



**Western Cape
Government**

Provincial Treasury

BETTER TOGETHER.

**PRESENTATION TO THE COGTA PORTFOLIO COMMITTEE
MFMA IMPLEMENTATION
KANNALAND LOCAL MUNICIPALITY**

1 SEPTEMBER 2020

MS Teams

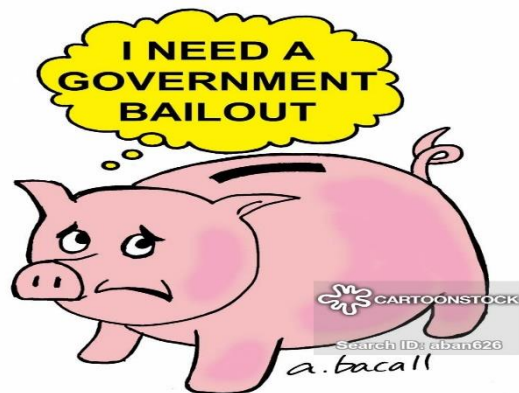
Presentation Layout



REQUEST FROM THE PORTOFLIO COMMITTEE

Provincial Treasury – report on the compliance with MFMA of the municipality and what assistance was provided by Treasury to ensure compliance by municipality.

Kannaland Local Municipality (KLM) headline Story



The slow but steady progress towards sound financial sustainability. Climbing a mountain without a rope can never be easy



KLM's problems go back many years. The municipality has been plagued by previous political instability and discouraged management. This led to a lack of restraint in the budget management and opened the way to misappropriation of public funds, a lack of value for money and extensive irregular, fruitless and wasteful and unauthorised expenditure. The municipality adopted non-cash funded budgets, that made their financial sustainability and viability impossible.

The Combination of these challenges left the municipality with no option except to request an intervention and a Financial Recovery Plan(FRP). Progress is slow but steady and leading towards the right direction:

- CFO and Head of Technical Services appointed
- On-going capacitation remains a challenge due to financial constraints
- Low revenue base and slow growth mean limited options for revenue enhancement

However we are finding a path to achieving the FRP goals.

Intervention in Kannaland Local Municipality

- Kannaland Local Municipality has a long history of financial problems that stem from governance and administrative failures
- Kannaland LM requested a mandatory intervention in terms of section 139(5) of the Constitution and section 139 of the MFMA.
- As a result a Financial Recovery Plan for the municipality was approved by the Provincial Minister of Finance in terms of section 143(2) (a) of the MFMA and came into effect on 17 March 2017.
- This Financial Recovery Plan is currently being reviewed by National Treasury's Municipal Financial Recovery Service with the intention to introduce an amended Financial Recovery Plan in line with section 144 of the MFMA

BUDGETING AND PLANNING



MFMA Compliance – budgeting and planning

LG: MFMA Budget Office

1. Socio-economic context

- In 2016, there were **a total of 6 333 households** within the Kannaland municipal area of which 2059 households are poor.
- 97.4 per cent of households have access to formal housing, 93.6% households have access to water, 85.7% of households have access to electricity, 93% of households have access to sanitation and 79.2% of households have access to refuse removal

2. Budget

- The 2020/21 annual budget was tabled and adopted within the required timeframes as per sections 16 and 24 of the MFMA
- However, **both the tabled and adopted budget are not funded in accordance with section 18 of the MFMA**

3. Service delivery and budget implementation plan (SDBIP)

- The 2020/21 SDBIP aligns with the strategic objectives in the approved 2020/21 IDP

FINANCIAL PERFORMANCE AS AT 30 JUNE 2020



Dashboard - Financial Highlights as at 30 June 2020

Total revenue

R126.6m – 73.9%

Total expenditure

R103.7m – 63.2%

Creditors

R42.86m

**Major Creditors & exceed
90 days of R30.86m**

Eskom, AGSA and Trade

Cash position

R62.6m vs
Commitments
R80.80m

Capex

R14.8m – 42.1%

Debtors Analysis

R85.24m

Organs of State debt – (R1.27m) 1.49%

Commercial – (R3.93m) 4.61%

Household debt – (R69.99m) 82.1%

Other – (R10.05m) 11.8%

COLLECTION RATE : 76.36%

Highlights:

- Poor budget Implementation for both revenue and expenditures.
- Substantial under recovery on municipal basic services. This was due to lockdown and impractical implementation of credit control and debt collection strategies.
- Collection rates remains weak and below the NT norms, affecting the increasing debtors and inability to recover the HH debt especially the 90 days and older.
- The latter has a dire impact to the Municipality's financial health and positions which is currently challenged.
- The financial sustainability is at risk and exposed to liquidity challenges.
- The Municipality is challenged with spending the operating budget.
- Substantial under performance particularly contracted services, materials which are direct effects of lockdown.
- Notable spend on employee related costs, bulk purchases, fines charges, transfers and subsidies that might be due to incorrect budget. Depreciation and impairment to be processed at year end.

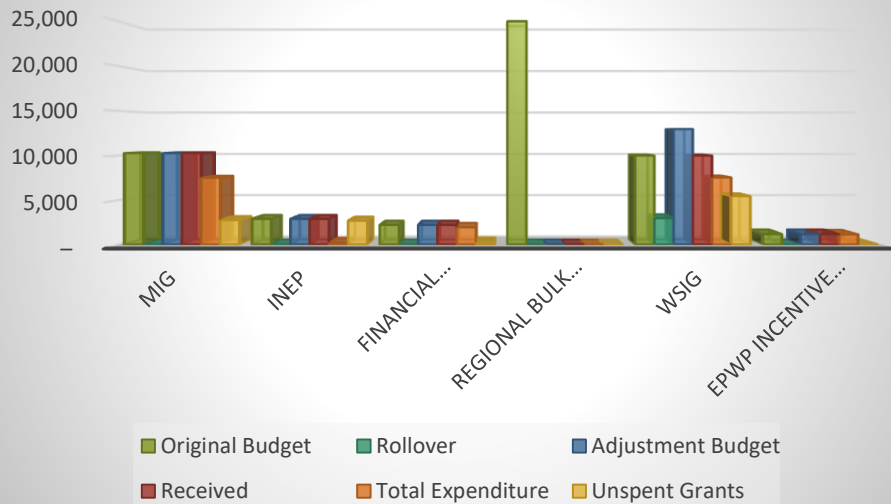
Dashboard - Financial Highlights

- ❑ Cash balances showed positive for June 2020, but monthly commitments of R80.80 million exceed the available cash.
- ❑ The historical trends also showed positive cash balances, however there are still unspent conditional grants not spent at year end such as INEP, WSIG, MIG and Provincial grants that are not cash backed from the available cash.
- ❑ Also there were numerous expenditure line items that were not spent at year end, which correlates to the under spending of the operating expenditure budget.
- ❑ Persistent majority of the creditors exceed 90 days. Payment arrangements are in place with AGSA and Eskom.
- ❑ Although these financial ratios: cash coverage, liquidity and current exceed the NT norm, the historical trends showed weak ratio performance. The current 2019/20 financial ratios showed better results due to other expenditure line items such as depreciation and impairment that are not yet allocated in the June 2020 reporting and will be considered in the AFS. Another factor are the expenditure line items that showed under spending: **contracted services (52%), other materials (54%), finances charges (34%) and transfers and subsidies (36%), employee related costs (14%), Councillors remuneration (36%), debt impairment and depreciation (100%) respectively, bulk purchases (38%), and other expenditure (35%)**. These under expenditure line items have a huge impact to the financial ratio.
- ❑ Slow pace spending on the capital budget at 42% as at 30 June 2020. Unspent conditional grants of R15million as at June 2020.

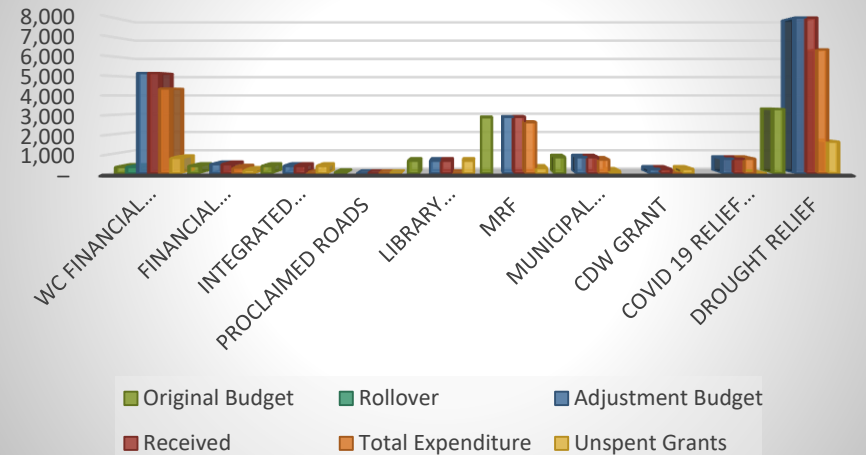
Grant Management and Funding

- KLM received all national conditional grants allocation of R26.57m.
- Spending is R18.35m or 69.06% against the transfers.
- Unspent amounting to R11.20m.
- Unspent grants: R2.76m for MIG, R2.70m for INEP, R255 thousand for the FMG, R5.44m for the WSIG and R41 thousand for the EPWP respectively.
- MIG underspent by 36%, INEP by 94%, and the WSIG by 50%.

National Grants for 2019/20



Provincial Grant



- KLM received all provincial conditional grants allocation of R19.34m.
- Spending of R15.09m or 78.04% against the transfers.
- Unspent amounting to R4.25 million.
- Underspending on provincial grants was high, with variance on capacity building grants of 68%, and infrastructure grants of 82%.
- Substantial unspent on Disaster relief grant with R1.63 million, Financial Management Support grant with R797 thousand and the Library grant with R612 thousand.

Challenges

CHALLENGES:

- Persistent cash flow challenges and threatened financial sustainability.
- Persistent weak financial ratios.
- Ineffective cash flow management.
- Weak revenue collection value chain process.
- Ineffective credit control and debt collection strategies particularly in areas that are serviced by Eskom directly.
- Slow SCM processes and delays in payment of contractors.
- Poor planning which has an impact on the capital spending.
- Rising unspent conditional grants
- Lack of adequate funding for co-funding capital projects.
- Escalating dependency levels from Government in funding both operational and capital projects.
- Continuing to adopt unfunded budget over the years.

FINANCIAL GOVERNANCE



SCM GOVERNANCE CHALLENGES

Key SCM Findings

THE PROVINCIAL TREASURY HAS CONDUCTED A COMPREHENSIVE SCM COMPLIANCE ASSESSMENT AT THE KANNALAND MUNICIPALITY AND HAD AN OFFICIAL FEEDBACK SESSION WITH THE MANAGEMENT TEAM ON 17 MARCH 2020.

SCM REGULATION 36 (DEVIATIONS)

- 51% of Deviations is allocated under the Technical Department which is infrastructure related.

SCM REGULATION 32 (PIGGY-BACKING)

- Over reliance on procuring contracts by means of SCM Regulation 32.
- High risk procurement processes attached to SCM Regulation 32 contracts.

LOCAL CONTENT AND PRODUCTION

- KEY GOVERNANCE GAPS (Verification the relevant annexures on MBD 6.2).

CONTRACT MANAGEMENT

- Roles and responsibilities of all stakeholders not clearly defined.
- Deficiencies with the managing of contracts by project owners.

DEMAND MANAGEMENT

- Key governance gaps with demand planning and forecasting, which lead to SCM deviation processes.

Financial Governance

Key Financial Governance Findings and Support Rendered

BTO CAPACITATION

- Critical vacancies such as SCM Manager, technical and other middle management positions.
- As per the Municipality's reporting to NT a total nine Section 56/57 and middle managers, only the Accounting Officer met the requirements of the Municipal Regulations on Minimum Competency Levels, 2007.
- Improvement in attendance by Kannaland Municipality is required i.t.o the training support initiatives e.g MFMA Induction and Public Sector Governance.

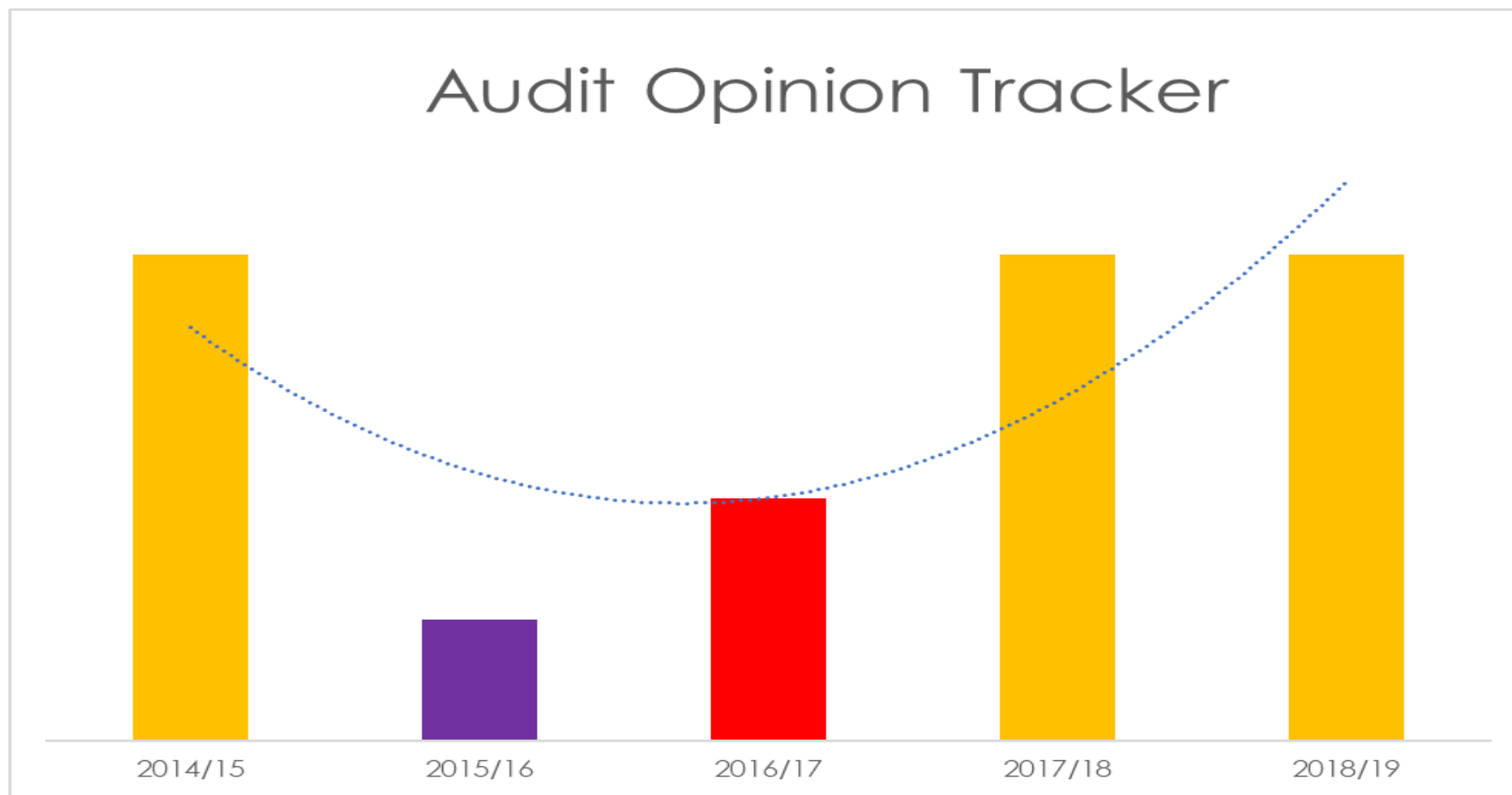
INTERNAL AUDIT AND RISK MANAGEMENT

- Kannaland Municipality throughout the period of the financial recovery plan has been unable to create its own assurance structures. Recently a Memorandum of Internal Cooperation has been agreed to between the Garden Route District Municipality and Kannaland Municipality whereby the Garden Route District Municipality will provided support and technical assistance to Kannaland Municipality on identified areas i.t.o internal audit services and risk management till the 30 June 2022.
- PT will monitor the maturity levels of both municipalities to determine the effectiveness of the intervention and engage i.t.o required support.

AUDIT OUTCOMES



MFMA Compliance - LG: MFMA Accounting



Unqualified with findings

Adverse

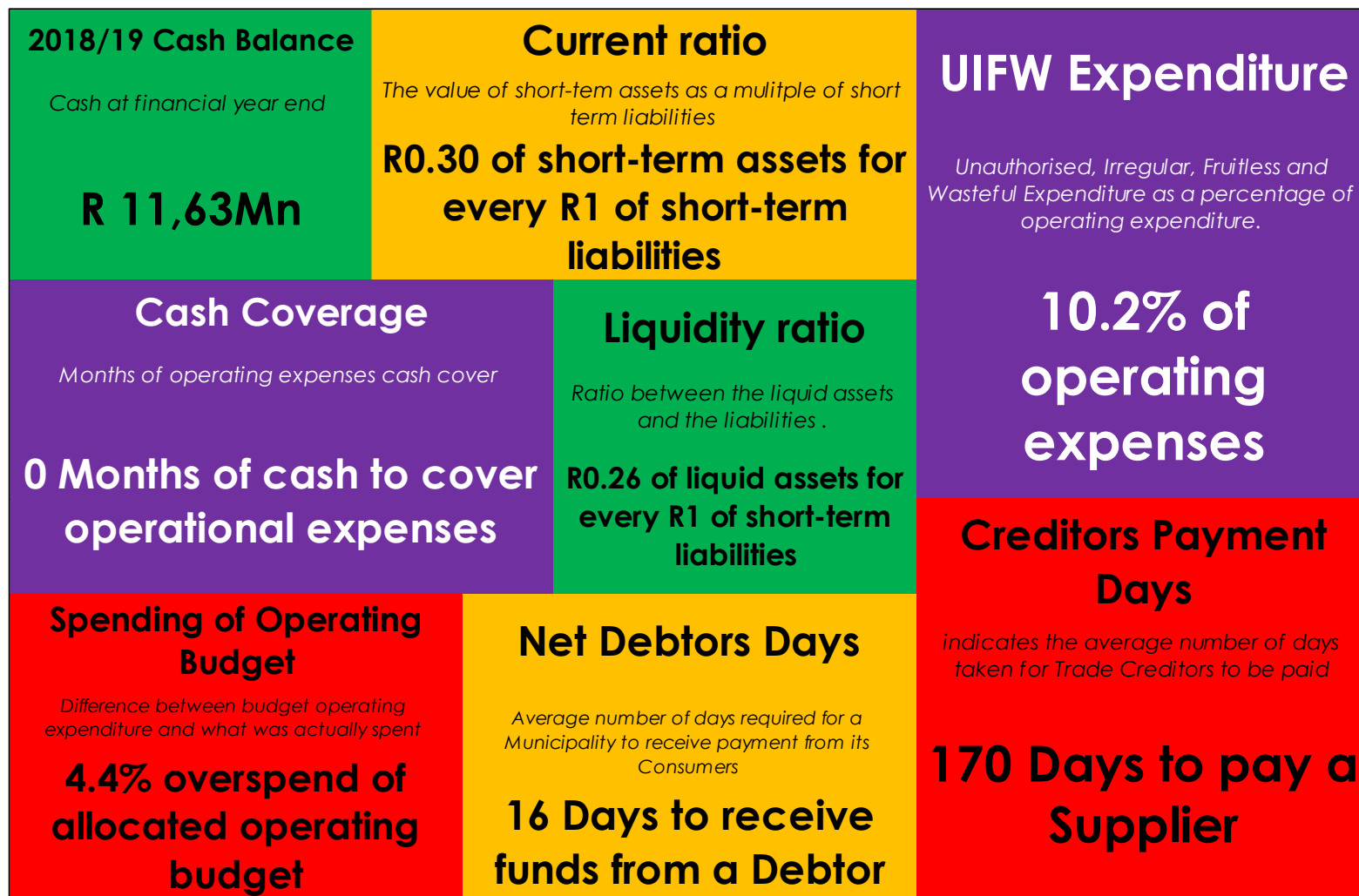
Qualified

Unqualified with findings

Unqualified with findings

Late Submission

MFMA Compliance – Key Numbers from last audit



MFMA Compliance - LG: MFMA Accounting *(continued)*

Key risks area

- **Financial Staff** Limitations – compromises the internal control or segregation of duties.
- **Dependency** on financial preparer **3rd parties'**
- **Delays** in addressing **audit issues** raise a risk of regression in the next audit opinion.

SUPPORT PROVIDED



Support Provided

SUPPORT:

- Weekly monitoring of the FRP reporting and progress made.
- Monthly IYM monitoring of the Municipal performance.
- SIME and TIME process for budgeting.
- Municipal visits for budgeting process assisting the municipality in identifying revenue streams and expenditure line items budget cuts and revenue optimization opportunities.
- Grant funding assistance for implementation of the FRP.
 - ❖ AFS, SCM Expert, BTO Capacity building, FRP Implementation Manager,
- Capacity building of staff through transversal training.
- AFS readiness testing.
- Hands on support on the mSCOA challenges.
- Assistance on the rollover process for unspent conditional grants.
- Revision of the FRP in concert with MFRS.

Support Provided - LGA

- ❑ Accredited training i.t.o MFMA induction, Financial Governance Public Sector Training and Combined Assurance Training
- ❑ Chief Risk Officer and Chief Audit Executive Committee Forums
- ❑ Combined Assurance Workshop for Garden Route District Municipalities focusing on improving the SCM audit finding
- ❑ Funding Support to Garden Route District Municipality for the installation and implementation of the internal audit and risk management for 6 municipalities(inclusive of Kannaland Municipality) within the Garden Route District.
- ❑ FMCBG – External municipal bursary programme
- ❑ FMSG – BTO Capacitation
- ❑ Funding via the Western Cape Financial Management Grant
- ❑ Technical support during the 2018/19 audit process
- ❑ Crafted the Audit Action Plan for the 2018/19 that the municipality used to track progress in addressing their audit issue
- ❑ Crafted the Circular 71 Ratios on behalf of the municipality as was required by National Treasury

RECOMMENDATIONS/ SUPPORT TO BE RENDERED

KEY SCM AREAS TO BE IMPROVED ON AND IMPLEMENTED

SCM Regulation 36 (Deviations)

- Deviations must be minimized and the Accounting Officer must institute strict controls.

SCM Regulation 32

- Over reliance on consultants to be managed given the audit challenges experienced.
- The Municipality needs to apply its **own due diligence** prior to concluding a contract by means of SCM Regulation 32.

Contract Management

- Clearly defined roles and responsibilities related to contract management: Based on best practices, the role of the legal department prior to a contract being concluded to ensure terms and conditions are strengthened in contracts and the Municipality is protected especially in cases of non-performance.

Local Content and Production

- Improve the controls with the application of Local Content and Production.

RECOMMENDATIONS/ SUPPORT TO BE RENDERED

KEY SCM AREAS TO BE IMPROVED ON AND IMPLEMENTED

SUPPORT TO BE RENEDED

- Training to bid committee members and other officials involved in the supply chain management environment.
- Capacitation Programmes with all stakeholders regarding compliance to SCM Regulations 32 and 36, Demand Management, Contract Management and Local Content and Production.
- Support and assistance to the SCM Expert to be appointed by the Kannaland Municipality.
- Monitoring and Reporting on the SCM Action Plan on a monthly basis.

Thank you