

MANGAUNG METROPOLITAN MUNICIPALITY



FINANCIAL RECOVERY PLAN

JULY 2018

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1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

Mangaung covers 9 887 km² and comprises three prominent urban centres, which are surrounded by an extensive rural area. It is centrally located within the Free State Province and is accessible via National infrastructure including the N1 (which links Gauteng with the Southern and Western Cape), the N6 (which links Bloemfontein to the Eastern Cape), and the N8 (which links Lesotho in the east and with the Northern Cape in the west via Bloemfontein).

The Mangaung Local Municipality (MLM) was established in 2000 with the amalgamation of four former Transitional Local Councils but was in April 2011 elevated from category “B” Municipality to a category “A” Metropolitan Municipality. On the 3rd August 2016 the former Naledi Local Municipality and Ikgomotseng which was part of Masilonyana Local Municipality were merged with the Mangaung Metropolitan Municipality to form one Municipality. This new status presented both challenges and opportunities to the MMM.

The MMM comprises the cities/ towns of Bloemfontein, Mangaung, Botshabelo, Thaba Nchu, Soutpan, Dewetsdorp, Wepener and Van Stadensrus.

The Municipality has faced, and continues to face various challenges in terms of service delivery, administration, financial management and governance. In recognising these challenges the city developed strategic development review in 2017 which provided recommendations to strengthen spatial transformation, economic development, organisational strengthening, improved service delivery and a need to develop financial recovery plan. The latest mid-year budget and performance as well as the MTREF 2018/19 budget assessment reinforced the need to develop a financial recovery plan. Many of these challenges have recurred over long period of time and have been highlighted repeatedly in the Municipality’s annual reports and audit reports following the statutory annual audits by the Auditor-General South Africa (AG).

The challenges in summary include:

- Significant deterioration of the City’s financial health and service delivery performance demonstrated by the financial and non-financial performance for both the 2016/17 financial year and the 2017/18 mid-year performance;
- financial management and credit control (including declining Auditor-General outcomes);
- governance and political oversight;
- communication with communities and key stakeholders; and
- the need for strengthening and improving the functioning of the administration.

Given the above and the urgency to ensure service delivery to communities and financial viability and sustainability, the development of a financial recovery plan (FRP or Plan), is seen as a critical way forward for recovery and turnaround for Mangaung.

1.2 METHODOLOGY IN DEVELOPING THE FINANCIAL RECOVERY PLAN

Given the nature of the financial and service delivery challenges, a detailed assessment was undertaken to ensure that the key objective of developing a holistic Plan is achieved.

Therefore, the approach adopted in the development of the Plan is a consultative approach that also involves a detailed analysis of all relevant documentation, coupled with engagements with the Executive Mayor, City Manager, Management, other Municipal staff and National and the relevant Provincial Government Departments.

1.3 SUMMARY OF THE STATUS QUO ASSESSMENT

1.3.1 ORGANISATIONAL STRUCTURE AND HUMAN RESOURCES

The Municipality currently has 7 130 positions of which 3 771 positions are filled (53%), with a vacancy rate of 47%. To address the immediate needs and the service delivery and finance sustainability dilemma, the Municipality must consider embarking on a process of identification, prioritisation, reskilling and redeployment and filling of critical vacancies. These will need to be filled with skilled and competent employees.

One of the key principles of organisational structure design is that each position created on an organisational structure should add value to the overall performance of an organisation. Instances have been identified where further work is warranted to determine if this is the case.

The employee related costs have been escalating over the years with no impact on performance improvement and a benchmarking exercise is required to determine if its organisational structure is not bloated given its current collection rate and financial situation. The results of the benchmarking exercise will assist in determining whether the cause of non-performance is staff bloating or other causes like bargaining Council's determinations or over-resourcing in critical areas with no concomitant impact on service delivery.

Further, there is a need to relook the breakdown and ratio between service delivery related posts/ functions against the support or non-core functions to test this against the industry norm and hence the need to investigate this as part of the review.

The Municipality also needs to conduct a skills audit and must ensure that all employees within Finance meet the minimum competency level requirements.

The individual performance management is only in place for Section 56/57 managers. There should be efforts to cascade performance management to all employees.

There is also poor management of overtime claims resulting in high employee costs and employees do not comply with attendance and time management requirement which results in a culture of poor work ethics, weak management and lack of internal control resulting in leave and absenteeism being mismanaged and abused.

There is poor management of telephone usage within the Municipality which also contributes to unproductive workforce and excessive expenditure. Also, the Municipality has a decentralised call centre system which is costly to the Municipality.

The Municipality has to review its communication strategy in order to strengthen its reach to the community.

The Municipality does not have credible facilities register and an affordable maintenance strategy. In addition, there is a need to review municipality's property rental agreements to ensure that the Municipality charges market related rentals on its properties.

There is a need to develop and implement a change management strategy to ensure effective change in the Municipality in both people side and service delivery, there is a need for a comprehensive change management intervention. The intervention will ensure that there are structures and tools to minimise resistance from employees and the Municipality as whole achieves the objective of transition from the old ways of operating to the new ways (a new operating model is required).

1.3.2 INSTITUTIONAL / GOVERNANCE CHALLENGES

1.3.2.1 GOVERNANCE

The Office of the AG found weaknesses in the processes of financial and performance reporting in the 2016/17 financial year. This was found to be repeat findings from previous years. The AG attributes the finding to ineffective monitoring and enforcement of a corrective action plan, by the leadership of the Municipality to address the gaps and control weaknesses, which render governance ineffective.

The Audit Committee is established, however its composition of Provincial Departments Officials affects its effectiveness and optimal functioning. The Chief Risk Officer position is vacant, and the Risk Committee has commenced with its functions.

The functionality of Municipal Public Accounts Committee (MPAC) needs to be strengthened taking into consideration the recent audit outcome and 2018 Mid-Year Assessment Report.

1.3.2.2 RISK MANAGEMENT AND INTERNAL AUDIT

The Municipality resolved after review that the risks that were identified during the 2015/16 financial year remained the same and relevant for the 2016/17 financial year. There are twelve strategic risks related to the strategic objectives. The risks are rated, and the action plan was developed to mitigate these risks, but not fully implemented, due to the following challenges:

- Budget constraints;
- Aligning risk management with overall business strategy;
- Defining risk;
- Skills shortage (moratorium);
- Lack of innovation; and
- Lack of leadership.

Reported allegations of fraud and corruption incidences are being finalised.

A 2015/16 audit finding stated that the Risk Committee did not function and therefore the Municipality did not have an effective risk management function.

The Municipality also has a functional Internal Audit Unit (Unit). This Unit is working in collaboration with both the Risk and Anti-Fraud Units to strengthen the Municipality's efforts to manage risks and combat fraud and corruption.

For the 2016/17 financial year, the Unit has completed twenty-three (23) planned allocated audit assignments according to the approved Internal Audit Plan and are due to complete three (3) audit assignments in the first two quarters of the new financial year. The Unit has supported the Municipality's Audit Committee during the period under review by providing secretariat services to the five (5) Audit Committee meetings held during the 2016/17 financial year.

1.3.2.3 SYSTEMS OF DELEGATION

MMM has developed a system of delegation. The current system of delegation should however be assessed to determine if it is adequate to provide appropriate checks and balances within the Municipality and promoting accountability. This should also ensure that the review addresses the segregation of powers between the political and administrative component of the Municipality.

It is however envisaged that by August 2018 the current system of delegations will be reviewed to devolve powers further to optimise operational efficiencies as well as to provide for enhanced checks and balances. Councillors and employees will also be inducted and sensitised thereon.

1.3.2.4 OVERSIGHT COMMITTEES

The following Section 80 Committees are in place:

- Finance, IDP and Performance Management;
- Corporate Services;
- SMME;
- Rural Development;
- Human Settlement;
- Spatial Planning and Land Use Management;
- Community and Social Services;
- Transport and Public Safety;
- Infrastructure and Public Works; and
- Environmental Management.

All of the above are Council committees, have Councillors allocated to them, are reported to meet regularly and are functional. Given the governance issues raised by the AG, oversight committees and Council should be inducted with governance, financial management and oversight capacitation programmes.

MMM has the following section 79 committees, which are functioning.

- Budget and Portfolio Committee;
- Local Labour Forum (LLF); and
- IDP Steering Committee.

1.3.2.5 PUBLIC PARTICIPATION

The Municipality provides for an opportunity through public participation for the community to contribute, interrogate and engage municipal's strategies, plans and service delivery issues. Currently, the Municipality has fifty (50) wards which are clustered due to the vastness of the Municipality. This enables the Municipality to reach the widest audience possible and consult with the public during the course of the financial year on the revised tariffs and IDP priorities including annual reports and by-laws.

Ward committees in the Municipality serve as an interface between the community and the Municipality. They identify day to day service delivery issues in wards and through the ward Councillor escalate these issues to Council for attention. Ward committees are the single most important institutional arrangement to ensure an efficient and result based participatory system. Ward committees are fully functional and have regular meetings.

The Municipality publishes details of its public meetings in local newspapers, on radio and on the municipal website. There is no information regarding the conducting of satisfaction surveys to determine the satisfactory level of the community with the service they receive from the Municipality. There is however no indication of service delivery protests.

1.3.2.6 DISCIPLINARY BOARD

The other gap identified is the establishment of the disciplinary board. In terms of the municipal regulations for financial misconduct and offences, it must conduct an independent preliminary or full investigation for financial misconduct and offences. The municipality must establish a disciplinary board.

1.3.2.7 POLITICAL STRUCTURE

It is critical that the Code of Conduct for Councillors as provided for in the Municipal Systems Act (MSA) is implemented and enforced. It is clearly defined in the MSA that interference between the two structures (Council and Administration) within the municipalities is prohibited. This also in place to promote good governance and accountability at all times to ensure that the political office bearers and the administration of the Municipality work towards a common goal in harmony. Also, it is important to ensure that Council meetings which are planned, meet according to the corporate calendar as this has an effect on the decisions that needs to be taken by council and have an effect on service delivery.

1.3.2.8 POLICIES REVIEWED

The policies made available are not all inclusive and do not seem to be revised annually. The following policies were obtained:

- Credit Control 2018/19 (Draft);
- Indigent Policy 2017/18 (Draft);
- Supply Chain Management – June 2016;
- Property Rates 2018/19 (Draft); and
- Tariff Policy – 2018/19 (Draft).

The policies and those that might impact on external parties do not seem to all be in place and there is a need to review these, consult with stakeholders and the relevant ones listed on the municipal website for public access and internal policies shared and consulted with staff.

All external policies including the financial policies need to be aligned to the by-laws so that they are legally enforceable and can be used as instruments to assist with financial recovery and sustainability.

The Municipality needs to develop and implement an overtime policy and performance management policy. There is also a need to develop a group policy on policies between the municipality and its entities. The development of these and other policies requires a standardised approach.

1.3.3 LEGAL AND CONTRACT MANAGEMENT

According to the Mangaung Annual Report for the 2016/17 financial year the Legal Services Sub-Directorate's main purpose is to provide professional legal advice and assistance services to the Municipality to ensure the proper protection of municipal interests and compliance with its (legal) obligations.

The sub-directorate consists of only 4 (four) legal advisors out of a staff complement of employees in excess of 3 000 (three thousand) at the Municipality. This matter should be prioritised as part of the identification of critical positions.

As at 30 June 2017 the Municipality incurred:

- R14 143 768 for legal services for the 2016/17 financial year (2015/16: R24 930 209); and
- R4 496 999 for Deeds searches in respect of Title Deeds and related instruments (2015/16: R8 071 311)

Incidents of unauthorised expenditure during the 2016/17 financial year totalled about R722 194 168, while fruitless and wasteful expenditure for the 2016/17 financial year amounted to R 7 546 861.

No disciplinary steps were taken against the offending employees, nor any criminal proceedings instituted in the same regard (a trend going back at least the past five financial years).

Irregular expenditure was caused by:

- Supply chain management processes not being followed;

- During the year overpayment of Councillors' remuneration and cell phone allowance was made and led to a subsequent overpayment on fixed motor car allowance;
- Overpayment of contracts; and
- Supporting documentation relating contracts awarded not provided for audit purposes; and
- Incorporation of the former Naledi Local Municipality.

The Municipality has a claim against Centlec (SOC) Limited for the consumption of all public lighting (streetlights), as well as the electricity consumption of the properties owned by the entity in the Mangaung Metropolitan area, while there is a counter claim against the Municipality from Centlec (SOC) Limited for the repairs and maintenance to public lighting, as the streetlights were transferred to Centlec (SOC) Limited on 1 July 2015. The Council resolution stated that the ownership, management and control of streetlight assets should be transferred to Centlec, but the resolution did not specify who should bear the costs of the streetlight electricity consumption, a situation needing urgent resolution.

1.3.4 INFRASTRUCTURE AND SERVICE DELIVERY MATTERS

Infrastructure-related services of electricity and water provision, sanitation, solid waste disposal and roads and storm-water are constitutional rights to the citizens of South Africa and therefore the obligation of the Municipality wherein those citizens reside.

The provision, operation and maintenance and timely lifecycle replacements are imperatives to assure sustainable and quality services provision; and the efficiency and effectiveness with which it is delivered is a key determinant of the financial sustainability of the Municipality.

1.3.4.1 POWERS AND FUNCTIONS

The Municipality is mandated to provide all constitutionally-prescribed services to the community and provides these through own resources as well as government grant funding and these include:

- Electricity supply, the Municipality is the sole shareholder of Centlec, its electricity service utility company/ entity;
- Water supply;
- Sanitation services;
- Solid waste collection and disposal;
- Roads and storm water; and
- Built-environment facilities for accommodation of Municipality administration and operations and for community services.

1.3.4.2 SERVICE DELIVERY PERFORMANCE

The table below presents the infrastructure services to households and against the minimum service levels.

Service	Households at minimum service level	Households below minimum service level	% Households at minimum service level
Water	261 815	3 645	98.6%
Sanitation	197 650	67 600	74.5%
Solid waste	249 735	15 515	94.2%
Electricity	254 525	10 890	95.9%

Table 1: Infrastructure Services to Households and Against the Minimum Service Levels

The Municipality is achieving +90% minimum service level to households with the exception of sanitation (74.5%).

1.3.4.3 INFRASTRUCTURE SERVICES FINANCIAL PERFORMANCE

Municipal financial sustainability is influenced by all considerations presented in this report, however for sake of emphasis, it is the infrastructure related services that are the primary source of revenue. The revenue less the expenditure directly related to the infrastructure services, is the surplus that primarily funds all other municipal operating and administrative expenditure.

The analysis methodology in this report entailed allocation of revenue and expenditure to infrastructure services, either to specific services, or where applicable to all, then in proportion to asset value.

The outcome of the analysis is presented in table below and indicates that the infrastructure services in total is delivering a surplus of R975 million based on the 2016/17 annual financial statements.

Income and expenditure		Amount in Rands
Income	Service charges	3 257 891 715
	Property tax	993 753 704
	Operating grants - specific	279 691 000
	Operating grants - allocation	622 989 000
	Other income - specific	31 024 016
	Total	5 185 349 435
Expenditure	Employee related costs	640 585 282
	Depreciation and amortisation	909 272 947

Income and expenditure		Amount in Rands
	Repairs and maintenance	397 507 138
	Bulk purchases	1 906 618 478
	Contracted services - specific	106 042 900
	Contracted services - allocation	135 302 860
	General expenses - specific	12 896 890
	General expenses- allocation	102 438 943
	Total expenditure	4 210 665 438
Surplus (+ value) / Shortfall (- value)		974 683 997

Table 2: Infrastructure Services Financial Performance

As much as the surplus is positive, the consideration is whether this is adequate to service the balance of municipal operating and administrative expenditure.

The table below presents the surplus/deficit after the balance of expenditure is taken into account.

Description	Amount in Rands
Infrastructure surplus	974 683 997
Total expenditure per annual financial statements	6 566 851 616
Expenditure accounted against infrastructure services	4 210 665 438
Balance of operating expenditure to be serviced from infrastructure surplus	2 356 186 178
Operating surplus/(deficit) (Infrastructure surplus less balance of operating expenditure)	(1 381 502 181)

Table 3: Deficit After Balance of Expenditure

The result is that the Municipality is in a deficit to the value of R1.382 billion, stated differently, the Municipality's primary source of revenue generated from infrastructure services, less the expenditure required to deliver those services; cannot fund the balance of operating expenditure. The correction of this deficit scenario is fundamental to achieving a sustainable financial position and/or reduce dependency on government grants and subsidies.

Further analysis indicates that the Municipality is under-maintaining the infrastructure by 60% when compared to the National Treasury benchmarks and therefore the infrastructure services surplus is not credible because reduced maintenance spend is unsustainable.

1.3.4.4 FINDINGS FROM FINANCIAL RECOVERY WORKSHOP OF 14TH AND 15TH MAY 2018

The following additional observations and findings were highlighted:

- The Service Delivery Commission reflected that Mangaung was a highly-respected City with regards to financial and service delivery performance; however, the past years had seen a significant regression. Much of this regression was considered related to poor leadership where political interference and Labour's control or influence over the administration is prominent.
- The City's bulk water supply is provided by Bloemwater, contractually 69% of requirements, and from City's own catchment, the balance of 31%. The following issues are apparent:
 - The City is currently only supplying 20% of the raw water requirements and the difference, i.e. 11%, supplied by Bloemwater at higher than normal tariffs;
 - The City's tariffs do not reflect Bloemwater tariffs and therefore will contribute to water revenue losses;
 - The City is basically the sole client of Bloemwater, which implies that the City will fund all operational and capital expenditure of Bloemwater. Detailed assessment is therefore necessary to evaluate whether this mechanism is optimal for the City.
 - Whether this mechanism is optimal for the City.
- The City's water supply infrastructure is incurring very high distribution losses with 48% of all water purchased or purified during the 2016/17 financial year being lost through leakages, inaccurate metering and illegal connections.
- Resource capacitation and importantly, the efficient use thereof is a significant constraint to service delivery of which vehicle and specialised fleet is one critical impediment. The expansion of the City to include outlying towns has further challenged the resources and often resulting in disproportionate travel time to productive work.
- There is a need to effectively utilise the existing skilled staff including planners, engineers, technicians and artisans within the infrastructure, planning and service delivery cluster as opposed to utilisation of external service providers. In addition, there is a need to upscale the tools of trade. The shortages of staff related to service delivery should be addressed as part of organisational restructuring and identification of critical posts.
- Existing infrastructure is not maintained and there is the practice of rather investing in new projects and then similarly to existing, not maintaining thereafter. Failure to maintain infrastructure is a major contributor to revenue losses and service delivery performance.

1.3.4.5 CONCLUSION

The implication of the status-quo findings is that the infrastructure-related service delivery financial surplus will not contribute to bringing the Municipality into a financially sustainable position.

The following requires further work and attention:

- Enhancing human resource capacity.
 - Identify and fill in critical vacancies seriously affecting delivery of services; and
 - Explore use of shift system to mitigate against high overtime costs.
- Enabling recovery of revenue related to delivery of electricity, water, sanitation and waste removal services, and the following are important to CENTLEC; City's Engineering Services and City's Waste Departments:
 - All deficient water and electricity supply and consumption metering must be addressed to enable revenue billing for actual consumption;
 - Accelerate the implementation of pre-paid metering to replace credit-metering;
 - Assess tariffs to assure they are cost-reflective; and
 - Indigent communities are receiving a higher service level from the City than recommended, which is unaffordable. This implies that the City must fund the difference between grants and actual expenditure.
- Reduced expenditure related to bulk water supply:
 - Resolve the constraints to increase supply of bulk water from City's catchment to reduce reliance of higher-cost water from Bloemwater; and
 - A long-term intervention is required to optimise the supply of bulk water for the City's benefit, i.e. the sources and role of Bloemwater and City's own bulk water supply function.
- Turnaround deficient infrastructure asset management:
 - The City's financial position is causing existing infrastructure and required supporting resources not to be maintained, and with required capital lifecycle replacements. This scenario places the City into a negative spiral of unreliable infrastructure, high cost, service delivery failure, reducing revenue and disinterest in private sector investment as example. The longer and deeper the spiral, the higher the capital and operating cost required and longer the time to recover; and
 - Infrastructure related planning including sector plans and master plans are not maintained or acted upon placing the City's medium to long term sustainability in jeopardy.

1.3.5 FINANCIAL CHALLENGES

The financial sustainability challenges are due to the absence of strategic direction/decisions at a political level, articulated in a long-term vision and plan, and as a result, the capital budget is not influenced by a strategic

vision and plan for the Municipality, poor financial management, operations and administrative inefficiencies, lack of proper leadership, political interference, planning, inadequate delegations, lack of staff discipline and performance and lack of accountability.

Overall the poor or non-implementation of administrative systems, policies, procedures, processes, financial controls and poor budgeting techniques, over-spending together with non-compliance by the Municipality with the relevant legislative framework, contributed largely to the current state of affairs.

The high level financial challenges are as follows:

- Absence of accurate and credible budget (incremental budgeting technique used);
- Inadequate functionality of Budget Steering Committee as per Municipal Budget and Reporting Regulations (MBRR) requirements that led to non-adherence of key decisions on the Council approved IDP and budget process plan;
- Material cash flow constraints leading to the Municipality not being able to meet its financial commitments such as paying its creditors timeously; and unable to spend at appropriate levels on its repairs and maintenance to existing assets or purchase of new assets which in turn impact negatively on service delivery;
- Lack of budget and cash flow monitoring;
- Poor financial management, internal controls and absence of synergy between Budget and Treasury Office and other municipal departments for maximisation of revenue collection;
- Under spending on conditional grants due to cash flow shortages and the spending of conditional grants on normal operating expenditure;
- Inability to collect outstanding debtors due to non-adherence of policies and by-laws;
- Poor billing due to lack of or damaged meters, incorrect debtor's data, no revenue enhancement, etc;
- Labour controlled administrative environment; and
- Absence of a responsive and adequately prepared Audit Action Plan.

1.3.5.1 AUDITOR-GENERAL REPORTS

The 2016/17 Audit Report reflected a **qualified** opinion with emphasis of matter as follows:

Basis for qualified opinion:

- Property, plant and equipment - unable to obtain sufficient appropriate audit evidence for infrastructure – water meters;
- Unable to obtain sufficient appropriate audit evidence for assets completed and capitalised in the financial year; and
- Material uncertainty related to going concern.

Emphasis of matters:

- Restatement of corresponding figures;
- Unauthorised expenditure;
- Material losses;
- Material impairments; and
- Contingent liabilities could have material impact on the financial position.

Other matters:

- Service delivery issues;
- Non-compliance with legislative governance requirements;
- **Expenditure management** - Money owed by the Municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA. Effective steps were not taken to prevent irregular expenditure amounting to R8 752 200 as disclosed in note 68 to the consolidated financial statements, as required by section 62(1)(d) of the MFMA. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R7 832 302, as disclosed in note 67 to the consolidated financial statements, as required by section 62(1)(d) of the MFMA;
- **Budget management** - Reasonable steps were not taken to prevent unauthorised expenditure amounting to R797 189 381, as disclosed in note 66 to the consolidated financial statements, as required by section 62(1)(d) of the MFMA;
- **Asset management** - An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA;
- **Procurement and contract management** - Sufficient appropriate audit evidence could not be obtained that the performance of some of the contractors and service providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA;
- **Human resource management** - Some of the senior managers failed to disclose their financial interests within 60 days from date of appointment, as required by regulation 36(1)(a) on the appointment and conditions of employment of senior managers. Some of the senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000); and
- **Consequence management** - Unauthorised expenditure incurred by the Municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA. Irregular expenditure incurred by the Municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control deficiencies:

- The leadership did not effectively monitor and enforce the corrective action;
- The leadership was slow to respond to the recommendations and the requests of the AG;
- The leadership did not implement effective consequence management for poor performance and the non-achievement of deadlines;
- The Municipality lacked formalised standard operating procedures (SOP'S) to manage performance reporting; and
- Weaknesses in the processes and controls pertaining to asset management were not adequately addressed.

1.4 STRATEGIES IDENTIFIED TO ADDRESS CITY CHALLENGES

Based on the analysis above, the following six (6) strategies were identified and outlined in the Plan to effect a turnaround of the Municipality:

- **Strategy One:** Strengthening Administration, Governance and Internal Controls;
- **Strategy Two:** Organisational Structuring and Human Resource Management;
- **Strategy Three:** Restructuring of the Budget;
- **Strategy Four:** Service Delivery and Infrastructure Management;
- **Strategy Five:** Revenue Enhancement and Economic Development; and
- **Strategy Six:** Improving Financial Management.

The key strategies and activities outlined as in the implementation plan need to be implemented in:

- Short term (current to 30 June 2019);
- Medium term (up to 30 June 2020); and
- Long term (up to 30 June 2021), to address the challenges faced by Mangaung and to follow a path of financial and service delivery recovery and sustainability.

Further, and due to the long-term nature of some of the strategies identified, the focus in the short term is to adopt the Pareto Principle (20% of activities that will contribute 80% to the successful implementation of the Plan) to ensure that the strategies adopted will have the greatest impact and can be undertaken within the financial and human resource capacity and capability of Mangaung.

It should be noted that any other strategies not immediately addressed in this Plan should still be addressed in the long term and should not be ignored. Key strategies highlighted in the Plan must all be implemented by Mangaung as this is a holistic and integrated plan, and the final outcome must be to ensure financial and service delivery sustainability.

1.5 IMPLEMENTATION OF THE FINANCIAL RECOVERY PLAN

The primary responsibility to avoid, identify and resolve financial problems rests with the Mangaung Council and the Plan must be monitored by Council, the Executive Mayor and the City Manager to ensure successful implementation, and places significant implementation responsibility on the City Manager, Chief Financial Officer and other senior managers.

However, it must also 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, are given specific roles and responsibilities, which must be re-enforced and captured in a revised performance agreement that also includes key aspects of this Plan.

Oversight by Council and other structures also need to be strengthened to ensure proper governance, service delivery, budget implementation and early warning systems are developed, implemented and corrective measures are taken timeously. Regular, robust and honest interaction must be enforced and sustained beyond this turnaround period at Mangaung for long term sustainability.

The implementation responsibility should also be operationalised and institutionalised whereby the key focus areas and activities outlined in the Plan should be cascaded to all relevant municipal officials and included in their respective performance agreements, as mentioned earlier. It is also important that a “portfolio of evidence” is retained throughout the implementation of the Plan to enable assessment of the results and to ensure accountability and ownership of the process.

In respect of financial resources required to support the implementation of the Plan, the key will be the restructuring of the budget, implementing the revenue enhancement initiatives and commitment to stringent expenditure controls particularly on non-essentials and non-revenue generating activities.

1.6 RISK ASSOCIATED WITH THE FINANCIAL RECOVERY PLAN

The Plan identified risks that must be mitigated for successful implementation and proposes changes, particularly with regard to financial administration, budgeting, financial discipline and governance. There will also be a need for a regular review of the risks identified to ensure timely mitigation measures are instituted by the City Manager and the Political Leadership.

The emerging risks identified, include amongst others:

- Poor leadership and political oversight;
- Delay in the filling of critical vacant posts with people that have the appropriate experience, skills and qualifications;
- Lack of will to address the challenges in the service delivery model;
- Industrial actions owing to communications and resistance to the changes due to any organisational restructuring or realignment and the implementation thereof;

- Resistance to change by Unions, Management and Councillors;
- Community service delivery and other protests;
- Loss of grant funding due to non-compliance with grant conditions;
- Continued non-collection of revenue and increase in the debtors' book;
- Failure to materially control and reduce non-revenue electricity and water losses, which losses will negate the impact of other interventions;
- Failure to reverse the trend of under-maintenance and failure of timely replacement of aged infrastructure;
- Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives;
- Inadequate systems of delegation that impact on governance, administration and operational efficiency;
- Litigations issues due to SCM challenges; and
- Inadequate implementation of internal controls.

Given this, a proper risk management matrix must also be developed as part of this process, managed and reported to Council on a regular basis. The risk management matrix should be updated on a regular basis, to incorporate additional risks which may be identified.

1.7 LINKAGES WITH OTHER INITIATIVES AT THE CITY

It should be noted that the City has other key turnaround initiatives including Strategic Development Review (SDR). These and other similar programs must contribute to financial recovery of the city and improved service delivery and economic growth.

1.8 MONITORING AND EVALUATION

Various elements of this Plan must be fully implemented and institutionalised in a coherent and holistic manner. These components are integrated, and care must be taken during the implementation of the Plan not to isolate some aspects from others even though certain aspects may only be implemented in the medium to long term.

The City Manager is therefore required to closely monitor and evaluate progress and must report to Council and National Government on a regular basis. The reports on the implementation of the Plan should form part of discussions at every Mayoral Committee and management meeting.

The City 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 targets or outcomes. Progress reports on the implementation of the Plan must be signed by the City Manager before submission to Council and National Treasury, on a monthly basis. A review of the Plan should also be undertaken at regular intervals and be updated as and when more accurate and up to date information is obtained and reported on at a National level.

Should the Mangaung Metro delay or fail to implement the Financial Recovery Plan, the Provincial Government must consider alternative support or intervention measures.

1.9 DETAILED IMPLEMENTATION PLAN AND CONCLUSION

This Plan must be submitted by the City Manager for adoption by Council and immediate implementation by Mangaung in order to secure the Municipality's ability to meet its obligations to provide basic services and financial commitments when due.

Finally, the Municipality should move away from short-term and reactionary planning to a long term stable and sustainable framework, hence the Municipality must prioritise the development of a long term spatial and financial plan that is realistic and achievable. The financial indicators issued in MFMA Circular 71 should also be used as a basis for such a long term financial plan. Annexure A provides an example of how Mangaung can use the abovementioned Circular in this regard.

There is now an urgency to get things done and the outcomes will need to be incorporated in the performance agreements of all employees which will have to be monitored and evaluated to ensure successful outcomes and that the ability of the Municipality to meet its obligation to provide basic services and its financial commitment is restored.

2. INTRODUCTION

2.1 BACKGROUND TO THE MANGAUNG METROPOLITAN MUNICIPALITY

The Mangaung Metropolitan Municipality (MMM) is a Category A Municipality. It is situated in the Free State Province, in the central interior of South Africa. The Free State is bordered by the Gauteng, Eastern Cape, Northern Cape, KwaZulu-Natal and North West Provinces, as well as by the neighboring country of Lesotho. Mangaung, means 'Place of the Cheetahs'.



Figure 1: Map of Neighbouring Municipalities

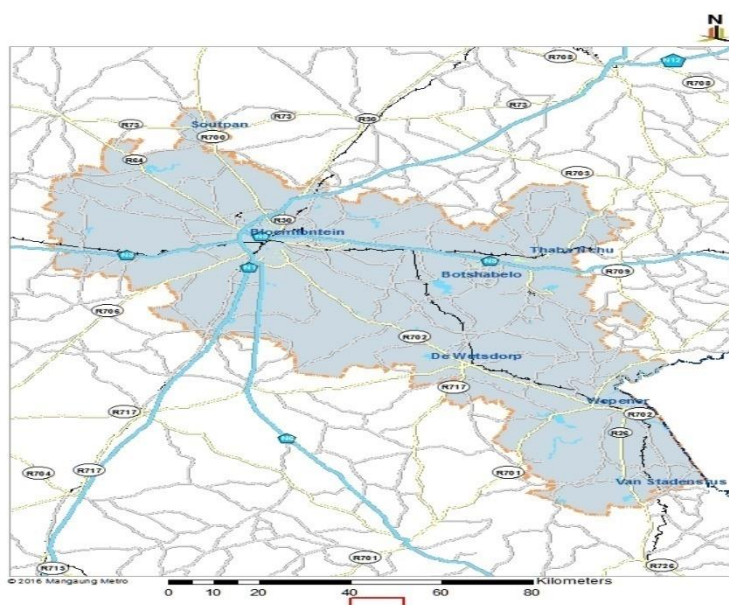


Figure 2: Map of Mangaung Municipality

Mangaung covers 9 887 km² and comprises three prominent urban centres, which are surrounded by an extensive rural area. It is centrally located within the Free State and is accessible via National infrastructure

including the N1 (which links Gauteng with the Southern and Western Cape), the N6 (which links Bloemfontein to the Eastern Cape), and the N8 (which links Lesotho in the east and with the Northern Cape in the west via Bloemfontein).

The Mangaung Local Municipality (MLM) was established in 2000 with the amalgamation of four former transitional Councils but was in April 2011 elevated from category “B” local Municipality to a category “A” metropolitan Municipality. On the 3rd August 2016 the former Naledi Local Municipality and Ikgomotseng, which was part of Masilonyana Local Municipality were merged with the Mangaung Metropolitan Municipality to form one Municipality. The new status presents both challenges and opportunities to the Mangaung Metropolitan Municipality (MMM).

The MMM comprises the cities/ towns of Bloemfontein, Mangaung, Botshabelo, Thaba Nchu, Soutpan, Dewetsdorp, Wepener and Van Stadensrus.

Bloemfontein/ Mangaung is the sixth largest city in South Africa and the capital of the Free State Province. It also serves as the administrative headquarters of the province and represents the economic hub of the local economy. The Municipality is also serviced by an east/ west and north/ south railway line and a national airport, which provides logistical opportunities and access to Mangaung.

Botshabelo, located 55km to the east of Bloemfontein represents the largest single township development in the Free State. Botshabelo was established in the early 1980s and was intended to provide the much-needed labour in Bloemfontein without the inconvenience of having labour at the employers’ doorstep.

Thaba Nchu is situated 12km further to the east of Botshabelo and was part of the former Bophuthatswana “Bantustan”. As a result, it exhibits a large area of rural settlements on former trust land.

Soutpan/ Ikgomotseng: Soutpan is a very small town that was established due to the existence of salt in the immediate surroundings of the town. The town is still producing a vast amount of salt and the current inhabitants of Soutpan are employed by the salt production industry. The town is 52 km away from the town of Bultfontein to the north and 38 km away from Bloemfontein to the south and is also known for the Florisbad anthropological area and the Soetdoring Nature Reserve. Ikgomotseng is 5 km to the east of Soutpan and can almost be seen as a centre on its own.

Dewetsdorp lies 75km south-east of Bloemfontein on the R702. The town of Dewetsdorp is part of the Battlefields Route, with the British War Graves and Monument as a tourist attraction. The town has a beautiful nine-hole golf course and is also the home of the Osram Total Car Rally.

Wepener was founded in 1867 on the banks of Jammersbergspuit, a tributary of the Caledon River. The Caledon Nature Reserve is about 15km south of Wepener on the R702. The Caledon River flows through the reserve, and the Welbedacht Dam is located in the southern region of the reserve. Also, of interest is the Louw Wepener Memorial statue, Thaba Bosiu Memorial stone and Jammerbergdrif Battlefield site. The sandstone street of Jammersberg Bridge over the Caledon River has been declared a national monument.

The town of Van Stadensrus is located 30km from Wepener on the R702 and is one of the frontier towns on the

border of South Africa and Lesotho. It is in close proximity to the Egmont and Van Stadensrus Dams and is on the Anglo-Boer War Route.

2.2 GENERAL STATISTICS

As far as the population distribution is concerned, more than half of the population is concentrated in the Bloemfontein/ Mangaung area (52%), followed by Botshabelo (28%) with the balance (20%) of the population being in the rural areas.

The unemployment rate is 25% for the whole of the MMM area with the rate being a lot higher in the rural areas (49%).

The 2016 Census demonstrated that school attendance and access to primary and secondary education is on the rise, however more enrolment is required at the tertiary level. Whilst this is a good development, it provides an immediate challenge to the Municipality and government generally to expedite interventions aimed at absorbing and retaining the skills that are provided by this development.

2.3 DEVELOPMENT PLANS

Key considerations/ initiatives to inform and influence the developmental agenda in the Municipality in the medium to long term includes (from 2017-2022 IDP):

- Facilitate the development of the N8 Corridor Development;
- Identify and harness the opportunity of creating a new “City” that spatially assists in integrating the City activation of developmental nodes at Botshabelo and Dewetsdorp;
- Achieve unqualified audit opinion with no matters in the 2017/18 financial year;
- A turn-around action plan informed by the 80:20 principles will be developed and implemented with time-bound milestone set for the immediate, medium to long-term;
- Ensure water service supply from source and sustainability, lobby the provincial and national government departments to deal with service delivery challenges related to water;
- Mainstreaming of poverty reduction and thus incorporate these interventions in the Integrated Development Plan (IDP), BEPP, Service Delivery and Budget Implemented Plan (SDBIP), Departments’ and individual performance scorecards;
- Development of Botshabelo, Thaba-Nchu and Dewetsdorp regions to reduce transportation costs for the poor;
- Land development by accelerating Level 2 Housing Accreditation status and to obtain full assignment for the housing function by 2017;
- Leveraging resources for a number of catalytic projects within the integration zones namely N8 Corridor Development and three land parcels viz. Vista Park 2 and 3 and Hillside View;

- Confirmed Eight Development Priorities or Agenda of the City:
- Implementation of Integrated Public Transport Network (IPTN) that has a strong non-motorised component;
- Revitalisation of Thaba Nchu Airport;
- Installation of pre-paid water meters at section 21 schools as part of the revenue enhancement programme;
- Fast-tracking the implementation of eight land parcels (including Airport Development Node);
- Service Delivery programmes such as – grass cutting, road markings, street and public lighting maintenance programmes to be intensified within the orientation of Back to Basic Approach;
- Progressively establishing metro police;
- Expend efforts and prioritising the environment (greening and evolving a clean environment);
- The City should develop and implement comprehensive policy measures to attract investment in the area. Need to attract investment in industries and periodically look at rates and tariffs and their impact in attracting investments;
- The City should look at Industrial Development Nodes and/ or Strategic Economic Zones (SEZ) and incentives that government (including those the City is providing) to attract investment and facilitate industrial development;
- The City should provide serviced sites to the middle class who are part of the City, three land parcels – Vista Park, Brandkop 702 and Cecilia Park provide an opportunity to do this;
- Strategic pronouncements should be made on the possibility of building a gas plant and MMM needs to engage with SASOL;
- The City needs to work with institutions - the municipal architectural division, Central University of Technology (CUT) and University of the Free State (UOVS);
- Ramp up the eradication of Ventilated Improved Pit-latrines (VIP) and bucket toilets at Botshabelo and Thaba Nchu;
- Ensuring reliable water supply from the source, building the pipeline to initiate the process and find a way of working with Bloemwater in building the pipeline. Concrete proposals that factors in the budget cycle is needed;
- Provision of reliable water supply to Thaba Nchu;
- Prioritise economic and youth development;
- An intervention/ monitoring team should be developed in the Office of the Executive Mayor that have the capacity to analyse figures and review performance of the city;
- The City should be bold and “think outside the box” and keep abreast with current debates on the urban management and management of urban space. Key interventions of urban management should be

developed and should highlight concrete projected measurable achievements and thus lay a foundation for the elected leaders. Tease out development trajectories related to future cities and explore the possibility of harvesting energy without using “coal”;

- Planned economic development of the City should accommodate Ikgomotseng (Soutpan) and Naledi Local Municipality areas that were amalgamated into the City in 2016;
- Moving towards SMART – broadband, free WIFI, libraries, schools, using technology to improve operatives and communications (smart metering);
- Implement the Waai Hoek Precinct Development;
- Implement initiative on Energy;
- Facilitate rural development;
- Re-develop a city economic development strategy; and
- Economic transformation and redress.

2.4 POPULATION

According to the 2016 Community Survey, MMM has a population of 787 929.

The figures below show the population by age and gender and also highlight that the age group (0-14 and 15-34) is higher than the (35-65+) age groups:

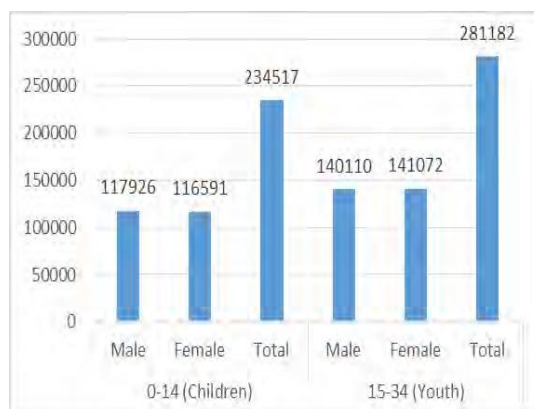


Figure 3: Population by Age and Gender (1 of 2)

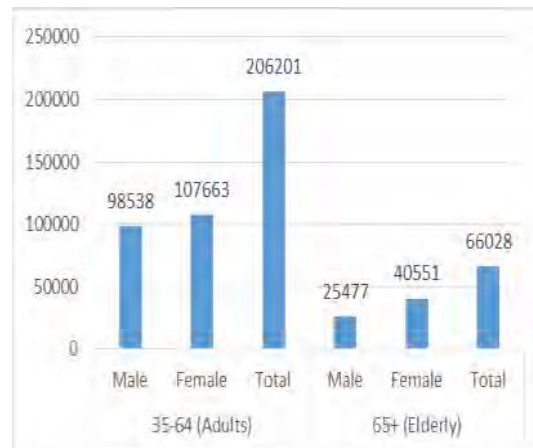


Figure 4: Population by Age and Gender (2 of 2)

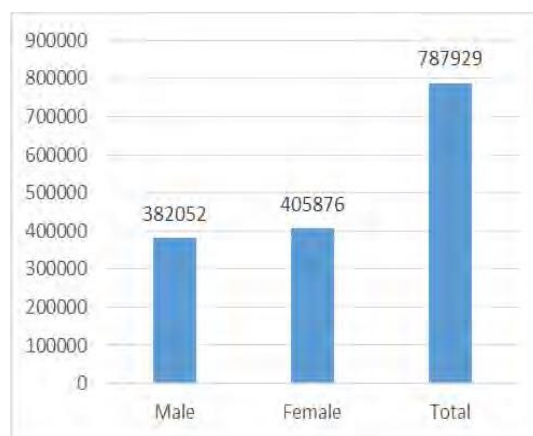


Figure 5: Population by Gender

The figure below illustrates the total population of the City by Group and Gender:

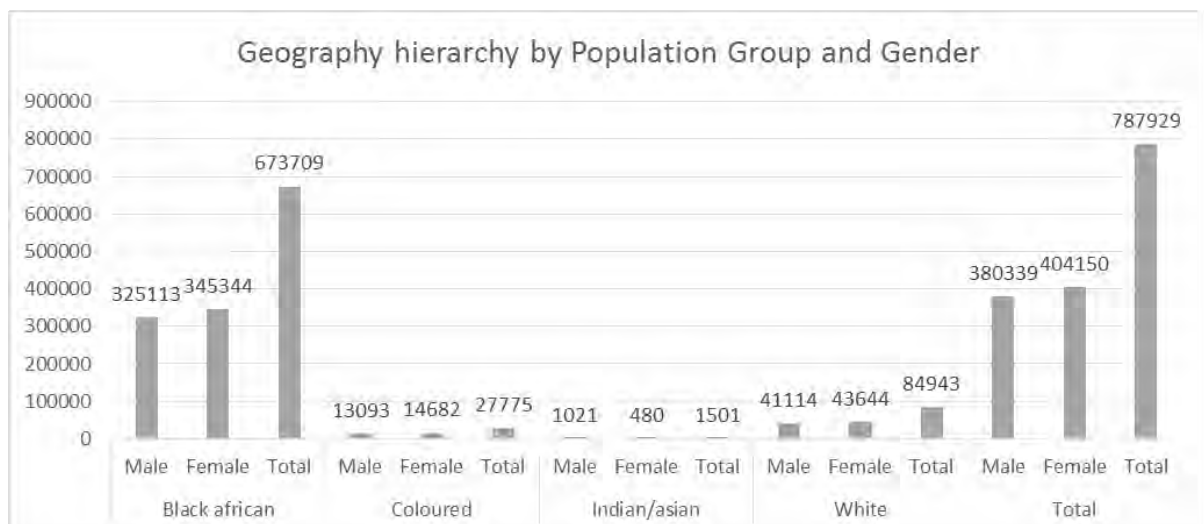


Figure 6: Population by Group and Gender

2.5 ACCESS TO SERVICES

The household dynamics in 2016 were as follows:

Description	Number
Number of Households	265 561
Average household size (Number of People)	3.0
Female headed households	41.4%
Formal dwellings	87.1%
Housing owned	70.1%

Table 4: Household Dynamics in 2016

The following household services are provided:

Description	Percentage of Dwellings 2016
Flush Toilet Connected to Sewerage	66.7%
Weekly Refuse Removal	78.9%
Piped Water Inside Dwelling	38.20%
Electricity for Lighting	95.5%

Table 5: Household Services Provided

The most critical infrastructure challenge is piped water where 38.2% of households have access to piped water in the house, compared to 73.4%, nationally.

2.6 ECONOMIC STATISTICS

The situation as regards education levels in the Mangaung area are as follows:

Category	2016 Percentage
No Schooling	5.2 %
Matric	32.8 %
Higher education	13.3 %

Table 6: Education Levels

The main economic sectors are community services (35.3%), finance (26.8%), trade (16.0%), transport (11.8%), manufacturing (3.5%) and other (6.6%).

The economy is strongly driven by the government sector, which has seen the fastest growth in the last five years as a result of increased government programmes in livelihood improvement interventions. The finance sector is the second fastest growing sector due to very active real estate and construction activities.

Small businesses have a major role to play in South Africa, and especially in the Mangaung economy in terms of employment creation, income generation and output growth. It is estimated that more than 12 million people in South Africa are actively involved in the SMME sector, which accounts for approximately 60% of all employment in the economy and 40% of the output.

In an area such as Mangaung, with its relatively high level of unemployment and poverty, it can be expected that the SMME sector plays an even more important role in job creation and poverty alleviation. The informal economy makes an important contribution to the economic and social life of Mangaung. Due to the decline in formal employment and consequent increase in unemployment, many people seek alternative means of earning an income.

2.7 CHALLENGES

The Municipality faced and continues to face various challenges in terms of service delivery, administration and finance. Many of these have recurred over long periods of time and have been highlighted repeatedly in the Municipality's annual reports and audit reports following the statutory annual audits by the Auditor-General.

The current intervention at Mangaung therefore happened as a response to the many crises that the Municipality is facing, including providing basic municipal services and long term financial sustainability.

The challenges in summary include:

- Financial management and credit control (including declining Auditor-General outcomes);
- Governance and political oversight;
- Communication with communities and key stakeholders; and
- Strengthening and improving the functioning of the administration.

Given the above and the urgency to ensure service delivery to communities and financial viability and sustainability, the development of a financial recovery plan in line with section 142 (1) of the Municipal Finance Management Act (MFMA), has now been seen as a critical way forward for Mangaung.

In keeping with other metropolitan municipalities within South Africa, the Municipality has faced, and continues to face various challenges in terms of service delivery, administration, financial management and governance. Many of these challenges have recurred over long period of time and have been highlighted repeatedly in the Municipality's annual reports and audit reports following the statutory annual audits by the AG.

The challenges in summary include:

- Significant deterioration of the City's financial health and service delivery performance demonstrated by the financial and non-financial performance for both the 2016/17 financial year and the 2017/18 mid-year

performance;

- Poor financial management and credit control (including declining Auditor-General outcomes);
- Poor governance and political oversight; and
- Poor communication with communities and key stakeholders.

3. METHODOLOGY IN DEVELOPING THE FINANCIAL RECOVERY PLAN

3.1 LEGISLATED CONTEXT OF A FINANCIAL RECOVERY PLAN

Given the nature of the financial problems, an independent and detailed assessment was undertaken to ensure that the key objective of developing a holistic financial recovery plan will be achieved, and which must also meet the requirements of Section 142 of the MFMA, which states:

142. (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 must amongst others:

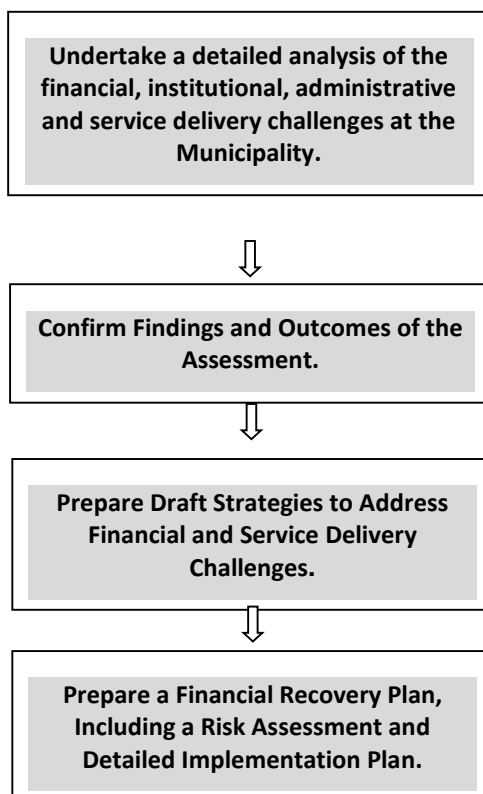
- (a) (i) Identify the financial problems of the municipality;
- (ii) Be designed to place the municipality in a sound and sustainable financial condition as soon as possible;
- (iii) State the principal strategic objectives of the plan, and ways and means for achieving those objectives;
- (iv) Set out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

3.2 PROCESS TO PREPARE A FINANCIAL RECOVERY PLAN

The approach adopted in the development of the financial recovery plan is a holistic and consultative approach that also involves a detailed analysis of all relevant documentation coupled with engagements between the Executive Mayor, City Manager, Management and other staff of the Municipality as well as engagements with the National and relevant Provincial Government Departments.

This voluntary process by MMM, will culminate in the development of a holistic and integrated financial recovery plan.

The process in developing the financial recovery plan can be summarised as follows: -



4. STATUS QUO ASSESSMENT

4.1 ORGANISATIONAL STRUCTURE, HUMAN RESOURCES, AND INSTITUTIONAL MATTERS

4.1.1 INSTITUTIONAL / GOVERNANCE CHALLENGES

4.1.1.1 GOVERNANCE

The AG found weaknesses in the processes of financial and performance reporting in the 2016/17 financial year. This was found to be repeat findings from previous years. The AG attributes the finding to ineffective monitoring and enforcement of a corrective action plan, by the leadership of the Municipality, to address the gaps and weaknesses. In addition, the leadership of the Municipality has not put in place preventive steps and procedures to prevent unauthorised, irregular and fruitless and wasteful expenditure nor consequence management. In a nutshell, due to the above-mentioned, there seems to be weaknesses which render governance ineffective.

Section 62 of the Municipal Finance Management Act (MFMA) requires the accounting officer to take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of risk management as well as the effective, efficient and economical use of the resources of the Municipality. Unfortunately, in the case of the Mangaung, the Risk Management function is established but due to capacity limitations, it is not functional. This is also exacerbated by vacant Chief Risk Officer position and non-functional Risk Management Committee. Risk management is an essential and mandatory corporate governance requirement in a Municipality. It is a crucial instrument to assist in strategic planning to identify opportunities and threats within the Municipality in the attainment of its strategic objective. An appropriately executed Risk Management function will protect Council's interests against risks and ensure achievement of not only compliance with legislative requirements but also add value to its oversight and managerial processes.

The other gap identified is the establishment of the Disciplinary Board as the Municipality must establish a disciplinary board. In terms of the Municipal Regulations for Financial Misconduct and Offences, it must conduct an independent preliminary or full investigation for financial misconduct and offences, however it has not investigated any case. Functionality of this board will ensure that the Municipality can receive reports of allegations of financial misconduct and offences in terms of section 171 and 173 of the MFMA, investigate and where there has been transgression against legislation and ensure consequence management. In addition, it will also ensure and oversee that disciplinary process are initiated and cases finalised within the required timeframes against all transgressors.

4.1.1.2 SYSTEMS OF DELEGATION

Section 59 of the Municipal Systems Act, 2000 (Act 32 of 2000) (MSA) prescribes that the Municipal Council must develop a system of delegation that will maximise administrative and operational efficiency and provide for adequate checks and balances and may, in writing delegate appropriate powers, to any of the Municipality's other political structures, political office bearers, Councillors, or staff members. MSA further prescribes that the issued delegations may include the power to sub-delegate a delegated power.

MMM has developed a system of delegation.

The system of delegations is in place, however needs to be reviewed to ensure that it provides appropriate check and balances within the Municipality and promotes accountability and efficiency. This should also ensure that the review process addresses the segregation of powers between political and administration component of the Municipality. In addition, to ensure implementation and institutionalisation of the delegations across the Municipality, all Councillors and staff members of the Municipality must be inducted on system of delegation.

4.1.1.3 POLITICAL STRUCTURE

MMM is governed by a Council led by an Executive Mayor. All major policy and administrative decisions are presented, resolved and implemented after the approval of Council. The various decision-making structures within the Council consist of the Speaker of Council, Chief Whip and Section 79 Portfolio and Standing Committees; the executive branch, which consists of the Executive Mayor, Deputy Executive Mayor and members of the Mayoral Committee (MMCs); and the administration, which is led by the City Manager.

The political structure of the Municipality is composed of the following political principals:

- Executive Mayor:
- Deputy Executive Mayor
- Speaker: Councillor
- Chief Whip: Councillor; and
- 10 members of the Mayoral Committees responsible for the following Portfolios:
 - Finance, IDP and Performance Management;
 - Corporate Services;
 - SMME;
 - Rural Development;
 - Human Settlement;
 - Spatial Planning and Land Use Management;
 - Community and Social Services;
 - Transport and Public Safety;
 - Infrastructure and Public Works; and
 - Environmental Management.

The 10 section 80 Mayoral Committees (apart from section 79 Committees of Council) are structured along the Portfolios named above.

Council is constituted by 100 elected public representatives of which 50 are ward representatives and 50 represent their political parties, on a proportional basis. The following Section 79 Committees are also in place:

- Budget and Portfolio Committee;
- Local Labour Forum (LLF); and
- IDP Steering Committee.

All of the above Council committees have Councillors allocated to them, reportedly meet regularly and are functional.

There is a need to strengthen governance of oversight committees inclusive of Council and Mayoral Committees. As part of strengthening governance, there is a need for all committees of the Municipality including Council to adhere to the corporate calendar and meeting schedules. This has a direct impact on timeously expediting decision making which affect service delivery. In addition, Councillors need to be inducted on governance, financial management and oversight. One element of which Council should ensure happens, is consequence management.

The MPAC should be capacitated to ensure that any form of unauthorised, irregular, fruitless and wasteful expenditure are investigated and there is some sort of consequence management. The MPAC is reported to be functional and capacitated. However, taking into consideration the recent audit outcome, and 2018 Mid-Year Assessment Report , a need exists for the committee to be re-trained and granted exposure to Municipal Public Accounts Committees (MPAC) – Guide and Toolkit (2018), developed by National Treasury in consultation with Department of Cooperative Governance, with a view to assist councilors serving on MPAC and to improve accountability, transparency, economical, effective and efficient use of public resources in executing municipal functions giving effect to service delivery. This is part of Council ensuring that finances of the Municipality are effectively and efficiently been utilised.

It is also critical that the Code of Conduct for Councillors as provided for in the MSA is implemented and enforced. It is clearly defined in the MSA that interference between the two structures within the municipalities is prohibited, it is important that the Councillors are inducted and sensitised on this matter, to promote good governance and accountability at all times and to ensure that the political office bearers and the administration of the Municipality harmoniously work towards a common goal.

4.1.1.4 POLICIES

The policies made available by the Municipality are not all inclusive and do not seem to be revised annually.

The following policies were obtained:

- Credit Control 2018/19 (Draft);
- Indigent Policy 2017/18 (Draft);
- Supply Chain Management – June 2016;

- Property Rates 2018/19 (Draft); and
- Tariff Policy – 2018/19 (Draft).

There is no indication or information on whether the Municipality has a human resource (HR) manual in place which contains all relevant HR policies. The manual should depict the whole HR value chain and its related policies and the importance of employees adhering to all HR policies and procedures.

The following is a list of human resource policies:

Date	Name of Policy	Completed	Date Adopted by Council or Comment on Failure to Adopt
14/12/2015	SALGA Job Evaluation Policy	100%	Adopted by Council on 14/12/2015. Implemented on 01/07/2016.
2013 and 2016	Code of Conduct for Municipal Staff	100%	Communicated to all MMM staff by internal info.
12/05/2017	Employment Equity Policy	90%	Approved by EMT and referred to Section 80, August 2017.
15/12/2016	Employment Equity Plan	100%	Approved by City Manager and submitted to Department of Labour on 09/01/2017 as per EE legislation.
12/05/2017	Career Planning Policy	90%	Approved by EMT and referred to Section 80, August 2017.
12/05/2017	HRM and D Strategy	90%	Approved by EMT and referred to Section 80, August 2017.
12/05/2017	Succession Planning Policy	90%	Approved by EMT and referred to Section 80, August 2017.
12/05/2017	Internship and Work Integrated Learning Policy	90%	Approved by EMT and referred to Section 80, August 2017.
12/05/2017	Recognition of Prior Learning (RPL)	90%	Approved by EMT and referred to Section 80, August 2017.
04/05/2017	Occupational Health and Safety Policy	80%	Adopted by Internal Policy Forum.
04/05/2017	Personal Protective Equipment Policy (PPE)	80%	Adopted by Internal Policy Forum.
04/05/2017	Organisational Design Policy	80%	Adopted by Internal Policy Forum.
04/05/2017	Employee Wellness Policy	80%	Adopted by Internal Policy Forum.
04/05/2017	Bereavement Policy	80%	Adopted by Internal Policy Forum.
12/05/2017	Firearm and Operational Procedures Policy	90%	Approved by EMT and referred to Section 80, August 2017.
04/05/2017	Sexual Harassment Policy	80%	Adopted by Internal Policy Forum.
04/05/2017	Recruitment Selection and Appointment Policy	80%	Adopted by Internal Policy Forum.
29/04/2016	Workplace Skills Development Plan	100%	Submitted to LGSETA on 29 April 2016 as per legislative requirement.
0/06/2016	HIV/ Aids STI and TB Policy	80%	Referred to HRD Sub-Committee of LLF.
14/06/2016	Education Training and Development Policy	80%	Referred to HRD Sub-Committee of LLF.
26/04/2016	Anti-Discrimination Policy	80%	Referred to HRD Sub-Committee of LLF.

Table 7: Human Resource Policies

Some of the policies mentioned above were not approved at the time being reported on in the annual report for 2016/17. The Municipality needs to still ensure that all human resource related policies are adopted by Council and communicated throughout the Municipality. Adherence to and the implementation of policies is vital to a professionalised workforce, work culture and performance management. Leadership, as part of accountability, should lead by example and enforce a work practise of adhering to policies and procedures which in return will eliminate ill-discipline.

The HR Management Sub-Directorate established an internal HR Policy Forum and has developed a number of policies that have to be submitted to Executive Management Team (EMT). A number of policies as indicated in the table above have already been referred to the Section 80 Committee for consideration, which will be submitted to the Local Labour Forum (LLF) for consultation, to be later approved and adopted by Council.

All external policies including the financial policies need to be aligned to the by-laws and revised annually so that they are legally enforceable and can be used as instruments to assist with the financial recovery.

4.1.1.5 PUBLIC PARTICIPATION

The Municipality provides for an opportunity through public participation for the community to contribute, interrogate and engage municipal's strategies, plans and service delivery issues. Currently, the Municipality has fifty (50) wards which are clustered due to the vastness of the Municipality. This enables the Municipality to reach the widest audience possible and consult with the public during the course of the financial year on the revised tariffs and IDP priorities including annual reports and by-laws.

Ward committees in the Municipality serve as an interface between the community and the Municipality. They identify day to day service delivery issues in wards and through the ward Councillor escalate these issues to Council for attention. Ward committees are the single most important institutional arrangement to ensure an efficient and result based participatory system.

The Municipality publishes details of its public meetings in local newspapers, on radio and on the municipal website. There is no information regarding the conducting of satisfaction surveys to determine the satisfactory level of the community with the service they receive from the Municipality. There is however no indication of service delivery protests from the annual report or municipal website.

4.1.1.6 RISK MANAGEMENT

The Risk Management Framework of 2015 as developed by the South African Local Government Association (SALGA) instructs response to the requirements of the Public Finance Management Act, Act 1 of 1999 (PFMA) and the Municipal Finance Management Act, Act 56 of 2003 (MFMA) for the municipalities to implement and maintain effective, efficient and transparent and accountable systems of risk management and control.

The Municipality resolved after review that the risks identified during the 2015/16 financial year remained the same and relevant for the 2016/17 financial year. There are twelve (12) strategic risks related to the strategic

objectives, these risks are rated, and an action plan was developed to mitigate these risks. The strategic risk development progress was compiled for 2016/17.

The twelve (12) strategic risks are as follows:

1. High level of poverty and unemployment in the City;
2. Threatened sustainability and financial viability of the City;
3. Lack of spatial integration and built environment;
4. Inadequate service delivery;
5. Housing backlogs;
6. Ineffective public transport system;
7. Climate change and environmental degradation;
8. Threatened sustainability of social and community services;
9. Protest unrest;
10. Fraud and corruption;
11. Inadequate information communication and technology; and
12. Lack of good governance.

The following are challenges in implementing risk management:

- Budget constraints;
- Aligning risk management with overall business strategy;
- Defining risk;
- Skills shortage (moratorium); and
- Lack of innovation.

Seven (7) reported allegations of fraud and corruption incidences have also been completed and ten (10) reported allegations of fraud and corruption incidents are being finalised.

A 2015/16 audit finding stated that the Risk Committee did not function and therefore the Municipality did not have an effective risk management function.

4.1.1.7 AUDIT COMMITTEE

The Municipality has established an Audit Committee that is periodically reviewing and advising on internal controls of the Municipality. The Audit Committee is administratively supported by the Internal Audit Unit.

Meetings of the Audit Committee during the 2016/17 financial year:

Meeting Number	Date
01-2016/17-45	30 August 2016
02-2016/17-46	10 November 2016
03-2016/17-47	25 February 2017
04-2016/17-48	02 June 2017
05-2016/17-49	30 June 2017

Table 8: Meetings of the Audit Committee During the 2016/17 Financial Year

The Audit Committee is reported to have been established, however its composition affects its effectiveness and optimal functioning. Numerous meetings are postponed due to not meeting the required quorum. The root cause of the suspension of the meetings is that the committee's composition is made up of senior Provincial Government officials who are deployed to other priorities other than committee's functions. A functional Audit Committee, which has appointed suitably qualified key individuals (preferably independent), will contribute to changes in financial situation of the Municipality.

4.1.1.8 INTERNAL AUDIT

The Municipality has a functional Internal Audit Unit (Unit). This Unit is working in collaboration with both the Risk and Anti-Fraud Units to strengthen the Municipality's efforts to manage risks and combat fraud and corruption.

Internal Audit was established to implement a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes within the Municipality whilst the Risk Management unit was established to implement and maintain effective, efficient and apparent systems of risk management and control.

The Municipality reported that it has reviewed the risks and identified strategies related to its own strategic objectives. It will be paramount for the Municipality to be able to not just identify risks but mitigate them. This will require an adequate Enterprise Risk Management Framework and implementation plan adhered to by all management who are responsible and held accountable for identifying, evaluating and managing both risks and opportunities.

For the 2016/17 financial year, the Unit has completed 23 planned allocated audit assignments according to the approved Internal Audit Plan and are due to complete 3 audit assignments in the first two quarters of the new financial year. The Unit has supported the Municipality's Audit Committee during the period under review by providing secretariat services to the five (5) Audit Committee meetings held during the 2016/17 financial year.

4.1.1.9 AUDITOR-GENERAL REPORTS

2015/16 Audit Findings

Unqualified with Emphasis of Matter as follows:

- Material losses as regards the write-off of consumer and other receivables, water distribution losses and electricity distribution losses;

- Material impairments – Provision of R2.6 billion made for consumer and other receivables;
- Unauthorised expenditure of R654.8 million incurred;
- Irregular expenditure of R32.7 million incurred;
- Underspending of R106.1 million on conditional grants;
- Construction of the Intermodal Public Transport Facility has been completed at a cost of R351.9 million, but had not been occupied due to a disagreement between the taxi industry and Council;
- The position of City Manager was vacant for more than six months during the year;
- Lack of processes and safeguarding of information;
- Weaknesses in processes and controls for asset management; and
- Risk committee did not function and therefore did not have effective risk management function.

2016/17 Audit Findings

A **qualified** opinion based on:

- Property, Plant and Equipment - unable to obtain sufficient appropriate audit evidence for infrastructure – water meters, as the Municipality did not have reliable information on the value of the water meters, their acquisition dates or their condition at year-end. Further, due to unreliable information, also unable to confirm the accuracy of the change in accounting policy and the depreciation expense for the year;
- Unable to obtain sufficient appropriate audit evidence for assets completed and capitalised in the financial year due to the unavailability of reliable supporting information. In addition, the Municipality did not capitalise projects with a value of R198 976 845 that had been completed during the year and did not recognise expenditure of R40 828 468 incurred on the construction of assets in accordance with GRAP 17, Property, Plant and Equipment; and
- Material uncertainty related to going concern - Note 64 to the consolidated financial statements indicates that certain going concern ratios such as the cash coverage and creditors' days are unfavourable. As included in note 17, the average repayment term of suppliers are 95 days (2015/16: 99 days). Furthermore, trade payables in note 17 includes an amount owed to the water board of R310 269 773 (2015/16: R96 646 294), which was long overdue.

Emphasis of matters:

- **Restatement of corresponding figures** - the corresponding figures for 30 June 2016 have been restated as a result of errors in the consolidated financial statements of the Municipality at, and for the year ended, 30 June 2017;
- **Unauthorised expenditure** - As disclosed in note 66 to the consolidated financial statements, the Municipality incurred unauthorised expenditure of R797 189 381 (2015/16: R660 833 454) in the year under review due to overspending of the approved budget;

- **Material losses** - As disclosed in note 46 to the consolidated financial statements, material losses of R676 656 978 (2015/16: R249 534 738) were incurred as a result of a write-off of consumer and other trade debtors. As disclosed in note 69 to the consolidated financial statements, material electricity distribution losses of R162 586 611 (2015/16: R180 249 104) were incurred, mainly due to technical losses, administrative and technical errors, negligence, theft of electricity, tampering with meters and connections that formed part of illegal consumption and faulty meters. As disclosed in note 69 to the consolidated financial statements, material water distribution losses of R217 478 344 (2015/16: R146 392 570) were incurred, mainly due to burst water pipes, drought tariffs, leakages and unmetered sites;
- **Material impairments** - As disclosed in notes 4, 5, 6 and 7 to the consolidated financial statements, consumer and other receivables were impaired by R2 577 534 071 (2015/16: R2 549 396 429) as a result of uncollectable debtors; and
- **Contingencies** - As disclosed in note 56 to the consolidated financial statements, the Municipality disclosed contingent liabilities of R245 157 386 which, if they realise, will have a material impact on the financial position. These contingent liabilities include R162 850 060 relating to a billing dispute between the Municipality and the water board.

Other matters

- **Service delivery issues** - In 2012/13, the Municipality started with the planning and establishment of the airport development (N8) node with the purpose of establishing a new township development area. Since the commencement of this project, the Municipality has spent R141 297 484 on the planning and establishment costs. In the year, no progress had been made with regard to this project and it was not included in the Municipality's budget or reported on in the annual performance report. Approval for the township establishment had not been obtained from the Mangaung Municipal Planning Tribunal;
- **Service delivery issues** - In 2012, the Department of Water Affairs initiated a reconciliation strategy study to ensure that present and future water needs of the greater Bloemfontein area would be met. In response to the study, the Municipality conducted a feasibility study for the pipeline to draw water from the Gariep Dam to the Bloemfontein area to address the water crisis. To date the Municipality has spent R40 052 788 on this project that has been handed over to the water board for further implementation;
- **Service delivery issues** - The Municipality is part of the national process driven by the National Department of Transport to develop an integrated transport network in metropolitan areas. Since commencement of the process, the Municipality has spent R189 979 330 on the planning and feasibility study for the establishment of the network funded by the conditional grant received for this purpose. The Municipality has developed and approved an operational plan for phase 1 of the integrated public transport network that covers the period 2016 to 2020;
- The 2015/16 annual report was not tabled in Council within seven months after the end of the financial year, as required by section 127(2) of the MFMA;

- **Expenditure management** - Money owed by the Municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA. Effective steps were not taken to prevent irregular expenditure amounting to R8 752 200 as disclosed in note 68 to the consolidated financial statements, as required by section 62(1)(d) of the MFMA. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R7 832 302, as disclosed in note 67 to the consolidated financial statements, as required by section 62(1)(d) the MFMA;
- **Budget management** - Reasonable steps were not taken to prevent unauthorised expenditure amounting to R797 189 381, as disclosed in note 66 to the consolidated financial statements, as required by section 62(1)(d) of the MFMA;
- **Asset management** - An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA;
- **Procurement and contract management** - Sufficient appropriate audit evidence could not be obtained that the performance of some of the contractors and service providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA;
- **Human resource management** - Some of the senior managers failed to disclose their financial interests within 60 days from date of appointment, as required by regulation 36(1)(a) on the appointment and conditions of employment of senior managers. Some of the senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000); and
- **Consequence management** - Unauthorised expenditure incurred by the Municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA. Irregular expenditure incurred by the Municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control deficiencies:

- The leadership did not effectively monitor and enforce the corrective action plans to address weaknesses in the processes of financial and performance reporting identified in previous financial years;
- The leadership was slow to respond to the recommendations and the requests of the AG;
- The leadership did not implement effective consequence management for poor performance and the non-achievement of deadlines set in the action plan to address the matters reported in the previous financial year;
- The Municipality lacked formalised standard operating procedures to manage performance reporting, including the safeguarding of information and importantly the effective monitoring and evaluation of reported performance information; and
- Weaknesses in the processes and controls pertaining to asset management were not adequately addressed

and the lack of regular monitoring and reconciliation of asset information resulted in the asset register not being reliable. These weaknesses gave rise to material misstatements in the consolidated financial statements.

4.1.1.10 AUDIT ACTION PLANS

There is a 2015 Audit Action Plan, which however, it is only two pages in length and has not been updated since November 2017. The Audit Action Plan is neither up to date nor monitored on a monthly basis to ensure audit matters are addressed timeously to avoid repeat of audit findings.

In the 2015/16 and again in 2016/17 the Auditor-General's report audit findings state *"The leadership did not effectively monitor and enforce the corrective action plans to address weaknesses in the processes of financial and performance reporting identified in previous financial years."*

The 2018 Mid-Year Assessment Report also indicates reluctance by Executive Management Team (EMT) in the implementation and monitoring of the audit action plan.

4.1.2 ORGANISATIONAL DEVELOPMENT CHALLENGES

4.1.2.1 ORGANISATIONAL STRUCTURE

The approved organisational structure of the Municipality has been designed with the following components (Departments) reporting to the Municipal Manager. Each department is headed by a Head of Department.

The components are as follows:

- Corporate Services;
- Budget and Treasury;
- Engineering Service;
- Fleet and Solid Waste;
- Social Services;
- Planning;
- Human Settlement;
- Economic and Rural Development;
- Organisational Planning and Performance Management; and
- Operations.

The administration of the Municipality is based on nine (9) departments, as well as an executive support which are vested in two (2) Deputy Executive Directors in the Office of the City Manager, namely Strategic Planning and Operations and Performance Monitoring and Evaluation.

The administration is headed by the City Manager as the Accounting Officer. The day to day management of the Municipality is carried out by staff under the direction of the City Manager and Heads of Departments. The City Manager and Heads of Departments have broad and general management responsibilities such as making sure staff is kept abreast of Council's direction and identifying gaps and weaknesses in service delivery. Together with Council they must monitor progress on set goals and priorities.

The top administrative structure is made up of the following Departments headed by members of the Executive Management Team:

- City Manager;
- Head: Corporate Services;
- Head: Finance (CFO);
- Head: Engineering Services;
- Head: Fleet and Solid Waste Management; and
- Head: Social Services;
- Head: Planning;
- Head: Human Settlements;
- Head: Economic and Rural Development;
- Head: Planning; Deputy Executive Director: Organisational Planning and Performance Management;
- Deputy Executive Director: Operations;
- Head: Strategic Projects and Service Delivery Regulation;
- Executive Head: Municipal Police Service.

The current organisational structure is in the process of being reviewed. This process should take cognisance of the key principles of organisational structure, which is that each position created on an organisational structure should add value to the overall performance of an organisation and the position is able to be utilised for a permanent need. cursory analysis of the top three tier of the organisational structure of the Municipality indicates that the organisational structure is bloated. This is due to creation of General Managers: Strategic Support with their own support positions as well as number of administration support positions within office of head of departments.

An in-depth operating model and organisational design review and analysis is necessary to determine the effectiveness of the top structure and efficiency of the operating model taking into consideration the amalgamation of Naledi into MMM. There is also a need to conduct work study investigation to determine objectively whether the positions created on the organisational structure are created meaningfully according to the workload and job requirements of directorates. In addition, during the implementation of the organisational structure after the amalgamation of Naledi into MMM, there were employees who were placed into units whilst

they do not possess the prerequisite qualifications. There is a need to develop a policy to correctly deal with such skill mismatch and potential redeployment.

4.1.2.2 SKILLS AND COMPETENCIES

Majority of employees (61%) comply with Municipal Regulations on Minimum Competency Levels for municipal officials. There are still 95 employees (39%) who do not comply with the financial management competency levels. Minimum competency levels are a required initiative to ensure that officials responsible for finance and supply chain management have required competencies in keeping with the principles of accountability, transparency, efficiency and effectiveness.

In addition to the above, the Municipality needs to conduct a skills audit to determine the level of skills held by the Municipality's employees. This process will lead to the identification of any gaps in order to objectively develop a training programme to address the skills and competency shortages.

During the 2016/17 financial year the Municipality also complied with the Skills Development Act requirement by submitting to the Local Government Skills Education Training Authority (LGSETA) the Workplace Skills Plan (WSP) on the due date of 30th April 2017.

One of the key challenges around the integrated process of skills development within the Municipality has been a lack of a comprehensive, holistic and integrated framework for human capital development that will guide and integrate key processes such as training needs analysis, career pathing and planning, succession planning, management and leadership development, knowledge exchange and innovation. To this end a draft Succession Planning Policy was developed with a view of consolidating all the key mandatory processes for effective human capital development, albeit the strategy must still go through the internal approval processes that will culminate with Council approval of the document.

4.1.2.3 PERFORMANCE MANAGEMENT

The Service Delivery and Budget Implementation Plan (SDBIP) for 2016/17 identifies 172 strategic performance measures with key projects and/ or services that need to be implemented during the financial year. Each Department has its number of performance measures to be implemented as depicted below:

Department	Performance Measures 2016/17
Planning	7
Economic and Rural Development	10
Engineering Services	18
Fleet and Solid Waste Management	6
Centlec	8
Strategic Projects	18
Social Service	36
Finance	23
Human Settlement	15

Department	Performance Measures 2016/17
OCM	23
Corporate Services	8
Total	172

Table 9: Departments and Performance Measures

Challenges facing MMM are:

- Poverty alleviation, rural and economic development and job creation;
- Financial sustainability (e.g. revenue enhancement, clean audit);
- Spatial development and the built environment;
- Eradication of bucket system and VIP toilets in Botshabelo, Mangaung and Thaba Nchu. Focus on the basics, building solar farming, power plant feasibility study, safety and security;
- Human settlement;
- Public transport;
- Environmental management and climate change; and
- Social and community services.

The IDP 2016/17 identifies projects and services which contribute to the achievement of the Municipality's objectives over the remaining term of Council. These projects and services are delivered using the approved SDBIP, which has been used successfully to improve performance in the previous financial years in strategic areas of Council's work. The SDBIP also contains a series of performance targets, projects and services, and measures to monitor the success in delivering improved outcomes for residents and stakeholders in Mangaung.

The Performance Management System (PMS) in the Municipality is implemented in a manner that reflects the relationship of the organisation to individual performance. At the municipal level, the PMS incorporates the IDP and Sector Plans, and these are translated into the SDBIP, which is the municipal scorecard.

The Municipality's PMS is the primary mechanism to monitor, review and improve the implementation of the IDP, and to gauge the progress made in achieving the objectives set out in the IDP. It links the municipal-wide objectives to individual level of performance management. Furthermore, the IDP informs the development of key areas of performance and targets across all performance levels. This ensures the appropriate alignment between organisational and individual performance. In terms of legislative prescripts, the City Manager is the custodian of the municipal scorecard and agrees with the Executive Mayor on the delivery aspects of the scorecard. The Audit Committee reviews the performance of the City Manager in implementing the organisational or City scorecard.

Organisational performance is monitored through assessment of progress on the implementation of the SDBIP (the municipal scorecard) and reported on SDBIP through quarterly reports. The quarterly SDBIP reports are

consolidated to inform the Municipality's annual performance report and ultimately the Annual Report for submission to the AGSA, the MEC for Local Government and other relevant stakeholders as legislated by the MSA. At the directorate level, all business plans serve as a linkage between organisational and individual performance. Effectively, the sector plans form the foundation for the development of business plans which in turn informs the development of the individual Head of Department's (Section 57 Employees') scorecards, which are an endorsement of the City Manager's scorecard. All the Section 57 employees sign performance agreements for the financial year as required by the MSA. The signing of performance agreements and the development of scorecards is an element of performance planning, which is part of the Municipality's PMS cycle that covers performance planning, coaching, reviewing and rewarding stages.

Performance management forms part of a strategic management approach to ensure integration with the municipal strategy, planning and budgeting. This process enables the Municipality to improve planning and budgeting, effectively monitor and measure performance, and transparently and convincingly report on achievements and challenges.

The Municipality has a Performance Management System for section 57 Managers and performance assessments are conducted. However, there seems to be a gap with lack of formalised Standard Operating Procedures to manage performance reporting, including the safeguarding of information and importantly the effective monitoring and evaluation of reported performance information. Furthermore, some of the Senior Managers did not sign performance agreements within the prescribed period.

However, there is no cascading of the PMS to other employees and how the overall individual reporting assists with the organisational performance. This means that other than section 56/57 managers, no other employees' performance is assessed or measured.

4.1.2.4 OVERTIME MANAGEMENT

The Municipality as of 31 April 2018, has spent R 120 186 568 on overtime. This also include R 9 414 025 which was spent on overtime relating to non-core services (Service delivery). The total amount spend on overtime was above the original budgeted for amount of R 69 887 076. The Municipality should envisage introduction of stand-by and a shift system to reduce the immoderate high cost of overtime.

Management needs to take responsibility to ensure proper expenditure management within their units including excessive overtime. This also includes ensuring that overtime is approved before hand and overtime claimed adheres to collective agreement and legislation.

4.1.2.5 LABOUR DISPUTES

There are 10 disciplinary cases within the Municipality which are incomplete. In addition, the Auditor General indicated that there is no consequence for employees who were responsible for the Municipality incurring unauthorised, irregular and fruitless and wasteful expenditure. Taking this into consideration, disciplinary case statistics are very low, and management should ensure that employees are held accountable for their actions at all times.

Number and period of suspensions is summarised below:

No.	Position Held	Nature of Alleged Misconduct	Date of Suspension	Details of Disciplinary Action Taken or Status of Case and Reasons Why Not Finalised	Date Finalised
1	Cleaner	Theft (Computer Hard Drives)	13 th January 2017	Charges have been served.	Set-down on 7 th and 8 th September 2017.
2	General Worker				
3	Cleaner				
4	Meter Reader				
5	Clerk Gr 2	Fraud (Selling of Sites)	7 March 2017	<ul style="list-style-type: none"> Investigation completed. Disruptions due to industrial action. Appointment of replacement initiator done. Ready to be prosecuted immediately after the appointment of the initiator. 	Pending
6	Senior Housing Officer				
7	Clerk Gr 2				
8	Manager: Zoo	Theft (Rhino Horns)	April 2017	Investigations completed and charges to be submitted to the accused.	Suitable date yet to be finalised for hearing set-down.
9	Snr Law Enforcement Officer				

Table 10: Number and Period of Suspensions

4.1.2.6 LEAVE MANAGEMENT AND ABSENTEEISM

In any organisation, management should instil practises which minimises leave abuse. Employees who do not abide by the Leave Policy in place need to be disciplined and most importantly a principle of no work no pay must be applicable to all. Finally, the Municipality does not have an appropriate attendance management system which is linked to the payroll resulting in poor management and abuse thereof.

4.1.2.7 TOTAL ACTUAL EMPLOYEE COSTS

Employee Related Costs	2016/17 (R)	2015/16 (R)
Basic salaries and wages	1 010 899 558	890 940 299
Bonus accrual	1 476 452	1 059 822
Contributions to medical aid	85 010 454	75 143 027
Contributions to pension funds	143 903 809	132 614 774
Contributions to UIF	7 441 438	7 138 133
Defined benefit plan – current service costs	46 190 000	36 257 000
Housing benefits and allowances	5 514 247	11 430 213
Leave pay accrual	19 515 262	29 126 827

Employee Related Costs	2016/17 (R)	2015/16 (R)
Overtime payments	173 783 328	151 400 398
Travel, motor car, accommodation, subsistence and other allowances	111 943 778	92 004 251
TOTAL	1 605 678 326	1 427 114 744

Table 11: Employee Related Costs

Employee related costs reflect an upward trend from 2015/16 to 2016/17 increasing by 12.51%. The main contributors driving the increase was the increase in basic salaries and wages (13%), overtime payments (15%) and travel, motor car, accommodation, subsistence and other allowances (22%).

4.1.2.8 VACANCY RATES

The Municipality currently has 7 128 positions of which 3 769 positions are filled (53%), with a vacancy rate of 47%. See Section 4.1.2.10 below for details.

4.1.2.9 FILLING OF CRITICAL POSITIONS

According to the vacancy list (2016/17 financial year annual report) the following critical posts need to be filled:

- General Manager: Operational Training;
- GM: Roads and Storm water;
- GM: Revenue Management;
- GM: IDP and Organisational Performance;
- Head: PMU;
- Chief Risk Officer;
- GM: Town and Regional Planning;
- GM: Architectural and Survey Services;
- GM: Fresh Produce Market;
- GM: Parks and Cemeteries;
- Head: Strategic Programmes and Service Delivery Regulations;
- GM: Regional Centre Bloemfontein; and
- GM: Landfill Site Management.

4.1.2.10 SUMMARY OF POSTS PER DEPARTMENT

The information below was obtained from the annual report 2016/17.

Department	Filled Posts	Vacant Posts	Total Posts	Vacancy Rate (%)
Directorate Corporate Services	436	174	610	33%
Directorate Economic and Rural Development	25	39	64	29%
Engineering Services	824	1 107	1 931	60%
Finance	295	201	496	57%
Directorate Human Settlements and Housing	172	137	309	41%
Office of the City Manager	387	186	573	44%
Planning	89	174	263	66%
Directorate Social Services	841	817	1 658	49%
Strategic Programmes and Service Delivery Monitoring	64	65	129	50%
Waste and Fleet Management	636	459	1 097	42%
TOTAL	3 769	3 359	7 128	47%

Table 12: Summary of Posts Per Department

The vacancy rate for services directorate across the Municipality is above 47%, implying that the Municipality is under capacitated to provide critical municipal services. However, proper analysis should be considered to determine which positions are critical and can be funded by the Municipality. This will assist in deciding whether to only have funded positions on the organisational structure, which an ideal situation is.

There are two (2) Section 57 Managers and 111 Senior Management positions vacant. The vacancy levels at the leadership and senior management level needs to be addressed. However, there is a need to establish which of these positions are critical for the Municipality to fill and relevant to address the current shortcomings.

In trying to fund the vacant positions, the contracted services budget should be assessed, which according to the financial ratio of the Municipality, they amount to amounts to 8% of the overall expenditure budget and is above the norm of 2%-5%. This might be an indication that functions which can be performed internally are outsourced.

In addition, the remuneration of employees amounts to 32% of total operating expenditure, which is within the norm of 25%-40%. However, taking into consideration the vacancy rate which is at 47%, the remuneration costs will be above the norm when all the positions on the structure are filled. This indicates that the organisational structure currently approved is bloated and unaffordable. An affordable and skilled organisational structure is paramount for the financial stability of the Municipality.

4.1.2.11 INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

To curb expenditure, ICT is assessing introducing a paperless working environment. This will reduce the cost of printing across the Municipality and improve the ICT environment, efficiency and strengthen internal controls. Further, and as a cost saving measure ICT will be introducing an integrated call centre.

The management of telephone expenditure within the Municipality needs strengthening due to abuse and mismanagement of telephones. Abuse of telephones not only contributes to the overall expenditure of the Municipality, but also on the productivity of the workforce, as time spent utilising a telephone for non-work-related calls, translates to that employee being unproductive and a waste of resources.

Finally, to ensure security of data, the IT infrastructure needs constant upgrading and the introduction of end to end data encryption.

4.1.2.12 COMMUNICATION

The Municipality does not have a strategic approach on communication. There is a need to develop a Communication and Marketing Strategy, which will be utilised as a tool to provide communication and marketing packages inclusive of programmes, campaigns and methodologies that will enable the Municipality to communicate with its community, stakeholders and employees.

4.1.2.13 FACILITIES

An important aspect of a property portfolio for the Municipality is to ensure that it can optimise revenue on behalf of the Municipality. This can be accomplished by ensuring that the Municipality's property rates are on par with the overall property market and property market values. This will require constant review of lease agreements and a clearly defined property pricing strategy for all properties owned and/or leased by the Municipality.

The Municipality will also need to adequately maintain its properties to attract and retain occupants. This will require a credible Investment Property Register, proper pricing strategy and affordable maintenance plan to be developed and implemented.

4.1.2.14 CHANGE MANAGEMENT

To ensure effective change in the Municipality relating to both personnel and service delivery, there is a need for a comprehensive change management intervention. The intervention will ensure that there is primarily a buy-in and support for the implementation of the Plan. It will further ensure that employees understand the Plan as a strategic intervention to bring the Municipality to normality and this will lead to the minimisation of resistance from employees and other key stakeholders. In addition, it will ensure that there is leadership alignment based on a common goal and vision of the future of the Municipality.

4.2 LEGAL AND CONTRACT MANAGEMENT CHALLENGES

4.2.1 LEGAL SERVICES SUB-DIRECTORATE

According to the Mangaung Annual Report for the 2016/17 Financial Year the Legal Services Sub-Directorate's main purpose is to provide professional legal advice and assistance services to the Municipality to ensure the proper protection of the Municipality's interests and compliance with its (Legal) obligations.

Accordingly, its key performance areas are identified as:

- The provision of legal advice and assistance to the Council and the administration of the Municipality to ensure the proper protection of the Municipality's interests, and compliance by the Municipality with its legal obligations and responsibilities;
- Compilation and promulgation of new and amendments to existing by-laws of the Municipality to ensure that the Municipality's by-laws cover all activities and areas that need regulation, are constantly reviewed and updated and properly; and
- Handling of the litigation process for criminal or civil cases in which the Municipality, Councillors or officials may become involved in their official capacity to ensure that the Municipality's interests are properly protected.

Based on available information there are no details regarding the organisational structure of the Legal Service Sub-Directorate. During the work-sessions it was however established that the sub-directorate consists of only 4 (four) legal advisors out of a staff complement of employees in excess of 3 000 at the Municipality.

As at 30 June 2017 the Municipality incurred:

- R14 143 768 for legal services for the 2016/17 financial year. (2015/16: R24 930 209); and
- R4 496 999 for Deeds searches in respect of title deeds and related instruments (2015/16: R8 071 311)

From additional information provided, and apart from legal costs incurred (and still escalating) as indicated above the institution sits with court judgments to the value of about R80 133 936.88 in respect of cases lost. The relevant payments in compliance of the said judgments are directly debited from the primary bank account of the Municipality by or on behalf of the judgment creditors. An inherent risk hereof is that defaulting on the payment arrangements made may lead to Council assets attached and sold in execution of the relevant judgment or order as the case maybe.

4.2.2 RESULTS FROM FINANCIAL RECOVERY WORKSHOP OF 14TH AND 15TH MAY 2018

During the work sessions the root causes of high legal costs as well as the high value judgment debts against the Metro were identified as:

- Frivolous unwinnable cases taken to the Civil Courts and Labour Courts;
- Lack of sufficient internal capacity to efficiently and effectively deal with specific legal issues e.g. drafting, vetting, scrutiny and/ or refinement of lease contracts, land alienation agreements, some of which date

back to the 2012/13 financial year;

- Non-compliance with legislation and/ or Council policies principally due to political interference; and
- Slow supply chain management processes.

To deal with the litigation management challenges and address escalating legal costs, enhance informed decision making and mitigate spiralling civil /labour courts judgment debts it is planned that:

- A litigation risk analysis will be conducted, and the litigation register updated;
- A strategy will be developed to deal with litigated matters;
- In-house litigation capacity will be trained and developed;
- A legal services charter will be developed and adopted;
- A tariff or fees schedule for appointment of attorneys and advocates will be developed and adopted;
- Terms and conditions of SLAs with attorneys on the panel will be stringently enforced; and
- More qualified legal advisors will be recruited into the institution.

The current spreading of the load for legal costs incurred and judgments made against the Municipality, amongst the client departments in the Municipality, although having a deterrent effect on frivolous litigation, would not solve the financial situation as the funds debited against each client department would still represent a drain on the funds of the Municipality.

4.2.3 RESOLUTION OF CONTRACT MANAGEMENT CHALLENGES

It is envisaged that:

- All contracts and service level agreements will be reviewed to inter alia verify the status of a contract, etc;
- Service delivery mechanisms will be reviewed;
- Periodic performance reviews of SLAs will be conducted;
- Contracts without source documents will be terminated after due process has been followed; and
- A contract management policy should be formulated, adopted and implemented in line with section 112 and Regulation 2 of Chapter 2 of the MFMA.

Fraud and corruption in awarding of contracts remain a serious problem for the Municipality, a situation not assisted by Councillor interference in championing for appointment of their preferred service providers in specific cases. During the work sessions it was acknowledged that fraud and corruption drain the Municipality's resources for sustainable service delivery. Anti-Fraud and Anti-Corruption strategies will be formulated and adopted for implementation. There is also not enough internal capacity to monitor and evaluate whether Council receives value for money in respect of contracts awarded to external service providers.

4.2.4 UNAUTHORISED EXPENDITURE

Incidents of unauthorised expenditure during the 2016/17 financial year totalled about R722 194 168 due to:

- Overspending by Engineering Services;
- Overspending by Water Services;
- Overspending by Miscellaneous Services; and
- Overspending by Corporate Services.

The opening balance from the 2015/16 Financial Year is R 2 715 566 991 (accumulated over almost 5 financial years) and inclusion of Naledi Local Municipality into MMM.

With specific reference to financial misconduct, no disciplinary steps were taken, nor any criminal proceedings instituted (since at least the 2010/11 Financial Year).

4.2.5 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure for the 2016/17 financial year amounted to R 7 546 861. The opening balance is R29 241 523, with an additional R 6 472 630 inherited from Naledi Local Municipality.

No disciplinary steps were taken against the offending employees in respect of financial misconduct, nor any criminal proceedings instituted in the same regard (a trend going back at least the past five financial years).

A Disciplinary Board is planned for by the Municipality during August 2018 for investigation of allegations of financial misconduct in the Municipality and to monitor the Municipality's disciplinary proceedings against an alleged transgressor as provided for by Regulation 4 Chapter 2 of the Municipal Regulations on financial misconduct issued in terms of the MFMA.

The Municipality has however in the interim drafted a succession planning policy document with a view to consolidate all key mandatory processes for effective human capital development, albeit the said document must still go through the internal approval processes that will culminate with Council approval.

Irregular expenditure was caused by:

- Supply chain management processes not being followed;
- During the year overpayment of Councillors' remuneration and cell phone allowance was made and led to a subsequent overpayment on fixed motor car allowance;
- Overpayment of contracts;
- Supporting documentation relating contracts awarded not provided for audit purposes; and
- Incorporation of the former Naledi Local Municipality into Mangaung.

4.2.6 AUDITOR GENERAL FINDINGS REPORT

The Audit Report of the AG for the financial year ended 30 June 2017 further inter alia notes the following in respect of the items mentioned below:

4.2.6.1 PROCUREMENT AND CONTRACT MANAGEMENT

- Sufficient appropriate audit evidence could not be obtained on the performance of some of the contractors; and
- Service providers were not monitored on a monthly basis, as required by section 116 (2) (b) of the MFMA.

4.2.6.2 HUMAN RESOURCE MANAGEMENT

- Some of the senior managers failed to disclose their financial interests within sixty (60) days from date of appointment, as required by regulation 36(1) (a) on the appointment and conditions of employment of senior managers; and
- Some of the senior managers did not sign performance agreements within the prescribed period, as required by regulation 57(2) (a) of the Municipality Systems Act of South Africa, 2000 (Act No. 32 of 2000).

4.2.6.3 CONSEQUENCE MANAGEMENT

- Unauthorised expenditure incurred by the Municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2) (a) of the MFMA; and
- Irregular expenditure incurred by the Municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2) (b) of the MFMA.

During August 2018, Council took a decision to establish a Disciplinary Board to:

- Investigate allegations of financial misconduct in the Municipality; and
- Monitor the institution of disciplinary proceedings against an alleged transgressor as provided for by Regulation 4 Chapter 2 of the Municipal Regulations on financial misconduct issued in terms of the MFMA.

4.2.6.4 EXPENDITURE MANAGEMENT

- Money owed by the Municipality was not always paid within thirty (30) days, as required by section 65(2) (e) of the MFMA;
- Effective steps were not taken to prevent irregular expenditure amounting to R8 752 200 as disclosed in note 68 to the consolidated financial statements, as required by section 62(1) (d) of the MFMA; and
- Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R7 832 302, as disclosed in note 67 to the consolidated financial statements, as required by section 62(1) (d) of the MFMA.
- Reasonable steps were not taken to prevent unauthorised expenditure amounting to R797 189 381, as disclosed in note 66 to the consolidated financial statements, as required by section 62 (1) (d) of the MFMA.

4.2.6.5 CONTINGENT LIABILITIES

In the notes to the 2015/16 annual financial statements it is stated that the Municipality is involved in the following pending claims which are based on legal advice obtained and are being contested, totalling R331 886 792 in gross value:

- Probable legal costs to be incurred for various matters handled by the various attorneys;
- Labour cases and employee related matters;
- Claims by individuals due to property damages in various incidents;
- Claims from suppliers due to contractual disputes;
- Centlec (SOC) Limited – consumption of electricity by public lighting;
- Centlec (SOC) Limited –consumption of electricity by Mangaung properties;
- Centlec (SOC) Limited –repairs and maintenance of public lighting;
- Centlec (SOC) Limited – 2015/16 consumption of electricity on streetlights; and
- Centlec (SOC) Limited – contingent interest.

Furthermore, in the annual financial statements for the year ended 30 June 2017, contingencies totalling a gross amount of R545 890 171 are categorised as follows:

- Probable legal costs to be incurred for various matters handled by the various attorneys;
- Labour cases and employee related matters;
- Claims by individuals due to property damages in various incidents;
- Claims by individuals due to various incidents;
- Centlec (SOC) Limited – consumption of electricity on public lighting;
- Centlec (SOC) Limited –consumption of electricity by Mangaung properties;
- Centlec (SOC) Limited –repairs and maintenance of public lighting;
- Centlec (SOC) Limited – 2016/2017 and 2015/16 consumption of electricity on streetlights;
- Centlec (SOC) Limited – contingent interest 2016;
- Centlec (SOC) Limited – contingent interest 2017; and
- Bloemwater dispute on the drought tariff charged.

The specific amounts involved for 2016/17 and 2015/16 financial years are stated in the relevant annual financial statements.

The Municipality has a claim against Centlec (SOC) Limited for the consumption of all public lighting (streetlights), as well as the electricity consumption of the properties owned by the entity in the Mangaung Metropolitan area.

Furthermore, there is a claim against the Municipality from Centlec (SOC) Limited for the repairs and maintenance to public lighting. As at 1 July 2015, the streetlights were transferred to Centlec (SOC) Limited. The Council resolution stated that the ownership, management and control of streetlight assets should be transferred to Centlec, but the resolution did not specify who should bear the cost of the streetlight electricity consumption, a situation needing urgent resolution by Council.

4.3 INFRASTRUCTURE AND SERVICE DELIVERY MATTERS

4.3.1 THE CONTEXT FOR INFRASTRUCTURE AND ITS MANAGEMENT

Infrastructure-related services of electricity and water provision, sanitation, solid waste disposal and roads and storm-water are constitutional rights to the citizens of South Africa and therefore the obligation of the Municipality wherein those citizens reside.

The provision, operation and maintenance and timely lifecycle replacements are imperatives to assure sustainable quality services provision; and the efficiency and effectiveness with which it is delivered is a key determinant of the financial sustainability of the Municipality.

4.3.2 POWERS, FUNCTIONS AND PERFORMANCES

The Municipality is mandated to provide all constitutionally-prescribed services to the community and provides these through its own resources.

These services include:

- Electricity supply, the Municipality is the sole shareholder of Centlec, its electricity service utility company;
- Water supply;
- Sanitation services;
- Solid waste collection and disposal;
- Roads and storm water; and
- Built-environment facilities for accommodation of Municipality administration and operations and for community services.

4.3.3 INFRASTRUCTURE SERVICES

The table below presents the infrastructure services to households and against the minimum service levels.

Service	Households at Minimum Service Level	Households Below Minimum Service Level	% Households at Minimum Service Level
Water	261 815	3 645	98.6%
Sanitation	197 650	67 600	74.5%
Solid waste	249 735	15 515	94.2%

Service	Households at Minimum Service Level	Households Below Minimum Service Level	% Households at Minimum Service Level
Electricity	254 525	10 890	95.9%

Table 13: Infrastructure Services to Households Against Minimum Service Levels**4.3.3.1 ELECTRICITY SERVICES**

The table below presents the performances against the IDP objectives as reported in the 2016/17 Annual Report:

IDP Objective	Strategy	KPI	Unit of Measurement	Annual Target 2016/17	Actual Performance 2016/17
Address electricity backlog	Increase and maintain spending levels on capital expenditure at 95% of the approved budget.	Installation of prepaid meters for the number of indigent applications received between 1 July 2016 and 30 June 2017.	The number of indigent applications received vs. the number of prepaid meters installed between 1 July 2016 and 30 July 2017.	To install prepaid meters for all the indigent applications received during the period 1 July 2016 - 30 June 2017.	Sixteen (16) applications were received and completed.
	Increase and maintain spending levels on capital expenditure at 95% of the approved budget.	Complete 426 household connections identified for electrification in the MMM area by 30 June 2017.	The number of household connections connected within the MMM area by 30 June 2017.	To supply 426 electricity connections to identified households in the MMM area by 30 June 2017.	Five hundred and forty-eight (548) house connections have been completed to date.
	Increase and maintain spending levels on capital expenditure at 95% of the approved budget.	Install and complete the number of public connections applications received, paid for this financial year by 30 June 2017.	The number of public connection applications received, paid for vs. the number of public connections installed by from 1 July 2016 - 30 June 2017.	To install public connections for all public connection applications received and paid for within the specific deadline as stipulated within the policy by 30 June 2017.	Two hundred and sixty-two (262) connections that have been paid for are completed.

IDP Objective	Strategy	KPI	Unit of Measurement	Annual Target 2016/17	Actual Performance 2016/17
	Ensure regular maintenance and upgrading of distribution and supply infrastructure and improving overall efficiency and effectiveness of other service delivery support systems and infrastructure.	Erection of thirty (30) high mast lights within the MMM area by 30 June 2017.	Number of high mast lights erected in the MMM area by 30 June 2017.	30 erected and commissioned high mast lights within the MMM area by 30 June 2017.	30 high masts have been erected and, twenty-one (21) high masts have been commissioned and nine (9) are outstanding.
	Ensure regular maintenance and upgrading of distribution and supply infrastructure and improving overall efficiency and effectiveness of other service delivery support systems and infrastructure.	Complaints received regarding single fault lights to be handled and completed within 3 days and area faults within 5 days of receipt.	% of single faults complaints received in MMM area resolved by 3 days and area faults resolved by 5 days.	90% complaints received regarding single street faults lights to be handled and completed within 3 days and area faults within 5 days of receipt during 2016/17.	Resolved: 7 556 Single faults (67.34%). Resolved: 1 691 Area faults (64%).
	Ensure regular maintenance and upgrading of distribution and supply infrastructure and improving overall efficiency and effectiveness of other service delivery support systems and infrastructure.	Single power failure complaints received to be handled and completed within an average of 2.5 hours from receipt.	% of single power failure complaints received in MMM area resolved within 2.5 hours of receipt by 30 June 2017.	90% of single power failure complaints received to be handled and completed within an average of 2.5 hours from receipt by 30 June 2017.	Single power failure complaints resolved within 2.5hrs: 1 958. Single power failure complaints received: 5 874. Total percentage of single power failure: 93.6%.

IDP Objective	Strategy	KPI	Unit of Measurement	Annual Target 2016/17	Actual Performance 2016/17
	Ensure regular maintenance and upgrading of distribution and supply infrastructure and improving overall efficiency and effectiveness of other service delivery support systems and infrastructure.	Area power failure complaints to be reduced during 2016/17.	% of area power failure reduction during 2016/17 vs same period the previous year.	Reduce the area power failure by 1% during 2016/17 vs the same quarter the previous year.	Quarter 1: Total average percentage decrease is 17.5%. Quarter 2 Total average percentage decrease is 4%. Quarter 3 Total average percentage decrease is 13%. Quarter 4 Total average percentage increase is 18.2%.
	Reduce non-technical electricity losses and the impact thereof on the local economy.	Develop the project plan for a credible and accurate system to measure the down time costs associated with power outages by 31 December 2016.	Number of submissions of a project plan for a credible and accurate system to measure the downtime costs associated with power outages by 31 December 2016.	Submission of a project plan for a credible and accurate system to measure the downtime costs associated with power outages by 31 December 2016.	Submission of a project plan for a credible and accurate system to measure the downtime costs associated with power outages by 31 December 2016.

Table 14: Electricity Performance Against IDP Objectives

4.3.3.2 WATER SERVICES

The table below presents the performances against the IDP objectives as reported in the 2016/17 Annual Report:

IDP Objective	Strategy	KPI	Unit of Measurement	Annual Target 2016/17	Actual Performance 2016/17
Eradicate water backlog	Formal domestic customers receiving water services.	% of formal erven with access to functioning basic water supply.	Completion certificate.	95% of formal erven with access to functioning basic water supply.	61.8% of formal erven with access to functioning basic water supply.
	Ensure that there is reliable water supply from source.	100% implementation of feasibility study on Gariep Dam to	Completion certificates.	Intergovernmental agreement signed to implement the projects;	Not Achieved.

IDP Objective	Strategy	KPI	Unit of Measurement	Annual Target 2016/17	Actual Performance 2016/17
		Bloemfontein pipeline.		100% of project money leveraged.	
	Reduction of non-revenue water.	Number of meters installed.	Completion Certificates.	5 000 of meters installed.	5 257 of meters installed.
		Amount of water saved.	Mega litres of water saved.	5ml/day of water saved.	1.32 Mega litres of water saved.
		Number of valves replaced/ installed.	Completion certificates.	400 valves replaced/ installed.	66 of valves replaced/ installed.
		Number of SCADA and Telemetry systems installed.	Completion certificates.	32 SCADA and Telemetry systems installed.	Not Achieved.
		100% implementation of phase 1 Maselspoort water recycling outfall pipeline.	Completion certificates.	15km of outfall pipeline developed.	Not Achieved.

Table 15: Water Services Performance Against the IDP Objectives

4.3.3.3 SANITATION SERVICES

The table below presents the performances against the IDP objectives as reported in the 2016/17 Annual Report:

IDP Objective	Strategy	KPI	Unit of Measurement	Annual Target 2016/17	Actual Performance 2016/17
Eradication of bucket system and VIP toilets	Backlog in the provision of basic sanitation services (above RDP standards). Provide formal stands with waterborne sanitation to eradicate VIP and pit toilets.	Number of households with access to decent sanitation.	Completion certificates.	2 300 households with access to decent sanitation.	5 277 households with access to decent sanitation.

IDP Objective	Strategy	KPI	Unit of Measurement	Annual Target 2016/17	Actual Performance 2016/17
Provide formal stands with waterborne sanitation to eradicate VIP and Pit toilets	Addition to Sterkwater WWTW phase 3.	Percentage expansion of the capacity of WWTW.	Completion certificates.	100% implementation of phase 3 of Sterkwater.	35% implementation of phase 3 of Sterkwater.
	North Eastern WWTW phase 2.	Percentage expansion of the capacity of WWTW.	Completion certificates.	100% implementation of phase 2 of NE WWTW.	70% implementation of phase 2 of NE WWTW.
	Refurbishment of Bloempruit WWTW.	Percentage expansion of the capacity of WWTW.	Completion certificates.	100% Refurbishment of Bloempruit WWTW.	72% Refurbishment of Bloempruit WWTW.
	Extension Botshabelo WWTW.	Percentage expansion of the capacity of WWTW.	Completion certificates.	100% completion of Phase 1 of the extension of Botshabelo WWTW.	75% completion of Design for Phase 1 of the extension of Botshabelo WWTW.
	Extension Thaba Nchu WWTW (selossha).	Percentage expansion of the capacity of WWTW.	Collection schedule.	100% completion phase 1 of the extension of Thaba Nchu WWTW.	25% completion phase 1 of the extension of Thaba Nchu WWTW.

Table 16: Sanitation Performance Against IDP Objectives

4.3.3.4 SOLID WASTE DISPOSAL

The table below presents the performances against the IDP objectives as reported in the 2016/17 Annual Report:

IDP Objective	Strategy	KPI	Unit of Measurement	Annual Target 2016/17	Actual Performance 2016/17
Accelerate waste removal	Provide households with weekly kerb-side waste removal services in formal areas.	No. of households with weekly kerb-side waste removal services in formal areas.	Weekly collection reports.	208 294 households with weekly kerb-side waste removal services in formal areas.	249 735 households with weekly kerb-side waste removal services in formal areas.
	Informal settlement dwellings with access to refuse removal.	Number of informal settlements with access to refuse removal.	Weekly collection reports.	95% of informal settlements have access to refuse removal.	62.5% of informal settlements have access to refuse removal.
Ensure waste is managed in an integrated manner	Permitted landfill sites comply with legislation.	100% completed designs for waste drop-off areas Mangaung.	Completed designs.	100% completed designs for waste drop off areas.	Not Achieved.
		No. of permitted landfill sites maintained and upgraded.	Monthly progress reports.	3 permitted landfill sites upgraded and maintained.	2 Landfill sites (Northern and Southern have been maintained and upgraded.
		Number of weighbridge developed.	Completion certificate.	2 weighbridges installed at Thaba Nchu Transfer station.	Not achieved.
	Promote reuse, recycling and recovery of waste.	Tonnage of waste diverted from the landfill sites.	Tons of waste diverted from the landfills.	240 tons of recyclable waste diverted from landfill sites for re-use, recycling or recovery.	11 348 tons of recyclable waste diverted from landfill sites for re-use, recycling or recovery.

Table 17: Solid Waste Performance Against IDP Objectives

4.3.3.5 ROADS AND STORM WATER

The table below presents the performances against the IDP objectives as reported in the 2016/17 Annual Report:

IDP Objective	Strategy	KPI	Unit of Measurement	Annual Target 2016/17	Actual Performance 2016/17
Address roads conditions	Tar and paving of gravel roads.	Km of 7m wide gravel roads tarred or paved.	Completion certificates for gravel roads tarred or paved.	11 km of 7m wide gravel roads tarred or paved.	11.046 km of 7m wide gravel roads tarred or paved.
	Heavy rehabilitation of existing main tar roads.	Km of 7m wide roads rehabilitated.	Completion certificates for roads rehabilitated.	4km of 7m wide roads rehabilitated.	4.76 km of 7m wide roads rehabilitated.
	Resurfaced (resealed) roads.	Km of 7m wide roads resurfaced.	Completion certificates for roads resurfaced (resealed).	12km of 7m wide roads resurfaced.	23.32 km of 7m wide roads resurfaced.
	Install storm water drainage.	Length (Km) of Storm- water drainage installed.	Completion certificates for storm-water drainage installed.	7 km of Storm water drainage installed.	7.008 km of storm-water drainage installed.

Table 18: Roads and Storm water Performance Against IDP Objectives

4.3.4 INFRASTRUCTURE FINANCIALS

The municipal financial sustainability is influenced by all considerations presented in this report, however for sake of emphasis, it is the infrastructure related services that are the primary source of revenue. The revenue less the expenditure directly related to the infrastructure services, is the surplus that primarily funds all other municipal operating and administrative expenditure.

The purpose of this section is to assess the order of magnitude of the infrastructure services' surplus.

4.3.4.1 ALLOCATION OF REVENUE

The table below presents the revenue categories allocated to specific infrastructure service, or where not specific, is identified as applicable to all services.

Revenue category	Infrastructure service	Revenue	2017
Service charges	Water	Sale of water	R 783 566 122
Service charges	Water	Sale of water - Naledi and Soutpan	R 8 579 961

Revenue category	Infrastructure service	Revenue	2017
Service charges	Water	Sale of water - Prepaid water	R 7 435 337
Service charges	Sanitation	Sewerage and sanitation charges	R 224 698 006
Service charges	Sanitation	Sewerage and sanitation charges - Naledi and Soutpan	R 5 056 938
Service charges	Solid waste	Refuse removal	R 88 484 829
Service charges	Solid waste	Refuse removal - Naledi and Soutpan	R 3 974 146
Service charges	Electricity	Sale of electricity	R 1 311 804 107
Service charges	Electricity	Sale of electricity - Naledi and Soutpan	R 20 099 376
Service charges	Electricity	Sale of electricity - Prepaid electricity	R 733 870 346
Service charges	Built-environment	Facilities and equipment rental of facilities	R 34 814 857
Service charges	Built-environment	Rental of equipment	R 506 188
Service charges	Built-environment	Other	R 352 658
Other income	Sanitation	Analysis of industrial effluent	R 1 801 199
Other income	Electricity	Connection and re-connection of water	R 27 648 844
Other income	Roads and Storm water	Parking fees	R 1 057 695
Other income	Solid waste	Removal fees	R 516 278
Government operating grants	All Services	Equitable share	R 622 989 000
Government operating grants	Roads and Storm water	Fuel levy	R 272 691 000
Government operating grants	Electricity	Demand Side Management Grant	R 7 000 000

Table 19: Revenue Categories Allocated to Infrastructure Service

The total revenue allocation to infrastructure services is R5.185 billion of the total R7.590 billion, the difference relating primarily to the capital grants and the gains from transfer of functions not previously under the control of the Municipality. When removing these, the infrastructure services revenue is the primary source of operating revenue.

4.3.4.2 ALLOCATION OF EXPENDITURE

Employee Related Costs

Employee-related costs were assigned as per the 2016/17 Annual Report and presented in the table below.

Service	Employee-related cost
Water	R 96 616 619,00
Sanitation	R 77 863 472,00
Solid waste	R 172 925 299,00
Roads and Storm-water	R 71 277 801,00

Table 20: Allocation of Employee Related Costs

The employee-related expenditure was not provided for electricity services and this was deduced by using the employee numbers provided in the 2016/17 Annual Report and presented in the table below.

Service	Posts	Employees
Water and Sanitation	1 191	597
Solid waste	728	466
Electricity	2 258	661
Roads and Storm-water	580	193

Table 21: Department Employee Data

The electricity services employee count as a percentage of the total, was used to deduce the likely employee expenditure for electricity services by applying the percentage to the total of employee expenditure of the other services.

Bulk services, contracted services and general expenses

In addition, to the allocation of depreciation and repairs and maintenance from the statement of financial performance, the following expenditure categories were allocated to the specific infrastructure service; or identified as an expense applicable to all infrastructure services. Where the expense category is applicable to all services; then the amount is apportioned in accordance with the infrastructure services asset value to the total.

The amounts referenced are per the 2016/17 audited annual finance statements.

The table below presents the expenditure categories considered in the infrastructure services surplus calculation.

Expense Category	Expense Description	Infrastructure Service	2017
Bulk purchases	Electricity	Electricity	R 1 452 060 931
Bulk purchases	Water	Water	R 454 557 547
Contracted services	Consultant fees	All services	R 26 268 849
Contracted services	Contractors fees	All services	R 12 687 647
Contracted services	Meter reading services	Electricity	R 23 526 667
Contracted services	Meter replacement	Electricity	R -
Contracted services	Refuse removal	Solid waste	R 37 459 682
Contracted services	Security services	Built-environment	R 45 056 551
Contracted services	Other Contractors	All services	R 96 346 364
General expenses	Chemicals	Sanitation	R 5 047 751
General expenses	Cleaning	Built-environment	R 572 468
General expenses	Electricity	Electricity	R 4 299 201
General expenses	Fuel and oil	All services	R 24 360 792
General expenses	Insurance	All services	R 43 028 367
General expenses	Licence fees	All services	R 16 021 552
General expenses	Motor vehicle expenses	All services	R 18 683 900
General expenses	Tools, plant and equipment	All services	R 344 332
General expenses	Vacuum services	Sanitation	R -
General expenses	Water research	Water	R 2 977 470

Table 22: Expenditure Categories Considered in the Infrastructure Services Surplus Calculation

4.3.4.3 ALLOCATION OF PROPERTY, PLANT AND EQUIPMENT (PPE)

The infrastructure services PPE asset value as a percentage of the total was used to apportion revenue and expenditure which were identified as applicable to all services. Revenue apportioned to all services includes property rates and equitable share operating grants.

The table below presents the PPE as reported in the 2016/17 annual financial statement.

Services	Infrastructure	2017 Cost / Valuation	2017 Carrying Value
Land	Land	R 1 627 641 214	R 1 627 641 214
Built-environment	Buildings	R 1 360 875 418	R 1 347 387 674
Built-environment	Buildings – WIP	R 55 771 205	R 55 771 205
Roads and storm water	Infrastructure - Roads and roads	R 5 216 466 055	R 3 291 836 655
Water	Infrastructure - Water network	R 2 253 939 252	R 1 569 465 534
Water	Infrastructure - Water meters	R 171 530 620	R 114 549 089
Sanitation	Infrastructure - Sanitation network	R 2 527 943 006	R 2 016 238 424
Electricity	Infrastructure – Electrical	R 4 039 945 404	R 3 531 042 042
Capital WIP	Infrastructure – WIP	R 1 521 353 423	R 1 521 353 423
Solid waste	Community - Landfill sites and Quarries	R 558 173 629	R 164 691 483
Built-environment	Community – Other	R 1 076 444 400	R 607 446 481
Built-environment	Community – WIP	R 90 337 704	R 90 337 704
Fleet	Fleet	R 439 082 255	R 284 049 830
All services	Other property, plant and equipment	R 162 002 458	R 86 741 582
Biological	Zoo animals	R 5 468 420	R 5 467 742

Table 23: PPE as Reported in the 2016/17 Annual Financial Statements

The above PPE was allocated to the respective infrastructure services as illustrated in the below table.

Infrastructure Service	Cost / Valuation	Carrying Value	% of Total
Roads and Storm water	R 5 216 466 055,00	R 3 291 836 655,00	30%
Electricity	R 4 039 945 404,00	R 3 531 042 042,00	23%
Built-environment	R 2 583 428 727,00	R 2 100 943 064,00	15%
Sanitation	R 2 527 943 006,00	R 2 016 238 424,00	15%
Water	R 2 425 469 872,00	R 1 684 014 623,00	14%
Solid waste	R 558 173 629,00	R 164 691 483,00	3%

Table 24: Allocation of PPE to Service Delivery Departments

Mangaung Draft Financial Recovery Plan

4.3.4.4 CONSOLIDATED INFRASTRUCTURE SERVICE OPERATING SURPLUS

The table below summarises the allocation of revenue and expenditure to infrastructure services and presents the resulting surplus/deficit per service and total.

Income and Expenditure		Built-environment	Electricity	Roads and Storm water	Sanitation	Solid waste	Water	Total
		15%	23%	30%	15%	3%	14%	
Income	Service charges	35 673 703	2 100 422 673	-	229 754 944	92 458 975	799 581 420	3 257 891 715
	Property tax	147 958 546	231 376 404	298 758 284	144 780 759	31 967 810	138 911 901	993 753 704
	Operating grants - specific	-	7 000 000	272 691 000	-	-	-	279 691 000
	Operating grants - allocation	92 755 928	45 050 986	187 293 012	90 763 758	20 040 775	87 084 542	622 989 000
	Other income - specific			1 057 695	1 801 199	516 278	27 648 844	31 024 016
	Total Income	276 388 177	2 483 850 063	759 799 991	467 100 660	144 983 838	1 053 226 707	5 185 349 435
Expenditure	Employee related costs	-	221 902 091	71 277 801	77 863 472	172 925 299	96 616 619	640 585 282
	Depreciation and amortisation	135 380 329	211 706 687	273 360 315	132 472 691	29 250 170	127 102 755	909 272 947
	Repairs and maintenance	49 987 230	78 169 634	57 276 184	24 615 694	65 727 290	121 731 106	397 507 138
	Bulk purchases	-	1 452 060 931	-	-	-	454 557 547	1 906 618 478
	Contracted services - specific	45 056 551	23 526 667	-	-	37 459 682	-	106 042 900
	Contracted services - allocation	20 145 046	31 502 664	40 676 930	19 712 380	4 352 523	18 913 316	135 302 860

Mangaung Draft Financial Recovery Plan

Income and Expenditure		Built-environment	Electricity	Roads and Storm water	Sanitation	Solid waste	Water	Total
		15%	23%	30%	15%	3%	14%	
	General expenses - specific	572 468	4 299 201		5 047 751		2 977 470	12 896 890
	General expenses- allocation	15 251 985	23 850 934	30 796 849	14 924 410	3 295 332	14 319 432	102 438 943
	Total expenditure	266 393 609	2 047 018 810	473 388 079	274 636 398	313 010 297	836 218 245	4 210 665 438
Surplus (+ value) / Shortfall (- value)		9 994 567	436 831 253	286 411 912	192 464 261	168 026 459	217 008 463	974 683 997

Table 25: Allocation of Revenue and Expenditure to Infrastructure Services

The outcome of the allocations of revenue and expenditure yielded a surplus of R975 million for 2016/17. The further understanding required is whether this is adequate to fund the balance of operating expenditure and secondly, whether this surplus is appropriate.

4.3.4.5 ADEQUACY OF THE INFRASTRUCTURE SERVICE OPERATING SURPLUS

The table below presents the operating surplus/ deficit as the difference between the infrastructure surplus less the balance of operating expenditure not allocated to infrastructure services.

Description	2016/17
Infrastructure surplus	R 974 683 997
Total expenditure per AFS	R 6 566 851 616
Expenditure accounted against infrastructure services	R 4 210 665 438
Balance of operating expenditure to be serviced from infrastructure surplus	R 2 356 186 178
Operating surplus/(deficit) (Infrastructure surplus less balance of operating expenditure)	(R 1 381 502 181)

Table 26: Operating Surplus / Deficit

The result is that the Municipality is in deficit to R1.382 billion, stated differently, the Municipality's primary source of revenue generated from infrastructure services, less the expenditure required to deliver those services; cannot fund the balance of operating expenditure.

4.3.4.6 APPROPRIATENESS OF THE INFRASTRUCTURE SERVICE OPERATING SURPLUS

Considering the infrastructure services surplus cannot financially support the Municipality, the issues then are two-fold:

- Correctness of the surplus, i.e. can it be more; or potentially less; and
- Subject to the above outcomes, what actions must be taken to improve surplus.

4.3.4.7 ADEQUACY OF REPAIRS AND MAINTENANCE

Repairs and maintenance is a discretionary spend that should conform with National Treasury benchmarks of 8% of carrying value. Should the value of repairs and maintenance be materially lower it implies that infrastructure condition is being compromised in the interest of maintaining adequate surplus.

The table below illustrates that the repairs and maintenance for 2016/17 was only 3.12% compared to the requirement by National Treasury's benchmark of 8% of carrying value.

Infrastructure service	Required R and M	Actual R and M	Actual vs Required
Roads and Storm water	R 263 346 932	R 57 276 184	22%
Electricity	R 282 483 363	R 78 169 634	28%
Built-environment	R 168 075 445	R 49 987 230	30%
Sanitation	R 161 299 074	R 24 615 694	15%

Infrastructure service	Required R and M	Actual R and M	Actual vs Required
Water	R 134 721 170	R 121 731 106	90%
Solid waste	R 13 175 319	R 65 727 290	49%
	R 1 023 101 303	R 397 507 138	39%

Table 27: Repairs and Maintenance Shortfall

The above under-maintenance of approximately R600 million should be deducted from the surplus of R975 million leaving approximately R375 million; making the financial position worse. Under-maintenance will eventually compromise the infrastructure leading to declining performance and financial sustainability.

4.3.4.8 ELECTRICITY AND WATER REVENUE LOSSES

The table below presents the revenue losses as reported in the 2016/17 AFS.

Revenue Losses	2016/2017
Electricity losses	R 162 866 611
Water losses	R 217 478 344
Total revenue losses	R 380 344 955

Table 28: Electricity and Water Revenue Losses

The above implies that the total operating deficit could be reduced by R380 million if the losses are addressed.

4.3.5 INSIGHTS FROM FINANCIAL RECOVERY WORKSHOP OF 14TH AND 15TH MAY 2018

4.3.5.1 HEAD OF DEPARTMENT (HOD) PRESENTATIONS

The following pertinent points were highlighted from the respective presentations of the infrastructure related services.

CENTLEC:

- By the end of the financial year all credit meters will be phased-out and replaced with pre-paid or time-of - use;
- The need to reduce overtime and move to shift system;
- Dedicated revenue team for revenue enhancement and protection;
- Eradicating estimated consumption and implement actual readings;
- Pursuing smart meters for street lighting; and
- Addressing concerns for increased shift by consumers to solar generation and alternate energy sources that reduces electricity purchases.

Engineering Services, Waste and Fleet:

- Shortage of staff – no reporting General Managers / Higher number of aged and sick;
- Shortage of fleet;
- Inadequate budget and infrastructure degradation;
- Geographic extent – more travel time than work time;
- Slow supply chain / procurement processes;
- Higher water losses – lack of budget to maintain infrastructure and metering issues, old/unmetered, no proactive leak detection;
- Water demand reduction and bulk supply to maintain supply;
- High-level of industrial effluent treated, high cost and no related revenue; and
- High incidence of foreign objects in sewer system causing blockages.
- Deteriorating roads infrastructure

4.3.5.2 SERVICE DELIVERY CLUSTER COMMISSIONS

The service delivery commission discussed the root or underlying causes leading to the City's financial challenges and these are summarised below. The commission considered the following contributors to having significant bearing on the financial challenges.

Administrative / Executive Leadership:

- Political interference in administrative or operational responsibilities that are counter-productive;
- Staff and organised labour have an unhealthy control and influence over the execution of work and performance and management in general;
- Lack of continuity in leadership and related lack of continuity in implementation of strategy and plans;
- Failure to achieve alignment of all staff to the City vision; and
- Failing to focus on the core or priority issues and needs.

Financial Working Capital:

- 45% of the City's expenditure is for employee and councillor remuneration;
- Failing to recovery revenue and of which Government clients is a significant contributor;
- City water tariffs is not cost reflective and specifically relating to the Bloemwater tariffs;
- Significant water revenue losses;
- No visibility of cash in bank, liability created from approved budget when cash is not available to fund the budget;

- Legal challenge and attachments; and
- Excessive indigent services and questionable list of indigents.

Getting the basics right:

- Poor follow-through on planning;
- Priority on projects and no maintenance of existing infrastructure;
- Capacitation of required resources including staff, fleet, materials and services;
- Business process visibility and performance;
- Non-payment of service providers which impacts service delivery; and
- Deficient customer services, numerous call centres and lack of process management to closure.

4.3.5.3 CONCLUSIONS FROM THE WORKSHOP

The following observations and conclusions are drawn:

The service delivery commission reflected that Mangaung was a highly-respected City with regards financial and service delivery performance; however, the past years had seen a significant regression. Much of this regression was considered to be related to poor leadership where political interference and labour's control over the administration is prominent.

The City's bulk water supply is provided by Bloemwater, contractually 69% of requirements, and from City's own catchment, the balance of 31%. The following issues are apparent:

- The City is currently only supplying 20% of the raw water requirements and the difference, i.e. 11%, supplied by Bloemwater at higher than normal tariffs;
- The City's tariffs do not reflect Bloemwater tariffs and therefore will contribute to water revenue losses; and
- The City is basically the sole client of Bloemwater, which implies that the City will fund all operational and capital expenditure of Bloemwater. A detailed assessment is necessary to evaluate whether this mechanism is optimal for the City.

CENTLEC is the electricity distribution utility of the City.

Resource capacitation and equally importantly, the efficient use thereof is a significant constraint to service delivery of which vehicle and specialised fleet is one. The expansion of the City to include outlying towns has further challenged the resources and often resulting in disproportionate travel time to productive work.

Existing infrastructure is not maintained and there is the practice of rather investing in new projects and then similarly to existing, not maintaining thereafter. Failure to maintain infrastructure is a major contributor to revenue losses and service delivery performance.

4.3.6 CONCLUSION

The implication of the status-quo findings is that the infrastructure-related service delivery financial surplus will not materially change and contribute to bringing the Municipality into a financially sustainable position.

The following requires further investigation and attention:

- Enabling recovery of revenue related to delivery of electricity, water, sanitation and waste removal services, and the following are important to CENTLEC; City's Engineering Services and City's Waste Departments:
 - All deficient water and electricity supply and consumption metering must be addressed to enable revenue billing for consumption;
 - Accelerate the implementation of pre-paid metering to replace credit-metering;
 - Assess tariffs to assure cost-reflective; and
 - Indigent communities are receiving a higher service level from the City than recommended. This implies that the City must fund the difference between Grants and actual expenditure.
- Reduced expenditure related to bulk water supply:
 - Resolve the constraints to increase supply of bulk water from City's catchment to reduce reliance of higher-cost water from Bloemwater; and
 - A long-term intervention is required to optimise the supply of bulk water for the City's benefit, i.e. the sources and roles of Bloemwater and City's own bulk water supply function.
- Turnaround deficient infrastructure asset management:
 - The City's financial position is causing existing infrastructure and required supporting resources not to be maintained, and with required capital lifecycle replacements. This scenario places the City into a negative spiral of unreliable infrastructure, high cost, service delivery failure, reducing revenue and disinterest in private sector investment as example. The longer and deeper the spiral, the higher the capital and operating cost required and longer the time to recover; and
 - Infrastructure related planning including sector plans and master plans are not maintained or acted upon placing the City's medium to long term sustainability in jeopardy.

4.4 FINANCIAL CHALLENGES

4.4.1 OVERVIEW

This section provides a summary of the current challenges. Detailed financial challenges are presented in Section 4.4.7 of this document.

The financial sustainability challenges are due to the absence of strategic direction at a political level, articulated in a long-term vision and plan, and as a result, the capital budget is not influenced by a strategic vision and plan for the city, poor financial management, operations and administrative inefficiencies, lack of proper leadership, poor planning, inadequate delegations, lack of staff discipline and performance and lack of accountability.

Overall the poor or non-implementation of administrative systems, policies, procedures, processes, financial controls and poor budgeting techniques, over-spending together with non-compliance by the Municipality with the relevant legislative framework, contributed largely to the current state of affairs.

The high level financial challenges are as follows:

- Absence of accurate and credible budget (incremental budgeting technique used);
- Absence of Budget Steering Committee as per MBRR requirements that led to non-adherence of key deadlines on the Council approved IDP and budget process plan.
- Material cash flow constraints leading to the Municipality not being able to meet its financial commitments such as paying its creditors timeously and unable to spend at appropriate levels on its repairs and maintenance to existing assets or purchase of new assets which in turn impact negatively on service delivery;
- Lack of budget monitoring by Executive Management Team (EMT);
- Poor financial management internal controls and absence of synergy between BTO and other municipal departments for maximisation of revenue collection;
- Under spending on conditional grants due to cash flow shortages and the spending of conditional grants on normal operating expenditure;
- Unable to collect outstanding debtors;
- Poor billing due to lack of or damaged meters, incorrect debtor's data, no revenue enhancement, etc;
- Labour controlled administrative environment; and
- Absence of a responsive and adequately prepared Audit Action Plan.

To assess the financial health of the Municipality, a summary of the key ratio analysis was done, and linked to the MFMA Circular 71 and are set out below. The details are also provided in Annexure A.

4.4.2 FINANCIAL RATIOS

4.4.2.1 FINANCIAL RATIOS CONSOLIDATED

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
Asset Management Utilisation				
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%.	20%	21%	19%	<p>The amount outlaid on capital in 2014/15 and 2015/16 was above the norm which indicates a possible investment in infrastructure to increase capacity and accommodate envisaged growth within the Municipality.</p> <p>While there was a decrease in the 2016/17 financial year, the ratio is still within the norm but should not decline substantially due to the current service delivery requirements.</p>
Debtors Management				
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. The norm is 30 days.	98 days	116 days	132 days	<p>The debtors' payment period was above the norm for all three financial years, which is indicative of its current cashflow challenges.</p> <p>The inability to collect revenue and thereby convert revenue to cash is a contributing factor to the cash flow challenges being experienced by the Municipality.</p>
Annual Collection Rate - indicates the level of payments	84%	86%	76%	The collection rate remained below the norm for all three

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
<p>as a percentage of revenue billed on credit.</p> <p>The norm is 95%.</p>				<p>financial years under consideration.</p> <p>There is a downward trend in the ratio over the last financial year.</p> <p>The inability to collect revenue and thereby convert revenue to cash is a contributing factor to the cash flow challenges being experienced by the Municipality.</p>
Liquidity Management				
<p>Liquidity Ratio (Current Ratio)</p> <p>- this ratio indicates the extent to which current assets can be used to settle short-term liabilities.</p> <p>If current assets do not exceed current liabilities it means a liquidity problem i.e. insufficient cash to meet financial obligations.</p> <p>The norm is 1.5 - 2:1.</p>	1.4	0.9	1	<p>The current ratio was below the norm in all 3 financial years.</p> <p>There was a minor improvement in the 2016/17 financial year, but the ratio remained below the norm.</p> <p>This is an indication that the Municipality will not be able to pay its current or short-term liabilities (Debt and Payables) with its short-term assets (i.e. Cash, Inventory, Receivables) as and when they fall due.</p>
Liability Management				
<p>Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue.</p>	19%	25%	26%	<p>The level of borrowing within the Municipality has been maintained at an acceptable level for the last three years.</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
<p>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.</p> <p>The norm is 45%.</p>				<p>While there is capacity to borrow, this should be measured against its collections and ability to repay loans.</p> <p>The borrowings relate to:</p> <ul style="list-style-type: none"> - Borrowing (ABSA, The Standard Bank of South Africa, and The Development Bank of South Africa); - Finance Lease Obligation; - Freshco Liability; and - Land availability Liability.
<p>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.</p> <p>The norm is 6% - 8%.</p>	1.9%	1.9%	3.4%	<p>The ratio is increased in the last financial year but has remained below the norm indicating that the Municipality is able to service its current debt levels.</p> <p>Borrowing and credit needs to be appropriately managed to avoid a situation where the Municipality is no longer able to service its debt levels.</p> <p>This ratio is to be read with the Debt/ (Total Borrowing)/ Revenue ratio and its collection rate.</p>
Efficiency				

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
Net Operating Margin – measures the net surplus or deficit as a percentage of revenue. The norm is > 0%.	1%	-2%	13%	<p>The net operating margin reflected a surplus in 2014/15, followed by a significant loss in 2015/16, and a significant profit in 2016/17.</p> <p>Despite a decline from 2014/15 to 2015/16, there was an improvement in 2016/17.</p> <p>This improvement and resulting net surplus is directly attributable to the fair value gain on investment property of R 91.24 million.</p> <p>Note that the ideal would be for all surpluses to be cashbacked.</p>
Distribution Losses				
Electricity Distribution Losses (%) The norm is 7% - 10%.	12.9%	13.2%	10.8%	<p>Electricity Distribution losses for all three financial years were above the norm.</p> <p>This is indicative of high electricity distribution losses and potential aged infrastructure and unmetered connections and theft, which should be investigated.</p>
Water Distribution Losses (%) The norm is 15% - 30%.	39.7%	34.9%	48.0%	<p>The water distribution losses are high and above the norm for all 3 financial years.</p>
Revenue Management				

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
Revenue Growth (%) – measures the growth in revenue year on year. The norm is > 5%.	-6%	6%	30%	<p>Revenue growth reflects an improvement over the last two years, with the growth rate significantly above inflation in the most recent financial year.</p> <p>The significant growth is directly attributable to a R 1.15 billion gain from transfer of functions between entities not under common control.</p> <p>This was the gain recognised when MMM acquired all the functions of the former Naledi Local Municipality on 6 August 2016.</p> <p>Ideally this growth should be from direct economic development growth and growth in revenue excluding tariff increases.</p>
Revenue Growth (%) - Excluding Capital Grants - measures the growth in revenue excluding capital grants year on year. The norm is > 5%.	-2%	4%	34%	<p>Revenue excluding capital grants reflected a decline in the 2014/15 financial year, however there was growth in the 2015/16 and 2016/17 financial years.</p> <p>The significant growth in the most recent financial year is directly attributable to a R 1.15 billion gain from transfer of functions between entities not under common control.</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				<p>This was the gain recognised when MMM acquired all the functions of the former Naledi Local Municipality on 6 August 2016.</p> <p>Ideally this growth should be from direct economic development growth and growth in revenue excluding tariff increases.</p>
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.	36 days	60 days	71 days	<p>The creditor payment period has been deteriorating since 2014/15.</p> <p>The days are in excess of the norm indicating that suppliers are not being paid within 30 days.</p> <p>This is consistent with the cash flow challenges being experienced by the Municipality.</p> <p>This may also be as a result of inadequate payment processes and related controls, disputes and delays in the processing of payments or cash flow challenges, as indicated above.</p>
Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure -	24%	25%	25%	<p>The ratio is within the norm of 25% to 40% for the last three years indicating that the Municipality has maintained</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
Indicates the extent to which expenditure is applied to the payment of personnel. The norm is 25% - 40%.				staffing levels and/or salaries at an appropriate level. Note that critical vacancies remain unfilled and/or unfunded.
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%.	6%	8%	7%	The ratio is above the norm of 2% - 5% for the last three years indicating that the Municipality is reliant on contracted services to perform Municipal related functions. Further analysis indicates that this figure is understated as the contracted services line item excludes repairs and maintenance which is partially outsourced.
Irregular, Fruitless and Wasteful and Unauthorised Expenditure to Total Expenditure – this ratio measures the extent of irregular, fruitless and wasteful and unauthorised expenditure to total expenditure. The norm is 0%.	19%	11%	13%	There was a decline in irregular, fruitless and wasteful and unauthorised expenditure from 2014/15 to 2015/16 followed by an increase in 2016/17. The Municipality has taken measures to reduce the irregular, fruitless and wasteful and unauthorised expenditure incurred by the Municipality, but this is still high and needs management.
Repairs and Maintenance to Property, Plant and	2%	3%	2%	Repairs and maintenance to property, plant and equipment

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
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%.				<p>and investment property is low.</p> <p>This is an indication that insufficient expenditure toward repairs and maintenance and that asset stripping is taking place.</p> <p>This is further reducing the production capacity of the municipal infrastructure and hence the current water and electricity distribution losses</p>
Grant Dependency				
Own Source Revenue to Total Operating Revenue (Including Agency Revenue) - measures the extent to which the Municipality's total revenue is funded through internally generated funds and borrowings.	81%	83%	86%	<p>This is an indication that the Municipality is not solely reliant on government funding to fund its obligated municipal services.</p> <p>The dependency decreased in the last financial year but should the collection rates decline further grant dependency would be inevitable</p>
Own Funded Capital Expenditure (Internally Generated Funds plus Borrowing) to Total Capital Expenditure - Measures the extent to which the Municipality's total capital expenditure is funded through	45%	51%	48%	<p>This is an indication that the Municipality is unable to generate sufficient funds (internally or through borrowing) to fund capital requirements and is reliant on grant funding.</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
internally generated funds and Borrowings.				This is consistent with the cashflow challenges.

4.4.2.2 FINANCIAL RATIOS -MANGAUNG EXCLUDING CENTLEC

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
Asset Management Utilisation				
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%.	22%	24%	22%	<p>The amount outlaid on capital has been above the norm for the last three years which indicates a possible investment in infrastructure to increase capacity and accommodate envisaged growth within the Municipality.</p> <p>While there was a decrease in the 2016/17 financial year, the ratio is still above the norm.</p> <p>Ability to borrow and pay must be done within the framework of a long term financial plan.</p>
Debtors Management				
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. The norm is 30 days.	154 days	150 days	163 days	<p>The debtors' payment period was above the norm for all three financial years.</p> <p>Despite a minor improvement from 2014/15 to 2015/16, the ratio only worsened again in 2016/17.</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				The inability to collect revenue and thereby convert revenue to cash is a contributing factor to the cash flow challenges being experienced by the Municipality.
Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit. The norm is 95%.	64%	75%	57%	<p>The collection rate remained significantly below the norm for all three financial years under consideration.</p> <p>Despite an improvement from the 2014/15 to the 2015/16 financial year, the collection rate only worsened again in the 2016/17 financial year.</p> <p>The inability to collect revenue and thereby convert revenue to cash is a contributing factor to the cash flow challenges being experienced by the Municipality.</p> <p>This is also indicative that with the exclusion of electricity from the revenue mix (and credit control tool) this ratio will decline further.</p> <p>This also signals a reliance on grants.</p>
Liquidity Management				
Liquidity Ratio (Current Ratio) - this ratio indicates the extent to which current assets can be	1.6	1.1	1.2	The current ratio was above the norm in the 2014/15 financial year but deteriorated

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
<p>used to settle short-term liabilities.</p> <p>If current assets do not exceed current liabilities it means a liquidity problem i.e. insufficient cash to meet financial obligations.</p> <p>The norm is 1.5 - 2:1.</p>				<p>significantly in the 2015/16 financial year to well below the norm.</p> <p>There was a minor improvement in the 2016/17 financial year, but the ratio remained below the norm.</p> <p>This is an indication that the Municipality will not be able to pay its current or short-term liabilities (Debt and Payables) with its short-term assets (i.e. Cash, Inventory, Receivables) as and when they fall due.</p>
Liability Management				
<p>Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue.</p> <p>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.</p> <p>The norm is 45%.</p>	23%	37%	35%	<p>The level of borrowing within the Municipality has been maintained at an acceptable level for the last three years.</p> <p>The borrowings relate to:</p> <ul style="list-style-type: none"> - Borrowing (ABSA, The Standard Bank of South Africa, and The Development Bank of South Africa); - Finance Lease Obligation; - Freshco Liability; and - Land availability Liability.
<p>Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure -</p>	2%	3%	5%	<p>The ratio is increasing over the years but has remained below the norm indicating that the</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
<p>indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure.</p> <p>The norm is 6% - 8%.</p>				<p>Municipality is able to service its current debt levels.</p> <p>Borrowing and credit needs to be appropriately managed to avoid a situation where the Municipality is no longer able to service its debt levels.</p> <p>This ratio is to be read with the Debt/ (Total Borrowing)/ Revenue ratio and the collection ratio above.</p>
Efficiency				
<p>Net Operating Margin – measures the net surplus or deficit as a percentage of revenue.</p> <p>The norm is > 0%.</p>	-18%	-28%	5%	<p>The net operating margin reflected a deficit in 2014/15 and 2015/16 followed by a minor profit in 2016/17.</p> <p>Despite a decline from 2014/15 to 2015/16, there was an improvement in 2016/17.</p> <p>This improvement and resulting net surplus is directly attributable to the fair value gain on investment property of R 91.24 million.</p>
Distribution Losses				
<p>Water Distribution Losses (%)</p> <p>The norm is 15% - 30%.</p>	40%	35%	48%	<p>The water distribution losses are above the norm for all three financial years.</p> <p>There was an increase to significantly above the norm in 2016/17.</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				These losses are contributing to the financial challenges being experienced by the Municipality and mitigation strategies need to be developed and implemented to reduce losses.
Revenue Management				
Revenue Growth (%) – measures the growth in revenue year on year. The norm is > 5%.	-9%	2%	40%	Revenue growth reflects an improvement over the last three years, with the growth rate significantly above inflation in the most recent financial year. The significant growth is directly attributable to a R 1.15 billion gain from transfer of functions between entities not under common control. This was the gain recognised when MMM acquired all the functions of the former Naledi Local Municipality on 6 August 2016. Ideally this growth should be from direct economic development growth and growth in revenue excluding tariff increases.
Revenue Growth (%) - Excluding Capital Grants - measures the growth in	-9%	-2%	47%	Revenue excluding capital grants reflected a decline in the 2014/15 and 2015/16 financial

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
<p>revenue excluding capital grants year on year.</p> <p>The norm is > 5%.</p>				<p>year, however there was significant growth in 2016/17.</p> <p>The significant growth is directly attributable to a R 1.15 billion gain from transfer of functions between entities not under common control.</p> <p>This was the gain recognised when MMM acquired all the functions of the former Naledi Local Municipality on 6 August 2016.</p> <p>Ideally this growth should be from direct economic development growth and growth in revenue excluding tariff increases.</p>
Expenditure Management				
<p>Creditors Payment Period</p> <p>This ratio indicates the average number of days taken for trade creditors to be paid.</p> <p>The norm is 30 days.</p>	103 days	87 days	91 days	<p>The creditor payment period has in excess of the norm for the last three years indicating that suppliers are not being paid within 30 days.</p> <p>This is consistent with the cash flow challenges being experienced by the Municipality.</p> <p>This may also be as a result of inadequate payment processes and related controls, disputes and delays in the processing of</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				payments or cash flow challenges, as indicated above.
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. The norm is 25% - 40%.	31%	32%	32%	The ratio is within the norm of 25% to 40% for the last three years indicating that the Municipality has maintained staffing levels and/or salaries at an appropriate level. Note that critical vacancies remain unfilled and/or unfunded.
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%.	7%	10%	8%	The ratio is above the norm of 2% - 5% for the last three years indicating that the Municipality is reliant on contracted services to perform Municipal related functions. Further analysis indicates that this figure is understated as the contracted services line item excludes repairs and maintenance, which is partially outsourced.
Irregular, Fruitless and Wasteful and Unauthorised Expenditure to Total Expenditure – this ratio measures the extent of irregular, fruitless and wasteful and unauthorised expenditure to total expenditure. The norm is 0%.	25%	22%	16%	There was a decline in irregular, fruitless and wasteful and unauthorised expenditure from 2015 to 2017. The Municipality has taken measures to reduce the irregular, fruitless and wasteful and unauthorised expenditure incurred by the Municipality,

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				but this is still high and needs management.
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%.	2%	4%	2%	Repairs and maintenance to property, plant and equipment and investment property is low. This is an indication that insufficient expenditure toward repairs and maintenance and that asset stripping is taking place. This is further reducing the production capacity of the municipal infrastructure.
Grant Dependency				
Own Source Revenue to Total Operating Revenue (Including Agency Revenue) - measures the extent to which the Municipality's total revenue is funded through internally generated funds and borrowings.	73%	73%	81%	This is an indication that the Municipality is partially reliant on government funding to fund its obligated municipal services, but the dependency increased in the last financial year.

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
Own Funded Capital Expenditure (Internally Generated Funds plus Borrowing) to Total Capital Expenditure - Measures the extent to which the Municipality's total capital expenditure is funded through internally generated funds and Borrowings.	41%	43%	42%	<p>This is an indication that the Municipality is unable to generate sufficient funds (internally or through borrowing) to fund capital requirements and is reliant on grant funding.</p> <p>This is consistent with the cashflows challenges.</p>

4.4.2.3 FINANCIAL RATIOS CENTLEC ONLY

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
Asset Management Utilisation				
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%.	12%	10%	8%	<p>The amount outlaid on capital in 2014/15 and 2016/17 was above the norm which indicates a possible investment in infrastructure to increase capacity and accommodate envisaged growth within the Municipality.</p> <p>There was however a decrease in the 2016/17 financial year to below the norm.</p> <p>Capital expenditure needs to grow due to the aged infrastructure and electricity distribution losses but again within its ability to repay loans</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				with increased revenue collections and growth.
Debtors Management				
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. The norm is 30 days.	54 Days	94 Days	96 Days	<p>The debtors' payment period was above the norm for all three financial years.</p> <p>There is an apparent trend that the ratio is increasing over time as debtors are taking longer to pay their accounts.</p> <p>The inability to collect revenue and thereby convert revenue to cash is a contributing factor to the cash flow challenges being experienced by the Entity.</p>
Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit. The norm is 95%.	104%	97%	99%	<p>The collection has been above the norm for all three financial years under consideration.</p> <p>The utilisation of prepaid meters has contributed to the ratio remaining above the norm.</p> <p>Collection of revenue is not a cause for concern for the entity.</p>
Liquidity Management				
Liquidity Ratio (Current Ratio) - this ratio indicates the extent to which current assets can be	1.5	1.1	0.7	<p>The current ratio was below the norm and decreasing for the last two financial years.</p> <p>There has been a downward</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
<p>used to settle short-term liabilities.</p> <p>If current assets do not exceed current liabilities it means a liquidity problem i.e. insufficient cash to meet financial obligations.</p> <p>The norm is 1.5 - 2:1.</p>				<p>trend with the ratio worsening over the years.</p> <p>This is an indication that the Entity will not be able to pay its current or short-term liabilities (Debt and Payables) with its short-term assets (i.e. Cash, Inventory, Receivables) as and when they fall due.</p> <p>This needs investigation even with its' high collection rate.</p>
Liability Management				
<p>Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue.</p> <p>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.</p> <p>The norm is 45%.</p>	97%	102%	100%	<p>The entity has a significant shareholder loan, amongst other borrowing, that has resulted in this ratio being significantly above the norm for all 3 financial years.</p> <p>The loan is unsecured and bears interest at the lower of 15% of the revenue of the municipal entity for the previous financial year or the interest rate on the loan for the financial year ended 30 June 2011 adjusted annually for the CPI applicable to the public finance sector.</p> <p>Instalments of R268 million are payable every 5 years with the initial payment on 30 June 2015.</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				Given its liquidity ratio concern may be raised as to its ability to repay the next instalment due in June 2018.
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%.	0%	0%	1%	<p>The ratio is increasing over the years but has remained below the norm indicating that the Entity is able to service its current debt levels.</p> <p>Borrowing and credit needs to be appropriately managed to avoid a situation where the Entity is no longer able to service its debt levels.</p> <p>The repayment terms on the Shareholder loan referred to above needs to be appropriately budgeted for to avoid cash flow deficits.</p> <p>This ratio is to be read with the Debt/ (Total Borrowing)/ Revenue ratio.</p>
Efficiency				
Net Operating Margin – measures the net surplus or deficit as a percentage of revenue. The norm is > 0%.	5%	1%	-5%	<p>The net operating margin reflected a surplus in 2014/15, followed by a decline in the 2015/16 and 2016/17 financial years resulting in a deficit in 2016/17.</p> <p>The cause of the decline is revenue growth below inflation coupled with</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				<p>increasing expenditure that has not been appropriately managed.</p> <p>The entity needs to embark on a tariff review and expenditure management to ensure financial and service delivery sustainability.</p>
Distribution Losses				
Electricity Distribution Losses (%) The norm is 7% - 10%.	12.9%	13.2%	10.8%	<p>The electricity distribution losses have remained above the norm for the last 3 financial years.</p> <p>There was however an improvement in the ratio in the 2016/17 financial year.</p>
Revenue Management				
Revenue Growth (%) – measures the growth in revenue year on year. The norm is > 5%.	2%	2%	4%	<p>Revenue growth reflects an improvement over the last year, however the growth rate has remained below inflation for all 3 financial years.</p>
Revenue Growth (%) - Excluding Capital Grants - measures the growth in revenue excluding capital grants year on year. The norm is > 5%.	5%	2%	5%	<p>Revenue excluding capital grants reflects an improvement over the last year, however the growth rate has remained below inflation for all 3 financial years.</p> <p>The entity is not reliant on grants for capital funding therefore this ratio does not</p>

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
				differ significantly from the revenue growth rate.
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.	60 Days	72 Days	83 Days	The creditor payment period has been deteriorating since 2014/15. The days are in excess of the norm indicating that suppliers are not being paid within 30 days. This may also be as a result of inadequate payment processes and related controls, disputes and delays in the processing of payments or cash flow challenges, as indicated above.
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. The norm is 25% - 40%.	10%	11%	12%	The ratio is below the norm of 25% to 40% for the last three years indicating that the Entity has maintained staffing levels and/or salaries at an appropriate level. It is noted that management fees are paid to Mangaung Municipality for employees seconded to the Municipal entity which has been included as a remuneration expense for the purpose of this calculation.
Contracted Services as a % of Total Operating Expenditure -	5%	5%	3%	The ratio has been maintained within the norm of 2% - 5% for

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
<p>indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions.</p> <p>The norm is 2%-5%.</p>				<p>the last two years indicating that the Entity is not reliant on contracted services to perform its functions.</p> <p>Further analysis indicates that this figure is understated as the contracted services line item excludes repairs and maintenance which is partially outsourced.</p>
<p>Irregular, Fruitless and Wasteful and Unauthorised Expenditure to Total Expenditure – this ratio measures the extent of irregular, fruitless and wasteful and unauthorised expenditure to total expenditure.</p> <p>The norm is 0%.</p>	2%	3%	3%	<p>There was an increase in irregular, fruitless and wasteful and unauthorised expenditure from 2015 to 2017.</p>
<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.</p> <p>The norm is 8%.</p>	3%	2%	2%	<p>Repairs and maintenance to property, plant and equipment and investment property is low.</p> <p>This is an indication that insufficient expenditure toward repairs and maintenance and that asset stripping is taking place.</p> <p>This is further reducing the production capacity of the infrastructure</p>
Grant Dependency				

Ratio	Ratio for 2014/15	Ratio for 2015/16	Ratio for 2016/17	Remarks
Own Source Revenue to Total Operating Revenue (Including Agency Revenue) - measures the extent to which the Municipality's total revenue is funded through internally generated funds and borrowings.	99%	99%	100%	This is an indication that the Entity is not reliant on government funding to fund its services.
Own Funded Capital Expenditure (Internally Generated Funds plus Borrowing) to Total Capital Expenditure - Measures the extent to which the Municipality's total capital expenditure is funded through internally generated funds and Borrowings.	86%	81%	86%	This is an indication that the Entity is able to generate sufficient funds (internally or through borrowing) to fund capital requirements and is not reliant on grant funding.

4.4.2.4 SUMMARY OF RESULTS FROM RATIO ANALYSIS

A holistic interpretation of the ratio's calculated above has led to the identification of the following key findings:

- While capital investment as a whole within the Municipality is being maintained at an acceptable level, Centlec is not investing as heavily in capital infrastructure, which is critical for growth and sustainability;
- Centlec does not appear to have any issues with revenue collection as apparent from the high collection rate. This is a direct benefit of prepaid metering whereby the consumer has to pay for the service in advance;
- Both the Municipality and Centlec are experiencing cashflow concerns as apparent by the liquidity (current) ratio;
- Staffing levels, when combined needs review as this appears high and perhaps diluted by contracted services and inter-company transfer pricing mechanism and/or support; and
- Centlec is highly geared as a result of the shareholder loan in place. The repayments thereon need to be appropriately managed and planned for to prevent further cash flow deficits.

4.4.3 BUDGET

Below is the 2017/18 MTREF and comparative figures for the financial years 2015/16 to 2019/20.

The following challenges should be noted in compiling the 2019/20 MTREF:

- Introduction of zero based budget and phase-out the incremental budgeting;
- The national and local economic challenges;
- Infrastructural backlogs;
- Absence of long term financial plan;
- The deteriorating state of municipal cash receipts and resources make it difficult to reprioritise projects and expenditure;
- Year-on-year salary increases;
- Exorbitant overtime paid;
- Exploration of shift allowance system;
- Reliance on state grants and subsidies to fund both operations and capital projects;
- Poverty and unemployment which sees more households not being able to afford municipal services thereby seeking indigent subsidies; and
- Increasing inflation rates.

MAN Mangaung - Table A1 Consolidated Budget Summary

Description	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue and Expenditure Framework		
R thousands	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Financial Performance								
Property rates	810 476	1 009 752	1 025 471	1 025 471	–	1 103 200	1 252 501	1 409 388
Service charges	2 891 827	3 527 933	3 513 895	3 513 895	–	3 575 220	3 880 747	4 194 662
Investment revenue	45 387	66 124	66 124	66 124	–	26 732	28 603	30 891
Transfers recognised - operational	1 710 172	1 212 507	1 203 719	1 203 719	–	1 040 688	1 040 613	1 148 307
Other own revenue	390 162	825 311	825 311	825 311	–	529 004	580 753	647 679
Total Revenue (excluding capital transfers and contributions)	5 848 024	6 641 626	6 634 519	6 634 519	–	6 274 843	6 783 217	7 430 927
Employee costs	–	1 780 160	1 748 003	1 748 003	–	1 703 525	1 821 755	1 948 486
Remuneration of Councillors	52 422	57 580	55 542	55 542	–	58 011	62 033	66 293
Depreciation & asset impairment	–	621 797	621 797	621 797	–	628 666	666 116	705 702
Finance charges	140 680	169 410	169 410	169 410	–	169 143	158 364	146 805
Materials and bulk purchases	491 164	1 971 753	1 964 078	1 964 078	–	1 985 713	2 118 599	2 259 744
Transfers and grants	–	32 446	31 546	31 546	–	18 069	19 316	20 629
Other expenditure	564 498	1 965 323	1 984 713	1 984 713	–	1 583 756	1 646 792	1 784 481
Total Expenditure	1 248 764	6 598 468	6 575 087	6 575 087	–	6 146 884	6 492 976	6 932 140
Surplus/(Deficit)	4 599 260	43 158	59 432	59 432	–	127 959	290 241	498 786
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	785 722	919 386	912 279	912 279	–	940 118	1 014 218	1 040 947
Contributions recognised - capital & contributed assets	–	31 142	31 142	31 142	–	26 762	29 243	32 649
Surplus/(Deficit) after capital transfers & contributions	5 384 982	993 686	1 002 853	1 002 853	–	1 094 838	1 333 702	1 572 383
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	5 384 982	993 686	1 002 853	1 002 853	–	1 094 838	1 333 702	1 572 383
Capital expenditure and funds sources								

Description	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue and Expenditure Framework		
R thousands	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Capital expenditure	–	1 806 094	1 681 903	1 681 903	–	1 139 436	1 251 942	1 302 452
Transfers recognised - capital	–	919 386	912 279	912 279	–	940 118	1 014 218	1 040 947
Public contributions & donations	–	30 744	30 744	30 744	–	26 762	28 723	31 243
Borrowing	–	579 849	465 068	465 068	–	29 599	33 188	37 213
Internally generated funds	–	276 115	273 811	273 811	–	142 958	175 813	193 048
Total sources of capital funds	–	1 806 094	1 681 903	1 681 903	–	1 139 436	1 251 942	1 302 452
Financial position								
Total current assets	–	2 803 441	3 928 346	3 928 346	–	3 923 464	4 183 816	5 086 330
Total non-current assets	–	16 621 522	18 197 824	18 197 824	–	19 267 621	20 458 862	21 770 871
Total current liabilities	–	2 519 078	3 634 494	3 634 494	–	3 290 505	3 362 385	4 005 341
Total non-current liabilities	–	2 265 421	2 911 550	2 911 550	–	3 157 271	3 195 055	3 252 383
Community wealth/Equity	–	14 640 464	15 580 126	15 580 126	–	16 743 310	18 085 238	19 599 476
Cash flows								
Net cash from (used) operating	1 074 026	1 496 071	1 041 525	1 041 525	–	1 825 254	1 682 884	1 848 112
Net cash from (used) investing	-1 228 373	-1 626 974	-1 269 981	-1 269 981	–	-1 123 843	-1 371 173	-1 429 242
Net cash from (used) financing	167 115	433 507	394 221	394 221	–	-171 246	-171 094	-370 938
Cash/cash equivalents at the year end	325 679	780 214	491 445	491 445	–	1 021 610	1 162 227	1 210 160
Cash backing/surplus reconciliation								
Cash and investments available	–	780 238	491 445	491 445	–	921 610	742 421	808 693
Application of cash and investments	–	652 563	361 805	361 805	–	761 234	515 889	518 749
Balance - surplus (shortfall)	–	127 675	129 639	129 639	–	160 376	226 532	289 944
Asset management								
Asset register summary (WDV)	–	16 608 894	16 517 713	16 517 713	14 885 879	14 885 879	15 792 543	16 707 626
Depreciation	–	570 749	514 589	514 589	628 666	628 666	666 116	705 702
Renewal of Existing Assets	–	–	–	–	–	266 511	319 148	373 764
Repairs and Maintenance	–	373 983	373 983	373 983	485 136	485 136	521 572	551 761

Description	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue and Expenditure Framework		
R thousands	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<u>Free services</u>								
Cost of Free Basic Services provided	–	359 304	378 690	378 690	407 124	407 124	450 116	499 692
Revenue cost of free services provided	–	163 228	162 970	162 970	342 240	342 240	371 529	402 832
<u>Households below minimum service level</u>								
Water:	–	–	–	–	–	–	–	–
Sanitation/sewerage:	57	7	7	7	7	7	7	7
Energy:	–	0	0	0	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–

Table 29: Mangaung - Table A1 Budget Summary

The analysis of the budget can be summarised as follows:

- The A1 Table was obtained from the National Treasury MFMA website, and which was completed by MMM, is not complete in all respects. The 2012/13 to 2014/15 columns were not completed in addition to the blank fields which should be able to be completed;
- The operating revenue budget decreased by 4.5% from R6.6billion in 2016/17 to R6.3 billion in 2017/18;
- The operating expenditure budget of the Municipality decreased by 7.6% from R6.6 billion in 2016/17 to R6.1 billion in 2017/18, showing a deficit;
- Other expenditure decreased from R2.0 billion in 2016/17 to R1.6 billion in 2017/18 a reduction of 20.0%; and
- Capital expenditure decreased from R1.7 billion in 2016/17 to R1.1 billion in 2017/18 a reduction of 35.3%.

Based on the evaluation done, it is recommended that:

- Budget explanations and assumptions are not properly captured in the final budget to ensure proper analysis by National Treasury, hence inappropriate corrective measures;
- Projections for non-cash items in the operating expenditure budget must be done in a realistic manner and explained more transparently;
- Cash backed reserves projections must be reconsidered;
- The SDBIP must be submitted with the budget; and
- Strategic objectives and goals in the IDP be properly captured in the budget to ensure alignment of the budget to the IDP.

4.4.4 FINANCIAL PERFORMANCE

Analysis of financial performance for the period 1 July 2013 to 30 June 2017:

Description	AFS 2013/14 R.	AFS 2014/15 R.	AFS 2015/16 R.	AFS 2016/17 R.
Revenue				
Revenue from exchange transactions				
Service Charges	2 793 359 165	2 717 576 105	2 890 662 390	3 187 569 168
Income from agency services	4 725 488	4 750 908	4 788 455	3 844 123
Licences and permits	433 435	170 677	656 529	259 038
Rental of facilities and equipment	21 151 705	28 370 601	33 243 326	35 764 278

Description	AFS 2013/14 R.	AFS 2014/15 R.	AFS 2015/16 R.	AFS 2016/17 R.
Other income	56 346 162	57 090 659	96 378 229	85 476 099
Interest received	178 079 013	237 073 638	220 587 550	272 276 682
Total revenue from exchange transactions	3 054 094 968	3 045 032 588	3 246 316 479	3 585 189 388
Revenue from non-exchange transactions				
Fines	77 361 862	77 671 023	51 082 513	38 278 450
Property rates	975 955 420	787 453 693	810 476 472	993 753 704
Other income	45 474 760	24 945 123	30 269 636	5 229 948
Government grants and subsidies	1 722 782 784	1 608 312 776	1 710 171 686	1 817 908 000
Gain from transfer of functions between entities not under common control	0	0	0	1 149 737 705
Total revenue from non-exchange transactions	2 821 574 826	2 498 382 615	2 602 000 307	4 004 907 807
Total Revenue	5 875 669 794	5 543 415 203	5 848 316 786	7 590 097 195
Expenditure				
Employee related costs	1 109 018 167	1 261 395 316	1 427 114 744	1 605 678 326
Remuneration of Councillors	47 106 731	49 594 283	52 421 659	56 028 903
Depreciation and amortisation	475 069 438	653 386 515	705 251 459	909 272 947
Impairment loss	(290 854)	6 489 096	5 691 602	3 682 496
Finance costs	70 378 989	607 335 202	141 059 324	181 763 257
Contracted services	245 685 152	329 814 213	494 628 031	429 092 578
Debt impairment	593 106 050	96 812 968	363 199 628	663 385 669
Repairs and maintenance	313 356 081	335 486 675	550 539 165	397 507 138
Bulk purchases	1 487 044 186	1 614 567 988	1 758 933 035	1 906 618 478
Grants and subsidies paid	175 380 556	10 679 376	5 196 378	5 810 922

Description	AFS	AFS	AFS	AFS
	2013/14	2014/15	2015/16	2016/17
	R.	R.	R.	R.
General expenses	460 107 401	494 106 173	469 464 667	408 010 902
Total expenditure	4 975 961 897	5 459 667 805	5 973 499 692	6 566 851 616
Operating surplus/ (deficit)	899 707 897	83 747 398	(125 182 906)	1 023 245 579
Actuarial gains/ (losses)	(56 139 179)	3 254 000	(2 320 822)	(10 584 000)
Fair value adjustment	8 453 463	9 683	(138 954 141)	91 231 256
Gains/ (losses) on disposal of assets and liabilities	6 295 498	(17 733 658)	(11 173 708)	(14 892 960)
Rehabilitation provision movement	0	0	(6 183 061)	16 018 699
Total Other income/ (expenses)	(41 390 218)	(14 469 975)	(158 631 732)	81 772 995
(Deficit)/ surplus before taxation	858 317 679	69 277 423	(283 814 638)	1 105 018 574
Taxation	0	83 243 365	4 287 372	24 280 825
(Deficit)/ surplus for the year	858 317 679	152 520 788	(279 527 266)	1 129 299 399

Table 30: Financial Performance

An analysis of the above reveals the following:

- The financial year ended 30 June 2016 reflected an operating deficit of R279.5 million due to inadequate budgeting where unachievable and unrealistic revenue and expenditure budgets were set;
- Income from agency services reduced from R4.8 million in 2015/16 to R3.8 million in 2016/17 a reduction of 20.8%;
- Other income from exchange transactions reduced from R96.4 million in 2015/16 to R85.5 million in 2016/17 a reduction of 11.3%;
- Fine income reduced from R51.1 million in 2015/16 to R38.3 million in 2016/17, a reduction of 25.0%;
- Property rates income reduced from R976.0 million in 2013/14 to R787.5 million in 2014/15 a reduction of 19.3%. This should be investigated;
- Other income from non-exchange transactions reduced from R30.3 million in 2015/16 to R5.2 million in 2016/17 a reduction of 82.8%;
- In 2016/17 an amount of R1.1 billion is reflected as a gain from transfer of functions between entities not under common control. This amount is the net gain between assets and liabilities of the former Naledi Local

Municipality and the community of Ikgometseng/ Soutpan, which were incorporated into the Mangaung Metropolitan Municipality on 6 August 2016;

- Debt impairment costs have increased from R363.2 million in 2015/16 to R663.4 million in 2016/17 an increase of 82.7%;
- Repairs and maintenance expenses have decreased from R550.5 million in 2015/16 to R397.5 million in 2016/17 a reduction of 27.8%;
- General expenses have reduced from R469.5 million in 2015/16 to R408.0 million in 2016/17 a reduction of 13.1%; and
- The taxation figures in the Financial Performance Statement above are explained as “The intercompany transactions have an effect on the tax expense reconciliation due to the different tax statuses between the controlled and the controlling entity. The controlled entity, Centlec (SOC) Limited, is liable for taxation at 28%, while the controlling entity is not liable for tax. The elimination of intercompany transactions therefore has an effect on the reconciliation between the surplus/ deficit and the taxable income.”

4.4.5 FINANCIAL POSITION

Analysis of financial position for the period 1 July 2013 to 30 June 2017:

Description	AFS 2013/14 R.	AFS 2014/15 R.	AFS 2015/16 R.	AFS 2016/17 R.
Assets				
Current Assets				
Inventories	262 734 057	321 275 212	438 906 236	465 752 267
Other Receivables from exchange transactions	65 310 114	88 135 211	97 298 186	91 060 256
Other Receivables from non-exchange transactions	3 515 651	810 045	4 454 092	0
Consumer Receivables from exchange transactions	556 856 959	632 952 917	914 838 587	1 188 807 381
Consumer Receivables from non-exchange transactions	347 938 313	303 378 328	262 419 381	325 088 698
VAT receivable	0	153 575 810	51 078 611	7 693 908
Non-current receivables	436 944	295 545	295 545	275 470

Description	AFS 2013/14 R.	AFS 2014/15 R.	AFS 2015/16 R.	AFS 2016/17 R.
Investments	186 559 010	362 715 433	107 818 543	162 721 621
Cash and cash equivalents	452 267 612	312 911 132	325 679 377	231 774 481
Total Current Assets	1 875 618 660	2 176 049 633	2 202 788 558	2 473 174 082
Non-Current Assets				
Investment property	1 676 857 863	1 636 496 363	1 493 202 000	1 584 438 863
Property, plant and equipment	11 028 018 749	13 205 403 135	14 701 097 317	16 314 020 082
Intangible assets	108 274 862	115 838 065	109 096 006	112 264 692
Heritage assets	321 656 341	321 568 687	321 568 687	277 768 687
Non-current receivables	3 356 019	4 691 251	2 732 863	2 227 421
Deferred tax	0	68 197 502	143 891 447	230 245 210
Total Non-Current Assets	13 138 163 834	15 352 195 003	16 771 588 320	18 520 964 955
Total Assets	15 013 782 494	17 528 244 636	18 974 376 878	20 994 139 037
Liabilities				
Current Liabilities				
Payables from exchange transactions	736 044 122	837 591 352	1 332 737 372	1 422 627 679
Payables from non-exchange transactions	146 443 906	279 414 560	286 199 407	290 809 569
Consumer deposits	78 017 639	101 668 902	161 471 743	150 182 327
Unspent conditional grants and receipts	122 489 296	107 483 829	106 083 319	163 959 636
VAT payable	43 870 503	0	0	0
Operating lease liability	149 479	304 171	97 893	0
Current portion of finance lease obligation	56 095 130	41 538 934	44 968 869	13 832 226

Description	AFS 2013/14 R.	AFS 2014/15 R.	AFS 2015/16 R.	AFS 2016/17 R.
Current portion of borrowings	8 586 359	35 002 987	100 965 374	138 707 448
Current portion of provisions	207 016 427	194 808 344	343 044 893	338 084 578
Current portion of employee benefit obligation	597 000	972 000	806 000	1 461 000
Total Current Liabilities	1 399 309 861	1 598 785 079	2 376 374 870	2 519 664 463
Non-current Liabilities				
Operating lease liability	234 323	96 338	0	0
Deferred tax	0	391 523 240	462 929 813	525 002 732
Finance lease obligation	87 420 438	68 799 455	20 184 450	6 070 317
Borrowings	183 277 108	557 182 589	673 092 551	1 072 530 241
Employee benefit obligation	559 648 000	645 493 000	729 754 000	839 678 000
Freshco liability	181 443 631	193 357 936	214 558 041	204 013 644
Land availability liability	0	31 575 456	186 119 361	297 656 906
Provisions	229 147 931	294 353 503	178 043 635	178 043 636
Total Non-current Liabilities	1 241 171 431	2 182 381 517	2 464 681 851	3 122 995 476
Total Liabilities	2 640 481 292	3 781 166 596	4 841 056 721	5 642 659 939
Net Assets	12 373 301 202	13 747 078 040	14 133 320 157	15 351 479 098

Table 31: Financial Position

An analysis of the above reveals the following:

- Total receivables, net of provisions for bad debts, due to MMM as at 30 June 2017 amounted to R1.61 billion. The gross amount is R3.9 billion. Steps should be taken to collect the outstanding receivables and where the debt cannot be recovered the amount should be written-off;
- Cash and cash equivalents is R394.5 million as at 30 June 2017 while payables amount to R1.7 billion and unspent conditional grants amount to R0.2 billion. Therefore, there are insufficient funds, even if some of the receivables are received, to cover the payables and unspent conditional grants;
- Provisions as at 30 June 2017 amount to R178.0 million and are not cash backed;

- As at 30 June 2017 there was a deferred tax asset of R230.2 million and a deferred tax liability of R525.0 million. The deferred tax asset arose as a result of the municipal entity not having been subject to income tax in the past. However, in the 2014/15 financial year the municipal entity had to account for income tax which resulted in the wear and tear allowances being in excess of the available surplus. The municipal entity has the ability to generate profit in the foreseeable future against which temporary differences will be utilised;
- Freshco liability as at 30 June 2017 is R204.0 million. This needs to be investigated further, but the relevant note to the consolidated annual financial statements refers to an agreement between the entity and the Free State Social Housing Company. The agreement is for the period 2010 to 2033. The amount is recognised as revenue over the period of the agreement upon completion of the assets; and
- Land availability liability as at 30 June 2017 is R297.7 million. This needs to be investigated further but the relevant note to the consolidated annual financial statements refers to an agreement between the entity and a developer (who is not named) for the period 2014 to 2032. The developer will develop erven (owned by the entity) in two areas and will be able to sell 70% of the developed erven. The revenue from these sales will be recognised upon transfer to the third party, and the related liability will be derecognised.

4.4.6 2017/18 MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT

The above report was compiled and signed by the Chief Financial Officer on 18 January 2018. Significant extracts from this report are as follows and the figures shown are as at 31 December 2017:

- The actual year to date revenue for the period of R3.256 billion is higher than the year to date target of R3 204.billion by 2% and the expenditure for the period is R3.013 billion, which is 0% on the year to date target of R3 013.billion respectively;
- **Employee related costs** – Unfavourable variance of R46.976 million (6%) on the year to date target as a result of: unfilled vacancies of R44,161 million, year-to-date overspending on overtime – R33,706 million, the year-to-date spend of – R55.964 million paid as salary adjustments (R2.500) and parity adjustment for Naledi and Soutpan employees – R1,467 million that were not provided for in the budget;
- **Bulk purchases** – Unfavourable variance of R23,133 million (2%), due to overspending on water as a result of high Bloemwater monthly bills. Bloemwater tariff are very high compared to other water boards;
- **Contracted services** - Unfavourable variance of R33,314 million (11%) due to over spending on security, repairs and maintenance and payment of Solid Waste's, SMME's expenses due to encroachment of the 2016/17 outstanding commitments;
- As regards **capital expenditure** MMM has only spent 33.56% (R382.396 million) of the year to date expenditure versus the approved annual budget of R1 139.436 million. The money was spent on operational matters;
- The **debtors balance** as at 31 December 2017 is R4.200 billion (October 2017 – R4.006 billion), thus reflecting an increase of R192.879 million (4.81%) for the month. The major debt is reflected in the over 1 year category.

An amount of R2.352 billion (R2.214 billion – November 2017) is outstanding in this category (1 year and older), with R1.536 billion attributable to households, an increase of R82.503 million (5.68%) from the balance of R1.454 billion in November 2017;

- The total creditors amounted is R394.365 million. The Municipality is failing to pay all its creditors within 30 days;
- Cash and cash equivalents as at 31 December 2017 indicates a closing balance of R372.427 million (November 2017 – R425.107 million) which comprises of the following:
 - Bank balance and cash R45.339 million (Mangaung);
 - Bank balance and cash R0.540 million (Centlec);
 - Bank balance and cash R5.710 million (Market);
 - Investment deposits R269.454 million (Mangaung); and
 - Investment deposits R51.382 million (Centlec).

4.4.7 MANGAUNG METROPLITAN MUNICIPALITY 2018/19 MTREF BENCHMARK ENGAGEMENT

The City's 2018/19 Budget and Benchmark Engagement assessment revealed the following short comings in the municipality's planning and budgeting processes that needed to be addressed in the short term and others in the long term:

- Absence of long term strategy that guides planning and operations of the municipality.
- Absence of long term financial plan.
- City's tariffs are not reflective of the costs incurred in delivering municipal services.

The City tabled a budget with operating deficit of R854 million for the 2018/19 financial year. These deficits are persisting over the medium term whilst the rate at which the operating expenditure is increasing is far exceeding the rate of revenue growth, which is not sustainable and will lead the city into financial crisis.

The municipality must fully implement the final outcomes of the MTREF 2018/19 revised budget subsequent to the benchmark engagements held with National Treasury during May 2018 and mitigate the risk highlighted which include expenditure management, revenue management and cash flow management.

The municipality must intensify monitoring and internal controls in the implementation of the budget and undertake corrective measures using its early warning mechanism to ensure expenditure is aligned to realistic revenue and available cash.

4.4.8 DETAILED FINANCIAL CHALLENGES

The following are some of the key financial challenges facing the Municipality.

Area	Identified Challenges
Debt Collection	<p>Low debt collection rate due to:</p> <ul style="list-style-type: none"> ▪ Interim meter readings that lead to incorrect billing and inaccurate debt book; ▪ Newly installed meters information not captured on the billing system due to non-submission of such information to BTO by Infrastructure Department; ▪ Not all qualifying indigents have registered with the Municipality; ▪ Ineffective customer care that leads to massive unresolved accounts disputes; ▪ Political interference when disconnecting government departments owing the Municipality; ▪ Registered indigent included in the disconnection list, because FMS does not flag approved indigent list; ▪ Interference in the credit control processes; and ▪ Data integrity of both customer and billing information is compromised and has material flaws due to incorrect addresses, debits processed on closed accounts, properties not properly registered/ categorised.
Government Debt	<ul style="list-style-type: none"> ▪ Failure to collect debt from government departments.
Billing	<ul style="list-style-type: none"> ▪ Absence of Standard Operating Procedures (SOP); and ▪ Inadequate billing due to absence of synergy between Finance and other departments relating to other revenue streams information not submitted to BTO such as changes to properties information that will lead to the production of Supplementary Valuation Roll that is submitted by Town Planning.
Cash Management	<ul style="list-style-type: none"> ▪ Excessive overtime budgeted and paid on monthly basis; ▪ Massive court orders debited directly to Primary Bank Accounts due to cases not defended in court as a result of non-payment of creditors; ▪ Most of court cases are as a result of negligence from management by not submitting invoices to Expenditure in time for payment; and ▪ Absence of Cash Management Committee to control the spending of money.

Supply Chain Management	<ul style="list-style-type: none"> ▪ Non-adherence to the procurement plan that lead to delays in services delivery; ▪ Decentralisation of procurement of goods, works and services that attract irregularities in SCM processes; ▪ Disrespect of Official Bid Committees schedule by management that lead to delays in service delivery; and ▪ Acute shortage of staff in SCM.
Asset Management	<ul style="list-style-type: none"> ▪ Absence of an Asset Management Committee that ensures smooth flow of information from Consulting Engineers and contractors to BTO for compilation of accurate FAR annually; ▪ Lack of coordination between BTO and other departments regarding monthly asset related information to BTO for accurate monthly asset reconciliation; ▪ Reliance on consultancy for asset management, accounting and reporting due to acute shortage of staff in asset unit.
Court Orders	<ul style="list-style-type: none"> ▪ Huge amount of legal fees deducted from Primary Account due to court orders.
Budget	<ul style="list-style-type: none"> ▪ Absence of cost reflective tariffs; ▪ Budget that is not credible, affordable and sustainable; and ▪ Absence of budget implementation controls.

5. Key Strategies in the Financial Recovery Plan

5.1 ACHIEVING RESILIENCE AND TIMELINES

Given the state of affairs at Mangaung, a number of strategies will be developed, refined and implemented in the short, medium and long term through this Plan.

There are a number of strategies identified to effect the changes needed for financial and service delivery sustainability, and these should be implemented by Mangaung, as indicated below.



Further, and due to the long-term nature of some of the strategies identified, the focus in the short term is to adopt the Pareto Principle (20% of activities that will contribute 80% to the successful implementation of the Plan) ensuring that the strategies adopted will have the greatest impact and can be done within the financial and human resource capacity and capability at Mangaung.

In addition, the strategies Mangaung have to ensure that the objective of financial and service delivery improvement can be achieved in the shortest possible time and that they at least address the following: -

1. Reduction in expenditure on non-essentials, non-core activities, non-revenue generating activities, and optimising current spending within the Municipality to accelerate economic growth and job creation;
2. Increasing revenue through improved collections and billing efficiencies and seeking alternate revenue sources; and
3. Optimising asset management;
4. Ensuring proper administrative and governance arrangements are in place to manage and address the key financial and service delivery challenges of the City.

For the purpose of this Plan, implementation timeframes are defined as follows:

Description	Timing
Immediate to Short Term	Current to 30 June 2019
Medium Term	Up to 30 June 2020
Long Term	Up to 30 June 2021

5.2 IMMEDIATE FOCUS AREAS

In this regard, and given the nature of the financial and service delivery problems at Mangaung, **immediate focus** must be on addressing the following key issues:

- Address governance, political and institutional challenges (including labour interference) hampering a financial turnaround of the Municipality;
- Undertake zero based budgeting and reduce costs across the board by between 5-10%;
- Review the operating model and restructure organisation as the current structure is too top heavy and potential duplications exists;
- Implement an organisation wide performance management system as this will ensure accountability and link bonus remuneration with performance;
- Review the financial viability of all Mangaung entities and ringfence business entities and ideally consider re-incorporating these into the Municipality;
- Profile and collect outstanding debtors by an additional revenue enhancement strategy per this Plan;
- Develop and implement a Revenue Enhancement Plan to reduce the grant dependency and ensure the City is able to generate most of its revenue from its own operations;
- Review the creditors' book and clean-up, re-negotiate terms and conditions, escalations, interest, etc.
- Review all non-strategic assets audit and optimise and/or sell or investigate alternate management options;
- Restructure and consolidate long terms loans;
- Finalise all major litigation issues impacting the performance and operations of the City;
- Undertake a tariff review for all services and ensure cost reflective tariffs are in place; and
- Assess and optimise asset management.

It should be noted that any other strategies not immediately addressed in this Plan should still be addressed in the long term and should not be ignored. Key strategies addressed in the Plan must all be implemented as this is a holistic and integrated plan, and the final outcome must be to ensure financial resilience in the long term as illustrated below.

The above, and the implementation plan in Section 9 below, set out the process envisaged to ensure that the community of Mangaung obtains the necessary services at the best possible tariff as envisaged in the Constitution.

Finally, to ensure successful outcomes and the turnaround of the Municipality, all key deliverables and outputs that are contained in this Plan will form part of the performance agreements of the relevant senior management to ensure compliance and implementation thereof.

5.3 KEY STRATEGIES CONSIDERED IN THE PLAN

This Plan is therefore critical to achieve the objective of financial and service delivery turnaround and sustainability.

Further, the following overarching strategies to address the challenges faced by Mangaung are therefore contained in this Plan, and described briefly below, and the details of which are contained in the implementation plan.



Figure 7: Key Strategies

5.3.1 STRATEGY ONE: STRENGTHENING ADMINISTRATION, GOVERNANCE AND INTERNAL CONTROLS

The following key activities need to be considered:

- Strengthening administration, governance and internal controls by enhancing the operations of Mangaung through an appropriate comprehensive system of delegations, improved governance and political oversight;
- Address governance, political and institutional challenges (including labour interference) hampering a financial turnaround of the Municipality;
- The governance and operating model of the Municipality needs to be reviewed, refined and fully implemented to speed up decision making and to separate the political and administrative arrangements and compliance at the Municipality coupled with an adequate system of delegations to expedite decision making,

accountability and improved financial management and service delivery;

- The implementation and enforcement of the code of conduct for Councillors is critical;
- The Audit Committee, once strengthened and capacitated, needs to ensure compliance with sections 165 and 166 of the MFMA.;
- Risk management is not embedded in the culture and internal control processes of the City. The risk-based audit action plan needs to be reviewed and updated in light of the current challenges faced by Mangaung. The action plans to mitigate prioritised risks should be included in the risk and action owners' performance agreements to ensure implementation;
- A comprehensive plan to deal with theft, fraud and corruption and irregular and fruitless and wasteful expenditure within the Municipality should also form part of this process;
- The Internal Audit Unit should at least annually evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary;
- The Municipality in addressing internal audit should focus amongst others on an internal audit structure, skill matrix and gap analysis, together with a development programme, enhance its own internal capacity, a quality assurance and improvement programme and an external quality assurance review;
- Internal controls should be assessed and where necessary adequate internal controls should be introduced to combat fraud and corruption and ensure that all monies are correctly accounted for; and
- The Municipality should develop and vigorously implement an adequate audit action plan to address persistent audit findings. A holistic approach should be followed in addressing the findings and all activities to be implemented should form part of the performance agreement of relevant officials of the Municipality to ensure implementation. A realistic target should also be set for achieving an unqualified audit with no Emphasis of Matters.

5.3.2 STRATEGY TWO: ORGANISATIONAL RESTRUCTURING AND HUMAN RESOURCE MANAGEMENT

A review of the current structure should be done in line with the findings and recommendations in this Plan. The City should review its service delivery model and restructure the organisation accordingly, as the structure appears to be too top heavy (short-term quick wins thereafter medium to long-term).

The focus should be on: -

- Restructure to ensure focus on service delivery and revenue generating functions;
- Reduce administration and overhead costs – e.g. should be around 10% to 15%;
- Review the service delivery model, taking into account the vastness of the Municipality and service delivery and turnaround times at outlying areas;
- Filling of critical posts that will improve revenue generation and service delivery;
- Review shared and corporate and shared services functions and ensure no duplications and value for money.

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e.g. IT, HR, Finance, Fleet;

- Review all high salary related costs e.g. overtime and introducing shifts; and
- Organisational restructuring by assessing the critical posts required to operate efficiently and effectively and staff excess to requirements of the Municipality.

During the process the operational aspects and functionality of different departments and related units in the organisation must be addressed. The refined organisational structure must be costed before approval to determine its affordability. The process of consultation should be adhered to in order to foster sound labour relations and the human resource policies and procedures must be adhered to in the implementation of the refined organisational structure.

This structure should be aligned to the constitutional mandate as regards the functions and to address the strategic, governance, financial management and service delivery challenges and imperatives of Mangaung, and should consider, amongst others, the following principles:

- Aligned, amongst others, to the Integrated Development Plan (IDP), service delivery requirements and operating model, revenue enhancement, compliance with legislation and should be concluded after taking into consideration the funding requirements and current financial constraints;
- Ensure an improved financial and performance management regime;
- Support more effective decision-making mechanisms and implementation between the political structures and administration;
- Core and non-core and funded and un/ underfunded mandates and services are identified and the relevant corrective action is taken;
- Staff positioning, and job functions need to be compared to the desired operating model and organisational structure and aligned accordingly within the available budget;
- Ensure that officials of the Municipality are correctly placed, and measures implemented to address excessive or surplus personnel in the establishment;
- A structured organogram indicating reporting lines and job functions should be approved and implemented; and
- Strengthen the capacity of the Municipality to provide services to citizens, lead and facilitate partnerships for growth and development.

Human resource management needs strengthening and should commence with the filling of at least the critical vacant and funded positions.

The filling of critical vacant budgeted positions should be prioritised and proper processes should be followed to fill these posts. The Municipality should introduce measures to retain new employees as well as retain existing key talent and skills. The Municipality should carry out a comprehensive skills audit for all existing incumbents to assess whether the posts are filled with suitably qualified individuals, and ensure that it is complying with the

competency requirement and establish a process to ensure appropriate placement and how best to address excessive or unskilled staff. The audit will also identify any ghost employees on the payroll. The Municipality should also prioritise training of employees taking into consideration its current financial status and the requirements of the workplace skills plan, the conducted skills audit and competency requirements.

The human resource anomalies need to be addressed as a matter of urgency and the following challenges relating to human resources need to be normalised:

- Employees take no responsibility or accountability for non-performance. The performance management system must be implemented for all staff and corrective measures need to be put in place to assist with the improvement of performance.
- There are no consequences if policies and procedures are not adhered to and the Municipality takes no responsibility or accountability for non-performance.
- To address discipline, human resource consultations need to be initiated. Correct procedures need to be followed, and discipline should be enforced with clearly defined consequences and outcomes;
- The Unions need to be engaged to improve labour relations with the Municipality and the issues of labour interference in the management of the Municipality must be addressed as a matter of urgency;
- Improve its human resource strategy that guides recruitment, placement of staff, retention of staff, performance management and disciplinary processes.

The strategies to be implemented as regards the appointment of staff are as follows:

- Clearly defined recruitment policies and procedures need to be implemented;
- Every single employee at the Municipality should have a clearly defined job description, indicating reporting structures, responsibilities, decision making capabilities, accountabilities and delegations;
- A process to identify critical budgeted positions to be filled linked to revenue enhancement, service delivery and compliance requirements taking into consideration the funding requirements and cash flows is to be undertaken. The filling of other critical posts should be concluded once they are included in the budget or the adjustment budget; and
- It is critical that the existing staff complement is fully utilised before using external service providers (contracted services) and Mangaung must ensure that the transfer of skills takes place where contractors are appointed.

5.3.3 STRATEGY THREE: RESTRUCTURING OF THE BUDGET

Restructuring of the budget is required to ensure a credible, balanced and cash backed budget with tariff restructuring and a review of all core and non-core functions, amongst others.

The past financial years reflect unrealistic budgeting where unauthorised expenditure has been incurred. The continued poor budgeting where unachievable revenue and expenditure budgets have been set and not achieved, weak expenditure controls and poor asset management has had an impact on the poor financial status of the

Municipality. These matters should be adequately addressed in the 2018/19 adjustment budget, 2019/20 MTREF budget and future budgets to comply with the principles of a funded and credible budget.

Own revenue needs to be relooked at to address the following:

- Ensure that service charges/ tariffs are cost reflective;
- Address the cost of free basic services and allocation of services to indigents;
- A multiple year tariff increase approach should be adopted and communicated to all stakeholders; and
- Introduce targeted credit control measures designed to increase revenue collection and this must be vigorously implemented as part of revenue enhancement strategy.

Expenditure needs to be relooked at to address the following:

- The cost of personnel needs to be adjusted to only reflect “feet on the ground” and funded critical vacant positions taking the restructuring into consideration;
- Review and implement cost cutting/ austerity measures to eliminate non-essentials;
- Irregular, fruitless and wasteful and unauthorised expenditure should be avoided at all times;
- Low levels of repairs and maintenance should be addressed to ensure effective operation of all assets and minimal service delivery interruptions;
- Cost cutting measures across the City is critical as indications are the prices are overstated; and
- Capital budget and expenditure should be adjusted to ensure no further loans or bonds are raised and the Municipality should improve planning, supply chain management processes and IT capacity to implement capital projects and own internally generated revenue.

All budget line items should be analysed which will assist in identifying possible expenditure excesses and identify credible revenue billing and collection so that the Municipality can set a realistic, credible and achievable budget. Zero based budgeting should be used.

The non-payment of creditors should be taken into account in the budget process and arrangements for the paying of the outstanding amounts needs to be agreed with the creditors in line with the City’s cash availability.

Debtors should also be analysed and profiled to ensure only indigent consumers are obtaining the benefit of free basic services and that those receiving and consuming services actually pay for their services, including the possibility of introducing an availability or flat rate tariff.

All policies relating to the budget need to be reviewed as part of the 2019/20 MTREF budget process, updated, approved and implemented. In addition, related by-laws should be reviewed, updated and implemented to ensure enforceability.

The revenue and expenditure budget as well as the cash flow budget should be aligned to ensure realistic anticipated cash flows.

5.3.4 STRATEGY FOUR: SERVICE DELIVERY AND INFRASTRUCTURE MANAGEMENT

There is a lack of asset management of infrastructure and all other immovable and movable assets. The Municipality should strengthen its technical skills to effectively manage its assets and poor repairs and maintenance planning and management, requires urgent attention.

Infrastructure and service delivery improvements with good asset management through integrated infrastructure development and asset management planning will ensure sustainability through planned maintenance and replacement.

A major strategic risk facing Mangaung is old and ageing infrastructure, lack of forward planning, lack of management of water and electricity distribution losses, lack of replacement and management plans, budget allocation for replacement, operation and maintenance is low and insufficient to stabilise or prevent further deterioration, poor project and contract management, amongst others.

This will also require setting aside financial resources as part of the annual budget with a long-term planning horizon to address service delivery backlogs, infrastructure and maintenance and upgrading issues. The Municipality needs to put in place a clear strategy and plan to address social versus revenue generating assets.

Mangaung will therefore need to develop and implement a comprehensive infrastructure development, maintenance and upgrade plan informed by the outcome of a comprehensive audit of infrastructure backlog and ageing infrastructure and service delivery requirements going forward including a concerted effort to reduce distribution losses. The operating model and long-term financial plan of the City should ultimately give effect to this strategy.

Successful implementation will also require greater political oversight, efficient and effective administration and governance arrangements to drive and sustain the implementation of the service delivery mandate and community expectations of Mangaung.

5.3.5 STRATEGY FIVE: REVENUE ENHANCEMENT AND ECONOMIC DEVELOPMENT

The implementation of revenue enhancement initiatives must be prioritised to increase billing, collection levels and cash levels. The Municipality should also vigorously implement its credit control and debtor collection policy. It is also critical that the Municipality is realistic when projecting expected revenues and cash receipts, which will assist the Municipality to move away from persistent under performance in cash-flow.

To improve debtors' management in the short to medium-term and to achieve the norm and exceeding it in the long-term will require rigorous and creative solutions on the entire revenue collection value chain.

The following actions are therefore recommended for the various components of the revenue value chain:

- Installation of infrastructure to enable accurate electricity and water meter readings and disconnection/connection to separate and identifiable consumers;
- Protection of meters from vandalism and illegal connections;
- A systematic data cleansing process must be undertaken to ensure correct details of account holders or

property owners and the classification or reclassification of standards of services being rendered, and where appropriate correcting the tariff that each property is charged;

- Consistent billing cycles and accurate and timely bills must be assured;
- Efficient and effective credit control management policies and procedures applied with clear delegations of authority and monthly reporting to Council on actions taken;
- Improvement of customer care service to ensure quality management, communication and implementation of Batho Pele principles must be given priority. The development and implementation of a Customer Care Service Charter and Service Standards must also be prioritised along with an up to date working website;
- Stricter risk management and internal control processes must be introduced with emphasis on adequate supervision of daily cash receipting, banking processes and cash management reporting;
- Updated bylaw to be implemented;
- Improve capacity of Legal department to support debt collection programs;
- Daily and monthly and quarterly reporting of progress must be done by management to Council;
- Communication between departments to resolve customer queries and reduce the turnaround time of queries must be improved;
- Cash flow targets should be set and form part of the performance measures of management; and
- Oversight by the Council must be strengthened.

The Plan should ensure that there is a revenue enhancement strategy which is kept up to date and vigorously implemented. The strategy should ensure that:

- All residents are paying what is due for rates and services taking into consideration the indigent policy;
- All residents are being charged the correct tariff for their rates and services; and
- All residents or households receiving services from the Municipality are included in the Municipality's billing system.

The following economic development initiatives have been mooted and need to be pursued:

Tourism related:

- Relocate tourism centre to visitor's centre; and
- Implementing tourism tool kit and PPP for major projects such as ICC, hotels and property development especially within the CBD.

SMME initiatives:

- Update data of all SMMEs and Co-operatives in accordance to sectors and geographical location.

Other economic initiatives:

- Adoption of events by-law and policy;
- Introduce fee to be paid by event organisers and public liability insurance;
- Make a book format package which includes advertorials and can be published for the investment market;
- Mangaung Investment Conference;
- Promote PPP for the airport node e.g. hotel and ICC Development;
- Investment Promotion - Strengthen the local and international investment attraction programme. Executive Mayoral excursions for city twinning and cultural exchange to include Investment Promotion Unit. Attend two international pavilions per year sponsored by the Department of Trade and Industry (DTI). Attend Property Owners Association Exhibition, Shopping Mall Shows, and SAITEX Exhibitions. Appoint two additional investment officers; and
- Strengthen the Urban Development Zone (UDZ) and Tax Incentive Programme.

5.3.6 STRATEGY SIX: IMPROVED FINANCIAL MANAGEMENT

The financial challenges faced by Mangaung are due to poor financial management, operations and administrative inefficiencies, poor planning and lack of accountability, amongst others. These have negatively impacted on the City's ability to meet its financial and service delivery obligation. Hence, this holistic Plan is critical to address the financial challenges faced by the Municipality.

Some of the target areas to improve cash flow and financial sustainability include improvement in the key financial ratios/ indicators over the medium-term to desired norms, liquidity management, debtors' management, creditor negotiations, finalisation of litigation matters, expenditure efficiency and value for money, budget implementation, asset management, and efficiencies in trading services and distribution losses.

The Municipality also needs to move away from short-term erratic and reactionary planning to a long-term stable and sustainable plan and a long-term financial plan, to determine the available resources and various realistic funding mechanisms/ mixes at the disposal of Council, must be developed.

The IDP should be aligned to the operating model, the service delivery plan and long term financial plan in the medium-term and also filter through to future budget restructuring. This will allow for revenue and expenditure to be in accordance with predetermined realistic parameters, thereby enabling the Municipality to have sufficient cash at all times to meet its' financial and service delivery obligations, as and when due.

Cash flow improvements must be commenced with revenue enhancement, growth and management so that Mangaung is able to provide basic services and meet its service delivery obligations and financial commitments.

As mentioned earlier, Mangaung's cash flow problems impacted seriously on the ability of the Municipality to meet its' financial and service delivery obligations. This situation highlights the need for the Municipality to urgently improve on the areas of cash, revenue and expenditure management. Further, the Municipality should conclude payment arrangements with relevant creditors to address amounts owed.

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It is critical that cost containment measures are implemented and communicated at all levels within the Municipality. The assessment of all expenditure before being incurred should be undertaken, through stringent budgeting and expenditure controls. This must be institutionalised in the daily management practices of the Municipality.

A control environment with expenditure management/ cost containment and cash management must be introduced. In-year reports should also reflect the true financial status of the Municipality for the period being reported on.

The Municipality's SCM Unit should be immediately improved and strengthened.

In terms of the current challenges, a number of key areas have been identified that will need immediate attention, to revamp the SCM Unit. Focus should be on the following:

- Review of SCM policies and procedures, financial delegations, supplier database updating, poor management of stock levels, the placement of staff in the SCM Unit and training of all SCM practitioners at all levels in the Municipality including bid committee members;
- Improvement in the turnaround times of the sitting of Bid Evaluation and Bid Adjudication Committees and ensure the independence and functionality of the SCM Committees;
- Deviations to the SCM Policy need to be suspended and no deviations should be permitted and Departments must do proper planning and budgeting;
- Ensure SCM system is fully functional and strictly enforce proper SCM processes;
- Speed up the processing of bids and orders;
- Adherence to demand management;
- Introduce stricter controls around spending, procurement, and contracting as well as supplier management;
- Reviewing the integrity and updating of the service provider database, drafting of bid specification documents and management of bid documents;
- Development of procurement plans to ensure coherent demand management and to drive the sourcing strategies;
- Development of contract management/ documentation management system; and
- Training and development of the whole organisation on SCM policies and procedures.
- Establishment of a Cash flow Management Committee (approving orders before submitted to SCM for procurement)
- Updated Cash flow statement and budget statement to be provided to Cash Flow Management Committee on a weekly basis.

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It is imperative that implementation of policies and procedures throughout the value chain including procurement, contract management and spending be enforced without any exception, including the proper and adequate segregation of duties.

Finally, these strategies are also intended to respond to challenges facing Mangaung and are addressed in the Financial Recovery Plan, the details of which are further elaborated upon below (the Detailed Implementation Plan is set out in Section 9).

6. Risk Assessment

This Plan has identified risks that must be monitored and mitigated for successful implementation.

The Plan proposes changes, particularly with regard to financial administration, budgeting, financial discipline and governance and there will however be a need for a regular review of the risks identified to ensure that as additional risks arise, timely mitigation strategies can be adopted and instituted.

The risks and mitigation measures associated with this Plan are summarised below:

- **Non-implementation of Plans:** In order to mitigate this risk, specific timeframes and responsibilities have been defined for each of the strategies developed in the Plan. In addition, all Senior Managers' performance agreements, irrespective of whether acting or not, must include all the relevant elements of the Plan with clear deliverables/ outcomes and deadlines. The monitoring and evaluation process has also been developed and is set out in Section 7 of this Plan.
- **Poor Accounting and Record Keeping:** A key risk is that the outcomes of this Plan may not be measured accurately because of poor accounting processes and the delay in the timeous updating of accounting records. Processes to integrate the various systems and update the accounting records regularly and to ensure that they remain up-to-date are required in order to mitigate this risk. Furthermore, internal reporting to management on finances is critical to ensure that this Plan can be accurately and timeously monitored and managed. The role of the City Manager in leading this process is therefore critical. The operational aspects of the Internal Audit Unit and the Audit Committee in the Municipality must also be addressed urgently to ensure that independent and objective advice on financial management and performance is provided.
- **Alignment with Other Plans:** This plan must be aligned to all other strategic initiatives in the City and should be the primary plan and all other initiatives and plans aligned to it.
- **Change Management:** From a change management perspective, urgent action is required to address some of the poor practices that have occurred for many years. There is a need to strictly enforce new procedures and disciplinary measures. The enforcement of discipline across the Municipality will be extremely important and this should also drive the change management processes and behavioural changes required. The City Manager and Heads of Department with the assistance of the Human Resources Unit must communicate the content of this Plan to all employees and Labour Unions to ensure full understanding for effective and co-ordinated implementation and the potential consequences or outcomes of its non-implementation.
- **Labour Relations:** This Plan has an impact on labour and therefore discussions will need to be held with Organised Labour to address any labour relations matters arising from the implementation of this Plan. Communication with these stakeholders is essential and the need for open discussions on the serious financial challenges and long-term viability and sustainability of Mangaung and the impact on the labour force will be required.
- **Community and Stakeholders:** There is a risk that there may be community and ratepayer resistance to certain aspects of the Plan, such as budget cuts and the need to increase tariffs or introduce fixed charges or

for vigorous revenue collection actions. This risk can be managed by effective, improved and consistent communication by Councillors and officials of the Municipality with the community. The City must communicate effectively with the community on all aspects of the Plan and provide regular feedback on progress, including the submission of the approved Plan to National Treasury. Councillor support for the Plan is also required to ensure that there is a collective and consistent mind set to support and communicate all aspects of the Plan when Councillors engage with community members.

- **Filling of Critical Vacancies:** To ensure accountability and successful implementation of this Plan it is imperative that critical vacancies be filled as a matter of urgency.
- **Emerging Risks:** The following emerging risks have been identified and should form part of the daily oversight of the Municipality:
 - Poor leadership and political oversight;
 - Delay in the filling of critical vacant posts with people that have the appropriate experience, skills and qualifications;
 - Lack of will to address the issue of incorporating the entities back into the municipality;
 - Industrial actions owing to communications and resistance to the changes due to any organisational restructuring or realignment and the implementation thereof;
 - Resistance to change by Unions, Management and Councillors;
 - Community service delivery and other protests;
 - Loss of grant funding due to non-compliance with grant conditions;
 - Continued non-collection of revenue and increase in the debtors' book;
 - Failure to materially control and reduce non-revenue electricity and water losses, which losses will negate the impact of other interventions;
 - Failure to reverse the trend of under-maintenance and failure of timely replacement of aged infrastructure;
 - Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives;
 - Inadequate systems of delegation that impact on governance, administration and operational efficiency;
 - Litigations issues due to SCM challenges; and
 - Inadequate implementation of internal controls.

These risks will therefore require effective and focused management as their combined impact is likely to have far reaching consequences and impact on the financial and service delivery sustainability of the City.

Given this, a proper risk management matrix must be developed, managed and reported to Council on a regular basis.

7. IMPLEMENTATION AND MONITORING OF THE FINANCIAL RECOVERY PLAN

The primary responsibility to avoid, identify and resolve financial problems rests with Council.

It is emphasised that the responsibility to implement the Plan vests with Mangaung and that the Plan places significant implementation responsibility on the City Manager, Chief Financial Officer and other Senior Managers and regular monitoring of the plan by Council, the Executive Mayor and the City Manager and Senior Managers is critical to ensure successful implementation.

However, 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 who have been appointed to such positions and given specific roles, responsibilities and delegations. The detailed implementation plan is set out in section 9.

The key focus areas and activities outlined in the Plan must also be cascaded to all relevant municipal officials irrespective of whether acting or not and included in their respective performance agreements. It is also important that a “portfolio of evidence” is retained throughout the implementation of the Plan to enable assessment of results by the Auditor-General.

Oversight within the City by both Councillors and Management needs to be strengthened to ensure proper governance and that the service delivery and budget implementation plans are implemented, early warning systems are introduced, and corrective measures are taken timeously, where applicable.

Finally, and in respect of financial resources, the key will be the restructuring of the budget, optimising revenue resources available, vigorous implementation of the revenue enhancement strategy and cost containment/austerity measures.

As indicated, various elements of this Plan must be institutionalised and fully implemented in a coherent and holistic manner. These components are integrated and care should be taken during implementation of the Plan not to isolate some aspects from others even though certain aspects may only be implemented in the medium to long term.

The City should continue with the implementation of this Plan until such time that all aspects of the Plan have been fully implemented and institutionalised. The City Manager should closely monitor and evaluate progress and must report to the Mayor, Council, and National Government on a regular basis.

In addition, all Senior Managers’ must sign for their respective contributions to the Plan and their performance agreements must be amended to include elements of this Plan with clear deliverables and deadlines.

The monitoring of the implementation of this Plan and reporting on progress will be undertaken by the City Manager and reports on the implementation of the Plan must be submitted to the City Manager on a fortnightly basis, at least in the immediate to short-term. The details should form part of discussions at every management

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meeting and the City 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 targets.

Progress reports on the implementation of the Plan must be submitted by the City Manager to Council on a quarterly basis. The Executive Mayor and Council must also implement corrective measures and exercise greater oversight to ensure full implementation. These reports should also form part of the quarterly report submitted by the Mayor to Council in terms of section 52 of the MFMA on the implementation of the budget and the financial state of affairs of the City.

The City Manager must also submit progress reports on implementation of this Plan together with any amendments thereto to National Treasury on a monthly basis, until such time as the City is turned around and is on the path to service delivery and financial recovery.

Should the Mangaung Metro delay or fail to implement the Financial Recovery Plan, the Provincial Government must consider alternative support or intervention measures.

Finally, the City must move away from short-term and reactionary planning to a long term stable and sustainable planning framework, hence the Municipality must prioritise the development of a long-term financial plan, operating model and credible IDP.

8. CONCLUSION

This Plan must be submitted by the City Manager for adoption by Council and immediate implementation by Mangaung in order to secure the Municipality's ability to meet its obligations to provide basic services and financial commitments when due.

Mangaung should move away from short term and reactionary planning to a long term stable and sustainable framework, hence the Municipality must prioritise the development of a long term spatial and financial plan that is realistic and achievable and based on sound socio-economic analysis. The financial indicators issued in MFMA Circular 71 should also be used as a basis for such a long term financial plan. Annexure A provides an example of how Mangaung Metropolitan Municipality can use the Circular in this regard.

There is an urgency to get things done and the outcomes will also need to be incorporated in the performance agreements of all employees which will have to be monitored and evaluated to ensure successful outcomes.

9. DETAILED IMPLEMENTATION PLAN

9.1 STRATEGY ONE: STRENGTHENING ADMINISTRATION, GOVERNANCE AND INTERNAL CONTROLS

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
Revenue streams (Property rates, municipal services, renting out of halls and facilities, etc.)	Assist management to identify leakages, abuse and misuse, non-accounting, non-charging for services rendered by the Municipality, incorrect/wrong tariffs implementation.	GM: Internal Audit		√	√	1 Jul 2018 (Activities will form part of the IA Plan for 2018/19)	On-going (annually)	Decrease in cases of financial leakages; and Decrease in cases of wrong implementation of MMM policies that result in loss of revenue.	√	√
Resource Utilisation	Assist management to identify elements of abuse/misuse of municipal resources (e.g. abuse of vehicles)	GM: Internal Audit Manager: Anti-Fraud		√	√	1 Jul 2018 (incorporate in IA Plan for 2018/19)	On-going (annually)	Decrease in cases of misuse/abuse of municipal property.		√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
Audit Committee	Advocacy and education on Audit committee; Circular 65 to serve at Council for adoption; Review composition of the Audit Committee and incorporate clauses that will allow for termination in case of non- attendance; Timeous submissions of audit reports.	GM: Internal Audit	√	√	√	May 2018	Ongoing (Quarterly)	Optimally functioning audit committee.	√	√
Risk Management Committee	Facilitate an induction meeting to adopt schedule of meetings and interrogate documentation relating to functionality of committee.	CM	√			May 2018	31 Jul 2018	Optimally functioning Risk Management committee.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
ICT Steering Committee	Review composition of ICT Steering committee; Facilitate induction meeting to adopt schedule of meetings and interrogate documentation relating to functioning of the committee.	HOD: Corporate Services	√			Jul 2018	Oct 2018	Improved ICT governance.	√	√
Executive Management Team	Review the timing and frequency of sittings and stick to revised schedules; Content of meetings to be revised to align with the strategic mandate of the Municipality; Improved secretariat support to ensure that management resolutions are adequately	CM,HOD: CM Office,HOD: Corporate Services	√	√	√	May 2018	Jul 2018 Ongoing	Improved functionality of the EMT.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	formulated, decision matrix drafted and timely distributed; Decision matrix tracked and implementation of resolutions monitored.									
Strengthen Governance Oversight Committees (incl. council and mayoral committee)	Advise the Executive Mayor and Speaker to ensure adherence to Council, Local Labour Forum and committee meeting schedules and resolutions (expedite decision making); Ensure adherence to Council, and committee meeting schedules and resolutions (expedite decision making);	CM Speaker	√	√	√	May 2018	Ongoing	Improved governance and oversight.	√	√

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Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
	Introduce a Group Policy on Policies; Escalate councillor interference to appropriate legislative structures as provided in MSA, MFMA etc	CM CM								
Establishment of a Disciplinary Board Systems of Delegation (operational efficiencies)	Establish a disciplinary board for financial misconduct (Regulation 4 of the Municipal Regulations on Financial Misconduct procedures and Criminal Proceedings and its terms of reference)	CM, Executive Mayor and MPAC the Speaker with CM	✓			Jun 2018	Oct 2018	Improved governance and oversight.	✓	✓
	Review the current systems of delegation with appropriate	CM, with the Chief Whip, Speaker and the Mayor	✓			Jun 2018	Sep 2018	Improved ICT governance.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	controls (both administrative and political); Induction on systems of delegation; Cascade systems of delegation; within the political sphere, relevant governance committees and administration.	CM, All HODs						Effective and efficient operation.		
Communications	Compile Ward Based Information data.	GM: IDP and CTO		√		May 2018	Sep 2019	Effective and efficient communication internally and externally.	√	√
	Develop Communication and Marketing Strategy / Plan.	HOD: CS		√		May 2018	Dec 2018	Effective and efficient	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
		(GM: Communication and CTO)						communication internally and externally.		
	Develop a Social Media Policy.	HOD: CS (GM: Communication and CTO)		√		May 2018	Mar 2019	Effective and efficient communication internally and externally.	√	√
	Integration of all systems.	HOD: Corporate Services	√	√		May 2018	Jun 2019	Improve business processes. Reduced costs.	√	√
Business Processes (Land Development)	Remap and streamline business processes across the organisation.	HOD: Corporate Services DED Operations		√		May 2018	Jun 2019	Improved performance and ICT efficiency.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
Legal	Establish a municipal court that enforces by-laws and infringements.	HOD: Corporate Services, Chief of Metro Police;		√	√	May 2018	Mar 2019 (Ongoing)	Enforcement of bylaws and increased revenue.	√	
	Review of legal services and use of external legal advisors and implement recommendations.	HOD: Corporate Services		√		Jul 2018	Nov 2019	Reduced legal exposure and costs.		√
	Strengthen enforcement of conditions of development authorisations.	HODs: Planning and Engineering	√			May 2018	Oct 2018	Increased revenue.	√	
	Conducting litigation risk analysis and update the register.	HOD: CS	√	√	√	May 2018	Ongoing	Reduced legal exposure, costs and increased revenue.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
	Develop a strategy to deal with litigations.	HOD: CS	✓	✓	✓	May 2018	Aug 2018	Reduced legal exposure, costs and increased revenue.	✓	✓
	Develop a legal services charter.	HOD: CS	✓			May 2018	Nov 2018	Reduced legal exposure, costs and increased revenue.	✓	✓
	Adopt a tariffs / fees schedule for appointment of attorneys.	HOD: CS	✓			May 2018	Aug 2018	Reduced legal exposure, costs and increased revenue.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Legal: Contract Management	Review all contracts and service level agreements.	HOD: CS	✓	✓	✓	May 2018	Dec 2018	Reduced legal exposure, costs and increased revenue.	✓	✓
	Review service delivery mechanisms.	CM, HOD: CS	✓			May 2018	Feb 2019	Reduced legal exposure, costs and increased revenue.	✓	✓
	Issue intention to terminate contracts without source documents.	HOD: CS	✓			May 2018	Nov 2018	Reduced legal exposure, costs and increased revenue.	✓	✓
	Introduce a contract management policy.	HOD: CS	✓			May 2018	Nov 2018	Reduced legal exposure, costs, increased revenue.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Legal: By-Laws	Develop and Review By-Laws to provide for Tariffs, Fees, Fines and Penalties.	HOD: CS	✓			May 2018	Mar 2019	Reduced legal exposure, costs and increased revenue.	✓	✓
	Develop By-Law Resident Manual for public awareness and education.	HOD: CS	✓			May 2018	Mar 2019	Reduced legal exposure, costs and increased revenue.	✓	✓
Legal Compliance	Compile a Compliance Register and develop procedure manual.	HOD: CS		✓		May 2018	Dec 2018	Legal compliance and reduced litigation.	✓	✓
ICT: Paperless Environment	Instruction not to print, unless critical.	HOD: CS			✓	May 2018	July 2018	Improved ICT environment and efficiency.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
	Development of Programme on going Paperless Roll-out of Programme on going Paperless in a phased manner. Phase 1: Administration Phase 2: Political structure	HOD: CS			✓	May 2018	July 2018 Dec 2018 Dec 2019	Improved ICT environment and efficiency.	✓	✓
ICT: Telephones	Review of current Telephone Policy.	HOD: CS		✓		May 2018	Sept 2018 On-going	Improved ICT environment and efficiency. Reduced telephone costs and increased staff productivity.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Management System with Call Limits and Implementation.	HOD: CS		√		May 2018	Dec 2018 On-going	Improved ICT environment and efficiency. Reduced telephone costs and increased staff productivity.	√	√
ICT: Consolidation	Integrate Call Centres.	HOD: CS			√	May 2018	June 2019	Improved ICT environment and efficiency. Reduced costs and increased staff productivity.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue ✓	Reduce Expenditure ✓
	Upgrade Server Capacity.	HOD: CS			✓	May 2018	June 2019	Improved ICT efficiency and performance.	✓	✓
ICT: Infrastructure	Network expansion and reliability.	HOD: CS			✓	May 2018	June 2019	Improved ICT efficiency and performance.	✓	✓
ICT: Security	ICT governance framework.	HOD: CS	✓			May 2018	Dec 2018	Improved ICT efficiency and performance.	✓	✓
Register of Disclosure of Interests	Ensure register of disclosure of all employees and councillors interests is fully compliant with law and AG requirements.	CFO HOD Corporate Services	✓			Jul 2018	Jun 2019	Fully updated disclosure register of all officials and councillors interest.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
								Increased compliance.		
Uprooting Corruption and Fraud	Establish a hotline for fraud and corruption at the Sub Directorate anti- fraud and risk.	CM	✓			May 2018	Aug 2018	Eradication of fraud and corruption. Improved service delivery and audit.	✓	✓
Approval of Financial Recovery Plan	Approval of the Financial Recovery Plan for adoption by Council	City Manager	✓			Jul 2018	July 2018	Approved financial recovery plan.	✓	✓
Implementation of the MMMs Financial Recovery Plan	Include as a standing item, the progress on the implementation of the FRP, in the Executive Management	City Manager	✓			Jul 2018	On-going	Full implementation of the FRP.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
									Increase Revenue	Reduce Expenditure
			S	M	L				✓	✓
	Meetings' Agenda and Council's meetings.									
Strategic Development Review	Implement the City's Strategic Development Review Initiative	CM, EMTs		✓	✓	In progress	On-going	Strategic Initiatives Implemented.	✓	✓

9.2 STRATEGY TWO: ORGANISATIONAL STRUCTURING AND HUMAN RESOURCE MANAGEMENT

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
									Increase Revenue	Reduce Expenditure
			S	M	L				✓	✓
Employee Costs - Overtime	Finalisation and implementation of overtime policy.	HOD: Corporate Services	✓			May 2018	Sep 2018	Reduced employee costs and		✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
		CM						elimination of overtime abuse.		
	Establish an Overtime Management Committee.	HOD: Corporate Services	√	√		Jun 2018	Jun 2019	Reduced employee costs and elimination of overtime abuse.		√
	Consideration of a shift system where relevant.	All HOD's	√			Jun 2018	Dec 2018	Reduced employee costs and elimination of overtime abuse.		√
	Enforcement of overtime directive and policy.	All HOD's	√	√	√	May 2018	Ongoing	Reduced employee costs and elimination of overtime abuse.		√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Corporate Services Roadshows to workshop directorates on effective management of overtime.	HOD: CS	√			Jun 2018	Jun 2018 and Ongoing	Reduced employee costs and elimination of overtime abuse.		√
Employee Allowances	Draft and implement policies on standby, acting and transport allowances.	HOD: CS	√			May 2018	Dec 2018 and Ongoing	Reduced employee costs and elimination of allowances abuse.		√
Change Management	Introduction of employees' satisfaction survey.	HOD: CS	√			May 2018	Dec 2018 and Ongoing	Effective HR Management and Productive Workforce.		√
	Consider and implement the recommendation from the survey.	HOD: CS	√			May 2018	Dec 2018 and Ongoing	Effective HR Management and		√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
								Productive Workforce.		
	Develop and implement change management strategy. Implement “I love my job, I love my city” programme.	HOD: CS	√			May 2018	Dec 2018 and Ongoing	Effective HR Management and Productive Workforce.		√
Filling of critical vacancies	Filling of compliance positions (CFO, Chief Risk Officer, GM IDP)	HOD: CS CFO	√			May 2018	Oct 2018	Critical vacancies filled.	√	√
	Develop criteria for and prioritise other critical vacant positions.	HOD: CS	√			May 2018	Aug 2018	Model for prioritisation of filling of vacancies.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
HR Management and Development Organisational Structure	Finalise consultative processes of the review of the organisational structure.	HOD: CS	√			May 2018	Dec 2018 and Ongoing	Reduced employee costs.		√
	Conduct work study on each directorate.	HOD: CS	√			May 2018	Dec 2018 and Ongoing	Effective HR Management and Productive Workforce.		√
	Conduct a skills audit.	HOD: CS	√			May 2018	Oct 2018 and Ongoing	Effective HR Management and Productive and Skilled Workforce.	√	√
	Develop and implement HR policy to deal with skills mismatch.	HOD: CS	√			May 2018	Dec 2018 and Ongoing	Effective HR Management and Productive and Skilled Workforce.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
									Increase Revenue	Reduce Expenditure
			S	M	L				√	√
HR Management and Development: Performance Management	Develop and implement performance management system across all levels (phased in approach: 3-4, 5-7, 8-12, 13-15 over three financial years).	HOD: CS		√		May 2018	Mar 2019 and Ongoing	Effective HR Management and Productive and Accountable Workforce.	√	√
	Train staff to implement performance management.	HOD: CS		√		May 2018	Mar 2019 and Ongoing	Effective HR Management and Productive and Accountable Workforce.		√
	Implement measures to address poor performance including consequence management.	HOD: CS		√		May 2018	Mar 2019 and Ongoing	Effective HR Management and Productive and Accountable Workforce.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
									Increase Revenue	Reduce Expenditure
			S	M	L				√	√
HR Management and Development” Leave and Absenteeism	Introduction of an electronic leave system linked to the payroll.	HOD: CS	√			May 2018	Sep 2018	Reduced employee costs and elimination of abuse.		√
	Audit and reconciliation of leave days.	HOD: CS	√			May 2018	Sep 2018	Reduced employee costs and elimination of abuse.		√
	Issue a circular which stipulates attachment of leave credits to every leave application.	HOD: CS	√			May 2018	Sep 2018	Reduced employee costs and elimination of abuse.		√
	Investigate and adopt an appropriate attendance	HOD: CS	√			May 2018	Dec 2018	Reduced employee costs and		√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	management system (regulated working hours).							elimination of abuse.		
HR Management and Development: Human Resource Policies and Procedure Manual	Finalise outstanding HR policies for adoption by council.	HOD: CS	√			May 2018	Nov 2018	Improved HR Management and Productive Workforce.	√	√
	Communicate HR policies to staff.	HOD: CS	√			May 2018	Nov 2018	Improved HR Management and Productive Workforce.	√	√
	Consolidate and harmonise condition of services to ensure uniformity.	HOD: CS	√			May 2018	Nov 2018	Improved HR Management and Productive Workforce.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Implement training managers, supervisors on disciplinary code and disciplinary management.	HOD: CS	√			May 2018	Nov 2018, ongoing	Improved HR Management and Productive Workforce	√	√
Utilisation of Internal Resources (Insourcing)	All future SLA's contracts should include a skills transfer clause.	Contract Management	√			Immediately	Ongoing	% reduction on outsourced service and contracted services.		√

9.3 STRATEGY THREE: RESTRUCTURING OF THE BUDGET

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
Line Item Budget Analysis - 2015/16, 2016/17 and 2017/18	Undertake budget and actual line item analysis for the 2015/16, 2016/17 and 2017/18 financial years.	CFO, GM Revenue, GM Budget, All Executive Managers		√	√	Aug 2018	Sept 2018	Any inefficiency in revenue targets and expenditure trends identified and reviewed.	√	√
	Review targets for realistically anticipated revenue and expenditure trends and identify any inefficiency in revenue and expenditure.	CFO, GM Revenue, GM Budget, All Executive Managers		√	√	Aug 2018	Sept 2018	Credible budget baseline based on past and projected trends.	√	√
Tariffs	Determine Cost Reflective tariffs.	CFO, GM Revenue, GM Budget, All Executive Managers		√	√	Aug 2018	Sept 2018	Introductions of Cost Reflective tariffs	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Update the Tariff Structure taking into account all other Sundry revenue generating items from Planning, Land & Property Development and Human Settlements.	CFO, GM Revenue, GM Budget, All Executive Managers		√	√	Aug 2018	Sept 2018	Verified and credible Tariff Structure	√	√
Adjustment Budget for 2018/19	Compile a 2018/19 adjustment budget in line with reviewed targets for realistically anticipated revenue and expenditure trends and ensure revised budget to be credible and cash funded.	CFO, GM Revenue, GM Budget, All Executive Managers		√	√	Nov 2018	Dec 2018	Credible and cash funded budget	√	√
	Adjust personnel budget to reflect actual posts, including	CFO, GM Revenue, GM Budget, All		√	√	Nov 2018	Dec 2018	Reduction in personnel costs	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
	the new key and funded positions.	Executive Managers								
	Austerity and cost cutting measures to be reflected in the 2018/19 adjustment budget.	CFO, GM Revenue, GM Budget, All Executive Managers		✓	✓	Nov 2018	December 2018	Proper baseline for long term financial planning.	✓	✓
Adjustment Budget for 2018/19	Approved SDBIP for 2018/19FY to be reviewed and finalised to reflect 2018/19 adjusted budget.	CFO, All Executive Managers		✓	✓	Jan 2019	Feb 2019	Credible and cash backed budget base for 2018/19.	✓	✓
	Approval of the adjustment budget and revised SDBIP for 2018/19 by Council.	CFO, All Executive Managers		✓	✓	Feb 2019	Feb 2019	Adjustments budget approved, and stabilisation and cash reserves restored.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
	Capturing the approved adjustment budget for 2018/19 on the financial system.	CFO		✓	✓	Mar 2019	Mar 2019	Budget information on the financial system consistent with adjusted and approved budget.	✓	✓
	Implementation and monitoring of the approved adjustment budget for 2018/19.	CFO, GM Revenue, GM Budget, All Executive Managers		✓	✓	Mar 2019	Jun 2019	Strict controls over revenue and expenditure consistent with delegations, adjustments and approved budget. Reduction in deviations, irregular, fruitless and wasteful and	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
								unauthorised expenditure to acceptable norm.		
Compilation of a credible and cash funded MTREF budget for 2019/20 in accordance with the approved budget timetable of Council.	Compile a 2019/20 MTREF budget in line with the 2018/19 adjustment budget reviewed targets for realistically anticipated revenue and expenditure trends.	CFO, GM Revenue, GM Budget, All Executive Managers		✓		1 Nov 2018	Mar 2019	Credible budget and cash backed baseline for future budgeting and long term financial planning.	✓	✓
	Austerity and cost cutting measures to be reflected in the 2019/20 budget.	CFO, GM Revenue, GM Budget, All Executive Managers		✓	✓	1 Nov 2018	May 2018	Balanced, credible and cash backed budget.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
	Review all tariffs and charges.	CFO, GM Revenue, GM Budget, All Executive Managers		✓	✓	1 Nov 2018	March 2019	Cost reflective tariffs.	✓	✓
Compilation of a credible and cash funded MTREF budget for 2019/20 in accordance with the approved budget timetable of Council.	Review all current budget related policies.	CFO, GM Revenue, GM Budget, All Executive Managers		✓	✓	1 Nov 2018	March 2019	IDP and Budget related policies for 2019/20 MTREF consistent with the Plan and Legislative Framework.	✓	✓
	Scrutinise draft 2018 General Valuation Roll to ensure completeness.	HOD Planning, CFO		✓	✓	1 Nov 2018	31 Dec 2018	Revenue completeness.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
	Finalise and Council adopts 2019/20 MTREF Budget, budget policies, bylaws, IDP.	CFO, GM Revenue, GM Budget, All Executive Managers		✓	✓	May 2019	30 Jun 2019	A MTREF budget that is fully compliant, credible and cash funded.	✓	✓
	Implement 2019/20 MTREF Budget, budget policies, bylaws, IDP.	CFO, GM Revenue, GM Budget, All Executive Managers		✓	✓	July 2019	June 2020	Strict controls over expenditure and revenue.	✓	✓
Compilation of a credible and cash funded MTREF budget for 2019/20 in accordance with the approved budget timetable of Council.	Monitor implementation of 2019/20 MTREF Budget, budget policies, bylaws, IDP.	CFO, GM Revenue, GM Budget, Executive Managers		✓	✓	July 2019	June 2020	Strict controls over expenditure and revenue consistent with delegations and approved budget.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
Indigent and Free Basic Services	Update the indigent register and review policy allocation of FBS.	CFO	√	√	√	1 Nov 2018	Ongoing	Reduced allocation of FSB and alignment to equitable share.	√	√
mSCOA	Ensure compliance with mSCOA as Per National Treasury Regulations.	CFO	√	√	√	1 Jul 2018	Ongoing	mSCOA compliance.	√	√

9.4 STRATEGY FOUR: SERVICE DELIVERY AND INFRASTRUCTURE MANAGEMENT

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Facilities: Maintenance and Development	Compile a Database of Facilities belonging to the Municipality.	HOD: CS		✓		May 2018	Jun 2019 On-going	Database of facilities belonging to the Municipality Compliant, Safe and User Friendly Facilities. Improved Management.	✓	✓
	Consolidate Facilities under Corporate Services.	HOD: CS		✓		May 2018	Jun 2019 On-going	Compliant, Safe and User Friendly Facilities. Improved Management.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Conduct a Building Condition assessment for Maintenance Plan.	HOD: CS		√		May 2018	Jun 2019 On-going	Compliant, Safe and User Friendly Facilities. Improved Management.	√	√
Facilities: Maintenance and Development	Habitability, Accessibility and Health assessment.	HOD: CS		√		May 2018	June 2019 On-going	Compliant, Safe and User Friendly Facilities. Improved Management.	√	√
	Develop a Facilities Maintenance Strategy / Plan.	HOD: CS		√		May 2018	Jun 2019 On-going	Facilities Maintenance Plan Improved Management.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Facilities: Maintenance and Development	Optimal utilisation of unused facilities	HOD: CS		✓		May 2018	Feb 2019	Compliant, Safe and User Friendly Facilities. Improved Management	✓	✓
	Feasibility study for future municipal office space	HOD: CS		✓		Mar 2019	Jun 2020	Compliant, Safe and User Friendly Facilities. Improved Management	✓	✓
	Develop and implement Control Measures to Manage abuse of facilities.	HOD: CS		✓		May 2018	Dec 2018 On-going	Control Measures to Manage abuse of facilities developed	✓	✓
Water Losses and	Development of business plan to address water loss	HOD: Engineering	✓	✓	✓	Jul 2018	Jun 2019	5% reduction within MTREF period.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Reduction of Non- revenue Water	Replacement of dysfunctional bulk water metres.	HOD: Engineering	✓	✓	✓	Jul 2018	Jun 2019	5% reduction within MTREF period.	✓	✓
	Installation and replacement of AMR/ Prepaid water meters.	HOD: Engineering CFO	✓	✓	✓	Jul 2018	Jun 2019	Accurate water meter readings and billing information.	✓	✓
	Installation of water metres for unmetered sites.	HOD: Engineering		✓		Jul 2018	Jun 2019	Accurate water meter readings and reduction in water losses.	✓	✓
Water Losses and Reduction of Non- revenue Water	Identification and rectification of illegal connections.	HOD: Engineering CFO HOD Social services	✓	✓	✓	Jul 2018	Jun 2019	Reduction in water losses.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Reduction of Bloemwater monthly purchases	Expedite the implementation of Bulk Water Augmentation Plan projects.	HOD: Engineering HOD: Corporate Services		✓	✓	Jul 2018	Jun 2019	Increase of MMM bulk water supply capacity from the current 20% to up to 31% of total raw water requirements.	✓	✓
	Expedite the implementation of Waste Water reuse projects.	HOD: Engineering		✓	✓	Jul 2018	Jun 2021, beyond	Implementation of waste water reuse projects (Maselpoort pump station, rising main, gravity line, pump station refurbishment and Heuwelsig pump station.)	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Reduction of Bloemwater monthly purchases	Revision of bulk water supply SLA with Bloemwater with emphasis on reviewing downwards the existing punitive tariffs and service conditions.	CM, CFO, HOD: Engineering, HO: Corporate Service		✓	✓	Jul 2018	Jun 2019	Reduction in Bloemwater Bulk purchases.	✓	✓
	Review status of bulk water supply, develop and implement strategy.	CM, CFO, HOD: Engineering, HO: Corporate Service		✓	✓	Jul 2018	Jun 2019	Reduction in Bloemwater Bulk purchases.	✓	✓
	Implementation of Water Conservation and Water Demand Management Plan.	HOD: Engineering		✓	✓	Jul 2018	Jun 2021	5% reduction within MTREF period.	✓	✓
	Proactive leak detection and repairs and pressure management.	HOD: Engineering		✓	✓	Jul 2018	Jun 2021	5% reduction within MTREF period.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Reduction of Bloemwater Monthly Purchases	Expediting Refurbishment of water supply systems.	HOD: Engineering	✓	✓	✓	Jul 2018	Jun 2021, on going	Stable water supply. Reduced water losses.	✓	✓
Fleet Management	Fleet management policy approved and implemented.	All HOD's	✓			Immediately	July 2018	Optimal use of fleet	✓	✓
	Investigation and implementation on the outsourcing of trade waste.	HOD: Fleet and Waste	✓			May 2018	June 2019	Optimal model to deliver the service.	✓	✓
	Route optimisation.	All Solid Waste Managers		✓		Immediately	Ongoing	Operational efficiency Minimise overtime.	✓	✓
Solid Waste	Implementation of efficiency model for solid waste.	HOD Waste and Fleet	✓			Jul 2018	On-going	Illegal dumping sites reduced.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Roads Maintenance	Interact with the Central University of Technology for study on the city road network.	HOD: Engineering	✓			July 2018	Jan 2019	Trafficable roads. Reduced maintenance costs.		✓
Roads Maintenance	Patching of Potholes	HOD: Engineering	✓	✓	✓	Jul 2018	Ongoing	Reduced insurance costs. Reduced litigation claims and improved service delivery and life span of roads infrastructure.		✓
	Develop and implement a comprehensive roads and storm water asset management plan.	HOD: Engineering		✓		Aug 2018	Jun 2019	Reduced insurance costs. Reduced litigation claims and improved		✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
								service delivery and life span of roads infrastructure.		
	Implement and monitor a comprehensive Roads and Storm Water Asset Management Plan.	HOD: Engineering		✓	✓	Jun 2019	On-going	Reduced insurance costs. Reduced litigation claims and improved service delivery and life span of roads infrastructure.		✓
Transport Planning	Develop transport plan for western areas of the city.	HOD: Planning	✓			May 2018	Aug 2018	Completed transport plan for western areas.	✓	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Implement the recently drafted Integrated Public Transport Network Plan	HOD: Planning		√		Sep 2018	Jun 2021	Improved public transport system in the City.	√	
Bulk Engineering Services Master Plan	Update bulk engineering services master plan with latest SDF to accommodate additional demand on service provision (this will include revision of development charges).	HOD: ES		√		Aug 2018	Jun 2019	Improved SDF.	√	
Town Planning	Complete master plans for mixed use development in priority development nodes.	HOD: Planning	√			May 2018	Dec 2018	Master plans for mixed use developments, Increase revenue from development, tariffs.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Development applications using innovative use of technology.	HOD: Planning			√	July 2018	Dec 2018	Integration of Planning Department IT systems on to mSCOA. Reduction in development application turnaround times. Increased revenue.	√	
	Audit approved development application to identify where development charges have not been received (Planning to Provide Record of Decision Letters of approved developments).	HOD: Planning HOD: ES CFO	√			May 2018	Sept 2018	Audited approved development applications. Increased revenues.	√	

9.5 STRATEGY FIVE: REVENUE ENHANCEMENT AND ECONOMIC DEVELOPMENT

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
									Increase Revenue	Reduce Expenditure
			S	M	L				✓	✓
Facilities: Properties	Review of all Lease Agreements. (include contract review)	GM: Property Management GM: Legal Services		✓		May 2018	Mar 2019	Increased revenue/ rentals.	✓	✓
Tariffs	Enforcement of punitive tariffs on undeveloped land and illegal improvements without approval	HOD: Planning, CFO				July 2018	Mar 2019	Improved revenue and compliance with City by-laws.	✓	
Debtors Management	Profiling customers according to affordability to pay.	CFO		✓		Sept 2018	Ongoing	Improved revenue Reliable indigent register.	✓	
	Top 100 defaulting business consumers to be provided to the City Manager for follow up and embark on collection strategy.	CM, CFO, HOD Social Services, Chief of Metro Police	✓			May 2018	Monthly, on-going	All 100 Defaulting consumers provided to CM and collection	✓	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
								strategy implemented.		
Debtors Management	Review debtors book and implement prioritised debt collection.	CFO	√			May 2018	Jun 2018	Top Accounts have been identified and debt collection steps undertaken.	√	
	Focus on collection from provincial government and Free Development Corporation (FDC)	CM, CFO, HOD Social Services, Chief of Metro Police	√	√	√	May 2018	Ongoing	Improved collection from government debt.	√	
	Elevation using section 64 of MFMA.	CM	√	√	√	Jul 2018	Ongoing	Improved collection from government debt.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
Debtors Management	Cut services to defaulting government departments.	City Manager	√			May 2018	Immediately	Government disconnected by 25 May 2018 if non-payment of services with both MMM and Centlec.	√	
	Undertake data cleansing.	CFO, HOD: Planning	√	√	√	May 2018	Jun 2020	Aligned addresses and billing system.	√	
	Finalise consolidation of municipal accounts.	CFO, HOD: CS		√		May 2018	Dec 2018	Set up project and implementation plan by end of May 2018. Electricity is used as tool for disconnection.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
								Using of electricity prepaid vending to collect on arrear debt.		
	Implement MSA provision on collecting debt from all employees owing council.	CFO, HOD Corporate Services HOD: Corporate Services	√			Immediately		Increased revenue.	√	
	Switch off all national and provincial defaulters.	CFO	√			May 2018	Ongoing	Increased revenue.	√	
	Switch off all other defaulters.	CFO	√			Jun 2018	Ongoing	Increased revenue.	√	
Policies and Agreements	Review Memorandum of Incorporation and SLA with Centlec.	City Manager		√		Jun 2018	Dec 2018	Reviewed memorandum of	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
								incorporation and SLA with Centlec. Incorporation of Centlec into City.		
	Review SLA with Bloemwater.	City Manager		√		Jun 2018	Dec 2018	Reviewed SLA and agreement with Bloemwater. Reduced pricing for water.	√	√
Prepaid Meters	Prioritise installation prepaid water meters in all schools.	CFO, HOD: ES		√		Jul 2018	Dec 2018	All schools on prepaid water. Reduced losses.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Prioritise installation of prepaid electricity meters on all municipal investment properties.	CFO and Centlec		√		Jun 2018	Sept 2018	Reduce expenditure on electricity loss and increase revenue.	√	√
	Audit water meters.	CFO, HOD: ES, HOD: Planning			√	May 2018	Jun 2020	Proper Billing System.	√	
	Installation and enforcement of prepaid meters.	CFO	√			May 2018	Dec 2018	All available prepaid meters installed.	√	
	Enforcement of installation of water meters in terms of agreements.	CFO, HOD: Planning, HOD: ES	√			May 2018	May 2018	Only prepaid meters installed as part of all agreements.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
FMCMM	Update FMCMM and develop an action plan to address critical issues.	CFO	√			Jul 2018	Dec 2018	Compliant with National Treasury requirements.	√	
Creditors Management	Review creditors and perform creditor negotiations.	CFO	√			Jun 2018	Dec 2018 Ongoing	Agreements with creditors and allocations can be made in the budget. Reduction in creditors.		√
Liabilities Management	Review major liabilities.	CFO	√			Jul 2018	Jun 2018	Reduction of liabilities. Cash backed liabilities.		√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Expenditure Management	Audit of consumption of water and electricity in Municipal facilities.	HOD: ES and CE Centlec		✓		Jun 2018	Dec 2018	Reduced losses and liabilities.	✓	✓
Feasibility Studies, Reviews and Audits	Review of strategic stock holding (timing)	SCM	✓			Jul 2018	Dec 2018	Reduce long waiting period for strategic stock which led to expensive procurement.	✓	✓
	Undertake a land audit	HOD: Human Settlement	✓	✓	✓	Jan 2019	Dec 2021	Full record of land in Municipality's name. Optimal use of land.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Land disposal in line policy.	HOD: Human Settlement	√	√	√	July 2018	On-going	Full record of land in Municipality’s name. Optimal use of land.	√	
	Undertake a s78(iii) study of fresh produce market.	HOD: Planning	√			Jun 2018	Dec 2018	Determine business case for fresh produce market (R800 000 profit; R2m/month revenue which is 5%)	√	√
Tourism Enhance-ment	Relocation of the Tourism Information offices.	HOD Corporate service and HOD Economic and	√			Jun 2018	Dec 2018	Reduction in expenditure. Increased revenue.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
	Merging of VIC and Tourist Centre operations. Termination of concession and agreements with VIC.	Rural Development								
SMME Development	Update data of all SMMEs in accordance to sectors and Geographical location.	HOD: Economic and Rural Development		✓	✓	May 2018	Ongoing	Reduction in unemployment. Improved data integrity.	✓	
	Effectively implement legislation, policies and procedures. Issue permits, collect revenue, enforce by-laws, demarcate trading sites and link them to GIS Plotting system, lease agreements with traders for every permit issued	Team (Planning, (GIS, Building Control, Town Planning SMME, Environmental Health, Law Enforcement)		✓	✓	Jul 2018	Ongoing	Number of permits issued, demarcated trading spaces and plotted, number of law enforcement penalties and	✓	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
								transgressions recorded. Increased revenue.		
Economic and Rural Development	Complete review of the airport nodes and implement recommendations as approved by Council.	City Manager, HOD: ERD, CFO, GM: Tourism and GM: Investment.		✓	✓	Jul 2018	Jul 2020	Increased economic development and revenue.	✓	
Environmental Management	Audit municipal compliance with environmental legislation and permits.	HOD: Planning		✓		Jul 2018	Jun 2019	Reduce expenditure.		✓
	Ensure licensing and accreditation of environmental law enforcement officers.	HOD: Planning	✓			May 2018	Aug 2018	Increased enforcement and revenue.	✓	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
Long term Strategic Vision and Plan	Develop a long-term city development strategy.	MM, Deputy ED: Operations		√		July 2018	30 Dec 2019	Strengthened strategic and long-term planning of the Municipality. Improved internal business processes. Financial and service delivery operating model. Turnaround and sustainability.	√	√
Long term Strategic Vision and Plan	Comprehensive review of SDF.	HOD: Planning		√		July 2018	30 Dec 2019	Strengthened strategic and long-term planning of the Municipality.	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
								Improved internal business processes. Financial and service delivery operating model. Turnaround and sustainability.		
Long term Strategic Vision and Plan	Develop long term financial strategy	Deputy ED: Operations		✓		July 2018	30 Dec 2019	Strengthened strategic and long-term planning of the Municipality. Improved internal business processes.	✓	✓

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
								Financial and service delivery operating model. Turnaround and sustainability.		
LED and Social Services	Develop policies to ensure exemptions/ rebates for rentals on properties that address equity and transformation.	HOD: ERD	✓			July 2018	30 Dec 2018	Address equity and transformation.	✓	✓
Informal Settlements	Share information with Finance on PTOs issued for billing purposes.	HOD: Human Settlements		✓	✓	Jul 2018	Ongoing	Billing in Informal Settlements enhanced.	✓	
Building Inspectors	Review, regularise /enforce zoning and update finance systems (e.g. small businesses).	HOD: Planning		✓		Jul 2018	Jun 2019	Increased revenue.	✓	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
									Increase Revenue	Reduce Expenditure
			S	M	L				√	√
Human Settlements (Catalytic Projects)	Align catalytic projects to IDP; SDF; BEPP; IHSP.	Head: Human Settlements	√	√	√	Jul 2018	Ongoing	As per project schedule.	√	
	Re-prioritise plans, processes and projects.									
	Prioritise funding from USDG for bulk services.									
	Prioritise approvals for the catalytic projects.									
	Appoint representatives to participate in catalytic projects steering committees.									
Human Settlements	Vetting of applicants.	Head: Human Settlements	√	√	√	Jul 2018	Ongoing	Reduce non-payment risk through:	√	√

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
(Rental Stock) (Un-serviced Residential Sites for Affordable Housing)	Ensure eviction of defaulters and illegal occupants within 90 days period. Increase rental to market related where applicable. Sell old; dilapidated rental houses and ring- fence revenue for reinvestment in the sector (maintenance). Finalise outstanding land development processes. Appropriate funding for services. Prioritise the implementation of Gap housing.						Vetting as per received applications. Evictions and listing as per delinquent accounts. Increased revenue. Number of affordable residential erven sold to increase revenue.			
Rural Develop-ment	Implementation and enforcement of MoU between the City and SPCA.	HOD: Rural Development		√		Jul 2018	Ongoing	Sound management of	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
								livestock and increased revenue.		
Building Capacity to Promote City Economic Development Through Interventions	Develop and implement MOUs with key Provincial Department to fast-track legislative requirement for development (e.g. DESTEA, Department of Labour).	HOD: Economic and Rural Development Office of the City Manager	✓	✓	✓	Jul 2018	Ongoing	Fast-tracking of legislative requirement for development.	✓	✓
Economic and Rural Development	Prioritisation, packaging and budgeting of CBD Masterplan.	HOD: Economic and Rural Development; HOD: Planning; HOD: ES	✓	✓	✓	Jun 2018	Ongoing	Project prioritisation and packaging; Vibrant economic growth and effective service	✓	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
								delivery in these areas.		
A Small-Town Development Focus for Wepener, Dewetsdorp, Vanstadendrus and Soutpan	Compile specifications and initiate SCM processes.	HOD: Economic and Rural Development; HOD: Planning; HOD: ES.	√	√	√	Dec 2018	Ongoing	Incubation centres; Art and craft centres established.	√	
Investment Promotion	Development of investment, promotion and marketing strategy.	HOD: ERD		√		Jul 2018	Dec 2018	Increasing investment in competitive sectors in the city economy.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
Building Control	Development and implementation of programme to inspect and monitor illegal building construction, dilapidated buildings and safety standards.	HOD: Planning	√	√	√	Jun 2018	Ongoing	Identification and action against illegal building processes and dilapidated buildings.	√	√
Revenue Enhance-ment	Traffic contravention management system to be procured no later than end of September 2018.	CFO HOD: CS		√		May 2018	Sept 2018	Availability of the traffic contravention management system.	√	
	Auction of impounded vehicles ensuring compliance with requirements.	CFO and Traffic	√			Jul 2018	Ongoing	Increased revenue.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Review investments made by the Municipality and develop plans to obtain a return on investments made.	HOD: Planning, ERD and ES	√	√		Jul 2018	Ongoing	Increased revenue.	√	
	Review revenue streams to identify additional sources of revenue i.e. insurance, consolidation of stores, sale of old furniture, obsolete stocks.	CFO	√			Jul 2018	Dec 2018	Increase collection in terms of sundry charges.	√	
Revenue Enhance-ment	Repair damaged weighbridges. Develop and enforce vehicle testing centre and weighbridges.	HOD: Waste	√	√	√	Jul 2018	Ongoing	Increased revenue.	√	
	Installation of parking metres.	HOD: Social Services		√	√	Jul 2019	Jun 2010	Increased revenue.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									√	√
	Introduction of a specialised committee to enhance development.	HOD: Planning		√		Jul 2019	Ongoing	Increased revenue.	√	
	Review and implement revenue enhancement strategy.	CFO, HODs	√			Jul 2018	Jun 2019	Increased revenue.	√	
Land and Property Development	Establish task team between Finance, HS and Centlec to resolve issues regarding irregular connection of services on municipal owned properties.	HOD: Human Settlements (with CFO, Centlec)	√			Immediately	Ongoing	Increased revenue.	√	
Data Cleansing	A systematic data cleansing process must be undertaken to ensure correct details of account holders or property owners and the classification or reclassification of standards of services being rendered, and where	CM CFO	√	√	√	Immediately	Ongoing	Increased revenue.	√	

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (√ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
									Increase Revenue	Reduce Expenditure
			S	M	L				√	√
	appropriate correcting the tariff that each property is charged.									

9.6 STRATEGY SIX: IMPROVING FINANCIAL MANAGEMENT

Focus Area	Key Activities	Person Responsible (Title)	Timeline # (✓ - Tick)			Start Date	End Date	Measurable Outcome	Impact	
			S	M	L				Increase Revenue	Reduce Expenditure
									✓	✓
Asset Management	Review terms of reference and special conditions of contract (incl. consulting capacity; information submitted for maintenance on refurbishment projects) for unbundling and capitalisation.	CFO, HOD: ES		✓		Jul 2018	Sept 2018	Reduction in expenditure.		✓
SCM	Reduce all procurement spend by 10% (for same goods and services).	CFO	✓			Jul 2018	Jun 2019	Reduced procurement spend by 10% or more compared to 2017/18 spending.		✓
	Undertake a strategic review of SCM and SCM functions across the organisation with NT support.	Deputy ED: Operations		✓		Jul 2018	Jun 2019	100% compliance to the legislation and related policies.	✓	✓

10. ANNEXURES

10.1 ANNEXURE A: FINANCIAL RATIOS MANGAUNG ONLY

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
FINANCIAL POSITION								
Asset Management/ Utilisation								
1	Capital Expenditure to Total Expenditure	10% - 20%	22%	24%	22%	15%	15%	15%
2	Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	0%	0%	0%	0%			
3	Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	8%	2%	4%	2%	2%	2%	2%
Debtors Management								
1	Collection Rate	95%	64%	75%	57%	89%	89%	89%

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
2	Bad Debts Written-off as % of Provision for Bad Debt	100%	5%	12%	32%	0%	0%	0%
3	Net Debtors Days	30 days	154 days	150 days	163 days	165 days	164 days	157 days
Liquidity Management								
1	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 - 3 Months	1 month	0 months	0 months	0 months	0 months	0 months
2	Current Ratio	1.5 - 2:1	1.6	1.1	1.2	0.6	0.4	0.3
Liability Management								
1	Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	6% - 8%	2%	3%	5%	7%	7%	6%
2	Debt (Total Borrowings) / Revenue	45%	23%	37%	35%	79%	124%	156%
FINANCIAL PERFORMANCE								
Efficiency								
1	Net Operating Surplus Margin	= or > 0%	-18%	-28%	5%	14%	15%	15%

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
2	Net Surplus /Deficit Electricity	0% - 15%	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available
3	Net Surplus /Deficit Water	= or > 0%	1%	-28%	5%	24%	27%	29%
4	Net Surplus /Deficit Refuse	= or > 0%	-42%	26%	22%	30%	31%	32%
5	Net Surplus /Deficit Sanitation and Waste Water	= or > 0%	0%	20%	29%	11%	19%	25%
Distribution Losses								
1	Electricity Distribution Losses (Percentage)	7% - 10%	Not Applicable	Not Applicable	Not Applicable			
2	Water Distribution Losses (Percentage)	15% - 30%	39.7%	34.9%	48.0%			
Revenue Management								
1	Growth in Number of Active Consumer Accounts	None	Not Available	Not Available	Not Available			
2	Revenue Growth (%)	= CPI	-9%	2%	40%	-15%	2%	9%
3	Revenue Growth (%) - Excluding capital grants	= CPI	-9%	-2%	47%	-21%	4%	10%

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
Expenditure Management								
1	Creditors Payment Period (Trade Creditors)	30 days	103 days	87 days	91 days	65 days	65 days	65 days
2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	0%	25%	22%	16%	0%	0%	0%
3	Remuneration as % of Total Operating Expenditure	25% - 40%	31%	32%	32%	31%	32%	32%
4	Contracted Services % of Total Operating Expenditure	2% - 5%	7%	10%	8%	14%	13%	13%
GRANT DEPENDENCY								
1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	None	41%	43%	42%	10%	12%	13%
2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	None	21%	13%	21%	7%	9%	10%

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
3	Own Source Revenue to Total Operating Revenue (Including Agency Revenue)	None	73%	73%	81%	73%	75%	76%
BUDGET IMPLEMENTATION								
1	Capital Expenditure Budget Implementation Indicator	95% - 100%	87%	84%	90%			
2	Operating Expenditure Budget Implementation Indicator	95% - 100%	70%	115%	108%			
3	Operating Revenue Budget Implementation Indicator	95% - 100%	92%	88%	115%			
4	Service Charges and Property Rates Revenue Budget Implementation Indicator	95% - 100%	91%	100%	102%			

10.2 ANNEXURE B: FINANCIAL RATIOS CENTLEC ONLY

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
FINANCIAL POSITION								
Asset Management/ Utilisation								
1	Capital Expenditure to Total Expenditure	10% - 20%	12%	10%	9%	5%	5%	6%
2	Impairment of Property, Plant and Equipment. Investment Property and Intangible assets (Carrying Value)	0%	0%	0%	0%			
3	Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	8%	3%	2%	2%	3%	2%	2%
Debtors Management								
1	Collection Rate	95%	104%	97%	99%	95%	95%	95%
2	Bad Debts Written-off as % of Provision for Bad Debt	100%	0%	0%	0%	0%	0%	0%
3	Net Debtors Days	30 days	54 days	94 days	96 days	106 days	113 days	120 days

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
Liquidity Management								
1	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 - 3 Months	3 Months	2 Months	1 Months	0 Months	0 Months	0 Months
2	Current Ratio	1.5 - 2:1	1.5	1.1	0.8	0.6	0.6	0.6
Liability Management								
1	Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	6% - 8%	0%	0%	1%	26%	14%	11%
2	Debt (Total Borrowings) / Revenue	45%	97%	102%	100%	99%	94%	90%
FINANCIAL PERFORMANCE								
Efficiency								
1	Net Operating Surplus Margin	= or > 0%	5%	1%	-5%	4%	4%	4%
2	Net Surplus /Deficit Electricity	0% - 15%	23%	9%	6%	5%	5%	6%
Distribution Losses								
1	Electricity Distribution Losses (Percentage)	7% - 10%	12.9%	13.2%	10.8%			

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
Revenue Management								
1	Revenue Growth (%)	= CPI	2%	2%	4%	3%	6%	6%
2	Revenue Growth (%) - Excluding capital grants	= CPI	5%	2%	5%	2%	6%	6%
Expenditure Management								
1	Creditors Payment Period (Trade Creditors)	30 days	60 days	70 days	83 days	101 days	101 days	100 days
2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	0%	2%	3%	3%	0%	0%	0%
3	Remuneration as % of Total Operating Expenditure	25% - 40%	10%	11%	12%	18%	19%	19%
4	Contracted Services % of Total Operating Expenditure	2% - 5%	5%	5%	3%	4%	5%	5%
GRANT DEPENDENCY								
1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	None	86%	81%	86%	62%	69%	67%
2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	None	86%	81%	86%	62%	69%	67%

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
3	Own Source Revenue to Total Operating Revenue (Including Agency Revenue)	None	99%	99%	100%	99%	99%	99%
BUDGET IMPLEMENTATION								
1	Capital Expenditure Budget Implementation Indicator	95% - 100%	Not Available	101%	105%			
2	Operating Expenditure Budget Implementation Indicator	95% - 100%	Not Available	90%	91%			
3	Operating Revenue Budget Implementation Indicator	95% - 100%	95%	99%	97%			
4	Service Charges and Property Rates Revenue Budget Implementation Indicator	95% - 100%	Not Available	95%	90%			

10.3 ANNEXURE C: FINANCIAL RATIOS CONSOLIDATED (MANGAUNG AND CENTLEC)

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
FINANCIAL POSITION								
Asset Management/ Utilisation								
1	Capital Expenditure to Total Expenditure	10% - 20%	20%	21%	19%	17%	15%	15%
2	Impairment of Property. Plant and Equipment. Investment Property and Intangible assets (Carrying Value)	0%	0%	0%	0%			
3	Repairs and Maintenance as a % of Property. Plant and Equipment and Investment Property (Carrying Value)	8%	2%	3%	2%	2%	2%	2%
Debtors Management								
1	Collection Rate	95%	84%	86%	76%	80%	80%	80%
2	Bad Debts Written-off as % of Provision for Bad Debt	100%	0%	11%	29%	0%	0%	0%
3	Net Debtors Days	30 days	98 days	116 days	132 days	148 days	172 days	187 days

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
Liquidity Management								
1	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 - 3 Months	2 months	1 month	1 month	1 month	0 months	0 months
2	Current Ratio	1.5 - 2:1	1.4	0.9	1	1.1	1.2	1.3
Liability Management								
1	Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	6% - 8%	2%	2%	3%	7%	5%	4%
2	Debt (Total Borrowings) / Revenue	45%	19%	25%	26%	26%	24%	22%
FINANCIAL PERFORMANCE								
Efficiency								
1	Net Operating Surplus Margin	= or > 0%	1%	-2%	13%	16%	14%	15%
2	Net Surplus /Deficit Electricity	0% - 15%	23%	9%	6%	5%	5%	6%
3	Net Surplus /Deficit Water	= or > 0%	1%	-28%	5%	24%	27%	29%

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
4	Net Surplus /Deficit Refuse	= or > 0%	-42%	26%	22%	30%	31%	32%
5	Net Surplus /Deficit Sanitation and Waste Water	= or > 0%	0.0%	20%	29%	11%	19%	25%
Distribution Losses								
1	Electricity Distribution Losses (Percentage)	7% - 10%	12.9%	13.2%	10.8%			
2	Water Distribution Losses (Percentage)	15% - 30%	39.7%	34.9%	48.0%			
Revenue Management								
1	Growth in Number of Active Consumer Accounts	None	Not Available	Not Available	Not Available			
2	Revenue Growth (%)	= CPI	-6%	6%	30%	-4%	1%	7%
3	Revenue Growth (%) - Excluding capital grants	= CPI	-2%	4%	34%	-7%	1%	8%
Expenditure Management								

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
1	Creditors Payment Period (Trade Creditors)	30 days	36 days	60 days	71 days	83 days	87 days	88 days
2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	0%	19%	11%	13%	0%	0%	0%
3	Remuneration as % of Total Operating Expenditure	25% - 40%	24%	25%	25%	31%	32%	32%
4	Contracted Services % of Total Operating Expenditure	2% - 5%	6%	8%	7%	8%	7%	7%
GRANT DEPENDENCY								
1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	None	45%	51%	48%	14%	15%	13%
2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	None	28%	26%	31%	12%	12%	10%

Ratio Analysis Report			Restated		Audited	Projected		
		Norm	2015	2016	2017	2018	2019	2020
3	Own Source Revenue to Total Operating Revenue (Including Agency Revenue)	None	81%	83%	86%	83%	84%	84%
BUDGET IMPLEMENTATION								
1	Capital Expenditure Budget Implementation Indicator	95% - 100%	85%	88%	92%			
2	Operating Expenditure Budget Implementation Indicator	95% - 100%	97%	101%	100%			
3	Operating Revenue Budget Implementation Indicator	95% - 100%	97%	96%	114%			
4	Service Charges and Property Rates Revenue Budget Implementation Indicator	95% - 100%	88%	92%	92%			

10.4 ANNEXURE D: FINANCIAL RATIOS CONSOLIDATED (MANGAUNG AND CENTLEC) (AFTER KEY STRATEGIES MODELLED)

To be completed after further discussions with Municipality.