

STATUS QUO ASSESSMENT

Prepared for the

WALTER SISULU LOCAL MUNICIPALITY

JULY 2023





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1. EXECUTIVE SUMMARY

Walter Sisulu Local Municipality (WSLM) is a category B municipality and has been experiencing long-standing political and administrative challenges which have impacted adversely on governance, financial management and service delivery in the municipality. There have been numerous changes in the Municipal Manager's position as well as senior management positions for several years, and only as late as 2022 the Municipal Manager position as well as other critical senior management positions were filled.

These past challenges illustrated a deepening crisis and lack of accountability in the municipal environment. Ineffective oversight continues to prevail due to lack of stability in senior management positions, even though the recent appointments indicate a positive step. The historical dysfunctionality of WSLM contributed greatly to the dire financial state and poor service delivery in the area.

The Municipality is unable to pay its creditors within 30 days due to inadequate cash flow, on the other hand the Municipality is unable to collect outstanding debt due to a low collection rate and inadequate political will to implement the credit control policy. The following observations are recognising that local government has unique challenges but regardless, need to ensure its intent and existence are premised on the mandate set in the supreme legislation, the Constitution. The very first observation that needs to be made is that the concept of Public Expenditure Management (PEM) is not adhered to as illustrated in the findings on financial management. The three pillars of PEM, namely aggregate fiscal discipline (budget control), allocative efficiency (strategic spending such as adherence to an Integrated Development Plan) and operational efficiency (performance targets and indicators met) has not been adhered to due to an organisational culture that has failed its mandate. This is epitomized by the fact that the municipality has failed to approve and implement a credible budget (refer to pillar 3 – financial management). Adherence to the three pillars of PEM requires coordinated implementation of the IDP, which is quantified through the Service Delivery & Budget Implementation Plan (SDBIP) and is implemented through the municipal Medium-Term Revenue and Expenditure Framework (MTREF) budget. Without a credible MTREF expenditure budget, there is no way to qualify the level of integration between the 3 key elements which makes effective expenditure management in terms of the 3 pillars of PEM impossible. The result of the frivolous spending is also apparent from the exorbitantly high level of outstanding creditors balances, which are escalating at an unsustainable level. The culture that has been established is one of continuous deterioration of the three pillars associated with improvement namely leadership, technology, and methodology.

The second observation is that developmental local government has not been inculcated in any practices or decision making, again indicating a failure of the organisational culture. The failure to deliver on the pillars of developmental local government as entrenched in section 153 as a Constitutional mandate again reflect on the organisation as one that does not understand its mandate of improving the quality of lives of its people, ensuring a sustainable going concern that practice meaningful public participation. The tenets of developmental local government are to ensure access to basic services and promote sustainable job creation. This requires strong leadership, clear vision and maximum participation by the community, private sector, and all stakeholders. A strong well-informed civil society is an important ingredient for the success of a developmental local government culture. The financial status illustrates the concern with respect to the one pillar. The observations with respect to service delivery challenges the other pillar and the concerns expressed with respect to the solution of tariff equality the other pillar.

Although the incumbent Municipal Manager and his senior management team are working tirelessly in improving the governance and institutional affairs of the municipality, there are still significant challenges with respect to financial management and service delivery:

- a) **Financial:** Low revenue collection, challenges with the new financial system (Sage), poor audit outcomes due to ill-prepared annual financial statements, Eskom arrear debt, inconsistent implementation credit control policy, increasing debt owed by government structures more particularly the district, fraud and misuse of municipal assets and funds, arrears of pension fund payments. The municipality owed SALA pension fund R 17 873 507 and CRF R 2 002 933 as of 31 May 2023. There are poor financial management and inadequate systems of internal control and accountability in place. There have been high incidences of UIFW expenditure directly linked to the budget deficit, fruitless and wasteful expenditure as a result of, amongst other penalties and interest on the bulk Eskom account, and irregular expenditure as a result of the SCM unit which collapsed over the years, resulting in decentralized SCM processes, non-adherence to regulations, improper specifications, evaluation and awarding of bids. Consumer accounts are mostly disputed, and this has implications for balances owed and affects the issuing of clearance certificates. This is indicative of poor systems of internal controls that negatively affect revenue collection and therefore the financial sustainability of the municipality. The past 3 financial year's audit findings include the assessment of INEP and MIG-funded projects identifying misstatements in the accounting for expenditure and irregularities in the procurement of goods and services on projects.
- b) **Service Delivery:** Section 152, 153 and 156 of the Constitution outlines service delivery obligations and required approaches of a municipality. The key factors affecting service delivery in the Municipality are inadequately trained staff, lack of critical resources (human and capital) and maintenance of existing aging infrastructure. Currently, the backlog includes bulk services infrastructure for water, sanitation, electricity, roads, and stormwater. The current backlog on infrastructure halts progress in other areas such as housing and local economic development. The Municipality's strategic objectives are to eradicate the current infrastructure backlogs:
- Housing demand is above 14200 units (2016)
 - The backlog in water provision is 5.72% (2016)
 - The backlog in sanitation provision is 9.9% (2016)
 - The backlog in electricity provision is 11.8% (2016)
 - The backlog in the renewal, upgrade, and maintenance of municipal roads and stormwater (560m²).
- c) **Governance:** Disclaimer of opinion, UIFW (focus on irregular expenditure), unfunded and underfunded mandates and poor contract management.
- d) **Institutional:** Incorrect job grading and evaluation, and salary inconsistencies.

The Office of the Auditor-General of South Africa further raised concerns on issues concerning leadership, governance, service delivery, supply chain management, and other, repetitive findings which remain recurring findings without being corrected. The audit outcomes for the past 5 years are:

- 2017/2018 – **Disclaimer**
- 2018/2019 – **Disclaimer**
- 2019/2020 – **Qualified**
- 2020/2021 – **Disclaimer**

- 2021/2022 – **Adverse**

The intervention that was instituted at Walter Sisulu LM in 2018 was Provincial CoGTA's initiative and was in terms of section 139 where a person was selected to represent the MEC of CoGTA and ECPT provided assistance in support of CoGTA by facilitating the secondment of a CFO. The process began in March and ended in November 2018 for a period of 9 months. Subsequently, the Provincial Executive Council resolved in its sitting of 23 February 2022 to support the proposal to put the municipality under intervention support in terms of section 139(5)(a) of the RSA Constitution read with MFMA section 139 and requested the National Treasury on 23 March 2022 to prepare a Financial Recovery Plan for the Walter Sisulu Local Municipality. Based on the said intervention, the Provincial Government together with the National Treasury embarked on a process to develop a Financial Recovery Plan for the WSLM, which plan is preceded by this Status Quo Assessment report. As prescribed, once the Status Quo Assessment report is signed, the Financial Recovery Plan must be developed, consulted, and approved within a period of 90 days.

2. PART ONE: SETTING THE SCENE

2.1 BACKGROUND

Walter Sisulu Local Municipality (WSLM) is politically and administratively stable, however the main key driver for the current financial crisis is the ESKOM debt. The municipality is currently honoring current accounts to date which gives hope that appropriate activities in the FRP including application of MFMA Circular 124 will fast-track the resolution of the current crisis.

The current senior management has been in place for approximately three (3) years and has brought stability to the administrative component of the municipality. Consumer accounts are mostly disputed, which put into question the accuracy of consumer figures, which might possibly impact negatively on the timeous issuing of clearance certificates. This also negatively affects revenue collection and therefore, the financial sustainability of the municipality.

The Office of the Auditor General South Africa raised concerns on issues concerning leadership, governance, service delivery, supply chain management, and other, repeat findings which continue without being addressed.

The Provincial Executive Council resolved in its sitting of the 23 February 2022 to invoke a mandatory intervention in terms of section 139(5)(a) of the RSA Constitution read with MFMA section 139 and requested the National Treasury on 23 March 2022 to prepare a Financial Recovery Plan for the Walter Sisulu Local Municipality.

Subsequently, the MFRS¹ within National Treasury commenced with the preparation of a mandatory Financial Recovery Plan (FRP), which is preceded by this Status Quo Assessment [SQA].

The first activity required is the execution of a status quo assessment to identify key failures, root causes and the recommendation of strategies to remedy the situation. The status quo assessment focuses on four pillars, namely (1) Governance, (2) Institutional Development and Human resources, (3) Financial management and (4) Service delivery and Infrastructure development. For each pillar, a

¹ MFRS – Municipal Financial Recovery Service.

diagnostic analysis was performed followed by the identification of the current situation, problems/key issues, root causes, and referencing the sources of information.

Once the status quo assessment was consulted and adopted, a financial recovery plan will be developed, which plan will address the following additional elements:

- Responsible person.
- Timeline (Rescue/Stability/Sustainability).
- Measurable outcome/KPI.
- PoE.
- Financial impact.
- Support required.
- Start date.
- End date.
- Progress and reporting.

This report, therefore, serves as the status quo assessment in terms of section 139(1)(a) of the MFMA which will inform the preparation of the financial recovery plan.

2.2. STATUTORY AND LEGISLATIVE CONTEXT

THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, 1996 (ACT NO.108 OF 1996)

The intervention at WSLM was instituted through the Provincial Executive in terms of section 139 (5)(a) of the Constitution², read in conjunction with section 139 of the MFMA. This entails the imposition of the Financial Recovery Plan aimed at securing the municipality's ability to meet its obligations to provide basic services or financial commitments.

THE MUNICIPAL FINANCE MANAGEMENT ACT, 2003 (ACT NO. 56 OF 2003)

Chapter 13 of the MFMA deals with the resolution of financial problems in municipalities and outlines the processes that must be followed in terms of mandatory interventions invoked in terms of section 139 ((5) of the Constitution.

Section 139(1) of the MFMA places the responsibility on the Provincial Executive to request the MFRS unit in the National Treasury to prepare a financial recovery plan, which considers the reasons for the financial crisis and an assessment of the municipality's financial status (status quo assessment).

Only the MFRS may prepare a financial recovery plan for a mandatory provincial intervention referred to in section 139 of the MFMA.

Section 139(1)(a)(i) and (ii) read with section 139(1)(a)(v) (aa) empowers the MFRS to determine the reasons for the crisis in its financial affairs, to assess the municipality's financial state and to submit to the MEC for Finance in the province with the determination and assessment as a matter of urgency.

In terms of section 139(1)(b), the mayor of the municipality must be consulted on the recovery plan to obtain cooperation (political support) for the implementation and ensure that the budget and any other legislative measures to support the implementation of the recovery plan are approved.

² <https://municipalities.co.za/overview/1235/walter-sisulu-local-municipality> accessed on 22 June 2023

Section 142 of the MFMA specifies the criteria for financial recovery plans irrespective of whether the plan is discretionary or mandatory in nature. In this regard, the following subsections are important:

Section 142(1) prescribes that a financial recovery plan must be aimed at securing the municipality's ability to meet its obligations to provide basic services or its financial commitments, and such a plan, whether for a mandatory or discretionary intervention –

(a) “Must –

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

Section 142 (2) states that in addition, a financial recovery plan –

(a) “For a mandatory intervention must –

- (i) Set spending limits and revenue targets;*
- (ii) Provide budget parameters which bind the municipality for a specified period or until stated conditions have been met; and*
- (iii) Identify specific revenue-raising measures that are necessary for financial recovery, including the rate at which any municipal tax and tariffs must be set to achieve financial recovery.”*

2.3. CONSULTATION

An introductory workshop with the municipality was held on 09 March 2023. Further workstreams meetings with the municipality and stakeholders were held on the 18 of April 2023 and 31 May 2023.

Consultation sessions were also conducted with organised labour on the 31 May 2023 to orientate them on mandatory intervention as well as major creditors and councillors on the 01 June 2023. Important to note is, major creditors consultation was held with those creditors that showed interest and were reasonably contactable. The draft status quo report was presented, and all participants were reminded that they could submit further comments in writing.

3. PART TWO: STATUS QUO ASSESSMENT FINDINGS

3.1. STATUS QUO ASSESSMENT PORTFOLIO OF EVIDENCE

In this status quo assessment, the information provided during the consultation session as well as a total number of 91 information sources were reviewed and considered, as reflected below:

PORTFOLIO OF EVIDENCE INDEX - WALTER SISULU LOCAL MUNICIPALITY FRP		
NUMBER	NAME OF DOCUMENT	DATE
1	AGSA Management Report 2021/2022	June 2022
2	5 year performance framework (word)	Undated
3	Adjustment Budget – 2021/2022	15 June 2022
4	Annual Financial Statements 2020/2021	June 2021
5	Annual Financial Statements 2021/2022	June 2022
6	Annual performance report 2021/2022	31 August 2022
7	Annual Report 2021 /22: Financial Statements for the Year ended June 30, 2022 (draft)	June 2022
8	Approved Council Calendar	December 2022
9	Audit Committee Charter and Tor, 2023	June 2022
10	Audit Report 2020/2021 & 2021/2022	June 2021 & June 2022
11	Budget Policies	Undated
12	Commitment register 2020	June 2020
13	Commitment register 2022/2023	June 2021
14	Contingent Liability Analysis, 2021 and 2022	Undated 2023
15	Contract Register 2021	Undated
16	Council Induction Training Programme, 2021	November 2021
17	Council Resolution Registers from 2021 to 2023	2021 to 2023
18	Council Standing Rules 2021	November 2021
19	Councillors in arrears March 2023 (Excel)	Undated
20	Credit Control and Debt Collection Policy, 2023	October 2022
21	Creditors Analysis, 2021 and 2022	Undated
22	Data Back-Up Recovery and Retention Policy, 2022/2023	May 2021
23	DC TOR, 2019	March 2019
24	DC Training Material, Reports and Meeting Minutes	April 2019
25	Delegation Framework 2021	Undated
26	Disposal of Strategic Land Parcels for Groundbreaking Projects Report	Undated
27	Draft asset management policy	Undated
28	Draft Indigent Support Policy, 2023	Undated
29	Draft Litigation Policy	Undated
30	Draft Property Rates Bylaw, 2023	Undated
31	Draft Property Rates Policy, 2023	Undated
32	Fixed Asset Register 2021/2022	June 2022
33	Fraud Prevention Plan, 2022	Undated
34	Fruitless and wasteful register (2020)	June 2021
35	Fruitless and wasteful register (2021)	June 2020
36	Gazetted Bylaws	August 2019
37	GoMuni Website - https://lg.treasury.gov.za/ibi_apps/welcome	N/A
38	GV Roll 2019 final (Excel)	Undated

PORTFOLIO OF EVIDENCE INDEX - WALTER SISULU LOCAL MUNICIPALITY FRP		
NUMBER	NAME OF DOCUMENT	DATE
39	ICT Assessment Implementation Report, 2023	March 2023
40	ICT Governance and Infrastructure Assessment Report, 2023	February 2023
41	ICT Project and Portfolio Management Policy, 2022/2023	September 2016 as reviewed
42	ICT Steercom Charter, 2022/2023	Undated
43	IDP 2022 -27	15 June 2022
44	Infrastructure Additions 2021/2	June 2022
45	Internal Audit Plan, 2023	June 2022
46	Irregular Expenditure Register 2021/2022	June 2022
47	Irregular register (2021)	June 2021
48	Irregular register (2020)	June 2020
49	IT Service Level Management Policy, 2022/2023	May 2021
50	Letter Dispute lodged with NERSA	June 2022
51	Letter WSLM to Eskom	June 2021
52	MFMA Circular 115 –	N/A
53	MFMA Circular 71 Ratio Analysis	N/A
54	MM Follow-Up Questionnaire	April 2023
55	MM Presentation	March 2023
56	MTREF Budget 2022/23, 2024/25	July 2022
57	Municipal Systems Act - Schedule 1 Code of Conduct for Councillors	July 2004
58	Municipal Website - https://www.wslm.gov.za/waste_mgt-index	N/A
59	News Article (DA lays criminal charges over sewerage spill in Burgersdorp)	January 2023
60	News Article Stadium (Danie Craven Stadium in Burgersdorp)	October 2022
61	Operational Risk Register, 2022	December 2022
62	Organogram, 2022/2023	July 2023
63	Original Budget - 2022/2023 MTREF A Schedule	2022/2023
64	Performance agreements of managers as per website (July 2022 – June 2023)	Undated
65	Presentation by Municipal Manager	April 2023
66	Procedure Manual Asset Management	February 2020
67	Procedure Manual Consequence Management	November 2019
68	Procedure Manual Revenue Processes	Undated
69	Procedure Manual: Budget	Undated
70	Procedure Manual: SCM	February 2020
71	PSC MOU	September 2022
72	PT Initial Assessment	Undated 2022
73	Revenue Streamlining – Status Quo Assessment Report - Phase 1 & 2	May 2023
74	Risk Management Committee Charter, 2022/2023	December 2022

PORTFOLIO OF EVIDENCE INDEX - WALTER SISULU LOCAL MUNICIPALITY FRP		
NUMBER	NAME OF DOCUMENT	DATE
75	Risk Management Policy, 2022/2023	December 2022
76	SDBIP	28 June 2022
77	Section 80 Council Resolution, 2022	January 2022
78	Security Services SLA	June 2022
79	Special adjustment Budget – 2021/2022	28 June 2022
80	Staff account arrears March 2023 (Excel)	Undated
81	Supplementary valuation roll 1&2 (pdf)	29 October 2019
82	Supplementary valuation roll 3(pdf)	05 June 2020
83	Supplementary valuation roll 4(pdf)	06 April 2021
84	Supplementary valuation roll 5 (Excel)	Undated
85	Tariff List 2022/2023	Undated 2023
86	UIF&W Registers	June 2022
87	Updated grant register (Excel)	Undated
88	WIP Register 2021/2022	June 2022
89	Workstream Engagements (Attendance registers 01.04.2022 & 18.04.2023)	April 2022 & 2023
90	WSLM Staff and Councillors Accounts with Stop order and Arrangements March 2023 (Excel)	Undated
91	Management Committee Meeting	12 April 2023

3.2. OVERVIEW OF DEMOGRAPHICS AND ECONOMY IN WALTER SISULU LOCAL MUNICIPALITY

Location

The Walter Sisulu Local Municipality is a Category B municipality located in the west of the Joe Gqabi District in the Eastern Cape Province, south of the Orange River and Gariep Dam. The Orange River separates Walter Sisulu from both the Northern Cape and Free State Provinces. The municipality is the largest of the three in the district, making up half of its geographical area. It was established by the amalgamation of the Gariep and Maletswai Local Municipalities in August 2016. The Walter Sisulu Local Municipality has fairly diverse vegetation and is home to three distinct vegetation types, one of which – Eastern Mixed Nama Karoo – is recognised as a nationally significant biome. It is characterised by mountains, hills, and valleys. This area is well known for its stock farming, of which sheep production is one of the dominating sectors. The streams and rivers team with fish, trout being a common species. Rock foundations have beautiful artwork made years ago by the founders of the area – the Khoisan.

A thermal springs resort, named Aliwal Spa, is located within the municipal area, and produces salty water, rich in minerals, from underground. WSLM comprises of an area of 13 269km² and include Aliwal North, Burgersdorp, Jamestown, Oviston, Steynsburg, Venterstad.

Main Economic Sectors: Government services, community services, transport and communication, finance and business services, manufacturing, agriculture, trade, construction.

A map of the WSLM show its location next to Senqu below:



General demographics

The general demographic information is set out in the table below:³

	2016	2011
Population	87 263	77 477
Age Structure		
Population under 15	35.5%	32.1%
Population 15 to 64	60.8%	62.0%
Population over 65	3.7%	6.0%
Dependency Ratio		
Per 100 (15-64)	64.6	61.4
Sex Ratio		
Males per 100 females	90.8	92.2
Population Growth		
Per annum	2.70%	n/a
Labour Market		
Unemployment rate (official)	n/a	n/a
Youth unemployment rate (official) 15-34	n/a	n/a
Education (aged 20 +)		
No schooling	7.4%	12.5%
Matric	24.8%	19.2%
Higher education	7.9%	8.5%
Household Dynamics		

³ <https://municipalities.co.za/demographic/1235/walter-sisulu-local-municipality> accessed on 22 June 2023

	2016	2011
Households	23 706	21 874
Average household size	3.7	3.4
Female headed households	42.4%	42.4%
Formal dwellings	89.3%	90.2%
Housing owned	60.9%	47.9%
Household Services		
Flush toilet connected to sewerage	83.0%	72.1%
Weekly refuse removal	83.4%	82.1%
Piped water inside dwelling	48.1%	45.4%
Electricity for lighting	87.4%	87.0%

The employment statistics on record are reflected below:⁴

	2019/20	2018/19	2017/18	2016/17
Employment				
Employment Costs (R'000)	89 426	83 938	83 219	76 832
Remuneration of councillors (R'000)	8 372	8 039	8 251	5 883
Total Employee Positions	499	494	499	485
Total Vacant Employee Positions	19	0	1	65
Total Vacancy Percentage	3.81%	0.00%	0.20%	13.40%
Managerial Positions - S56	5	5	5	8
Vacant Managerial Positions - S56	2	0	1	1
Managerial Positions - by organogram	28	28	31	34
Vacant Managerial Positions - by organogram	1	0	0	4
Community And Social Service Positions	0	33	6	16

Source: Stats SA

Population

The Walter Sisulu local municipality increased the most in population within the District Municipal area, with an average annual growth rate of 1.4%; the Elundini local municipality had the second highest growth, with an average annual growth rate of 0.6%. The Senqu local municipality had the

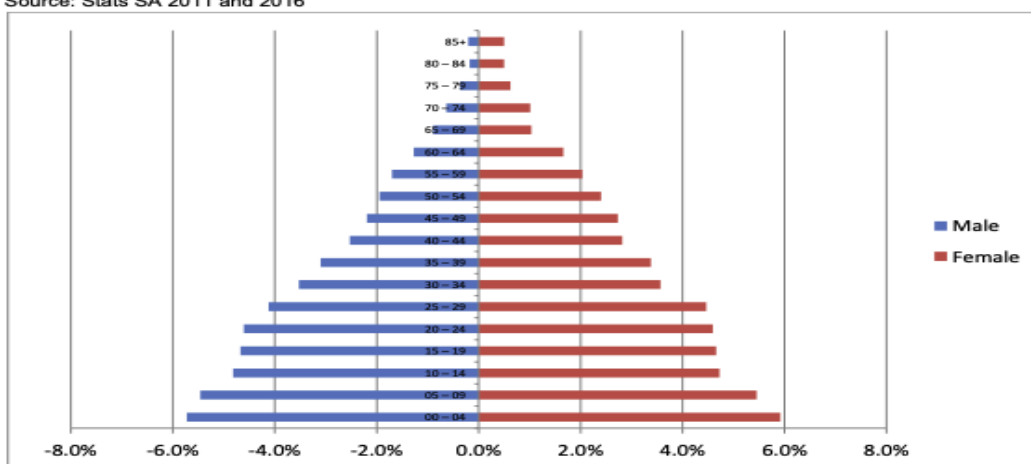
⁴ <https://municipalities.co.za/employment/1235/walter-sisulu-local-municipality> accessed on 22 June 2023

lowest average annual growth rate of 0.33%.

Based on the present age-gender structure and the present fertility, mortality, and migration rates, ECSSEC projects that the population of the JGDM to grow at an average annual rate of 1.1% from 373 000 in 2016 to 393 000 in 2021. The average annual growth rate in the population over the forecasted period for Eastern Cape Province and South Africa is 1.0% and 1.4% respectively. The Eastern Cape Province is estimated to have average growth rate of 1.0%, which is lower than the Joe Gqabi District Municipality. South Africa as a whole is estimated to have an average annual growth rate of 1.4% which is higher than that of Joe Gqabi's growth rate.⁵

Below is a population pyramid of the WSLM. The figures show that the pyramid is bulging in the 10-19 years range, and this is suggesting a spurt of population growth over the next decade or two because the said age group will enter their childbearing years. It also suggests that more services such as schools, care homes, maternity services etc. will be required. The majority of the population within this group is women. Within the working age group, 15 – 64 years, the population increases and as it gets to the age 64 upwards there is a decline. The age group between 0 and 09 represents the majority of the population. Between 09 and 14 there is a slight decline.⁶

Source: Stats SA 2011 and 2016



Gender Profile

The Pie Chart above indicates that gender ratio in WLSM is comprised of 47.3% males and 52.7% are females (Source: Stats SA 2011 and 2016).



⁵ IDP WSLM 2021/22 page 4
⁶ IDP WSLM 2021/22 page 9

Services

In terms of the adjustment of powers and function between district and local municipalities, Joe Gqabi District Municipality (JGDM) is the Water Services Authority (WSA), and this then translates that the provision of water and sanitation solely lies as a district function. Water service provision has been taken over by the district. The Joe Gqabi District Municipality has taken over the provision and billing of water and sanitation to all the local municipalities including Walter Sisulu Local Municipality.⁷

The Municipality developed Electricity Master Plan. All the electrical developments done were guided by the plan. The municipality has a NERSA electricity distribution license for Burgersdorp, Aliwal North, Steynsburg and Venterstad. However, James Calata, Nozizwe, Khayamnandi townships are supplied by Eskom. In an endeavour to develop the electrical network and substation. The Directorate of Energy grant funding focuses on universal access and networks upgrading.⁸

Gross domestic product by region (GDP_R)9

With a GDP of R 5.27 billion in 2016 (up from R 1.84 billion in 2006), the Walter Sisulu Local Municipality contributed 50.48% to the Joe Gqabi District Municipality GDP of R 10.4 billion in 2016 increasing in the share of the Joe Gqabi from 47.56% in 2006. The Walter Sisulu Local Municipality contributes 1.56% to the GDP of Eastern Cape Province and 0.12% the GDP of South Africa which had a total GDP of R 4.34 trillion in 2016 (as measured in nominal or current prices). It's contribution to the national economy stayed similar in importance from 2006 when it contributed 0.10% to South Africa.

In 2016, the Walter Sisulu Local Municipality achieved an annual growth rate of 0.18% which is a very similar GDP growth than the Eastern Cape Province's 0.25%, but is lower than that of South Africa, where the 2016 GDP growth rate was 0.28%. Contrary to the short-term growth rate of 2016, the longer-term average growth rate for Walter Sisulu (3.55%) is significantly higher than that of South Africa (2.12%). The economic growth in Walter Sisulu peaked in 2007 at 9.42%.

TABLE 7. GROSS DOMESTIC PRODUCT (GDP) - WALTER SISULU, JOE GQABI, EASTERN CAPE AND NATIONAL TOTAL, 2006-2016 [R BILLIONS, CURRENT PRICES]

	Walter Sisulu	Joe Gqabi	Eastern Cape	National Total	Walter Sisulu as % of district municipality	Walter Sisulu as % of province	Walter Sisulu as % of national
2006	1.8	3.9	142.2	1,839.4	47.6%	1.29%	0.10%
2007	2.3	4.8	168.2	2,109.5	47.7%	1.35%	0.11%
2008	2.4	5.0	174.1	2,369.1	47.6%	1.38%	0.10%
2009	2.7	5.7	191.2	2,507.7	47.6%	1.42%	0.11%
2010	3.0	6.4	211.6	2,748.0	47.5%	1.44%	0.11%
2011	3.3	6.9	226.1	3,023.7	47.9%	1.47%	0.11%
2012	3.8	7.7	252.2	3,253.9	48.6%	1.49%	0.12%
2013	4.1	8.4	273.2	3,539.8	49.3%	1.51%	0.12%
2014	4.5	9.0	293.9	3,807.7	50.0%	1.53%	0.12%
2015	4.9	9.7	315.6	4,049.8	50.3%	1.55%	0.12%
2016	5.3	10.4	337.8	4,338.9	50.5%	1.56%	0.12%

Source: IHS Markit Regional eXplorer version 1156

Economic growth forecast¹⁰

It is expected that Walter Sisulu Local Municipality will grow at an average annual rate of 1.89% from 2016 to 2021. The average annual growth rate in the GDP of Joe Gqabi District Municipality and Eastern Cape Province is expected to be 1.84% and 1.62% respectively. South Africa is forecasted to grow at an average annual growth rate of 1.61%, which is lower than that of the Walter Sisulu Local

⁷ IDP WSLM 2021/22 page 99

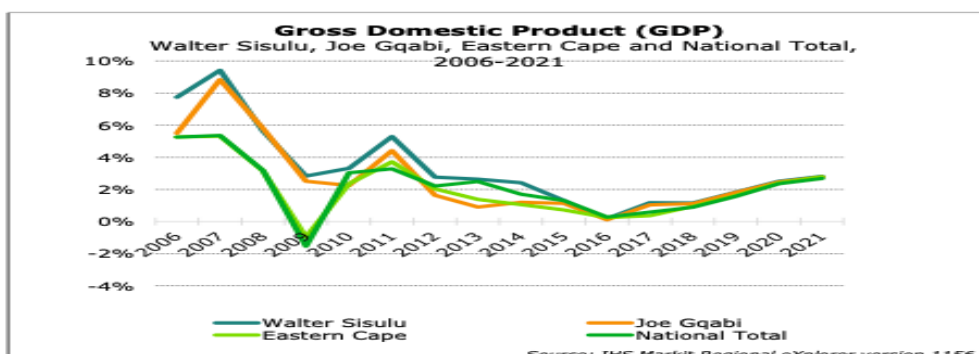
⁸ IDP WSLM 2021/22 page 107

⁹ WSLM Socio-Economic Review and Outlook 2017 page 22

¹⁰ WSLM Socio-Economic Review and Outlook 2017 page 25

Municipality.

CHART 10. GROSS DOMESTIC PRODUCT (GDP) - WALTER SISULU, JOE GQABI, EASTERN CAPE AND NATIONAL TOTAL, 2006-2021 [AVERAGE ANNUAL GROWTH RATE, CONSTANT 2010 PRICES]



The economic sectors for the period 2006 to 2016 are reflected per area and in millions of ZAR.11

TABLE 12. GROSS VALUE ADDED (GVA) BY BROAD ECONOMIC SECTOR - WALTER SISULU LOCAL MUNICIPALITY, 2006, 2011 AND 2016 [R MILLIONS, 2010 CONSTANT PRICES]

	2006	2011	2016	Average Annual growth
Agriculture	116.3	173.4	171.3	3.94%
Mining	3.4	3.2	3.8	1.05%
Manufacturing	317.3	364.1	374.5	1.67%
Electricity	29.2	32.9	22.4	-2.61%
Construction	62.3	92.4	105.1	5.38%
Trade	419.9	536.1	601.2	3.65%
Transport	212.1	260.3	287.5	3.09%
Finance	335.8	457.1	540.4	4.88%
Community services	781.1	1,004.3	1,102.5	3.51%
Total Industries	2,277.3	2,923.7	3,208.8	3.49%

Source: IHS Markit Regional eXplorer version 1156

Unemployment remains a problem throughout the country. The municipality provides an array of services but cannot service its Eskom account due to various issues highlighted.

The economic sector analysis over time shows certain shifts which may assist Walter Sisulu LM in policy initiatives to stimulate the sectors which show the most promise of growth and employment. The numbers reflect an urgent need for investment and growth in all economic sectors which would stimulate a growth in employment opportunities.

3.3. DETAILED STATUS QUO ASSESSMENT FINDINGS

Following serves as the key findings from the status quo assessment presented as per the stipulated 4 sustainability pillars:

- Governance.
- Institutional and Human Resources.
- Financial Management.
- Service Delivery.

Each pillar addresses the following elements:

- Strategic focus area.
- Diagnostic findings.
- Problems/key issues.
- Root causes.

¹¹ WSLM Socio-Economic Review and Outlook 2017 page 28

- Sources of information.

3.3.1. GOVERNANCE STATUS QUO ASSESSMENT KEY FINDINGS

The municipal council consist of 22 councilors and is governed by the African National Congress (12). Other political parties are Democratic Alliance (5), Economic Freedom Fighters (3) and Maletswai Civic Association (2). The councillors resumed office in November 2021 and out of the 22 councillors, 12 are new. The council meets as per an approved calendar.

The municipality functions as a collective executive type, with an EXCO of four (4) members including the Mayor, four (4) section 80 committees – Infrastructure services, Corporate Services, Community Services and Financial Services. The committees are functional.

Various section 80 committees are established and functional although there is a need to re-establish the section 79 committees and to capacitate members of council especially the MPAC on more practical application of their mandate and oversight responsibilities.

There are municipal accounts of councilors and staff members in arrears for more than 90 days. The Municipal Manager prepared a report with relevant details and submitted to Speaker for appropriate action. With reference to accounts in arrears of officials the Municipal Manager already concluded payment agreements with the relevant officials.

Contract management, contingent and liability management as well as unauthorised, irregular, fruitless, and wasteful expenditure and related consequence management require attention and capacity development.

Although significant effort was put in place to improve the immovable asset management portfolio of the municipality, certain audits are required to improve the control environment and to guide revenue generating decisions.

Various Council Bylaws and Policies have been drafted and is being consulted for approval, though there remains a need to improve the relevant revenue generating Bylaws and Policies as well as related monitoring and enforcement actions.

The municipality is rendering several agency services on behalf of other government institutions, which requires a detailed cost analysis and re-negotiation to ensure cost reflective reimbursement arrangements.

It was noted that significant effort was made by the municipality during the past year to improve its audit action plans, internal audit function, risk management function, fraud prevention, security management and its ICT environment, which is commendable.

It is of serious concern that the municipality continues year after year to obtain poor AG audit outcomes with the latest for the financial year 2021/22 being an adverse audit opinion despite the municipality having appointed a services provider to assist with the compilation and settlement of the annual financial statements. The said AFS were found by the AG to be littered with material misstatements and therefore this constitutes fruitless and wasteful expenditure.



GOVERNANCE STATUS QUO ASSESSMENT KEY FINDINGS

The critical key issues identified from the status quo assessment regarding the governance matters, are the following:

GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
1.	Governance model (Council and committees)	<ul style="list-style-type: none"> The municipal council has a membership of 22 and is governed by the African National Congress (12). Other political parties are the Democratic Alliance (5), Economic Freedom Fighters (3) and Maletswai Civic Association (2). 14 New councillors were appointed in December 2022. Council meets as per an approved calendar. 	NA	NA	Municipal Manager Ppt (POE, item 55). Refer to the approved Council calendar and resolution register (POE, Item 8).
2.		<ul style="list-style-type: none"> The municipality functions as a collective executive type, with an EXCO of four (4) members including the Mayor, and four (4) section 80 committees – Infrastructure Services, Corporate Services, Community Services and Financial Services. The committees are functional. The mayor and the speaker are the only full-time office bearers and all political office bearers are paid in terms of the application system for the remuneration of councillors. 	NA	NA	Municipal Manager Ppt (POE, item 55). Council resolution of 31/01/2022 (POE, Item 77)
3.		The Council Whip is not permanent. The council whip also wears the cap of an executive committee member and is paid as a part-time executive committee member	NA	NA	Confirmed by the Municipal Manager on 28 June 2023.
4.		Except for MPAC, the section 79 committees are dysfunctional.	The following section 79 committees became dysfunctional: <ul style="list-style-type: none"> Performance, Monitoring, and Evaluation. Woman's caucus. Member interests, roles, and ethics. 	<ul style="list-style-type: none"> Section 79 committees were not established in line with Council's standing rules and orders. No Terms of Reference for establishing these committees 	Confirmed during the working session on 18 April 2023. Although outdated, refer to the Council resolution of 31/01/2022 for names of section 79 and 80 members (POE, item 77)

GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
5.		Although the MPAC is functional, the committee members are not yet fully capacitated	<ul style="list-style-type: none"> MPAC committee members attended SALGA training but still require practical training on their decision-making powers. Some of the MPAC members are new councillors and lack sufficient experience. 	<ul style="list-style-type: none"> Training is too generic and not specific with practical examples. Councillors on MPAC are too junior with insufficient experience. 	Confirmed during the working session on 18 April 2023.
6.		Councillors and staff municipal accounts in arrears for more than 90-days. With regards to the staff accounts in arrears, the Municipal Manager agreed to payment arrangements with them and stop orders were activated. With regards to the councillors' accounts in arrears, the Municipal Manager prepared a report with relevant details and submitted it to Speaker for furtherance.	<ul style="list-style-type: none"> There are municipal accounts of councillors and staff members in arrears for more than 90 days. Refer to financial details in the Finance Pillar, item 27. The inaccurate billing system, as discussed in the finance pillar, contributes to outstanding amounts. 	The ineffective Section 79 committee resulted in limited oversight.	Confirmed during working session on 18 April 2023. Refer to excel details provided in the POE, items 19, 80 and 90.
7.		Councillors' declaration of interest is not maintained	Councillors submitted their declaration of interest as per schedule 1 of the Systems Act but it is not updated regularly.	The ineffective section 79 committee resulted in limited oversight.	Confirmed during the working session on 18 April 2023. Refer to POE, item 57.
8.		Councillors' Code of Conduct is not maintained	Although there is a code of conduct that addresses ethical behaviour by councillors, the problem is that the mechanism which is supposed to support the Speaker to implement the provisions of the Code of Conduct, being the Members Interests and Ethics Committee (Section 79), is not functional.	The ineffective section 79 committee resulted in limited oversight.	Confirmed during the working session on 18 April 2023
9.		Councillors' training programme is inadequate (last training programme was November 2021).	Except for SALGA training and limited internal training, there is no training programme for councillors on governance, financial management, code of conduct and service delivery.	A limited budget prevents additional training.	Confirmed during the working session on 18 April 2023. Refer to Council induction training programme, 2021 (POE, item 16).
10.		<ul style="list-style-type: none"> Council has a manual resolution register and is in the process to institutionalise an electronic version. 	NA	NA	Refer to Council resolution registers from 2021 to 2023 (POE, item 17).



GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
		<ul style="list-style-type: none"> A quarterly progress report is submitted to Council and shared with management to implement Council resolutions. 			
11.		The municipal top management executes technical working committee functions, overseeing holistic management (preventing silo decision-making)	No current evidence supports the frequency of strategic planning sessions	NA	Confirmed during the working session on 18 April 2023
12.	Contract management	The municipality does not compile monthly performance monitoring reports on contracts.	<ul style="list-style-type: none"> No developed business processes distinguishing between contract management and contract administration and roles and responsibilities. All relevant staff require upskilling. No developed and implemented contract monitoring mechanism. Inadequate record management system by aligning awards with purchase orders/contracts and monitoring commitments. 	The relevant official was only appointed in March 2023, till then the unit was dysfunctional.	Confirmed during the working session on 18 April 2023. Refer to the contract commitment registers of 2020, 2022/2023 and the contract register of 2021 (POE, items 12,13 and 15).
13.		The municipality compiled a list of goods and services regularly procured; however, the method of procurement has not yet been decided.	<ul style="list-style-type: none"> The methods of procurement, i.e., quotations or long-term contracts (panel contracts or price list tenders) have not been determined. 	The relevant official was only appointed in March 2023, till then the unit was dysfunctional.	Confirmed during the working session on 18 April 2023. Refer to the contract commitment register of 2022/2023 (POE, item 13).
14.		No audit and review of all contracts for performance, compliance, and possible consequence management.	<ul style="list-style-type: none"> Contract management function was only formalised in March 2023, and it was therefore not possible to perform any relevant contract management audits. 	The relevant official was only appointed in March 2023, till then the unit was dysfunctional	Confirmed during the working session on 18 April 2023.
15.		The municipality has a contract register; however, it is not updated with the latest contracts.	<ul style="list-style-type: none"> The current contract register is not maintained and therefore outdated. No audit of all contracts for value-for-money assessments including irregular month-to-month contracts for goods and services, expired contracts being used and other irregularities. 	The relevant official was only appointed in March 2023, till then the unit was dysfunctional.	Confirmed during the working session on 18 April 2023. Refer to the contract commitment registers of 2020 and 2021 and the contract register of 2021 (POE, items 12,13 and 15).



GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
			<ul style="list-style-type: none"> No duplicate costs analysis for contracted services and employed staff. 		
16.		There are currently no evergreen contracts in place.	NA	NA	Confirmed during the working session on 18 April 2023.
17.		Contract extensions not following proper SCM procedures.	No committee to monitor contract management	The relevant official was only appointed in March 2023, till then the unit was dysfunctional.	Refer to AGSA findings on contract commitments and management (POE, item 1).
18.	Litigation and contingent liabilities	<p>The municipality has a huge contingent liability potential exposure of 2021/22 = R26 million, having increased from R5 million (excluding ESKOM), as follows:</p> <ul style="list-style-type: none"> R 11m = Damages claim due to poor infrastructure. R 1,8 m = stormwater claim. R 8,6m = dispute re valuers' contract. R 800k = FMS dispute. R 5m = Engineering contract dispute. 	<ul style="list-style-type: none"> No detailed audit of the current situation and diagnostic analysis of root causes of litigation and claims. The litigation register and total contingent liability register are not updated. No adoption and implementation of the draft litigation procedure manual. No legal assessment on reasonable prospects of success on all pending litigation. No assignment of case management to appropriate individuals. No investigation of the default judgments and consequence management. No monthly updates of the litigation register. 	<ul style="list-style-type: none"> There is not a permanently appointed legal advisor. There is no institutional management system to inform and monitor progress with claims, resulting in default judgements. 	Refer to the contingent liability analysis of 2021 and 2022 (POE, item 14). Refer to the draft Litigation Policy (POE, item 29). Confirmed during the working session on 18 April 2023.
19.		The municipality has a panel of attorneys who incurs high professional and consulting costs from litigation cases.	<ul style="list-style-type: none"> The actual audited and verified costs related to legal fees are not known due to poor record management, which the municipality is in the process of correcting. No negotiation of more favourable rates with attorneys. 	<ul style="list-style-type: none"> The municipality failed to negotiate more favourable rates with the current panel of attorneys. Poor record management 	Confirmed during the working session on 18 April 2023

GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
			<ul style="list-style-type: none"> No review of a business case for a legal services unit (In-house versus outsourced). 		
20.		<ul style="list-style-type: none"> The growth of the Eskom debt for bulk purchases has been phenomenal over the past six years, breaching the R500 million threshold in October 2022, and currently sits at R540 203 349 on 28 February 2023. For 2021/2022 the municipality paid 20% of the monthly bills rendered and for the period July 2022 to December 2022, the level of payment improved marginally to 35%. This is the main base for the spiral of the Eskom debt over the years. 		Cash flow restrictions and delayed resolution of ESKOM dispute.	Refer to creditors analysis, 2021 and 2022.
21.		The municipality's indebtedness to SALGA has surpassed R11 million	Need to negotiate a payment plan by June 2026.	Cash flow restrictions.	Refer to creditors analysis, 2021 and 2022.
22.		Auditor General – R7 million	Continue to settle all arrears and achieve a full payment of the current account in respect of the 2021/22 audit [R 3,8 m by June 2023]	Cash flow restrictions.	Refer to creditors analysis, 2021 and 2022.
23.		Pension funds - R 17,8 m	Continue with the agreement of the payment plan with the pension fund by August 2023 and agree on a payment plan signed with CRF of R1,8 m by September 2024.	Cash flow restrictions.	Refer to creditors analysis, 2021 and 2022.
24.	System of delegations	<ul style="list-style-type: none"> There is no adopted delegation framework approved by the Council as well as a set of delegations and sub-delegations, including Finance, SCM, and administrative. The delegation register is not updated and maintained as and when necessary. 	<ul style="list-style-type: none"> The Municipality did not implement a system of delegations which may result in inconsistent decision-making. Although referencing relevant legislation, the current draft set of aligned delegations are not aligned with the Council's own standard rules and municipal Bylaws and Policies which may result in inconsistent application 	Lack of institutional capacity. Limited to no segregation of duties.	Confirmed during the working session on 18 April 2023. Refer to the draft 2021 delegation framework, which was not implemented. (POE, item 25). Refer to Council Standing Rules of 2021 (POE, item 18).



GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
25.	Bylaws and Policies	<ul style="list-style-type: none"> Most Bylaws are old and must be reviewed. The council has 69 Policies (18 = Finance and 51 = Corporate services) awaiting review and approval. No financial reporting on revenue generated from the enforcement of by-laws. 	<ul style="list-style-type: none"> No established inter-departmental task team to review and align all Bylaws and Policies. No consultation with well-performing municipalities to obtain best practice Bylaws and Policies. The code of Bylaws is not maintained. No developed reporting mechanism to monitor revenue generation from new Bylaws. 	Limited oversight and ineffective Council.	Refer to the Gazetted Bylaws (POE, item 36). Refer to Draft Budget policies (POE, item 11). Draft credit control and debt collection policy, 2023 (POE, item 20). Draft indigent policy, 2023 (POE, item 28). Draft property rates bylaw and policy, 2023 (POE, items 30 and 31).
26.		Inadequate by-law enforcement.	<ul style="list-style-type: none"> Inadequate revenue collection. Limited to no enforcement of Bylaws. 	Limited oversight and ineffective Council.	Refer to Draft Budget policies (POE, item 11). Draft credit control and debt collection policy, 2023 (POE, item 20). Draft indigent policy, 2023 (POE, item 28). Draft property rates bylaw and policy, 2023 (POE, items 30 and 31).
27.		No reporting on revenue generated from enforcement of by-laws.	No reporting mechanism to report on revenue generated and enforcement of Bylaws	Limited oversight and ineffective Council.	Confirmed during the working session on 18 April 2023
28.	UIF&W and consequence management	<p>There has been a high incidence of UIFW directly linked to the budget deficit, fruitless and wasteful expenditure as a result, amongst other penalties and interest on the bulk Eskom account, and irregular expenditure as a result of an SCM unit which collapsed over the years, resulting in decentralized SCM processes, non-adherence to regulations, and improper specifications, evaluation and awarding of bids.</p> <ul style="list-style-type: none"> Unauthorized exp 30/6/2022 – R156 m Fruitless & Wasteful 30/6/2022 – R249 m Irregular expenditure 30/6/2022 – R84 m 	<ul style="list-style-type: none"> No investigations on UIFW expenditure in accordance with sec 32 of the MFMA and investigation of financial misconduct aligned to an adopted schedule of investigations with timelines. No adopted and implemented UIF&W expenditure SOP and reduction plan aligned to MFMA circulars 68 and 111. 	<ul style="list-style-type: none"> No proper oversight. Limited institutional capacity. Limited skills transfer. Poor internal controls. Poor record keeping. Limited to no consequence management. 	Refer to relevant UIFW registers, 2020, 2021 and 2022 (POE, items 34, 35, 46, 47, 48 and 86).
29.		MPAC did not put measures in place to investigate UIF&W expenditure.	MPAC members do not have the capacity to investigate breaches, recommend a write-off & identify which to refer for financial misconduct.	Limited MPAC capacity	Confirmed during the working session on 18 April 2023 and the Municipal Manager's formal responses to inquiries (POE, item 54)



GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
30.		No official was subjected to consequence management related to UIF&W expenditure.	No adopted and implemented Consequence management for UIF&W expenditure.	Limited MPAC capacity	Confirmed during the working session on 18 April 2023
31.		Quarterly reporting of UIF&W expenditure is not affected.	No established quarterly reporting on UIF&W	Limited capacity.	Confirmed during the working session on 18 April 2023
32.		DC Board was established, it is functional, and members were trained.	NA	NA	Refer to DC training material, reports, and meeting minutes (POE, item 24). Refer to DC TOR, 2019 (POE, item 23). Refer to Consequence Management Procedure Manual, 2019 (requires review to be updated with June 2020)
33.	Audit action plans	The municipality developed and adopted an audit action plan in December 2022 and monitors it actively	NA	NA	Confirmed during the working session on 18 April 2023. Refer to management committee meeting minutes & Council resolution register (POE, item 91).
34.		The municipality has obtained the following Audit Opinions for the preceding financial years: 2017/2018: Disclaimer 2018/2019: Disclaimer 2019/2020: Qualified 2020/2021: Disclaimer 2021/2022: Adverse	Refer to the discussion at Finance Pillar, item 56	<ul style="list-style-type: none"> No proper oversight. Limited institutional capacity. Limited skills transfer. Poor internal controls. Poor record keeping. Limited consequence management. 	Draft Annual Report 2022 AGSA Audit Report 2020/2021 AGSA draft Management letter 2021/2022
35.		The municipality appointed a service provider at a cost to prepare the 2021/22 AFS.	Despite the expenditure incurred on the service provider the municipality obtained an adverse opinion.	<ul style="list-style-type: none"> Lack of internal capacity. Inappropriate and inefficient bid specification. 	AG 2021/22 audit report. Confirmation from the workshop.

GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
			The AFS was found to be enveloped with material misstatements.	<ul style="list-style-type: none"> Inadequate service level agreement No provision for penalties. 	
36.	Risk management	<ul style="list-style-type: none"> The Risk Policy and registers are up to date. Risk management committee is established and meets regularly. Municipality in the process of appointing a CRO. COGTA provides support to the Municipality. Quarterly risk management reports are submitted since 2022. 	NA	NA	Refer to Operation Risk Register, Risk Policy, and Risk Charter, 2022/2023 (POE, items 61, 74 and 75).
37.		There is no approved business continuity plan in place.	An organisational business continuity plan was not developed	Lack of CRO.	Confirmed during the working session on 18 April 2023
38.	Powers and functions	<ul style="list-style-type: none"> The municipality performs vehicle registration services as well as processing the renewal of licenses and permits on behalf of the Department of Transport. There is an SLA on Vehicle Licensing where the municipality gets 20% of collections. 	No in-depth analysis of cost implications was conducted	<ul style="list-style-type: none"> Lack of institutional capacity. Poor controls. Limited oversight. 	Refer to the past 6-years MTREF analysis
39.		The municipality conducts the following unfunded mandates: Libraries, Vehicle Control (vehicle licenses), and Disaster Management. Some SLA's are not in place.	No in-depth analysis of cost implications was conducted	<ul style="list-style-type: none"> Lack of institutional capacity. Poor controls. Limited oversight. 	Confirmed during the working session of 18 April 2023.
40.	Information and communication technology	The ICT environment has 10 adopted policies in place as well as an ICT Steercom which meets quarterly.	No ICT governance framework in place, only an ICT governance assessment report was concluded recently.	NA	Refer to the 2022/2023 ICT Project and Portfolio Management Policy, Data back-up Recovery and Retention Policy and IT Service Level Management Policy, 2022/2023. (POE, items 39 to 41).
41.		<ul style="list-style-type: none"> The ICT plan was approved on 28 June 2022 and effective the same date under council resolution 81/06/2022/OCM/LLF31/03/22/EXCO27/06/22. Walter Sisulu Local Municipality had conducted an ICT Infrastructure assessment with the assistance from a service provider (ICT Choice). A five-year implementation plan was submitted to WSLM for implementation purposes. As per the report, Management has identified four critical projects to 	No current problems identified.	NA	Refer to ICT SteerCom Charter, 2022/2023 (POE, item 42).



GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
		be implemented during the 2023-2024 financial year. Identified Projects include: <ul style="list-style-type: none"> o VPN/MPLS and Internet Connection Solution o Microsoft 365 e3 licenses or equivalent software o Installation and monitoring of CCTV cameras o Data Backups 			
42.		The municipality does have an approved acquisition, backup and retention strategy and a disaster recovery plan in place, but no funding to implement recommendations.	<ul style="list-style-type: none"> • No audit of all licenses and related costs. • No budget for ICT infrastructure and scan for funding opportunities and sources. 	Lack of funding to invest in appropriate ICT infrastructure	Refer to the ICT governance and infrastructure assessment report and ICT assessment implementation report (2023)
43.		Data is currently being stored with service providers.	No business case for a data backup system.	Lack of funding to invest in appropriate ICT infrastructure	Working session on 18 April 2023
44.	Immovable property management	<ul style="list-style-type: none"> • Some Council properties are occupied by council staff (Rentals are deducted from salaries) and private parties. • There are lease agreements, but some staff members and private parties have ramped up huge debts due to inadequate deductions. • Without updated and audited registers, it is not possible to determine the actual value of debts. • The Asset Management section, however, enters into agreements with renters without informing the finance department, and no list of properties rented is submitted to the finance department monthly. No controls are in place to ensure that all properties rented out are billed accurately and regularly, which may lead to financial losses. 	<ul style="list-style-type: none"> • No review of all lease agreements including the collection of rentals from tenants and whether it is market related. • Non-paying tenants are not ejected from the properties. • Lack of communication and formal procedures between departments. 	<ul style="list-style-type: none"> • No proper oversight. • Limited institutional capacity. • Limited skills transfer. • Poor internal controls. • Poor record keeping. • Limited consequence management. 	Refer to Fixed Asset Register, 2022 (POE, item 32).
45.		The fixed asset register of immovable and leased assets has not been reconciled with the financial data and there are weak controls in property management.	<ul style="list-style-type: none"> • No land audit with recommendations, including a cost-benefit analysis (operational expenditure against revenue collected). • No SOPs with appropriate controls and GRAP-compliant asset registers. 	<ul style="list-style-type: none"> • No proper oversight. • Limited institutional capacity. • Limited skills transfer. 	Refer to Fixed Asset Register, 2022 (POE, item 32).



GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
				<ul style="list-style-type: none"> Poor internal controls. Poor record keeping. Limited consequence management. 	
46.		Strategic land parcels report developed and not yet tabled to council for approval.	Loss of revenue from additional rates and taxes, serviceable area, and socio-economic benefits.	Lack of appreciation of the strategic objectives behind the alienation of strategic land parcels.	Disposal of strategic land parcels for groundbreaking projects report, undated (POE, item 26).
47.		Title deeds of some properties are not in place.	No assessment of all properties for title deeds and initiate processes to acquire title deeds and reconcile alienation transactions with Deeds office records for the past five years	Limited skills	Working session on 18 April 2023
48.	Internal audit	<ul style="list-style-type: none"> The internal audit function and audit committee are functional. The internal audit function is a combination of internal capacity and outsourced support and the 3-year rolling audit plan has been submitted to the chairperson of the audit committee on 13 June 2022 by the CAE, Ms. N Gedze, a registered government auditor with 14 years of auditing experience. An audit committee charter and TOR were established for 2022/23 under 102/06/2022/EXCO27/06/22/OCM. The reporting by the Audit Committee to the Council has been a bit erratic, due to sometimes poor synchrony between the Council calendar and the diary of the Audit Committee chair. The Chief Audit Executive was however in attendance in the last council for the financial year held on 27 June 2023 and presented all the Audit Committee reports 	<p>NA</p> <p>No evidence was submitted on whether Internal Audit and Risk Management Committee's quarterly reports are submitted to Council.</p>	Poor coordination	<p>Refer to Internal Audit Plan, 2023 (POE, item 45).</p> <p>Refer to Audit Committee Charter and TOR, 2023 (POE, item 9).</p>



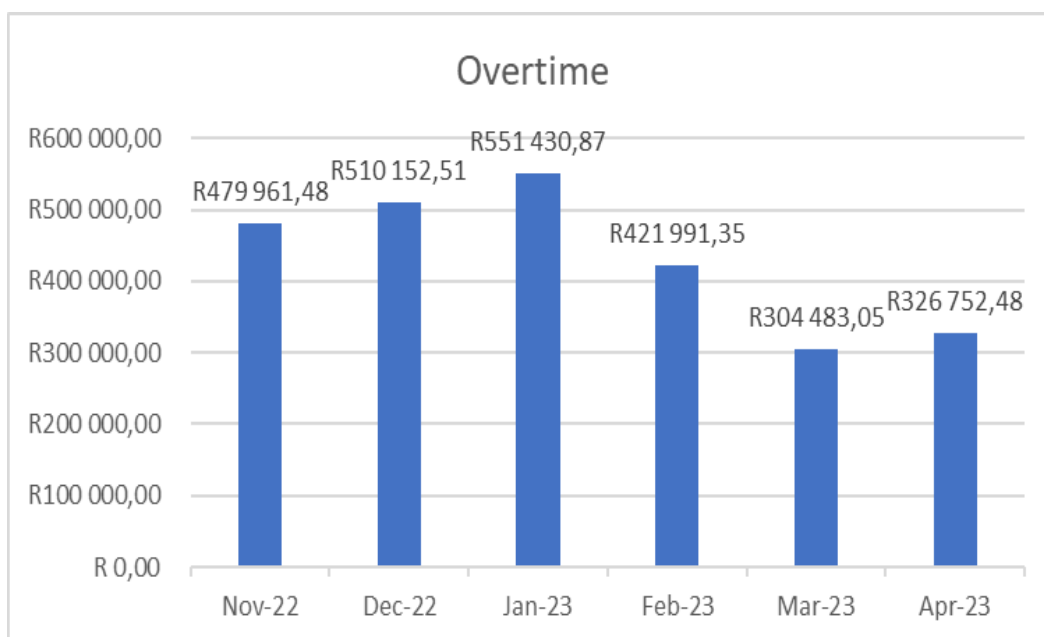
GOVERNANCE PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
49.	Security arrangements	<ul style="list-style-type: none"> The municipality outsources its security services and the contracts have been renegotiated to ensure that service providers are liable for theft losses. A service level agreement dated 20 June 2022 indicates that security has been outsourced to World Focus Trading 1818 Services for 3 years were provided. Another SLA between WSLM and Eastern Guard Security for 3 years from 1 July 2022 to 30 June 2025 was provided. The companies were appointed with effect from 1 July 2022 over a period of three years, at an amount of R32 million. Thus, the monthly payment to the security companies is around R890 000. 	NA	NA	Refer to relevant service level agreements (POE, item 78).
50.	Fraud management	<ul style="list-style-type: none"> The municipality implemented a fraud prevention plan and fraud hotline via the PSC, which is managed through a service-level agreement. There have been no allegations of fraud, maladministration and corruption that have been registered with the hotline. 	NA	NA	Refer to Fraud Prevention Plan, 2022 (POE, item 33). Refer to PSC MOU, September 2022 (POE, item 71).

3.3.1. INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES STATUS QUO ASSESSMENT KEY FINDINGS

The municipality has stabilized its administrative structure for a period of 2 financial years, with both the Municipal manager and Chief Financial officer being in the employment of the municipality. However, the concern remains at all service delivery units, where critical gaps still exist, in the environment of engineering services, legal and other critical competencies. The municipality might face a daunting task to recruit relevant competencies required for the efficient service delivery. The following reflects when the current incumbents started their employ:

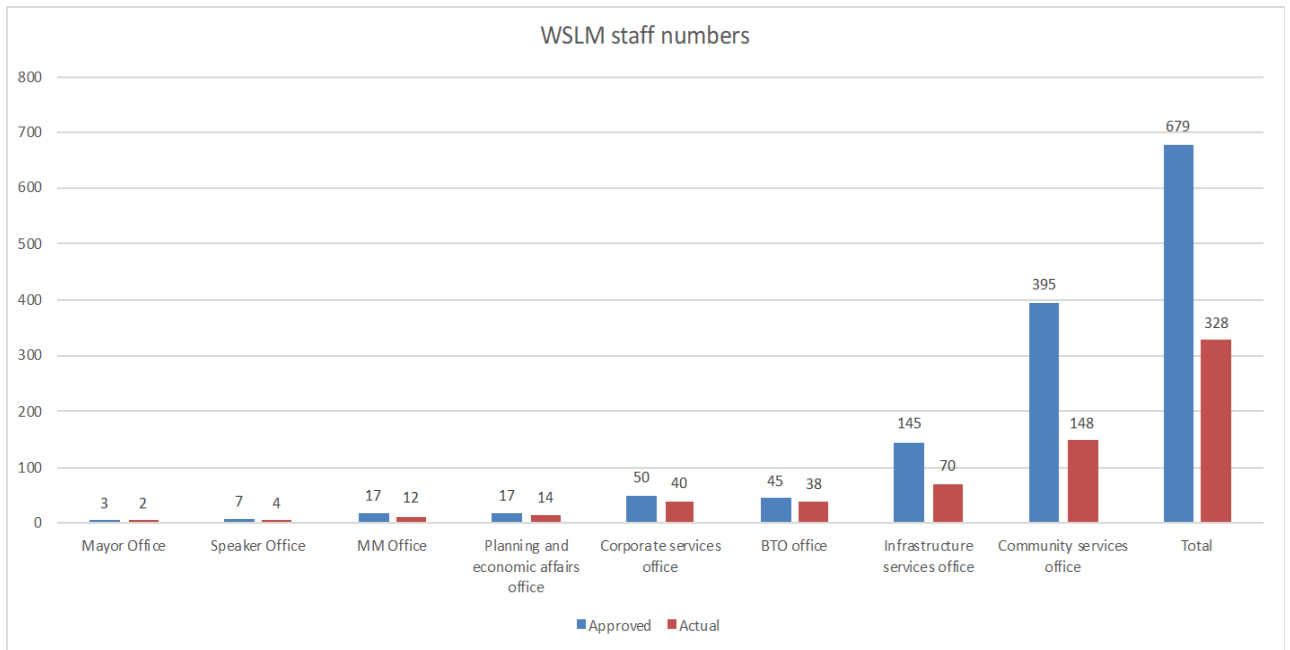
- Position of Municipal Manager – filled – five-year contract – April 2022 to March 2023
- Position of Chief Financial Officer – filled – five-year contract – November 2019 to October 2024
- Position of Director Corporate Services – filled – five-year contract – October 2020 to September 2025
- Position of Director Planning and Economic Development – filled – five-year contract – August 2021 to July 2026
- Position of Director Community Services – filled – five-year contract – May 2020 to April 2025
- Position of Director Infrastructure Services – filled – five-year contract – September 2020 to August 2025.

The overtime summary form dated March 2023 indicates approval of overtime worked and controls in place. The overtime analysis report for October 2022 to March 2023 indicate an increase in overtime cost from a baseline of R145 040,07 in October 2022 and a decrease to March 2023, reflected in the following graph:



Overtime analysis:

The staff allocation between the different departments within the WSLM is reflected as follows:



Staff distribution analysis:

The staff establishment indicates a total of 351 positions with a 52% vacancy rate. However, the municipality needs to conduct a thorough analysis on the staff placement and critical vacancies based on the budget parameters and affordability over the medium- and long-term period. The current 29% staff ratio will adversely be affected by the high vacancy rate in the Municipality.



INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES STATUS QUO ASSESSMENT KEY FINDINGS

The critical key issues identified from the status quo assessment regarding the institutional/ organisational/ human resources matters, are the following:

INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES PILLAR					
No	Focus area	Diagnostic findings	Problems/Key issues	Root causes	Sources of information
1	HR Strategy and policies	The HR standard operating procedures are outdated..	The SOP is undated, and it is not clear if it was adopted and institutionalised.	Inadequate review of HR policies.	PT initial assessment. MM presentation of 9 March 2023. Additional information was provided by MM in a follow-up questionnaire. POEs provided by the Director of Corporate Services via email based on specific requests per pillar from the NT team (Annexure B).
		<ul style="list-style-type: none"> o Reviewed HR strategy should be guiding HR function over the medium to long-term. o Gaps exist in the following key policies: <ul style="list-style-type: none"> a. Recruitment & Selection. b. Placement. c. Promotion-Demotion-Transfer. d. Subsistence & Travelling. o A career pathing and succession policy was adopted on 14 September 2016 effective the same date and reviewed by 91/06/2022/OCM/LLF31/03/22/EXCO27/06/22. o Leave policy: A leave policy was adopted on 14 September 2022 effective the same date and reviewed under 81/06/2022/OCM/LLF31/03/2022/EXCO27/06/22. 	<ul style="list-style-type: none"> o No HR strategy exists for medium to long term. o The existing policies are not aligned with the municipal staff regulations. o Gaps were found in the following key policies: <ul style="list-style-type: none"> o Recruitment & Selection. o Placement. o Promotion-Demotion-Transfer. o Subsistence & Travelling. 	No alignment of Policies.	
2	Change management	<ul style="list-style-type: none"> o Inadequate Program Change Management initiatives o A previous FRP indicates limitations in the change management practices of WSLM. 	The municipality does not have a change management framework.	The municipality has not pronounced itself on the change management approach and desired culture.	
3	Operating model	The WSLM did not have a defined operating model as at June 2023. The Operating model best describes how the municipality intends to provide its services, given that Maletswai and Gariiep have been integrated into WSLM and the new IDP demands a new service delivery approach.	The municipality has not pronounced itself on the Operating Model which could be a drawback for the municipality to provide sustainable service	Inadequate strategic planning and capacity	



INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES PILLAR

No	Focus area	Diagnostic findings	Problems/Key issues	Root causes	Sources of information
4	Organisational structure	<ul style="list-style-type: none"> The vacancy rates are high in some areas according to the current statistics. Some of the problem areas have been addressed by the placement of staff as a number of positions have been filled this way. According to the DCS on 30 June 2023 the vacancy rate does not pose an immediate service delivery problem. It is however evident that at 52% vacancies will ultimately impact service delivery in areas and it should be closely monitored. According to the DCS, the placement of all employees was completed in December 2022, leaving WSLM with a vacancy rate of 52% on the approved organisational structure. Organisational structure: not clear if it is compliant with the new staffing regulations of 1 July 2022. The approved organogram for 2023/24 was used to populate the staffing chart and calculate the vacancy ratio. 	<ul style="list-style-type: none"> The vacancy rate is very high at 52% and may impact the TCOE of the organisation if not strategically phased in through a critical post prioritisation programme. The staffing regulations are effective 1 July 2022 and non-compliance will lead to a finding against the municipality. 	<ul style="list-style-type: none"> Organisational instability/employee dissatisfaction, organisational culture. Knowledge and lack of training on staffing regulations. Structure of WSLM not reviewed for compliance to norms and legal framework. High vacancy rate 	
5		<ul style="list-style-type: none"> WSLM has, for the greater part, only existed in form than in substance. The main issue would be that the integration of staff and creating a structure and organisational culture that reflect an integrated WSLM was a concern, which now are being addressed by new management. This was mainly evidenced by the non-placement of employees in the new organizational structure for most of its existence, however, a placement policy dated 14 September 2016 and effective the same date was approved by council resolution 14/09/2016/SCM and reviewed on as resolutions no 81/06/2022/OCM/LLF31/03/22/EXCO27/06/22. The MM in the annual report of 21/22 states that: "I am pleased by the strides that are being made in reorganizing the municipality's administrative systems exemplified, inter alia, by the finalisation of the long outstanding placement of staff into the revised organisational structure of the new entity." 	Placements have been implemented according to the DCS and therefore no current problems identified.	NA	



INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES PILLAR

No	Focus area	Diagnostic findings	Problems/Key issues	Root causes	Sources of information
6		<p>Top structure stabilised:</p> <ul style="list-style-type: none"> • Position of Municipal Manager – filled – five-year contract – April 2022 to March 2023 • Position of Chief Financial Officer – filled – five-year contract – November 2019 to October 2024 • Position of Director Corporate Services – filled – five-year contract – October 2020 to September 2025 • Position of Director Planning and Economic Development – filled – five-year contract – August 2021 to July 2026 • Position of Director Community Services – filled – five-year contract – May 2020 to April 2025 • Position of Director Infrastructure Services – filled – five-year contract – September 2020 to August 2025. 	No current problems were identified.	NA	
7	Job description and job evaluations	<p>Job descriptions:</p> <ul style="list-style-type: none"> • A TASK evaluation policy was adopted on 14 September 2016 effective the same date and reviewed by 81/06/2022/OCM/LLF31/03/22/EXCO27/06/22. • A report was provided indicating the status of outstanding JDs done and completed as 52 for the period 20 and 24 February 2023 with regards to Corporate Services. • The status quo in Community Services is 310 completed and 43 outstanding to be addressed on 27-31 March 2023. • A further record of 44 pages support evaluated JDs. • Further to that, all job descriptions have been developed and some positions have been evaluated whereby employees are remunerated according to the JE results. The salary scales are therefore adjusted in line with the JE system. 	No current problems identified.	NA	
8	Employee costs	<p>Budgeted Employee Related Cost is 29% of the Total Operating Expenditure for 2022/23 MTREF. The-ratio is in line with the Circular 71 norms.</p> <p>The vacancy rate is addressed through a placement policy and although, according to the DCS should not have a significant</p>	High vacancy rate that will ultimately impact the total cost of employment from a current low baseline.	NA	



INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES PILLAR

No	Focus area	Diagnostic findings	Problems/Key issues	Root causes	Sources of information
		effect on the current staffing budget. The vacancy rate of 52% will ultimately catch up with the municipality's ability to contain the Total Cost of Employment.			
9		COAF 15: ISS.35: Employee-related costs. Difference between General ledger and Payroll	Differences between general ledger and payroll may impact the ability to assess, monitor and evaluate and will lead to findings against the municipality in terms of financial controls.	The system of risk management and control is not effective. Segregation of payroll roles not adequate	
10		An 83-page report was provided to substantiate individual leave entitlement and balances carried forward.	No appropriate controls exist to manage the leave management system	HR not managing employee time and attendance in accordance with Policy provisions and appropriate records management	
11		The LLF of 22 September 2022 agreed on the conditions relevant to motor vehicle allowances, addressing old outstanding service condition matters.	No current problems identified.	NA	
12		COAF 62: ISS.109 -Incorrect calculation of Bonus provision for 2021 not corrected:	Insufficient financial controls lead to Incorrect calculation of Bonus provision for 2021, which were not corrected. No regulatory framework exists to regulate bonus payment in accordance with municipal staff regulations	The system of risk management and control is not effective.	
13		<ul style="list-style-type: none"> Overtime summary form dated March 2023 indicates approval of overtime worked and controls in place. The overtime analysis report for October 2022 to March 2023 indicates an increase in overtime cost from a baseline of R145 040,07 in October 2022 and a decrease to March 2023. 	No current problems identified.	NA	



INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES PILLAR

No	Focus area	Diagnostic findings	Problems/Key issues	Root causes	Sources of information
		<ul style="list-style-type: none"> A previous FRP mentioned differences in calculations of overtime-it did not seem to be a recurring problem according to the AGSA. Overtime approval is at the discretion of the accounting officer and must be motivated by HODs. The overtime cost amounted to R2 479 522.77 for 2021/22. A year-on-year analysis was not available.			
14	Labour relations	A calendar of LLF meetings has been set up and is sitting accordingly.	No current problems identified.	NA	
15	Skills and competencies	Limited SCM and contract management skills. This was confirmed at a working session on 18 March 2023.	Limited skills in the SCM environment will impact the effectiveness of SCM and public procurement and may lead to UIFW expenditure.	Personal development plans should be matching JDs and organisational priorities	
16	Training and development	The Workplace skills plan and annual training plan report was adopted on 28 April 2023 and was submitted to the relevant SETA. The SDF was appointed. The Municipality pay the required Skills levies, and the Municipality are claiming the discretionary grants with payments received in November and December 2022.	NA	NA	
17	Skills transfer	COAF 83: ISS.138 -Lack of evidence of training and transfer of skills from consultants to employees. COAF 83: ISS.139 Inadequate performance management and monitoring of consultants.	A lack of transfer of skills from consultants may lead to over-reliance on consultants and associated costs.	Inadequate planning to ensure that the transfer of skills by consultants to relevant employees of the Municipality is achieved.	



INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES PILLAR

No	Focus area	Diagnostic findings	Problems/Key issues	Root causes	Sources of information
18	Performance management	<ul style="list-style-type: none"> • PMS of the municipality is inadequate. • An individual performance management policy and procedure manual served at LLF on 22 September 2022. • No proper record keeping of performance management exists. • COAF 03: ISS.3. SDBIP KPIs not updated with the Adjustment Budget. • COAF 85: ISS.124 AOPO: Difference between POE File and the APR. • Performance agreements for senior managers for 2022/23 were available for inspection. • Performance management has not been cascaded down to all employees, but a policy was adopted and WSLM is currently consulting with labour and stakeholders on the next steps. 	<ul style="list-style-type: none"> ○ The performance management system is regulated, and non-compliance will lead to findings against the municipality, it may also impact actual service delivery and higher levels of performance. ○ Record keeping supporting financial and performance reporting is not up to standard. ○ KPIs of the SDBIP are not updated with the adjustment budget. ○ Differences between the POE file and APR were found. 	Ineffective PMS mechanisms in place.	
19	Consequence management and discipline	<ul style="list-style-type: none"> • COAF 47: ISS.55 November 2022. UIF&W is not investigated, Disciplinary Board is dysfunctional, and some cases are not reported. 	According COAF 47: Even though council adopted measures- <ul style="list-style-type: none"> • The disciplinary board does not function as required. • Some UIFW expenditure were not investigated. • Some cases of UIFW are not reported. 	<ul style="list-style-type: none"> • No proper oversight. • Limited institutional capacity. • Limited skills transfer. • Poor internal controls. • Poor record keeping. 	
20	Records management	Record management practices are not at a best practice level.	Records management does not perform at optimum levels yet.	<ul style="list-style-type: none"> • Inadequate records management mechanisms in place. • Controls inadequate. 	



INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES PILLAR

No	Focus area	Diagnostic findings	Problems/Key issues	Root causes	Sources of information
21		<ul style="list-style-type: none"> The Department of COGTA appointed the service provider, Eton Group, for the improvement of records management and is currently busy with phase 2 of the project. Positive progress was made in terms of recommendations. A records management policy indicates that it was approved on 28 June 2022 and effective the same date under council resolution 81/06/2022/OCM/LLF31/03/22/EXCO27/06/22. 	Inadequate records management framework. .	Lack of integrated records management system. Lack of implementation of approved policies.	
22		<p>COAF 63: ISS.108 -Differences in leave days taken on leave schedule and employee file: Management agrees with the finding the leave forms were not on file, management also submits the leave files with this response. Date: 11 November 2022. Controls are insufficient to prevent leave balance inaccuracies.</p> <p>COAF 61: ISS.106. Difference between Leave pay schedule days and employee file leave day-prior year.</p>	<ul style="list-style-type: none"> Differences in records of leave days taken and leave entitled exist. Controls to prevent these differences are inadequate. Difference between Leave pay schedule days and employee file leave day-prior year. 	The system of risk management and control is not effective.	
23		COAF 14: ISS.36 Employment practices: Employee contract not renewed	Irregular employment practices.	Lack of oversight and controls	
24	Employer and employee obligations- Pension funds	<p>A settlement agreement indicates the settlement of arrears on SALA, pension fund payments between WSLM and SALA with final payment of arrears in August 2023. The balances on the May 2023 creditors ageing are as follows: SALA - R 17 873 507</p> <p>A settlement agreement between the CRF and WSLM signed on 21 July 2021 also reflects final payments on arrears by 30 September 2023. The balances on the May 2023 creditors ageing are as follows: CRF - R 2 002 933.</p>	No current problems identified. Payment plans are being adhered to.	NA	
25	Agreements and MOUs	The Public Service Commission signed an agreement on 26 September 2022 with WSLM to support one another with sharing resources and enhancing effectiveness and efficiency, specifically related to matters of clean governance.	No current problems identified.	NA	

3.3.3. FINANCIAL MANAGEMENT STATUS QUO ASSESSMENT KEY FINDINGS

MTREF 2022/23 BUDGET AND STATUS

The MTREF budget can broadly be viewed as the financial plan of the municipality.

A ‘credible budget’ describes the ability of a municipality to meet their expenditure and revenue targets accurately and consistently in executing their service delivery mandates.

A ‘funded budget’ is one that is funded by a combination of cash derived from:

- realistically anticipated revenues to be collected in that year; and
- cash backed surpluses of previous years.

The National Treasury’s guidelines of an MTREF budget schedule, provides s that the ‘funded budget assessment’ must be primarily based on:

- revenue and expenditure budget for the financial year;
- the projected cash available;
- working capital requirements which are primarily driven by the outstanding Creditors- and Net Debtors balances; and
- current portion of non-current provisions.

Based on the above the WSLM will, by default, constantly table an unfunded budget in terms of the MTREF budget determination as depicted in “Table A8 Cash backed reserves/accumulated surplus reconciliation”, as its creditors far exceeds any reasonable cash and debtors’ balances at the end of the budget year if no further steps are taken to table a funded budget to council. The Financial Recovery Plan aims to improve the funded budget status through targeted steps to improve the key areas to be covered in the FRP.

Without improved revenue recovery, formal and realistic agreements to defer any portion of creditors beyond 12 months (i.e., non-current) and the implementation of strict cost-containment measures the budget will remain unfunded for the foreseeable future.

Credible budget information is key to achieving a funded budget status and financial recovery. The following analysis of the 2022/23 MTREF budget was performed by comparing the balances to the audited 2022 AFS balances and adjusted for inflation as per MFMA circular 115. The variances identified are therefore used as an indicator of budgeted figures that may not be credible or realistic.

OPERATING REVENUE BUDGET

2022/2023 MTREF revenue budget

EC145 Walter Sisulu Local Municipality - Table A4 Budgeted Financial Performance (revenue and expenditure)						
Description	2021/22	2022/23 MTREF				
R thousand	Audited Outcome	Budget Year 2022/23	Inflation/ Tariff increase	2023 projected (Escalated per budget circular)	Variance	% Variance
Revenue By Source	R '000	R '000		R '000	R	%
Property rates	48,862	59,047	4.8%	51,208	7,839,281	15%
Service charges - electricity revenue	130,248	120,534	9.6%	142,752	(22,218,104)	-16%

EC145 Walter Sisulu Local Municipality - Table A4 Budgeted Financial Performance (revenue and expenditure)						
Description	2021/22	2022/23 MTREF				
R thousand	Audited Outcome	Budget Year 2022/23	Inflation/ Tariff increase	2023 projected (Escalated per budget circular)	Variance	% Variance
Service charges - refuse revenue	19,477	15,427	4.8%	20,412	(4,984,986)	-24%
Rental of facilities and equipment	2,114	3,042	4.8%	2,215	826,942	37%
Interest earned - external investments	-	1,428	4.8%	-	1,428,000	100%
Interest earned - outstanding debtors	24,609	17,993	4.8%	25,790	(7,797,361)	-30%
Fines, penalties and forfeits	350	389	4.8%	367	21,991	6%
Licences and permits	2,431	6,663	4.8%	2,547	4,115,623	162%
Agency services	280	4,704	4.8%	293	4,410,731	1504%
Transfers and subsidies	75,552	82,334	N/A	82,334	-	-
Other revenue	2,857	4,301	4.8%	2,995	1,306,415	44%
Total Revenue (excluding capital transfers and contributions)	306,781	315,862		405,051	89,189,467	-22%

The 2022/2023 MTREF budgeted operating revenue is significantly understated when compared to the projections made based on the 2021/22 financial year's actual results as the operating revenue is expected to decline by 22%.

Property Rates, Service Charges, and Interest of Receivables

Property Rates budgeted is expected to increase by an unrealistic rate of 20,8% from the actual R48,9million in 2021/22 to R59,1million in the 2022/23 financial year, respectively. This inflated projection relates to a R7,8million overstatement of revenue.

Total service charges revenue budgeted is expected to decrease from the actual R149million achieved in the 2020/22 financial year to R136million in the 2022/23 MTREF period which constitutes a 9% decline in revenue. When CPI (Consumer Price Index) and NERSA approved tariffs are applied to escalate the 2021/22 financial year's balances, the variance becomes even more pronounced as the rand value is more than R27million (Electricity revenue R22,2million and Refuse revenue R4,9million). In addition, the budget for Interest earned on Outstanding Receivables is also understated by a projected amount of R7,8million.

Other revenue

All other revenue budgeted amounts (excluding the trivial balance of Fines, Penalties and Forfeits) are significantly inflated when compared to the prior year. Licenses and Permits, Agency Services and Other revenue line items are significantly overstated, totaling R9,8million. Interest is expected to be earned on Investments, but no such interest was received in the previous financial year. Given the current financial situation and cash flow limitations at WSLM, the probability of substantial interest earning investments is minimal and should not be included as a revenue source.

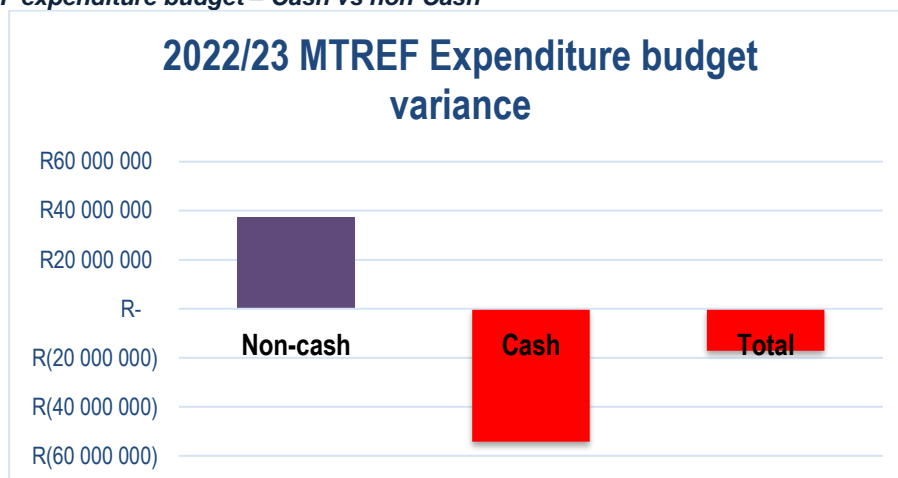
OPERATING EXPENDITURE BUDGET

2022/2023 MTREF expenditure budget

EC145 Walter Sisulu Local Municipality - Table A4 Budgeted Financial Performance (revenue and expenditure)						
Description	2021/22	2022/23 MTREF				
R thousand	Audited Outcome	Budget Year 2022/23	Inflation/ Tariff increase	2023 projected (Escalated per budget circular)	Variance	% Variance
Revenue By Source	R '000	R '000		R '000	R	%
Employee related costs	106,529	109,926	4.8%	111,642	(1,716,021)	-2%
Remuneration of councillors	8,504	8,760	4.8%	8,912	(151,770)	-2%
Debt impairment	9,980	26,000	4.8%	10,460	15,540,473	149%
Depreciation & asset impairment	25,664	49,921	4.8%	26,896	23,025,134	86%
Finance charges	35,869	11,214	4.8%	37,591	(26,376,716)	-70%
Bulk purchases - electricity	128,381	121,000	9.6%	140,705	(19,705,052)	-14%
Inventory consumed		–	4.8%	–	-	100%
Contracted services		26,849	4.8%	–	-	0%
Other expenditure	51,510	20,811	4.8%	53,983	(6,322,865)	-12%
Transfers and subsidies	1,664	550	0.0%	550	-	-0%
Losses	1,392	–	0.0%	1,392	(1,391,859)	-100%
Total Expenditure	369,493	375,031		392,130	(17,098,676)	-4%

The total expenditure is only 4% less than the expected projections. The variances identified on the budgeted amounts are however concerning as they lack any basis of credibility when compared to actual outcomes. Debt Impairment, Depreciation and Asset Impairment and Losses relates to non-cash expenditure items and are overstated by around R38million. In contrary, the rest of the expenditure are cash-related, but is significantly understated to a level of R56million resulting in the net understatement of R17million. It may therefore seem that cost containment is implemented in the budget for cash-related budgeted expenditure through a decrease in the budgetary estimates, and that this perceived saving is counteracted by an unrealistic increase in non-cash expenditure line items to balance the overall expenditure budget. The expenditure budgeted line items are not credible, and the estimates are not useful for the implementation of the budget as it cannot be realistically implemented or monitored.

2022/2023 MTREF expenditure budget – Cash vs non-Cash



CASH FLOW BUDGET

Analysis of the cash flow budget table A7, highlights that the budgeted cash flow statement is not credible. The cash balance contained in A7 flow amounts to R6,8million, yet the balance contained in ‘A6 – Statement of Financial Position’ reflects a credit balance of R24,1million which amounts to a total variance of R30,9million between the balances.

2022/2023 MTREF revenue budget – Debtors collection rate (MFMA Circular 71)

Description	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23
R thousand	Actual	Actual	Budget
Gross Debtors Opening Balance - Service Charges & Rates	176,921,289	224,589,289	313,562,066
Service Charges - Rates and Services	192,058,005	198,587,683	195,008,000
Bad debts written-off	(0)	(0)	(0)
Gross Debtors Closing Balance - Service Charges & Rates	(224,589,289)	(313,562,066)	(297,311,068)*
Debtors collection rate	75%	55%	108%
* - Balance not accurately presented in 2022/23 MTREF Budget. Balance recalculated based on available budget information.			

Debtor collection rates are also not credible as they bear no relevance to historic results. The debtors balance disclosed in the budget schedule lacks credibility (credit balance of R34million) and recalculation of the Debtors closing balance based on budget information (opening balance, billing, debt impairment and cash flows) projects an unrealistic debtors collection rate more than 100%.

2022/2023 MTREF revenue budget – Annual revenue collection rate

Description	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23
R thousand	Actual	Actual	Budget
Cash Flow - Service Charges & Rates (A7)	148,477,339	159,410,506	185,258,000
Service Charges & Rates - Billing (A4)	192,058,005	198,587,683	195,008,000

Revenue collection rate	77%	80%	95%
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Another assessment ratio which can be used is the annual “Revenue Collection Rate” which is based on the cash flow receipts in relation to the total amount billed for a specific year. This ratio is not ideal as gross debtor balances are growing, leading to increased irrecoverable amounts each year, but it provides some insights into the reasonability of the budgeted collection rates used. The budgeted revenue collection rate of 95% is also unrealistic and excessive when compared to the actual revenue collection rates calculated (2019/20 to 2021/22, shows a 3-year average of 77%). The expenditure cashflow budget also reflects a projected payment ratio of 100% of the total “cash-related expenditure” budgeted, whereas the actual ratio achieved for the 2021/22 financial year was only around 67%. This leads to an unrealistic expectation of the municipality’s capacity to absorb further expenditure and limits management’s ability to implement the expenditure budget and cash flow effectively.

Creditor’s balances and estimated payments are also not credible or realistic. The 2022/23 MTREF budget assumes a payment ratio of 100% of all cash-related expenditure (also referred to credit purchases), whereas the actual payment ratio for the 2021/22 financial year only amounted to around 67% of all cash-related expenditure. The total credit purchases (cash-related expenditure) for the year and the creditor’s closing balance included in the 2022/23 MTREF budget are also markedly understated. The budgeted credit purchases show an unrealistic decrease of 16% from the 2021/22 audited balances and a decrease in creditors balance of 2%. Both balances are however expected to increase substantially due to current cash flow limitations.

In conclusion, this entire section deals with the credibility and reasonability of the budgeted amounts. The variances are inherently due to budget estimates that are not credible or realistic driven by poor budgeting principles.

MUNICIPAL TARIFFS

The municipality’s tariffs are not applied consistently throughout the municipality. Section 74(3) of the Municipal Systems Act states: A tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas, and other matters as long as the differentiation does not amount to unfair discrimination. Section 74(2)(a) contains a principle that states, “users of municipal services should be treated equitably in the application of tariffs”.

Tariffs must be cost-reflective, in other words, consider the overall costs of delivering the service throughout the municipal area. If different tariffs are implemented for different towns, purely due to a lack of integration post-amalgamation, and without clear reasons, it can easily be interpreted by a user to be unfair discrimination based on their “social origins” (which is protected by a constitutional right). This could also be misconstrued as a lower (or higher depending on the town) level of service being rendered which should be standardized.



FINANCIAL MANAGEMENT STATUS QUO ASSESSMENT KEY FINDINGS

The critical key issues identified from the status quo assessment regarding the financial management matters, are the following:

FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
1.	Funded budget and budget parameters	<ul style="list-style-type: none"> The MTREF budget analysis is performed on the main budget schedules, A4, A6 and A7 to assess if the budget figures are credible and realistic given historic trends. Budgeted Financial Performance (revenue and expenditure) is not credible or realistic. The total budget revenue is understated, and expenditure is overstated. Budgeted Statement of Financial Position is not credible or realistic. Significant variances were identified in Current Assets, Non-current Assets, Current liabilities, Non-Current liabilities and Accumulated Surplus. 	<ul style="list-style-type: none"> Approved 2022/2023 MTREF budget schedule is incomplete, unrealistic, and not credible. 	<p>Inadequate budget alignment: The financial system is not sufficiently aligned to extract credible data strings and budget schedules directly from the system.</p> <p>Poor implementation of budgeting principles: Basic budgeting principles are not adhered to as the budget amounts for Income and Expenditure are not aligned to realistic results from past financial years. No clear reasons exist for the variances identified.</p> <p>Lack of Balance Sheet and Cash Flow budgeting: The municipality only budgets for income and expenditure (capital and operational) with no balance sheet or cash flow budgeting considerations. No intelligence is built into the financial system to calculate the impact on the balance sheet accounts and no payment ratios are used to establish realistic cash flows.</p> <p>Inadequate implementation of mSCOA: The lack of implementation of a mSCOA compliant data strings on the financial system is significantly contributing to the quality of outputs from the system. The municipality's chart of accounts must be aligned to the latest version of mSCOA to allow for quality and/or</p>	<p>Annual Financial Statements 2021/2022;</p> <p>Annual Financial Statements 2020/2021;</p> <p>Original Budget - 2022/2023 MTREF A Schedule</p> <p>MFMA Circular 115</p>
2.			<p>Overall understatement of projected revenue, driven by:</p> <ul style="list-style-type: none"> Understatement of Service charges and interest on receivables (budget amount is roughly 9% less than the 2022 AFS balance). Service Charges (R22 million) Interest on receivables (R8 million) 		
3.			<p>Understatement of expenditure, driven by:</p> <ul style="list-style-type: none"> Understatement of bulk purchases (R19 million) Understatement of finance charges (R26 million) Understatement of "other expenditure" (including contracted services not reflected in AFS) (R6 million) 		
4.			<p>Current Assets:</p> <ul style="list-style-type: none"> Budgeted Cash is in credit (-R24 million) Budgeted Consumer Debtors balance is in credit (- R34 million) included in budget (around R14million in 2022 AFS) 		
5.			<p>Non-Current Assets:</p> <ul style="list-style-type: none"> Budgeted Investment Property is in credit (-R 155 million) Budgeted Property, plant, and equipment balance is around R 477 million whereas the 2022 AFS balance is in excess of R 1 billion Budgeted Biological Assets balance is around R 352 million whereas the 2022 AFS balance was only around R 3 million 		



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
			<ul style="list-style-type: none"> Other Non-Current assets are budgeted just under R 3 million while Heritage Assets balances in 2022 AFS is around R 45 million 	consistency of data to be extracted from the system.	
6.			<p>Current Liabilities:</p> <ul style="list-style-type: none"> Budgeted Trade and Other payables are understated as the projected balance is around 7% (R40 million) less than the 2022 AFS balance. The understatement is projected to be significantly more than R 40 million No current portion of Provisions (balance of around R14million per 2022 AFS) 		
7.			<p>Non-Current Liabilities:</p> <ul style="list-style-type: none"> No budget amounts for Borrowings (including Employee benefit obligations), whereas the 2022 AFS balances were in excess of R 35 million No budget amounts for Non-Current Provisions, whereas the 2022 AFS balance was around R 44 million 		
8.			<p>Accumulated surplus:</p> <ul style="list-style-type: none"> Budgeted Accumulated surplus is around R 147 million whereas the 2022 AFS balance is around R 909 million This relates to an understatement of around R 762 million 		
9.		Budgeted Cash flow projections included in the MTREF budget is not credible	<p>Budgeted Cash Flows:</p> <ul style="list-style-type: none"> Overstatement of cash receipts relating to Service Charges. Budgeted receipts are R24 million more 		



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
		or realistic based on historic payment- and recovery rates.	<p>than 2022 AFS, even though revenue is budgeted for a 9% decrease in billing (the budgeted recovery rate of Service Charges is around 84% which is significantly more than actual collections rates per 2022 AFS of around 60%)</p> <ul style="list-style-type: none"> • Overstatement of payments to suppliers and employees. The budget amount is around R88 million more than the 2022 AFS balance (the amount constitutes 100% of the cash-related expenditure) • No budgeted cash payments relating to Finance charges (2022 AFS R32 million) • Budgeted Cash Flow balances do not agree with the cash balance per A6. Cash per Cash Flow Statement is around R6,9 million whereas the cash balance per A6 is in credit (-R24 million). This relates to a variance of around R31 million 		
10.	Budget-related policies (Finance & HR)	The implementation of existing policies may be problematic based on the extensive list of audit findings.	<p>The following budget-related policies may need to be developed and/or reviewed as various shortcomings may be addressed through these policies:</p> <ul style="list-style-type: none"> ○ Cash Management and Investment policy ○ Asset Management policy (updated version) ○ Fleet Management policy ○ Budget implementation policy ○ Funding and reserves policy ○ Travel, Accommodation, and Subsistence policy ○ Cost Containment policy ○ Unauthorised, Irregular, Fruitless, and Wasteful Expenditure Policy ○ Indigent policy ○ Debt and credit control policy (updated version) ○ Property rates policy (updated version) 	<ul style="list-style-type: none"> • Lack of proper implementation and/or monitoring of approved policies. • Budget related policies are developed which are not addressing the key issues of the WSLM sufficiently. 	<p>GoMuni website</p> <p>WSLM website Draft Annual report page 56</p>

FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
Revenue management value chain/revenue raising measures (revenue targets)					
11.	Revenue Management (metered services and vending)	No revenue-related reconciliations are being performed	No revenue reconciliations were done between the billing system and the general ledger, issue on the AFS	<ul style="list-style-type: none"> Challenges experienced with the billing system to extract the required information. Lack of oversight 	Draft Annual report page 27
12.		No meter audit performed	Lack of meter data which may inhibit the debt-collection processes	Lack of effective management of meters	Revenue Streamlining Status Quo Assessment Report
13.		No meter audit performed	Faulty or missing meters not identified which may lead to unmetered losses and an unmitigated rise in the Eskom debt		
14.		Outdated standard operating procedures	The SOPs are not regularly updated in line with the system used and relevant employees. The Revenue SOP still refers to the SEBATA system instead of SAGE. The processes are not optimally aligned with the new financial system.	Lack of review and implementation of adequate Standard Operating Procedures	Revenue Streamlining Status Quo Assessment Report
15.		Agency services from vehicle registrations handled on behalf of province are not reconciled	No reconciliations are done on agent fees (bank statement & GL)	<ul style="list-style-type: none"> Poor records management Poor systems of Internal control. No regular updating of the FMS 	Draft Annual report page 28
16.	Revenue Management (metered services and vending) (continued)	Meter reading and input shortcomings	<ul style="list-style-type: none"> Meter readings are still being performed manually. Manual reading takes much longer and is more prone to human errors than other alternatives. Meters are not properly link to the correct properties and clients on the FMS. Meter readings inputs are also problematic as the capturer sometimes neglects to change the reading date/period which means that the reading is captured in the incorrect period, therefore affecting the accuracy of billing, and negatively impacting the billing process. A billing meter reading run (aka route) must be completed for the month before any billing can be affected. Inaccurate/incomplete meter readings 	<ul style="list-style-type: none"> Element of human error due to the manual nature of meter readings and lack of controls leads to errors in inputs into the financial system. Lack of historical information caused by the implementation of the new financial system and inputs from officials 	Workstream engagements - 18 April 2022



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
			impact this process and the accuracy of overall billing.		
17.		Billing for service charges is inaccurate	<ul style="list-style-type: none"> The financial system has limitations when meter readings are not available. The system inputs estimated readings, but these readings are generally not realistic which often leads to overbilling of clients. Inaccurate billing is leading to a decline in consumer and rate-payers confidence. Delays in rectifying inaccurate billing cause exponential growth in outstanding balances which will negatively impact the appetite and ability of consumers to pay for services. The integrity of billing information is perceived not to be credible and reliable. 	Lack of historical information caused by the implementation of the new financial system and inputs from officials	Revenue Streamlining Status Quo Assessment Report Presentation by Municipal Manager Workstream engagements - 18 April 2022
18.		Estimate meter readings are corrected after-the-fact when actual readings are obtained and are only done when customers query the balances	<ul style="list-style-type: none"> Inconsistent amounts reflected on accounts provided to customers on a month-to-month basis. When the billing process is concluded and the account is sent to the consumer, no adjustments should be made to the account for that period. Currently, the municipality amends consumer accounts retrospectively when readings are obtained which changes amounts previously billed as well as opening and closing balances. 	<ul style="list-style-type: none"> Misunderstanding of financial management practices Unrealistic estimates when actual meter readings are not available 	Annual financial statements 2021/2022 Revenue Streamlining Status Quo Assessment Report
19.		Interest on outstanding accounts	<ul style="list-style-type: none"> The interest rate levied on outstanding debt is incorrect. No interest rate is specified for outstanding debtors. The debt collection and credit control policy does not indicate the interest rate applicable to outstanding debt 	Due to the billing system, the calculation of interest is done incorrectly (simple interest) where the policy speaks to compounded interest	Draft annual report 2021/2022-page 28
20.				The credibility of debtors' balances due to billing complications	Debt collection and credit control policy



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
21.	Revenue Management (Property rates)	Property rates are not levied on all categories of properties.	No rates levied on commercial farmland which impacts on the completeness of property rates revenue being levied.	<ul style="list-style-type: none"> Lack of processes to identify commercial farmland. Incomplete General Valuation Roll The municipality not performing interim/supplementary valuations regularly 	Draft annual report 2021/2022-page 20
22.		General Valuation Roll GVR is not reconciled with the financial system	Variances identified between GVR, and the valuations loaded on the financial system.	<ul style="list-style-type: none"> Lack of oversight by management Limitations in the use of the financial system Financial system limitations leading to misalignment. Lack of internal review processes: <ul style="list-style-type: none"> Insufficient review of data prior to importing into the financial system Lack of review when errors are identified and corrected 	
23.		The general valuation roll, and supplementary valuation roll have not been made public	No public notice calling for inspection of a valuation roll, or supplementary valuation roll and lodging of objections as required by the Municipal Property Rates Act.	<ul style="list-style-type: none"> The update of the website currently forms part of the duties of the district municipality and the municipality does not take ownership. Lack of internal review processes to ensure compliance with the MPRA and regulations. 	Municipal website Draft Annual report page 56
24.	Debtors Management and Revenue collection	The collection rate of outstanding debtors for 2021/22, as contained in the Draft Annual report is insufficient.	<ul style="list-style-type: none"> Low collection rate of 68% from conventional services (without prepaid) Debtor's days increased from 187 days in 2021 to 323 days in 2022. 	Due to ineffective credit control and debt collection processes being implemented	Draft annual report 2021/2022-page 37



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
25.		Inadequate Debt collection processes and a lack of commitment to implement council's debt collection and credit control policy	<ul style="list-style-type: none"> The debt collection and credit control policy are not being implemented and regularly reviewed (at least yearly with budget) Debtors' services are not cut with non-payment since the National lockdown. Gross debtors' balance increased from 2021 to 2022 by 31% (2021/22: R397 912 737 and 2020/21: R304 051 353) <ul style="list-style-type: none"> Rates 2022 - R81,144,531 (2021: 52,270,142) Electricity 2022 – R126,563,470 (2021: R80,480,817) Refuse 2022 – R105,854,065 (2021: R43,395,057) Other Arrears – R72,366,477 (2021: R115,746,268) JGDM 2022 – R10,295,640 (2021: R10,295,640) Other 2022 – R1,688,552 (2021: R1,763,439) Significant increase in refuse debt of 144% (gross) Per the policy the municipality aims for a turnover rate of 45-56 days 	Effective debt control process not in place	Draft annual report 2021/2022-page 59 Annual financial statements 2021/2022 Debt collection and credit control policy Revenue Streamlining Status Quo Assessment Report
26.		Councillors and staff members in arrears	<ul style="list-style-type: none"> Per the 2021/2022 AFS the total debt outstanding amounted R280 292 which were more than 90 days. Outstanding balances as at 31 March 2023: Councillors – R268,276 Officials/Staff – R365,979 	<ul style="list-style-type: none"> Effective controls not in place to ensure councillors and staff members pay their outstanding debt (treat them on the same terms as other consumers). This is in direct contravention of the Municipal Systems Act., Schedule 1, section 12A 	Annual financial statements 2021/2022 Municipal Systems Act -Schedule 1 Code of Conduct for Councillors
27.		Incomplete debtors' information	<ul style="list-style-type: none"> The integrity of debtor's information is not credible and reliable. The debtors Masterfile contains significant omissions of critical debtors' information, such as ID numbers, contact details etc. The lack of this 	<ul style="list-style-type: none"> Poor credit control and debt collection principles applied. 	Workstream engagements - 18 April 2022 Revenue Streamlining Status Quo



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
			information makes it impractical to deliver invoices/statements and impossible to enforce credit control and debt collection.		Assessment Report
28.		Unallocated receipts due to incorrect banking references	The allocation of payments from the bank statements is not clear due to inconsistent references used by customers. This is in-turn causing consumer payments not to be reflected timeously and ultimately leading to a decline in consumer confidence in the debtors' administration section	<ul style="list-style-type: none"> Inconsistent references used by consumers for electronic payments. Lack of staff to interrogate and allocate each electronic payment when the reference is insufficient. 	Workstream engagements - 18 April 2022 Revenue Streamlining Status Quo Assessment Report
29.	Debtors Management and Revenue collection (continued)	Misallocation of payments not offset to the services for each account.	<ul style="list-style-type: none"> Debtor payments are allocated to "sundry" and not to the specific service it relates to. Debtors' balances relating to specific services are therefore overstated and incur interest on the service balances deemed to still be "outstanding". 	Incorrect set-up of debtors' ledger on the financial system to allocate payments based on priorities established by the municipality and pre-loaded on the financial system.	Workstream engagements - 18 April 2022 Annual financial statements/ Management report 2021/2022 Revenue Streamlining Status Quo Assessment Report
30.		Duplicate accounts	<ul style="list-style-type: none"> The financial system created numerous accounts for each debtor. Farm properties are often invoiced in duplicate which creates further complications as farms comprise various portions, compounding the number of accounts. This has led to a lack of consumer confidence in the billing system and in turn, negates the debt collection efforts. 	Financial system limitations	Workstream engagements - 18 April 2022 Revenue Streamlining Status Quo Assessment Report
31.	Customer care and data accuracy	Lack of records and poor debtors' data management	Ineffective billing system to obtain information on debtors. Debtors' information must be obtained and corrected on the financial system	<ul style="list-style-type: none"> Transfer of information from the previous financial system to the current financial system (SAGE), information lost. 	Draft annual report 2021/2022-page 27



FINANCIAL MANAGEMENT PILLAR							
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information		
				<ul style="list-style-type: none"> Debtor information not regularly reviewed 			
32.		The municipality's SDBIP for 2023/2024 provides for (1) the development of the Service Standards Charter and the and (2) an integrated customer care strategy	The current customer care charter only caters for the electricity service under the Maletswai area.	<ul style="list-style-type: none"> No approved Service standards charter in place 	Municipal Manager		
33.	Cost-reflective tariffs	Approved municipal tariffs are not cost-reflective	<ul style="list-style-type: none"> Tariffs are not cost-reflective. The increase in tariffs is not cost-reflective. All tariffs are increased by inflation-linked and NERSA approved escalation (contained in MFMA Budget circulars). Tariffs are not applied consistently throughout the municipality 	<ul style="list-style-type: none"> Tariffs are escalated based on the minimum inflation targets. Cost reflective tariffs have not been calculated nor phased in through a clear implementation plan. 	Tariff listing 2022/2023 Workstream engagements - 18 April 2022		
34.				<ul style="list-style-type: none"> Different tariffs are applied on Electricity between Gariep & Maletswai Employees still work in silos and have not sufficiently integrated after the amalgamation in 2017 	Presentation of the Municipal Manager		
35.	Indigent management	Indigent register and applications are not regularly updated	<ul style="list-style-type: none"> Municipality relies on data from SASSA which is in contravention with requirements of the debt collection and credit control policy. Differences exist between indigents on the financial system and indigent register. 	<ul style="list-style-type: none"> Credit control and Debt collection policy not effectively applied. 	Draft Annual report page 36 Debt and credit control policy		
36.				Insufficient validation of indigents	<ul style="list-style-type: none"> Indigent status is easily obtained through an affidavit stating income within the threshold and an application signed-off by the ward councillor. Only one occupant (ownership not considered) needs to apply for indigent status. Indigent status is based on the total household income, yet no further investigation/vetting is done upon receipt of one affidavit. 	<ul style="list-style-type: none"> Inadequate vetting of Indigent customers No reconciliation between the indigent register and consumers benefiting from the indigent program as loaded on the financial system 	Annual financial statements 2021/2022
37.						Revenue Streamlining Status Quo Assessment Report	
38.							



FINANCIAL MANAGEMENT PILLAR						
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information	
			<ul style="list-style-type: none"> There were various instances where tender applications were made by individuals who have indigent consumer status. 			
39.	SCM compliance and value for money	Poor contract management and oversight controls	<ul style="list-style-type: none"> Effective procedures not in place to monitor period and spending. Service providers are still being paid, even when the contract expired (such as security). Renewed on a month-to-month basis. Budget vs actual not monitored (for example Burgersdorp sport stadium) 	<ul style="list-style-type: none"> Lack of implementation of an effective SCM policy Insufficient monitoring of SCM processes Poor implementation of consequence management Insufficient tender evaluation processes expose the municipality to a risk of material non-compliance Inadequate review processes 	News article stadium Irregular register 2021 Contract register 2021 Draft annual report page 36	
40.						
41.						
42.		Various instances of non-compliance with SCM policy	<ul style="list-style-type: none"> Some procurement (under R200k) was done without the required quotations. Some procurement (above R200k) was done without inviting competitive bids. Non-disclosure by suppliers in terms of persons employed by the state or connected to a person employed by state. No declaration of interest Awards were made to providers who were in the service of the municipality and whose directors/shareholders are employed by the municipality. Performance of some contractors was not monitored on a monthly basis. 			Audit Report 2020/2021 Management letter 2021/2022
43.	SCM compliance and value for money (continued)	Commitments	Proper records not kept of commitments (value of contracts, payments occurred)	<ul style="list-style-type: none"> Position of SCM manager vacant in the previous financial year Lack of updated SCM policy. Lack of proper recordkeeping on capital spending. 	Presentation of the Municipal Manager Draft annual report 2021/2022-page 29	
44.	Cost containment.	Lack of evidence of any cost containment measures implemented	Based on the findings contained in the 2021 audit report and repeated in the 2022 audit findings, no indication could be obtained that any targeted cost containment measures have been implemented.	Lack of implementation of effective cost-containment measures	2012/2022 Audit file Budget-related policies submitted	

FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
45.		No evidence of a cost containment policy obtained.	No cost containment policy could be obtained to evaluate the status and/or overall approach to the implementation of cost containment measures.	No policy to guide cost containment measures	Draft annual report 2021/2022 page 325-327
46.	Financial control environment	Weak internal control environment	<ul style="list-style-type: none"> Leadership did not adequately oversee the internal control environment, and this is evidenced by repeated findings during audit. No progress in respect of financial disciplines relating to the daily, weekly, and monthly reconciliation. Risk management activities were not adequately designed or implemented to mitigate high and/or pervasive risks of material misstatement 	<ul style="list-style-type: none"> Lack of oversight over daily, weekly, and monthly procedures Lack of an effective Internal control environment 	Draft Annual Report 2022 Audit Report 2021 Draft Management report 2022
47.	Debt restructuring	Repayment arrangements with creditors	<ul style="list-style-type: none"> The municipality has entered into repayment arrangements with various creditors for long outstanding amounts, including, the Auditor General, SALA Pension fund and Consolidated Retirement Fund No agreement has been entered into with ESKOM, given the municipality's inability to service the monthly invoice. 	Significant cash flow limitation combined with extensive creditors balances which have accumulated over numerous years (before and since amalgamation)	Municipal Manager
48.	MFMA circular 71 financial ratio analysis against set norms	Key findings from ratio analysis performed in terms of circular 71: Debtors Collection rates	<ul style="list-style-type: none"> Due to the lack of credibility of debtors' balances contained in the MTREF budget (debtors balance in credit), the budgeted debtors collection rate could not be calculated and/or compared. An alternative to assess the reasonability of recovery rates is to calculate the ratio of actual cash received (per Cash Flow Statement) in relation to the revenue billed (per Statement of Financial Performance). Based on the above method, the average recovery rates for the last 3 financial years and budgeted recovery rates are as follows: 	<ul style="list-style-type: none"> Poor implementation of budget principles Lack of Balance Sheet and Cash Flow budgeting Lack of credit control and debt collection processes and consequences for non-payment 	MFMA Circular 71 ratio analysis



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
			<p>Property Rates: 3-yr average - 88% (Budget - 95%) Service charges: 3-yr average - 73% (Budget - 95%) Rates and Service charges: 3-yr average - 77% (Budget - 95%)</p> <ul style="list-style-type: none"> Actual collection rate is in decline based on the last 3 financial years. The combined recovery of consumer- and rates debtors has retracted from 75% to 55% which relates to a 26% decline. 		
49.		<p>Key findings from ratio analysis performed in terms of circular 71: Current ratio</p>	<p>The current ratio is considerably less than the minimum norm of 1,5 :1: Current ratio for the last 3 years is between 0,3 and 0,4: 1</p>	Escalating creditors' balance in relation to declining net debtors' balance due to the inability to recover outstanding debts effectively	MFMA Circular 71 ratio analysis
50.		<p>Key findings from ratio analysis performed in terms of circular 71: Efficiency of financial performance is measured as the surplus in relation to revenue. The norm is that the percentage should be more than >0% (i.e., no losses)</p>	<ul style="list-style-type: none"> The municipality should at least recover operational costs for the services rendered. Currently the WSLM is incurring overall losses and, even more alarmingly, significant losses on trade services. The overall net operating surplus for the preceding 2 years is in decline and was calculated as -11% in 2021 and -16% in 2022. The net operating surplus/deficit relating to Technical Services was calculated to determine if the services were provided profitably. Analysis of the 2 preceding years indicates that the services are being rendered at a massive loss and more alarmingly that it is in a steep decline. The 2021 ratio for the technical department is calculated as -30% in 2021 and -58% in 2022. Electricity bulk purchases are virtually in line with the Service charges billed. This does not even consider the cash flows/recovery rates 	A significant lack of efficiency in revenue-generating services leads to losses that cannot be recovered through other revenue sources.	MFMA Circular 71 ratio analysis AFS 2021/2022 - segmental reporting

FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
51.		<p>Key findings from ratio analysis performed in terms of circular 71:</p> <p>Electricity distribution losses substantially exceed the norm of between 7% and 10%</p>	Electricity distribution losses are calculated to be around 20% for both the 2021 and 2022 financial years (rand value around R21 million in 2021 and R25 million in 2022)	<ul style="list-style-type: none"> Weaknesses in effective control of electricity losses. No clear reasons identified and may possibly be due to: <ul style="list-style-type: none"> Illegal connections (no report w.r.t current status) Meter tampering Unmetered connections Lack of or aged infrastructure 	Draft Annual Report 2022
52.		<p>Key findings from ratio analysis performed in terms of circular 71:</p> <p>The revenue growth rate for the 2023 MTREF budget shows a reduction of 8% rather than an inflation-related increase:</p>	<ul style="list-style-type: none"> The norm for Revenue growth % (Excluding capital grants) is the average CPI which is around 4,8%. Based on historical information, revenue growth has slowed over the last few years as this rate was: <i>13% in 2020/2021, 2% in 2021/2022, and -8% budgeted for 2022/2023.</i> 	Changes made to the billing system. Budget revenue seems to be unrealistically low based on prior year billing outcomes.	MFMA Circular 71 ratio analysis
53.		<p>Key findings from ratio analysis performed in terms of circular 71:</p> <p>Creditors' payment period exceeds the norm of 30 days significantly:</p>	<ul style="list-style-type: none"> Creditors' payment period has steadily increased over the past 3 years from 685 days in 2019/2020 to 923 days in 2021/2022. The ratio for the 2022/2023 budget is calculated to be around 1078 days. High outstanding other creditors balances: <ul style="list-style-type: none"> AGSA (R7 million) Pension and Medical Aid funds (R33 million) SALGA (R11 million) 	<ul style="list-style-type: none"> Significant losses in electricity Significant Interest accrued on outstanding creditors. Inadequate levels of cash generation through debt collection Lack of appetite to pay significant creditors and third parties 	MFMA Circular 71 ratio analysis
54.		Budget implementation indicators have improved, but Operating revenue indicators is still unsatisfactory:	<p>Based on the actual results for 2020/2021 and 2021/2022, WSLM has improved the ratios as follows (norm 100%):</p> <ul style="list-style-type: none"> Operating budget expenditure ratio improved from 128% in 2021 to 99% in 2022 	<ul style="list-style-type: none"> Unrealistic overall revenue budget estimates are not based on credible historical information 	MFMA Circular 71 ratio analysis



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
			<ul style="list-style-type: none"> Operating budget revenue ratio is still not optimal but has improved from 111% in 2021 to 89% in 2022 (which is still a deficit of around R40 million) Capital budget implementation has improved considerably, and no capital grants were unspent on 30 June 2022. The capital budget is still problematic as it is not sufficient to cater to the service delivery needs. 		
55.	Technical vs financial	Poor internal communication between the technical department and the finance department.	<ul style="list-style-type: none"> The property rental register is managed and maintained by the technical department. The municipal lease register is not reconciled with the financial system leading to a loss of income. Meter audits are required as the meter information is not accurately captured on the financial system 	<ul style="list-style-type: none"> Poor internal processes Lack of credible meter information 	Workstream engagements - 18 April 2022
56.	Financial reporting and AFS preparation	<p>The municipality has obtained the following Audit Opinions for the preceding financial years:</p> <p>2017/2018: Disclaimer 2018/2019: Disclaimer 2019/2020: Qualified 2020/2021: Disclaimer 2021/2022: Adverse</p>	<ul style="list-style-type: none"> Very little progress in effectively addressing audit findings reported in the 2021 audit report. In most cases, the nature of the prior year findings was resolved, but these were replaced by other shortcomings identified by the auditors. There has been a slight improvement in financial records as the auditor's reference to the 'poor status of accounting records' are much less prevalent which means that information was available for audit purposes. The change in the financial system majorly contributed to the lack of significant improvement in audit opinions. Audit action plan for 2022 at 90% Inadequate review of financial reports by senior management Inconsistent reporting by the Audit Committee to Council 	<ul style="list-style-type: none"> Lack of adequate internal procedures Dispute between WSLM and AGSA - Although improved from the prior year's 'limitation of scope' caused by a complete lack of information, the information reported in the AFS is still not adequately supported according to the AGSA, which is being disputed by WSLM. Insufficient oversight and support by audit committee. 	Draft Annual Report 2022 AGSA Audit Report 2020/2021 AGSA draft Management letter 2021/2022

FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
57.	Unauthorised, Irregular, Fruitless and Wasteful expenditure	<p>There has been a high incidence of UIFW directly linked to the budget deficit, fruitless and wasteful expenditure as a result, amongst others in the main, of penalties and interest on the bulk Eskom account, and irregular expenditure as a result of an SCM unit which collapsed over the years, resulting in decentralized SCM processes, non-adherence to regulations, and improper specifications, evaluation and awarding of bids:</p> <ul style="list-style-type: none"> • Unauthorized exp 30/6/2022 – R156 m • Fruitless & Wasteful 30/6/2022 – R249 m • Irregular expenditure 30/6/2022 – R84 m 	<ul style="list-style-type: none"> • High irregular expenditure not investigated. • The vacancies and the high turnover of key personnel also contributed to certain SCM contraventions. • There are inadequate systems in place to identify, detect and prevent UIWF expenditure when it occurs. Significant portion of irregular expenditure identified by the Auditor General 	<ul style="list-style-type: none"> • Ineffective MPAC committee. Committee lack of knowledge of SCM requirements to investigate the expenditure. • SCM policy and SOPs are not revised or implemented annually with the budget (SOP last updated in February 2020 and SCM policy in 2018). 	<p>AFS 2021/2022 Draft annual report 2021/2022-page 35,36 Audit report 2021/2022 AFS 2021/2022; Irregular Expenditure Register 2021/2022 Draft annual report page 351</p>
58.		Irregular, Fruitless, and Wasteful expenditure – improper record keeping	Safekeeping of documents such as bidder documentation and vouchers is problematic.	Poor controls for the safe keeping of documents	Audit report 2021/2022
59.		Unauthorised expenditure	No mechanisms were implemented to identify possible Unauthorised expenditure proactively during the year. Unauthorised expenditure is generally identified during the AFS compilation process	Ineffective budget processes cause an unmitigated risk of unauthorised expenditure as control over budget implementation figures is not always realistic, therefore the control on overspending and monitoring thereof is rendered useless.	

FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
60.		Unauthorised, irregular, and fruitless and wasteful register and non-compliance with S32(4)(a)(b) and (c) of the MFMA.	<ul style="list-style-type: none"> • Proper and complete registers not kept for Unauthorised, irregular, and fruitless expenditure. • The municipality did not promptly inform the MEC for local government in the province and the Auditor-General, in writing of UIFW expenditure incurred in line with s32(4)(a)(b) & (c) of the MFMA 	<ul style="list-style-type: none"> • Lack of implementation of SCM policy • SCM policy not revised with the budget process. • Lack of review of registers with the position of SCM manager that was vacant in the previous financial year. • Non-compliance with provisions of the MFMA. 	AFS 2021/2022 Draft annual report 2021/2022 page 28, 35,36
61.	mSCOA implementation	mSCOA not fully implemented.	<ul style="list-style-type: none"> • AFS 21/22 not compiled in accordance with mSCOA for example expenditure - no disclosure of inventory consumed or contracted services. • Disclosure of general expenditure • Not all modules of the financial system are implemented for example asset management 	Inadequate implementation of mSCOA regulations.	AFS 2021/2022
62.		MSCOA - Non-compliance with regulations.	<ul style="list-style-type: none"> • Over and above the business reforms in terms of mSCOA, the mSCOA charts standardises municipal reporting to National Treasury. • The lack of which constitutes non-compliance with the MFMA and makes oversight by treasury problematic. • Budget verification by the National Treasury is performed based on the mSCOA 'data strings' which must be extracted directly from the financial system. • No functional Steering committee for MSCOA implementation • No mSCOA Road Map developed. • Data Strings not credible • The municipality does not fully make use of mSCOA modules on all business Processes. • ICT infrastructure is not compatible with mSCOA minimum requirements. 	Lack of implementation and compliance with mSCOA regulations.	Draft Annual Report 2022 AFS 2021/2022



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
			<ul style="list-style-type: none"> Challenges integrating mSCOA modules with the financial system resulting in transactions being incorrectly recorded/classified 		
63.	Asset management	Poor record management	<ul style="list-style-type: none"> Completeness of assets recorded due to the state of the recordkeeping. Limitation raised on support for PPE, Investment Property, and Heritage assets 	<ul style="list-style-type: none"> Inadequate systems of internal controls. The lack and implementation of an effective asset management strategy 	Audit report 2021/2022 Draft annual report 2021/2022 page 26,27, 36 Organogram
64.		Maintenance vs new infrastructure: Maintenance of key assets is not prioritised, and the lack of asset maintenance is leading to infrastructure breakdowns and service delivery limitations. Assets are rapidly deteriorating at an unsustainable rate.	<ul style="list-style-type: none"> Significant maintenance is done on old infrastructure rather than improvement of infrastructure. Maintenance expenditure per 2021/22 AFS - R11 954 676 		
65.		No updated asset management policy in place	No updated asset management policy in place to indicate details such as: <ul style="list-style-type: none"> Timing of verifications Responsible official (organogram outdated) Financial reconciliations to be done (e.g., asset register to trial balance) Review of maintenance vouchers to identify additions. Preventative maintenance Guide for the classification of items 		



FINANCIAL MANAGEMENT PILLAR						
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information	
66.		The current state of fleet is unsatisfactory in relation to service delivery needs	<ul style="list-style-type: none"> Fleet levels across all services are estimated to only cover around 50% of the service delivery needs 	<ul style="list-style-type: none"> Cash flow limitations The lack and implementation of an effective asset management strategy 	Confirmed by MM	
67.	Cash Flow Management	Contingent liabilities	<ul style="list-style-type: none"> Significant contingent liabilities - 2021/22 - R168 415 286 Contingent liability of R145 000 000 in 2021/22 AFS. The court case against Eskom (first responder) and the municipality (second responder) by a food manufacturing supplier in Aliwal. 	<ul style="list-style-type: none"> No confirmation obtained from legal representatives, overstatement in the AFS. No effective cash management policy to investigate unallocated deposits and clear the account. This could lead to an overstatement of debtors, where payment made by a debtor is not allocated. No cost containment policy Due to the low collection rate from services and high reliance on government grants to fund expenditure. From the amalgamation, previously Gariep LM did not make payments to pension funds. Outdated Standard operating procedure (SOP) - last dated March 2020 	Audit report 2021/2022 Draft annual report 2021/2022-page 29 AFS 2021/2022 Presentation by the municipal manager	
68.		Unallocated deposits	<ul style="list-style-type: none"> Unallocated deposits for 2021/2022 - R12 249 678 			
69.		Outflow of cash higher than inflow of cash not sustainable	<ul style="list-style-type: none"> Total trade payable (from suppliers) R527 766 749 vs total cash R24 499 261 WSLM is over-reliant on government grants to fund expenditure: Government grants 64 % of total income. Non-payment of third parties (pension and medical aid): Total outstanding 2021/2022 - R33 130 795 Invoices not paid within 30 days and resulting in high-interest cost (2021/22 AFS - R28 752 157 			
70.	Expenditure / Creditor Management	Employee related cost ratio	<ul style="list-style-type: none"> Employee-related cost recorded not accurately. Employee cost for 2021/22 financial year constituted 29% of the total operating expenditure which is mainly due to the high vacancy rate. 	<ul style="list-style-type: none"> Inadequate reconciliation performed between the payroll report and the financial system general ledger. High number of vacancy rate as a result of the amalgamation. 	Draft annual report 2021/2022 page 357, 308,28,35 Presentation by the municipal manager AFS 2021/2022 Presentation of Municipal Manager Letter WSLM to Eskom Letter dispute lodged with Nersa Workstream engagements	
71.		High Audit fees	<ul style="list-style-type: none"> Audit fee for 2021/2022 - R7100 970 (expenditure). 			<ul style="list-style-type: none"> Non-payment of account due to cash flow constraints. 1% rebate received from Treasury due to cash flow constraints
72.		High Bulk purchases	Bulk purchases for 2021/22 - R128 380 522 (35% of total expenditure)			<ul style="list-style-type: none"> Dispute with Eskom on bulk account of Aliwal and Burgersdorp Non-payment of account due to cash flow constraints



FINANCIAL MANAGEMENT PILLAR					
No	Focus area	Diagnostic finding	Problems/Key issues	Root causes	Sources of information
73.		Lack of creditor management	<ul style="list-style-type: none"> Per 2021/22 AFS total balance outstanding trade payables - R527 766 749. Total balance for payables from exchange R574 325 320 	<ul style="list-style-type: none"> Cash flow constraints Ineffective expenditure management Proper reconciliations not performed between age analysis, general ledger, and creditors statement 	
74.		Unidentified Deposits	The balance of deposits yet to be identified is growing year-on-year	Inconsistency in payments references limiting the allocation of receipts	

OVERALL ASSESSMENT OF THE WSLM FINANCIAL MANAGEMENT ENVIRONMENT:

The Revenue management section is problematic driven by severe billing complications which inhibit any improvement in the sub-standard debt collection rates. Revenue is the lifeblood of the municipality, and any financial recovery will be dependent on efficient and effective revenue generation and collection.

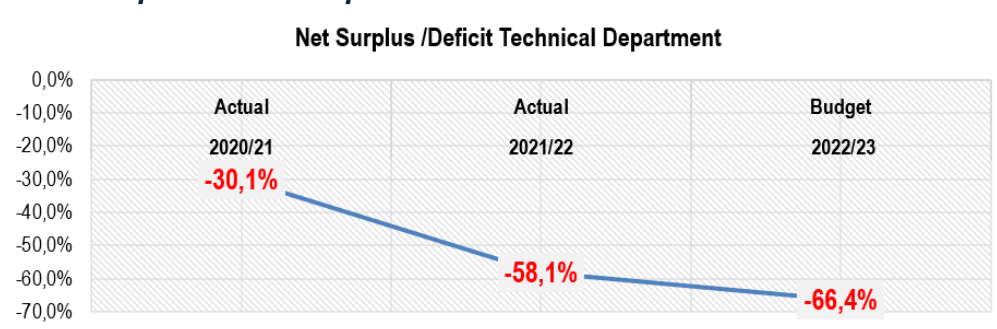
The revenue-related issues mainly pertain to:

- a) Consumption readings– meter readings and/or inputs and system limitations where the financial system billing module is not providing accurate outputs;
- b) Property Rates billing due to inconsistencies between the general valuation roll (including supplementary valuations) and the financial system information;
- c) Indigent consumer management – a significant number of indigents which are not sufficiently validated;
- d) Unmetered consumption – Electricity losses amounts to around 20%; and
- e) Financial system limitations (Debtor management) - debtor payments not allocated to the services it relates to, duplicate debtor accounts, etc.

There has been a significant increase in customer queries due to, amongst others, the problems listed above which has a distinct negative impact on customer perception and ultimately, the revenue collection rates. This is evident from the steep decline in debtors’ collection rates which has declined to 55% for the 2022 financial year and debtor days which has increased by 72% in the financial year 2021 to 2022, respectively. Limitations in revenue generation and collection is compounded by the fact that the municipality is yet to implement cost-reflective tariffs which continues to have a negative financial impact.

The net/surplus per service department could not be determined based on the audited 2021/2022 financial information, but a high-level net deficit for the Technical Department could be established, which shows an alarming downward trend. Based on the department results, services are being rendered at an unaffordable level and the continued downward trend is not sustainable.

WSLM Technical Department – Surplus or deficit



Creditor balances are escalating at an alarming rate which is having a debilitating impact on financial operations. Revenue collection is insufficient to allow for the expenditure required to deliver quality services and must improve urgently. Given the limited available revenue base, municipal expenditure must be reduced, but care should be taken to ensure that expenditure reductions are done in a realistic and sustainable manner. Cost reduction must be planned for and implemented in terms of targeted expenditure reduction strategies and/or cost containment plans.

Improvements have been noted in capital expenditure and spending of capital grant funding. Capital expenditure in relation to Operating expenditure is still below the norm and capital projects should be prioritised to ensure the municipality will be able to deliver to the future needs of the community.

ANALYSIS OF KEY FINANCIAL RATIOS – MFMA CIRCULAR 71

Ratio	2020/21 Actual	2021/22 Actual	2022/23 Budget	INTERPRETATION
Asset Management				
Capital Expenditure to Total Expenditure – indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services. The norm is 10% - 20%.	6%	5%	8%	Capital expenditure in relation to total expenditure is expected to increase from 5% to 8% due to an increased capital grants allocation. The ratio is still below the norm.
Repairs and Maintenance to Property, Plant and Equipment and Investment Property – measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to services delivery. The norm is 8%.	0.4%	0.9%	1.4%	Actual and projected spending on repairs in relation to the Property, Plant and Equipment is significantly below the norm of 8%. Maintenance of key assets are not prioritised, and the lack of asset maintenance is leading to infrastructure breakdowns and service delivery limitations. Assets are rapidly deteriorating at an unsustainable rate.
Debtors Management				
Annual Collection Rate - indicates the level of payments by debtors as a percentage of revenue billed on credit. The norm is 95%.	75%	55%	108%	2022/23 budget collection rate is significantly above actual results and is completely unrealistic. Revenue collection is the lifeblood of the municipality and steps must be taken to plan, monitor and implement proper revenue management strategies and budget projections. Actual results are way below the norm and are deteriorating. The prolonged underperformance to this extent is a key contributor to the severe financial challenges highlighted in the SQA.
Bad Debts Written-off as % of the Bad Debt Provision The Ratio compares the value of Bad Debts Written-off on Consumer Debtors to Bad Debts Provided for Consumer Debtors to ensure that the Provision for Bad Debts is sufficient. The norm is 100%.	0%	0%	0%	No bad debts were written off over the two years under review and no write-offs are included in the budget. This is an indication of poor debtors' management.
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. The norm is 30 days.	187 Days	323 Days	Not measurable	Debtor's days for the 2 years under review are significantly above the norm of 30 days and the exponential growth in debtor's days is of grave concern. Debtor's days increased from 187 days in 2021 to 323 days in 2022. If the same rate were to be maintained, debtor's days are expected to exceed 600 days by the end of 2023. The inability to collect outstanding amounts is a major contributor to the severe financial

Ratio	2020/21 Actual	2021/22 Actual	2022/23 Budget	INTERPRETATION
				challenges and will continue to inhibit operations and overall financial recovery.
Liquidity Management				
Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants)				The ratio is significantly less than the benchmark of 1-3 months indicating that the municipality is unable to sustainably fund monthly operational expenditure and continue the services delivery. The budget ratio for 2022/23 is not credible due to a negative cash and cash equivalents balance.
The Ratio indicates the Municipality's or Municipal Entity's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue.	0.23	0.72	-0.90	
The norm is 1-3 months				
Current Ratio - this ratio indicates the extent to which current assets can be used to settle short-term liabilities. If current assets do not exceed current liabilities, it means a liquidity problem i.e., insufficient cash to meet financial obligations.				Current ratio is below norm. The budget ratios are not credible of reliable as the full extent of payables and debtors balances are not reflected. The unmitigated increase in current liabilities driven by the increasing payables balances and non-collection of debtors means that the ratio is expected to decline further if action is not taken imminently.
The norm is 1.5 - 2:1.	0.30	0.42	0.00	
Liability Management				
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure - indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure.				Municipality does not have any significant external borrowings.
The norm is 6% - 8%	0%	0%	0%	
Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue.				Municipality does not have any significant external borrowings.
The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings.	1%	1%	0%	
The norm is 45%.				
Efficiency				
Net Operating Surplus Margin				Municipality had a Net Operating Deficit for all periods under review. The 2022/23 MTREF budget indicates further deficits projected and the operating surplus margin is declining year-on-year.
- measures the net surplus or deficit as a percentage of revenue.	-11%	-15%	-19%	
The norm is > 0%				
Distribution Losses				
Electricity Distribution Losses (%)	20%	20%		

Ratio	2020/21 Actual	2021/22 Actual	2022/23 Budget	INTERPRETATION
<p>The purpose is to measure the percentage loss of potential revenue from Electricity Services through electricity units purchased and generated but not sold because of losses incurred.</p> <p>The norm is 7% - 10%</p>			Not measurable	Distribution losses are above the norm indicating a lack of control over and safeguarding of electricity distribution. Electricity losses is result of illegal connections, unmetered connections and a dilapidated electricity network. The estimated rand value is in excess of R25 million per year and is another key contributor to unmitigated increases in the Eskom debt. These losses are over and above the impact of poor debt collection of billed amounts.
<p>Water Distribution Losses (Percentage)</p> <p>The purpose of this ratio is to determine the percentage loss of potential revenue from water service through kilolitres of water purchased but not sold because of losses.</p> <p>The norm is 15% - 30%.</p>	Not measurable	Not measurable	Not measurable	Not measurable due to a lack of information
Revenue Management				
<p>Revenue Growth (%) – measures the growth in revenue year on year.</p> <p>The norm is at the rate of CPI</p> <p>CPI 2020/21 (2.9%)–MFMA Circular 115</p> <p>CPI 2021/22 (4.9%)–MFMA Circular 123</p> <p>CPI 2022/23 (6.9%)–MFMA Circular 123</p>	10%	2%	-1%	Revenue growth was above CPI in 2020/21 theoretically reflecting growth which may have been impacted by strict lockdown restrictions. Nominal revenue growth was recorded in 2021/22 and a decline in revenue is expected in 2022/23. Revenue growth together with subsequent collection thereof should be prioritised.
<p>Revenue Growth (%) - Excluding Capital Grants</p> <p>Measures the growth in revenue excluding capital grants year on year.</p> <p>The norm is > 5%.</p>	13%	2%	-8%	Similar trends to above are observed when comparing revenue growth excluding capital grants. The projected negative growth in revenue is even more pronounced when capital grants are excluded.
Expenditure Management				
<p>Creditors Payment Period</p> <p>This ratio indicates the average number of days taken for trade creditors to be paid.</p> <p>The norm is 30 days.</p>	921 days	923 days	1079 days	The municipality’s ratio is significantly above the norm. Delayed payment of creditors increases risk that suppliers of service providers withdraw their service or provision of goods which will disrupt service delivery. This is also an indication of liquidity challenges which the municipality is facing. Creditor days stabilised during 2022, but budget projections show further decline in creditors days based on the 2022/23 MTREF. Non-compliance with MFMA regulations that requires creditors be paid within 30 days of invoices.
<p>Irregular, Fruitless and Wasteful and Unauthorized Expenditure to Total Expenditure – this ratio measures the extent of irregular, fruitless and</p>	42%	19%	Not measurable	The municipality’s ratio for the past 2 financial years is significantly above the norm. Only the expenditure for the year was considered rather than the

Ratio	2020/21 Actual	2021/22 Actual	2022/23 Budget	INTERPRETATION
wasteful and unauthorized expenditure to total expenditure.				cumulative balance disclosed in the 2022 AFS. This indicates weaknesses within the municipality's SCM processes, non-compliance with procurement regulations, significant payments made in vain and overspending of the approved budget. The municipality must investigate all instances of this Unauthorised, Fruitless and Wasteful Expenditure in line with its policies and applicable legislation.
The norm is 0%.				
Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure - Indicates the extent to which expenditure is applied to the payment of personnel.	32%	31%	29%	The results are within the norm, but skills and competency are still lacking in certain areas which may affect the ratio in future.
The norm is 25% - 40%.				
Contracted Services as a % of Total Operating Expenditure - indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions.	Not measurable	Not measurable	Not measurable	Insufficient information to calculate the ratio
The norm is 2%-5%.				
Budget Implementation				
Capital Budget Implementation Indicator	45%	131%	Not measurable	Based on the assessments performed on budget amounts and discrepancies found, budget implementation indicators are not reliable enough to make any comments on success of budget implementation. Any performance within the norm may be purely coincidental.
This ratio measures the extent to which Budgeted Capital Expenditure has been spent during the financial year, under review.				
The norm is 95% to 100%				
Operating Expenditure Budget Implementation Indicator	128%	99%	Not measurable	Based on the assessments performed on budget amounts and discrepancies found, budget implementation indicators are not reliable enough to make any comments on success of budget implementation. Any performance within the norm may be purely coincidental.
This ratio measures the extent to which Budgeted Operating Expenditure has been spent during the financial year, under review.				
The norm is 95% to 100%				
Operating Revenue Budget Implementation Indicator	111%	85%	Not measurable	Based on the assessments performed on budget amounts and discrepancies found, budget implementation indicators are not reliable enough to make any comments on success of budget implementation. Any performance within the norm may be purely coincidental.
This ratio measures the extent of Actual Operating Revenue (Excl. Capital Grant Revenue) received in relation to Budgeted Operating Revenue during the financial year, under review.				
The norm is 95% to 100%				
Billed Revenue Budget Implementation Indicator	118%	88%	Not measurable	Based on the assessments performed on budget amounts and discrepancies found, budget implementation indicators are not reliable enough to make any comments on success of

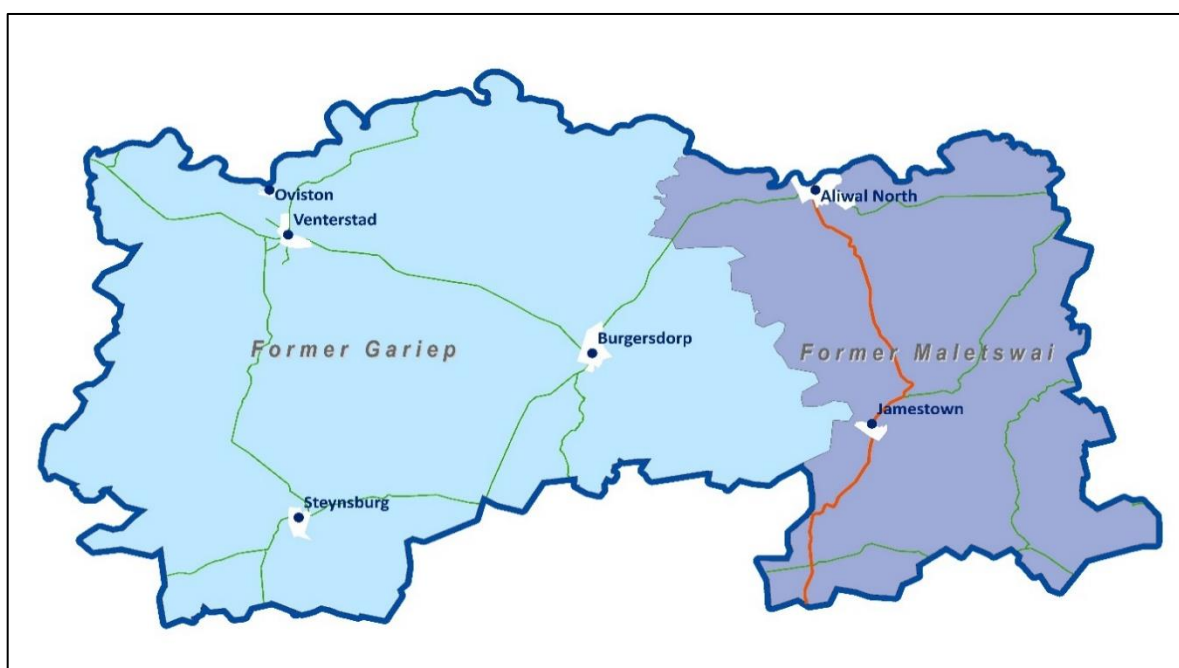
Ratio	2020/21 Actual	2021/22 Actual	2022/23 Budget	INTERPRETATION
				budget implementation. Any performance within the norm may be purely coincidental.

3.3.4. SERVICE DELIVERY

SERVICE DELIVERY STATUS QUO ASSESSMENT KEY FINDINGS

Infrastructure Portfolio Overview

The Walter Sisulu Local Municipality (WSLM) forms part of Joe Gqabi District Municipality (JGDM) and infrastructure services are rendered in all five (5) major towns, Venterstad, Burgersdorp, Aliwal North, Steynsburg, and Jamestown (James Calata), and was created by amalgamating the erstwhile Local Municipalities of Maletswai and Gariep.



The following documents and strategies are specifically relevant and have been reviewed:

- WSLM IDP (2022/2023)
- WSLM SDF (Nov 2022, 2nd Draft)
- WSLM Fixed Asset Register (2021/2022)

Infrastructure services in Walter Sisulu Local Municipality include the following:

Infrastructure Service	Responsibility
Roads	WSLM
Stormwater	WSLM
Electricity	WSLM and ESKOM
Solid Waste	WSLM
Water	JGDM
Sanitation	JGDM

Infrastructure Asset Management (IAM) is the combination of management, financial, economic, engineering, and other practices applied to physical assets to provide the required level of service most cost-effectively for present and future customers. (Ref International Infrastructure Management Manual (IIMM) – V3 Par 1.1.3).

The following statement has been adopted for Walter Sisulu Local Municipality (WSLM): “The Council’s strategic objective of service delivery includes the persistence of the acceptable levels of service as well as the improvement in those areas where it lacks acceptable levels.” (Ref Walter Sisulu Municipality Annual Report 2021/22 FY).

Currently, there is no Asset Management Plan (AMP), or Asset Management Maintenance and Renewal Policy formalised for managing infrastructure assets to determine acceptable levels of service and the requirements to maintain the assets at the desired levels of service.

Field verifications were conducted in the 2022 financial year for all asset classes, whose infrastructure form part of the responsibility of WSLM. The table below indicates the number of assets per town.

Number of Assets per Town

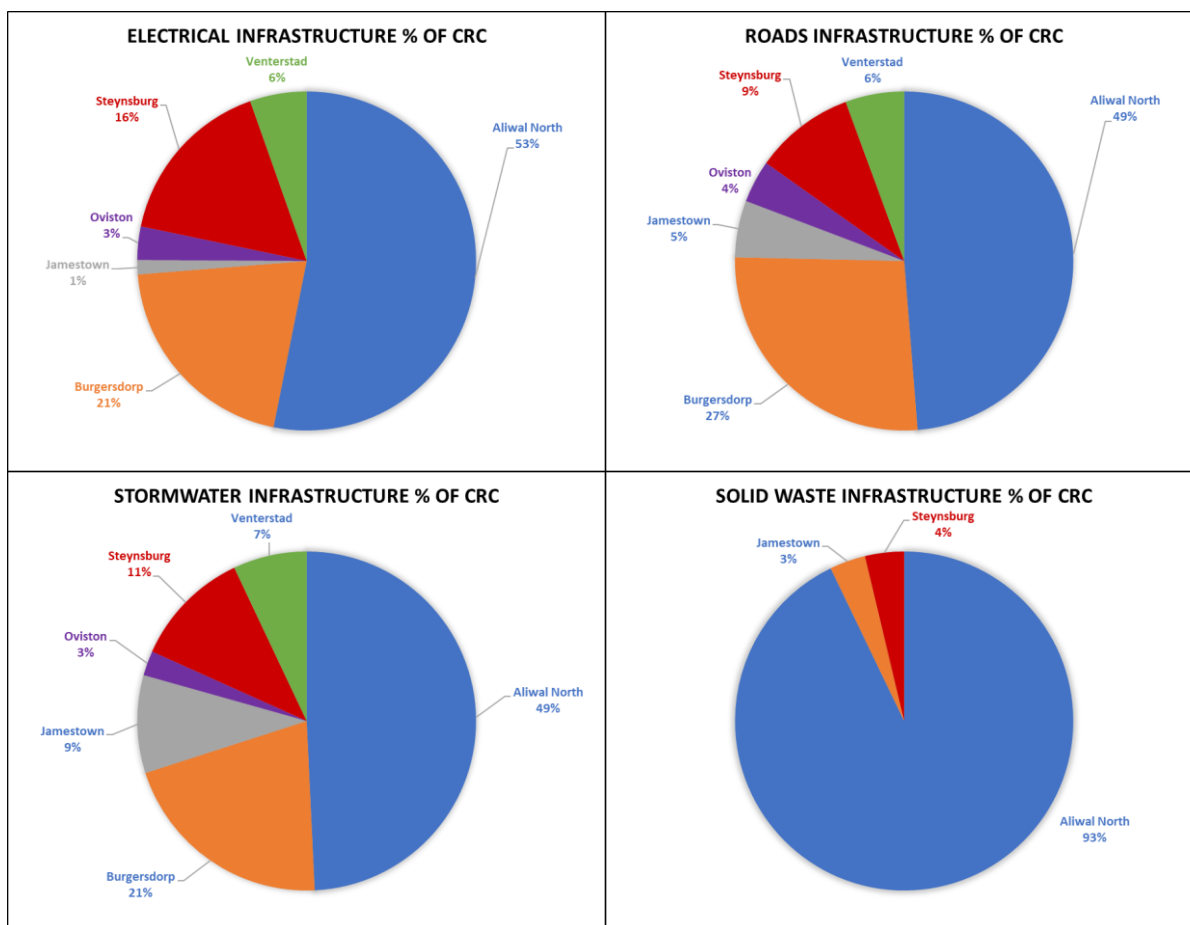
Asset Class	Aliwal North	Burgersdorp	Jamestown	Oviston	Steynsburg	Venterstad
Electrical infrastructure	5228	2383	168	343	838	606
Roads infrastructure	2099	1012	347	146	652	449
Solid waste infrastructure	20	0	3	0	4	0
Stormwater infrastructure	1909	718	335	77	468	263
Total	9256	4113	853	566	1962	1318

The Current Replacement Cost (CRC) is based on the cost of replacing an asset with a modern equivalent asset. The table below summarises the total number of assets per asset class and the total CRC (excl. land) and the percentage (%) of the total CRC.

Asset Class	Total Number of Assets	% of CRC	Total Current Replacement Cost (at 30/06/2022)
Solid waste infrastructure	27	1%	R 13 190 562.64
Electrical infrastructure	9566	18%	R 248 387 459.03
Stormwater infrastructure	3770	23%	R 317 070 822.12
Roads infrastructure	4705	58%	R 791 617 021.47
Total	18068	100%	R 1 370 265 865.26

Current Replacement Cost per Asset Class

The figures below are a visual representation to illustrate the percentage (%) of the total CRC per asset class per town.



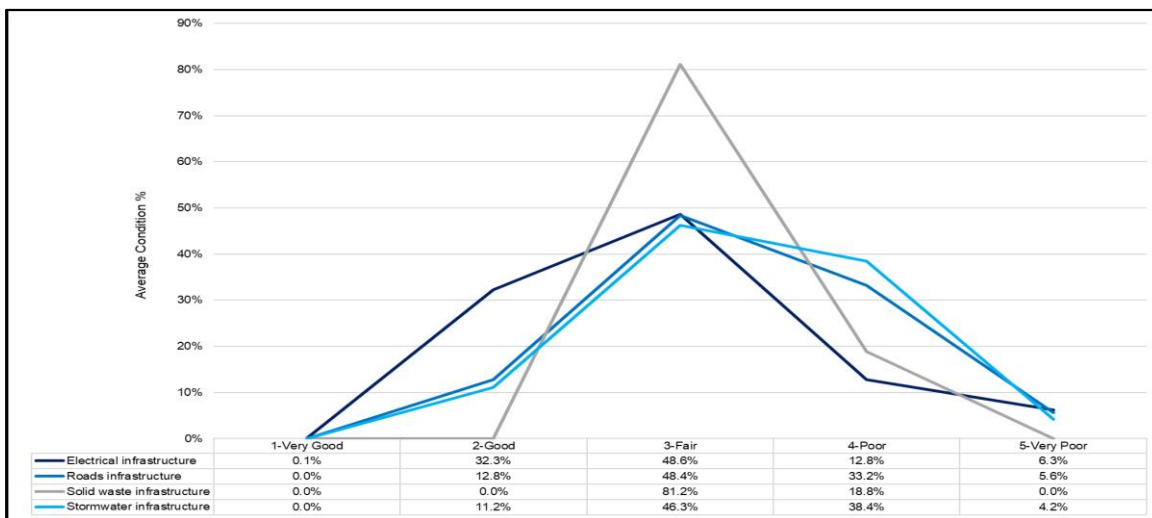
The condition of infrastructure assets provides short-term and long-term financial commitments for both capital and maintenance and operational requirements. This will also predict the time when it may be necessary to extend or upgrade existing assets or create new assets.

All assets were assigned a condition index based on the following generic grading scales:

Generic Grading Scales (Ref: CIDMS MODULE 3)

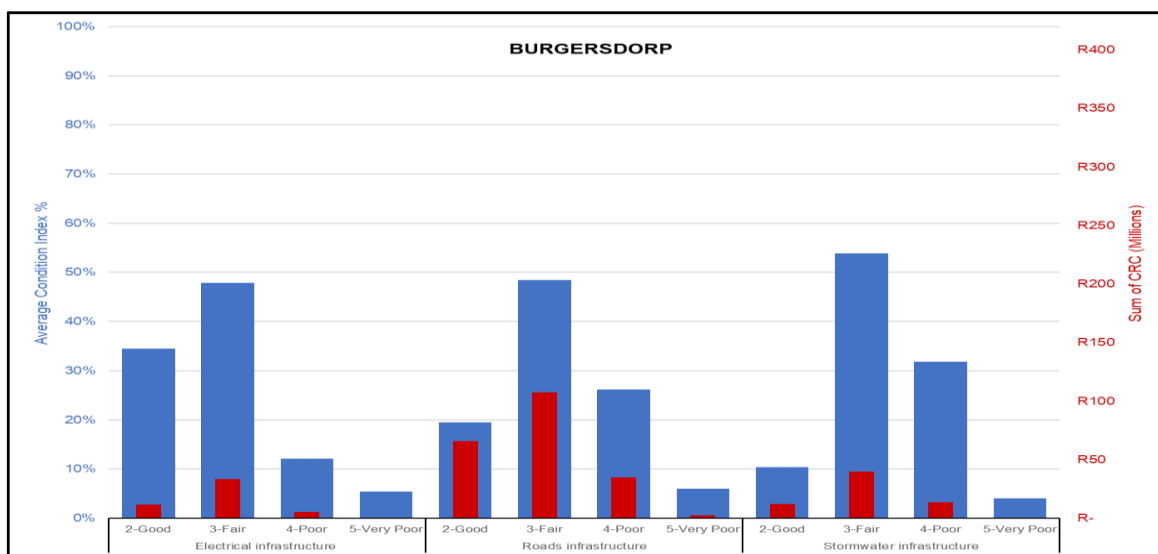
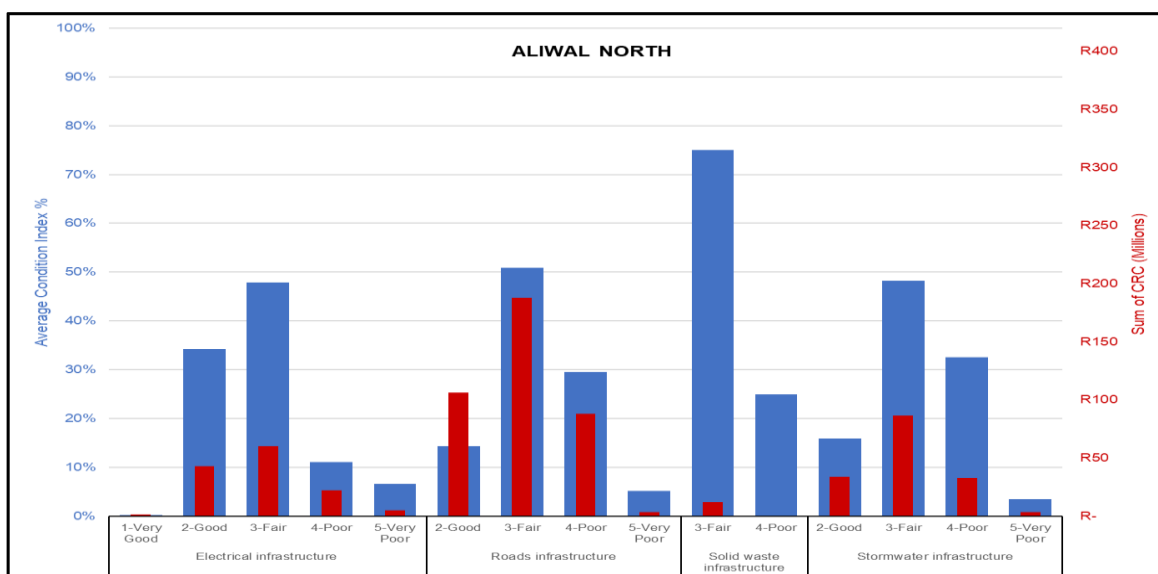
Grade	Description	Detailed Description	Indicative RUL
1	Very good	Sound structure well maintained. Only normal maintenance is required.	71 – 100% EUL
2	Good	Serves needs but minor deterioration (< 5%). Minor maintenance is required.	46 – 70% EUL
3	Fair	Marginal, clear deterioration (10–20%). Significant maintenance is required.	26 – 45 % EUL
4	Poor	Significant deterioration of structure and/or appearance. Significant impairment of functionality (20–40%). Significant renewal/upgrade required.	11 – 25% EUL
5	Very poor	Unsound, failed needs reconstruction/replacement (> 50% needs replacement).	0 – 10% EUL

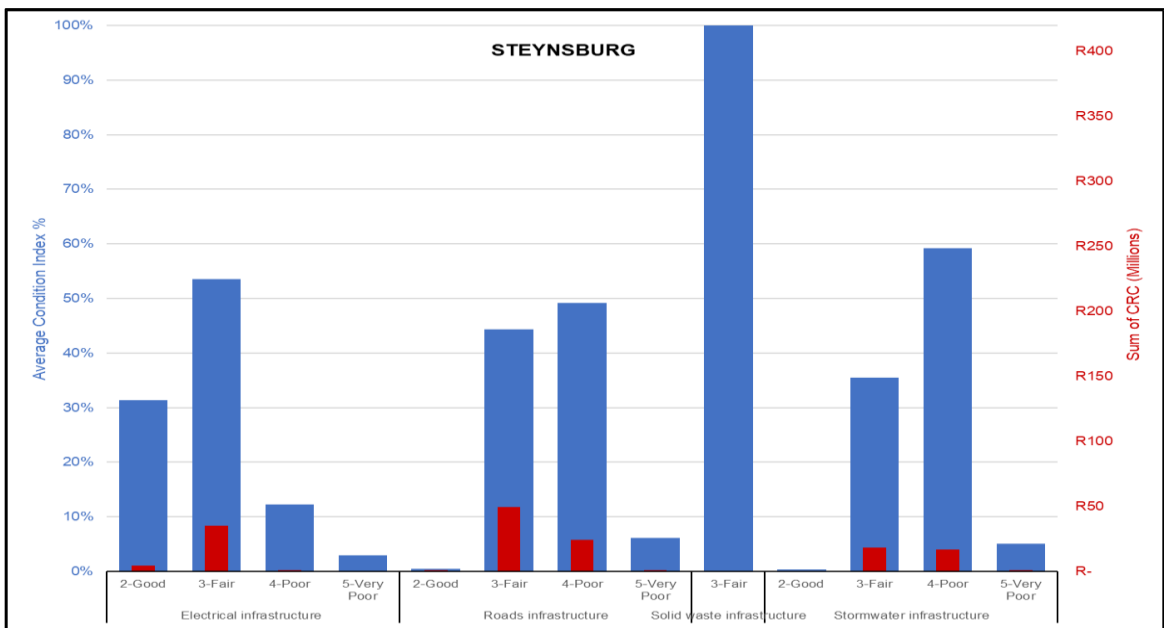
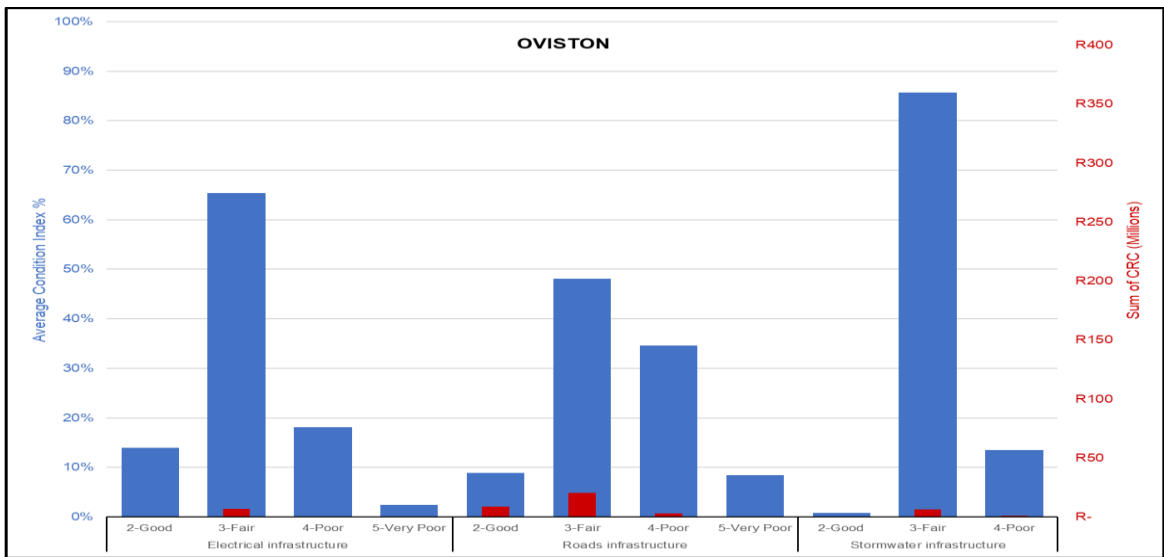
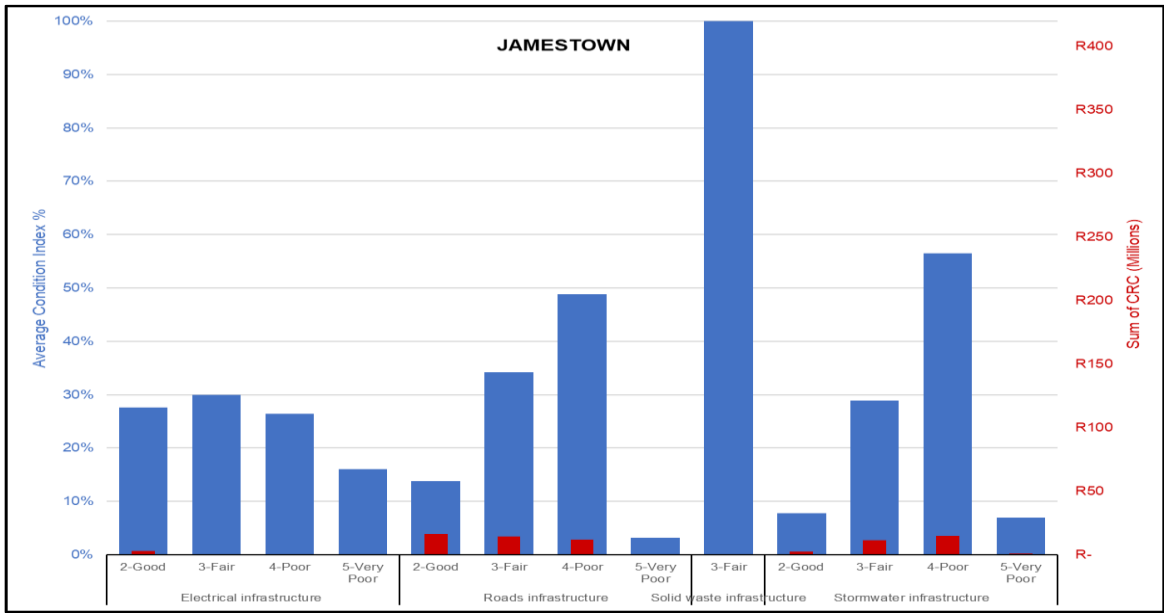
Condition assessments as illustrated in the figure below, revealed that the highest percentage of assets fall within the **“3 – Fair” scale (indicating clear deterioration)**. This indicates that significant maintenance is required to maintain the assets at the desired levels of service and to avoid risks associated with the potential failure of assets.

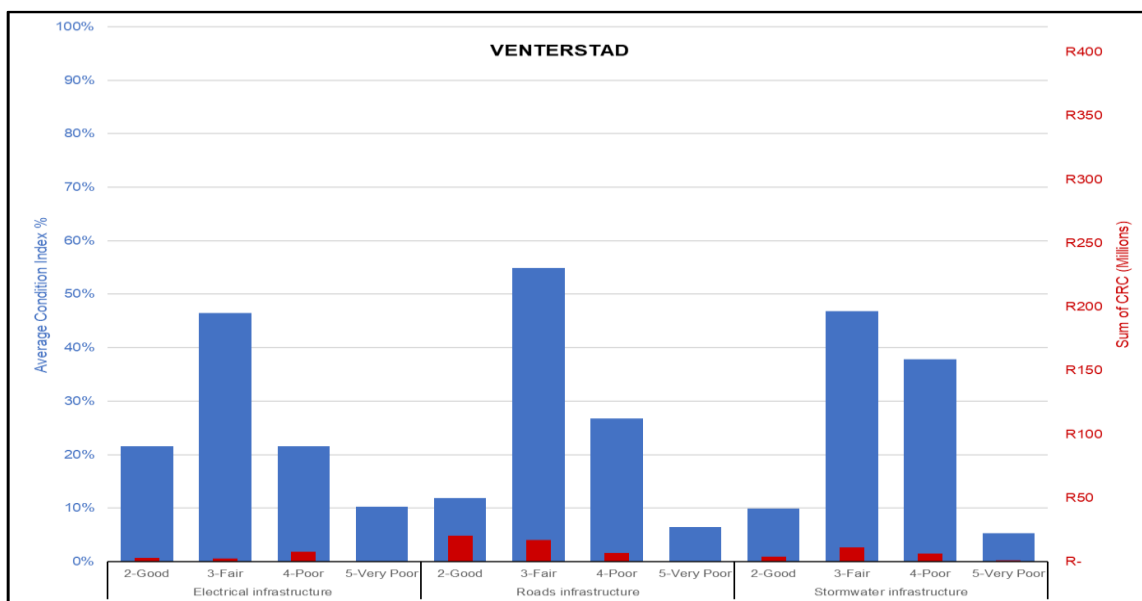


Average Condition Index per Asset Class

The figures below summarise the average percentage (%) condition index of assets weigh against the total CRC per town.







The municipality needs to use the information from the asset register to align maintenance plans and to use the information as inputs into the development of sector master plans. The information will enable data-driven decision-making to identify the high-risk areas and the priority areas that need maintenance and/or rehabilitation.

Roads and Stormwater

An outdated master plan exists for Roads and Stormwater and was endorsed by old Councils (former Gariiep and Maletswai). The municipality needs to coordinate with the Department of Transport (ECDoT) and JGDM on the development of plans related to the Rural Roads Asset Management System (RRAMS) to collect road and traffic data in line with the Road Infrastructure Strategic Framework for South Africa (RISFSA). Effective road asset management planning will improve understanding of service level options and requirements.

Roads within WSLM are classified into distinct categories:

Category	Responsibility	Extent (km)
National Roads (N6)	SANRAL	174
Provincial Roads	ECDoT	761
District Roads	ECDoT / JGDM	595
Municipal Roads and access roads	WSLM	312

The municipality is responsible to maintain access roads and streets with the total kilometers of road infrastructure:

- Asphalt: 82.1km
- Concrete: 0.1km
- Gravel: 187.4km
- Pavers: 42km

The extent of stormwater infrastructure includes:

- Kerb inlets: 57 (No)
- Box and pipe culverts: 316 (No)
- Channels: 78km

WSLM is currently facing several roads and stormwater-related challenges affecting service delivery and the amendment to the MIG Guidelines allows the municipality to make use of its MIG allocation for the maintenance of the roads network:

- Upgrading roads from gravel to surfaced roads costs are extremely high and insufficient funding available;
- Shortage of plant for maintenance and grading of gravel road network;
- Availability of materials to repair roads adequately;
- Lack of adequate stormwater management; and
- Shortage of tools and equipment to clean stormwater drainage systems.

Electricity

The municipality has a National Energy Regulator of South Africa (NERSA) electricity distribution license for Burgersdorp, Aliwal North, Steynsburg, and Venterstad. James Calata, Nozizwe, and Khayamnandi townships are supplied by Eskom. The municipality has reached its capacity in terms of notified maximum demand contracted from Eskom which is not enough for further developments. An interim Cost of Supply Study concluded an application of a 38% increase to NERSA.

- Aliwal North: NMD 12 MVA / CD 14 MVA / Additional Capacity 15 MVA
- Burgersdorp: NMD 3,8 MVA / CD 4,5 MVA / Additional Capacity 5 MVA
- Steynsburg: NMD 400 KVA / CD 400 KVA / Additional Capacity 800 KVA
- Venterstad: NMD 400 KVA / CD 400 KVA / Additional Capacity 800 KVA
- Oviston: NMD 400 KVA / CD 400 KVA / Additional Capacity 800 KVA

WSLM is currently facing several electricity-related challenges:

- Maximum demand with Eskom that are exceeded;
- Bulk meters are needed in substations;
- An outdated master plan exists for electricity;
- Aging infrastructure and lack of maintenance and investment into new infrastructure;
- Lack of specialised vehicles for maintenance of streetlights;
- Vacant posts exist for skilled electricians;
- Electricity distribution losses are not monitored or investigated;
- Regular meter audits are not done to confirm all consumers have a meter and are billed.
- Non-technical losses occur due to meter tampering and illegal connections; and
- Infrastructure vandalism has direct service delivery implications for residents and local economies.

Solid Waste

The provision of formal refuse removal services by the municipality occurs in all the towns. Household waste collection is done once a week and at least twice a week for businesses for 22004 formal households, 92 business premises, and 1600 Informal households.

All five (5) major towns each have a dedicated landfill site:

- Aliwal North (Maletswai): License lapsed in 2009, Rehabilitation date 2026.
- Burgersdorp: Closure license expired, decommissioning license was issued in 2014.
- Venterstad: Closure license expired, decommissioning license was issued in 2014.
- Jamestown: Operational license issued 2015, Rehabilitation date 2032.
- Steynsburg: Operational license issued 2015, Rehabilitation date 2028.

Currently, there is no Integrated Waste Management Plan (IWMP) but in the process of being developed assisted by the Department of Economic, Developments, Environmental Affairs and Tourism (DEDEA) and JGDM.

WSLM is currently facing several solid waste-related challenges affecting service delivery:

- Lack of specialised waste vehicles available for waste removal;
- No dedicated waste removal fleet per town;
- Shortage of earth-moving plant and compactors at landfill sites;
- Aging infrastructure and lack of maintenance and investment into new infrastructure;
- Poor access control at waste sites;
- Waste volumes received at landfill sites are not recorded;
- No weighbridge at landfill sites;
- Fines are imposed by DEDEA for failure to comply with governing regulations, untidy, and neglected landfill site in Maletswai;
- Delays in the construction of two (2) new landfill sites; and
- High rate of vacant positions in the waste management department.

Water and Sanitation Services

JGDM is a Water Services Authority (WSA) under Section 84 of the Municipal Structures Act (No117 of 1998) and also fulfills the Water and Sanitation Services Provision function (WSP) for the local municipalities that fall within its area of jurisdiction (that is Elundini, Senqu and Walter Sisulu Local Municipalities). These local municipalities also participate in the District Development Model (DDM) One Plan which will assist the three (3) municipalities' IDP priorities to align with JGDM services development plans.

JGDM is responsible for the following water services:

- Water treatment and storage facilities;
- Bulk water networks;
- Water reticulation networks;
- Operations and maintenance of water infrastructure;
- Metering of consumers; and
- Billing and revenue collection processes for all water services functions.

The JGDM is currently facing several water-related challenges affecting service delivery:

- Old water infrastructure;
- Insufficient water storage capacity;
- Capacity constraints at a local level to provide water services;
- Insufficiently qualified staff to manage the water purification works;
- Replacement costs are extremely high and insufficient funding available;
- Housing developments and other developments are placing strain on old and over-utilised infrastructure; and
- Water services backlogs have increased from 1.9% to 5.72% since 2011 and the estimated service backlogs with no access to piped water are 3.8%.

JGDM is responsible for the following sanitation services:

- Wastewater treatment facilities;
- Bulk sewer networks including sewer pump stations;

- Sewer reticulation networks; and
- Operations and maintenance of sewer infrastructure.

The JGDM is currently facing several sewer-related challenges affecting service delivery:

- Old sewer infrastructure;
- Insufficient sewer network capacity even in off-peaks;
- Regular blockages experienced on sewer pipes;
- Sewage spillages are not monitored and are frequent;
- Capacity constraints at a local level to provide sanitation services;
- Vacant posts exist for plant operators to manage the wastewater treatment works;
- Replacement costs are extremely high and insufficient funding available;
- Housing developments (in the Springs area and areas of the Central Business District) are placing strain on old and over-utilised infrastructure; and
- The current backlog for sanitation provision in WSLM is 8.4% and pit or bucket toilet systems are still widely used in Jamestown, Steynsburg, and the rural areas.

Housing Delivery

The Housing Delivery function is vested with the Human Settlement Department and facilitated by the WSLM Planning and Economic Development (PED) department. The Housing Sector Plan is outdated and merged with the former Gariiep LM and Maletswai LM.

Sites across all towns have been allocated for human settlements projects and a feasibility study has been concluded for 4000 Mixed Use Development Sites:

- Portion 12 of Farm 60 in Maletswai – 4000 Erven
- ERF 2877 in Maletswai – Subdivided into 28 Erven 6.6ha
- ERF 1 in Maletswai – Subdivided into 38 Erven 2.24ha
- ERF 1 in Maletswai – Subdivided into 25 Erven 1.14ha
- ERF 1 in Maletswai – Subdivided into 84 Erven 8.5ha

WSLM is currently facing several challenges affecting housing service delivery:

- The bulk services backlog includes roads, electricity, water and sanitation;
- Additional demand on the water supply system will require infrastructure additions;
- Additional bulk sewer systems will require infrastructure additions; and
- To enable development to proceed, approximately R16.2 million is required for water services and R84.2 million for sanitation services (a total of R100 million).



SERVICE DELIVERY STATUS QUO ASSESSMENT KEY FINDINGS

The critical key issues identified from the status quo assessment regarding the service delivery matters, are the following:

SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
1.	SDF	<ul style="list-style-type: none"> No council adopted Spatial Development Framework (SDF) As per the provisions of Section 20(2)(a)(b) of the Spatial Planning and Land Use Management Act 16 of 2013, the municipality placed a notice in the Provincial Gazette, for the SPLUMA Bylaw. The municipality has submitted the letter to the MEC for the development of an SDF for WSLM. There are delays on the project due to issues of non-payment by DBSA. The municipality is at this stage in the process of developing its Spatial Development Framework and Land Use Scheme concurrently through funding by the DBSA and is currently in the consultation stage. 	<ul style="list-style-type: none"> A draft SDF of former Gariep LM and the SDF of Maletswai LM is used as a baseline. Lack of synergy and cross-functional cooperation with all internal stakeholders. A disconnect in strategic objectives and goals. A SPLUMA-oriented SDF funded by DBSA is presently being developed and is still in the consultation stage. 	The Municipality does not have a Council-adopted SDF.	IDP 2022-27 (pg 34), Annual Report 2021/22 FY (pg 98) WSLM responses received 29/06/2023
2.		<ul style="list-style-type: none"> Limited spatial planning. The municipality wants to integrate the SDF and LUMS into its own fully integrated GIS system. 	No Geographic Information System (GIS).	Limited spatial planning capacity in the Municipality and reliance on the district to get spatial information and maps.	IDP 2022-27 (pg 136)
3.	Capital and Grant Funded Projects	<ul style="list-style-type: none"> Poor management of Capital and Grant Funded Projects The Grants are invested in a ring-fenced investment until utilised and can only be spent on identified and approved projects. The Capital Grants allocated to WSLM are: Municipal Infrastructure Grant (MIG) 2018/19: Underspent 	Significant underspending on Capital Grants.	No cost containment measures are in place.	Commitment register 2021 WIP Register 2021/2022 Annual Performance Report 2021/22 Financial Year (pg 23) Financial Statements for the year ended June 30, 2022 (note 14 & 15)
4.			Projects are not completed as planned.	Slow-moving projects as far back as the 17/18FY.	
5.				Project delays caused by litigation.	
6.				Projects stopped or halted indefinitely.	



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
		<ul style="list-style-type: none"> • 2019/20: Underspent • 2020/21: Underspent • 2021/22: Underspent 			Financial Statements for the year ended June 30, 2022 (note 26)
7.		<ul style="list-style-type: none"> • Integrated National Electricity Programme (INEP) • 2018/19: Underspent • 2019/20: Underspent • 2020/21: No allocation • 2021/22: No allocation 	No evidence that the performance of service providers (consultants and contractors) is monitored effectively monthly.	Projects are not completed on schedule and to the approved budgets.	Annual Report 2021/22 FY: Financial Statements for the year ended June 30, 2022 (pg 287)
8.			Poor record keeping for WIP and Completed projects	The Technical Department, PMU, and Financial Department do not maintain proper records to ensure the source documents are readily available for capitalisation of infrastructure assets (when complete) and audit purposes.	WIP Register 2021/2022 Infrastructure Additions 2021/2 FY Annual Report 2021/22 FY: Financial Statements for the year ended June 30, 2022 (pg 332)
9.			Underspending on conditional grant allocations which results in the reduction of future allocations to the municipality.	Poor planning and execution of capital projects by the PMU.	IDP, AG reports for the past 5 years.
10.				Due to the amalgamation of former Gariiep LM and Maletswai LM	IDP 2022-27
11.	Asset Management	<ul style="list-style-type: none"> • Asset Management 	There is no integration between the various asset registers of amalgamated municipalities.	Poor asset management strategies related to technical, financial, and service delivery decisions.	Annual Report 2021/22 FY Annual Performance Report 2021/22 Financial Year
12.			No existing processes of effectively maintaining, upgrading, operating, and renewing assets with sound business and economic rationale to meet the desired levels of service.	No processes are in place to determine short-term and long-term financial commitments for both capital and maintenance and operational requirements.	Annual Report 2021/22 FY Annual Performance Report 2021/22 Financial Year FAR 2021/2 FY



SERVICE DELIVERY PILLAR							
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information		
13.			No existing processes to effectively determine the capital and operational budgets for future financial years.	The municipality cannot afford to fund the maintenance backlog.	Annual Performance Report 2021/22 Financial Year (pg 37)		
14.			There is no funding available for the maintenance backlog.	The municipality is generating insufficient revenue and is not allocating funds for maintenance.	Audited AFS		
15.			The Asset Management Standard Operating Procedure (SOP) is very high level and does not outline the steps or processes involved in completing a specific task or activity.	Lack of clear policies and procedures: The SOP is very high level and does not outline the step-by-step processes involved in completing specific asset management tasks or activities.	Annual Report 2021/22 FY		
16.			Unavailability of technical and financial information on completed infrastructure projects and other capital expenditures.	Inadequate training: Staff may not have the necessary training or knowledge to properly create and manage records.	Annual Performance Report 2021/22 Financial Year FAR 2021/2 FY		
17.				Limited resources and staff are overburdened with a negative impact on record-keeping not being prioritised.			
18.				Lack of technology or tools: lack of appropriate technology or tools to manage records effectively i.e., Access to digital systems.			
19.				Inefficiencies in the management of infrastructure assets			
20.				A disconnect between the Financial and Technical Departments regarding their roles and responsibilities in IAM.		No clarity on the roles and responsibilities of each department in infrastructure asset management.	
21.			Revenue Improvement	<ul style="list-style-type: none"> WSLM is raising its revenue from rates and taxes, electricity trading activities, and refuse. WSLM is made up of eleven (11 Wards and must include Ward priorities to improve its revenue collection strategy to 	The Ward priorities are not aligned with revenue enhancement. Projects implemented do not necessarily generate income and/or improve the perception of service delivery.	The Municipality does not have Ward-based plans.	IDP 2022-27 (pg 63/329)



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
		ensure a financially viable and sustainable institution.			
22.	Waste and Refuse Removal / Solid Waste Infrastructure	<ul style="list-style-type: none"> No Integrated Waste Management Plan (IWMP) All 5 major Towns each have a landfill: <ul style="list-style-type: none"> Aliwal North - License lapsed in 2009, Rehabilitation date 2026 Burgersdorp - Closure license expired, decommissioning license was issued in 2014 Venterstad - Closure license expired, decommissioning license was issued in 2014 Jamestown - Operational license issued 2015, Rehabilitation date 2032 Steynsburg - Operational license issued 2015, Rehabilitation date 2028 Refuse collection for households (23 903) is done once a week and at businesses at least twice a week with an approved schedule for refuse collection Illegal dumping sites are removed with the assistance received from EPWP & CWP participants. 	<ul style="list-style-type: none"> No Integrated Waste Management Plan exists for Solid Waste. The municipality is in the process of developing IWMP and is assisted by DEDEA and Joe Gqabi District Municipality. No accurate method of revenue collection for refuse. 	A disconnect between spatial planning, infrastructure planning, and requirements, as well as budgeting decisions.	IDP 2022-27
23.				Failure to comply with regulations and monitoring requirements for landfill sites	IDP 2022-27 (pg. 35)
24.				Outside town boundaries, citizens must be self-reliant for waste services.	IDP 2022-27
25.				Landfills cannot withstand the capacity of waste disposed of.	Management Report, pg. 157; 42. COAF 01: ISS.01
26.				Poor planning and implementation of projects	IDP 2022-27
27.				Lack of data-driven decision-making to identify the high-risk areas and the priority areas that need maintenance and/or rehabilitation	IDP 2022-27
28.				The higher overall cost of maintenance.	IDP 2022-27
29.				Challenges in collecting data on volumes of waste received on landfill sites.	IDP 2022-27 (pg 120/329)
30.				Poor access control measures at waste facilities and no weighbridge at landfill sites.	FAR 2021/2 FY
31.				Bylaws are not enforced for waste management and illegal dumping. No payment is charged for dumping refuse at landfills.	IDP 2022-27 (pg 125/329)
32.					Fines imposed by DEDEA.



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
33.				Maletswai, and operating with an expired license (expired in 2009).	
				Landfills licensed for closure are still operational (Burgersdorp and Venterstad are not engineered landfills and are both licensed for closure in July 2014).	IDP 2022-27 (pg 125/329) WSLM Landfill Closure Provisions Report – June 2022
			Delays in the construction of x2 new landfill sites.	Delays to appoint consultants to conduct the EIA and Geotechnical investigations to get a license for a new landfill site.	Annual Performance Report 2021/22 Financial Year
			High rate of vacant positions in the waste management department.	Shortage of skilled staff to ensure that the landfill sites are maintained to address the various non-compliances and complaints from the surrounding communities.	Annual Performance Report 2021/22 Financial Year
36.	<ul style="list-style-type: none"> Poor condition and lack of solid waste infrastructure. The condition of solid waste infrastructure has an average condition grading scale of “Fair” which indicates that significant maintenance is required. 	<ul style="list-style-type: none"> Fencing at only x2 landfill sites (Maletswai and Jamestown) and in poor and fair condition Access control at only 1 site (Maletswai). Ablution facilities for operational staff only at x3 landfill sites (Maletswai, Steynsburg, and Jamestown). 		Aging infrastructure and lack of maintenance and investment into new infrastructure.	FAR 2021/2022 FY
37.			Poor landfill operations.	Inadequate infrastructure i.e. no weighbridges, incinerators, leachate and landfill gas monitoring systems, and lack of access control.	FAR 2021/2022 FY
38.			Minimised available landfill space as well as odours and pests.	Shortage of earth-moving plant and compactors at landfill sites.	WSLM responses received 29/06/2023
39.			Poor access control at waste sites. No weighbridge at waste sites	No accurate method of revenue collection for dumping refuse.	IDP 2022-27 (pg 125/329) FAR 2021/2022 FY



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
40.		Lack of specialised waste vehicles available for waste removal and currently the fleet consists of: <ul style="list-style-type: none"> • 2 x Compactor trucks • 5 x Tractors and trailers • 1 x Front-end-Loader • 1 x TLB • 5 x LDV • Procurement of specialised vehicles through MIG secured two additional new trucks. 	<ul style="list-style-type: none"> • Insufficient fleet to conduct waste management and removal activities • Unroadworthy refuse collection vehicles • Aging fleet that breaks frequently. 	<ul style="list-style-type: none"> • Shortage of specialised waste vehicles. • No dedicated waste removal fleet per town. 	IDP 2022-27 (pg 124/329) WSLM responses received 29/06/2023
41.	Planning and Building Control	<ul style="list-style-type: none"> • No land audit has been conducted by WSLM and an application for financial assistance has been submitted to DBSA. • Land is available for development through the municipalities' (former Gariep and Maletswai) SDF and a Strategic Land Parcel Report. • Sites across all towns have been allocated for human settlements projects and potential business investments. • The municipality has embarked on a revenue enhancement project, Building Control being one of the revenue streams identified. • The municipality is in the process of drafting a Building Control Bylaw to assist in regulating non-compliance with the submission of building plans. • Information awareness has been developed to ensure proper communication is made to the general public to increase compliance and revenue. • The municipality achieves 85% for processing of building plans within the 	Buildings without approved building plans	Shortage of staff to conduct inspections.	Annual Performance Report 2021/22 Financial Year (pg 22/61) WSLM responses received 29/06/2023
42.				No vehicle for the Department to conduct inspections.	
43.				Absence of peace officers.	



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
		statutory timeframe (30 days) in accordance with NBRBSA - 103/1977 <ul style="list-style-type: none"> The municipality achieves only 30% of its actual target to issue notices within 7 days for buildings without approved building plans. This is due to the shortage of required staff, tools of the trade, no vehicle for the Department to conduct inspections and the absence of peace officers. 			
44.		<ul style="list-style-type: none"> Illegal invasion of land. 	There are no security services to guard against illegal land invasion. The policy is still in the consultation stage.	No Land Invasion Policy.	IDP 2022-27
45.	Fleet Management	<ul style="list-style-type: none"> The department has done a Technical Assessment Report for the fleet used by waste services only and contains the state of the vehicles. 	Inadequate fleet to perform municipal functions optimally.	Aging fleet.	IDP 2022-27
46.		<ul style="list-style-type: none"> There is no Maintenance Plan for the municipal fleet. 		Inadequate maintenance of the municipal fleet.	
47.		<ul style="list-style-type: none"> The municipal workshop maintains the municipal fleet on an ad hoc basis. Insurance of the fleet is covered in the Asset Management Policy. Tyre and fuel management are covered in the Fleet Management Policy. 		Not enough trucks and construction plant for service delivery and maintenance functions.	
48.	Housing Delivery	<ul style="list-style-type: none"> The Housing Delivery function is vested with the Human Settlement Department function and facilitated by the WSLM Planning and Economic Development (PED). 	Housing demand and backlog.	Outdated Housing Sector Plans. The plan is merged from the former Gariep LM and Maletswai LM (in 2016) as last reviewed by The Department of Housing in the 2014/15 financial years.	Annual Performance Report 2021/22 Financial Year IDP 2022-27

SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
49.		<ul style="list-style-type: none"> The Housing Sector Plan is outdated and merged with the former Gariep LM and Maletswai LM. The municipality does not have a housing accreditation with the Department of Human Settlements but intends to apply for accreditation in the next few years pending if there are sufficient resources to undertake the responsibilities. The bulk services backlog includes roads, electricity, water, and sanitation. To enable development to proceed, approximately R16.2 million is required for water services and R84.2 million for sanitation services (a total of R100 million). The challenge in electricity is capacity in terms of notified maximum demand contracted from Eskom which is not enough for new developments. 		Housing demand is above 14200 units (2016), According to the 2003 Urban Dynamics report, the highest number of households still reside in informal structures/dwellings. The demand for housing is increasing in the former Maletswai area, due to increased migration patterns from the farms, neighboring towns, and other parts of the province, and the decentralisation of provincial and National Government Directorates it is estimated that the municipality would need to provide 14 000 housing units in keeping up with the current demand.	
50.			Shortage of available middle-income houses in the towns.		
51.			The housing beneficiary list is not transparent.		
52.			Inadequate management of documentation by the Planning and Economic Development (PED) Department responsible for the facilitation of Housing.		
53.			Changing the ownership of houses and facilitating the transfer of ownership of houses.		
54.			Expedite land release for land vested in the municipality for housing development.		
55.			Shortage of land to accommodate urban housing units.		
56.			Housing developments add strain on old and over-utilised infrastructure.		
57.			Electrification of housing projects by Eskom.		



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
58.				Insufficient and suitable infrastructure servicing for proposed developments.	
59.	Roads and Storm Water Infrastructure	<ul style="list-style-type: none"> Outdated Roads and Stormwater Master Plan 	<ul style="list-style-type: none"> An outdated master plan exists for Roads and Stormwater. Old masterplans were endorsed by old Councils (former Gariep and Maletswai). The master plan was derived from the District Integrated Transport Plan (ITP). 	A disconnect between spatial planning, infrastructure planning, and requirements, as well as budgeting decisions.	IDP 2022-27 (pg 101)
60.		<ul style="list-style-type: none"> The condition of roads and stormwater infrastructure has an average condition grading scale of "Fair" which indicates that significant maintenance is required. The total kilometers of road infrastructure: <ul style="list-style-type: none"> Asphalt - 82.1km Concrete - 0.1km Gravel - 187.4km Pavers - 42km The total of stormwater infrastructure: <ul style="list-style-type: none"> Kerb inlets – 57 Culverts (pipe & box) – 316 Channels – 78km 	Backlog in asphalt/paved road network regular maintenance requirements.	Availability of materials to repair roads adequately.	IDP 2022-27 Annual Report 2021/22 FY FAR 2021/2 FY
61.			Backlog in gravel road network regular maintenance requirements	Availability of plant for grading of roads.	
62.			Regular stormwater maintenance requirements not met.	Labour-intensive tasks and unavailability of staff to perform required activities.	
63.				Shortage of tools and equipment to clean stormwater drainage systems.	
64.			Backlog in road surface upgrades.	Funding to upgrade from gravel roads to surfaced roads.	
65.			Backlog in resealing of road surfaces	Budgets are exhausted for resealing roads.	
66.			No Pavement Management System to effectively manage the road networks and make informed decisions about the maintenance requirements and priorities of the road network.	Poor planning and implementation of projects	
67.				Lack of data-driven decision-making to identify the high-risk areas and the priority areas that need maintenance and/or rehabilitation	
68.				The higher overall cost of road maintenance.	
69.			<ul style="list-style-type: none"> Department of Transport - Service Level Agreement for maintenance of Gravel Roads (blading and patching gravel) 	Limited ability to perform maintenance work due to inadequate financial resources.	



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
70.	Parks and Cemeteries	<ul style="list-style-type: none"> The number of parks and open spaces (18) is maintained with assistance received from CWP participants in all Wards. 	Limited maintenance of open spaces (limitation of scope Audit Finding, Business Processes)	No supporting evidence that parks are being maintained.	Annual Report 2021/22 FY: Financial Statements for the year ended June 30, 2022 (pg 318/407)
71.				Labour-intensive tasks and unavailability of staff to perform required activities.	Annual Performance Report 2021/22 Financial Year (pg 26)
72.			Clean-up and cleaning of open spaces.	Shortage of tools and equipment to clean parks.	Annual Report 2021/22 FY
73.				Illegal dumping in open spaces.	IDP 2022-27
74.		<ul style="list-style-type: none"> The Municipality has a total of 20 cemeteries and 5 of these cemeteries are in operation. The other cemeteries in Burgersdorp, Steynsburg, and Venterstad are nearing closure. The number of cemeteries (14) is maintained with the assistance received from EPWP & CWP participants. New cemetery sites have been identified in Burgersdorp and Steynsburg. No scientific analysis has been conducted for tariff charges for rendering these services. Tariffs are sold at a reasonable cost given the socio-economic conditions affecting our communities. 	Maintaining cemeteries (limitation of scope Audit Finding, Business Processes)	No supporting evidence that cemeteries are being maintained.	Annual Report 2021/22 FY: Financial Statements for the year ended June 30, 2022 (pg 318/407)
75.			There is a shortage of land for new cemeteries in Burgersdorp, Venterstad, and Steynsburg.	Limited planning for future cemetery demand.	Annual Report 2021/22 FY (pg 112/407)
76.			Burials are not registered with the municipality and illegal burials are taking place on established cemeteries.	Absence of full-time caretakers to prevent and report illegal activities.	Annual Report 2021/22 FY (pg 112/407)
77.			Neglect, vandalism, security issues, and illegal activities.	Absence of full-time caretakers to prevent and report illegal activities.	Annual Performance Report 2021/22 Financial Year
78.			Lack of fencing and theft of fencing	Unrestricted access makes facilities unsafe and increases the risk of damage and illegal activities.	IDP 2022-27 (pg 115)
79.			Lack of security at facilities.	IDP 2022-27	



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
80.	Security Services	<ul style="list-style-type: none"> Public infrastructure vandalism has direct service delivery implications for residents and local economies. 	High rate of vandalism and theft of infrastructure at Municipal facilities.	The high replacement rate of infrastructure.	
81.	Local Economic Development	<ul style="list-style-type: none"> There is an area-based plan for all Municipalities in the District designed in 2010 and there is a land asset register which is audited annually. Municipal land owned equates to 883 673ha and is a major resource. The municipality has many tourism attractions and needs to target tourism projects and initiatives that have the growth potential and to generate economic spin-off: <ul style="list-style-type: none"> Oviston Nature Reserve Buffelspruit Nature Reserve bordering the town of Aliwal North Aliwal Spa Lake Gariiep Resort JL De Bruin Dam Resort in Burgersdorp. 	No Local Economic Development Plan is in place.	Lack of expertise of employees (2 responsible under the Municipal Manager). Inadequate preparation of enabling environment for economic activities, investments, and revenue enhancement.	Draft Annual Report pgs 97, 105
82.					
83.			Municipal land is underutilised.	The Municipality is operating without a credible land audit report.	IDP 2022-27 (pg 153/329)
84.			Improve Municipal land use management which is a strategic objective.	Missed revenue and economic opportunities.	IDP 2022-27 (pg 234/329)
85.			Sand and stone mining are done illegally. Legalise and in return create a revenue opportunity.	Illegal "products" loss of income.	IDP 2022-27 (pg 131/329)
86.			Municipal tourism facilities do not contribute to revenue generation.	There are no business plans in place to expand the revenue base at municipal tourism facilities. Facilities are not effectively managed to attract tourism and additional revenue.	IDP 2022-27 (pg 130/329)
87.			Not enough industrial parks to stimulate economic growth and employment opportunities.	Lack of sustainable industrial development.	IDP 2022-27 (pg 94/329)
88.	Frictionless Payments	<ul style="list-style-type: none"> Frictionless payments as a seamless, quick, and hassle-free option for revenue collection. Contour Technology is a vending partner in Aliwal North 	Frictionless payment options	Customers may be resistant to change or not have the skills to use the technology.	Contour Technology website.
89.			Technical challenges	Implementing frictionless payment options requires resources, technical expertise, and IT infrastructure to develop and maintain a mobile application.	



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
90.			Integration challenges	Integrating with existing payment systems can be challenging due to incompatible system architecture, API integration, or outdated technology.	
91.	Electricity bulk meters and supply	<ul style="list-style-type: none"> The municipality has a NERSA electricity distribution license for Burgersdorp, Aliwal North, Steynsburg, and Venterstad. Jamestown, Nozizwe, and Khayamnandi townships are supplied by ESKOM. <ul style="list-style-type: none"> Aliwal North: NMD 12 MVA / CD 14 MVA / Additional Capacity 15 MVA Burgersdorp: NMD 3,8 MVA / CD 4,5 MVA / Additional Capacity 5 MVA Steynsburg: NMD 400 KVA / CD 400 KVA / Additional Capacity 800 KVA Venterstad: NMD 400 KVA / CD 400 KVA / Additional Capacity 800 KVA Oviston: NMD 400 KVA / CD 400 KVA / Additional Capacity 800 KVA In Burgersdorp there is a wheeling agreement with Eskom, in Mzamomhle and Eureka. There is also capacity constraints but due to the lack of bulk metering, it cannot be confirmed who is exceeding the supply capacity. The electrical losses for 2020/21 financial years are recorded at 18%. A full Cost of Supply Study will be conducted during the 2023/24 financial year funded by SALGA. An interim Cost of Supply Study at the end of May 2023 (outside scope of SQA) concluded an application of 38% increase sent to NERSA. 	Reference to maximum demands with Eskom that are exceeded.	Penalties paid.	DMRE/INEP grants
92.			Outstanding Eskom debt of R400m. The municipality has started honoring its monthly current account.	Eskom will not increase supply capacity without payment of old debts.	Apply for Pre-Eng funding from DMRE
93.			Incorrect planning in Eskom supply capacities due to no master plan in place.	Incorrect/fruitless network upgrading or extensions if the long-term loading is not known.	Draft Annual Report pg 19
94.			Bulk meters are needed in some substations to compare data with Eskom accounts.	Inability to do a reconciliation with Eskom metering data.	DMRE/INEP grants



SERVICE DELIVERY PILLAR					
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information
95.	Electricity Infrastructure	<ul style="list-style-type: none"> Outdated Electricity Master Plan 	<ul style="list-style-type: none"> An outdated master plan exists for Electricity. Old masterplans exist for former Maletswai only. 	A disconnect between spatial planning, infrastructure planning, and requirements, as well as budgeting decisions.	IDP 2022-27
96.		<ul style="list-style-type: none"> Condition of electrical infrastructure 	Aging infrastructure	No replacement strategies or master plans.	IDP 2022-27 Annual Performance Report 2021/22 Financial Year FAR 2021/2 FY
97.			Streetlight repairs and maintenance	Availability of resources such as the cherry picker to repair lights, tools, and spares.	
98.			Unpredictability in electricity supply	No planned maintenance and faults and repairs backlog. (transformers not serviced)	
99.			Illegal connections	Regular audits and reporting are not performed.	
100.			Budget constraints	Budget not available to electrify 533 households.	
101.				High replacement costs.	
102.			Currently, there are no procedures to report theft and vandalism of infrastructure.	Continues repairs and replacement of infrastructure.	
103.				Electricity distribution losses.	
104.			Vacant skilled positions in the electricity department.	Shortage of staff to ensure that the electricity assets are maintained.	
105.			Electricity distribution losses are not monitored.	Losses occur as a result of non-technical losses.	
106.			Existing electricity grid face constraints.	Aging infrastructure and limited capacity to accommodate future demands. (Housing projects)	
107.			<ul style="list-style-type: none"> Loss control - electricity 	Inadequate meter readings.	



SERVICE DELIVERY PILLAR						
No	Focus area	Current situation	Problems/key issues	Root causes	Sources of information	
108.				Reason for losses not investigated (same reason provided from 2019 for decrease and increase in losses).	AFS for 21/22 FY	
109.				Meter readers not reporting meter tampering.	SQA engagement meeting	
110.				Losses are not recorded monthly as required by Procedure Manual for Budget.	Procedure Manual: Budget	
111.			Inadequate Billing system	Issues with the billing system to obtain accurate records.	Draft Annual Report 2021/22 FY	
112.			The poor condition of meters.	<ul style="list-style-type: none"> Faulty meters. Vandalism, tampering, and illegal connections. 	Draft Annual Report 2021/22 FY	
113.						
114.			<ul style="list-style-type: none"> Non-technical losses due to meter tampering, illegal connections 	Non-technical losses unknown	The volume of losses unknown, loss of income.	Draft Annual Report 2021/22 FY
115.			<ul style="list-style-type: none"> Unmetered consumption 	No calculation is done on unmetered consumption	Number of illegal connections reported in 2021/2022	Annual Performance Report 2021/22 Financial Year (pg 19)
116.				Own consumption not deducted	Effect on Cost of Supply, and might lead to incorrect tariffs	
117.			<ul style="list-style-type: none"> Need for meter audits and 'SMART' Technologies 	No meter audits are done to confirm all consumers have a meter and are billed.	Due to a lack of funding.	Annual Performance Report 2021/22 Financial Year (pg 20)

4. PART THREE: CONTENT OF THE FINANCIAL RECOVERY PLAN

As discussed earlier in this report, to ensure that financial recovery is not only achieved but more importantly, that progress is institutionalised and sustained within the WSLM, the FRP report will adopt a strategic, focused approach that is time-bound yet comprehensive enough to ensure that the underlying causes of the crisis are adequately identified and for that purpose the FRP distinguishes between the following activation phases:

- a) Rescue.
- b) Stability.
- c) Sustainability.

To achieve this objective, the FRP report will be presented with a phased approach to recovery, differentiating between issues to be addressed in the short, medium, and long term. The recovery plan would be divided into three distinct but interdependent phases. These include:

- a) **Rescue Phase** (Phase 1) which focuses primarily on cash and restoring the cash position of the municipality. In this phase, the focus is primarily on cash and restoring the cash position of the municipality. The indicators for the rescue phase include a funded budget (or demonstrating that the municipality is on a credible path to a funded budget), monitoring of the daily cash and cash balances, cost containment measures, focusing on improving the debtor's collection rate, the ring-fencing of conditional grants and ensuring that creditors are paid timeously and that negotiations are entered into to settle any outstanding debt. There is some focus on service delivery and governance matters, however, these are limited to addressing the most visible and easy-to-resolve issues. However, as resources become available through better cash management, the collection of outstanding debt, and the prioritisation of expenditure, service delivery issues can be addressed more comprehensively to secure the revenue base. This is a short-term phase and is anticipated to last up to one year from the approval date of the FRP.
- b) **Stabilisation Phase** (Phase 2) which expands on the financial indicators to be monitored and emphasises key governance and institutional issues which must simultaneously be addressed. The bulk of the recovery process takes place in the second phase of the recovery plan. This phase is referred to as the stabilisation phase. In this phase, a strong focus on cash, finances and financial management is still maintained but greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality, such as the design of a fit for purpose organogram, plans to address the repairs and maintenance and renewal of infrastructure for the water and electricity network through which the municipality loses significant revenues, ensuring that the property valuation roll is updated and that all customers are billed accordingly and other similar measures. This phase is expected to last between 12 to 24 months or longer depending on progress made by the municipality.
- c) **Sustainability Phase** (Phase 3) to ensure that indicators are developed that will give effect to the long-term financial sustainability of the municipality. Phase 3 of the recovery plan precedes the exit of the Provincial Intervention Team. Prior to concluding the intervention, there must be a reasonable assurance that measures implemented in Phases 1 and 2 are sustainable, that the municipality is committed to ensuring the implementation of good practice. In this phase, it is also important to include indicators that influence the long-term financial sustainability of the municipality. These would be derived from the strategic development review of the municipality and the long-term financing strategy.

In each of the phases and each of the pillars, appropriate key performance indicators and targets will be selected to guide the recovery process. These targets will be identified as most appropriate given the nature of issues confronting the municipality.