



REPORT BY THE ADMINISTRATOR
ON INTERVENTION
DATE: 3 MAY 2016



BACKGROUND

- Thabazimbi is a Grade 3 Municipality and it derives its powers and functions from Section 156 of the Constitution, 1996 and Section 84(2) of the Municipal Structures Act, 117 of 1998;
- The Municipality started experiencing problems around May 2015 and a Rapid Assessment Team was established to provide a fair objectives report on the state of affairs of the Municipality;



BACKGROUND (continue)

- In February 2016, Executive Council resolved as follows:
 - ✓ That Thabazimbi Municipality was placed under section 139 (1) (b) of the Constitution of the Republic of South Africa;
 - ✓ That the Municipality should invoke sections 152 (1) and 152 (2) of the MFMA directing the Administrator to apply for stay of legal proceedings; and
 - ✓ That forensic investigation (by National Treasury) be carried out for all municipal activities to determine the extent of the problem.



BACKGROUND (continue)

- ✓ Administrator having both human and financial resources was appointed on 7 March 2016;
- ✓ Administrator also assumed the responsibilities of being an Accounting Officer for the Municipality;
- ✓ An Engineer from MISA is assigned to the Municipality
- ✓ On 15 March 2016, Minister of COGTA in terms of section 139 (2) of the constitution approved the intervention by the Provincial Executive of section 139 (1)(b)

ADMINISTRATOR'S TERMS OF APPOINTMENT

- The Administrator assumes the functions of Municipal head of administration. In performing his functions, the Administrator must-
 - ✓ Undertake a comprehensive forensic audit on, but not limited to, financial management, procurement and provision of services and infrastructure within the municipality covering the financial years 2011/2012 until 2015/2016;
 - ✓ Undertake all fiscal and financial management functions at the municipality, including him/her being a signatory on the municipal banking account;

ADMINISTRATOR'S TERMS OF APPOINTMENT (*continue*)

- ✓ Review all systems and policies (delegated powers, supply chain management policies, etc.) to ensure that they are in line with legislation;
- ✓ Develop a turn - around strategy for the municipality;
- ✓ Ensure implementation of council resolutions by the Administration;
- ✓ Implement a system to control and approve all expenditure;
- ✓ Implement all governance systems and procedures including appropriate council oversight mechanisms;

ADMINISTRATOR'S TERMS OF APPOINTMENT (*continue*)

- ✓ 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;
- ✓ Finalise the preparation of the IDP/Budget for the 2016/2017 financial year;
- ✓ Ensure the implementation of the financial recovery plan;
- ✓ Review and negotiate an affordable payment plan with the creditors;
- ✓ Ensure that the provisions of the duties of the Provincial Executive in terms of Section 139 (1) (b) are realised;

ADMINISTRATOR'S TERMS OF APPOINTMENT (*continue*)

- ✓ Improve revenue generation for the municipality;
- ✓ Develop an action plan to address all issues raised by the Auditor General's report;
- ✓ Implement the recommendations of the Rapid Assessment Process;
- ✓ Establish and implement a Performance Management System for both officials and the performance of the municipality; and
- ✓ Ensure implementation of the Municipal Property Rates Act;

POLITICAL, EXECUTIVE AND ORGANIZATIONAL STRUCTURE

The current structure comprises of the following:

- Office of the Mayor;
- Office of the Speaker;
- Office of the Chief- whip;
- Office of the Municipal Manager;
- Department Finance;
- Department Corporate Services;
- Department Technical Services;
- Department Community Services, and
- Department Planning and Economic Development.

STAFF ESTABLISHMENT

- Total Number of filled Positions: **384**
- Total Number of Vacant Positions: **107**
- Total Number on Organogram: **491**

GOOD GOVERNANCE AND PARTICIPATION

- Municipal Council;
- Executive Committee;
- MPAC;
- Internal Audit;
- Risk Management;
- Audit Committee; and
- Ward Committee.

AUDIT OUTCOMES: PAST 3 YEARS

- Disclaimers audit outcomes for the past three (3) financial years;
- During the 2014/2015 FY, 104 issues were raised by AG in the management letter.
- The following five (5) issues were raised as recurring Issues:
 1. Property, Plant and Equipment;
 2. Revenue and Receivables;

AUDIT OUTCOMES: PAST 3 YEARS

3. Cash Flow;
4. Irregular Expenditure; and
5. Contingent Liabilities

FINANCIAL STATUS

- Municipal bank balance as at March 2016 was R3. 4 million;
- Financial challenges started in 2010 when the Municipality utilized conditional grant for operational activities and NT withheld.

CONDITIONAL GRANT

- The whole MIG administration for 2015/2016 financial year and all Project Management is outsourced to Waterberg District Municipality
- FMG spending was as expected at R 389;
- MSG spending was very low at R 22;
- EPWP Incentive was as expected at R1,641;

REVENUE MANAGEMENT

- Municipality is using Munsoft financial systems;
- Municipal sources of revenue are basic services, property rates, government grants and rental of facilities,
- Indigent register developed however not updated in 2015/2016 financial year and threshold is R0- R2 040.

Debtors Age Analysis

- Organ of state: R11, 052
- Commercial: R32, 790
- Household: R133, 928
- Other: R83, 646
- **TOTAL: R261, 416**

EXPENDITURE MANAGEMENT

- An increase monthly employee related costs is around R8 million due to placement process;
- Owes Eskom an amount of R146 million;
- Owes Magalies Waterboard an amount of R31 million;
- **TOTAL: R204 million.**

CREDITORS

- Understated as should be in excess of R400 million;
- 92% over 90 days;
- Eskom arrangement of R3m pm not honoured;
- Magalies Waterboard arrangement not honoured;
- None of creditors are being paid;
- Bank account garnished;
- Default judgment at R56 million.
- Application ito s152 of MFMA applied and Rule Nisi issued and return date is 19 April 2016

DEBTORS' MANAGEMENT

- 57% is 120 days old and beyond;
- Household remain the highest on the municipal debtors' book;
- Low collection and highly unlikely that bulk will be recoverable;
- Recommended that recoverability assessment be conducted and impairment be effected;
- Council approved 50% of debt be paid in 60 days and 50% will be written off.

REVENUE AND EXPENDITURE

- Revenue collection not at its optimum due to:
 - ✓ Billing system unreliable;
 - ✓ There is a lot of faulty meters for both water and electricity;
 - ✓ Not all consumers are being billed as result there is free consumption of water and electricity; and
 - ✓ Collection efforts are not maximized.

TURNAROUND STRATEGY

- The Turnaround Strategy focus on the following areas:
 - ✓ Restructuring Strategy;
 - ✓ Financial Restructuring;
 - ✓ Operational Structuring;
 - ✓ Process Management; and
 - ✓ Stakeholder Management

FINANCIAL RESTRUCTURING

- ◉ Management of cash;
- ◉ Tight manage receipts and disbursement;
- ◉ Control purchasing commitments;
- ◉ Aggressively collection through UMS;
- ◉ Flat rate payment;
- ◉ PCMA contract;
- ◉ Improve financial structure.

RESTRUCTURING STRATEGY

- Settlements with major creditors: ESKOM and Magalies Waterboard;
- Stay of legal proceedings into section 152 of MFMA;
- Quantibult appointment Finalized;
- Waterberg District Municipality as Implementation Agent for MIG Projects;
- Opportunities with mines;
- Financial Recovery Plan by National Treasury

OPERATIONAL RESTRUCTURING

- Stabilize operations;
- Finalise the reversal of placement process;
- Manage vendors;
- Reduce inventories: Maintenance plan;
- Retain customers through correct billing;
- Retain staff;
- Fix core business;
- Optimize supply chain;
- Outsource or divest non – core activities

OPERATIONAL RESTRUCTURING

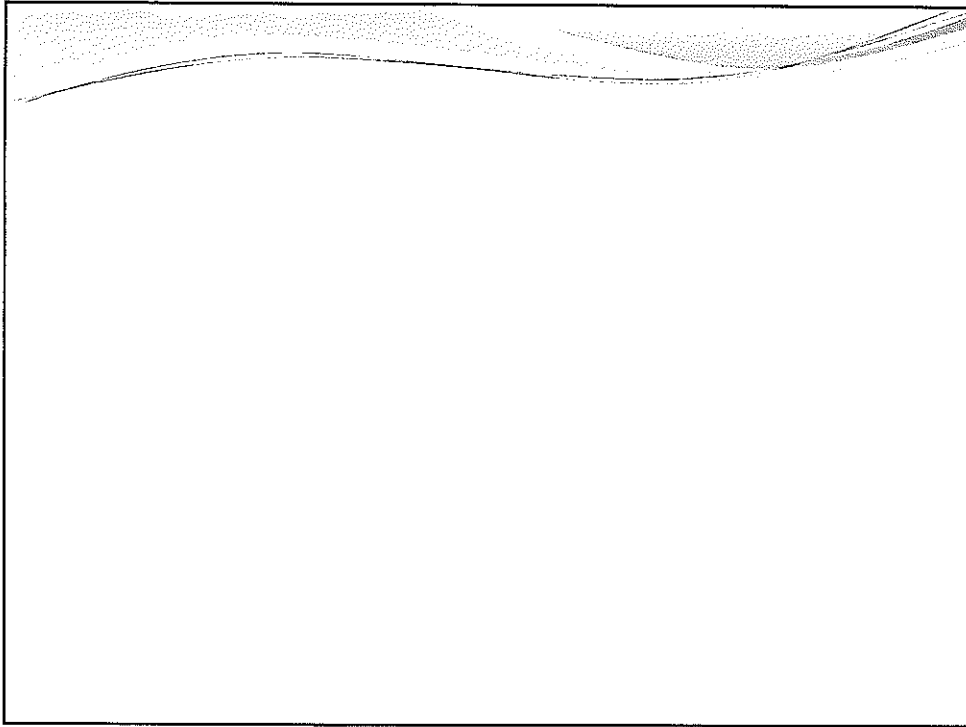
- Fill Section 57 positions;
- Fill all strategic vacant positions;
- Management of costs(labour, overheads); and
- Organizational structure.

PROCESS MANAGEMENT

- Financial Specialist Report on Verification of Creditors;
- On 1 April 2016 Managers requested to identify Creditors from their department
- Submit documents on or before end of May 2016
- Negotiate debt settlement;
- Reach debts settlement; and
- Assessment of claims and building of creditors groups

Stakeholder Management

- Interaction with following stakeholders:
 - ✓ Business Chamber on 6, 14 and 9 May 2016;
 - ✓ SAMWU on 19 April 2016 and 3 May 2016;
 - ✓ IMATU on 19 April 2016 9 May 2016;
 - ✓ Agriculture sector on 3 May 2016;
 - ✓ Local Mining Sector on 11 May 2016; and
 - ✓ Taxi Association on 12 May 2016.



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