



LIMPOPO
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF
**CO-OPERATIVE GOVERNANCE,
HUMAN SETTLEMENTS AND TRADITIONAL AFFAIRS**

NATIONAL COUNCIL OF PROVINCES

09 SEPTEMBER 2020

ENSURING CAPABLE AND FINANCIALLY SOUND MUNICIPALITIES

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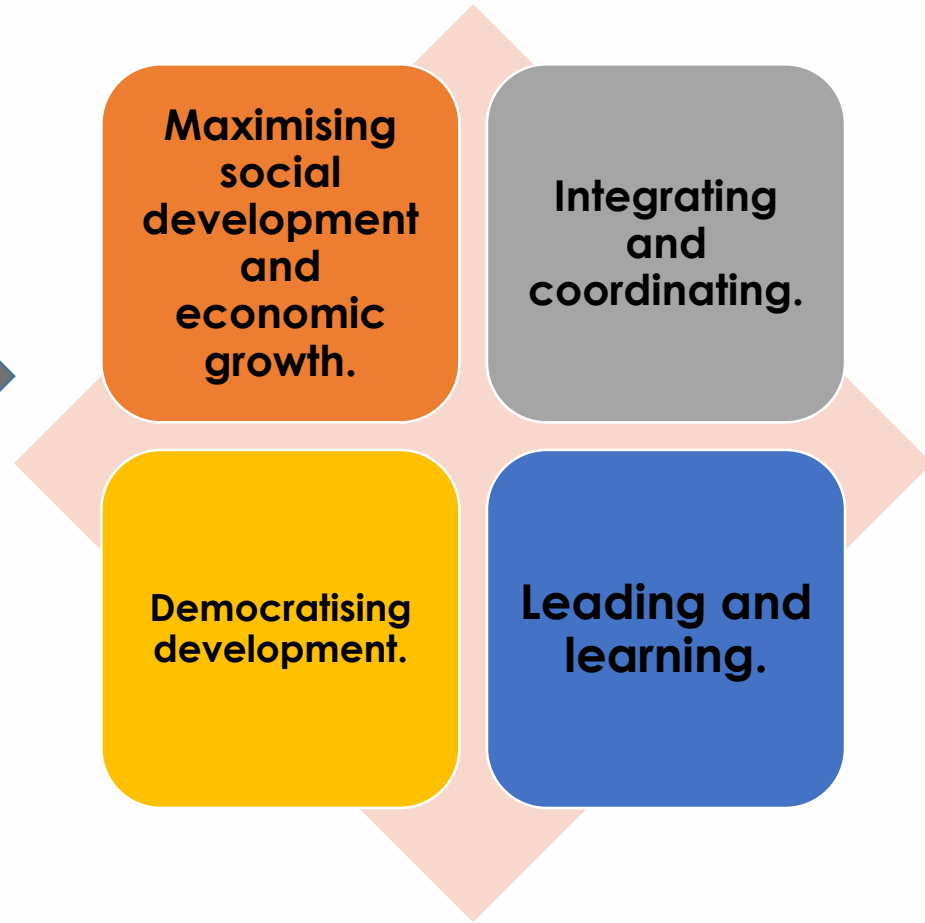
Integrated Sustainable Human Settlements

TABLE OF CONTENTS

1. Context
- 2. Challenges and Interventions**
 - 3.1. Service Delivery
 - 3.2. Financial Viability and Management
 - 3.3. Governance and Leadership
4. Recommendations

CONTEXT

- Local government is a key sphere to promote sustainable development and change the quality of life of the people.
- Section 152 of the Constitution mandates local government to structure and manage its **administration, budgeting** and **planning** processes to promote the social and economic development of the community.
- Fulfilling this task requires the sector to have the right “pillars and tools” to enable it not only to **initiate** activities, but to **maintain** those activities.



CONTEXT

- Since its establishment, the Limpopo Province Executive Council resolved to invoke Section 139 interventions in four municipalities.
- In all instances, the challenges identified in the municipalities were the same and in the main were:
 - ✓ High vacancy in senior management positions
 - ✓ Poor financial management and inability to honour financial obligations
 - ✓ Poor expenditure in Municipal Infrastructure Grant and other capital grants
 - ✓ Instability of Council and poor governance
 - ✓ Poor audit outcomes
 - ✓ Poor financial health emanating from low revenue base and poor collection rates
 - ✓ Leadership instability that badly affected the performance of the municipality
- Although the challenges were identified in Section 139 municipalities, these are challenges that affect the majority of the municipalities not only in Limpopo but nation wide.
- The challenges identified and plans are therefore relevant for the entire local government sphere.

DELIVERY OF BASIC SERVICES

ACCESS TO SERVICES

Service	LIMPOPO LDP 2020 targets	General Households Survey			CENSUS		
		2018	2016	2015	2011	2001	1996
Water	90%	74.1%	75.1%	78.8%	86%	78.1%	77.5%
Sanitation	50%	58.9%	57.1%	54%	38%	27%	-
Electricity	90%	92.7%	94.1%	92.9%	87.3%	62.9%	39.2%
Refuse removal	50%	22.9%	21.9%	21.4%	21.8%	15.6%	13.1%

Key observations:

- Overall unsatisfactory performance considering the 2016 and 2018 GHS results. There is a decline in water and electricity access with negligible increase in sanitation and refuse removal.
- Water provision remain a priority for the Province to ensure that the 90% access is attained.

SERVICE DELIVERY

Overall, there has been some improvement in access to basic services, but some challenges as outlined hereunder continue to persist:

(a) Inability to spend total allocation for infrastructure grants

- Few municipalities have consistently spent 100% of their allocation since 2016/17 administration. This results in loss of conditional grants and subsequently delay in implementing key infrastructure projects.
- In Limpopo, for the current term of local government, of the 26 municipalities receiving MIG and of late the IUDG, only 2 (**Capricorn and Thulamela**) have consistently spent 100% for 4 years in succession. Three municipalities (**Blouberg, Makhuduthamaga and Greater Letaba**) consistently spent 100% in the last 3 financial years.

Year	2016/17	2017/18	2018/19	2019/20
Allocation	2 954 778	3 352 516	3 218 586	2 944 637
Expenditure	90%	95%	93%	85%

2016/2017 – 2019/2020 Limpopo MIG implementation

Over the past 4 financial years Municipalities have in the main prioritized Water and Roads in their allocation of resources. The MIG guide is 54% for both water and sanitation and 17.25% for roads.

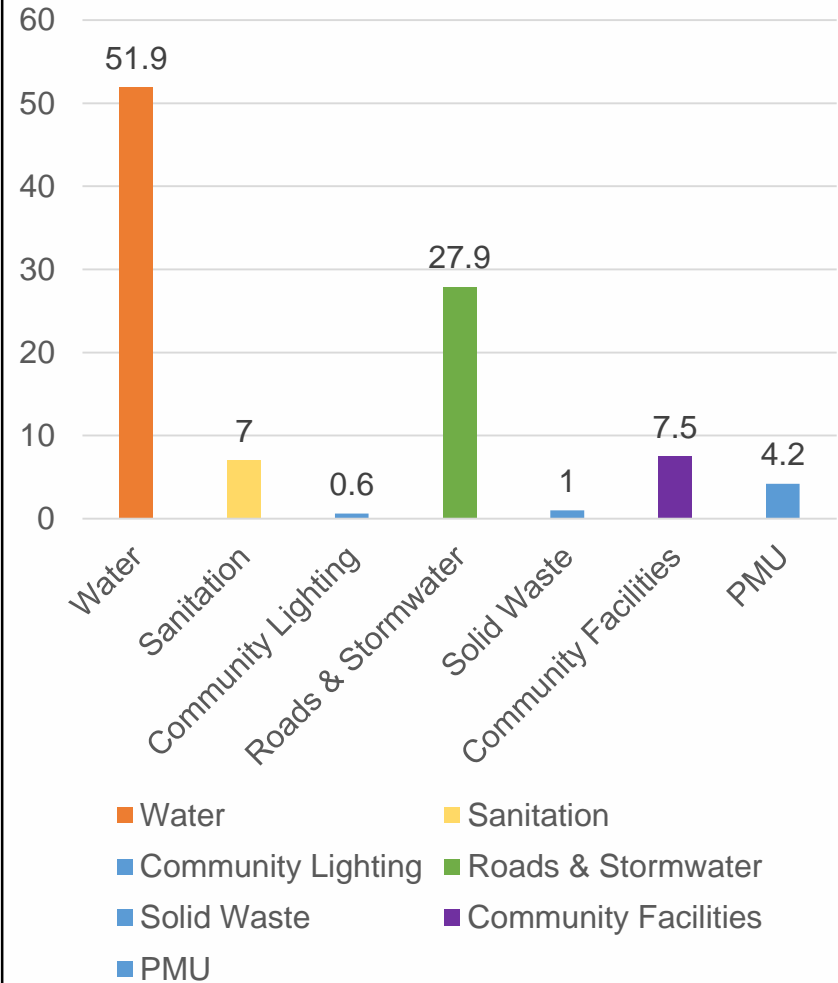
- 51.9% of the allocation (R 6.471 billion) has been spent on Water projects,
- 7% on Sanitation,
- 27.9% on Roads.

A critical sector such as Solid Waste (refuse removal) has received very minimal allocation.

Although a sizeable investment is in water and roads projects, the province continues to be plagued with community protests for water and roads.

Furthermore, there is a decline in water accessibility (from 86% in 2011 to 74,1% in 2018) indicating challenges in the value chain

Allocation per sector 2016/2017 - 2019/2020



SERVICE DELIVERY

- Of concern is the performance of four municipalities namely Mopani, Vhembe,, Mogalakwena and Sekhukhune whose allocation is above R100 million and have not been able to spend 100% of the allocations. Only Capricorn has been able to spend 100%
- These municipalities are being supported through various programmes as follows:
 - ✓ Mopani – Government Technical Advisory Centre(GTAC) & MISA.
 - ✓ Vhembe – GTAC
 - ✓ Mogalakwena - Under Section 139(1)(b) intervention. MISA has also deployed an engineer.
 - ✓ Sekhukhune – MISA

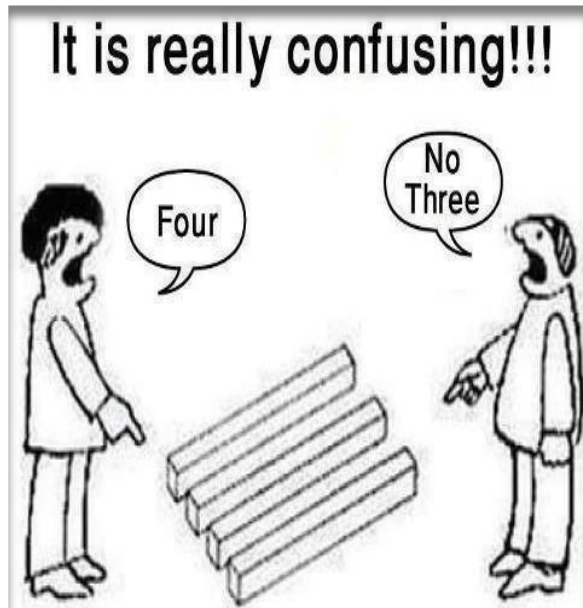
Challenges to overcome

(b) Insufficient budget for repairs and maintenance

- Municipalities struggle with insufficient budget for repairs and maintenance, leading to poor and unreliable service provision, and subsequently community protests and loss of investments.
- One contributing factor is that the current funding regime provides allocations for **new infrastructure** and no provision for repairs and maintenance.
- Faced with low revenue base plus poor collection, most municipalities do not have sufficient resources for repairs and maintenance.
- As a result, while there is significant investment in new infrastructure, the lifespan of the infrastructure is shortened due to lack of maintenance, requiring replacements sooner and thereby leading to stagnant/increasing backlogs as well as unreliable services.

Challenges to overcome..cont'd

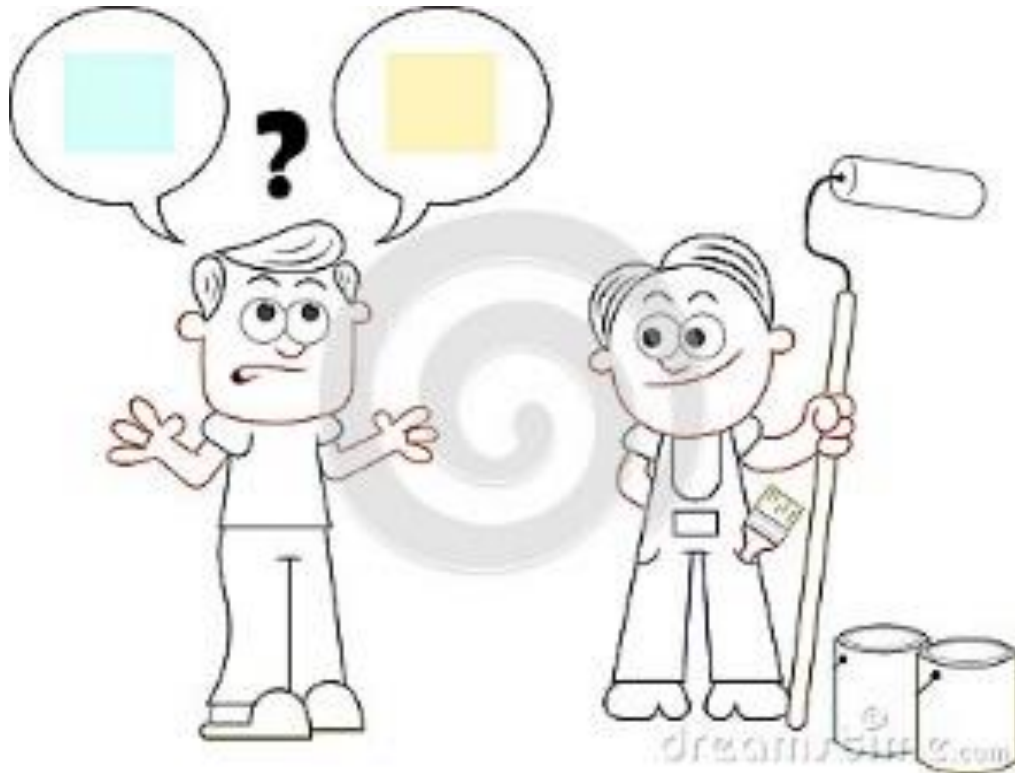
(c) Capacity constraints in capital investments



Poor capital expenditure due to lack/shortages of critical technical skills, project management skills, contract management skills or poor recruitment processes in most municipalities.

(d) Insufficient funding for capital investment and infrastructure maintenance

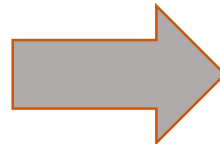
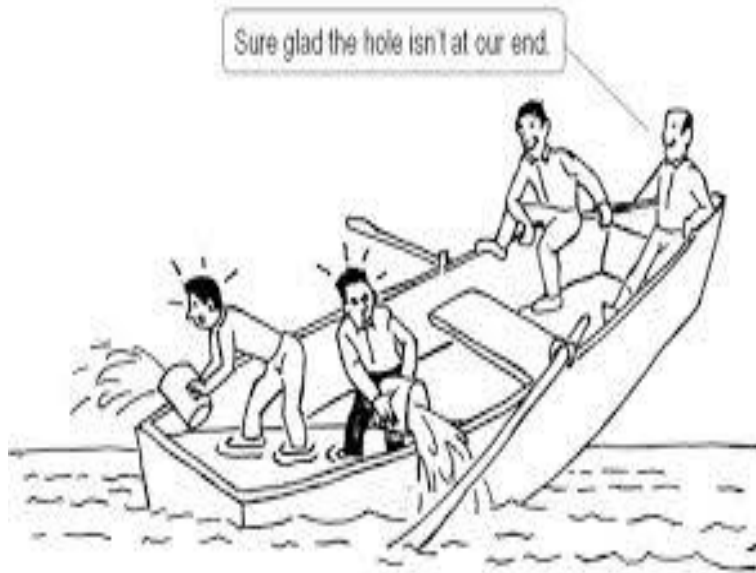
- **Competing needs and scarce resources: Balancing between social or economic infrastructure and community expectations**



Despite increased resources to address infrastructure challenges, municipalities are under pressure to address backlogs, provide for growth and maintenance/renewal).

(e) Misaligned Infrastructure

- Insufficient intergovernmental collaboration especially in the water value chain has resulted in investments in reticulation without the necessary bulk, or provision of water sources(dams) and no resources for bulk reticulation.
- This results in community frustrations and protest when there are dams or water pipes but communities do not have water.
- Poor/unstructured planning and delivery value chains between the DWS and Water Service Authorities require immediate attention.



CURRENT INTERVENTIONS

- CoGHSTA and the Development of Bank of Southern Africa (DBSA) signed a five (5) year Memorandum of Agreement to partner and collaborate to accelerate the development of substance infrastructure in municipalities.
- The support is through non-lending and lending support assistance on various areas.
- Various municipalities will benefit during 2020/21 financial year as follows:
Township establishment (Modimolle-Mookgophong, Musina, Maruleng and Greater Letaba), **assets care** (Maruleng, Lephalale, Fetakgomo-Tubatse, Blouberg and Thulamela), **master planning** (Mopani, Musina, Fetakgomo-Tubatse, Lepelle-Nkumpi), **Water, Sanitation and Hygiene Interventions** (Fetakgomo-Tubatse, Greater Letaba, Greater Giyani and Mopani District), **Alternative Energy Source** (Mopani (Greater Tzaneen, Maruleng, Ba-Phalaborwa)Vhembe (Collins Chabane and Thulamela)) **and Revenue Enhancement** (Makhado, Lephalale, Mogalakwena, Ba-Phalaborwa and Elias Motsoaledi).



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CURRENT INTERVENTIONS

- The other key support programme is implemented through Government Technical Advisory Centre(GTAC) and funded by the Provincial Treasury. The purpose of this programme is to provide the technical capacity to support municipalities to spend the Municipal Infrastructure Grant (MIG) efficiently and effectively.
- GTAC direct beneficiary municipalities are : Polokwane LM, Vhembe DM, Capricorn DM, Ba-Phalaborwa LM, Thulamela LM, Musina LM, Mopani DM, Thabazimbi LM and Modimolle Mookgopong LM. The support involves the deployment of Infrastructure, Information Technology, Organizational Development, Public Finance and Change Management experts to identified municipalities for support.



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CURRENT INTERVENTIONS

- It also includes capacity building to COGHSTA in terms of performing Diagnostic, Identification of support areas, development of initiatives (with activities) to address the support areas, mobilization of support as well as implementation of the initiatives.
- The Department also organizes quarterly MIG sessions as well as bilateral sessions with beneficiary municipalities where challenges are experienced.

REQUIRED INTERVENTIONS

- Strengthen intergovernmental collaboration and alignment especially in the water value chain(between Department of Water and Sanitation and Water Service Authorities).
- Signing of spatial contracts(spatial targeting) between government departments to agree on plans, budgets and implementation protocols.
- Shared services at a district level for critical and scarce technical, project management and contract management skills especially for strategic/critical infrastructure with high social and economic impact.
- The DDM model and the introduction of district hub provides an opportunity to address this challenge. This would however require political and administrative commitment across all spheres of government.
- Use IGR structures as transactional forum rather than just reporting forum- use them to agree on priorities and streamline government budgets and interventions. This will make it easy to bring private sector on board.

REQUIRED INTERVENTIONS

- Facilitate partnerships with private sector, academic institutions and other development institutions (such as DBSA) to invest in a structured long-term capacity building in local government.
- Programmes like MISA, GTAC and PMU Support (offered by DBSA) are addressing the challenge but is not enough considering the challenges.
- Appointment and retainment of people with the requisite skills and capacities in local government to plan, implement and monitor capital projects.
- Revise the funding framework to make provision for repairs and maintenance within the grant frameworks.

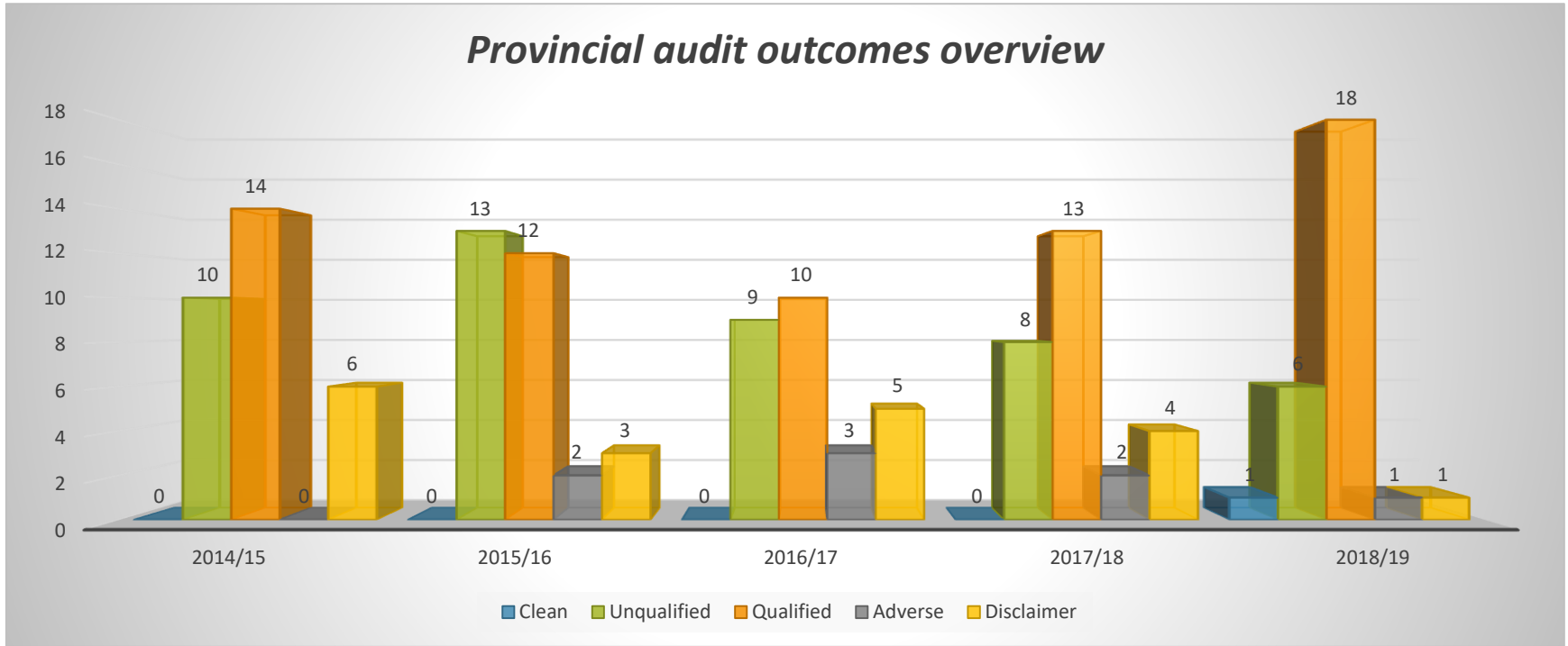
2. 2 FINANCIAL HEALTH

- Most municipalities in the country are under serious financial strain. The graph below provides a reflection of the situation in Limpopo (Note- Polokwane audit was still outstanding as at the time of assessment by Provincial Treasury).

	2016/17		2017/18		2018/19	
	Number	Municipality	Number	Municipality	Number	Municipality
Bankrupt" - Solvency ratio of less than 1:1 (total liabilities exceed total assets)	0	None	0	None	0	
Insolvent - Liquidity ratio of less than 1:1 and unable to pay creditors from available cash and investments	8	Mopani, Elias Motsoaledi, Sekhukhune, Musina Vhembe, Belabela, Modimolle-Mokgophong Thabazimbi	10	Mopani, Elias Motsoaledi, Makhuduthamaga, Fetakgomo-Tubatse, Sekhukhune, Musina, Vhembe, Belabela, Modimolle Mookgophong Thabazimbi	9	Belabela, Elias Motsoaledi Makhuduthamaga, Modimolle-Mookgophong Musina, Sekhukhune, Mogalakwena Thabazimbi, and Vhembe
Solvent - Unable to Pay Creditors - Liquidity ratio above 1:1 but unable to pay creditors from available cash and investments	7	Polokwane, Ba-Phalaborwa, Greater Tzaneen, Fetakgomo-Tubatse, Makhado, Lephalele Mogalakwena	10	Blouberg, Polokwane Ba-Phalaborwa, Greater Letaba, Maruleng, Greater Tzaneen, M Greater Giyani, Lephalele, Mogalakwena	8	Blouberg, Ba-Phalaborwa, Molemole Greater Giyani, Greater Letaba, Greater Tzaneen Mopani, Lephalele
Constraint Liquidity Ratio" - Liquidity ratio of less than 1:1 but sufficient cash and investments available to pay creditors		None	1	Lepelle-Nkumpi	1	Fetakgomo-Tubatse
Short to Medium Term Viability - Liquidity ratio above 1:1 and sufficient cash and investments available to pay creditors	12	Blouberg, Lepelle-Nkumpi, Molemole, Capricorn Giyani, greater Letaba, Maruleng, Ephraim Mogale Makhuduthamaga, Collins Chabane Thulamela Waterberg	6	Molemole, Capricorn, Ephraim Mogale Collins Chabane, Thulamela, Waterberg	8	Collins Chabane, Lepelle-Nkumpi, Capricorn Maruleng, Ephraim Mogale, Makhado Thulamela and Waterberg
Outstanding Audit Opinions		None		None	1	Polokwane

2.2 AUDIT OUTCOMES

Graphical representation of audit trends for 2015/16, 2016/17, 2017/18 and 2018/19 municipal financial years



Overall trends:

- Improvement in number of municipalities with disclaimer and adverse audit opinions
- Decline in unqualified audit opinions, while qualified opinions increased during 18/19 audit season due to regressions in municipalities particularly within Sekhukhune District
- There are municipalities that have been stagnant on unqualified and are being supported to improve.

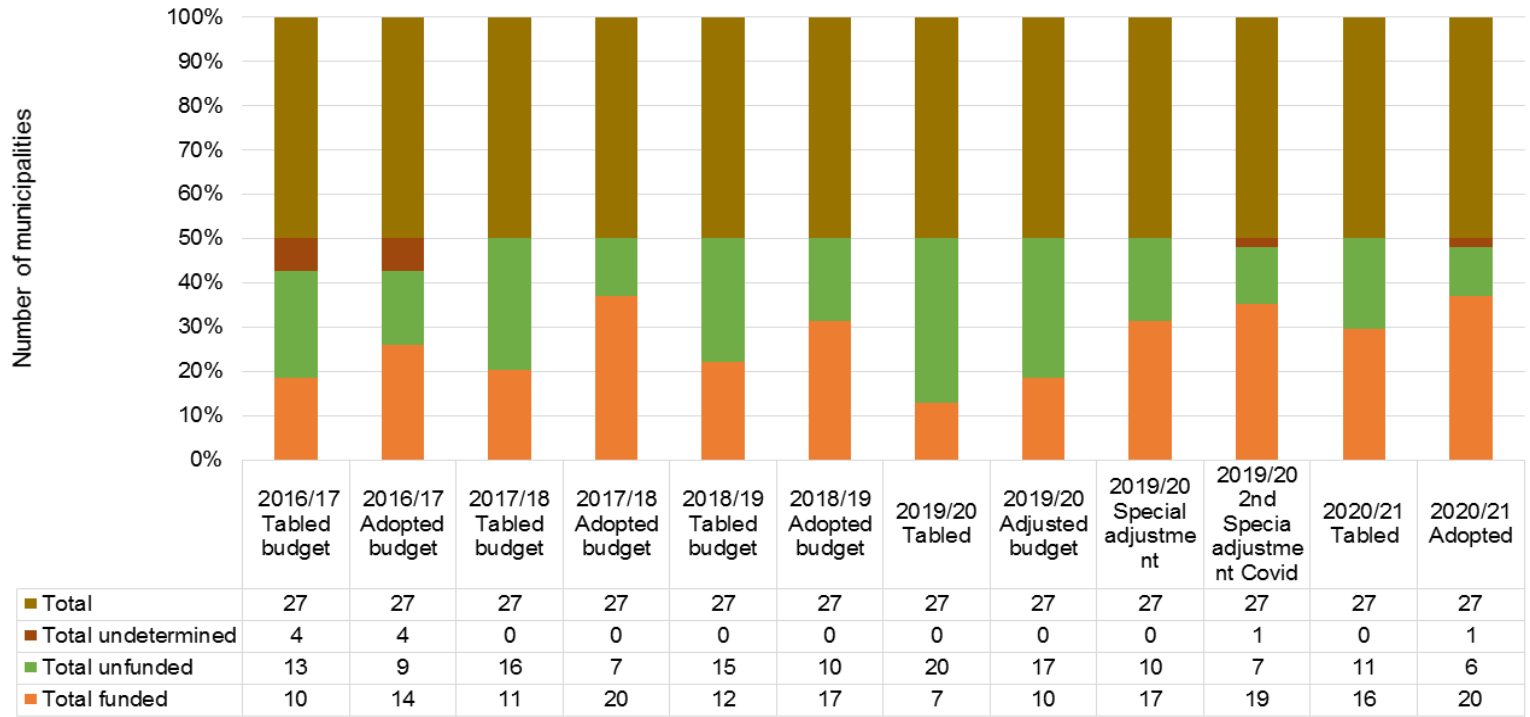
SUMMARY OF RECURRING AUDIT FINDINGS.

The following were key general recurring audit findings in municipalities for 2018/19 financial year and past financial years:

- Non-compliance with supply chain management policies and legislation
- Poor records management
- Asset management
- Unauthorized, irregular, fruitless and wasteful expenditure
- Revenue management.
- Commitments
- VAT
- Contingent assets and liabilities
- Prior period errors
- Lack of performance information

BUDGET FUNDING STATUS

MTREF budget funding status



The Province is still experiencing a challenge of unfunded budgets with 06 during the 2020/21. BaPhalaborwa, Mopani, Musina, Mogalakwena and Modimolle Mookgopong municipalities had unfunded budgets over the MTREF period.

This could result in inability to pay creditors as well as an increase in long outstanding debtors.

OVERALL CHALLENGES.

- The collection rate for rates and services is too low to ensure a healthy cash flow in the municipality.
- Non implementation of MOUs between the WSA and the Local Municipalities.
- The huge debt to Eskom and Water Boards.
- Local Economic Development not prioritised by some municipalities and thereby leading to low revenue base.
- Insufficient capacity in finance and supply chain management units contributing to an increase in unwanted expenditures.

OVERALL CHALLENGES.

- Poor value for money during procurement resulting in poor service.
- 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).
- Weak SCM units affecting capacity and resulting in weak internal controls.
- Incorrect application of SCM regulation 32

INTERVENTIONS...

- COGHSTA and Provincial Treasury have developed and signed a collaboration framework to ensure coordinated support and oversight to improve financial management in municipalities.
- The support framework is based on six key areas: **audit support, budgeting and reporting and budgeting, MSCOA Support, Asset Management, Supply Chain Management and Revenue Management.**
- An action plan aligned to indicators per key area has been developed and is being implemented by the two departments.
- The two teams recently concluded engagement processes with municipalities to assess IDPs and Budgets and to determine progress on implementation of audit action plans as well as readiness for the 2019/20 audits.

INTERVENTIONS...

Addressing Govt Debts:

- The Department has established a Provincial Debt Forum. The Forum is composed of officials from CoGHSTA, Provincial Treasury, Government Departments, state owned entities and municipal officials.
- Since the establishment of the Forum, there is an improvement in respect of payments of debts owed by government departments to municipalities.
- It has also improved the communication between the municipalities and government departments.
- On services, all departments are paying well, the main challenge is schools as they claim that the money received for norms and standards is not sufficient to pay for services.
- The biggest challenge and contributor to weak financial health of municipalities is disputed property rates for government properties on communal land or where the transfer processes/ ownership issues have not been addressed as per the slide below:



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PROPERTY RATES DEBTS AS AT 30 JUNE 2020

AS AT June 2020			
DEPARTMENTS	OUTSTANDING	DISPUTED	BALANCE
NATIONAL PUBLIC WORKS	30,535,282.35	-	30,535,282.35
PROVINCIAL PUBLIC WORKS	454,956,209.09	421,483,376.81	33,472,832.28
DEPARTMENT OF RURAL DEVELOPMENT	18,611,362.90	-	18,611,362.90
TOTAL	504,102,854.34	421,483,376.81	82,619,477.53



Municipalities are losing revenue totaling **R421,483,376.81** due to non-payment of disputed properties billed to respective custodian department. The most affected municipality in the Province **Makhuduthamaga** with a total of **R 371,009,475.64**, representing **88%** of the disputed debt.

INTERVENTIONS...

Improving Financial Health:

- Treasury and COGHSTA teams support municipalities to develop Financial Recovery Plans in order to improve the overall financial health and address the challenge of unfunded budgets.
- To date BaPhalaborwa, Musina, Thabazimbi, Modimolle Mookgopong have been supported to develop such plans. The development of an FRP for Mogalakwena Municipality is underway , draft concluded and being consulted with relevant parties.
- The success of the plans is however dependent on the commitment of the municipal leadership to implement the reforms as proposed.

INTERVENTIONS...

Increasing the revenue base:

- Municipalities are being supported to comply with SPLUMA to ensure coordinated development and also create a conducive environment for business to flourish.
- The focus of the support is on developing SPLUMA compliant Spatial Development Frameworks, By-Laws, Land Use Schemes and establishment of Planning Tribunals.
- There is significant progress in all areas except for development of Land Use schemes. Seven(7) municipalities that are still to conclude the process are being supported to ensure 100% compliance SPLUMA compliance by June 2022(extended timeframe).

INTERVENTIONS...

Addressing the Eskom and Water Boards:

- Support municipalities in engagements with Eskom to ensure that agreements are affordable to municipalities.
- The intervention has led to Eskom agreeing to affordable terms with Musina Municipality, and municipality is honouring its obligation.
- Monitor adherence to the payment plans through regular interactions and updates with the Eskom office.
- The challenge is Modimolle Mookgopong that opted for the legal route and as such the agreement is not yet resolved while the debt is increasing.

INTERVENTIONS...

Improving Audit outcomes:

- Support the development of audit action plans and monitor implementation jointly with Provincial Treasury.
- Assess municipal process plans for development of Annual Financial Statements
- Provide inputs on draft Annual Financial Statements,
- Monitor the functionality of MPACs.
- Participation in Audit Steering Committee.
- Conduct training of bid committees on request by municipalities.

PROPOSED INTERVENTIONS...

- Municipalities to create a conducive environment for business (both small and big) to flourish by among others- Cutting the red-tape, ensuring a safe environment, balance provision of infrastructure that supports social and economic development(water, wastewater treatment plants, transport networks, energy)
- Ensuring that the regulatory environment(by-laws and policies) support SMMEs and informal business sector growth
- Municipalities to initiate projects that promote local creativity and innovation particularly among youth and women
- Strengthen relationship/partnerships with traditional leaders to enhance integrated development and effective implementation of SPLUMA and other relevant policies/by-laws.
- Build sufficient capacities in units responsible for local economic development.

3 GOVERNANCE AND LEADERSHIP

- Good governance and leadership at both political and administrative level are critical for creating viable and effective municipal institutions.
- Despite the clear regulatory framework, most municipalities are characterized by poor governance and leadership which has led to poor service delivery a decline in community trust and an increase in protest over the years.

A number of challenges can be attributed to this situation:

- Political and administrative instability.
- High vacancy rate in senior management positions and other critical units such as Finance Units, Technical Services and SCM Units.
- Poor political and administrative interface
- Appointment of managers reporting to municipal manager on contract basis, and in some instances linked to the term of municipal managers mean that *one year after local government elections*, the entire senior management team is new as retention of such managers is almost non-existence in municipalities.

3 GOVERNANCE AND LEADERSHIP

- This is despite the fact that municipal councils are not obliged to appoint managers reporting to municipal managers on a fixed term contract, but that these officials could be appointed on a permanent basis to ensure organizational stability.
- Instability of councils
- Capability of Council and its committees to play oversight role and to fully address reports of key governance structures like Audit Committee, MPAC, etc.
- Slow implementation of audit committee and internal audit recommendations by management in municipalities.
- Overall challenges faced by MPACs relate to insufficient budget, tools of trades and lack of capacitated researchers to support MPAC .

Examples of impact of good governance and leadership on municipal performance:

Capricorn District Municipality

- Characterized by stable leadership both politically and administratively, senior management vacancies filled
- Results-100% expenditure of MIG over 4 years, Unqualified audit over years and in 2019/20 Clean Audit.

Thabazimbi Local Municipality

- The municipality was characterized by poor audit outcomes, high Eskom and Water board debt, labour instability, poor service delivery which led to Section 139(1)(b) intervention in 2016. The situation in the municipality changed once the municipality appointed capable and qualified senior managers:
 - It was the first municipality in the Province to sign and honour its agreement with Eskom and Water boards .
 - MIG implementation had been moved from the municipality to the Waterberg District municipality from 2014/15 to 2017/18 financial year due to poor performance.
 - The municipality started implementing MIG from 2018/19 to date and attained 96,6% expenditure in 2018/19 and 100% during 2019/20 Financial Year.
 - Audit outcome improved from Disclaimer to Qualified audit in 2018/19.



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On the contrary, municipalities characterized by political and administrative instability and leadership, high vacancy at senior management resulted in poor performance such as in the examples below:

Modimolle Mookgopong LM

- Sustained disclaimer audit outcomes since the amalgamation to date.
- Poor MIG expenditure – The average expenditure is 80%, and 58,3% during the 2018/19 FY.
- The Eskom Debt continues to increase as the municipality does not have any agreement with Eskom in place. As at 30 June 2020, the municipal Eskom debt had increased to R 566 018 606.00.
- There was however progress made during the Section 139(1)(b) intervention in terms of stabilizing the financial situation, but the protracted legal battle affecting the appointment of the municipal manager might undermine the progress made.

Fetakgomo Tubatse Local Municipality

- Sustained qualified audit opinion since amalgamation to date.
- Poor MIG expenditure which has led to loss of some portion of the grant- Average performance expenditure is 73% , and 58,3%.
- Delays in concluding transitional matters emanating from the amalgamation process.
- The municipality has recently appointed all senior managers, with the municipal manager assuming duty on 01 July 2020- It is anticipated that this will stabilise the municipality leading to an improved performance.

3. INTERVENTIONS

- The department participates in recruitment processes (when invited) and monitor compliance with the applicable legislations.
- In areas of non-compliance with the Act and Regulations, municipalities are promptly advised to correct the situation.
- Joint training on MPAC members was organized by SALGA, Treasury, Provincial Legislature, Office of the Auditor General and COGHSTA.
- Provincial MPAC Technical Committee, Provincial MPAC Executive Committee and Provincial MPAC Forum have been established and are convened on a quarterly basis.
- Conduct training for Mayors, Speakers and MPAC chairpersons focusing on roles of responsibilities, and overall municipal functions.

3. REQUIRED INTERVENTIONS

- Municipal council to appoint capable, qualified senior managers and further consider appointing managers reporting to municipal managers on a permanent basis to ensure organizational stability.
- The Constitutional Court judgement has negatively affected the ability of Departments to intervene when there is non-compliance.
- Consideration of minimum requirements for members of critical council committees or chairpersons of council committees(MPAC, Finance Committee's, etc)
- Regular training for Council committees on their responsibilities to keep up with legislative and other policy changes.
- Municipalities should provide sufficient resources, including researchers for MPAC to enable this key governance structure to play its oversight role.

CONCLUDING REMARKS

- There is overall stability in municipalities.
- The greatest challenge is on the financial sustainability of municipalities as fewer municipalities are financially viable.
- There is also concern that despite relatively good expenditure in MIG over the years, water provision and access continues to decline. Availability of water sources remains a concern despite availability of dams.
- There is need for DWS to fast-track bulk-water projects to address the water challenge.
- It is also clear that good governance and leadership at both political and administrative level are critical for creating viable and effective municipal institutions as seen from the performance of municipalities like Thabazimbi and Capricorn.
- It is therefore important that municipalities pay attention to these areas.

THANK YOU



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