

# **PRESENTATION ON GOVAN MBEKIMUNICIPALITY'S FINANCIAL RECOVERY PLAN**





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quality services

**MISSION STATEMENT**



## Background

- To notify the Govan Mbeki Municipal Council in terms of Section 139(2) of the MFMA with regard to the application that was submitted to the Minister of Finance for the development of a Financial Recovery Plan for Govan Mbeki Local Municipality in accordance with a mandatory intervention as provided for in Section 139(5)(a) of the Constitution of the Republic of South Africa, 1996 and in accordance with the provisions of section 139(1)(a) of the MFMA.
- The municipality is facing financial crisis and numerous governance, service delivery and institutional challenges. Many of these challenges have been recurring over a period of time and repeatedly reported in the annual reports of the municipality, oversight reports and the audit reports, amongst others.
- The mandatory provincial intervention requires that a Financial Recovery Plan (“Plan”) must be prepared
- National Treasury Municipal Recovery Services was requested to assist with the development of the financial recovery plan as it relate to mandatory provincial intervention



# Consultation

- The approach adopted in the development of the financial recovery plan was a consultative approach
- The process included consultation with amongst others Management and other staff of the municipality, Organised labour, municipality's principal creditors, Salga , MISA, relevant National and Provincial government departments(Provincial Treasury, Mpumalanga Co-operative Governance and Traditional Affairs, DCoG)
- The Financial recovery plan was published on the 22 March 2019 for public comments
- Written inputs have been taken into consideration in the compilation of the financial recovery plan which holistic in nature
- The plan was approved on the 23 August 2019 by MEC and the implementation thereof is critical to ensure financial recovery and sustainable service delivery.





# A STATUS QUO BASED ON ASSESSMENT



# A STATUS QUO BASED ON ASSESSMENT

Item	Mar-19 '000	Aug-20 '000	Increase (+) / Decrease (-) '000
Cash flow	49,525	140,785	91,260
Creditors	1,611,032	1,488,473	-122,559
Eskom Debt	1,184,860	1,488,362	303,502
Billed revenue	204,296	119,273	-85,023
Property rates	23,082	26,045	2,963
Service Charges	83,886	97,648	13,762
Expenditure	141,647	13,563	-128,084

## Electricity Trading Performance

Row Labels	April	May	June	July	August	September	Sum of Total
ELECTRICITY INCOME	35,042,391	37,743,480	38,386,551	39,769,373	48,079,138	45,248,552	244,269,485
Expenditure: Bulk Purchases: Electricity: ESKOM	47,204,921	49,964,570	71,232,132	102,299,041	110,797,959	88,380,826	469,879,449
<b>Margin on Electricity</b>	<b>12,162,530</b>	<b>12,221,090</b>	<b>32,845,581</b>	<b>62,529,668</b>	<b>62,718,821</b>	<b>43,132,274</b>	<b>225,609,964</b>
Operational Cost	14,357,757	10,411,402	33,438,909	2,991,271	1,020,637	2,758,078	64,978,054
			<b>66,284,490</b>	<b>65,520,939</b>	<b>63,739,458</b>	<b>45,890,352</b>	<b>290,588,018</b>



# A STATUS QUO BASED ON ASSESSMENT

Govan Mbeki			
	2018	2019	Growth/Reduction
March	561,570,907	1,142,489,772	580,918,864
April	568,736,683	1,196,800,431	628,063,748
May	616,913,248	1,251,335,637	634,422,388
June	684,765,383	1,318,653,193	633,887,810
July	731,367,349	1,374,474,315	643,106,966
August	831,456,897	1,488,362,927	656,906,031







# A STATUS QUO BASED ON ASSESSMENT



## A status quo assessment on governance

- **The governance challenges include amongst others:**
  - Dysfunctional council since January 2019 which resulted in gaps in oversight, risk management and control coupled with leadership inefficiencies have created opportunity for misappropriation of funds, non-adherence to legislation and prescripts,
  - none implementation of risk management, audit committee and internal audit recommendations,
  - lack of mechanisms to address prevention of irregular, unauthorised, fruitless and wasteful expenditure.



## Status quo assessment human resources

- **The human resources challenges include amongst others:**
  - **Organisational Structure:** The organisational structure should be reviewed in such way that it considers the current financial state of the municipality and streamline the overall organisational structure within the available budget. All positions created in the organisational structure must be strictly funded positions and redundant positions abolished.
  - **Vacancy:** The current vacancy rate is at 42% and these posts should be reviewed as part of the review of the above-mentioned organisational structure. The municipality should also ensure that critical positions are filled and design a model to identify other critical positions to be filled to ensure financial stability of the municipality. There had been situations of disregard for recruitment legislation, policies and processes.
  - **Labour Relations:** It is noted that there is no consequence management and there is need to establish a Municipal Disciplinary Board.
  - **Skills and competencies:** Majority of employees within finance and supply chain do not comply with minimum competency level. Also, the municipality needs to conduct a skills audit to assess level of skills, knowledge and competency it has.



## Status quo assessment human resources

- **The human resources challenges include amongst others:**
  - **Performance Management:** There is need for efforts to cascade performance management to all employees.
  - **Staff Discipline and employee costs:** There is poor management of overtime claims resulting in high employee costs and which also results in a culture of poor work ethics and weak management practises. In addition, there is reported 7 614 sick days claimed and 93% of this are leave days without a medical certificate. This leave has come at a cost of R60 million.
  - **Legal and contract management:** There are high litigation costs and contract management is inadequate.



## Status quo assessment infrastructure and service delivery (1/3)

- **Shortage of technical skills in the municipality** such as engineers, electricians, technicians and planners to plan, implement operate and maintain municipal infrastructure.
- **Absence of up to date infrastructure sector plans** which compromises implementation of new infrastructure and the sustainability as well as certainty of the delivery of services.
- **Under-performance of existing infrastructure** caused by ageing assets and poor repairs and maintenance resulting in failure to sustain constant and reliable services supply;
- **Distribution losses** in water and electricity services, as a result of illegal connections, poor maintenance of the existing infrastructure and old electrical infrastructure with high energy indexes.
- **Inadequate bulk water and raw water resources** resulting in supply interruptions especially in high lying areas.
- **Inaccurate billing information** as a result of estimated meter readings due to malfunctioning bulk and domestic meters, inaccessible or locked properties, unmetered properties and meter tampering. Some areas have been classified as “no-go” areas as the community is not willing to allow municipal workers to access their properties to carry out meter readings. No billing is being implemented in those areas.



## Status quo assessment infrastructure and service delivery (2/3)

- **Frequent electrical outages**, as a result of ageing infrastructure, overloading of electrical grid as well as theft of cables and other electrical infrastructure. A number of industrial companies have since relocated away from the Municipality citing unreliable electricity supplies and this has had a negative impact on the local economy.
- **Inefficient service delivery model** especially for waste management resulting in poor service delivery.
- **Shortages of equipment, vehicles, machinery and plant** to carry out both implementation and operations and maintenance across the infrastructure and service delivery cluster due to an aged fleet.
- **High interest charges and penalties on the huge electricity bill from Eskom** which currently stands at just over R1,1 billion and increasing largely due to penalties charged by Eskom as a result of the Municipality exceeding its Notified Maximum Demand.
- **“Uncontrolled” growth of informal settlements** disrupting spatial and service delivery planning.
- **Under investment in the Repair and Maintenance of infrastructure**, leading to poor asset performance and impairment as well as resultant regular service delivery interruptions.



## Status quo assessment infrastructure and service delivery (2/3)

- **Poor conditional grant management and expenditure.** The Municipality was underspending on grant funding expenditure against national bench marks in the 2017/18 FY. As a result of the under expenditure, a total of R 33,2 million of grant funding was returned to the National Revenue Fund at the close of the financial year. This is highly unacceptable given the high service delivery backlogs and capital projects funding challenges the Municipality is currently facing.



## Status quo assessment financial management (1/2)

The high-level financial challenges are as follows:

- **Cash:** 2017/18 GMLM had an overdraft of R109 million.
- **Liquidity Ratio:** 0.34:1 (2015/16) decreased to 0.29:1 (2016/17) and increased to only 0.47:1(2017/18).
- **Trade Payables** increased from R565.8 Million (2015/16) to R899.5 Million (2016/17) and R961.2 Million in 2017/18.
- **Gross Debtors** increased significantly as a result of poor credit control and debt collection - increased from R732.8 mil (2016/17) to R 1.02 bn (2017/18).
- **Creditors payment period** for the 2015/16 and 2016/17 financial years was extremely high at 192 days and 265 days respectively, and increased to 329 days for the 2017/18 financial year showing that the municipality is unable to pay its creditors within 30 days as per MFMA.
- **Over-commitments:** Capital expenditure and operating expenditure commitments as of 30 June 2017 amounted to R186m and R109m respectively totalling R295m which is very high and the GMLM has risk of not being able to honour these commitments.
- **Contingent Liabilities / Litigations amounted to** R83.5m and R85.3m as of 30 June 2017 and 30 June 2018 respectively
- **IDP & Budget** is not responsive, not cash-backed, credible, realistic and sustainable
- **Capital Expenditure Budget Implementation ratio** for 2017/18 was only 51 per cent which is very low and this also compromises service delivery to the communities.



## Status quo assessment financial management (1/2)

The high-level financial challenges are as follows:

- **Electricity Distribution Losses** for the 2016/17 and 2017/18 financial years had been extremely high at 43 per cent and 36 per cent respectively against the norm range of 7-10 per cent.
- **Water Distribution losses for** the 2016/17 and 2017/18 financial years had been extremely high at 70 per cent and 41 per cent respectively against the norm range of 15-30 per cent.
- Govan Mbeki Local Municipality is in breach of its obligations to meet its financial commitments by failing to make payments as and when due which in aggregate is more than 2 percent of the Municipality's budgeted operating expenditure in terms of Section 140 (2) (c) of the MFMA



## Status quo assessment financial management (2/2)

### Supply Chain Management

The challenges related to SCM include:

- Decentralised SCM process - reason for unauthorised and irregular expenditure;
- Lack of skills and expertise in SCM officials;
- Gross non-adherence to SCM Regulations and procedures;
- Bid Adjudication Committee not consistent with SCM Regulations;
- R324 million will be classified as irregular expenditure as a minimum amount; and
- Financial misconduct in corruption and fraudulent cases have not been investigated as per the MFMA Financial Misconduct Regulations.



## Mandatory budget reprioritisation 2018/2019 budget adjustments (2/2)

- The municipality's revenue budget for the financial year 2018/19 is unrealistic and should be adjusted upward by R78 444 000 to R2 068 332 000 from the 2019/20 original MTREF budget of R1 989 888 000. The implementation of strategies and interventions in this plan are critical to change this trajectory in the immediate, short term and beyond to reach the collection level norm of 95%.
- The municipality's expenditure budget for the financial year 2019/20 is also unrealistic and should be adjusted downward by R117 336 000, which excludes the realistic upward adjustment of debt impairment of R192 361 000. The implementation of strategies and interventions related to cost containment, elimination of inefficiencies is critical to further enforce this trajectory in the immediate, short term and beyond to reach water losses norm of 15% to 30% and electricity losses norm of 7% to 10%.





# IMMEDIATE STEPS

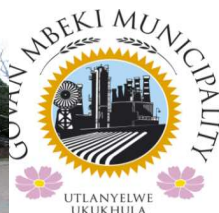


## Immediate steps Budget Reprioritisation

**Appointment of Budget Steering Committee Executive Mayor to be the chair person and members to consist of MM, CFO and all Snr Managers reporting to the Municipal Manager.**

### **The Committee to:**

1. Align the IDP and Budget process plan with the financial recovery plan
2. Monitor budget performance in relation to actual performance on revenue collection and spending.
3. Reprioritise the budget in line with the Cashflow Management Plan
4. Re-align budgeted expenditure from non-critical expenditure items and to agreed service delivery priorities.
5. Review the budget for tabling of a realistic adjustment budget considering the actual performance since beginning of the financial year
6. Consider and implement Provincial Treasuries recommendations on unfunded budget assessments.



# Immediate steps Establishment of Cashflow Management Committee

During the process of developing the recovery plan implementation of the following controls will be introduced with immediate establishment of the **Cashflow Management Committee**.

## Composition of the committee

- i. This committee must be appointed in writing and consisting of the MM Chair Person, and all Snr Managers accountable to the MM.
- ii. Provincial Treasury must form part of the committee membership
- iii. The Senior Manager responsible for PMS should be the secretariat and the SDBIP must be revised to incorporate MFRP

## High level terms of reference

- i. The committee must review and monitor progress on the implementation of the MFRP
- ii. Development and implementation of the cash management plan
- iii. Implement Supply Chain Management Controls
- iv. Implement Revenue Management Controls
- v. The committee must meet at least on a bi-weekly basis or on a regular basis
- vi. Report on a monthly basis to the Budget Steering Committee and Mayoral Committee



## Immediate steps Supply Chain Management Controls

- i. Centralise approval of requisitions and bid specifications to the Cash flow management committee
- ii. Revise the SCM policy to strengthen controls over the use of Regulation 32 appointments (Regulation 32 appointments to be submitted to Provincial Treasury for guidance and support before appointment is finalised)
- iii. Cash flow committee to report monthly on total revenue collected ,orders issued and contracts awarded to Provincial Treasury before 10<sup>th</sup> of each month.
- iv. Review all SLAs in ensuring that the services are critical and that inclusion of performance management clauses and value for money principles are applied.
- v. Submit all new SLA's to Provincial Treasury for advice before signing with service providers.





# STRATEGIES





## **STRATEGY ONE: STRENGTHENING GOVERNANCE**

- In strengthening governance, the Council and its committees must be empowered to exercise their oversight function, most importantly at this juncture, exercising robust oversight in the implementation of this Financial Recovery Plan as a priority programme of the municipality.
- The second area of focus within governance is to ensure proper consequence management following investigations conducted by MPAC into matters of irregular expenditure and failure by management to implement the Audit and Risk Committees and Internal Audit recommendations

## **STRATEGY TWO: ORGANISATIONAL RESTRUCTURING**

- The Municipality must urgently review the organisational structure and align it to the municipal strategy taking into consideration affordability, service delivery mechanisms, legislative requirements, benchmarking with similar municipality, powers and functions and the core mandate of the municipality as well as Financial Recovery Plan.

## **STRATEGY THREE: HUMAN RESOURCE MANAGEMENT**

- The Municipality must review the existing policies that are open to abuse and depletion of financial resources, and the most important amongst them being the Overtime, Stand-by Travel and Subsistence



## **STRATEGY FOUR: SERVICE DELIVERY AND INFRASTRUCTURE IMPROVEMENTS (1/10)**

The strategy covers Infrastructure and service delivery improvements through integrated infrastructure and asset management initiatives that focus on sustainability through planned infrastructure management and forecasting for growth.

- Re-engineer the provision of engineering services (water, sanitation, electricity, roads and solid waste) as set out above;
- Develop cost reflective tariffs for the engineering services rendered;
- Enabling recovery of revenue related to delivery of electricity, water, sanitation and waste removal services:
  - All deficient water and electricity supply and consumption metering must be addressed to enable revenue billing for actual consumption;
  - Installation of meters (both bulk and consumer) where required as well as consider replacing post-paid meters by pre-paid meters for consumers;
  - Assess tariffs to assure that they are cost-reflective;
  - Reorganise the business model for solid waste management to ensure that the subdivision at least operates at breakeven margin.



## **STRATEGY FOUR: SERVICE DELIVERY AND INFRASTRUCTURE IMPROVEMENTS (2/10) Cont...**

- Infrastructure related planning including sector plans and asset management plans are not in place or acted upon putting the Municipality's medium to long term sustainability in jeopardy.
- Govan Mbeki LM needs to explore funding options for its infrastructure operational and maintenance (O&M) and capital budgets to adequately service its O&M requirements as well as its growing infrastructure service delivery backlogs.



## **STRATEGY FIVE: IMPROVE FINANCIAL SUSTAINABILITY, ADMINISTRATION AND CONTROL**

- **Improve Financial Sustainability, Administration and Control**
- The strategy aims to improve financial sustainability, administration, and control. The Municipality needs to improve financial management across expenditure, revenue, assets, supply chain management, cash management, financial internal controls, overall financial reporting, implementation of the audit action plan and development and implementation of an action plan using the FMCMM template to address outcomes of the assessment.

## **STRATEGY SIX: RESTRUCTURING OF THE BUDGET**

### **Budget Restructuring**

The continued poor budgeting where unachievable revenue and expenditure budgets have been set and not achieved, weak expenditure control and cash flow management has a serious impact on the financial status of the municipality, hence this strategy



## **STRATEGY SEVEN: IMPROVE CASH FLOW MANAGEMENT**

### ➤ **Improve cash flow management**

Cash flow management must be improved in the municipality so that the municipality is able to provide basic services and meet its obligations on financial commitments.





# RISK ASSOCIATED WITH THE PLAN



## Risk associated with the plan

- Potential resistance by Labour, leading to industrial actions due to proposed changes in the organisational restructure;
- Lack of support from the community and other stakeholders due to perceived or confirmed poor service delivery being experienced;
- Continued delays in filling critical vacancies;
- Non-prioritising of investment in infrastructure and the consequential continued breakdowns due to old infrastructure and insufficient maintenance;
- Failure to implement cost-reflective tariffs and non-metering of water services coupled with poor management of distribution losses;
- Inefficiencies in revenue collection and increase in the debtors book;
- Lack of commitment to stringent expenditure controls;
- Poor oversight by Council and its committees over the implementation of the recovery plan; and
- Inadequate implementation of identified internal controls.



## Implementation of financial recovery plan

- The responsibility to implement the Plan vests with Govan Mbeki Local municipality, Mayor and Council, the Municipal Manager, Chief Financial Officer, other Senior Managers and staff in general.
- The strategies set out in this Plan relate to activities that must be institutionalised and performed by various municipal officials, as part of their routine duties, and who have been appointed to such positions and given specific roles, responsibilities and delegations.
- The key activities outlined in the Plan must also be cascaded to all relevant municipal officials irrespective of whether acting or not and included in their respective performance agreements and scorecards.
- All Senior Managers' must sign for their respective contributions to the Plan and their performance agreements must be amended to include elements of this Plan with clear deliverables and deadlines.
- The financial recovery plan provide for technical support by amongst others, PT, Provincial Cogta, MISA, Gert Sibande District Municipality, Salga .





## Implementation of financial recovery plan

- Implementation of the financial recovery plan must be a standing item in management, mayoral committee and council meetings and progress published on municipal website.
- Monthly progress reports on the implementation of the Plan must be submitted by the Municipal Manager through the Executive Mayor to Council.
- The municipality must report monthly on the implementation of this Plan as required in terms of Section 146(1)(c) of the MFMA to the MEC Finance, including to the Provincial Executive, National and Provincial Treasury, DCoG and Mpumalanga CoGTA.
- Council must implement corrective measures and exercise greater oversight to ensure full implementation.
- These reports should also form part of the quarterly report submitted by the Mayor to Council in terms of section 52 of the MFMA on the implementation of the budget and the financial state of affairs of the Municipality



## Monitoring of implementation

- The Provincial Executive through the MEC for Finance will monitor the implementation of the financial recovery plan on a monthly basis.
- Review progress reports and provide guidance on the implementation of the financial recovery plan.
- Regular meetings hosted by Provincial Treasury to monitor implementation of the plan and to make proposals for changes on the plan when need identified.
- If the Municipal Council fails to take necessary measures to implement the financial recovery plan, the Provincial Executive may take necessary steps as legislated.



## Recommendation

It is Recommended that :

- That the Financial Recovery Plan be noted for immediate implementation.
- Council ensures that Implementation of the financial recovery plan must be a standing item in management, mayoral committee and council meetings and progress published on municipal website.
- Council ensures the implementation of the proposed Immediate Steps.
- Council ensures that monthly progress reports on the implementation of the Plan must be submitted by the Municipal Manager through the Executive Mayor to Council.
- Council ensures that the municipality reports monthly on the implementation of this Plan as required in terms of Section 146(1)(c) of the MFMA to the MEC Finance, including to the Provincial Executive, National and Provincial Treasury, DCoG and Mpumalanga CoGTA.
- Council must ensure implementation of corrective measures and exercise greater oversight to ensure full implementation.
- Council ensures that these reports should also form part of the quarterly report submitted by the Mayor to Council in terms of section 52 of the MFMA on the implementation of the budget and the financial state of affairs of the Municipality.
- The Council noted that if the Municipal Council fails to take necessary measures to implement al Executive may take necessary steps as legislated.





# THANK YOU

