

# **WESTERN CAPE PROVINCIAL GOVERNMENT**



## **DEPARTMENT OF LOCAL GOVERNMENT AND HOUSING**

### **CASE STUDY OF A PROVINCIAL INTERVENTION AT A MUNICIPALITY AS A RESULT OF A FINANCIAL CRISIS**

#### **CEDERBERG MUNICIPALITY**

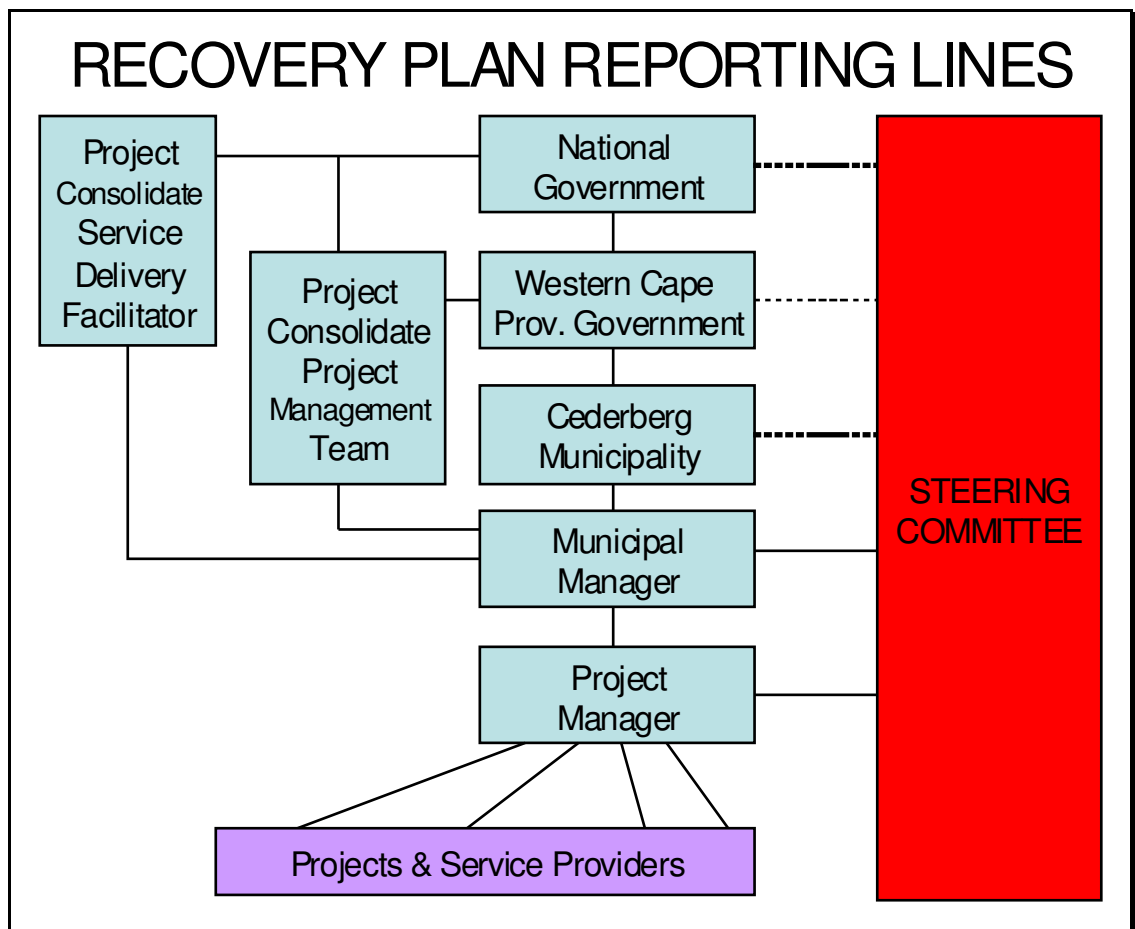
# Table of Contents

1. Purpose
2. Reporting line
3. Role players
4. Recovery plan process
5. Graphic cash analysis
6. Legal frame work
7. Background document

## 1. Purpose

This case study is about a recovery plan implemented at the Cederberg Municipality that became necessary as a result a financial crisis. The main purpose of this case study is to summarise the various activities and processes that were followed before and during the implementation of the recovery plan. Hopefully, this case study will also serve as a guide for other interventions at municipalities. The recovery plan has been implemented in phases and at this point in time it is envisaged the final phase, namely full sustainability of the entire municipality, will only be achieved towards the end of the first half of 2007. It is important to understand that the recovery plan is not just a parallel process with its own momentum, divorced from the day-to-day activities of the municipality, but forms an integral part of the normal business activities of the municipality.

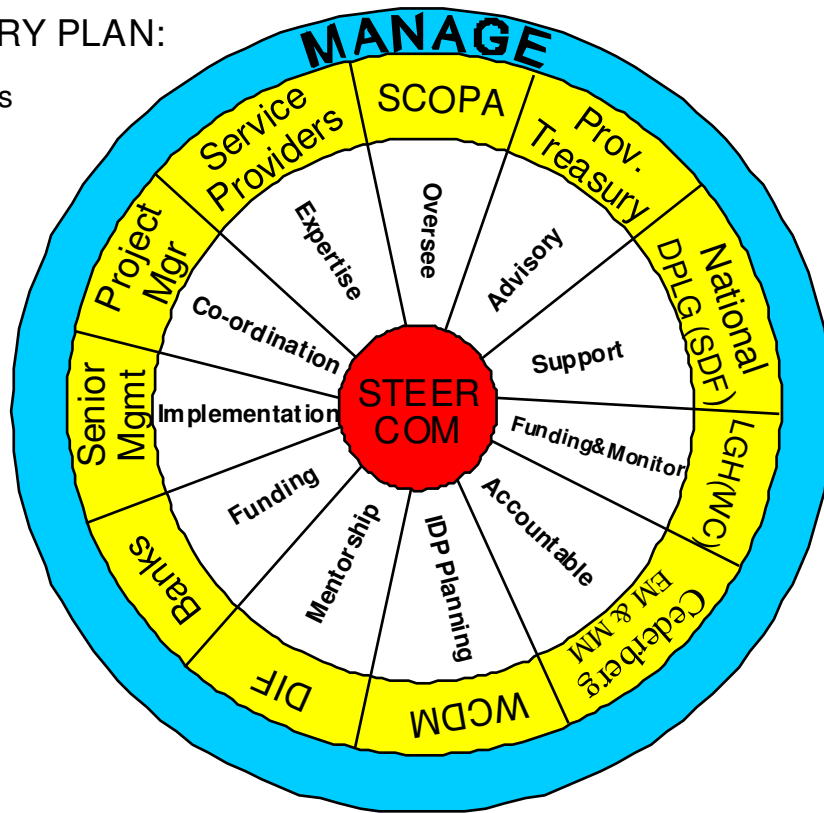
## 2. Reporting Lines



### 3. Role players

RECOVERY PLAN:

Role Players



### 4. Recovery Plan Process

| PERIOD  | PHASE                   | ACTION PLAN / STRATEGY  | PRODUCT / RESULT  |
|---------|-------------------------|---|---|
| 01/2005 | Cash flow deterioration | <ul style="list-style-type: none"> <li>Initiate Management Audit</li> </ul> | <ul style="list-style-type: none"> <li>Scope of reference</li> <li>Appoint management audit team</li> <li>Conduct management audit</li> </ul>   |
| 02/2005 | Management Audit        | <ul style="list-style-type: none"> <li>Investigation</li> </ul>             | <p>Key findings:</p> <ul style="list-style-type: none"> <li>Cash flow problems</li> <li>Poor budgeting &amp; controls</li> <li>Lack of capacity</li> <li>Poor governance</li> <li>Unclear roles</li> <li>No communication strategy</li> <li>Statutory non-compliance</li> </ul> |

|                          |  |  |   |
|--------------------------|--|--|---|
|                          |  |  | <ul style="list-style-type: none"> <li>• No proper IDP &amp; PMS</li> <li>• No skills development</li> <li>• Inadequate billing system</li> <li>• No infrastructure maintenance plan</li> <li>• <u>WCPG Intervention</u></li> </ul>               |
| 02/2005                  | Recovery Plan Preparation                            | <ul style="list-style-type: none"> <li>• RP drafting</li> <li>• MEC approval</li> <li>• Council approval</li> <li>• Establish Steering Committee with stakeholders</li> <li>• Appoint project manager</li> <li>• Confirm sources of funding</li> <li>• Appoint financial service provider</li> </ul>   | <ul style="list-style-type: none"> <li>• Recovery Plan</li> </ul>   |
| 03/2005<br>TO<br>10/2005 | PHASE 1:<br>Cash Flow<br>Improvement                 | <p>Financial Service Provider:</p> <ul style="list-style-type: none"> <li>• 'Hands-on-approach'</li> <li>• 'Quick wins'</li> <li>• Restore financial 'Best Practices' and 'Back-to-basics' principles</li> <li>• Implement cash flow management model</li> <li>• Introduce culture of financial discipline and strict budget control</li> <li>• Establish cash committee</li> <li>• Strict credit control</li> <li>• Accurate revision of 04/05 budget</li> <li>• Drafting of 'Financial Recovery' focused 05/06 budget</li> <li>• Focus on AG report</li> </ul> | <ul style="list-style-type: none"> <li>• Erase bank overdraft</li> <li>• Invest ring-fenced trust funds</li> <li>• Systems of financial control</li> <li>• Accurate and realistic 05/06 budget</li> <li>• Restore financial discipline</li> </ul> |
| 11/2005<br>TO<br>09/2007 | PHASE 2:<br>Capacity<br>Building /<br>Sustainability | <p>Purpose-directed projects aimed at National Project Consolidate KPI's:</p> <p><u>a. Basic Service Delivery</u></p> <ul style="list-style-type: none"> <li>• Client care policy &amp; strategy</li> </ul>  | <ul style="list-style-type: none"> <li>• Financial viability</li> <li>• Good governance</li> <li>• Improved sustainable service delivery</li> <li>• Successful municipal transformation</li> <li>• Development of local</li> </ul>                |

|  |  |  |   |
|--|--|--|---|
|  |  | <ul style="list-style-type: none"> <li>• IDP process</li> <li>• Compile asset register</li> <li>• Infrastructure maintenance plan</li> <li>• Bulk infrastructure reserve study</li> <li>• Rollout of low cost housing</li> <li>• Compile sectoral plans</li> <li>• Fleet management system</li> <li>• Investigate alternative service delivery models (PPP)</li> <li>• Seek funding for maintenance vehicles</li> <li>• Capacity building</li> </ul> <p><u>b. Local Economic Development</u></p> <ul style="list-style-type: none"> <li>• LED strategy</li> <li>• Labour Intensive SD Models</li> <li>• Support LED projects</li> <li>• Capacity building</li> </ul> <p><u>c. Financial Viability</u></p> <ul style="list-style-type: none"> <li>• Budget revision</li> <li>• Address gaps per AG-report</li> <li>• Cash flow forecasting</li> <li>• Supply chain management system</li> <li>• Outstanding reconciliations</li> <li>• Revise tariff system &amp; structure</li> <li>• New financial system</li> <li>• Debtor clean-up</li> <li>• External loans rescheduling</li> <li>• MFMA reporting</li> <li>• Credit control policy</li> <li>• Financial management support</li> <li>• Strategic budgeting</li> <li>• Revenue Enhancement</li> </ul> | <p>economy</p> <ul style="list-style-type: none"> <li>• Capacity</li> </ul> |
|--|--|--|---|

|                          |  |   |  |
|--------------------------|--|---|--|
|                          |  | <ul style="list-style-type: none"> <li>• Sustainability action plan</li> <li>• Capacity building</li> </ul> <p><u>d. Municipal Transformation</u></p> <ul style="list-style-type: none"> <li>• Change management</li> <li>• Restructuring</li> <li>• HR function revision</li> <li>• Capacity building</li> <li>• Skills development</li> <li>• Capacity building</li> </ul> <p><u>e. Good Governance</u></p> <ul style="list-style-type: none"> <li>• Internal &amp; external communication strategy</li> <li>• Align policies &amp; strategies with statutory requirements</li> <li>• Promote community participation</li> <li>• Performance management system</li> <li>• Structural review</li> <li>• Institutional arrangements</li> <li>• Customer care policy</li> <li>• Capacity building</li> </ul> |  |
| 10/2007<br>TO<br>03/2008 | PHASE 3:<br>Maintenance/<br>Monitoring | <ul style="list-style-type: none"> <li>• Evaluate recovery plan achievements</li> <li>• Put monitoring mechanism in place</li> </ul>  | <ul style="list-style-type: none"> <li>• Sustainability</li> </ul> |

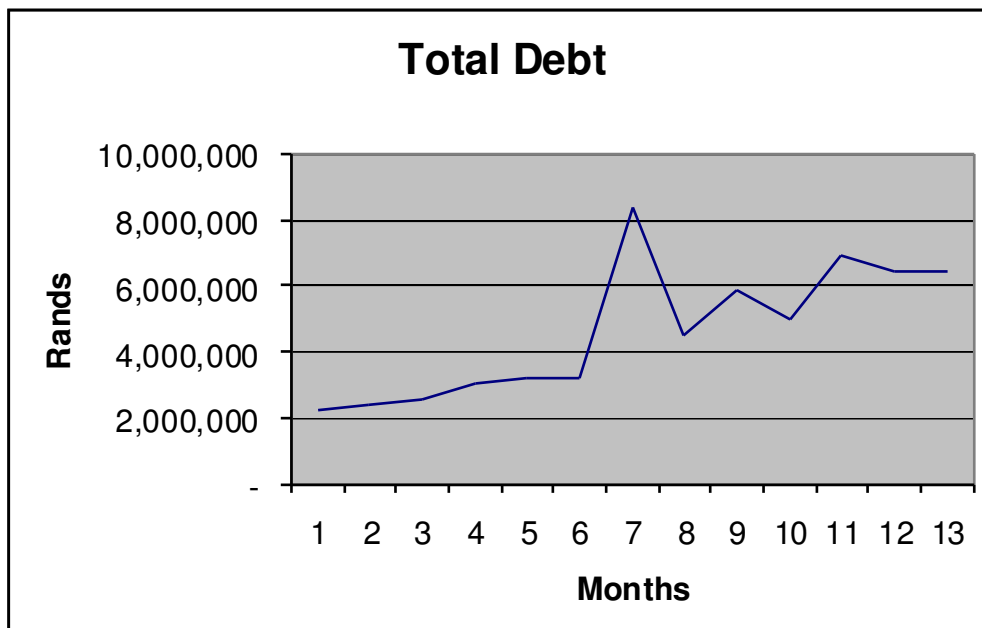
## 5. Graphic Cash Analysis

Table 1 and graphs 1 – 6 hereunder reflect a summary of the total commitments, trust funds and cash position of Cederberg Municipality for the period January 2005 to January 2006:

Table 1

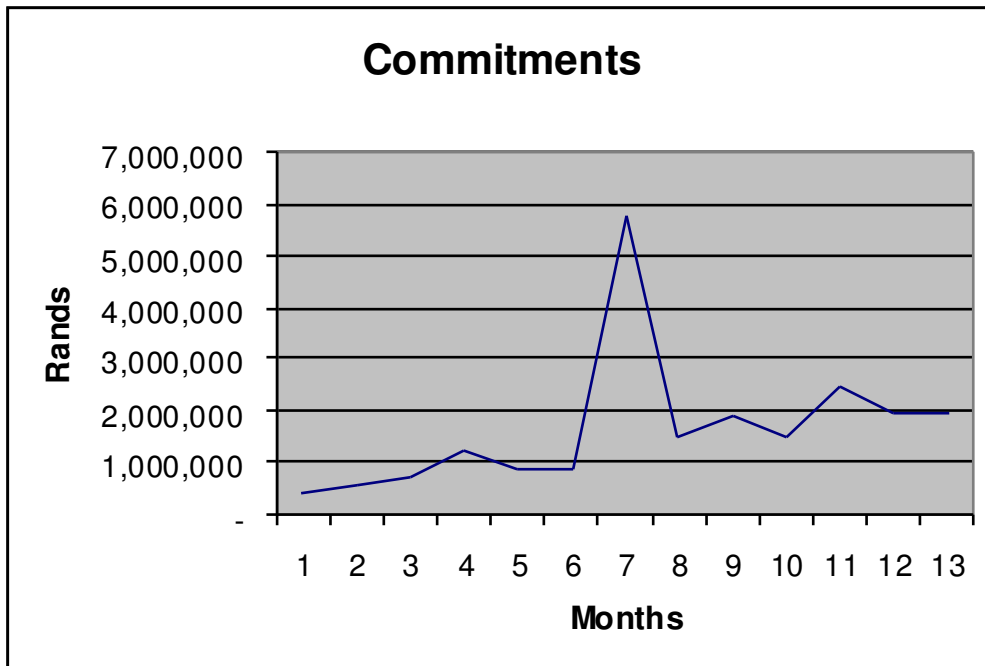
| Summary of Commitments, Trust Funds and Cash |            |             |             |                 |              |             |
|--|------------|-------------|-------------|-----------------|--------------|-------------|
| Date   | Total Debt | Commitments | Trust Funds | Liquidity Funds | Bank Balance | Investments |
| 31-Jan-05                                    | 2,225,667  | 400,523     | 1,825,144   | 383,018         | -973,036     | 1,356,054   |
| 28-Feb-05                                    | 2,351,928  | 526,784     | 1,825,144   | 1,478,491       | 117,050      | 1,361,441   |
| 31-Mar-05                                    | 2,520,782  | 695,638     | 1,825,144   | 1,977,154       | 610,118      | 1,367,036   |
| 30-Apr-05                                    | 3,067,298  | 1,242,154   | 1,825,144   | 1,107,930       | -264,911     | 1,372,841   |
| 31-May-05                                    | 3,218,764  | 892,225     | 2,326,539   | 987,836         | -741,537     | 1,729,373   |
| 30-Jun-05                                    | 3,225,262  | 898,723     | 2,326,539   | 2,827,227       | 183,122      | 2,644,105   |
| 31-Jul-05                                    | 8,404,383  | 5,760,278   | 2,644,105   | 3,215,884       | 571,779      | 2,644,105   |
| 31-Aug-05                                    | 4,459,386  | 1,495,017   | 2,964,369   | 5,216,761       | 2,252,392    | 2,964,369   |
| 30-Sep-05                                    | 5,852,985  | 1,881,790   | 3,971,195   | 5,601,509       | 1,630,314    | 3,971,195   |
| 31-Oct-05                                    | 4,983,387  | 1,507,801   | 3,475,586   | 7,527,913       | 3,552,327    | 3,975,586   |
| 30-Nov-05                                    | 6,953,157  | 2,466,040   | 4,487,117   | 8,757,160       | 3,770,043    | 4,987,117   |
| 31-Dec-05                                    | 6,443,742  | 1,959,168   | 4,484,574   | 9,885,838       | 6,901,264    | 2,984,574   |
| 31-Jan-06                                    | 6,472,727  | 1,988,153   | 4,484,574   | 10,310,484      | 5,325,910    | 4,984,574   |

Graph 1

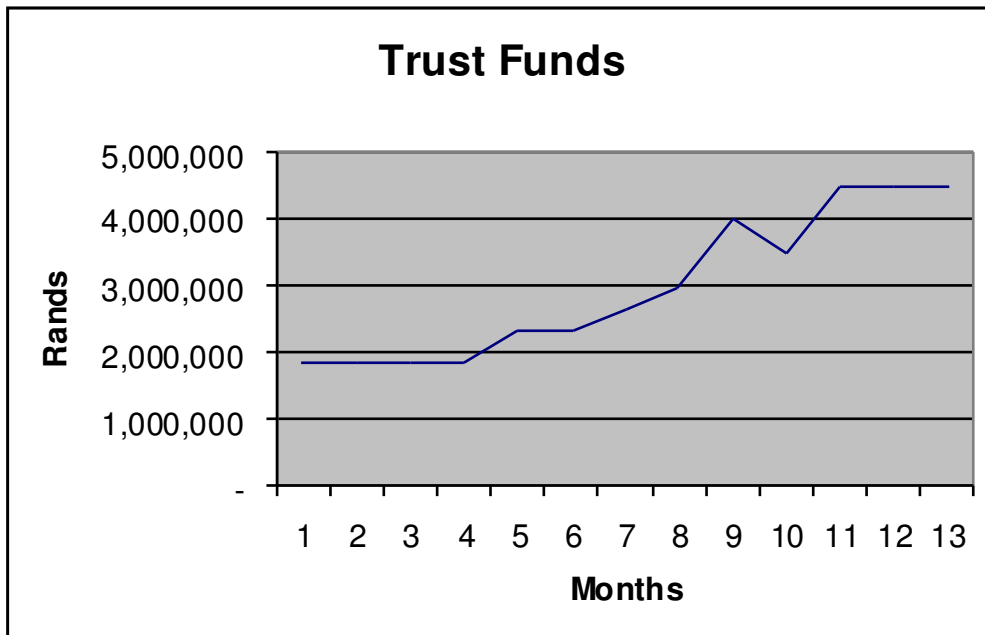




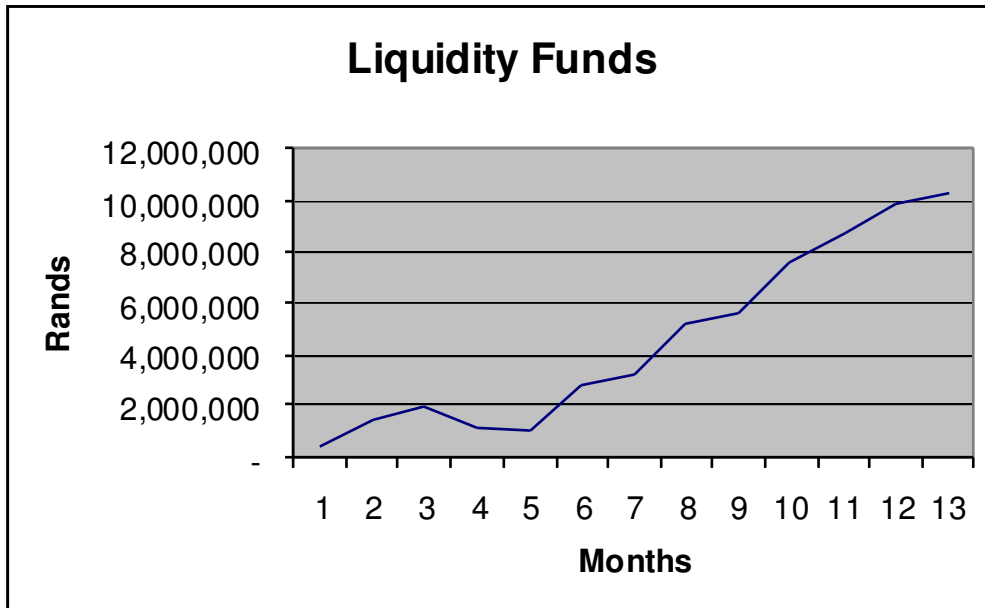
Graph 2



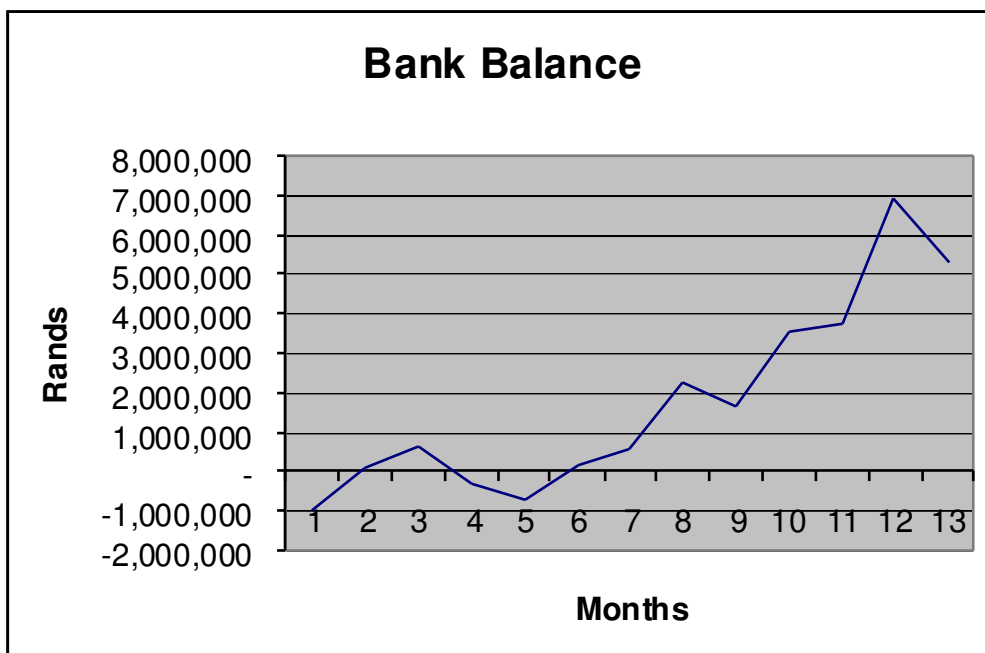
Graph 3



Graph 4



Graph 5



Graph 6

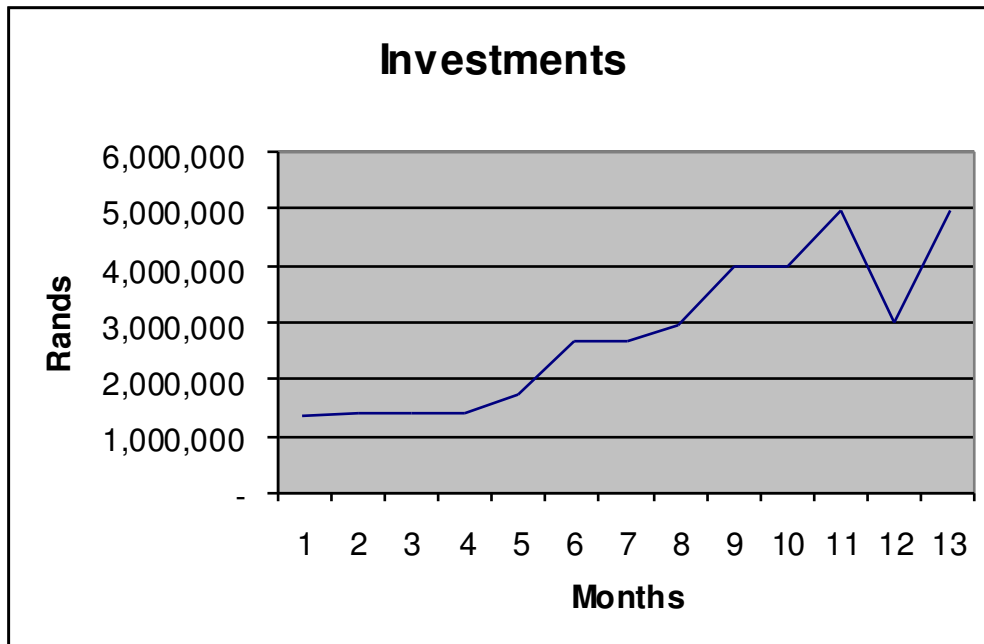
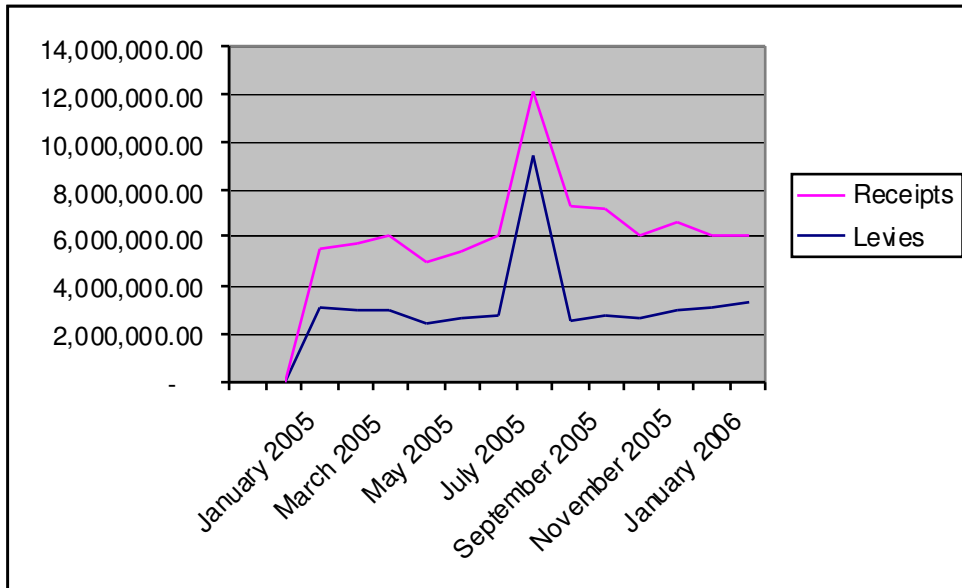


Table 2 and graph 7 hereunder show the improvement in the collection of debtors over the period January 2005 to January 2006 as a result of the recovery plan activities:

Table 2

| <b>Debtors</b> | <b>Levies</b> | <b>Receipts</b> |
|----------------|---------------|-----------------|
|                | R/c           | R/c             |
| January 2005   | 3,064,687.49  | 2,500,419.96    |
| February 2005  | 3,017,079.48  | 2,761,736.26    |
| March 2005     | 2,911,142.02  | 3,106,172.64    |
| April 2005     | 2,454,157.29  | 2,483,726.84    |
| May 2005       | 2,566,045.09  | 2,905,370.55    |
| June 2005      | 2,775,259.91  | 3,269,699.91    |
| July 2005      | 9,385,609.75  | 2,774,077.71    |
| August 2005    | 2,504,207.87  | 4,793,009.87    |
| September 2005 | 2,740,904.65  | 4,476,821.34    |
| October 2005   | 2,659,663.10  | 3,434,040.37    |
| November 2005  | 2,901,184.38  | 3,682,583.89    |
| December 2005  | 3,122,096.57  | 2,941,247.39    |
| January 2006   | 3,279,804.72  | 2,862,200.31    |

Graph 7



## 6. Legal Framework

The Municipal Finance Management Act, in particular section 142, stipulates the under-mentioned criteria for the compilation of a financial recovery plan:

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

- (b) may
  - (i) provide for the liquidation of specific assets, excluding those needed for the provision of minimum levels of basic municipal services;
  - (ii) provide for debt restructuring or debt relief in accordance with Part 3 of this Chapter;
  - (iii) provide for special measures to prevent unauthorised, irregular and fruitless and wasteful expenditures and other losses; and
  - (iv) identify any actual and potential revenue sources.
- (2) In addition, a recovery plan-
  - (a) for a mandatory intervention must-
    - (i) set spending limits and revenue targets;
    - (ii) budget parameters for a specific period or until stated conditions have been met; and
    - (iii) specific revenue-raising measures that are necessary for financial recovery.”

## 7. Background Document

### **DISCLAIMER:**

1. This case study is based on an intervention at Cederberg Municipality where the Council was not dissolved. The Council continued to function adequately and gave its full support to the execution of the recovery plan. The Province has prepared a recovery plan that was implemented by the Council with the assistance of a team of external experts.
2. The Council can be dissolved if the execution of the recovery plan is not complied with. The Provincial Cabinet must then appoint an administrator and approve a provisional budget to execute the recovery plan.
3. In its decision to intervene, the Provincial Cabinet must act within the framework and spirit of the principles of co-operative governance. Section 139 of the Constitution entails drastic interference in the institutional integrity of a municipal council and should only be invoked in exceptional circumstances, e.g. where other initiatives to support the municipality, were unsuccessful.
4. The institutional circumstances of municipalities are different and accordingly the dimensions of the challenges they face will also vary. It follows, therefore, that a unique approach for the design of each recovery plan is crucial. A recovery plan that works well in one situation will not necessarily be effective in another situation. As too many different issues play a role in a recovery plan, a 'one-size-fits-all' solution is not the right approach. These realities must be recognised and thus the recovery plan needs to be customized according to the circumstances within a municipality to successfully resolve the financial problems of the municipality.

## Introduction and background to the recovery plan

The Cederberg Municipality experienced a difficult post-transition phase since the municipal demarcation exercise in December 2000 and the main reason for this was primarily the amalgamation of low capacity municipalities with a limited tax base to form the new Cederberg Municipality. The Department subsequently provided support with the updating of records for amalgamation processes. All the former municipalities were on different financial systems that had to be amalgamated into one new system. At the time, the implementation of the support programme itself was problematic as the new Council was a “hung council” and the taking of decisions around key issues was a time-consuming process.

The Council was *inter alia* hesitant to appoint senior officials and only after intervention by the MEC for Local Government and the Department senior officials amongst others, the Head: Finance, was appointed. The Head: Finance resigned at the end of 2003 that negatively impacted on the management position of the municipality.



They did not experience a serious cash-flow problem at that stage. During January 2005, the Municipal Manager of Cederberg Municipality, however, informed Department that they experienced serious cash flow problems, but that they were uncertain as to the reasons for those problems.

### **Consultation with Provincial Treasury regarding the financial position of municipality**

The Provincial Treasury is legally responsible for municipal financial matters in general. Accordingly, the Director: Municipal Monitoring and Support had a meeting with Provincial Treasury to brief the Treasury on the financial problems facing Cederberg Municipality and to discuss a possible way forward. It was decided to carry out an urgent management audit at the municipality, the findings of which were to be used as a basis for the drafting of a recovery plan aimed at restoring the general as well as the financial management of the municipality to a sound footing.

### **Consultation with municipal manager and departmental heads of municipality**

Despite the fact that the Executive Mayor and Municipal Manager at a meeting on 21 January 2005 informed the Department that the municipality



Construction of toilet facilities, Cederberg Municipality

was experiencing cash flow problems, the Department nevertheless decided to meet again with the Municipal Manager and all first line managers on 26 January 2005. Also present at this meeting were representatives of the Provincial Treasury and ABSA Bank. The purpose of this meeting was to frankly and openly discuss

the realities of the challenges facing the municipality and to place the proposed management audit and recovery plan initiatives on the table. This was a very important phase whereby fears were allayed for the proposed management audit and to prevent officials from pointing a finger

of accusation at each other about what went awry at the municipality. Instead, they were encouraged to provide their full co-operation during the management audit process.

### **Appointment of team to conduct management audit**

Normally, the Department would appoint an independent service provider for purposes of conducting a management audit. In this particular case the Department decided to utilize its own team comprising three senior municipal officials, two of its own officials and an official from Provincial Treasury. The team leader was a former municipal manager, who joined the ranks of the Department as a Director. His knowledge of municipal affairs was of great benefit to the team. The fact that the team members and the officials of the municipality were not total strangers to each other definitely contributed to the smooth finalisation of the management audit.

### **Conducting of the management audit**

The management audit team visited the municipality during the period 7 to 11 February 2005

Before the management audit team went to the municipality, they compiled a scope of reference for the management audit, with a focus on the specific areas to be investigated. The team leader gave each team member directives with regard to specific activities relating to the scope of reference were then given to as his/her responsibility for purposes of the audit.

At the commencement of the management audit at the municipality, a meeting was held between the team and the Executive Mayor and the senior managers of the municipality, at which meeting the purpose of the management audit was explained.

Individual interviews took place between the team and various Councillors and officials in order to gather and verify the information.



The team also acquired various documents from the municipal officials, such as financial statements, reports of the Auditor-General, policies, management reports, minutes of council and committee meetings, etc. to analyse and inform themselves with regard to relevant financial and other information pertaining to the municipality.

### **Compilation of the management audit report and an initial draft recovery plan**

The management audit team submitted their draft report on 14 February 2005.

The aim of this report is to sketch a background of the current operation and status of the municipality, in order to enable the Minister of Local Government and Housing and HOD to take an informed decision on the way forward to address the problems of the municipality.

Another aim of the report is to highlight the deficiencies and shortcomings within the municipality to enable the Department to draft a possible recovery plan for the municipality.

The issues that were identified by the management audit team are fully covered in their report, which is attached as an annexure and it is therefore not repeated here.

The team leader arranged a meeting with the full council and the management team of the municipality on 10 February 2005 to inform them of the findings of the management audit. He also encouraged the Councillors to “buy-in” in the recovery plan that would follow from this report. All the Councillors committed their full co-operation with the implementation of the recovery plan.

The above report as well as an initial draft recovery plan, compiled by officials of the Department, was submitted to the Minister who accepted it on 22 February 2005.

This initial draft recovery plan was a broad general plan based on the Department's previous experiences with similar interventions at two other municipalities in the Province. It was only after the appointment a project manager that the initial recovery plan was revised, amplified and restructured in its current format.

### **Workshop report and initial draft recovery plan with Council**

On 2 March 2005 the management audit report and the initial draft recovery plan were discussed in detail with the Council and senior officials of Cederberg Municipality. Certain strategic processes, such as the appointment of a project manager and the establishment of a steering committee as a part of the recovery plan implementation were explained. Ample opportunity and time were allowed for Councillors and officials to raise questions. At this stage it was not expected of the Council to take any immediate decisions on these issues. Council and officials were requested to study the report and draft recovery plan at their leisure and to take a formal decision on the matter at a special council meeting.

It was made very clear to Councillors that the contents of the report should not be used as the ammunition with which they could attack each other. The report must rather serve as the point of departure for the difficult road ahead and that buy-in of all parties into the process was crucial.

Finally, they were requested to accept the report and recovery plan at a special Council meeting and to inform the Department per letter that they supported the implementation thereof.

Written confirmation of acceptance from the Executive Mayor was duly received.

Executive Mayor The Councillors have thus far given their unremitting co-operation in the execution of the recovery plan.

### **Council remain in place**

As indicated above, within current legislation there is ample room to allow Province, when it is necessary to interfere in a municipality, to address the problems at a municipality, without fully utilizing the provisions of Section 139 of the Constitution. In the report on the management audit there were no indications that the Councillors of Cederberg Municipality transgressed the Code of Conduct for Councillors as set out in Schedule 1 to the Local Government: Municipal Systems Act, 32 of 2000, or a suggestion, for that matter, that the Council should be dissolved.

As already pointed out, the Council approved the recovery plan, complied with the implementation of the plan and continued to give its full support. It can be stated that there are more advantages than disadvantages with the Council actively engaging with the execution of the plan.

### **Appointment of project manager**

Neither the municipality nor the Department have sufficient capacity to co-ordinate the recovery plan initiatives. At the request of the Department the Council, therefore, appointed the firm SizweNtsaluba VSP during March 2005 as project manager. Their main tasks are to co-ordinate the recovery plan initiatives and to monitor the activities of service providers. They must further ensure that the service providers timeously prepare their feedback reports for the Steering Committee. In addition they were also tasked with the responsibility of amplifying and finalizing the recovery plan, work shopping the plan with officials and councillors to ensure buy-in.

### **Appointment of financial service provider**

The Council appointed the firm Ernst & Young on 15 April 2005 for the key financial responsibilities required in terms of the initiatives contained in the recovery plan. These initiatives have focussed mainly on high profile issues such as improved cash flow management, budget preparation, audit report responses, debt collection strategies and general ledger reconciliation.

*(For a complete list of tasks performed by the financial service provider, please refer to the Recovery Plan Process (Phase 1))*

### **Provincial MEC for Local Government and Housing**

The key role, which the MEC for Local Government and Housing plays behind the scenes to bring the opposing political factions to the table, is significant. Officials are not permitted to thread on the political terrain.

This is the exclusive responsibility of the MEC in his capacity as political head of the Department. It is, therefore, important that the MEC be regularly informed about progress and of any underlying political challenges threatening to derail the execution of recovery plan.



Mr Richard Dyantyi, Minister for Local Government and Housing

Meetings with the MEC should initially be scheduled weekly in order to discuss any issues that need to be taken up within the party political structures. Once these issues are solved, monthly written progress reports to the MEC should become standard practice.

## **Development Bank of Southern Africa (DBSA)**

The DBSA Development Fund has as its mandate the aim to enhance the capacity of municipalities through strengthening the institutional capacity and promoting Local Economic Development. In an endeavour to achieve this, the Development Fund (the Fund) makes available grants to municipalities to supplement funds from other sources in initiatives that coincide with the Fund's mandate.

After perusal of the management audit report, the Fund identified specific areas in the report, where funding would be possible within the ambit of its mandate.

Capacity building to ensure long-term sustainability of the recovery plan is one of the Fund's priorities. Issues included are inter alia:

- Capacity building of decision makers and the Council
- A performance management system
- Sectoral plans for long-term service delivery (water, electricity, sanitation, solid waste and storm water)
- HR development (Mentorship Programme, Skills Development)
- Financial viability
- Communication strategy
- Community participation.



- Updating financial information system and ensuring compliance with MFMA

For this purpose, the Board of the DBSA Development Fund resolved to fund approximately 33% of the total programme.

### **Establish a Steering Committee and schedule meetings in advance**

A Steering Committee was established comprising the following role players:

- Council members as identified by the Council,
- Senior Management of the Municipality,
- Department of Local Government and Housing ,
- West Coast District Municipality ,
- SizweNtsaluba VSP as project manager, responsible for the implementation of the recovery plan,
- ABSA as the Municipality's bankers,
- Provincial Treasury,

- Development Bank of Southern Africa and representatives of the National Department of Provincial and Local Government, depending on whether funding was made available in support of the recovery plan initiatives.

The functions of the Steering Committee include the following:

- Monitor the implementation of the recovery plan,
- Monitor the Municipality's daily cash flow situation and report to the Department of Local Government and Housing,
- Obtain feedback from consultants / service providers with regard to progress and finalization of projects vested within the recovery plan,
- Co-ordinate the functions of service providers in order to prevent duplication of mandates and outputs,
- Consider the filling of key important vacancies in the interest of necessity and the availability of funds,
- Provide prior approval of all policies, strategies, processes and systems before referral to the Council for approval.

The Steering Committee meets monthly and these meetings were scheduled in advance in order that the various role players could plan their diaries accordingly.

Regular meetings of the Steering Committee, reporting at these meetings and continuous monitoring are important pillars supporting the whole recovery plan.

## **8. Key Success Factors**

The success of the recovery plan implementation can inter alia be ascribed to the following factors:

- Involvement of senior officials from Provincial Treasury and the involvement and commitment from Councillors and officials of Cederberg Municipality.

- The appointment of the Municipal Manager of a neighbouring municipality as acting municipal manager of Cederberg Municipality in the initial stages of the recovery plan implementation.
- Communication to the community by Council of the problems experienced and the planned corrective steps. For instance, the Mayor and acting municipal manager arranged for a slot on the local radio station. A service provider was also appointed to assess the situation in the different communities and to develop and implement a comprehensive communication strategy for Cederberg Municipality.
- Involvement of the municipality's banker to avoid payments being held back causing further adverse media reports.
- The appointment of a dedicated external project manager to drive the implementation of the recovery plan and to oversee the work of the different service providers and role players.
- Each municipality is unique. Therefore, the approach was to do a holistic appraisal of the municipality and design a recovery plan that will address the specific problems within Cederberg Municipality to ensure long-term sustainability.