

# **EXECUTIVE SUMMARY OF THE KANNALAND MUNICIPALITY FINANCIAL RECOVERY PLAN**

Prepared in terms of section 139(5) of the Constitution of the Republic of South Africa, 1996 ("the Constitution") read with sections 139(1) and 141 to 142  
Local Government: Municipal Finance Management Act (56 of 2003)

# **1. EXECUTIVE SUMMARY**

## **Introduction**

Kannaland Local Municipality is a Category B Municipality situated in the Western Cape Province, 325 kilometres from Cape Town.

The municipality covers an area of 4 758 square kilometres in the Little Karoo, stretching from the Swartberg in the north to the Langeberg in the south, and from the Anysberg in the west to the Gamkaberg in the east. It is drained by the Groot River and the Gourits River. It abuts on the Laingsburg and Prince Albert municipalities to the north, the Oudtshoorn Municipality to the east, the Hessequa Municipality to the south and the Swellendam and Langeberg Municipalities to the west.

According to the 2011 census the municipality has a population of 24 767 people in 6 212 households. Of this population, 84.6 per cent describe themselves as "Coloured", 9.9 per cent as "White", and 4.7 per cent as "Black African". The first language of 95.4 per cent of the population is Afrikaans, while 2.5 per cent speak English.

The largest town and also the location of the municipal headquarters is Ladismith, which as of 2011 has a population of 7 127. Ladismith is at the foot of the Swartberg Mountains, as is Zoar (population 4 659) and Calitzdorp (population 4 284) to the east. Vanwyksdorp (population 833) is further south in the valley of the Groot River.

A council resolution was taken at a special meeting of the Kannaland Municipal Council held on Friday 2 December 2016, requesting the Western Cape Provincial Executive to intervene in the Municipality in accordance with the requirements of section 139(5) of the Constitution, read with the relevant provisions of the MFMA. The intervention was necessitated by the consistent failures of the Municipal Council over a prolonged period of time to fulfil its executive obligations. At the commencement of the intervention, Council will retain its executive and legislative authority.

## **Background**

The Kannaland Municipality has been experiencing financial difficulties for the past 10 to 11 years. In the said time there were two attempts with a financial recovery plan that did not achieve the laid out goals. The failed attempt's reason may vary from poor management involvement to the political instability within Kannaland. The following factors have collectively added to the financial difficulties currently experienced by the municipality:

- Municipality has been plagued by political instability and a struggle for power and political control over the municipality. Various political vacancies, an

unstable coalition coupled with various floor crossings have added to the destabilisation of the municipality.

- An exodus of discouraged management staff has left the municipality leaderless and without direction this as a result of incorrect political and administrative decisions and that has left the municipality in an institutional as well as administrative crisis.
- Staff members were appointed on an ad hoc basis with a total disregard for appropriate Human Resource processes being followed, jeopardising employer-employee relationships and adding to the unaffordability of staffing costs.
- A revision of the organisational structure has not been done for a prolonged period adding to the woes of the human resource dilemma.
- A lack of restraint in budget management controls has resulted in misappropriation of budget and other resources and little linkage between the budgeted and actual spending could be found.
- The municipal budget for the 2016/17 financial year was found to be fundamentally flawed in respect of the principles applied in the compilation thereof which negated the strive towards financial sustainability to the extent that the municipality currently finds itself in severe financial distress as the budget was not cash funded, neither credible, nor did it support the principles of financial sustainability and viability. It was evident that certain revenue streams were unlikely to be realised and material adjustment will have to be done. These findings were also highlighted by Provincial Treasury when the budget was assessed in terms of section 23 of the MFMA.
- Systems, policies and procedures in respect for an array of corporate, institutional and administrative functions have not been designed nor have been put in place to ensure adequate corporate governance required to ensure a healthy organisation.
- A lack of oversight, risk management and control coupled with leadership inefficiencies have created opportunity for misappropriation of funds which resulted to non-value for money spending and excessive occurrences of irregular, fruitless and wasteful and unauthorised expenditure.
- The municipality received a disclaimer of opinion from the Auditor-General for the 2015/16 financial year, further emphasising that the financial affairs of the municipality were not in order.
- Financial mismanagement has resulted in the municipality finding itself in a dismal financial position with creditors inundating the municipality with demands for payment of long outstanding creditors.

- The Eskom bulk services account remained unpaid for a certain period during 2016 which caused a debt of R12 million to accrue nearly causing the disconnection of the electricity supply to the town.
- Debt collection and credit control failed to the extent that non-payment for services became the norm, further adding to the depletion of funds and reserves.
- The tariff structure applied by the municipality has not been cost-reflective thereby under recovering on the cost of service rendering and allowing infrastructure to deteriorate.
- Conditional grants were misappropriated and were absorbed in operations resulting in unauthorised expenditure of grant receipts.
- A lack of restraint in all categories of expenditure has resulted in many instances of non-value for money spending and the conclusion of contracts with service providers that left the municipality financially vulnerable and exposed to litigation to the extent that creditors are reluctant to do business with the municipality due to the fear of late or non-payment of accounts.
- Excessive spending on litigation has added to the depletion of funds at a huge cost to service delivery to the extent that service delivery, in many instances, has grounded to a halt.
- The socio-economic profile of the municipality, high levels of unemployment and a high percentage of indigent customers have placed a further strain on municipal resources and the ability to function as a going concern.
- Lack of long term financial planning and intelligent financial decision making has cost the municipality dearly and brought it to the brink of bankruptcy.
- The community and stakeholders of the municipality have lost trust in the municipality.
- The municipality has fallen behind with the implementation of the Municipal Standard Chart of Accounts reform and needs to catch up to ensure compliance with the legislative requirement in this regard.
- The majority of the community for two of the four towns, Vanwyks dorp and Zoar, consists out of indigents making debt recovery very difficult.
- Full and part time employees lack the required skill set to perform their duties as set out in their contracts.

### **Methodology in Developing the Financial Recovery Plan**

The Financial Recovery Plan is prepared as a result of a provincial intervention referred to in section 139(5) of constitution read together with section 139(1) and 141 to 142 of the Municipal Finance Management Act (MFMA).

The recovery plan is part of the National and Provincial spheres of Governments' intervention strategy to place Kannaland on a sustainable footing which will result in an effective and efficient organisation that is financially stable and provide services to the community on a sustainable basis.

The Kannaland Municipality is facing significant fiscal and service delivery difficulties, which undermine the effective and efficient performance of its functions and mandate. More importantly these difficulties are becoming increasingly severe and unless focussed action is undertaken to address the underlying causes, Kannaland Municipality will find it increasingly difficult to perform its mandate.

Key components identified as priority are:

- Review the current budgeting strategy and process as well as expenditure and management systems to ensure efficient and effective service delivery in line with Kannaland Municipality priorities.
- Review revenue management systems to maximise revenue generation possibilities and improve revenue performance.
- Review cash and debt management strategies and practices.
- Review internal controls and delegations regarding financial management.
- Implementing asset management through an integrated infrastructure and asset management plan.
- Review governance practices in the Supply Chain Management practices and implement proper controls and risk management practices.
- Conduct organisational redesign, compile all job descriptions and have job evaluations done and appropriate capacitation of BTO with skilled personnel.
- Review IT infrastructure and implement Accounting, Budget and Reporting Reforms (mSCOA etc.).
- Review all short term and long term liabilities as well as contingent liabilities and schedule the repayment of debt.