

FINANCIAL RECOVERY PLAN

Prepared for the

BEAUFORT WEST LOCAL MUNICIPALITY

March 2022



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



**Western Cape
Government**

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ENDORSEMENTS

APPROVAL BY MEMBER OF THE EXECUTIVE COUNCIL (MEC)

I, David Maynier, Minister of Finance and Economic Opportunities in the Western Cape Province approve this Financial Recovery Plan for Beaufort West Municipality in terms of section 143(2) of the Municipal Finance Management Act, No. 56 of 2003 ("the MFMA"), as a binding Financial Recovery Plan for the mandatory intervention approved by the Provincial Cabinet on 25 August 2021 in terms of section 139 of the MFMA and section 139(5) of the Constitution of the Republic of South Africa, 1996.

DAVID MAYNIER

MINISTER OF FINANCE AND ECONOMIC OPPORTUNITIES

WESTERN CAPE PROVINCIAL GOVERNMENT

DATE: 01 March 2022

NOTING BY THE MUNICIPAL COUNCIL

The approved Financial Recovery Plan was tabled in the Beaufort West Municipal Council on 23 MARCH 2022 and Council noted that in terms of section 146 of the MFMA the Municipality must implement this approved Financial Recovery Plan; that all revenue, expenditure and budget decisions must be taken within the framework of, and subject to the limitations of, the recovery plan; and the Municipality must report monthly to the MEC for finance on the implementation of the plan. The Financial Recovery Plan binds the municipality in the exercise of both its legislative and executive authority, including the approval of a budget and legislative measures giving effect to the budget, but only to the extent necessary to achieve the objectives of the recovery plan.

NOEL CONSTABLE

SPEAKER

BEAUFORT WEST MUNICIPAL COUNCIL

DATE: 23 MARCH 2022



EXECUTIVE SUMMARY:

Beaufort West Municipality is responsible for the provision of basic services to a population of over 51 000 people. The Municipality covers an area of 21,917 square kilometres, making it the largest local municipality in the Western Cape and the sixth largest in South Africa by land area. It is in the furthest north-eastern part of the province in the Great Karoo. The municipality faces a projected population decline of 0.1 per cent per annum over the period to 2024.

Over the period 2015/16 to 2019/20, the WCG conducted a range of assessments of the financial health of the Beaufort West Municipality. The outcomes of the assessments consistently showed that the Municipality was experiencing significant financial problems in its financial affairs. On its own admission: *“Beaufort West Municipality has been struggling with financial sustainability issues for the last ten years. The Municipality is a grant dependent Municipality with a high unemployment rate, especially amongst the youth.”* The MEC: Finance recommended the initiation of a section 136 (MFMA) process to assess the seriousness of the situation and to determine whether the situation justifies or requires an intervention in terms of section 139 of the Constitution.

By the end of the 2020/21 financial year in June 2021, the Municipality was found to be in breach of two of the criteria set out in section 140 of the MFMA for a mandatory intervention. After considering all the facts and data, a Notice of Intention to Intervene in the Municipality in terms of section 139(5)(a) was issued to the Municipality. The Provincial Executive resolved on 25 August 2021 to intervene in the municipality in terms of section 139(5) of the Constitution because of the crisis in its financial affairs.

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003), requires that in a mandatory intervention, the Municipal Finance Recovery Services (MFRS) Unit within the National Treasury develops a financial recovery plan (FRP) for the municipality. The FRP development process commenced on 15 October 2021 and ran over a 3-month period in full compliance with the MFMA requirements. The NT MFRS coordinated the FRP development process in cooperation with 4 functional workstreams to cover all the municipal sustainability pillars. Following a diagnostic assessment, a draft FRP Status Quo Assessment Report and Implementation Plan has been completed to inform baseline findings, recovery strategies and activities. All the procedural requirements in terms of Chapter 13 of the MFMA have been complied with, including the setting of spending limits and revenue and expenditure targets, the provision of budget parameters which will bind the municipality over the intervention period and comprehensive stakeholder consultations.

The financial recovery plan adopts a strategic, focused approach which is time-bound yet comprehensive enough to ensure that the underlying causes of the crisis are adequately addressed. To achieve this objective, the financial recovery plan presents a phased approach to recovery, differentiating between issues to be addressed in the short, medium, and long term. The recovery plan is 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, followed by a 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 and finally, a Sustainability Phase (Phase 3) to ensure that indicators are developed that will give effect to the long-term financial sustainability of the municipality. The approach is designed to ensure that financial recovery is not only achieved, but more importantly, that progress is institutionalised and sustained within the Beaufort West Local Municipality.

A financial forecasting model has been used to set financial targets for the Beaufort West FRP over the MTREF period. Grounded on the effective implementation of the FRP, it is anticipated that the municipality will progressively move towards a position of improved financial sustainability over a 3-year period. If key operational efficiencies are achieved in line with FRP Implementation Plan, it could be expected that the projected cash shortfall of R60 million at the end of the 2020/21 Financial Year will likely improve to a cash surplus of R2,9 million at the end of the 2023/24 Financial Year. The net increase in cash hold could improve with R17,6 million in 2022/23 and R54 million in 2023/24. If these positive trends could be achieved and sustained, it could realistically be expected that it will take the municipality a period of 3 years to move to a fully cash-backed funding position. The forecasting model



is flexible, and figures will be adjusted annually aligned with the revised FRP activities to facilitate sustained financial health improvement. The municipality's adherence to the FRP will be monitored in terms of its achievement of the targets for revenue and expenditure set out in the financial forecasting model.

The mandatory FRP will be used as an instrument to guide the municipality in addressing the financial crisis in the municipality as well as to ensure that the municipality regains its financial health within the shortest timeframe whilst ensuring that all issues which adversely affect the financial health of the municipality are comprehensively addressed. This will allow the Municipality to give effect to the financial recovery plan and the overall recovery process.

Key actions in the FRP include the following:

- **Pillar 1 – Governance:** Investigation of financial misconduct, the establishment of functional Council committees, investigation of unauthorised, fruitless, wasteful, and irregular expenditure in accordance with S32 of the MFMA, implementation of an audit action plan, review of the system of delegations, various activities to improve contract management and the development and implementation of a MFMA Legal compliance matrix to address the high level of contingent liabilities.
- **Pillar 2 – Institutional:** Change Management, management of non-critical staff and contract appointments, the prioritisation of effective models for acquiring skilled human resources to ensure that the FRP can be executed, the verification of staff qualifications, the filling of critical vacancies and re-establishing of the Local Labour Forum.
- **Pillar 3 – Financial Management:** Development of a Budget Funding Plan to move the municipality to a funded position, the preparation of a credible and funded 2022/23 MTREF Budget, cost containment measures, revenue improvement activities, the establishment of a Revenue Technical Committee, the re-negotiation of creditor payment plans, cost-reflective tariffs and activities for the effective administration and control of the Municipality's bank accounts in line with the MFMA and FRP targets.
- **Pillar 4 – Service Delivery:** Water and electricity management, implementation of a fleet management system, monitoring of grant performance and the development of infrastructure master plans.

As this is a mandatory intervention, the municipality must implement the financial recovery plan. All revenue, expenditure and budget decisions must be taken within the framework of and subject to the limitations of the FRP. The strategies set out in this FRP relate to activities that must be institutionalised and performed by various municipal officials. The financial resources required to support the implementation of the Plan, will be realised through restructuring of the budget, implementing the revenue collection strategy and revenue enhancement initiatives and a commitment to stringent expenditure controls, with particular emphasis on the elimination of non-essential expenditure, limitations on appointment of staff and non-revenue generating activities and ensuring effective administration and control of the municipality's bank accounts in line with the FRP.

The intervention will be subject to oversight by an Oversight Committee who will report directly to the MEC of Finance and the Provincial Executive of the Western Cape. The Oversight Committee will monitor progress and assist to unblock any challenges that may hinder the success of this intervention.



PART ONE - LEGISLATIVE CONTEXT, INTERVENTION AND OVERSIGHT:

BACKGROUND

On 10 June 2020, the Executive Mayor of the Beaufort West Municipality (BWM), requested the Provincial Minister: Local Government to conduct a diagnostic assessment in the Municipality with a focus on the Municipality's financial sustainability. The assessment was conducted; however, the assessment report was not tabled before Council nor actioned by the Municipality. Following the above, the Municipality was required to prepare a municipal turnaround plan to address the findings of the 2020 assessment.

Upon receipt of the municipal turnaround plan, the WCG, through the Provincial Minister: Local Government and the Provincial Minister: Finance, had to monitor the implementation of the turnaround plan and advise further if an intervention is required. However, the plan was not completed by the Municipality.

The WCG has provided considerable support on both governance and service delivery matters to the Municipality. However, the effects of this have been undermined by a lack of sustained commitment on the part of the Municipality to addressing these challenges, as confirmed by the Auditor-General in its latest audit findings, which led to a disclaimer of the audit opinion on the Municipality for the 2020/21 financial year.

Over the period 2015/16 to 2019/20, the WCG conducted a range of assessments of the financial health of the Beaufort West Municipality, upon the request of the Municipality to conduct such assessments. Various concerns were raised during the process of consultation with the Municipality prior to each of the assessments being conducted. The outcomes of the above-mentioned assessments consistently showed that the Municipality was experiencing significant financial problems in its financial affairs. The Municipality did not dispute these findings.

In its submission, the municipality stated that: *"Beaufort West Municipality has been struggling with financial sustainability issues for the last ten years. The Municipality is a grant dependent Municipality with a high unemployment rate, especially amongst the youth."*

While the draft Financial Health Assessment was concluded in 2020, and a range of WCG engagements and support processes were conducted both prior to and after this, the financial status and condition within the Municipality continued to deteriorate. Poor governance practices, including the failure to act on assessment reports, and a weak control environment within the Municipality have been significant factors in this deterioration.

The Municipality furthermore acknowledged that it was unable to meet its obligations and/or financial commitments. In its June 2020 letter, the Executive Mayor, on behalf of the Municipality, highlighted the following:

"The precarious financial position that the Municipality found itself in before the outbreak of the pandemic as a result of the ailing economy, the effect of state capture, and the continue[d] electricity crisis is further exacerbated by the unintended consequence that the national strategy to contain and prevent the spread of the [Covid-19] virus has caused on the economy...The impact of Covid-19 has led to a situation where the Municipality is no longer in a position to pay its creditors and salaries of workers."



Beaufort West LM Mandatory FRP

In addition to the above, the Municipality indicated that as a result of the impact of Covid-19, “the Municipality will struggle to deliver on its Constitution [sic] mandate in the foreseeable future”

On 10 May 2021, the Provincial Minister: Finance raised concerns about the financial health of the Municipality. In noting that the “*Municipality has been in a precarious financial position for several years*” the Minister raised his concerns that “*the impact of the Covid-19 pandemic, combined with recent decisions by the Municipality have placed it at risk of imminent financial distress.*” The Provincial Minister: Finance observed that at present, “*it would appear that the Beaufort West Local Municipality does not have sufficient revenue to fund its operations*”.

By the end of the 2020/21 financial year in June 2021, the Municipality was found to be in breach of two of the criteria set out in section 140 of the MFMA for a mandatory intervention:

- (a) Beaufort West Municipality failed to make numerous payments as and when due, and such failure endured for more than 90 days (contravenes section 140(2)(a) of the MFMA); and
- (b) The Municipality failed to make numerous other payments, the amount of which was more than 2% of its operating expenditure (contravenes section 140(2)(c) of the MFMA). These payments included those to Eskom.

After considering all the facts and data, a Notice of Intention to Intervene in the Municipality in terms of section 139(5)(a) was issued to the Municipality.

The Municipality’s statements that it was unable to meet its obligations and/or financial commitments were not rebutted, withdrawn, or addressed by the Municipality in its reply to the Notice of Intention to Intervene. The Municipality furthermore acknowledged, in its letter of reply, that it was in financial distress and unable to make payment to meet its financial obligations when they become due.

The Provincial Executive resolved on 25 August 2021 to intervene in the municipality in terms of section 139(5) of the Constitution because of the crisis in its financial affairs.

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003), requires that in a mandatory intervention, the Municipal Finance Recovery Services Unit within the National Treasury develops a financial recovery plan for the municipality. On 27 August 2020, the MEC for Finance requested the Minister of Finance, in terms of Section 144 of the MFMA, that the Municipal Financial Recovery Service (MFRS) prepare the FRP.

1.1 STATUTORY AND LEGISLATIVE CONTEXT

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

The intervention was instituted in terms of S139 (5)(a) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read in conjunction with Section 139 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

S139(5)(a) of the Constitution reads as follows: “the provincial executive **must** impose a recovery plan aimed at securing the municipality’s ability to meet its obligations to provide basic services or its financial commitments, which:

- i. is to be prepared in accordance with the national legislation; and



- ii. binds the municipality in the exercise of its legislative and executive authority but only to the extent necessary to resolve the crisis in its financial affairs.”

In terms of the Constitution, the Western Cape Provincial EXCO has an obligation to ensure that a recovery plan is prepared and that it is aligned to the applicable national legislation which, in this context, is the Municipal Finance Management Act, 2003. The recovery plan may also restrict the authority of the Council and the Executive in any matter or area that impacts on the finances of the municipality.

The Western Cape Provincial EXCO is responsible for monitoring and ensuring that the financial recovery plan is implemented by the Beaufort West Municipality. Failure to implement the recovery plan may result in a national intervention in terms of S139 (7) of the Constitution.

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 S139(5) of the Constitution.

- S139 (1) of the MFMA places the responsibility on the Provincial EXCO to request the Municipal Financial Recovery Services (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 S139.
- S139(1)(a)(iv) also empowers the MFRS to recommend appropriate changes to the budget and revenue raising measures that will support the implementation of the recovery plan.
- In terms of S139(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.

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:

S142 (1) 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 –

Identify the financial problems of the municipality;

- i. Be designed to place the municipality in a sound and sustainable financial condition as soon as possible;
- ii. State the principal strategic objectives of the plan, and ways and means for achieving those objectives;
- iii. 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;



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- iv. Identify the human and financial resources needed to assist in resolving financial problems, and where those resources are proposed to come from;
- v. Describe the anticipated timeframe for the financial recovery, and milestones to be achieved; and
- vi. 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.

Regarding the implementation of the financial recovery plan in mandatory provincial interventions, the municipality's attention is drawn to the following provisions of S146 of the MFMA.

S146 (1) If the recovery plan was prepared in a mandatory provincial intervention referred to in section 139 –

- (a) the municipality **must** implement the approved recovery plan;
- (b) all revenue, expenditure and budget decisions must be taken within the framework of, and subject to the limitations of, the recovery plan; and
- (c) the municipality **must** report monthly to the MEC for Finance in the province on the implementation of the plan in such manner as the plan may determine.

In conclusion, unlike a voluntary or discretionary financial intervention, the National Treasury, through the Municipal Finance Recovery Service must develop the financial recovery plan for the Beaufort West Municipality. The plan must bind the municipality in terms of its spending and budget parameters and the municipality is obligated to ensure that such a recovery plan is implemented within the timeframes outlined.

1.2 OVERVIEW OF THE FINANCIAL RECOVERY PLAN

This financial recovery plan is prepared in accordance with the requirements of the Municipal Finance Management Act, 2003.

Additionally, this financial recovery plan is aligned to the 4 pillars used by the National Treasury to assess municipal sustainability. These 4 pillars are: Governance, Institutional Stability, Financial Health and Service Delivery.

The strategic objective of this financial recovery plan is to address the current financial distress by focusing on improving the short-term financial liquidity of the municipality and by improving the long-term financial sustainability of the municipality.



Beaufort West LM Mandatory FRP

This will be achieved in a phased approach, as indicated previously in this document, with a focus on high level targets to be achieved in each phase. Issues pertaining to governance, institutional stability and service delivery will also be addressed in so far as it undermines the financial recovery of the municipality.

To facilitate implementation, the financial recovery plan is divided into three key phases, namely:

Phase 1: Rescue Phase

In this phase, the focus is primarily on cash and restoring the cash position of the municipality. The indicators for 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.

Phase 2: Stabilisation Phase

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.

Phase 3: Sustainability Phase

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 give effect to 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 targets have been selected to guide the recovery process. These targets have been identified as most appropriate given the nature of issues confronting the municipality. These targets provide an indication of high-level outcomes that must be achieved but do not specify the steps to be taken or the methods to be used to achieve those outcomes. The choice of methods is at the discretion of the Municipality who will be monitored on the progress made in achieving the set targets.



1.3 PREPARATION, CONSULTATION AND APPROVAL OF THE MANDATORY FINANCIAL RECOVERY PLAN

PREPARATION

In a mandatory intervention, S141(2) of the MFMA requires that the Financial Recovery Plan only be prepared by the Municipal Financial Recovery Services Unit within the National Treasury. The status quo assessment was conducted by the 4 functional workstreams composed of officials from NT, PT, Provincial CoGTA, the relevant sector departments and officials from BWM.

CONSULTATION

In preparing this financial recovery plan, the MFMA requires the Municipal Financial Recovery Service (MFRS) to consult with the municipality, the municipality's suppliers, and creditors, the MEC's for Finance and Local Government in the Province and organised labour (MFMA: S141(3)(a)).

The MFRS team completed the preparation of a draft revised FRP, in accordance with the MFMA requirements for such a plan. This draft plan drew inputs from the Western Cape Provincial Government (WCPG) and documents supplied by the Municipality.

Following initial discussions between NT MFRS and the Provincial Treasury (WC PT) and provincial Department of Local Government (DLG), an introductory workshop with the municipality was held on 15 October. Further consultation meetings with the municipality and stakeholders were held on 17 November 2021 (Virtual) and 29 November 2021 (Hybrid) and attended by the municipality, the WC PT, DLG, and the SALGA. The workshop on 29 November 2021 was held at the district offices in Beaufort West. A draft of the plan was circulated before the workshop and stakeholders that could not attend had an opportunity to provide their inputs to the consultation process in writing.

The municipality's 4 largest creditors were consulted on 26 November 2021. The IMATU and SAMWU representatives on the Local Labour Forum (LLF) attended a consultative meeting in Beaufort West on 29 November 2021. A copy of the draft FRP was shared, and labour representatives were reminded that they could submit further comments in writing.

A notice was published in terms of Section 141(3)(c)(ii) of the MFMA to invite the public, including the local community to submit written comments and representations in respect of the Draft mandatory FRP. The plan was also available on the PT website.

Advertisements were published in 3 local newspapers with circulation in the local municipality between 21 December 2021 and 5 January 2022. Hardcopies of the plan were made available at key locations in the municipality. The MFRS wrote to all stakeholders on 20 December 2021 to provide them with a copy of the Draft mandatory FRP. Written comments were invited to be submitted by 5 January 2021 in fulfilment of section 141(3)(c)(i) and (ii) of the MFMA. However, inputs were accepted up to 12 January 2022.

Comments were received from four stakeholders and were factored into the final FRP for submission to the MEC for Finance in accordance with S141(4)(c) of the MFMA.



APPROVAL

This Plan is submitted to the MEC for Finance for his verification and approval in line with Section 143(2) of the MFMA.

1.4 IMPLEMENTATION OF THE MANDATORY INTERVENTION AND FINANCIAL RECOVERY PLAN

As this is a mandatory intervention, the municipality must implement the financial recovery plan. All revenue, expenditure and budget decisions must be taken within the framework of and subject to the limitations of the financial recovery plan (MFMA: S146(1) (a) and (b)).

The municipality is also required in terms of S146(1)(c) to report monthly to the MEC for Finance and NT MFRS on the implementation of the financial recovery plan. Reporting will be done via the Office of the Municipal Manager.

It must be emphasised that the strategies set out in this Plan relate to activities that must be institutionalised and performed by various municipal officials, as part of their routine duties and tasks. Those appointed to such positions, even in acting capacities, must be given specific roles and responsibilities, which must be captured in a revised performance agreement. The Municipal Manager will oversee this process.

The **financial resources** required to support the implementation of the Plan, will be realised through restructuring of the budget, implementing the revenue collection strategy and revenue enhancement initiatives and a commitment to stringent expenditure controls, with particular emphasis on the elimination of non-essential expenditure, limitations on appointment of staff and non-revenue generating activities and ensuring effective administration and control of the Municipality's bank accounts in line with the FRP. Additional financial support for some projects will be mobilized from stakeholders. Furthermore, provincial support will be aligned with the FRP strategies.

1.5 MONITORING AND OVERSIGHT OF THE INTERVENTION AND THE FINANCIAL RECOVERY PLAN

The intervention will be subject to oversight by an Oversight Committee who will report directly to the MEC Finance and the Provincial Executive of the Western Cape. The Oversight Committee will monitor progress and assist to unblock any challenges that may hinder the success of this intervention. This Committee will have the authority to recommend that certain actions from the FRP should be prioritized or delayed. The Committee will also confirm the updated numerical targets in the FRP in instances where spending limits and revenue targets are based on variable data such as inflation rates, administered price increases and past performance. The Committee will also be tasked with assessing progress and approving the shift from one phase of the FRP to another.

The Oversight Committee will consist of at least one nominated representative from the following organs of state:

- (a) Western Cape Provincial Treasury (Co-chairperson)
- (b) Western Cape DLG (Co-chairperson)
- (c) NT MFRS
- (d) Western Cape SALGA
- (e) Beaufort West Municipality



Representatives from organized labour, business (and community organisations) may also be invited to attend these meetings as observers.

A Technical Working Group may be formed with representatives from some or all these organisations to meet on a regular basis to coordinate routine support and monitoring of the intervention. The Municipal Manager must provide written reports to the Oversight Committee, monthly. These reports will form the basis of the quarterly progress reports that must be prepared in terms of section 147 of the MFMA and submitted to the municipality, the Minister of Finance, the Cabinet member responsible for local government; the provincial legislature; and organised local government in the province (these reports should also be published on the municipal website to provide feedback to the community on progress in implementing the FRP). The Municipal Manager must take corrective action when activities in the plan are falling behind implementation timelines or when there is a risk of non-achievement of the desired outcomes. Progress report on the implementation of the plan should be signed by the municipal manager before submission to Council, Provincial Treasury and National Treasury MFRS, monthly (by 10th of every month). A review of the plan shall be undertaken at regular intervals and be updated as and when more accurate and up to date information is obtained. Section 147 of the MFMA also provide further guidance on the monitoring and evaluation of the plan.

1.6 RISKS ASSOCIATED WITH THE IMPLEMENTATION OF THE FINANCIAL RECOVERY PLAN

The following risks have been identified which must be mitigated for successful implementation of the financial recovery plan. These risks relate primarily to financial administration, budgeting, financial discipline, and governance. It is proposed that a risk matrix be developed and that appropriate mitigation measures be instituted. The risk management matrix must be developed by the Municipal Manager.

The emerging risks identified, include amongst others:

Pillar 1 Governance:

- Litigation due to SCM challenges.

Pillar 2 Institutional and Human Resources:

- Dysfunctionality of the LLF which may compromise labour peace.
- Lack of internal HR capacity and competencies.
- Poor management of discipline and lack of capacity for Presiding Officers and municipal prosecutors.
- Excessive employee related costs which pose a risk for long term sustainability.
- Insufficient communication on intervention activities to ensure commitment.
- Industrial actions owing to communications and resistance to the changes due to any organisational restructuring or realignment and the implementation thereof.
- Non-compliance with Human Resources Management laws/policies and inadequate Human Resources Policies.
- Potential resistance to change by certain internal and external stakeholders.

Pillar 3 Financial Management:

- Inadequate internal capacity to implement the intervention activities.
- COVID-19 related risks: loss of municipal revenue.
- Limited revenue base.
- Continued non-collection of revenue and increase in the debtors' book.
- Inadequate systems of delegation that impact on governance, administration, and operational efficiency.
- Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives.
- Inadequate implementation of internal controls.



Pillar 4 Service Delivery:

- Excessive use of consultants for work that could be performed by internal personnel.
- Community service delivery and other protests.
- Loss of grant funding due to non-compliance with grant conditions.
- Failure to materially control and reduce non-revenue electricity and water losses, which losses will negate the impact of other interventions.
- Failure to reverse trend of under-investment in maintenance and lack of timely replacement of aged infrastructure.

1.7 COMMUNICATION PLAN

It is proposed that the Municipal Manager drafts an internal and external communication plan to support effective communication throughout the intervention. Change management may also be used to support, deepen, and institutionalise implementation.

Type of Communication	Communication Schedule	Typical Communication Mechanism	Who initiates	Recipient
Consultation with all the stakeholders	At the commencement of the FRP	Face to face meeting or virtual	DLG, WCPT NT-MFRS	Creditors SALGA Organized labour
Phase 1 Rescue Phase	Weekly to track progress and review all financial policies and strategies	Email & Virtual meetings	DLG, WCPT & NT-MFRS	BWLM Management (BTO) SALGA HOD WCPT & LG
Phase 2 Stabilization Phase	Bi-weekly: to review and assess adherence to reforms established in phase 1	Face to face/Meeting or Virtual	DLG, WCPT & NT- MFRS	Council HOD-WCPT & LG SALGA
Phase 3 Sustainability Phase	Monthly engagement to review whether performance targets are met	Face to face/Meeting Or Virtual	BWLM Senior Management	Council WCPT and DLG SALGA NT-MFRS
Handover	After 36 months	Face to face engagement	NT-MFRS	Council SALGA Organized labour Creditors WCPT and DLG



PART TWO – DIAGNOSTIC ASSESSMENT:

2.1 A STATUS QUO ASSESSMENT

In developing this financial recovery plan, the following information sources were utilised:

- The Western Cape Government situation assessments.
- Audit reports by the Auditor-General of South Africa.
- The Mid-year Budget and Performance Assessment Report and the Medium-Term Revenue and Expenditure Framework (MTREF) Budget.
- The Integrated Development Plan.
- High Level Strategic Risk Register.
- Management engagement
- Status of BWLM Report
- Financial Ratios in accordance with MFMA Circular 71.
- The Annual Financial Statements.
- Fixed Asset Register
- The Municipal Website
- Various municipal documents such as reports, policies, procedures, etc.

Overview of demographics and economy in Beaufort West Local Municipality

Beaufort West Local Municipality is part of the Central Karoo District Municipality in the Western Cape. The Municipality is situated in the Great Karoo and includes the towns of Beaufort West, Murraysburg, Nelspoort and Merweville. Beaufort West's population was estimated to be 50 904 people in 2020 and is projected to decrease to 21 656 in 2024. The average household size in the Beaufort West area is 3.88 which is estimated to remain unchanged towards 2024. The number of households was recorded at 13 691 in the 2019 Community Survey.

The total GDP-R for Beaufort West amounted to R2.2 billion in 2018 with economic activity mostly focused within the economic sectors of general government (21.9%), transport and communication (17%) and trade and tourism (15,1%). The overall economy grew at an average annual rate of 0.6 per cent between 2014 and 2018, below the Central Karoo District Municipality's average of 1.1 per cent across the same period. However, the per capita GDP-R of Beaufort West is lower than the average for the district and the province. The economy is expected to contract with more than 1% from 2019.

Real GDPR per capita in the Beaufort West Municipal area was R26 000 in 2018 which is slightly lower than the district average of R27 000, but well below the provincial average of R58 000.

According to estimates by the Western Cape Department of Economic Development and Tourism, the COVID pandemic will have a significant impact on the Beaufort West economy, with GVA contracting by 12.3 per cent and employment contracting by 10.2 by the end of the first year



(2020/21). Recovery is estimated to be slow and will take up to 36 months to get to pre-recession levels.

Overall quality of life, as measured through the human development index (HDI) improved from 0.73 in 2012 to 0.78 in 2018. However, this remains slightly below the average for the Central Karoo District Municipality of 0.79 average in 2018. This is largely due to the relatively lower incomes of citizens within the Beaufort West municipal area.

The Beaufort West municipal area currently (2020) has a population of 51 074. This total is expected to decrease to 50 904 by 2024, equating to an average annual growth rate of -0.1 per cent. In comparison, the Prince Albert and Laingsburg municipal areas will both grow at 0.7 per cent across the same period. Sex Ratio - The overall sex ratio (SR) depicts the number of males per 100 females in the population. The data indicates that there are notably more females than males in the Beaufort West municipal area with a ratio of 53,1 per cent (females) to 46,9 per cent (males). The SR for Beaufort West is projected to increase slightly from 2020 to 2021, where after it is expected to remain unchanged. Age Cohorts - Between 2020 and 2026, the largest population growth was recorded in the 65+ aged cohort which grew at an annual average rate of 1.2 per cent. The child and working age cohorts in turn respectively decreased by 1.3 per cent and increased by 0.4 per cent. The decrease in the child cohort reflects a possible trend where those coming into the municipal area in search of job opportunities, do so on their own and do not bring their families along. The dependency ratio decreased towards 2026. Household sizes -Household size refers to the number of people per household. The average household size in the Beaufort West municipal area is 3.8 which is estimated to remain unchanged towards 2024. Contributing factors to a stagnation in household size growth could include, but are not limited to, lower fertility rates, occurrences of divorce, ageing population, etc. Population density - amidst rapid urbanisation across the Western Cape, population density figures will aid public sector decision makers to mitigate environmental, individual health and service delivery risks. In 2020, the population density of the Central Karoo District (CKD) was 15 persons per square kilometre. In order of highest to lowest, the various local municipal areas in the CKD compare as follows:

- Beaufort West 2 people/km²
- Laingsburg 1 people/km²
- Prince Albert 2 people/km².

2.2 KEY ISSUES IDENTIFIED

The status quo assessment will be ordered in terms of the following 4 municipal sustainability pillars:

- a) Governance
- b) Institutional stability and capability
- c) Financial health
- d) Service Delivery

The findings of the status quo assessment will be classified according to these four pillars.



2.2.1 GOVERNANCE

In addition to the overarching governance challenges highlighted by the Auditor-General, the following **internal control deficiencies** were noted with concern:

- Leadership did not develop adequate policies and procedures to guide operations of the municipality regarding gathering and posting of information on the accounting system which resulted in material non-compliance with key legislation and material misstatements in the financial statements and the performance reports;
- Management did not ensure accuracy of the data used to prepare financial statements due to lack of consequence management and clear policies and procedures that govern capturing and reviewing transactions;
- Leadership did not ensure that management implement action plan to address the internal control deficiencies identified in the previous financial year 2018/19;
- Lack of contract management and proper maintenance of contract registers hampered the disclosure of accurate figures for financial commitments and irregular expenditure in the financial statements;
- Management did not ensure that the developed action plan to address recurring compliance findings were implemented and monitored;
- Management did not have adequate controls in place to effectively review and monitor compliance with all relevant legislation;
- Management did not exercise the oversight responsibilities regarding financial and performance reporting, compliance and related internal controls;
- Management did not ensure that controls were implemented over daily and monthly processing and reconciling transactions;
- Management did not prepare regular, accurate, and complete financial and performance reports that were supported and evidenced by reliable information;
- Management did not review and monitor compliance with applicable laws and regulations.

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Unauthorised, Irregular, Fruitless and Wasteful Expenditure	<p>Unauthorised expenditure: R 361 828 481 (2018/19 R103 984 317)</p> <p>Irregular expenditure R 58 754 110 (2018/19 R226 583 267)</p> <p>Fruitless and Wasteful expenditure: R 287 798 (2018/19 R1 782 655)</p> <p>No UIF&W expenditure policy.</p>	<p>Overspending on budget.</p> <p>Non-compliance with supply chain management processes and legislation.</p> <p>Interests and penalties on late payments of creditors.</p> <p>Double payment to supplier</p> <p>Inadequate control and management of Working Capital</p>	<p>Unfunded budget.</p> <p>Ineffective Consequence management.</p> <p>No UIF&W expenditure reduction plan.</p> <p>Inadequate system in place to identify and record irregular expenditure.</p>	<p>Develop, approve, and implement a policy governing irregular, unauthorised, fruitless, and wasteful expenditure.</p> <p>Identify, investigate, and report on irregular, unauthorised, fruitless, and wasteful expenditure as per legislation.</p> <p>Implement Consequence management for</p>	<p>Annual Financial Statements.</p> <p>Auditor-General report.</p>



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	<p>UIFW expenditure registers in place.</p> <p>Section 32 investigations not done.</p>	<p>No UIF&W expenditure reduction plan</p> <p>UIF&W registers inadequate</p>		<p>historical irregular expenditure as per Council approved section 32 investigation report.</p> <p>Development and approval of UIF&W expenditure reduction plan.</p> <p>Investigate all reported allegations of financial misconduct against the officials.</p> <p>Conduct section 32 investigations on new UIF&W expenditure</p>	
Contract Management	<p>Contract Register in place.</p> <p>Contracted services are 10.3%</p> <p>Irregular payments without proper contracts.</p> <p>Poor contract management.</p> <p>Irregularly awarded contracts.</p> <p>No monthly performance monitoring Reports on contracts submitted.</p> <p>No contract management framework.</p>	<p>Political interference in contracts.</p> <p>Inadequate human resource capacity, competencies, and skills</p> <p>Inadequate contract performance monitoring measures.</p> <p>Poor internal controls.</p> <p>Ineffective contract management.</p>	<p>Contractual disputes.</p> <p>Badly drafted contracts.</p> <p>Lack of competent senior management.</p>	<p>Audit and review all contracts. Maintain an updated contract register. Identify goods and services required on an ongoing basis and appoint service providers on three-year contracts.</p> <p>Submission of monthly performance monitoring reports on contracts.</p> <p>Review annual procurement plan.</p> <p>Affordable payment arrangements with creditors</p> <p>Development and approval of contract management framework</p> <p>Review standard</p>	<p>AG audit report.</p> <p>Annual Financial Statements</p> <p>Consultations, presentations by province and municipality, and documents supplied by municipality officials.</p>



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
				<p>terms and conditions of security tender to include penalties for loss of assets against the service provider</p> <p>Audit legal compliance with procurement processes for the currently awarded security tender</p> <p>Review and audit the Water Reclamation contract</p>	
Litigation and Contingent liability	<p>Contingent liability of R1 085 000-00</p> <p>Minimal financial exposure through contingent liability</p> <p>Material non-compliance with legislation.</p> <p>Five Letters from provincial treasury for Non-compliance with statutory reporting</p>	<p>Low risk financial exposure.</p> <p>Non-compliance with statutory reporting</p> <p>Non-compliance with legislation Weaknesses in supply chain management processes</p>	Inadequate remedial actions against root causes	<p>Report to Council on diagnostic analysis of root causes of litigations and claims.</p> <p>Conduct a legal assessment on reasonable prospects of success on all pending litigations.</p> <p>Development and implementation of MFMA Legal compliance matrix</p> <p>Maintain updated litigation and claims register</p>	<p>Annual financial statements.</p> <p>Presentations by PT and municipality</p>
Governance Matters	<p>Inadequate oversight role by Council over the executive and administration</p> <p>There is relative political and administrative stability</p> <p>Inadequate number of Council and committee meetings</p>	<p>Ineffective decision-making processes.</p> <p>No approved annual institutional calendar of Council and committee meetings</p> <p>Political and administrative challenges</p> <p>Negative impact on governance, financial and service delivery.</p>	<p>Inadequate governance systems.</p> <p>Lack of accountability.</p> <p>Lack of competent senior management.</p> <p>Inadequate strategies</p>	<p>Review and align established section 80 committees with powers and functions, and administrative directorates.</p> <p>Implementation of institutional calendar for meetings for council and committees and disciplinary board.</p>	<p>Presentations by provincial treasury and municipality on state of affairs.</p> <p>Annual report.</p> <p>Consultations, with municipal officials.</p>



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	<p>Ineffective MPAC</p> <p>Four section 79 committees established</p> <p>Terms of reference for the section 79 committees could not be established</p> <p>Disciplinary Board established</p> <p>HAWKS investigation on conflict of interest in tenders by a councillor</p> <p>Executive Mayor, Speaker and an official arrested on allegations of fraud and corruption</p> <p>Inadequate public participation</p>			<p>Review terms of reference for MPAC to add more oversight responsibilities.</p> <p>Increase frequency of meetings for MPAC.</p> <p>Capacitate Section 79 and 80 committees for improved oversight</p> <p>Implementation of institutional calendar of meetings for Executive management meetings.</p> <p>Schedule an induction for councillors on governance, financial management and oversight after local government elections.</p> <p>Disciplinary Board report quarterly to Council</p> <p>Implementation of the PWC report on forensic investigation into irregularities in the municipality</p> <p>Investigate non-payment for services by Councillors and administrative officials</p> <p>Enter into payment arrangements with Councillors and Administrative officials on arrears for services and</p>	



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
				<p>monitor honouring of payment arrangements</p> <p>Development and approval of Stakeholder Engagement Strategy</p>	
Internal audit and risk management	<p>Disclaimer of opinion.</p> <p>Corporate Risk register in place.</p> <p>Risk management policy approved.</p> <p>Risk management documents not approved for 2021/22 FY.</p> <p>Risk management policy, strategy, and implementation plan</p> <p>Anti-Corruption and Fraud prevention policy; Fraud prevention and awareness strategy; Fraud prevention plan; Private work and Declaration of Interest policy; Whistleblowing policy;</p> <p>Chief Risk Officer not appointed. Function currently performed by internal auditor.</p> <p>Risk Management Committee established but not functioning effectively.</p> <p>Internal Audit documents not approved for FY 2021/22</p>	<p>Poor internal Control Deficiencies.</p> <p>Material non-compliance with legislation.</p> <p>Inadequate implementation of risk and internal audit strategies and plans.</p> <p>SMART principle compliant deficiency.</p> <p>Internal audit and risk management not institutionalized</p> <p>Identified corporate risks are: Impact of COVID-19 pandemic; Impact of Drought; Lack of funding (need to expand the landfill site in the near future); Misuse and abuse of municipal vehicles; Impact of loss of fines on short term financial feasibility; Financial feasibility in the long term; Deteriorating and Ageing infrastructure Excessive water losses; Decentralized SCM unit resulting in corruption or bypassing SCM processes; Loss of key data (Data management outsources to service provider with</p>	<p>Risk and internal audit management not institutionalised.</p> <p>Inadequate implementation of recommendations of audit committee.</p>	<p>Quarterly reports on internal audit and risk management.</p> <p>Update and report progress on implementation of AG audit action plan.</p> <p>Quarterly progress reports on implementation of remedial actions to mitigate against corporate risks and annual audit plan.</p> <p>Development of organisational business continuity plan</p>	<p>Auditor-General report.</p> <p>Annual report.</p> <p>Reports supplied by municipality. Annual report.</p> <p>Presentation by PT on state of affairs</p>



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	Audit committee established but functionality compromised by lack of reports submitted.	no controls vested in the Municipality.			
System of delegations	Provincial COGTA assisting with review of system of delegations Inadequate system of delegations. Inadequate delegations register.	Non-co-operation by municipality	Lack of understanding of rationale behind system of delegations. Lack of quality, appropriate and competent support to Council and Mayco.	Review system of delegations after elections. Sign-off of sub-delegations and maintain delegations register. Review the delegations of powers and functions on supply chain management by MM	Presentation by PT on state of affairs
By-laws and Enforcement	By-laws updated and promulgated. Inadequate enforcement of by-laws. No reporting on revenue generated from enforcement of by-laws.	Electricity and water losses. Depleted investor confidence. Illegal land use Loss of opportunity for increased revenue	By-laws don't provide fines for transgressions. Inadequate institutional arrangements for enforcement of by-laws Lack of quality, appropriate and competent support to Council and Mayco.	Amendment of by-laws to include fines approved by Chief Magistrate as penalties Enforcement of By-laws. Report on revenue generated. Review institutional arrangements to establish enforcement unit. Promulgate outstanding approved by-laws.	Municipality website.
Information and Communication Technology	Inadequate ICT strategy Approved disaster recovery plan in place The disaster recovery plan was not tested during the 2019/2020 financial year.	Identified IT risks may therefore not be mitigated sufficiently and IT resources at the municipality may not be effectively utilised. No evidence of the municipality's progress in achieving their	The following key aspects not covered in the IT Strategy: IT risks not mitigated, The general approach towards technology,	Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy, and protection of information. Review the ICT	AG audit report findings



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	Outdated antivirus software	<p>planned IT objectives.</p> <p>Increases the risk that financial data and information may not be recoverable in the event of a systems failure or other similar disaster.</p> <p>Increases in risk of vulnerabilities being exploited</p>	The structure of the IT environment, Facilities used by IT, Planning guidelines and constraints, Resource requirements	<p>strategy</p> <p>Annual testing of disaster recovery plan.</p> <p>Install up to date and latest version of anti-virus software on all servers and clients.</p>	
Immovable properties	Information not received as requested	Ineffective management of immovable property portfolio	Poor record management	<p>Audit of Council owned immovable properties and occupancy focusing on residential and commercial properties. Develop and adopt alienation policy. Review and collect market related rentals. Review lease agreements. Reconcile transactions at Deeds office. Identify non-strategic properties not required. Conduct cost benefit analysis (operational expenditure against revenue collected).</p>	Response of the municipality
Powers and Functions	Municipality mandated to provide housing units, library services and Vehicle licence services	Inadequate funding to cover all operational costs	Inadequate Mandate agreement	<p>Conduct an in-depth analysis of cost implications.</p> <p>Re-negotiate mandate agreements</p>	Annual report.
Auditor-General Findings	<p>Disclaimer audit opinion in 2019/20 financial year</p> <p>Internal control deficiencies</p>	<p>Poor Records Management system</p> <p>Poorly prepared and non-compliant annual financial</p>	<p>Lack of appropriate coordination on the implementation of audit action plan.</p>	<p>Internal audit (IA) should provide monthly assurance on the reported progress and PoE. Furthermore, IA</p>	<p>Municipal audit action plan</p> <p>AGSA report</p> <p>Presentation by PT on</p>



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	<p>Incomplete and Inadequate audit action plan,</p> <p>Audit Action Plan not SMART compliant</p> <p>Inadequate implementation of the audit action plan and slow response</p>	<p>statements</p> <p>No reflection on retrieval of supporting documents that were not provided in prior year.</p> <p>Monthly/regular reconciliation of accounting records remain a challenge</p> <p>Annual financial statements prepared by the Municipality contain material misstatements.</p> <p>No consequence management and reporting</p> <p>Repeat of findings as some of the compliance matters and internal controls persist.</p>	<p>Reliance on consultants during reporting circle and no skill transfer to BTO officials.</p> <p>Insufficient monitoring of internal controls which result in slow progress.</p> <p>Bad practice of bulk reconciliation of accounting records during reporting circle which does not help to detect and correct errors on time.</p> <p>Lack of accountability for poor performance.</p> <p>Inadequate preparation of annual financial statements</p>	<p>should provide assurance that all issues in the management report are responded and recommendations from stakeholders are being considered.</p> <p>Municipality should solicit assistance from stakeholders on technical issues or interpretations. Investment on internal controls and capacity building- skills</p> <p>Bi-weekly Audit steering committee to monitor progress.</p> <p>Introduction of performance management measures to instil culture of accountability.</p> <p>Progress report should be reported to the executive authority on regular basis to evaluate the extent which the findings are being addressed</p> <p>Internal audit unit should be capacitated on the AFS review process.</p>	<p>state of affairs</p> <p>Annual report</p>



2.2.2 INSTITUTIONAL/ ORGANISATIONAL/ HUMAN RESOURCES

The following institutional, organizational, and human resource challenges are noted:

This section of the financial recovery plan provides a detailed analysis of the status quo of BWLM in so far as matters related to Institutional, OD, HR and Records Management are concerned. The following provides a high-level summary of issues:

- **Organisational Structure:** The Organisational Structure was last reviewed and approved by BWLM Council on the 15th of June 2021. The 2019/2020 Annual Report shows employee related costs to be at 43% and the current budget has stated them at 37%. In terms of National Treasury's norm remuneration costs for a municipality should be at 25% to 40% of the total operating expenditure budget. The high rate of employee costs is concerning; given the fact that some functions are executed on an outsourced delivery option.
- **Management of overtime:** The current budget does not make provision for overtime, implying that there is no expenditure on overtime, and there is no Overtime Policy. Ideally and legally, overtime should be allowed under strict conditions and limited to essential and critical services only – sign an Essential Services Agreement with organized labour in line with the Collective Agreement and BCEA (this to be done before budget allocation).
- **Human Resources Policies:** The following policies are in place and were approved at different intervals:
 - **Recruitment and Selection:** This policy was approved in 2019, and policy is well regulated except for some areas that could have a negative impact on staff establishment and further bloat the organizational structure. These are around the areas of headhunting and lack of a section prohibiting staff absorption. Headhunting practices open the recruitment process up for abuse and manipulation, when the policy is subjected for review; the clause on headhunting should be removed from the policy (or limited to extreme cases) and add one to prohibit staff absorption.
 - **Study Policy – Scheme for Self-Development:** The policy, in its current form does not link fields of study to the strategic objectives, legal mandate, skills gaps, limited competencies as conditions for employee to qualify for the study bursary scheme. Some of the core functions of the municipality are currently performed on an outsourced basis. This policy is one of the instruments that the municipality could use to build internal capacity; and insource all functions.
The application of this policy ideally should be linked to skills audit outcomes, talent attraction & retention and HRDMS objectives.
 - **Sexual Harassment:** This policy was revised in January 2007, and it is well structured.
 - **Private Work:** This policy was approved in October 2007, and it is well regulated. It is proposed that this policy be workshopped on a yearly basis given its importance and should form part of all Induction meetings for new employees.
 - **Cellular Phones:** The policy is well structured and practical to implement. The only noted limitations are on the fact that beneficiaries are allowed to exceed their allocated monthly allowances and then deduct the difference from their salaries. Some of the good practices that the municipality may consider is to pay the allowances direct to employees banking accounts and avoid processing payments to various telecom providers. This will remove the administration process and legalities that accompany contracting with providers and possible disputes that may arise because of exceeded usage.
 - **HIV/AIDS:** The policy is well structured, there are no limitations identified, except to propose that the policy should make provision for separate, secured, and private rooms to



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be used for HIV/AIDS testing and counselling to guarantee dignity of employee and encourage use of the service. This will contribute to EAP and Wellness programmes for the employees.

- **Staff Induction & Training:** This policy was approved in 2005 and is well structured. It covers issues in staff induction only.
 - **Succession Planning & Career Pathing:** There are negative findings on this policy. The only suggestion is to link the policy to skills audit outcomes, HRDMS and Study Scheme policy.
 - **Framework: Staff Appointment – Support Staff for elected representatives:** This policy was approved in 2007. The policy does not specify minimum requirements for support to be provided for political office bearers. The lack of need specification will lead to overstaffing in political offices which will further bloat the organization structure and further increase cost of employment. Support needed should be guided by functions as provided in the legislation, especially for the Office of the Mayor and the Council Speaker; and must be set at minimum.
- **Human Resources Development Strategy:** The HRDMS is in a draft form and not approved by Council, the draft was developed in June 2017.
 - **Change Management:** The municipality does not have a Change Management Strategy to assist with the introduction of new processes, transformation, handling transitions, communicating challenges and achievements with employees and stakeholders and low staff morale is being experienced and unproductive staff.
 - **Local Labour Forum (LLF):** The municipality has a well constituted LLF, challenges are being experienced around the convening and sitting of the Forum. The last meeting took place on the 17th of November 2019. This has the potential of compromising labour peace. The main reason for dysfunctionality of the LLF are non-attendance of meetings by both components.
 - **Management of Overtime:** No provision for compensation of overtime was made in the 2020/2021 budget, this was done with a view to discourage abuse. The approach taken by the municipality is not ideal, this will lead to essential service outages not being attended to. Provision for overtime should be made in the budget and introduce stringent policies and procedures to manage overtime within the provisions of the Divisional Collective Agreement and section 10 of the Basic Conditions of Employment Act (BCEA), 75 of 1997.
 - **Performance Management:** The PMS of the municipality is adequate and well regulated. BWLM uses the Service Delivery Budget Implementation Plan (SDBIP) as the basis for the system on an annual basis, the system is web-based. The Municipal Manager and 56 Managers sign annual performance agreements, and these are evaluated as required. The noted limitations are the lack of preparation of Personal Development Plans (PDPs) post assessment and cascading of PMS to Tuned Assessment of Skills and Knowledge (T.A.S.K) grade levels below section 56 Managers.
 - **Third parties:** The municipality reports that it is not in arrears with payment of employee costs related third parties.
 - **Employment Equity & Transformation:** The municipality does not comply with Employment Equity policy. Non-compliance will lead to hefty penalties and fines by the Department of Employment and Labour (DoE&L).

The table below reflects on matters that have been noted under this segment and provides an analysis of the problems and possible solutions:



Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
Organisational Structure and Employee Costs	<p>The Organisational Structure was reviewed and approved on 15th June 2021.</p> <p>Audited (19/20) Employee costs are 43% and stated at 37% unaudited (based on 20/21 budget) of the OPEX.</p> <p>In some months salaries are not paid on time due to poor cashflow.</p> <p>Some of the functions are outsourced and partly outsourced due lack of requisite skills or resources: Internal Audit, Electrical & Engineering Services, ICT Services and Legal Services.</p> <p>Some of mechanical work is outsourced whereas there is a Mechanical Workshop with staff.</p> <p>The structure is top heavy with unnecessary management layers (Directors, Senior Managers and Managers).</p> <p>Unfunded vacancies on new organogram – but not filled. There are 175 posts in total with 21 vacancies.</p> <p>There is no Placement Policy, staff not placed accordingly, and disputes have not been resolved.</p> <p>High level of temporary employees (dating years back).</p> <p>Lack of sufficient workforce to perform duties due to inadequate organogram resulting in poor service delivery</p>	<p>Outsourced core functions.</p> <p>Poor planning.</p> <p>High employee costs.</p> <p>Lack of requisite skills.</p> <p>Political interference.</p>	<p>Political interference.</p> <p>Structure not properly aligned.</p> <p>Lack of skills on ICT and legal functions (not being able to attract the necessary skills due to the area being rural and no skills pool available in the community).</p>	<p>The municipality is encouraged to employ measures to reduce high employee costs. (All non-critical vacancies must not be filled and there should be zero percent increase on employee salaries) – vacant Senior Managers post not be filled 'till the finalisation of Organogram review.</p> <p>Review the Organisational Structure and make provision for all core services/ functions to be executed internally.</p> <p>Develop Placement Policy.</p> <p>Conduct a cost-benefit-analysis for outsourced and insourcing of services.</p> <p>Provide for clear roles/responsibilities.</p> <p>Investigate illegal staff promotion/ post upgrading and apply consequence management and restore all affected posts to the correct original posts' levels.</p> <p>Investigate the outsourcing of mechanical work and related costs.</p> <p>Investigate and terminate payment Cellular</p>	<p>Annual Report 2019/20.</p> <p>Cost Containment Policy – 1 July 2021.</p> <p>Top Risks Register – June 2021.</p> <p>BWLM Org. Structure.</p> <p>Staff Establishment report: Sept. 2021.</p> <p>Report: Travel/ Cellular Phone Allowances.</p> <p>LLF, Council, Management and community engagement.</p>



Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
	<p>Library services are fully funded, while Vehicle Licensing and Housing are not.</p> <p>Some staff members were illegally elevated to higher Tuned Assessment of Skills and Knowledge (T.A.S.K) grades post levels outside of normal recruitment processes and procedures. And some employees gave reported this action to the Public Protector for investigation.</p> <p>Travel and Cell-phone allowances are also paid to employees whose job-inherent does not require them to have access to such tools of trade (Drivers, Exec. Secretaries).</p> <p>Discriminate application of Travel Essential User Scheme Policy</p>			<p>Phone and Travel Allowances to employees whose job requirement does not require such allowances as tools of trade.</p> <p>Investigate application of Travel Essential User Scheme Policy.</p>	
Filling of Critical Posts	<p>The posts of MM and some section 56 Managers have been filled.</p> <p>The post of Director: Community Services is vacant. An acting incumbent was appointed from outside of the structure of BWLM and no proper recruitment processes were followed to appoint the 'Acting Director'.</p> <p>The posts of Senior Manager Legal Services and Manager ICT are vacant.</p> <p>Labour Relations Officer posts also vacant.</p>	<p>Organisation Structure does not make provision for fully functional legal services and ICT.</p> <p>Complete disregard of appointment processes as prescribed in section 56 of LG:MSA.</p>	<p>Refer to comments under the part on Organisation Structure.</p> <p>Post of LRO not filled, leading to delays in finalising disciplinary cases.</p>	<p>Speed up filling the vacant posts of Senior Managers Legal Services and ICT. Refer to above comments regarding cost-benefit-analysis.</p> <p>Reverse the irregular/ illegal appointment of Acting Director: Community Services.</p> <p>Investigate the process followed in the passing of a decision to appoint Acting: Director Community Services.</p>	<p>Annual Report 2019/20.</p> <p>Management Engagement</p> <p>Minutes of Council meeting dated 17/12/2021.</p>
Overtime	Current budget does not make provision for compensation of overtime.	No budget provision.	Endeavours to curb abuse of overtime and cost saving.	Make provision for overtime during the budget	LLF, Council & Management engagement.



Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
	Key and essential services are compromised.			<p>adjustment process.</p> <p>Introduce measures and procedures to approve, monitor overtime work and compensations – use Divisional Agreement and BCEA to guide internal processes.</p> <p>Introduce and conclude an Essential Services Agreement with Organised Labour.</p>	
Leave Management and Absenteeism	<p>There are inadequate leave controls.</p> <p>Poor timekeeping and absenteeism.</p> <p>High level of alcohol intake.</p>	Disregard of legislated processes and complete lack of supervision.	<p>The clocking system is not linked to payroll for correlation of remuneration against days worked. Chronic and prolonged illnesses. Consequence management applied in line with HR policies</p> <p>Salary disparities causing staff to be disgruntled and deserting work/ posts.</p>	<p>Introduce a clocking system linked to Payroll (considered automated options).</p> <p>Authorise Payroll to individual employees based on the timesheet signed by someone with authority.</p> <p>Implement constant auditing of the payroll.</p> <p>Stricter application of leave procedures and apply consequence management for transgressions.</p> <p>Assist affected staff with medical boarding applications.</p> <p>Request the WC Liquor Board to assist alcohol abuse counselling and support (as</p>	<p>Top Risks Register – June 2021.</p> <p>Management engagement.</p>



Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
				part of their CSI programmes).	
Management of discipline.	<p><u>Lack of stringent control measures hampering successful outcome of disciplinary procedures.</u></p> <p><u>Limited in-house capacity of Presiding Officers.</u></p> <p><u>Staff with political links are proving to be difficult to control and manage and there is political interference.</u></p>	<p>Poor controls.</p> <p>Political interference.</p> <p>High rate of disregard for work procedures and respect for work protocols.</p> <p>Certain employees doing business with the municipality.</p>	<p>Cases taking too long to finalise.</p> <p>Lack/ limited personnel capacity to preside and prosecute matters.</p> <p>Affected employees electing to use the services of private attorneys when not allowed by the 2018 Code Collective Agreement on Discipline.</p>	<p>Expedite all outstanding matters and finalise within 6 months.</p> <p>Source the services of the district and other state organs to assist with presiding and prosecuting of all matters.</p> <p>Train s56 Managers & Managers.</p> <p>Expedite the appointment of Manager Legal and Industrial Relations Officer.</p>	<p>LLF, Council & Management engagement.</p> <p>Various Disciplinary Reports.</p> <p>WCLG Final Report: Forensic Investigation – June 2018.</p>
Human Resources Policies	<p><u>The following policies are in place:</u></p> <ul style="list-style-type: none"> Recruitment and Selection Sexual Harassment Language Private Work Cellular Phones HIV/AIDS Staff Induction & Training Succession Planning & Career Pathing Framework: Staff Appointment – Support Staff for elected representatives Succession Planning – poor implementation. <p><u>The following policies are not in place:</u></p> <ul style="list-style-type: none"> Placement Acting Allowance Overtime 	<p>Recruitment and Selection: Potential abuse of Headhunting.</p> <p>No prohibition of staff absorption.</p> <p>Political Staff: No support minimum set to guide appointment of support staff.</p> <p>Cellular Phones: Exceeding of approved allowance, processing, and contracting, policy not amended in line with EMT & Council decisions.</p> <p>Study Scheme: Not aligned to strategic objectives, legal mandate, and skills gaps.</p>	<p>The way the policies were structured.</p>	<p>Review of the affected policies is suggested.</p> <p>Develop the following policies:</p> <ul style="list-style-type: none"> Overtime Acting Placement 	<p>Various BWLM HR related policies.</p> <p>Management engagement.</p>
Management of discipline.	Insufficient/ineffective disciplinary process.	Lack of stringent control measures hampering successful outcome of disciplinary procedures.	Limited in-house capacity of Presiding Officers. Political interference:	Train s56 and other senior managers to be used as Presiding Officers and Prosecutors.	<p>Top Risks Register – June 2021.</p> <p>Management engagement.</p>



Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
			Cases abandoned, and amnesty granted by Council	Make use of officials from other government departments and municipalities. Municipal Councillors to desist from interfering with disciplinary processes.	
Staff Verification	Staff verification (head counts) are not conducted. Director's sign-off monthly salary payment schedules for processing of payroll – this is a routine procedure and is susceptible to manipulation.	Possible existence of employees unaccounted for ('ghost workers'). Possibility of incompleteness of employee related costs.	There was never a commitment to execute.	Conduct staff verification annually.	Management engagement.
LLF	The LLF is dysfunctional. Last meeting took place on the 17th of November 2019.	Poor coordination of LLF.	Lack of discipline by all LLF components.	Revitalise the LLF and convene meetings. Apply consequence management to Councillors and officials who are failing to attend LLF meetings.	Annual Report 2019/2020. Management engagement.
Minimum Competency Regulations	Not all Executive Management Team and employees required to complete the course in terms of s119 of MFMA have completed all the 28 Unit Standards – Gazette 41996	The affected members of the Executive Management Team are registered and still going through the programme.	In process	Ensure that all affected employees and managers complete the course in record time.	Report: Municipal Regulation on Minimum Municipal Competency Levels.
Skills Audit	Skills audits have not been conducted. Lack requisite skills to perform key and core functions.	Limited capacity and skills.	Lack of training. Lack of skills & competencies. Lack of HRMDS	Conduct skills audits. Placement of employees in line with competencies.	Top Risks Register – June 2021.
Human Resources Development & Management Strategy	The HRDMS is in a draft form and not approved by Council, the draft was developed in June 2017. Failure to attract, appoint and retain skilled and competent	HRDMS not finalised and not approved by Council. Draft strategy is outdated.	Approval and implementation.	Expedite the review approval of HRDMS and submit to Council for approval and accordingly implement it. Use PMS and EAP to attract and	Top Risks Register – June 2021. HRDMS



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Focus Area	Diagnostic Analysis	Problem/ Key Issues	Causes	Strategy to Solve	Source of Information
	<p>workforce/critical vacancies not filled and Ineffective middle management.</p> <p>Lack of transfer of skills due to over reliance on private service provider and key personnel.</p>	Poor attraction and retention.		retain competent key personnel.	

2.2.3 FINANCIAL MANAGEMENT

Revenue and Expenditure Management

Table 1: Summary of the 2021/22 Approved Budget

Description	CURRENT YEAR							MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK					
	2017/18	2018/19	2019/20	2020/21	2020/21	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Treasury Calculation	Full Year Forecast	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation
Total Revenue (excluding capital transfers and contributions)	138 543	3 111	296 449	328 165	335 677	317 023	335 677	337 175	337 175	357 497	357 497	359 394	359 394
Total Expenditure	80 814	27 460	333 476	347 175	357 140	374 365	357 140	354 392	373 891	375 528	395 817	375 528	395 817
Surplus/(Deficit)	57 729	(24 349)	(37 028)	(19 009)	(21 463)	(57 342)	(21 463)	(17 218)	(36 716)	(18 031)	(38 320)	(16 134)	(36 423)
Non Cash Items													
Depreciation & asset impairment	6 367	1 693	25 017	25 096	25 096	25 096	25 096	24 739	24 739	24 693	24 693	24 693	24 693
Total Restated Result	64 096	(22 656)	(12 011)	6 087	3 633	(32 246)	3 633	7 521	(11 977)	6 663	(13 627)	8 560	(11 730)
Total Capital Expenditure	78 600	8 891	22 792	10 006	26 003	26 003	56 206	11 625	11 108	11 044	11 044	8 527	8 527
Funded by:													
Transfers recognised - capital	3 349	8 790	22 442	34 005	22 784	22 784	22 784	19 895	19 895	25 587	25 587	22 058	22 058
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	101	361	1 892	1 908	-	1 908	3 570	3 570	1 657	1 657	465	465
A7 - Cash / cash equivalent at the year end	28 368	(16 033)	10 093	3 194	42 877	(20 231)	42 877	23 792	(34 209)	21 421	(47 260)	23 394	(58 053)
A8 - Surplus / Shortfall after application of cash and investments	(28 755)	(16 003)	(9 259)	3 194	62 501	(109 802)	62 501	27 562	(124 028)	29 732	(137 941)	33 658	(148 662)

Source: Beaufort West Municipality 2021/22 LG Database



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As per the NT funding tool, the 2021/22 MTREF analysis shows that the budget is **unfunded**. The large differences between the municipal A8 Schedule and the funding tool are due to differences in collection rates and calculation of outstanding creditors at the end of the year.

It is noted that there are variances between the data strings for the cash and cash equivalent balances over the MTREF and that of the council's A-Schedule. These differences have an impact on the cash flow of the municipality and its funding outcomes and should be corrected.

The Municipality made no changes to the operating revenue and expenditure budgets from the tabled to approved budget and is still budgeting for operating deficits over the MTREF. This was despite commitments in meetings with the provincial government as part of the 2021 budget process (in the Singal Integrated Municipal Engagements) that the Municipality would make substantial changes to ensure a funded budget. The Municipality also did not meet with PT to discuss changes, as agreed in the SIME engagement, despite several follow-ups from the province.

The disclaimed opinion the Municipality received from the Auditor General for the 2019/20 Annual Financial Statements is used as an input in the funding tool. The credibility of the findings on the budget are undermined by this, and additional caution should be exercised in addressing the funding problems identified.

The Municipality relies heavily on transfers recognised - capital to fund the 2021/22 MTREF capital budget. While this is understandable given the current financial position of the Municipality, it raises a risk considering the fiscal constraints which will persist over the MTREF and beyond due to the current economic outlook. The Municipality must put measures in place to fully spend all grants to avoid retention or reduction of grant funding.

The budget document remains silent on the water inventory item. It is noted that the Municipality did not budget or account for the costs of water extraction and/or purification as inventory as per the requirements of GRAP 12. Nothing has been listed under the Other Materials for the "Inventory Consumed Water" and therefore that means Beaufort West Municipality has budgeted for water under expenses.

Cash and Liabilities Management

The current ratios of 0.53:1 (2021/22), 0.61:1 (2022/23) and 0.74:1 (2023/24) indicates that the working capital of the Municipality increases over the MTREF period. It is noted that although the ratios are increasing over the MTREF period it is still below the NT recommended norm of 1.5 - 2:1. The Municipality is as such exposed to a liquidity risk.

The liquidity ratios of negative 0.05:1 (2021/22), 0.02:1 (2022/23) and 0.12:1 (2023/24) is increasing over the MTREF years; however it remains below the NT recommended norm of 1:1. This indicates that the Municipality does not have the ability to meet its short-term obligations.

The credibility of the data strings is a challenge to the Municipality, and it is noted that during the 2021/22 year the Municipality reported an overdraft on the financial position. A positive closing cash/cash equivalents balance is reported for the two outer MTREF years.

Considering the impact of the COVID-19 pandemic on municipal revenue, it is recommended that the Municipality adopts an active cash management system to enable it to maintain sound liquidity for sustainable service delivery.



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Table 2: Operating Revenue Budget

Description				CURRENT YEAR				MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK						ASSUMPTIONS & CALCULATIONS		
	2017/18	2018/19	2019/20	2020/21	2020/21	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	2020/21	2021/22	2022/23
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Treasury Calculation	Full Year Forecast	Budget Year +0	Treasury Calculation	Budget Year +1	Treasury Calculation	Budget Year +2	Treasury Calculation	% Change	% Change	% Change
Revenue By Source																
Property rates	36 232	0	46 605	45 903	41 543	41 543	41 543	42 945	42 948	45 096	45 096	45 096	45 096	3.4%	5.0%	0.0%
Service charges - electricity revenue	15 088	(5 488)	92 273	85 273	85 195	85 195	85 195	36 536	89 536	95 699	96 699	96 699	96 699	5.1%	8.0%	0.0%
Service charges - water revenue	5 139	716	32 367	22 631	21 135	21 135	21 135	24 215	24 215	25 911	25 911	25 911	25 911	14.6%	7.0%	0.0%
Service charges - sanitation revenue	7 664	1 113	820	16 067	17 750	17 750	17 750	19 353	19 353	20 708	20 708	20 708	20 708	9.0%	7.0%	0.0%
Service charges - refuse revenue	7 309	613	1 093	9 411	9 439	9 439	9 439	10 258	10 258	11 182	11 182	11 182	11 182	8.7%	9.0%	0.0%
Rental of facilities and equipment	271	110	2 412	1 358	1 447	1 447	1 447	1 426	1 426	1 487	1 487	1 487	1 487	-1.4%	5.0%	0.0%
Interest earned - external investments	-	7	284	1 155	380	380	380	1 271	1 271	1 398	1 398	1 398	1 398	234.3%	10.0%	0.0%
Interest earned - outstanding debtors	920	245	4 815	4 798	5 056	5 056	5 056	5 086	5 086	5 361	5 361	5 361	5 361	0.6%	6.0%	0.0%
Dividends received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	1 558	783	44 620	57 326	57 326	57 326	57 326	59 142	59 142	62 099	62 099	62 099	62 099	3.2%	5.0%	0.0%
Licences and permits	41	17	222	580	580	580	580	609	609	639	639	639	639	5.0%	5.0%	0.0%
Agency services	195	50	254	598	568	568	568	1 065	1 065	1 171	1 171	1 171	1 171	10.0%	10.0%	0.0%
Transfers and subsidies	56 589	165	74 964	84 105	93 290	74 636	93 290	81 306	81 306	84 707	84 707	86 604	86 604	-12.8%	4.2%	2.2%
Other revenue	10 554	4 761	1 874	1 570	1 570	1 570	1 570	959	959	1 000	1 000	1 000	1 000	-38.9%	4.3%	0.0%
Gains	-	-	-	0	0	0	0	-	-	-	-	-	-	-100.0%	-	-
Total Revenue (excluding capital transfers and contributions)	136 543	3 111	300 103	328 165	335 677	317 023	335 677	337 175	337 175	357 497	357 497	359 394	359 394	0.4%	6.0%	0.5%

Source: NT Database Municipal data strings

Findings and Recommendations

The Municipality anticipates realising an average increase in total operating revenue of 2.0 per cent across the MTREF period which indicates negative real growth when discounted for inflation. Service charges and property rates account for approximately 53 per cent of the Municipality's total operating revenue generation. The Municipality is however still very dependent on fines (18.0 per cent) and government grants (24.0 per cent) both of which are influenced by factors beyond the Municipality's control.

Property Rates

Property rates revenue increases by only 3.4 per cent over for the 2021/22 budget year which is in not in line with the tariff increase of 5 per cent. This discrepancy must be explained. The Municipality should explore other measures such as assessing its debtor book and ensuring that the necessary reconciliations between the deeds register, valuation roll and financial system is done to ensure that all revenue due to the Municipality is generated.

Service Charges

The revenue source that has the highest contribution when it comes to services charges, is **service charges – electricity revenue** with a contribution of 62.0 per cent of the total service charges budget. Given the continuous above inflation tariff increases, the Municipality should be mindful of customers that will seek alternative supply through green initiatives. The increase of the electricity tariffs is beyond the control of the Municipality, but it may require an additional provision for debt impairment.

Fines

The Municipality is heavily dependent on traffic fines and with the COVID-19 pandemic this revenue source is under serious threat. The Municipality also faces the challenge that since most of the offenders do not reside in the municipal area, collection of fines must be approached with caution. The costs of issuing and delivering summons to offenders may exceed the value of the fine that the Municipality is attempting to collect.

Reliance on grant funding



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The Municipality is reliant on government grants and subsidies which amounts to an average of 24 per cent of total operating revenue to fund its operations over the MTREF.

Revenue Improvement

To reduce the over-reliance on grants, the municipality should implement revenue improvement initiatives that will stabilize the dwindling revenue. The municipality should ensure that the billing system fully accounts for all the properties on the municipal general valuation roll, all meters with their unique coding are captured. The municipality should perform monthly reconciliations to monitor the changes made on the billing system and update the data.

The revenue improvement plan requires the full implementation of adopted credit control policies and comprises of seven (7) activities listed below. These activities should be performed on weekly basis and reconciled every month.

1. Debtors Book Analysis
2. Handover File Analysis
3. Consumer Data Quality
4. SMS Messaging
5. Meter Reading Exceptions
6. Credit Control referrals
7. Meter and Installation Inspections (special audits data quality, billing and credit control)

The above activities shall require the municipality to review policies and by-laws to ensure that all changes are approved by the Council.

Conclusion

The Municipal Council must approve legislative and executive measures, including adopting a funded and realistic budget and revenue-raising measures necessary to give effect to this FRP.

The Municipality has submitted a Budget Funding Plan (BFP) to Provincial Treasury detailing how the Municipality will return to a funded position (as required in terms of section 18(1) of the MFMA) in future budgets. The Municipality should liaise with PT to continuously review the BFP and to mitigate any possible risks that may occur in the implementation of the BFP. Failure to align the municipal priorities to the adopted BFP may result in the withholding of future transfers of the local government equitable share.

The Municipality is further encouraged to note that the current fiscal constraints are anticipated to persist over the MTREF, therefore the Municipality should improve its efforts to limit non-priority spending and implement stringent cost-containment measures, whilst striving for value for money. Among the other remedial measures detailed herein, the municipality should prioritise the reducing the proportion of the budget spent on cost of employment. The FRP therefore requires that positions only be filled in accordance with the approved organogram, if the post in question is essential, and, furthermore, if the availability of funding is confirmed (and is within the parameters of the FRP).

The Municipality should protect revenue streams at all costs as revenue management is directly correlated to long-term financial sustainability and viability.

The successful implementation of the FRP requires the full implementation of adopted credit control



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policies. The municipality should implement the revenue improvement initiatives as set out above. The revenue improvement plan will stabilize the billing eco-system which will be beneficial to the municipality as revenue collection leaks will be fully addressed.

Stability of senior management will be important to ensure the successful implementation of the FRP and Council should ensure that the separation between administrative and political roles is respected. Changes to senior management should only be made in accordance with the applicable legislative processes and after consulting the MEC for local government.

2.2.3.1 Key Issues Identified

Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
Budget Management (Funding Status, Policies, etc)	<ul style="list-style-type: none"> ▪ Municipality developed and approved an unrealistic unfunded budget for 2021/2022 ▪ A8 Unfunded with R110 m (per PT calculation) ▪ Revenue baseline insufficient ▪ Over commitment on contracted services ▪ Limited capital available for revenue generating infrastructure ▪ Inability to pay bulk purchases ▪ Inability to repair and maintain infrastructure, which effects service delivery. ▪ Inaccurate Collection Rates and Creditor amounts ▪ Low collection rates and negative cash flows ▪ Budget silent on water inventory item: No provision for the costs of water extraction and/or purification as inventory as per GRAP 12 requirements 	<p>Unfunded budget</p> <p>Financial and operational capacity of the municipality is under threat.</p>	<p>Low collection rate</p> <p>High grant dependency</p> <p>Lack of capacity of BTO staff</p> <p>Non implementation of Credit Control and Debt Collection Policy</p>	<ul style="list-style-type: none"> ▪ Revise Budget Funding Plan with clear objectives and financial targets aligned with FRP strategies and activities. ▪ PT oversight on BFP implementation ▪ Compile credible Adjustment Budget 2021/22 ▪ Apply Zero-based budgeting approach ▪ Improve budget controls to prevent unauthorised expenditure ▪ Review of budget related policies to facilitate increased revenue and contain cost. 	<p>Budget Document with changes – 14 June</p> <p>Audited AFS 2020</p> <p>Budget 2021/22 Assessment.</p> <p>Budget related policies</p>



Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<ul style="list-style-type: none"> ▪ Municipality has the following Budget Related Policies in place for the financial year 2021/22: ○ Rates Policy – non billing and allocation of 30% subsidy on public service infrastructure assets ○ Indigent Policy ○ Debt & credit control policy ○ Tariff policy ○ Budget Implementation policy ○ Budget virements policy ○ Expenditure Management policy ○ Asset Management Policy ○ Borrowings Policy ○ Cash management policy ○ Funding & reserves policy ○ Supply Chain Management Policy 				
Cost Containment and cash flow management	<ul style="list-style-type: none"> ▪ Cost containment policy is in place. ▪ No evidence on implementation and impact ▪ The current ratios of 0.53:1 (2021/22), 0.61:1 (2022/23) and 0.74:1 (2023/24) indicates that the working capital of the Municipality increases over the MTREF period, but still below the NT norm of 1.5 - 2:1. (exposed to liquidity risk). ▪ The liquidity ratios of negative 0.05:1 (2021/22), 0.02:1 (2022/23) and 0.12:1 (2023/24) is increasing over the MTREF years, however, remains below the NT recommended norm of 1:1. This 	Cost Containment Policy not fully aligned with NT Municipal Cost Containment Regulations (2019)	Lack of accountability	<ul style="list-style-type: none"> ▪ Revenue enhancement strategy to be developed and implemented ▪ Establish cash flow committee ▪ Assess and improve capacity of BTO ▪ Adopt an active cash management system to enable it to maintain sound liquidity for sustainable service delivery ▪ Align policy with MFMA Circular 82 for guidelines on cost containment measures, MFMA Circular 97 and the Municipal Cost Containment Regulations (Gazette No.42514) 	Cost Containment Policy



Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>indicates that the Municipality does not have the ability to meet its short-term obligations.</p> <ul style="list-style-type: none"> On 30 June 2021 the Primary Bank balance of the Municipality was overdrawn by – R 14 503 523.65 . Even after accounting for cash and investments in other accounts, the Municipality ended the year with a negative net cash position of - R8 294 364.67. In terms of section 45 of the MFMA, the overdraft should have been repaid by 30 June 2021. The Municipality has been contravening section 45 of the MFMA for the last 3 financial years. Over –reliance on consultants 				
Revenue Management	<ul style="list-style-type: none"> Not all consumers are metered and unknown consumers Consumer meters not read but billed on estimates Prepaid vendor reconciliation not performed monthly Valuation roll not reconciling with the billing system No co-ordination between technical and Finance on meter readings 	<p>Low internal revenue</p> <p>Financial and Operational capacity is under threat</p> <p>Billing inconsistencies</p> <p>BTO capacity challenges</p>	<p>Low collection rate</p> <p>No revenue strategy in place / submitted</p> <p>Inaccurate data</p> <p>Lack of monitoring</p> <p>Failure to implement consistently and strictly the debt & credit control policy</p>	<ul style="list-style-type: none"> Establish a Revenue Technical Committee that must meet weekly and include representatives of the Technical and Finance units. This committee must be mandated to prioritise activities to improve revenue collection (including those listed below) Investigate and instil improved revenue management processes consumer segmentation to develop strategies to deal with non- 	<p>Budget Document with changes – 14 June</p> <p>2019/20 Audit Report</p> <p>IDP 2021/2022</p>



Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<ul style="list-style-type: none"> No effective customer care management Unit and Policy Debtors book not reviewed to identify indigents and write offs of irrecoverable debts Decreased Revenue Budget Implementation result 		Non cooperative Business Community	<p>paying consumers (debtors age analysis broken down to consumer segmentation)</p> <ul style="list-style-type: none"> Assess adequacy and efficacy of Credit Control Policy and Processes in realising the debtors Identify new opportunities for revenue generation and growth (within its mandate) and determining areas where generation of revenue has been underutilised. Establish customer base which classify customer category. i.e., Business, Industry, residents, Government etc. Meter reading should be done monthly, and variances be attended promptly Review the list of vendors and supply codes, perform monthly reconciliation on a weekly basis Perform reconciliation on valuation roll and billing system and correct discrepancies Establish a customer care unit and update a policy on customer care Review the debtor's book and identify long outstanding debts, reconcile with the indigent register, and recommend write offs 	
Financial Control environment	<ul style="list-style-type: none"> Status of accounting records is unreliable SOPs not fully implemented Utilisation of financial 	<p>AG issues not addressed</p> <p>BTO Capacity constraints</p>	Poor accounting records, incompleteness of accounting data	<ul style="list-style-type: none"> All revenue and expenditure to be captured on a live system. Checks and balances to be monitored. All account reconciliations to be 	2020 Audit Report



Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>resources are not used effectively, efficiently, and economically.</p> <ul style="list-style-type: none"> Full and proper records of the financial affairs are not kept in accordance with prescripts Financial and risk management not adequately implemented 		Lack of following standard procedures for BTO activities	<p>performed by capable individuals and approved by senior official.</p> <ul style="list-style-type: none"> All reconciliations to be performed and monitored Implementation of SOP's for all BTO functions. Workshop the SOP and monitor implementation Appointment and training of officials Review of SOP's, training of staff and support with implementation Develop records management procedure in line with regulations, train staff and support with implementation Train management on risk identification and mitigation 	
Trading Tariffs	Trading services reflect an overall fixed surplus over the 2021/22 MTREF, except for energy and waste management services that are reflecting a deficit.	<p>Trading Tariffs are not cost reflective</p> <p>Rebates not allocated in line with provisions of the tariffs on Rates</p>	Municipality has not ensured that there is a monitoring system to enable measurement of condition for the allocation of the rebate Municipality does not have an infrastructure plan to respond to current challenges	<ul style="list-style-type: none"> Municipality must re-examine the cost-reflectiveness of its trading services, especially electricity as this is the largest trading service and should be able to generate surpluses. Put in place strategies to reduce losses even further by attempting to reduce its technical and non-technical asses as these will reduce the cost of supplying services and increase the volumes sold. 	<p>Municipal Budget 14 June version Rates Tariff Procedure manual</p> <p>AFS</p> <p>Rates Tariff Procedure manual</p>
mSCOA	<ul style="list-style-type: none"> Disclaimed audit opinion for the 2019/20 Annual Financial Statements The credibility of the data strings is a challenge MTREF Budget not directly prepared on the 		Lack of Capacity of BTO staff to run mSCOA	<ul style="list-style-type: none"> Setup mSCOA Steering Committee Implementation of mSCOA Road Map Timeously Submission of credible data strings Revise and implement plan for non-functional modules such as 	<p>AG Report</p> <p>PT assessment reports</p> <p>MTREF Budget</p> <p>mSCOA Roadmap and</p>



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Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	mSCOA financial systems <ul style="list-style-type: none"> mSCOA Implementation Plan in place and committee ToR (Functionality questioned) Key Functional Modules not implemented 			asset management modules etc. <ul style="list-style-type: none"> PT support on mSCOA implementation 	Implementation Plan
Supply Chain Management	<ul style="list-style-type: none"> Not all municipal planed procurement is included in the procurement plan. Supply Chain Management policy is in place, but need to be reviewed for alignment with national guidelines No evidence for implementation of policy – reports were not submitted quarterly High levels of UIFW point towards SCM deficiencies 	Not all municipal planed procurement is included in the procurement plan	Lack of use of mSCOA ledger Deviation from SCM Policy and Regulations	<ul style="list-style-type: none"> Review SCM policy to deal with any internal controls weaknesses identified, and ensure they are aligned to all applicable legislation Design and implement systems and procedures to ensure total compliance to the policies by the municipality (strengthened controls) SCM Checklists to be developed and implemented to provide a step-by-step guide to the Officials. All municipal items for procurement should be included in the procurement plan. Municipality to ensure annual adherence to SCM reporting requirements as contained in the MFMA. 	Demand Management Plan SCM Policy AG Report
Expenditure/ Creditor Management	<ul style="list-style-type: none"> Creditor Payment Ratio declined from 2018/19 to 2019/20 from 87days to 145 days (NT Norm = 30 days. Evident from the liquidity ratios that the Municipality does not have the 	Additional pressure on limited financial resources to service debt	Liquidity challenges	<ul style="list-style-type: none"> Prepare creditors reconciliations for bulk suppliers Enter into / re-negotiate payment plan with Eskom (Interest, Credit Control, Verify NMD with Eskom assistance 	2019/20 Audited AFS PT Assessment



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Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
	<p>required cash flow to keep up with its obligations.</p> <ul style="list-style-type: none"> Total Creditors: R64 million Prioritise creditor payments < R300,000 Increasing Eskom debt: R27m (2020), R60m (2021) Some payment arrangements in place The Municipality is still struggling to meet its obligations toward Eskom The serious risk of Eskom interrupting supply of bulk electricity or taking other actions to collect the debts owed to them 			<ul style="list-style-type: none"> Prioritise current account payments for bulk purchases Ensure that creditors paid have a legitimate claim in terms of money owed Arrear accounts to be structured according to the FRP using the restructuring tool. Manage contingent liabilities to minimise the exposure of financial risk Incur expenditure in terms of the approved 2021/22 Budget 	
Asset Management	<ul style="list-style-type: none"> Asset Management policy in place (Approved in June 2021 for the 2021/22 financial year) No evidence obtained for adherence to policy provisions regarding accounting and information system that accounts for assets nor a system of internal control for municipal assets. No evidence of systems in place to avoid misuse and abuse of municipal assets. FAR not GRAP 17 Compliant (per AG Report) 	Capacity Constraints	<p>Poor infrastructure maintenance.</p> <p>Exposure of assets to theft and or abuse.</p>	<ul style="list-style-type: none"> Asset Management policy to be amended to reflect Mayor instead of Executive Mayor as per paragraph 7 of the Asset Management Policy Municipality to ensure there are efficient systems in place for accounting for all municipal assets. Municipality to develop and record systems to avoid misuse and abuse of municipal assets. FAR GRAP 17 compliance to avoid loss of assets 	<p>Asset Management Policy</p> <p>AG Report</p>



Focus Area	Brief diagnostic	Problem/ Key issues	Causes	Strategy/ Solution	Source of info
Indigent Management	<ul style="list-style-type: none"> Non-alignment of qualifying criteria with National standard: 1 state pension vs 2 state pension to quality for 100% subsidy Limited financial resources: Overstated debtor's book Inaccurate recording of indigents: Unrealistic indigent register lacking proper verification process Allocation of support to consumers who are no longer indigents 	<p>Non-alignment of qualifying criteria with National standard</p> <p>Limited financial resources Overstated debtors' book</p> <p>Inaccurate recording of indigents</p> <p>Allocation of support to consumers who are no longer indigents</p>	<p>Indigent qualifying criteria to revised.</p> <p>Municipality should ensure allocation of subsidy to all deserving indigents. Allocation amount should be set aside and allocated monthly to avoid overstating of debtors.</p> <p>Verified indigent customers should not be charged interest, this will overstate debtor's book.</p> <p>Verification of indigent should also be done via SASSA database in addition to available processes to ensure creditability of the register. Publication of names should be maintained.</p> <p>Indigent registration period should be open at least twice annually. Verification of qualification should be done at least quarterly.</p>	<ul style="list-style-type: none"> Status verification through physical inspection/ revision and external verification. Verification of indigent should also be done via SASSA database in addition to available processes to ensure creditability of the register. Publication of names should be maintained. Verified indigent customers should not be charged interest, this will overstate debtor's book. Acquisition of Indigent Management System Review of the Indigent Management Policy for alignment with national standard Review of Indigent Register Well driven awareness campaign and educating community. With respect to relief strategies to indigent households, municipality should consider, reviewing its indigent policy to factor in the potential economic impact of COVID-19 on poor households. Municipality should ensure allocation of subsidy to all deserving indigents. Allocation amount should be set aside and allocated monthly to avoid overstating of debtors. 	<p>Rates Procedure Manual</p> <p>Indigent Management Policy</p>



2.2.3.2 Analysis of key Financial Ratios

Ratio	Ratio for 2018/19	Ratio for 2019/20	REMARKS
Asset Management Utilization			
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%.	10%	8%	<p>The ratio fluctuated over the years measured, seeing a downwards trajectory in the last two years; falling below the norm in 2020. This is projected to continue if not addressed. A result below 10 per cent holds potential risk to service delivery. It is critical that capital expenditure be directed towards infrastructure investment used for service delivery and not administrative assets.</p>
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%.	1%	1%	<p>The ratio remained below the norm in all years. This indicates that repairs & maintenance need to be enhanced, as a measure to further negate the risk of increases in impairment of assets. Notably, reaching the norm of 8 per cent would surpass R23 million in the last year, an amount which is unfeasible for the Municipality. The Municipality is still however encouraged to spend more on asset preservation, yet in line with a well thought out preservation strategy.</p>
Debtors Management			
Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit. The norm is 95%.	92%	82%	<p>A municipality with outstanding debtors should aim to achieve a collection rate of more than 100% to ensure a reduction in the outstanding debt accrued from previous years.</p> <p>The municipality's collection rate is regressing. Revenue collection (billing), and credit control of the municipality requires urgent attention and corrective measures should be implemented.</p>
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%.	28%	16%	<p>The Municipality's bad debts written off is far less than what it provides for. This could mean that the Municipality is unrealistic in relation to the collection from debtors.</p> <p>The Municipality should write-off Bad Debts already provided for and ensure that policies and procedures regarding irrecoverable debt are in place to avoid over or under provision of bad debts.</p>
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. The norm is 30 days.	23 Days	41 Days	<p>The ratio results have fluctuated over the period measured yet remained below the NT norm. The Municipality should only write-off Bad Debt already provided for and if the result falls below the norm, it should ideally be based on the recoverability of debtors. This result indicates that collectability of debtors has improved, possibly due to improved Credit Control. This also raise concern over the assessment of debtors</p>



			being impaired. It is encouraged those variances be investigated and remedied.
Liquidity Management			
Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants) 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. The norm is 1-3 months	- 1 Month	-1 Month	<p>The municipality's ratio remained below the norm for 2018/19 and 2019/20.</p> <p>The municipality's ability to meet its obligations to provide basic services and honour its financial commitment is compromised.</p> <p>To improve the situation, the following must be achieved in the shortest possible time: -</p> <ul style="list-style-type: none"> • Immediate reduction in expenditure on non-essentials, non-core activities, non- revenue generating activities. • Increase revenue through improved collections and billing efficiencies and seeking alternate revenue sources. • Ensuring proper administrative and governance arrangements are in place to manage daily bank deposits and withdrawals.
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. The norm is 1.5 - 2:1.	0.79	0.66	<p>The municipality's Current Ratio for the past two financial years has been below the norm. Current liabilities exceed current assets, highlighting insufficient cash to meet short-term financial obligations. Municipality must increase its current assets to appropriately cover current liabilities or risk that non-current assets will need to be liquidated to settle current liabilities.</p>
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. The norm is 6% - 8%	2%	2%	<p>The ratio did not exceed the norm of 6%-8% for the 2 years.</p> <p>However, this does not mean the municipality can take up external financing.</p> <p>It means the municipality, due to its current cash flow problems is unable to access borrowed funds or the funding decisions of the municipality impacts on these levels.</p>
Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue. 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. The norm is 45%.	8%	8%	<p>The ratio is within the norm.</p> <p>This is an indication that the municipality might take up increased funding from borrowings, however, this should be considered within the cash flow requirements of the municipality.</p>
Efficiency			
Net Operating Surplus Margin – measures the net surplus or deficit as	12%	10%	<p>Operational efficiencies must be achieved for enhanced financial wealth.</p>



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a percentage of revenue.			
The norm is > 0%			
Distribution Losses			
Electricity Distribution Losses (%) 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. The norm is 7% - 10%	16%	15%	The municipality's percentage losses remained well above the norm. Possible causes include illegal connections and unmetered consumption.
Water Distribution Losses (Percentage) The purpose of this ratio is to determine the percentage loss of potential revenue from water service through kiloliters of water purchased but not sold because of losses. The norm is 15% - 30%.	45%	56%	The water losses are very high, and this could be due to the following factors: <ul style="list-style-type: none"> • Unmetered customers. • Some customers not being billed at all.
Revenue Management			
Revenue Growth (%) – measures the growth in revenue year on year. The norm is at the rate of CPI	-12%	6%	The revenue growth percentage measures the overall revenue growth. The municipality's revenue growth percentage has been above CPI for the 2019/20 financial year (but from a low and incomplete base).
Revenue Growth (%) - Excluding Capital Grants Measures the growth in revenue excluding capital grants year on year. The norm is > 5%.	1%	7%	The ratio result has fluctuated over the years measured, with the latter year being the first growth above the norm (which is CPI). The Municipality is advised to evaluate the improvement in the current year, versus the low performance indicators seen before. It is also advised to attempt to replicate this result and being cognisant of the cost of municipal services as it affects the result.
Expenditure Management			
Creditors Payment Period This ratio indicates the average number of days taken for trade creditors to be paid. The norm is 30 days.	87 Days	145 Days	The result of the ratio has increased significantly over the years measured, remains above the norm on all years. A period longer than 30 days is normally an indication that the Municipality may be experiencing cash flow problems. In addition, this may also indicate an inadequacy of management of Working Capital, or that effective controls are not in place to ensure prompt payment. S65(2)(e) of the MFMA requires payment within 30 days.
Irregular, Fruitless and Wasteful and Unauthorized Expenditure to Total	126%	66%	Results from ratio indicates ineffectiveness in addressing these forms of expenditure being incurred with continued high



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<p>Expenditure – this ratio measures the extent of irregular, fruitless and wasteful and unauthorized expenditure to total expenditure.</p> <p>The norm is 0%.</p>			<p>occurrence. Any result above this norm must be investigated, control must be re-evaluated and strengthened, and actions taken following this investigation, including against those who caused Irregular, Fruitless and Wasteful and Unauthorised expenditure to occur.</p>
<p>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.</p> <p>The norm is 25% - 40%.</p>	41%	43%	<p>Results for the ratio is showing an ascending trend with the last three years exceeding the norm. This trend is expected to continue, and urgent intervention is required. This ratio must be interpreted with other factors such as powers and functions performed by the Municipality.</p>
<p>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. The norm is 2%-5%.</p>	11%	10%	<p>The ratio has fluctuated over the years measured yet shows a declining trend since 2018. The results do however remain outside the norm. The result depends on the model of service delivery selected by the Municipality. Results outside the norm continues to expose the Municipality to risks such as the inability to build capacity and an ongoing reliance on contractors.</p>
Budget Implementation			
<p>Capital Budget Implementation Indicator</p> <p>The norm is 95% to 100%</p>	86%	69%	<p>The ratio has started a declining trajectory from 2019, this result is projected to continue with the declining trajectory in future years. Despite some levels of infrastructure investment, there has been an inability to implement the Capital Budget. Results below the norm indicates potential discrepancies in planning & budgeting, capacity challenges to implement the project or SCM process challenges. Under-spending also indicates likely Cash Flow problem. Variances from the norm need be investigated.</p>
<p>Operating Expenditure Budget Implementation Indicator</p> <p>The norm is 95% to 100%</p>	70%	77%	<p>The ratio has fluctuated significantly over the period measured and is below the norm. Any variance below 100 per cent indicates either capacity challenges, issues of financial controls and management and/or poor budgeting. Ideally, underspending should be the result of increased efficiency and not non-implementation of spending programmes.</p>
<p>Operating Revenue Budget Implementation Indicator</p> <p>The norm is 95% to 100%</p>	83%	88%	<p>The ratio has fluctuated, falling below the norm in 2019 and 2020. This result is expected to continue with projections staying below the norm. Results outside the norm indicates either challenges in capacity to implement the budget, inefficiencies in billing and credit control, weaknesses in budget compilation or issues of financial controls and management. The municipality is advised to keep a close eye on results and implement remedial actions to ensure improvement.</p>



Billed Revenue Implementation Indicator	Budget	92%	99%	<p>The ratio is showing an ascending trajectory with a decrease seen in 2019 year, with a result above the norm in the current year. Projections indicate a continued increase in consumer debtors' budget being realised. It is advised that the municipality continue to improve on efficiencies of the past and attempt to replicate this in other revenue streams.</p>
The norm is 95% to 100%				

2.2.4 SERVICE DELIVERY

Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Infrastructure Asset Management	Poor asset management, lack of revenue collection, asset register not GRAP compliant resulting in a poor audit finding.	Alignment of asset management policy and practise. The municipality has not done conditional assessment of all its assets, capitalization of completed projects and proper maintenance of work in progress.	Infrastructure asset management capacity is inadequate. Does the non-payment of Mubesko have any connection with the municipality's performance on assets? (Mubesko owed R596k (June:2021) according to WCPT presentation)	The municipality needs to mobilize funding to get assistance in doing asset management activities to enable the municipality to be GRAP compliant. This would also assist the municipality to generate maintenance plans for infrastructure. Development of standard operating procedures for maintenance of assets. The municipality has also indicated that the district has offered a single user license on the GIS package for the municipality to use. The municipality needs to provide a GIS operator and training. The municipality needs to have an infrastructure loss control strategy to manage	AG Report – 2019/20 IDP 2017/2022 WCPT Presentation



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Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
				vandalism and theft of equipment.	
Potable Water and Bulk Water Supply	Water losses registered were above the norm of 30% at 56% (2020). The municipality is a drought-stricken area, there are risks on security of supply on both surface and ground water sources due to lack of rain, high project development costs for water sources. No action is taken on the consumption by indigents above the 6kL consumption level. There is inadequate credit control on both indigents and normal clients. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.	7-10 burst pipes per day Can only respond to 6 per day due to sometimes unavailability of spares. Dilapidated and failing bulk water and sanitation infrastructure Inadequate fleet Insufficient funding allocation for operations and maintenance High distribution losses for water Vandalism of infrastructure Reactive maintenance Illegal connections Very very low rainfall Severe drought conditions. 16xDry boreholes. Gamka Dam is at 12% and water cannot be abstracted. Water Reclamation plant has a design capacity of 2,1ML/d but only supplying 1ML/day. The municipality is having challenges with maintaining payments for the reclamation plant due to underutilization. The municipal staff does not have adequate PPE.	Severe Drought. Poor network maintenance because of inadequate staff, fleet, material, and equipment. Inadequate water sources. Inadequate credit control.	Action plan to avoid day zero. Funding and implementation of the Water Service Delivery Plan. Areas with the highest water use must be prioritised for metering and credit control. The municipality need to ensure that there is adequate repairs and maintenance stock to enable maintenance to be conducted by maintenance teams. The project planning unit must be assisted to increase business planning capacity to solicit funding for replacing aged infrastructure as the municipality is one of the oldest in the country and the age is also reflected on the infrastructure. The number of meters that need to be replaced in the water services section must be indicated so that this is prioritized in the rescue phase. HILLSIDE: Smart Water Meters for 1050 erven where	IDP 2017/2022 AFS 2019/2020



Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
		Murraysburg experiences cable theft. Merveville does not have enough water. Vandalism is causing water shortage in Nelspoort.		<p>they are already installed will stay as is. 314 erven Token water meters must be upgraded to SMART Standard Transfer Specification (STS) meters. 700 erven with STS Utility System water meters must be upgraded to SMART STS meters. 109 erven with 109 old token meters must be upgraded to SMART STS meters.</p> <p>RUSTDENE: The 2 092 erven with old token pre-paid water meters must be upgraded to SMART STS meters.</p> <p>Prioritize Murraysburg for installation of water meters. The municipality needs to do long-term contracting for store items. The municipality needs to review the Service Level Agreement for the Reclamation Plant. The municipality needs to invest in appropriate PPE. Consider switching to aluminium conductor cables to minimize theft. Also consider using cable theft</p>	



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Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
				devices where there is prevalence of cable theft. Geosciences is drilling a borehole in Merweville. The municipality is constructing 2 reservoirs.	
Sanitation Services (Waterborne and VIP)	The Municipality has performed well on the previous Green Drop assessments by obtaining a percentage score of 93.73 during the 2013 assessment. Competent Process Controllers	Beaufort West WWTW - the biological trickle filter system has been de-commissioned, and this increases the load on the activated sludge process. Plant is reported to be functioning above design capacity.	Inadequate fleet Insufficient funding allocation for O&M Vandalism of the infrastructure Reactive maintenance approach instead of preventative	Develop and implement the sanitation master plan Develop and implement the sanitation Infrastructure Maintenance plan Network Maintenance: 1) Attend to all reported faults and blockages, 2) Address sewage spillages, and 3) Reduce sewer blockages. This may require an awareness campaign with the assistance of the political office. Improve customers services; Attend to customer complaints urgently Provision of additional VIP toilets to reduce the backlog Upgrading the existing pond system including a new inlet works and irrigation system (Murraysburg)	IDP 2017/2022



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Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
				<p>WWTW).</p> <p>The municipality has reported that a budget of R62m has been allocated for the upgrade of Beaufort West WWTW. Switchgear needs to be upgraded. Pipelines also need to be upgraded.</p>	
Energy Reticulation and bulk supply	<p>The municipality owes Eskom R59,5m (June 2021). Electricity losses are above the 7-10% norm @ 14.7% (2020). The municipality is not collecting and paying the bulk supplier Eskom and as a result there is a large outstanding electricity debt. The municipality is experiencing cable theft. The municipality has not indicated a clear strategy to deal future energy security, considering SSEG and the 100MW self-generation potential. Inadequate staff training due to budget constraints.</p>	<p>Non-payment of Eskom's current account. Distribution Losses, Illegal connections, vandalism including cable theft, poor revenue collection. Due to the lack of financial resources over the past number of years, a backlog in repair and maintenance, as well as refurbishment and network expansion has increased.</p>	<p>Poor network maintenance because of inadequate staff, fleet, material, and equipment. Inadequate credit control.</p>	<p>Develop and implement Electricity Maintenance and Refurbishment plan. Compile and implement the Electricity Loss Management Plan. Urgent maintenance on priority electrical failures. Maintain/repair priority network (ring feeders, pole replacement, servicing transformers). Refurbish / upgrade electrical network according to priority implementation programme. Review SLA with Eskom. Does it adequately address all technical, service delivery and financial matters? The municipality has indicated that there is a need to replace 90</p>	<p>IDP 2017/2022 AFS 2019/2020</p>



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Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
				maximum demand meters. The municipality has also indicated that there is a need to replace 3500, 380, 438, 1448 prepaid meters in Beaufort West, Nelspoort, Murraysburg and Merweville respectively. Source funding for adequate training of staff.	
Roads and Stormwater Network	The municipality still has some roads that need to be paved. Beaufort West Municipality has a total road network distance of 163.9 km of which 107.9 km are tarred (paved) and 56 km are gravel (unpaved).	Unmaintained gravel roads, rutting, potholes, stormwater drain blockage, vegetation growth on stormwater channels. Poor road conditions also have impact on service delivery in particular the durability of fleet and refuse removal.	Inadequate repairs and maintenance budget, unreliable machinery.	Develop and implement the Roads and Stormwater master plan. Develop and implement the Roads and Stormwater Maintenance plan, Urgent Road Maintenance; Attend to all reported potholes, stormwater drainage and clean related blocked drains, and urgent maintenance on priority surfaced and gravel roads. Rehabilitate roads as per Maintenance Plan.	IDP 2017/2022
Project Management Unit	The municipality is not spending all its allocated grants. Performance in respect of programmes funded by the municipal infrastructure	The unspent amount of conditional grants increased from R6,5m (2019) to R13,1m (2020). The municipality has reported that the capital expenditure has improved to 98%	Non-adherence to procurement plan.	Improve administration and unlock the MIG funded projects. Improve capacity and technical skills for execution of projects. Improve	IDP 2017/2022 AFS 2019/2020



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Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
	grant was not evaluated, as required by section 12(5) of Dora	(2021).		planning and implementation for projects. Continuous oversights on the Projects' Scope including reporting on in line with MFMA requirements.	
Waste Disposal and refuse removal	The municipality has 4 sites, one of which has reached its end of life and it is unclear how far the municipality is with the new site. Some of the sites are not properly licenced. The municipality needs to appoint one of the senior managers as the Waste Management Officer. The municipality has received a section 24G notice for non-compliance in terms of the National Environmental Management Act 107 of 1998.	Illegal dumping on open spaces. Non-compliance and unlicensed Waste Disposal Facility. Insufficient and ageing infrastructure. Closure and rehabilitation of old abattoir Waste Disposal Sites.	Inadequate repairs and maintenance budget.	Develop and implement Integrated Waste Management Plan Improve condition of maintenance plant and equipment Adhere to legislation to become compliant landfill site operator Review tariffs and policy. Promulgate updated by-laws as required. Collect revenue from users at landfill sites. The municipality has been allocated R17m to develop waste management facilities (Beaufort West & Murraysburg). The municipality must lease compactors where possible. The municipality must develop cost reflective tariffs. The municipality must complete the project for the weighbridge and fencing for Vaalkoppies.	IDP 2017/2022 AFS 2019/2020



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Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Fleet Management	The municipality has registered challenges with regards to the fleet adequacy for implementation of repairs and maintenance within the municipality.	Inadequate fleet for use by the different service delivery sections within the municipality. The fleet contract between the municipality and EQSTRA and or Bidvest has expired.	Inadequate funding for services.	To introduce a fleet management system to reduce fuel and other operating vehicle related costs.	IDP 2017/2022
Sports and recreational facilities, Community Facilities, and operational buildings	The municipality needs to upgrade sports and recreation facilities and cemeteries. The municipality needs to have cost reflective tariffs for the use of its facilities.	The municipality needs to know the cost for provision of sports and recreation facilities in the municipality. The municipality needs to ensure correct funding model for provision of such services. Vandalism of perimeter fencing and the tombstones and animals entering the cemeteries and damaging the graves and perimeter fence flowers.	Inadequate funding for services.	Development of a cultural and sport tourism strategy (Department of Cultural Affairs and Sports (DCAS). The municipality has indicated that it is entering into partnerships with sporting bodies to maintain sports facilities. The Service Level Agreements must contain cost reflective tariffs to the sporting bodies.	IDP 2017/2022



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Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
Development and Planning	Lack of land for development, Loss of potential revenue, slow economic development.	Requirements for the review of the spatial development framework.	Inadequate funding for services. Streamline the building plans approval process Set cost reflective building approval tariffs Address building contraventions and enforce the building bylaws. This includes compliance with zoning status.	Enhancing Spatial Planning; Enhancing the location of new housing projects; Supporting Urban Renewal and Inner City Regeneration; Developing social and economic infrastructure; and, Enhancing the Housing Product.	IDP 2017/2022
Testing and Licensing	The municipality has reported that the municipal court is 50% functional. The municipality has also reported that the licensing section of the business is generating a surplus, however, the testing business is running at a deficit.	The testing section is running at a deficit.	It is expensive to maintain testing and calibration equipment.	The municipality needs to consider alternate service provision approach.	Service Delivery working session.
Fire Services	Municipality fire services provision alignment with SANS 10090:2003 needs to be confirmed.	Is number of fire engines, firefighters and the total personnel based on risk category in line with SANS10090:2003 requirements.	Inadequate funding for fire services. Inadequate recovery for the availability and provision of the fire service.	Firefighting capacity building grant (R3m 2021/22). Municipality with its stakeholders interact with the District, Provincial and National Structures as a matter of urgency to develop a business plan	SANS 10090:2003 IDP 2017/2022



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Focus Area	Brief diagnostic analysis	Problem/ Key issues	Causes	Strategy to solve	Source of Information
				that address the short comings in the short, medium, and long term.	
Municipal Economic Recovery Plan	The municipality is experiencing high numbers of unemployment and has been impacted by Covid-19 disaster management.	Beaufort West Municipality acknowledges that supply chain is a strategic enabler for local economic development and therefore supports the combined concept of Supply Chain Management and Local Economic Development. The LED official and the Manager: Supply Chain are still busy with the drafting of a plan for tabling before council around the planning and implementation of the concept within the Beaufort West Municipality. The municipality has not promoted catalytic projects that would enable economic development.	Covid-19 disaster management protocols.	A dedicated official from the department Economic Development to work with the municipality, support with the development of a new LED Strategy as well as support with the establishment of a LED Forum for Beaufort West. Allocation of at least 30% of work to local entities.	IDP 2017/2022
Municipal Infrastructure Plans	Municipality has a WSDP, a Water Conservation and Demand Management Plan, a Pavement Management System, and an Electricity Master Plan. Municipality needs to develop other infrastructure plans which are not in place.	The municipality does not have critical infrastructure plans in place to guide budgeting for infrastructure	The municipality is one of the oldest municipalities in the country and the infrastructure has not been replaced at the correct pace to maintain excellent service delivery	Solicit support and funding for the development of the infrastructure plans.	



PART THREE - FINANCIAL RECOVERY PLAN ACTIONS AND TARGETS:

3.1 PHASE 1: MUNICIPAL RESCUE PHASE

Given that this intervention has been invoked as a result of a crisis in the financial affairs of the municipality, in this phase of the recovery plan, emphasis will be placed on the cash and cash position of the municipality, as well as restoring some of the basic principles of good financial management. The strong emphasis on improving the cash position is to create an availability of resources to address some of the most immediate and visible service delivery challenges. Cost cutting measures must be implemented. However, an emphasis on cash and municipal finances does not preclude the municipality from addressing governance and institutional issues.

In this phase, emphasis also leans towards "quick wins" - what are the issues that require relatively little effort or resources to be addressed, but would make meaningful inroads towards the overall recovery process?

The phase is expected to last between 8 to 12 months. A few critical, high level indicators have been selected to guide this phase of the recovery plan. Progress on meeting these indicators will be monitored monthly by the Oversight and Monitoring Committee as well as the Implementation Team. The Oversight and Monitoring Committee can also approve updating of the targets as implementation of the plan progresses.

The 6 high level indicators selected for this Phase are:

- Progress towards a Funded Budget
- Daily Cash and Cash Balances
- Cost Containment
- Debtors Collection Rate
- Payment of Creditors
- Ring-fencing of Conditional Grants.

In addition, indicators relating to the capital programme and the reduction of unaccounted, irregular, fruitless and wasteful expenditure have been included. High level targets for governance and service delivery are specified separately.





PHASE 1, 2 and 3: BUDGET PARAMETERS AND FINANCIAL TARGETS:

N O	PERFORMANCE AREA	ASSUMPTION/ BUDGET PARAMETER	2021/22FY BUDGET TARGET	2022/23FY BUDGET TARGET	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET
1	Property Rates Targets	Revenue Management Value Chain efficiencies Valuation roll reconciled with billing system monthly Ensure accurate tariffing on financial system	Valuation Roll reconciled with Billing System (calculated tariff for CPI	2021/22 Budget + CPI +growth CPI (4%) + Growth (1%) + complete billing (2%) = 7% Increase	2022/23 Budget + CPI +growth CPI (4%) + Growth (1%) = 5% Increase	2023/24 Budget + CPI +growth CPI (4%) + Growth (1%) = 5% Increase
2	Service Charges Targets	Revenue Management Value Chain efficiencies in line with FRP Implementation Plan	10% increase in revenue, from: - Increased metering - Improved data integrity and billing - Solving illegal connections	2021/22 + CPI + Growth (in accordance with consumer demand and revised tariff structure and levels) Plus 5% increase from: - Increased metering - Phased in cost reflective tariffs - CPI - Improved data integrity and billing - Solving illegal connections	2022/23 + CPI + Growth (in accordance with consumer demand and revised tariff structure and levels) Plus 5% increase from: - Increased metering - Phased in cost reflective tariffs - CPI - Improved data integrity and billing - Solving illegal connections	2023/24 + CPI + Growth (in accordance with consumer demand and revised tariff structure and levels) Plus 5% increase from: - Increased metering - Phased in cost reflective tariffs - CPI - Improved data integrity and billing - Solving illegal connections
3	Unbilled consumption	<u>Baseline:</u> Calculated water and electricity balance breakdown per FRP Phase 1 activity	10% reduction in unbilled consumption	Further 10% reduction in unbilled consumption	Further 10% reduction in unbilled consumption	Further 10% reduction in unbilled consumption
4	Traffic Fines	Improved efficiencies per approved Budget Funding Plan	Return to 2020/21 level	50% increase based on 2021/22 level	25% increase based on 2022/23 level	10% increase based on 2023/24 level
5	Operating Expenditure Targets	<u>Employee Cost:</u> < 35% of OPEX (2021/22 < 38%) <u>Councillor REM:</u> 100% per Gazetted maximums, subject to FRP Progress	Per approved Budget Parameter Posts may only be filled if cashflow	Per approved Budget Parameter Posts may only be filled if cashflow	Per approved Budget Parameter Posts may only be filled if cashflow	Per approved Budget Parameter Posts may only be filled if cashflow



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N O	PERFORMANCE AREA	ASSUMPTION/ BUDGET PARAMETER	2021/22FY BUDGET TARGET	2022/23FY BUDGET TARGET	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET
		Depreciation: 100% per GRAP 17 Standard Debt Impairment: 100% of billed revenue minus Budgeted Collection Rate Contracted Services: < 5% of OPEX(2021/22), 5% (2022/23), 5% (2023/24), 5% (2024/25) Other: BFP Parameters	committee confirms that funding is available	committee confirms that funding is available	committee confirms that funding is available	committee confirms that funding is available
6	Cash/ Bank Balances	Adherence to approved Budget	In line with approved Budget	Targeted ratios: ▪ Cash Coverage : 1 Month ▪ Current Ratio: 0.8:1 (Norm = 1.5:2.1)	Targeted ratios: ▪ Cash Coverage : 1,5 Months ▪ Current Ratio: 0.9:1 (Norm = 1.5:2.1)	Targeted ratios: ▪ Cash Coverage : 2 Month ▪ Current Ratio: 1:1 (Norm = 1.5:2.1)
7	Consumer debtor's collection rate	As per FRP targets set for each financial year Full implementation of credit control policy	78%	85%	88%	90%
8	Government debtor's payment plan	Adherence to payment plan	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement
9	Creditor's payment plan	Adherence to payment plan	100% of payment arrangement	100% of re-negotiated payment arrangement	100% of re-negotiated payment arrangement	100% of re-negotiated payment arrangement
10	Ring-fencing of Conditional Grants	Adherence to SOPs 100% Cash-backed	All bank accounts and sub-account balances reported on monthly			
11	Repair and Maintenance Budget allocation	National Treasury Norm = 8% of OPEX	2% of OPEX	3% of OPEX	5% of OPEX	8% of OPEX
12	Cost-containment	Full compliance with the NT Cost Containment Regulations, 2019	Maintain targeted FRP savings and ensure full compliance with regulations + further savings	Maintain targeted FRP savings, and ensure full compliance with regulations + further savings	Maintain targeted FRP savings, and ensure full compliance with regulations + further savings	Maintain targeted FRP savings and ensure full compliance with regulations + further savings



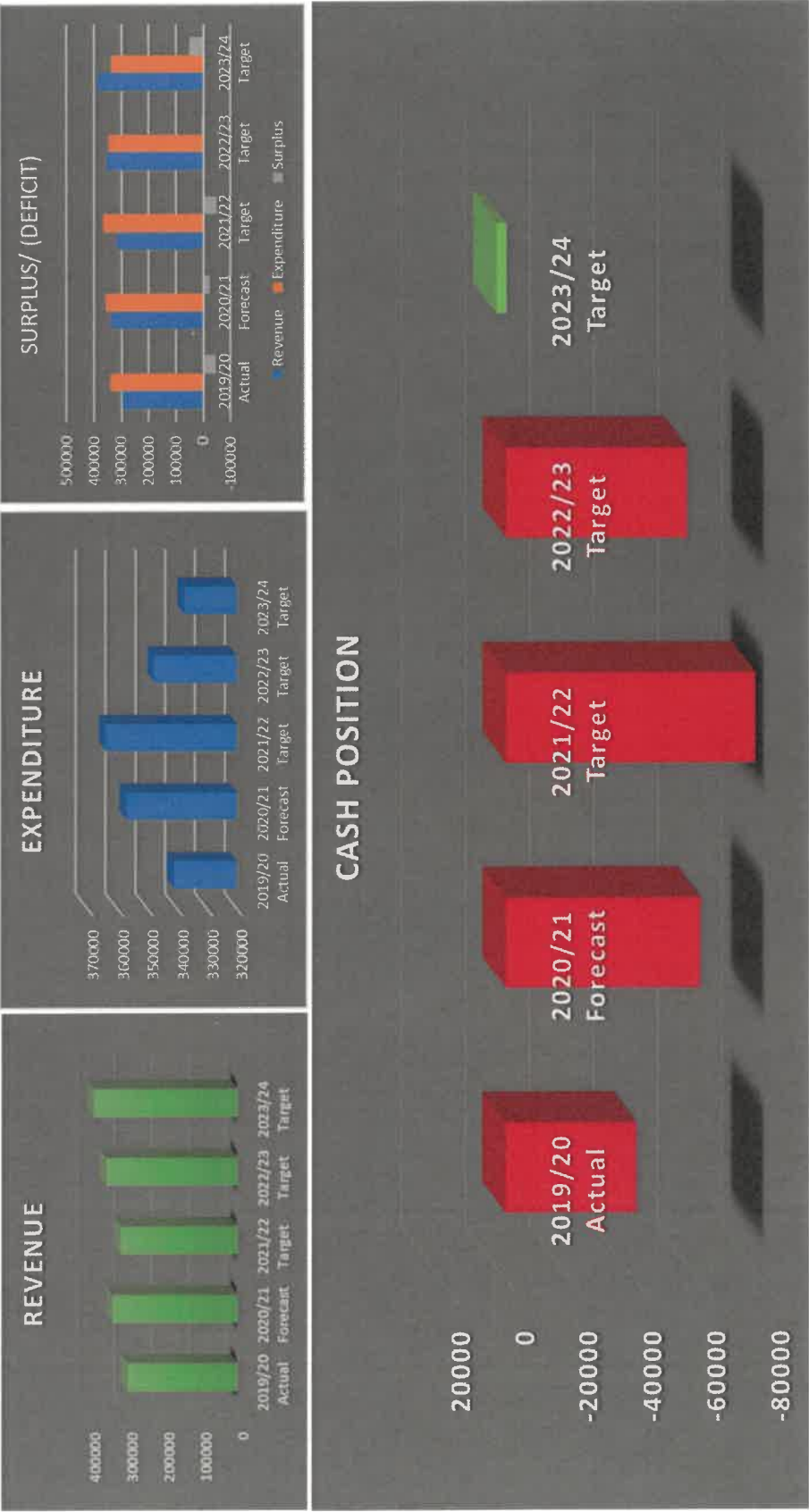
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A financial forecasting model has been developed to set financial targets for the Beaufort West FRP over the MTREF period. The financial model escalation formulas used an average annual inflation rate of 4% and local growth of 1% per annum over the recovery period. Grounded on adherence to the above budget parameters, it is anticipated that the municipality will progressively move towards a position of improved financial sustainability over the 3-year period as illustrated in the table below. If key operational efficiencies are achieved in line with FRP Implementation Plan, it could be expected that the projected cash shortfall of R60 million at the end of the 2020/21 Financial Year will likely improve to a cash surplus of R2,9 million at the end of the 2023/24 Financial Year. The net increase in cash hold could improve with R17,6 million in 2022/23 and R54 million in 2023/24. If these positive trends could be achieved and sustained, it could realistically be expected that it will take the municipality a period of 3 years to move to a fully cash-backed funding position.

The forecasting model is flexible, and figures will be adjusted annually aligned with the revised FRP activities to facilitate sustained financial health improvement. The municipality's adherence to the Financial Recovery Plan will be monitored in terms of its achievement of the targets for revenue and expenditure set out in the financial forecasting model.



Financial forecasting model for implementation of the Beaufort West Financial Recovery Plan



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BUDGET ITEM	2019/20 AFS AUDITED R'000	2020/21 BUDGET FORECAST R'000	2021/22 MTREF BUDGET R'000	2021/22 MTREF BUDGET (PT CALCULATION) R'000	TARGETS: 2021/22 MTREF BUDGET R'000	TARGETS: 2022/23 MTREF BUDGET R'000	TARGETS: 2023/24 MTREF BUDGET R'000
Property Rates	39 564	41 543	44 681	42 948	43 377	45 546	47 824
Electricity	80 870	85 195	96 329	89 536	90 431	99 474	109 422
Water Revenue	19 134	21 135	30 024	24 215	24 457	26 903	29 593
Sanitation Revenue	16 589	17 750	20 074	19 353	19 547	21 501	23 651
Refuse Revenue	8 659	9 439	10 132	10 258	10 361	11 397	12 536
Interest: Debtors	4 815	5 056	6 729	5 086	5 086	5 595	6 154
Investment Revenue	284	380	550	1 271	1 271	1 398	1 538
Operational Grants	76 735	93 290	81 054	81 306	81 306	84 707	86 634
Fines & Penalties	41 877	57 326	45 002	59 142	35 485	53 228	66 535
Other Revenue	8 566	4 564	4 107	4 059	4 059	4 221	4 390
Total Operational Revenue	297 094	335 677	338 682	337 174	315 380	353 970	388 277
Employee Cost	119 967	126 530	125 542	126 652	120 319	121 523	122 738
Remuneration of Councillors	6 286	6 515	6 286	6 752	6 752	7 022	7 303
Depreciation and impairment	22 679	25 096	23 813	24 739	24 739	25 729	26 758
Debt Impairment	48 715	54 689	28 919	89 002	71 202	53 401	40 051
Finance Charges	7 715	2 795	835	1 464	1 464	864	664
Bulk Purchases/ Inventory consumed	75 047	92 180	96 074	90 880	90 880	94 515	98 296
Contracted Services	30 317	22 044	22 882	20 219	20 219	19 208	18 824
Transfers and Grants	510	2 183	525	550	550	550	550
Other expenditure	29 950	25 107	33 638	27 825	27 825	25 043	22 538
Total Operational Expenditure	341 186	357 140	338 514	388 083	363 950	347 854	337 721
Surplus/ (Deficit)	(44 092)	(21 463)	168	(50,909)	(48,570)	6,116	50,556
SCHEDULE A8:							
Cash and Investments available							
Cash Equivalents at year end	(12 556)	(24 512)	(62 713)		(51 677)	(34 041)	19 899

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Total	(12 556)	(24 512)	(62 713)	(51 677)	(34 041)	19 899
Application of Cash and Investments						
<i>Unspent Conditional Grants</i>	(13 119)					
<i>Working Capital Requirements (Debtors minus creditors)</i>	(14 966)	(36 118)	(5 098)	(26 186)	(22 379)	(16 926)
<i>Other provisions</i>						
Total	(28 085)	(36 118)	(5 098)	(26 186)	(22 379)	(16 926)
Surplus/ (Shortfall)	(40 641)	(60 630)	(67 811)	(77 863)	(56 420)	2 972

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SERVICE DELIVERY AND FINANCIAL GOVERNANCE (RESCUE PHASE):

To support the achievement of the financial recovery plan and the targets specified for Phase 1, the Municipality must focus on addressing the following service delivery and governance issues.

These priority actions are essential to the achievement of the targets set out above. As such they will form the focus of the activities monitored by the Oversight Committee.

Financial Management Pillar

- Implement cost-cutting measures.
- Establish a Cashflow Committee that must meet weekly to discuss financial status of the municipality and prioritise cashflow commitments.
- Ensure effective administration and control of the Municipality's bank accounts in line with the MFMA and FRP targets. To enable effective monitoring of this, the municipality must submit regular reports to the Provincial Treasury on cashflows, including weekly submission of bank statements and cashflow projections.
- Continue implementing processes related to the approved organisational structure and contract appointments.
- Improve community consultation (including using ward committees to improve collection rates in each ward).
- Establish a Revenue and Technical Committee.
- Apply all permissible and reasonable debt collection mechanisms available to the municipality. Credit control policies must be implemented in full, and no relaxation of credit control measures may be implemented if collection rates are below the targeted levels set out in the "budget parameters and financial targets" set out above.
- Ensure that grants are ring-fenced, cash-backed, and spent timeously.
- Ensure that Eskom accounts are paid as per arrangement (as revised).
- Conclude payment agreements and/or write-offs for amounts owed to creditors. This must include renegotiating existing payment arrangements to achieve more favourable terms – if this is not agreed by creditors, then the municipality should make use of the debt relief and restructuring process set out in Part 3 of Chapter 13 of the MFMA.

Service Delivery Pillar

- Prioritise the repair of all visible water losses and sewer spillages and respond to any breaks in services.
- Prioritize compliance with all environmental requirements for the landfill sites.
- Prioritize using correct fleet for waste collection to ensure compliance with health and safety requirements.
- Perform all repairs on streetlighting.
- Undertake road maintenance by focusing on the fixing of potholes, curb side maintenance, and other visible issues.



Institutional Pillar

- Prioritize effective models for acquiring skilled human resources to ensure that the plan can be executed.
- Continue implementing processes related to the approved organisational structure and contract appointments.
- Limit appointment of non-critical staff appointments and contract appointments. Appointments should only be made if: (i) the post is on the approved organogram; (ii) the post is critical to the functioning of / delivery of services of the municipality and achieving the objectives of the FRP; and (iii) funding for the post is available (which shall be confirmed by the cashflow committee prior to the vacancy being advertised).
- Ensure stability of senior management to effectively implement the FRP. To ensure this stability and the alignment of senior management changes to the implementation of the FRP, the appointment, suspension or any disciplinary action relating to any director or appointee in terms of sections 56 and 57 of the Local Government: Municipal Systems Act (32 of 2000) should take place after consulting the MEC for Local Government.
- Review the system of delegations and ensure that an interim delegation framework to support this financial recovery plan is in place.

Governance Strategies Pillar

- Ensure that an audit committee is established to deal with the issues raised by the Auditor-General.
- Prioritise all litigation matters and update the litigation register.
- Ensure that governance and oversight committees are appropriately constituted, functional and that their capacity is strengthened.
- Establish a disciplinary board to investigate and deal with issues of maladministration and fraud.



3.2 PHASE 2: STABILISATION/RECOVERY PHASE (12 - 24 MONTHS)

In this phase of the recovery process, the focus is intended to shift from quick and visible wins to addressing and institutionalising achievements of Phase 1. Financial targets under Phase 1 will still be monitored and additional targets may be added as necessary from the work undertaken in Phase 1.

Regarding the maintenance of infrastructure, the emphasis will be on strategies to address longer term reductions in water losses. Issues of organisational overstaffing will also be addressed by implementing the redesigned organogram that is fit for purpose. The focus of the financial recovery plan is to address the underlying financial crisis. Organisational and governance issues will be considered in so far as they contribute to the financial crisis.

The expectation is that during this phase, the municipality needs to develop and approve all infrastructure plans, including but not limited to Integrated Infrastructure Asset Management Plan, Electricity Master Plan (incl. Electrification Plan), Water and Sanitation Master Plan, Water Service Delivery Plan, Water Conservation and Water Demand Management Plan, Fleet Management Plan, Roads and Stormwater Plan, Integrated Transport Plan, Integrated Waste Management Plan and the Human Settlements Plan. The municipality also needs to ensure that there is 100% expenditure on all grants. The municipality must ensure that all SCM and HR policies are complied with and limited unauthorized, irregular, and fruitless and wasteful expenditure is incurred. The municipality needs to fully develop realistic maintenance and repair plans and execute on these plans. The municipality must continue to make payments to Eskom until the account is fully up to date.

The Oversight Committee will recommend when it is appropriate for the implementation for the FRP to move from phase 1 to phase 2. The National Treasury's MFRS unit will be asked to confirm that they agree with this assessment. At this point, it may also be necessary to update the details of the activities and targets for the second phase of the FRP. The table below sets out targets for the first six months of this phase, further updated targets for the rest of the phase will need to be approved by the Oversight Committee.

SERVICE DELIVERY, INSTITUTIONAL INDICATORS AND GOVERNANCE (STABILISATION/RECOVERY PHASE):

To support the achievement of the financial recovery plan and the targets specified for Phase 2, it is recommended that the Municipality and, if applicable, the Provincial Intervention Team focus on the following service delivery, institutional and governance issues:

- Implement further cost cutting measures.
- Prioritise the repair of all visible water losses.
- Prioritise collection on all current and outstanding accounts.
- Apply all permissible and reasonable debt collection mechanisms available to the municipality.
- Ensure that grants are ring-fenced and spent timeously.
- Ensure that Eskom accounts are paid as per arrangement.
- Prioritize compliance with all environmental requirements for the landfill sites.



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- Prioritise the finalisation of the HRDM&S to assist with effective ways of acquiring, training, and retaining skilled human resources to ensure that the Plan is executed and limit use of consultants for core and critical functions.
- Prioritise review of the Organisational Structure to accommodate functions that are currently performed by external service providers and consultants.
- Prioritise change management interventions.
- Limit appointment of non-critical staff appointments and contract appointments until fit for purpose organogram is implemented and Model for filling of critical posts is finalised.
- Prioritize using correct fleet for waste collection to ensure compliance with health and safety requirements.
- Perform all repairs on streetlighting.
- Perform repairs on all visible sewerage spillages within the reticulation network.
- Undertake road maintenance.
- Undertake urgent repairs to other municipal infrastructure.
- Identify and plan for additional municipal infrastructure investment needs.

3.3 PHASE 3: SUSTAINABILITY PHASE (BEYOND 24 MONTHS OR THE TERMINATION OF PHASE 2)

In this phase of the recovery process, the focus is to ensure the institutionalisation of processes in Phase 1 and 2 of the recovery processes. It is also envisaged that the municipality will consider long-term planning and issues necessary to ensure the sustainability of the municipality's finances. The municipality is expected to conform to norms set for financial ratios and to ensure that plans are put in place to buffer the municipality in the event of national or provincial economic and fiscal shocks. The municipality will be expected to execute on all the property, plant and infrastructure strategies that would be developed and refined during phases 1 and 2. All the infrastructure must be realistic and be implemented timeously.

The Oversight Committee will recommend when it is appropriate for the implementation for the FRP to move from phase 2 to phase 3. The National Treasury's MFRS unit will be asked to confirm that they agree with this assessment. At this point, it will be necessary to develop and agree the details of the activities and targets for the third phase of the FRP. This will be approved by the Oversight Committee.



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PART FOUR – REPORTING TIMEFRAMES:

4.1 MONTHLY REPORTING ON ACHIEVEMENT OF TARGETS: BEAUFORT WEST MUNICIPALITY

COMPREHENSIVE SCHEDULE OF REPORTING AND COMMITTEE MEETING DATES:

No.	Report for month OF	Report due from municipality ON	Report considered by Monitoring and Oversight Committee ON	Considered by WC Executive BY
1	January 2022	07 February 2022	12 February 2022	20 February 2022
2	February 2022	07 March 2022	12 March 2022	20 March 2022
3	March 2022	07 April 2022	12 April 2022	20 April 2022
4	April 2022	07 May 2022	12 May 2022	20 May 2022
5	May 2022	07 June 2022	12 June 2022	20 June 2022
6	June 2022	07 July 2022	12 July 2022	20 July 2022
7	July 2022	07 August 2022	12 August 2022	20 August 2022
8	August 2022	07 September 2022	12 September 2022	20 September 2022
9	September 2022	07 October 2022	12 October 2022	20 October 2022
10	October 2022	07 November 2022	12 November 2022	20 November 2022
11	November 2022	07 December 2022	12 December 2022	20 December 2022
12	December 2022	07 January 2023	12 January 2023	20 January 2023
13	January 2023	07 February 2023	12 February 2023	20 February 2023
14	February 2023	07 March 2023	12 March 2023	20 March 2023
15	March 2023	07 April 2023	12 April 2023	20 April 2023
16	April 2023	07 May 2023	12 May 2023	20 May 2023
17	May 2023	07 June 2023	12 June 2023	20 June 2023
18	June 2023	07 July 2023	12 July 2023	20 July 2023



PART FIVE – REPORTING FRAMEWORK:

5.1 REPORTING FRAMEWORK: PROGRESS AGAINST TARGETS

The municipality must report monthly on each key activity included in the FRP Implementation Plan (Annexure A). The implementation plan will be used as basis to develop a progress reporting dashboard with the following fields:

(Example only for illustrative purposes)

<u>PER FRP IMPLEMENTATION PLAN:</u>	<u>INFORMATION:</u>
Phase	Financial Rescue
Pillar	Service Delivery
Key Activity	<ul style="list-style-type: none"> ▪ Prioritise the development, financing, and implementation of a proper programme to address technical water losses. ▪ Properly determine the fundamental reasons for commercial water losses (i.e., non-payment) ▪ Develop a plan to address the reasons. ▪ Make key interventions to address the reasons.
Problem Statement	42% water losses (technical and commercial)
Responsible	Technical Director
Start Date	October 2021
End Date	March 2022
Key Performance Indicator	5% reduction per annum
Financial Target	R50 Million per annum
Progress Report by Municipality:	
Steps taken	
Progress made	
Financial impact recorded	
Other noteworthy developments	



5.2 CONCLUSION: STRATEGIC ASSESSMENT AND CORRECTIVE ACTIONS AS REQUIRED:

(Please provide some concluding text with a strategic perspective on the position and progress of the financial recovery programme to the end of the relevant month and envisaged next steps to ensure achievement of programme goals.)

PART SIX - RECOMMENDATIONS:

6.1 RECOMMENDATIONS

It is recommended that:

- 6.1.1 The Beaufort West LM Mandatory Financial Recovery Plan be submitted to the MEC of Finance for approval in terms of Section 143(2) of the MFMA.
- 6.1.2 The Beaufort West LM must fully implement all recommended measures set out in the approved Financial Recovery Plan as required in terms of section 146 of the MFMA.
- 6.1.3 The Western Cape Provincial Support Package for Beaufort West LM be aligned with the priorities as set out in Phase 1: Financial Rescue.
- 6.1.4 An Oversight Committee be established to direct the intervention, monitor progress, and unblock any political challenges that may hinder the success of this intervention.
- 6.1.5 The Municipal Manager drafts an internal and external communication plan to support effective communication throughout the intervention.

ANNEXURE A: FRP IMPLEMENTATION PLAN

(The FRP Implementation Plan identified the root causes of the financial problems and provide for the strategies and accompanied corrective actions with set timeframes and responsibilities. The data fields are following the FRP criteria as set out in Section 142 of the MFMA)