

# ENOCH MGIJIMA LOCAL MUNICIPALITY

## FINANCIAL RECOVERY PLAN (FRP)

### SECTION 139(7) NATIONAL INTERVENTION

**DECEMBER 2022**



ENOCH MGIJIMA  
LOCAL MUNICIPALITY



cooperative governance  
& traditional affairs  
Department:  
Cooperative Governance and Traditional Affairs  
REPUBLIC OF SOUTH AFRICA



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

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## ABBREVIATIONS

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

ABBREVIATION	DEFINITION
<b>AG</b>	Audit General (South Africa)
<b>CFO</b>	Chief Financial Officer
<b>COGTA</b>	National Department of Cooperative Governance and Traditional Affairs
<b>EC</b>	Eastern Cape
<b>EC COGTA</b>	Eastern Cape Department of Cooperative Governance and Traditional Affairs
<b>EMLM</b>	Enoch Mgijima Local Municipality
<b>FRP</b>	Financial Recovery Plan
<b>GRAP</b>	Generally Recognised Accounting Practice
<b>GVA</b>	Gross Value Added
<b>HOD</b>	Head of Department / Directorate
<b>HDI</b>	Human Development Index
<b>ICT</b>	Information Communication and Technology
<b>IDP</b>	Integrated Development Plan
<b>MTREF</b>	Medium Term Revenue and Expenditure Framework
<b>MMC</b>	Member of Mayoral Committee
<b>MFRS</b>	Municipal Finance Recovery Services
<b>MM</b>	Municipal Manager
<b>MPAC</b>	Municipal Public Accounts Committee
<b>NCR</b>	National Cabinet Representative
<b>PSC</b>	Project Steering Committee
<b>PEC</b>	Provincial Executive Committee
<b>PER</b>	Provincial Executive Representative
<b>SALGA</b>	South African Local Government Association

<b>SDBIP</b>	Service Delivery and Budget Implementation Plan
<b>SRP</b>	Simplified Revenue Plan
<b>SMART</b>	The principles of being “Specific, Measurable, Achievable, Realistic, Time-bound”
<b>THT</b>	Triple Helix Technology (Pty) Ltd

## PROJECT DETAILS

<b>Project Sponsor</b>	National Treasury
<b>National Representative</b>	<b>Cabinet</b> Dr Monde Mbomvu Tom
<b>Project Owner</b> <b>Individuals are:</b>	<b>National Treasury – MFRS</b> Jan Hattingh (Chief Director – Local Gov Budget Analysis/MFRS) Kavitha Ruplal (Acting Head – MFRS)
<b>Financial Recovery Plan (FRP) Recipients</b>	1) Enoch Mgijima Local Municipality 2) Minister of COGTA 3) Auditor General 4) Provincial SALGA
<b>FRP Prepared By</b>	MFRS
<b>FRP Approval by</b>	Minister of Finance
<b>Report Preparation Date</b>	23 August 2022
<b>Report Final Review Date (Internal)</b>	24 August 2022
<b>Report Final Review Date</b>	7 September 2022

<p><b>Project Description</b> <b>(Nature and Extent)</b></p>	<p>Preparation of the mandatory Financial Recovery Plan for Enoch Mgijima Local Municipality.</p>
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## EXECUTIVE SUMMARY

The National Cabinet, on its sitting of the 06<sup>th</sup> of April 2022, instituted a national intervention in terms of section 139(7) of the Constitution in respect of the Enoch Mgijima Local Municipality (EMLM). The intervention occurred in response to many challenges EMLM was facing including difficulties in providing basic services and lack of long-term financial sustainability. The municipality was faced with numerous financial problems which impacted, amongst others, on its ability to meet its financial commitments and the provision of basic services. Given the above and the urgency to ensure service delivery to communities and financial viability and sustainability, the development and the implementation of a Financial Recovery Plan (FRP) has been seen as a critical way forward for EMLM.

EMLM in the Eastern Cape has been in a prolonged financial and service delivery crisis. The Provincial Executive Cabinet (PEC), through Cooperative Governance and Traditional Affairs (COGTA), intervened in terms of S139(1) and S139(5) of the Constitution in September 2018 and an FRP was prepared for the municipality.

The PEC also deployed a PER to EMLM to ensure the implementation of the FRP and to oversee the financial and service delivery recovery of the municipality on behalf of the PEC.

However, after more than three years of intervention in the EMLM, little or no progress has been made by the municipality in implementing the FRP, resulting in the continued decline in the financial and service delivery performance of the municipality.

The Minister of Finance, in terms of Section 144 of the MFMA, directed that the Municipal Financial Recovery Service (MFRS) review and amend the 2018 FRP, considering:

- a) changes in context, in the light of the national state of Covid-19 disaster;
- b) progress and challenges in implementation of the current FRP, specifically with respect to Sections 139 and 140 of the MFMA; and
- c) to ensure compliance with the requirements of Section 142 of the MFMA.

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

The FRP adopts a strategic, focused approach which is time-bound yet comprehensive enough to ensure that the underlying causes of the crisis are adequately addressed. To achieve this objective, the FRP presents a phased approach to recovery, differentiating between issues to be addressed in the short, medium and long term. The FRP is divided into three distinct but interdependent phases. These include a Rescue Phase (Phase 1) which focuses primarily on cash and restoring the cash position of the municipality, followed by a

Stabilisation Phase (Phase 2) which expands on the financial indicators to be monitored and emphasizes key governance and institutional issues which must simultaneously be addressed and finally, a Sustainability Phase (Phase 3) to ensure that indicators are developed that will give effect to the long-term financial sustainability of the municipality. The approach is designed to ensure that financial recovery is not only achieved, but more importantly, that progress is institutionalized and sustained within EMLM.

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

The three main challenges identified in the municipality are the excessive cost of employment, the high Eskom debt and the declining revenue sources. The financial recovery plan sets out root causes and strategies to remedy the challenges in the municipality in order to achieve financial recovery and service delivery.

## 1 PART ONE – INTRODUCTION, LEGISLATIVE CONTEXT AND OVERSIGHT

### 1.1 BACKGROUND TO ENOCH MGJIMA LOCAL MUNICIPALITY (EMLM)

The EMLM is a Category B municipality (Area: 13 584km<sup>2</sup>) situated within the Chris Hani District in the central part of the Eastern Cape Province. It is the largest of the six municipalities in the district and was established in terms of Provincial Gazette No. 3717, Provincial Notice 182 of 2016 by the amalgamation of the former Tsolwana,



Inkwanca and Lukhanji Local Municipalities in August 2016. The area has a rich historical background dating back to the 18th century, with several monuments and key places of interest.

The Enoch Mgijima municipal area is an economic hub, due to its strategic position in the middle of the national corridors to Gauteng, Western Cape, KwaZulu-Natal, Northern Cape, and Free State Provinces. Parts of the municipality are developed with the relevant infrastructure so that modes of transport such as railway, road and a small airport are available to be utilised. Other parts of the region are experiencing a low economic growth rate, with high levels of unemployment and poverty in the towns.

The total population, after the re-determination of the boundaries in 2016 is approximately 245,975 people.

The main economic sectors are agriculture, general government services, finance and business, wholesale, retail and catering and community services.

The municipality is faced with numerous financial, governance, service delivery and institutional challenges. Many of these challenges have been recurring over a number of the past three financial years and repeatedly reported in progress meetings, oversight reports and audit reports by the Office of the AGSA.

## **1.2 S139(7) INTERVENTION LEGISLATIVE FRAMEWORK**

EMLM in the Eastern Cape has been in a prolonged financial and service delivery crisis. The Provincial Executive Cabinet (PEC), through Cooperative Governance and Traditional Affairs (COGTA), intervened in terms of S139(1) and S139(5) of the Constitution in September 2018 and an FRP was prepared for the municipality.

The PEC also deployed a PER to EMLM to ensure the implementation of the FRP and to oversee the financial and service delivery recovery of the municipality on behalf of the PEC.

However, after more than three years of intervention in the EMLM, little or no progress has been made by the municipality in implementing the FRP, resulting in the continued decline in the financial and service delivery performance of the municipality.

Section 150(1) of the Municipal Finance Management Act (MFMA) requires that if the conditions for 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.

It is on this basis that National Cabinet has invoked the intervention in the EMLM in terms of section 139(7) of the Constitution read together with Section 150(1)(a) and (b) of the MFMA.

There is already an existing FRP in place for the municipality, however, this recovery plan is being revised as part of the S139(7) national intervention. The recovery plan must still align with the three phased approach.

## 1.3 OVERVIEW OF THE FINANCIAL RECOVERY PLAN

### 1.3.1 Intervention Phases

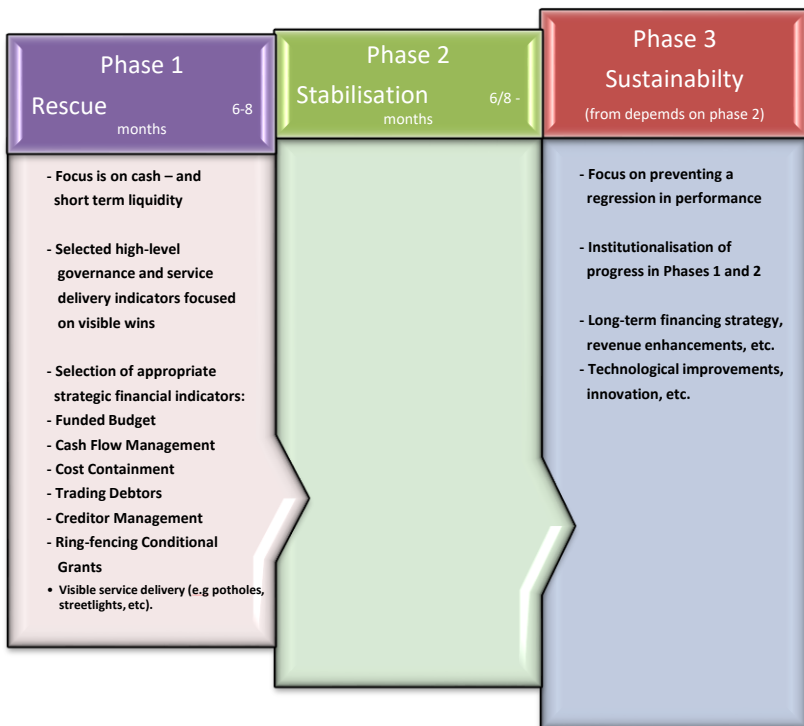
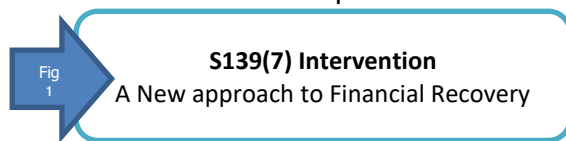
Section 139(7) Constitutional intervention is expected to yield the following:

- ✓ A municipality that is functional in all respects, including governance, financial management, institutional performance, and service delivery.

The EMLM FRP project flow sets out various phases of the implementation in the diagram – Fig 1

#### Phase 1 – Rescue Phase

In this phase, the focus is primarily on cash and restoring the cash position of the municipality. The indicators for the rescue phase include a funded budget, monitoring of the daily cash and



cash balances, cost containment measures, focusing on improving the debtor's collection rate, the ring-fencing of conditional grants and ensuring that creditors are paid timeously and that negotiations are entered into to settle any outstanding debt. There is some focus on service delivery, governance, and institutional matters, however, these are limited to addressing the most visible and critical issues, this is an attempt to ensure that the situation does not deteriorate any further.

However, as resources become available through better cash management, the collection of outstanding debt

and the reprioritization 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 six months to eight months 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 are still maintained but greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality. These include the continuation of a design that is fit for purpose organogram, plans to address the repairs and maintenance and renewal of infrastructure for the electricity network through which the municipality loses significant revenues, ensuring that the property valuation roll is updated and that all customers are billed accordingly. This phase is expected to last between 13 to 24 months or longer depending on progress made by the municipality.

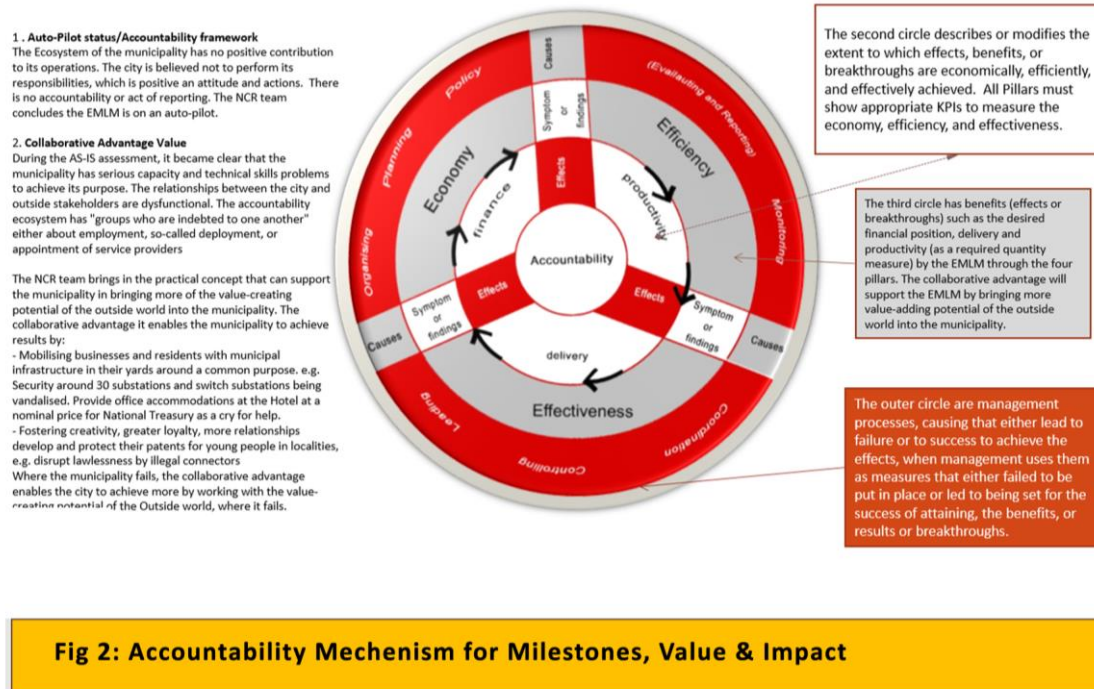
### ***Phase 3: Sustainability Phase***

Phase 3 of the recovery plan precedes the termination of the intervention. There must be a reasonable assurance that measures implemented in Phases 1 and 2 are sustainable and that the municipality is committed to ensuring the implementation of good practice.

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

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

## 1.4 NCR Approach



- **Auto Pilot**

The Accountability ecosystem of the municipality has no positive contribution to its operations. The city is believed not to respect its responsibility, which involves a negative attitude since there is no accountability or act of reporting. The NCR team concludes the EMLM is on autopilot, as there is no strong control or accountability. Based on the Auditor General's findings, there is a high degree of non-compliance with the relevant legislations, regulations, policies, and strategies that guide local government.

There are structural problems identified, manifested by hallmarks of dysfunctionality due to apparent criminality as the NCR observes signs of organised criminal operations to bring the municipality to its knees by forces from inside and outside. This is an observation which will be revealed once fully investigated.

- **Collaborative Advantage focus**

During the AS-IS assessment, it became clear that the municipality has serious capacity and technical skills problems to achieve its purpose. The relationship between the municipality and external stakeholders was dysfunctional. The accountability ecosystem has "groups who are indebted to one another" either about employment, so-called deployment or appointment of service providers.

The EMLM needs a Collaborative Advantage which is a practical concept that can support the municipality in bringing more of the value-adding potential of the outside world (external stakeholders) into the municipal business. If the municipality can identify and mobilises the entities or people who have the greatest potential to achieve that goal alongside the municipality then the municipality is on the road to achieving a new level of success.

The NCR team brings in the practical concept that can support the municipality in bringing more of the value-creating potential of the outside world into the municipality. The collaborative advantage enables the municipality to achieve results by:

- Mobilising staff, collaborators, end-customers, partners and other stakeholders around a common purpose. An example is that businesses and residents with municipal infrastructure in their yards would volunteer to secure these municipal assets at no cost to the municipality. Around 30 substations and switch substations are being vandalised and the community must be mobilized to safeguard these municipal assets.

The second and white circle surrounding accountability in the diagram, describes the extent to which effects, benefits, or breakthroughs are economically, efficiently, and effectively achieved. All Pillars must show appropriate KPIs to measure the economy, efficiency, and effectiveness.

The grey and third circle have benefits (effects or breakthroughs) such as the desired financial position, delivery, and productivity (as a required quantity measure) by the EMLM through the four pillars. The collaborative advantage will support the EMLM by bringing more value-adding potential of the outside world into the municipality.

The red and outer circle represents management processes, causes that either lead to failure or to success to achieve the effects, when management uses them as measures that either failed to be put in place or led to being set for the success of attaining, the benefits, or results or breakthroughs.

## 1.5 METHODOLOGY IN DEVELOPING THE FRP

### PROBLEM STATEMENTS:

The starting point was to assess the previous financial recovery plan and its ability to achieve the desired outcomes. The 2018 FRP was institutionalised but poorly implemented for various reasons, which may include defiance. At a technical level, the previous plan was too detailed, with a high number of ambitious key deliverables and most importantly, lacking emphasis on an accountability mechanism.

- The NCR adopted an approach which would be preceded by a detailed as is assessment, development of priority interventions which would be aligned to the SDBIP and enforcement accountability mechanisms by aligning the FRP with the SDBIP. The project methodology is better depicted in the following diagram which talks about the project stages.
- This was followed by the undertaking of the “AS IS” exercise which culminated in a detailed AS IS report.
- Financial recovery must be achieved through a systematic initiation and implementation of carefully managed interventions. Internal and external environmental factors were considered and mitigated to ensure that those that militated for the project were taken advantage of while those that militated against, were mitigated. The process is concluded by a SWOT and a Risk analysis.

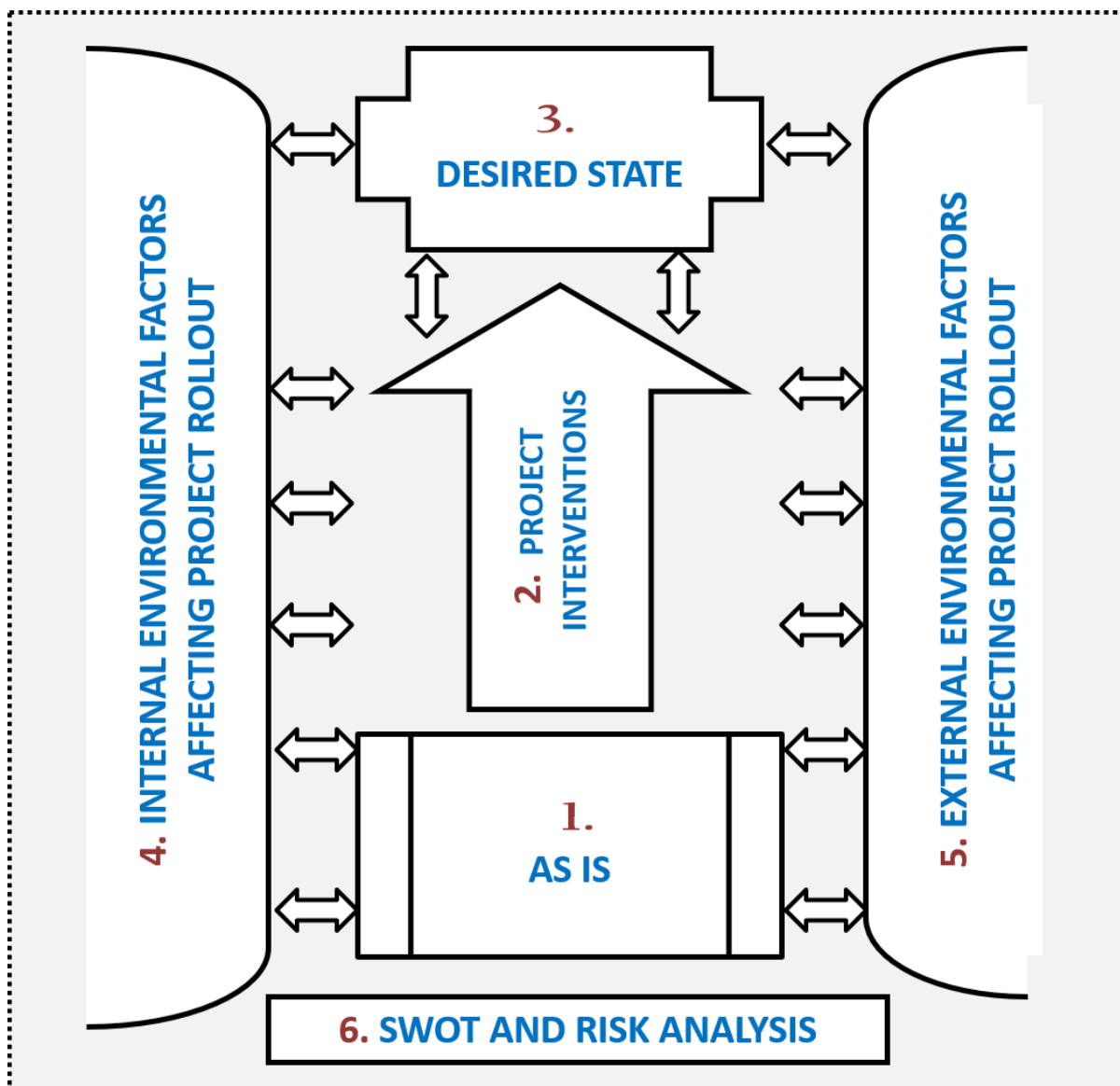


Figure 3: FRP Methodology Framework

**Consultative interaction:**

- The As Is report, which forms the basis of developing an FRP framework was presented to EMLM and Management team on 10 August 2022, and to the Council on 11 August 2022.
- After the “As Is” and the draft FRP were adopted by Council on 11 August 2022, a further presentation was made to a general meeting of ward committee members of Enoch Mgijima LM on 12 August 2022. Extensive inputs on the FRP were received and will be aligned to the priorities of the FRP.
- All primary stakeholders were provided with the draft FRP on 15 August 2022 for comments and input. The NCR further presented the As Is report to the Business Chamber and Labour Unions at a meeting held on 19 August 2022.

- A notice was published on 2 local newspapers and the Municipal Website in terms of section 141 (3) (c) (i) & (ii) of the MFMA, on 20 August 2022 for comments; and the last date for comments is 5 September 2022 as stated in the advert.
- The top creditors of the municipality were consulted on the draft FRP.

All the comments of the stakeholders were taken into consideration and integrated into the draft final FRP.

## **1.6 MONITORING AND OVERSIGHT**

In ensuring that the key activities of the financial recovery plan are implemented, different structures are established to give effect to the monitoring and evaluation. The different structures are the following:

- Political Intervention Steering Committee (PISC)
- The Technical Intervention Steering Committee (TISC)
- Workstreams: Finance, Governance, Service Delivery, and Institutional Matters (reporting to the FRP Intervention team leader)

### **POLITICAL INTERVENTION STEERING COMMITTEE (PISC)**

The PISC, as established, comprises of the Deputy Ministers of COGTA & National Treasury; Premier; MEC responsible for Cooperative Governance and Traditional Affairs, MEC responsible for Finance, the Chairperson of SALGA, and the Executive Mayor of the municipality.

- PISC shall be co-chaired by the Minister of Finance and CoGTA, or any representative designated by the Minister.
- The PISC shall meet at least once bi-monthly, however, special meetings may be convened as and when necessary.
- The PISC shall oversee the full implementation of the intervention in the municipality and unblock any political and unresolved challenges that may be beyond the capabilities of the TISC.
- The PISC, supported by the TISC, shall conduct scheduled visits to the municipality for the purpose of monitoring progress on the intervention.
- The PISC shall require the National Cabinet Representative, with the assistance of the MFRS Unit, to present quarterly progress reports to the National Cabinet; and
- The PISC shall receive quarterly progress reports from the TISC.

### **TECHNICAL INTERVENTION STEERING COMMITTEE (TISC)**

(a) The TISC comprise of the Heads of Departments, DDGs (responsible for local government affairs) of the following departments/entities:

- (i) National Department of Cooperative Governance
- (ii) Provincial Department of Cooperative Governance
- (iii) National Treasury
- (iv) Provincial Treasury
- (v) Provincial South African Local Government Association - CEO
- (vi) Municipal Infrastructure Support Agency (MISA) – CEO
- (vii) The Municipal Manager and
- (viii) Any other party that may be invited for the purposes of providing technical support throughout the intervention for the municipality.

(b) The TISC shall be convened and co-chaired by the COGTA & National Treasury DGs or any person designated by them.

(c) Department of Cooperative Governance and Traditional Affairs shall provide secretariat support to the TISC.

(d) COGTA, supported by the secretariat, shall convene the TISC meetings monthly with the workstreams meeting monthly.

(e) The TISC shall be responsible for, amongst others, the following:

- (i) Monitor and oversee the implementation of the FRP monthly.
- (ii) Receive reports of the work-streams monthly.
- (iii) Unblock any administrative challenges faced by the municipality during implementation of the FRP.
- (iv) Leveraging of necessary resources to support the FRP Intervention.

#### **WORK STREAMS OF THE TECHNICAL INTERVENTION STEERING COMMITTEE**

(a) Work Stream Conveners will facilitate meetings of the work streams for purposes of compiling implementation plans consistent with the objectives of the FRP

(b) Work Stream Conveners will prepare and submit consolidated progress reports monthly on the implementation plans to the FRP Intervention Team Leader and Secretariat of the TISC.

(c) Each work stream shall engage with the municipality on their respective areas of focus and determine which other sector departments and state-owned entities should participate to support the municipality in their relevant areas of competence to ensure implementation of the FRP intervention plans.

(d) The Work Streams will be guided by the activities of the strategies contained in the Financial Recovery Plans of the municipality.

(e) The Work Stream Conveners will appoint a secretariat for their respective work streams to, amongst others, schedule meetings, take minutes and compile reports for TISC meetings.

## **1.7 RISKS ASSOCIATED WITH THE IMPLEMENTATION OF THE FRP**

The process of risk identification and mitigation will be continuous throughout the intervention life cycle and managed through a risk register. The risks must be tracked for mitigation and impact and reported during intervention status reports and NCR internal meetings and other platforms of engagement.

The implementation of s139(7) intervention risks and planned mitigation, has been tabled below. The intervention implementation risks and possible mitigation, where applicable, will be updated monthly.

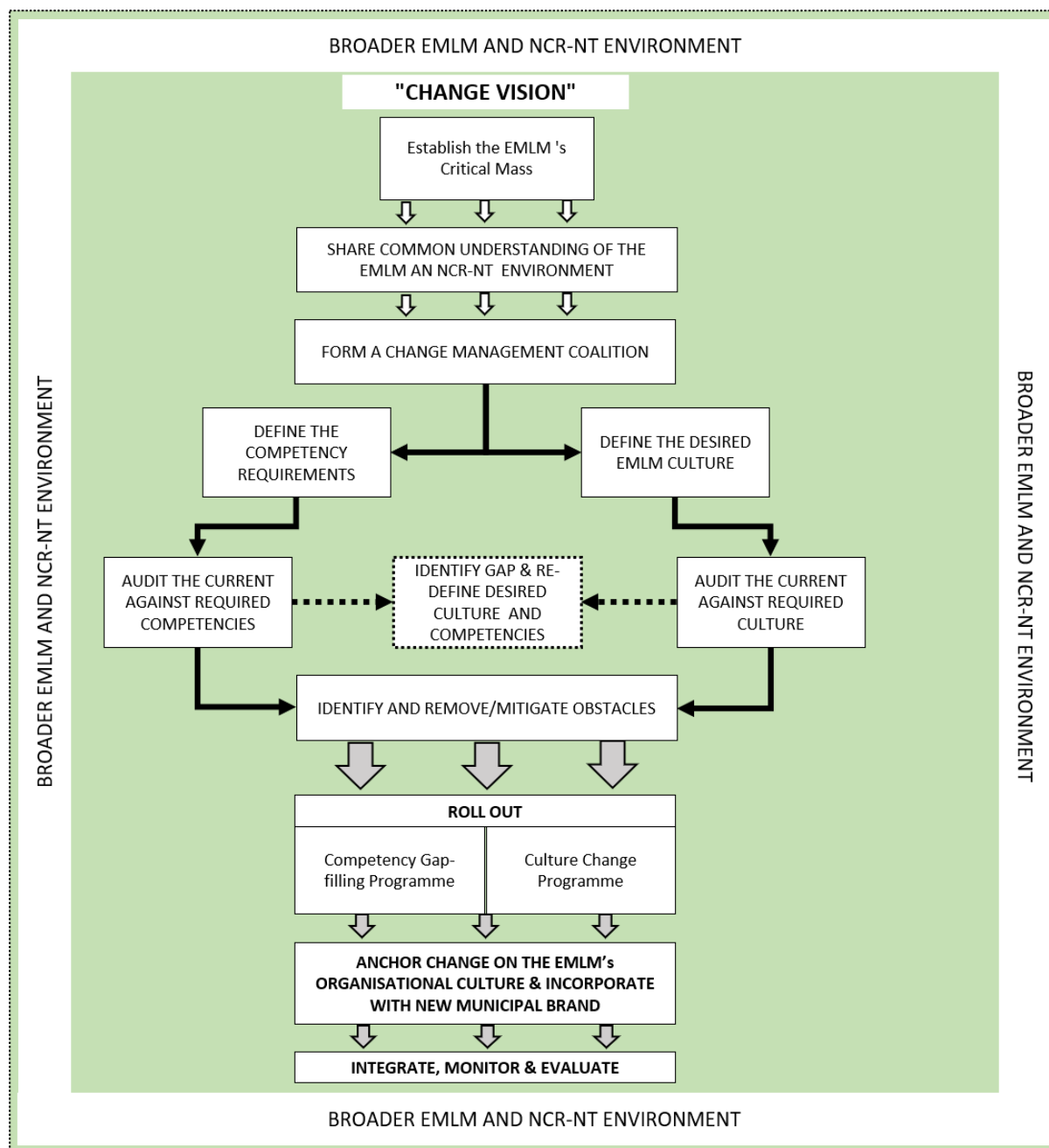


Risk	Risk Level H = High M = Medium L = Low	Mitigation	R – responsible A – accountable C – consult I – inform
<p>Security, change management &amp; Lack of buy-in at All levels</p> <ul style="list-style-type: none"> <li>• Security of the NCR personnel as well as EMLM officials who are seen to be co-operating with the NCR and other State organs in the intervention</li> <li>• Industrial actions due to poor communication or resistance to change</li> <li>• Labour unrest (threat of EMLM not to honour remuneration payments)</li> <li>• High-level of litigation and financial impact thereto related</li> </ul>	H-M	<ul style="list-style-type: none"> <li>• The NCR in conjunction with NT has arranged alternate off-site office workspace for the NCR team as well as secured accommodation and transport to/from East London to Queenstown and return</li> <li>• NT, CoGTA together with ECPG to initiate overall project awareness and project kick-off meetings</li> <li>• THT and EMLM must set up a Municipal Project Steering Committee (PSC) at the Municipality level to include representatives of ECCoGTA and ECPG Treasury. The Municipal PSC should meet quarterly to monitor and evaluate the Intervention</li> <li>• Municipal management to be engaged by the NCR prior to intervention implementation and input provided for the plan and project timelines</li> <li>• Change management budget must be provided by National Treasury</li> <li>• Communication, Public Participation and Outreach budget to all 34 Wards of EMLM to be provided by NT &amp; CoGTA</li> <li>• EMLM management with the assistance of ECCoGTA and ECPG Treasury facilitates political buy-in, leadership and ownership of the project.</li> <li>• EMLM executive management and Political leadership to create awareness at EMLM operational staff and management level and foster a conducive working environment for EMLM and THT teams to work towards achieving the project output and outcomes. Any non-cooperation must be escalated through to EMLM Council for action.</li> </ul>	<ul style="list-style-type: none"> <li>• NCR</li> <li>• NT</li> <li>• CoGTA</li> <li>• EMLM</li> </ul>
<p>Delays in Receipt of Information / Documentation and Sign Offs</p>	M	<ul style="list-style-type: none"> <li>• Setup and conduct monthly project progress meetings which meetings should include EMLM management representation from all directorates</li> <li>• All requests for information/documentation/data/explanations must be reduced to writing</li> <li>• THT will maintain a log of requests for information/documentation/data/explanations</li> <li>• Any significant delays must be escalated to the Municipal Manager and or CFO or Mayoral delegated EMLM Nodal point at least 2 days after 2<sup>nd</sup> request for information/documentation/data/explanations is not received</li> <li>• Setup robust communication processes including sign-off / approval protocols</li> </ul>	<ul style="list-style-type: none"> <li>• NCR</li> <li>• NT</li> <li>• CoGTA</li> <li>• EMLM</li> </ul>
<p>Quality of Information</p> <ul style="list-style-type: none"> <li>• Loss of grant or other non-exchange funding due to non-compliance</li> <li>• Poor quality of information by EMLM executive to Council which impedes efficient effective decision making</li> </ul>	M	<ul style="list-style-type: none"> <li>• Information provided by the EMLM is to be reviewed and signed off by the CFO and or his/her delegate</li> <li>• Certain information can be corroborated against 3<sup>rd</sup> parties/publicly available information such as Deeds office, Auditor General and Provincial Treasury/THT/National Treasury databases</li> <li>• The lack of skills combined with the malfeasance and criminality must be addressed through the respective organs of state to create a mechanism of effective consequence management and eradication of malfeasance</li> </ul>	<ul style="list-style-type: none"> <li>• NCR</li> <li>• NT</li> <li>• CoGTA</li> <li>• EMLM</li> </ul>
<p>Lack of skills and competency at the municipal level</p>	M	<ul style="list-style-type: none"> <li>• Here we will be guided by the CFO and Municipal Manager and Corporate Services and Services Directorate leaders of EMLM</li> </ul>	<ul style="list-style-type: none"> <li>• NCR</li> <li>• NT</li> <li>• CoGTA</li> </ul>

Risk	Risk Level H = High M = Medium L = Low	Mitigation	R – responsible A – accountable C – consult I – inform
<ul style="list-style-type: none"> <li>Non-implementation/non-effective implementation of the FRP</li> </ul>		<ul style="list-style-type: none"> <li>We will work together with EMLM to facilitate ease of communication through easy-to-understand explanations</li> <li>Project to include specific interventions to improve skill levels at EMLM. On-the-job training, as well as classroom-based interventions, may be provided on a needs' basis</li> </ul>	<ul style="list-style-type: none"> <li>EMLM</li> </ul>
Implementation risks (Socio-economic)	M	<ul style="list-style-type: none"> <li>There has been an introduction and communication by the current Minister of Finance (Honourable, Enoch Godongwana) on the current intervention.</li> <li>ECCoGTA and EMLM political leadership and management must further alert the community and EMLM Officials to the project initiatives and expected project outcomes</li> <li>Where required, an education/ information campaign to be provided to the broader community on the initiatives and the impact on them. To this end, we will engage the Municipal Councillors (through the office of the Municipal Manager) in developing community campaigns / communication where consultation meetings are to be conducted with respect to specific, identified interventions such as Indigent registration campaigns, restructuring of tariffs etc.</li> </ul>	<ul style="list-style-type: none"> <li>NCR</li> <li>NT</li> <li>CoGTA</li> <li>EMLM</li> </ul>

## 1.8 CHANGE MANAGEMENT APPROACH

The EMLM Change Management Process is characterised by purpose, vision and the new Financial Recovery Plan. The process in this context evokes a sense of something changing over time, and they are driven by the desire to achieve financial recovery for the city as the outcome. People will work through the change management process and the new FRP to achieve this goal.



**Figure 4: Change Management Framework**

S139(7) intervention is intended to close and eliminate the gap that exists between the current financial and operational state at EMLM and the desired future state which is a sustainable

self-reliant fully functional service delivery orientated EMLM. It is the people who bring the change to life in their day-to-day work.

The Change Management Intervention shall be two-pronged. It shall focus on both the skills and the culture gap, through using NCR Team Governance structure. As the employees are migrated from the old into the new organisational structure, the skills gaps shall inform the migration process while the culture gap shall form the basis of the culture change interventions. The change achieved shall then be anchored on the new municipal/corporate brand. For sustenance and continuity, a Change Governance structure must be set up and orientated on the desired change, the interventions to be undertaken and what must be done to incorporate the new culture into the municipality's corporate culture:

### **FRP Intervention Design- As a Key Leadership Task**

The Portfolio of leadership task show in the figure 5 has to be viewed in a holistic, integrated, and interconnected way. The congruence between the tasks making up the intervention portfolio is a key crucial requirement for intervention to be effective.

The new FRP framework is used as a structure and function, programme, initiative, or platform for external participation to maximise creation of collaboration in the Outside-In to achieve its purpose of financial recovery. This new FRP is a systematic approach that moves away from using its own enclosed, owned, controlled resources alone to directly achieve its goals and make sure the work gets done through the use of Outside-In as a tool, example end-customers, ward committees, local businesses, to help overcome that funding challenge.

In the analytical thinking of the NCR team, it defined the problems in the AS-IS assessment which are gaps between the actual situation and the desired situation, to turn around the ailing municipality and put it on the road to good performance, needs integration as outlined below:

- A. **The municipal business model** - how the municipality is going to create value of enabling end-customers to do their pursuit better within the municipality's boundaries.
- B. **Identity model** - what is the purpose, vision, core values, strategic intent, and legacy to achieve financial recovery?
- C. **Operating model** - how does the municipality have to be designed, organisational design, to breakthrough and deliver creative services and satisfy end-customers' needs? How to deal with corporate misconduct and malpractice - corporate crime acts that are the result of deliberate decision-making by those who occupy management and executive positions intended to benefit themselves or allies. The identification and investigation of fraud and negligence; conflict of interest; UIWFE etc.

- D. **Performance and accountability model** - what are the critical municipal and organisational performance indicators and strategic objectives to be achieved? Municipal business operational plan (operational and tactical).
- E. **Relationship model** (e.g., BKCOB; Civic + Ratepayers; DBSA; Ward Committees) - what relationship does the municipality want to have with stakeholders, outside-in partners, such as ward committees who are not necessarily employees but residents or end-customers?
- F. **Resourcing & People model** - what resources and people do the municipality need to attract, grow and retain to enable it to deliver creative Services.
- G. **Intelligence Model** - what do we need to know when and how.

## **THE OPERATING MODEL: HUB-AND-SPOKE**

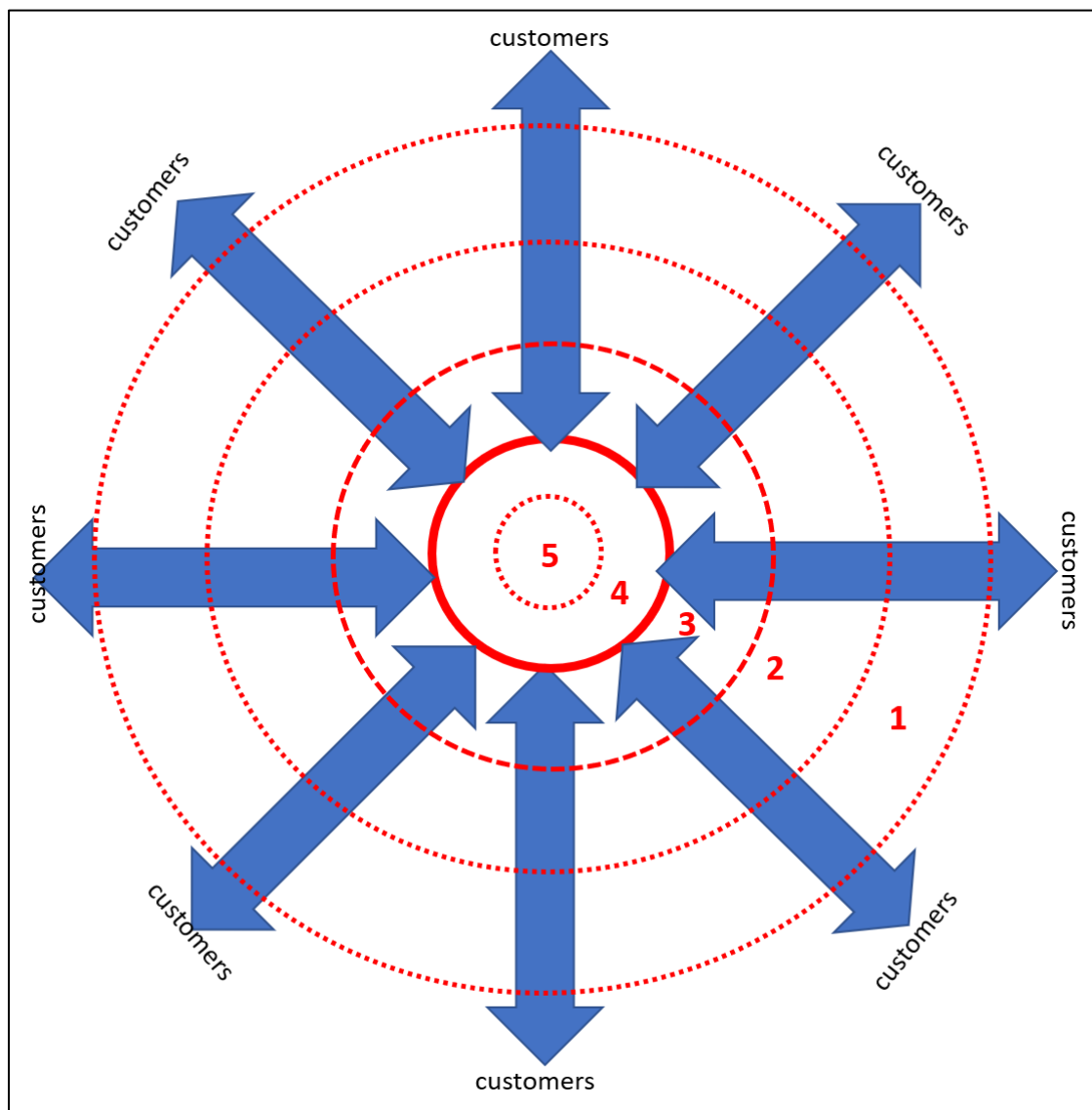
### **RATIONALE AND OVERVIEW**

Organizational design refers to how an organization is structured to execute its strategic plan and achieve its goals. This means that the optimal type of organizational design is determined by the purpose that the organization wishes to achieve. It is creating the best structure for strategy execution, against the backdrop of its external environment, and the organization's unique internal strengths, weaknesses, competence, and leadership style. Every organization has different needs. Currently, Enoch Mgijima Local Municipality operates on the principle of hub-and-spoke design due to its geographical layout and the pre-amalgamation structural setup.

Formally designed, the hub-and-spokes model arranges service delivery assets into a network consisting of an anchor establishment (hub) which offers a full array of services, complemented by secondary establishments (spokes) which offer more limited-service arrays. At its core, the hub-and-spoke organisational design model works from a central hub. Out of the hub go several routes similar to the spokes of a wheel, that lead to the result as depicted in Figure 5, below. The service centres at the end of each spoke are tentacles which are aimed at taking the service close and thus interface with the customer. Given the historical arrangement of the amalgamated municipalities (erstwhile Lukhanji, Tsolwana and Inkwankca), this remains an ideal structural arrangement, given that these

communities in these service points have gotten accustomed to interfacing directly with the municipality.

Figure 5 below, depicts the basis which the process of organisational design shall follow. Critical considerations must be made to help deliver an organisational structure the gives effect to the municipality's IDP, complies with legislation e.g., Municipal Structures Act, Municipal Systems Act, Municipal Finance Management Act, Skills Development Act, etc., and is supported by the municipal stakeholders.



**Figure 6: The Hub-and-Spoke Model**

### **OPERATIONALISATION**

Because the hub-and-spoke organisation model yields a municipal service network consisting of a strong centre and more satellite municipalities. It is much more efficient than organisation

design like the current one which replicates operations (mini-KOMANI) across multiple sites. When geographic distance makes satellite-hub access impractical, an additional hub can be created, yielding a multi-hub network providing a revenue base that allows it. The manner of centralisation varies depending on the service array provided and the citizen's needs addressed, but a common approach is as follows: complex municipal services, especially those that are technology and skills intensive, are centralised at the main centre or hub, basic municipal services are broadly distributed across the network. Only when complexities emerge that require services falling outside of the scope of services provided at satellite municipalities are services routed to the main centre or hub for delivery. Strategic centralisation is the key which unlocks the benefits of the hub-and-spoke organisation.

## APPLYING THE HUB-AND-SPOKES MODEL TO ORGANISATIONAL DESIGN

When following the hub-and-spoke organisational design, the structure is designed systematically and in a sequence of steps, working from the hub, outwards. The analyst must engage in a consultative process as the final organisational structure must consider input from municipal stakeholders

ORGANISATIONAL DESIGN STEP	HOW?
a) Consider the municipality's IDP and other strategic documents (which have implications for municipal organisational design)	Peruse IDP, Municipal Structures Act, Municipal System Act; Municipal Finance Management Act, etc.
b) Diagnose and agree on a clearly defined municipal problem (i.e., what problem is the organisational redesign meant to solve?)	Refer to Diagnostic "AS IS" report
c) Define the space/strategy that will be impacted, including expected metric movement.	Understand the current municipal geographical layout (IDP)
d) Define the services and value-add to be provided, creating design criteria as the outcome	Understand customer-end service points (IDP)
e) Describe the processes needed to offer municipal services and calculate the total workload for required tasks	Determine what services are needed at the service points and how many posts to provide.
f) Define the organization (levelling, headcount, skill mix, etc.) needed to deliver these services in the context of available resources and test against design criteria	Re-imagine the municipality's Competency Framework and work out staffing norms/ratios
g) Outline connecting mechanisms to other organizations, departments and partners	Determine service delivery partners (from Service Delivery Model)
h) Design the organization, sequencing communications, aligning talent to roles and cost consideration.	Design organisational structure based on all the gathered information.

i) Present the final organisational structure for approval.

Local Labour Forum for support and Council for approval.

## **NEXT STEPS**

Only once the organisational structure has been designed must the following steps be engaged in:

- a) Writing of job descriptions for all the designated jobs in the organisational structure.
- b) Evaluation of the jobs using the TASK Job Evaluation Systems.
- c) Drawing a comparative schedule of current and correct job grades.
- d) Identifying job grading gaps and proposing a mechanism for rectification.
- e) Once job grades have been rectified, identify employees whose salaries/wages had been influenced by the inflated grades.
- f) Start the process of salary/wage normalisation based on a procedure to be determined.
- g) Migration of employees from the current organisational structure into the proposed ideal structure, using an approved Migration and Placement Policy.

## **CONCLUSION**

As can be gleaned from the foregoing submission, the hub-and-spoke organisation design model is the option that when deployed correctly can greatly assist the municipal establishment in its quests to serve the end-customers well. As this shall be a new approach to service delivery, coupled with the redesigned organisational structure, a new inculcated municipal culture and reviewed competency requirements, it became imperative that a Change Management intervention be rolled out alongside the project rollout. For it to succeed and for continuity, a change management governance structure is proposed to take over and sustain the set-up processes once the NCR team disengages with the municipality. We must stress that, due to the complexity of bloated payroll, the redesigned organisational structure, on its own, is insufficient to resolve the problem of a bloated payroll as many factors contributed and continue to contribute to the current salaries/wages debacle, among which are: overstated grades, incorrect or unmonitored implementation of policies (that have financial implications) and lack of or absence of controls. The implementation of interventions to succeed must be underpinned by rigorous implementation of performance management, monitoring and evaluation, and consequence management.



## 1.9 COMMUNICATION PLAN FOR DEVELOPING 2022 FRP

Below, this plan must list the required and expected activities, responsible individuals and timelines.

Develop a communication strategy	Approved Strategy Report on strategy implementation	Vuyo Zitumane & Comms Team	20 June 2022	Draft plan submitted to Dr T and inputs provided
Communicate with stakeholders	Report on stakeholder engagement	Dr Tom & Comms team	20 June 2022	Meeting with SAPS, Troika and Business Sector in EMLM
Communication Strategy and Plan development	Approval of strategy and Plan	Dr Tom	22 June 2022	Final draft submitted to Dr Tom
Communicate with Stakeholders	Report on Stakeholder engagement	Vuyo Zitumane	28 June 2022 29 June 2022	Planned engagement with Labour, Management Ward Councilors War Committees
Discuss As Is report with EMLM	Report to Council on As Is assessment	Dr Tom	6 July 2022	As is draft is being finalised by workstreams
Integrate plan into FRP	Integration of Communication Plan into the FRP	Saga Poobalan	10 July 2022	Plan not yet incorporated into the FRP
Engage with IGR structures	Report on IGR engagement	Dr Tom & Comms team	11 July 2022	Draft As Is still to be updated.
Media engagement on intervention	Media Monitoring reports	Dr Tom & Comms team	12 July 2022 & Bi-monthly	Presentation on intervention, and FRP pillars
Engage stakeholders on FRP inputs	Reports on FRP stakeholder engagements	Dr Tom	15 August 2022 & Quarterly	FRP still in draft
Regular updates and communication with internal stakeholders through flyers and newsletter	Flyers and Newsletter publication on the intervention	Dr Tom & Comms team	4 July 2022 & Bi-weekly	Communication strategy in place and relevant updates to be provided based on progress and events to unfold
Regular updates and communication with external stakeholders through radio, print and electronic media and social	Media monitoring reports and publications or radio interviews records	Dr Tom & Comms team	5 July 2022 & Bi-monthly	Communication strategy in place and relevant updates to be provided based on progress and events to unfold

media				
Regular updates to EMLM Council	Reports to Council	Dr Tom & Comms team	31 July 2022 & Bi-monthly	FRP still in draft. As Is report being finalised
Regular Updates to Troika	Minutes and Reports of engagement	Dr Tom & Comms team	27 June 2022 & Bi-weekly	Communication strategy in place and relevant updates to be provided based on progress and events to unfold
Local Labour Forum Updates	Minutes and Reports of engagement	Dr Tom & Comms team	4 July 2022 & Monthly	Communication strategy in place and relevant updates to be provided based on progress and events to unfold
Feedback on stakeholders' input to EMLM Council	Report to EMLM Council on stakeholder input	Dr T Dr Tom & Comms team	30 August 2022 & Bi-monthly	Stakeholder survey forms to be developed
Communicate the final FRP to Stakeholders	Reports on FRP stakeholder engagements	Dr Tom	20 July 2022 & Quarterly	Interim FRP currently being updated.
Publicize FRP	Publication of final FRP	Dr Tom/EMLM	30 July 2022	Interim FRP currently being updated.
Monthly Progress reporting on FRP implementation with NT, EMLM & IGR Structures	FRP implementation report	Dr Tom	30 September 2022 & Monthly	Interim FRP currently being updated.
Communication with key stakeholders on FRP implementation	FRP lamentation report for business sector and communities	Dr Tom & Comms team	5 October 2022	Interim FRP currently being updated.
Monthly Progress reporting to NT and IGR structures	Monthly Progress Reports	Dr T & Comms team	30 September 2022 & Monthly	Interim FRP currently being updated.

## 2 PART TWO – DIAGNOSTIC ASSESSMENT

### 2.1 “AS IS” ASSESSMENT”

In developing this “As-Is” Assessment, various information sources were used vary in format from documents, previous investigations conducted, and person-to-person interactions. The information (received in various forms and formats) was used to conduct comparative corroborative analysis. These sources and or processes to assimilate the information included, but not limited to:

- a) EC139 EMLM draft budget 2021/22 & Medium-Term Revenue and Expenditure Framework 2022/23 - 2025
- b) S139(5) Administrator’s Hand Over report to National Treasury (Compiled by s139(5) Provincial Exco Representative)
- c) Municipal Hand – Over report (for the newly elected Council – dated November 2021)
- d) Annual report 2020/21 and 2019/20
- e) NCR notes from attending the EMLM strategy review session held on 23 and 24 May 2022
- f) EC139 EMLM AFS (Adjusted) 2020/21
- g) Auditor-General issued Audit report for EMLM 2020/21
- h) Auditor-General management reports for 2020 and 2021
- i) FRP Implementation progress report – 3 February 2022
- j) Financial Ratios in accordance with MFMA Circular 71
- k) Council minutes and resolutions of January and February 2022
- l) EMLM Integrated Development Plan review – 2020/21
- m) EMLM draft FRP – November 2018
- n) EC139 EMLM adopted budget 2020/21 & related EC139 Council resolution 2020/21
- o) Interviews of Executive, Senior management and other staff of EMLM
- p) Engagement with Other Stakeholders such as business forums of EMLM, Labour Unions and Provincial Executives
- q) EMLM Website: <https://www.enochmgijima.org.za/>
- r) Municipalities information site: <https://municipalities.co.za/>
- s) National Treasury local government information site: <https://vulekamali.gov.za/>

Many formats and platforms were used to glean the submissions and inputs, including an As-Is “shortened” diagnostic tool developed internally, in person meetings and conference calls.

The NCR identified critical issues with a common thread and, in the main, used these issues to highlight the current situation. On presentation of the plan to National Treasury, there was a request to update the “As Is” status report to include, records management, performance management, labour relations and Contract Management.

The FRP requires a consultative approach in the process of its development and therefore it has been presented to the Municipal Management, Labour representatives, Council and all

the primary external stakeholders. All the inputs from the consultation have been incorporated into the Plan and the final draft will be presented to National Treasury for recommendation and approval by the Minister of Finance by 30 September 2022.

The NCR team is aware that a municipal environment that is dynamic and forever changing, and as such will require a flexible approach in implementing the plan. Consequently, the NCR will monitor same for any changes that may materially impact the updating or rebuilding of the Financial Recovery Plan (FRP). Any material adjustments or shift in the original critical path, where applicable, will be clearly outlined in future reporting

## 2.2 DEMOGRAPHICS OVERVIEW

"Demographics", or "population characteristics", includes analysis of the population of a region. Distributions of values within a demographic variable, and across households, as well as trends over time are of interest.

This information is important for the EMLM Council for effective strategy development.

Population statistics is important when analysing an economy, as the population growth directly and indirectly impacts employment and unemployment, as well as other economic indicators such as economic growth and per capita income. With 269 000 people, the EMLM housed 0.5% of South Africa's total population in 2016. Between 2006 and 2016 the population growth averaged 0.94% per annum which is close to

	Enoch Mgijima	Chris Hani	Eastern Cape	National Total	Enoch Mgijima as % of district municipality	Enoch Mgijima as % of province	Enoch Mgijima as % of national
2006	245,000	804,000	6,450,000	47,800,000	30.5%	3.8%	0.51%
2007	246,000	802,000	6,470,000	48,400,000	30.7%	3.8%	0.51%
2008	248,000	803,000	6,500,000	49,100,000	30.8%	3.8%	0.50%
2009	250,000	806,000	6,540,000	49,800,000	31.0%	3.8%	0.50%
2010	252,000	810,000	6,600,000	50,700,000	31.2%	3.8%	0.50%
2011	255,000	813,000	6,650,000	51,500,000	31.3%	3.8%	0.49%
2012	257,000	816,000	6,710,000	52,400,000	31.5%	3.8%	0.49%
2013	260,000	821,000	6,780,000	53,200,000	31.6%	3.8%	0.49%
2014	263,000	827,000	6,850,000	54,100,000	31.8%	3.8%	0.49%
2015	266,000	834,000	6,930,000	54,900,000	31.9%	3.8%	0.48%
2016	269,000	841,000	7,010,000	55,700,000	32.0%	3.8%	0.48%
<b>Average Annual growth</b>							
2006-2016	<b>0.94%</b>	<b>0.46%</b>	<b>0.83%</b>	<b>1.54%</b>			

Source: IHS Markit Regional eXplorer version 1160

half than the growth rate of South Africa as a whole (1.54%). Compared to CH's average annual growth rate (0.46%), the growth rate in EM's population at 0.94% was about double than that of the district municipality.



Population projections – EMLM & Chris Hani Eastern Cape and National Total 2016-2021 Socio-economic structure of a region is directly influenced by the region's economic activities. It is considered that economy is a means of development and also an indicator to measure development. Therefore, it is essential for policy makers to understand the region's economic activities and how they are influencing the development of that region.

	Enoch Mgijima	Chris Hani	Eastern Cape	National Total	Enoch Mgijima as % of district municipality	Enoch Mgijima as % of province	Enoch Mgijima as % of national
2016	269,000	841,000	7,010,000	55,700,000	32.0%	3.8%	0.48%
2017	272,000	849,000	7,080,000	56,500,000	32.1%	3.8%	0.48%
2018	276,000	857,000	7,160,000	57,400,000	32.2%	3.8%	0.48%
2019	279,000	865,000	7,240,000	58,100,000	32.2%	3.9%	0.48%
2020	282,000	872,000	7,310,000	58,900,000	32.3%	3.9%	0.48%
2021	285,000	880,000	7,380,000	59,600,000	32.3%	3.9%	0.48%
<b>Average Annual growth</b>							
2016-2021	1.12%	0.90%	1.05%	1.37%			



Source: IHS Markit Regional eExplorer version 1160

### Gross Value Added

GVA is a measure of output (total production) of a region in terms of the value that was created within that region. GVA can be broken down into various production sectors.

A brief analysis of the economic sectors is conducted in order to identify major sectors and those that have potential for growth.

The Enoch Mgijima Local Municipality's economy is made up of various industries. The GVA-R variable provides a sector breakdown, where each sector is measured in terms of its value added produced in the local economy.

In 2016, the community services sector is the largest within Enoch Mgijima Local Municipality accounting for R 4.24 billion or 36.2% of the total GVA in the local municipality's economy. The sector that contributes the second most to the GVA of the Enoch Mgijima Local Municipality is the trade sector at 23.0%, followed by the finance sector with 18.0%.

	Enoch Mgijima	Chris Hani	Eastern Cape	National Total	Enoch Mgijima as % of district municipality	Enoch Mgijima as % of province	Enoch Mgijima as % of national
Agriculture	0.3	0.7	5.9	94.4	37.1%	4.6%	0.29%
Mining	0.0	0.0	0.5	306.2	18.8%	1.6%	0.00%
Manufacturing	0.7	1.2	36.3	517.4	56.8%	1.9%	0.14%
Electricity	0.2	0.4	6.2	144.1	43.5%	2.9%	0.12%
Construction	0.5	1.1	13.2	154.3	44.4%	3.8%	0.33%
Trade	2.7	5.5	61.5	589.7	49.4%	4.4%	0.46%
Transport	1.0	1.9	27.5	389.2	51.8%	3.7%	0.26%
Finance	2.1	3.9	60.5	781.7	54.8%	3.5%	0.27%
Community services	4.2	9.5	89.7	894.1	44.7%	4.7%	0.47%
<b>Total Industries</b>	<b>11.7</b>	<b>24.3</b>	<b>301.2</b>	<b>3,871.2</b>	<b>48.3%</b>	<b>3.9%</b>	<b>0.30%</b>



Source: IHS Markit Regional eExplorer version 1160

The sector that contributes the least to the economy of EMLM is the mining sector with a contribution of R 7.16 million or 0.06% of the total GVA.

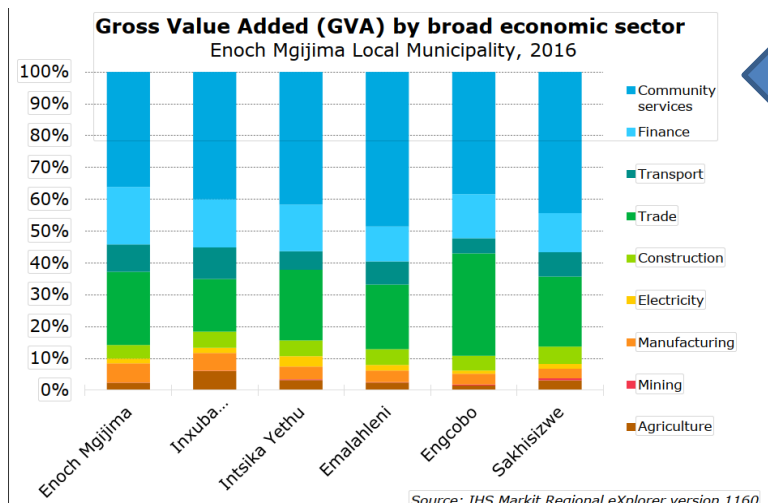


Fig 7

### Poverty status of the areas

In 2016, there were 163 000 people living in poverty, using the upper poverty line definition, across EMLM - this is 2.49% lower than the 167 000 in 2006. The percentage of people living in poverty has decreased from 68.26% in 2006 to 60.63% in 2016, which indicates a decrease of percentage points.

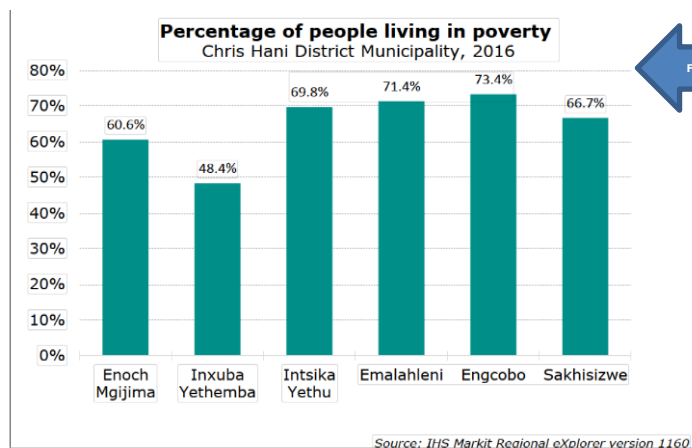


Fig 8

### Households by access to water

The regions within CH DM with the highest number of households with piped water inside the dwelling is EMLM with 26 400 or a share of 52.74% of the households with piped water inside the dwelling within CHDM. The region with the lowest number of households with piped water inside the dwelling is Emalahleni LM with a total of 1 600 or a share of 3.20% of the total households with piped water inside the dwelling within CHDM.

When looking at the water backlog (number of households below RDP-level) over time, it can be seen that in

	Piped water inside dwelling	Piped water in yard	Communal piped water: less than 200m from dwelling (At RDP-level)	Communal piped water: more than 200m from dwelling (Below RDP)	No formal piped water	Total
Enoch Mgijima	26,400	15,900	16,900	4,340	8,400	72,000
Inxuba Yethemba	13,300	4,200	157	247	1,840	19,700
Intsika Yethu	2,880	5,910	13,400	4,570	15,200	41,900
Emalahleni	1,600	6,380	12,800	3,600	8,370	32,700
Engcobo	3,550	4,520	7,960	3,090	19,300	38,500
Sakhisizwe	2,340	3,320	5,090	1,800	4,260	16,800
<b>Total</b>						
Chris Hani	50,097	40,184	56,285	17,642	57,402	221,608

Source: IHS Markit Regional eXplorer version 1160

Fig 9

2006 the number of households below the RDP-level were 13 800 within EMLM, this decreased annually at -0.81% per annum to 12 700 in 2016.

### Households by type of electricity

Households are distributed into 3 electricity usage categories: Households using electricity for cooking, Households using electricity for heating, households using electricity for lighting. Household using solar power are included as part of

	Electricity for lighting only	Electricity for lighting and other purposes	Not using electricity	Total
Enoch Mgijima	4,040	62,600	5,360	72,000
Inxuba Yethemba	544	18,600	611	19,700
Intsika Yethu	5,730	27,100	9,070	41,900
Emalahleni	3,800	24,900	4,010	32,700
Engcobo	6,130	22,200	10,100	38,500
Sakhisizwe	1,810	13,000	1,970	16,800
<b>Total</b>	<b>22,061</b>	<b>168,432</b>	<b>31,116</b>	<b>221,608</b>

Source: IHS Markit Regional Explorer version 1160

households with an electrical connection. This time series categorises households in a region according to their access to electricity (electrical connection). EMLM had a total number of 4 040 (5.62%) households with electricity for lighting only, a total of 62 600 (86.94%) households had electricity for lighting and other purposes and a total number of 5 360 (7.44%) households did not use electricity.

### Analysis of Revenue and Debtors

#### Rates and Taxes

Items	Audited AFS 2020/21	Audited AFS 2019/20	Audited AFS 2019/18
Billed Revenue	R 440 939 262	R 475 299 785	R 415 340 289
Actuals	R 351 558 174	R 320 069 332	R 318 198 721
<b>Difference</b>	<b>R89 381 088</b>	<b>R 155 230 453</b>	<b>R 97 141 568</b>
<b>Collection Rate %</b>	<b>79.9%</b>	<b>67.3%</b>	<b>76.6%</b>
<b>NT's Collection Rate Norm</b>	<b>95%</b>		
<b>Electricity Revenue Losses</b>	<b>R80m</b>	<b>R61,8m</b>	<b>R109m</b>

The above actuals are net of provision for impairment. The collection rate is below the norm of 95% and the municipality has indicated that to improve their collection rate, they have established a team of revenue enhancement to implement the credit control policy and also appointed a debt collector to assist in this regard.

#### Electricity revenue losses

The electricity sales projection for the 2021/22 and 2022/23 financial years is overstated when extrapolated against the actual sales of the previous audited financial years using the NERSA granted increase of 9,6%. There is over-budgeting of +/- R100million resulting in an unrealistic revenue and unfunded budget.

The municipality has experienced a high revenue loss on electricity for the past three financial years due to non-technical issues such as illegal connections and ageing infrastructure. For the 2021/22 financial year the municipality has indicated loss is at 37%. The highest loss was in the 2018/19 financial year. The losses are reflected in the table in 5.8.1 above.

### Debtors

ITEMS	2021/22	2020/21	2019/20	2018/19
Total Debtors	R 1 193 656 489	R 1 019 935 423	R 918 449 337	R 812 646 668
<b>Increase % per year</b>	<b>17%</b>	<b>11%</b>	<b>13%</b>	<b>22%</b>

The above table shows the total debtors per year since 2018/19 financial year. The total debtors for the current financial year is for the Month ended 31st May 2022, there will be an increase at the end of the financial year. The municipality's debt collection mechanism is not efficient and needs to be improved so that the historical debt is recovered.

The highest contributor to the high debtors account is the household category at 76.5%, followed by other and commercials at 16% and 5% respectively.

92% of the total outstanding debtors is over 90days.

### Creditors

ITEMS	2021/22	2020/21	2019/20	2018/19
Total Creditors	R 752 586 994	R 713 153 369	R 615 622 871	R 390 006 375
<b>Increase % per year</b>	<b>6%</b>	<b>16%</b>	<b>57.8%</b>	<b>100%</b>

The total creditors for 2021/22 financial year increased by 6% to date May 2022 (11 Months) from the previous financial year. The increase in creditors is due to a non-payment of Eskom account.

Eskom account for 98% of the total outstanding creditors.

### Financial ratio calculations

#### Financial Ratios

RATIO	Norm	Audited 2019/20	Audited 2020/21	Budget 2021/22	Remarks
<b>ASSET MANAGEMENT UTILISATION</b>					
<b>Capital Expenditure to Total Expenditure.</b> Assesses the level of Capital Expenditure to Total Expenditure.	10% - 20%	2.70%	7.98%	15.45%	Level of expenditure is too low for economic growth and poses a risk on non-delivery of services.
<b>Repairs and Maintenance as a % of PPE and Investment Property</b> The level of repairs and maintenance to ensure adequate maintenance to prevent breakdowns and interruptions to service delivery.	8%	0.38%	0.31%	1.03%	Spend is low, infrastructure assets will deteriorate faster than required resulting in Capex. R&M spend has to be increased.
<b>DEBTORS MANAGEMENT</b>					
<b>Collection Rate</b> The level of customer payments.	95%	55.70%	64.38%	74.36%	Unsustainable, needs major drive. No measurable progress.



<b>Bad Debts Written-off as % of the Bad Debt Provision</b>  Ensure that the Provision for Bad Debts is sufficient.	<b>100%</b>	<b>30,54%</b>	<b>0.00%</b>	<b>0.00%</b>	Extremely low. Needs line by line revision of debtors' book.
<b>Net Debtors Days – Collection period</b>  Average number of days required for a Municipality to receive payment from its Consumers for bills/invoices issued to them for services.	<b>30 days</b>	<b>708 days</b>	<b>820 days</b>	<b>750 days</b>	Significant drain on cashflow. The municipality would be forced to borrow from Banks or other creditors e.g., Eskom.
<b>LIQUIDITY MANAGEMENT</b>					
<b>Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants)</b>  The Municipality's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue, during that month.	<b>1 – 3 months</b>	<b>0 months</b>	<b>0 months</b>	<b>0 months</b>	Unacceptable position as there is no buffer to accept any shocks to the environment. Cost containment has to be stringently enforced.
<b>Current Ratio</b>  Assesses the Municipality's ability to pay back its Short-term Liabilities (Debt and Payables) with its Short-term Assets (Cash, Inventory, Receivables).	<b>1.5:1 – 2:1</b>	<b>0.35</b>	<b>0.20</b>	<b>0.50</b>	Unsustainable. Debtors must be collected. Credit control policies must be implemented.
<b>LIABILITY MANAGEMENT</b>					
<b>Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure</b>  The cost required to service the borrowing.	<b>6% - 8%</b>	<b>2,13%</b>	<b>2,94%</b>	<b>0%</b>	No long-term borrowings, Eskom Debt being used as a Bank to fund expenditure
<b>Debt (Total Borrowings) / Total Operating Revenue</b>  Provides assurance that sufficient Revenue will be generated to repay Liabilities.	<b>45%</b>	<b>2.82%</b>	<b>0%</b>	<b>0%</b>	Eskom Debt is excluded from this calculation as it is seen as a normal creditor.
<b>EFFICIENCY</b>					
<b>Net Operating Surplus Margin</b>  Assesses the extent to which the Municipality generates Operating Surpluses.	<b>= or &gt; 0%</b>	<b>2.82%</b>	<b>0%</b>	<b>0%</b>	Needs to be increased to build some reserves. Operational efficiencies must be identified and implemented.
<b>DISTRIBUTION LOSSES</b>					
<b>Electricity Distribution Losses (%)</b>  The % loss of potential revenue from Electricity Services through electricity units purchased and generated but not sold because of losses incurred through theft (illegal connections), non or inaccurate metering or wastage.	<b>7% - 10%</b>	<b>48.94%</b>	<b>49.52%</b>	<b>0%</b>	These losses are a significant drain on Revenue and must be curtailed and reduced to the norm. Bulk purchases must be reviewed to identify possible causes of the huge losses.

REVENUE MANAGEMENT					
<b>Revenue Growth (%)</b>  Measures the overall revenue growth.	= CPI%	3.53%	13.51%	23.9%	Acceptable if achieved. Risk is budget is optimistic.
<b>Revenue Growth (%) - Excluding Capital Grants.</b>  Measures the overall Revenue Growth adjusted for Capital Grants.	= CPI%	11.19%	9.25%	23.9%	Acceptable positive trend.
EXPENDITURE MANAGEMENT					
<b>Creditors Payment Period</b>  Indicates the average number of days taken for Trade Creditors to be paid.	30 days	438 days	445 days	414 days	EMLM is currently in financial distress and is unable to meet its short-term liabilities for the past 3 fiscal years. Eskom arrangement must be made.
<b>UIFW Expenditure / Total Operating Expenditure</b>  The extent to which the Municipality has incurred UIFWE.	0%	43.86%	31.17%	0%	Unacceptable levels of UIFWE indicate breakdown of controls and lack of discipline in following rules. Disciplinary actions must be implemented against anyone breaking the rules.
<b>Remuneration (Employee Related Costs and Councillors) as % of Total Operating Expenditure</b>  Measures the extent of Remuneration to Total Operating Expenditure.	25% - 40%	29.42%	38.83%	40.80%	Norm exceeded expenditure base to be expanded from revenue growth. This area requires immediate and urgent attention. Delegations allow hiring outside of HR processes. Review of powers & functions and delegation framework is urgently required. Risk of employee dissatisfaction if CPI agreed increases are not implemented, which could result in deterioration of service delivery and protest action by business and society.
<b>Contracted Services % of Total Operating Expenditure</b>  Measures the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions.	2% - 5%	2.33%	2.30%	4.64%	Acceptable but long-term contracts to be terminated.
BUDGET IMPLEMENTATION					
<b>Capital Expenditure Budget Implementation Indicator</b>  Measures the extent to which Budgeted Capital Expenditure has been spent during the financial year.	95% - 100%	43.60%	111.09%	n/a	Needs better control. Must plan to spend capital funds and not exceed spend. Lack of co-ordination between planning and execution.
<b>Operating Expenditure Budget Implementation Indicator</b>		166.64%	116.65%	n/a	Actual Expenditure exceeds planned expenditure, leading to deficit.

Measures the extent to which Budgeted Operating Expenditure has been spent during the financial year.					
<b>Operating Revenue Budget Implementation Indicator</b> Measures the extent of Actual Operating Revenue (Excl. Capital Grant Revenue) received in relation to Budgeted Operating Revenue.		97.47%	97.53%	n/a	Within norm. Indicates lack of capacity to execute, inefficiencies in billing and credit control
<b>Billed Revenue (Service Charges and Property Rates) Budget Implementation Indicator</b> Measures the extent of Actual Service Charges and Property Rates Revenue received in relation to Budgeted Service Charges and Property Rates		97.20%	86.14%	n/a	Revenue collections needs to be enhanced. Indicates lack of capacity / knowledge to execute and inefficiencies in billing and credit control.

EMLM is currently in financial distress and based on the above ratios the municipality has not been able to meet its short-term liabilities for the past three fiscal years. The creditors and debtors' balances as disclosed in the AFS are increasing year on year. The municipality is in contravention of section 65(2) (e) of the MFMA which requires that creditors be paid within the 30 days after receiving the relevant statement/invoice. It is evident that the municipality's current debt collection strategy is not effective or efficient enough to improve the financial status of the municipality.

### Conditional Grants Performance

FINANCIAL YEAR	2020/21	2019/20	2018/19
Conditional Grant Unspent	R 7 714 072	R 44 875 250	R 8 257 076
Returned to NT in following year – due to non-performance	R 43 967 253	R 8 257 076	-

The municipality's performance in 2019/20 on conditional grants was very poor and the municipality had an unspent conditional grant of R 44million.

## 2.3 KEY STRUCTURAL ISSUES

The following four baskets have been identified as key issues that have adversely impacted the municipality's financial performance.

### **High cost of employment = Overinflated salaries = Gross overpayment = Remuneration + Compensation problem of mismanagement**

The compensation of employees cost assessed at the end of May 2022 appeared high statistically in terms of a percentage of the monthly revenue. Based on a high-level assessment of the payroll and other related supporting information provided by the municipality, there is an estimated possible 30% over payment of employees due to incorrect grading, ghost employees and excess overtime.

#### **Organisation design and structure inefficient**

- No reliance can be placed on the organisational structuring work done in the past
- No evidence of being based on fit for purpose service model

- No evidence/logic for number of same positions (i.e., work loading). Employment of human resources appears to be done on a random basis
- One-over-one string of reporting lines creating unproductive layers (there is no structure or reasonableness for job creation)
- The Structure is unclear and messy which creates the environment to hide inefficiency and ghosts

**Grossly inflated salary bill (numbers rounded)**

- Excessive over-grading of TASK grades (correlated with Paterson, Peromnes, JE Manager and Hay)
- Some examples:
  - **Cashier** graded TASK 10 (C2) = Air traffic controller/Junior hospital doctor/qualified professional engineer >> Paid R28k  
Job should be TASK 4 (B1) paid R14k. Potential overpay = 50%
  - **Technical Services Technician** graded T13 (D1) = Middle Manager who translates strategic plans set at TASK **20** (E band) into action >> paid R37k.  
Job should be TASK 10 (C2) paid R24k. Potential overpay = 35%

**Potential solutions**

**a) De novo organisation redesign (medium term solution)**

- Develop an Optimal operating model for the region
- Develop an Optimal Organisation Design for the chosen operating model
- Structure developed and layered applying stratified principles
- Develop Job descriptions for each job + de novo grading of each job
- Fitting people to jobs – checking physical existence + certified required qualifications
- Challenges
  - Surplus staff
  - Overpaid job incumbents e.g., Cashier in job of 14k but earning 28k

**b) Grossly inflated salary bill (shortest solution = highest risk)**

- EMLM can declare “institutional bankruptcy” and offer to continue with amended employment contracts but at a radically reduced rate per job grade frozen for 3 years?
- EMLM can go to court and ask for a freeze on salaries based on audit of and redesign of organisation and grading anomalies.

**c) Potential Ghost Employees**

The NCR conducted a payroll audit, as a validation process that was conducted by Wesley Pretorius Associates (WPA), on 1 September 2021. Below is a summary of the outcome of the process.

- Out of 68 employees on the WPA list, it is only 36 employees that presented themselves for verification which results into 53% of the total 6 of the

employees on the list did not present themselves, as it was reported that three (3) of them have since died, another two (2) is on sick leave and one (1) has since retired; and this translated to 9% of the total.

- 36 employees were verified using the triangulation of sources of information as indicated above. It is worth noting that of the 36 verified, only 26 were verified without queries and 10 were verified with queries, and the 32 did not present themselves for verification.
- The queries picked up range from abnormally high salaries, inconsistent pay structure on same levels, irregular appointment contracts and employment files which are non-existent. It was revealed that Community Services runs its own recruitment processes without the involvement of Human Resources.  
From the report thus far, there must be a deeper investigation to dig deeper on the payroll audit outcomes.

### ***High Eskom debt default***

The Eskom debt has not been adequately serviced for many years now. This debt has been increasing on a monthly basis as the amounts billed and collected monthly is used by EMLM to pay for operating expenses. A combination of challenges will have to be addressed to resolve this issue.

The following proposed mitigation will be included in the FRP and or basket of quick wins

- ✓ Discouraging the practice where Eskom money collected is partially paid towards monthly billable amount and also to salary bill challenges.
- ✓ Developing of a funding plan from all cash-backed accumulated funds from previous year surplus, if any.
- ✓ Reconciling the Eskom account for accuracy and completeness
- ✓ Negotiating waiver of interest on account
- ✓ Re-negotiating a payment plan for the settlement of the arrear debt
- ✓ Using a large part of the Equitable share to settle part of the arrear debt
- ✓ Conducting an Indigent drive to update the Indigent register

### ***Declining Primary sources of revenue***

This is due to several factors which include poor socio-economic environment and poor service delivery leading to non-payment by Customers. There is also the issues poor metering and billing systems including infrastructure and internal controls thereto related. There is also the issue of outsourcing of services within this value chain, such as collections at possibly exorbitantly high costs. Mitigating actions hereto related may include:

- ✓ Stimulating the economy of the region where the municipality reaches a state that allows it to create an environment where business can progress and thereby, inter alia, create employment. This will lead to the reduction of dependency on Indigence, assist with mindset change where services are paid for, and lead to

more funds and better cash flow for the municipality to improve infrastructure and better service delivery

- ✓ Improving service delivery infrastructure and the respective value chains to improve service delivery, thereby improving the psyche of the Customers from deliberate non-payment to one of paying customers
- ✓ Improving collection rate by using creativity within the ambit of the credit control policy such as offering rewards or discounts
  - Cancellation or renegotiating contracts with service providers employed as debt collectors

### **Reduction of the Equitable Share**

The equitable share of the EMLM is less than the previous 3 municipalities combined by at least 41%. This issue is being used by the EMLM Executive as one of the reasons for poor financial management leading to the unfunded budget. This needs to be investigated to facilitate clear understanding and mitigate the psychological use of this issue by the EMLM executive for the source information from CoGTA that reflects the amended Equitable Share calculation and further explanations is required. The NCR team has raised this with the NT will also be meeting with the Provincial and National Stakeholders in this regard.

## **2.4 KEY FINDINGS**

Hereunder, we set out our key findings. These findings have been set out under the four (4) sustainability pillars. These being.

- ✓ Governance
- ✓ Finance
- ✓ Institutional arrangement
- ✓ Services.

It is important to note that elements of the Governance, Institutional arrangements and Finance pillars are not mutually exclusive nor can they operative in silos. Consequently, the, As Is assessment and process to update and or develop a new Financial Recovery Plan (FRP) has factored this as part of the FRP development processes.

### **Governance**

#### **Finding/s:**

- a) **Lack of effective oversight and or consequence management by both Political and Administrative Governance Structures**
  - ✓ *Municipal Council*

- ✓ *Mayor*
- ✓ *Portfolio Members of the Mayoral Committee*
- ✓ *Section 79 and 80 Oversight Committees*
- ✓ *Municipal Public Accounts Committee (MPAC)*
- ✓ *Ward Committees*
- ✓ *Disciplinary Board*
- ✓ *Internal Audit committee, Risk and Compliance Committees*
- ✓ *Accounting Officer (Municipal Manager)*
- ✓ *Senior management (Section 56 & 57)*

The Disciplinary Board has never sat for a long time, hence there is no consequence management for transgressions. All investigations and recommendations by Municipal Public Accounts Committee (MPAC) administrators are not taken seriously and have never been implemented by management, and the blame is shifted back to the MPAC. Portfolio Committees have never met since the installation of the new Council in November 2021.

#### **b) Ineffective Public Participation and Stakeholder Engagement**

There is a negative perception about Enoch Mgjijima generally by the public, which is manifesting into a lack of stakeholder confidence which has resulted into a series of service delivery protests and non-payment for services.

Current Policies are fragmented, content duplicated and framework not consistent, neither there is evidence that they are approved by Council, and this has resulted into a lack of understanding of clearly defined roles and responsibilities between councillors and administrators on communication.

#### **c) Consistent Poor Audit Outcomes**

There are Repeat findings, without consequences. There is no existing UIFWE policy and standard operating procedure, hence there is non-movement on the register. The UIFWE register is incomplete and does not include previous information and this will hinder EMLM in having a clean audit as long as the register is incomplete. Management continues not to comply with relevant legislation and policies. Contract management and monitoring not adequate.

ICT Governance is a huge challenge and poses a risk of information loss. There is no adequate disaster recovery strategy and plan.

Poor Records Management which contributes to AG Findings is a major issue at EMLM.

#### **d) Misconduct and Malpractice**

There is an indication that there has been an escalating number of irregular transactions and cases referred either for disciplinary hearing or criminal investigation which have not been acted upon. The reports of MPAC indicate a culture of non-compliance which is met with lack of consequence management hence the escalation of non-compliant expenditure and suspected cases of fraud and corruption.

### **Root Cause/s**

#### **a) Lack of Accountability**

- i. Oversight committees not exercising their oversight role and holding to account the relevant Portfolio Members of Mayoral Committees and Heads of Departments.
- ii. MPAC not holding to account the Municipal Manager.
- iii. Disciplinary Board not acting against transgressors.
- iv. MPAC recommendations for disciplinary action and criminal investigation not followed through by management and Council.

#### **b) A lack of capacity and or lack of skilled capacity**

### **Recommendation/s**

- a) Council conducts an organisational design review to re-align the municipality's resources at all levels to enable effective delivery of its mandate.
- b) Council reviews the current systems, internal processes and or technology, to improve or replace, where necessary.



Below we set out a self-explanatory table of Key issues specific to the Governance Pillar

Focus area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
<p>Compliance with MFMA, Municipal Systems Act And Municipal Structures Act</p> <p>Stakeholder Management and Communication</p>	<p>Non-compliance with the relevant Regulations, National Treasury Circular</p> <p>There is no regular and structured engagement with Stakeholders.</p> <p>Public Participation only limited to IDP reviews.</p> <p>Current Policies are fragmented, content duplicated and framework not consistent, neither there is evidence that they are approved by Council.</p>	<p>Officials have no proper delegations, and there are deviations from normal proper procurement procedures</p> <p>There is a negative perception about Enoch Mgijima generally by the public.</p> <p>Loss of stakeholder confidence in EMLM s</p> <p>Non-payment for services.</p>	<ul style="list-style-type: none"> <li>Lack of discipline, alignment, processes, and procedures</li> <li>Lack of leadership.</li> <li>Lack of accountability.</li> <li>Policies not approved by Council or relevant authority, leads to a confusion, no Standard Operating procedures, no alignment in the delivery of services</li> </ul>	<ul style="list-style-type: none"> <li>Awareness sessions and workshops</li> <li>Review current policies and integrate where possible.</li> <li>Review stakeholder mapping and consider the current intervention in updating primary stakeholders.</li> <li>Intensive engagement of the stakeholders to sell the benefits of the intervention and leverage support.</li> <li>Extensive media engagement and information sharing using various platforms as stakeholder and communication plan.</li> <li>Performance monitoring of FRP implementation</li> </ul>	<p>Handover documents and meetings with EMLM senior managers, contact meetings with Internal Audit Manager and MPAC Manager</p> <p>Municipal handover report to new council – November 2021</p> <p>Strategic Review held on 23&amp;24 May 2022</p> <p>Administrator Hand Over report</p> <p>Engagement with Senior Management Interim FRP</p> <p>Contact meetings with the Legal Manager, Internal Audit Manager and MPAC Manager and the meeting with Labour (IMATU)</p>
Effectiveness of Council Oversight structures	<p>MPAC resolutions not acted upon.</p> <p>No consequence management for transgressions.</p> <p>Portfolio committees have never set since the inception of the new council</p>	<p>Escalating UIFWE register.</p> <p>Culture of non-compliance.</p> <p>Incompetence or lack of skills in oversight</p> <p>Lack of understanding of delegations.</p>	<ul style="list-style-type: none"> <li>Poor Governance</li> <li>Lack of accountability at an administrative and political level</li> </ul>	<ul style="list-style-type: none"> <li>Training MPAC and Councillors on oversight responsibilities</li> <li>Review Delegation of Authority.</li> <li>Train Councillors on Delegation of Authority.</li> </ul>	<p>Auditor General Report</p> <p>Hand-over report by previous Council</p> <p>COGTA Administrator hand-over report</p>

Focus area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	<p>No tracking of the Implementation of Council Resolutions</p> <p>Ward Committees not effective and no Ward Based Planning</p> <p>MPAC resolutions not implemented, Disciplinary Board not effective and no consequence management and lack of the rule of law</p>	<p>Non-compliance with Council Calendar.</p>	<ul style="list-style-type: none"> <li>Lack of consequence Management</li> <li>Criminality and malfeasance</li> </ul>	<ul style="list-style-type: none"> <li>Develop an MPAC Effectiveness Tool for monitoring purposes</li> <li>Assess cases referred to the Disciplinary Board and ensure that action is taken.</li> <li>A Council Calendar of meetings, that included Portfolio Committee meetings must be developed for the next financial year.</li> </ul>	<p>Engagement with Senior Managers</p> <p>MPAC Manager engagement and reports provided to NCR</p> <p>Interim FRP</p>
Audit Improvement Plan	<p>There are Repeat findings, without consequences.</p> <p>There is no existing UIFW policy and standard operating procedure, hence there is non-movement on the register. The UIFW register is incomplete and does not include previous information and this will hinder EMLM in having a clean audit if the register is incomplete</p> <p>No alignment between IDP SDBIP and Budget</p>	<p>Negative Audit Outcomes</p> <p>Escalating matters of emphasis</p> <p>Culture of non-compliance</p> <p>Fraud and Corruption</p> <p>Implementation</p> <p>Fragmented, not aligned and results in challenges with service delivery and reporting and compliance</p>	<ul style="list-style-type: none"> <li>Lack of accountability</li> <li>Criminality and Malfeasance</li> <li>No consequence management</li> <li>Adverse Audit Findings</li> <li>No Standard Operating procedures (SOP)</li> </ul>	<ul style="list-style-type: none"> <li>Development of the UIFW policy and standard operating procedure</li> <li>Training relevant managers and staff on the policy</li> <li>Facilitate the update of the UIFW register</li> <li>Monitor the clearance of the register.</li> <li>Ensure consequence management is undertaken.</li> <li>Monitor the implementation of the Audit Improvement Plan</li> <li>Ensure development and implementation of Anti-fraud and corruption policy</li> <li>Introduce Probity for tenders of a certain threshold</li> </ul>	<p>AG Report.</p> <p>Internal Audit Manager engagement on 30 June 2022</p> <p>COGTA Administrator hand-over report</p> <p>Interim FRP</p> <p>Contact meetings and FY 2022/23 draft documents</p>
Legal Compliance	<p>A significant percentage of audit findings is on non-compliance with legislation especially SCM policies.</p> <p>Liability provision is high given the financial situation of EMLM</p>	<p>Compliance Manual is in place, however but the implementation and monitoring are a problem.</p> <p>MFMA compliance template is not responded to by management</p>	<ul style="list-style-type: none"> <li>Lack of accountability</li> <li>Criminality and malfeasance</li> <li>Lack of consequence management on transgressions</li> </ul>	<p>Develop a KPA for legal and policy compliance</p> <p>Ensure consequence management is affected on non-compliance</p> <p>Training of officials on the importance of institutionalizing legal compliance.</p>	<p>AG report</p> <p>Hand-over report by previous Council</p> <p>COGTA Administrator hand-over</p> <p>Contact meeting with the Legal Manager, Audit Manager, MPAC Manager</p> <p>Engagement with Senior Management, especially Legal</p>

Focus area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
					Manager on 13, 14 and 15 June 2022.
ICT Governance	<p>Breakdown of ICT Governance</p> <p>High Risk of information loss</p> <p>Inadequate back-up of information</p>	<p>Structure of ICT, Strategy in place but not institutionalised.</p> <p>ICT Steering Committee not in place.</p> <p>ICT all over and departments running their own systems which are not interfacing.</p> <p>ICT Roll-out to satellites has challenges as it is not effective and contributing to EMLM's inability to collect enough revenue and communication challenges. ✓ Old hardware</p>	<ul style="list-style-type: none"> <li>▪ No support or appreciation for ICT as an enabler.</li> <li>▪ Limited resources.</li> <li>▪ Limited capability</li> </ul>	<p>Access current ICT strategy and benchmark with best practice and review if necessary.</p> <p>Develop Terms of Reference for the ICT Steering Committee which must be established. Assess effectiveness of back-up system and business continuity plans.</p> <p>Ensure connectivity in satellite offices</p> <p>ICT Governance Audit to be conducted in Q2 of FY 2022/23</p>	<p>AG Report</p> <p>Strategic Review 23 &amp; 24 May 2022</p> <p>Enoch Mgijima Financial Recovery Plan</p> <p>Engagement with Senior Management, especially ICT Manager on 13, 14 &amp; 15 June 2022</p> <p>Meeting with the Internal Audit Manager 30 June 2022</p>
Misconduct and Malpractice	Inaction on reported cases of financial misconduct and transgressions	<p>Recurring transgressions</p> <p>Escalating UIWF</p> <p>Theft of municipal assets</p>	<ul style="list-style-type: none"> <li>▪ Lack of accountability</li> <li>▪ Criminality and malfeasance</li> </ul> <p>Lack of consequence management on transgressions</p>	<p>Enforce consequence management</p> <p>Pursue criminal investigations</p> <p>Develop a consequence management policy</p>	<p>AG Report</p> <p>Meeting with MPAC Manager and Internal Audit Manager on 30 June 2022</p> <p>Hand Over reports</p> <p>MPAC Reports</p>

## Finance

### Finding/s

- a) **Poor quality of data and information** produced or provided to prepare, inter alia:
  - i. Annual budget 2022-23 and MTREF 2023-25.
  - ii. AFS of 2019/20 and 2020/21 presented for audit were of poor quality and required material adjustments to current and prior year disclosures resulting in qualified audit opinions.
  - iii. Performance reports presented to Council did not provide sufficient detail to enable effective oversight and guidance.
  
- b) **Reconciliations**
  - i. Periodic (weekly/monthly/annual) were not performed or were of a poor quality in the areas of revenue, debtors, creditors, bulk services, and daily cash collections.
  - ii. Disclosures in the annual financial statement's Statement of financial performance reflects ineffective or non-performance of reconciliations related to disclosures therein.
  
- c) **Systems improvement and Risk management plans**
  - i. Non implementation or ineffective implementation of revenue enhancement plans.
  - ii. Non implementation or ineffective implementation of cost containment plans.
  - iii. Ineffective implementation of refuse and waste management services.
  - iv. Council resolved that the Special Programmes Unit (SPU) must be decentralised and function in the satellite office, however there is a high risk of limited resources to ensure effective functioning hereof.
  - v. EMLM doesn't not an effective risk management or contingent security plans. There will be significant investment required by the Council to restore the 5 damaged buildings as a result of the fires.
  
- d) **Lack of oversight on UIF-W, supply chain management and internal control environment**
  - i. The AGSA has expressed concern of EMLM to deal with accounting and internal control environment failures of the prior years.
  - ii. Interest on Eskom debt is 10% of EMLM's bulk electricity expenditure. This is fruitless and wasteful and Council will need assistance in negotiating this debt restructuring.
  - iii. FRP Implementation – EMLM may not have the require capacity, competency, and financial resources to implement the FRP in a sustainably effective and efficient manner.

### **Root Cause/s**

- a) **A lack of capacity and or lack of skilled capacity.**
- b) **Lack of Accountability** – Non-functioning or ineffective functioning of one or all the oversight bodies and mechanisms at all levels within the municipality.
- c) **Poor internal control systems and technology** that results in the production of late and or poor quality of information.

### **Recommendation/s**

- a) A review of internal control processes, including human resource skills and technology be conducted and improved where required.
- b) A review of contracts with consultants engaged to improve financial performance and implement turnaround plans be assessed for value.
- c) All project Managers to submit for approval Demand/Procurement plans linked to the approved budget and SDBIP

Below we set out a self-explanatory table of Key issues specific to the Finance Pillar

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
<b>Budget Management</b>	<ul style="list-style-type: none"> <li>Municipality developed and approved an unrealistic unfunded budget for 2022/2023 up to 2025</li> <li>Original budget was R946m which NT requested be reduced by R130m to R816m, with a projected surplus of R4,6m</li> <li>Years 2023 to 2025 were not adjusted and is overstated by at least R120m and R125m respectively</li> <li>Budget for 2022/23 includes gains from PPE of R27m</li> <li>Revenue baseline insufficient - since amalgamation the equitable share has declined</li> <li>Prior to amalgamation in 2016 the combined equitable share of the</li> </ul>	<p>Unfunded budget</p> <p>Financial and operational capacity of the municipality is under threat.</p> <p>Notwithstanding the reduction of the budget by the required R130m, this merely creates an artificial position of a funded budget as the structural challenges remain.</p> <p>It will require robust internal controls to improve revenue collections combined with managing expenditure to achieve this budget.</p>	<p>Low collection rate</p> <p>High grant dependency</p> <p>Lack of capacity of BTO staff</p> <p>Non- implementation of Credit Control and Debt Collection Policy</p>	<ul style="list-style-type: none"> <li>Revise Budget Funding Plan with clear objectives and financial targets aligned with FRP strategies and activities.</li> <li>PT oversight on BFP implementation</li> <li>Compile credible Adjustment Budget 2022/23</li> <li>Apply Zero-based budgeting approach</li> <li>Improve budget controls to prevent unauthorized expenditure</li> <li>Review of budget related policies to facilitate increased revenue and contain cost.</li> <li>Review of tariffs and tariff structures to ensure that they are cost effective and should be phased-in from the 2023/24 MTREF.</li> <li>The roll-out of the smart meters must be prioritized.</li> <li>Revenue: Budget for revenue based on</li> </ul>	<p>Budget Document with changes – 6 June 2022</p> <p>Audited AFS 2021</p> <p>National Treasury Revenue Assessment - February 2022</p> <p>Budget Assessment - 2022/23 by ECPT May 2022</p> <p>Budget related policies</p>

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>3 municipalities was R178,1m compared with the post-amalgamation of R156,9m for EMLM</p> <ul style="list-style-type: none"> <li>▪ The calculations were based on predetermined formulas and includes the R1,8b reduction in the baseline from 2016</li> <li>▪ The municipality is of the view that its percentage of indigent households is much higher than that reported in the last census, and as such should be reviewed</li> <li>▪ Over commitment on contracted services - most of the budget is committed with very little room for discretionary spend</li> <li>▪ Limited capital available for revenue generating infrastructure - the municipality is not generating surpluses</li> </ul>			<p>achievable and/or realistic amounts of revenue for adjustment budget 2022/23 and 2023/2024</p>	

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>to supplement the capital grants that it receives and thereby compromising the municipality's ability to invest in capital projects to upgrade the ageing infrastructure</p> <ul style="list-style-type: none"> <li>▪ Inability to pay bulk purchases - over the years the municipality has utilised the credit extended by Eskom to fund other expenditure. As of 30 April 2022, the liability is R737,9m. This debt incurs interest at prime +2.5% and remains the major albatross around the neck of the municipality. As the municipality has operational deficits, its ability to pay outstanding amounts for bulk purchases is at risk.</li> <li>▪ Inadequate budgeting for effective repair and maintenance of</li> </ul>				



Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>service delivery infrastructure</p> <ul style="list-style-type: none"> <li>▪ Inaccurate Collection Rates and Creditor amounts - the accuracy of the billing system for electricity, rates and taxes, and other charges is inaccurate as the valuation roll has not been reconciled to the billing system. There is no clear coordination between town planning and the billing department as a result where there is a change in the right of use, e.g., domestic to commercial where the incorrect tariffs are applied. In addition, there is a difference in the number of properties in the municipality's financial system that is not in the general valuation roll. The municipality bills property owners on</li> </ul>				

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>higher property values than the actual values on the general valuation roll.</p> <ul style="list-style-type: none"> <li>▪ Low collection rates and negative cash flows - due to the municipality's poor cash flow management and lack of credit control has resulted in significant under-collection of revenue. The municipality collects approximately 30% of property rates and 76% of service charges, which is below the Treasury norm of 95% collection rate. There are also structural inefficiencies within the municipality that impedes cash generation.</li> </ul>				

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
<b>Cost Containment and cash flow management</b>	<ul style="list-style-type: none"> <li>Going Concern - for the 2021/22 assessment, most of the ratios calculated and analysed indicate that the municipality is not financially sustainable.</li> <li>The municipality has been requested to produce a going concern assessment for 2022/23 to remedy the situation and put in place action plans to achieve financial sustainability in the MTREF period.</li> <li>The net debtor's days from 2018/19 to 2020/21 has remained in the range 551 to 589 days. The norm is 30 days. The 2021/22 adjusted budget reflects 271 days. This will be reviewed at year-end. This ratio indicates that the municipality will be exposed to</li> </ul>	Cost Containment Policy not fully aligned with NT Municipal Cost Containment Regulations (2019)	Lack of accountability and oversight	<ul style="list-style-type: none"> <li>Review accuracy of cash flow forecasting for remainder of 2022/23 figures. This to be done on monthly basis</li> <li>Develop and/or adopt/tailor make a template to be used for early warning with regards to the above review</li> <li>Revenue enhancement committee must actively manage the revenue enhancement metrics and ensure that sufficient cash is generated.</li> <li>Due to the declining cash buffer, it is recommended that a cash flow committee is established.</li> <li>Assess and improve capacity of BTO</li> <li>Adopt an active cash management system to enable it to maintain sound liquidity for sustainable service delivery</li> <li>Align policy with MFMA Circular 82 for guidelines on cost containment measures, MFMA</li> </ul>	Cost Containment Policy  Going concern assessment document

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>continued significant cash flow risks in the near future.</p> <ul style="list-style-type: none"> <li>The cash/cost coverage ratio indicates EM's ability to meet its monthly fixed operating commitments. The norm is between 1 and 3 months. EM ratio is 0.06, 0.04, 0.62 for the years 2018/19 to 2020/21 respectively and is budgeted at 0.5 for 2021/22. These ratios are far below the acceptable norm and indicate that the municipality is vulnerable in the event of a financial shock.</li> <li>Furthermore, it would be unable to pay its monthly fixed expenses with cash available without collecting any additional revenue. Current ratio which assesses EM's ability</li> </ul>			<p>Circular 97 and the Municipal Cost Containment Regulations (Gazette No.42514)</p> <ul style="list-style-type: none"> <li>Budget vs Cost comparison to be done on monthly basis. This will assist to also curb Unauthorised expenditure</li> </ul>	

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>to pay back its short-term liabilities with its short-term assets is expected to be in the range 1.5:1 to 2:1. The municipality's ratio for the period 2018/19 to 2020/21 is 0.38, 0.36, 0.28 and the budget is 0.5. The trend is consistently below the norm above and indicates the municipality will be unable to meet its current obligations which highlight the financial distress the municipality is experiencing. The creditor's payment ratio indicates the average number of days taken for trade creditors to be paid. EM has a ratio of 238, 431 and 571 days for the period 2018/19 to 2020/21 respectively. This indicates a deteriorating trend in creditors payments</p>				

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>as the norm is 30 days. The remuneration of employees and councillors as a percentage of total operating expenses is at its maximum of 39%. The norm is between 25% and 40%. The 2021/22 budgeted ratio is 40.9% and this has breached the upper limit of 40% and is expected to increase in 2022/23 to 43.6%</p> <ul style="list-style-type: none"> <li>▪ Cost containment policy is in place.</li> <li>▪ EM must ensure that the policy is enforced and that line departments should be requested to contain the expenses to 85% of their budgets.</li> <li>▪ The cash on hand has declined from R44m in 2020 to R37m in 2021, and the cash balance at the end of June 2022</li> </ul>				

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	is expected to be R30m. This steady decline, if not arrested, could result in EM contravening section 45 of the MFMA which requires that any overdraft be repaid by the end of the financial year.				
<b>Revenue Management</b>	<ul style="list-style-type: none"> <li>▪ Not all consumers are identified and metered</li> <li>▪ Number of unauthorised and illegal connections</li> <li>▪ The roll-out plan of the smart meters has not been achieved</li> <li>▪ Consumer meters not read but billed on estimates</li> <li>▪ Prepaid vendor reconciliation not performed regularly</li> <li>▪ Valuation rolls not reconciled with the billing system</li> <li>▪ No co-ordination between Technical</li> </ul>	<p>Low internal revenue</p> <p>Financial and Operational capacity is under threat</p> <p>Billing inconsistencies</p> <p>BTO capacity challenges</p> <p>Stalled smart meter roll-out program</p> <p>Possible internal bypassing of meters by EM technicians</p>	<p>Low collection rate</p> <p>Poor implementation of revenue strategy</p> <p>Inaccurate data</p> <p>Lack of monitoring</p> <p>Failure to implement consistently and strictly the debt &amp; credit control policy</p> <p>Insufficient customer care</p>	<ul style="list-style-type: none"> <li>▪ A term of reference needs to be drafted for the Revenue Enhancement Committee</li> <li>▪ Targets must be set for the Revenue Enhancement Committee for the revenue collections</li> <li>▪ Investigate and instil improved revenue management processes</li> <li>▪ Consumer segmentation to develop strategies to deal with non-paying consumers</li> <li>▪ Assess adequacy and efficacy of Credit Control Policy and Processes in realising the debtors</li> </ul>	2019/20 and 2020/21 Audit Reports

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>and Finance on meter readings</p> <ul style="list-style-type: none"> <li>▪ No effective customer care management Unit and Policy</li> <li>▪ Debtors book not reviewed to identify indigents and write-offs of irrecoverable debts</li> </ul>			<ul style="list-style-type: none"> <li>▪ Identify new opportunities for revenue generation and growth (within its mandate) and determining areas where generation of revenue has been underutilised.</li> <li>▪ Establish customer base which classify customer category. i.e., Business, Industry, residents, Government etc.</li> <li>▪ Meter reading should be done monthly, and variances be attended promptly</li> <li>▪ Perform reconciliation on valuation roll and billing system and correct discrepancies</li> <li>▪ Establish a customer care unit and update a policy on customer care, including dispute resolutions</li> <li>▪ Review the debtor's book and identify long outstanding debts, reconcile with the indigent register, and recommend write offs</li> </ul>	



Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
<b>Financial Control environment</b>	<ul style="list-style-type: none"> <li>▪ Status of accounting records is unreliable</li> <li>▪ SOPs not fully implemented</li> <li>▪ Utilisation of financial resources are not used effectively, efficiently, and economically.</li> <li>▪ Full and proper records of the financial affairs are not kept in accordance with prescripts</li> <li>▪ Financial and risk management not adequately implemented</li> <li>▪ mSCOA not fully implemented</li> <li>▪ Modules for Assets (loaded but training not implemented), HR Leave and Contract Management not activated as yet</li> <li>▪ Audit Improvement Program to move to clean audit not fully implemented. Reliance on</li> </ul>	<p>AG issues not addressed</p> <p>BTO Capacity constraints</p> <p>Modules on Financial, Accounting and reporting systems not fully implemented</p> <p>Inaccurate data capture on financial systems</p> <p>Delay in receiving and processing of documents from outlying offices</p>	<p>Poor quality of data and information</p> <p>Lack of periodic and timeous reconciliations</p> <p>Lack of following standard procedures for BTO activities</p> <p>Lack of comprehensive accounting for payroll and VAT</p>	<ul style="list-style-type: none"> <li>▪ Accurate and timeous recording of all transactions on the financial systems.</li> <li>▪ All reconciliations to be performed and monitored monthly</li> <li>▪ Implementation of SOP`s for all BTO functions. Workshop the SOP and monitor implementation</li> <li>▪ Training of officials on the modules identified but not yet activated</li> <li>▪ Review records management procedure in line with regulations</li> <li>▪ Train management on risk identification and mitigation</li> <li>▪ Interface of Payroll with Financial systems</li> </ul>	<p>2021 Audit Report</p> <p>Finance As Is request for information 14 and 29 June 2022</p>

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	Consultants to prepare AFS for AG without building capacity				
<b>Trading Tariffs</b>	“Other Services” are operated at a loss and subsidised from Electricity and Solid Waste	Trading Tariffs are not cost reflective	As per NT tariff assessment for 2021/22, R13.7m surplus from tariffs recover the cost to render solid waste but not electricity and other services. Tariff assessments must be recalculated to ensure that the tariffs recover the cost to deliver a particular service, i.e., Electricity, Solid Waste, etc	<ul style="list-style-type: none"> <li>Municipality must re-examine the cost-reflectiveness of its trading services, especially electricity as this is the largest trading service and should be able to generate surpluses.</li> <li>Put in place strategies to reduce losses even further by attempting to reduce its technical and non-technical assets as these will reduce the cost of supplying services and increase the volumes sold.</li> </ul>	National Treasury Revenue Assessment 28 February 2022
<b>mSCOA</b>	<ul style="list-style-type: none"> <li>Material Irregularity</li> <li>2018/19 Adverse audit opinion, 1920/21 Qualified audit opinion</li> <li>Key Functional Modules not implemented</li> </ul>	Lack of controls, lack of oversight, lack of documentation, incorrect posting	<p>Inadequate training</p> <p>Lack of oversight</p>	<ul style="list-style-type: none"> <li>Revise and implement plan for non-functional modules such as asset management modules etc.</li> </ul>	<p>AG Report</p> <p>PT/NT assessment reports</p> <p>MTREF Budget</p>

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
<b>Supply Chain Management</b>	<ul style="list-style-type: none"> <li>Not all municipal procurement is included in the procurement plan.</li> <li>Supply Chain Management policy need to be reviewed</li> <li>High levels of UIF-W point towards SCM deficiencies. This is evidenced by the following: for the year 2020/21 the UIF-W totalled R285.9m. Brought forward on 1 July 2020 was R451.1m. Write-offs totalled R535.4. Closing Balance was R201.6m.</li> </ul>	<p>Inadequate planning for procurement</p> <p>Lack of controls over procurement processes</p> <p>Non-visible disciplinary action for the UIF-W</p>	Deviation from SCM Policy and Regulations	<ul style="list-style-type: none"> <li>Review SCM policy to deal with any internal control weaknesses identified, and ensure they are aligned to all applicable legislation</li> <li>Design and implement systems and procedures to ensure total compliance to the policies by the municipality (strengthened controls)</li> <li>Compliance with SCM processes before any order is issued</li> <li>Consequence management for non-compliance</li> <li>Contract management: including review if there is a valid contract and if we have not yet exceeded the contracted amount before payments</li> <li>Line managers to verify if work was done and sign invoices according</li> <li>Measures to curb Irregular expenditure and value for money expenditure</li> </ul>	<p>SCM Policy</p> <p>AG Report</p> <p>AFS 2020/21</p> <p>Internal Audit Manager meeting of June 30, 2022</p>

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
<b>Indigent Management</b>	<ul style="list-style-type: none"> <li>Inaccurate recording of indigents: Unrealistic indigent register lacking proper verification process</li> </ul>	Poor records and infrequent updating of indigent register	Non and inaccurate identification of Indigents	<ul style="list-style-type: none"> <li>Status verification through physical inspection/ revision and external verification.</li> <li>Verification of indigent should also be done via SASSA database in addition to available processes to ensure creditability of the register. Publication of names should be maintained.</li> <li>Review of Indigent Register</li> <li>Municipality should ensure allocation of subsidy to all deserving indigents. Allocation amount should be set aside and allocated monthly to avoid overstating of debtors.</li> </ul>	Rates Procedure Manual  Indigent Management Policy

## Institutional arrangements

### Finding/s:

- a) NCR was not able to place any reliance on organisational structuring work done in the past.
- b) There was a head count exercise done in March 2021 that focused on “ghosts’ scheme”, approved structure, and validity of employment contracts. However, it could not investigate the mismatch of job grades and salary bands.
- c) There was no evidence of being based on fit-for-purpose service model.
- d) There was no evidence/logic for the number of same positions (i.e., work loading). Random employment.
- e) One-over-one string of reporting lines creating unproductive layers which is tantamount to job creation.
- f) Unclear and messy – plenty places to hide inefficiency and ghosts.
- g) During the S139(5) administration, there were several activities and actions planned or proposed with respect to creating a fit-for-purpose organisation. It appears that much of the PER proposed mitigation actions or operational activities may have been ignored or not implemented or were ineffective in achieving the desired outcomes. The following italicised bulleted paragraph is an extract from the S139(5) PER’s handover report, which clearly articulates the current state of affairs. It was important to quote from the handover report to ensure that the interpretation of the Administrator’s report was clear.
  - o A process for the development of Enoch Mgijima organogram for 2020/21 financial year was completed with a final report for the approval of the structure submitted to the former Executive Mayor. A process plan had been developed with EC COGTA and was implemented, which culminated in a draft organisational structure.
  - o A draft process plan on the placement and migration of staff onto the organisational structure was developed with inputs received from National Treasury and was presented to the Directors’ meeting for adoption, who made further inputs in relation to the role of the Municipal manager and was supposed to be resubmitted once the Directors’ meeting sits again. The inability of the Municipal Manager to submit the structure for approval was seen as a stalling tactic for the organisational structure not to be approved by the former Council, but by the new Council in her further acts of undermining of the intervention and the implementation of the Financial Recovery Plan.
  - o A process plan was developed in relation to the development of Job descriptions and Job evaluation and was implemented internally and was awaiting the approval of the organisational structure, in order to align the reporting lines with the approved structure for submission to the Job Evaluation committee.
  - o The Skills audit analysis report had been developed and was to be submitted to Management once the Directors’ meeting sat for consideration.
  - o A moratorium on filling of non-essential positions was still in place, with critical posts identified in line with the Financial Recovery Plan, supposed to be filled upon approval by the Administrator.
  - o Bilateral meetings were held with SAMWU and IMATU as and when the need arose, and the Local Labour Forum challenges were addressed with the last Forum sitting on the 12 October 2021 to

address pressing labour relations issues. EC CoGTA has provided support in the form of Mr Funani, the District Coordinator for Chris Hani District who facilitated its resuscitation as per the directive of the MEC.

- Policies which were approved by Council on the 30th of September 2020 were in force. For the 2021/2022 financial year policies were being reviewed.
- Validation of the number of employees was completed, where a Service Provider appointed by EC CoGTA implemented a process plan that included an audit of employees to ascertain whether there were “ghost “employees, checking those employees back to organogram, verifying employees to payment schedules and bank accounts, conducting a head count, and auditing all employment contracts in order to terminate according to the terms of contract and legislation. A final report was submitted to the Administrator by the Service provider whose recommendations were being addressed.

### Root Cause

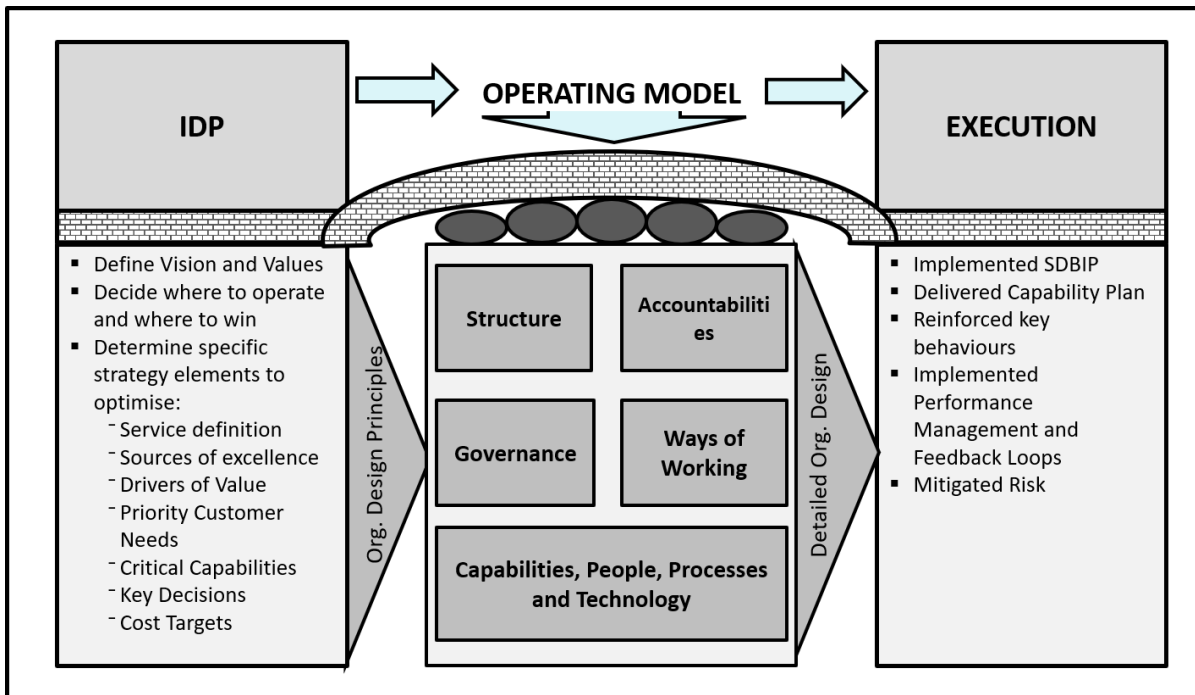
- a) A lack of capacity and or lack of skills.
- b) An ineffective and inefficient organisational structure.
- c) Outdated and or Ineffective systems, processes and or Human Resources compliment.
- d) Lack of or poor implementation of HR policies that have financial implications.
- e) Absence of or poor implementation of human resource planning, leading to haphazard employment practices.
- f) Poor internal controls and oversight environment.

### Recommendations

#### Organisational Development

EMLM must embark on an Organisational Development which aims to improve the existing organisational processes and creates new ones where a gap is identified. It further aims to maximise the effectiveness, potential and capacity of both the people and the municipality. This is achieved through the designing of optimum structural arrangement, accurate profiling of jobs and the determination of a systematic evaluation of jobs, using an approved job grading system (TASK). To enhance the external validity of the allocated grades, the grades are correlated across other job grading systems.

The organisational structure as an instrument which helps an organisation to transition from its strategy (IDP) to the actual execution must be informed by the organisation’s **operating model** (service delivery model for municipalities). The following model depicts the process:



**Figure 7: Organogram giving effect to the IDP and facilitating execution**

A conscious decision must be made as to what **structure** the municipality wants to adopt; what **governance** arrangements are followed in the municipal setup; what accountabilities must be built into the organogram. Some of these are legislated, as in the MFMA, the Municipal Systems Act and the Municipal Structures Act. Because jobs in an organisational structure are often clustered in job families, what working arrangements are to be built into the organisational structure must be demonstrated in the designing process. The following steps are critical when developing a Service Delivery Model:

- Confirmation of mandated responsibility IDP and Municipal Structures Act.
- An informed list of services to be provided and an indication of who would provide the services to which clients.
- The pros and cons of current approaches to service delivery.
- A description of how best service provision should be operationally organized internally and through working arrangements with other tiers of government or third-party entities.
- A detailed analysis of how support services can be best organized to support front-line service delivery;
- Discussion of alternate service delivery mechanisms or operational improvement for each area of service;
- Information Technology requirements of each service;
- HR and general capacity requirements of each service; and
- Risks and constraints of delivery, with mitigation plans

## Policy Review and development

To ensure consistency and legal compliance in dealing with people issues, there must be an enabling **policy environment**, where provision is made from the onboarding to the off-boarding stages of employment. The intention should be to improve employee experience in support of attracting and retaining the best talent at all levels of work. All the stakeholders affected, whether they are the subjects or implementers of the policies, must be workshopped on how the policies must be applied, what is excluded and who can be exempted from the policy.

## Payroll Audit

The challenge of a **bloated payroll** can be ill-afforded by a municipality in the EMLM's current situation. There are numerous reasons to which this is attributed. Among many, is the insistence that the municipal is a Grade 6 while it is documented and gazetted as a grade 4 municipality. This has implications, in that bargaining at the SALGBC is concluded for each municipal grade and that there are specific scales for each grade. This must be reviewed and corrected. Overstated jobs are evident in exaggerated job grades which result in the employees being placed at higher salary levels and possibly encroaching on benefits structures that they would otherwise not qualify for. The team must still access the payroll to verify the employees' total packages to identify the variable components of their salaries, such as overtime, standby, pension and other allowances and bonuses. Mechanisms must be suggested to identify and deal with pay structure outliers. The identification and termination of ghost workers and employees who do not form part of the current organisational structure are some of the low-hanging fruits through which the team can make a quick impact.

## Competency Assessment

Whilst it is acknowledged that some or many current employees may not possess the requisite **capacity** to drive municipal projects, this discrepancy will become more obvious as the employees are migrated to the newly designed organisational structure. As competency gaps are identified, mechanisms must be proposed to mitigate the gaps and help speed up the service delivery project. Well considered job profiles are the building block of individual employee capacity building and a precursor for the competency framework which is pivotal in the determination of desired competencies.

## Human Resource Planning

A **human resource strategy** must be developed with the participation of the relevant stakeholders to ensure that EMLM has the right people, with the correct competencies and performing at the right levels in jobs that are designated and included in the municipality's organisational structures. In the same way that the organisational structure must give effect to the IDP, the human resource strategy must be aligned, support and flow from the municipality's goals and objectives as indicated in the EMLM IDP. This is a crucial connection which cannot be overlooked.

## Sound Labour Relations

People Management is key to the execution of any organisational strategy. This can be achieved through sound labour relations. The engagement with labour, the management of discipline and development of an organisational culture will be an area of focus.



All staff should be fully conversant with the Code of Conduct and Disciplinary and Grievance Procedures. Ethical Leadership and conduct should be institutionalised. A consequence management framework must be developed and institutionalised.

## **Performance Management**

EMLM must institutionalise a performance-driven culture, and this can be achieved through a rigorous institutional and individual performance management system. A performance management policy must be developed and cascaded throughout the organisation, in a phased approach.

## **Records Management**

Records are sorted, kept, protected, made available and disposed in line with relevant pieces of legislation. Records management is guided by National Archives and records services of South Africa Act (Act No 43 of 1996). Records management policy has been developed and tabled to Council for adoption. A file plan has been developed for the municipality to make sure that filing is done in accordance with the file plan. The section works cooperatively with Department of Sports Recreation Arts and Culture (DSRAC) to assist on matters of compliance.

## **Filling of Critical Vacant positions**

The municipality has a challenge on attracting scarce skills in engineering field (civil, building, electrical etc) impacting negatively on the management, maintenance, and completion of service delivery projects. It is critical for the municipality to come up with strategies on how to recruit and retain the scarce and critical skills to ensure efficient service delivery.

Positions that are filled are the following:

- ✓ Municipal Manager
- ✓ Chief Operations Officer
- ✓ Chief Financial Officer
- ✓ Director: Corporate Services
- ✓ Director: Community Services (irregular appointment before the High court for setting aside).
- ✓ Director: Technical Services (irregular appointment being challenged at the High court for setting aside as it was done without the approval of the Administrator).

## **Change Management**

Employees were updated on developments pertaining to the Financial Recovery Plan, via flyers and pamphlets. The Financial Recovery Plan (FRP) progress reports were regularly tabled during the Mayoral Committee and Council meetings.

The Financial Recovery Plan was a standing item in Top Management meetings, where Directors/ Conveners were expected to report on progress, but this had recently not happened since the Municipal Manager has not called Directors' meetings since August 2021. The Financial Recovery Plan was a standing item in Top Management meetings, where Directors/ Conveners were expected to report on progress, but this had recently not happened since the Municipal Manager has not called Directors' meetings since August 2021.

Below we set out a self-explanatory table of Key issues specific to the Institutional Arrangements Pillar

Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
Organisational Structure and Employee Costs	<ul style="list-style-type: none"> <li>✓ The Organisational Structure was redone and approved a year after the amalgamation but has not been implemented</li> <li>✓ Audited (20/21) Employee costs are 41% and stated at 38%</li> <li>✓ In some month salaries are not paid on time due to poor cashflow.</li> <li>✓ Some of the functions are outsourced and partly outsourced due lack of requisite skills or resources. These included, debt collection ICT Services and Legal Services.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Outsourced core functions.</li> <li>✓ Poor planning.</li> <li>✓ High employee costs.</li> <li>✓ Lack of requisite skills.</li> <li>✓ Political interference.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Political interference.</li> <li>✓ Structure not properly aligned.</li> <li>✓ Lack of skills on ICT and legal functions (not being able to attract the necessary skills due to the area being rural and no skills pool available in the community).</li> </ul>	<ul style="list-style-type: none"> <li>• The municipality is encouraged to employ measures to reduce high employee costs. (All non-critical vacancies must not be filled and there should be zero percent increase on employee salaries) – vacant Senior Managers post not be filled till the finalisation of Organogram review.</li> <li>• Review the Organisational Structure and make provision for all core services/ functions to be executed internally.</li> <li>• Conduct a cost-benefit-analysis for outsourced and insourcing of services.</li> <li>• Provide for clear roles/responsibilities.</li> <li>• Investigate possible illegal staff promotion/ post grading/upgrading and apply consequence management and restore all affected posts to the correct original posts' levels.</li> </ul>	<p>Annual Report 2019/20.</p> <p>AG Report 2021/21</p> <p>S139(5) Administrator report</p> <p>Management, and business engagement.</p>

Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
	<ul style="list-style-type: none"> <li>✓ Some of mechanical work is outsourced whereas there is a Mechanical Workshop with staff.</li> <li>✓ The structure is top heavy with unnecessary management layers (Directors, Senior Managers and Managers).</li> <li>✓ Unfunded vacancies on new organogram – but not filled.</li> <li>✓ There is no Placement Policy, staff not placed accordingly, and disputes have not been resolved.</li> <li>✓ Lack of sufficient workforce to perform duties due to inadequate organogram resulting in poor</li> </ul>				

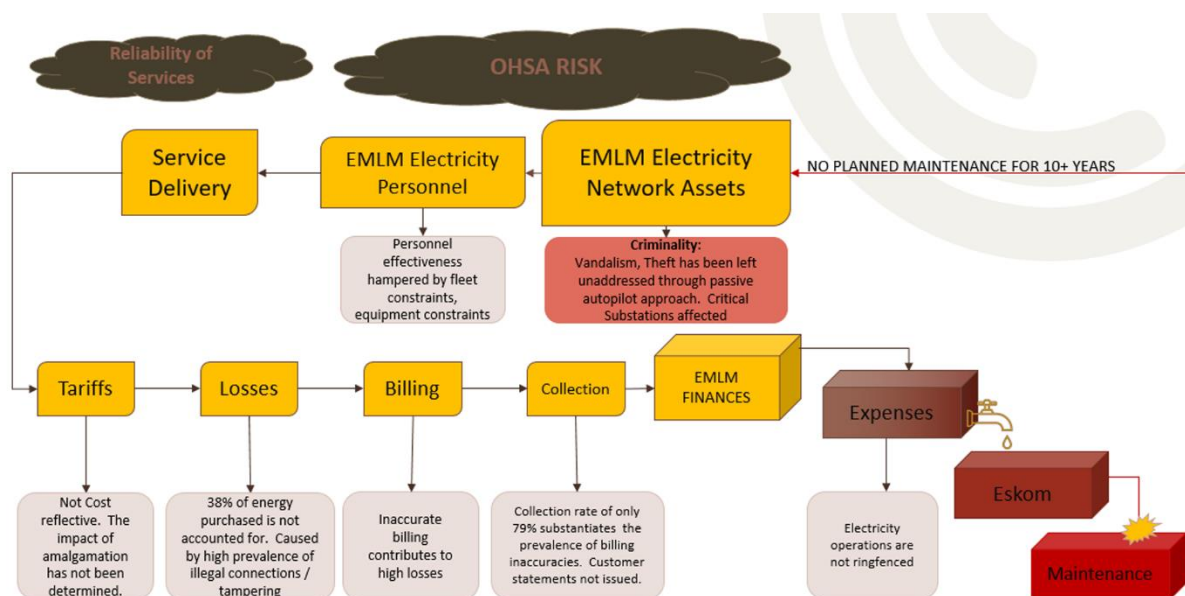
Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
	service delivery. The organogram done post amalgamation was not implemented				
Overtime	<ul style="list-style-type: none"> <li>✓ Current budget does not make provision for compensation of overtime.</li> <li>✓ Key and essential services are compromised.</li> </ul>	<ul style="list-style-type: none"> <li>✓ No budget provision.</li> </ul>	<ul style="list-style-type: none"> <li>Endeavours to curb abuse of overtime and cost saving.</li> </ul>	<ul style="list-style-type: none"> <li>• Make provision for overtime during the budget adjustment process, however this must be mitigated to the point of absolute necessary and limited to the value to be gained</li> <li>• Introduce measures and procedures to approve, monitor overtime work and compensations – use Divisional Agreement and BCEA to guide internal processes.</li> <li>• Introduce and conclude an Essential Services Agreement with Organised Labour.</li> </ul>	<ul style="list-style-type: none"> <li>Council &amp; Management engagement.</li> <li>2022/23 Budget</li> </ul>
Leave Management and Absenteeism	<ul style="list-style-type: none"> <li>✓ There are inadequate leave controls.</li> <li>✓ Poor timekeeping and absenteeism.</li> <li>✓ High level of alcohol intake.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Disregard of legislated processes and complete lack of supervision.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The clocking system is not linked to payroll for correlation of remuneration against days worked.</li> <li>✓ Payroll is manual in some instances</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce a clocking system linked to Payroll (considered automated options).</li> <li>• Authorise Payroll to individual employees based on the timesheet signed by someone with authority.</li> </ul>	<ul style="list-style-type: none"> <li>✓ AG Report 2020/21</li> <li>✓ Administrator report</li> <li>✓ Management engagement.</li> </ul>

Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
			<ul style="list-style-type: none"> <li>✓ Chronic and prolonged illnesses.</li> <li>✓ Consequence management applied in line with HR policies</li> <li>✓ Salary disparities causing staff to be disgruntled and deserting work/ posts.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement constant auditing of the payroll.</li> <li>• Stricter application of leave procedures and apply consequence management for transgressions.</li> <li>• Assist affected staff with medical boarding applications.</li> <li>• Request the EC Liquor Board to assist alcohol abuse counselling and support (as part of their CSI programmes).</li> </ul>	
Management of discipline.	<p>Lack of consequence management</p> <p>Limited in-house capacity of Presiding Officers.</p> <p>Staff with political links are proving to be difficult to control and manage and there is political interference.</p>	<ul style="list-style-type: none"> <li>✓ Poor controls.</li> <li>✓ Political interference.</li> <li>✓ High rate of disregard for work procedures and respect for work protocols.</li> <li>✓ Certain employees doing business with the municipality.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Cases taking too long to finalise.</li> <li>✓ Lack/ limited personnel capacity to preside and prosecute matters.</li> <li>✓ Affected employees electing to use the services of private attorneys when not allowed by the 2018 Code Collective Agreement on Discipline.</li> </ul>	<ul style="list-style-type: none"> <li>• Expedite all outstanding matters and finalise within 6 months.</li> <li>• Source the services of the district and other state organs to assist with presiding and prosecuting of all matters.</li> <li>• Train s56 Managers &amp; Managers.</li> <li>• Expedite the appointment of Manager Legal and Industrial Relations Officer.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Council &amp; Management engagement.</li> <li>✓ Administrator report</li> </ul>

Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
Management of discipline.	Insufficient/ineffective disciplinary process.	<ul style="list-style-type: none"> <li>✓ Lack of stringent control measures hampering successful outcome of disciplinary procedures.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Limited in-house capacity of Presiding Officers.</li> <li>✓ Political interference: Cases abandoned, and amnesty granted by Council</li> </ul>	<ul style="list-style-type: none"> <li>• Train s56 and other senior managers to be used as Presiding Officers and Prosecutors.</li> <li>• Make use of officials from other government departments and municipalities.</li> <li>• Municipal Councillors to desist from interfering with disciplinary processes.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Administrator report</li> <li>✓ Engagement with management</li> </ul>
Staff Verification	<p>Staff verification (head counts) are not conducted.</p> <p>Director's sign-off monthly salary payment schedules for processing of payroll – this is a routine procedure and is susceptible to manipulation.</p>	<ul style="list-style-type: none"> <li>✓ Possible existence of employees unaccounted for ('ghost workers').</li> <li>✓ Possibility of incompleteness of employee related costs.</li> </ul>	<ul style="list-style-type: none"> <li>✓ There was never a commitment to execute.</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct staff verification annually.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Management engagement.</li> </ul>
Skills Audit	<p>Skills audits have not been conducted.</p> <p>Lack requisite skills to perform key and core functions.</p>	<ul style="list-style-type: none"> <li>✓ Limited capacity and skills.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of training.</li> <li>✓ Lack of skills &amp; competencies.</li> <li>✓ Lack of HRMDS</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct skills audits.</li> <li>• Placement of employees in line with competencies.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Administrator report</li> <li>✓ Engagement with management</li> </ul>
Human Resources Development	The HRDMS does not exist	<ul style="list-style-type: none"> <li>✓ HRDMS not finalised and not approved by Council.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Approval and implementation.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Expedite the review approval of HRDMS and submit to Council for approval and accordingly implement it.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Administrator report</li> <li>✓ Management engagement</li> </ul>

Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
& Management Strategy	<p>Failure to attract, appoint and retain skilled and competent workforce/critical vacancies not filled and Ineffective middle management.</p> <p>Lack of transfer of skills due to over reliance on private service provider and key personnel.</p>	✓ Poor attraction and retention.		<ul style="list-style-type: none"> <li>Use PMS and EAP to attract and retain competent key personnel.</li> </ul>	

## Service delivery



### Finding/s:

- The EMLM operations run at a recurring deficit largely because they are not collecting enough revenue from electricity sales which is the primary source of revenue. The biggest reason is that 38% of the energy purchased from Eskom is not billed to any EMLM customers whilst the acceptable norm for such losses is in the range of 7-10%
- The basic N+1 redundancy which is standard good practice in electricity distribution has been lost through the crisis management approach which seems to have been followed over the past 10 – 15 years. In order to provide a firm electricity supply, key infrastructure components such as substation power transformers and certain “trunk” feeders need to be duplicated (this is referred to as N+1 redundancy) because the lead time for replacing such items can be many months. A trend emerges that as key components began to fail in one location, they were replaced with components from other locations until none of the major EMLM substations had the necessary N+1 redundancy.
- Due to low revenue collection, the O&M budget is less than the legislated norm of 10%. It is currently allocated 1.4% of the total operating revenue. The municipality doesn’t have an Electricity Master Plan and it plans to source funding through the assistance of consultants for the development of the said plan.



- d) Electrical Distribution Networks are over capacity. No maintenance has been done since the amalgamation in 2016.
- e) Therefore, the reliability of the Electrical Distribution Networks has been compromised and significant investment is needed to restore the Komani/Queenstown network to normality.
- f) The Electricity Access Backlog within EMLM is less than 6%.
- g) EMLM does not have a qualified electrical engineer as part of its employees' setup.
- h) SPLUMA – non-implementation for over 3 years.
- i) Promotion of Economic Growth and Land Development is not a priority therefore resulting in low job creation, job losses, negative economic growth, social decline & low public confidence.
- j) Existing staff are administrative/support staff and lack the necessary skills and expertise.
- k) Based on a municipal road condition assessment conducted through the use of RRAMS, the roads infrastructure is of a poor condition.
- l) There is no evidence of a Generally Recognised Accounting Practice compliant infrastructure asset register and or effective management and oversight thereof.
- m) CHDM has assisted the municipality to develop a Housing Sector Plan that to address the housing needs of Enoch Mgijima community. The said draft plan was tabled to Council in 2019.
- n) CHDM has developed a Transport Master Plan to cater for the transport needs (services, infrastructure) of different local municipalities in the area. The CHDM master plan is going to be implemented at Enoch Mgijima through a combined effort between the district municipality and the local municipality as well as all key and relevant stakeholders in the sector.
- o) Lack of effective bulk services reconciliations including electricity.
- p) Infrastructure master plans are of poor quality and or outdated.

- q) Review of lease agreements is in progress in an endeavour to effectively manage municipal properties and generate revenue.

### **Root Cause**

- a) A lack of capacity and or lack of skilled capacity.
- b) There is instability whilst morale is low with low production and lack of leadership.
- c) Policies, by-laws, and tools that are required are not in place and or not being implemented.
- d) Limited staffing and lack of skills and expertise as well as suitably experienced staff and management.
- e) There is no retention nor scarce skilled staff attraction policy.
- f) No focus on Red Tape Reduction nor prioritising development & service delivery.

### **Recommendation/s**

- a) EMLM should urgently address electricity losses through focussed billing and meter audits and implementation of debt control policies.
- b) EMLM should implement an electricity cost of supply study that considers the status of the entire municipal supply area post the amalgamation of 2016.
- c) EMLM should invest in updating master plans to guide the critical upscaling required to improve the reliability of municipal infrastructure.
- d) EMLM should employ a qualified electrical engineer.
- e) The municipality urgently needs to develop a Comprehensive Infrastructure Master Plan.
- f) A storm water master plan is required to prioritize project proposals.
- g) The project management unit be fully capacitated and funded to enable effective and efficient rollout of capital projects.
- h) Review the infrastructure management policies, procedures, and implementation and oversight thereof to facilitate development and implementation of infrastructure master plans.
- i) Perform a physical verification of the infrastructure assets, including electricity assets and update the physical infrastructure asset register.
- j) The municipality must audit a number of buildings owned by the municipality that can be renovated in order to enhance revenue or accommodate some directorates with challenges of office space.
- k) Conduct high level services items tariff analysis.
- l) Review the fleet management system.
- m) Conduct a physical verification and perform a reconciliation to update the roads and stormwater network; and perform a physical inspection and review of the waste management operations and oversight system.

n) Engage Eskom regarding the Eskom debt.

Below we set out a self-explanatory table of Key issues specific to the Services Pillar

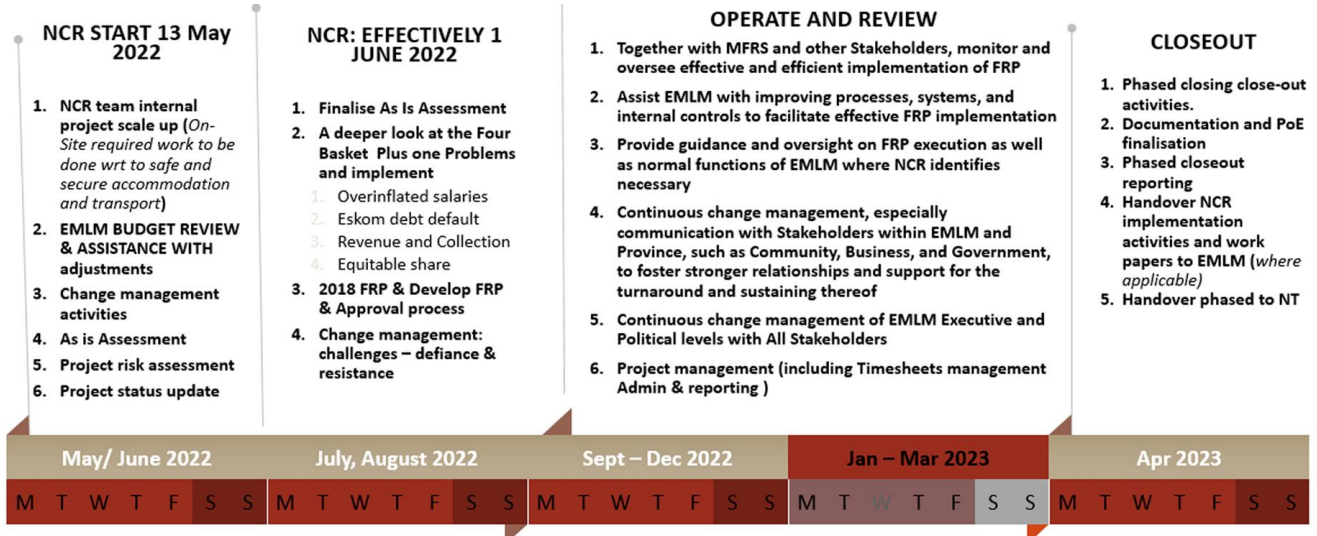
Focus area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Infrastructure Asset Management	Poor asset management, lack of revenue collection. To date EMLM has failed to submit asset registers to the NCR team for evaluation.	<ul style="list-style-type: none"> <li>Alignment of asset management policy and practise. The municipality has not done conditional assessment of all its assets, capitalization of completed projects and proper maintenance of work in progress.</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure asset management capacity is inadequate. This is especially evident in the reliability of the electricity network which is addressed in more detail elsewhere.</li> </ul>	<ul style="list-style-type: none"> <li>The municipality needs to generate updated sector plans for all services sectors.</li> </ul> <p>This would assist the municipality to generate maintenance plans for infrastructure.</p> <ul style="list-style-type: none"> <li>Development of standard operating procedures for maintenance of assets.</li> </ul> <p>The municipality needs to have an infrastructure loss control strategy to manage vandalism and theft of equipment.</p>	<ul style="list-style-type: none"> <li>IDP Review 2020–21- Enoch Mgijima</li> <li>Municipal handover report to new council – Nov 2021.</li> <li>Enoch Mgijima Financial Recovery Plan</li> </ul>
Energy Reticulation and bulk supply	<p>The municipality owes Eskom R719m (June 2022). Electricity losses are above the 7-10% norm @ 38% (2021).</p> <p>The municipality is not collecting enough revenue through electricity sales and not paying Eskom. As a result, there is a large outstanding electricity debt. An alarmingly high percentage of energy</p>	<ul style="list-style-type: none"> <li>Non-payment of Eskom's current account.</li> <li>Distribution Losses, Illegal connections, vandalism including cable theft, poor revenue collection. Due to the lack of financial resources over the past number of years, a backlog in repair and maintenance, as well as refurbishment and network expansion has increased.</li> </ul>	<p>Poor network maintenance because of inadequate staff, fleet, material, and equipment. Inadequate credit control.</p>	<ul style="list-style-type: none"> <li>In the short term, the municipality needs to urgently address losses through focussed and strategic meter auditing and applying the relevant debt control policies.</li> <li>Develop and implement Electricity Maintenance and Refurbishment plan. Compile and implement the Electricity Loss Management Plan.</li> </ul>	<ul style="list-style-type: none"> <li>IDP Review 2020–21- Enoch Mgijima</li> <li>Municipal handover report to new council – November 2021.</li> <li>Enoch Mgijima Financial Recovery Plan</li> </ul>

	<p>purchased from Eskom is not being billed to customers. Illegal connections, inaccurate billing and electricity meter tampering is prevalent.</p> <p>The reliability of the municipality's electricity service delivery is undermined by the poor condition of their networks due to prolonged periods of maintenance being deferred.</p> <p>The municipality does not have an updated Electricity Master Plan and has not indicated a clear strategy to deal with future energy security, considering SSEG and the 100MW self-generation potential.</p> <p>Staff are not adequately equipped to attend to maintenance and repairs due to budget constraints.</p>	<ul style="list-style-type: none"> <li>▪ Electricity tariffs are not cost reflective.</li> <li>▪ Electricity losses are not being addressed.</li> </ul>		<ul style="list-style-type: none"> <li>▪ Urgently maintain/repair priority network components (ring feeders, pole replacement, servicing transformers).</li> <li>▪ Refurbish / upgrade electrical network according to priority implementation programme.</li> <li>▪ Review SLA with Eskom. Does it adequately address all technical, service delivery and financial matters?</li> <li>▪ The municipality has implemented a meter replacement project for smart meters to be installed. This project needs to be reviewed to ensure that the roll out corresponds with specific areas which contribute to electricity losses.</li> <li>▪ Source funding for adequate training of staff and stocking of materials and consumables.</li> </ul>	
Roads and Stormwater Network	<p>District roads are reported to be in good condition. However, the internal municipal roads and stormwater system are poorly maintained, and the number of potholes is contributing to water</p>	<ul style="list-style-type: none"> <li>▪ Unmaintained gravel roads, rutting, potholes, storm water drain blockage, vegetation growth on storm water channels. Poor road conditions also have impact on service delivery in particular the durability of fleet and refuse removal.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Inadequate repairs and maintenance budget, unreliable machinery.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop and implement a Roads and Storm water master plan. Develop and implement the Roads and Storm Water Maintenance plan, Urgent Road Maintenance; Attend to all reported potholes, storm water drainage and clean</li> </ul>	<ul style="list-style-type: none"> <li>▪ IDP Review 2020–21- Enoch Mgijima</li> <li>▪ Municipal handover report to new council – November 2021.</li> <li>▪ Enoch Mgijima Financial Recovery Plan</li> </ul>

	penetrating to the base courses.			related blocked drains, and urgent maintenance on priority surfaced and gravel roads. Rehabilitate roads as per Maintenance Plan.	
Project Management Unit	The municipality is not spending all its allocated grants.	<ul style="list-style-type: none"> <li>For the 2020/21 year the municipality received R53,158m in MIG grant funding and spent R46,570m</li> </ul>	<ul style="list-style-type: none"> <li>Non-adherence to procurement plan.</li> </ul>	<ul style="list-style-type: none"> <li>Improve administration and unlock the MIG funded projects. Improve capacity and technical skills for execution of projects. Improve planning and implementation for projects. Continuous oversights on the Projects' Scope including reporting on in line with MFMA requirements.</li> </ul>	<ul style="list-style-type: none"> <li>IDP Review 2020–21- Enoch Mgijima</li> <li>Municipal handover report to new council – November 2021.</li> <li>Enoch Mgijima Financial Recovery Plan</li> </ul>
Waste Disposal and refuse removal	The municipality is unable to deliver waste disposal and refuse removal services due to inadequate fleet.	<ul style="list-style-type: none"> <li>Illegal dumping on open spaces. Insufficient and ageing infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>Significant portion of the municipal fleet was attached and auctioned off to pay debt.</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement Integrated Waste Management Plan</li> <li>Improve condition of maintenance plant and equipment</li> <li>Adhere to legislation to become compliant landfill site operator</li> <li>Review tariffs and policy. Promulgate updated by-laws as required.</li> <li>Collect revenue from users at landfill sites.</li> </ul>	<ul style="list-style-type: none"> <li>IDP Review 2020–21- Enoch Mgijima</li> <li>Municipal handover report to new council – November 2021.</li> <li>Enoch Mgijima Financial Recovery Plan</li> </ul>

Fleet Management	The municipality has registered challenges with regards to the fleet adequacy for implementation of repairs and maintenance within the municipality.	<ul style="list-style-type: none"> <li>Inadequate fleet for use by the different service delivery sections within the municipality.</li> </ul>	<ul style="list-style-type: none"> <li>Significant portion of the municipal fleet was attached and auctioned off to pay debt.</li> </ul>	<ul style="list-style-type: none"> <li>To introduce a fleet management system to reduce fuel and other operating vehicle related costs.</li> </ul>	<ul style="list-style-type: none"> <li>IDP Review 2020–21- Enoch Mgijima</li> <li>Municipal handover report to new council – November 2021.</li> <li>Enoch Mgijima Financial Recovery Plan</li> </ul>
Development and Planning	Lack of correctly zoned land for development, Loss of potential revenue, slow economic development.	<ul style="list-style-type: none"> <li>The current spatial development framework predates the amalgamation of 2016 by a further 8 years.</li> </ul>	<ul style="list-style-type: none"> <li>Inadequate staffing for Development and Planning.</li> </ul>	<ul style="list-style-type: none"> <li>Enhancing Spatial Planning.</li> <li>Enhancing the location of new housing projects.</li> <li>Supporting Urban Renewal and Inner-City Regeneration.</li> <li>Developing social and economic infrastructure; and,</li> <li>Address building contraventions and enforce the building bylaws. This includes compliance with zoning status.</li> </ul>	<ul style="list-style-type: none"> <li>IDP Review 2020–21- Enoch Mgijima</li> <li>Municipal handover report to new council – November 2021.</li> <li>Enoch Mgijima Financial Recovery Plan</li> </ul>
Municipal Infrastructure Plans	Municipality needs to develop updated sector / infrastructure plans which are not in place.	<ul style="list-style-type: none"> <li>The municipality does not have critical infrastructure plans in place to guide budgeting for infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Sector- or Master Planning has largely not been done by the amalgamated municipality. Outdated plans for smaller, former municipalities are not adequate.</li> </ul>	<ul style="list-style-type: none"> <li>Solicit support and funding for the development of the infrastructure plans.</li> </ul>	

### 3 PART THREE – FINANCIAL RECOVERY PRIORITIES/INTERVENTIONS



## TURNAROUND INTERVENTION (Phased) timelines

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

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

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

The phase is expected to last for 6-8 months. A few critical, high-level indicators have been selected to guide this phase of the recovery plan. Progress on meeting these indicators will be monitored monthly by MFRS team.

#### Governance

- Assess the effectiveness of Council Structures (sec 79 & 80 committees)
- Assess policies that govern public participation and stakeholder engagement
- Interviewing relevant officials
- Assessed Auditor General reports for the last two financial years
- Assessed the effectiveness of the Internal Audit Unit and Risk Management
- Assess the ICT governance
- Consolidate situational analysis on Governance



- Draft a regulatory Compliance Framework
- Drafted UIFWE template
- Develop Sign-off Sheet for document receipt
- Consolidation of As Is
- Facilitate stakeholder engagement for New FRP inputs
- Develop New FRP
- Assess the litigation register

## Institutional Development

- Identify and eliminate ghost employees from the municipal payroll
- Regularise incorrect employment contracts and recommend termination of incorrect and invalid contracts
- Confirm EMLM grade and obtain correct pay structure for the grade that EMLM is and implement the correct pay structure
- Finalise the application for exemption from the SALGBC collective agreement on the 4,9% increase and other awards until the EMLM has been stabilised
- Finalise the design of a fit-for-purpose organisational structure
- Develop appropriate job descriptions for the jobs that are designated in the new organisational structure
- Establish the correct TASK grades for the designated employees either through job evaluation or use of SALGA benchmarks and rectify wrong grades
- Develop and implement a mechanism on how to adjust inflated job grades and normalise bloated salaries
- Develop a Migration and Placement policy for the migration of employees into the new organisational structure, dealing with excess employees and placement appeals
- Do a skills gap analysis of employees as a criterion of migrating and placing them into the new organisational structure
- Migrate and place employees into the new organisational structure and implement the procedure on how to deal with excess employees and placement appeals
- Revive the municipality's Performance Management Policy and System, ensure that s57 managers have performance agreements and monitor implementation
- Develop a Human Resource strategy to streamline HR processes and planning
- Peruse and review HR policies that have financial implications and monitor their implementation

- Revive the municipality's LLF and monitor its functioning

## Finance

- Revenue & Expenditure management – billing reports to be reviewed and done monthly. Expenditure to be compared with budget regularly to ensure spending within budgets.
- Assets & Liabilities management – solvency and liquidity of the municipality to be monitored on regular basis.
- Budgets management and control – budget to be based on realistic revenue targets and expenditure budget to be done on zero-based budgeting and aligned to IDP of municipality
- Eskom & other Debt and Creditors to be paid – arrangements with ESKOM for electricity debts and payments of old debts first.
- Financial Ratios to be improved – Collections controls to be strengthened and debts/creditors to be paid within 30 days.
- Contracts to be scrutinised and monitored – contract management and monitoring controls to be done on regular basis.
- Auditor-General findings to be eliminated – Development and monitoring of the AGSA audit action plan on regular basis.
- Primary Sources of Revenue to be enhanced – data cleansing to ensure that all revenue is billed and is billed at accurate amount
- Revenue Collection for services – enhanced credit controls and monitoring to ensure that all old outstanding debts are followed up and collected
- Equitable share management – expenditure budget to be within the equitable share grant to avoid deficits
- Unfunded Budgets and MTREF Budget Review. – contract and expenditure to be aligned with confirmed and realistic revenue sources
- Internal Controls to be strengthened – internal audit plan to be implemented and findings from both Internal and External audit to be addressed/resolved timeously.
- Accounting & Reporting – accounting of transaction to be daily, reconciliation to be done monthly and quarterly reporting do be done
- Going Concern – implementing of the above controls will ensure that Going Concern issues are addressed.

## Service Delivery

- Urgent maintenance on priority 66kV Network Assets (Western Substation)

- Urgent alignment with OHS Act and General Machinery Regulations requirements.
- Maintain/repair priority 11kV Switching Substations to restore protection on all switchgear.
- Equip and train current personnel to reduce reliance on external contractors for basic repairs and maintenance.
- Maintain/repair priority 11kV Network to restore ring feeding capacity and reduce outage response times.
- Review 2013 Master Plan to inform a priority maintenance programme.
- Demonstrate visible service delivery improvements by restoring streetlights, traffic lights and high mast lights to operation.
- Formalise Private Sector partnerships to improve security at sub stations.
- Strategic Meter auditing to identify and address meter tampering, illegal connections.
- Address critical shortage of vehicles for deployment of electrical staff.
- Conduct MSA Section 78 study and ringfence electricity operations.
- Develop and implement Fleet Management Strategy and Plan to address fleet constraints resulting from 2018 attachment of assets.
- Promulgate updated by-laws as required.

### **3.2 MUNICIPAL STABILISATION 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 institutionalizing the achievements of Phase 1. Financial targets under Phase 1 will still be monitored and additional targets may be added as necessary from the work undertaken in Phase 1.

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

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

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

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

### **Governance**

- Develop public participation strategy

- Develop and implement change management and communication policy
- Develop following frameworks and templates
  - Delegation of Authority
  - Regulatory Compliance Framework
  - Developed Report Flow Process for Council reports
  - Developed a Payment Compliance Checklist for NCR concurrence
  - Developed a Code of Conduct for Councillors
- Train and capacitate councillors and staff on policies and various frameworks
- Attend various governance structures meetings (Audit Committee, MPAC, Portfolio Committees, Mayoral Committee and Council)
- Attend Management Committee meetings
- Assess Council Resolution and monitor implementation
- Monitor the implementation of MPAC resolutions
- Facilitate ICT strategy development
- Facilitate the development of ward operational plans
- Facilitate statutory public participation engagements
- Communicate the implementation of the FRP to various stakeholder
- Monthly follow up of UIFWE management and clearance.
- Develop a consequence management framework
- Implement and monitor the consequence management framework
- Monitor the implementation of the litigation strategy
- Quarterly monitoring of the Regulatory Compliance Universe
- Quarterly monitoring of the Audit Improvement Action Plan
- Quarterly monitoring of the Enterprise-Wide Risk Management Plan

## **Institutional Development**

- Monitor the implementation of reviewed policies and recommend action on deviations
- Monitor the implementation of employment practices and the delegations attached thereto
- Manage employees in the excess pool, develop mechanisms for reducing and ultimately emptying the excess pool

- Implement development programmes for those employees who had identified skills gaps during migration
- Closely monitor payroll reduction and apply mechanisms to prevent a repeat of the current situation
- Implement consequence management and train managers and supervisors on its implementation
- Monitor the implementation of Collective Bargaining agreements and LLF resolutions
- Monitor the implementation of performance management, performance reporting and the use of performance information
- Monitor the implementation of the Human Resource Strategy and provide support where need be
- Anchor achieved change on the municipality's brand, inculcating it as a new way of doing things
- Appoint and train change champions among the employees to continue with change management after the NCR has disengaged with the municipality
- Identify all frontline employees and put them through training on customer care as an effort to boost the image of the municipality and community perception

## Finance

- FRP Development & Implementation. – FRP plan developed, and implementation plan monitored on regular basis.
- Revenue generation -
- Cost containment – expenditure to be within the approved budget and this needs to be monitored on a regular basis
- Eskom account repayment plan implemented. – payment plan to be monitored on regular basis to ensure that is adhered to
- Funded Budget and cash flow management. - Expenditure to be aligned with confirmed/committed and realistic revenue sources. No spending on project/activity which is not yet funded
- By-law implementation for Revenue/Debtors Management. – a robust billing system for services rendered coupled with strong collection controls.
- PPE & Asset Management. - Assets are acquired, maintained, and dispose of in terms of Asset Management policy
- Improvement in Quality & Accuracy of Billing Systems, Smart Meter Contracts/roll out.
- Unfunded Mandates. – Expenditure to be aligned with confirmed/committed and realistic revenue sources. No spending on a project/activity which is not yet funded

- SCM 3E's of Procurement Spend. – Economical, Efficient and Effective procurement of goods and services
- Quality of Reporting. - accounting of transactions to be done daily, reconciliation to be done monthly, and quarterly reporting to be done regularly.
- Improvement in Audit outcomes. - Internal audit plan to be implemented and findings from both Internal and External audit to be addressed/resolved timeously.
- Grants & Subsidies. – spending on grants and subsidies to be ring-fenced and spending to be aligned the o services level agreement signed for these grants and subsidies
- Electricity leakage control and elimination - Leakage reduced to less than 10%

## Service Delivery

- Develop comprehensive Electricity Master Plan (Assistance from MISA)
- Maintain/repair remaining priority 11kV Switching Substations to restore protection on all switchgear.
- Maintain/repair priority 11kV Network to restore ring feeding capacity and reduce outage response times.
- Recover costs from 3<sup>rd</sup> parties for repairs to road damages caused by installation of their services.
- Conduct a Cost of Supply Study and submit cost reflective tariff structure to NERSA for approval.
- Continue rigorously implementing debt control policies.
- Review effectiveness of revenue enhancement and revenue protection measures to date and make improvements.
- Address concurrent jurisdiction with CHDM and formalize cost sharing arrangement for landfill operations.
- Improve PMU administration and unlock strategically important MIG funded projects.
- Improve PMU capacity and technical skills for execution of projects.
- Improve PMU planning and implementation for projects.
- Review and adopt updated SDF as prepared by MISA
- Allocate suitably trained and qualified staff to process applications, enforce bylaws.
- Identify revenue generating projects

### 3.3 MUNICIPAL SUSTAINABILITY PHASE (12 – 24 MONTHS)

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

sustainability. Exiting will be considered at the end of this phase if acceptable municipal financial health levels have been achieved.

### 3.3.1 PHASE 1, 2 and 3: FINANCIAL TARGETS:

NO	PERFORMANCE AREA	ASSUMPTION/ BUDGET PARAMETER	2022/23FY	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET
1	Property Rates Targets	Revenue Management Value Chain efficiencies  Valuation roll reconciled with billing system monthly  Ensure accurate tariffing in billing system	100% of Valuation Roll reconciled with Billing System	2022/23 Budget + CPI CPI (4,8%) + Growth (0,1%) + Complete billing (0,2%) = 5,1% Increase	2023/24 Budget + CPI CPI (4,8%) + Growth (0,1%) + Complete billing (0,2%) = 5,1% Increase	2024/25 Budget + CPI CPI (4,8%) + Growth (0,1%) + Complete billing (0,2%) = 5,1% Increase
2	Service Charges Targets	Revenue Management Value Chain efficiencies in line with FRP Implementation Plan	100% of Budget	2022/23 + CPI + Growth (in accordance with consumer demand and revised tariff structure and levels)	2023/24 + CPI + Growth (in accordance with consumer demand and revised tariff structure and levels)	2024/25 + CPI + Growth (in accordance with consumer demand and revised tariff structure and levels)
3	Unbilled consumption	<b>Baseline:</b> Calculated Electricity balance breakdown per FRP	2% 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	<b>Employee Cost:</b> < 35% of OPEX <b>Councillor REM:</b> 100% per Gazetted maximums, subject to FRP Progress <b>Depreciation:</b> 100% per GRAP 17 Standard <b>Debt Impairment:</b> 100% - Budgeted Collection Rate <b>Contracted Services:</b> < 8% of OPEX(2020/21)	Per approved Budget Parameter	Per approved Budget Parameter	Per approved Budget Parameter	Per approved Budget Parameter

NO	PERFORMANCE AREA	ASSUMPTION/ BUDGET PARAMETER	2022/23FY	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET
		, 6% (2021/22), 5% (2022/23) <b>Other: BFP Parameters</b>				
6	Cash/ Bank Balances	Adherence to approved Budget	Targeted ratios: ▪ Cash Coverage: 1 Month ▪ Current Ratio: 0.4:1  (Per Budget Funding Plan)	Targeted ratios: ▪ Cash Coverage: 1,5 Month ▪ Current Ratio: 0.8:1 (Norm = 1.5:2.1)	Targeted ratios: ▪ Cash Coverage: 1,8 Month ▪ Current Ratio: 1:1 (Norm = 1.5:2.1)	Targeted ratios: ▪ Cash Coverage : 2 Month ▪ Current Ratio: 1.5:1 (Norm = 1.5:2.1))
7	Consumer debtor's collection rate	Adherence to approved Budget	80%	85%	90%	92%
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	Government 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	8% of OPEX	8% of OPEX	8% of OPEX
12	Cost-containment	Adherence to Cost Containment policy	Per Budget Funding Plan adopted for 2022/23	Maintain savings from 2023/24 BFP and ensure full compliance with regulations + further savings	Maintain savings from 2024/25 BFP and ensure full compliance with regulations + further savings	Maintain savings from 2025/26 BFP and ensure full compliance with regulations + further savings



A financial forecasting model has been developed to set financial targets for the FRP over the MTREF period. The financial model escalation formulas used an average annual inflation rate of 4% and local growth of 2% per annum over the recovery period. Grounded on adherence to the above budget parameters, it is anticipated that the municipality will not have returned to financial sustainability over a 3-year period as illustrated in the table below. If key operational efficiencies are achieved in line with FRP Implementation Plan, it remains worrying that the municipality continues to have projected cash shortfalls even over the MTREF period. The municipality therefore has to consider and cooperate in implementing the organisational restructuring and the respective reduction of employee related costs as per the FRP findings.

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.

## 4 PART FOUR:

### 4.1 MONTHLY REPORTING ON ACHIEVEMENT OF TARGETS: ENOCH MGIJIMA LOCAL MUNICIPALITY

#### COMPREHENSIVE SCHEDULE OF REPORTING AND COMMITTEE MEETING DATES

No.	Report for month of	Report due from Municipality Team ON	Report considered by CoGTA/Treasury (incl. NT MFRS)	National	Submission of inputs and slow progress report by NT MFRS	Considered by Political Oversight Committee BY
1	December 2022	05 January 2023	12 January 2023		19 January 2023	25 March 2023
2	January 2023	05 February 2023	12 February 2023		19 February 2023	
3	February 2023	05 March 2023	12 March 2023		19 March 2023	
4	March 2023	05 April 2023	12 April 2023		19 April 2023	25 June 2023
5	April 2023	05 May 2023	12 May 2023		19 May 2023	
6	May 2023	05 June 2023	12 June 2023		19 June 2023	
7	June 2023	05 July 2023	12 July 2023		19 July 2023	25 September 2023
8	July 2023	05 August 2023	12 August 2023		19 August 2023	
9	August 2023	05 September 2023	12 September 2023		19 September 2023	

10	September 2023	05 October 2023	12 October 2023	19 October 2023	19 December 2023
11	October 2023	05 November 2023	12 November 2023	19 November 2023	
12	November 2023	05 December 2023	12 December 2023	15 December 2023	
13	December 2023	05 January 2024	12 January 2024	19 January 2024	25 March 2024
14	January 2024	05 February 2024	12 February 2024	19 February 2024	
15	February 2024	05 March 2024	12 March 2024	19 March 2024	
16	March 2024	05 April 2024	12 April 2024	19 April 2024	25 June 2024
17	April 2024	05 May 2024	12 May 2024	19 May 2024	
18	May 2024	05 June 2024	12 June 2024	19 June 2024	

The monthly reporting schedule will be reviewed during the month of March 2024 and make provision for further reporting and meeting schedules post May 2024. The reviewed schedules will be consulted with all stakeholders and thereafter circulated to all concerned to accordingly note the dates and reporting intervals.

## 5 PART FIVE:

### 5.1 REPORTING FRAMEWORK

In terms of section 146(1)(c) of the MFMA the municipality must report monthly to the Minister of Finance on the implementation of the plan in such manner as the plan may determine.

In terms of section 147

(1) The Minister of Finance must at least every three months—

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

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

(2) The Minister of Finance may request the Municipal Financial Recovery

Service Area to assist the Minister in complying with subsection (1).

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

NO	FOCUS AREA	KEY ASSESSMENT FINDING (BASELINE)	KEY ACTIVITIES	RESOURCES REQUIRED	RESOURCES MOBILISED	RESPONSIBLE	START DATE	END DATE	KEY PERFORMANCE INDICATOR	PORTFOLIO OF EVIDENCE	BUDGET PARAMETER (REVENUE TARGET)	MUNICIPAL PROGRESS	
												STEPS TAKEN	PROGRESS MADE
1	OVERSIGHT STRUCTURES OF COUNCIL	Inadequate implementation of Council resolutions. No tracking of the implementation of Council Structures Resolutions. Culture of ill-discipline and lack of accountability at political and administrative level. Ineffective reporting mechanism to enhance council oversight. Non-compliance with Council Calendar. Portfolio committees not seating since the inception of the new council. Ward Committees not effective and no Ward Based Planning. Councilors and staff owing for services rendered. Inadequate oversight over Executive and Administration. System of Delegations not reviewed.	Develop a tool for tracking implementation of Committee and Council Resolutions	In-house	In-House	Manager: office of the Speaker	01/11/2022	31/12/2022	Approved tool	Council resolution			
			Track the implementation of Resolutions/recommendations	In-house	In-house	Manager: office of the Speaker	01/10/2023	Quarterly	Resolution Register	Quarterly report and signed Council resolution			
			Enforce code of conduct						Improved	Reporting on allegations of			

Figure 8: Implementation Plan Format

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

## 6 PART SIX:

### 6.1 CONCLUSION

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

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

- Political Buy-in: Political problems need political solutions and support from employees and organized labour.
- Change Management has proven to create deeper understanding of the problems and solutions.
- Link FRP activities to key financial outputs i.e., increasing revenue and decreasing expenditure.
- Identify and mobilise human and financial resources needed, and roles and responsibilities of other parties beside the municipality to implement the FRP in terms of Section 142 of the MFMA.
- National and provincial Section 154 (of the South African Constitution) Support Packages to be aligned with the FRP.
- Importance to address assurance level of claimed performance against FRP targets (POE).
- Institutionalise IGR structure/steering committee to monitor implementation of FRP with Terms of Reference.
- Quarterly measuring of implementation financial outcomes to ensure success of the FRP.
- Consequence Management:
  - ✓ FRP strategies aligned with Performance Agreements of senior management.
  - ✓ The MFMA provides for consequences in the case of non-compliance.
  - ✓ In the event of non-compliance, Section 216(2) of the Constitution must be invoked i.e., stop equitable share.

**Recommendation:**

It is recommended that the Minister of Finance approves the Financial Recovery Plan for Enoch Mgijima Local Municipality which was developed after National Cabinet invoked a national intervention as per section 139 (7) intervention on the 06<sup>th</sup> of April 2022.

Approved/~~Not Approved~~



Date: 14/12/2022

Mr Enoch Godongwana

**MINISTER OF FINANCE**