FINANCIAL RECOVERY PLAN

Prepared for the

LEKWA LOCAL MUNICIPALITY

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LEKWA LOCAL MUNICIPALITY

national treasury
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REPUBLIC OF SOUTH AFRICA

MPUMALANGA
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Contents

EXECUTIVE SUMMARY: 4

PART ONE: 6

BACKGROUND 6

1.1 STATUTORY AND LEGISLATIVE CONTEXT 7

1.2 OVERVIEW OF THE FINANCIAL RECOVERY PLAN 9

1.3 PREPARATION, CONSULTATION AND APPROVAL OF THE MANDATORY FINANCIAL RECOVERY PLAN 11

1.4 IMPLEMENTATION OF THE MANDATORY INTERVENTION AND FINANCIAL RECOVERY PLAN 12

1.5 MONITORING AND OVERSIGHT OF THE INTERVENTION AND THE FINANCIAL RECOVERY PLAN 14

1.6 RISKS ASSOCIATED WITH THE IMPLEMENTATION OF THE FINANCIAL RECOVERY PLAN 15

1.7 COMMUNICATION PLAN 16

PART TWO: 17

2.1 A STATUS QUO ASSESSMENT 17

2.2 KEY ISSUES IDENTIFIED 22

2.2.1 GOVERNANCE 23

2.2.2 INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES 30

2.2.3 FINANCIAL MANAGEMENT 35

2.2.4 SERVICE DELIVERY 54

PART THREE: 67

3.1 PHASE 1: MUNICIPAL RESCUE PHASE 67

3.2 PHASE 2: STABILISATION/RECOVERY PHASE (12 - 24 MONTHS) 74

3.3 PHASE 3: SUSTAINABILITY PHASE (BEYOND 24 MONTHS OR THE TERMINATION OF PHASE 2) 75

PART FOUR: 76

4.1 MONTHLY REPORTING ON ACHIEVEMENT OF TARGETS: LEKWA MUNICIPALITY 76

PART FIVE: 77

5.1 REPORTING FRAMEWORK: PROGRESS AGAINST TARGETS 77

5.2 CONCLUSION: STRATEGIC ASSESSMENT AND CORRECTIVE ACTIONS AS REQUIRED: 78

PART SIX: 78

6.1 RECOMMENDATIONS 78

ANNEXURE A: FRP IMPLEMENTATION PLAN 78

EXECUTIVE SUMMARY:

Lekwa Local Municipality (LLM) has been experiencing perennial political and administration challenges which have impacted adversely on governance, financial management and service delivery in the municipality. The Municipality is one of the top ten defaulting municipalities owing Eskom, countrywide. Eskom debt was approximately R1.3 billion in November 2020. The Municipality is unable to service its creditors within 30 days due to inadequate cash flow, while the Municipality is unable to collect outstanding debts due to the low collection rate and inadequate political will to implement the credit control policy.

LLM has infrastructure that is not coping with the current demand and is subjecting the community and local business to severe inconvenience. There is infrastructure that has failed or is in the verge of failure, exposing the communities to health and safety hazards and need immediate attention.

Subsequently, on 11 October 2018, Mpumalanga Provincial Executive Council placed LLM under mandatory intervention in terms of section 139(5)(a) of the Constitution, which provides for the development of a mandatory Financial Recovery Plan that was approved by the MEC of Finance in October 2019. However, the FRP was not yielding any positive results due to the political and administrative instability in the municipality.

The provincial interventions have failed, and the desired results have not been achieved. There has also been no progressive realization of the strategic objectives underpinning the intervention and material errors of judgement which allowed the situation to deteriorate into the current financial crisis and service delivery collapse. Despite all the interventions by the province, the situation has continued to deteriorate severely to the extent that the municipality is now in a worse off situation than before the interventions by the province.

In May 2018, Astral Operations Limited and others approached the Northern Gauteng High Court seeking an intervention by the National Executive into the financial and service delivery affairs of the Lekwa Local Municipality in terms of S139(7) of the Constitution. The relief sought by the applicants related to placing the municipality's finances on a sound footing and to ensure that municipal services are provided to the communities in a sustainable manner, including the provision of municipal infrastructure.

Relief was granted in favour of the applicants and the High Court issued an order on 12 April 2021 directing amongst others that the national government must intervene in the Lekwa Local Municipality in terms of section 139(7) of the Constitution and that the national government, together with the Minister of Finance, must initiate the process of preparing a financial recovery plan in accordance with sections 141 and 142 of the MFMA, which must be approved in terms of section 141(4)(c) of the MFMA within six (6) months from date of order.

Section 150(1) of the MFMA requires that if the conditions for a provincial intervention in a municipality in terms of section 139(4) or (5) of the Constitution are met and the provincial executive cannot or does not adequately exercise the powers or perform the functions referred to in that section, the national executive must consult the relevant provincial executive and act or intervene in terms of that section in the stead of the provincial executive. This was the case in the Lekwa Local Municipality. Although an intervention was invoked in 2018 by the Mpumalanga Province in terms of S139(5) of the Constitution, the Provincial Executive failed to ensure the effective implementation of the financial recovery plan and no improvement was made in either the financial or service delivery affairs of the municipality.

The national intervention was approved on 03 May 2021 via a Presidential minute and the Minister of Finance was delegated the power and functions to ensure the effective implementation of the intervention in terms of section 238(a) of the Constitution.

It was mutually agreed amongst the Ministries of Finance and Cooperative Governance and Traditional Affairs (CoGTA) that the Minister of Finance will assume the lead in this national intervention with support from the Minister of CoGTA, however, both departments should contribute to the resourcing of this intervention. The Municipal Council was dissolved by Cabinet on 12 May 2021 and on 28 May 2021, Government Gazette NO. 44634 was published announcing the appointment of Mr Johann Mettler as the appointed Administrator for this intervention.

The new 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 revised 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 the Lekwa Local Municipality.

An intervention roadmap has been developed to facilitate the development of the Lekwa Financial Recovery Plan. The FRP development process commenced on 1 July 2021 and ran over a 3-month period in full compliance with the MFMA requirements. The FRP format is fully aligned with the criteria in terms of section 142 of the MFMA (including resource requirements, key performance indicators and financial impact pointers).

The FRP process has been executed by the 4 functional workstreams covering the 4 municipal sustainability pillars of Governance, Human Resources, Financial Management and Service Delivery. Various meetings were held by the functional workstreams in the process to conduct the status quo assessment to assess the municipality's financial state that informed the baseline findings, recovery strategies and activities.

A parallel process was followed that prioritised the development of an Interim Intervention Plan for immediate implementation, while working on the comprehensive Financial Recovery Plan over the 3-month period.

The NT MFRS coordinated the FRP development process in consultation with the Intervention Technical Task Team comprising of the Administrator, his senior staff and the core support team experts identified by the province and the national government for support.

PART ONE:

BACKGROUND

In May 2018, Astral Operations Limited and others approached the Northern Gauteng High Court seeking an intervention by the National Executive into the financial and service delivery affairs of the Lekwa Local Municipality (LLM) in terms of S139(7) of the Constitution. The relief sought by the applicants related to placing the municipality's finances on a sound footing and to ensure that municipal services are provided to the communities in a sustainable manner, including the provision of municipal infrastructure.

Relief was granted in favour of the applicants and Pretoria Division of the High Court issued an order on 12 April 2021 directing amongst others:

- The national government to intervene in the LLM in the Mpumalanga province, in terms of section 139(7) of the Constitution of the Republic of South Africa, 1996 (the Constitution) read with section 150(1)(b) of the Local Government: Municipal Finance Management, 2003 (Act No. 56 of 2003) ("MFMA") within fourteen (14) days from the date of the order which is 03 May 2021; and

- The national government, together with the Minister of Finance, to initiate the process of preparing a financial recovery plan in accordance with sections 141 and 142 of the MFMA once the national intervention is underway, which must be approved in terms of section 141(4)(c) of the MFMA within six (6) months from date of order.

Section 150(1) of the MFMA requires that if the conditions for a provincial intervention in a municipality in terms of section 139(4) or (5) of the Constitution are met and the provincial executive cannot or does not adequately exercise the powers or perform the functions referred to in that section, the national executive must consult the relevant provincial executive and act or intervene in terms of that section in the stead of the provincial executive. This was the case in the Lekwa Local Municipality. Although an intervention was invoked in 2018 by the Mpumalanga Province in terms of S139(5) of the Constitution, the Provincial Executive failed to ensure the effective implementation of the financial recovery plan and no improvement was made in either the financial or service delivery affairs of the municipality.

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It was mutually agreed amongst the Ministries of Finance and Cooperative Governance and Traditional Affairs (CoGTA) that the Minister of Finance will assume the lead in this national intervention with support from the Minister of CoGTA, however, both departments should contribute to the resourcing of this intervention.

The Municipal Council was dissolved by Cabinet on 12 May 2021 and on 28 May 2021, Government Gazette NO. 44634 was published announcing the appointment of Mr Johann Mettler as the appointed Administrator for this intervention.

The intervention was formally launched in the municipality by the Deputy Ministers of Finance and CoGTA on 7 June 2021. The Administrator was introduced to the outgoing Council, the municipal administration, and the local labour forum during three separate engagements held on the same day.

Since his appointment, the Administrator has identified several priority tasks that need to be undertaken to give effect to this intervention. These included firstly an extensive series of stakeholder engagements with community groupings, big business, organised business, the rate payers' association, the LED Forum, agricultural groupings, state-owned entities, developers, and the media (newspapers, radio) to obtain a proper scoping of the problem and to provide a level of assurance to these stakeholders that the matters affecting the municipality will be resolved through this intervention.

He has also commenced with addressing the internal failures in the municipal administration. These relate particularly to issues of governance, mismanagement, fraud, and corruption, ensuring that all legislative violations are dealt with and that charges are laid against the perpetrators (municipal staff), that spending is aligned with the daily cash flow, that measures are put in place to rectify consumption and billing issues and that the budget and IDP preparation process for the 2021 MTREF period comply with the requirements of the legislation and are as inclusive as possible, including conducting interview sessions on the local radio station.

Going forward short-term priorities include the development of a Budget Funding plan to ensure a funded budget and interim intervention activities focusing on service delivery failures, debt collection and human resource matters, including outstanding policies. Further priorities are a data cleansing exercise in respect of the top 250 customers to enhance debt collection for cash generation and the implementation of the section 106 report, preparing disciplinary charges, civil recovery of irregular expenditure, and criminal prosecutions.

However, there is evidence of weak internal capacity in the municipality to execute the activities identified by the Administrator. Staff are politicised and the executive management team is relatively young, inexperienced, with many facing the prospect of disciplinary action and possible criminal prosecutions. In light of this, it has been very difficult to rely on the internal capacity to advance the objectives of this intervention.

The Municipal Manager also resigned two weeks after the start of this intervention and the position of the Executive Manager: Corporate Services was vacant. These are key management positions and ensuring that they are staffed with experienced, qualified, and capable incumbents will be a critical success factor in this intervention.

To assist the Administrator, the Department of Cooperative Governance in the Mpumalanga Province seconded both an Acting Municipal Manager and an Acting Executive Manager in terms of Sections 154 and 155 of the Constitution and Section 105 of the Municipal Systems Act, No 32 of 2000. This has ensured as an interim measure that the intervention is resourced with both competent as well as impartial incumbents in these two positions, thus protecting the integrity of the intervention processes.

1.1 STATUTORY AND LEGISLATIVE CONTEXT

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

The intervention was instituted through a Court Order by national Cabinet in the stead of the provincial executive 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).

Section 139 (7) of the Constitution provides that if a provincial executive cannot or does not or does not adequately exercise the powers or perform the functions referred to in subsection (4) and (5), the national executive must intervene in terms of subsection (4) or (5) in the stead of the relevant provincial executive.

Section 139(8) provides that 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 the section 139 intervention inclusive of the 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 (4) and (5) of the Constitution.

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

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

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

(a)Must –
Identify the financial problems of the municipality;

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

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

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

i. Set spending limits and revenue targets;

ii. Provide budget parameters which bind the municipality for a specified period or until stated conditions have been met; and

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

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

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

(a) the municipality **must** implement the approved recovery plan;

(b) all revenue, expenditure and budget decisions must be taken within the framework of, and subject to the limitations of, the recovery plan; and

(c) the municipality **must** report monthly to the MEC for Finance in the province on the implementation of the plan in such manner as the plan may determine.

Section 150 (2) of the MFMA provides that the national executive assumes for purposes of the national intervention in terms of section 139(7) of the Constitution the powers and functions of a provincial executive and the Minister of Finance assumes for purposes of the national intervention the functions and powers of an MEC for Finance in terms of Chapter 13 on Resolution of Financial problems in municipalities.

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

1.2 OVERVIEW OF THE FINANCIAL RECOVERY PLAN

This financial recovery plan is prepared in accordance with the requirements of the Municipal Finance Management Act, 2003. It is based on the status quo assessment contained in the 2019 Mandatory Financial Recovery Plan, the comments of the Auditor-General and the situational analysis provided by the functional workstreams in July and August 2021.

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

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

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

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

Phase 1: Rescue Phase

In this phase, the focus is primarily on cash and restoring the cash position of the municipality. The indicators for rescue phase include a funded budget (or demonstrating that the municipality is on a credible path to a funded budget), monitoring of the daily cash and cash balances, cost containment measures, focusing on improving the debtor's collection rate, the ring-fencing of conditional grants and ensuring that creditors are paid timeously and that negotiations are entered into to settle any outstanding debt. There is some focus on service delivery and governance matters, however, these are limited to addressing the most visible and easy to resolve issues. However, as resources become available through better cash management, the collection of outstanding debt and the prioritisation of expenditure, service delivery issues can be addressed more comprehensively to secure the revenue base.

This is a short-term phase and is anticipated to last up to one year from the approval date of the FRP.

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 is still maintained but greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality, such as the design of a fit for purpose organogram, plans to address the repairs and maintenance and renewal of infrastructure for the water and electricity network through which the municipality loses significant revenues, ensuring that the property valuation roll is updated and that all customers are billed according and other similar measures.

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

Phase 3: Sustainability Phase

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

In this phase, it is also important to include indicators that give effect to the long-term financial sustainability of the municipality. These would be derived from the Strategic Development Review of the Municipality and the Long-term financing strategy.

In each of the phases and each of the pillars, appropriate targets have been selected to guide the recovery process. These targets have been identified as most appropriate given the nature of issues confronting the municipality. These targets provide an indication of high-level outcomes that must be achieved but do not specify the steps to be taken or the methods to be used to achieve those outcomes. The choice of methods is at the discretion of the Administrator and the Intervention Team who will be monitored on the progress made in achieving the set targets.

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

PREPARATION

In a mandatory intervention, S141(2) of the MFMA requires that the Financial Recovery Plan only be prepared by the Municipal Financial Recovery Services Unit within the National Treasury. The status quo assessment was conducted by the 4 functional workstreams composed of officials from CoGTA, NT, PT, Provincial CoGTA, the relevant sector departments and officials from LLM.

Section 141(3) (b) of the MFMA also requires that any financial recovery plan previously prepared for the municipality be considered. In this regard, the 2019 Mandatory Financial Recovery Plan will form the basis of this mandatory financial recovery plan.

CONSULTATION

In preparing this financial recovery plan, the MFMA requires the Municipal Financial Recovery Service (MFRS) to consult with the municipality, the municipality's suppliers, and creditors, the MEC's for Finance and Local Government in the Province and organised labour (MFMA: S141(3)(a)).

Following initial discussions between National Treasury's Municipal Financial Recovery Service (MFRS) and CoGTA, a consultation meeting attended by Lekwa LM Senior Management, Provincial Treasury, Provincial CoGTA and the South African Local Government Association was held on 27 May 2021. The MFRS presented on the process and structure of the revised FRP that they were in the process of drafting.

NT MFRS coordinated the FRP development process in cooperation with 4 workstreams and the Intervention Technical Task Team comprising of the Administrator, his senior staff and the core support team experts identified by the province and the national government for support. The MFRS completed the preparation of a draft FRP, in accordance with the requirements for such a plan set out in section 142 of the MFMA. This draft plan drew on the previous FRP, inputs from the Mpumalanga Provincial Government and documents supplied by the Municipality.

Various Technical Task Team workshops were held to continue the consultation process with the municipality, provincial CoGTA, national Department of Cooperative Governance, Provincial Treasury, sector departments and Eskom on the draft plan. A draft of the plan was circulated before the workshops and stakeholders that couldn't attend had an opportunity to provide their inputs to the consultation process in writing.

The municipality's 5 largest creditors were invited to a consultation workshop held online on 17 September 2021. This workshop was attended by Eskom and Phepha Security Services. An online meeting with the LLF was held on 17 September 2021.

National Treasury's MFRS wrote to the Lekwa Municipality on 15 September 2021 to request support to publish the notice in terms of Section 141(3)(c)(ii) of the MFMA and invite the public, including the local community to submit written comments and representations in respect of the Draft Financial Recovery Plan.

Advertisements were published on social media and in a local newspaper (Standerton Advertiser) with circulation in the local municipality on 20 September 2021. Hardcopies of the plan were made available at different locations in the municipality. Written comments were invited to be submitted by 3 October 2021.

The MFRS wrote to stakeholders on 20 September 2021 to provide them with a copy of the draft FRP and invite them to submit comments in terms of Section 141(3)(c)(i) of the MFMA by 3 October 2021. These letters were sent to:

- The Administrator, Lekwa Municipality
- MEC of CoGTA, Mpumalanga Provincial Government
- MEC of Finance, Mpumalanga Provincial Government
- Chief Executive Officer, South African Local Government Association
- IMATU representatives, Local Labour Forum
- SAMWU representative, Local Labour Forum
- Eskom Holdings SOC Distribution, Mpumalanga
- Other major creditors
- Gert Sibande District Municipality
- Auditor General of South Africa

Further comments were received from one stakeholder and were factored into the final FRP.

APPROVAL

This Plan is submitted to the Minister for Finance for his verification and approval as per Section 143(2) of the MFMA.

1.4 IMPLEMENTATION OF THE MANDATORY INTERVENTION AND FINANCIAL RECOVERY PLAN

The Cabinet has exercised its rights in terms of S139(7) of the Constitution and assumed responsibility for the preparation of the recovery plan. This is achieved through the appointment of an Administrator.

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

The municipality is also required in terms of S146(1)(c) to report monthly to the Minister for Finance on the implementation of the financial recovery plan. Given that an Administrator has been deployed, reporting to the Minister for Finance will be done via the Office of the Administrator.

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

The National Executive assumed full responsibility for the implementation of the plan in terms of section 139(7) of the Constitution and to this end appointed the Administrator to discharge this responsibility on behalf of the National Executive. The role and powers of the Administrator were set out as follows in the Lekwa Intervention Terms of Reference, and are still in effect:

- The Administrator is appointed in terms of section 139(7) of the Constitution, read with section 139(5)(a) and (b) of the Constitution. In this regard, the implications are that until a new Municipal Council is appointed following the local government elections on 27 October 2021, the Administrator will be empowered to fulfil all functions of the municipal council, both at the level of dealing with executive and legislative obligations of the municipality.
- The Administrator is required to take all steps necessary to ensure the proper implementation of the approved financial recovery plan on behalf of the National Executive.
- Community engagement on the intervention will be spearheaded by the District Executive Mayor and the Gert Sibande DDM Champions with support from the Administrator.
- In respect of financial and financial management, the functions to be performed by the Administrator include, but are not limited to:
  a) Reprioritise and review the draft budget in ensuring that it is credible focus on reducing the unfunded status before 30 June 2021.
  b) Establish a cash flow management committee to manage cash flow on weekly basis.
  c) Centralise issuing of orders as approved by cash flow management committee in line with available cash.
  d) Overseeing the financial management of the municipality and improving financial controls, expenditure management, procurement processes as well as the treatment of UIF&W expenditure in terms of Section 32 of the MFMA and MFMA Circular No. 68, monitoring the monthly collection rate, outstanding debt repayment levels, and ensuring that all customers are being billed and the municipality is implementing credit control measures for non-payment of services. Manage the relationship with creditors and ensure that all contractual obligations are negotiated and that new payment arrangements are reached where necessary. Ensure that conditional grants are ring-fenced, and that the municipality is not using grant funding to meet recurrent expenditure needs. Ensure that all critical posts in the budget and treasury office are filled, that a proper financial management system and financial controls exist to close all possible loopholes for financial misconduct and fraud. The Administrator will also be required to be a signatory on the primary banking account of the municipality. The Administrator ensure that objectives and targets in the financial recovery plan are met within the timeframes specified and that the budget for the 2021/22 financial year is funded.
- Undertake the functions referred to in section 67(1)(h) and schedule 2 of the Municipal System Act, 2000, read with any other relevant legislative provisions dealing with disciplinary matters, including criminal and civil action.
- In respect of governance and institutional arrangements, the Administrator will be required to ensure the achievement of the following objectives, including but not limited to:
  a) Implement all governance systems and procedures, including oversight over the administration.
  b) Review the effectiveness and implementation of financial governance procedures, policies, and processes, and oversee and approve that decisions taken by the Municipal Manager and Section 56 managers are aligned to the objectives of the intervention and the financial recovery plan.
  c) Address issues arising from the Audit Report of the municipality and ensure that remedial action plans are implemented.
  d) Undertake a review of the organisational structure to ensure that it is fit for purpose, and that the executive management team is functional and performance management system

is implemented throughout the organisation.

e) Ensure that the Local Labour Forum (LLF) is functional, and that resolutions implemented by the Administration do not place the financial health of the municipality at risk.
f) Review and finalise all court cases against the municipality.
g) Review and finalise all cases of fraud and corruption and the findings from earlier reports generated in this regard.

- Regarding service delivery, the Administrator will need to ensure that budgets for repairs and maintenance are prioritised in the current budget as well as the budget for 2021/22 and the MTREF period. Prioritise the rehabilitation of assets with assistance from the Municipal Infrastructure Support Agency. In addition, review the capital projects prioritised by the municipality to ensure that all non-priority projects are deferred until the municipality is financially stable.
- The administrator will be required to furnish monthly reports on the progress of the intervention to the oversight committee established to oversee this intervention on behalf of the Minister of Finance and Minister of Cooperative Governance and Traditional Affairs (COGTA).
- The Administrator will assume responsibility for engaging with all municipal stakeholders during the course of this intervention.
- The Administrator is accountable to the National Executive as represented by the Minister for Finance.
- The Administrator must, monthly, report in writing to the Ministers for Finance and CoGTA.
- The terms and duration of this intervention are subject to amendment by the National Executive as and when deemed necessary.

The **financial resources** required to support the implementation of the Plan, will be realised through restructuring of the budget, implementing the revenue collection strategy and revenue enhancement initiatives and a commitment to stringent expenditure controls, with particular emphasis on the elimination of non-essential expenditure, limitations on appointment of staff and non-revenue generating activities. Additional financial support for some projects will be mobilized from stakeholders such as DBSA. Furthermore, the provincial support package will be aligned with the FRP strategies.

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

A Political Oversight Committee consisting of the following members has been constituted:

(a) The Deputy Minister of Finance;
(b) The Deputy Minister of CoGTA;
(c) The MEC for Finance Mpumalanga Province; and
(d) The MEC for CoGTA, Mpumalanga Province.

The intervention in the Lekwa Local Municipality will be subject to oversight by this Political Oversight and Monitoring Committee, who will report directly to the Minister of Finance and Minister of Cooperative Governance and Traditional Affairs (COGTA) jointly and severally.

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

To support the Political Oversight Committee, a Technical Intervention Task Team is also constituted. This team will constitute a Technical War Room which will consist of both an Intervention War Room Executive Team and a War Room Intervention Team.

The War Room executive management consist of:

a) The DDG IGR: National Treasury (Chairperson)
b) The DDG CoGTA
c) The HOD: Finance, Mpumalanga
d) The HOD: CoGTA, Mpumalanga
e) The Provincial Commissioner of Police

The War Room Intervention Team will comprise the Administrator and the experts identified by the province and the national government for support. The Administrator and the support team must provide written reports in the prescribed framework to EXCO, National Treasury, DCoG and Municipal Council monthly.

1.6 RISKS ASSOCIATED WITH THE IMPLEMENTATION OF THE FINANCIAL RECOVERY PLAN

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

The emerging risks identified, include amongst others:

- Lack of political and administrative commitment for the intervention.
- Lack of political and administrative support for identified intervention activities.
- Inadequate internal capacity to implement the intervention activities.
- Insufficient communication on intervention activities to ensure commitment.
- Industrial actions owing to communications and resistance to the changes due to any organisational restructuring or realignment and the implementation thereof.
- Unresolved labour disputes and litigation.
- Non-compliance with Human Resources Management laws/policies and inadequate Human Resources Policies.
- Excessive staffing costs because of excessive number of permanent and contract workers.
- COVID-19 related risks: job losses, loss of municipal revenue.
- Limited revenue base.
- Potential resistance to change by certain internal and external stakeholders.
- Community service delivery and other protests.
- Loss of grant funding due to non-compliance with grant conditions.
- Continued non-collection of revenue and increase in the debtors' book.
- Failure to materially control and reduce non-revenue electricity and water losses, which losses will negate the impact of other interventions.
- Failure to reverse trend of under-maintenance and timely replacement of aged infrastructure.
- Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives.
- Inadequate systems of delegation that impact on governance, administration, and operational efficiency.
- Litigation due to SCM challenges.
- Inadequate implementation of internal controls.

1.7 COMMUNICATION PLAN

It is proposed that the Administrator drafts an internal and external communication plan to support effective communication throughout the intervention.

PART TWO:

2.1 A STATUS QUO ASSESSMENT

The 2019 LLM intervention was championed by the National Treasury and National CoGTA and supported by the Mpumalanga Government (MG), the municipality's political leadership, National Treasury (NT), the national Department of Cooperative Governance and Traditional Affairs (CoGTA). A status quo assessment was then undertaken through which several challenges were identified.

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

- The 2019 Mandatory Financial Recovery Plan.
- FRP Implementation Progress Reports.
- Audit reports by the Auditor-General of South Africa.
- The Mid-year Budget and Performance Assessment Report and the Medium-Term Revenue and Expenditure Framework (MTREF) Budget.
- The Integrated Development Plan.
- Financial Ratios in accordance with MFMA Circular 71.
- The Annual Financial Statements.
- Fixed Asset Register
- The Municipal Website
- Various municipal documents such as reports, policies, procedures, etc.

Overview of demographics and economy in Lekwa Local Municipality

Lekwa Local Municipality is part of the Gert Sibande District Municipality in the Mpumalanga Province. It is one of seven municipalities in the district. The Municipality is situated in the Highveld region and includes the towns of Morgenzon and Standerton. Standerton serves as an urban node, while Morgenzon which is 45km north-east of Standerton, serves as a satellite node. Lekwa's population was estimated to be 130 992 people in 2020 and is projected to increase at an annual rate of 1.5 per cent to 152 022 in 2030. The number of households was recorded at 37 334 in the 2016 Community Survey.

The economic growth rate for Lekwa was low at only 0.5% p.a. over the period 1996 to 2019. The economic sectors that contribute the most to the local economy are agriculture, mining, trade, community services, and finance. The estimated average annual GDP growth for Lekwa between 2019 and 2024 is slow growth of between 0.3% and 0.6%. p.a. An estimated contraction of between 4% and 6% was expected in 2020, as a result of the COVID-19 lockdown. The expected growth rate this year is just more than 2% (from a low base). It will be important for LLM to align with the Mpumalanga Economic Reconstruction and Recovery Plan (MERRP) to address the negative impact of COVID-19 on the local economy.

The unemployment rate of Lekwa deteriorated from 22.6% in 2015 to 27.1% in 2019. The estimated job losses in 2020, due to the COVID-19 lockdown, are between 3 800 and 5 100 and it is expected that the unemployment rate could increase to between 32.6% and 34.8%. In 2019, the share of population in Lekwa below the lower bound poverty line (LBPL) deteriorated from 35.5% in 2015 to 42.3% in 2019 (51 054 people). In 2019, the poorest 40% of households in Lekwa shared 8.1% of total income, which was equal to the 8.1% share recorded in 2015.

Overall quality of life, as measured through the human development index (HDI) improved slightly from 0.60 in 2012 to 0.63 in 2019. However, this remains below the average for the Gert Sibande District Municipality due to the relatively lower incomes of citizens within the Lekwa municipal area.

According to the 2016 CS (Community Survey) of Stats SA, the 5 leading challenges facing Lekwa as perceived by households in the municipal area were the following:

1) Inadequate roads.
2) Lack of safe and reliable water supply.
3) Lack of/inadequate employment opportunities.
4) Inadequate housing.
5) Lack of reliable electricity supply.

Status of the Existing Lekwa FRP

FOCUS AREA	ACHIEVEMENTS TO DATE	ACTIVITIES OUTSTANDING
STRATEGY 1: Strengthening Administration, Governance, and Internal Controls	Slow reported progress	▪ Comprehensive system of delegations, improved governance, and political oversight ▪ Address governance, political and institutional challenges hampering a financial turnaround of the Municipality ▪ Implementation and enforcement of the code of conduct for Councillors is critical. ▪ The Audit Committee, once strengthened and capacitated, needs to ensure compliance with sections 165 and 166 of the MFMA. ▪ Review risk-based audit action plan. ▪ Comprehensive plan to deal with theft, fraud and corruption and irregular and fruitless and wasteful expenditure ▪ Internal Audit Unit to annually evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement. ▪ Focus amongst others on an internal audit structure, skill matrix and gap analysis, together with a development programme, enhance its own internal capacity, a quality assurance and improvement programme and an external quality assurance review. ▪ Internal controls assessed and adequate internal controls and

FOCUS AREA	ACHIEVEMENTS TO DATE	ACTIVITIES OUTSTANDING
		segregation of duties introduced to combat fraud and corruption and ensure that all monies are correctly accounted for. ▪ Develop and vigorously implement an adequate audit action plan to address persistent audit findings.
STRATEGY 2: Organisational Restructuring and Human Resource Management	Functional LLF	▪ Review service delivery model and restructure the organisation accordingly. ▪ Develop and implement a transparent and effective job evaluation process ▪ Implement performance management system for all staff ▪ Disciplinary procedures to address ill-discipline, with clearly defined consequences and outcomes. ▪ Improve Human Resources Management and Development Strategy (HRMD) ▪ Filling of critical vacancies ▪ Conduct Skills Audit ▪ Addressing the recurring and costly labour related legal matters by obtaining an understanding of the causes and developing and implementing corrective and preventative measures to reduce the number of cases and related costs of litigation ▪ Organisational restructuring by assessing the critical posts required to operate efficiently and effectively and staff in excess to requirements of the Municipality.
STRATEGY 3: Local Economic Development		▪ Review development application system, processes, and timelines. ▪ Development of investment attraction and retention policy. ▪ Develop a policy for development charges towards capital contribution. ▪ Formulate a tourism strategy. ▪ Formulate informal trade policy ▪ Review and update Economic Development Strategy.
STRATEGY 4: Revenue Management and Enhancement		▪ Installation infrastructure to enable accurate electricity and water meter readings and disconnection/

FOCUS AREA	ACHIEVEMENTS TO DATE	ACTIVITIES OUTSTANDING
		connection to separate and identifiable consumers. ▪ Protection of meters from vandalism and illegal connections. ▪ Implementation of check meters. ▪ Systematic data cleansing process to ensure complete billing. ▪ Ensure consistent and regular billing cycles and accurate and timely bills. ▪ Efficient and effective credit control management policies and procedures applied ▪ Improvement of customer care service to ensure quality management, communication, and implementation of Batho Pele principles - development and implementation of a Customer Care Service Charter. ▪ Stricter risk management and internal control processes to be introduced with emphasis on adequate supervision of daily cash receipting, banking processes and cash management reporting. ▪ Updated bylaws to be implemented. ▪ Improve capacity of legal resources to support debt collection programs. ▪ Improve inter-department communication to resolve customer queries and reduce turnaround time. ▪ Cash flow targets set and form part of the performance measures of management. ▪ Review/ audit all non-strategic assets for possible disposal. ▪ Develop and implement a revenue enhancement strategy.
STRATEGY 5: Improved Financial Planning/ Budgeting and Management		▪ Introduce Zero-based Budgeting ▪ Restructure the Budget to move the municipality to a funded position. ▪ Introduce cost-reflective tariffs ▪ Update the Indigent Management Policy and implement ▪ Develop and Implement a Cost Containment Policy ▪ Introduce a robust Cash Flow Management Tool ▪ Establishment of a centralised Cash flow Management Committee (approving orders before submitted to SCM for procurement) ▪ Updated cash flow statement and budget statement to be provided to

FOCUS AREA	ACHIEVEMENTS TO DATE	ACTIVITIES OUTSTANDING
		Cash Flow Management Committee on a weekly basis. ▪ Develop a LTFP for sustained financial viability
STRATEGY 6: Service Delivery and Infrastructure Development and Management	SDF Approved	▪ Develop service delivery plans which corresponds with SDF. ▪ Measuring of bulk electricity purchases and water extraction as well as sewerage outflow. ▪ Install flow meters in main water distribution system between the reservoirs. ▪ Metering of all consumers as well as municipal offices, parks, and municipal recreational facilities. ▪ Enter into negotiations with SANRAL, the Mpumalanga Provincial Government and Gert Sibande District Municipality to ensure that they take responsibility for the Class 1, 2 and 4 roads and budget adequately to maintain the Class 5 and 6 roads to ensure that the streets and walkways do not fall into a state of disrepair where they need to be reconstructed. ▪ Re-engineering of Solid Waste removal in Lekwa to ensure that an affordable hygienic service can be provided. ▪ Strengthen internal technical skills to effectively manage assets ▪ Improve repairs and maintenance planning and management ▪ Integrate infrastructure development and asset management planning to ensure sustainability through planned maintenance and replacement. ▪ Setting aside financial resources as part of the annual budget with a long-term planning horizon to address service delivery backlogs, infrastructure and maintenance and upgrading issues. ▪ Put in place a clear strategy and plan to address social versus revenue generating assets. Lekwa. ▪ Develop and implement a comprehensive infrastructure development, maintenance and upgrade plan informed by the outcome of a comprehensive audit of infrastructure backlog and ageing infrastructure and service delivery requirements going forward including a concerted effort to reduce distribution losses.

2.2 KEY ISSUES IDENTIFIED

The status quo assessment will be ordered in terms of the following 4 municipal sustainability pillars:

a) Governance

b) Institutional stability and capability

c) Financial health

d) Service Delivery

The findings of the status quo assessment will be classified according to these four pillars.

2.2.1 GOVERNANCE

In addition to the overarching governance challenges highlighted by the Auditor-General, the following **internal control deficiencies** were noted with concern:

- The leadership did not effectively monitor and enforce the corrective action.
- The leadership was slow to respond to the recommendations and requests of the Auditor-General.
- The leadership did not implement effective consequence management for poor performance and the non-achievement of deadlines.
- The municipality lacked formalized standard operating procedures (SOPs) to manage performance reporting.
- Weaknesses in the processes and controls pertaining to asset management were not adequately addressed.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Unauthorised, Irregular, Fruitless and Wasteful Expenditure	**R1 185 082 178.73 UIF&W expenditure.** **No UIF&W expenditure policy.** **UIFW expenditure registers in place.** **Section 32 investigations not done.**	Overspending on budget. Non-compliance with supply chain management processes and legislation. Interests and penalties on late payments of creditors. UIF&W registers not updated timeously	Allegations of financial misconduct not investigated. Unfunded budget. Under collection of projected revenue. Inadequate payment of arrears and current accounts of creditors. Ineffective Ineffective Consequence management. No UIF&W expenditure reduction plan. Inadequate system in place to identify and record irregular expenditure.	Develop, approve and implement a policy governing irregular, unauthorised, fruitless and wasteful expenditure. Identify, investigate, and report on irregular, unauthorised, fruitless and wasteful expenditure as per legislation. Implement Consequence management for historical irregular expenditure as per Council approved section 32 investigation report. Development and approval of UIF&W expenditure reduction plan. Investigate all	Annual Financial Statements. Auditor-General report. UIF&W expenditure registers supplied by municipality.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
				reported allegations of financial misconduct against the officials. Conduct section 32 investigations on new UIF&W expenditure	
Contract Management	**Outdated and incomplete Contract register.** **Irregular month to month contracts.** **Poor contract management.** **Irregularly awarded contracts.** **No monthly performance monitoring Reports on contracts submitted.** **Ineffective contract management.**	Political interference in contracts. Service providers still providing services despite expiry of contracts. Poor internal controls.	Contractual disputes. Badly drafted contracts. Lack of competent senior management.	Audit and review all contracts. Identify goods and services required on an ongoing basis and appoint service providers on three-year contracts. Submission of monthly performance monitoring reports on contracts. Review annual procurement plan. Affordable payment arrangements with creditors Development and approval of contract management framework	Contract register. AG audit report. Consultations and documents supplied by municipality officials.
Litigation and Contingent liability	**Contingent liability of R1,4bn** **No business plan for legal services unit.** **Material non-compliance with legislation.**	High risk financial exposure. Badly constructed contracts leading to litigations. Litigation against the municipality caused by contractual issues	Lack of competent senior management. Poor case management. Lack of discipline.	Report to Council on diagnostic analysis of root causes of litigations and claims. Conduct a legal assessment on reasonable	Annual financial statements. Litigation register.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	Under-staffing	Non-compliance with legislation Weaknesses in supply chain management processes Inadequate tools of trade Infrastructure maintenance Poor service delivery, land sales Failure to pay for services rendered Failure to pay for overpayments on client's accounts, - Veld fire damages	No contract management framework. Contractual issues, non-compliance with legislation, supply chain processes Lack of tools of trade for infrastructure maintenance, poor service delivery, land sales, failure to pay for services rendered, failure to pay for overpayments, veld fire damages,	prospects of success on all pending litigations. Development and implementation of MFMA Legal compliance matrix Maintain updated litigation and claims register	
Governance Matters	**Ineffective governance structures and oversight role by Council** **Political and administrative instability.** **No Go areas.** **MPAC dysfunctional.** **No clear terms of reference for section 79 and 80 committees.** **Report on section 106 investigations**	Political and administrative instability Ineffective decision-making processes. Unprotected strikes. Poor interface between political and administrative components. Negative impact on governance, financial and service delivery.	Council dysfunctional. Council meetings not quorating. Non-existent governance systems. Lack of accountability. Lack of competent senior management. Poor Records Management System.	Review and align established section 80 committees with powers and functions, and administrative directorates. Implementation of institutional calender for meetings for council and committees. Review terms of reference for MPAC to add more oversight responsibilities. Increase frequency of meetings for MPAC. Convene meetings of TROIKA. Implementation of institutional calendar of	Cabinet memo. Consultations with municipal officials.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
				meetings for Executive management meetings. Schedule an induction for councillors on governance, financial management and oversight after local government elections. Disciplinary Board report quarterly to Council Implement recommendation of section 106 forensic investigations.	
Internal audit and risk management	**Disclaimer of opinion.** **Risk management documents approved for 2021/22 FY.** **Chief Risk Officer appointed.** **Risk Management Committee established.** **Internal Audit documents approved for FY 2021/22**	Poor internal Control Deficiencies. Material non-compliance with legislation. Inadequate implementation of risk and internal audit strategies and plans. SMART principle compliant deficiency. Internal audit and risk management not institutionalised .	Risk and internal audit management not institutionalised. Inadequate implementation of recommendations of audit committee and Council. Dysfunctional council	. Quarterly reports on internal audit and risk management. Update and report progress on implementation of AG audit action plan. Quarterly progress reports on implementation of remedial actions to mitigate against corporate risks and annual audit plan. Development of organisational business continuity plan	Auditor-General report. Reports supplied by municipality. Annual report.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
System of delegations	**Inadequate system of delegations.** **Inadequate delegations register.** **No sub-delegations below Executive Managers**	Resolution on report on systems of delegations badly constructed. What is purported to be system of delegations just record of statutory prescripts. Document a record of statutory prescripts	Lack of understanding of rationale behind system of delegations. Lack of quality, appropriate and competent support Council and Mayco.	Review system of delegations after elections. Sign-off of sub-delegations and maintain delegations register. Review the delegations of powers and functions on supply chain management by MM	Approved Council report and Annexures supplied by municipality.
By-laws and Enforcement	**By-laws promulgated in 2018.** **Inadequate enforcement of by-laws.** **No reporting on revenue generated from enforcement of by-laws.** **Enforcement unit established and capacitated**	Increased electricity and water losses. Depleted investor confidence. Enforcement unit staff utilised for other assignment	Lack of quality, appropriate and competent support Council and Mayco. Officials appointed as enforcers doing something else. Poor human resources management.	Enforcement of By-laws. Report on revenue generated. Review institutional arrangements to strengthen enforcement unit. Promulgate outstanding approved by-laws.	Municipality website. Provincial Mandatory status quo assessment.
Information and Communication Technology	**Non-compliant server room.** **Insufficient infrastructure maintenance.** **Inadequate human resources.** **Lack of ICT general controls.** **No approved ICT strategy plan.** **Ineffective ICT security management.**	Poor ICT services. ICT service providers not monitored. Integrity and confidentiality of data compromised. High risk of loss of data.	Ineffective recruitment processes. Unsigned service level agreements with ICT service providers. Ineffective supply chain management processes. No uninterrupted power supply systems. No delegated powers and functions on ICT	Review and Implement of ICT Governance framework more specifically general controls, ICT policies and the disaster recovery plan. Implementation of institutional calendar of meetings for ICT steering committee. Update website. Secure data storage, back-up, and recovery	ICT audit report 2021.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	Insufficient off-site back-ups.		security to any official.	solutions.	
Immovable properties	**Loss of revenue.** **Ineffective management.** **Approved Alienation policy.** **Ineffective collection of revenue on leased properties.**	No lease agreements in commercial properties. Illegal occupation. Non-payment of rentals by occupants.	No dedicated structure to manage property portfolio. market related rentals need updating. No lease agreements in place	Audit of immovable properties and occupancy focusing on residential and commercial properties. Review market related rentals. Review lease agreements. Eject illegal occupiers. Reconcile transactions at Deeds office. Identify non-strategic properties not required. Conduct cost benefit analysis (operational expenditure against revenue collected). Collection of market related rentals from tenants.	Immovable property register. Letters of termination supplied by municipality
Powers and Functions	**Municipality mandated to provide library services.** **Vehicle licence services handed back to province.**	Inadequate funding to cover all operational costs	Inadequate Mandate agreement	Conduct an in-depth analysis of cost implications. Re-negotiate mandate agreements	Annual report.
Auditor-General Findings	**Incomplete and outdated audit action plan,**	The municipality does not adequately report progress on some	Lack of appropriate coordination on the	Internal audit should provide monthly assurance on	Municipal audit action plan AGSA report

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	Inadequate implementation of the audit action plan and slow response Poor quality annual financial statement	of the activities (e.g ICT, revenue, SDBIP, UIF&W expenditure-investigations, billing reconciliation; reconciliation of traffic fines listing, VAT, consumer charged on estimates etc) No reflection on retrieval of supporting; documents that were not provided in prior year. This may have implication on the opening balance/comparative figures Monthly/regular reconciliation of accounting records remain a challenge e.g Bank reconciliation. Financial misstatement findings are yet to be cleared Annual financial statements prepared by the Municipality contain material misstatements. Management use standard and generic progress to respond to number of SCM findings instead of being specific to each finding' *(e.g all procurement is recommended & approved by the Municipal Manager)*; This type of response is not measurable and users may not be	implementation of audit action plan. Reliance on consultants during reporting circle and no skill transfer to BTO officials. Insufficient monitoring of internal controls which result in slow progress. Bad practice of bulk reconciliation of accounting records during reporting circle which does not help to detect and correct errors on time. Lack of accountability for poor performance. Inadequate preparation of annual financial statements	the reported progress and PoE. Furthermore, IA should provide assurance that all issues in the management report are responded and recommendations from stakeholders are being considered. Municipality should solicit assistance from stakeholders on technical issues or interpretations. Investment on internal controls and capacity building- skills Bi-weekly Audit steering committee to monitor progress. Introduction of performance management measures to instil culture of accountability. Progress report should be reported to the executive authority on regular basis to evaluate the extent which the findings are being addressed Internal audit unit should be capacitated on the AFS review process.	

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
		able to track progress; Nothing is reported on consequence management Possible repeat of findings as some of the compliance matters and internal controls persist.			

2.2.2 INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES

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

- **Organisational Structure:** The current organisational structure needs to be reviewed in such way that it considers the current financial state of the municipality and streamline the overall organisational structure within the available budget. The current vacancies in the organisational structure should be reviewed as part of the review of the organisational structure and assessed to determine whether they add value to the municipality.
- **Skills and competencies:** Not all employees in BTO and Supply Chain Management comply with Minimum Competency Level requirements. The municipality needs to conduct a skills audit to assess level of employees' skills, knowledge, and competencies it has.
- **Performance Management:** Assessment of section 56/57 managers is not conducted. PMS not in place.
- **Staff Discipline:** Non-daily signing of the attendance register.
- **Employee costs:** There is poor management of overtime claims resulting in high employee costs which results in a culture of poor work ethics and poor management practises. Travel allowances are also excessive.
- **Change management:** No change management plan or strategy exist in the Municipality.
- **Filling of critical vacant budgeted positions:** Prioritised and follow proper processes to fill these posts. Focus on service delivery, Compliance and revenue generating functions.
- **Human Resources Management and Development:** Review of all human resources policies. Development of Human Resources Management & Development (HRMD) strategy.
- **Employee Validation:** Conduct an employee head count and identify any ghost employees or employee's surplus to the organization and the payroll.
- **Leave Management System:** An Ineffective Leave Management Process.
- **Labour Relations:** Delays in concluding disciplinary matters. Local Labour Forum is functional.
- **Records Management:** Lack of Internal controls and accountability.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Organisational Structure	**The Municipal Council considered the**	Employee costs are currently 22% of the operating expenditure. The	Failure to meet targets and achieve	The process of reviewing the organisational	FRP 2019 Management report

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	draft Organisational Structure during the council meeting of 31 March 2021. **The draft organisational structure was not costed.** **The organisational structure is currently under review and consultation with the LLF.** **The organisational structure has 1046 positions with 489 filled and 556 vacant positions.** **The Municipality appointed 10 employees to enforce by-laws, however the employees are being utilized for general work.**	(22%) low % could point to a high level of critical vacancies and general understaffing. Should the reported vacancies be filled, the personnel costs will increase. Given the liquidity position of the Municipality, it will be wise for the Municipality to control its payroll budget but plan for the acquisition of skills in line with cash flow improvements. Job Evaluation was since conducted in 2016 for all the positions in the organization. Staff verifications are conducted to determine if all employees are accounted for and ensure that there are no 'ghost' employees. The Municipality placement policy was developed during 2014 and has never been reviewed.	goals and objectives as set in the IDP.	structure be finalised for alignment to the IDP strategic objectives. Development and approval of the placement policy, process be undertaken to place employees appropriately for full utilization. Review and evaluate all job descriptions in the organisational structure. Conduct staff verification bi-annually and implement the recommendations of the staff verification report.	2021 Financial ratios
Filling of Critical Vacancies	**The following positions are currently vacant, and the process of recruitment has commenced; Director Technical Services, Director Community Services and Director Corporate Services.**	The posts became vacant because of resignation of the technical director and end of term of contract for both Director: Community and Corporate services.	Instability in the key Senior management positions.	The municipality should adhere to the timelines as provided for in the regulations on appointment and conditions of senior managers to fast track the recruitment process. Develop and implement the model for filling of critical vacant positions.	2021/22 IDP 2021/22 SDBIP
Performance Management	**Section 56/57 employees have singed performance**	Inadequate processes for accountability, performance assessment not conducted,	Impedes the assessment of individual performance	Development, adoption, and implementation of the	FRP 2019 2021/22 IDP 2021/22 SDBIP

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	agreements however, assessments are not conducted on a quarterly basis. **PMS not cascaded to staff below s56/57 managers.**	performance management system not adopted.	and limits accountability in the organization and negatively affect service delivery.	Performance Management System. Cascade PMS to staff below s56/57 managers.	
Skills Audit	**Employees had completed skills audit forms and the skills audit questionnaires are being captured on the COGTA gaps skills tool.** **Various programs are being implemented by the Municipality towards skilling employed and unemployed learners such as internships, learnerships, RPL etc.**	A Skills Audit exercise has not been conducted except for the Work Skills Plans (WSP) which is consistently developed and submitted to LGSETA as per the requirements.	Skills mismatch in the organisational structure	The municipality must conduct a Skills Audit to identify the existing set of skills within the organization and the skills and knowledge the organization will need in the future. Conduct verification of qualification for all staff below S56 managers.	FRP 2019
Overtime Management	**The municipality has recently discovered that some overtime claimed is not legit, as employees will claim overtime they did not work.** **The municipality also established that employees are not working their normal eight (8) hours as required but instead resolve/ demand to work overtime, and in some sections of the municipality wherein overtime is not necessary, but it is worked.**	The municipality spends an estimate of R34 million Rands on employee benefits and allowance such as overtime, travel allowances, accommodation, and other allowances. Majority of this amount are related to overtime (17 million) and travel allowances, accommodation, substance, and other allowances (7 million).	Poor management of overtime claims resulting in high employee costs which results in a culture of poor work ethics and poor management practices.	The municipality has prepared a draft proposal on shift systems starting with fire section in the department of Community Safety and Services which will be subjected to consultation with LLF. Overtime policy to be reviewed to be in line with the basic conditions of employment act and divisional collective agreement.	FRP 2019 Management Report
Labour Relations	**Local Labour Forum is functional.** **A draft corporate calendar which includes schedule of LLF meetings for**	There are Eight (8) pending disciplinary hearing cases in various departments and three (3) matters in the South African Local Government Bargaining Council and Conciliation Commission for Mediation	Delays in concluding disciplinary matters.	Senior Managers, Managers, Divisional heads, and supervisors to be trained on initiating and chairing	FRP 2019 Management inputs.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	2021/2022 was submitted. **Staff Workshopped on a disciplinary code of conduct, Mpumalanga Conditions of Service Agreement and COVID 19 Workplan**	and Arbitration. There are only two officials trained as presiding officer and prosecutor. (MP) SALGA do assist in handling disciplinary cases for the Municipality.		disciplinary hearings in-house. All outstanding disciplinary matters to be prioritized and concluded. Develop and maintain a disciplinary case register.	
HR Policies, Procedures	**There are 32 approved HR related policies that need to be reviewed.**	The Municipality has the following policies prepared for reviewal: • Acting Allowance Policy. • Bereavement Policy. • Cellphone Policy. • COVID – 19 Policy. • Danger Allowance Policy. • EAP Policy. • Exit Interview Policy. • HIV/AIDS Policy. • Incapacity due to Poor Work Performance Policy. • Incapacity due to ill-health and Injury Policy • Leave Management Policy. • Name Tag Policy. • OHS Policy. • Orientation and Induction Policy. • Overtime Policy. • Payday Policy. • Recruitment and Selection Policy • Relocation re-imbursement Policy. • Scarce Skills Policy. • Sexual Harassment Management Policy. • Training and Development Policy. • Transfer Policy • Transport Allowance • Policy Working hours and Attendance Policy	Risk for financial losses, employee conflict, lack of recognition, inadequate training, and poor team building, and a ruined reputation.	Review, approve and implement the identified policies. Review, approve and implement all other HR related policies. Development of procedure manuals to give guidance to management when implementing approved policies. Workshop Senior managers, managers and divisional heads and supervisors on approved policies for effective implementation. Road shows to various departments to workshop employees on policies that affects them.	Draft Annual Report 2019/20 Management Report 2021
Records Management	**Poor record management which caused the municipality not to**	Non submission of information on reported performance and financial matters which resulted in	Lack of Internal controls and accountability.	Centralization of all records of the municipality.	FRP 2019

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	submit information on reported performance and financial matters which resulted to the AGSA issuing a disclaimer of opinion in the 2019/2020 FY.	AGSA not expressing an opinion		Designate an official as an Information Officer. Review and or develop a Records Management Policy and File Plan.	
Change Management	**There is an urgent need for leadership alignment of council and management in ensuring that everyone rallies behind turning around the finances of the municipality by reducing expenditure, adhering to legislation and commitment to change. Without such effort, the situation of the municipality will deteriorate.**	No change management plan or strategy exist in the Municipality.	Impacts negatively on staff morale and service delivery.	Sensitize employees and organised labour about the current financial state and the introduction of the FRP. Conduct employee satisfaction survey. Develop and implement a change management strategy.	FRP 2019 SDBIP 2020/21
Leave Management	**The Municipality is using the VIP Sage for HR** **Leave is currently done manually and captured by the leave clerk into the VIP system.**	Employees not understanding how the leave credits work and often accuse HR of inaccurate annual leave days. VIP system would often crash, and the leave clerk must re-capture what He has already captured for the month. If an employee has encashed his/ her excess leave days, the paid-out leave does not reflect on the leave transactions of some of the beneficiaries. Getting assistance from VIP consultants is challenging	An Ineffective Leave Management Process can cost the municipality. Workforce being understaffed. Could Harm Employee Morale	Municipality to procure a generator Move from manual to electronic leave system Train managers on leave management system/procedures Implement clocking and timesheet system Municipality to consider procurement of another HR Systems e.g., Payday	FRP 2021 SDBIP 2020/21
Human Resource	**The Municipality does not have an approved HR**	The HR Strategy was last prepared in the 2016/2017FY	Employee conflict. Lack of	Municipality to Review the HR Strategy	FRP 2019

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Management strategy/plan	**Strategy**		recognition. Inadequate training. Poor team building among other issues.		
Management of Discipline	**Every Department and Section of the Municipality has an attendance register that is signed in the morning and afternoon** **Unpaid leave is implemented to all employees who absents themselves without authorization Recently on the 20th of July 2021** **Management resolved not to pay salaries without signed attendance registers**	Non-daily signing of the attendance register	Chaos. Confusion. Corruption and disobedience	Procurement of the Electronic clocking system	Management input

2.2.3 FINANCIAL MANAGEMENT

Lekwa Municipality is faced with severe liquidity challenges. The municipality had unpaid creditors amounting to R1,7bn at the end of the 2019/20 financial year and the figure is growing progressively. The Provincial Treasury assessment of the Lekwa 2021/22 MTREF Budget predicts a cash shortfall of R2,2bn for the 2021/22 Financial Year. The municipality's ability to meet its obligations to provide basic services and honour its financial commitment is compromised. When diagnosing the reasons that contribute to the municipality's liquidity challenges it is prudent to holistically examine the organisational and operational management inefficiencies. Among the audit issues raised with respect to the municipality's financial management inefficiencies are weak internal controls; weaknesses and non-compliance to policies and procedures; and fruitless and wasteful, unauthorised and irregular expenditure. Overall, the cash flow challenges in Lekwa can be directly attributed to the following factors:

a) The municipality adopted unfunded budgets over the last 3 years. Unrealistic budgeted revenue collection levels have not realised while operating costs remained high with no effort made to contain expenditure particularly on non-priority spending.

b) Weak management of the overall revenue value chain, including tariff setting for trading services, administering the property transfer process, and misalignment of tariffs, billings, and credit control measures with indigent policies. The local government equitable share is mainly used to fund operating costs rather than utilised for the purpose of service delivery targeting the poorest of the poor.

c) Weak internal controls, risk management and supply chain management (SCM) inefficiencies resulting in poor audit outcomes and wasteful expenditure.

d) Historically inadequate budget allocation for repairs and maintenance and asset management have weakened revenue potential.

e) Limited evidence based financial management such as cash flow management.

f) Inefficient management of electricity demand means that penalty charges are unnecessarily incurred (fruitless and wasteful expenditure).

g) Payment arrangements negotiated with creditors were not subsequently provided for in the municipal budget. It appears as if the signed payment arrangements were merely a case of malicious compliance.

h) Inadequate human resources capacity and a shortage of technical skills.

Brief Financial Analysis (Source: DBSA assessment for Lekwa Support)

The Annual Financial Statements (AFS), maintained by the Accounting Officer are required by the Municipal Finance Management Act (Act 56 of 2003) and the aim is to analyse the historic financial performance of this municipality over the last 5 years, ending on 30 June 2020.

A summary of the surplus/(loss) posted for the period 2015/16 to 2019/20 FYs is presented in Table A below:

Table A: Summary of operating surplus/(deficits) for the last 5-years

Profitability/Overall	2016	2017	2018	2019	2020
	Re-stated	Audited	Re-stated	Audited	Audited
Surplus/(Loss) after depreciation charge	-344,110	-309,037	-354,365	-269,429	-462,382
Less: Capital grants	-33,190	-48,168	-36,692	-63,831	-34,395
Add back: Depreciation	83,655	81,562	75,625	35,990	87,252
Surplus/(Loss) before depreciation charge	**-293,645**	**-275,643**	**-315,432**	**-297,270**	**-409,525**

As can be seen from the above table the municipality has been posting relatively **large operating deficits** over the period of assessment with the 2019/20 year the worst performance thus far. The intervention by Province and National Government is thus a natural consequence as this is not sustainable. The municipality should budget for surpluses to remain a sustainable municipality with good cash reserves and adequate working capital. This was not done and has led to the municipality becoming dysfunctional and not in a position to render the services at appropriate levels or to pay its creditors. One of the main reasons for the large deficits are the provision for bad debts which is not adequately provided for in the beginning of the year leading to over expenditure at year end. This, together with interest more than R 100 million payable to Eskom on the arrears is not boding well for profitability. If the expenditure is not managed in line with the actual cash receipts the municipalities end up owing Eskom large amounts of monies.

The operating revenue over the 5-year period increased by 7% as is evidenced by Table B below:

Table B: LLM Operating Revenue

	Financially Unqualified	Financially Unqualified	Qualified	Disclaimed	Disclaimer	Composition/as % of total income			Growth over the period		
Statement Year	**2016**	**2017**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**
	Re-stated	**Audited**	**Re-stated**	**Re-stated**	**Audited**						
			R'000				**%**			**%**	
Taxation Revenue	**53,169**	**51,825**	**64,046**	**69,846**	**98,385**	**11%**	**10%**	**13%**	**23.6%**	**9.1%**	**40.9%**
Property Rates	53,169	51,825	64,046	69,846	98,385						
Transfer Revenue	**120,107**	**138,388**	**134,442**	**182,852**	**157,287**	**23%**	**26%**	**21%**	**-2.9%**	**36.0%**	**-14.0%**
Govt grants - Capital	33,190	48,168	36,692	63,831	34,395	6%	9%	5%	-23.8%	74.0%	-46.1%
Govt grants - Operational	82,889	86,240	94,961	115,631	119,689	16%	16%	16%	10.1%	21.8%	3.5%
Fines, penalties & Forfeits	3,585	3,591	2,789	3,390	3,203	0%	0%	0%	-22.3%	21.5%	-5.5%
Other (Landfill provision gain 2020)	443	389	-	-	-	0%	0%	0%			
Revenue from Exchange Transactions	**401,681**	**427,109**	**388,677**	**453,081**	**500,236**	**66%**	**64%**	**66%**	**-9.0%**	**16.6%**	**10.4%**
Service Charges	342,283	357,206	343,444	393,540	441,269	58%	56%	58%	-3.9%	14.6%	12.1%
Rental of Facilities and Equipment	2,402	1,811	1,906	1,778	1,690	0%	0%	0%	5.2%	-6.7%	-4.9%
Interest Earned external investments	3,378	2,239	3,215	4,768	1,978	1%	1%	0%	43.6%	48.3%	-58.5%
Interest Earned outside receivables	33,233	35,469	38,711	50,580	53,966	7%	7%	7%	9.1%	30.7%	6.7%
Agency Services	18,761	24,687	-	-	-	0%	0%	0%			
Other exchange Income operating	1,624	5,697	1,401	2,415	1,333	0%	0%	0%	-75.4%	72.4%	-44.8%
Total revenue	**574,957**	**617,322**	**587,165**	**705,779**	**755,908**	**100%**	**100%**	**100%**	**-4.9%**	**20.2%**	**7.1%**

For the 2019/20 FY the service charges and interest on debtors together comprise of 66% of total income whilst assessment rates comprised of 13%. The balance of the income is made up of grants (mainly equitable share) comprising 21%. This was the pattern for the last three years in general. The income from the service charges (water & sanitation revenue) increased for the last two financial years by 15% and 12% in the 2018/19 and 2019/20 FY respectively. In 2017/18 the service charges declined by 4% mainly because of institutional issues being experienced by the municipality. The increases came about due to increased tariffs; however, the service tariffs are still not cost reflective (See section elsewhere in this report). The increases in assessment rates were 9% & 41% for the FY 2018/19 and 2019/20 respectively and was due to adjustments made due to under tariffing in previous years. The operational grants increased by 21% in 2018/19 but has tapered down to 3.55 in the current year under review. This was due to an increase in equitable share, in line with the promulgations in the government gazette. Overall income increased by 20% from 2017/18 to 2018/19 and is mainly attributable to increases in assessment rates and capital grants, whilst the overall increase in 2019/20 was 7% and just above inflation.

The municipality is heavily reliant on grant funding and in the 2019/20 FY the percentage own income to total income was 76% for the 2019/20 FY and is a decline from 81% the previous year.

The operating expenditure increased by 25% as can be seen from table C below.

Table C: Operating expenditure

	Financially Unqualified	Financially Unqualified	Qualified	Disclaimed	Disclaimer	Composition/as % of total income			Growth over the period		
Statement Year	**2016**	**2017**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**
	Re-stated	**Audited**	**Re-stated**	**Re-stated**	**Audited**						
			R'000				**%**			**%**	
Expenditure											
Employee Related Costs	140,325	196,887	198,805	188,020	238,058	34%	27%	31%	1.0%	-5.4%	26.6%
Remuneration Of Councillors	10,287	10,592	11,768	11,362	20,883	2%	2%	3%	11.1%	-3.5%	83.8%
Bad Debt provisions	100,460	98,036	90,957	129,724	189,237	15%	18%	25%	-7.2%	42.6%	45.9%
Depreciation & ammortisation	83,655	81,562	75,625	35,990	87,252	13%	5%	12%	-7.3%	-52.4%	142.4%
Repairs and Maintenance/Inventory consumed	46,502	39,299	7,493	6,975	12,585	1%	1%	2%	-80.9%	-6.9%	80.4%
Interest paid	40,949	64,214	82,350	110,501	119,983	14%	16%	16%	28.2%	34.2%	8.6%
Bulk Purchases	419,972	338,113	352,301	**384,230**	360,418	**60%**	**54%**	**48%**	**4.2%**	**9.1%**	**-6.2%**
BP Water	172,638	69,143	68,030	73,858	110	12%	10%	0%	-1.6%	8.6%	-99.9%
BP Electricity	247,334	268,970	284,271	310,372	360,308	48%	44%	48%	5.7%	9.2%	16.1%
Contracted Services	20,217	35,502	64,953	54,360	67,780	11%	8%	9%	83.0%	-16.3%	24.7%
Grants and Subsidies Paid	-	-	-	-	-	0%	0%	0%			
Operating leases	19,835	13,102	19,224	6,826	-	3%	1%	0%			
General Expenses	36,865	49,052	38,054	47,220	122,094	6%	7%	16%	-22.4%	24.1%	158.6%
Total Expenses	**919,067**	**926,359**	**941,530**	**975,208**	**1,218,290**	**160%**	**138%**	**161%**	**1.6%**	**3.6%**	**24.9%**

Almost all expenses increased drastically from 2018/19 to 2019/20 by 161% mainly due to high increases in employee costs, remuneration of councillors, bulk purchases, provision for bad debts and general expenses. The provision for bad debts makes out the highest single expense after salaries and bulk purchases of electricity. The provision for bad debts is mainly due to low debtors' payment levels and the fact that the municipality is forced to write the value down in accordance with the latest accounting standards. Interest paid was extraordinarily high at R120 million (from R110 million FY 2018/19 and is mainly due to interest levied by Eskom on arrears account as well as Rand Water. This expense is also fruitless and wasteful and as such cannot be factored into the operation budget at the onset, and this will remain a problem for as long as the Eskom debt remains a problem. General expenses also increased by 159% from 2018/19 to 2019/20 (From R46,9 million in 2028/19 to R 122,0 million in 2019/20) due to an expense item classified as "Department of Transport expense". This will be taken up with the CFO to get an explanation. The municipality historically spends a small portion (at around 1-2% of income) on repairs and maintenance and has led to a general deterioration in asset values and the infrastructure is this in dire need of upgrade or replacement as a result thereof.

The following additional information was reported in the 2018/19 financial statements:

Table D: Water & Electricity margins & losses

MARGINS ON SERVICES (Electricity & Water)	2016 Re-stated	2017 Audited	2018 Re-stated	2019 Audited	2020 Audited
Total revenue	**307 397**	**314 204**	**304 570**	**339 182**	**383 007**
Electricity Services	257 501	248 079	245 666	261 809	302 992
Water Services	49 896	66 125	58 904	77 373	80 015
Expenditure:	**419 972**	**338 113**	**352 301**	**384 230**	**426 632**
Electricity Services	247 334	268 970	284 271	310 372	360 308
Water Services	172 638	69 143	68 030	73 858	66 324
Surplus/(deficit) (Gross margin)	**(112 575)**	**(23 909)**	**(47 731)**	**(45 048)**	**(43 625)**
	-37%	**-8%**	**-16%**	**-13%**	**-11%**
Gross Margin on individual services:					
Electricity Services	10 167	(20 891)	(38 605)	(48 563)	(57 316)
Surplus/deficit (Gross margin)	4%	-8%	-16%	-19%	-19%
Water Services	(122 742)	(3 018)	(9 126)	3 515	13 691
Surplus/deficit (Gross margin)	-246%	-5%	-15%	5%	17%
Electricity losses					
-R value	72 113	84 415	86 844	111 837	122 300
- Units/%	26%	31%	32%	38%	38%
Water losses					
-R value	57 640	64 792	62 564	62 642	60 317
- Units/%	94%	91%	93%	73%	73%
Please note this is not the profit or loss per service it is just the gross surplus/loss. No departmental costing taken into account.					

The gross margin on the electricity service has been negative for the entire period under review and the trend is worsening as can be seen from the table above. The margin on the water service has been very erratic over the period of review but has improved to 17% in 2019/20. Although this a desk top study a recent study revealed that broken pipes, broken meters, meters not being read, incorrect billing, illegal consumption and a host of other issues are responsible for this situation for both the water and electricity sector. The losses for both water and electricity are unacceptably high at 73% and 38% respectively at YE 2019/20.

Table E: Balance Sheet (Summary) – Financial Position Analysis

Statement Year	2016	2017	2018	2019	2019
	Re-stated	Audited	Re-stated	Re-stated	Audited
			R'000		
Net assets	**560,622**	**250,133**	**-111,770**	**-291,177**	**-741,298**
Accumulated surplus	560,622	250,133	-111,770	-291,177	-741,298
Non-current liabilities	**425,890**	**506,530**	**589,447**	**585,131**	**572,164**
Financial borrowings	-	-	-	-	-
Non current provisions	336,546	429,861	510,183	514,787	504,502
Employee benefits	89,344	76,669	79,264	70,344	67,662
Current liabilities	**481,314**	**699,867**	**961,956**	**1,271,391**	**1,766,791**
Current consumer deposits	2,894	2,804	2,735	2,144	1,732
Trade and payables from exchange	472,372	694,138	933,450	1,258,197	1,758,728
Deferred revenue unspent con grant	192		22,301	6,735	1,776
Employee benfits obligation	3,320	2,565	3,470	4,315	4,555
Provisions	2,536	360	-	-	-
Total net assets and liabilities	**1,467,826**	**1,456,530**	**1,439,633**	**1,565,345**	**1,597,657**
Assets					
Non current assets	**1,326,757**	**1,210,841**	**1,170,214**	**1,321,439**	**1,263,467**
Property plant and equipment	1,301,773	1,163,112	1,121,261	1,271,185	1,205,353
investment property	1,994	1,909	1,597	1,523	1,449
Other financial assets	22,990	24,128	25,664	27,039	28,309
Intangible assets	-	-	-	-	
Receivables	-	21,692	21,692	21,692	28,356
Current assets	**141,069**	**245,689**	**269,419**	**243,906**	**334,190**
Inventory	2,266	72,520	67,453	71,300	71,004
Receivables from Exchange	99,276	121,949	105,672	96,636	139,645
Receivables from Non Exchange	10,221	29,858	15,164	18,355	27,782
Taxes and transfers receivable	25,478	20,133	53,992	45,171	52,652
Cash and deposits	3,796	1,229	27,138	12,444	43,107
Total assets	**1,467,826**	**1,456,530**	**1,439,633**	**1,565,345**	**1,597,657**

Table F: Balance Sheet ratio's

Ratio's	2016	2017	2018	2019	2020
Liquidity:					
Current Ratio	0,29	0,35	0,28	0,19	0,19
Cash and Cash Equivalents to Current Liabilites	0,01	0,00	0,03	0,01	0,02
Days cash on hand			11,41	5,32	13,37
Debtors payment levels	73%	65%	84%	74%	60%
Gearing:					
Total LTL to Own Income	0%	0%	0%	0%	0%

The liquidity of the municipality was poor and not sound as at 30 June 2020 as is evidenced by the weak current ratio of 0,19: 1 (compared to the norm of 1,5: 1) and days cash on hand of only 13 days (compared to the norm of 30-45 days).

Debtors' payment levels have been up and down over the five-year period but has shown a reasonable improvement to 84% for FY 2017/18 but has since deteriorated to 60% FYE 2019/20.This is not sustainable and the one of the main reasons why the Eskom account is in arrears and still growing. Over and above the non-payment incorrect tariffs, losses due to tampering, properties not being billed or billed incorrectly, metering issues all contribute to a loss of cash flow.

Unspent grants at year end were minimal with a nominal value of R 1,8 million.

The municipality is technically insolvent as its liabilities exceeds its assets by R 741 million (Negative equity).

The trade payables increased from R 473 million at FY 2015/16 to R1,76 million at FY 2019/20, mainly due to arrear Eskom and Rand Water debt. Eskom was owed in excess of R1, 3 billion as at 31 March

2021.

At year end 30 June 2020 the municipality had unrestricted cash reserves of R 41,3 million (R5,7 million at YE 2018/19).

Table G: Cash flow table & movements

For the year ending 30 june	2016	2017	2018	2019	2020	Increase/(Decrease)				
	Re-stated	Audited	Re-stated	Re-stated	Audited					
			R'000			2016	2017	2018	2019	2020
Cash receipts from property rates	33 832	40 392	66 835	57 015	81 319	0%	19%	65%	-15%	43%
Cash receipts from service charges	240 588	239 376	277 930	256 489	289 691	10%	-1%	16%	-8%	13%
Government grants & subsidies	120 070	137 918	156 743	163 895	149 426	-20%	15%	14%	5%	-9%
Interest received	36 611	37 708	41 926	55 348	55 945	40%	3%	11%	32%	1%
Receipts	**431 101**	**455 394**	**543 434**	**532 747**	**576 381**	**1%**	**6%**	**19%**	**-2%**	**8%**
Employee costs & councillors	(137 436)	(220 941)	(211 862)	(203 597)	(238 058)	**3%**	**61%**	**-4%**	**-4%**	**17%**
Suppliers	(260 294)	(228 554)	(187 188)	(149 888)	(162 132)	**15%**	**-12%**	**-18%**	**-20%**	**8%**
Finance costs	(40 949)	(64 214)	(82 350)	(110 501)	(119 983)	**49%**	**57%**	**28%**	**34%**	**9%**
Payments	**(438 679)**	**(513 709)**	**(481 400)**	**(463 986)**	**(520 173)**	**13%**	**17%**	**-6%**	**-4%**	**12%**
Net Cash from / (Utilised in) Operating Activities	**(7 578)**	**(58 315)**	**62 034**	**68 761**	**56 208**	**-119%**	**670%**	**-206%**	**11%**	**-18%**
CASH FLOW FROM INVESTING ACTIVITIES										
Investment in Assets (Purchase of Property, Plant & Equipment)	(22 228)	(40 288)	(34 362)	(82 080)	(24 275)	-44%	81%	-15%	139%	-70%

The cash flow from service charges increased by 13% for FY 2019/20 and property rates by 43% which is encouraging. The grants decreased because of a steep decline in capital grants from 2018/19 to 2019/20. This is due to institutional problems experienced by the municipality in terms of capacity. Increases in interest received remained stable over the past few years and is mainly as a result of interest on debtors. The employee costs increased sharply by 17% for FY 2019/20 and the reasons need to be determined. Also, during 2016/17 there was a sharp increase of 61% and most probably due to the re-incorporation of the Revenue Management team after it has been outsourced for several years with catastrophic results. Investment in capital projects has been erratic and is mainly due to institutional issues and the municipality not getting enough capital grants to an incapacity to plan properly.

2.2.3.1 Key Issues Identified

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
Budget Management (Funding Status, Policies, etc)	**Municipality developed and approved an unrealistic unfunded budget for 2021/2022:** ▪ **A8 Unfunded with R2,2 billion** ▪ **A7 Unfunded with R246 Million** ▪ **Provision for Repairs and maintenance below requirement of 8%** ▪ **Provision for Contracted services 2% above the norm of 5%.** ▪ **Insufficient provision for debt impairment and depreciation.** ▪ **Revenue targets of 99,4% for Property Rates and 94,7% for services not realistic against performance of 45,2% for property rates and 58,8% for services.** ▪ **No provision for outstanding creditors and outstanding bulk purchases.**	Revenue baseline insufficient Over commitment on contracted services No capital available for revenue generating infrastructure Inability to pay bulk purchases Inability to repair and maintain infrastructure, which effects service delivery. Unrealistic Collection Rates Low collection rates and negative cash flows	Not all properties on billing system Incorrect implementation of tariff structures Payment arrangement for creditors not concluded Non implementation of Credit Control and Debt Collection Policy Collection rate not calculated ito Circular 71	Develop a Budget funding plan with clear activities and goals Compile credible Adjustment Budget 2021/22 Apply Zero-based budgeting approach Improve budget controls to prevent unauthorised expenditure	Audited AFS 2020 Budget 2021/22 Assessment. 2019 FRP status quo assessment
Cost Containment and cash flow management	**Cash flow committee not in place**	Lack of commitment	Management not committed	Establish cash flow committee	FRP 2019
	Excessive overtime and standby allowance due to non-filling of critical vacancies	Lack of internal controls to manage overtime and standby	Lack of internal controls for approval in terms of Policy High vacancy rate. repairs and maintenance plans	Review Overtime and Standby policy Monitor overtime ito policy Identify and fill critical vacancies and finalise O & M plans	FRP 2019

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	Municipality budgets for Internally generated funds (R9.8 million) whereas the budget is unfunded	Negative cash flow position	Lack of adequate funding for capital projects from Internal Contributions	Revenue enhancement strategy to be developed and implemented	2021/22 adopted budget
	Over –reliance on consultants	Inadequate capacity in BTO	Reduce reliance on consultants	Improve capacity of BTO	Section 71 30 June 2021 Audit report
Revenue Management	**Metered Services and Vending**	Not all consumers are metered and unknown consumers Consumer meters not read but billed on estimates Prepaid vendor reconciliation not performed monthly	Data not cleansed and updated on a regular basis Ineffective meter readings and no-go areas Vendors selling prepaid and collection of municipal services receipts not known by the municipality	Establish customer base which classify customer category. i.e Business, Industry, residents, Government etc Meter reading should be done monthly, and variances be attended promptly Review the list of vendors and supply codes, perform monthly reconciliation on a weekly basis	FRP for 2019/20, Budget Engagement with Municipality
	Property Rates	Tariffs incorrectly implemented on the Financial Management System Valuation roll not reconciling with the billing system	Tariffs not checked by responsible senior official Lack of integration of the revenue value chain with town planning	Reconcile tariffs approved by Council and tariffs captured on the financial Management System (Munsoft) and correct discrepancies Perform reconciliation on valuation roll and billing system and correct discrepancies	FRP 2019, Audited AFS and Astral court case
	Billing Co-ordination	No co-ordination between technical and Finance on meter readings	Lack of integration of the revenue value chain with Town planning, Finance and Technical department	Establish weekly formal meeting between Technical and Finance	Budget Engagement with PT and Municipality
	Customer care and receipting	No effective customer care management Unit and Policy	No customer care section within the municipality	Establish a customer care unit and update a policy on customer care	FRP for 2019/20, Budget Engagement with Municipality
	Debtor's Management	Debtors book not reviewed to identify indigents and write offs of irrecoverable debts	Debtors book not updated on a regular basis	Review the debtor's book and identify long outstanding debts, reconcile with the indigent register,	Audited AFS and FRP 2019

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
				and recommend write offs	
Financial Control environment	**Utilisation of financial resources are not used effectively, efficiently, and economically.**	Inability to plan correctly. Needs analysis not performed to assist developing Specifications Specifications not clear for consultants	Capacity constrains in municipality SOP's not in place or reviewed and not implemented for SCM, Contract management	Appointment and training of officials Review of SOP's, training of staff and support with implementation	Audit report and UIF&W expenditure trends. Audit report PT Risk management assessment IA reports and AG Audit Report
	Full and proper records of the financial affairs are not kept in accordance with prescripts	Records management not adequate and unable to provide evidence to AG	Records management system not in place	Develop records management procedure in line with regulations, train staff and support with implementation	AG report Public complaints and master billing file
	Financial and risk management not adequately implemented	Identified Risks not addressed	Poor implementation of mitigating strategies	Train management on risk identification and mitigation	Section 71 report AFS
	UIF&W and other losses are not prevented	Escalation of UIF&W	Non-compliance to policies and regulations.	Develop UIF&W strategy	Grant spending report
	The failure of the municipality to implement tariff policy	Loss of income	Incorrect tariffs loaded on billing system	Review revenue management and control environment. Audit on tariff structures	
	Credit control and debt collection not effective	Escalation of debtors.	Non implementation of credit control policy. Credibility of debtor's information and billing	Review credit control policy Ensure correctness of consumer data and billing credibility	
	Inadequate reconciliation control. Financial Management system not optimal utilised	Misstatements and restatements on AFS Incorrect budgeting, transacting, and reporting	Vacancies in BTO Capacity in BTO to do reconciliations. Transacting outside the financial system	Filling of critical vacancies Training of officials on all reconciliation control requirements Ensure full compliance to MSCOA regulations	

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	Lack of proper Cash flow management.	Liquidity of municipality deteriorating	Financial system modules not interfacing Poor control over revenue management Financial Over commitment Cash flow constrains prevents payments within 30days	Establish Cash Flow Management committee	
	System of expenditure control	Escalation of creditors	Expenditure reconciliations not performed, which might have led to incorrect payments Expenditure management SOPs not implemented	Review expenditure management SOP's Provide training on implementation of SOP	
	Control over agency fees and conditional Grants.	Non-payment of agency fees. Poor utilisation of conditional grants	Agency Fees and conditional Grants used for operational expenditure. Poor planning	Ring fence agency fees and conditional grants Development of project plans	
Tariffs	**Audit and benchmark (CPI, guidelines and etc) tariffs and charges for trading services trading services business.**	Tariffs not cost reflective	Capability and tariff understanding of the municipality staff	Undertake activity-based costing Implement seasonal and ToU Tariffs for electricity Undertake cost of supply studies for both electricity and water	NERSA tariff decision letter
	Map customers' bills to the services rendered	Incorrect tariffs to different customers Incorrect categorization of properties.	Inadequate or lack of systems and processes and capabilities required for billing.	Audit different customer categories and confirm the correct tariffs are charged.	IMTT Report on Electricity Distribution 2018 Lekwa FRP 2019
	Audit customers' bills to ensure that rates and refuse are charged	For all trading services including Rates for refuse removal at residential and business stands needs to be confirmed as in line with acceptable tariffs to cover at least the cost to provide the service.	Inadequate or lack of systems and processes and capabilities required for billing. Data integrity for correct billing purposes	Monitor and enforce compliance of municipal bylaws and tariff policy	Lekwa FRP 2019

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
mSCOA	**Dysfunctional mSCOA Steering Committee**		mSCOA Steering committee not functional.	Setup mSCOA Steering Committee	mSCOA Progress Reports
	Outdated mSCOA Road Map		mSCOA road map to be prepared to direct the implementation of mSCOA.	Development of mSCOA Road Map	
	Data Strings not credible		None adherence on month-end closure resulting in incomplete financial records processed and poor integration of sub systems and core system.	Timeously Submission of credible data strings	
	Key Functional Modules not implemented		Not All modules offered by core financial system are being utilised my municipality resulting third party system being utilised at costs.	Development of implementation plan for non-functional modules such as asset management modules etc.	
Supply Chain Management	**Risk of outdated SCM policy.**		SCM policy not updated in terms of the required legislative requirements, and other NT Circulars and guidelines.	Review the SCM policies to deal with any internal controls weaknesses identified, and ensure they are aligned to all applicable legislation.	Municipal Officials
	Lack of SCM procedure manual.		Standard Operating Procedures have not been reviewed to ensure compliance to applicable legislation and reforms.	Designing and implement systems and procedures to ensure total compliance to the policies by the municipality.	Lekwa FRP 2019
				SCM Checklists to be developed and implemented to provide a step-by-step guide to the Officials.	
	Cost Containment Strategy not in place.		Strategy to reduce expenditure and limit to only critical goods and services not in place.	Implement Cost Containment Strategy as per the Regulation.	Municipal Officials
Expenditure/ Creditor Management	**Not all Top 10 Creditors paid within 30 Days** **Creditor Payment Period Ratio = 879 Days** **Weak Internal controls in SCM process that enable UIFW to be incurred**			Prepare creditors reconciliation for bulk suppliers Enter into / re-negotiate payment plans with major creditors Pay bulk purchase invoices within 30	

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
				days of receiving invoice Ensure that creditors paid have a legitimate claim in terms of money owed Manage contingent liabilities to minimise the exposure of financial risk Council to resolve on MPAC reports on UIFW incurred up to end of 2019/20 Adoption of reviewed SCM policy by Council Procure goods and services in line with SCM policy and regulations Incur expenditure in terms of the approved 2021/22 Budget	
Asset Management	**There are no mechanisms to monitor the asset management consultants**			Controls over the management of the consultants	AM Policies, Plans and Procedures FAR
	The AM Policy was not reviewed for the current financial year			Review of the asset management policy before the 2021 FY	
	The municipality does not reconcile the rent register to investment property			Reconciliation of the rent register to the investment property register	
	Contrary to the requirements of GRAP 17: Property, Plant and Equipment, the municipality included land valued at R25 787 537 (2018-19: R73 044 944) in the assets register which the municipality did not have control over.			Review procedures of the financial statements and the FAR should be instituted and monitored regularly	
	Lack of sufficient appropriate audit evidence for the unreconciled difference between assets register and financial statements to the value of R183 129 239 (2018-19: R18 147 209) as internal controls had not been established to maintain an accurate and complete asset register.			Review procedures of the financial statements and the FAR should be instituted and monitored regularly	
	The AFS WIP Balance of R183 129 239 resulted in a limitation of scope on WIP balance as management did not provide reasons and reconciliations.			Compile supporting journals for WIP balance and adjustments made in the current year	

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	Infrastructure network assets - unreconciled material differences between the WIP balance on completed assets and transfers to the AFS additions placed a limitation on reliance in the FAR to test the balance of infrastructure network assets			Review procedures of the financial statements and the FAR should be instituted and monitored. A file to support the reconciliations should be kept.	
	Transfer documents are not completed and properly authorized when assets are being moved between locations			Review of the Transfer documents and ensure that they completed and properly authorized when assets are being moved between locations	
	There are no dedicated control points to verify whether proper authorisation was received for Assets being moved between locations before movement takes place			Assign dedicated control points or personnel to verify whether proper authorisation was received for Assets being moved between locations before movement takes place	
	Items outstanding for longer than a month from the verification process are not investigated and escalated to senior managers			Investigate and escalate to senior managers Items outstanding from the verification process	
	Not all journals and supporting documents are reviewed and approved by a duly authorised senior official taking into consideration proper segregation of duties			Review and approve all journals and supporting documents by a duly authorised senior official taking into consideration proper segregation of duties	
	Council does not approve any proposals to transfer or dispose of high value capital assets			Council to consider proposals to transfer or dispose of high value capital assets	
	There are no adequate controls in place to ensure collaboration between Finance and Engineering, Town Planning, and other Departments in ensuring that assets are properly valued, exist, valid etc.			Institute adequate controls to ensure collaboration between Finance and Engineering, Town Planning, and other Departments in ensuring that assets are properly valued, exist, valid etc.	
Indigent Management	Lack of awareness and understanding by both councillors and community			Well driven awareness campaign and educating community.	IM Policy Indigent Register
	No recruitment drive by councillors and official fuelled by unstructred red			Project based recruitment drive per	

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	tape in the indigent registration process			wards, temporary job creation during the recruitment period	
	Reluctance by SAPS to assist with affidavits			Engagement with SAPS	
	Undefined process flow, lacking internal control and non-implementation of SOP			Lack process flow, SOP, and internal control	
	Very low number of approved indigents adversely affecting management planning			Review of the indigent register	
	Unrealistic indigent register lacking proper verification process			Status verification through physical inspection/ revision and external verification. Acquisition of Indigent Management System	

2.2.3.2 Analysis of key Financial Ratios

Ratio	Ratio for 2017/18	Ratio for 2018/19	Ratio for 2019/20	Forecast 2020/21	REMARKS
Asset Management Utilization					
Capital Expenditure to Total Expenditure – indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services. **The norm is 10% - 20%.**	8%	10%	5%	**35%**	The ratio results fluctuate year-on-year. The ratio is below the National Treasury norm of 10% - 20% for the 2017/18 and 2019/20 financial years.
Repairs and Maintenance to Property, Plant and Equipment and Investment Property – measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to services delivery. **The norm is 8%.**	**1%**	**1%**	**1%**	1%	The ratio is well below the National Treasury norm of 8%. This is an indication of insufficient spending on repairs & maintenance to an extent that it could impact on use of assets and have a resulting increase on impairment of useful assets. Municipality must ensure adequate maintenance of assets to prevent breakdowns & interruptions to service delivery.
Debtors Management					
Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit. **The norm is 95%.**	**62%**	**71%**	**56%**	**62%**	A municipality with outstanding debtors should aim to achieve a collection rate of more than 100% to ensure a reduction in the outstanding debt accrued from previous years.

					The municipality's collection rate is regressing. Revenue collection (billing), and credit control of the municipality requires urgent attention and corrective measures should be implemented.
Bad Debts Written-off as % of the Bad Debt Provision **The Ratio compares the value of Bad Debts Written-off on Consumer Debtors to Bad Debts Provided for Consumer Debtors to ensure that the Provision for Bad Debts is sufficient.** **The norm is 100%.**	**<1%**	**<1%**	**<1%**	**<1%**	The Municipality's bad debts written off is far less than what it provides for. This could mean that the Municipality is unrealistic in relation to the collection from debtors. The Municipality should write- off Bad Debts already provided for and ensure that policies and procedures regarding irrecoverable debt are in place to avoid over or under provision of bad debts.
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. **The norm is 30 days.**	**68 Days**	**88 Days**	**111 Days**	TBD	Net Debtors' Days ratio for the past three years is above the norm of 30 day. The ability of the municipality to manage debtors is questionable and poses risks associated with the provision of debt to consumers.
Liquidity Management					
Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants) **The Ratio indicates the Municipality's or Municipal Entity's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue.** **The norm is 1-3 months**	**0.07 Month**	**0.08 Months**	**0.54 Months**	**<1 Month**	**The** municipality's ratio remained below the norm for 2017/18 and 2018/19 but improved to 0,54 Months in 2019/20. The municipality's ability to meet its obligations to provide basic services and honour its financial commitment is compromised. To improve the situation, the following must be achieved in the shortest possible time: - • Immediate reduction in expenditure on non-essentials, non-core activities, non- revenue generating activities. • Increase revenue through improved collections and billing efficiencies and seeking alternate revenue sources. • Ensuring proper administrative and governance arrangements are in place to manage daily bank deposits and withdrawals.
Current Ratio - this ratio indicates the extent to which current **assets** can be used to	**0.28**	**0.28**	**0.21**	**0.43**	The municipality's Current Ratio for all three financial years has been below the norm. Current

settle short-term liabilities. If current assets do not exceed current liabilities, it means a liquidity problem i.e., insufficient cash to meet financial obligations. **The norm is 1.5 - 2:1.**					liabilities exceed current assets, highlighting insufficient cash to meet short-term financial obligations. Municipality must increase its current assets to appropriately cover current liabilities or risk that non-current assets will need to be liquidated to settle current liabilities.
Liability Management					
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure - indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure. **The norm is 6% - 8%**	**0%**	**0%**	**0%**	**0%**	The ratio did **not** exceed the norm of 6%-8% for the 3years. However, this does not mean the municipality can take up external financing. It means the municipality, due to its current cash flow problems is unable to access borrowed funds or the funding decisions of the municipality impacts on these levels.
Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue. The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings. **The norm is 45%.**	**0%**	**0%**	**0%**	**0%**	The ratio is within the norm. This is an indication that the municipality might take up increased funding from borrowings, however, this should be considered within the cash flow requirements of the municipality.
Efficiency					
Net Operating Surplus Margin – measures the net surplus or deficit as a percentage of revenue. **The norm is > 0%**	**-73%**	**-52%**	**-65%**	**-3%**	The municipality is operating at a deficit. This dreadful situation is caused by tariffs below cost and unmetered consumption. Operational efficiencies must be achieved for enhanced financial wealth.
Distribution Losses					
Electricity Distribution Losses (%) The purpose is to measure the percentage loss of potential revenue from Electricity Services through electricity units purchased and generated but not sold because of losses incurred.	**32%**	**38%**	**38%**	**38%**	The municipality's percentage losses remained well above the norm. Possible causes include illegal connections and unmetered consumption.

The norm is 7% - 10%					
Water Distribution Losses (Percentage) The purpose of this ratio is to determine the percentage loss of potential revenue from water service through kiloliters of water purchased but not sold because of losses. **The norm is 15% - 30%.**	**93%**	**73%**	**73%**	**73%**	The water losses are very high, and this could be due to the following factors: • Unmetered customers. • Some customers not being billed at all.
Revenue Management					
Revenue Growth (%) – measures the growth in revenue year on year. The norm is at the rate of CPI	**-5%**	**14%**	**9%**	**14%**	The **revenue** growth percentage measures the overall revenue growth. The municipality's revenue growth percentage has been negativing for several years but improved in 2018/19 and 2019/20 (but from a low and incomplete base).
Revenue Growth (%) -Excluding Capital Grants Measures the growth in revenue excluding capital grants year on year. **The norm is > 5%.**	**-3%**	**13%**	**15%**	**13%**	**The** ratio results fluctuate year-on-year during the period under review. The ratio drastically improved from -5% to a growth of 15% compared to CPI in 2019/20 (but from a low and incomplete base). The Municipality must develop mechanisms to grow its revenue base. This could be done by considering other avenues of revenue enhancement.
Expenditure Management					
Creditors Payment Period This ratio indicates the average number of days taken for trade creditors to be paid**.** **The norm is 30 days.**	**702 Days**	**830 Days**	**879 Days**	**TBD**	The ratio results declined further from 2018/19 to 2019/20 from 830 days to 879 days. The ratio is well outside the National Treasury norm of 30 days. It is evident from the liquidity ratios as discussed above that the Municipality does not have the required cash flow to keep up with its obligations. The Municipality has certain payment arrangements with some creditors.
Irregular, Fruitless and Wasteful and Unauthorized Expenditure to Total Expenditure – this ratio measures the extent of irregular, fruitless and wasteful and unauthorized expenditure to total expenditure.	**142%**	**157%**	**141%**	**TBD**	The norm set for Irregular, Fruitless and Wasteful and Unauthorized expenditure is 0%. The municipality's ratio for the past three financial years is significantly above the norm. This indicates weaknesses within the municipality's SCM processes

The norm is 0%.					and non-compliance with procurement regulations and guidelines. The municipality must investigate the incurrence of this expenditure in line with applicable legislation.
Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure - Indicates the extent to which expenditure is applied to the payment of personnel. **The norm is 25% - 40%.**	**22%**	**20%**	**19%**	**22%**	The ratio results are below the norm of 25% - 40%. The low % could point to a high level of critical vacancies and general understaffing. Given the liquidity position of the Municipality, it will be wise for the Municipality to control its payroll budget but plan for the acquisition of skills in line with cash flow improvements. The municipality must consider the filling of critical vacancies in line with any new organogram that may be proposed in the recovery process
Contracted Services as a % of Total Operating Expenditure - indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions. **The norm is 2%-5%.**	**5%**	**4%**	**4%**	**5%**	Contracted Services' ratio is within the norm of 2%-5% for all three financial years. The municipality is not over reliant on contracted services to perform municipal related functions.
Budget Implementation					
Capital Budget Implementation Indicator **The norm is 95% to 100%**	**45%**	**76%**	**38%**	**TBD**	The low capital budget performance discrepancies in planning and budgeting, capacity challenges to implement projects and/or SCM process failures, which should be investigated, and corrective measures implemented.
Operating Expenditure Budget Implementation Indicator **The norm is 95% to 100%**	**92%**	**84%**	**140%**	**TBD**	The overspending in 2019/20 indicate inaccurate budgeting or poor financial management budget control.
Operating Revenue Budget Implementation Indicator **The norm is 95% to 100%**	**93%**	**102%**	**84%**	**TBD**	There is a challenge with capacity to implement, ineffective billing and credit control, weakness in compilation of budgets or issues of financial controls and Management of the Municipality.
Billed Revenue Budget Implementation Indicator **The norm is 95% to 100%**	**84%**	**93%**	**83%**	**TBD**	There is a challenge with capacity to implement, ineffective billing and credit control, weakness in compilation of budgets or issues of financial controls and Management of the Municipality.

2.2.4 SERVICE DELIVERY

Lekwa LM is facing inadequate infrastructure development to meet the population growth demand, renewal of the ageing infrastructure and lack of repairs and maintenance. Poor governance and institutional management led to inadequate funding allocation per F/Y and as a result the municipality was unable to upgrade the existing infrastructure to meet the current and future demand. This has resulted in the following which negatively impact the municipal service delivery and well-being of community:

- Inconsistent electricity supply (demand versus supply – low notified maximum demand), non-payment of Eskom debt, aging infrastructure, no meter reading and non-functioning street and traffic lights.
- Inconsistent water provision and aging infrastructure due to poor operations and maintenance; no meter reading, infrastructure operating above design capacity (water treatment plants and pumps).
- Inconsistent sewer provision resulting in spillages and aging infrastructure due to poor operations and maintenance, infrastructure operating above design capacity (wastewater treatment works); untreated or partially treated effluent is discharged to rivers.
- Poor waste collection services.
- Poor fire services delivery.
- Poor road conditions (potholes) due to heavy trucks and poor maintenance.
- No operational maintenance, master plans and asset management plan.
- Misalignment of planning between sector departments in terms of delivery of bulk infrastructure to support new housing development.

<u>Issues identified</u>

REVENUE MANAGEMENT:
• The municipality has an outstanding debt of more than 90-days: -
  ○ Bulk Electricity (Debt of R1 308 865 431 (April:2021))
• The payment arrangements are not in place and need to be in place for the increase of capacity of supply to the municipality (e.g., increase of notified maximum demand depends on payment arrangement with Eskom). The municipality reported electricity losses of 38% in the 2019/20 financial year.
• Not all customers are being billed. The municipality has high losses for water and electricity.
• Water losses must be less than 30% and the municipality reports losses of **73% (2019/20 financial statements)**; while the information is based on the audited financial statements, the municipality obtained a **disclaimer,** and this raises concerns regarding credibility of the information presented.
• There are no cost reflective tariffs. The municipality needs to implement a robust credit control campaign. The focus must be on the top 200 customers within the municipality for both water and electricity. Establish or strengthen existing customer care forum.
• The aim of the forum must be to:
  ○ To educate customers and stakeholders around water related matters.
  ○ To consult customers and stakeholders on tariff matters.
  ○ To create a platform of debate around water related challenges and issues.
  ○ To facilitate the dissemination and sharing of information between various role players in the water services industry.
  ○ To Identify opportunities to increase the effectiveness of the Forum.

- To provide advice and technical support on proposed activities that may impact the water services industry.

WATER:

Existing water infrastructure and challenges faced by LLM:

Lekwa LM has two conventional WTWs which are Morgenzon WTW with 2.7 Ml/d design capacity and extracting raw water from Volvertroue Dam and Standerton WTW which has 37 Ml/d design capacity which extract raw water from Vaal River. Potable water is supply from WTWs through bulk mains to various reservoirs and gravitate to different supply areas for consumption. However, the municipality is facing a lot of infrastructure challenges which have been identified through assessments and are highlighted below:

- Technical water losses are estimated **at 40%,** mainly due to aged infrastructure which result in leakages and lack of infrastructure. **WCWDM is required**.
- **11.8km** of bulk pumping mains are made up of **asbestos cement pipes** and **9.89 km** made up of **steel pipes**. These pipelines experience frequent pipe burst which leads to interrupted water supply to communities and water losses. **Replacement of these pipes is required.**
- Morgenzon WTW has design capacity of 2.7 Ml/d and currently producing 2.2 Ml/d against the required demand of **3.9 Ml/d short term and 10 Ml/d long term. Upgrade of the WTW is required.**
- Inadequate pipeline capacity from Standerton WTW to various reservoirs affect water supply due to lots of offtakes from the mainline. **New dedicated bulk mains are required and existing bulk be used as gravity mains.**
- Some storage reservoirs are old and leaking. **Need to be water tightened and old ones to be upgraded.**
- Newly constructed reservoirs and bulk mains have not been commissioned, **commissioning of the new infrastructure is required.**
- Ageing pipeline infrastructure leads to pipe burst and low hydraulic pressures. **Old infrastructure needs to be renewed**.
- Extension 8 has low residual head; **installation of elevated tank and its booster and electrical supply is required.**
- Lack of reliable water supply in Lekwa LM villages or farms, putting strain of municipal water tankers. **Installation of boreholes/windmills or protection of springs and provision of storage tanks is required.**

STANDERTON WATER INFRASTRUCTURE

Technical water losses are estimated at 40%, mainly due to aged infrastructure which result in leakages and lack of infrastructure.

Raw water supply in Standerton WTW

The raw water consists of two pump stations: Pump station no 1 & 2.

In pump station 1: Of the 5 original pumps, only 3 submersible pumps are operational. In order to augment raw water supply three submersible pumps were installed. However, these pump sets were not sized as duty and standby pumps and all three pumps have to pump 24 hours a day to supply raw water to the treatment works. Two turbine pumping units were installed, and one is in operation, whilst the other requires a soft starter.

In pump station 2, only 1 pumping unit (number 7) is operational. Pumping unit number 8 is in the process to be repaired.

Standerton WTW

- The Standerton Water Treatment Works comprises of two plants, namely a conventional works (30 Ml/d) and a Patterson Candy clarifier (7 Ml/d). The total design capacity of the treatment works is therefore 37 Ml/d. Portions of plant was recently refurbished to improve the filtration by upgrading the sand filters. This process is not completed yet and the contractor has been appointed to upgrade the last two filters. (The two filters have been upgraded and are now operational) The sand media in all the filters needs to be topped up to the required levels to optimize the filtering processes. LLM has procured two raw water turbine pumping units. The turbine pumping units have been installed one duty and one standby.

- A new standby backwash pumping unit has been procured and delivered installed and commissioned.

Standerton Pipeline infrastructure

There are four bulk pumping mains supplying the four reservoir sites.

1. Rising main to Concor

The rising main to Concor does not have off takes that are connected to the distribution network. This is a 300-mm diameter AC pumping main. A field survey conducted of the pumping main indicated that there was only one air valve and one washout valve on the pumping main. This is affecting the hydraulic performance of the pipeline.

The pipeline was designed to deliver up to a maximum of 8.45 Ml/d based on the design capacity of the pumps. Because of the poor condition and hydraulic performance of the rising main the pipeline is currently delivering approximately 5,45 Ml/d.

2. Rising main to Kieser Reservoir

The bulk pipeline to the Kieser Street Reservoirs is a 200-mm diameter galvanized steel which is a dedicated pump line to the reservoirs. The pumping main can deliver up to a maximum of 124,5 m3/h or 2,49 Ml/d at a velocity of 1.1 m/s. There is a possibility that this pipeline will have to be upgraded in the future. Now it is not clear what the demand of the Kieser supply area is. To install flowmeters will give more clarity on the existing demand. This could take three months. In a shorter-term clamp on meters could be used to get the necessary conformation of the demand from the Kieser reservoir.

3. Rising main to New Standerskop Reservoir (Round Reservoirs)

- The 450 mm diameter AC pumping main to the New Standerskop reservoirs has several off takes into the distribution where it passes the Standerton town and the suburbs. Therefore, the bulk rising main acts both as a pumping main as well as the bulk distribution pipe for the area.

- Because of the current configuration, there is an uneven distribution of the potable water supply. The New Standerskop supply area comprises 38 percent of the GAADD which is mainly made up of indigent households who make up 64% of the population.

- What is important to note is that 36% of the consumers in the town, who are medium and high-income earners are guaranteed of a much higher reliability of supply over the consumers supplied from the reservoirs which are mainly in Sakhile township and Standerton extension. There are approximately 13 off takes on the pumping main including a 200mm diameter main off take to Meyerville as well as a 400-mm diameter to Sakhile extension 4.

4. Rising main to Old Standerskop Reservoir (also known as Square Reservoir)

- The 300 mm AC diameter rising main to the old Standerskop reservoir also has off takes into Standerton and the suburbs. However, there is a new 315 mm uPVC dedicated rising main that has been constructed that services the old Standerton Reservoir and the new 10 Ml reservoir. This new pipeline has not been constructed from the WTW to the Old

Standerskop reservoir. There is approximately 1,5 km pipeline outstanding starting at the WTW.

- A newly build round 10 Ml reservoir next to the old Standerskop square reservoir has not been commissioned and is not operational. A new 300 mm diameter pipeline has been built from square reservoir to extension 8 to ensure a sustainable supply. This pipeline constructed by Human Settlements has also not been commissioned and not operational.

Standerton Bulk Pipelines

Description	Pipe Diameter mm	Length m	Material
WTW to Concor Reservoir	300	5400	Asbestos Cement (AC)
WTW to Kieser Street Reservoirs	200	2890	Galvanised Steel (GS)
WTW to Old Standerskop Reservoir	300*	7000	Galvanised Steel (GS)
WTW to Old Standerskop Reservoir*	315	7350	uPVC
WTW to New Standerskop Reservoirs	450	6400	Asbestos Cement (AC)

Standerton Storage Reservoirs

The treated bulk water from Standerton WTW is pumped to four service storage reservoir areas with a total storage capacity of 52.51 Ml.

The Reservoirs are:

- The Concor Reservoir that also includes a high-level tower is in a good operating condition. The balancing of the high-level tower and ground reservoir have to be addressed.
- The two Kieser Reservoirs are the oldest reservoirs which supply the original town. Both the Keiser Reservoirs are old and are leaking.
- The Old Standerskop (Square) reservoir is leaking and need to be lined to stop the leaking. The new round 10 Ml reservoir build next to the old square reservoir.
- There are structural problems with one of the new Standerskop (Round) Reservoirs which is leaking badly. These structural problems have to be attended to, to ensure that the reservoir can be put back into operations without a risk of failing or leaking.

Standerton Storage Infrastructure

Reservoir Name	Capacity Ml	Reservoir	Areas supplied
Concor Reservoir	10	Ground Level	Standerton extension 3 (Flora Park) and 4 (Cosmos Park, Correctional Services and Stanfield Hill & Goldi Chickens)
	0,5	Elevated Tank	Cosmos Low Pressure zone
Kieser Street Reservoir	1,46	Ground Level	Standerton CBD, Main suburbs
	1,55	Ground Level	
Square Reservoir	9	Ground Level	Azalea Ext 1, Park Town, Mahala Park, Standerton Ext 6, 7 and 8, Palama, Mandela Camp, Crossroad, Part of Standerton CBD and Sakhile Ext 2.
	10*	New RC Reservoir	
Round Reservoir	10	Ground Level	Part of Standerton CBD and Ext 6, Meyerville, Industry, Stan West, Sakhile and Sakhile Ext 1, 4 and 6.
	10	Ground Level	
TOTAL	52,51		

MORGENZON WATER INFRASTRUCTURE

Raw water supply in Morgenzon WTW

- The raw water pump station has one pump which is operational, and the pump can only pump 2.2Ml/d instead of 2.7Ml/d to match the WTW capacity.
- There is no standby pump, should the operational pump fail then water supply will be interrupted.

Morgenzon WTW

- The plant capacity is 2.7 Ml/d but is currently supplying 2.2Ml/d. The current supply cannot meet the demand of 2.7Ml/d.
- The raw water receiving tank liner is worn out, **requires urgent replacement**. Flocculation channel requires cleaning urgently.
- Filter sand is not in good condition, **sand need replacement**.
- Standby pump to supply clear water reservoir is not working, and pumps are not maintained.
- Control room is not working, no tests are being done onsite (Turbidity and PH). **Must be restored urgently.**
- The plant flow meters are not in good condition, **need replacement with Magnetic flow meter**.

Morgenzon Bulk Pipelines

- The raw water bulk pipeline **needs to be upgraded** to meet the proposed WTW upgrade.
- Potable water network and pump stations will **need to be upgraded**.
- Gravity mains will also need to be upgraded to match the proposed upgrade of WTW.

Morgenzon Storage

- Clear water storage reservoir/s cannot meet the 48-hour storage, **additional storage required.**

- The clear water reservoir is leaking, **it requires attention to stop leakages.**

Morgenzon Storage Reservoirs

Reservoir Name	Capacity (ML)	Reservoir	Areas supplied
Morgenzon Reservoir	2.2	Ground Level	Morgenzon & Sivukile
	0.5	Elevated Tank	High School
Total Storage Capacity	**2.7 ML**		

SANITATION

Lekwa LM has two WWTWs, one is Morgenzon WWTW with design capacity of 0.2Ml/d servicing Morgenzon; and Standerton WWTW which has a design capacity of 11 Ml/d servicing Standerton and surrounding areas. The WWTWs receives influent through sewer gravity mains and pumping mains. The municipality is facing sewer spillages in residential areas and in the pump stations which are nonfunctional.

1. The Standerton WWTW has a total design capacity of 11Ml/d made of activated sludge system with a design capacity of 9Ml/d and the Biological (trickling) filters with design capacity of 2ML/d. However, only 9Ml/d system is working while the 2Ml/d system is not working. The plant capacity cannot treat the influent discharged from the whole town, as a result partial treated sewer is discharged to Vaal River. Upgrade of the Standerton WWTW to 30Ml/d is required urgently.

2. The Morgenzon WWTW has a design capacity of 0.2Ml/d pond old system, the ponds hardly de-sludged and cannot meet the current population growth. An upgrade of Morgenzon WWTW to 5 Ml/d is required.

3. Non-functional sewer pump stations in Standerton, Sakhile and Morgenzon which leads to sewer spillages.

4. Rooikopen sewer network has insufficient which leads to sewer spillages. **Upgrade of Rooikoppen sewer network is required**.

5. Incomplete sewer infrastructure in Extension 8 leads to sewer spillages, **assessment, completion of outstanding works and commissioning of the existing infrastructure is required**.

STANDERTON SEWER INFRASTRUCTURE

Sewer Network

- Existing sewer network capacity in Rooikoppen is in insufficient and requires upgrade to eradicate sewer spillages.

- Old sewer infrastructure in Standerton, Sakhile and Morgenzon requires upgrade to meet the current and future influent conveyance.

- Various Pump stations are not functioning, sewer is spilling to the Vaal River. Refurbishment/upgrade is required.
- Extension 8 has incomplete infrastructure which has not been commissioned either linked to the existing bulk sewer infrastructure and is resulting in sewer spillages. DoHS has completed assessment and costed the outstanding works, currently doing two pump stations.
- Standerton is facing lots of sewer challenges due to ageing infrastructure which results in pipe bursts, blockages, and sewer spillages and as a result of poor workmanship from previous interventions.

Identified Sewer Hot spots in Standerton

1. Rooikoppen

Lekwa LM appointed a consultant to carry out assessment and findings were:

- Vandalism
- Sewer network hydraulic design problem inadequate pipelines capacity
- Persistent pipe blockages, Sewage flows in the streets posing a health risk to the community of Sakhile Extension 4
- The overflowing sewage flows into the nearby Vaal River where it is an active pollutant and non-functioning pump stations 1 and 2
- **Pump station number 3 is under construction (upgrade) and anticipated completion in June 2020.**
- **GSDM has been appointed as an implementing agent to upgrade Rooikoppen sewer network for a project phased over 3 years, with the contractor expected to start in May 2020.**

2. Standerton pump stations

- Vandalism
- Deposit of foreign objects to the sewer system.
- Theft of pump components.
- Flushing of untreated commercial liquids by businesses into the sewer lines.
- Damaged pump motors, faulty electric panel, pumps and motor flooded.
- Incapacitated pumps to meet population growth and Aging infrastructure.
- **The TR was submitted to DWS and has been approved, refurbishment to start in May 2020.**
- **Due to limited MIG budget allocation, amount allocated will not be enough for the refurbishment/upgrade of all identified pump stations concurrently. Sewer spillages will not be total eradicated. More funding is required.**

3. Extension 8

- Extension 8 comprise sewer reticulation which is incomplete and never commissioned neither linked to the existing bulk sewer.

- Ongoing construction of two sewer pump stations funded by DoHS which require linkage pipes to function.
- The existing scenario is not conveying sewer from the area, instead sewer is being transported by honey sucker and there is a sewer spillages in the area.
- **DoHS has appointed Abaziyo Consulting to conduct an assessment, which has been completed and a report has been submitted. Outstanding work has been identified and costed as below:**
    1. Completing/refurbishing existing infrastructure to acceptable engineering standards.
    2. Linking two pump stations currently under construction.
- **No budget has been availed to implement the above-mentioned projects; sewer spillage will still be a problem pending implementation of these proposed interventions.**

Standerton WWTW

- The Standerton WWTW activated sludge system with a design capacity of 9ML per day was constructed in two phases (Phase 1 constructed in 1970 and phase 2 in 1986). **(Operational)**
- The Biological (trickling) filters with design capacity of 2ML per day was constructed in 1950. **(Not operational)**
- With a Water treatment Works of 37 Ml/d, the WWTW of 9 Ml/d are too small to treat all the waterborne sewage in the Standerton Town Area. With the whole area of the town having waterborne sanitation, it is estimated that 60% of the water use will return as sanitation. Therefore it is estimated that at least 23 Ml/day will flow back into the WWTW. A WWTW with a capacity of 9 Ml/d, even if it is 100% operational, cannot treat a flow that is 256% over the design capacity of the works.
- Lekwa LM has recently completed refurbishment of WWTW to be able to treat 9 Ml/d. This will not resolve the spill of raw sewage into the Vaal River, as the inflow into the plant is too high for the plant to treat.
- At the moment the estimated flow is already 23 Ml/d and if future development is taken into account, at least a 30 Ml/d WWTW is required in Standerton.

MORGENZON SEWER INFRASTRUCTURE

Sewer network

- Sewer bulk pipelines will need to be upgraded to meet the proposed upgrade of the WWTW.

Sewer pump stations

- The sewer pump station is operational but requires refurbishment/upgrade and repair of the standby booster pump.

Morgenzon WWTW

The Morgenzon pond system designed to treat 0.2ML per day was constructed in 1950. The WWTW needs to be upgraded to at least 2.5Ml/d and 5Ml/d in future to meet the area population growth.

SECURITY AND LOSS CONTROL

One of the challenges identified in the municipality is that a number of assets had been vandalized due to poor protection and access control. There is no system in place to control access to infrastructure and there is also no means of identifying who the last person(s) was to access on work on a facility. While there are security personnel on some facilities others do not have.

ELECTRICITY:

Electricity losses for the past financial year amounted to **38%** (2019/20 Financial Statements).

The current debt is R1 308 865 431 (April:2021).

Municipality must pay its monthly current accounts in full and on time.

Eskom has stated that the NMD increase application is subject to the municipality entering into a new Pre-payment agreement and payment of current accounts in full plus on time.

Municipality has also been requested to make upfront payment which should cover an average of 3(three) monthly accounts. The amount is estimated around R94m.

The agreement will be structured to take into account the Court Order of 03 May 2017 in which 3 customers pay directly to Eskom as well as the payment of 15 % Equitable share on the applicable months.

The Municipality will submit a reasonable Repayment Agreement Plan on the arrear debt for Eskom's consideration. Once the above conditions are met, Eskom will prepare a cost estimate fee letter (CEF) on the municipality's request to increase its Notified Maximum Demand (NMD).

In Lekwa the Municipality is supplying electricity in Standerton and Sakhile, whilst Eskom is directly supplying the houses in Morgenzon, whilst the municipality need to buy electricity from Eskom in Morgenzon for street lighting. From a financial point of view this is not a feasible business model which needs to be re-evaluated. Since the electricity supply in Morgenzon is currently the responsibility of ESKOM and the Lekwa LM is only an end user this section will only concentrate on the provision of electricity in the Standerton / Sakhile area.
The electricity network consists of three major components viz:

- 33 000-volt supply from ESKOM
- 11 000-volt reticulation in Standerton and Sakhile
- Low voltage reticulation

The 33 000 high voltage system consists of the four substations.

- Lekwa Substation A is the main intake point from ESKOM with two intake supply points. This substation has four 33/11kV transformers. Two 20 MVA transformers were initially installed and at a later stage two additional 10MVA transformers were installed to supply Standerton Extension 8. Substation B, C and Sakhile is fed from Substation A.
- Substation B is supplied from Substation A with two 33kV supply lines. In the substation is two 20 MVA 33/11 kV transformers and a 11kV/400Volt auxiliary transformer.

- Substation C is also supplied from Substation A with two 33kV supply lines. In the substation is two 20 MVA 33/11 kV transformers and a 11kV/400Volt auxiliary transformer.
- The Sakhile substation is only a receiving substation been supplied with two 11KV overhead lines. It is planned to add a further 11kV line to this substation to serve Sakhile extension 4 (Rooikoppen).

From the four main substations is an electrical distribution network feeding 191 11kV/400V mini substations through Standerton and Sakhile. These mini substations feed various end users in town. Certain stands in Standerton have electricity meters, whilst others are charged a flat rate. The Municipality have embarked on a prepaid smart meter system on two occasions, where a private firm replaced old conventional meters with prepaid meters, which remained the private company's property he also took the responsibility to sell electricity. On both occasions the standards of the service provider did not meet the general public's expectations and the municipality had no control on how much electricity were consumed. In the end large residents started bypassing the meters which led to a decline in revenue. This led to a third endeavour where the Municipality bought 3 000 smart meters. However, the Municipality does not have the software or expertise to manage such a system and as a result they have not started to deploy it.

The Municipality is currently facing challenges associated with an ageing electrical grid, under maintenance of infrastructure as well as failure to upgrade both its bulk and reticulation networks. The Municipality is also affected by widespread illegal connections, tampering of electricity meters as well as vandalism of switch gear and unsafe working conditions in sub-stations.

More than 20 traffic lights were non-functional within Lekwa LM due to broken control boxes. Streetlights and high mast lights are also non-functional due to dilapidated electrical infrastructure.

This has resulted in high electricity distribution losses averaging just above *32%* for the last three financial years, and regular electricity outages, which have affected business operations in the Municipality.

Lekwa LM's poor financial position has resulted in the Municipality failing to pay for bulk electricity purchases from Eskom with the outstanding bill standing at just above R800 million and rising due to interest. Penalties charged by Eskom due to the Municipality exceeding its Notified Maximum Demand also added to the Municipality's financial woes.

The NMD is currently peaking at 55 MVA and is expected to rise to over 80 MVA over the next 3 years. ESKOM has indicated that they can upgrade the system to 80 MVA by 2021 at no cost to the Municipality. It is apparent that if the Municipality is to turn around the fortunes of its electrical services business, it must urgently stop the haemorrhaging of potential revenue due to high distribution losses as well as find a sustainable way of servicing its debt with Eskom.

On the electrical side it is recommended that the municipality appoints a professional service provider to develop a comprehensive service delivery master plan taking cognisance of the proposed new developments contained in the spatial development plan. Once this is done the bulk contribution should be renegotiated with ESKOM including a possible arrangement to take over the Morgenzon distribution. The next step will be to upgrade the 33 000-volt system and install bulk meters, followed by upgrading the 11 000-volt distribution, 400 Volt / three phase reticulation up to the 220 volt single phase connections to the end users who are provided with pre-paid smart meters. Whilst the system is upgraded mass meters should be coupled in the substations to monitor the combined consumption by the end users in each receiving cell with the energy flow from the mini substation. Such a system will send out a warning to the Electricity Department when anybody tampers with a meter or if the consumption at any user suddenly declines lower than the anticipated bandwidth of the consumption one would expect from such a user. This will ensure that the Municipality turn around the electricity from a current loss to a profitable business concern which can cross subsidize other non-revenue generating activities in the Municipality.

ROADS AND STORMWATER:

The Municipality is responsible for total 423 km of roads. Under maintenance of the infrastructure as well as absence of updated roads and storm water sector plans have resulted in the deterioration of the Municipality's roads with potholes and flooding of properties due to blocked or inadequate storm water systems being widespread within the Municipality. Some roads have deteriorated beyond sustainable maintenance levels due to the higher-than-normal service loading that the roads are subjected to as a result of higher-than-normal E80 traffic imposed by vehicles stemming from the surrounding industries within the Municipality.

In TRH 26 published by COTO the South African Commission of Transport Officials the roles and responsibilities of various organs of State regarding various roads are spelled out. Based on this classification Local Municipalities should only be responsible for Class 5 (Local Streets and roads) and 6 (walkways and tracks), whereas Class 1 roads (Principal Arterials) fall under National Government, Class 2 (Major Arterials), is Provincial Government's responsibility although a large number of these roads have been transferred to SANRAL and Class 4 collector streets and tracks are the responsibility of District Municipalities. In this regard it is recommended that the Local Municipality enters into discussions with these organs of State and ensure that each organ excepts responsibility for the roads / streets in terms of this classification. A roads master plan should also be drawn up as well as a pavement management system and the municipality should ensure that they budget adequately to open storm water drainage and subsurface drainage systems and carry out preventative maintenance rather than wait until a road has degraded to a state where it needs to be reconstructed.

FIRE SERVICES:

Lekwa LM is in violation of the Fire Brigade Services Act no 99 of 1987 which clearly states that a municipality has a legal duty to provide fire-fighting services and equipment in order to protect residents and assets from fires.

- Limited number of fire trucks.
- No fire-fighting equipment.
- It is unclear if the fire hydrants are in a good and working condition.
- Poor enforcement of national fire code on buildings.
- Fire tariffs are not cost reflective and possibly not applied consistently.

CAPITAL EXPENDITURE:

Conditional grant expenditure - Under/(Over) – NT figure

Local Municipal Area	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Lekwa	11.4%	54.1%	(33.6%)	(19.3%)	36.2%	-

The municipality has had an inconsistent pattern of expenditure of conditional grants. There is a challenge with the capacity in the Project Management Unit of the municipality. Supply chain committees also have a negative impact on conditional grant performance and expenditure.

FLEET MANAGEMENT:

- The municipality requires fleet to deal with landfill site management.
- Dilapidated yellow fleet always idling at the workshop awaiting repairs.
- Insufficient waste collection vehicles to extend services to rural areas.

- Inadequate fuel management systems.
- Inadequate fleet management systems in place.
- The municipality requires vehicles to be able to deal service delivery.

GOVERNANCE AND INSTUTIONAL ARRANGEMENT ON SERVICE DELIVERY UNITS:

It has been reported by the Infrastructure Head of Technical Services of the district that the infrastructure department of the Lekwa LM has a high vacancy rate and there are not enough workers to ensure proper execution of service delivery within the local municipality. It has also been reported that there is vacancy rate of 80% in the technical services and service delivery unit.

MASTERPLANS, POLICIES AND BY-LAWS:

- The municipality needs to have number of Masterplans, policies, and by-laws in place. The municipality needs to have all the relevant by-laws in place, including fines for enforcement of the by-laws. The key plans with associated policies and by-laws that need to be in place are:
  - Integrated Infrastructure Asset Management Plan
  - Water and Sanitation Master Plan
  - Water Service Delivery Plan
  - Water Conservation and Water Demand Mgmt. Plan
  - Fleet Management Plan
  - Roads and Stormwater Plan
  - Integrated Transport Plan
  - Integrated Waste Management Plan

WASTE MANAGEMENT

Lekwa LM's has one landfill site in Standerton. The landfill site in Morgenzon has exceeded its capacity and have been closed. In terms of the permit this site needs to be rehabilitated by the 29th of September 2019. The estimated cost to rehabilitate the old site is estimated at R 8 million. The Municipality does not have the funds or budgeted to rehabilitate it. The Municipality applied for an extension to this date, but the Department of Environmental Affairs requires a financial guarantee that funds are available for the rehabilitation before they are prepared to grant an extension to the cut-off date. Solid Waste from Morgenzon is transported by truck over a distance of 39 km to the Standerton land fill site.

The Standerton land fill site is not operated in terms of its license requirements due to financial constraints. The site is not fenced, and waste is not compacted or covered. The reason for the above is that they do not have a compactor and need to buy material to cover the waste.

The Municipality have three refuse collection trucks which are fairly new, still under guarantee plus two being sponsored by the Seriti Mine as part of the mine's social responsibility program. Staff in the refuse removal section need to work in shifts, seven days per week due to the shortage of compactor collection trucks. The first shift starts at 5:00 in the morning till 12:00 midday and the second shift are from 12:00 till 17:00. If the shift system needs to be abolished and a five-day working week is implemented the Municipality will need to purchase an additional nine compactor collector trucks, plus one truck as backup to make provision that these trucks can be serviced from time to time and the probability that a truck may fail.

A major concern from the workers side is the fact that the Municipality has a ceiling of a maximum of 45 hours paid overtime which is too little for them to clean the area. In this regard additional staff should be recruited to reduce the excessive overtime. Staff normally receives new protective clothing in August each year and the Municipality was not in a position to provide it this year.

Rates for refuse removal at residential and business stands needs to be confirmed as in line with acceptable tariffs to cover at least the cost to provide the service. Private dumping at landfill sites is not monitored or charged. This accounts for revenue loss and misuse of the landfill sites as there is no control or security at the Standerton landfill site. In determining tariffs for the above the potential that residents could dump refuse elsewhere to be cleaned up by the Municipality should also be considered.

PLANNING AND DEVELOPMENT

There is a need for Lekwa Local Municipality to develop a new Spatial Development Framework (SDF) for its area of jurisdiction in line with the Spatial Planning and Land Use Management Act of 2013. The Municipality is presently faced with a variety of outdated legislation and policies dealing with Spatial Planning and Land Use Management to redress fragmented, scattered and past spatial imbalances.

The MSA (Municipal System Act) requires that each municipality must prepare and IDP including a Spatial Development Framework. In terms of Chapter 5 Section 26 (e), this Framework must include basic guidelines for a Land Use Management System that will apply to the whole municipality. The SDF validity horizon comes to an end in 2021. The town planning department has a manager in place. The position of the town planner and the building inspector are currently vacant. The municipality is currently using the shared service of the Gert Sibande's Municipal Planning Tribunal. Land Use Management Strategy was adopted in 2020. The land use audit is in progress in the 2021/22 financial year. Township establishment is a challenge due to infrastructure backlogs.

The municipality has seven precincts which require precinct plans to be developed. The municipality has established the Geographic Information Systems (GIS) department. A GIS officer has been hired and the GIS system has been procured, there is a need for training and increased capacitation of the department.

The local economic development (LED) strategy is in place, but it is outdated. The municipality is in the process of advertising a bid to secure a service provider to update the LED strategy.
The municipality has completed the process of profiling its tourism assets. The municipality needs to develop a tourism strategy to market its tourism assets.

The municipality has indicated that the is extensive by-law violation and there is no capacity to enforce by-law compliance.

The municipality's previous council adopted a resolution that no development proposal must be considered due to infrastructure backlogs.

The municipality has a challenge with land invasion. The municipality is in the process of developing a land invasion policy to deal with this challenge. The municipality is also in the process of appointing a service provider to develop a Housing Sector Plan.

The municipality applied for level 1 accreditation from the Department of Human Settlements, but no response has been received to date. The municipality still aspires to be considered for such accreditation. The municipality has rental stock of 34 units and is currently having 60 units which are still under development. The municipality is experiencing challenges with the collection of rentals. The municipality contracted the Govan Mbeki Housing Company as a managing agent, however, there are no funds that have been paid over to the municipality by the housing company. The municipality aspires to build internal capacity to be able to collect rentals on its own.

PART THREE:

3.1 PHASE 1: MUNICIPAL RESCUE PHASE

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

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

The phase is expected to last between 8 to 12 months. A few critical, high level indicators have been selected to guide this phase of the recovery plan. Progress on meeting these indicators will be monitored monthly by the Oversight and Monitoring Committee (or the working group if monthly monitoring is delegated to them) as well as the Implementation Team. The Oversight and Monitoring Committee can also approve updating of the targets as implementation of the plan progresses.

The 6 high level indicators selected for this Phase are:

- Progress towards a Funded Budget
- Daily Cash and Cash Balances
- Cost Containment
- Debtors Collection Rate
- Payment of Creditors
- Ring-fencing of Conditional Grants.

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

LEKWA LOCAL MUNICIPALITY

PHASE 1, 2 and 3: BUDGET PARAMETERSFINANCIAL TARGETS:

NO	PERFORMANCE AREA	ASSUMPTION/ BUDGET PARAMETER	2021/22FY BUDGET TARGET	2022/23FY BUDGET TARGET	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET
1	Property Rates Targets	Revenue Management Value Chain efficiencies Valuation roll reconciled with billing system monthly Ensure accurate tariffing on financial system	Valuation Roll reconciled with Billing System (calculated tariff for CPI adjustment) 80% of Budget is realistic	2021/22 Budget + CPI +growth CPI (4%) + Growth (1,5%) + complete billing (4,5%) = 10% Increase	2022/23 Budget + CPI +growth CPI (4%) + Growth (1,5%) = 5,5% Increase	2023/24 Budget + CPI +growth CPI (4%) + Growth (1,5%) = 5,5% Increase
2	Service Charges Targets	Revenue Management Value Chain efficiencies in line with FRP Implementation Plan	Recalculated per approved Budget Funding Plan 10% increase from: – Increased metering – Improved data integrity and billing – Solving illegal connections	2021/22 + CPI + Growth (in accordance with consumer demand and revised tariff structure and levels) 25% increase from: – Increased metering – Phased in cost reflective tariffs – CPI – Improved data integrity and billing – Solving illegal connections	2022/23 + CPI + Growth (in accordance with consumer demand and revised tariff structure and levels) 25% increase from: – Increased metering – Phased in cost reflective tariffs – CPI – Improved data integrity and billing – Solving illegal connections	2023/24 + CPI + Growth (in accordance with consumer demand and revised tariff structure and levels) 25% increase from: – Increased metering – Phased in cost reflective tariffs – CPI – Improved data integrity and billing – Solving illegal connections
3	Unbilled consumption	**Baseline:** Calculated water and electricity balance breakdown per FRP Phase 1 activity	10% reduction in unbilled consumption	10% reduction in unbilled consumption	10% reduction in unbilled consumption	10% reduction in unbilled consumption
4	Traffic Fines	Improved efficiencies per approved Budget Funding Plan	Per approved Budget Funding Plan	Per approved Budget Funding Plan	Per approved Budget Funding Plan	Per approved Budget Funding Plan
5	Operating Expenditure Targets	**Employee Cost:** $< 30\%\ of\ OPEX$ **Councillor REM:** 100% per Gazetted	Per approved Budget Parameter	Per approved Budget Parameter	Per approved Budget Parameter	Per approved Budget Parameter

NO	PERFORMANCE AREA	ASSUMPTION/ BUDGET PARAMETER	2021/22FY BUDGET TARGET	2022/23FY BUDGET TARGET	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET
		maximums, subject to FRP Progress **Depreciation:** 100% per GRAP 17 Standard **Debt Impairment:** 100% of billed revenue **minus** Budgeted Collection Rate **Contracted Services:** $< 5\%\ of\ OPEX$(2021/22), 5% (2022/23), 5% (2023/24), 5% (2024/25) **Other: BFP Parameters**				
6	Cash/ Bank Balances	Adherence to approved Budget	In line with approved Budget Funding Plan	Targeted ratios: ▪ Cash Coverage: 1 Month ▪ Current Ratio: 0.8:1 (Norm = 1.5:2.1)	Targeted ratios: ▪ Cash Coverage: 1,5 Months ▪ Current Ratio: 0.9:1 (Norm = 1.5:2.1)	Targeted ratios: ▪ Cash Coverage: 2 Month ▪ Current Ratio: 1:1 (Norm = 1.5:2.1)
7	Consumer debtor's collection rate	Adherence to approved Budget	Per approved Budget Funding Plan	78%	85%	90%
8	Government debtor's payment plan	Adherence to payment plan	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement
9	Creditor's payment plan	Adherence to payment plan	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement
10	Ring-fencing of Conditional Grants	Adherence to SOPs 100% Cash-backed	All bank accounts and sub-account balances reported on monthly			
11	Repair and Maintenance Budget allocation	National Treasury Norm = 8% of OPEX	Per approved Budget Funding Plan	3% of OPEX	5% of OPEX	8% of OPEX
12	Cost-containment		Maintain savings from 2021/22 BFP and ensure full compliance with regulations + further savings	Maintain savings from 2022/23 BFP and ensure full compliance with regulations + further savings	Maintain savings from 2023/24 BFP and ensure full compliance with regulations + further savings	Maintain savings from 2024/25 BFP and ensure full compliance with regulations + further savings

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A financial forecasting model has been developed to set financial targets for the Lekwa FRP over the MTREF period. The financial model escalation formulas used an average annual inflation rate of 4% and local growth of 1,5% per annum over the recovery period. Grounded on adherence to the above budget parameters, it is anticipated that the municipality will progressively move towards a position of improved financial sustainability over the 3-year period as illustrated in the table below. If key operational efficiencies are achieved in line with FRP Implementation Plan, it could be expected that the projected cash shortfall of R2,2 million at the end of the 2020/21 Financial Year will reduce to a cash shortfall of R1,6 billion at the end of the 2022/23 Financial Year, whereafter the cash position will likely improve to a cash shortfall of R1,1 billion at the end of the 2023/24 Financial Year. The net increase in cash hold could improve with R20 million in 2022/23 and R260 million in 2023/24. If these positive trends could be achieved and sustained, it could realistically be expected that it will take the municipality a period of 5-6 years to move to a fully cash-backed funding position.

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

Financial forecasting model for implementation of the Lekwa Financial Recovery Plan

BUDGET ITEM	2019/20 AFS AUDITED R'000	2020/21 BUDGET FORECAST R'000	2021/22 MTREF BUDGET R'000	TARGETS: 2021/22 MTREF BUDGET R'000	TARGETS: 2022/23 MTREF BUDGET R'000	TARGETS: 2023/24 MTREF BUDGET R'000
Property Rates	98 385	187 768	179 005	143 204	157 525	166 189
Electricity	302 992	403 534	465 516	512 067	640 084	800 105
Water Revenue	80 015	98 660	94 076	103 484	129 355	161 693
Sanitation Revenue	34 660	74 700	71 214	78 336	86 169	94 786
Refuse Revenue	23 602	68 286	65 513	72 064	79 271	87 198
Interest: Debtors	53 966	56 262	53 637	53 637	59 000	64 900
Investment Revenue	1 978	528	654	654	719	791
Operational Grants	119 689	152 577	141 569	141 569	148 809	149 721
Fines & Penalties	3 023	522	550	550	688	859
Other Revenue	2 744	3 801	4 573	4 573	5 030	5 533
Total Operational Revenue	**721 055**	**1 046 640**	**1 076 307**	**1 110 138**	**1 306 649**	**1 531 775**
Employee Cost	238 058	228 893	247 018	247 018	256 898	267 174
Remuneration of Councillors	20 883	13 091	12 663	7 387	14 284	14 870
Depreciation and impairment	87 252	85 063	85 588	85 588	89 011	92 572
Debt Impairment	189 237	43 812	67 594	200 014	163 861	130 997
Finance Charges	119 983	69 552	42 758	42 758	44 306	42 918
Bulk Purchases/ Inventory consumed	373 112	475 469	477 135	477 135	476 775	494 916
Contracted Services	67 780	97 532	104 282	78 212	81 340	84 594
Other expenditure	122 094	63 113	60 739	48 591	49 563	50 554
Total Operational Expenditure	**1 218 399**	**1 076 526**	**1 097 777**	**1 186 703**	**1 176 039**	**1 178 596**
Surplus/ (Deficit)	**(497 344)**	**(29 886)**	**(21 470)**	**(76 565)**	**130 610**	**353 180**

BUDGET ITEM	2019/20 AFS AUDITED R'000	2020/21 BUDGET FORECAST R'000	2021/22 MTREF BUDGET R'000	TARGETS: 2021/22 MTREF BUDGET R'000	TARGETS: 2022/23 MTREF BUDGET R'000	TARGETS: 2023/24 MTREF BUDGET R'000
SCHEDULE A8: Cash and Investments available						
Cash Equivalents at year end	43 107	(240 372)	(547 103)	(433 126)	(413 504)	(152 882)
Total	**43 107**	**(240 372)**	**(547 103)**	**(433 126)**	**(413 504)**	**(152 882)**
Application of Cash and Investments						
Unspent Conditional Grants	(1 776)	(2 000)	(1 776)			
Working Capital Requirements (Debtors minus creditors)	(1 633 582)	(1 627 325)	(1 667 332)	(1 420 755)	(1 213 856)	(1 006 613)
Other provisions	(4 555)	(4 555)	(4 555)	(4 555)	(4 555)	(4 555)
Total	**(1 639 914)**	**(1 633 880)**	**(1 673 664)**	**(1 425 310)**	**(1 218 411)**	**(1 011 168)**
Surplus/ (Shortfall)	**(1 596 807)**	**(1 874 252)**	**(2 220 766)**	**(1 858 436)**	**(1 631 915)**	**(1 164 049)**
Increase in net cash	30 662	(283 479)	(306 731)	(192 754)	19 622	260 622

SERVICE DELIVERY AND GOVERNANCE (RESCUE PHASE):

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

- Implement cost cutting measures.
- Continue implementing processes related to the approved organisational structure and contract appointments.
- Limit appointment of non-critical staff appointments and contract appointments.
- Improve community consultation.
- Prioritise the repair of all visible water losses and sewer spillages and respond to any breaks in services.
- Prioritise collection on all current and outstanding accounts.
- Apply all permissible and reasonable debt collection mechanisms available to the municipality.
- Ensure that grants are ring-fenced, cash-backed, and spent timeously.
- Ensure that Eskom accounts are paid as per arrangement.
- Conclude payment agreements and/or write-offs for amounts owed to creditors.
- Prioritize compliance with all environmental requirements for the landfill sites.
- Prioritize effective models for acquiring skilled human resources to ensure that the plan can be executed.
- Prioritize using correct fleet for waste collection to ensure compliance with health and safety requirements.
- Perform all repairs on streetlighting.
- Undertake road maintenance by focusing on the fixing of potholes, curbside maintenance, and other visible issues.
- Ensure that governance and oversight committees are appropriately constituted, functional and that their capacity is strengthened.
- Review the system of delegations and ensure that an interim delegation framework to support this financial recovery plan is in place.
- Ensure that an audit committee is established to deal with the issues raised by the Auditor-General.
- Prioritise all litigation matters and update the litigation register.
- Establish a disciplinary board to investigate and deal with issues of maladministration and fraud.

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

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

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

The expectation is that during this phase, the municipality needs to develop and approve all infrastructure plans, including but not limited to Integrated Infrastructure Asset Management Plan, Electricity Master Plan (incl. Electrification Plan), Water and Sanitation Master Plan, Water Service Delivery Plan, Water Conservation and Water Demand Management Plan, Fleet Management Plan, Roads and Stormwater Plan, Integrated Transport Plan, Integrated Waste Management Plan and the Human Settlements Plan. The municipality also needs to ensure that there is 100% expenditure on all grants. The municipality must ensure that all SCM and HR policies are complied with and limited unauthorized, irregular and fruitless and wasteful expenditure is incurred. The municipality needs to fully develop realistic maintenance and repair plans and execute on these plans. The municipality must continue to make payments to Eskom until the account is fully up to date.

The Oversight Committee will recommend when it is appropriate for the implementation for the FRP to move from phase 1 to phase 2. The National Treasury's MFRS unit will be asked to confirm that they agree with this assessment. At this point, it may also be necessary to update the details of the activities and targets for the second phase of the FRP. The table below sets out targets for the first six months of this phase, further targets for the rest of the phase will need to be approved by the Oversight Committee.

SERVICE DELIVERY, INSTITUTIONAL INDICATORS AND GOVERNANCE (STABILISATION/RECOVERY PHASE):

To support the achievement of the financial recovery plan and the targets specified for Phase 2, it is recommended that Municipality and, if applicable, the Provincial Intervention Team focus on the following service delivery, institutional and governance issues:

- Implement further cost cutting measures.
- Prioritise the repair of all visible water losses.
- Prioritise collection on all current and outstanding accounts.
- Apply all permissible and reasonable debt collection mechanisms available to the municipality.
- Ensure that grants are ring-fenced and spent timeously.
- Ensure that Eskom accounts are paid as per arrangement.

- Prioritize compliance with all environmental requirements for the landfill sites.
- Prioritize effective models for acquiring skilled human resources to ensure that the plan can be executed.
- Design fit for purpose organogram and implement the redesigned organogram.
- Limit appointment of non-critical staff appointments and contract appointments until fit for purpose organogram is implemented.
- Prioritize using correct fleet for waste collection to ensure compliance with health and safety requirements.
- Perform all repairs on streetlighting.
- Perform repairs on all visible sewerage spillages within the reticulation network.
- Undertake road maintenance.
- Undertake urgent repairs to other municipal infrastructure.
- Identity and plan for additional municipal infrastructure investment needs.

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

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

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

PART FOUR:

4.1 MONTHLY REPORTING ON ACHIEVEMENT OF TARGETS: LEKWA MUNICIPALITY

COMPREHENSIVE SCHEDULE OF REPORTING AND COMMITTEEE MEETING DATES:

No	Report for month OF	Report due from Administrator/ Intervention Team ON	NT/CoGTA Progress Discussion Meeting ON	Report considered by Technical War Room ON	Considered by Political Oversight Committee ON
1	**July 2021**	03 August 2021	06 August 2021	11 August 2021	12 August 2021
2	**August 2021**	31 August 2021	03 September 2021	08 September 2021	13 September 2021
3	**September 2021**	30 September 2021	04 October 2021	08 October 2021	13 October 2021
4	**October 2021**	31 October 2021	04 November 2021	09 November 2021	15 November 2021
5	**November 2021**	30 November 2021	03 December 2021	08 December 2021	13 December 2021
6	**December 2021**	31 December 2022	07 January 2022	12 January 2022	14 January 2022
7	**January 2022**	31 January 2022	04 February 2022	09 February 2022	15 February 2022
8	**February 2022**	28 February 2022	04 March 2022	09 March 2022	15 March 2022
9	**March 2022**	31 March 2022	05 April 2022	08 April 2022	14 April 2022
10	**April 2022**	30 April 2022	04 May 2022	09 May 2022	13 May 2022
11	**May 2022**	31 May 2022	03 June 2022	09 June 2022	14 June 2022
12	**June 2022**	30 June 2022	05 July 2022	08 July 2022	14 July 2022

PART FIVE:

5.1 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 basis to develop a progress reporting dashboard with the following fields:

(Example only for illustrative purposes)

PER FRP IMPLEMENTATION PLAN:	INFORMATION:
Phase	Financial Rescue
Pillar	Service Delivery
Key Activity	▪ Prioritise the development, financing, and implementation of a proper programme to address technical water losses. ▪ Properly determine the fundamental reasons for commercial water losses (i.e., non-payment) ▪ Develop a plan to address the reasons. ▪ Make key interventions to address the reasons.
Problem Statement	42% water losses (technical and commercial)
Responsible	Technical Director
Start Date	October 2021
End Date	March 2022
Key Performance Indicator	5% reduction per annum
Financial Target	R50 Million per annum
Progress Report by Municipality:	
Steps taken	
Progress made	
Financial impact recorded	
Other noteworthy developments	

5.2 CONCLUSION: STRATEGIC ASSESSMENT AND CORRECTIVE ACTIONS AS REQUIRED:

(Please provide some concluding text with a strategic perspective on the position and progress of the financial recovery programme to the end of the relevant month, and also envisaged next steps to ensure achievement of programme goals.)

PART SIX:

6.1 RECOMMENDATIONS

It is recommended that:

6.1.1 The Lekwa LM Mandatory Financial Recovery Plan be submitted to the Minister of Finance for approval in terms of Section 143(2) of the MFMA.

6.1.2 The Mpumalanga Provincial Support Package for Lekwa LM be aligned with the priorities as set out in Phase 1: Financial Rescue.

6.1.3 An Oversight and Monitoring Committee be established to direct the intervention, monitor progress, and unblock any political challenges that may hinder the success of this intervention.

6.1.4 A Technical Intervention Team be assembled to constitute a Technical War Room (together with senior officials) that must drive implementation and provide written reports to the Oversight and Monitoring Committee.

6.1.5The Administrator drafts an internal and external communication plan to support effective communication throughout the intervention.

ANNEXURE A: FRP IMPLEMENTATION PLAN

(The FRP Implementation Plan identified the root causes of the financial problems and provide for the strategies and accompanied corrective actions with set timeframes and responsibilities. The data fields are following the FRP criteria as set out in Section 142 of the MFMA)