

# **DIPALESENG LOCAL MUNICIPALITY**



## **DRAFT TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN**

**MARCH 2018**

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# **1. EXECUTIVE SUMMARY**

## **1.1 INTRODUCTION**

The Dipaleseng Local Municipality (DLM) is situated in the Southern part of the Gert Sibande District Municipality Region with a total estimated population of 42 388 residents, according to Census 2011 data. The population distribution of the area is largely urbanised (91% urban and 9% rural) and yet, there is still a general tendency of migration from rural to urban areas occurring in the area. The majority of the rural population is active within the agricultural sector.

DLM's development plans are geared towards infrastructure upgrades and economic growth with housing, water and sanitation being key focus areas.

The Municipality continues to face various challenges of service delivery, administration, financial management and governance. Many of these challenges have recurred over long periods of time and have been highlighted repeatedly in the Municipality's annual reports and audit reports following the statutory annual audits by the Office of the Auditor-General of South Africa (AGSA).

The challenges in summary include:

- The provision of basic services;
- Financial management and credit control (including declining AGSA outcomes);
- Performance management;
- Governance and political oversight;
- Communication with communities and key stakeholders; and
- Strengthening and improving the functioning of the administration.

Considering the above challenges which negatively affect financial viability and sustainability creating an inherent impediment to effective delivery of services to communities, the development of a Turnaround Strategy/Financial Recovery Plan (Plan) is now deemed to be a critical way forward for DLM.

## **1.2 METHODOLOGY IN DEVELOPING THE TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN**

Given the nature of the financial problems, a detailed assessment was undertaken to ensure that the key objective of developing a holistic Plan is achieved.

Therefore, the approach adopted in the development of the Plan is a consultative approach that also involves a detailed analysis of all relevant documentation, coupled with engagements with the Mayor, Municipal Manager, Management, other Municipal Officials, National and relevant Provincial Government Departments.

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## **1.3 SUMMARY OF THE STATUS QUO ASSESSMENT**

### **1.3.1 INSTITUTIONAL/ GOVERNANCE CHALLENGES**

#### **1.3.1.1 GOVERNANCE**

No proactive procedures or steps have been put in place to prevent the abuse of the SCM regulations and contraventions of MFMA laws that were prevalent in the previous financial year. Governance in this regard is ineffective as there appears to be general governance issues relating to extensions of contracts of service providers and so forth.

In addition, there appears to be inadequate implementation of legislation / policies, contracts and strategies, and this has implications for the management and enforcement of the municipal policies like overtime, cellphone usage etc. Municipal policies (internal) need to be implemented and enforced in order to create order in the work environment to eliminate abuse of the municipality's resources to achieve cost savings.

The review and enforcement of by-laws is also an urgent task to be undertaken as the finance related by-laws will bring in the much-needed revenue and improve the municipality's finances.

#### **1.3.1.2 POLITICAL STRUCTURE**

There are various decision-making structures within Council, which include the following:

- Municipal Council;
- Executive Committee;
- Portfolio Committees; and
- Senior Managers and Officials with Delegated Powers.

#### **1.3.1.3 POLICIES**

The financial policies which are reviewed annually, appear on the municipal website and seem to be adequate. The following financial policies are in place:

- Asset Management;
- Budget;
- Credit Control;
- Cash collection and banking;
- Supply Chain Management;
- Indigent;
- Property Rates;



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- Provision for bad debts;
  - Risk Management; and
  - Tariff Policy.

In addition, the following human resources policies were approved in 2017:

- Dress code;
- Procedure for Misconduct and Sanctions;
- Placement;
- Transfer;
- Recruitment and Selection; and
- Cellular phone.

The non-financial policies and those that might impact on external parties do not seem to be in place and there is a need to review these. A process of consultation with all relevant stakeholders is imperative to ensure alignment.

All external policies including the financial policies need to be aligned to the revised by-laws so that they are legally enforceable and can be used as instruments to assist with financial recovery.

#### **1.3.1.4 PUBLIC PARTICIPATION**

A total of 72 ward committee meetings were held during the 2015/16 and 2016/17 financial years, but there appears to be inadequate cooperative governance practices and sense of urgency to effectively attend to matters of service delivery. This state of affairs, identified at these ward committee meetings can largely be attributed to financial and capacity constraints.

The only way to communicate with community is via Councillors. The website only started to work in February 2018 and plans are in place to commence with a bi-annual newsletter. This is concerning as many people might not have access to the requisite facilities or publications. Furthermore it is unclear if these modes of communication are inclusive of report backs on issues emanating from Council. This poses a communication risk and has a negative bearing on service delivery. Planning and budgeting will negatively be affected.

Communication done solely through newsletters and the Municipal website (now operational) proves to be inadequate and inefficient. The schedule of Council meetings and its committees is not published so that members of the public can attend should they deem it necessary. There is therefore a challenge with regard to transparency and connecting with communities which is one of the pillars of the *Back to Basics Programme*. An electronic central point of contact and record and management is required at the Municipality in this regard.

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While, there are further quarterly feedback sessions with communities, the effectiveness of these processes needs to be measured across the municipality and managed accordingly. They are structured to provide feedback on quarterly progress on municipal activities and issues raised during previous sessions, over and above the annual statutory process concerning IDP and Budget processes. They are meant to ensure that the community needs are taken care of.

There is also a lack of attending to grievances and this needs to be further investigated.

Reports or records of incidents that physically affect the community are still manually recorded and updated as required, but a central electronic management system is required.

#### **1.3.1.5 SYSTEMS OF DELEGATION**

The Municipal Council has developed a system of delegation that seeks to maximise administrative and operational efficiency and provide for adequate checks and balances. There is a draft delegation register in place dated 2016, however there is uncertainty of the status of the document and the level of implementation thereof.

These delegations were not reviewed in 2016/17 financial year, and since the Municipality has few councillors, it will be prudent to relook at the delegations to see if there are no conflict of interest and adequate segregation of duties and accountability.

#### **1.3.1.6 OVERSIGHT COMMITTEES**

**The Audit Committee** is functional and capacitated; however, the term comes to an end in April 2018 and a process to replace members must be undertaken timeously.

**The Risk Management Committee** needs to be established. Although there is a risk management unit in the organogram, it is not well resourced with qualified officials. Terms of Reference has been prepared and need to be adopted by the Committee.

**The Municipal Public Accounts Committee (MPAC)** is functional and comprises of 5 Councillors. The Terms of Reference for the Committee is in place and was adopted by Council in October 2016. The committee's 2017/18 annual works plan and delegations are to be developed and approved by Council. As MPAC utilises internal audit staff thereby compromising the independence of internal audit, this needs to be reviewed. In the meantime, the Municipality is advised to assign an official to act as a researcher in the MPAC Office to assist with research and other administrative activities.

In addition, the municipality has appointed councillors to both the Section 79 and 80 Committees. The following Section 79 Committees are in place:

- Local Geographical Names Committee; and
- Rules, Ethics and By-laws Committee.

The following Section 80 Committees are in place:

- 
- Budget and Portfolio Committee;
  - Corporate Services Portfolio Committee;
  - Local Labour Forum;
  - Training and Development Committee;
  - Community Services and Public Safety Committee;
  - Infrastructure and Technical Services;
  - Planning and Economic Development Portfolio Committee;
  - IDP Steering Committee; and
  - LED Steering Committee.

All of the above are council committees, have councillors allocated to them and meet regularly and are functional.

#### **1.3.1.7 AUDITOR-GENERAL REPORTS**

The 2016/17 Audit Report reflected an unqualified opinion with Emphasis of Matter as follows:

- Material Impairments to the amount of R35 million (non-exchange transactions) and R 271 million (exchange transactions) were incurred as a result of poor collection practices;
- Material losses as regards electricity distribution losses equating to R12.5 million which is 22.3% of total electricity purchased;
- Material losses as regards water distribution losses equating to R4.8 million which is 66% of total water purchased;
- Deficiencies in expenditure management;
- Deficiencies in revenue management;
- Deficiencies in procurement and contract management;
- Internal control deficiencies;
- Deficiencies in consequence management;
- Deficiencies in financial and performance management;
- Deficiencies in asset management;
- Deficiencies in audit committee; and
- Deficiencies in internal audit.

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### 1.3.2 ORGANISATIONAL STRUCTURE AND HUMAN RESOURCES

The approved organisational structure of the Municipality has been translated into five (5) components (Departments) reporting to the Municipal Manager. Each department is headed by a director who is a Section 56 employee.

The Departments are as follows:

- Budget and Treasury Office;
- Corporate Support Services;
- Infrastructure Services;
- Community Services and Public Safety; and
- Planning and Economic Development.

In terms of the vacancy rate, the Municipality currently has 200 positions of which 152 positions are filled (74%), with a vacancy rate of 26%. To address the immediate needs and the service delivery and finance sustainability dilemma, the municipality must consider embarking on a process of identification, prioritisation, redeployment and filling of critical vacancies. These will need to be filled with skilled employees.

One of the key principles of organisational structure design is that each position created on an organisational structure should add value to the overall performance of an organisation. Instances have been identified where further investigation is warranted to determine if this is the case.

The employee related ratio of costs to total expenditure has been escalating over the years with no impact on performance improvement. A benchmarking exercise is required to determine if the organisational structure is not bloated given the current collection rate and financial situation. The results of the benchmarking exercise will assist in determining whether the cause of non-performance is staff bloating or other causes like bargaining council's determinations.

Furthermore, there is a need to investigate the breakdown and ratio between service delivery related posts/functions against the support or non-core functions to test this against the industry norm and hence the need to investigate this as part of the review.

Although a workplace skills plan has been put in place to combat the underdevelopment of employees, its preparation is not informed by Personnel Development Plans (PDPs) because of ineffective and inadequate performance management systems. As a result, the implementation, facilitation and overall effectiveness of workplace skills plan (WSP) seems to be fruitless, as the Municipality still yields results of underperformance as a whole. This is so as the set objectives within the IDP are hardly being met and service delivery protests continue to be present resulting in a low satisfaction rate from the community.

The municipality has an ineffective and inadequate performance management system and for Section 56 employees, they seem to all have performance agreements however the performance assessments have not happened. The performance management system which fully incorporates

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processes of performance planning, monitoring, measurement, review, reporting and improvement is required as this puts the Municipality in the position to account and improve service delivery. As a start this process should at least be taken to supervisory level.

The Municipality has experienced labour unrest in the form of employees embarking in protest action. The protest actions indicate that there is a disturbance in the labour relations environment and this is of concern as it affects productivity, community confidence and service delivery. Employee motivation has a direct impact on their performance and could result in negative consequences on service delivery and disorder.

The Municipality has an Information and Communication Technology (ICT) Strategy in place but has not implemented due financial constraints. The ICT Steering Committee is also not in place and there are also no reports to Council relating to ICT matters. From a hardware and software perspective, it should be noted that the fact that the server room does not meet the minimum standards presents a risk of loss of key municipal data. The fact that the infrastructure network in the new building has also not been upgraded to the required level further compounds this challenge. Additionally, there is software currently in use with outdated and or no valid licences. The disaster and continuity plan has been drafted but has not been implemented and finally, an effective record management system needs to be implemented.

### **1.3.3 LEGAL AND CONTRACT MANAGEMENT**

According to the 2015/16 Annual Financial Statements (AFS), the Municipality utilised a panel of three external firms of Attorneys for legal support and assistance, as and when required. On available information, the Municipality has one legally qualified member of staff. The legal services member of staff is involved inter alia in drafting SLAs, furnishing legal opinions, providing inputs and comments in respect of work related reports and other documents.

For the 2016/17 financial year the sum of R720 236 was incurred in respect of legal costs for utilization of external legal support, while the relevant legal costs budget was R950 000. Although the debt collection service is outsourced no formal instructions has ever been given to the appointed service provider to start collecting debt.

No amount of money was paid out in respect of judgments against the municipality during the 2016/17 financial year regarding illegally or irregularly awarded contracts or labour arbitration awards. There is however, a current dispute between AFRGRI and the municipality regarding a complaint about bulk metering to the quantum of R1.8 million. Settlement options are being discussed by the parties. The dispute started during the 2014/15 financial year.

The institution has a contract register covering approximately 14 audited contracts spanning the period 10 October 2012 up to 20 February 2017.

DLM has a delegation of authority framework. There is however no council resolution to confirm and/or ratify the said framework.

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The Bid Adjudication Committee of the municipality is in place and has received the necessary training, as required. PWC has on a few occasions been enlisted to coach and mentor members of the said Committee.

The Supply Chain Management (SCM) policy of the institution is not updated to keep abreast of changes in legislation.

The MFMA and SCM regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure; the possible abuse of the SCM system; and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations.

In the case of DLM:

- A disciplinary board was established, but currently non-functional, to investigate allegations of financial misconduct and to monitor the institution of disciplinary proceedings against an alleged transgressor; and
- There is no hotline or similar process / mechanism for reporting financial misconduct / transgressions that are committed by officials and suppliers of DLM.

The above is indicative of a lack of consequence management by the DLM.

The dysfunctionality of the SCM processes and systems within the institution are evidenced by inter alia:

- Contracts being awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person(s) employed by the state, as required by SCM regulation 13(c);
- Contracts being extended without tabling the reasons for the proposed amendment, in the council of the municipality, as required by section 116(3) of the MFMA; and
- Awards being made to service providers who were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous financial year (2014/15) and no effective steps were taken to prevent or combat the abuse of the SCM processes, as required by the SMC regulation 38(1).

Fruitless and wasteful expenditure to the sum of R1.9 million was incurred for the 2016/17 financial year due to interest charged on late payments by the institution, while irregular expenditure amounted to R37.44 million. The irregular expenditure is currently being investigated by the Municipal Public Accounts Committee which will provide recommendations for recoverability and any disciplinary steps that will be taken. The detailed list of the irregular expenditure in respect of the 2016/17 financial year relates to SCM awards.

### 1.3.4 INFRASTRUCTURE AND SERVICE DELIVERY MATTERS

Infrastructure-related services of electricity and water provision, sanitation, solid waste disposal, roads and storm-water are constitutional rights of the citizens of South Africa and therefore the obligation and mandate of the Municipality wherein those citizens reside. The provision, operation and maintenance and timely lifecycle replacements are imperatives to assure sustainable quality services provision; and the efficiency and effectiveness with which it is delivered is a key determinant of the financial recovery and sustainability of the Municipality.

The section summarises the two key aspects of infrastructure services management and these relate to the inter-connected aspects of infrastructure services' financial surplus to fund the balance of Municipality's operating cost, and the infrastructure technical performance which provide the long-term sustainability.

#### 1.3.4.1 INFRASTRUCTURE SERVICES' FINANCIAL PERFORMANCE

The Municipality's infrastructure services' financial performance is presented in the table and each revenue and cost aspect further discussed:

	2013	2014	2015	2016	2017
Service charges and Property Rates	R 84 072 838	R 83 757 911	R 78 507 771	R 89 327 342	R 98 839 482
Equitable share (Free Basic Services)	R 44 041 000	R 46 059 000	R 48 618 000	R 52 509 000	R 54 340 262
<b>Total income attributable to infrastructure services</b>	<b>R 128 113 838</b>	<b>R 129 816 911</b>	<b>R 27 125 771</b>	<b>R 141 836 342</b>	<b>R 153 179 744</b>
Bulk purchases	R 37 895 533	R 36 906 085	R 37 568 412	R 46 614 852	R 50 284 084
DWS Water extraction provision (closing balance per year)	R 0	R 12 016 765	R 13 988 977	R 20 318 092	R 19 643 611
Repairs and Maintenance	R 4 528 911	R 4 993 394	R 3 698 233	R 5 850 378	R 5 050 859
General expenses - Chemicals	R 2 962 679	R 2 875 630	R 3 319 478	R 5 455 389	R 8 922 073
General expenses - Motor vehicles	R 1 969 471	R 2 349 461	R 2 442 245	R 2 484 423	R 3 728 299
Infrastructure services employee cost	R 8 568 323	R 11 545 000	R 12 071 000	R 11 971 000	R 12 840 184
<b>Total infrastructure services related cost</b>	<b>R 55 924 917</b>	<b>R 70 686 335</b>	<b>R 73 088 345</b>	<b>R 92 694 134</b>	<b>R 100 469 110</b>
<b>Surplus (Infrastructure services Income less costs)</b>	<b>R 72 188 921</b>	<b>R 59 130 576</b>	<b>R 54 037 426</b>	<b>R 49 142 208</b>	<b>R 52 710 634</b>
<b>Balance of operating cost (excluding depreciation)</b>	<b>R 74 823 023</b>	<b>R 117 041 625</b>	<b>R 112 032 495</b>	<b>R 128 377 190</b>	<b>R 106 392 777</b>
<b>Surplus/Deficit (Infrastructure surplus less balance of costs)</b>	<b>- R 2 634 102</b>	<b>- R 57 911 049</b>	<b>- R 57 995 069</b>	<b>- R 79 234 982</b>	<b>- R 53 682 143</b>

Table 1: Infrastructure Services Financial Performance

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The following explanatory clarifications are provided:

- The income attributable to delivery of infrastructure services is the summation of service charges for water, electricity, sanitation and waste services; property rates intended to fund common use services such as roads and storm water infrastructure; and equitable share grant funding for services to indigent households for free basic services;
- The total direct cost of delivering infrastructure services is the summation of bulk purchases, water extraction charge closing provision, repairs and maintenance, certain general expenses and employee cost of those employees deployed to infrastructure services;
- The infrastructure services' financial surplus is the difference between infrastructure services' revenue and direct cost;
- The balance of operating costs is the difference between the total expenditure per the statement of financial performance less the direct infrastructure services cost and less depreciation; and
- The overall municipal surplus/deficit is the difference between the infrastructure services' surplus less the balance of operating expenditure.

The following observations and conclusions are made:

- The Municipality is in a financially unsustainable position in that the infrastructure services derived revenue less the direct cost of delivering the infrastructure services is materially inadequate to fund the other than direct costs, namely the balance of operating and administrative expenses;
- The position is in fact considerably worse because the Municipality is grossly under-maintaining infrastructure which is resulting in a cumulative deferred maintenance that is unaffordable and is resulting in infrastructure failure and service delivery constraints;
- The significant contributor to the financial position is the inter-related aspects of electricity and water revenue losses approximated at R36 million and the debt impairment of R36 million. The electricity and water revenue losses is the difference between the expected revenue based on purchased bulk volumes at the sale tariff, and the actual revenue received. The probable reason for the high revenue losses is that 91% of households has right to free basic services, however if this service is not controlled to the free basic service allowance, then consumption will continue unabated as is the case now. This is further compounded when the households are billed for actual consumption they cannot afford due to their indigent status and the Municipality is then forced to impair the debt.
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#### **1.3.4.2 INFRASTRUCTURE LIFECYCLE PLANNING AND PERFORMANCE**

The following is noteworthy:



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- The Municipality has not achieved the quality standards of Blue and Green Drop status for water supply and sanitation services and these are key measures that validate the integrity of operations and maintenance management procedures. This failure to achieve, has been protracted over the years;
  - A further consistent failure has been the water and electricity revenue losses and there is no evidence of plans to address the losses in a decisive manner; and
  - According to the 2014/15 Annual Report, (latest available report dealing with performance of infrastructure assets), the target of formulating master plans for all infrastructure was not achieved and there is no record of it on current planning documents, hence these are not completed and without these there is no proactive planning for infrastructure replacements, upgrades or expansions.
  - Actual costs for repairs and maintenances (R&M) should be at 8% of the total asset value. Currently, the Municipality is only spending 1.12% of the total asset value on repairs and maintenance. The significant under-maintenance of infrastructure implies that infrastructure is grossly under-maintained and likely compromised beyond what normal maintenance can achieve;
  - The under-maintenance is further compounded by the reality that the various asset categories are depreciated between 56% and 86%. This implies that the infrastructure has not been re-capitalised through required asset replacements due to normal wear and tear, not even considering upgrade or expansion requirements. This combined reality of under-maintenance and under-recapitalisation is resulting in a highly-compromised infrastructure that will not provide the required service delivery and financial sustainability.

#### **1.3.4.3 CONCLUSION AND RECOMMENDED APPROACH**

The Municipality must focus on and manage the dual interventions of curtailing the uncontrolled revenue losses to bring the revenue and expenditure in balance and maintaining infrastructure to acceptable standard to provide sustainability to continued services delivery and consequent financial sustainability. The following specifics are recommended:

- Expedite the installation of accurate smart meters for industrial, commercial and domestic consumers to ensure revenue losses are reduced to no more than the accepted norm (7% - 10%) for electricity and (15% - 30%) for water. There is a need to control the free basic services provision to the maximum allowed in terms of the equitable share;
- Implement necessary organisational processes and resources to operate an effective and efficient metering, billing, revenue receipting and consumption/credit control;
- Critically review the credibility of the extent of household indigence of 91% for if this is factual, then the Municipality is effectively a welfare municipality and it must then more so control its services to no more than allowable free basic services whilst focusing on changing the socio-economic dynamic; and

- 
- The Municipality does not have both the financial and other resources to restore infrastructure to its required standard of condition and performance, and then to operate and maintain to the required standard. This requires a holistic and integrated infrastructure asset management plan with the required capital and operating financials.

### **1.3.5 FINANCIAL CHALLENGES**

The financial sustainability challenges are due to poor financial management, operations, administration, lack of proper leadership, planning, inadequate delegations, lack of staff discipline, poor performance and lack of accountability.

Overall the poor or non-implementation of administrative systems, procedures, processes, financial controls and poor budgeting techniques, over-spending together with non-compliance by the Municipality with the relevant legislative framework, contributed largely to the current state of affairs.

The high level financial challenges are as follows:

- Budget management: absence of capital and operational procurement plans;
- Cash management: cash flow management processes to monitor bank and cash;
- Revenue management: inaccurate customer and billing information that contribute to incidents of incorrect billing;
- Customer care: absence of customer care unit and customer care policy;
- Illegal land use: Municipality to issue a 3 months' moratorium for business to correct their land use and zonings;
- Material cash flow constraints leading to the Municipality not being able to meet its financial commitments such as paying its creditors timeously;
- Under spending on conditional grants due to cash flow shortages and the spending of conditional grants on normal operating expenditure;
- Culture of non-payment by domestic consumers;
- Inability to collect outstanding debtors;
- Traffic management system: traffic fines are not managed effectively and efficiently by the courts; etc.;
- Poor billing due to lack of or damaged meters, incorrect debtor's data, no revenue enhancement, etc.; and
- Financial Management Capability Maturity Model (FMCMM) was last updated in 2014. The new one has to be developed to identify areas of concern;

These financial challenges are as a result of poor internal controls arising from: -

- 
- Supplementary valuation roll: not updated regularly to account for property improvements/ changes such as consolidations, subdivisions due to absence of synergy between Budget and Treasury Office (BTO) and Town Planning Department;
  - Lack of proper leadership: bank reconciliation not performed regularly. Monthly Reconciliations: audit files are not compiled and verified across all BTO units, giving rise to inaccurate and unreliable in year financial records; and
  - Inadequate internal controls: absence of Standard Operating Procedures (SOPs) across all BTO units that lead to poor supervision over financial transactions; etc

### **1.3.6 ADMINISTRATIVE CHALLENGES**

## **1.4 NATURE AND EXTENT OF STRATEGIES IDENTIFIED**

The above status quo assessment coupled with the engagement with the Municipality and key stakeholders, identified a number of key strategies that must now be developed and implemented in the short term (current to 30 June 2018), medium term (up to 30 June 2019) and long term (up to 30 June 2021 and beyond) to address the challenges facing Dipaleseng and to follow a path of financial and service delivery recovery and sustainability. Dipaleseng has various strategies available to effect the changes needed for sustainability, but not all can be considered in the short to medium term due to its' limited cash flow, institutional and service delivery capacity.

Furthermore, due to the long-term nature of some of the strategies identified, the focus in the short term adopted the Pareto Principle (20% of activities that will contribute 80% to the successful implementation of the Plan) to ensure that the strategies adopted will have the greatest impact and can be undertaken within the financial and human resource capacity and capability of Dipaleseng.

It should be noted that any other strategies not immediately addressed in this Plan should still be addressed in the long term and should not be ignored. Key strategies highlighted in the Plan must all be implemented by management as this is a holistic and integrated plan, and the final outcome must be to ensure financial and service delivery sustainability.

Finally, the support of key sector Departments will be key to the stabilisation of the Municipality in the short term given its current financial and service delivery challenges.

## **1.5 KEY STRATEGIES IDENTIFIED IN THE PLAN**

The following key strategies were identified in the Plan:

1. **Strengthening governance** by enhancing the operations of Dipaleseng through appropriate and comprehensive system of delegations, capacity building, improved governance and political oversight;

- 
2. **Human resource management and organisational restructuring** by assessing the service delivery model, appropriately aligning structures and the filling of critical posts, contractually or through secondments;
  3. **Improved cash flow management and financial sustainability** with revenue protection, enhancement, growth and management together with stricter expenditure management and administration through proper supply chain management, risk management and addressing audit related issues, amongst others;
  4. **Restructuring of the budget** to ensure a credible, balanced and cash backed budget with tariff restructuring and a review of all core and non-core functions, and negotiation and settlement of outstanding creditors/statutory payments, amongst others;
  5. **Improved control environment** with expenditure management / cost containment and cash management, addressing audit related issues pertaining to the functioning of the Internal Audit Unit and the Audit Committee, amongst others; and
  6. **Infrastructure and service delivery improvements** with good asset management through integrated infrastructure development and asset management planning to ensure sustainability through planned maintenance, enhancement and replacement.

## **1.6 IMPLEMENTATION OF THE TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN**

The primary responsibility to avoid, identify and resolve financial problems in a Municipality rests with the Municipal Council. It is also emphasised that the responsibility to implement this Plan rests with the Municipality. This Turnaround Strategy/Financial Recovery Plan must be monitored by Council, the Mayor and the Municipal Manager to ensure successful implementation.

This Plan places significant implementation responsibility on the Municipal Manager, Chief Financial Officer and all Directors of the Municipality. However, it must also be emphasised that the strategies set out in this Plan relate to activities that must be institutionalised and performed by various municipal officials, as part of their routine duties and tasks.

It should be emphasised that those appointed to such positions, even in acting capacities, are given specific roles and responsibilities, which must be re-enforced and captured in a revised performance agreement. Ultimately there should be consequences for non-performance.

Oversight by Council and other structures in the Municipality also needs to be strengthened to ensure proper governance, service delivery, budget implementation and that early warning systems are developed, implemented and corrective measures are taken timeously. Regular, robust, transparent and honest interaction must be enforced and sustained beyond this turnaround period at Dipaleseng.

The implementation responsibility should also be operationalised and institutionalised whereby the key focus areas and activities outlined in the Plan should be cascaded to all relevant municipal officials and included in their respective performance agreements as mentioned earlier. It is also

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important that a “portfolio of evidence” is retained throughout the implementation of the Plan to enable assessment of the results and to ensure accountability and ownership of the process.

In respect of financial resources required to support the implementation of the Plan, the key will be the restructuring of the budget, implementing the revenue protection and enhancement initiatives and commitment to stringent expenditure controls particularly on non-essentials and non-revenue generating activities.

Furthermore, engagements with the District Municipality and Provincial Government on technical support in the implementation of the Turnaround Strategy/Financial Recovery Plan are essential to sustainability of the municipality. In addition, the Plan should also be presented by the Municipal Manager and the Mayor to the MECs for Cooperative Governance and Traditional Affairs (CoGTA) and Finance in the Province, who should then consider any future support or alternative intervention measures at Dipaleseng Municipality, should this be necessary, to effect the urgent financial and service delivery imperatives at the municipality.

## **1.7 RISK ASSOCIATED WITH THE TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN**

This Plan has identified certain risks that must be mitigated for successful implementation, and proposes changes, particularly with regards to governance, financial administration, budgeting and financial discipline. There will also be a need for a regular review of the risks identified to ensure timely mitigation measures are instituted by the Municipal Manager and Political Leadership.

The emerging risks identified, include amongst others:

- Inadequate systems of delegation that impact on governance, administration and operational efficiency;
- Delay in the filling of critical vacant positions especially the fixed term contract appointment of the Municipal Manager and Director: Corporate Services who should possess the requisite and appropriate experience, skills and qualifications;
- Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives;
- Inadequate implementation of internal controls;
- Industrial actions owing to resistance to the changes due to any organisational restructuring or realignment and the implementation thereof;
- Loss of grant funding due to non-compliance with grant conditions;
- Continued non-collection of revenue and increase in the debtors book;
- Increasing debt book and culture of non-payment by domestic consumers;
- Illegal land invasion;

- 
- Instability within the communities (political, administration and community);
  - Non-metering of electricity/ water and continued losses;
  - Lack of support, buy-in and resources from key stakeholders (ward councillors, community, business);
  - Possible disconnection of bulk electricity by Eskom due to non-payment of the bulk electricity account;
  - Possibility of bulk water restrictions;
  - Increase in the number of indigents in the Municipality;
  - Culture of non-payment by domestic consumers; and
  - Old infrastructure and maintenance challenges.

Given this, a proper risk management matrix must also be developed as part of this process, managed and reported to Council on a regular basis. The risk management matrix should be updated on a regular basis, to incorporate additional risks which may be identified.

## **1.8 MONITORING AND EVALUATION**

Various elements of this Plan must be fully implemented and institutionalised in a coherent, systemic and holistic manner. These components are integrated, and care must be taken during the implementation of the Plan not to isolate some aspects from others even though certain aspects may only be implemented in the medium to long term.

Reports on the implementation of the Plan must be submitted to Municipal Manager on a weekly basis, at least in the immediate to short term. The details should form part of discussions at every management meeting and the Municipal Manager must take corrective actions when activities in the Plan are falling behind implementation timelines or when there is a risk of non-achievement of the desired targets.

The Municipal Manager is therefore required to closely monitor and evaluate progress and must report to Council and Provincial Government on a quarterly basis. The reports on the implementation of the Plan should form part of discussions at every Mayoral Committee and management meetings. The Municipal Manager must also take corrective action when activities in the Plan are falling behind implementation timelines or when there is a risk of non-achievement of the desired targets or outcomes.

Progress reports on the implementation of the Plan must be submitted by the Municipal Manager before submission to Council, National and Provincial Treasuries, Department of Cooperative Governance and Traditional Affairs in the Mpumalanga Province, on a monthly basis. A review of the Plan by the Municipality should be undertaken at regular intervals and be updated as and when more accurate and up to date information is obtained.

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Should the Municipality delay or fail to implement the Plan, the Provincial Government must consider alternative support or intervention measures. These measures may include invoking other provisions of section 139 of the Constitution, supplemented by Chapter 13 of the MFMA.

## **1.9 CONCLUSION**

This Plan must be submitted by the Municipal Manager for adoption by Council and immediate implementation by Dipaleseng in order to secure Dipaleseng's ability to meet its obligations to provide basic services and financial commitments, as and when due.

Dipaleseng should move away from short term and reactionary planning to a long term stable and sustainable framework, hence the municipality must prioritise the development of a long term spatial and financial plan that is realistic and achievable and based on sound socio-economic analysis. The financial indicators issued in MFMA Circular 71 should also be used as a basis for such a long term financial plan. Annexure A provides an example of how Dipaleseng Local Municipality can use the Circular in this regard.

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## 2. INTRODUCTION

### 2.1 BACKGROUND TO THE DIPALESENG LOCAL MUNICIPALITY

The Dipaleseng Local Municipality (DLM) is situated in the Southern part of the Gert Sibande District Municipality Region. The former Balfour/ Siyathemba and Greylingstad/ Nthorwane Transitional Local Councils and a section of the Grootvlei Transitional Rural Council are included in the Dipaleseng Region.



**Figure 1: Map of Gert Sibande District Municipality Region**

The total estimated residents in the Dipaleseng Region, according to Census 2011 data, is 42 388.

The largest urban unit is Balfour followed by Greylingstad and Grootvlei. A number of Commercial farms, in the surrounding vicinity, also form part of the Dipaleseng Region. These Commercial farms are privately managed and the legal status of these farms is that it is zoned as a single Erf and for mining.

The general tendency of migration from rural to urban areas is also occurring in the area, as is the case in the rest of the Mpumalanga Province. The majority of the rural population is active within the agricultural sector.

Regarding the population distribution the area is largely urbanised (91% urban and 9% rural). This tendency is directly related to the strong industrial and manufacturing character of the region, which explains the continuous urban growth experienced in Siyathemba. Balfour is located in the heart of worldly renowned coalfields and this modern and predominantly industrial town is located in close



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proximity (80km) to the industrial area of Johannesburg.

The Balfour/ Siyathemba urban area is 340km from Nelspruit and 80km from Johannesburg. Apart from the internationally known abattoir which is the “Biggest abattoir in Africa”, found in Dipaleseng (Balfour town), a vast number of by-products including inorganic chemicals, fertilizers, etc. are manufactured in the area.

The Greylingstad / Nthorwane urban area is situated in the north-eastern section of the Dipaleseng Region, approximately 19km east of Balfour and 450km northeast of Nelspruit. Other centres such as Grootvlei and Dasville are all within 20km of Balfour. There are commercial farming activities present in the community and industrial activities are exclusively related to the electricity generating industry.

The town's close proximity to the coal mining and industrial activities in Witbank and its nearby location to the large industrial complexes of Heidelberg, Vereeniging, Springs and Germiston, influences economic activities in Dipaleseng. The strong recreational character of the town further enhances this phenomenon. The largest number of the inhabitants of Dipaleseng are employed in Germiston and the adjacent industrial complexes of Johannesburg. Dasville can thus be labelled as a typical satellite residential town to the surrounding industrial areas. These factors therefore contribute to the relatively low level of economic activity in the Grootvlei area.

The area is accessible by road (R51, R23, including N3) and within 55km from Springs, Germiston, Vereeniging, and Kempton Park. Although the prominent economic sector of the area is agriculture, it is subsequently strategically situated from a recreation and tourism point of view. This is in view of the fact that the town is bound on three sides by the Vaal Dam and located in close proximity to the Gauteng metropolitan area. It is also linked to several other towns in the vicinity.

The Vaal River and Suikerbos River form the Southern and Western boundary of the area, which also serve as the boundary between the Free State and Gauteng Province. A significant portion of the Dipaleseng Region is included in the Vaal River Complex Regional Structure Plan, 1996 (former Vaal River Complex Guide Plan, 1982). The Vaal River Regional Structure Plan is a statutory land use control document, which is applicable to amongst other land located along important water resources such as the Vaal Dam, Vaal River and Suikerbos River.

All Guide Plans are compiled in terms of Spatial Planning and Land Use Management Act, (SPLUMA) 2013. Act No. 16 of 2013. SPLUMA provides a framework for spatial planning and land use management in South Africa to specify the relationship between the spatial planning and land use management system and other kinds of planning to provide for the inclusive, developmental, equitable and efficient spatial planning at the different spheres of government.

## **2.2 GENERAL STATISTICS**

DLM has a relatively lower population growth rate of (0.2%) in comparison to Gert Sibande, its district municipality (1.3%), Mpumalanga, the province (3.4%) and South Africa (1.4%). The population distribution of the area is largely urbanised (91% urban and 9% rural).

The high rate of unemployment (37.2% for adults in general, 45.2% for youth in 2011) has also seen the out-migration of many young adults in search of employment opportunities elsewhere. The working age demographic (age 15 to 65) within the Municipality currently makes up 65.3% of the population.

## 2.3 CURRENT DEVELOPMENT PLANS

Dipaleseng's development plans are geared towards infrastructure upgrades and economic growth. Housing, water and sanitation are key focus areas in particular, as reflected in the Census 2011 reports that states that only 38% of residents have tap water inside the dwelling.

## 2.4 POPULATION

The population statistics of Dipaleseng can be summarised as follows: -

- Total Population: 42 390 (2011 Census);
- Total Population: 45 232 (Community Survey);
- Average annual population growth: 1.5% 2011-2016;
- There are 12 637 households in the DLM.

Area	Total Census 2011
Balfour	3 201
Dipaleseng NU	4 047
Greylingstad	839
Grootvlei	5 415
Nthoroane	6 119
Siyathemba	22 768

**Table 2: Population Per Ward**

Age Group	% Census 2011
Young (0-14)	28,20 %
Working Age (15-64)	66,00 %
Elderly (65+)	5,80 %

**Table 3: Demographic Distribution**

Gender	% Census 2011
Female	49,37 %
Male	50,63 %

**Table 4: Gender Distribution**

Population Group	% Census 2011
Black	89,83 %
Coloured	0,50 %
Indian or Asian	0,93 %
White	8,57 %
Other	0,17 %

**Table 5: Population Groups**

## 2.5 ACCESS TO SERVICES

The following household services are provided:

Description	% of Dwellings Receiving Service Census 2011
Formal Dwellings	67.40%
Flush Toilet Connected to Sewerage	74,90%
Weekly Refuse Removal	81,80%
Piped Water Inside Dwelling	38,20%
Electricity for Lighting	83,10%

**Table 6: Household Infrastructure Indicators**

Formal housing rates for the country are 77% as opposed to Dipaleseng 67%. The most critical infrastructure challenge is piped water where 38.2% of households have access to piped water in the house, compared to 73.4%, nationally.

## 2.6 ECONOMIC STATISTICS

The situation as regards education levels in Dipaleseng Local Municipality are as follows:

Age Group	% Census 2011
No Schooling Aged 20+	12,00 %
Higher Education Aged 20+	5,70 %
Matric Aged 20+	24,10 %

**Table 7: Education Indicators**

It is contended that the education levels of the community are also correlated with economic exclusion. Dipaleseng's matriculation rate is 4% lower than the national average, which is 28.5%. Higher education rates for the country are 12.1% and Dipaleseng is half that, with only 5.7% having a post matric qualification.

Dipaleseng Local Municipality's economic indicators are as follows:

Economic Indicator	% Census 2011
Unemployment Rate	37,20 %
Youth Unemployment Rate	45,20 %
Housing Owned	57,00 %
Female Headed Households	35,20 %

**Table 8: Economic Indicators**

Dipaleseng performs lower than the national average on key economic development indicators. Unemployment in Dipaleseng is greater than the national average, which is 24.5%.

The majority of people are involved in the agricultural sector, followed by electricity, wholesale and retail trade, transport and construction and then manufacturing.

Dipaleseng needs a strategy that will further diversify the economy, reducing dominance of agricultural in the employment industry.

## 2.7 CHALLENGES

The Municipality continues to face various challenges in terms of service delivery, administration and finance. Many of these have recurred over long periods of time and have been highlighted repeatedly in the Municipality's annual reports and audit reports following the statutory annual audits by the AG.

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The challenges in summary include:

- The provision of basic services;
- Financial management and credit control (including declining Auditor-General outcomes);
- Governance and political oversight;
- Communication with communities and key stakeholders; and
- Strengthening and improving the functioning of the administration.

Considering the above challenges which negatively affect financial viability and sustainability creating an inherent impediment to effective delivery of services to communities, the development of a Turnaround Strategy/Financial Recovery Plan (Plan) is now deemed to be a critical way forward for DLM.

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### **3. METHODOLOGY IN DEVELOPING THE TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN**

#### **3.1 LEGISLATED CONTEXT OF A TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN**

Given the nature of the financial problems, an independent and detailed assessment was undertaken to ensure that the key objective of developing a holistic Turnaround Strategy/Financial Recovery Plan will be achieved, and which must also meet the requirements of Section 142 of the MFMA, which states:

142. (1) a Turnaround Strategy/Financial Recovery Plan must be aimed at securing the municipality's ability to meet its obligations to provide basic services or its financial commitments, and such a plan, whether for a mandatory or discretionary intervention must amongst others:

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

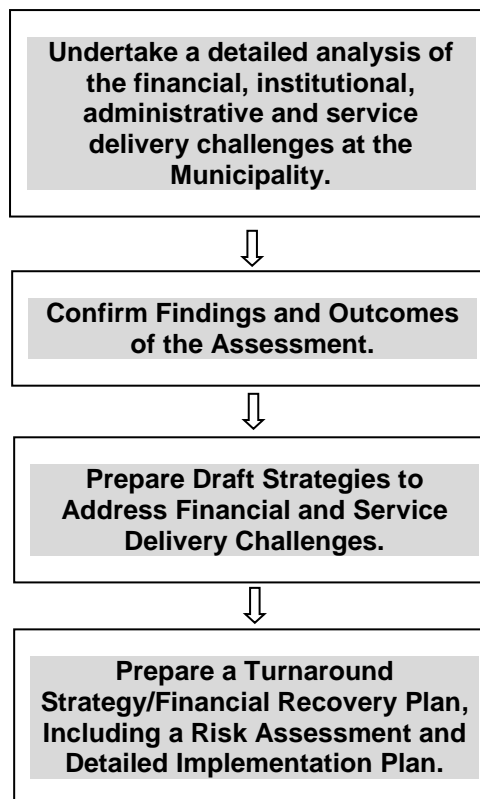
#### **3.2 PROCESS TO PREPARE A TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN**

The approach adopted in the development of the Turnaround Strategy/Financial Recovery Plan is a holistic and consultative approach that also involves a detailed analysis of all relevant documentation in concert with engagements between the Mayor, Administrator, Management and other staff of the Municipality as well as engagements with the National and relevant Provincial Government Departments.

This will culminate in the development of a holistic and integrated Turnaround Strategy/Financial Recovery Plan.

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The process in developing the Turnaround Strategy/Financial Recovery Plan can be summarised as follows: -



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## **4. STATUS QUO ASSESSMENT**

### **4.1 ORGANISATIONAL STRUCTURE, HUMAN RESOURCES, AND INSTITUTIONAL MATTERS**

#### **4.1.1 INSTITUTIONAL/ GOVERNANCE CHALLENGES**

##### **4.1.1.1 GOVERNANCE**

Governance involves the way the rules, norms and actions are structured, sustained, regulated and held accountable.

No proactive procedures or steps have been put in place to prevent the abuse of the SCM regulations and contraventions of the Municipal Finance Management Act (MFMA) laws that were prevalent in the previous financial year. Governance in this regard is ineffective as there appears to be general governance issues relating to extensions of contracts of service providers and so forth.

##### **4.1.1.2 SYSTEMS OF DELEGATION**

The Municipal Council has developed a system of delegation that seeks to maximise administrative and operational efficiency and provide for adequate checks and balances. There is a draft delegation register in place dated 2016. These delegations were not reviewed in 2016/17 financial year, and since the Municipality has few councillors, it will be prudent to relook at the delegations to see if there are no conflict of interest and adequate segregation of duties and accountability.

##### **4.1.1.3 THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)**

MPAC is functional and comprises of 5 Councillors. The Terms of Reference for the Committee is in place and was adopted by Council in October 2016. The committee's 2017/18 annual works plan and delegations are to be developed and approved by Council. As MPAC utilises internal audit staff thereby compromising the independence of internal audit, this needs to be reviewed. In the meantime, the municipality is advised to assign an official to act as a researcher in the MPAC Office to assist with research and other administrative activities.

##### **4.1.1.4 POLITICAL STRUCTURE**

There are various decision-making structures within Council, which include the following:

- Municipal Council;
- Executive Committee;
- Portfolio Committees; and
- Officials with delegated powers.



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These committees are properly constituted and functional.

#### **4.1.1.5 POLICIES**

The following policies require review and approval at the next budget cycle, which must include all the requisite financial policies:

- Budget related policies; and
- Human resource policies.

#### **4.1.1.6 PUBLIC PARTICIPATION**

A total of 72 ward committee meetings were held during the 2015/16 and 2016/17 financial years, but there appears to be inadequate cooperative governance practices and sense of urgency to effectively attend to matters of service delivery. This state of affairs, identified at these ward committee meetings can largely be attributed to financial and capacity constraints

Furthermore, it appears that there is no provision for community meetings that provide a platform for community members to voice their grievances and/ or pertinent issues or needs. The only way to communicate with community is via Councillors. The website only started to work in February 2018 and plans are in place to commence with a bi-annual newsletter. This is concerning as many people might not have access to the requisite facilities or publications. Furthermore it is unclear if these modes of communication are inclusive of report backs on issues emanating from Council. This poses a communication risk and has a negative bearing on service delivery. Planning and budgeting will negatively be affected.

Communication done solely through newsletters and the Municipal website (now operational) proves to be inadequate and inefficient. The schedule of Council meetings and its committees is not published so that members of the public can attend should they deem it necessary. There is therefore a challenge with regard to transparency and connecting with communities which is one of the pillars of the *Back to Basics Programme*. An electronic central point of contact and record and management is required at the Municipality in this regard.

While, there are further quarterly feedback sessions with communities, the effectiveness of these processes needs to be measured across the municipality and managed accordingly. They are structured to provide feedback on quarterly progress on municipal activities and issues raised during previous sessions, over and above the annual statutory process concerning IDP and Budget processes. They are meant to ensure that the community needs are taken care of.

There is also a lack of attending to grievances and this needs to be further investigated.

Reports or records of incidents that physically affect the community are still manually recorded and updated as required, but a central electronic management system is required.

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#### **4.1.1.7 RISK MANAGEMENT**

Risk management is recognised as an integral part of responsible management and the Municipality should therefore adopt a comprehensive approach to the management of risk. The Municipal Manager is required to ensure that the Municipality adopts a process of risk management that is aligned to the principles of good corporate governance, as supported by the Municipal Finance Management Act 56 of 2003 (MFMA) and various other pieces of legislation applicable to local government so as to remedy the findings of the Auditor General that indicate irregularity and infringement on the aforementioned statutes.

#### **4.1.1.8 AUDIT COMMITTEE**

According to the Auditor-General Report for 2016/17 the audit committee did not always ensure that responsive recommendations were provided to the municipality to ensure improvement in the control environment.

#### **4.1.1.9 INTERNAL AUDIT**

According to the Auditor-General Report for 2015/16 there was no adequately resourced and functioning internal audit unit that could identify internal control deficiencies and recommend corrective action effectively.

#### **4.1.1.10 AUDITOR-GENERAL REPORTS**

##### **2014/15 Audit Findings**

Unqualified with Emphasis of Matter as follows:

- Material losses as regards water distribution losses equating to R5 million which is 66% of total water purchased;
- Impairment of debtors from non-exchange transaction amounting to R33.8 million which represented 92% of the total debtors. The provision for bad debts was R8.6 million;
- Impairment of debtors from exchange transaction amounting to R245.0 million which represented 94% of the total consumer debtors. The provision for bad debts was only R36.0 million;
- Deficiencies in audit committee; and
- Deficiencies in internal audit.

##### **2015/16 Audit Findings**

Unqualified with Emphasis of Matter as follows:

- 
- Material losses as regards water distribution losses equating to R5.2 million which is 65% of total water purchased;
  - Material losses as regards electricity distribution losses equating to R6.3 million which is 15% of total electricity purchased;
  - Impairment of debtors from non-exchange transaction amounting to R35.3 million which represented 96% of the total debtors. The provision for bad debts was only R1.5 million;
  - Impairment of debtors from exchange transaction amounting to R261.3 million which represented 95% of the total consumer debtors. The provision for bad debts was only R16.2 million;
  - Deficiencies in expenditure management;
  - Deficiencies in revenue management;
  - Deficiencies in procurement and contract management;
  - Deficiencies in asset management;
  - Deficiencies in audit committee; and
  - Deficiencies in internal audit.

### **2016/17 Audit Findings**

Unqualified with Emphasis of Matter as follows:

- Material Impairments to the amount of R35 million (non-exchange transactions) and R 271 million (exchange transactions) were incurred as a result of poor collection practices;
- Material losses as regards electricity distribution losses equating to R12.5 million which is 22.3% of total electricity purchased;
- Material losses as regards water distribution losses equating to R4.8 million which is 66% of total water purchased;
- Deficiencies in expenditure management;
- Deficiencies in revenue management;
- Deficiencies in procurement and contract management;
- Internal control deficiencies;
- Deficiencies in consequence management;
- Deficiencies in financial and performance management;
- Deficiencies in asset management;
- Deficiencies in audit committee; and
- Deficiencies in internal audit.

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#### **4.1.1.11 AUDIT ACTION PLANS**

There is a 2015/16 Audit Action Plan however there is no evidence of any intervention in the Plan which shows that no action was taken and that no monitoring of the audit action plan ever took place. The result of this is that there were repeat audit findings in the 2016/17 financial year. A 2016/17 Audit Action Plan has been compiled and indicates the audit finding, actions to address the finding, responsible persons and due dates. This plan needs to be monitored and progress updates noted to prevent repeat findings in the 2017/18 financial year.

#### **4.1.2 ORGANISATIONAL DEVELOPMENT CHALLENGES**

##### **4.1.2.1 ORGANISATIONAL STRUCTURE**

The approved organisational structure of the Municipality has been translated into five (5) components (Departments) reporting to the Municipal Manager. Each department is headed by a director who are assumed to be Section 56 employees.

The Departments are as follows:

- Budget and Treasury Office;
- Corporate Support Services;
- Infrastructure Services;
- Community Services and Public Safety; and
- Planning and Economic Development.

One of the key principles of organisational structure design is that each position created on an organisational structure should add value to the overall performance of an organisation. Any management layer should provide more unique value to lower levels than just supervision. If a layer only has supervision duties and has one direct subordinate, it indicates that the structure might be bloated and there is duplication of duties.

The created post of Manager: Communication Services that reports to a director, functions should be investigated to ensure that it has its own explicit functions to perform beside overall management and supervision functions.

In SCM there are three positions, only one position has been filled, two are vacant and the other is not budgeted for.

The effectiveness and efficiency (performance) of any municipal organisation structure is measured by the ability to meet targets and achieve goals as set in the IDP thus the design and implementation of the strategy should dictate the overall design of the structure and improve individual and organisational performance.

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The employee related ratio of costs to total expenditure has been escalating over the years with no impact on performance improvement and a benchmarking exercise is required to determine if its organisational structure is not bloated given its current collection rate and financial situation.

Furthermore, there is a need to investigate the breakdown and ratio between service delivery related posts/ functions against the support or non-core functions as compared to the industry norm.

#### **4.1.2.2 SKILLS AND COMPETENCIES**

Although a workplace skills plan has been put in place to combat under-development of employees the implementation, facilitation and overall effectiveness seems to be fruitless as the Municipality still yields results of underperformance the set objectives within the IDP are hardly being met and service delivery protests are still prominent resulting in a low satisfaction rate from the community. A large amount of funds has been invested in training and development but the resultant improvement in service delivery is insignificant.

There is a need to investigate what informs the development of the skills development plan i.e. what is to be determined is that it is based on a human resource development strategy which is aimed at equipping the Municipality with the right skills and competencies to achieve the organisational goals and objectives.

#### **4.1.2.3 EMPLOYEE PERFORMANCE MANAGEMENT**

The Municipality currently does have a performance management policy but has not been reviewed since 2014. The manual system currently used describes and represents the processes of performance planning, monitoring, measurement, review, reporting and improvement, which will put the Municipality in the position to account and improve service delivery. However, an electronic performance management system needs to be procured and implemented.

The performance management system policy should include the relationship between the IDP and Service Delivery and Budget Implementation Plan (SDBIP) and their relationship with both organisational and individual performance.

Performance management is currently informally done.

#### **4.1.2.4 LABOUR DISPUTES**

The Municipality has experienced labour unrest in the form of employees displaying protest action. The protest actions indicate that there is a disturbance in the labour relationship of both parties and this is of concern as it affects productivity and service delivery. Employee motivation has a direct impact on the performance of employees and negative consequences on service delivery will lead to disorder within the Municipality.

There were three labour related cases reported in 2015 that were finalised in 2016. During the previous financial year (2016/17) there were two reported cases. Both cases are not yet finalised as one case is still awaiting outcome from the Presiding Officer recorded and in the other case the accused employee has resigned.

#### 4.1.2.5 LEAVE MANAGEMENT AND ABSENTEEISM

The Municipality has a leave policy in place and the policy is adhered to. There is no indication that the policy is not being adhered to, nor is there any indication of abuse of all leave by employees.

#### 4.1.2.6 TOTAL ACTUAL EMPLOYEE COSTS

Employee related costs	2017	2016
Acting allowances	R 1 363 163	R 821 215
Basic salaries and wages	R 26 623 511	R 28 654 149
Bonus	R 2 121 847	R 1 990 018
Cellphone allowance	R 695 029	R 342 698
Group insurance	R 81 467	R 464 654
Housing benefits and allowances	R 431 914	R 407 575
Industrial council levy	R 15 959	R 15 773
Leave pay	R 598 263	R 1 267 476
Long-service award	R 158 699	R 87 758
Medical aid - company contributions	R 2 327 668	R 2 142 780
Overtime payments	R 2 875 742	R 2 051 811
Post-employment benefits - Pension - Defined contribution plan	R 5 611 626	R 5 008 809
SDL	R 358 504	R 333 392
Standby allowances	R 207 594	R 183 256
Transport allowances	R 1 002 883	R 1 022 872
UIF	R 292 008	R 270 317
<b>Total</b>	<b>R 44 765 877</b>	<b>R 45 064 553</b>

**Table 9: Employee Costs**

#### 4.1.2.7 VACANCY RATES

The Municipality currently has 304 positions of which 175 positions are filled (58%), with a vacancy rate of 42%.

The information below was obtained from the annual report.

Table below to be updated per the revised 304 positions.

Occupational Levels	Filled	Vacant Funded	Total
<b>Water Services</b>	31	0	31

Occupational Levels	Filled	Vacant Funded	Total
Sanitation	31	0	31
Electricity	16	1	17
Waste management	6	8	14
Housing	5	0	5
Road	22	0	22
Planning	2	2	4
LED	1	4	5
Libraries	1	3	4
Fire Services	6	1	7
Exec and Council Employees	5	7	12
Financial Services	17	11	28
Human resources	6	8	14
ICT	2	2	4
Legal	1	1	2
<b>TOTAL</b>	<b>152</b>	<b>48</b>	<b>200</b>

**Table 10: Vacancy Rates per department**

The above information was sourced from the annual report of 2016/17, which further includes directorate with no capacity. It is vital that minimum capacity should be provided for core services within the current budget constraints.

#### **4.1.2.8 FILLING OF CRITICAL POSITIONS**

The Municipal Manager and Director: Corporate Services positions are vacant and to ensure leadership, stability and accountability, these positions should be filled urgently. However, there is an immediate need to fill the positions of managers of core services which if filled by competent and skilled incumbents, will go a long way in ensuring that the Municipality enhances its revenue and reduces losses.

The positions in question are the Managers: Water, Sanitation, Spatial Planning and Electricity Division. Indications are that the positions for Electrical Manager is funded and Managers Water,

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Sanitation and Spatial Planning are unfunded and vacant. In addition, critical mandatory governance positions such as a Risk Officer and Manager: Spatial Planning and Local Economic Development is unfunded and vacant as well. The Municipality must ensure that funds are redirected to ensure that these positions are filled. The municipality should also prioritise the filling of critical positions at Legal Services and Supply Chain Management Unit.

Further, there is a need for a process to prioritise and fund critical vacancies across the board. This must be done with due regard to the financial situation of the municipality.

#### **4.1.2.9 SUMMARY OF POSTS PER DEPARTMENT**

Please refer to above Table 10: Vacancy rates per department.

#### **4.1.2.10 INFORMATION AND COMMUNICATION TECHNOLOGY**

The Municipality has an Information and Communication Technology (ICT) Strategy in place but not implemented due financial constraints. The ICT Steering Committee is also not in place and there are no reports to Council relating to ICT matters. From a hardware and software perspective, it should be noted that the server room does not meet the minimum standards. This exposes the municipality to a risk of loss of key municipal data which is compounded by the fact that the infrastructure network in the new building has also not been upgraded to the required level. In addition, there is software currently in use which is outdated and with no valid licence. The disaster and continuity plan has been drafted but not implemented. It is further critical that an effective record management system should to be implemented.

### **4.2 LEGAL AND CONTRACT MANAGEMENT CHALLENGES**

According to the 2015/16 AFS, the Municipality utilises a panel of three external firms of Attorneys for legal support and assistance, as and when required. On available information, the Municipality has one legally qualified member of staff. The 2016/17 Annual Report has identified the filling of critical positions at Legal Services and Supply Chain Management Unit as urgent. The legal services member of staff is involved in among others; drafting SLAs, furnishing legal opinions, providing inputs and comments in respect of work related reports and other documents.

For the 2016/17 financial year the sum of R720 236 was incurred in respect of legal costs for utilization of external legal support, while the relevant legal costs budget was R950 000. Although the debt collection service is outsourced, no formal instructions has ever been given to the appointed service provider to start collecting debt.

According to the 2016/17 Annual Report the Municipality experienced an increase in litigation as well as labour disputes (the specifics hereon are however not provided). Long and costly litigation has however been avoided by settling some of the matters. So far, no amount of money was paid out in



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respect of judgments against the municipality during the 2016/17 financial year regarding illegally or irregularly awarded contracts or labour arbitration awards. There is however, a current dispute between AFRGRI and the municipality regarding a complaint about bulk metering to the quantum of R1.8 million. Settlement options are being discussed by the parties. The dispute started during the 2014/15 financial year.

The institution has a contract register covering approximately 14 audited contracts spanning the period 10 October 2012 up to 20 February 2017.

DLM has a delegation of authority framework. There is however no council resolution to confine and/or ratify the said framework.

The Bid Adjudication Committee of the municipality is in place and have received the necessary training, as required. PWC has on a few occasions been contracted to coach and mentor members of the said Committee.

The SCM policy of the institution is not updated to keep abreast of changing legislation.

The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure; the possible abuse of the SCM system; and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations.

In the case of DLM:

- A disciplinary board was established, currently non-functional, to investigate allegations of financial misconduct and to monitor the institution of disciplinary proceedings against an alleged transgressor; and
- There is no hotline or similar process/ mechanism for reporting financial misconduct/ transgressions that are committed by officials and suppliers of the municipality.

The above is symptomatic of lack of consequence management by the institution.

The dysfunctionality of the SCM processes and systems within the institution are evidenced by inter alia:

- Contracts being awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c);
- Contracts being extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA; and
- Awards being made to service providers who were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous financial year (2014/15) and no effective steps were taken to prevent or combat the abuse of the SCM processes, as required by the SMC regulation 38(1).

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Of the R11.4 million in total SCM related irregular expenditure incurred during the financial year 2015/16 as disclosed in the AFS, the sum of R2.2 million was ascribed to non-compliance with legislation on contract management.

Fruitless and wasteful expenditure to the sum of R1.9 million was incurred for the 2016/17 financial year due to interest charged on late payments by the institution, while irregular expenditure amounted to R37.44 million. The irregular expenditure is currently being investigated by the Municipal Public Accounts Committee which will provide recommendations for recoverability and any disciplinary steps that will be taken. The detailed list of the irregular expenditure in respect of the 2016/17 financial year relates to SCM awards. The 2016/17 Annual Report has identified poor contract management by project managers and lack of framework within which legal services are rendered at Dipaleseng. Non-compliance with SCM regulations and relevant laws such as the MFMA, is a recurrent problem at the Municipality

### **4.3 INFRASTRUCTURE AND SERVICE DELIVERY MATTERS**

#### **4.3.1 THE CONTEXT FOR INFRASTRUCTURE AND ITS MANAGEMENT**

Infrastructure-related services of electricity and water provision, sanitation, solid waste disposal and roads and storm-water are constitutional rights to the citizens of South Africa and therefore the obligation of the Municipality wherein those citizens reside.

The provision, operation and maintenance and timely lifecycle replacements are imperatives to assure sustainable quality services provision; and the efficiency and effectiveness with which it is delivered is a key determinant of the financial sustainability of the Municipality.

#### **4.3.2 POWERS, FUNCTIONS AND PERFORMANCES**

The Municipality is mandated to provide all constitutionally-prescribed services to the community and provides these through own resources, i.e. none of the services are outsourced through alternate service delivery mechanisms.

The following specific clarification is provided:

- Regards electricity supply, the Municipality purchases bulk electricity from ESKOM and distributes to its formal and informal settlements. Rural electricity supply is provided by ESKOM per normal national practice;
- Regards water supply, the Municipality extracts raw water and treats to produce drinking-quality water before distribution. An exception is the Grootvlei town where bulk water is purchased from ESKOM. The Municipality therefore has two bulk suppliers being Department of Water and Sanitation (DWS) for raw water extraction and ESKOM for bulk drinking water for Grootvlei;
- Regards sanitation services, only the towns of Grootvlei and Siyathemba township has water-borne sanitation with waste water treatment works, the rest of the towns operates septic tank

system that must be routinely extracted, transported and disposed at a treatment works; and

- Regards solid waste collection and disposal, the Municipality collects and disposes at its own landfill.

### 4.3.3 INFRASTRUCTURE SERVICES PERFORMANCE PER 2015/16 ANNUAL REPORT

#### 4.3.3.1 ELECTRICITY SERVICES

The table below presents the performances per the 2015/16 Annual Report:

Service Objectives	Category	KPIs	2014/15		2015/16	
			Target	Actual	Target	Actual
<b>Electricity Infrastructure and Services</b>	Formal Households	Percentage household with access minimum basic electricity services	100%	72%	100%	85%
	Informal Households	Percentage household with access minimum basic electricity services	100%	0%	100%	0%

Table 11: Electricity Services Performance

#### 4.3.3.2 WATER SERVICES

The table below presents the performances per the 2015/16 Annual Report:

Service Objectives	Category	KPIs	2014/15		2015/16	
			Target	Actual	Target	Actual
<b>Water Infrastructure and Services</b>	Formal Households	Percentage household with access minimum basic water supply	89%	95%	100%	95%
	Informal Households	Percentage household with access minimum basic water supply	50%	90%	90%	65%
<b>Clean and safe water provision</b>		Blue drop rating	60%	42%	70%	45%

Table 12: Water Services Performance

#### 4.3.3.3 SANITATION SERVICES

The table below presents the performances per the 2015/16 Annual Report:

Service Objectives	Category	KPIs	2014/15		2015/16	
			Target	Actual	Target	Actual
<b>Sanitation Infrastructure and Services</b>	Formal Households	Percentage household with access minimum basic sanitation services	90%	83%	90%	83%
	Informal Households	Percentage household with access minimum basic sanitation services	50%	0%	50%	0%
	Green drop rating		60%	35%	60%	35%

Table 13: Sanitation Services Performance

#### 4.3.3.4 SOLID WASTE DISPOSAL

The table below presents the performances per the 2015/16 Annual Report:

Service Objectives	Category	KPIs	2014/15		2015/16	
			Target	Actual	Target	Actual
<b>Waste Management Infrastructure and Services</b>	Formal Households	Percentage household with access minimum basic electricity services	80%	85%	100%	88%
	Informal Households	Percentage household with access minimum basic electricity services	100%	0%	100%	8%

Table 14: Solid Waste Disposal Performance

#### 4.3.3.5 ROADS AND STORM-WATER

The table below presents the performances per the 2015/16 Annual Report:

Service Objectives	Outline Service Targets	Year 2015/16
<b>Elimination of gravel roads in townships</b>	Kilometers of gravel roads tarred (Kilometers of gravel road remaining)	20 kms gravel roads tarred (141 kms gravel roads remaining)
<b>Development of municipal roads as required</b>	25 kms of municipal roads developed	3 kms

Table 15: Roads and Storm-Water Performance

#### 4.3.3.6 OBSERVATIONS

- None of the targets set for formal and informal households has been achieved and informal households have not been achieved to a greater extent than formal households; and
- Both targets for improving the blue and green drop compliance status were not achieved, which questions the quality of water and sanitation services.

#### 4.3.4 INFRASTRUCTURE CHALLENGES AS PRESENTED IN THE DECEMBER 2017 WORKSHOP

The table below presents the infrastructure challenges as presented by the Municipality at the workshop of 11 and 12 December 2017.

Challenges	Root cause	Risk	Possible solution
Shortage of staff/ Lack of key personnel	<ul style="list-style-type: none"> <li>▪ Funding</li> <li>▪ Slow recruitment process</li> </ul>	Inefficient and ineffective execution of processes	<ul style="list-style-type: none"> <li>▪ Fill in key position, i.e. Electrical Manager, Water and Waste Water Technician</li> <li>▪ Increased supervision of personnel</li> </ul>
Inadequate capacity to render infrastructure services: Municipal Fleet insufficient  (Fleet experiencing consistent mechanical breakdowns)	Old/ Aging Fleet Lack of maintenance plans	<ul style="list-style-type: none"> <li>▪ Service delivery interruptions</li> <li>▪ Loss of revenue</li> <li>▪ Increase in overtime cost</li> <li>▪ High repairs and maintenance cost</li> </ul>	<ul style="list-style-type: none"> <li>▪ Procurement of new trucks be prioritised</li> <li>▪ Maintenance plans to be develop and adhered to</li> <li>▪ Source alternative ways of acquiring fleet</li> </ul>
Inadequate metering of Bulk/ industrial/ commercial and domestic consumers	Faulty, damage meters not replaced or non-existence	<ul style="list-style-type: none"> <li>▪ Loss of revenue</li> <li>▪ Distribution losses</li> </ul>	Replacement of old and damaged meters/installation of meters in new areas. Ensure accurate meter reading (Vodacom smart meter project addressing the electrical meters)
Ineffective access control at the WWTW, WTW, Electrical Substations and mini-sub	<ul style="list-style-type: none"> <li>▪ Lack of personnel</li> <li>▪ Lack of policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>▪ Loss of revenue</li> <li>▪ Theft and vandalism</li> <li>▪ Non-compliance with legislation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop and implement policies and procedures</li> <li>▪ Allocate budget for filling of vacant posts 2018/19</li> <li>▪ Increase security at all Facilities</li> </ul>

Challenges	Root cause	Risk	Possible solution
Outdated by-Laws	Lack of enforcement of Water and Waste Water By-Laws	<ul style="list-style-type: none"> <li>▪ Litigation</li> <li>▪ Health and hygiene issues - community and employees</li> <li>▪ Illegal release raw effluent into WWTW</li> <li>▪ Loss of revenue</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review and promulgate the by-laws</li> <li>▪ Enforcement of By-laws</li> <li>▪ Conduct Awareness campaigns</li> <li>▪ Increase supervision</li> </ul>
Lack of proper controls to manage bulk infrastructure Facilities, i.e. WWTW, WTW and Electrical Substations	Lack of procedure manuals and maintenance plans	Loss of revenue Increase in maintenance cost	Develop and Implement of procedure manuals and maintenance plans
Insufficient/ Lack of maintenance and repairs material	Funding shortage Slow Procurement processes	Slow delivery of services Increase in overtime cost	<ul style="list-style-type: none"> <li>▪ Filling of positions at BTO</li> <li>▪ Increased supervision of personnel</li> </ul>

**Table 16: Infrastructure Challenges**

The following notable observations and conclusions are made:

- Deficient maintenance and operations of infrastructure due to funding and resource constraints, which will be evidenced by a failure-based and reactive infrastructure management and deficient services' quality; and
- Deficient metering of both bulk purchases and supply or consumption of water and electricity, which will be evidenced by high electricity and water losses because of inability to bill and control purchase and consumption.

#### 4.3.5 INFRASTRUCTURE FINANCIALS

The Municipality delivers infrastructure services and in lieu of consumption of services, the Municipality is able to bill and receive revenues from the consumption of electricity, water, sanitation and waste services; and property taxes for infrastructure services not directly measurable through consumption. The difference between these revenues and costs incurred should result in surpluses that will fund other operating and administrative expenses. The purpose of this section is to evaluate financial dynamics related to infrastructure operations and capitalisation.

#### 4.3.5.1 INFRASTRUCTURE SERVICE REVENUE

##### a) *Total revenue related to infrastructure services*

The table below illustrates the transactional service charges and non-transactional property tax; the total thereof and the annual percentage change:

Service charges	2012/13	2013/14	2014/15	2015/16	2016/17
Sale of electricity	R 38 936 219	R 36 260 236	R 37 666 812	R 40 467 043	R 47 916 141
Sale of water	R 13 604 016	R 13 795 068	R 13 055 527	R 15 731 202	R 16 145 666
Refuse removal	R 6 945 717	R 4 707 667	R 5 067 631	R 5 363 907	R 5 819 471
Sewerage and sanitation charges	R 11 193 391	R 12 155 665	R 12 514 526	R 14 119 706	R 15 233 976
Property Rates	R 13 393 495	R 16 839 275	R 10 203 275	R 13 645 484	R 13 724 228
<b>Total</b>	<b>R 84 072 838</b>	<b>R 83 757 911</b>	<b>R 78 507 771</b>	<b>R 89 327 342</b>	<b>R 98 839 482</b>
<b>Year on year increase (%)</b>		<b>-0,4%</b>	<b>-6,3%</b>	<b>15,3%</b>	<b>13,8%</b>

**Table 17: Revenue Growth**

The following observations are made:

- The total revenues have not increased in a consistent manner and in some years below inflation. The total revenue increase from 2013 to 2017 is only 18%; and
- The property tax increased from 2013 to 2014 corresponding to the four-year property valuation which latest valuation came into effect on 1 July 2014, yet 2015 to 2017 property tax is less than 2014's.

##### b) *Electricity revenue losses*

The table below presents a reconciliation from electricity bulk purchase cost to the expected electricity revenue and the shortfall or unaccounted revenue:

Rand (R)	2012/13	2013/14	2014/15	2015/16	2016/17
<b>Bulk purchase cost</b>	R 36 203 913	R 35 552 474	R 36 138 855	R 45 015 391	R 49 257 923
<b>Expected sale margin</b>	R 17 598 294	R 17 281 638	R 17 566 671	R 21 881 450	R 23 943 694
<b>Expected revenue</b>	R 53 802 207	R 52 834 112	R 53 705 526	R 66 896 841	R 73 201 617
<b>Actual revenue</b>	R 38 936 219	R 36 260 236	R 37 666 812	R 40 467 043	R 47 916 141
<b>Unaccounted loss</b>	<b>R 14 865 988</b>	<b>R 16 573 876</b>	<b>R 16 038 713</b>	<b>R 26 429 798</b>	<b>R 25 285 476</b>

Rand (R)	2012/13	2013/14	2014/15	2015/16	2016/17
% unaccounted loss	38%	46%	43%	65%	53%

**Table 18: Electricity Revenue Losses**

The following clarifications and observations are made:

- The bulk purchase cost is as recorded in the annual financial statements;
- The expected sale margin, being the difference between the municipal sales and bulk purchase cost, is calculated at 49% and this computed from the NERSA approved electricity tariff for the Municipality for 2015/16 and the Eskom bulk purchase rate in cents per kilowatt-hour for the same period;
- The expected revenue is therefore the bulk purchase cost plus the expected margin;
- The actual revenue is as recorded in the annual financial statements;
- The difference is the unaccounted revenue or losses, whether technical or non-technical, and these losses have increased on an annual basis and stands at 53% of the reported revenue; and
- The 2016/17 annual financial statements report the electricity losses at 22%, however this reported figure's accuracy is questionable.

**c) Water revenue losses**

The 2016/17 annual financial statements report the water losses at 66%, or R4.8 million. When one applies 66% to the reported water revenue of R16.1 million, the expected losses is R10.7 million as opposed to the reported R4.8 million.

#### **4.3.5.2 RAW WATER EXTRACTION COSTS**

The Municipality only reports its bulk water purchases as that purchased from ESKOM for the Grootvlei town, however it extracts raw water from the local river/dam for which it must pay Department of Water Affairs for the extraction and which is equivalent to a bulk purchase. Its bulk purchase is therefore understated, and a provision account is maintained for the still-disputed raw water extraction charge. The table below presents the annualised provision account for raw water extraction (R65 million as at

	2014	2015	2016	2017
Opening balance	R 11 019 483	R 12 016 765	R 13 988 977	R 20 318 092
Increase in year	R 997 282	R 1 972 212	R 6 329 115	R 0
Decrease in year	R 0	R 0	R 0	R674 481
Closing balance	R 12 016 765	R 13 988 977	R 20 318 092	R 19 643 611



**Table 19: Annualised Provision Account for Raw Water Extraction**

The above disputed volumes and charge compounds the quantification of water revenue losses as there is no certainty and this cost will remain an increasing liability.

#### **4.3.5.3 INFRASTRUCTURE CARRYING VALUE TO ACQUISITION COST**

The table below illustrates the extent to which the infrastructure assets have been depreciated, or not recapitalised:

Category of Assets	2016/17 Cost/ Valuation	2016/17 Carrying Value	% Depreciated
Land and buildings	R 48 203 010	R 6 389 743	87%
Infrastructure	R 755 273 668	R 315 105 429	58%
Community	R 72 795 465	R 31 901 839	56%
Other property, plant and equipment	R 9 778 986	R 2 033 269	79%
Capital work in progress	R 58 225 776	R 58 225 776	0%

**Table 20: Infrastructure Depreciation and Carrying Values**

The following clarifications and observations are made:

- Infrastructure assets are depreciated to account for the consumption of these assets' lives over their depreciable or economic lives; and
- Since infrastructure assets comprise components of different life expectancies, the reality is that assets are continually re-capitalised through replacement as each reaches its economic life. Should this not be done the evidence is a materially depreciated asset as is the case for this Municipality. It therefore implies that the Municipality is not replacing asset components as their useful life expire.

#### **4.3.5.4 INFRASTRUCTURE REPAIRS AND MAINTENANCE**

The table below illustrates the significant under-maintenance of infrastructure by 86% when applying the National Treasury (NT) benchmark of 8% of the asset carrying value, which is currently or will become of significant limitation to service delivery and financial sustainability:

Category	2016/17 Carrying Value
Land and buildings	R 6 389 743
Infrastructure	R 315 105 429
Community	R 31 901 839

Other property, plant and equipment	R	2 033 269
Capital work in progress	R	58 225 776
Investment property	R	52 493 011
Total	R	466 149 067
NT's Repairs and Maintenance Benchmark		8%
Required Repairs and Maintenance per NT Benchmark	R	37 291 925
Actual Repairs and Maintenance per 2016/17 Annual Financial Statements	R	5 050 859
Percentage Actual Repairs and Maintenance Spend Versus NT Benchmark		14%
Percentage Under-Repairs and Maintenance Against NT Benchmark		86%
Repairs and Maintenance as a Percentage of Property Plant and Equipment and Investment Property		1.1%

**Table 21: Repairs and Maintenance Assessment**

Evidence of the inadequate planned maintenance is the extent of irregular expenditure reported in the 2016/17 annual financial statements and of which 79% relates to emergency maintenance repairs:

Purpose of Irregular Expenditure	Sum of Value	Percentage
<b>Infrastructure</b>	<b>R 23 325 800</b>	<b>99.27%</b>
<b>Emergency Repair</b>	<b>R 18 456 936</b>	<b>78.55%</b>
Electrical	R 17 876 869	0.96%
Sanitation	R 225 000	0.61%
Mobile plant and equipment	R 157 329	0.67%
Water	R 142 218	0.61%
Unknown	R 55 520	0.24%
<b>Routine service</b>	<b>R 4 536 076</b>	<b>19.30%</b>
Sanitation	R 4 264 600	18.15%
Water	R 167 360	0.71%
Vehicles	R 61 675	0.26%
Mobile plant and equipment	R 42 441	0.18%
<b>Upgrade project</b>	<b>R 332 788</b>	<b>1.42%</b>
Electrical	R 332 788	1.42%
<b>Administrative</b>	<b>R 171 630</b>	<b>0.73%</b>
<b>Routine service</b>	<b>R 171 630</b>	<b>0.73%</b>
Hotel/Guesthouse accommodation	R 95 476	0.41%
Medical services	R 49 650	0.21%
Publications	R 20 566	0.09%
Filing	R 3 894	0.02%
Unknown	R 2 044	0.01%
<b>Grand Total</b>	<b>R 23 497 430</b>	<b>100%</b>

**Table 22: Breakdown of Irregular Expenditure**

A material anomaly is that the emergency maintenance summates to R18.5 million yet the total repairs and maintenance as reported in the statement of financial position is R5.1 million; this implies an under-reporting of repairs and maintenance unless it is accounted elsewhere, which is not immediately obvious.

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The following clarifications and observations are made:

- National Treasury has issued guidelines or benchmarks for the required annual repairs and maintenance (R&M) spend which is calculated as R & M as a percentage of property, plant and equipment and investment property (Carrying Value) with the norm being 8%;
- The required R&M is computed by multiplying the benchmark of 8% with the carrying value of property plant and equipment and investment property;
- Actual costs for repairs and maintenances (R&M) should be at 8% of the total asset value. Currently, the Municipality is only spending 1.12% of the total asset value on repairs and maintenance. The significant under-maintenance of infrastructure by 98.88% when applying the National Treasury (NT) benchmark of 8% of the asset carrying value implies the infrastructure is grossly under-maintained and likely compromised beyond what normal maintenance can achieve; and
- Actual R&M amounts to 1.1% of the carrying value of property plant and equipment and investment property, which is significantly below the National Treasury norm of 8% confirming that infrastructure is grossly under-maintained.

#### **4.3.5.5 INFRASTRUCTURE SERVICES TO INDIGENT HOUSEHOLDS**

The 2015/16 Annual Report documents the number of households at 13 190 per the 2016 StatsSA Community Survey, and of which 45% is reported as having no household income. The Annual Report further records that 11 998 households have a household income of less than R3 010.00 per month and qualifies for access to Free Basic Services, which would include those households with no income. This implies that 91% of all households has right to Free Basic Services of the following:

- Fifty (50) kilo-watt hour of electricity per month;
- Six (6) kilo-litres of water per month;
- Minimum sanitation service level; and
- Refuse removal once per week.

The following percentage of the 11 998 households receives Free Basic Services as reported in the Annual Report:

- 100% water service;
- 100% sanitation service;
- 42% electricity services; and
- 15% waste removal service.

The impact of the extent of indigence is significant and its financial implications are explained more fully in the section to follow.

When considering the property valuations as presented in the 2017 financial statements, small holdings and farms account for 52% of the R2.771 billion, and these properties are supplied with electricity by Eskom and therefore other than property rates, the Municipality does not benefit from service charges.

When excluding small holdings and farms, the commercial property only accounts for 13% of the property value, residential accounting for 68%, and the balance being state and municipal properties that benefit from rebates.

When considering that residential property, or households, accounts for the most significant source of revenue then the reality of the 91% indigence will have a profound financial sustainability bearing on the Municipality if the consumption of services is not controlled to that allowed as free basic services and as provided by the Equitable Share Grant.

#### **4.3.5.6 MUNICIPAL FINANCIAL SUSTAINABILITY TIED TO INFRASTRUCTURE SERVICES SURPLUS**

The table below presents the implications of infrastructure services' financial surplus being inadequate to fund the balance of the Municipality's operating costs, the following clarification is provided:

- The income attributable to delivery of infrastructure services is the summation of service charges for water, electricity, sanitation and waste services; property rates intended to fund common use services such as roads and storm water infrastructure; and equitable share grant funding for services to indigent households for free basic services;
- The total direct cost of delivering infrastructure services is the summation of bulk purchases, water extraction charge closing provision, repairs and maintenance, certain general expenses and employee cost of those employees deployed to infrastructure services;
- The infrastructure services' financial surplus is the difference between infrastructure services' revenue and direct cost;
- The balance of operating costs is the difference between the total expenditure per the statement of financial performance less the direct infrastructure services cost and less depreciation; and
- The overall municipal surplus/deficit is the difference between the infrastructure services' surplus less the balance of operating expenditure.

Description	2013	2014	2015	2016	2017
Service charges and Property Rates	R 84 072 838	R 83 757 911	R 78 507 771	R 89 327 342	R 98 839 482
Equitable share (Free Basic Services)	R 44 041 000	R 46 059 000	R 48 618 000	R 52 509 000	R 54 340 262

Description	2013	2014	2015	2016	2017
Total income attributable to infrastructure services	<b>R 128 113 838</b>	<b>R 129 816 911</b>	<b>R 127 125 771</b>	<b>R 141 836 342</b>	<b>R 153 179 744</b>
Bulk purchases	R 37 895 533	R 36 906 085	R 37 568 412	R 46 614 852	R 50 284 084
DWS Water extraction provision (closing balance per year)	R 0	R 12 016 765	R 13 988 977	R 20 318 092	R 19 643 611
Repairs and Maintenance	R 4 528 911	R 4 993 394	R 3 698 233	R 5 850 378	R 5 050 859
General expenses – Chemicals	R 2 962 679	R 2 875 630	R 3 319 478	R 5 455 389	R 8 922 073
General expenses - Motor vehicles	R 1 969 471	R 2 349 461	R 2 442 245	R 2 484 423	R 3 728 299
Infrastructure services employee cost	R 8 568 323	R 11 545 000	R 12 071 000	R 11 971 000	R 12 840 184
Total infrastructure services related cost	<b>R 55 924 917</b>	<b>R 70 686 335</b>	<b>R 73 088 345</b>	<b>R 92 694 134</b>	<b>R 100 469 110</b>
Surplus (Infrastructure services Income less costs)	<b>R 72 188 921</b>	<b>R 59 130 576</b>	<b>R 54 037 426</b>	<b>R 49 142 208</b>	<b>R 52 710 634</b>
Balance of operating cost (excluding depreciation)	<b>R 74 823 023</b>	<b>R 117 041 625</b>	<b>R 112 032 495</b>	<b>R 128 377 190</b>	<b>R 106 392 777</b>
Surplus/Deficit (Infrastructure surplus less balance of costs)	<b>- R 2 634 102</b>	<b>- R 57 911 049</b>	<b>- R 57 995 069</b>	<b>- R 79 234 982</b>	<b>- R 53 682 143</b>

**Table 23: Infrastructure Services Financial Surplus/Deficit**

The following observations and conclusions are made:

- The Municipality is in a financially unsustainable position in that the infrastructure services derived revenue less the direct cost of delivering the infrastructure services is materially inadequate to fund the other than direct costs, namely the balance of operating and administrative expenses;
- The position is in fact considerably worse because the Municipality is grossly under-maintaining infrastructure which is resulting in a cumulative deferred maintenance that is unaffordable to service and is resulting in infrastructure failure and service delivery constraints;
- The significant contributor to the financial position is the inter-related aspects of electricity and water revenue losses approximated at R36 million and the debt impairment of R36 million. The electricity and water revenue losses is the difference between the expected revenue based on purchased bulk volumes at the sale tariff, and the actual revenue received. The probable reason for the high losses is that 91% of households has right to free basic services, however if this service is not controlled to the free basic service allowance, then consumption will continue unabated as is the case. The double-negative is when the households are billed for actual consumption they cannot afford due to their indigent status and the Municipality is forced to impair the debt.

#### 4.3.5.7 OBSERVATIONS AND CONCLUSIONS

The following conclusions are deduced from the infrastructure financial perspectives:

- The infrastructure services revenue has increased by 18% over the past five years or equivalent to an annual compound rate of 4%, which is well below national consumer inflation and thus costs increases would have exceeded revenue increases. Without associated efficiency improvements this will result in forced cost-cutting and likely to impact required maintenance and other discretionary spend;
- The unaccounted revenue or losses are likely at R36 million per annum, more than double the reported losses of R17 million;
- Property rates recoverable from 2015 to 2017 are both less than the 2014 valuation, therefore further revenue losses;
- Infrastructure assets are grossly under-maintained by 86% of what is required in terms of National Treasury benchmarks; and thus, further compounded by lack of recapitalisation of assets which have expired useful lives;
- The household indigence is 91% and given the material dependency on household consumption of services and associated revenues, the Municipality's financial sustainability is critically tied to its control over supply of services within the free basic allowances. Evidence however is that this is not the case; and
- In conclusion, the Municipality's financial fundamentals related to sustainable infrastructure services' financial surplus to fund the balance of operating and administrative expenses is completely compromised. There will be no sustainable recovery unless the dual interventions of curtailing the uncontrolled revenue losses and maintaining infrastructure to acceptable standard.

#### 4.3.6 INFRASTRUCTURE SERVICES PLANNING PER SDBIP 2016/17

The following tables present the infrastructure services planning as contained in the 2016/17 SDBIP.

##### 4.3.6.1 ELECTRICITY SERVICES

Strategic Objective	Programme	Budget R 000's	KPI	Baseline 2015/16	2016/17 target
To provide bulk electricity supply and upgrading of electricity infrastructure	Electricity Services	R0,540m	Number of households provided with basic electricity service to eradicate backlogs	10 815	10 915
	Opex		Percentage decrease in electricity losses distributed from the substations to the consumers supplied by DLM	60% electricity loss	40%

Strategic Objective	Programme	Budget R 000's	KPI	Baseline 2015/16	2016/17 target
		Opex	No. of Pre-paid meters converted from conventional meters to prepaid meters	4 400	800
		Opex	Average hours taken to restore electricity outages	24	24

**Table 24: Electricity Services Planning**

#### 4.3.6.2 WATER SERVICES

Strategic Objective	Programme	Budget R 000's	KPI	Baseline 2015/16	2016/2017 target
To ensure improved access to potable water by providing adequate bulk water infrastructure and address backlogs	Water	Opex	No. of households provided with at least a basic or higher level of water service to eradicate backlogs NKPI (annual)	13 013	13 213
		R0,350m (GSDM)	Percentage Blue Drop Status achieved	15%	45%
		Opex	Percentage decrease in water losses distributed from the waterworks to the consumers	60%	40%
		Opex	Average number of hours taken to restore water supply disruptions	24	24

**Table 25: Water Services Planning**

#### 4.3.6.3 SANITATION SERVICES

Strategic Objective	Programme	Budget R 000's	KPI	Baseline 2015/16	2016/17 target
To provide access to sanitation services to all households in Dipaleseng and	Sanitation	MIG (R5m)	Percentage completion of households sewer reticulation	9 946 (80%)	10 486 (84,3%)
		MIG (R9,9m)	Percentage completion of Upgrading / Expansion of the Grootvlei Waste Water Treatment Works, (Phase 3)	WWTW	100%

Strategic Objective	Programme	Budget R 000's	KPI	Baseline 2015/16	2016/17 target
provide bulk capacity upgrade of sewer plants		R0,350m (GSDM)	Percentage Green Drop Status achieved	15%	35%
		Opex	Average number of hours taken to unblock sewer spillage	24	24

**Table 26: Sanitation Services Planning**

#### 4.3.6.4 COMMUNITY SERVICES, INCLUDING SOLID-WASTE DISPOSAL SERVICES

Strategic Objective	Programme	Budget R 000's	KPI	Baseline 2015/16	2016/17 target
To ensure the safety of all road users	Road Safety awareness campaigns	Opex	Number of Prevention Campaigns such as arrive alive"	4	8
	Maintain order in the legality of Vehicles	Opex	Number of Reports for Vehicle registration	12	12
		Opex	Number of Reports for vehicle tested	12	12
		Opex	Number of Reports for applicants tested	12	12
		Opex	Number of Reports for applicants tested for driving licence	12	12
To promote a clean and healthy environment by conducting intensive awareness and cleaning campaigns to discourage illegal dumping	Environmental Management	Opex	Number of reports on Keep Dipaleseng Clean	12	12
		Opex	Number of reports for Grass cutting in open spaces	12	12
		Opex	Number of parks to be upgraded	7	8
		Opex	Number of reports on Maintenance of Cemeteries	8	8



Strategic Objective	Programme	Budget R 000's	KPI	Baseline 2015/16	2016/17 target
		Opex	No of households receiving a weekly refuse removal services	12 365	13 190
To develop and implement a comprehensive Disaster Management program and system that will be able to effectively respond to possible emergencies and disasters	Disaster Management	Opex	Number of reports on emergency incidents attended	12	12
To ensure that all communities have access to well-equipped and managed library facilities to encourage greater interest in reading and literature in communities.	Education	Opex	Number of Outreached programmes held to attract members to the libraries	12	14
To ensure maintenance of Municipal buildings	Maintenance of Municipal buildings	Opex	Number of reports on maintenance of Municipal buildings	12	12
	Maintenance of Sporting Facilities	Opex	Number of reports on maintenance Sporting Facilities	12	12

**Table 27: Community Services and Solid Waste Disposal Services Planning**

#### 4.3.6.5 ROADS AND STORM-WATER SERVICES

Strategic Objective	Programme	Budget R 000's	KPI	Baseline 2015/16	2016/17 Target
To ensure sufficient roads and storm water networks to all communities in Dipaleseng by improving accessibility of roads and improvement in road safety and storm water drainages	Roads & Storm water	Opex	Number of km <sup>2</sup> roads maintained through patching of potholes	2.5 km <sup>2</sup>	0.4 km <sup>2</sup>
		Opex	Number of km <sup>2</sup> roads re-gravelled	88.4km <sup>2</sup> of gravel roads	20km <sup>2</sup>

**Table 28: Roads and Storm-Water Planning**

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#### **4.3.6.6 OBSERVATIONS**

The following observations are made:

- The planning for formulation of infrastructure master plans remain absent;
- The water and electricity revenue losses continue to be listed by targets are no more aggressive that previous years when considering the sustained increase in losses over the years; and
- The same targets are set for blue and green drop status but no planning on how to achieve a change in the previous lack of performance is given.

#### **4.3.7 CONCLUSION AND RECOMMENDED APPROACH**

The Municipality must focus on and manage the dual interventions of curtailing the uncontrolled revenue losses to bring the revenue and expenditure in balance and maintaining infrastructure to acceptable standard to provide sustainability to continued service delivery and consequent financial sustainability.

##### **4.3.7.1 INFRASTRUCTURE SERVICES FINANCIAL PERFORMANCE**

The following are fundamental to a financial recovery:

- Expedite the installation of accurate smart meters for industrial, commercial and domestic consumers to ensure revenue losses are reduced to no more than the accepted norm (7% - 10%) for electricity and (15% - 30%) for water. There is a need to control the free basic services to the maximum allowed in terms of the equitable share allocation.
- Implement necessary organisational processes and resources to operate an effective and efficient metering, billing, revenue receipting and consumption/credit control; and
- Critically review the credibility of the extent of household indigence of 91% for if this is factual, then the Municipality is effectively a welfare municipality and it must then more so control its services to no more than free basic services allowed whilst focusing on changing the socio-economic dynamic.

##### **4.3.7.2 INFRASTRUCTURE LIFECYCLE PLANNING AND PERFORMANCE**

The following is recommended:

- The Municipality has not achieved the quality standards of Blue and Green Drop status for water supply and sanitation services and these are key measures that validate the integrity of operations and maintenance management procedures. This failure to achieve, has been protracted over the years;

- 
- A further consistent failure has been the reduction of water and electricity revenue losses and there is no evidence of plans to address the losses in a decisive manner;
  - According to the 2014/15 Annual Report (latest available report dealing with performance of infrastructure assets), the target of formulating master plans for all infrastructure was not achieved and there is no record of it on current planning documents, hence these are not completed and without these there is no proactive planning for infrastructure replacements, upgrades or expansions.
  - Actual costs for repairs and maintenances (R&M) should be at 8% of the total asset value. Currently, the Municipality is only spending 1.12% of the total asset value on repairs and maintenance. This implies the infrastructure is grossly under-maintained and likely compromised beyond what normal maintenance can achieve;
  - The under-maintenance is further compounded by the reality that the various asset categories are depreciated between 53% and 80%. This implies that the infrastructure has not been re-capitalised through required asset replacements due to normal wear and tear, not even considering upgrade or expansion requirements. This combined reality of under-maintenance and under-recapitalisation is resulting in a highly-compromised infrastructure that will not provide the required service delivery and financial sustainability; and
  - The Municipality does not have both the financial and other resources to restore infrastructure to its required standard of condition and performance, and then to operate and maintain to the required standard. This then requires a holistic and integrated infrastructure asset management assessment and plan for a phased in implementation over three to five years.

## **4.4 FINANCIAL CHALLENGES**

### **4.4.1 OVERVIEW**

The financial sustainability challenges are due to poor financial management, operations and administrative inefficiencies, lack of proper leadership, planning, inadequate delegations, lack of staff discipline and performance and lack of accountability.

Overall the poor or non-implementation of administrative systems, procedures, processes, financial controls and poor budgeting techniques, over-spending together with non-compliance on the relevant legislative framework, contributed largely to the current state of affairs.

The high level financial challenges are as follows:

- Budget management: absence of capital and operational procurement plans;
- Cash management: absence of cash flow management processes to monitor bank and cash;
- Revenue management: inaccurate customer and billing information that contribute to incidents of incorrect billing;
- Customer care: absence of customer care unit and customer care policy;
- Illegal land use: Municipality to issue a 3 months' moratorium for business to correct their land use and zonings;
- Material cash flow constraints leading to the Municipality not being able to meet its financial commitments such as paying its creditors timeously;
- Under spending on conditional grants due to cash flow shortages and the spending of conditional grants on normal operating expenditure;
- Culture of non-payment by domestic consumers;
- Unable to collect outstanding debtors;
- Absence of Traffic Management System to manage traffic fines;
- Traffic management system: traffic fines are not managed effectively and efficiently by the courts; etc.
- Poor billing due to lack of or damaged meters, incorrect debtor's data, no revenue enhancement, etc.

These financial challenges are as a result of poor internal controls arising from: -

- Supplementary valuation roll: not updated regularly to account for property improvements/ changes such as consolidations, subdivisions due to absence of synergy between Budget and Treasury Office (BTO) and Town Planning Department;
- Lack of proper leadership: bank reconciliation not performed regularly. Monthly Reconciliations: audit files are not compiled and verified across all BTO units, giving rise to inaccurate and unreliable in year financial records; and

- Inadequate internal controls: absence of Standard Operating Procedures (SOPs) across all BTO units that lead to poor supervision over financial transactions;

To assess the financial health of the Municipality, a summary of the key ratio analysis was done, and linked to the MFMA Circular 71 and are set out below. The details are also provided in Annexure A.

#### **4.4.2 FINANCIAL RATIOS**

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
<b>Asset Management Utilisation</b>				
<b>Capital Expenditure to Total Expenditure</b> – indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services.  <b>The norm is 10% - 20%.</b>	29.2%	15.6%	10.8%	<p>There is a downward trend from 2015 to 2017 which indicates that current operations are being prioritised over increasing future capacity and potential asset stripping.</p>
<b>Debtors Management</b>				
<b>Debtors Management Net Debtors Days</b> – indicates the average number of days taken for debtors to pay their accounts.  <b>The norm is 30 days.</b>	81.5	57.4	44.7	<p>The debtors' payment period improved from 2015 to 2017 but remains above the norm.</p> <p>This is an indication that the Municipality has actively embarked on revenue collection strategies and projects to recover outstanding amounts which reduces the Municipality's cash flow risks but that this is still inadequate.</p>
<b>Annual Collection Rate</b> - indicates the level of payments as a percentage of revenue billed on credit.  <b>The norm is 95%.</b>	46.9%	46.7%	66.0%	<p>There was no significant change in the collection rate from 2015 to 2016 and an improvement in 2017. This is consistent with the finding that the Municipality has embarked on revenue collection strategies and projects to improve collections.</p> <p>Even though the collection rate has increased in 2016/17, it still remains below the norm in all three years.</p> <p>The inability to collect revenue and thereby convert revenue to cash is a contributing factor to the cash flow challenges being experienced by the</p>

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Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				Municipality.
<b>Liquidity Management</b>				
<p><b>Liquidity Ratio (Current Ratio)</b> - this ratio indicates the extent to which current assets can be used to settle short-term liabilities.</p> <p>If current assets do not exceed current liabilities it means a liquidity problem i.e. insufficient cash to meet financial obligations.</p> <p><b>The norm is 1.5 - 2:1.</b></p>	0.39	0.30	0.11	<p>The current ratio has deteriorated over the years and has remained below the norm.</p> <p>This is an indication that the Municipality will not be able to pay its current or short-term liabilities (Debt and Payables) with its short-term assets (i.e. Cash, Inventory, Receivables) as and when they fall due.</p>
<b>Liability Management</b>				
<p><b>Debt (Total Borrowings)/ Revenue</b> - indicates the extent of total borrowings in relation to total operating revenue.</p> <p>The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings.</p> <p><b>The norm is 45%.</b></p>	0%	0%	0%	<p>This ratio is not applicable as the Municipality has not had borrowings/ loans at the last 3 financial year ends.</p>
<p><b>Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure</b> - indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure.</p> <p><b>The norm is 6% - 8%.</b></p>	0.5%	0.2%	0.9%	<p>The ratio does not reflect a significant change over the years. The ratio is below the norm indicating that the Municipality is able to service its current debt levels.</p> <p><b>Note this is for long outstanding creditors.</b></p> <p>This ratio is to be read with the Debt/ (Total Borrowing)/ Revenue ratio.</p>
<b>Efficiency</b>				
<p><b>Net Operating Margin</b> – measures the net surplus or deficit as a percentage of revenue.</p> <p><b>The norm is &gt; 0%.</b></p>	9.9%	-12.8%	2.9%	<p>The net operating margin reflected a surplus in 2015, followed by a significant loss in 2016, and a marginal profit in 2017.</p> <p>Despite a decline from 2015 to 2016,</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				there was an improvement in 2017.  This indicates improved cost, revenue management and budgeting.
<b>Distribution Losses</b>				
<b>Electricity Distribution Losses (%)</b>  The norm is 7% - 10%.	1.6%	21.2%	22.3%	The electricity distribution loss was above the norm in 2016 and 2017.  Refer to the Status Quo Assessment section dealing with Infrastructure and Service Delivery related matters for more detail relating to Electricity Distribution Losses.
<b>Water Distribution Losses (%)</b>  The norm is 15% - 30%.	66%	65%	66%	The water distribution loss has remained significantly above the norm in all three years with no significant movement.  Refer to the Status Quo Assessment section dealing with Infrastructure and Service Delivery related matters for more detail relating to Water Distribution Losses.
<b>Revenue Management</b>				
<b>Revenue Growth (%)</b> – measures the growth in revenue year on year.  The norm is > 5%.	35.7%	-6.3%	8.6%	Revenue growth does not reflect a clear trend over the last three years, however the ratio reflects growth, above inflation, in the most recent financial year though still inadequate to fund operations.
<b>Revenue Growth (%) - Excluding Capital Grants</b> - measures the growth in revenue excluding capital grants year on year.  The norm is > 5%.	18.8%	3%	2.3%	Revenue growth excluding capital grants reflects a decline over the last 3 years, but remains on a growth path. The growth is however below inflation but still inadequate to fund operations.
<b>Expenditure Efficiency</b>				
<b>Creditors Payment Period</b>  This ratio indicates the average number of days taken for trade creditors to be paid.	102.1	140	225.9	The creditor payment period has been deteriorating since 2015.  The days are in excess of the norm indicating that suppliers are not being

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
<b>The norm is 30 days.</b>				<p>paid within 30 days.</p> <p>This is consistent with the cash flow challenges being experienced by the Municipality.</p> <p>This may also be as a result of inadequate payment processes and related controls, disputes and delays in the processing of payments or cash flow challenges, as indicated above.</p>
<b>Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure</b> - Indicates the extent to which expenditure is applied to the payment of personnel.  <b>The norm is 25% - 40%.</b>	27.1%	24.8%	26.5%	<p>The ratio is within the norm of 25% to 40% for the last year indicating that the Municipality has maintained staffing levels and/or salaries at an appropriate level. Note that critical vacancies remain unfilled and/or unfunded.</p>
<b>Contracted Services as a % of Total Operating Expenditure</b> - indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions.  <b>The norm is 2%-5%.</b>	0.3%	0.3%	0.3%	<p>The ratio is below the norm of 2% - 5% for the last three years indicating that the Municipality is not excessively reliant on contracted services to perform Municipal related functions. Further analysis indicates that this figure is understated as the contracted services line item excludes repairs and maintenance which is primarily outsourced.</p>
<b>Irregular, Fruitless and Wasteful and Unauthorised Expenditure to Total Expenditure</b> – this ratio measures the extent of irregular, fruitless and wasteful and unauthorised expenditure to total expenditure.  <b>The norm is 0%.</b>	14%	21.8%	34.7%	<p>There was an increase in irregular, fruitless and wasteful and unauthorised expenditure from 2015 to 2017.</p> <p>The Municipality must take measures to ensure that no irregular, fruitless and wasteful and unauthorised expenditure is incurred by the Municipality.</p>
<b>Repairs and Maintenance to Property, Plant and Equipment and Investment Property</b> – measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to services delivery.  <b>The norm is 8%.</b>	0.9%	1.3%	1.1%	<p>Repairs and maintenance to property, plant and equipment and investment property is low.</p> <p>This is an indication that insufficient expenditure toward repairs and maintenance and that asset stripping is taking place.</p> <p>This situation is already impacting</p>



Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				negatively on service delivery and resulting in interruptions of services.  This is a potential contributor to the electricity and water distribution losses being experienced.
<b>Grant Dependency</b>				
<b>Own Source Revenue to Total Operating Revenue (Including Agency Revenue)</b> - measures the extent to which the Municipality's total capital expenditure is funded through internally generated funds and borrowings.	53.8%	59.1%	55.8%	This is an indication that the Municipality is reliant on government funding to fund its obligated municipal services.
<b>Own Funded Capital Expenditure (Internally Generated Funds plus Borrowing) to Total Capital Expenditure</b> - Measures the extent to which the municipality's total capital expenditure is funded through internally generated funds and Borrowings.	0%	0%	0%	This is an indication that the Municipality is unable to generate sufficient funds (internally or through borrowing) to fund capital requirements and is fully reliant on grant funding.

Table 29: Financial Ratio Analysis

#### 4.4.3 BUDGET

Below is the 2017/18 MTREF and comparative figures for the financial years 2013/14 to 2019/20.

The following challenges should be noted in compiling the 2017/18 MTREF:

- The national and local economic challenges;
- Infrastructural backlogs;
- The deteriorating state of municipal cash receipts and resources make it difficult to reprioritise projects and expenditure;
- Year-on-year salary increases;
- Reliance on state grants and subsidies to fund both operations and capital projects;
- Expenditure that is in excess of revenue;
- Poverty and unemployment which sees more households not being able to afford municipal services thereby seeking indigent subsidies; and
- Increasing inflation rates.

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Description	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue and Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<b>Financial Performance</b>										
Property rates	16 839	10 203	13 645	14 924	14 924	14 924	14 924	15 834	16 769	17 741
Service charges	66 919	68 304	76 685	83 539	83 539	83 539	83 539	89 796	96 141	102 902
Investment revenue	632	705	1 390	1 037	1 037	1 037	1 037	1 100	1 165	1 232
Transfers recognised - operational	63 691	98 083	56 678	59 878	59 878	59 878	59 878	64 313	69 011	72 739
Other own revenue	16 321	35 135	26 919	22 906	28 231	28 231	28 231	28 883	30 587	32 361
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>164 402</b>	<b>212 431</b>	<b>175 318</b>	<b>182 284</b>	<b>187 609</b>	<b>187 609</b>	<b>187 609</b>	<b>199 926</b>	<b>213 673</b>	<b>226 975</b>
Employee costs	47 147	46 948	50 691	48 388	48 388	48 388	48 388	52 745	57 109	61 823
Remuneration of councillors	4 525	4 923	4 959	5 107	5 107	5 107	5 107	5 207	5 468	5 741
Depreciation & asset impairment	21 124	21 181	18 311	28 000	28 000	28 000	28 000	18 000	18 000	18 000
Finance charges	1 318	932	395	174	174	174	174	174	174	174
Materials and bulk purchases	41 899	41 267	49 207	45 883	68 046	68 046	68 046	75 669	70 836	75 863
Transfers and grants	1 950	585	3 163	7 006	7 006	7 006	7 006	3 163	3 163	3 163
Other expenditure	56 771	76 514	93 016	73 933	73 933	73 933	73 933	58 398	61 808	64 352
<b>Total Expenditure</b>	<b>174 734</b>	<b>192 351</b>	<b>219 744</b>	<b>208 490</b>	<b>230 653</b>	<b>230 653</b>	<b>230 653</b>	<b>213 355</b>	<b>216 558</b>	<b>229 117</b>
<b>Surplus/(Deficit)</b>	<b>(10 332)</b>	<b>20 080</b>	<b>(44 426)</b>	<b>(26 206)</b>	<b>(43 044)</b>	<b>(43 044)</b>	<b>(43 044)</b>	<b>(13 429)</b>	<b>(2 885)</b>	<b>(2 141)</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	–	–	24 747	–	21 645	21 645	21 645	40 122	38 952	36 827
Contributions recognised - capital & contributed assets	–	–	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>(10 332)</b>	<b>20 080</b>	<b>(19 679)</b>	<b>(26 206)</b>	<b>(21 399)</b>	<b>(21 399)</b>	<b>(21 399)</b>	<b>26 693</b>	<b>36 067</b>	<b>34 685</b>
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) for the year</b>	<b>(10 332)</b>	<b>20 080</b>	<b>(19 679)</b>	<b>(26 206)</b>	<b>(21 399)</b>	<b>(21 399)</b>	<b>(21 399)</b>	<b>26 693</b>	<b>36 067</b>	<b>34 685</b>
<b>Capital expenditure &amp; funds sources</b>										
<b>Capital expenditure</b>	<b>13 637</b>	<b>79 095</b>	<b>–</b>	<b>21 644</b>	<b>21 644</b>	<b>21 644</b>	<b>21 644</b>	<b>40 122</b>	<b>38 952</b>	<b>36 827</b>
Transfers recognised - capital	13 637	79 095	–	21 645	24 959	24 959	24 959	40 122	38 952	36 827
Public contributions & donations	–	–	–	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–	–	–	–
Internally generated funds	–	–	–	–	–	–	–	–	–	–
<b>Total sources of capital funds</b>	<b>13 637</b>	<b>79 095</b>	<b>–</b>	<b>21 645</b>	<b>24 959</b>	<b>24 959</b>	<b>24 959</b>	<b>40 122</b>	<b>38 952</b>	<b>36 827</b>

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Description	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue and Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<b>Financial position</b>										
Total current assets	40 760	45 480	39 047	50 278	46 940	46 940	46 940	47 605	48 082	47 904
Total non-current assets	281 721	316 153	411 371	327 981	428 871	428 871	428 871	428 871	428 871	428 871
Total current liabilities	92 415	109 785	121 508	67 531	51 474	51 474	51 474	51 474	51 474	51 474
Total non-current liabilities	22 424	24 052	30 731	25 639	30 731	30 731	30 731	30 731	30 731	30 731
Community wealth/Equity	207 642	227 796	298 179	285 089	393 606	393 606	393 606	394 271	394 747	394 570
<b>Cash flows</b>										
Net cash from (used) operating	16 032	61 190	19 583	20 352	26 333	26 333	26 333	40 208	47 972	44 913
Net cash from (used) investing	(13 504)	(56 290)	(20 810)	(17 062)	(16 212)	(16 212)	(16 212)	(40 122)	(38 952)	(36 827)
Net cash from (used) financing	-	-	-	-	-	-	-	-	-	-
Cash/cash equivalents at the year end	19 952	24 852	23 625	26 915	33 746	33 746	33 746	33 832	42 852	50 938
<b>Cash backing/surplus reconciliation</b>										
Cash and investments available	19 952	24 852	23 653	37 459	5 035	5 035	5 035	2 423	2 244	2 722
Application of cash and investments	70 101	79 406	90 598	43 758	4 274	4 274	4 274	191	(206)	242
Balance - surplus (shortfall)	(50 149)	(54 554)	(66 945)	(6 299)	760	760	760	2 232	2 449	2 479
<b>Asset management</b>										
Asset register summary (WDV)	255 227	324 332	366 964	296 569	340 953	340 953	366 964	366 964	366 964	366 964
Depreciation	-	-	18 289	18 289	18 289	18 289	18 289	18 289	18 289	18 289
Renewal of Existing Assets	4 993	4 483	4 483	-	-	-	-	-	-	-
Repairs and Maintenance	-	-	-	-	-	-	-	-	-	-
<b>Free services</b>										
Cost of Free Basic Services provided	-	-	-	-	-	-	-	-	-	-
Revenue cost of free services provided	-	-	-	-	-	-	-	-	-	-
<b>Households below minimum service level</b>										
Water:	0	0	0	0	0	0	0	0	0	0

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Description	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue and Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Sanitation/sewerage:	1	0	0	–	–	–	–	–	–	–
Energy:	2	2	1	1	1	1	2	2	2	2
Refuse:	1	1	1	1	1	1	1	1	1	1

**Table 30: A1 Budget Summary**

The analysis of the budget can be summarised as follows:

- The operating expenditure budget of the municipality decreased by 7.5% from R230.7 million in the 2016/17 financial year to R213.4 million in the 2017/18 financial year;
- R39.0 million budgeted for debt impairment, which equates to a 63% payment rate;
- Depreciation and asset impairment decreased from R28.0 million in 2016/17 to R18.0 million in 2017/18 a reduction of 35.7%. The actual for 2016/17 was R19.5 million; and
- Other expenditure decreased from R73.9 million in 2016/17 to R58.4 million in 2017/18 a reduction of 20.9%.

Based on the evaluation done, it is recommended that:

- Budget explanations and assumptions must be properly captured in the final budget to ensure proper analysis by Provincial Treasury;
- Projections for non-cash items in the operating expenditure budget must be done in a realistic manner;
- Cash flow projections must be reconsidered and the opening balances in the cash flow budget be corrected;
- Cash backed reserves projections must be reconsidered;
- The SDBIP must be submitted with the budget; and
- Strategic objectives and goals in the IDP be properly captured in the budget to ensure alignment of the budget to the IDP.

Extracts from the report as regards the “APPROVAL OF ANNUAL BUDGET FOR THE 2017/18 FINANCIAL YEAR”:

The exercise of reducing costs was undertaken and the following budget votes were reduced:

- Catering retained at R0;
- Travel and Subsistence reduced for all departments;
- Overtime restricted to essential services and pre-approval will be required and be ratified by the Municipal Manager;
- For cost reduction purposes agenda and other related council documents to be sent electronically to Councillors; and
- Departmental Heads will be allocated the budget for cash flow purposes and that will be monitored on monthly basis by the Chief Financial Officer and the report to be submitted to Mayoral Committee Meetings.

An allocation of R39 million has been provided for debt impairment.

The proposed tariffs are increased by 6.4% in line with Circular from the National Treasury. NERSA is informed of the intended adjustment of electricity tariffs for 2017/18 Financial Year.

#### **4.4.4 FINANCIAL PERFORMANCE**

Analysis of financial performance for the period 1 July 2013 to 30 June 2017:

Description	AFS 2013/14 R.	AFS 2014/15 R.	AFS 2015/16 R.	AFS 2016/17 R.
<b>Revenue</b>				
Revenue from exchange transactions				
Service Charges	66 219 954	68 304 496	75 681 858	85 115 254
Licences and permits	3 264 756	3 379 282	3 493 909	1 634 693
Rental of facilities and equipment	212 313	203 359	212 641	213 377
Other income	2 335 237	14 828 187	790 751	632 932
Interest received	10 149 364	16 504 732	22 290 146	19 106 101
<b>Total revenue from exchange transactions</b>	<b>82 181 624</b>	<b>103 220 056</b>	<b>102 469 305</b>	<b>106 702 357</b>
<b>Revenue from non-exchange transactions</b>				
Fines	990 830	925 750	1 521 250	228 000
Property rates	9 676 271	10 203 275	13 645 484	13 724 228
Government grants and subsidies	63 691 326	98 082 868	81 424 896	95 522 131
<b>Total revenue from non-exchange transactions</b>	<b>74 358 427</b>	<b>109 211 893</b>	<b>96 591 630</b>	<b>109 474 359</b>
<b>Total Revenue</b>	<b>156 540 051</b>	<b>212 431 949</b>	<b>199 060 935</b>	<b>216 176 716</b>
<b>Expenditure</b>				
Employee related costs	42 622 428	46 948 414	50 691 457	50 410 799
Remuneration of councillors	4 524 718	4 922 783	4 959 312	5 103 822

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Description	AFS 2013/14 R.	AFS 2014/15 R.	AFS 2015/16 R.	AFS 2016/17 R.
Depreciation and amortisation	20 852 253	21 181 201	19 402 057	19 558 704
Impairment loss	128 791	751 942	102 249	116 074
Finance costs	1 318 095	932 455	395 393	1 910 179
Lease rentals on operating lease	0	507 266	679 502	572 340
Debt impairment	14 121 363	44 607 754	51 054 262	36 089 338
Repairs and maintenance	4 993 394	3 698 233	5 850 378	5 050 859
Bulk purchases	36 906 085	37 568 412	46 614 852	50 284 084
Grants and subsidies paid	952 710	584 678	3 163 334	3 384 303
General expenses	39 094 982	30 647 924	41 165 481	34 296 477
<b>Total expenditure</b>	<b>165 514 819</b>	<b>192 351 062</b>	<b>224 078 277</b>	<b>206 776 979</b>
<b>Operating surplus/ (deficit)</b>	<b>(8 974 768)</b>	<b>20 080 887</b>	<b>(25 017 342)</b>	<b>9 399 737</b>
Fair value adjustment	(2 651 879)	956 535	(556 911)	(935 679)
Loss on disposal of assets and liabilities	0	0	0	(2 110 329)
<b>(Deficit)/ surplus for the year</b>	<b>(11 626 647)</b>	<b>21 037 422</b>	<b>(25 574 253)</b>	<b>6 353 729</b>

**Table 31: Financial Performance 1 July 2013 to 30 June 2017**

An analysis of the above reveals the following:

- Even though the budget is funded from prior year expected revenues, current year revenue and expenditure is unfunded. Depreciation and debt impairment is unfunded;
- Other income is reducing each year;
- Fine income reduced substantially in 2016/17. No fines issued for period of six months, after the death of one of the responsible officials. This position has not been filled;
- Licences and permits income reduced substantially in 2016/17. This service was not performed for a period of six months due to renovations at the Municipality;
- Interest received more than likely includes interest on outstanding debtors, which may be written-

off. This needs to be clarified and if this is the case income is being inflated as this income is unlikely to be received;

- The Municipality is 55.8% grant dependant;
- Finance costs relate to the increasing creditors balance that remains outstanding over long periods;
- Bulk purchases increased by 40% over the four years which is attributable to high distribution losses; and
- There is an indication that the debt impairment figure is insufficient to cover the non-payment of debtors as there are long outstanding debtors that are not provided for.

#### **4.4.5 FINANCIAL POSITION**

Analysis of financial position for the period 1 July 2013 to 30 June 2017:

Description	AFS 2013/14 R.	AFS 2014/15 R.	AFS 2015/16 R.	AFS Unaudited 2016/17 R.
<b>Assets</b>				
<b>Current Assets</b>				
Inventories	211 520	444 212	275 983	29 812
Receivables from exchange transactions	16 634 904	14 612 378	12 659 170	10 231 577
Receivables from non-exchange transactions	3 850 532	2 920 523	1 388 858	1 861 713
Other receivables	111 475	0	0	0
Cash and cash equivalents	19 951 744	24 852 135	23 624 559	145 446
<b>Total Current Assets</b>	<b>40 760 175</b>	<b>42 829 248</b>	<b>37 948 570</b>	<b>12 268 548</b>
<b>Non-Current Assets</b>				
Investment property	3 805 000	49 511 635	53 745 775	52 493 011
Property, plant and equipment	277 348 722	359 452 436	379 571 750	413 656 056



**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Description	AFS 2013/14 R.	AFS 2014/15 R.	AFS 2015/16 R.	AFS Unaudited 2016/17 R.
Intangible assets	350 074	350 074	350 074	405 017
Other financial assets	216 815	216 815	216 815	216 815
<b>Total Non-Current Assets</b>	<b>281 720 611</b>	<b>409 530 960</b>	<b>433 884 414</b>	<b>466 770 899</b>
<b>Total Assets</b>	<b>322 480 786</b>	<b>452 360 208</b>	<b>471 832 984</b>	<b>479 039 447</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Payables from exchange transactions	41 544 235	54 024 971	70 274 673	76 875 208
VAT payable	16 599 431	18 506 450	14 366 633	17 602 819
Consumer deposits	1 453 125	1 449 175	1 519 586	1 457 055
Unspent conditional grants and receipts	20 486 317	21 584 718	20 812 327	460 871
Provisions	12 117 530	14 126 152	20 525 686	19 935 130
Employee benefit obligation	214 536	230 412	278 712	295 293
<b>Total Current Liabilities</b>	<b>92 415 174</b>	<b>109 921 878</b>	<b>127 777 617</b>	<b>116 626 376</b>
<b>Non-current Liabilities</b>				
Employee benefit obligation	6 986 228	9 142 857	11 908 059	11 218 706
Provisions	15 438 738	14 908 979	18 823 293	31 516 628
<b>Total Non-current Liabilities</b>	<b>22 424 966</b>	<b>24 051 836</b>	<b>30 731 352</b>	<b>42 735 334</b>
<b>Total Liabilities</b>	<b>114 840 140</b>	<b>133 973 714</b>	<b>158 508 969</b>	<b>159 361 710</b>
<b>Net Assets</b>	<b>207 640 646</b>	<b>318 386 494</b>	<b>313 324 015</b>	<b>319 677 737</b>

**Table 32: Financial Position for the Period 1 July 2013 to 30 June 2017**

An analysis of the above reveals the following:

- The inventories figure has reduced substantially in 2016/17 and this could be as a result of financial distress as the municipality is unable to replenish their stocks due to a lack of cash;
- Cash and cash equivalents is only R145 446 as at 30 June 2017. This does not cover the outstanding creditors R94.5 million and unspent conditional grants R0.5 million;
- Creditors outstanding as at 30 June 2017 is R76.9 million and VAT payable is R17.6 million;
- Outstanding debtors amount to R12.1 million as at 30 June 2017 which is not sufficient to cover the current liabilities; and
- Steps should be taken to collect the outstanding debtors and where the debt cannot be recovered the amount should be written-off after a debt profiling exercise has been done.

#### **4.4.6 2017/18 MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT**

The assessment below has been performed on the numbers provided in the budget table included in the mid-year performance assessment report, however there are discrepancies with the Municipality explanations and therefore needs verification.

An analysis of the 2017/18 Mid-Year Budget and Performance report revealed the following:

- Revenue to the amount of R114.82 million was realised. The year to date budgeted revenue amounted to R99.96 million which reflects a favourable deviation of 14.9%. Higher Property rates revenue, government transfers and electricity services revenue were realised which supplemented the lesser amount of revenue received from interest on debtors, fines and agency fees;
- Operating expenditure to the amount of R105 million was spent against the year to date budgeted expenditure of R106.7 million. This reflected a deviation of (1.6%). Although management has implemented cost curtailment measures, there are other factors that contribute to higher expenditure namely overtime, continuous fleet repairs, infrastructure assets (electricity) and bulk purchases for electricity caused by illegal connection;
- Capital expenditure for the first six months amounted to R19.69 million against a projected amount of R20.06 million;
- As at the 31 December 2017 the municipality had a positive bank balance of R9.89 million and unspent MIG and INEP funds of R10.78 million;
- The outstanding debtors at the end of December 2017 amounted to R323.03 million of which R302.9 million was outstanding over 90 days and impaired;
- The expenditure on debt impairment was below the year to date budget by 14%;
- For the month of December 2017 creditors were sitting at R29.14 million; and

- The expenditure on bulk purchases was under the year to date budget by 32%.

#### **4.5 CONCLUSION**

The implementation of this Plan is critical to secure Dipaleseng municipality's ability to provide basic services and meet its obligations as regards its financial commitments.

The development and implementation of this Turnaround Strategy/Financial Recovery Plan is critical to secure the municipal's ability to provide basic services and meet its financial obligations.

## 5. KEY STRATEGIES IN THE TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN

### 5.1 NATURE AND EXTENT OF STRATEGIES IDENTIFIED

Given the state of affairs at Dipaleseng a number of strategies must now be developed, refined and implemented in the short, medium and long term through this Plan.

For the purpose of this Plan, implementation timeframes are defined as follows:

Description	Timing
Immediate to Short Term	Current to 30 June 2018
Medium Term	Up to 30 June 2019
Long Term	Up to 30 June 2021 and beyond

In this regard, and given the nature of the financial and service delivery problems at Dipaleseng, immediate focus must be on addressing the following key issues:

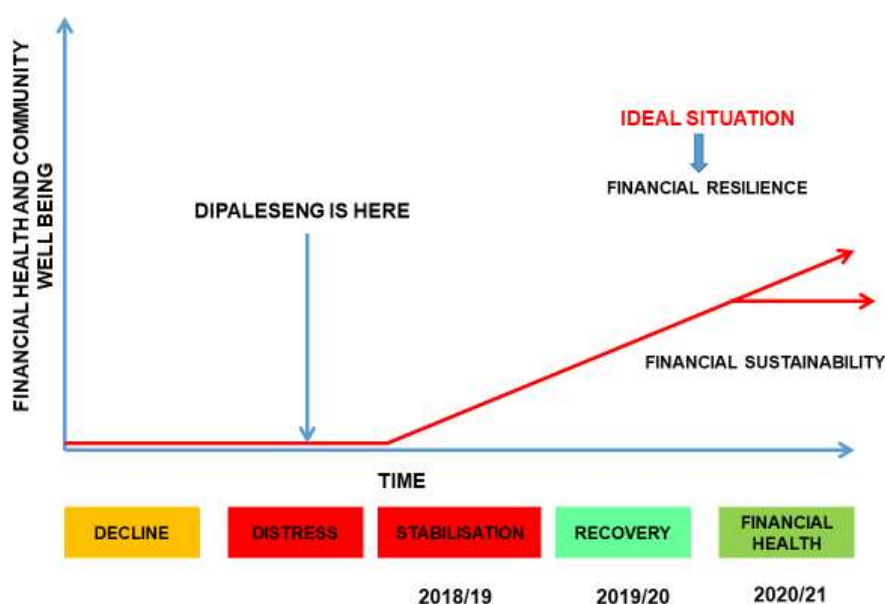
1. **Strengthening governance** by enhancing the operations of Dipaleseng through appropriate and comprehensive system of delegations, capacity building, improved governance and political oversight;
2. **Human resource management and organisational restructuring** by assessing the service delivery model, appropriately aligning structures and the filling of critical posts, contractually or through secondments;
3. **Improved cash flow management and improved financial sustainability** with revenue protection, enhancement, growth and management together with stricter expenditure management and administration through proper supply chain management, risk management and addressing audit related issues, amongst others;
4. **Restructuring of the budget** to ensure a credible, balanced and cash backed budget with tariff restructuring and a review of all core and non-core functions, and negotiation and settlement of outstanding creditors/statutory payments, amongst others;
5. **Improved control environment** with expenditure management/ cost containment and cash management pertaining to the functioning of the Internal Audit Unit and the Audit Committee, amongst others; and
6. **Infrastructure and service delivery improvements** with good asset management through integrated infrastructure development and asset management planning to ensure sustainability through planned maintenance, enhancement and replacement.

To ensure successful outcomes and the turnaround of the municipality, all key deliverables and outputs that are contained in this Plan must also form part of the performance agreements of the relevant senior management to ensure compliance and implementation thereof.

There are a number of strategies identified to effect the changes needed for financial and service delivery sustainability, but not all could be considered due to Dipaleseng's limited cash flow and institutional capacity.

Furthermore, and due to the long term nature of some of the strategies identified, the focus in the short term is to adopt the Pareto Principle (20% of activities that will contribute 80% to the successful implementation of the Plan) ensuring that the strategies adopted will have the greatest impact and can be done within the financial and human resource capacity and capability at Dipaleseng Municipality.

It should be noted that any other strategies not immediately addressed in this Plan should still be addressed in the long term and should not be ignored. Key strategies addressed in the Plan must all be implemented as this is a holistic and integrated plan, and the final outcome must be to ensure financial resilience in the long term as illustrated below.



Dipaleseng lacks, amongst others, the following which are vital for the Plan to be successfully implemented:

- Reliable bulk billing from Eskom and Department of Water and Sanitation;
- Tariffs that are cost reflective – there is a need to move to step up tariff
- Data purification;

- Indigent verification;
- The necessary skilled human resources;
- Accurate data/ information; and
- Contracts with suppliers that will benefit the municipality and its communities.

Other areas that need further review, monitoring and attention during the implementation period is the economic base, infrastructure challenges and utilisation of financial resources.

Dipaleseng is in a dire position regarding its financial position and performance, and the solution is to implement strategies that are key in addressing these issues to stabilise the municipality in the short term of a period of between six to twelve months. The balance of the strategies identified can then be implemented thereafter.

The municipality does not have a senior management structure of skilled people in the positions of Director: Corporate Services and Managers: Operations and Maintenance and Electricity Division, which if filled by competent skilled incumbents, will go a long way in ensuring that the Municipality enhances its revenue and reduces losses. In addition, critical mandatory governance positions such as a risk officer and spatial planning are vacant as well. The Municipality must ensure that funds are redirected to ensure that these positions are filled urgently.

The municipality will be unable to resolve its financial challenges without some form of external support in the short term. Coupled with this the municipality requires a credible, cash backed budget that is strictly monitored to ensure the financial resources of the municipality are brought to normalcy where the municipality can be able to function within the limited financial resources available. The provincial government should consider alternative support to the municipality during the implementation of the Turnaround Strategy/Financial Recovery Plan.

The above strategies should be instrumental in resolving the crisis being experienced at Dipaleseng in bringing back some level of confidence in the Municipality.

The above, and the implementation plan in Section 9 below, set out the process envisaged to ensure that the community of Dipaleseng obtains the necessary services at the best possible levels and tariffs as envisaged in the Constitution.

In addition, the strategies have to ensure that the objective of financial and service delivery improvement can be achieved in the shortest possible time while addressing the following:

- Reduction in expenditure on non-essentials and non-revenue generating activities, and optimising current spending within the municipality to accelerate economic growth and job creation;
- Increasing revenue through improved collections and billing efficiencies; and
- Ensuring proper administrative and governance arrangements are in place to manage and address the key financial and service delivery challenges of Dipaleseng.

## **5.2 KEY STRATEGIES CONSIDERED IN THE PLAN**

This Plan is critical to achieve the objective of financial and service delivery turnaround and sustainability and the following overarching strategies to address the challenges faced by Dipaleseng are therefore contained in this Plan.

### **5.2.1 STRATEGY ONE: STRENGTHENING GOVERNANCE**

The strengthening of governance by enhancing the operations of Dipaleseng is required through appropriate comprehensive system of delegations, capacity building, improved governance and political oversight.

The municipality must implement an adequate system of delegations to expedite decision making, accountability and improved financial management and service delivery.

The area of governance and oversight within Dipaleseng must be strengthened for improved decision making and service delivery. The governance model of the municipality, in particular, the political component, needs to be reviewed, refined and fully implemented to speed up decision making and to separate the political and administrative arrangements and compliance at the municipality.

The implementation and enforcement of the code of conduct for Councillors is critical. The Audit Committee needs to be strengthened to ensure compliance with legislative requirement.

Risk management is not embedded in the culture and internal control processes of Dipaleseng. The risk based audit action plan needs to be reviewed and updated in line with the latest audit report. The action plans to mitigate prioritised risks should be included in the risk and action owner's performance agreements to ensure implementation.

A comprehensive plan to deal with theft, fraud and corruption within the municipality should also form part of this process. The Internal Audit Unit should at least annually evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

The municipality should focus amongst others on an internal audit structure, skills matrix and gap analysis, and together with a development programme, enhance its own internal capacity, a quality assurance and improvement programme and an external quality assurance review.

The municipality should vigorously implement an adequate audit action plan to address persistent audit findings. A holistic approach should be followed in addressing the findings and all actions should form part of the performance agreement of relevant officials of the municipality to ensure implementation.

## **5.2.2 STRATEGY TWO: HUMAN RESOURCE MANAGEMENT AND ORGANISATIONAL RESTRUCTURING**

Human resource management must start with the filling of at least the critical positions of Director: Corporate Services and Managers: Operations and Maintenance and Electricity Division even if these are, in the interim, secondments from other organisations, with appropriate delegations and authority to perform their functions.

The filling of critical vacant budgeted positions should be prioritised and proper processes should be followed to fill these posts. The municipality should carry out a comprehensive audit for all existing incumbents to assess whether the posts are filled with suitably qualified individuals, establish a process to ensure appropriate retention, placement and how best to address excessive or unskilled staff. The municipality should also prioritise the training of employees taking into consideration its current financial status and the requirements of the workplace skills plan.

The human resource anomalies need to be addressed as a matter of urgency and the following challenges relating to human resources need to be normalised:

- Employees take no responsibility or accountability for non-performance. An electronic performance management system must be sourced and implemented, and corrective measures need to be put in place to assist with the improvement of performance. Currently there are no consequences if policies and procedures are not adhered to and poor performance is not addressed at all in many instances;
- To address discipline, human resource consultations need to be initiated. Correct procedures need to be followed, and discipline should be enforced with clearly defined consequences and outcomes;
- The Union needs to be engaged to improve labour relations with the municipality;
- Executive and divisional head meetings should take place on a regular basis and matters of concern should be discussed, addressed or escalated, where necessary;
- There is a need to ensure separation of functions and improved understanding of the role of Council versus Administration in the area of financial management, recruitment and discipline management. This will be achieved by the structuring of a comprehensive delegation of powers; and
- Improve its human resource strategy that guides recruitment, placement of staff, retention of staff, performance management and disciplinary processes.

The strategies to be implemented regarding the appointment of staff are as follows:

- Clearly defined recruitment policies and procedures need to be implemented;
- Every single employee at the Municipality should have a clearly defined job description, indicating reporting structures, responsibilities, decision making capabilities, accountabilities and



delegations;

- Critical vacancies should be expedited and should be dealt with as a matter of urgency, particularly a fixed term Municipal Manager and Director: Corporate Services. The process of these appointments must take place before the end of March 2018; and
- A process to identify other critical positions to be filled linked to revenue enhancement, service delivery and compliance requirements taking into consideration the funding requirements and cash flows. The filling of other critical posts should be concluded before the end of the 2017/18 financial year. These must be budgeted for in the 2017/18 adjustment budget and future budgets.

The operational aspects and functionality of different departments and related units in the organisation must be addressed. The refined organisational structure must be costed before approval to determine its affordability. The process of consultation should be adhered to in order to foster sound labour relations and the human resource policies and procedures of the municipality must be adhered to in the implementation of the refined organisational structure.

This structure should be aligned to the constitutional mandate as regards the functions and to address the strategic, governance, financial management and service delivery challenges and imperatives of Dipaleseng Municipality, and should consider, amongst others, the following principles: -

- Aligned, amongst others, to the IDP, service delivery requirements and operating model, revenue enhancement, compliance with legislation and should be concluded after taking into consideration the funding requirements and current financial constraints;
- Ensure an improved financial and performance management regime;
- Support more effective decision-making mechanisms and implementation between the political structures and administration;
- Staff positioning and job functions need to be compared to the desired operating model and organisational structure and aligned accordingly;
- Ensure that officials of the municipality are correctly placed and measures implemented to address excessive or surplus personnel in the establishment;
- A structured organogram indicating reporting lines and job functions should be approved and implemented; and
- Strengthen the capacity of the municipality to provide services to citizens, lead and facilitate partnerships for growth and development.

### **5.2.3 STRATEGY THREE: IMPROVE CASH FLOW MANAGEMENT AND FINANCIAL SUSTAINABILITY**

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

Dipaleseng's cash flow problems impacted seriously on the ability of the municipality to meet its' financial obligations and highlights the need to urgently improve on the areas of cash, revenue and expenditure management. Further, the municipality should conclude payment arrangements with relevant creditors to address amounts owed.

It is critical that cost containment measures are implemented and communicated at all levels within the municipality. The assessment of all expenditure before being incurred should be undertaken, through stringent budgeting and expenditure controls, and should preferably be centrally managed until the crisis is lessened. This must be institutionalised in the daily management practices of the municipality.

The implementation of revenue enhancement initiatives must be prioritised to increase correct billing, collection levels and cash levels. The municipality should also vigorously implement its credit control and debtor collection policy. It is also critical that the municipality is realistic when projecting expected revenues and cash receipts, which will assist the municipality to move away from persistent under performance in cash-flow.

To improve debtors' management in the short to medium term and to achieve the norm and exceeding it in the long term will require rigorous and creative solutions on the entire revenue collection value chain. The following actions are therefore recommended for the various components of the revenue value chain:

- Installation of infrastructure to enable accurate electricity and water meter readings and disconnection/ connection to separate and identify consumers to control the free basic services to the maximum allowed;
- Protection of meters from vandalism and illegal connections;
- A systematic data cleansing process must be undertaken to ensure correct details of account holders or property owners and the classification or reclassification of standards of services being rendered, and where appropriate correcting the tariff that each property is charged;
- Accurate meter reading by meter readers, who are easily identifiable by consumers and property owners, must be put in place;
- Consistent billing cycles and accurate and timely bills must be assured;
- Efficient and effective credit control management policies and procedures applied with clear delegations of authority and monthly reporting to Council on actions taken;
- Disconnections and reconnections need to be properly scheduled to optimise speedy payments

and behavioural changes. This function should also be reviewed to ensure that Council has overall control of its processes and infrastructure;

- Accessibility of payment facilities must be reviewed;
- Improvement of customer service to ensure quality management, communication and implementation of Batho Pele principles must be given priority. The development and implementation of a customer service charter must also be prioritised along with the reinstatement of a working website;
- Stricter risk management and internal control processes must be introduced with emphasis on adequate supervision of daily cash receipting, banking processes and cash management reporting;
- The review and enforcement of by-laws is an urgent task to be undertaken as the finance related by-laws will bring in the much-needed revenue and improve finances;
- Development, promulgation and implementation of bylaws as well as review of other policies, if required;
- Legal processes for the collection of over-due consumer accounts must be put in place;
- Daily and monthly reporting of progress must be done by management;
- Communication between departments to resolve customer queries and reduce the turnaround time of queries must be improved;
- Cash flow targets should be set and form part of the performance measures of management;
- Transfer of sold land from the municipality to the private owners and billing retrospectively;
- The existence and/or possible development around the mine growth and development and implementation of mining royalties should be explored; and other possible sources of revenue; and
- Oversight by the Council must be strengthened.

The implications are that investment in water and electricity metering will be critical to the success of this process and must also be linked with a project to reduce the electricity and water distribution losses.

The Plan should ensure that there is a revenue enhancement strategy which is kept up to date and vigorously implemented. The strategy should ensure that:

- All residents are paying what they should for rates and services taking into consideration the indigent policy;
- All residents are being charged the correct tariff for their rates and services; and
- All residents or households receiving services from the municipality are included in the

municipality's billing system.

The financial challenges faced by Dipaleseng are due to poor financial management, operations and administrative inefficiencies, poor planning, low economic base and lack of accountability, amongst others. These have negatively impacted on Dipaleseng's ability to meet its financial obligations, for example, Eskom, DWS, and other long outstanding creditor amounts payable.

A focus on improving financial sustainability and administration will also attain improved cash flows. This will be achieved through proper supply chain management, risk management and addressing audit related issues, amongst others.

Some of the target areas to improve financial sustainability include improvement in the key financial ratios/ indicators over the medium term to desired norms, liquidity management, debtors' management, expenditure efficiency, budget implementation, asset management, and efficiencies in trading services and distribution losses.

The municipality also needs to move away from short term erratic and reactionary planning to a long term stable and sustainable plan and a long term financial plan, to determine the available resources and various realistic funding mechanisms/ mixes at the disposal of Council, must be developed.

The IDP should be aligned to the operating model, the service delivery plan and long term financial plan in the medium term and also filter through to future budget restructuring. This will allow for revenue and expenditure to be in accordance with predetermined realistic parameters, thereby enabling the municipality to have sufficient cash at all times to meet its' financial and service delivery obligations, as and when due.

#### **5.2.4 STRATEGY FOUR: RESTRUCTURING OF THE BUDGET**

The past financial years reflect unrealistic budgeting where unachievable revenue and expenditure budgets have been set and not achieved. The continued poor budgeting where unachievable revenue and expenditure budgets have been set and not achieved, weak expenditure controls and poor asset management has had an impact on the poor financial status of the municipality. These matters should be adequately addressed in the 2017/18 adjustment budget, 2018/19 MTREF budget and future budgets to comply with the principles of a funded, cash backed and credible budget.

Own revenue needs to be relooked at to address the following:

- Development of tariff strategy (revenue enhancement strategy);
- Ensure that service charges/ tariffs are cost reflective;
- A tariff strategy should be developed and implemented with consideration to providing free basic services to only the indigents. The step tariff must be introduced to cover the costs of revenue forgone due to free 6kl for all. A multiple year tariff increase approach should also be adopted and communicated to all stakeholders;

- Introduce billing in the areas where there is currently no billing to encourage proper management and consumption of municipal services whilst prioritising the installation of meters. This should include a flat rate to consumers who currently do not have meters; and
- Introduce targeted credit control measures designed to increase revenue collection and this must be vigorously implemented as part of a revenue enhancement strategy.

Expenditure needs to be relooked at to address the following:

- The cost of personnel needs to be adjusted to only reflect “feet on the ground” and funded critical vacant positions taking the restructuring into consideration;
- Review and implement cost cutting/ austerity measures to eliminate non-essentials;
- Irregular, fruitless and wasteful and unauthorised expenditure should be avoided at all times;
- Low levels of repairs and maintenance should be addressed to ensure effective operation of all assets and minimal service delivery interruptions;
- General expenses should be looked at to ensure they are realistic and eliminate non-essentials; and
- As at 2015/16 financial year there is under spending on capital expenditure and the municipality should improve planning, supply chain management processes and IT capacity to implement capital projects and own internally generated revenue.

All budget line items should be analysed, especially property rates, trading services, fines, rental revenue, employee related cost, contracted services, general expenses and free basic services, which will assist in identifying possible expenditure excesses and identify credible revenue billing and collection so that the municipality can set a realistic, credible and achievable budget. Zero-based budgeting should ideally be used.

The non-payment of creditors should be taken into account in the budget process and arrangements for the paying of the outstanding amounts needs to be agreed with the creditors in line with the cash available to the municipality.

Debtors should also be analysed and profiled to ensure only indigent consumers are obtaining the benefit of free basic services and that those receiving and consuming services actually pay for their services, including the possibility of introducing an availability or flat rate tariff.

All policies relating to the budget need to be reviewed as part of the 2018/19 MTREF budget process, updated, approved and implemented. In addition, related by-laws should be reviewed, updated and implemented to ensure enforceability.

The revenue and expenditure budget as well as the cash flow budget should be aligned to ensure realistic anticipated cash flows.

### **5.2.5 STRATEGY FIVE: IMPROVED CONTROL ENVIRONMENT**

The municipality's SCM Unit should immediately be improved and strengthened.

In terms of the current challenges, a number of key areas have been identified that will need immediate attention, to revamp the SCM Unit. Focus should be on the following:

- Review of SCM policies and procedures, delegations, supplier database updating, poor management of stock levels, the placement of staff in the SCM Unit and training of all SCM practitioners at all levels in the municipality including bid committee members;
- Deviations to the SCM Policy need to be suspended and no deviations should be permitted and Departments must do proper planning and budgeting;
- Ensure supply chain management system is fully functional and strictly enforce proper SCM processes;
- Speed up the processing of bids and orders;
- Introduce stricter controls around spending, procurement, and contracting as well as supplier management;
- Reviewing the integrity and updating of the service provider database (noting National Treasury Central Supplier Database options) drafting of bid specification documents and management of bid documents;
- Development of procurement plans to ensure coherent demand management and to drive the sourcing strategies, and which must be in line with cashflow projections;
- Development of contract management/ documentation management system;
- Addressing audit related issues pertaining to the functioning of the Internal Audit Unit and the Audit Committee, amongst others; and
- Training and development of the whole organisation on SCM policies and procedures.

Municipal policies (internal) need to be implemented and enforced in order to create order in the work environment and eliminate abuse of the municipality's resources. It is imperative that policies and procedures throughout the value chain including procurement, contract management and spending, including the proper and adequate segregation of duties, be enforced without any exception. Ordinarily, cost savings would be achieved as a result.

### **5.2.6 STRATEGY SIX: INFRASTRUCTURE AND SERVICE DELIVERY IMPROVEMENTS**

Infrastructure and service delivery improvements with good asset management through integrated infrastructure development and asset management planning is critical. This will ensure sustainability through planned maintenance and replacement.

There is a lack of asset management of infrastructure and all other immovable and movable assets. The municipality should strengthen its technical skills to effectively manage its assets. The breakdown in controls and lack of management oversight over basic processes, lack of control and safeguarding of assets, poor repairs, maintenance planning and management, requires urgent attention.

A major strategic risk facing Dipaleseng is the old and ageing infrastructure, poor project and contract management, lack of forward planning, lack of management of water and electricity distribution losses, lack of replacement and management plans. The budget allocation for replacement, operation and maintenance is low and insufficient to stabilise or even prevent further deterioration.

The inability of the municipality to implement capital projects due to, amongst others, cash flow problems, poor planning and supply chain management processes contributed to service delivery challenges faced by the municipality. The Municipality does not have the financial and other resources to restore infrastructure to its required standard of condition and performance, and then to operate and maintain to the required standard. The municipality should prioritise the correct staffing to manage and obtain funding to undertake the necessary infrastructure replacement and development of new infrastructure as well as the repairs and maintenance of existing infrastructure.

Dipaleseng should develop and implement a comprehensive infrastructure development, maintenance and upgrade plan that will also require setting aside financial resources as part of the annual budget with a long term planning horizon to address service delivery backlogs, infrastructure and maintenance and upgrading issues. The municipality needs to put in place a clear strategy and plan to address social versus revenue generating assets.

Successful implementation will also require greater political oversight, efficient and effective administration and governance arrangements to drive and sustain the implementation of the service delivery mandate and community expectations of Dipaleseng.

Furthermore, the credibility of the extent of household indigence of 91% needs to be reviewed for veracity. The Municipality would effectively be a welfare municipality if the figure of 91% indigence is accurate, which will mean that it is more so critical to control its services to no more than free basic services whilst focusing on changing the socio-economic dynamic.

## **6. IMPLEMENTATION OF THE TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN**

### **6.1 TURNAROUND STRATEGY/FINANCIAL RECOVERY PLAN IMPLEMENTATION**

It is emphasised that the responsibility to implement the Turnaround Strategy/Financial Recovery Plan vests with the municipality. Regular monitoring of the plan by Council, the Mayor and the Municipal Manager is critical to ensure successful implementation.

This Plan places significant implementation responsibility on the Municipal Manager, Chief Financial Officer and all Directors. However, it must be emphasised that the strategies set out in this Plan relate to activities that must be institutionalised and performed by various municipal officials, as part of their routine duties, and who have been appointed to such positions and given specific roles, responsibilities and delegations.

The key focus areas and 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. It is also important that a “portfolio of evidence” is retained throughout the implementation of the Plan to enable assessment of results.

Oversight within Dipaleseng by both Councillors and Management needs to be strengthened to ensure proper governance and that the service delivery and budget implementation plans are implemented, early warning systems are introduced, and corrective measures are taken timeously, where applicable.

Finally, and in respect of financial resources, the key will be the restructuring of the Dipaleseng Municipality's budget, optimising revenue resources available to the municipality, vigorous implementation of the revenue enhancement strategy, contract/ payment negotiations and cost containment/ austerity measures.



## 7. RISK ASSESSMENT

### 7.1 RISKS ASSOCIATED WITH THE PLAN AND MITIGATION

The Turnaround Strategy/Financial Recovery Plan proposes changes, particularly with regard to financial administration, budgeting, financial discipline and governance. There will however be a need for a regular review of the risks identified to ensure that as additional risks arise, timely mitigation strategies can be adopted and instituted.

The risks and mitigation measures associated with this Plan are summarised below:

- **Non-implementation of Plans:** In order to mitigate this risk, specific timeframes and responsibilities have been defined for each of the strategies developed in the Plan. In addition, all Senior Managers' performance agreements must include all the relevant elements of the Plan with clear deliverables/ outcomes and deadlines, irrespective of whether acting or not. The monitoring and evaluation process has also been developed and is set out in Section 8 of this Plan.
- **Change Management:** From a change management perspective, urgent action is required to address some of the poor practices that have occurred for many years. There is a need to strictly enforce new procedures and disciplinary measures. The enforcement of discipline across the municipality will be extremely important and this should also drive the change management processes and behavioural changes required. The Municipal Manager and Heads of Department with the assistance of the Human Resources Unit must communicate the content of this Plan to all employees and Labour Unions to ensure full understanding for effective and co-ordinated implementation and the potential consequences or outcomes of its non-implementation.
- **Labour Relations:** This Plan has an impact on labour and therefore discussions will need to be held with Organised Labour to address any labour relations matters arising from the implementation of this Plan. Communication with these stakeholders is essential and the need for open discussions on the serious financial challenges and long term viability and sustainability of the municipality and the impact on the labour force will be required.
- **Community and Stakeholders:** There is a risk that there may be community and ratepayer resistance to certain aspects of the Plan, such as budget cuts and the need to increase tariffs or introduce fixed charges or for vigorous revenue collection actions. This risk can be managed by effective, improved and consistent communication by Councillors and officials of the municipality with the community. Dipaleseng must communicate effectively with the community on all aspects of the Plan and provide regular feedback on progress, including the submission of this Plan to the Provincial Legislature. Councillor support for the Plan is also required to ensure that there is a collective and consistent mind set to support and communicate all aspects of the Plan when Councillors engage with community members.

- **Filling of Critical Vacancies:** To ensure accountability and successful implementation of this Plan it is imperative that critical vacancies be filled as a matter of urgency.
- **Emerging Risks:** The following emerging risks have been identified and should form part of the daily oversight of the municipality:
  - Delay in the filling of critical vacant posts especially the fixed term appointment of the Municipal Manager and Director: Corporate Services possessing the requisite and appropriate experience, skills and qualifications;
  - Industrial actions owing to resistance to the changes due to any organisational restructuring or re-alignment and the implementation thereof;
  - Community service delivery and other protests;
  - Loss of grant funding due to non-compliance with grant requirements;
  - Continued non-collection of revenue and increase in the debtors' book;
  - Lack of support, buy-in and resources from key stakeholders (ward councillors, community, business);
  - Increasing debt book and culture of non-payment by domestic consumers;
  - Illegal land invasion;
  - Instability within the communities (political, administration and community);
  - Possibility of bulk water restrictions;
  - Zero based budget is not implemented as a result budget target could not be met;
  - Non-metering of electricity/ water and continued losses;
  - Possible disconnection of bulk electricity by Eskom due to non-payment of the bulk electricity account;
  - Old infrastructure and maintenance challenges;
  - Non-commitment to stringent expenditure controls, excessive overtime and non-implementation of the revenue enhancement initiatives;
  - Inadequate systems of delegation that impact on governance, administration and operational efficiency;
  - Increase in the number of indigents in the Municipality;
  - Closure of mines and/or reduced operations; and
  - Inadequate implementation of internal controls and proper segregation of duties and management of Eskom and DWS Agreements.

These risks will therefore require effective and focused management as their combined impact is likely to have far reaching consequences and impact on the financial and service delivery sustainability of Dipaleseng.

Given this, a proper risk management matrix must be developed, managed and reported to Council on a regular basis.

## **8. MONITORING AND EVALUATION**

### **8.1 GENERAL**

The purpose of this section of the Plan is to set out a monitoring and evaluation process to ensure that the Plan is implemented and that the milestones and outputs/ outcomes specified are realised.

Various elements of this Plan must be institutionalised and fully implemented in a coherent and holistic manner. These components are integrated, and care should be taken during implementation of the Plan not to isolate some aspects from others even though certain aspects may only be implemented in the medium to long term.

The Municipal Manager should continue with the implementation of this Plan until such time that all aspects of the Plan have been fully implemented and institutionalised. The Municipal Manager should closely monitor and evaluate progress and must report to the Mayor, Council, Provincial and National Government on a regular basis. In addition, all Senior Managers' performance agreements must be amended to include elements of this Plan with clear deliverables and deadlines.

### **8.2 FREQUENCY OF REPORTING**

The monitoring of the implementation of this Plan and reporting on progress will be undertaken by the Municipal Manager.

Reports on the implementation of the Plan must be submitted to the Municipal Manager on a weekly basis, at least in the immediate to short term. The details should form part of discussions at every management meeting and the Municipal Manager must take corrective action when activities in the Plan are falling behind implementation timelines or when there is a risk of non-achievement of the desired targets.

Progress reports on the implementation of the Plan must be submitted by the Municipal Manager to Council on a monthly basis. The Mayor and Council must also 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 Dipaleseng.

The Municipal Manager must also submit progress reports on implementation of this Plan to Provincial Treasury and Department of Cooperative Governance, Human Settlements and Traditional Affairs in the Mpumalanga Province with National Treasury's Municipal Finance Recovery Services copied, on a monthly basis.

### **8.3 NON-IMPLEMENTATION OF THE PLAN**

In order to mitigate the risk of non-implementation of the Plan, specific timeframes and responsibilities have been defined for each of the strategies developed in the Plan. In addition, all Senior Managers' performance agreements, irrespective of whether acting or not, must include all the relevant elements of the Plan with clear deliverables/ outcomes and deadlines. Responsible officials will be required to report on progress and will be held accountable for non-implementation. Should Dipaleseng delay or fail to implement this Plan, the Provincial Government must consider alternative support or intervention measures. These measures may include invoking other provisions of section 139 of the Constitution, supplemented by Chapter 13 of the MFMA.

### **8.4 UPDATING OF THE PLAN**

This Plan may be updated as and when more accurate information is obtained, where identified strategies need to be updated, and when risks and implementation barriers have not been anticipated.

The responsibility for updating the Plan rests with the Municipality. The Municipal Manager must forward any future updated or revised Plan to the Mpumalanga Provincial Treasury and Department of Cooperative Governance, Human Settlements and Traditional Affairs with the National Treasury's Municipal Financial Recovery Service copied.

Provincial Treasury, working jointly with the Department of Cooperative Governance, Human Settlements and Traditional Affairs Mpumalanga Province, may also provide additional comments on the Plan over the course of its implementation as part of its monitoring role, with the National Treasury's Municipal Financial Recovery Service copied, and until such time as Dipaleseng is turned around and is on the path to service delivery and financial recovery.

### **8.5 CONCLUSION**

This Plan must be submitted by the Municipal Manager for adoption by Council and immediate implementation and monitoring and evaluation by the Dipaleseng Municipality. The adopted Turnaround Strategy/Financial Recovery Plan should be submitted to Mpumalanga Provincial Treasury and Department of Cooperative Governance, Human Settlements and Traditional Affairs with the National Treasury's Municipal Financial Recovery Service.

Finally, Dipaleseng must move away from short-term and reactionary planning to a long term stable and sustainable planning framework, hence the municipality must prioritise the development of a long term financial plan, operating model and credible IDP and budget.

## 9. DETAILED IMPLEMENTATION PLAN

Each strategy within the implementation plan has been split into the following timeline:

- Immediate to Short Term (Critical) - Current to 30 June 2018;
- Medium Term - Up to 30 June 2019; and
- Long Term - Up to 30 June 2021 and beyond.

### 9.1 STRATEGY 1: STRENGTHENING GOVERNANCE

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Policies	Review and approval of at least, not limited to the following policies: <ul style="list-style-type: none"><li>• Supply Chain Management Policy;</li><li>• Revenue;</li><li>• Budget Related Policies;</li><li>• Firearm Policies;</li><li>• Community Services and Public Safety Policies;</li><li>• Land Administration Policy;</li><li>• Risk Management Policy;</li></ul>	All Directors	✓			Feb-18	May-18 and annually	Policy reviewed, approved and implemented.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	<ul style="list-style-type: none"><li>Spatial Development Framework;</li><li>LED Strategy;</li><li>ICT Policies; and</li><li>Human Resources Policies.</li></ul>								
Budget Steering Committee	Resuscitate the IDP/PMS/budget steering committee.	CFO/MM	✓			Feb-18	Jun-18	Credible and sustainable budget.	
Strengthening Governance	Review of section 78 and 79 committees.	MM	✓			Feb-18	Jun-18	Functional and efficient committees.	Provincial Treasury Provincial CoGTA, SALGA, Gert Sibande District Municipality and other relevant Sector Departments
	Training Councillors and relevant committees on governance, financial management, service delivery, and oversight.	MM	✓			Feb-18	Jun-18	Improved governance and oversight.	
	Review the current delegation framework to ensure appropriate delegations are cascaded within the political sphere, relevant governance committees and administration.	MM	✓	✓		Feb-18	Jun-18	Improved governance and oversight.	
	Finalise and adopt delegation framework.	MM	✓			Feb-18	Jun-18	Expedited/ improved decision making.	
	Implement approved delegations.	MM	✓			Feb-18	Jun-18	Approved delegations.	
	Review, develop and update and implement a schedule of oversight meetings to expedite decision	MM	✓			Feb-18	Mar-18	Improvement in implementation of resolutions.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	making and comply with legislative activities within required timelines.								
	Council resolutions adequately formulated, timely distributed, tracked and implementation monitored.	MM	✓			Feb-18	Ongoing	Electronic resolution tracking system implemented; Reduction in cancellation of meetings; All meetings properly constituted; Improved service delivery; Increase in collections; Reduced unauthorised expenditure; and Improved audit opinion.	
Review and Compilation of 2018/19 IDP	Undertake socio-economic study to determine the economic base for Dipaleseng.	MM			✓	Feb-18	Jun-20	Core services allocated sufficient funding to ensure service delivery at acceptable standards and in terms of the Constitutional mandate.	Provincial CoGTA, Provincial Treasury, MISA, DBSA
	Review all services to establish which services are to be continued, curtailed and restructured.	CFO Director: Infrastructure Services All S56/57 Managers	✓			Feb-18	Jun-18	Improved service delivery.	
	Develop service delivery and operating model in line with capacity and mandate of Dipaleseng.		✓			Feb-18	Jun-18	Revised service delivery and operating model.	
	Compile the revised IDP 5-year	MM, CFO, All Directors	✓			Feb-18	Jun-18	IDP and financial plan developed	Provincial CoGTA.



## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	financial plan.							and approved.	Provincial Treasury
								Alignment to operating model of the municipality.	
								Aligned to constitutional mandate and finances of Dipaleseng.	
Governance Issues as Regards the Implementation of the Turnaround Strategy/Financial Recovery Plan and Revenue Enhancement Initiatives	Communicate all aspects of the Turnaround Strategy/Financial Recovery Plan and revenue enhancement strategy internally and to the community and other key stakeholders.	MM, CFO	✓			Mar-18	Mar-18	Turnaround Strategy/Financial Recovery Plan, cost containment measures and revenue enhancement strategy communicated internally and to the community and other key stakeholders.	
	The Turnaround Strategy/Financial Recovery Plan and progress status on implementation must be a standard item on the Mayoral Committee and Council Meetings Agendas and Management meetings.	Mayor, Council and Oversight Committees, MM, section 56/57 Managers	✓	✓	✓	Feb-18	On-going as per timeframes provided in the implementation plan.	Turnaround Strategy/Financial Recovery Plan implemented and outcomes achieved.	
	Monitoring of Turnaround Strategy/Financial Recovery Plan progress.		✓	✓	✓	Feb-18	On-going as per timeframes provided in the implementation plan.	Regular reports to Council.	
		Implementation of supplementary valuation roll.	MM, CFO	✓	✓	✓	In progress	Monthly	Accurate billing according to latest Valuation roll.

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	Commence processes with implementation action on 2019 valuation roll (Medium to Long term).							Increased revenue.	
	Retain records of land use and development changes going forward.							Up to date and accurate valuation roll.	
	Ensure new developments are billed accordingly and timeously.							Implementation of a completed, credible and up to date General Valuation Roll.	
	All revenue policies (including rates policy) of the municipality must be aligned and addressed in Municipal By-laws.	MM, CFO, Manager: Revenue; All S56/57 Managers, Legal Officer	✓			Feb-18	Jun-18	Revenue related policies finalised and By-laws approved.	Provincial CoGTA
								Implementation of revenue related policies and by-laws.	
								Improved collections/ revenue.	
	Review the indigent policy consistent with the financial and administrative ability of the municipality to sustain this policy.	MM, CFO, Manager: Revenue; Legal Officer	✓			Feb-18	Jun-18	Identification of all indigents.	Provincial CoGTA
	Compile procedures for the implementation of the indigent policy.							Increase revenue and improved cash flow.	
	Approve the new indigent policy, draft credit control policies and By-laws giving effect to the Policy by							Correct allocation and billing of indigent consumers.	

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	Council.								
	Communicate the indigent registration and procedures to customers and maintain records of indigent applications in a safe place.							Alignment of equitable share and indigents at the municipality.	
	Update the billing system.							Accurate and complete billing.	
	Manage indigent consumption according to free basic service and equitable share allocation.							Reduced debt impairment.	
	Review procedures for the implementation of the credit control policy, links with meter reading and the billing system as well as the introduction of stricter measures for illegal connections and excessive consumption.							Increased collection of outstanding debtors.	
	Improve communication between consumer and municipality.							Reduction in community protests and increase in payment rate.	
	Develop and implement customer service charter.							Improved customer services and confidence.	
	Advise Councillors and Staff of their roles and responsibilities with regards to credit control and by-law enforcement.							Improved service delivery and oversight.	
	Establish a Customer Care Unit.	MM, Director:	✓			Feb-18	Jun-18	Website updated and working.	Provincial CoGTA,

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	Continuous improvement in the manner in which communication with consumers is undertaken.	Corporate Services, Manager: Communications/Public Participation						Improved customer relations.	SALGA
	Development of service standards.							Increased revenues and improved cash flows.	
	Implementation of communication strategy.							Strengthened stakeholder engagement.	
	Implementation and monitor complaint management system							All issues raised satisfactorily resolved.	
	Monitor service delivery protest and take corrective actions.							Reduction in protests.	
	Implement measures to prevent and address unauthorised, irregular, fruitless and wasteful expenditure.	MM, CFO, All S56/57 Managers		✓		Feb-18	Jun-18	Improved cashflow.	Provincial Treasury.
	Council respond and conclude on the unauthorised expenditure appropriately in accordance with legislation.								
Long term Financial Planning	Development of a long term financial plan.	MM, CFO, All S56/57 Managers		✓		Jul-18	Mar-19	Long term financial plan developed to ensure sufficient and cost-effective funding to achieve the municipality's turnaround and long term objectives through the implementation of the IDP and MTREF budget.	Provincial Treasury, Provincial CoGTA.

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Audit Outcomes	Develop audit action plan.	MM, CFO, All S56/57 Managers	✓	✓		Feb-18	Feb-18	Improved audit outcomes.	Provincial Treasury, Provincial CoGTA, District Municipality, SALGA, AGSA
	Implementation of audit action plan and progress monitored and discussed at monthly management meeting.						Mar-18		
	Monthly report on the dashboard in relation to the current financial year.						Monthly		
	Audit implementation plan status progress report to Council quarterly.						Quarterly		
Audit Committee	Review the composition and functionality of the audit committee including filling of vacancies and recommendations.	MM, Manager: Internal Audit, All S56/57 Managers	✓			Feb-18	Nov-17	Compliance and improved audit outcome.	
	Audit Committee to meet at least 4 times a year.						Quarterly	Complete Audit Committee evaluation and capacitation.	
	Develop and recommend for approval by Council the audit committee charter.						Feb-18	Report on the performance of Audit Committee.	
	Internal Audit plan for 2018/19 to be approved by Audit Committee.						Mar-18	Internal audit plan implemented and corrective action taken.	
	Implementation of internal audit plan.					Aug-17	Mar-18	Reduced risk and audit findings.	
Risk Management	Develop and implement a Risk Management Strategy that includes	MM, Manager Internal Audit, All S56/57	✓			Feb-18	Jun-18	Approved risk management	Provincial Treasury

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	fraud prevention, Policy and Plan.	Managers						strategy, policy and plan.	
	Train councillors on their role in strategic management.							Reduced fraud cases and litigation in the municipality.	
	Communicate the risk management plan and policy to all officials in the municipality.							Reduced risks to municipality.	
	Delegation of risk management responsibilities to appropriate officials.							Improved efficiencies.	
	Operationalise the risk management committee.							Reduction in unauthorised, fruitless and wasteful expenditure.	
	Implement the plan and policy.							Risk management delegation plan approved and operational.	
	Regular review, assessment, update and report on risks to the Audit Committee and Council.							Quarterly reports and risk register maintained	
Internal Audit Function	Develop a risk based Internal Audit Plan.	MM, Manager: Internal Audit	✓	✓	Feb-18	Jun-18	Approved strategic and operational plan.	Provincial Treasury	
	Aug-18					Approved suitable arrangement for internal audit function.			
	Jun-19					Functional Internal Audit Unit.			

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	service) and recommendations implemented.								

## 9.2 STRATEGY 2: HUMAN RESOURCE MANAGEMENT AND ORGANISATIONAL RESTRUCTURING

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Develop a Human Resources Strategy/ Plan.	Development, approval and implementation of the human resources strategy to be informed by satisfaction survey and human resources needs and requirements of the municipality.	MM, Director Corporate Services				Feb-18	Jun-18	Human resources strategy/plan developed, approved and implemented.	
	Consultation with labour.			✓				Improvement in recruitment, placement and retention of staff etc.	
	Conduct a proper skills audit informed by personal development plans.							Skills and competencies meet municipality and job requirements.	
	Cascade PMS to lower position							Improved performance.	
	Perform job evaluation.							Reduced human resources costs.	
Overtime Management	Develop and implement overtime policy, processes and management thereof.	All Directors	✓			Feb-18	Ongoing	Reduced overtime costs.	
Filling of Funded Vacancies: Develop a Model for Identification and Prioritisation of Filling of Critical	Prioritisation model approved.	MM, Director Corporate Services				Feb-18	Jun-18	Approved prioritisation model implemented	
	Advertisement, and appoint within 90 days.		✓	✓				Critical vacant positions filled with suitably qualified incumbents.	



## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Vacant Budgeted Positions.								Reduction in vacancy rate. Improved operations. Improved service delivery and cashflows.	
Appoint Top Structure of the Municipality	Advertisement and shortlisting for the positions of Municipal Manager, Managers: Operations and Maintenance and Electricity.	MM, Director: Corporate Services		✓		Feb-18	Jun-19	Critical vacant positions filled with suitably qualified incumbents. Improved operations. Stabilisation of Municipality Improved service delivery and cash flows.	
Review the Current Organisational Structure and Align Capacity to Improve Service Delivery.	Review and finalise the organisational structure consistent with this Plan, taking into consideration affordability, including drafting of job descriptions, profiles and reporting lines to allow for functional responsibilities to be performed.	MM, Director: Corporate Services once appointed, S56/57 Managers	✓			Feb-18	Mar-18	Development of a new operating model for Dipaleseng aligned with service delivery and financial imperatives.	Provincial CoGTA, Gert Sibande Local Municipality
	Draft structure submitted to Local Labour Forum (LLF) for consultation.							Job descriptions showing reporting lines and competency profiles concluded.	
	Submit the revised organisational structure to Council for approval.							Job evaluation and grading conducted and concluded.	
	Implement the approved organisational structure.							Approved organisational structure implemented.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	Development of placement and migration plan into the new structure for all employees and placement of staff.							Cost effective structure. Staff place according to their competency	
	Analyse contractors' costs along with employment costs.							Cost savings.	
Personnel Data Integrity	Physical verification of all employees.	Director: Corporate Services	✓			Feb-18	Mar-18	Updated and accurate personnel records.	
Employee Related Cost	Evaluate organogram, cost the organogram.	Director: Corporate Services	✓			Feb-18	Jun-18	Cost savings and meets NT benchmark.	
SCM Practitioner	Appointment of SCM Accountant	CFO	✓			Feb-18	Jun-18	Effectiveness and efficiency	
Resourcing – Personnel	Recruitment of Manager: Electrical.	Director Corporate Services	✓			In- progress	Mar-18	Improved infrastructure management and performance.	CoGTA
	Recruitment of a Roads and Stormwater Supervisor.								
	Recruitment of waste collection personnel.								
Employees Sensitised About the Challenges Facing the Municipality and	Communicate with all employees on the implications of the financial problems and the content and consequences of the Plan.	MM, supported by Mayor	✓			Feb-18	Mar-18	Staff informed of the challenges and change management process commenced.	
								Improvement in operational and financial performance of the	

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Union Support Obtained for the Implementation of this Plan.								municipality.	
	Meet with Organised Labour to discuss the Plan.	MM, supported by Mayor	✓			Feb-18	Mar-18	Organised Labour is informed of the Plan and supports the Plan.	
								Reduction in labour disputes.	
Human Resource Development on Policies and Procedures.	Training of staff on policies (including leave and absenteeism, telephone management), and procedures, code of conduct, collective agreement and disciplinary processes.	MM, Director Corporate Services	✓			Feb-18	Mar-18	Reduction in non-compliance.	
	Train line managers as initiators and presiding officers.							Consequence management.	
	Implement disciplinary action in line with applicable legislation.							Improved staff commitment and performance.	
Develop and Implement a Performance Management System (PMS) for all.	Review and refine PMS policy and framework in consultation with all relevant stakeholders.	MM, Director Corporate Services	✓			Feb-18	Mar-18	Performance Management System, policy and framework implemented. Maximise administrative and operational efficiency.	
	Training and mentoring on PMS for all.							Improved organisational performance and service delivery.	
	Measures to be introduced to address poor performance.							No audit findings re performance management.	

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	Cascade of PMS – Levels below senior managers.							Improved staff moral and performance.	
Litigations	Audit and update the litigation register to contain the legal cost per case.	MM, Director: Corporate Services, CFO	✓			Feb-18	Jun-18	Reduction in number of cases and related costs.	
	Review legal framework.							Reduction of audit risks and fruitless expenditure.	
Contract Management	Audit existing contracts.	MM, Director: Corporate Services, Section 56/57 Managers, SCM Manager	✓			Feb-18	Feb-18	Improved contract management and reduction in disputes/ litigation	
	Issue intention to terminate existing without source document and/or procurement processes.						Feb-18	Improved service delivery.	
	Ensure compliance with SCM policies and procedures including on contract management.						Ongoing	Reduced irregular expenditure.	
	Project managers to ensure deliverable in accordance to contract and report.						Ongoing	Improved contract management and reduction in disputes/ litigation.	
Change Management	Conduct organisational climate survey and recommendations made.	MM, Director Corporate Services once appointed	✓			Feb-18	Mar-18	Improved staff morale and productivity.	
	Implement advocacy programme on change management.							Well informed and capacitated staff.	

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
								Stable working environment.	

### 9.3 STRATEGY 3: IMPROVED CASH FLOW MANAGEMENT AND IMPROVING FINANCIAL SUSTAINABILITY

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Contract Management	Review all existing contracts.	MM, CFO, Expenditure Manager, Manager Legal	✓			Feb-18	Jun-18	Cost savings.	
	Ensure that all contracts are current, and review contracts that can be cancelled or delayed.							Only commitments that are enforceable and consistent with the restructured budget to be paid.	
	Implement suitable contract registers.							Reduced disputes/ litigation.	
	Standardisation of contract documentation.							Reduction in creditors.	
	Standard procedure for document drafting process.							Efficient administration.	
	Centralisation in finance of administration and monitoring of all contracts.								
Creditors Management	Negotiate settlement and repayment plan, Eskom, DWS, Karan Beef	MM, CFO, Manager Expenditure, S56/57 Managers			✓	Feb-18	Jun-20	Cost savings.	
	Payments arrangements concluded with all creditors and lenders and other statutory commitment.							Payment arrangements honoured.	
	Terms of payment for orders and contracts are to be standardised							The practice of late payments to suppliers is discontinued.	

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	and implemented.								
	Internal control measures must be put in place to ensure that relevant documents are processed promptly, and payments made according to agreed terms.							All payments made within 30 days of receiving the relevant invoice or statement.	
	Manage payments in accordance with revised agreements.							No payments made which are prejudicial to the municipality.	
	Ensure creditors are paid within 30 days.							Reduction in unauthorised, irregular and fruitless and wasteful expenditure.	
								Outstanding liabilities dealt with in terms of new agreements.	
								Reduced outstanding creditors.	
								Satisfied suppliers/ service providers.	
								Improved supplier turnaround time.	
Cost Curtailment	Implement the Circular on Cost curtailment (National Treasury Instruction No. 2 of 2016/2017 - Guideline on Cost Containment Measures)	CFO	✓			Feb-18	Jun-18	Cost savings.	
	Development and implementation of	All Directors							

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	procurement plans.								
	Limit the attendance of meetings to the Mayor and/or a Senior Manager, as required, until cashflows stabilise.								
	Draft, implement and monitor a cost curtailment plan.								
Supply Chain Management	SCM Cost Cutting Measures: The CFO or his/ her delegate to counter-sign all orders to ensure that only goods and services that are affordable and within the cash-flow budget of the municipality are procured.	MM, CFO, SCM Manager	✓			Feb-18	Jun-18	Commitments are only made which are affordable and for which the municipality has sufficient cash, and which is aligned to the Plan and needs of the municipality.	
	Ensure that all goods and services are procured according to the Municipal Supply Chain Management (SCM) regulations and in accordance with the municipality's SCM Policy.							Adherence to the municipality's adopted Supply Chain Management Policy.	
	SCM implementation plan and policy must be reviewed and approved to ensure goods and services are procured in terms of the legal framework.							Goods and services procured where the appropriate supporting documentation is not in place, to be considered irregular and recoverable from the Official concerned.	
	Issue communication indicating that no goods and services will be paid							Reduction in queries/ disputes.	



**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	for without an official order.								
	The progress above must be regularly monitored and breaches of this policy must result in disciplinary processes being instituted.							Operational bid committees and reduction in irregular, unauthorised and fruitless and wasteful expenditure.	
	All supporting documentation must be stored in a safe and secure place, before and after goods and services are procured and received.							Improved audit opinion.	
	Bid committees policies and procedures to be put in place.							Functional bid committees.	
	Procurement plans in line with cash flows to be put in place.							Procurement plans in line with cash flows.	
	All Supply Chain Management processes to be centralised and undertaken by the SCM Unit, operating under the direct supervision of the CFO.							Only one procurement process in place which is standardised and consistently applied across Dipaleseng.  SCM processes conform to SCM regulations and policy.	
	The SCM Unit must be properly structured, capacitated, trained and operational.							Bid Committees (Specification, Evaluation and Adjudication) to be properly and fully functional.	
	SCM Practitioners and all Bid Committee Members to sign adherence to Codes of Good							All SCM Practitioners including Senior Managers and Bid Committee Members effectively	

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	Conduct.							trained in SCM and comply with SCM policies.	
	Bid Committee Members to declare interest, confidentiality and impartiality at every meeting.							Improvement in SCM compliance and processes.	
	All SCM Practitioners including Senior Managers and Bid Committee Members to attend formal SCM training on the functions of the Bid Committees, the requirements of the Preferential Procurement Policy Framework (PPPF) Act and its Regulations and combating of fraud and corruption in the SCM environment.							Reduced fraud and disciplinary cases.	
	SCM Delegations to be issued in writing (including specific delegations to the Bid Committees)							Formal contracts signed by the Municipal Manager or CFO, based on the delegation framework, and successful bidder, in accordance with the legal processes in the Municipal Bidding Document.	
	Reviewing and updating of internal controls on procurement, spending and contracting and supplier management required.							A system to monitor and manage supplier performance put in place.	
	Formal contracts must be signed by the municipality and the successful bidder taking into consideration any legal processes in accordance with							Disputes and complaints dealt with and finalised/ resolved appropriately in terms of the SCM Regulations and MFMA.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	the Municipal Bidding Document.								
	A system and Standard Operating Procedures (SOP) to be put in place to monitor supplier performance and contracts in progress in accordance with their terms and conditions.							Improved supplier performance.	
	Disputes and complaints must be dealt with and resolved appropriately in terms of the SCM Regulations.							Compliance with legislation	
								Efficient administration and reduction in disputes and queries.	
Bulk Purchases	Inspection and maintenance of meters to verify invoices.	Director: Technical Services		✓		Feb-18	Jun-19	Cost savings and improved billing.	
	Procurement of bulk meters to confirm the bills from Eskom and DWS	Director: Technical Services	✓					Reduced expenditure on bulk purchases.	
Tariffs	Review tariffs -tariff modelling exercise including inclined block tariff (IBT) consideration.	CFO/ Finance Manager	✓			Feb-18	Jun-18	Improve cashflow and affordable tariffs.	Provincial Treasury
	Consider Inclined Block Tariff (IBT)								
Lease Agreement	Review Land availability and property lease agreements.	Director: Corporate Services	✓			Feb-18	Jun-18	Improve cashflow.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	Activate Sundry Debtors Module and start billing sundry debtors.								
Data Cleansing and Profiling	Database clean-up to ensure all data is correct and complete and update report on data cleansing.	CFO/ Finance Manager		✓		Feb-18	Jun-18	Improve cashflow.	Provincial Treasury
	Conduct data profiling to determine collectability.								
By-Laws	Review all by-laws.	CFO/ Finance Manager		✓		Feb-18	Jun-19	Improve cashflow.	
Revenue Enhancement Plan	Review a comprehensive revenue enhancement strategy/plan.	CFO/ Finance Manager	✓			Feb-18	Jun-18	Improve cashflow.	
Financial System	Ensure all transactions are updated to end of December 2017 and ongoing. (Deprecation and debt impairment)	CFO	✓			Immediate	Jun-18	Accuracy and completeness	Provincial Treasury
Cashflow Committee	Establish cashflow committee.	CFO	✓			Feb-18	Jun-18	Improved cashflow.	
	Implement an interim finance committee to meet weekly and manage cash flow of the municipality specifically:								
	Review the cash position.								
	Review and approve commitments and orders and payments to								

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	suppliers.								
	Set aside cash to meet critical operating expenditure.								
	Set aside cash to cash back unspent conditional grants ie grants cash backed.								
Analysis and Submission Reports	Weekly analysis of income and expenditure to be prioritised (income generating)	CFO	✓			Feb-18	Jun-18	Improved cash flows.	Provincial Treasury
Land Development Tariffs	Determine tariff /penalties on statutory planning and building control.	Dir: PED/ Building Control	✓			Feb-18	Jun-18	Improved revenue.	Provincial Treasury
Sundry Income	Review tariffs for sundry income (Bill boards, Trade licences, etc.)	Dir: PED	✓			Feb-18	Jun-18	Improved revenue.	
Land Audit	Conduct land audit.	Dir: PED/ Town and Regional Planner		✓		Feb-18	Jun-19	Improved revenue and land use.	
Spatial Planning and Land Use Management	Review of SDF and LUMS.	Dir: PED/Town and Regional Planner		✓		Feb-18	Jun-19	Compliance and improved revenue.	
Township Establishment	Develop new townships for mixed use development.	Dir: PED/Town and Regional Planner			✓	Feb-18	Jun-22	Improved revenue.	Human Settlement and COGTA
Land Transfers	Facilitate change of ownership (sold land)	Dir: PED		✓		Feb-18	Jun-19	Improved revenue.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
By-laws and Policies Enforcement	Enforcement of by-laws/policies.	Dir: PED/Town and Regional Planner		✓		Feb-18	Jun-19	Compliance and increase revenue.	
Local Economic Development (LED)	Facilitate inclusion of major economic activities in the Social and Labour Plans (mining activities)	Dir: PED/ Local Economic Development			✓	Feb-18	Jun-22	Job creation/ employment opportunities and improved revenue.	
By-Laws Enforcement	Finalisation and enforcement of laws, e.g. illegal dumping., fire services	Director: Community Services and Public Safety		✓		Jun-18	Jul-19	Increased revenue.	
								Improves cleanliness.	
Traffic Management Systems and Law Enforcement	Procurement of traffic control/ management system, including speed camera detectors.	Director: Community Services and Public Safety	✓			Feb-18	Jun-18	Increased revenue.	
Review Municipal Property Portfolio	Review of municipal property portfolio.	MM, CFO, S56/57 Managers, Manager Revenue		✓		Feb-18	Jun-18	Full facilities audit complete.	Provincial Treasury,
	Undertake a complete property audit and review of all leases.							Improved revenue and cash flow from sale of properties and increased rentals.	
	Review the possible sale of non-strategic municipal properties.							Increased rates and services from properties sold.	
	Investigate and where possible terminate leases where municipality is lessee.							Decrease in expenditure on maintenance of properties not being used and leased properties not being used.	
	Investigate and increase where possible rentals where municipality							Improved revenue.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	is lessor.								
Review DWS Raw Water Supply Agreement	Review and refine the water service agreement with DWS and resolve historical issues.	MM, CFO, Director Technical Services	✓			In-progress	Mar-18	Resolve service and financial issues that are not included in the current SLA.	Provincial CoGTA, Legal, Provincial Treasury, DWS National, ESKOM
	Monitor the implementation of the revised SLA.							Credible SLA dealing with all issues.	
	Procure bulk meters and compare the billing from DWS with the meter reading.							Improved revenue and cashflows.	
Consumer Debt Collection and Debtor Management	Profile and segment all debtors.	MM, CFO, Manager Revenue, Director: Technical Services	✓	✓	✓	In-progress	Monthly	Collection of large debtors' balances, resolve queries, and this should have a positive impact on cash flow.	Provincial Treasury
	Generate a ward based debtor's report.					In-progress	Monthly	Reduced debt and impairment provisions.	
	Write-off options identified and implemented.					In-progress	Jun-18	Increase in collection levels.	
	Target the top 100 debtors in value terms to collect amounts outstanding within the first month of commencement.					In-progress	Monthly	Increase in cash reserves.	
	Target highest 50 debtors balance on a weekly basis.					In-progress	Weekly	Updated indigent register.	
	Resolve outstanding queries,					In-	Ongoing	Equity in the allocation of the	

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Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	update billing records and implement credit control and debt collection policy.					progress		equitable share grant.	
	Assess the credit control division to ensure maximum efficiency in collecting outstanding debt.					In-progress	Ongoing	Improved cashflow	
	Draw up accurate indigent register and verify indigents.					In-progress	Ongoing	Improved revenue	
	Send out final demand letters for rates and services utilising internal staff from the legal section.					In-progress	Ongoing		
	Solve all outstanding queries on Government accounts to ensure payment of arrears by the respective Departments.					In-progress	Ongoing		
	Introduce incentives for consumers to start payment.					In progress	Ongoing		
	Apply 70/30 for all prepaid services. 30 should be used to pay the old debt.					In progress	Jun-18		
	Collection of outstanding amounts from Councillors and Municipal officials.					In-progress	Ongoing		
	Collection of outstanding amounts from all other consumers.					In-progress	Ongoing		



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Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Cash Flow Management	Management of the cash-flow on a daily basis with weekly reporting to the Municipal Manager and management meetings.	MM, CFO	✓			Feb-18	Jun-18	Improved cash-flow.	
	Compile a cash-flow projection for the remainder of the current financial year showing monthly projections.							Progress towards achieving a positive cash coverage ratio by 30 June 2018, and three-month coverage over the medium term.	
	Implementation of a cash-flow projection in support of the MTREF Budget, showing monthly projections.							Assistance to pay off long standing creditors.	
								Creditors outstanding reduced to acceptable levels.	
Valuation roll and Services Reconciliation	Reconcile the valuation roll and billing of services/financial system.	CFO/ Finance Manager	✓			Feb-18	Jun-18	Completeness of revenue	Provincial Treasury
Meter Reading	Variance reports investigation (5%)	CFO/ Finance Manager/ Director: Technical Services	✓			Feb-18	Jun-18	Accurate billing	Provincial Treasury
	Meter exception reports.								
Consumer Accounts	Investigate all occupiers' accounts.	CFO/ Finance Manager	✓			Feb-18	Jun-18	Identification of collectible amounts	Provincial Treasury
	Review account listing for duplicate accounts, pass credits and consolidate.								

#### 9.4 STRATEGY 4: RESTRUCTURING THE BUDGET

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Line Item Budget Analysis 2014/15, 2015/16 and 2016/17	Undertake budget and actual line item analysis for the 2014/15, 2015/16 and 2016/17 financial years.	MM, CFO Section 56/57 Managers	✓			Feb-18	Jun-18	Any inefficiency in revenue and expenditure identified addressed in the 2017/18 adjustment budget and 2018/19 MTREF budget.	Provincial Treasury
								Revised budget and budget baseline.	
								Cost reflective tariffs.	
								Balanced, cash backed and credible budgets.	
Review 2017/18 Budget	Compile a 2017/18 adjustment budget in line with reviewed targets for realistically anticipated revenue and expenditure trends and ensure revised budget to be credible and cash funded and also takes strategies of this Plan into account.	MM, CFO, Section 56/57 Managers	✓			Feb-18	Jun-18	Credible budget base for 2017/18 based on past and projected trends	Provincial Treasury
	Adjust personnel budget to reflect actual posts, including the new key positions.							An adjustment budget that reflects realistically anticipated revenue and expenditure, austerity and cost cutting measures and a credible and cash funded budget.	
	Austerity and cost cutting measures to be reflected in the 2017/18							Proper baseline for long term financial planning.	

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	adjustment budget.								
	Approved SDBIP for 2017/18 to be reviewed and finalised to reflect 2017/18 adjusted budget.							Unspent conditional grants ring-fenced and cash backed.	
	Approval of the adjustments budget and revised SDBIP for 2017/18 by Council.							Investigate alternate funding options.	
	Alignment of the budget with mSCOA.							Sufficient provision for impairments.	
	Capturing the approved adjustment budget for 2017/18 on Munsoft.	CFO	✓			Feb-18	Jun-18	Budget information on the financial system consistent with adjusted and approved budget.	
								This is to be used for the management of actual revenue and expenditure.	
								mSCOA compliance.	
	Implementation and monitoring of the approved adjustment budget for 2017/18.	MM, CFO, Section 57 Managers	✓			Feb-18	Jun-18	Strict controls over revenue and expenditure consistent with delegations and approved budget.	
								Reduction in deviations, irregular, fruitless and wasteful and unauthorised expenditure to acceptable norm.	

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
								Improvement in cash management.	
								Improved supplier performance.	
								Reduced audit queries.	
Compilation of a Credible and Cash funded MTREF budget for 2018/19 in Accordance with the Approved Budget Timetable and Guidelines of Council.	Completion of a strategic alignment workshop to determine objectives and guidelines for the 2018/19 budget process.	MM, CFO, Section 56/57 Managers				Feb-18	Jun-18	Strategic objectives set and Budget Steering Committee that will oversee the Budget and IDP process in place.	Provincial Treasury
	Establish a Budget Steering Committee, represented by the MM, relevant S 56/57 Managers and the Councillor responsible for Finance and service delivery.		✓					Review of the performance for the 2017/18 financial year.	
								Guidelines from Council on key focus areas for MTREF 2018/19 to 2020/21 that will form the basis of the budget.	
								Guidelines communicated to all staff and other key stakeholders.	
	Compile a 2018/19 MTREF budget in line with the 2017/18 adjustment budget reviewed targets for realistically anticipated revenue and expenditure trends	MM, CFO, Section 56/57 Managers	✓			Feb-18	Jun-18	Credible budget baseline for future budgeting and long term financial planning.	
	Adjust personnel budget to reflect actual posts, including the new critical positions.							IDP and Budget related policies for 2018/19 MTREF consistent with the Plan and Legislative Framework.	

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	Austerity and cost cutting measures to be reflected in the 2018/19 budget.							Realistic and affordable tariffs implemented, including flat rate tariffs where applicable.	
	Review all tariffs and charges.							Cost reflective tariffs	
	Review all current budget related policies.							Compliance of credible budget	
	Scrutinise draft 2017 Draft Valuation Roll to ensure completeness.							Accurate billing	
	Develop the Draft MTREF Budget.							Cashbacked and credible budget .	
MTREF Budget for 2018/19 and IDP	Developed Draft MTREF Budget, reviewed Policies, IDP be consulted with the Community through the public participation process as a combined IDP and Budget engagements for 2018/19.	MM, CFO, section 56/57 managers	✓		Feb-18	Jun-18	Credible budget baseline for future budgeting and long term financial planning.	Provincial Treasury	
	Finalise and Council to adopt MTREF Budget, budget policies, bylaws, IDP.						IDP and Budget related policies for 2018/19 MTREF consistent with the Plan and Legislative Framework.		
	Implementation of MTREF Budget, budget policies, bylaws, IDP.						A MTREF budget that is fully compliant, credible and cash funded.		
							Strict controls over expenditure and revenue consistent with delegations and approved budget.		

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	Monitoring of implementation MTREF Budget, budget policies, bylaws, IDP.							Regular progress reports on the implementation	

## 9.5 STRATEGY 5: IMPROVED CONTROL ENVIRONMENT

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Billing	Develop billing Checklist (MFMA Circular 64), including prepaid sales)	CFO/ Finance Manager	✓			Feb-18	Jun-18	Accurate and complete billing.	
Unauthorised, Irregular, Fruitless and Wasteful Expenditure	Implement standard operating procedure manuals.	CFO	✓			Immediate	Jun-18	Cost saving.	Provincial Treasury
	Management of fuel.	CFO	✓			Feb-18	Jun-18	Cost saving.	
	Management of overtime, standby allowance.								
	Introduce shift system and reduce overtime.								
Procurement Plans	Development of procurement plans in line with demand requirements.	CFO/ S56 Managers	✓			Feb-18	Jun-18	Cost saving.	
Financial Delegation	Develop, implement and monitor financial delegations.	CFO	✓			Feb-18	Jun-18	Effectiveness and efficiency and just in time demand management.	
Demand Management	Execute demand requirements as per Circular 62.	CFO	✓			Feb-18	Jun-18	Effectiveness and efficiency and cost saving.	
Reconciliations	Perform weekly bank and other reconciliations, as required for preparation of financial statements.	CFO	✓			Immediately	Jun-18	Improved audit opinion.	Provincial Treasury
Preparation of Annual Financial	Preparation of 2017/18 annual financial statements.	CFO	✓			Feb-18	Nov-18	Improved audit opinion.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
Statements									
Audit Action Plan	Preparation and implementation of adequate Audit Action Plans	CFO and all Directors	✓			Feb-18	On-going	Improved audit opinion.	
Registers of Property Changes	Land Development Register be given to finance on a monthly basis (supplementary valuation)	Dir: PED/ Town and Regional Planner	✓			Feb-18	Jun-18	Accuracy and completeness of revenue	
Theft and Vandalism	Securing of all facilities and assets of Municipality including the investigation of electronic monitoring devices.	Director: Community and Public Safety		✓		Feb-18	Jun-19	Reduced incidences of theft and reduced costs.	
Building Inspection and Certification	Assure all developments are fire-safety inspected and compliant.	Director: Community Services and Public Safety	✓			Feb-18	Jun-18	Increased revenue.	
								Improved fire safety.	
Fire and Rescue Services	Procedure manual, development and management system from incident to invoicing and money receipted.	Director: Community Services and Public Safety	✓			Feb-18	Jun-18	Increased revenue.	Gert Sibande DM
Financial Controls – Developed and Implemented	Basic accounting processes to be reviewed, improved and applied to ensure that accurate financial information is provided timeously.	MM, CFO, Director Corporate Services, all Section 56/57 Managers	✓			Feb-18	Ongoing	Accurate accounting records maintained.	Provincial Treasury
	Accounting records to reflect accurate state of municipality's finances.							Improved audit opinion.	
	Monthly reconciliations for all control							Improved in-year reporting.	



**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a - Tick)						
		(Title)							
			S	M	L				
	accounts to be done timeously.							Reporting and interim audits.	
	Review internal controls and report to management, Audit Committee and Council.							Improved control environment and compliance.	
	Develop and/ or update operating procedures and policies relating to finance to enhance control environment.								
	Review standard operating procedures and ensure proper segregation of duties.								
	Preparation of accurate bi-annual financial statements.								
Financial Management Capability Maturity Model (FMCMM)	Prepare, implement and monitor the FMCMM.	CFO	✓			Feb-18	Ongoing	Improved Financial Management	

# 9.6 STRATEGY 6: INFRASTRUCTURE AND SERVICE DELIVERY IMPROVEMENTS

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a – Tick)						
		(Title)							
			S	M	L				
By-laws	Review and promulgate the following By-laws:  Property Rates Credit Control and Debt Control Tariff Water Electricity Waste Management Street Trading	Director: Corporate Services	✓			Feb-18	Jun-18	Promulgated by-laws and increased revenue.	Gert Sibande District Municipality (GSDM) and Provincial COGTA
	Enforcement of by-laws	Director: Technical		✓		Jun-18	Jul-19	Reduced distribution losses.	
Customer Care	Establish customer care unit/ register/ feedback report.	Director: Corporate Services	✓			Feb-18	Jun-18	Increased consumer satisfaction	
	Development and approval of Customer Care Policy	Director: Corporate Services	✓			Feb-18	Jun-18	Increased consumer satisfaction	
	Implement Customer Care Policy	Director: Corporate Services	✓			July 18	On-going	Increased consumer satisfaction	
Stores Management	Formalised stores as per staff and location identified.	CFO	✓			Feb-18	Jun-18	Reduced costs and improved controls.	
Asset	Undertake a comprehensive asset	Director: Technical	✓	✓	✓	Feb-18	Jun-20	Unqualified asset register and	Provincial Treasury

**Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2**

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a – Tick)						
		(Title)							
			S	M	L				
Management	unbundling exercise.	Services						master plans in place.	
Aged Infrastructure	Development and implementation of comprehensive preventive maintenance programmes	Director: Technical Services		✓		Jul-18	Jun-19	Reduced failures and downtime.	MISA
								Reduced repair and maintenance costs.	
								Reduced distribution losses.	
	Development and implementation of interim preventive maintenance programme	Director: Technical Services	✓			Feb-18	Jun-18	Reduced failures and downtime.	MISA
								Reduced repair and maintenance costs.	
								Reduced distribution losses.	
Metering of Consumption	Phase 1 implementation of industrial and commercial consumers.	Director: Technical Services	✓			In-progress	Mar-18	Reduced distribution losses.	
	Phase 2 implementation of residential consumers.	Director: Technical Services		✓		Apr-18	Jun-19	Reduced distribution losses.	
	100% metering of all consumers.	Director: Technical Services			✓	Jul-18	Jun-20	Reduced distribution losses.	
Resourcing – Vehicles / Equipment	Formulate a fleet strategy including sourcing plan per equipment/ vehicle type	Director: Technical/ Director: Corporate Services	✓			Feb-18	Jun-18	Reduced vehicle/ equipment failure.	MISA, Provincial Treasury, Provincial COGTA
								Improved service levels.	
	Formulate a fleet financing strategy.	CFO	✓			Feb-18	Jun-18	Reduced vehicle/ equipment	

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Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a – Tick)						
		(Title)							
			S	M	L				
								failure.	
								Improved service levels.	
Materials (Stock) for Repairs and Maintenance	Accelerate procurement process and maintaining correct stock levels.	CFO	✓			Immediate	Jun-18	On-time availability of stock.	
								Improved service levels.	
Distribution Losses	Programmed audit of all existing connections, identify illegal, disconnect and charge reconnection.	Director: Technical Services	✓			Feb-18	Jun-18	Reduced distribution losses.	MISA
							Increased reconnection fees.		
		Current smart meter project assessed and replace existing meters.	Director: Technical Services	✓	✓		Feb-18	Jun-19	Reduced distribution losses
Distribution Losses – Technical (Efficiency)	Reference to master plan and specifically replacement of aged technology.	Director: Technical Services			✓	Jul-19	Jun-20	Reduced distribution losses.	MISA
Capacity of Bulk Infrastructure	Master plans to be reviewed both for condition and capacity of infrastructure and replacement of outdated technology.	Director: Technical Services		✓		Jun-18	Jul-19	Approval of capital grants.	
								Reduced infrastructure failure and improved service.	
								Increased development in Municipality.	
Distribution Losses - Technical	Assessment and replacement of existing aged or faulty meters.	Director: Technical Services		✓		Feb-18	Jun-19	Reduced distribution losses.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a – Tick)						
		(Title)							
			S	M	L				
Water Services Development Plan	Master planning for 5 years.	Director: Technical Services		✓		Jul-18	Jun-19	Developed and Approved Water Development Plan.	MISA
Water Demand Management Strategy	Bulk supply to point of consumption metering to assure optimal water balancing.	Director: Technical Services		✓		Jul-18	Jun-19	Reduced revenue losses.	
								Improved service levels.	
Metering of In-flow to Treatment Works	Replacement of in-flow meters to all WWTW's	Director: Technical Services		✓		Jul-18	Jun-19	Quantification of flows as input to master planning.	MISA
By-law Enforcement Regards Industrial effluent	Metering of industry effluents and storm-water.	Director: Technical Services		✓		Jul-18	Jun-19	Reduced operating costs.	
	Effluent quality control and by-law enforcement							Reduction in emissions.	
Landfill Site Management	Implementation of comprehensive operations and management solution at all three landfill sites.	Director: Community Services and Public Safety		✓		Feb-18	Jun-19	Legal compliance.	MISA
							Improved service levels.		
		Functional weigh-bridge especially for industrial waste ie personnel in place.  Finalise housing and electrification of weigh-bridge especially for industrial waste.	Director: Community Services and Public Safety	✓			Feb-18	Jun-19	Increased revenue.
Waste Recycling	Implementation of waste separation	Director: Community		✓		Jul-18	Jun-19	Employment creation.	

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a – Tick)						
		(Title)							
			S	M	L				
	and recycling – commence with S 78 (3) MSA Study	Services and Public Safety						Reduced landfill cost	
Availability of Licensed Land for Cemeteries	Provision of licensed cemeteries in Balfour, Greylingstad and Nthorwane and security	Director: Community Services and Public Safety		✓		Jul-18	Jun-19	Improved service levels	
Recording allocation of graves	Formulate a procedure manual for the request, payment and allocation of graves.	Director: Community Services and Public Safety		✓		Jul-18	Jun-19	Improved service levels.	
Master Plans	Development of Asset Master Plans.	Director: Technical Services		✓		Jul-18	Jun-20	Improved service levels.	
ICT	Develop ICT Strategy	Director: Corporate Services	✓			Jul-18	Jun-19	Improved ICT infrastructure and performance.	
	Upgrade of Server and Server Room.	Director: Corporate Services		✓		Jul-18	Dec-18	Server upgraded.	GSDM
	Upgrading of network.	Director: Corporate Services	✓			Jul-18	Sep-18	Network Upgraded.	GSDM
	Software licencing updated.	Director: Corporate Services	✓			Jul-18	Sep-18	Software Licenced.	GSDM
	Integrated IMS	Director: Corporate Services	✓			Feb-18	Mar-18	IMS In Place	GSDM

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Focus Area	Key Activities	Person	Timeline #			Start Date	End Date	Measurable Outcome	Technical Support
		Responsible	(a – Tick)						
		(Title)							
			S	M	L				
	Biometric Access Control	Director: Corporate Services		✓		Jul-18	Jun-19	Credible payroll. Improved productivity.	GSDM

## 10. ANNEXURES

### 10.1 ANNEXURE A: FINANCIAL RATIOS (BEFORE ADJUSTMENTS)

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
<b>FINANCIAL POSITION</b>								
Asset Management/ Utilisation								
1	Capital Expenditure to Total Expenditure	10% - 20%	18.4%	15.6%	10.8%	15.8%	16.8%	15.3%
2	Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	0%	0.2%	0.0%	0.0%			
3	Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	8%	0.9%	1.3%	1.1%	1.3%	1.3%	1.2%
Debtors Management								
1	Collection Rate	95%	46.9%	46.7%	66.0%	55.2%	60.2%	70.2%



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Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
2	Bad Debts Written-off as % of Provision for Bad Debt	100%	0.0%	11.23%	8.58%	0.0%	0.0%	0.0%
3	Net Debtors Days	30 days	81.5 days	57.4 days	44.7 days	48.0 days	50.4 days	51.3 days
Liquidity Management								
1	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 - 3 Months	0.3 months	0.2 months	0.0 months	-0.8 months	-2.1 months	-1.8 months
2	Current Ratio	1.5 - 2:1	0.39	0.30	0.11	0.17	0.46	0.85
Liability Management								
1	Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	6% - 8%	0.5%	0.2%	0.9%	0.1%	0.1%	0.1%
2	Debt (Total Borrowings) / Revenue	45%	0.0%	0.0%	0.0%	4.3%	10.9%	9.5%
FINANCIAL PERFORMANCE								
Efficiency								
1	Net Operating Surplus	= or > 0%	9.9%	-12.8%	2.9%	11.1%	23.5%	22.7%

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
	Margin							
2	Net Surplus /Deficit Electricity	0% - 15%	-17.8%	-31.5%	-21.3%	-41.9%	14.0%	10.8%
3	Net Surplus /Deficit Water	= or > 0%	-7.4%	19.5%	57.4%	14.8%	18.1%	21.2%
4	Net Surplus /Deficit Refuse	= or > 0%	-59.7%	77.3%	19.0%	-8.0%	19.7%	19.1%
5	Net Surplus /Deficit Sanitation and Waste Water	= or > 0%	19.6%	79.0%	58.8%	43.8%	44.0%	44.2%
Distribution Losses								
1	Electricity Distribution Losses (Percentage)	7% - 10%	1.6%	21.2%	22.3%			
2	Water Distribution Losses (Percentage)	15% - 30%	66.0%	65.0%	66.0%			
Revenue Management								
1	Growth in Number of Active Consumer Accounts	None	To Be Provided	To Be Provided	To Be Provided	To Be Provided	To Be Provided	To Be Provided

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Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
2	Revenue Growth (%)	= CPI	35.7%	-6.3%	8.6%	11.0%	5.2%	4.4%
3	Revenue Growth (%) - Excluding capital grants	= CPI	18.8%	3.0%	2.3%	12.1%	6.9%	6.2%
Expenditure Management								
1	Creditors Payment Period (Trade Creditors)	30 days	102.1 days	140 days	225.9 days	208.6 days	228.6 days	234.8 days
2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	0%	14.0%	21.8%	34.7%	0.0%	0.0%	0.0%
3	Remuneration as % of Total Operating Expenditure	25% - 40%	27.1%	24.8%	26.5%	27.2%	32.4%	33.1%
4	Contracted Services % of Total Operating Expenditure	2% - 5%	0.3%	0.3%	0.3%	2.4%	2.9%	2.9%
Grant Dependency								

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Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	None	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	None	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3	Own Source Revenue to Total Operating Revenue (Including Agency Revenue)	None	53.8%	59.1%	55.8%	56.5%	57.3%	58.5%
<b>BUDGET IMPLEMENTATION</b>								
1	Capital Expenditure Budget Implementation Indicator	95% - 100%	43.6%	59.1%	117.1%			
2	Operating Expenditure Budget Implementation Indicator	95% - 100%	92.3%	111.6%	91.0%			
3	Operating Revenue Budget Implementation	95% - 100%	83.0%	114.8%	103.3%			

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
	Indicator							
4	Service Charges and Property Rates Revenue Budget Implementation Indicator	95% - 100%	98.7%	97.2%	100.4%			

## 10.2 ANNEXURE B: FINANCIAL RATIOS (AFTER ADJUSTMENTS)

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
<b>FINANCIAL POSITION</b>								
Asset Management/ Utilisation								
1	Capital Expenditure to Total Expenditure	10% - 20%	18.4%	15.6%	10.8%	18.0%	16.3%	15.4%
2	Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	0%	0.2%	0.0%	0.0%			
3	Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	8%	0.9%	1.3%	1.1%	1.3%	1.9%	2.1%
Debtors Management								
1	Collection Rate	95%	46.9%	46.7%	66.0%	74.7%	70.3%	75.2%
2	Bad Debts Written-off as % of Provision for Bad Debt	100%	0.0%	11.23%	8.58%	449.3%	0.0%	0.0%

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Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
3	Net Debtors Days	30 days	81.5 days	57.4 days	44.7 days	37.5 days	28.2 days	25.5 days
Liquidity Management								
1	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 - 3 Months	0.3 months	0.2 months	0.0 months	0.6 months	1 month	2.6 months
2	Current Ratio	1.5 - 2:1	0.39	0.30	0.11	0.21	0.32	0.81
Liability Management								
1	Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	6% - 8%	0.5%	0.2%	0.9%	0.1%	0.1%	0.1%
2	Debt (Total Borrowings) / Revenue	45%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCIAL PERFORMANCE								
Efficiency								
1	Net Operating Surplus Margin	= or > 0%	9.9%	-12.8%	2.9%	23.7%	16.7%	20.1%
2	Net Surplus /Deficit Electricity	0% - 15%	-17.8%	-31.5%	-21.3%			

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
3	Net Surplus /Deficit Water	= or > 0%	-7.4%	19.5%	57.4%			
4	Net Surplus /Deficit Refuse	= or > 0%	-59.7%	77.3%	19.0%			
5	Net Surplus /Deficit Sanitation and Waste Water	= or > 0%	19.6%	79.0%	58.8%			
Distribution Losses								
1	Electricity Distribution Losses (Percentage)	7% - 10%	1.6%	21.2%	22.3%			
2	Water Distribution Losses (Percentage)	15% - 30%	66.0%	65.0%	66.0%			
Revenue Management								
2	Revenue Growth (%)	= CPI	35.7%	-6.3%	8.6%	11.0%	0.0%	5.6%
3	Revenue Growth (%) - Excluding capital grants	= CPI	18.8%	3.0%	2.3%	12.1%	0.6%	7.7%
Expenditure Management								
1	Creditors Payment Period (Trade Creditors)	30 days	102.1 days	140 days	225.9 days	158.9 days	84.6 days	47.6 days



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Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	0%	14.0%	21.8%	34.7%	0%	0%	0%
3	Remuneration as % of Total Operating Expenditure	25% - 40%	27.1%	24.8%	26.5%	31.6%	30.5%	32.6%
4	Contracted Services % of Total Operating Expenditure	2% - 5%	0.3%	0.3%	0.3%	2.8%	2.8%	2.9%
Grant Dependency								
1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	None	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	None	0.0%	0.0%	0.0%	0.0%	0%	0.0%

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Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
3	Own Source Revenue to Total Operating Revenue (Including Agency Revenue)	None	53.8%	59.1%	55.8%	56.5%	54.3%	56.1%
<b>BUDGET IMPLEMENTATION</b>								
1	Capital Expenditure Budget Implementation Indicator	95% - 100%	43.6%	59.1%	117.1%			
2	Operating Expenditure Budget Implementation Indicator	95% - 100%	92.3%	111.6%	91.0%			
3	Operating Revenue Budget Implementation Indicator	95% - 100%	83.0%	114.8%	103.3%			
4	Service Charges and Property Rates Revenue Budget Implementation Indicator	95% - 100%	98.7%	97.2%	100.4%			

### **10.3 ANNEXURE C: KEY BUDGET ADJUSTMENTS AND COMPARISON OF KEY RATIOS – BEFORE AND AFTER ADJUSTMENTS**

The following medium-term interventions were considered in the proposed adjustments budget for consideration in the budgets adjustments process for 2017/18, and will be subject to a detailed line item analysis and final approval by Council:

- An additional 2 % increase in property rates revenue in 2018/19 and 2019/20 due to an additional tariff to be implemented for Agricultural Government rates;
- An additional 1 % increase in service revenue in 2018/19 and 2019/20 due to tariff adjustments;
- An additional 10 % increase in rental of facilities and equipment revenue in 2018/19 and 2019/20 to be implemented based on CPI adjustments and market related rentals;
- An additional 10 % increase in fines revenue in 2018/19 and 2019/20 due to service now being operationalised;
- The proceeds from the above revenue increases will be ring-fenced and allocated to repairs and maintenance in the respective years to assist with distribution losses and asset stripping and consequent reduction in bulk purchases;
- The bulk purchases expense will reflect zero growth in 2018/19 and 2019/20 as a result of the additional repairs and maintenance budget;
- Debt impairment was corrected to align with the expected collection rates;
- A R1.5 million reduction in employee related costs per annum was effected as a result of improved overtime management;
- An additional R1.5m (after impairments) for the introduction of a flat rate tariff;
- Long outstanding debtors to the value of R280 million will be presented to Council for write-off;
- Interest earned on outstanding debtors was adjusted downward in light of the above debt write-off;
- Increased focus of outstanding debtors resulting in an additional R10 million in additional revenue for 2017/18;
- Debtor Collection % were assumed to be 65 %, 70 % and 75 % in 2017/18, 2018/19 and 2019/20 respectively; and
- Creditors payment days were assumed to be 150 days, 80 days and 45 days in 2017/18, 2018/19 and 2019/20 respectively.

These amendments have the following impact on the medium-term outlook for the Dipaleseng:

- Notable improvements are visible for liquidity as current ratio, solvency ratio, cash / coverage ratio (excluding unspent grants) and cost coverage ratio all reflect an improvement; and
- There is an improvement in working capital management with the net debtor days and creditor days moving toward the acceptable norm in the outer years;

The before and after effect of the above in the MTREF is reflected below and shows improvements in the key ratios.

## Dipaleseng Turnaround Strategy/Financial Recovery Plan: Draft 2

FINANCIAL RATIOS	Norm	AFS			Budget BEFORE FRP			Budget AFTER FRP		
		2015	2016	2017	2018	2019	2020	2018	2019	2020
<b>Liquidity Management</b>										
Current Ratio	1.5 to 2:1	0.39	0.30	0.11	0.17	0.46	0.85	0.21	0.32	0.81
Cash / Coverage Ratio (Excl Unspent Grants)	1 to 3 Months	0.3	0.2	-0.0	-0.8	-2.1	-1.8	0.6	1.0	2.6
<b>Debtors Management</b>										
Net Debtors Days	30 Days	81.5	57.4	44.7	48.0	50.4	51.3	37.5	28.2	25.5
Annual Collection Rate	95%	46.9%	46.7%	66.0%	55.2%	60.2%	70.2%	74.7%	70.3%	75.2%
Bad Debts Written-off as % of the Total Bad Debt Provision	<=100%	0.0%	11.2%	8.6%	0.0%	0.0%	0.0%	449.3%	0.0%	0.0%
<b>Expenditure Efficiency</b>										
Creditors Payment Period	30 Days	102.1	140.0	225.9	208.6	228.6	234.8	158.9	84.6	47.6
Remuneration (Employee Related Costs and Councillors Remuneration) as % of Total Operating Expenditure	25% to 40%	27.1%	24.8%	26.5%	27.2%	32.4%	33.1%	31.6%	30.5%	32.6%
Contracted Services % of Total Operating Expenditure	2% to 5%	0.3%	0.3%	0.3%	2.4%	2.9%	2.9%	2.8%	2.8%	2.9%
Irregular, Fruitless and Wasteful and Unauthorised Expenditure/ Total Operating Expenditure	0%	14.0%	21.8%	34.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Repairs and Maintenance to Property, Plant and Equipment and Investment Property (Carrying Value)	8%	0.9%	1.3%	1.1%	1.3%	1.3%	1.2%	1.3%	1.9%	2.1%
<b>Budget Implementation</b>										
Operating Expenditure Budget Implementation Indicator	95% to 100%	92.3%	111.6%	91.0%						
Operating Revenue Budget Implementation Indicator	95% to 100%	83.0%	114.8%	103.3%						
Capital Expenditure Budget Implementation Indicator	95% to 100%	43.6%	59.1%	117.1%						
Service Charges and Property Rates Revenue Budget Implementation Indicator	95% to 100%	98.7%	97.2%	100.4%						
<b>Liability Management</b>										
Debt (Total Borrowings)/ Revenue	45%	0.0%	0.0%	0.0%	4.3%	10.9%	9.5%	0.0%	0.0%	0.0%
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	6%-8%	0.5%	0.2%	0.9%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Asset Management Utilisation</b>										
Capital Expenditure to Total Expenditure (Operating and Capital)	10% to 20%	18.4%	15.6%	10.8%	15.8%	16.8%	15.3%	18.0%	16.3%	15.4%
Percentage of Property, Plant and Equipment and Intangible Assets Impaired	0%	0.2%	0.0%	0.0%						
<b>Efficiency</b>										
Net Operating Surplus Margin	>=0%	9.9%	-12.8%	2.9%	11.1%	23.5%	22.7%	23.7%	16.7%	20.1%
Net Surplus /Deficit Electricity	0% to 15%	-17.8%	-31.5%	-21.3%	-41.9%	14.0%	10.8%	Not available	Not available	Not available
Net Surplus /Deficit Water	>=0%	-7.4%	19.5%	57.4%	14.8%	18.1%	21.2%	Not available	Not available	Not available
Net Surplus /Deficit Refuse	>=0%	-59.7%	77.3%	19.0%	-8.0%	19.7%	19.1%	Not available	Not available	Not available
Net Surplus /Deficit Sanitation	>=0%	19.6%	79.0%	58.8%	43.8%	44.0%	44.2%	Not available	Not available	Not available
<b>Distribution Losses</b>										
Electricity Distribution Losses (Percentage)	7% to 10%	1.6%	21.2%	22.3%						
Water Distribution Losses (Percentage)	15% to 30%	66.0%	65.0%	66.0%						
<b>Revenue Management</b>										
Growth in Number of Active Consumer Accounts		Not available	Not available	Not available						
Revenue Growth (%)	CPI	35.7%	-6.3%	8.6%	11.0%	5.2%	4.4%	11.0%	0.0%	5.6%
Revenue Growth (%) - Excluding Capital Grants	CPI	18.8%	3.0%	2.3%	12.1%	6.9%	6.2%	12.1%	0.6%	7.7%
<b>Grant Dependency</b>										
Own Funded Capital Expenditure (Internally Generated Funds + Borrowings) to Total Capital Expenditure		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Own Funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Own Source Revenue to Total Operating Revenue (Including Agency Revenue)		53.8%	59.1%	55.8%	56.5%	57.3%	58.5%	56.5%	54.3%	56.1%