
- Inability to procure the services of Contractors due to non-responses because of creditors accounts being in arrears.
- High debt for bulk water and electricity.
- Non-compliance with environmental legislation.
- Non-compliance with occupational health and safety legislation.
- Non-compliance with fire brigade regulations.

## **1.8 COMMUNICATION PLAN FOR DEVELOPING 2023 FRP**

It is proposed that the Provincial Executive Representative drafts an internal and external communication plan to support effective communication throughout the intervention. The communication plan requires a rethink of stakeholders and beneficiaries and role-players due to the extent of the mistrust that exists according to reports and the fact that this is yet another intervention. This plan needs to be executed in the context of a change management process.

## **2. PART TWO – STATUS QUO ASSESSMENT**

### **2.1 STATUS QUO ASSESSMENT**

In developing this status quo assessment report, various information sources were used that vary from physical documents to the internet and interviews were conducted with key management of the municipality. The information received or obtained corroborated the evidence obtained. The following source documents were utilised; but not limited to:

- Audit reports by the Auditor-General of South Africa 2020/21 and 2021/22;
- Management reports by the Auditor-General of South Africa 2020/21 and 2021/22;
- Annual reports 2019/20 and 2020/21;
- Annual Financial Statements 2020/21 and 2021/22
- Municipal budget for 2018/19, 2019/20, 2021/22 and 2022/23
- Service Delivery and Budget Implementation Plan 2020/21;
- Integrated Development Plan (IDP) 2022/23;

- Financial Ratios in accordance with MFMA Circular 71;
- Annual Financial Statements 2019/20, 2020/21 and 2021/22;
- Council Resolutions;
- Minutes of Council meetings and
- Various municipal documents such as reports, policies, procedures, etcetera.

## 2.2 KEY ISSUES IDENTIFIED

The key issues identified in the status quo assessment were ordered in terms of the following 4 municipal pillars of sustainability:

- Governance
- Institutional stability and capability
- Financial health
- Service Delivery

As drawn from the status quo assessment report utilised to prepare this financial recovery plan, the key findings that were identified per pillar are illustrated below.

### 2.2.1 GOVERNANCE PILLAR

The critical key issues identified during the status quo assessment regarding the governance pillar as well as additional observations from the FRP preparation, are the following:

Focus Area	Findings
<b>Governance Model</b>	<ul style="list-style-type: none"> <li>• From the review of the council minutes and resolutions, there is no evidence that the council approved the annual workplan.</li> <li>• Section 80 committees: Currently there are no written terms of reference developed for these committees de. The committee relies on guidance from Municipal Systems and Structure Act</li> <li>• Councillors owe the municipality of a combined amount of about R390,000.00 which is on 90+ days outstanding as of 31 March 2023.</li> <li>• No evidence of oversight committee meetings held during the 2021/22 financial year for:</li> </ul>

Focus Area	Findings
	<ul style="list-style-type: none"> <li>○ MPAC</li> <li>○ Risk management</li> <li>○ Audit and Performance committee</li> <li>● Delays in investigating UIF&amp;W expenditure and there is inadequate consequence management.</li> <li>● The municipality does not have its own Disciplinary Board to handle disciplinary matters.</li> <li>● There was no evidence of stakeholder engagement strategy developed and/or approved by council</li> </ul>
<b>Political/Administrative Interface</b>	<ul style="list-style-type: none"> <li>● The post of MM has been vacant for over 12 months. The director corporate services have been acting MM for a long time and this creates a conflict as the role of MM is to hold the directors accountable.</li> </ul>
<b>Contract management</b>	<ul style="list-style-type: none"> <li>● Lack of contract management quality assurance.</li> <li>● Inadequate contract performance evaluation and monitoring</li> <li>● Contract Management Committee not in place</li> <li>● Lack of a Contract Management Policy Framework</li> <li>● Based on the Creditors Age Analysis as of 31 March 2023, TLM owed ESKOM R208 million for the historical bulk purchases debt.</li> </ul>
<b>Litigations and contingent liabilities</b>	<ul style="list-style-type: none"> <li>● There were lots of litigations against the municipality. <ul style="list-style-type: none"> <li>○ 2019/20 R23m with 5 cases (matters)</li> <li>○ 2020/21 R6m with 18 cases (matters)</li> <li>○ 2021/22 with R4.3m with 10 cases (matters)</li> </ul> </li> <li>● The above were qualified (disclaimer) by AGSA due to lack of accurate and complete records.</li> <li>● Incomplete litigation registers and lack of capacity for the legal department of the municipality</li> <li>● The municipality does not have a legal strategy and policy on how to approach legal matters, which matters to defend, and which matters to settle outside of Court.</li> <li>● Legal fees spent have been increasing for the past three financial years: <ul style="list-style-type: none"> <li>○ 2019/20 – R2.6 million</li> <li>○ 2020/21 – R3.2 million</li> <li>○ 2021/22 – R6.2 million</li> </ul> </li> </ul>
<b>System of Delegations</b>	<ul style="list-style-type: none"> <li>● The current Council have not reviewed the delegation of authority and it's still using the old delegation from previous Council that was last done in 2016 but never adopted by Council</li> </ul>

Focus Area	Findings
<b>By-laws and enforcement</b>	<ul style="list-style-type: none"> <li>Only three (3) by-laws promulgated. CoGHTA provided a set of approximately 30 draft by-laws for customization to the municipality</li> </ul>
<b>UIF&amp;W and consequence management</b>	<ul style="list-style-type: none"> <li>No disciplinary board established and no terms of reference for this committee.</li> <li>Established Disciplinary Board not fully constituted and not functional yet.</li> <li>Irregular expenditure increased from R314 in 2019/20 to R439 million in 2021/22</li> <li>Fruitless &amp; Wasteful expenditure increased from R28,4 million in 2019/20 to R51,3 million in 2021/22</li> <li>Unauthorized expenditure increased from R617million in 2019/20 to R688 million in 2021/22</li> <li>No evidence of effective reduction plan due to the high UIF&amp;W</li> <li>A forensic investigation has been conducted by CogTha but there was no evidence of the report and or consequence management taken.</li> <li>Lack of consequence management.</li> </ul>
<b>Audit action plans (internal and external)</b>	<ul style="list-style-type: none"> <li>There was only an external audit action plan. Action plan did not include internal audit findings.</li> <li>Audit action plan for 2021/22 financial year only prepared late in March 2023.</li> <li>AGSA management report highlights lots of repeat findings. An indication that audit action plans are not effective.</li> <li>Qualified audit opinion for four (4) successive years up to and disclaimer audit opinion for FY 2021/2022.</li> <li>Poor record management system resulting in limitation of scope findings.</li> </ul>
<b>Internal Audit, Audit Committee and Risk Management</b>	<ul style="list-style-type: none"> <li>Chairperson of the Risk committee resigned in last quarter of 2021/22 financial year and has not been replaced as yet.</li> <li>Lack of formalized Standard Operating Procedures (SOPS) for Risk Management.</li> <li>Position of head of risk (risk manager) is vacant.</li> <li>Risk management policies and strategy not yet approved.</li> <li>Internal audit had backlogs of audit that they have not performed, and they also do not have adequate capacity. There is no sufficient coverage of the risk identified by internal audit.</li> </ul>

Focus Area	Findings
	<ul style="list-style-type: none"> <li>• According to AGSA report, the Internal audit function did not provide the audit committee with 4 quarterly reports on performance management.</li> <li>• Internal audit challenges of effectiveness due to the issue of quality assurance and improvement programs.</li> <li>• Audit committee appointed but is not approved or ratified by Council.</li> <li>• No evidence of audit committee performing its duties in terms of Section 166 (2) of MFMA</li> <li>• No evidence Audit committee functioning effectively.</li> </ul>
<b>Information &amp; Communications Technology</b>	<ul style="list-style-type: none"> <li>• Municipality struggling with issues of MSCOA due to the issue of systems and software.</li> <li>• As a result of above budget uploaded on the system was not the same as approved budget by Council</li> <li>• ICT governance and steering committee not in place</li> </ul>

## 2.2.2 INSTITUTIONAL/ORGANISATIONAL/HUMAN RESOURCES

The critical key issues identified during the status quo assessment regarding the institutional pillar as well as additional observations from the FRP preparation, are the following:

Focus Area	Findings
<b>Organizational structure and operating model</b>	<ul style="list-style-type: none"> <li>• There are lots of critical key vacancies on the approved organisational structure for 2022/23. The municipality is not adequately capacitated on the human resource side. This includes the post of MM.</li> <li>• The Structure is not yet costed to determine if the municipality can afford to advertise and/or fill all vacant posts.</li> <li>• The municipality did not develop an implementation plan for the structure.</li> <li>• The municipality has not yet finalised the job evaluations and description with regards to the approved structure</li> </ul>
<b>Employee cost</b>	<ul style="list-style-type: none"> <li>• In the FY 2021/2022 the employee related costs were 43% as compared to 31% for the prior year against the total operating expenditure. The norm is between 25 – 40%.</li> <li>• The Structure is not yet costed to determine if the municipality can afford to advertise and/or fill all vacant posts</li> </ul>
<b>Labour relations</b>	<ul style="list-style-type: none"> <li>• There is no resource employee in the institution to attend to and/or handle matters of employees relations or prevent</li> </ul>

Focus Area	Findings
	<p>unnecessary labour disputes.</p> <ul style="list-style-type: none"> <li>The LLF is not meeting regularly (this has been reported under governance section)</li> </ul>
<b>Skills &amp; competencies</b>	<ul style="list-style-type: none"> <li>Skills Audit has not been Performed by the municipality.</li> </ul>
<b>Staff Discipline and disciplinary board</b>	<ul style="list-style-type: none"> <li>Lack of internal capacity on management of discipline as the disciplinary board is not yet functional though established.</li> <li>Due to lack of staff discipline it has resulted in UIF&amp;W increase from 2018/19 to 2021/22 financial year as no consequence management taken are taken against staff.</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>Performance management is only implemented at senior management level. The challenge is cascading PMS to lower levels of the workforce.</li> </ul>
<b>Consequence Management</b>	<ul style="list-style-type: none"> <li>Disciplinary Board is established though it's not yet functional.</li> <li>According to management a Policy on consequences management was developed, it only has to be reviewed and approved.</li> <li>There was no evidence to confirm management assertions that there is a policy on consequence management</li> </ul>
<b>Key HR Policies</b>	<ul style="list-style-type: none"> <li>The Policy Manual was last reviewed/updated in 2017. There has not been any review of this policies since 2017</li> </ul>
<b>HR Strategy</b>	<ul style="list-style-type: none"> <li>Draft HR Strategy is in existence, but it's not yet approved by Council.</li> <li>No approved HR strategy to steer recruitment processes and other key human resource activities</li> </ul>
<b>Physical Verification of staff and qualifications</b>	<ul style="list-style-type: none"> <li>Staff physical verification have not been conducted annually.</li> <li>Qualifications are also verified during recruitment for new employee but for old employees this has not been done.</li> </ul>
<b>Records Management</b>	<ul style="list-style-type: none"> <li>Municipality currently do not have a records management unit.</li> <li>Only one position of registry was filled per the approved structure of 2022/23.</li> <li>AGSA audit for 2020/21 and 2021/22 highlighted repeated findings of information and records that could not be provided by management</li> </ul>

## 2.2.3 FINANCIAL MANAGEMENT

### Budget Management (Funding Status, Policies, etc.)

Tokologo Local Municipality (TLM) has been operating an unfunded budget for the past 4 years. Per analysis of the Annual Budget 2021/22, it indicates that the municipality has forecasted budget deficit of R26.9 million. The forecast for 2022/23 and 2023/24 indicates that the municipality will make surpluses. This is in contrast with the reality on the ground as the municipality has a very low collection rates of revenue and this is not factored/incorporated on the budget (i.e., the debt impairment: Average revenue collections for past three financial years was 21%. Budgeted collection rates based for 2021/22 budget below was about 75%). Finance charges budget is very low which is in contrast with the high debt the municipality have (i.e., Eskom R208 million and Department of Water and Sanitation R62 million).

There are also inconsistent increase and decreases in revenue projections for 2022/23, 2023/24 and 2024/25 below which is very unlikely.

The credibility of the budget prepared for the municipality is therefore concerning.

#### Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
<b>Revenue By Source</b>											
Property rates	2	–	–	7,322	10,372	10,372	10,372	10,372	8,088	9,881	12,773
Service charges - electricity revenue	2	–	–	13,974	12,729	12,729	12,729	15,549	10,729	17,167	27,467
Service charges - water revenue	2	–	–	2,812	2,582	2,582	2,582	3,913	1,132	1,811	2,897
Service charges - sanitation revenue	2	–	–	17,617	15,418	15,418	15,418	21,616	15,614	24,983	39,973
Service charges - refuse revenue	2	–	–	11,564	10,190	10,190	10,190	10,190	10,141	16,226	25,962
Rental of facilities and equipment		–	–	346	477	477	477	477	280	448	716
Interest earned - external investments		–	–	801	184	184	184	184	–	233	247
Interest earned - outstanding debtors		–	–	18,869	19,534	19,534	19,534	19,534	18,634	29,814	47,702
Dividends received		–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits		–	–	–	1	1	1	1	50	80	128
Licenses and permits		–	–	–	–	–	–	–	–	–	–
Agency services		–	–	–	–	–	–	–	–	–	–
Transfers and subsidies		–	–	47,229	63,683	63,683	63,683	63,683	75,922	110,582	166,133
Other revenue	2	–	–	(4,978)	613	913	913	913	772	1,236	1,977
Gains		–	–	–	–	–	–	–	–	–	–
<b>Total Revenue (excluding capital transfers and contributions)</b>		–	–	115,557	135,783	136,083	136,083	146,432	141,362	212,459	325,976

<b>Expenditure By Type</b>	-										
Employee related costs	2	-	-	49,315	61,061	61,011	61,011	61,011	65,062	67,215	67,215
Remuneration of councillors		-	-	2,961	3,131	3,131	3,131	3,131	5,863	5,863	5,863
Debt impairment	3	-	-	-	17,740	17,740	17,740	17,740	6,558	6,951	7,369
Depreciation & asset impairment	2	-	-	-	2,339	2,339	2,339	2,339	2,339	2,339	2,339
Finance charges		-	-	4,672	1,000	2,054	2,054	2,054	1,000	1,055	1,113
Bulk purchases - electricity	2	-	-	31,000	10,000	8,638	8,638	8,638	30,700	32,389	34,170
Inventory consumed	8	-	-	4,853	6,531	6,426	6,426	6,426	1,320	1,373	1,444
Contracted services		-	-	44,976	21,060	44,773	44,773	44,773	14,192	14,845	15,528
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	-	-	12,460	12,702	16,958	16,958	16,958	12,320	12,901	13,172
Losses		-	-	-	-	-	-	-	-	-	-
<b>Total Expenditure</b>		-	-	<b>150,237</b>	<b>135,564</b>	<b>163,070</b>	<b>163,070</b>	<b>163,070</b>	<b>139,355</b>	<b>144,932</b>	<b>148,213</b>
<b>Surplus/(Deficit)</b>		-	-	<b>(34,680)</b>	<b>220</b>	<b>(26,986)</b>	<b>(26,986)</b>	<b>(16,638)</b>	<b>2,008</b>	<b>67,528</b>	<b>177,763</b>

## Revenue management

There are poor revenue and debtors' management systems of internal controls.

Municipality collection rate has been below the 95% norm as depicted by the table below:

No#	Year	Percentage Collected
1	2019/20	32%
2	2020/21	17%
3	2021/22	08%
	Average Collected	21%

The municipality has been receiving disclaimer of audit opinion from AGSA for revenue (both service charges and property rates and consequently their receivables from this) for the past two years (2020/21 and 2021/22). The billing of revenue is therefore not credible and reliable.

Farmers are disputing their billing and has as a result boycotted the payment of municipal rates and taxes.

The municipality needs to urgently embark on a data cleansing and revenue enhancement project to ensure that their revenue data is credible and optimise the revenue generation. This will also enable them to have accurate and reliable billing information.

### **Cost-reflective tariffs**

TLM has not performed the cost of supply studies and as such their tariffs are not cost reflective, resulting in it losing significant revenue from service charges.

### **Supply chain management compliance and value for money procurement**

There are high levels of UIF&W expenditure. These high balances are pointing towards SCM deficiencies and increased fruitless and wasteful expenditure due to increased finance costs from outstanding creditors. The SCM unit is not adequately capacitated to be able to perform the duties of the SCM unit including ensuring that there is compliance to SCM regulations.

### **Expenditure and Creditor management**

Tokologo Local Municipality has long outstanding creditors with payment periods of 384 days and 456 days for 2020/21 and 2021/22 respectively, way above the 30 days norm. As at 31 March 2023 the municipality had unpaid creditors of Eskom: R208 million, Water and Sanitation: R62 million and Pension R8 million which are in the 90 + days category. The municipality needs to enter into debt restructuring for this high creditor. They need to apply for Eskom debt relief in terms of MFMA circular 124 so that their previous debt can be written off provided they keep the current debt serviced.

### **Grant management**

Per analysis of the cash reserves, the bank balance was R919 793 as at 30 June 2022, which is not sufficient to cover the unspent conditional grants of R3 859 227 during the same period. This indicates that the municipality has not been utilising grant funds for their purpose. This is concerning as these breaches of conditions might result in grants being withheld causing deep financial crisis at the municipality.

This indicates that TLM is dependent on grant funding.

### **mSCOA implementation**

Tokologo Local Municipality in preparing its budget for 2021/22 did not use the Mscoa charts and segments. MsCoa not fully implemented as the module for Payroll and Asset Management module are yet to be implemented.

### **Preparation of AFS**

Tokologo Local Municipality has been submitting the annual financial statements for the previous financial years (2019/2020, 2020/2021 and 2021/22) late, resulting in noncompliance with section 126(1)(a) of the Municipal Finance Management Act 56 of 2003 (MFMA).

Furthermore, the following ratios indicates that TLM is experiencing severe liquidity challenges:

#### **Current Ratio**

The current ratio was at 0.74:1 (2020/21) and 1.08:1 (2019/20). The ratio is below the norm of 1.5 - 2:1. This is an indication that current liabilities exceed current assets, highlighting insufficient cash to meet short-term financial obligations. The municipality must therefore increase its current assets to appropriately cover current liabilities.

#### **Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants)**

Cost coverage ratio is critical at -2 months for 2021/22 against a 1–3-month norm. This indicates that the Municipality's ability to meet its obligations to provide basic services and honour its financial commitments is severely compromised. TLM is unable to sustain itself and to meet its obligation to provide basic services and meet its financial commitments.

#### **Cash and Cash Equivalent**

The cash and cash equivalent balance has been positive across financial years 2020/21 and 2021/22; however, it is not sufficient to pay creditors in arrears and refund unspent conditional grant. This indicates that the municipality is under financial distress.

#### **Key Issues Identified:**

TLM's financial crisis emanates from a wide range of inefficiencies within the municipality. The major contributing factors in the financial management sphere are highlighted below, which when resolved will result in an improved financial status of the municipality:

Focus Area	Findings
<b>Budget Management</b> (Funding Status, Policies, etc.)	<ul style="list-style-type: none"> <li>• Preparation and submission of budget with deficits (unfunded budgets):               <ul style="list-style-type: none"> <li>○ 2019/20: R19 million</li> <li>○ 2021/22: R35 million</li> <li>○ 2022/23: R38 million</li> <li>○ 2023/24: R41 million</li> </ul> </li> <li>• Inadequate collection of revenue. Average revenue collections for past three financial years was 21%. The collection rates for 2021/22 was Budgeted at 75%. The collection rate for 2021/22 was 8%</li> <li>• Inadequate revenue collection of revenue due to credit controls challenges for areas supplied electricity by Eskom.</li> <li>• Township in Dealesville and Herzogville are Eskom supplied area which makes it difficult to conduct credit control. 47% of municipal accounts are in areas that are supplied electricity by Eskom.</li> <li>• Farmers have boycotted the rates and taxes payment to the Municipality.</li> <li>• High outstanding Eskom Account and High outstanding water account</li> <li>• There was no evidence of approved funding plan in place (the current funding plan is in draft)</li> </ul>
<b>Revenue Management</b>	<ul style="list-style-type: none"> <li>• The annual collection rate for the three financial years under review were 32% (2019/20), 17% (2020/21) and 8% (2021/22). The norm is 95%. The average for the past three years is 21%</li> <li>• The unaudited figure of revenue collection as at 30 June 2023 (for 2022/23) financial year was 28%</li> <li>• This is very lower than the budgeted collection rates of about 75%. There is Poor collections of revenue billed.</li> <li>• Debt collectors not appointed, and credit control policy not enforced as part of revenue collections.</li> <li>• Proper tariff settings: This municipality has never conducted study to determine if their tariffs are related or aligned to the cost of providing their services. Tariff are done on historical incremental approach without linking to the current costs of offering services.</li> <li>• Revenue and billing critical vacancies not filled.               <ul style="list-style-type: none"> <li>○ There is vacancy for the head of budget and revenue. Budget and revenue manager post is vacant.</li> <li>○ Vacancy for debtors' officer (billing and data control Boshof)</li> <li>○ Vacancy for debtors' officer (billing and data control Dealseville)</li> </ul> </li> </ul>
<b>Customer care and data accuracy</b>	<ul style="list-style-type: none"> <li>• No customer care management Unit and policy implementation.</li> <li>• There are no dedicated personnel and/or contact email where queries can be directed to.</li> </ul>

Focus Area	Findings
<b>Cost-reflective tariffs</b>	<ul style="list-style-type: none"> <li>• The budgets deficits for the past three financial years show that cost reflective tariffs have not been set which indicates bad budgeting processes.</li> <li>• Water and electricity tariffs are not cost reflective.</li> <li>• According to the AFS for 2020/21 provision for impairment is at 58% of Gross debtors billed.</li> <li>• The above coupled with low collection rates of revenue billed suggest that there is no evidence showing that the tariffs were cost reflective, as its on incremental basis</li> </ul>
<b>Indigent Management</b>	<ul style="list-style-type: none"> <li>• Indigent application is very low, despite the fact that the municipality has increased the qualifying amount to R5500 for the current year. The municipality has only 1123 applications</li> <li>• Completeness and accuracy of indigent register.</li> </ul>
<b>Supply chain management compliance and value for money procurement</b>	<ul style="list-style-type: none"> <li>• The SCM unit only has one staff member who is an SCM officer.</li> <li>• The SCM unit is not adequately capacitated to be able to perform the duties of the SCM unit including ensuring that there is compliance to SCM regulations.</li> <li>• Three senior positions on the SCM and Expenditure management unit are vacant.</li> <li>• UIF&amp;W have been increasing for the past three years to date.</li> <li>• Non-compliance to SCM regulations leading to increasing in UIF&amp;W.</li> <li>• Contract performance monitoring and measures not in place</li> <li>• No evidence that contract extension or modification were properly approved by the delegated official</li> </ul>
<b>Financial control environment</b>	<ul style="list-style-type: none"> <li>• The 2021/22 financial statements submitted were not prepared in all material respects in accordance with the requirements of Section 122(1) of the MFMA. There were material uncorrected misstatements.</li> <li>• Disclaimer of audit opinion for 2021/22. The municipality regressed from the 2020/21 opinion of qualified to Disclaimer of audit opinion.</li> <li>• Weak control environment leading to the following items being qualified by AGSA: <ul style="list-style-type: none"> <li>○ Property, plant and equipment</li> <li>○ Payables from exchange</li> <li>○ Commitments</li> <li>○ General expenses</li> <li>○ Receivables from exchange</li> <li>○ Service charge</li> <li>○ Property rates</li> </ul> </li> </ul>
<b>Expenditure and Creditor management</b>	<ul style="list-style-type: none"> <li>• Inability to pay creditors within 30 days of receipt of invoice. The municipality is significantly outside the recommended norm for creditor payments highlighting high levels of cashflow risk and an inability to meet its short-</li> </ul>

Focus Area	Findings
	<p>term obligations as and when they arise:</p> <ul style="list-style-type: none"> <li>○ 2019/20 FY - 371 days</li> <li>○ 2020/21 FY - 384 days</li> <li>○ 2021/22 FY - 456 days</li> </ul>
<b>Grant management</b>	<ul style="list-style-type: none"> <li>• Misappropriation of grant funds which results in financial mismanagement practices. Should the grant opportunity be lost the municipality will be in deep financial crisis as it is grant dependent.</li> <li>• Per 2021/22 AFS: Cash and Cash equivalent was R919 000, and Unspent Condition grant creditor was R3.8 million. This indicates the following: <ul style="list-style-type: none"> <li>○ Unspent grants not ring-fenced and cash-backed.</li> <li>○ Conditional grants not used for their intended purpose</li> </ul> </li> </ul>
<b>Debt Structuring</b>	<ul style="list-style-type: none"> <li>• The municipality is owing Eskom, water and pension funds (which are key creditors in service delivery), with these amounts due for a period of over 90 days. <ul style="list-style-type: none"> <li>○ Eskom R208 million – March 2023</li> <li>○ Dept of Water and Sanitation R62 million – November 2023</li> <li>○ Pension fund – R8 million March 2023</li> <li>○ Auditor General – R9.9 million March 2023</li> </ul> </li> <li>• The municipality currently as debt/payment arrangement with AGSA.</li> <li>• The municipality has taken Eskom to court because of the disputes of amount billed</li> </ul>

## Ratio Analysis

TLM is currently in financial distress and based on financial ratios below, the municipality has not been able to meet its short-term liabilities for the past two fiscal years. Creditors and debtors' balances as disclosed in the AFS are increasing year on year. The municipality is not paying its creditors within 30 days after receiving the relevant statement/invoice which is in contravention of section 65(2) (e) of the MFMA. It is evident that the municipality's current credit control or debt collection strategies are not effective or efficient enough to improve the financial status of the municipality. Therefore, it is crucial that the municipality must prioritise on the implementation of debtors control and creditors control policies and development of appropriate strategies to improve its liquidity position.

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
<b>Asset Management Utilization</b>				
<p><b>Capital Expenditure to Total Expenditure</b> – indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services.</p> <p>The norm is 10% - 20%.</p>	20%	29%	37%	<p>Level of expenditure is above the norm and should therefore be progressively reduced to ensure the municipality is able to maintain its assets from the operating expenditure. The municipality is however commended to be investing on capital projects than spending all the moneys on salaries and allowances.</p>
<p><b>Repairs and Maintenance to Property, Plant and Equipment and Investment Property</b> – 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>	2%	2%	1%	<p>Spending is low and the infrastructure assets will therefore deteriorate faster than required. R&amp;M spend has to be increased</p> <p>Municipality budgeted R4.1 million for repairs and maintenance. That is 0.5% as a percentage of PPE. For 2021/22 budget</p>
<b>Debtors Management</b>				
<p><b>Annual Collection Rate</b> - indicates the level of payments as a percentage of revenue billed on credit.</p> <p>The norm is 95%.</p>	32%	17%	8%	<p>Unsustainable, needs major drive. It is worrying that the ratio is decreasing year after year without showing any sign of improvement. The ratio is not sustainable as it is far below the norm and therefore requires an aggressive drive on the implementation of credit control and debt collection policy.</p>

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
<p><b>Bad Debts Written-off as % of the Bad Debt Provision</b></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%	<p>The municipality is not providing for bad debts, and there is therefore a need to revise the debt book line by line to ensure realistic provision of bad debts.</p> <p>There is an odd negative debtors impairment</p>
<p><b>Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts.</b></p> <p>The norm is 30 days.</p>	1140 days	2157 days	2121 days	<p>Significant drain on cashflow. The municipality would be forced to borrow from Banks or other creditors e.g., Eskom and Water Board and this is not healthy as the ratio is far outside the norm.</p>
<b>Liquidity Management</b>				
<p><b>Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants)</b></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 month	3 months	-2 months	<p>Unacceptable position for all the other years except 2020/21. Clearly there is no buffer to accept any shocks to the environment. Cost containment has to be stringently enforced.</p>
<p><b>Current Ratio</b> - this ratio indicates the extent to which current <b>assets</b> 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>	0,35	0,74	1,08	<p>Even though the ratio is improving year after year, it remains unsustainable. Debtors must be collected, and Credit control debt collection policies must be implemented</p>
<b>Efficiency</b>				

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
<p><b>Net Operating Surplus Margin</b> – measures the net surplus or deficit as a percentage of revenue.</p> <p><b>The norm is &gt; 0%</b></p>	-4%	-18%	46%	<p>The ratio was far below in the first 2 years but ultimately increased in the year 2022.</p> <p>There is an odd negative debtor's impairment of R72 million which has resulted in this odd performance which appears to be good. If this is discounted the performance will be negative/red</p>
<b>Distribution Losses</b>				
<p><b>Electricity Distribution Losses (%)</b></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><b>The norm is 7% - 10%</b></p>	N/A	N/A	N/A	<p>It is very concerning that the municipality appears to have no capacity to make a determination in this regard. Too much electricity distribution losses mean spending more money on avoidable items.</p>
<p><b>Water Distribution Losses (Percentage)</b></p> <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><b>The norm is 15% - 30%.</b></p>	N/A	N/A	N/A	<p>It is very concerning that the municipality appears to have no capacity to make a determination in this regard. Too much water distribution losses means spending more money on avoidable items.</p>
<b>Revenue Management</b>				
<p><b>Revenue Growth (%)</b> – measures the growth in revenue year on year.</p> <p>The norm is at the rate of CPI</p>	3,53	13,51	23,9	<p>Acceptable positive trend.</p>

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
<b>Revenue Growth (%) -Excluding Capital Grants</b> Measures the growth in revenue excluding capital grants year on year. <b>The norm is &gt; 5%.</b>	11,19	9,25	23,9	Acceptable positive trend.
<b>Expenditure Management</b>				
<b>Creditors Payment Period</b> This ratio indicates the average number of days taken for trade creditors to be paid. <b>The norm is 30 days.</b>	371 days	384 days	456 days	The municipality is currently in financial distress and is unable to meet its short-term liabilities for the past 3 fiscal years. Eskom arrangement must be made.
<b>Irregular, Fruitless and Wasteful and Unauthorized Expenditure to Total Expenditure</b> – this ratio measures the extent of irregular, fruitless and wasteful and unauthorized expenditure to total expenditure. <b>The norm is 0%.</b>	202%	385%	394%	Unacceptable levels of UIFWE indicate breakdown of controls and lack of discipline in following rules. Disciplinary actions must be implemented against anyone breaking the rules.
<b>Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure</b> - Indicates the extent to which expenditure is applied to the payment of personnel. <b>The norm is 25% - 40%.</b>	20%	31%	47%	Norm exceeded expenditure base to be expanded from revenue growth. This area requires immediate and urgent attention. Review of powers & functions and delegation framework is urgently required.  Risk of employee dissatisfaction if CPI agreed increases are not implemented, which could result in deterioration of service delivery and protest action by business and society.

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
<b>Contracted Services as a % of Total Operating Expenditure</b> - indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions. <b>The norm is 2%-5%.</b>	<b>7%</b>	<b>0%</b>	<b>0%</b>	Accounting for contracted services should be improved to allow for the correct determination of ratios
<b>Budget Implementation</b>				
<b>Capital Budget Implementation Indicator</b>  The norm is 95% to 100%	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	
<b>Operating Expenditure Budget Implementation Indicator</b>  The norm is 95% to 100%	<b>29%</b>	<b>30%</b>	<b>52%</b>	The municipality could not spend on budgeted operating expenditure, and this compromises service delivery to the people
<b>Operating Revenue Budget Implementation Indicator</b>  The norm is 95% to 100%	<b>109%</b>	<b>60%</b>	<b>82%</b>	The ratios indicate lack of capacity to execute, inefficiencies in billing and credit control
<b>Billed Revenue Budget Implementation Indicator</b>  The norm is 95% to 100%	<b>129%</b>	<b>44%</b>	<b>80%</b>	Revenue collections needs to be enhanced. Indicates lack of capacity / knowledge to execute and inefficiencies in billing and credit control

## 2.2.4 SERVICE DELIVERY

The critical key issues identified during the status quo assessment regarding the service delivery pillar as well as additional observations from the FRP preparation, are the following:

Focus Area	Findings
<b>Infrastructure Asset Management</b>	<ul style="list-style-type: none"> <li>• Poor infrastructure planning and no infrastructure sector plans.</li> <li>• Lack of infrastructure operation and maintenance plans and programmes.</li> <li>• The asset management policy is outdated and non-compliance and lack of commitment by management.</li> <li>• Ineffective security service. Losing municipal assets due to theft.</li> </ul>
<b>Water and Sanitation Services</b>	<ul style="list-style-type: none"> <li>• Water debt of about R62m with the Department of Water and Sanitation.</li> <li>• Revenue losses for water were not accounted for representing a major contributor to the current financial challenges at TLM. The norm is 15% - 30%.</li> <li>• Poor drinking water quality, water losses, lack of accounting, and poor revenue collection.</li> <li>• Poor management of Wastewater Treatment facilities, and poor infrastructure maintenance.</li> <li>• Some areas do not have VIP toilets and the bucket system being used.</li> <li>• Low Green drop scores</li> <li>• Low Blue drop scores</li> </ul>
<b>Electricity Distribution and Supply</b>	<ul style="list-style-type: none"> <li>• TLM owes Eskom over R 208million.</li> <li>• Bulk electricity is not constantly paid.</li> <li>• The distribution losses are not accounted for;</li> </ul>
<b>Roads and Stormwater Drainage</b>	<ul style="list-style-type: none"> <li>• Poor condition of roads. Potholes, poor road signs and road surface marking visibility.</li> </ul>
<b>Capital Grant Funds</b>	<ul style="list-style-type: none"> <li>• Poor planning and implementation of MIG projects.</li> <li>• Underspending of capital grant funds. Roll-over was declined. No growth in grant funds.</li> </ul>
<b>Waste Disposal and Refuse Removal</b>	<ul style="list-style-type: none"> <li>• Unlicensed landfill sites</li> <li>• Landfill sites not operated within environmental minimum requirements.</li> <li>• Lack of maintenance and operations at landfill sites.</li> <li>• Inadequate refuse removal trucks and equipment leading to minimal refuse removal.</li> <li>• Increase in illegal dumping sites. Lack of Maintenance of refuse removal equipment.</li> </ul>
<b>Fleet Management and Mechanical Workshops</b>	<ul style="list-style-type: none"> <li>• Lacking fleet management systems and procedures, fleet generally in poor condition.</li> </ul>

Focus Area	Findings
	<ul style="list-style-type: none"> <li>• High vehicle maintenance costs and poor workmanship by service providers.</li> <li>• No write-off of vehicles which are not road worthy.</li> </ul>
<p><b>Town Planning and Land Development</b></p>	<ul style="list-style-type: none"> <li>• Building control unit incapacity, and lack of resources, creating a backlog.</li> <li>• It is not clear if the Spatial Development Framework (SDF) is updated. This is critical to must inform the development of the municipality.</li> <li>• Lack of land for further developments.</li> <li>• The accreditation status of the municipality regarding human settlements is not clear.</li> </ul>
<p><b>Local Economic Development</b></p>	<ul style="list-style-type: none"> <li>• Inadequate preparation of enabling environment for economic activities and investments.</li> <li>• The LED forum is not functional.</li> </ul>
<p><b>Community Facilities, Buildings, Sports, and Recreational Facilities</b></p>	<ul style="list-style-type: none"> <li>• Municipal buildings and facilities not maintained.</li> <li>• Lacking facilities and resources for municipal staff.</li> </ul>

### 3. PART THREE – FINANCIAL RECOVERY PLAN

#### 3.1 MUNICIPAL RESCUE PHASE (6 – 8 MONTHS)

Given that this intervention was invoked due to financial crisis at the municipality, the rescue phase’s emphasis will be primarily on cash and restoring the cash position of the municipality as well as instilling financial managed good practices.

The indicators for the rescue phase include existence of policies and strategies to enhance revenue, instilling good practices for revenue management, adoption of a funded budget, monitoring of the daily cash and cash balances, application of cost containment measures, focusing on cleansing the billing system, ring-fencing of conditional grants, improving the utilisation of grant funding as well as entering into payment arrangements with creditors. Some focus is placed on service delivery, governance, and institutional matters; however, they are limited to addressing the most visible and critical issues, with an attempt to ensure that the situations does not deteriorate further.

As the billing is cleansed this will allow the municipality to correctly bill its customers and improve on service delivery. In addition, the availability of Standard Operating Procedures as well as council approved policies will improve the way the municipality runs its business, revenue collection and cost containment.

This is a short-term phase and is anticipated to last up to six (6) months to eight (8) months from the approval date of the FRP.

#### Governance

Governance Rescue Phase’s Implementation Plan should focus on the following strategies:

Focus Area	Strategies
<b>Governance Model</b>	<ul style="list-style-type: none"> <li>• An annual workplan for all oversight committees should be developed and this approved by Council.</li> <li>• The approval should be formally minuted by Council as evidence of review and approval.</li> <li>• Formal written terms of reference of this committee to be developed to enhance governance and accountability.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Municipal Councillors to pay their debts so that they lead by example and thereby promoting a tone at the top that residents should pay their rates and taxes.</li> <li>• Code of Ethics/Conduct to be enforced or implemented for non-payment by Councillors.</li> <li>• There should be a separate agenda in all council meetings to remind councillors who are owing the municipality to settle their dues.</li> <li>• Annual Financial Statement to disclose Councillors outstanding amount of rates and taxes.</li> <li>• Municipality to consider shared service model of MPAC to ensure that it sits regularly, and that the committee is effective.</li> <li>• MPAC should be capacitated to enhance corporate governance best practices. Capacitation should include training of MPAC members.</li> <li>• Stakeholder strategy to be developed and approved by Council</li> </ul>
<b>Political/Administrative Interface</b>	<ul style="list-style-type: none"> <li>• Municipality should prioritize the appointment of Municipal Mangers</li> <li>• Council to take accountability on non-appointment of MM and this should be part of their standing item on agenda</li> </ul>
<b>Contract management</b>	<ul style="list-style-type: none"> <li>• Appointment of legal and contract management personnel</li> <li>• The policy to be approved by Council.</li> <li>• Training on contract management is to be conducted for officials in the SCM to comply with the contract management prescripts.</li> <li>• Review annual procurement plan. Align it with Contract Management process.</li> <li>• Identify goods and services required on an ongoing basis and procure high value items for long term contracts.</li> <li>• Consequence management for non-adherence to policy to be enforced.</li> <li>• Regular contract performance and monitoring to be done by the respective contract manager.</li> </ul>
<b>Litigations and contingent liabilities</b>	<ul style="list-style-type: none"> <li>• Appointment of legal specialist of the municipality</li> <li>• Legal strategy and policy developed and approved.</li> <li>• Review all outstanding matters and develop an accurate list of court matters (contingencies)</li> <li>• Update the litigation register based on the above</li> <li>• Capacitate SCM and Legal Unit</li> <li>• Contract Management controls tightened.</li> </ul>
<b>System of Delegations</b>	<ul style="list-style-type: none"> <li>• Fully roll-out and conduct organization-wide training on the system</li> </ul>

Focus Area	Strategies
	<p>of delegations to all end-users to ensure awareness and appropriate delegations are cascaded with the political sphere, relevant governance committees and administration.</p> <ul style="list-style-type: none"> <li>• Ensure appropriate delegations in place for Municipal Departments: MM, CFO and four Directors. To sub-delegate powers and functions to staff.</li> </ul>
<b>By-laws and enforcement</b>	<ul style="list-style-type: none"> <li>• CoGhta to be approached for assistance with development of By-laws.</li> <li>• Alternately to source other funding assistance to do this</li> </ul>
<b>UIF&amp;W and consequence management</b>	<ul style="list-style-type: none"> <li>• Development and approval of disciplinary board Terms of Reference</li> <li>• Functional Disciplinary Board to deal with UIF&amp;W established.</li> <li>• Consider the use of shared district municipality Disciplinary Board to expedite the issues of investigation and disciplinaries.</li> <li>• Capacitation of the SCM function with the necessary skilled and experienced staff</li> <li>• Institute consequence management measures to take care of repeated non-compliance to internal policies and budget guidelines.</li> <li>• Forensic report by Cogtha to be finalized and recommendation of report to be implemented</li> </ul>
<b>Post Audit action plans (internal and external)</b>	<ul style="list-style-type: none"> <li>• Include clearing of audit findings in municipal employee's performance management contracts.</li> <li>• Establish an Audit Steering Committee that convenes biweekly to monitor progress of PAAP.</li> <li>• Report on the progress of implementing PAAP to oversight committees and council.</li> </ul>
<b>Internal Audit and Risk Management</b>	<ul style="list-style-type: none"> <li>• Capacitate the finance function to ensure that audits are finalized within the legislated deadlines of November.</li> <li>• Capacitation of the internal audit function to make regular follow-up on implementation of audit findings.</li> <li>• Establishment of the fully functional audit committee to do oversight on audit action plan and internal audit.</li> <li>• Monthly audit steering committee to monitor the progress on implementation.</li> <li>• Introduction of performance management measures to instil culture of accountability.</li> </ul>
<b>Information &amp; Communications Technology</b>	<ul style="list-style-type: none"> <li>• Drafting of the terms of reference for the ICT steering committee</li> <li>• Establishment of the ICT steering committee which should meet quarterly.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• ICT governance reports should be a standing item on the Audit committee meetings</li> </ul>
<b>Risk management and Internal Audit</b>	<ul style="list-style-type: none"> <li>• Appointment of Risk Management Committee Chair</li> <li>• Appointment of risk manager</li> <li>• Risk management awareness workshops to be done to capacitate TLM managers.</li> <li>• Submission and approval of risk policy and strategy</li> <li>• Appointment of fully functional audit committee to conduct oversight on the internal audit functions.</li> <li>• Assessment of the internal audit function quality assurance and effectiveness</li> <li>• Drafting of the strategy or roadmaps to address gaps identified above.</li> <li>• Consider the appointment of share model of internal audit function with District.</li> </ul>

### *Institutional*

Institutional Rescue Phase's Implementation Plan should focus on the following strategies:

Focus Area	Strategies
<b>Organizational Structure and operating model</b>	<ul style="list-style-type: none"> <li>• Cost the Organisational Structure to determine its financial impact on the municipality and to consider if it is affordable given TLM's financial constraints prior to its implementation.</li> <li>• Prioritise critical posts and develop recruitment plan based on the vacant post that are budgeted for and that are most critical to fill first to improve municipal key decision making strategies.</li> <li>• Progress on the implementation should be reported to Council.</li> <li>• Finalise the job evaluation and job descriptions and have this approved</li> </ul>
<b>Employee cost</b>	<ul style="list-style-type: none"> <li>• Cost the approved Organisational Structure to determine its financial impact on the municipality employee ratios.</li> <li>• Budget for salaries to be based on above process and affordability</li> </ul>
<b>Labour relations</b>	<ul style="list-style-type: none"> <li>• Appointment of qualified and competent staff dedicated to labour relations issues.</li> <li>• LLF committee to meet regularly based on approved annual workplan</li> </ul>
<b>Skills &amp; competencies</b>	<ul style="list-style-type: none"> <li>• Conduct a skills audit using Department of Cooperative Governance Gap Skills tool.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Conduct verification of qualifications of all the employees</li> </ul>
<b>Staff Discipline and disciplinary board</b>	<ul style="list-style-type: none"> <li>• Build internal capacity to deal with management of discipline.</li> <li>• Fully establish the Disciplinary Board as a governance structure to deal with consequence management.</li> <li>• Consequence management to be taken for the UIF&amp;W</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>• Training of senior managers; LLF members and the entire staff on PMS</li> <li>• Cascade performance management to all employees.</li> <li>• Implement consequence management for non-performance</li> </ul>
<b>Consequence Management</b>	<ul style="list-style-type: none"> <li>• Capacitation through training and development to ensure efficiency and effectiveness on consequence management controls.</li> <li>• Fully establish the Disciplinary Board to provide governance oversight on matters of discipline</li> </ul>
<b>Key HR Policies</b>	<ul style="list-style-type: none"> <li>• Review the HR Policies</li> <li>• Engagement of reviewed policies with LLF</li> <li>• Approval of policies by Council</li> </ul>
<b>HR Strategy</b>	<ul style="list-style-type: none"> <li>• Finalization of draft HR strategy</li> <li>• Consultation with LLF on draft HR strategy</li> <li>• Approval of HR strategy by Council</li> </ul>
<b>Physical Verification of staff and qualifications</b>	<ul style="list-style-type: none"> <li>• Engagement with LLF for buy in to conduct staff verification.</li> <li>• Physical verification of employees annually</li> <li>• Employee qualifications to be verified</li> </ul>
<b>Records Management</b>	<ul style="list-style-type: none"> <li>• Development of records management policies and procedures</li> <li>• Awareness done of the importance of records management.</li> <li>• Appointment of records manager posts</li> <li>• GoGHSTA to assist the municipality in developing the records management unit and related controls</li> </ul>

### Financial Management

Financial Management Rescue Phase's Implementation Plan should focus on the following strategies:

Focus Area	Strategies
<b>Budget Management</b> (Funding Status, Policies, etc.)	<ul style="list-style-type: none"> <li>• Prepare budgets in accordance with S18(a) which stipulates that budget can only be funded through realistic projected revenue to be collected.</li> <li>• Apply zero based budgeting for both operational and capital expenditure.</li> <li>• Implement interventions to improve accuracy of billing and collections.</li> <li>• Conduct a data cleansing and revenue enhancement to optimize revenue billing and collections rates.</li> <li>• Update the indigent register so that revenue estimates are based on</li> </ul>

Focus Area	Strategies
	<p>recoverable rates. Tariffs calculations factor in the indigent</p> <ul style="list-style-type: none"> <li>• Council to approve only a funded adjustment budget for the 2023/24 financial period.</li> <li>• Municipality to engage Eskom to assist with challenges regarding credit control for areas where Eskom supplies electricity.</li> <li>• Municipality to engage farmers with a view to convince them to start paying municipal rates and taxing again.</li> <li>• Municipality to enforce strict credit control policy to improve revenue collections.</li> <li>• Realistic and achievable funding plan to be developed and approved</li> </ul>
<b>Revenue Management</b>	<ul style="list-style-type: none"> <li>• Implement interventions to improve accuracy of billing and collections.</li> <li>• Conduct a data cleansing and revenue enhancement to optimize revenue billing and collections rates.</li> <li>• Appointment of debtor's collectors on risk basis (without cost to the municipality and will be paid based on what they have collected)</li> <li>• Conduct tariff optimisation / cost of supply studies to align tariffs charged to the true cost of providing the corresponding services.</li> <li>• Development of recruitment plan for all vacancies</li> <li>• Appointment and filling of the post of Revenue and budget manager</li> <li>• Filling of critical vacancy within the finance and revenue section</li> </ul>
<b>Customer care and data accuracy</b>	<ul style="list-style-type: none"> <li>• Appointment of dedicated staff for customer care.</li> <li>• Train Customer Care Unit personnel.</li> </ul>
<b>Cost-reflective tariffs</b>	<ul style="list-style-type: none"> <li>• Conduct a cost of supply study reflective and introduce cost. reflective tariffs considering affordability of consumers.</li> <li>• Prepare future budgets based on cost reflective tariffs arising from a proper study done on the cost of supply of services.</li> <li>• Improve the revenue collection thereby reducing provision for debt impairment.</li> <li>• Improve the finance function capacity.</li> </ul>
<b>Indigent Management</b>	<ul style="list-style-type: none"> <li>• Adherence to provisions of existing indigent policy</li> <li>• Awareness campaigns on the application for indigent</li> <li>• Appointment of dedicated indigent personnel who updates the indigent register on regular basis.</li> <li>• Assignment and training of personnel to carry out and monitor regular updates to the indigent register</li> </ul>
<b>Supply chain management compliance and value for money procurement</b>	<ul style="list-style-type: none"> <li>• Ensure that procurement planning and budget process are synchronized. Circulate the procurement plan to all departments for inputs before the draft budget is tabled by Council.</li> <li>• Training of senior staff on supply chain management</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• UIF&amp;W expenditure to be interrogated with reasons therefore and to be submitted to Council for their decision on what action should be taken based on management's recommendations.</li> <li>• Institute legal action and consequence management based on the outcomes of the investigations.</li> </ul>
<b>Financial control environment</b>	<ul style="list-style-type: none"> <li>• Interim AFS should be prepared and assessed to form the base of the year-end AFS preparation.</li> <li>• Management should ensure that there is proper record keeping, sufficient staff members assisting with the requested information by the auditors and should submit the information timeously. This will speed up the audit and it will result in reduced audit cost for the Municipality.</li> <li>• Review the progress of the audit action plan immediately after the issue of the audit report, provide practical action plan and track progress thereof.</li> <li>• Capacitation of Finance function to enable strengthening of financial controls.</li> <li>• Train staff on strict implementation of existing controls to strengthen the internal control environment.</li> </ul>
<b>Expenditure and Creditor management</b>	<ul style="list-style-type: none"> <li>• Improve cash flow levels through revenue enhancement strategies (see discussion of collection strategies under revenue management value chain focus area)</li> <li>• Engage creditors for the debt restructuring and repayment terms to address cash flow challenges</li> </ul>
<b>Debt Restructuring</b>	<ul style="list-style-type: none"> <li>• Municipality to consider undertaking the process of debt restructuring as part of financial recovery measures.</li> <li>• Municipality to consider application of debt relief under circular 124 of MFAM which provide for writing off of old debt for Eskom provided current and future debt is paid on time.</li> <li>• Municipality to resolve its dispute with Eskom outside of court processes</li> </ul>
<b>mSCOA implementation</b>	<ul style="list-style-type: none"> <li>• Capacitation of the finance function and Training of Mscoa implementation</li> </ul>

*Service Delivery*

Service Delivery Rescue Phase's Implementation Plan should focus on the following strategies:

Focus Area	Strategies
<b>Infrastructure Asset Management</b>	<ul style="list-style-type: none"> <li>• Update all records of contracts/leases entered to use municipality facilities and buildings.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Urgent maintenance of municipal buildings.</li> <li>• Finalise all the sector plans in development and get approval.</li> <li>• Finalise and implement all municipal by-laws and policies.</li> </ul>
<b>Water and Sanitation Services</b>	<ul style="list-style-type: none"> <li>• Urgently attend to all reported water faults and leakages</li> <li>• Conduct Water meter audits and replacing malfunctioning meters and capture non-metered households.</li> <li>• Start the process for Blue Drop and Green Drop compliance.</li> <li>• Improve customer's services. Attend to customer complaints urgently.</li> <li>• Source funding to purchase bulk meters, install them, and maintain a register of installed meters.</li> <li>• Negotiate with DWS to reduce the huge water debt and create a credible bulk water billing system.</li> <li>• Installing bulk water meters and zonal meters to confirm purchased water, monitor water losses and reduce unaccounted Water (water losses).</li> <li>• Insure the WWTW effluent is compliance with the relevant regulations. Achieve the Green Drop Compliance</li> <li>• Request technical capacity from MISA, DM, and DBSA.</li> <li>• Collaborate and seek assistance from other SOEs such as DBSA that currently assist with developing infrastructure master plans.</li> </ul>
<b>Electricity Distribution and Supply</b>	<ul style="list-style-type: none"> <li>• Ensure timeous payment Eskom Current Account.</li> </ul>
<b>Roads and Stormwater Drainage</b>	<ul style="list-style-type: none"> <li>• Conduct urgent road maintenance. Attend to all reported potholes, stormwater drainage and clean related blocked drains.</li> <li>• Repair most urgent current equipment to carry out basic maintenance and operations of refuse removal.</li> </ul>
<b>Capital Grant Funds</b>	<ul style="list-style-type: none"> <li>• Ring fence funds for capital projects.</li> </ul>
<b>Waste Disposal and Refuse Removal</b>	<ul style="list-style-type: none"> <li>• Engage with Technical Services to get access to the MIG grant for waste management equipment.</li> </ul>
<b>Fleet Management and Mechanical Workshops</b>	<ul style="list-style-type: none"> <li>• Ensure that the mechanical workshop is functional to repair vehicles and equipment internally.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Auction off redundant equipment in line with legislation and policy.</li> </ul>
<b>Town Planning and Land Development</b>	<ul style="list-style-type: none"> <li>• Utilise the shared service with other municipalities within the district.</li> <li>• Set cost reflective building approval tariffs on all services.</li> <li>• Ensure a functional the Municipal Planning Tribunal (MPT).</li> <li>• Clear the backlog of land use and land development applications.</li> <li>• Speed up of township establishment and thus collect more levy from rates.</li> <li>• Conduct a land audit of municipal land to identify the leases and contracts available and confirm the land use with zoning.</li> <li>• Investigate the extend of incomplete development projects and find solutions to complete the projects.</li> <li>• Identify houses that need to be transferred and fast-track the transfer process.</li> </ul>
<b>Local Economic Development</b>	<ul style="list-style-type: none"> <li>• Re-establish the Economic Development (LED) forum.</li> <li>• Finalize the Local Economic Development (LED) Strategy.</li> </ul>
<b>Community Facilities, Buildings, Sports, and Recreational Facilities</b>	<ul style="list-style-type: none"> <li>• Review leases for public amenities, halls and facilities, and charge cost reflective tariffs.</li> </ul>
<b>Security Services, Public Safety, Traffic and Licensing</b>	<ul style="list-style-type: none"> <li>• Develop and implement Security Management Plan and review security contracts.</li> <li>• Ensure physical security on the infrastructure that is prone to theft.</li> <li>• Constant community engagements to use the communities as watchdogs of municipal infrastructure.</li> <li>• Issue street and business trading permits.</li> </ul>

### 3.2 MUNICIPAL STABILISATION PHASE (12 – 24 MONTHS)

The bulk of the recovery process takes place in the second phase of the Financial Recovery Plan. This phase is referred to as the stabilisation phase. In this phase, a strong focus is on the implementation and monitoring the implementation of strategies and policies, implementation of the drive to bill customers correctly and implementation financial management best practices. Furthermore, focus will be on enhancing revenue for the municipality through strategic initiatives and adoption of cost reflective

tariffs including those for electricity. Greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality. These include monitoring of the implementation of the approved and costed organogram; implementation of service delivery sector plans; by-laws and policies; curbing illegal connections; refurbishment of infrastructure; and replacement of ageing infrastructure.

All the recurring strategies from the Rescue Phase must be strictly monitored to ensure that there is no regression.

This phase is expected to last between 12 to 24 months or longer depending on progress made by the municipality.

### Governance

To support the achievement of the FRP and the targets specified for the Stabilisation/Recovery Phase, it is recommended that the municipality focuses on the following governance strategies:

Focus Area	Strategies
<b>Governance Model</b>	<ul style="list-style-type: none"> <li>• Council must monitor implementation of the institutional calendar for committee meetings by requiring submission of minutes of committee meetings monthly.</li> <li>• Timely submit reports to oversight committees.</li> <li>• Refer matters of non-submission of reports by officials to the newly established disciplinary board.</li> <li>• Annually review the Stakeholder strategy for council approval.</li> <li>• Develop a workplan for committees and track community concerns ensuring they are addressed timely and adequately.</li> <li>• Educate councillors on the Code of Conduct for Councillors.</li> <li>• There should be a separate agenda in all council meetings to remind councillors to pay municipal accounts within the due dates.</li> </ul>
<b>Powers and functions</b>	<ul style="list-style-type: none"> <li>• Prioritise functions that significantly impact service delivery most for example, water and sanitation when making budget allocations.</li> <li>• Promote local advertising on billboards to increase revenue flows.</li> </ul>
<b>Political/Administrative Interface</b>	<ul style="list-style-type: none"> <li>• Update the resolutions tracking register timely.</li> <li>• Make council resolutions implementation a standing agenda item to all council meetings to ensure continuous monitoring of the resolutions issued.</li> <li>• Train councillors on their roles and responsibility as well as oversight on the administrative function.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Council to continuously engage business, civic organisations, and communities to restore trust and facilitate payment of their accounts.</li> </ul>
<b>Contract management</b>	<ul style="list-style-type: none"> <li>• Audit and review all contracts considering issues like legality and irregularities.</li> <li>• Utilise legal skills and competences from the acting Municipal Manager till cashflows improve to appoint legal manager.</li> <li>• Ensure that the Contract Management Committee remains functional.</li> <li>• Monitor contract performance monthly.</li> <li>• Report the outcome of contract monitoring to Audit Committee and other oversight committees.</li> <li>• Performance monitoring must be performed prior to settling of any service providers invoices.</li> <li>• Withhold payments for service providers until performance is up to contract standard.</li> <li>• Annually review the Contract Management Framework and Policy.</li> <li>• Monitor the implementation of the Contract Management Framework and Policy.</li> <li>• Employ a Legal Manager.</li> </ul>
<b>Litigations and contingent liabilities</b>	<ul style="list-style-type: none"> <li>• Diagnose the root causes of litigations and claims.</li> <li>• Annually review a Litigation Reduction Plan.</li> <li>• Monitor the implementation of the Litigation Reduction Plan.</li> <li>• Report to Council on the remedial actions taken to reduce litigations and claims.</li> <li>• Conduct a legal assessment on reasonable prospects of success on all pending litigations.</li> </ul>
<b>System of Delegations</b>	<ul style="list-style-type: none"> <li>• Annually review the systems of delegations.</li> <li>• Prepare and approve a delegations register.</li> </ul>
<b>By-laws and enforcement</b>	<ul style="list-style-type: none"> <li>• Annually review by-laws for council approval.</li> <li>• Monthly reconcile revenue from enforcement of by-laws.</li> <li>• Publish any updated or new by-laws on the municipal website.</li> <li>• Enforce by-laws.</li> </ul>
<b>UIF&amp;W and consequence management</b>	<ul style="list-style-type: none"> <li>• Engage the system provider to configure the financial system to prevent spending on votes with exhausted budget.</li> <li>• Internal Audit to test compliance with SCM regulations and policies on an Adhoc basis.</li> <li>• Immediately refer matters of UIF&amp;W expenditure to MPAC.</li> <li>• Investigate UIF&amp;W expenditure immediately.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• MPAC must report to Council quarterly on the outcome of investigations and consequent management.</li> <li>• Implement consequence management for UIF&amp;W expenditure in terms of section 32 investigation of MFMA.</li> <li>• Monitor the implementation of the UIF&amp;W Expenditure Reduction Strategy monthly.</li> <li>• Internal Audit must give assurance on the implementation of that UIF&amp;W Expenditure Reduction Strategy.</li> </ul>
<b>Post Audit action plans (internal and external)</b>	<ul style="list-style-type: none"> <li>• Include clearing of audit findings in municipal employee's performance management contracts.</li> <li>• Monitor the progress of PAAP and hold officials accountable for not clearing AG findings.</li> <li>• Report on the progress of implementing PAAP to oversight committees and council.</li> </ul>
<b>Internal Audit and Risk Management</b>	<ul style="list-style-type: none"> <li>• Train Risk Management Unit personnel to capacitate them on risk management aspects.</li> <li>• Senior management and council must review and approve risk management reports timely.</li> <li>• Annually review Risk Management Framework and Policy.</li> <li>• Monitor implementation of the Risk Management Policy.</li> <li>• Annually review the operational and strategic risk register for council approval.</li> <li>• Internal Audit function to provide assurance on the implementation of remedial actions.</li> </ul>
<b>Information &amp; Communications Technology</b>	<ul style="list-style-type: none"> <li>• Ensure that the ICT Steering Committee remains functional.</li> <li>• ICT governance reports to be a standing item on the Audit committee.</li> <li>• Annually review the Business Continuity and Disaster Recovery plan.</li> <li>• Annually review policies and strategies with the assistance of the ICT committee.</li> <li>• Develop and implement appropriate strategies to provide for off-site back up of financial and other critical non-financial information.</li> </ul>

*Institutional*

To support the achievement of the FRP and the targets specified for the Stabilisation/Recovery Phase, it is recommended that the municipality focus on the following institutional strategies:

Focus Area	Strategies
<b>Organizational Structure and</b>	<ul style="list-style-type: none"> <li>• Develop SOPs on the implementation of the organogram.</li> </ul>

Focus Area	Strategies
<b>operating model</b>	<ul style="list-style-type: none"> <li>• Monitor implementation of the organogram in line with budget constraints.</li> <li>• Place employees appropriately for full utilization guided by the approved placement policy.</li> <li>• Only fill critical positions in line with budget constraints to contain payroll.</li> </ul>
<b>Employee cost</b>	<ul style="list-style-type: none"> <li>• Prevent the filling of non-critical positions.</li> </ul>
<b>Labour relations</b>	<ul style="list-style-type: none"> <li>• Ensure that the LLF remains functional, and its resolutions are implemented.</li> </ul>
<b>Skills &amp; competencies</b>	<ul style="list-style-type: none"> <li>• Cascade skills and competence testing to all employees.</li> <li>• Upskill employees with skills and competencies shortages.</li> <li>• Place employees in positions they meet the minimum competencies requirements.</li> <li>• Ensure that all senior managers meet the minimum competencies requirements.</li> <li>• Ringfence the mandatory grants for training and development.</li> </ul>
<b>Staff Discipline and disciplinary board</b>	<ul style="list-style-type: none"> <li>• Budget for an electronic clocking system software.</li> <li>• Strictly implement the 2 days salary deduction abscondment to work.</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>• Implement performance management systems of internal controls.</li> <li>• Monitor the performance of all municipal employees.</li> <li>• Hold officials accountable for poor performance.</li> <li>• All employees reporting to the MM must sign performance agreements.</li> </ul>
<b>Consequence Management</b>	<ul style="list-style-type: none"> <li>• Monitor implementation of the Consequence Management Policy.</li> <li>• Ensure that the Disciplinary Board remains functional.</li> <li>• Educate employees on processes to be followed on reporting any misconducts identified.</li> </ul>
<b>Key HR Policies</b>	<ul style="list-style-type: none"> <li>• Monitor implementation of HR related policies.</li> <li>• Workshop supervisors and staff on approved HR related policies.</li> <li>• Hold official accountable for noncompliance with the policies.</li> <li>• Regularly review and approve policies in line with changes in the legislative environment.</li> </ul>
<b>HR Strategy</b>	<ul style="list-style-type: none"> <li>• Monitor implementation of the HR Strategy.</li> <li>• Regularly review and approve the HR Strategy.</li> </ul>
<b>Physical Verification of staff and qualifications</b>	<ul style="list-style-type: none"> <li>• Perform monthly employees' verifications prior to payroll run.</li> <li>• Perform annual employee's verifications.</li> <li>• Perform qualifications verifications and background checks for all new employees.</li> </ul>

Focus Area	Strategies
<b>Records Management</b>	<ul style="list-style-type: none"> <li>Procure an electronic system for keeping municipality documents.</li> </ul>

### *Financial Management*

To support the achievement of the FRP and the targets specified for the Stabilisation/Recovery Phase, it is recommended that the municipality focus on the following financial management strategies:

Focus Area	Strategies
<b>Budget Management</b> (Funding Status, Policies, etc.)	<ul style="list-style-type: none"> <li>Train BTO staff on how to prepare a credible budget.</li> <li>Timely review budget-related policies for council approval.</li> <li>Eliminate all non-essential expenditure items.</li> <li>Approve and adopt a funded budget.</li> <li>Prepare and approve a Budget Funding Plan.</li> <li>Monitor the implementation of the Budget Funding Plan.</li> <li>Implement an activity-based budget through Demand Management Plans that detail monthly expenditure and procurement needs per department.</li> <li>Strictly implement debt control policies to improve the collection rates.</li> </ul>
<b>Revenue Management</b>	<ul style="list-style-type: none"> <li>Monitor implementation of Revenue Technical Committee resolutions.</li> <li>Perform a reasonability testing on meter readings prior to billing. Any exceptions noted must be rectified immediately.</li> <li>Monitor the implementation of water distribution loss preventive measures.</li> <li>Finalise billing system cleansing.</li> <li>Perform campaigns encouraging customers to continue settling their accounts.</li> <li>Implement a debt relief incentive scheme through discounts or incentives to encourage customers to continue settling their accounts.</li> <li>Clear balances in the suspense accounts timely.</li> <li>Implement debtors and creditors control measures.</li> <li>Set targets for the debt collector and implement consequence management for poor performance</li> </ul>
<b>Customer care and data accuracy</b>	<ul style="list-style-type: none"> <li>Monitor the implementation of the customer care policy.</li> <li>Develop a custom-made Windows-based customer query system.</li> </ul>
<b>Cost-reflective tariffs</b>	<ul style="list-style-type: none"> <li>Finalise the Cost of Supply study on service charges and assessment rates.</li> <li>Benchmark the tariffs with other municipalities to ensure consistency.</li> <li>Recommend to the council for the approval of cost-reflective time tariffs.</li> <li>Engage NERSA to approve cost-reflective tariffs for electricity.</li> </ul>

Focus Area	Strategies
<b>Indigent Management</b>	<ul style="list-style-type: none"> <li>• Accurately update the billing system with the approved tariffs.</li> <li>• Ensure that the Indigent Management Framework is regularly reviewed where necessary.</li> <li>• Monitor the implementation of the Indigent Management Framework.</li> <li>• Prepare and review monthly monitoring reports for indigent expenditure.</li> <li>• Perform awareness campaigns and educate the community on the indigent criteria.</li> </ul>
<b>Supply chain management compliance and value for money procurement</b>	<ul style="list-style-type: none"> <li>• Regularly review the SCM policy in line with changes in legislation.</li> <li>• Prepare and approve an Annual Procurement Plan for all goods or services.</li> <li>• Ensure proper coordination between departments on the acquisition of goods and services.</li> <li>• Monitor adherence to SCM regulations and policies.</li> <li>• Hold officials accountable for contravening SCM policies and regulations.</li> <li>• Monitor adherence to the Annual Procurement Plan.</li> </ul>
<b>Financial control environment</b>	<ul style="list-style-type: none"> <li>• Prepare and approve monthly reconciliations.</li> <li>• Review Sops in line with municipal improved changes.</li> <li>• Capture expenditure items timely.</li> <li>• Ensure transfers of skills from service providers performing BTO functions.</li> </ul>
<b>Expenditure and Creditor management</b>	<ul style="list-style-type: none"> <li>• Honor payment arrangements with creditors.</li> <li>• Allocate the greater part of the equitable shares towards the settlement of DWS and ESKOM debt.</li> <li>• Strictly monitor compliance with the Cost Containment policy and hold officials for any breaches.</li> <li>• Establish a panel of service providers to utilise in emergency procurement.</li> <li>• Align the needs of the municipality with the length of the contracts for goods and services.</li> </ul>
<b>Grant management</b>	<ul style="list-style-type: none"> <li>• Develop and approve a yearly Project Plan.</li> <li>• Monitor the implementation of the yearly Project Plan.</li> <li>• Prepare monthly grants reconciliations.</li> <li>• Ring fence all conditional grants.</li> <li>• Monitor compliance with grant conditions.</li> <li>• Hold officials accountable for misappropriation of conditional grants.</li> <li>• Unspent conditional grants must be cash backed.</li> </ul>
<b>mSCOA implementation</b>	<ul style="list-style-type: none"> <li>• All modules must be incorporated on the system.</li> <li>• Monitor implementation of the mSCOA roadmap.</li> <li>• An mSCOA Steering Committee must remain functional.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Ensure skills transfers to municipal employees by the system vendor.</li> </ul>

### Service Delivery

To support the achievement of the FRP and the targets specified for the Stabilisation/Recovery Phase, it is recommended that the municipality focus on the following service delivery strategies:

Focus Area	Strategies
<b>Infrastructure Asset Management</b>	<ul style="list-style-type: none"> <li>• Implement service delivery sector plans, by-laws, and policies.</li> <li>• Audit of current infrastructure to determine state, taking into consideration service backlogs and long-term strategy aligned to the operating model IDP, budget and long-term financial plan.</li> <li>• Compile a report with the condition of all infrastructure and state of each.</li> <li>• Develop infrastructure business plans and funding proposals for infrastructure funding. Create plans for counter funding.</li> <li>• Development and implement of bulk services contribution policy and set bulk contribution fees.</li> </ul>
<b>Water and Sanitation Services</b>	<ul style="list-style-type: none"> <li>• Develop and implement a system to constantly deal with illegal connections.</li> <li>• Conduct a cost benefit analysis for installing smart meters and implement the outcome.</li> </ul>
<b>Electricity Distribution and Supply</b>	<ul style="list-style-type: none"> <li>• Ensure timeous payment of Eskom Current Account.</li> </ul>
<b>Roads and Stormwater Drainage</b>	<ul style="list-style-type: none"> <li>• Monitor and report state of roads monthly or quarterly.</li> <li>• Implement a system to monitor and track all reported pothole and storm drainage cases.</li> </ul>
<b>Capital Grant Funds</b>	<ul style="list-style-type: none"> <li>• Implement the plan to improve grant spending based on the findings made.</li> <li>• Ensure that planned projects for the next MTEF have been approved by council.</li> <li>• Develop a list of potential projects and conduct feasibility studies for projects.</li> </ul>

Focus Area	Strategies
<b>Waste Disposal and Refuse Removal</b>	<ul style="list-style-type: none"> <li>• Source funds to purchase new fleet of solid waste collection trucks and equipment for maintaining landfill sites.</li> <li>• Conduct illegal dumping educational campaigns and cleaning campaigns.</li> <li>• Upgrading of the existing landfill sites.</li> <li>• Undertake the electrification and fencing of all landfill site. Install weighbridges on landfill sites. Collect revenue from users at landfill sites.</li> <li>• Adhere to legislation to become compliant as a landfill site operator.</li> <li>• Develop and implement mechanisms to access funding for waste infrastructure.</li> <li>• Collaborate with private waste removal companies.</li> <li>• Initial recycling projects for waste in communities.</li> <li>• Purchase additional refuse removal fleet including, tipper trucks, more compactor trucks, tractors, dozers and TLB's.</li> </ul>
<b>Fleet Management and Mechanical Workshops</b>	<ul style="list-style-type: none"> <li>• Establish accident committee that will investigate all accidents and apply consequence management where necessary.</li> <li>• Ensure that the mechanical workshop is functional to repair vehicles and equipment internally.</li> </ul>
<b>Town Planning and Land Development</b>	<ul style="list-style-type: none"> <li>• Source funds to procure equipment for the town planning unit, including computers, printers, filing cabinets etc.</li> <li>• Conduct inspections to determine buildings that were built without approved plans and enforce by laws.</li> <li>• Procure a GIS system.</li> <li>• Develop area-based plans to assist with making land available.</li> <li>• Rezone land to ensure that the available land for business purposes.</li> <li>• Streamline the land development application process and feedback system to ensure quicker approvals.</li> <li>• Engage the department of human settlement and consider Public Private Partnership (PPP) to provide social housing.</li> <li>• Engage with mining companies to help solve the housing backlog through PPPs.</li> <li>• Expedite the processes to ensure budget spending on funding for</li> </ul>

Focus Area	Strategies
	infrastructure development.
<b>Local Economic Development</b>	<ul style="list-style-type: none"> <li>• Control street trading by building trading facilities and issuing street trading licenses.</li> <li>• Maintenance and refurbishment of Community Facilities, Buildings, Sports, and Recreational Facilities.</li> <li>• Ensure functional community services committee.</li> <li>• Evaluate the needs and source funding to develop multi-use community facilities which may serve as pension-pay-points, indoor sports facility, and place of assembly.</li> <li>• Improve cemeteries by developing ablution facilities and storerooms.</li> <li>• Identify land to develop new facilities, e.g., cemeteries.</li> </ul>

### 3.3 MUNICIPAL SUSTAINABILITY PHASE

Reasonable assurance should be obtained that measures implemented in Phases 1 and 2 are sustainable and that the municipality is committed to ensuring the implementation of good practice prior to concluding the intervention. Monitoring of ratios will be prioritized in this phase to determine the achievements so made from the previous phases. Exiting will be considered should there be a reasonable assurance that the municipality's financial health has been resuscitated.

#### 4. PART FOUR: BUDGET PARAMETERS AND FINANCIAL TARGETS

A financial modelling was developed in line with s142 of the MFMA. Key assumptions were made, spending limits were set, budget parameters were set, and revenue-raising measures we identified. It is imperative that the municipality implements the strategies as set out in the FRP and its annexures to ensure the achievement of this alleviated financial position.

No #	PERFORMANCE AREAS	ASSUMPTIONS/BUDGET PARAMETERS	2023/24 ADJUSTMENT BUDGET (FEB 24)	2024/25 BUDGET TARGET	2025/26 BUDGET TARGET
1	Property Rates	Good efficiencies in Revenue Management Value Chain and Valuation roll regularly reconciled to billing system	100% Budget (valuation roll billed)	2023/24 + CPI	2024/25 + CPI
2	Service Charges	Good efficiencies in Revenue Management Value Chain	100% budget	2023/24 + CPI + 2% Growth	2024/25 + CPI + 2% Growth
3	Operating Expenditures Targets	<b>Employee Costs:</b> <35%	Per Approved Budget Parameters	Per Approved Budget Parameters	Per Approved Budget Parameters
		<b>Councillors REM:</b> 100%			
		<b>Depreciation:</b> Per GRAP 17			
		<b>Debt impairment:</b> 100% based on budgeted collection rates			
		<b>Contracted Services:</b> 12% (2023/24), 8% (2024/25), 5% (2025/26) of OPEX. (Currently at 27% based on 2022/23 adjusted budget figures)			
4	Cash/Bank Balances	Adherence to approved budget	Per Funded Budget	Per Funded Budget	Per Funded Budget
5	Consumer Debtor's Collection Rates	Adherence to approved budget	35%	50%	65%
6	Government Debtor's Payment Plan	Adherence to payment plan	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements
7	Major Creditors' Payment Plan	Adherence to payment plan	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements
8	Ring Fencing of Conditional Grant	Adherence to SOP's 100% Cash-backed	All bank accounts and sub-accounts reported monthly		

## OVERVIEW OF FRP IMPACT

A financial forecasting model has been developed to set financial targets for the FRP over the MTREF period. The financial model escalation formulas used an average annual inflation rate (CPI) of 4.8% and local growth of 2,8% per annum over the recovery period. Grounded on adherence to the above budget parameters, it is anticipated that the municipality will progressively return to financial sustainability over a 3-year period as illustrated in the table below. If key operational efficiencies are achieved in line with FRP Implementation Plan, it could be expected that the projected cash shortfall of R55,6 million at the end of the 2023/24 Financial Year will reduce to a cash shortfall of R24 million at the end of the 2024/25 Financial Year where after the cash position will likely improve to a cash-backing surplus of R15 million at the end of the 2025/26 Financial Year.

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

The forecast is reliant on the fact that the municipality will apply for Eskom debt in terms of circular 124 as illustrated on the cash flow forecast below as the legacy of high outstanding creditors amounts owed pose a threat to the recovery of the municipality. The relief will assist the municipality in getting back to financial health sooner.

## FRP REVENUE AND EXPENDITURE PROJECTIONS

BUDGET ITEM	2021/22 AFS AUDITED R'000	2022/23 (Adj Budget) R'000	FRP TARGETS: 2023/24 R'000	FRP TARGETS: 2024/25 R'000	FRP TARGETS: 2025/26 R'000
<b>REVENUE</b>					
<i>Property Rates</i>	11,944	8,088	8,476	8,883	9,309
<i>Electricity</i>	15,590	21,965	23,634	25,431	27,363
<i>Water Revenue</i>	2,823	1,132	1,218	1,311	1,410
<i>Sanitation Revenue</i>	21,340	15,614	16,801	18,078	19,451
<i>Refuse Revenue</i>	14,560	10,141	10,912	11,741	12,633
<i>Revenue Forgone (Indigent)</i>	(6,795)				
<i>Rental of facilities and equipment's</i>	268	280	286	291	297
<i>Interest: Internal Investments</i>	2,439	18,634	19,007	19,387	19,775
<i>Dividends received</i>	106	-	-	-	-
<i>Fines, Penalties &amp; forfeits</i>	164	50	51	52	53
<i>Licenses and permits</i>	-	50	51	52	53
<i>Transfers and subsidies</i>	148,248	75,922	77,440	78,989	80,569
<i>Donations</i>	878	722	736	751	766
<b>Total Operational Revenue</b>	<b>211,565</b>	<b>152,598</b>	<b>158,612</b>	<b>164,965</b>	<b>171,680</b>
<b>EXPENDITURE</b>					
<i>Employee Cost</i>	54,012	64,062	66,624	69,289	72,061
<i>Remuneration of Councilors</i>	4,409	5,863	6,098	6,341	6,595
<i>Depreciation and impairment</i>	37,011	2,339	2,222	2,111	2,111
<i>Debt Impairment</i>	(72,197)	6,558	39,677	32,721	24,559
<i>Finance Charges</i>	12,891	5,900	5,605	5,325	5,325
<i>Transfers and Subsidies</i>		1,073	-	-	-
<i>Bulk Purchases - Electricity</i>	32,409	12,883	12,239	11,627	11,046
<i>Inventory consumed</i>	-	4,359	4,141	3,934	3,934
<i>Contracted Services</i>	-	45,306	19,033	13,197	8,584
<i>Other expenditure</i>	55,882	19,222	16,339	14,705	13,234
<b>Total Operational Expenditure</b>	<b>124,417</b>	<b>167,565</b>	<b>171,978</b>	<b>159,251</b>	<b>147,448</b>
<b>Surplus/ (Deficit)</b>	<b>87,148</b>	<b>(14,967)</b>	<b>(13,366)</b>	<b>5,714.42</b>	<b>24,232</b>
<b>Assumptions: CPI 4.8%. Growth 2.8%), Based on Stats SA and Reserve Bank projections for 2024</b>					

## FRP CASH FLOW PROJECTIONS

BUDGET ITEM		2022/23 (Unaudited) R'000	FRP TARGETS: 2023/24 R'000	FRP TARGETS: 2024/25 R'000	FRP TARGETS: 2025/26 R'000
<b>Cash Flow from Operating Activities</b>					
Surplus/(Deficit) for the year		(14,967.00)	(13,365.60)	5,714.42	24,232.27
Add Back depreciation		2,339.00	2,222.05	2,110.95	2,110.95
<b>Cash Flow before Working Capital</b>					
Application of Cash (repayment of creditors)		-	(102,384.63)	(45,734.49)	(56,684.88)
<b>Cash Flow after Working Capital</b>					
Cash at opening (beginning of the year)		1,071.00	(11,557.00)	(125,085.19)	(162,994.31)
<b>Cash at end of year</b>		<b>(11,557.00)</b>	<b>(125,085.19)</b>	<b>(162,994.31)</b>	<b>(193,335.97)</b>
<b>MFMA Circular 124 Impact</b>					
Add back Eskom Repayments (MFMA Circular 124)			69,460.33	138,920.67	208,381.00
<b>Cash at end of year</b>		<b>(11,557.00)</b>	<b>(55,624.85)</b>	<b>(24,073.64)</b>	<b>15,045.03</b>
<b>Working Capital Requirements:</b>					
	<b>31-Mar-23</b>				
<b>Other Current Liabilities</b>	77,537		77,537.00	-	-
<b>Eskom</b>	208,381		69,460.33	69,460.33	69,460.33
<b>*Debtors Repayments</b>	81,114		44,613	23,726	12,775
			<b>102,385</b>	<b>45,734</b>	<b>56,685</b>
<b>Working Capital Payment</b>			102,385	45,734	56,685

## 5. PART FIVE – REPORTING ON THE ACHIEVEMENTS OF TARGETS

The forthcoming reporting and oversight measures shall be deemed mandatory, necessitating strict adherence to the prescribed approach:

- 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/EM/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 addressed.
- The PER/MM must submit a Portfolio of Evidence for claimed performance on a quarterly basis to PT and MFRS for review.
- The MM and heads of the 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, Executive 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 NT MFRS, PT, 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 THE EXAMPLE BELOW:**

No.	Report for the month OF	Report due from MM, Provincial Executive Representative & Intervention Team ON	The report considered by Technical War Room ON	Considered by Political Oversight Committee ON (Combined meeting for all mandatory interventions)
1	August 2023	31 August 2023	08 September 2023	<b>13 September 2023</b>
2	September 2023	30 September 2023	09 October 2023	<b>13 October 2023</b>
3	October 2023	31 October 2023	10 November 2023	<b>16 November 2023</b>
4	November 2023	30 November 2023	08 December 2023	<b>13 December 2023</b>
5	December 2023	31 December 2023	12 January 2024	<b>16 January 2024</b>
6	January 2024	31 January 2024	08 February 2024	<b>15 February 2024</b>
7	February 2024	29 February 2024	08 March 2024	<b>15 March 2024</b>
8	March 2024	31 March 2024	10 April 2024	<b>15 April 2024</b>
9	April 2024	30 April 2024	10 May 2024	<b>14 May 2024</b>
10	May 2024	31 May 2024	10 June 2024	<b>14 June 2024</b>
11	June 2024	31 June 2024	10 July 2024	<b>14 July 2024</b>
12	<b>July 2024</b>	<b>30 July 2024</b>	<b>10 August 2024</b>	<b>15 August 2024</b>

## 6. PART SIX – 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:
<b>Phase</b>	Financial Rescue	
<b>Pillar</b>	Institutional	
<b>Focus area</b>	Safety and Security	
<b>Key Activity</b>		
<b>Problem Statement</b>		
<b>Responsible</b>	MM was supported by the rescue task team (for alignment with FRP IP responsibilities)	
<b>Start Date</b>	At the initiation of the rescue phase probably 1 September 2023	
<b>End Date</b>	During rescue phase	
<b>Key Performance Indicator</b>		
<b>Financial Target</b>	Not quantifiable but will be in the case of most other pillars	
Progress Report by Municipality:		
<b>Steps taken</b>	The rescue task team set up meeting with the security cluster identified at the national and provincial levels with all role-players	
<b>Progress made</b>	Meetings and intelligence gathered, and a plan of action and strategy drafted by the security task team	
<b>Financial impact recorded</b>	Not quantifiable but disciplinary and criminal incidents have shown a decline which impacts the UIFW expenditure which has declined to R...or % reduction.	
<b>Other noteworthy developments</b>	The stability of the workforce and the morale of staff shows improvement and levels of reporting on threats and intimidations have shown a marked decline from .... per month to ... per month.	

## 7. PART SEVEN – CONCLUSION

The development of this mandatory Financial Recovery Plan (FRP) is a direct response to the persistent financial and institutional crisis faced by Tokologo Local Municipality over the past three years. These crises have severely impacted service delivery, governance, financial management, and institutional processes. The implementation of this FRP aims to address these challenges and improve the overall functioning of the municipality.

Several key success factors are crucial for the effective implementation of the FRP:

- **Change Management:** Implementing effective change management strategies will foster a deeper understanding of the problems and solutions at hand.
- **Linking FRP Activities to Financial Outputs:** It is important to align FRP activities with key financial outcomes such as increasing revenue and reducing expenditure.
- **Mobilizing Resources:** Identifying and mobilizing the necessary human and financial resources, as well as clarifying the roles and responsibilities of relevant stakeholders, is critical for successful FRP implementation as outlined in Section 142 of the MFMA.
- **Alignment with Support Packages:** Ensuring that national and provincial Section 154 Support Packages align with the FRP, will provide additional assistance in achieving the desired outcomes.
- **Performance Assurance:** It is important to address the assurance level of claimed performance against FRP targets through effective monitoring and evaluation mechanisms.
- **Institutionalizing IGR Structure:** Establishing an Inter-Governmental Relations (IGR) structure or steering committee with defined Terms of Reference will assist with the monitoring of the implementation of the FRP.
- **Quarterly Monitoring:** Regular measurement of financial outcomes and progress against the FRP is crucial to ensure its success.
- **Consequence Management:** FRP strategies should be aligned with the Performance Agreements of senior management. The MFMA provides for consequences in cases of non-compliance, and invoking Section 216(2) of the Constitution, which allows for the withholding of equitable share, can be considered if necessary.

By adhering to these key success factors, the municipality can effectively implement the FRP and work towards sustainable financial recovery, improved governance, and service delivery.

## 8. PART EIGHT – RECOMMENDATIONS

The following recommendations are therefore put forth for consideration:

- a. The Tokologo 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 Premier/ MEC of Finance, with the support of the HoD (PT), to ensure political supervision.
- c. The Technical War Room Oversight Committee be established by the provincial HoD (PT) to oversee the intervention, monitor progress, address any political and strategic challenges that may hinder its success, and provide reports to the MECs for Finance and CoGTA in the Free State Province for escalation.
- d. The identification, appointment, and mobilisation of the members of two task teams to activate the required FRP activities focusing on the following two distinct levels which run in parallel, each with its own implementation team (subject to budget considerations and PT approval):
  - (i) Strategic level being called the Stability and Sustainability Task 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. its operational period will span three years, after which full responsibility will be handed over to the municipal leadership.
  - (ii) Operational and tactical level being called the Rescue Task 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. The team will be operational for a period of three years, whereafter the capacitated municipal resources appointed through the Stability and Sustainability team will assume full responsibility.
- e. The Free State Provincial Government commits to providing expert support for the implementation of the Tokologo FRP.
- f. The Free State Provincial Support Package for Tokologo LM be aligned with the priorities as set out in Phase 1: Financial Rescue of the FRP.
- g. The adoption and implementation of a comprehensive Change Management Programme. The intervention team should consist of dedicated and competent change agents who will focus on the following key areas:
  - (i) Consequence management: The lack of consequence management and accountability arrangements are systemic and symptomatic of a municipality where oversight is lacking. Implementing consequence management and accountability measures are vital initial steps in the right direction.
  - (ii) Capacity development: A significant undertaking involving mentoring, coaching, training,

and change management is necessary to enhance the municipality's capabilities. This includes conducting a thorough skills audit, restructuring the staff framework, ensuring appointed officials are well-trained and equipped, and promoting adherence to codes of conduct.

## 9. PART NINE: APPROVAL

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

I Gadija Brown, Member of the Executive Council in the Free State 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 have 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 August 2023 at Bloemfontein, Free State Province.

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Gadija Brown  
MEC of Finance

**10. PART TEN: ANNEXURE A - FRP IMPLEMENTATION PLAN**

The FRP Implementation Plan is attached as Annexure A to this financial recovery plan. It addresses all three phases of the FRP the rescue phase, stabilisation phase and sustainability phase. In each of the phases, the four pillars of sustainability are addressed which are governance, institutional, financial management and service delivery. The Implementation Plan facilitates smoothness of the FRP implementation, easiness of progress monitoring and measuring of milestones achievements.

Annexure A is structured to include the following columns:

- a. Focus area number
- b. Focus area
- c. Baseline Finding/Key Issues
- d. Key Intervention Activities (deliverables)
- e. Resources required.
- f. Resources mobilised.
- g. Responsible person
- h. Start date.
- i. End date
- j. Key performance indicator
- k. Portfolio of evidence
- l. Budget parameter/ revenue target/ spending limit/ financial impact
- m. Municipal progress report

**11. PART ELEVEN: UPDATED STATUS QUO ASSESSMENT (ANNEXURE B)**

A summarised Status Quo Assessment Report was prepared per Annexure B covering all four pillars of sustainability which are governance, institutional, financial management and service delivery. The following columns are included in the reporting forming part of the assessment that was performed:

- a. Focus area
- b. Brief diagnostic analysis
- c. Problem/key issues
- d. Root causes
- e. Strategy to solve.
- f. Source of information

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