



LIMPOPO
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

National Council of Provinces

KEY INTERVENTIONS TO IMPROVE THE FINANCIAL STATE OF
MUNICIPALITIES

26 October 2020



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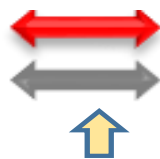


Municipal audit outcomes

Audit Outcome Trends	Audit Opinions				
	2015/16	2016/17	2017/18	2018/19	STATUS
WATERBERG DISTRICT					
Modimolle-Mookgophong		Disclaimer	Disclaimer	Disclaimer	
Mogalakwena	Adverse	Adverse	Adverse	Adverse	
Thabazimbi	Disclaimer	Disclaimer	Disclaimer	Qualified	

► Legends

Unchanged disclaimer
Unchanged adverse
Improved to qualified



Issues relating to disclaimer for both municipalities relate to:

- Completeness and accuracy of the non financial information(pre-audited objectives)
- Non-compliance with laws and regulations
- Misstatements in the AFS



Financial Health

Financial Health	2016/17	2017/18	2018/19
Bankrupt" - Solvency ratio of less than 1:1 (total liabilities exceed total assets)			
Insolvent - Liquidity ratio of less than 1:1 and unable to pay creditors from available cash and investments	Modimolle-Mokgophong Thabazimbi	Modimolle Mookgophong Thabazimbi	Modimolle-Mookgophong Mogalakwena Thabazimbi,
Solvent - Unable to Pay Creditors - Liquidity ratio above 1:1 but unable to pay creditors from available cash and investments	Mogalakwena	Mogalakwena	
Constraint Liquidity Ratio" - Liquidity ratio of less than 1:1 but sufficient cash and investments available to pay creditors			
Short to Medium Term Viability - Liquidity ratio above 1:1 and sufficient cash and investments available to pay creditors			



Accounting related matters

2019/20 AFS						
MUNICIPALITY	SUBMISSION TO LPT		STATE OF AFS ANALYSIS (INCL. AUDIT FILE)	DATE ON WHICH FEEDBACK	AGSA PLANNED SUBMISSION	CHALLENGES & PROPOSED SOLUTIONS
	YES/NO	SUBMISSION DATE				
Thabazimbi	Yes	05-Oct-20	Completed analysis and provided feedback The quality of the draft AFS was Fair	14/10/2020	31-Oct-20	Misalignment between the TB and AFS Classification issues within current and non-current assets, current and non current liabilities, revenue and expenditure items. PPE not yet finalised. Municipality to incorporate inputs provided and submit second draft to ensure inputs were incorporated.
Mogalakwena	Yes	12-Oct-20	Completed analysis and provided feedback The quality of the draft AFS was Poor Awaiting for the latest draft to perform a credible review, since most of the items were not yet finalised.	20/10/2020	31-Oct-20	Misalignment between the TB and AFS Classification issues within current and non-current assets, current and non current liabilities, revenue and expenditure items. PPE not yet finalised. Cash flow not yet finalised. Statement of financial position not yet finalised. Municipality to incorporate inputs provided and submit second draft to ensure inputs were incorporated.
Modimolle-Mokgophong	Yes	21-Oct-20	AFS were received on the 21/10/2020 Review to take place from the 22/10/2020	AFS were received on the 21/10/2020. Review to take place from the 22/10/2020	31-Oct-20	AFS were received on the 21/10/2020. Review to take place from the 22/10/2020



Usage of Consultants on AFS preparation

USE OF CONSULTANTS

Name of the Municipality	Department (e.g BTO)	Service required/rendered	Gap analysis	Name of Service provider	Contract Period		Toal Contract amount R	Reduction Plans/Future plans
					Start Date	End Date		
Thabazimbi	BTO	Preparation of financial statements	The municipality is unable to prepare financial statements in house.	Munsoft (pty) Ltd	01-Aug-20	Contract to end once the audit Is complete.(31 January 2020)	2 000 000	The municipality have ensured that there is a transfer of skills clause in the contract. The municipality is advised to perform monitoring to ensure that skill are being transferred to the municipal officials. This will assist the municipality in addressing the Gap identified.
Modimolle Mookgophong	BTO	Preparation of financial statements	The municipality is unable to prepare financial statements in house.	Munsoft (pty) Ltd	06-Jul-20	Contract to end once the audit Is complete.(31 January 2020)	2 100 000	The municipality have ensured that there is a transfer of skills clause in the contract. The municipality is advised to perform monitoring to ensure that skill are being transferred to the municipal officials. This will assist the municipality in addressing the Gap identified.
Mogalakwena	BTO	Preparation of financial statements	The municipality is unable to prepare financial statements in house.	Future Chartered Accountants	01-Sep-20	Contract to end once the audit Is complete.(31 January 2020)	2 100 000	The municipality have ensured that there is a transfer of skills clause in the contract. The municipality is advised to perform monitoring to ensure that skill are being transferred to the municipal officials. This will assist the municipality in addressing the Gap identified.



FUNCTIONALITY OF THE AUDIT STEERING COMMITTEES

Name of the Municipality	Frequency of the meetings	Composition	Political Oversight
Mogalakwena Local Municipality	Weekly(Fridays)	Administration Team, MM, Senior Managers, Head of Internal Audit, Head of Risk Management, LPT and Coghsta participate to provide technical support	
Modimolle Mookgophong Local Municipality	Weekly(Fridays)	Acting MM, Senior Managers, Head of Internal Audit, Head of Risk Management, LPT and Coghsta participate to provide technical support	The Mayor Chairs the Committee
Thabazimbi Local Municipality	Weekly(Wednesdays)	Acting MM, Senior Managers, Head of Internal Audit, Head of Risk Management, LPT and Coghsta participate to provide technical support	



Financial Management: Budget Funding Status

	2016/17 Tabled budget	2016/17 Adopted budget	2017/18 Tabled budget	2017/18 Adopted budget	2018/19 Tabled budget	2018/19 Adopted budget	2019/20 Tabled	2019/20 Adopted budget	2019/20 Special adjustment (Dec 2019)	2019/20 Adjustment (Feb 2020)	2019/20 2nd Special adjustment Covid	2020/21 Tabled	2020/21 Adopted
Municipalities	2016/17 Tabled budget	2016/17 Adopted budget	2017/18 Tabled budget	2017/18 Adopted budget	2018/19 Tabled budget	2018/19 Adopted budget	2019/20 Tabled	2019/20 Adopted budget	2019/20 Special adjustment (Dec 2019)	2019/20 Adjustment (Feb 2020)	2019/20 2nd Special adjustment Covid	2020/21 Tabled	2020/21 Adopted
Thabazimbi	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded
Mogalakwena	Undetermined	Undetermined	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded
Modimolle- Mookgopong	Undetermined	Undetermined	Unfunded	Funded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded	Unfunded

The funding plan for Modimolle-Mookgophong will be adopted by council on the 30 Oct 2020
 Thabazimbi Municipality tabled the funding tabled on the 22 October 2020
 Mogalakwena municipality planned to table the funding plan 29 October 2020



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Observations on the budget assessment

Municipality	2020/21 Tabled budget	2020/21 Adopted Budget	2020/21 Special adjustment budget
Thabazimbi	Unfunded	Unfunded	Unfunded
	The municipality did not fully comply with Municipal Budget Reporting Regulations (MBRR).	The municipality did not follow guidelines provided in the mSCOA Circular 9 on how municipalities should create projects relating to COVID 19	The municipality did not follow guidelines provided in the mSCOA Circular 9 on how municipalities should create projects relating to COVID 19
	Non alignment of the A Schedule and data strings Tabled budget (TABB) in 2020/21 MTREF.	Non alignment of the A Schedule and data strings Original Budget (ORGB) in 2020/21 MTREF.	Non alignment of the A Schedule and data strings Adjustment Budget (ADJB) in 2020/21 MTREF.
	The tariff setting for the municipality are not cost reflective	Collection rate is anticipated at 90 percent which is overstated	Collection rate is anticipated at 90 percent which is overstated
	The municipality projected a cash coverage ratio of 0 month over 2020/21 MTREF	The municipality did not make provisions for the commitments to be cash backed	the funding segment was incorrectly budgeted
	Repairs and maintenance as a percentage of PPE constitutes 0 percent	Rollover application not cash backed	Rollover application not cash backed
	Upgrading and Renewal of existing assets as a percentage of capital budget is 1.7 per cent which is less than 40 per cent as per MFMA Circular 71.	Not fully compliant with mSCOA requirements – a road map has been developed	

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Observations on the budget assessment

Municipality	2020/21 Tabled budget	2020/21 Adopted Budget	2020/21 Special adjustment budget
Thabazimbi	Inability to pay creditors within 30 days (Eskom & Magalies Waterboard)	Schedules for adopted budget, Adjustment budget and Monthly budget statement (A,B &C) are not generated directly from the system	
	High water losses which is at 27 percent and ageing infrastructure.		
	The debtor's book is increasing on monthly basis		
	The budget for Contracted services is too high and amounts to 12 percent against total expenditure		
	High salary bill		



Observations on the budget assessment

Municipality	2020/21 Tabled budget	2020/21 Adopted Budget	2020/21 Special adjustment budget
Mogalakwena	Unfunded	Unfunded	Unfunded
	The municipality did not fully comply with Municipal Budget Reporting Regulations (MBRR)	The municipality did not follow guidelines provided in the mSCOA Circular 9 on how municipalities should create projects relating to COVID 19	Non alignment of the A Schedule)(Original Budget schedules) and data strings ADJB in 2020/21 MTREF.
	Non alignment of the A Schedule (Original Budget) and data strings Tabled Budget (TABB) in 2020/21 MTREF.	The municipality did not create projects and sub projects for COVID 19 in the 2020/21 ORGB.	Rollover application on unspent conditional grants are not cash backed
	Tariffs on water were not inline with Lepelle Waterboard proposed tariffs	Non alignment of the A Schedule and data strings of Original Budget (ORGB) in 2020/21 MTREF.	Contracted services as a % of total operating expenditure is at 15 percent which is above the norm
	The tariff setting for the municipality are not cost reflective	Cash coverage ratio of 0.7 month at the end of the 2020/21 financial year (in 2020/21: 0.9 months and 2021/22: 1.1 months)	
	High salary wage bill due to bloated organisational structure	The municipality facing legal costs relating to absorption of temporary employees (Letsema employees) as per court award.	
	Huge amounts reported on the incurrence of unauthorised, fruitless and wasteful expenditure. (R2,2 billion) on Irregular expenditure and R2.8 billion on Unauthorised expenditure at 30 June 2020.	The particulars of the regional mall contract (Sec 33 MFMA) were not submitted to PT for inputs and the contract was awarded without following processes as required by Section 33 of the MFMA.	



Observations on the budget assessment

Municipality	2020/21 Tabled budget	2020/21 Adopted Budget	2020/21 Special adjustment budget
Mogalakwena	The municipality budgeted for a Deficit on Trading services - Energy sources, Waste water, Waste management.		
	Low collection rate due to some areas that are not billed and impact of COVID 19		
	Inadequate budgeting on Repairs and maintenance and represent 0.8 percent as a percentage of PPE		
	High debtors books which increases on a monthly basis		
	High levels of distribution losses on water and electricity		
	Aged infrastructure		
	The municipality did not make provisions for the commitments to be cash backed		
	Cash coverage ratio of the municipality is at 0.7 in 2020/21 FY		



Observations on the budget assessment

Municipality	Tabled budget	Adopted Budget	Special adjustment budget
	Unfunded	Unfunded	
Modimolle-Mookgophong	Other revenue amount was budgeted for R16.1 million which appears to be an overestimation if the audited outcomes of 18/19 which was R3 million and the budgeted amount of R5 million in th 21/20 FY budget are taken into account	Other revenue amount was budgeted for R16.1 million which appears to be an overestimation if the audited outcomes of 18/19 which was R3 million and the budgeted amount of R5 million in th 21/20 FY budget are taken into account	
	Table A10 which records the population with access to basic services was partially completed with the number of households receiving Free basic service (FBS) and the cost of FBS		
	The municipality increased salaries for other staff members with 10,9 percent which is in line with the salary and wage collective agreement	The municipality increased salaries for other staff members with 10,9 percent which is in line with the salary and wage collective agreement.	



Observations on the budget assessment

Municipality	Tabled budget	Adopted Budget	Special adjustment budget
Modimolle-Mookgophong	The debt impairment has increased by 12,7 percent against the 2019/2020 financial year. The debt impairment seems to be understated when compared to the 2018/2019 audited amount of R63 million	•	
	The Municipality budgeted to increase finance charges by 22,1 percent, 5.2 percent and 5.3 percent for the MTREF period. The 2020/2021 budget amount for finance charges amount budgeted seems unrealistic when compared to the 2018/2019 audited results.	• The Municipality budgeted to increase finance charges by 22,1 percent, 5.2 percent and 5.3 percent for the MTREF period. The 2020/2021 budget amount for finance charges amount budgeted seems unrealistic when compared to the 2018/2019 audited results.	
	• The budget book reflected 5 percent increase on remuneration of councillors, however; the accuracy of determination of total package for councillors could not be confirmed as a result of the absence of upper limit for remuneration of public office bearers for the 2020/21 financial year.	•	



Observations on the budget assessment

Municipality	Tabled budget	Adopted Budget	Special adjustment budget
Modimolle-Mookgophong	Bulk purchase has increased by 31,6 percent, 5,3 percent and 5,3 percent for the entire MTREF period. The budget document indicated that the increase relates to total spending measured against the expected volumes to be consumed.	<ul style="list-style-type: none"> Bulk purchase has increased by 31,6 percent, 5,3 percent and 5,3 percent for the entire MTREF period. The budget document indicated that the increase relates to total spending measured against the expected volumes to be consumed 	
	Renewal and upgrading of existing assets as a percentage of total capital budget and upgrading of existing assets are not budgeted for, and this is against MFMA circular No. 55;	<ul style="list-style-type: none"> Renewal and upgrading of existing assets as a percentage of total capital budget and upgrading of existing assets are not budgeted for, and this is against MFMA circular No. 55 	
	The municipality is required to budget 8% of the PPE, however the municipality budgeted for 4,8 percent in 2020/21 and 2,6 percent in 2021/22 and 2,6 percent for the 2022/23 financial years respectively.	<ul style="list-style-type: none"> LPT's inputs were considered. The municipality managed to budget for those items in the adopted budget. 	
	LPT could not provide value add inputs on the cash flow for the 2020/21 MTREF period due to The opening balances are distorted which will result in the entire MTREF period amounts being distorted		



Observations on the budget assessment

Municipality	Tabled budget	Adopted Budget	Special adjustment budget
Modimolle-Mookgophong	the municipality projected for a deficit in net cash from operating activities over the entire MTREF period		
	The municipality projected more cash outflow than cash inflow, resulting in net decrease in cash held. This is a concern, as this might be an indicative of imminent financial difficulties		
	<ul style="list-style-type: none">The municipality has overstated current investment less than 90 days which was supposed to be R900 thousand.	<ul style="list-style-type: none">The Budget Schedule (A1 schedule) did not include unspent conditional grants and provisions, though the Municipality has a history of unspent conditional grants and statutory requirements as VAT for provisions.	
	LPT could not perform verification of data strings and Original A schedule (A1 Schedule) figures due to non-submission of the data strings by the municipality. This confirms that A schedule was not generated from the core system		



Game Changer	Activities performed
Budget and Reporting	Assessed funding of the budget and alignment to the IDP and SDBIP.
	Held engagement sessions in June 2020 on the 2020/21 tabled budget.
	Formal feedback reports have been provided on the 2020/21 tabled budget engagement, 2020/21 adopted budget, 2020/21 Special Adjustment budget and sec 71 reports.
	Assessed the municipality's rollover application and held an engagement session for each municipality to discuss processes and provided a preliminary feedback on the application.
Supply Chain Managment	Performed SCM baseline assessments.
	LPT designed a UIF&W reduction plan to monitor the municipality's progress in reducing UIF&W on a monthly basis.
	LPT also designed a UIF&W monitoring template for the municipality to use in monitor the occurrence of UIF&W on a quarterly basis.
	Reviewed the SCM policy.
Revenue Management	Performed Revenue Management baseline assessments.
	Reviewed the tariff, property rates, credit control and debt collection policy.



Support Provided as at 1 April 2020

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Game Changer	Activities performed
Audit Support	Performed Revenue Management baseline assessments
	An AG Action plan was submitted to LPT, reviewed and inputs were provided to the municipality.
	In-year reports were review and followups were made on the outstanding information.
	A high level review was conducted on the submitted Draft AFS and fixed asset register with supporting documents. Inputs were provided to the municipality.
	Held virtual meetings on the 7 th July CFO and MMs. 13 th August (Municipal Managers forum) and 18 th September (Mayors forum) to monitor progress on the implementation of the Action Plan and AFS.
mSCOA Support	mSCOA data strings verification (sec 71 monthly strings, PAUD, ADJB and PRAD)
	assist with correction of identified errors
	monitor mSCOA implementationa and fuctionality if the financial systems
	Conducted mSCOA Baseline Assessment
Assets Support	Performed Revenue Management baseline assessments



Support provided - Mogalakwena s139

- ▶ Given the current state of affairs LPT facilitated the process of preparing the Financial Recovery Plan
- ▶ LPT provided hands on support on the preparation of the UIFW reduction plan to address the huge amount of UIFW
- ▶ LPT provided hands on support on the preparation of the budget however their budget still remains unfunded due to high outstanding debt, hence the need for Funding plan.
- ▶ LPT workshopped the municipality on the preparation of the funding plan.
- ▶ The FRP has been approved by MEC COGHSTA. It is expected that the Council will approve and institutionalize for implementation



Revenue Collection

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MUNICIPALITY	REVENUE BY SOURCE	PRE COVID									
		Jan-20			Feb-20			Mar-20			AVERAGE COLLECTION %
		BILLED	COLLECTED	% COLLECTED	BILLED	COLLECTED	% COLLECTED	BILLED	COLLECTED	% COLLECTED	
Modimolle LM	Property rates	R 9 456 826.20	R 6 960 911.91	74%	R 9 579 439.50	R 4 805 685.93	50%	R 8 670 126.94	R 4 178 656.33	48%	57%
	Service charges - electricity revenue	R 4 148 374.88	R 9 740 642.32	235%	R 8 803 044.49	R 20 958 205.32	238%	R 17 036 460.93	R 9 126 288.56	54%	175%
	Service charges - water revenue	R 5 702 794.30	R 3 717 369.60	65%	R 5 749 198.63	R 2 318 414.93	40%	R 5 689 402.40	R 1 627 830.99	29%	45%
	Service charges - sanitation revenue	R 2 340 759.82	R 1 490 947.55	64%	R 2 337 368.90	R 779 888.06	33%	R 2 309 938.46	R 780 646.73	34%	44%
	Service charges - refuse revenue	R 1 644 509.12	R 1 173 961.62	71%	R 1 667 273.17	R 608 492.11	36%	R 1 678 385.85	R 634 339.03	38%	49%
	TOTAL	23 293 264.32	23 083 833.00	99%	28 136 324.69	29 470 686.35	105%	35 384 314.58	16 347 761.64	46%	83%
Mogolakwena LM	Property rates	6 207 680.00	4 354 654.00	70%	6 613 555.00	2 771 775.00	42%	6 592 280.00	5 884 858.00	89%	67%
	Service charges - electricity revenue	15 993 688.00	17 925 238.00	112%	50 192 494.00	7 231 896.00	14%	17 477 542.00	17 572 561.00	101%	76%
	Service charges - water revenue	11 546 174.00	4 024 144.00	35%	9 599 137.00	1 724 909.00	18%	11 757 798.00	4 185 933.00	36%	29%
	Service charges - sanitation revenue	1 488 106.00	823 036.00	55%	1 484 729.00	538 790.00	36%	1 484 850.00	1 204 800.00	81%	58%
	Service charges - refuse revenue	1 508 112.00	649 920.00	43%	1 480 792.00	429 604.00	29%	1 480 631.00	797 099.00	54%	42%
	TOTAL	36 743 760.00	27 776 992.00	76%	69 370 707.00	12 696 974.00	18%	38 793 101.00	29 645 251.00	76%	57%
Thabazimbi LM	Property rates	6 122 852.37	5 617 919.20	92%	6 177 680.48	4 469 194.05	72%	6 201 219.47	2 508 219.43	40%	68%
	Service charges - electricity revenue	3 595 229.40	3 567 800.50	99%	4 001 112.66	2 794 242.34	70%	3 611 523.30	2 122 466.98	59%	76%
	Service charges - water revenue	5 066 207.87	399 467.41	8%	2 945 289.08	3 414 293.16	116%	5 212 526.21	1 428 665.45	27%	50%
	Service charges - sanitation revenue	1 874 129.30	1 570 527.15	84%	1 588 149.75	1 085 346.52	68%	478 067.30	2 056 336.60	430%	194%
	Service charges - refuse revenue	1 051 625.39	843 490.83	80%	1 045 465.38	665 130.87	64%	1 097 820.47	299 484.97	27%	57%
	TOTAL	17 710 044.33	11 999 205.09	68%	15 757 697.35	12 428 206.94	79%	16 601 156.75	8 415 173.43	51%	66%

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Revenue Collection

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MUNICIPALITY	REVENUE BY SOURCE	DURING COVID									
		Apr-20			May-20			Jun-20			AVERAGE
		BILLED	COLLECTED	% COLLECTED	BILLED	COLLECTED	% COLLECTED	BILLED	COLLECTED	% COLLECTED	COLLECTION %
Modimolle LM	Property rates	R 9 401 089.45	R 2 364 571.50	25%	R 9 391 349.63	R 2 154 756.07	23%	R 9 124 152.97	R 7 300 247.25	80%	43%
	Service charges - electricity revenue	R 16 693 086.71	R 27 689 505.72	166%	R 9 219 430.38	R 8 625 826.09	94%	R 9 466 539.14	R 12 088 688.70	128%	129%
	Service charges - water revenue	R 6 082 889.53	R 1 059 635.51	17%	R 5 764 534.58	R 1 067 319.12	19%	R 6 363 034.03	R 3 465 012.39	54%	30%
	Service charges - sanitation revenue	R 2 339 022.37	R 576 611.78	25%	R 2 337 406.66	R 413 759.55	18%	R 2 325 799.84	R 1 430 877.72	62%	35%
	Service charges - refuse revenue	R 1 681 118.73	R 494 988.13	29%	R 1 681 118.12	R 343 007.69	20%	R 1 670 702.91	R 1 053 639.42	63%	38%
	TOTAL	36 197 206.79	32 185 312.64	89%	28 393 839.37	12 604 668.52	44%	28 950 228.89	25 338 465.48	88%	74%
Mogolakwena LM	Property rates	6 591 380.00	2 265 785.00	34%	6 589 392.00	2 986 233.00	45%	6 609 953.00	4 403 618.00	67%	49%
	Service charges - electricity revenue	25 032 292.00	8 150 052.00	33%	16 078 954.00	7 742 257.00	48%	16 560 108.00	13 245 256.00	80%	54%
	Service charges - water revenue	15 886 054.00	1 528 309.00	10%	13 321 836.00	3 135 767.00	24%	8 193 293.00	3 442 407.00	42%	25%
	Service charges - sanitation revenue	1 484 850.00	346 032.00	23%	1 484 820.00	503 475.00	34%	1 484 826.00	836 538.00	56%	38%
	Service charges - refuse revenue	1 480 712.00	261 908.00	18%	1 480 657.00	400 086.00	27%	1 481 101.00	624 648.00	42%	29%
	TOTAL	50 475 288.00	12 552 086.00	25%	38 955 659.00	14 767 818.00	38%	34 329 281.00	22 552 467.00	66%	43%
Thabazimbi LM	Property rates	6 201 219.47	5 257 648.27	85%	6 201 219.47	4 639 269.70	75%	6 202 004.67	4 980 322.82	80%	80%
	Service charges - electricity revenue	2 917 590.75	1 950 824.12	67%	2 447 517.00	1 860 441.63	76%	3 148 216.05	3 235 168.49	103%	82%
	Service charges - water revenue	5 054 512.29	2 939 376.81	58%	4 030 569.18	1 693 223.11	42%	2 999 357.95	14 489 811.53	483%	194%
	Service charges - sanitation revenue	1 980 449.63	1 063 478.53	54%	1 808 505.10	692 185.05	38%	2 968 039.40	1 245 571.01	42%	45%
	Service charges - refuse revenue	1 095 430.72	515 426.76	47%	1 095 430.72	360 614.18	33%	1 095 391.15	804 933.69	73%	51%
	TOTAL	17 249 202.86	11 726 754.49	68%	15 583 241.47	9 245 733.67	59%	16 413 009.22	24 755 807.54	151%	93%

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Revenue Collection

The major causes of revenue collections are multi-pronged, and include the following:

- ▶ Dysfunctional infrastructure or infrastructure that is operating far less than optimal which results in both:
 - ▶ Poor service delivery, and
 - ▶ Absence of critical information required for both billing and planning purposes
- ▶ Poor or non-existent land use management which result in poor or non-existence of critical land information for billing purposes.
- ▶ Poor or non-existent customer management.
- ▶ Inadequate investment in the internal business processes' capability that carry and process revenue management activity which include:
 - ▶ People.
 - ▶ Working tools.
 - ▶ Technology etc.

These deficiencies translate to the following revenue management issues

- ▶ Poor billing and collection resulting in excessive revenue losses which keep on growing. This is due to poor or sometimes non-existent customer, land and consumption information.
- ▶ Excessive water and electricity losses which keep on growing.
- ▶ Poor or non-existent demand and consumption data which render revenue planning nearly impossible.
- ▶ Poor bulk buying practices that not driven by the demand side but by supply side.
- ▶ Poor or non-existent customer education, customer communication and customer interaction practices.
- ▶ Poor or non-existent services' cost information which render revenue planning nearly impossible.



Revenue Collection: Support

Both the Provincial Treasury and COGHSTA have been assisting municipalities to turnaround the challenging situation by:

- ▶ Guiding municipalities to reflect an appetite to investment in infrastructure, land management, end-to-end internal business process, customer management etc to turn around the situation at this stage.
- ▶ Most of our municipalities are in financial distress, and do not have the financial muscle to make the necessary investment. However, LPT has been supporting municipalities to implement cost containment measures and enforce stringent financial management especially on expenditure.
- ▶ Municipalities do not have internal capability to address these complex and expensive challenges. LPT and COGHSTA is insisting on municipalities appointing competent and ethical candidates. The two departments including SALGA are insisting on being invited to be part of appointment processes
- ▶ We further want to highlight that our municipalities are working with the Revenue Advisor to turnaround the situation, but inability to make the necessary investment in their capability may lead to bearing the fruits planned.



Municipal Debt: Support

- ▶ Participate and monitor progress in the provincial and technical debt forums;
- ▶ Senior officials/decision makers attend debt form meetings from both departments and municipalities;
- ▶ Analyse monthly /quarterly reports for payments made by departments to municipalities;
- ▶ Debt verifications processes take place on quarterly basis.
- ▶ Advised that smart meters be installed in Sec 21 schools and health centres OR managed/monitored properly;
- ▶ Advised municipalities to record accurately, bill correctly, submit claims appropriately, allocate properly and report validly;
- ▶ Continuous update of the Asset Registers.



Municipal Debt: Support

- ▶ Advised municipalities to implement the Credit Control and Debtors collection policy on the Quantile 5 School's debts;
- ▶ All departments and municipalities be notified to attend the verification processes;
- ▶ Surveying, Valuation, Vesting or registration (ownership) of immovable assets needs to be fast-tracked;
- ▶ Fast-tracking of the alignment of registers (Deeds, MVR etc.).



Debt Owed to Waterboard as end of September 2020

Name of Municipality	Current	30 days	60 days	90 days	120 days+	Total
Thabazimbi Local Municipality	3 630 305,34	2 074 698,95	2 296 574,68	5 440 038,06	61 822 786,83	75 264 403,86
Modimolle Local Municipality	1 895 825,63	2 248 839,43	1 242 494,15	2 530 196,19	19 421 764,95	27 339 120,35
TOTAL	44 662 919,26	23 443 868,86	7 142 262,35	11 540 329,51	91 119 214,49	177 908 594,47

- ▶ As at September the above mentioned municipalities had more than R91 million which is older that 120 days owed to Magalies Waterboard
- ▶ Both municipalities entered into agreements with the board
 - Thabazimbi municipality is adhering to the agreements for the repayment of the debt
 - Non adherence to the agreement by Modimolle Mookgophong LM has been observed.

June 2020

Name of Municipality	Current	30 days	60 days	90 days	120 days+	Total
Mogalakwena Local Municipality	2 840 757.82	1 925 200.25	1 939 242.13		722 493.56	7 427 694



Debt Owed to Eskom as at end of July 2020

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Name of Municipality	Current	16 - 30 days	31 - 60 days	61 - 90 days	90 days+	Total
MODIMOLLE-MOOKGOPHONG LOCAL MUNICIPALITY	24 901 644	0	19 975 470	12 956 758	541 353 824	599 187 696
MOGALAKWENA LOCAL MUNICIPALITY	28 617 694	68 719	21 335	0	0	28 707 749
THABAZIMBI LOCAL MUNICIPALITY	9 035 505	0	0	0	194 660 974	203 696 479

- ▶ As at end of July Mogalakwena's main account is up to date and the outstanding amount over 30 days is insignificant.
- ▶ Modimolle Mookgophong LM continues to pay on a weekly basis towards the current account. The municipality submitted a draft payment arrangement proposal on 28 July 2020 and Eskom responded to it with terms and conditions to be met by the municipality. Non adherence to the agreement by Modimolle Mookgophong LM has been observed. .
- ▶ Thabazimbi LM - Payment arrangement being partially honoured - municipality experiencing cash flow challenges. A breach letter was issued to the municipality on 19 August 2020 giving them until 21 August 2020 to settle the due amount. The PAJA process would start if payment was not received from the municipality. Subsequent to that the municipality is complying with the arrangement.
- ▶ LPT and CoGHSTA continues to facilitate engagement between the municipality and ESKOM in order to come up with a payment arrangement which will be implementable



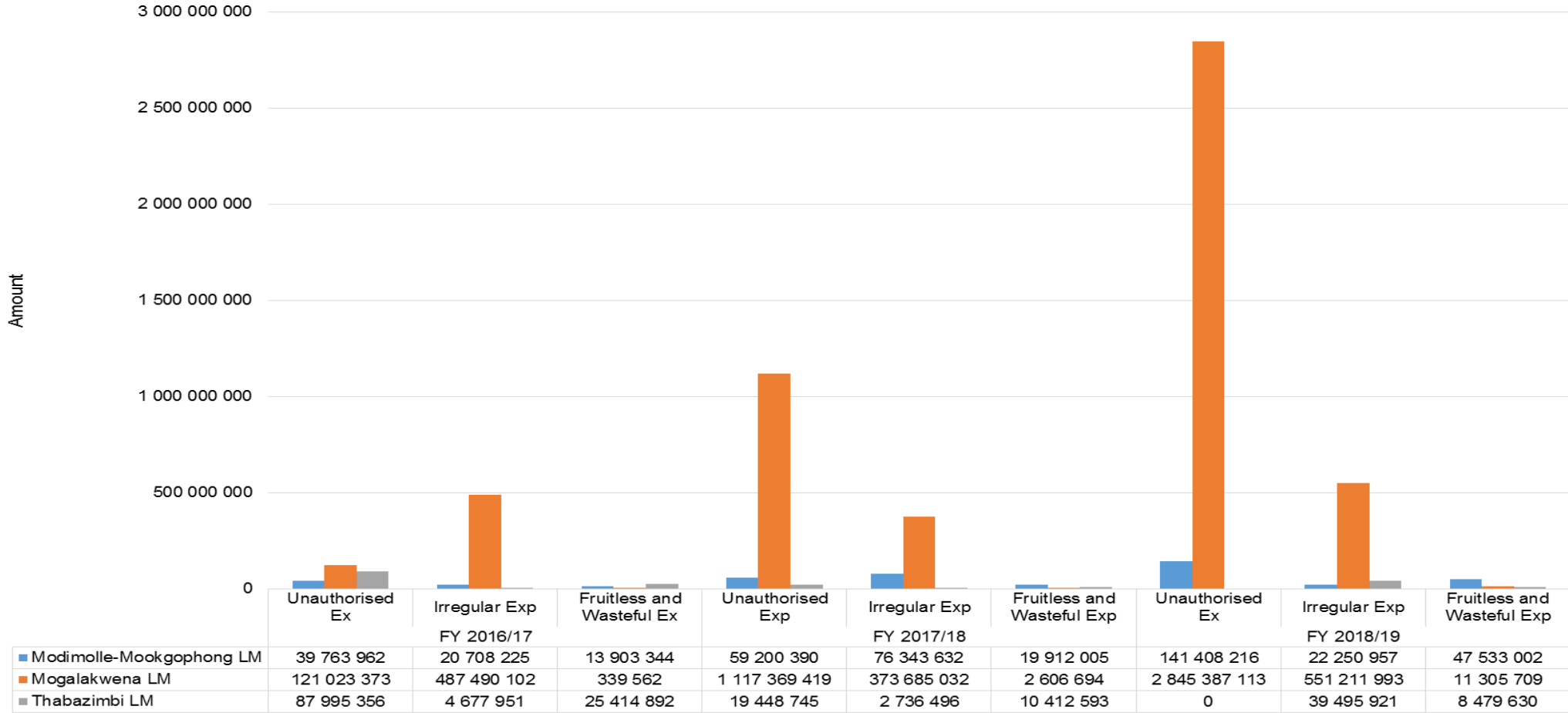
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Unauthorised, Irregular, Fruitless & wasteful Expenditure



UIF Expenditures

UIFW Expenditures





UIFW related matters

Causes are listed below:

- ▶ Weak consequence management resulting in similar (repeat) audit findings.
- ▶ MPAC not fully functional resulting in accumulation of UIF&W over the years (Inadequate investigations, write offs and recoveries and consequence management).
- ▶ Effectiveness of Financial Disciplinary boards.
- ▶ Non compliance with SCM regulations
- ▶ Incorrect application of SCM regulation 32
- ▶ Non availability of cash to pay creditors on time resulting in fruitless and wasteful expenditure



UIFW related matters

The approach of PT & CoGHSTA in supporting municipalities in dealing with Irregular Expenditure was dealt with at different levels namely:

- ▶ Forming a task team that will focus on dealing with Historic Unauthorised, Irregular Expenditure and Fruitless & Wasteful Expenditure with specific focus on the above top five municipalities by the PT.
- ▶ Supporting municipalities with methods to prevent UIF&W Expenditure
- ▶ Capacitation of MPAC Committee Members
- ▶ Conducting workshops on Revised Circular 68, Circular 96 and other SCM Matters.
- ▶ Working Sessions to assist municipalities to deal with UIF & W.
- ▶ Continuous update by AG on progress made to deal with Irregular by each municipality and
- ▶ Bi-annual SCM Workshops
- ▶ Involvement of Internal Audit in the process of verifying the supporting documents prior submission for write off to council



UIFW related matters

It is the intention of Provincial Treasury to provide support to municipalities at both levels. To this end the following interventions have been identified:

- ▶ MPAC Members will be guided on the importance of dealing with the UIF&W prior the next audit process
- ▶ Conducting site visits to municipalities to identify the root causes of irregular expenditure.
- ▶ Request and Receive Irregular Expenditure Registers from the identified municipality.
- ▶ Developing and monitoring of a reporting framework for Supply Chain Management
- ▶ Assisting municipalities with policy development and review and conduct workshops/training on SCM policies and Procedures and consequential policies.
- ▶ Assisting municipalities in preparing and monitoring the implementation of audit action plans on a quarterly basis in relation to SCM related findings.



UIFW related matters

Provide support and monitor the implementation of the framework for dealing with irregular expenditure which has already been incurred as per the following:

- ▶ Establishment of Council Committee in terms of Section 32 of the MFMA
- ▶ Establishment of Disciplinary Boards in terms of Regulations on Financial Misconduct Procedures and Criminal Proceedings
- ▶ Maintenance of Register for Unauthorised, Irregular, Fruitless and Wasteful Expenditure
- ▶ Reporting of Irregular Expenditure to relevant bodies timeously.
- ▶ Accurate and Complete Disclosure of UIF&W in the Annual Financial Statements
- ▶ Review of control improvements on internal controls that seek to address or prevent recurrence of UIF&W.
- ▶ Provided a UIFW reduction plan to decrease UIFW with 75% by 2025.
- ▶ Engage municipalities monthly for UIFW management and quarterly for reporting to council.



Conditional Grant Spending

Mogalakwena municipality

GRANT	2018/19 Allocation/B udget ('000)	2018/19 Audited ('000)	% Spent	2019/20 Allocated/Bu dget ('R000)	Adjustment (rollover/reallo cation) ('000)	2019/20 Forecast Exp ('000)	19/20 % spent %	2020/21 Allocation/B udget ('000)
Water Services Infrastructure Grant (WSIG)	52 975	52 975	100%	60 000	10 000	58 079	83%	43 850
Municipal Infrastructure Grant (MIG)	132 858	132 858	100%	156 417	-	119 668	77%	155 326
Financial Management Grant (FMG)	1 770	1 770	100%	1 770	-	1 100	62%	1 700
Expanded Public Works Programme (EPWP)	1 537	1 537	100%	1 294	-	-	-	1 259
Integrated National Electrification Programme Grant (INEP)	12 302	12 302	100%	14 000	-	9 138	65%	18 000
Mining Twon Grant - HAD	17 000	12 165	72%	-	-	-	-	-
Regional Bulk Infrastructure Grant	130 000	130 000	100%	183 558	-	55 666	30%	74 434
Total	348 442	343 607	99%	417 039	10 000	243 651	58%	294 569



Conditional Grant Spending

Thabazimbi municipality

GRANT	2018/19 Allocation/ Budget ('000)	2018/19 Audited ('000))	% Spent	2019/20 Allocated/ Budget ('000)	Adjustment (rollover/rea llocation) ('000)	2019/20 Forecast Exp ('000)	% Spent	2020/21 Allocation /Budget ('000)
Finance Management	2 215	2 215	100%	2 680	-	2 680	100%	3 000
EPWP Incentive	1 343	1 343	100%	1 105	-	1 105	100%	1 000
Municipal Systems Improvement	-	-		-	-	-	-	100
Municipal Disaster Relief Grant	-	-		-	-	-	-	298
Municipal Infrastructure Grant (MIG)	9 784	9 784	100%	33 228	-	-	-	44 024
Water Services Infrastructure Grant	13 000	13 000	100%	30 000	-	-	-	45 000
Integrated National Electrification Grant	10 000	10 000	100%	9 000	3 000	6 000	50%	6 000
Total	36 342	36 342	100%	76 013	3 000	9 785	13%	99 422



Conditional Grant Spending

Mogalakwena municipality

GRANT	2018/19 Allocation/Budget ('000)	2018/19 Audited ('000))	% Spent	2019/20 Allocated/Budget ('000)	Adjustment (rollover/reallocation) ('000)	2019/20 Forecast Exp	% Spent	2020/21 Allocation/Budget ('000)
						('000)		
Municipal Infrastructure Grant (MIG)	37 800	28 900	76%	38 500	1 782	38 500	96%	38 300
Integrated National Electrification Grant (INEP)	10 000	10 000	100%	23 000	-	23 000	100%	34 000
Financial Management Grant (FMG)	4 100	4 100	100%	3 000	-	3 000	100%	2 500
Expanded Public Works Programme (EPWP)	1 000	1 000	100%	1 000	-	1 000	100%	1 200
Water Services Infrastructure Grant (WSIG)	50 000	23 700	47%	-	1 221	-	0%	-
Total	102 900	67 700	66%	65 500	3 003	65 500	96%	76 000



Financial Recovery Plan

- ▶ The objective of the financial recovery plans for the three municipalities was to layout the implementation process for them to become financially sustainable.
- ▶ The Plans were designed to address the financial and institutional issues relating to the municipalities which will contribute to improved service delivery
- ▶ The ability of the municipalities to fulfil their obligations in this regard is limited and must be taken care of during the implementation process
- ▶ The Section 139 intervention for the three municipalities underlined the urgency of developing a realistic and credible strategic approach to manage the municipal affairs
- ▶ The Plans were prepared and revised in consultation with various stakeholders including National Treasury (NT), Provincial Treasury (PT), Co-operative Governance Human Settlements and Traditional Affairs (CoGHSTA) and Organised Local Government in the Province.



Financial Recovery Plan

- ▶ Following the status quo assessment and findings, a Financial Recovery Plan has been prepared for Mogalakwena and for Modimolle and Thabazimbi they have been revised to align with the new NT FRP guidelines
- ▶ The FRP is crafted aimed at securing the municipality's ability to meet its obligations to provide basic services in a sustainable, democratic and accountable manner or to meet its financial commitments
- ▶ A holistic financial recovery plan was needed that will address all challenges that have been identified.
- ▶ Given the situation at the Municipalities, Institutional/ Governance, Financial and Service Delivery Strategies have been developed for implementation in three (3) phases:
 - ▶ **Phase I: Financial Rescue**
 - ▶ **Phase II: Stabilisation**
 - ▶ **Phase III: Sustainability**



Status of the Financial Recovery Plan

Municipalities implementing FRPs	Municipalities implementing FRPs	Status of the Financial Recovery plan
Mogalakwena	Mogalakwena	Mogalakwena's FRP has been finalised and it is going to be implemented with effect from 1 November 2020
Modimolle-Mookghopong	Modimolle-Mookghopong	The municipality has been implementing the FRP since 2016 and it is being revised since it is outdated.
Thabazimbi	Thabazimbi	The municipality has been implementing the FRP since 2016 and it is being revised since it is outdated.



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Conclusion

- ▶ NCOP to note the presentation

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Ndo livhuwa

Ha khensa
Baie dankie

Ke a leboga

Thank you!!



The heartland of southern Africa - development is about people