



provincial treasury

Department:
Provincial Treasury
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

North West Provincial Treasury



WE BELONG



WE CARE



WE SERVE

*Let's grow
North West Together.*



***PRESENTATION TO THE NCOP ON MUNICIPAL
FINANCIAL CHALLENGES AND THE KEY
INTERVENTIONS TO IMPROVE THE FINACIAL STATE OF
THE MUNICIPALITIES***

***Date – Tuesday, 27 October 2020
Venue – Madibeng Local Municipality***

***Presentation by Ms M Rosho
MEC for Finance***



- Municipal Audit Outcomes
- Financial Management and Control
- Support to Municipalities (Section 154 of the Constitution)
- Revenue Collection and Municipal Debt
- Implementation of Financial Recovery Plan
- Conclusions and Recommendations



IMPROVED AUDIT OUTCOMES



AUDIT OUTCOMES

| No | Municipality | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Progress |
|----|----------------------------|-------------|-------------|-------------|-------------|-------------|-----------|
| 1 | Bojanala | Disclaimer | Disclaimer | Disclaimer | Disclaimer | Disclaimer | Stagnant |
| 2 | Kgetlengrivier | Qualified | Unqualified | Unqualified | Disclaimer | Disclaimer | Stagnant |
| 3 | Madibeng | Qualified | Disclaimer | Disclaimer | Disclaimer | Disclaimer | Stagnant |
| 4 | Moretele | Qualified | Qualified | Qualified | Qualified | Qualified | Stagnant |
| 5 | Moses Kotane | Qualified | Qualified | Disclaimer | Disclaimer | Qualified | Improve |
| 6 | Rustenburg | Unqualified | Qualified | Qualified | Qualified | Qualified | Stagnant |
| 7 | Dr Kenneth Kaunda | Unqualified | Qualified | Qualified | Qualified | Qualified | Stagnant |
| 8 | Matlosana | Qualified | Qualified | Qualified | Unqualified | Qualified | Regressed |
| 9 | Maquassi Hills | Qualified | Qualified | Qualified | Disclaimer | Disclaimer | Stagnant |
| 10 | JB Marks | Unqualified | Qualified | Disclaimer | Qualified | Qualified | Stagnant |
| 11 | Dr Ruth S Mompoti | Qualified | Unqualified | Unqualified | Qualified | Disclaimer | Regressed |
| 12 | Greater Taung | Qualified | Qualified | Qualified | Qualified | Outstanding | Stagnant |
| 13 | Kagisano-Molopo | Qualified | Unqualified | Qualified | Disclaimer | Qualified | Improve |
| 14 | Lekwa-Teemane | Qualified | Disclaimer | Disclaimer | Disclaimer | Disclaimer | Stagnant |
| 15 | Mamusa | Disclaimer | Disclaimer | Disclaimer | Disclaimer | Disclaimer | Stagnant |
| 16 | Naledi | Unqualified | Unqualified | Qualified | Disclaimer | Disclaimer | Stagnant |
| 17 | Ngaka Modiri Molema | Disclaimer | Disclaimer | Disclaimer | Disclaimer | Adverse | Regressed |
| 18 | Ditsobotla | Disclaimer | Qualified | Disclaimer | Disclaimer | Disclaimer | Stagnant |
| 19 | Mafikeng | Disclaimer | Disclaimer | Qualified | Disclaimer | Disclaimer | Stagnant |
| 20 | Ramotshere Moiloa | Unqualified | Qualified | Qualified | Disclaimer | Disclaimer | Stagnant |
| 21 | Ratlou | Unqualified | Qualified | Qualified | Qualified | Disclaimer | Regressed |
| 22 | Tswaing | Disclaimer | Qualified | Qualified | Qualified | Qualified | Stagnant |



Extract from AGSA General Report

- Lack of accountability for how public funds were spent
- Overreliance on consultants due to lack of skill
- Incapable and ineffective governance structures
- Ineffective provincial interventions
- Blatant disregard to Supply Chain Management laws and regulations
- District Municipalities not executing their roles and functions



- Municipalities have been receiving undesired poor audit outcomes from the AGSA
- The main root cause for these opinions can be attributed to non-implementation and enforcement of key internal controls,
- The general report of the Auditor General indicates there is a general collapse in the control environment of Municipalities.
- The North West Provincial Treasury has adopted the above financial management strategic “game changers”, as a result
- The Provincial Treasury will be enforcing implementation of these critical financial management “game changers” with intense focus and emphasis on implementation of standard operating procedures which will in turn result in improved internal controls and consequent improvement in the audit outcomes.
- Implementation of standard operating controls will be enforced and imposed in Municipalities through the financial recovery plans, as prescribed by Section 139(5) of the Constitution.
- Mandatory development and implementation of financial recovery plans will be imposed on Municipalities identified as having serious financial crisis.



IMPROVED AUDIT OUTCOMES

| Target – 5 Years | Province Specific Strategy | Focus | Output | Municipal Support Programmes |
|--|--|--|--|--|
| <p>16 x Unqualified Audit Opinions</p> <p>6 x Qualified Audit Opinions</p> | <p>Provide capacity building measures to the municipal budget and Treasury Officials towards improving their financial management and reporting capabilities during the Annual Financial Statement preparation process and Audit</p> <p>Strengthen Council Oversight Committees to provide oversight and assurance</p> | <p>Implement Standard Operating Procedures</p> <p>Development and implementation of Audit Action Plans</p> <p>Regular monitoring and review on Internal Control implementation</p> | <p>Capacitated Municipal officials to perform Financial Management and reporting functions</p> | <ul style="list-style-type: none"> • mSCOA – GRAP • Contract Management • MFIP IIIx |



FINANCIAL MANAGEMENT AND CONTROL

- Budgets are not credible not funded and unsustainable
- Low levels of revenue generation and collection
- Expenditure incurred on non-core and non-essential items
- Rising Unauthorised, Irregular, Fruitless and wasteful expenditure
- Non-payment of statutory requirements to SARS, pension funds, medical aid, etc
- Records and documents are not securely stored
- Creditors are not paid within 60 days
- Statutory compliance reports are not being prepared and tabled
- Non-implementation of Standard Operating Procedures (Internal Controls) by Management
- Non-implementation of mSCOA
- Ineffective Disciplinary Boards on Financial Misconduct are not
- Poor audit outcomes
- Lack of consequence management

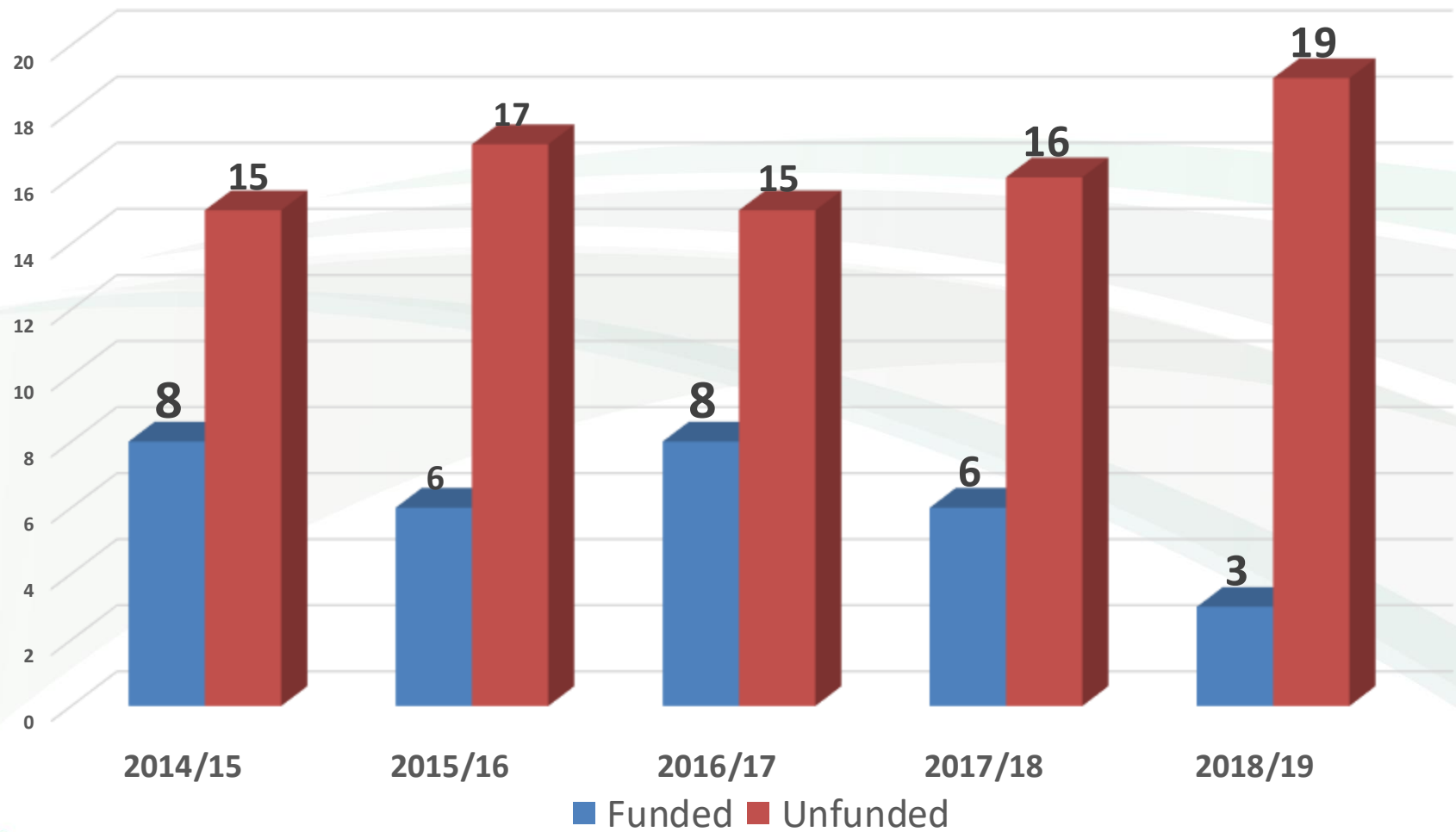


- Municipalities continue to experience poor audit outcomes despite the assistance, support and capacity building measures that the provincial treasury has been implementing in line with section 154 of the Constitution
- The provincial government is considering other mechanisms of enforcing Municipalities to absorb and internalize the support and capacity building measures that the Provincial Treasury is providing
- Municipalities will be enforced to implement the following strategic “game changers” of National Treasury’s Technical Committee on Finance (TCF) to ensure enhanced internal controls:
 - adopting credible, funded and sustainable budgets,
 - compliance to Supply Chain Management prescripts,
 - ensuring billing and collection of revenue as well as debtors management, adequate accounting for assets and liabilities
 - implementation of mSCOA; and
 - implementation of proper financial management, accounting and reporting.



STATUS OF MUNICIPAL FINANCE

Five Year Trend: Funded vs Unfunded Budgets



| No | Municipality | Outcome |
|----|---|----------|
| 1 | Moretele Local Municipality | Unfunded |
| 2 | Madibeng Local Municipality | Unfunded |
| 3 | Rustenburg Local Municipality | Unfunded |
| 4 | Kgetlengrivier Local Municipality | Unfunded |
| 5 | Moses Kotane Local Municipality | Unfunded |
| 6 | Bojanala Platinum District Municipality | Unfunded |
| 7 | Ratlou Local Municipality | Funded |
| 8 | Tswaing Local Municipality | Unfunded |
| 9 | Mafikeng Local Municipality | Unfunded |
| 10 | Ditsobotla Local Municipality | Unfunded |
| 11 | Ramotshere Moilwa Local Municipality | Unfunded |
| 12 | Ngaka Modiri Molema District Municipality | Unfunded |
| 13 | Naledi Local Municipality | Unfunded |
| 14 | Mamusa Local Municipality | Unfunded |
| 15 | Greater Taung Local Municipality | Funded |
| 16 | Lekwa Teemane Local Municipality | Unfunded |
| 17 | Kagisano-Molopo Local Municipality | Unfunded |
| 18 | Dr Ruth Segomotsi Mompati District Municipality | Unfunded |
| 19 | JB Marks Local Municipality | Funded |
| 20 | City of Matlosana Local Municipality | Unfunded |
| 21 | Maquassi Hills Local Municipality | Unfunded |
| 22 | Dr Kenneth Kaunda Local Municipality | Funded |

ADDRESSING UNFUNDED BUDGETS

| Target – 5 Years | Province Specific Strategy | Focus | Output | Municipal Support Programmes |
|---|---|---|---|--|
| 22 Municipalities adopting funded budgets | Support Municipalities during budget preparations with specific focus on; | <ul style="list-style-type: none"> ➤ Setting tariffs which are cost reflective ➤ Development and implementation of Revenue Value Chain ➤ Implementation of Cost Containment policy and measures ➤ Implementation of key budget assumptions in line with Medium Term Budget Policy Statement | Credible, Funded and Sustainable Budgets - prepared, transacting and reported in the mSCOA aligned financial system | <ul style="list-style-type: none"> • MFMA • MBRR • Regulations • Circulars • Section 216 of the Constitution • MFIP IIIx |

ADDRESSING SUPPLY CHAIN MANAGEMENT CHALLENGES

| Target – 5 Years | Province Specific Strategy | Focus | Output | Municipal Support Programmes |
|-------------------------------|--|--|--|--|
| Complete eradication of UIF&W | Support Municipalities on implementation of measures to address instances and occurrences of UIF & W | <ul style="list-style-type: none"> ➤ Implementation of Standard Operating Procedures (SOPs) ➤ Capacitation of Bid Committees on interpretation and implementation of SCM Laws and Regulations ➤ Capacitation of Committees of Council to enhance oversight on matters relating to UIF & W as well as Financial Misconduct | Improved operational procedures and processes, leading to elimination of UIF & W cases | <ul style="list-style-type: none"> • MFMA • MBRR • Regulations • Circulars • Section 216 of the Constitution • MFIP IIIx |

ADDRESSING mSCOA CHALLENGES

| Target – 5 Years | Province Specific Strategy | Focus | Output | Municipal Support Programmes |
|--|---|---|--|--|
| mSCOA fully operational in all 22 Municipalities | Support Municipalities on implementation of mSCOA with specific focus on the following mSCOA business and process components; | Supporting Municipalities in implementing the following mSCOA business and process components; <ol style="list-style-type: none"> 1. General Ledger 2. Billing 3. Supply Chain Management 4. Assets Management 5. Inventory and Stores 6. Budgeting and Planning; and 7. Human Resources and Payroll | Improved budget planning and financial management through mSCOA aligned financial system | <ul style="list-style-type: none"> • MFMA • MBRR • Regulations • Circulars • Section 216 of the Constitution • MFIP IIIx |



REVENUE COLLECTION AND MUNICIPAL DEBT



- No tariff setting methodology
- Tariffs are not cost reflective
- Inconsistent reading of meters
- Non-collection of billed revenue
- Illegal connections
- Non-implementation of Revenue Value Chain



- Incorrect invoices sent to organs of state
- Invoices are sent late to organs of state
- High and tariffs which were not gazette are charged to organs of state
- Invoices containing both property rates and services charges
- Payments made by organs of state are not allocated by Municipalities
- Organs of state are billed on land owned by Municipalities



| No | Municipality | P/A Signed | P/A Honoured | Arrear Debt | PAJA Process/ coments |
|--------------------------|-------------------|------------|--------------|----------------------|---|
| 1 | CITY OF MATLOSANA | YES | YES | 476 899 431 | The municipality is compliant with the court ordered payment arrangement. |
| 2 | DITSBOTLA | NO | NO | 623 207 462 | Only 8 third party customers are paying towards the Eskom current account. There is no evidence that the municipality is making any contributions. A contempt of court application was filed for not paying the current account, as per the court order of February 2020. The municipality was instructed to pay the current bill.. |
| 3 | JB MARKS | N/A | N/A | 2 000 | The municipality's account payments are up to date. |
| 4 | KGETLENGRIVIER | NO | NO | 135 999 412 | Pending litigation. The overdue LPU accounts were disconnected. Judgement was reserved in April 2019 and Eskom is therefore unable to issue any letters of demand or implement supply interruptions. |
| 5 | LEKWA-TEEMANE | NO | NO | 35 256 603 | The municipality submitted a payment arrangement on 18 August 2020, but still maintain that it is not affordable. The municipality subsequently arranged with CoGTA and Provincial Treasury to negotiate on their behalf to revisit the submitted payment proposal. Eskom accepted and gave them an extension until 28 August 2020 to revise the submitted payment arrangement. The municipality paid 94% of the current account and was given seven days to pay the remaining amount. |
| 6 | MADIBENG | NO | NO | 177 730 084 | The municipality was placed under Administration due to their financial challenges. The total payment (all the accounts) received in August 2020 was R7 million (July 2020 total bill & interest was R62 million). Eskom tried many times to meet with the administrator without any success. Continuation of PAJA was halted as the council wanted to get clarity on the matter that was taken to the SCA on 27 August 2020. Attorneys were appointed to pursue the arrears. An amount of R150 million of the debt will be made an order of the court, based on the "acknowledgement of debt" that was signed in 2019. A summons will be issued for the remainder of the overdue debt. |
| 7 | MAMUSA | NO | NO | 97 340 527 | Supply interruptions are being implemented. An amount of R4.95 million was paid towards the current account in September 2020. Supply will only be reinstated after the remaining R1 million is paid. The municipal customers have initiated legal action against Eskom, due to the supply interruptions. The documents were to be filed by 15 September 2020 and the case will be heard on 21 September 2020. |
| 8 | MAQUASSI HILLS | YES | YES | 31 451 913 | Payment of the current account of R9.39 million was received on 3 September 2020. The payment arrangement is being honoured. |
| 9 | NALEDI | NO | NO | 353 823 051 | The current account was not paid. Due to instabilities at the municipality, no payment proposal was submitted in June 2020, as committed. The pending court case has also denied Eskom an opportunity to reinstate the disconnections that were suspended in December 2019. |
| 10 | RAMOTSHERE MOILOA | NO | NO | 49 824 015 | The municipality was once again disconnected in early September 2020, when they failed to pay the current account. Disconnections were provisionally suspended after a payment was received. A payment proposal and council resolution had been received but not finalised, because the municipality immediately defaulted after they had submitted the proposal. The payment arrangement proposal is being reviewed. |
| 11 | RUSTENBURG | YES | YES | 151 671 943 | A payment agreement was accepted from the Rustenburg attorneys. The dispute that was lodged by the municipality is still unresolved. |
| 12 | TSWAING | YES | YES | 64 920 725 | Payment arrangement is being honoured. However, the municipality continues to pay the current account late. |
| TOTAL ARREAR DEBT | | | | 2 198 127 166 | |

- Provincial treasury has resolved to take the lead and ensure payment of debt owed by government departments to Municipalities,
- We have formulated a government debt forum wherein the provincial Department of Public Works and Municipalities participate to ensure resolution of disputes relating to debt owed by government departments to municipalities.
- We have to date, managed to resolve government debt disputes and ensured that payments amounting to over R300 million are made by provincial Department of Public Works to Municipalities in respect of property rates tax.
- Municipalities were encouraged to “ring fence” and redirect these proceeds towards payment of debt owed to other organs of state, with preference to payment of debt owed to Eskom, Water Boards as well as the Receiver of Revenue (SARS).
- Municipalities however, resorted to utilising the revenue collected from government debt, to pay salaries and other creditors instead of the prioritised organs of state.
- Provincial Treasury is currently supporting Municipalities in their engagements with organs of state with regards to negotiating comprehensive, viable and sustainable payment arrangements for debts owed to organs of state.

REVENUE & BUDGET MANAGEMENT

| Target – 5 Years | Province Specific Strategy | Focus | Output | Municipal Support Programmes |
|--|--|--|-------------------------------|--|
| Improved revenue and budget management | Support Municipalities on implementation of improved revenue and budget management with specific focus on the following; | <ul style="list-style-type: none"> ➤ Review and support on implementation of Revenue Management Value Chain ➤ Compliance with Municipal Budget and Reporting Regulations <ul style="list-style-type: none"> ✓ Monthly Section 71 reports ✓ Quarterly Section 52(d) reports ✓ Mid-Year Budget and Performance Assessments | Improved Financial Management | <ul style="list-style-type: none"> • MFMA • MBRR • Regulations • Circulars • Section 216 of the Constitution • MFIP IIIx |



CONDITIONAL GRANT SPENDING

MIG SPENDING AS AT 30 SEPTEMBER 2020

| MUNICIPALITY | ALLOCATION 2020/21 | TOTAL AMOUNT TRANSFERRED | 2020/2021 EXPENDITURE | % OF 20/21 TRANSFERS | 20/21 BALANCE |
|---|--------------------------|--------------------------------|--------------------------|-------------------------|--------------------------|
| Moretele LM | R113 988 000,00 | R7 402 000,00 | R7 402 000,00 | 100% | R106 586 000,00 |
| Madibeng LM | R279 801 000,00 | R27 619 000,00 | R10 312 050,53 | 37% | R269 488 949,47 |
| Rustenburg LM | R233 448 000,00 | R34 460 000,00 | R29 082 172,36 | 84% | R204 365 827,64 |
| Kgetleng River LM | R35 697 000,00 | R10 253 000,00 | R10 253 000,00 | 100% | R25 444 000,00 |
| Moses Kotane LM | R148 649 000,00 | R11 515 000,00 | R0,00 | 0% | R148 649 000,00 |
| TOTAL BOJANALA | R811 583 000,00 | R91 249 000,00 | R57 049 222,89 | 63% | R754 533 777,11 |
| Ratlou LM | R29 224 000,00 | R0,00 | R0,00 | 0% | R29 224 000,00 |
| Tswaing LM | R29 099 000,00 | R8 140 000,00 | R4 520 767,12 | 56% | R24 578 232,88 |
| Mahikeng LM | R80 825 000,00 | R35 087 000,00 | R29 126 077,66 | 83% | R51 698 922,34 |
| Ditsobotla LM | R46 612 000,00 | R13 509 000,00 | R9 218 761,03 | 68% | R37 393 238,97 |
| Ramotshere Moiloa LM | R36 923 000,00 | R3 045 000,00 | R0,00 | 0% | R36 923 000,00 |
| Ngaka Modiri Molema DM | R297 376 000,00 | R131 185 000,00 | R47 265 845,88 | 36% | R250 110 154,12 |
| TOTAL NMMDM | R520 059 000,00 | R190 966 000,00 | R90 131 451,69 | 47% | R429 927 548,31 |
| Naledi LM | R16 893 000,00 | R0,00 | R0,00 | 0% | R16 893 000,00 |
| Mamusa LM | R15 618 000,00 | R3 072 000,00 | R844 090,80 | 27% | R14 773 909,20 |
| Greater Taung LM | R47 297 000,00 | R18 158 000,00 | R9 855 369,20 | 54% | R37 441 630,80 |
| Lekwa Teemane LM | R14 722 000,00 | R1 987 000,00 | R215 914,02 | 11% | R14 506 085,98 |
| Kagisano/Molopo LM | R29 887 000,00 | R17 905 000,00 | R8 013 345,40 | 45% | R21 873 654,60 |
| Dr Segomotsi Ruth Mompoti DM | R137 431 000,00 | R33 830 000,00 | R13 449 467,08 | 40% | R123 981 532,92 |
| TOTAL DR SEGOMOTSI RUTH MOMPATI DM | R261 848 000,00 | R74 952 000,00 | R32 378 186,50 | 43% | R229 469 813,50 |
| City of Matlosana LM | R86 894 000,00 | R7 322 000,00 | R5 632 374,76 | 77% | R81 261 625,24 |
| Maquassi Hills LM | R28 042 000,00 | R2 066 000,00 | R2 066 000,00 | 100% | R25 976 000,00 |
| J B Marks LM | R66 245 000,00 | R19 650 000,00 | R19 650 000,00 | 100% | R46 595 000,00 |
| TOTAL DR KAUNDA DM | R181 181 000,00 | R29 038 000,00 | R27 348 374,76 | 94% | R153 832 625,24 |
| TOTAL NW PROVINCE | R1 774 671 000,00 | R386 205 000,00 | R206 907 235,84 | 54% | R1 567 763 764,16 |

MIG SPENDING AS AT 30 SEPTEMBER 2020

- A total of R7.8 billion has been allocated for Municipal Infrastructure Grant
- First tranche amounting to R386 million was transferred in July 2020
- A total of R207 million has been spent to date, which translates to 54% spending
- More spending was realized under Dr. Kenneth Kaunda District at 94%, followed by Bojanala District at 63% while Ngaka Modiri Molema and Dr. Ruth Mompati Districts recorded 47% and 43% respectively.
- Conditional grants spending by Municipalities will be monitored to ensure that Municipalities minimize the risk of forfeiting the allocation through the “Stopping and Reallocation model”



SUPPORT IN TERMS OF SECTION 154

1. Property, Plant and Equipment - GRAP 17

Supported Municipalities in preparing assets registers which are compliant with requirements of GRAP 17

2. Contract Management

Supported Municipalities with preparation of contract registers and implementation of Contract Management function

3. mSCOA & GRAP Compliant AFS

Provided capacity and handholding to Municipalities in preparing AFS that are compliant with mSCOA and GRAP

4. Preparation of Financial Recovery Plan for Bojanala

Currently supporting Bojanala District Municipality with preparation of a Financial Recovery Plan

SUPPORT PROVIDED TO MUNICIPALITIES

MFMA capacity building trainings and workshops

1. Budget preparation
2. Budget engagement sessions
3. CFO forums
4. MuniMEC Meetings
5. Assets Management trainings and workshops
6. Supply Chain Management trainings and workshops
7. Revenue Management trainings and workshops
8. Financial Accounting and Reporting trainings and workshops



IMPLEMENTATION OF FINANCIAL RECOVERY THROUGH SECTION *139 OF THE MFMA*



- Provincial Government has provided support to Municipalities
- The support has not yielded the required outcomes as no improvements were realized
- Main root cause is the dereliction of Municipalities when provide with support
- Provincial Treasury has conducted a financial health assessment in terms of Section 140 of the MFMA; and
- The assessment has confirmed that the following 13 Municipalities are in financial crisis
- Madibeng, Bojanala, Kgetlengrivier, Ramotshere Moiloa, Ditsobotla, Tswaing, Mahikeng, Dr. Ruth Mompati, Naledi, Mamusa, Lekwa-Teemane, Maquassi Hills, City of Matlosana



- Provincial Treasury has shared the outcomes of the assessments to the North West Provincial Executive
- The North West Provincial Executive had on 25 September 2019, agreed to place these Municipalities under Mandatory Intervention in terms of Section 139(5) of the Constitution
- Provincial Treasury conducted engagements with Mayors of the affected Municipalities to communicate and explain the assessment outcomes
- Further consultations were conducted with COGTA, SALGA and the National Treasury
- The National Council of Provinces will be engaged after the final intervention approval has been granted by the North West Provincial Executive



CONCLUSIONS AND RECOMMENDATIONS



- The state of Municipal performance failures is very critical
- The performance failures hinders Municipalities from executing their legislative and constitutional mandates and functions
- The above performance failures are an indication that Municipalities by themselves, have failed to execute their legislative and constitutional mandates and functions
- The above is despite the support that have been provided to Municipalities in terms of Section 154 of the Constitution
- As a consequence, the identified Municipalities will be placed under Mandatory Intervention as provided for under Section 139(5) of the Constitution, read together with Section 139 of the MFMA



It is recommended that the National Council of Provinces note the following;

- The state of municipal finances,
- The support provided by the Provincial Treasury to Municipalities
- The strategy presented by the Provincial Treasury with a quest of resolving the Municipal performance failures



THANK YOU

