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**MANGAUNG METROPOLITAN MUNICIPALITY**

**DRAFT FINANCIAL RECOVERY PLAN**

**JUNE 2023**

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# ABBREVIATIONS

|  |  |  |
| --- | --- | --- |
| No | Abbreviation | Full Form |
|  | AFS | Annual Financial Statements |
|  | AG | Auditor General |
|  | ART | Antiretroviral Therapy |
|  | CoS | Cost of Supply |
|  | DBSA | Development Bank of Southern Africa |
|  | EXCO | Executive Committee |
|  | FRESHCO | Free State Social Housing Company |
|  | FRP | Financial Recovery Plan |
|  | HRD | Human Resources Development |
|  | ICT | Information and Communications Technology |
|  | IDP | Integrated Development Plan |
|  | IPTN | Integrated Public Transport Network |
|  | KPA | Key Performance Area |
|  | KPI | Key Performance Indicator |
|  | LLF | Local Labor Forum |
|  | MEC | Member of the Executive Council |
|  | MFMA | Municipal Financial Management Act |
|  | MFRS | Municipal Financial Recovery Services |
|  | MMM | Mangaung Metropolitan Municipality |
|  | *m*SCOA | Muncipal Standard Chart of Accounts |
|  | NCR | National Cabinet Representatives |
|  | NERSA | National Energy Regulator of South Africa |
|  | NT | National Treasury |
|  | MPAC | Municipal Public Accounts Committee |
|  | PMS | Performance Management System |
|  | SAPS | South African Police Service |
|  | SCM | Supply Chain Management |
|  | SHRA | Social Housing Regulatory Authority |
|  | SQR | Status Quo Report |
|  | UIF&W | Unauthorised, Irregular and Fruitless and Wasteful Expenditure |
|  | WTW | Water Treatment Works |
|  | WWTW | Wastewater Treatment Works |

# MAJOR SOURCES OF INFORMATION AND DOCUMENTATION

|  |  |
| --- | --- |
| No. | Document Source |
| 1. | 5 Year Integrated Development Plan 2022 – 2027 |
| 2. | Service Delivery and Budget Implementation Plan (SDBIP) 2021/22 |
| 3. | Audit Reports by the Auditor-General of South Africa |
| 4. | The Mid-year Budget and Performance Assessment Report and the Medium-Term Revenue and Expenditure Framework (MTREF) Budget |
| 5. | Financial Ratios in Accordance with MFMA Circular 71 |
| 6. | 2021/22 Annual Report |
| 7. | 2022/23 Municipal mSCOA Strings to Date |
| 8. | 2021/22 Audited Financial Statements |
| 9. | 2020/21 Audited Financial Statements |
| 10. | 2019/20 Audited Financial Statements |
| 11. | Management Engagement |
| 12. | The Municipal Website |
| 13. | Various Municipal Documents Including, but not Limited to Policies, Procedures |
| 14. | AGSA Management Report 2022 |
| 15. | Working Session with the Following Streams: Governance, Organisational/ Institutional, Infrastructure and Finance |
| 16. | Oversight Reports 2021/22 |
| 17. | MPAC Report |

# EXECUTIVE SUMMARY

Chapter 13 of the Municipal Financial Management Act, 2003 (MFMA) regulates the resolution of financial problems at Municipalities noting that the primary responsibility to avoid, identify and resolve financial problems in a Municipality rest with the Municipality and Council itself.

Section 138 of the MFMA highlights the factors, singularly or in combination, that may indicate a serious financial problem. Some of these factors have been identified at the Mangaung Metropolitan Municipality (MMM) hence the national intervention was invoked in the Municipality.

The intervention at MMM is a Mandatory Intervention in terms of S139 of the MFMA brought about as a result of a crisis in its financial affairs, a serious and persistent material breach of the Municipality’s obligations to provide basic services and to meet its financial commitments. The above is elaborated on further within the status quo assessment of this report. The mandatory intervention in this instance is being implemented by National Treasury as per section 139(5)(a) and (c) of the Constitution read together with section 150 of the MFMA.

In accordance with S141 of the MFMA, only the Municipal Financial Recovery Service may prepare a financial recovery plan for a mandatory intervention referred to in section 139. When preparing a financial recovery plan various stakeholders must be consulted and previous FRP’s taken into account.

In a national, intervention, S139 (1) of the MFMA read with section 150 of the MFMA places the responsibility on the Cabinet to request the Municipal Financial Recovery Services (MFRS) unit in the National Treasury to prepare an FRP, which considers the reasons for the financial crisis and an assessment of the Municipality’s financial status (status quo assessment);

In terms of S139(1)(b), the Mayor of the Municipality must be consulted on the FRP to obtain cooperation (political support) for the implementation and ensure that the budget and any other legislative measures to support the implementation of the recovery plan are approved.

In conclusion, the Municipal Finance Recovery Service unit in National Treasury must develop the financial recovery plan for the MMM. The plan binds the Municipality in the exercise of both its legislative and executive authority, including the approval of budget and legislative measures giving effect to the budget to the extent necessary to achieve the objectives of the recovery plan and the Municipality is obligated to ensure that such a recovery plan is implemented within the timeframes outlined.

# LEGISLATIVE CONTEXT, INTERVENTION AND OVERSIGHT

## OVERVIEW OF THE FINANCIAL RECOVERY PLAN (FRP)

S142 of the MFMA outlines the criteria for FRP.

A FRP 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:

(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 timeframe for financial recovery, and milestones to be achieved; and

(vii) Identify what actions are necessary for the implementation of the plan, distinguishing between actions to be taken by the municipality and actions to be taken by other parties.

The FRP may:

(i) Provide for the liquidation of specific assets, excluding those needed for the provision of the minimum level of basic Municipal services;

(ii) Provide for debt restructuring or debt relief in accordance with relevant legislation;

(iii) Provide for special measures to prevent unauthorised, irregular and fruitless and wasteful expenditures and other losses; and

(iv) Identify any actual and potential revenue sources.

In addition to the above, the FRP for a mandatory intervention must:

(i) Set spending limits and revenue targets;

(ii) Provide budget parameters which bind the Municipality for a specified period or until stated conditions have been met; and

(iii) Identify specific revenue-raising measures that are necessary for financial recovery, including the rate at which any municipal tax and tariffs must be set to achieve financial recovery.

The FRP prepared and included hereafter addresses the above requirements.

## PREPARATION, CONSULTATION AND APPROVAL OF THE FRP

**Methodology used and extent of the work done during the Status Quo Assessment and FRP development:**

The methodology used comprise the detailed technical assessment of the state of the Municipality in terms of the four Municipal sustainability pillars per the agreed framework as detailed below:

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| **INFORMATION AND COMMUNICATION TECHNOLOGY** |
| --- |
| * Operational Efficiency and Cost-Effectiveness * Data-Driven Decision Making * Enhanced Service Delivery * Transparency and Accountability * Resilience and Sustainability |

Figure 1 - Assessment framework

ICT serves is a fundamental pillar of viability in Municipalities. By enhancing efficiency, enabling data-driven decisions, improving service delivery, promoting transparency, and supporting sustainable practices, ICT significantly contributes to the financial, strategic, social, political, and environmental viability of a Municipality. It is therefore recommended that the ICT framework be incorporated into the Municipal Assessment Framework.

**Operational Efficiency and Cost-Effectiveness:** ICT, including systems like Enterprise Resource Planning (ERP), offers opportunities for improved efficiency and cost-effectiveness. By streamlining processes and reducing manual effort, these systems save both time and money. This efficiency not only leads to cost savings but also allows for the effective allocation of resources, which is key to the financial viability of a Municipality.

**Data-Driven Decision Making:** ICT systems centralise and manage vast amounts of data, allowing for accurate, real-time insights into municipal operations. This facilitates evidence-based decision-making and strategic planning, enabling the municipality to respond effectively to emerging trends and challenges. In this way, ICT contributes to the strategic viability of a Municipality.

**Enhanced Service Delivery:** ICT is instrumental in improving the quality and accessibility of services provided to citizens. From online bill payments (e-services) and service requests to digital libraries, ICT broadens the reach of municipal services and improves citizen satisfaction, contributing to social viability.

**Transparency and Accountability:** The use of digital systems enhances transparency and accountability in municipal operations. By making information accessible to the public, these systems encourage civic participation and foster trust, crucial for the political viability of a Municipality.

**Resilience and Sustainability:** ICT supports the environmental viability of a Municipality by facilitating smart and sustainable practices. For example, smart grid technology can optimise energy consumption, and Geographic Information Systems (GIS) can aid in sustainable urban planning. Additionally, digital systems can enhance a Municipality's resilience by improving its ability to respond effectively to various challenges, from everyday operations to emergency situations.

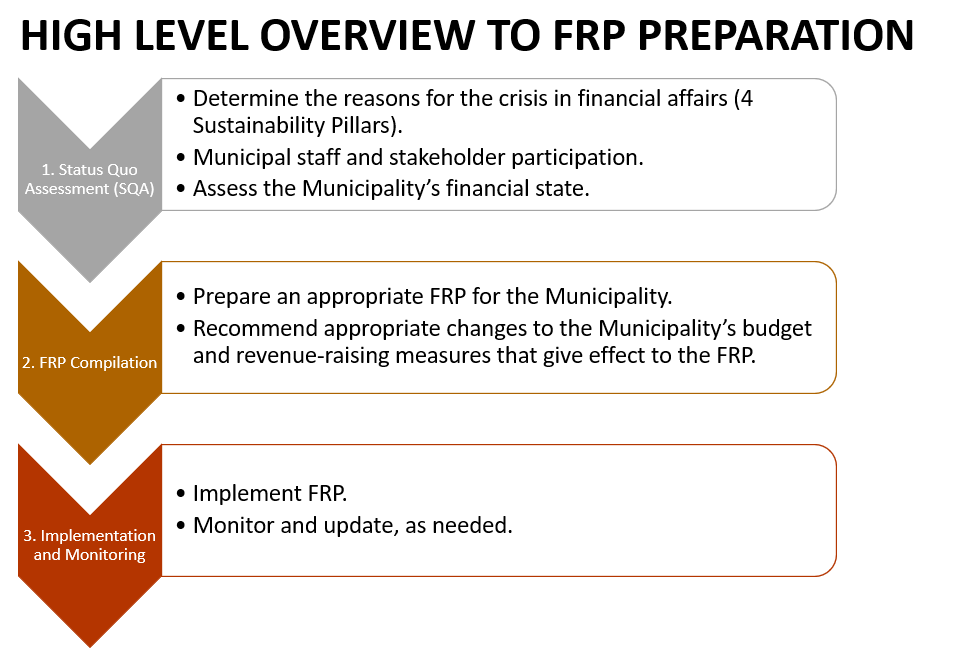


Figure 2 - FRP Preparation Process

**Preparation**

The approach adopted in the development of the Status Quo assessment 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, Key Stakeholders, Major Creditors and the Local Labor Forum.

Assessments were also conducted on the status quo assessment and mandatory FRP prepared during 2020.

Additionally, this Status Quo Assessment is aligned to the four (4) pillars used by the National Treasury to assess Municipal sustainability, namely Governance, Institutional Stability, Financial Management and Service Delivery.

**Consultation approach**

Various consultations were conducted in order to obtain and confirm the status quo findings at MMM.

Key consultation engagements included:

1. A 1-day workshop between National Treasury and the National Cabinet representatives (NCR) appointed to support MMM on the implementation of the FRP held at National Treasury on 15 January 2023 and comments made;
2. Information gathering from various sources, and conducting a desktop analysis and diagnostic assessment per focus area;
3. A 2-day workshop at MMM with Management, including break away sessions for the four pillars identified above on 22 and 23 February 2023l and
4. A 1-day feedback session with the Municipal Management on 12 May 2023 to discuss the key findings from the Status Quo Assessment.

In addition to the above, information was shared between MMM officials, the NCR and National Treasury MFRS in order to facilitate access to information and transparency.

Mangaung Metro’s Senior Management, Provincial Treasury, Provincial CoGTA, the South African Local Government Association (SALGA) and sector departments were consulted on the Draft FRP in a meeting held on 22 and 23 June 2023. FRP documentation was circulated before the workshop and stakeholders that couldn’t attend had an opportunity to provide their inputs to the consultation process in writing.

The municipality’s largest creditors were invited to a consultation workshop held in Mangaung on 23 June 2023. This workshop was attended by XXX. The municipality’s labour representatives were invited to a consultation workshop held on the same day. This workshop was attended by representatives from IMATU and SAMWU.

The Final Draft FRP was published in terms of Section 141(3)(c)(ii) of the MFMA to invite the public, including the local community to submit written comments and representations in respect of the Draft FRP. On XX June 2023, advertisements were placed in 2 newspapers of general circulation in the area of jurisdiction of the local municipality over a 14-day period. Hardcopies of the plan were made available at key locations in the municipality.

The MFRS wrote to stakeholders on XX June 2023 to provide them with a copy of the draft FRP and invite them to submit comments in terms of Section 141(3)(c)(i) of the MFMA before or on XX July 2023. These letters were sent to:

1. The Mangaung Metropolitan Municipality
2. The National Cabinet Representative in Mangaung Metro
3. Chief Executive Officer, South African Local Government Association
4. IMATU representatives Local Labour Forum
5. SAMWU representative Local Labour Forum
6. Eskom Holdings SOC Distribution, Mangaung

The NT MFRS wrote to both the MEC for Finance and the MEC for CoGTA on XX June 2023 with an opportunity to submit written comments by 30 June 2023.

All stakeholder comments received were considered and factored into the final FRP.

**Approval**

This Plan will be submitted for approval to the Minister of Finance as per section 141 (3) (c) of the MFMA at least 14 days before finalising the plan, ie.:

(i) Submit the plan for comment to the Municipality, the MEC for finance and the MEC for local government in the province; organised local government in the province, organised labour; and any supplier or creditor of the Municipality, on request; and

(ii) Publish a notice in a newspaper of general circulation in the Municipality stating the place, including any website address, where copies of the plan will be available to the public free of charge or at a reasonable price; and inviting the local community to submit written comments in respect of the plan.

In terms of S141 (4) the person charged with preparing the FRP or the Municipal Financial Recovery Service must consider any comments received pursuant to subsection, finalise the FRP; and submit the final plan to the MEC for finance in the province for approval in terms of section 143 (2).

In terms of S143 (2) mentioned above the MEC for finance must verify that the process set out in section 141 has been followed and that the criteria contained in section 142 are met and if so, approve the recovery plan, or if not, direct what defects must be rectified.

The responsible MEC must submit an approved financial recovery plan to the Municipality, the Minister of Finance and the Cabinet member responsible for Local Government, the Auditor-General; and organised local government in the province.

## IMPLEMENTATION OF THE FRP

As this is a mandatory intervention, the Municipality in responsible and must implement the FRP.

All revenue, expenditure and budget decisions must be taken within the framework and subject to the limitations of the FRP (MFMA: S146(1) (a)and(b)).

This Plan must be submitted by the City Manager to be tabled in Council for noting, implementation and oversight in order to secure the Municipality’s ability to meet its obligations to provide basic services and financial commitments when due.

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, and/or deployed within the MMM 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. In Mangaung’s case more regular reporting and stringent oversight may be required given the current state of affairs.

The financial recovery plan will be undertaken and implemented in phases, namely:

* **Phase 1: Rescue phase (6 – 12 Months)** – This phase focuses on the most critical aspects of rescuing the Municipality from its immediate and most pressing challenges.
* **Phase 2: Stabilisation phase (13 – 24 months)** – This phase focuses on areas that are depleting the Municipality’s financial resources while taking a deeper focus on governance, service delivery and institutional pillars.
* **Phase 3: Sustainability phase (25 months and onwards)** – This phase focuses on building on institutionalising the efforts of previous phases in order to prevent a regression in performance and ensure that the Municipality is able to continue as a going concern in a sustainable and viable manner. The aim in this phase is to improve the long-term financing strategy, implement revenue enhancement and maximisation strategies and improve efficiencies in service delivery through innovative and technological solutions. In summary, this phase has as outcome the functioning of the Municipality as intended in the Constitution and other legislation.

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.

## MONITORING AND OVERSIGHT OF THE FRP

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, even beyond the legislative timelines. It is thus of the utmost importance that the position of City Manager is filled and held by a capable individual. The reports on the implementation of the Plan should form part of discussions at every Mayoral Committee and management meeting.

In terms of S146 (1) (c) of the MFMA, the Municipality must report monthly to the Minster of finance on the implementation of the plan in such manner as the plan may determine.

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 at National level.

Should the Mangaung Metro delay or fail to implement the FRP, the National Government must consider alternative support or intervention measures including assuming responsibility for the implementation of the recovery plan to the extent that the Municipality cannot or does not take executive measure to give effect to the recovery plan.

The Municipality’s delay or failure to implement the plan could even result in Council being dissolved and an Administrator appointed, S139(1)(c) of the Constitution, after which S139 (4) and (5) of the Constitution becomes applicable.

## RISK MATRIX

The identified risks that must be mitigated for the successful implementation of the proposes changes, particularly with regard to financial administration, budgeting, financial discipline and governance, especially political oversight. 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:

**Governance**

* Poor leadership and political oversight and interference in the administration;
* Lack of will to address the challenges in the service delivery model;
* Resistance to change by Unions, Management and Councilors;
* Community service delivery and other protests;
* Inadequate systems of delegation that impact on governance, administration and operational efficiency;
* Litigations issues due to SCM challenges; and
* Inadequate implementation of internal controls.

**Institutional**

* Delay in the filling of critical vacant posts with people that have the appropriate experience, skills and qualifications; and
* Industrial actions owing to communications and resistance to the changes due to any organisational restructuring or realignment and the implementation thereof.

**Financial Health**

* Loss of grant funding due to non-compliance with grant conditions;
* Continued non-collection of revenue and increase in the debtors’ book; and
* Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives.

**Service Delivery**

* 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; and
* Community unrest and vandalism.

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 by the Municipality, clearly addressing those that will undermine the national efforts and support.

## OVERVIEW AND ECONOMIC ASSESSMENT OF MANGAUNG

Mangaung Metropolitan Municipality (MMM) covers 9 887 km² and comprises three prominent urban centers namely Bloemfontein, Botshabelo and Thaba Nchu, 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 service sector of the economy plays a predominant part of the economic base in Mangaung and is dependent, directly or indirectly, on the services that are provided by MMM to service their clients. Should MMM fail to deliver these services it would have a significant negative impact on the businesses in this sector, which could result in a decrease in productivity, decrease in GDP and an increase in unemployment, just to mention a few.

[](https://www.google.co.za/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=2ahUKEwiP5fqLj6raAhUDaxQKHSMtB_EQjRx6BAgAEAU&url=https://en.wikipedia.org/wiki/List_of_municipalities_in_the_Free_State&psig=AOvVaw2noYCEQv6hyLBhpfuIzUGi&ust=1523257619484868)

Figure 3: Map of Mangaung and Neighbouring Municipalities

The Mangaung Local Municipality 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 of August 2016, the former Naledi Local Municipality and Ikgomotseng which formed part of Masilonyana Local Municipality were merged with the Mangaung Metropolitan Municipality (MMM) to form one Municipality.

The MMM comprises the cities/ towns of Bloemfontein, Mangaung, Botshabelo, Thaba Nchu, Soutpan, Dewetsdorp, Wepener and Van Stadensrus. The town of Bloemfontein is the seat of the Appeal Court and as such receives coverage in the media when matters of high public interest is heard.

The Mangaung Municipality had a population size of 878 834 people in 2019, almost a quarter (28%) of the population in the Free State province. The total population for the Free State Province is estimated to increase to 3 203 333 by 2026, growing at an average annual rate of 0.42 %. The growth rate of the Municipal area is greater to that of the province between 2016 and 2019 (0.18 %). The Mangaung Municipality had 260 228 households in 2016, which is expected to rise to 305 792 by 2026.

Approximately 36.6% of the population lives in poverty, with an unemployment rate of 25.3%.

The functional adult literacy rate of the population is the percentage of persons older than 20 with the highest level of education being Grade 7 and higher (those that have less than Grade 7 as the highest level of education are classified as illiterate). The literacy rate of the population influences the employability of the local labour force and hence the economy and sustainability of the Municipality.

Chart, bar chart

Description automatically generated

Figure 4: Adult literacy rate

The life expectancy in the Mangaung Municipality has increased from 60 to 61 years between 2016 and 2019. Furthermore, the life expectancy in the Mangaung Municipality is greater compared with that of the Free State Province.

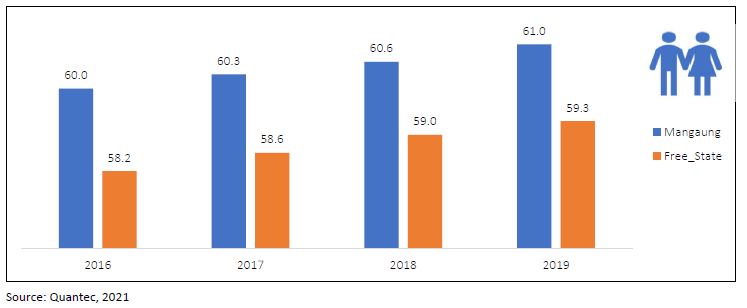


Figure 5: Mangaung life expectancy

In the Mangaung Municipality, the number of clients starting ART decreased from 10 721 to 7 916 between 2016 and 2019. In 2016, 24.7 % of people receiving ART in the Mangaung District resided in the Free State Province. This decreased to 24.1 % in 2019.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| HIV TREATMENT INDICATORS, 2016 - 2019 | | 2016 | 2017 | 2018 | 2019 |
| Mangaung | Patients starting ART treatment | 10,721 | 10,416 | 8,856 | 7,916 |
| Free State | Patients starting ART treatment | 46,765 | 40,676 | 36,617 | 35,058 |

Table 1 - HIV Treatment: Source National Treasury

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 undertook a strategic development review in 2017 which provided recommendations to strengthen spatial transformation, economic development, organisational and governance strengthening, improved service delivery and a need to develop and implement a financial recovery plan.

The Free State Provincial Executive placed the MMM under a mandatory intervention in terms of Section 139(5) (a) and (c) of the Constitution in December 2019. A mandatory financial recovery plan was subsequently imposed on the Municipality in 2020. After failing for more than two years to implement the financial recovery plan during the provincial intervention, the Metro has now been placed under a national intervention in terms of Section 139(7) of the Constitution.

The managerial autonomy of senior Municipal officials has subsequently been limited by the National Cabinet through resolution of Cabinet. This allows the National Cabinet Representative and the appointed support team to assume the responsibility for the implementation of the imposed mandatory financial recovery plan and the overall recovery processes. Given the inability or reluctance to implement the previous recovery plans, it will be recommended that measures now be implemented that would go to the core of the problems in the Municipality in terms of service delivery, administration, financial management and governance.

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 since 2016/17 as evident in annual financial statements and mid-year performance reports;
* Deteriorating financial management and credit control (including declining Auditor-General outcomes);
* Poor governance and political oversight;
* Poor communication with communities and key stakeholders; and
* Lack of strengthening and improving the functionality of the administration.

The Municipality is plagued by political and administrative instability. This instability filters through to the daily operations and functions of the Municipality, and through to the public and ordinary employees taking to the streets in protest against poor service delivery, vandalism, destruction of property, etc.

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

# PART TWO – STATUS QUO ASSESSMENT

## KEY ISSUES IDENTIFIED AND PROPOSED INTERVENTION STRATEGIES

Detailed below are the findings of the status quo assessment and will be set out in terms of the following four (4) categories:

4.2) Governance;

4.3) Institutional, Organisational and Human Resources;

4.4) Financial Management; and

4.5) Service Delivery.

## GOVERNANCE

Municipalities are creatures of statute. This means that Municipalities have no inherent functions and powers, except for those granted by legislation. Legislation bestows executive and legislative powers to the Municipal Council. It is therefore critical that Council must be stable to ensure delivery on its constitutional mandate. The mandate of Municipalities is to deliver basic services, in the first instance, to the citizens of the Country.

What services, and how it is to be delivered, is legislated as well. For a Municipality to function as foreseen in the Constitution, all powers and functions must be optimally executed and performed. As shown below, Mangaung is plagued by political and administrative instability, that leads to poor service delivery and poor financial management.

Below find issues highlighted that negatively impacts on the Municipality being able to deliver on its mandate in a viable and sustainable manner.

| **Focus Area** | **Brief Diagnostic Analysis** | **Key Issue/ Root Causes** | **Proposed Strategy to Resolve** |
| --- | --- | --- | --- |
| **Governance, Council and oversight structures/Committees** | The Municipality has an elected Speaker, Acting Executive Mayor and Acting Chief Whip. | Delays in electing permanent Executive Mayor and Chief Whip is due to pending litigation. | Permanent Executive Mayor and Chief Whip to be electing before the end of June 2023 as a court order has been made. |
| All section 79 and 80 oversight structures are in place and now functional, after a period of instability experienced by the Municipality. Chairperson of MPAC is not in place. Terms of reference for the Programming Committee not developed yet. | Previous chairperson among the expelled councilors.  Programming Committee was newly established, and ToR’s not developed yet. | MPAC chairperson to be elected/appointed by end of June 2023.  Terms of reference to be finalised by end of June 2023. |
| The Municipality has a manual resolutions register but not being effectively monitored for implementation. | No centrally monitoring process or system to monitor implementation. | Council resolutions implementation to form part of Executive Management for effective monitoring and the status be tabled at Council regularly. |
| The Municipality has one public entity. The SLA with CENTLEC does not provide for revenue to be transferred to the Municipality. | SLA has not been signed and adequate provisions for revenue management not provided for. | Council should review the SLA to ensure that the Municipality receives revenue as per reviewed SLA. |
| The Municipality does not have a stakeholder engagement strategy and public participation policy in place. | Instability in the municipality has created gaps in the system. | Develop and implement a stakeholder engagement strategy and a public participation policy that introduces various stakeholder engagement forums. |
| Disciplinary Board not in place and therefore not functional. | Terms of office expired in January 2023 | Re-advert to be placed urgently for the appointment of the new Disciplinary Board. |
| Councillors and staff declare their interests in registers but there is no monitoring process of the status of the declarations. | Ineffective coordination and monitoring process of disclosure of interests. | Develop a process plan of monitoring declaration of interests by councillors and staff. |
| Council does not approve statutory reports timeously in line with the approved MFMA calendar, e.g MPAC report, Annual Report for 2022/23 not yet tabled, budget not yet passed, etc. | Political instability, infighting and hung council meetings have contributed to the delays. | New leadership and City Manager to ensure urgent approval of all reports in line with the MFMA calendar. |
| **Contract Management** | There is no functioning contract management system in place.  Not clear where the function should be performed or located.  There isn’t an up-to-date contract register.  The contracted services were 4.73% (2020/21) and 3.79% (2021/22) respectively which was within the Circular 71 norm of 2-5%.  The Municipality has contracted services with service providers where there is staff employed to do the same work.  Some contracts have not been signed by the previous MM.  The Municipality has evergreen contracts that are automatically renewed without going back to the market.  For the past 2 months the Municipality did comply with section 116 of the MFMA on submission of monthly monitoring reports on contracts, however this process need to be reviewed.  An updated contract register could not be obtained, and the following could not be established:  If there are any irregular month to month contracts;  Contract irregularities and compliance matters; and  If Council approve a contract management framework or policy. | Contract Management Committee is no longer sitting.  No synergy between legal and SCM.  No online system to deal with contracts or document management system.  No value for money assessments.  Poor contract management and officials appointed in posts without qualifications.  Lack of an effective contract management system. | Revive the sitting of the Contract Management Committee.  Consider re-locating this function to SCM.  Establish an online document management system.  Invite National Treasury and/or Provincial Treasury to conduct workshop on contract management.  Review existing contracts against the organisational structure to determine duplication of services.  Investigate the validity of unsigned contracts.  Evergreen contracts to be investigated and reviewed for an open and transparent procurement process to be undertaken.  Compliance with MFMA section 116 reporting. |
| **System of Delegations** | The system of delegations is outdated and in certain areas not in line with local government recent legislative amendments.  There are no updated delegation registers in place.  There are no written and signed sub-delegations below the City Manager.  The old system of delegations does not incorporate role clarification as required by law and are centralised at the level of heads of departments.  The City Manager did not delegate the powers and functions related to supply chain management and the establishment of Bid committees in line with statutory requirements. | No review of delegation framework has been done recently.  Ineffective management processes as delegations are outdated. | Review and approve delegation framework urgently and develop delegations’ registers.  Sub-delegate powers and functions to Heads of directorate.  Sub-delegate further to maximise administrative and operational efficiencies.  Incorporate role clarification in the system of delegations as required by Systems Act.  Review and approve delegations of powers and functions for implementation of supply chain management policy including the establishment of Bid committees.  Conduct training on the system of delegations through CoGTA, National or Provincial Treasury. |
| **By-laws** | Most by-laws are outdated and not recently reviewed.  The promulgated of by-laws are not done and reviewed yearly and not done for 2023/24. There is no by-law drafter in place.  The Municipality does not have an effective reporting structure on revenue generated from enforcement of by-laws in place. | No review has been conducted.  By-laws not respected and enforced.  Outdated by-laws and no by-law drafter appointed. | Conduct a review of by-laws and ensure implementation.  Establish an effective reporting structure on reporting on revenue generated from enforcement of by-laws.  Appointment of a by-law drafter. |
| **Unauthorised, Irregular and Fruitless and Wasteful Expenditure. (UIF&W)** | UIF&W is huge and increasing.  The cumulate balances of UIF&W as at 30 June 2022 are as follows:  Unauthorised: R 5.6 Billion.  Irregular: R 3.1 Billion.  Fruitless and Wasteful: R 240 Million.  There is no approved UIF&W expenditure policy and reduction plan in place, but a draft policy is in place.  There are no section 32 investigations that have been conducted. The analysis and identification of UIF&W was outsourced but the report is not being used by the Municipality due to the irregular appointment of the service provider.  The CM is not submitting UIF&W expenditure reports quarterly to the Mayor and annually to the Council for oversight as required by Regulations. | Disregard of SCM processes.  Bid committees illegally constituted.  No declaration of pecuniary interest by members.  Political and administrative instability.  Lack of consequence management.  Lack of efficient management of reporting requirements | Adhere to SCM policy and regulations.  MPAC must conduct investigations urgently.  Enforcement of consequence management.  Training of staff regarding the SCM processes.  Draft UIF&W policy to be finalised for approval by Council.  A reduction plan should be developed and implemented with clear timeframes.  Conduct investigations on all reported allegations of financial misconduct against the officials and ensure consequence management is implemented once the Disciplinary Board has been established.  Reporting on the UIF&W should be included in the Municipality’s calendar for monitoring and implementation. |
| **Political Interference** | It is alleged that politicians interfere in the administration and specifically in staff appointments and procurement. There are tensions between Council and senior Management and mutual mistrust exist, whether permanent, acting or deployed officials. | It is a criminal offence for Councillors to interfere in the administration of the Municipality. When this happens, officials delegated to perform certain functions, are overruled that will have a negative effect on service delivery. The City Manager is the accounting officer of the Municipality, and when overruled by Council, cannot be held accountable effectively. | The Accounting Officer must act on political interference, that includes instituting criminal charges against Councillors that interfere in the administration of the Municipality.  Enforcement of the Code of Conduct for councillors.  These should also be escalated to the National and Provincial and respective State Institutions. |
| **Service Delivery** | Protests over water and sewerage and poor service delivery happens regularly. The latest reported event was Municipal vehicles set alight as recent as March 2023. | The previous instability in Council and Management affected service delivery, that led to civil unrest, vandalism, theft, etc. | The newly elected leadership has led to stability and should continue to prioritise service delivery. |
| **Litigation and Legal Landscape** | The legal department is not functioning optimally and seemed to fail in its function to mitigate risk to the Municipality. It seems that the legal department is not consulted as it should that leads to poor contracting, that includes procurement, and management, high litigation instances, policies not reviewed as required, little to no consequence management for employees implicated in irregular, unauthorised and fruitless expenditure and implementation of by-laws.  Contingent liabilities as at 30 June 2022 was R 83.9 million.  Legal fees budgeted for 2021/22 was R 26.7 million with actual legal fees incurred at R 52.7 million.  The Municipality has an updated litigation register but the tracking of court matters is not efficient, and financial implications of court orders could not be established.  The Municipality has legal support protocols in the form of standard operating procedures. However, there is no adequate capacity to provide adequate legal support.  The Municipality has a legitimate appointed panel of attorneys procured through an open tender process which ends in March 2024. However, they have taken the Municipality to court due to non-payment. | The legal department must be properly capacitated to function effectively.  Senior management must ensure that legal is consulted to identify and mitigate risks to the Municipality. It is evident that this is not happening as evidenced by the numerous legal actions against the Municipality and service delivery protests.  Poor contract management has led to high number of litigations from service providers due to the flawed procurement process, non-payment of service providers, political instability and politicised administration that leads to litigations.  Legal Services organisational structure not in line with the functional needs of the municipality.  Poor contract management and budgeting for legal costs has led to non-payment. | Senior management needs to ensure that the legal department is properly staffed and that legal is involved timeously in contracting (procurement).  A process must be written and implemented where actions and legal threats against the Municipality is assessed to make the decision to defend or settle matters.  Certain legal matters should be escalated to National Institutions (Hawks) for assistance.  Review legal Services organisational structure to ensure appropriate provision of posts for effective legal support.  Budget for litigation/legal costs should be reviewed in line with municipality’s operational needs.  Terms of reference for the new term of panel of attorneys should be developed for urgent advertising for procurement. |
| **ICT Strategy and Governance** | The ICT department has had instability and lack of leadership as there has been no Chief Technology Officer (CTO) since 2019 and no permanent managers since 2011.  There is therefore no ICT strategy or centralisation and oversight of ICT.  As a result, key systems are not in place such as document management system, contract management system and time and attendance.  In addition to the above, the Municipality does not have a list of licences and software currently in place and are paying for licences that are not being utilised as indicated by their excessive software license fees of R 21.7 million during the 2021/22 financial year.  The internal audit department does not have the resources and skills to carry out ICT audits. | Technology has become an imperative to support organisational efficiency, effectiveness and ultimately sustainability.  An integrated strategy that addresses organisational requirements and security will support all departments to operate more effectively as well as limit audit findings. | Centralise ICT function with a defined strategy and mandate to support the Municipality’s requirements and strategic imperatives.  Develop and implement a clearly defined and resourced ICT Plan. |
| **Immovable Property management** | The Municipality has an approved land alienation policy. However, most lease agreements are not updated as most leases are now on a month-to-month basis. The Municipality collects market related rentals from Council leased property based on private property valuations. | Lack of lease management. | Review outdated leases for renewal. |
| **Audit Action Plan** | The Municipality received qualified audit outcomes for 2017/18 and 2018/19, improved to unqualified for 2019/20 and 2020/21 but regressed to qualified audit outcomes in the 2021/22. The past five financial years show stagnation in this regard. The Post Audit Action plan for the previous AG outcomes has not been tabled before Council for approval. The Action plan was discussed at the Mayoral Committee and EMT. | Political and administrative instability has led to the PAAP not being tabled before Council. | Management should develop and implement the post audit action plan timeously and report on progress in the Audit Steering Committee meetings.  Internal audit should assist in the implementation and monitoring of the PAAP.  Management should urgently table the Audit Action Plan to Council and provide quarterly reports to Mayoral Committee and Council.  PAAP implementation should be included in the Performance Agreements for Senior Manager to ensure consequence management for non-performance against the identified audit findings. |
| **Risk Management** | The Municipality has a council approved Risk Management Policy that include the strategy and implementation plan. A new Risk Management Committee was appointed in March 2023 and was inducted in June 2023. The Municipality has a CRO in place. However, the Municipality does not have a Business Continuity Plan (BCP) in place | A decision was taken to start with ICT BCP instead of the broad BCP. | The Municipality need to prioritise the development of the enterprise-wide BCP that will include the ICT BCP.  Management should submit quarterly reports on implementation of mitigating measures against identified risks to risk management committee and Council.  Internal Audit to assist in monitoring risk mitigation measures in the Municipality. |
| **Internal Audit** | The Municipality’s Internal Audit function is in place and functional. However, recommendations of the Audit Committee have been partially implemented by the Municipality. The term of the current Audit Committee has ended on 31 May 2023 and Council is in the process of finalising the appointment of the new members. | The Municipality’s 2022/23 Internal Audit Plan was approved by the Audit Committee, an in its reports to Council, reflect on the work it has performed on the Internal Audit annual plans, the details of which are captured in the minutes of the Audit Committee that form part of annexures to the Audit Committee reports to Council. Internal Audit submit quarterly reports on the implementation of the plan to the Audit Committee. The previous Audit Committee was in place and functional. The post of CAE has been filled. | Internal Audit should provide support and monitor the implementation of Audit Committee recommendations by management.  The process of appointing the new Audit Committee should be fast-tracked. |

## INSTITUTIONAL, ORGANISATIONAL AND HUMAN RESOURCES

* + 1. **INTRODUCTION**

A Financial Recovery Plan (FRP) developed in 2020 went into great detail on the prevailing state of affairs. In addition, key recommendations were made on how to address these. In 2022, a further status quo was conducted, and key issues were identified. The approach to this assessment builds on the work already done and identify the state of affairs in the Municipality as at March 2023.

From this assessment, the same key issues still exist with no real positive progress to recovery, mainly due political and institutional instability.

Most of the recommendations made in 2019 were not implemented and this poses a significant risk to the development and updating of the 2023 FRP.

Experts in the field of organisational development identify 5 issues for ensuring well-functioning and effective organisations. The table below identifies the issues and links them to the Mangaung/Local government environment.

| **Focus Area** | **Brief Diagnostic Analysis** | **Key Issue/ Root Causes** | **Proposed Strategy to Resolve** |
| --- | --- | --- | --- |
| **Effective leadership and management.** | There is instability at MMM as the City Manager and Section 56 Appointments remain vacant or are filled with acting appointments. | Inadequate leadership results in lack of direction to address the operations and challenges to achieve a thriving Municipality. | Achieve stability at a political and administrative level. This includes the filling of the City Manager and the Section 56 appointments positions. |
| **Well-defined organisational structure.** | MMM does not have a well-defined and approved organisational structure to support the functioning of the Municipality.  The process for the review of the organisational structure has started however not yet concluded. | Without a well-defined organisational structure, the Municipality will continue to experience issues in operational and administrative effectiveness. | MMM should engage in the process of defining its operating model.  The adoption and periodic review of the organisational structure in line with MMM’s approved operating model, strategy and governance structures. |
| **Clarity about roles and responsibilities and performance management.** | Without clear roles and responsibilities, officials cannot be held accountable and performance management will not be effective. It was identified in the consultation that defined roles and responsibilities exist but are not adhered to and no performance agreements and management thereof are in place.  As a result, no consequence management can be implemented.  No job descriptions and bloated salaries. | This contributes to dysfunctional operations and administration.  Employees take no responsibility or accountability for non-performance.  Duplication in roles and responsibilities.  No benchmark for performance management and subsequently lack of consequence management. | Review of roles and responsibilities against approved organogram.  Adoption, implementation and oversight of a delegation system including adherence to such.  Implementation of performance management agreements.  The existence and adherence to a clear governance framework.  Conduct skills audit and define job descriptions.  A comprehensive change management intervention needs to be rolled out to manage all issues related to culture and employee relations. |
| **Filling of critical positions.** | Delay in the filling of critical vacant posts with people that have the appropriate experience, skills and qualifications. | Poor service delivery as the Municipality is not operating efficiently. | Organisational restructuring by assessing the critical posts required to operate efficiently and effectively and staff excess to requirements of the Municipality.  Improve its human resource strategy that guides recruitment, placement of staff, retention of staff, performance management and disciplinary processes.  The filling of critical positions and the training and development of all functionaries on their role, especially vacancies directly influencing service delivery.  It is advisable that National Treasury/ CoGTA intervene in this process. |
| **Agree and endorse policies and procedures.** | Defined and approved policies and procedures should support MMM in achieving a well-functioning Municipality. There are also imperative to achieve performance management and consequence management objectives as it provides a guideline against which to hold officials accountable for their actions. It was found during consultation and assessment of the 2020 Status Quo that policies are outdated and last reviewed during 2017 and there is no clarity on who is responsible for drafting and reviewing policies. | Non-Compliance with laws and regulations.  Poor controls in place to manage overtime.  No consequence management on breach of policy. | The adoption and periodic review of applicable policies  Implementation of policies and legislation. |

The Human Resources Management role is currently compromising the integrity of the organisation, it remains dysfunctional, and in the absence of any new or reviewed policy the approved existing policy should be enforced so as to show potential policy gaps and risks to be mitigated. Consequence management remains a management responsibility and failure to excise this responsibility is derogation in law, meaning you suppress existing policies. Need for a comprehensive change management program cannot be over emphasised in this regard.

## FINANCIAL MANAGEMENT

MMM is facing huge financial distress and cash flow issues, unfunded budgets and overall poor financial management. They key findings of the Status Quo Assessment are highlighted in the table below:

| **Focus Area** | **Brief Diagnostic Analysis** | **Key Issue/ Root Causes** | **Proposed Strategy to Resolve** |
| --- | --- | --- | --- |
| **Funded Budget and Budget Spending Limits** | MMM budgeted surpluses as follows:  2020/21: R 1,035 billion  2021/22: R 622,7 million  Audited financial results:  2020/21: R 20.2 million deficit  2021/22: R 827.7 million deficit  This clearly indicate that the budgets were not funded.  Low collection rates not adequately considered in the budgeting processes. | Realistic collection rates not adequately considered in revenue projections and provision for impairment of debtors in budgeting processes.  Insufficient provision for non-cash items (depreciation and debtor impairment provision).  Unrealistic budgeting.  Poor revenue management with inability to collect revenue.  Credibility of Municipality and sustainability risks, including service delivery. | Compile realistic cash backed budgets going forward.  Provide realistic allocations for the provision for debt impairment.  Ensure affordable and cost reflective tariffs and scrutinise expenditure for unnecessary expenditure.  Prepare, approve, and implement a Budget Funding Plan for the MTREF period linked to the FRP strategies and financial targets. Progress must be reported monthly and include targets as KPIs in performance plans.  Implement accurate budgeting for non-cash items to generate cash to move the Municipality to a funded position. |
| **Revenue Management:**  **Billing and Collection** | Collection rate indicates a downward trend:  2019/20: 83.12%  2020/21: 81.16%  2021/22: 79.44%  Billing inconsistencies.  Municipal data (billing) not credible.  Critical vacant posts are not filled.  Broken meters not being fixed. | Incorrect billing.  Loss of revenue.  Inability to collect outstanding debt. | Perform an exercise of customer categorisation between those that can pay and those that are indigent to establish the true revenue base.  Data cleansing – three-way reconciliation of property rates (valuation), collection and validation of customer information (contact details and tariff information) and continuous and regular updating of information.  Conducting quarterly VR reconciliation with the billing system.  Filling of critical vacant positions.  Revenue enhancement initiatives need to be implemented and billing and collection and credit control processes need to be set and complied with. |
| **Revenue Management:**  **Infrastructure and Service Delivery** | Inability to repair and replace meters by Technical Department.  Illegal connections in water and electricity.  Inconsistent, interrupted, and low quality of supply of water and electricity services.  High technical and non-technical distribution losses due to old infrastructure and illegal connections.  **Electricity distribution losses:**  2021/22: 10.96% (R 242 mil)  2020/21: 10.05% (R 183 mil)  **Water distribution losses:**  2021/22: 45% (R 407 mil)  2020/21: 45% (R 337 mil) | Loss of revenue.  Un-metered water and electricity consumption.  Aged and inefficient infrastructure.  Lack of control and enforcement of by-laws over illegal connections.  Lack of plan to monitor and repair old infrastructure. | Ensure all properties are metered.  Engage community Liaison Officers and local councillors to engage the “no go areas”.  Metering (verification, auditing, and consistent reading of meters).  Identification and valuing of municipal properties for leasing purposes.  Prioritise curbing of water and electricity distribution losses. |
| **Debtors Management** | Culture of non-payment by consumers.  Inefficient and ineffective internal controls.  Disruptions on implementation of credit control.  Reconciliations not performed monthly. | Low collection rate results in cash flow challenges for the Municipality.  Credit control not being fully implemented.  Lack of engagement (for collection of outstanding amounts and making payment plans) with debtors that have capacity to pay such as organs of the state and businesses. | Making the payment for services easier for the clients e.g. satellite offices in outlying areas, community halls, etc.  Write-off bad debts as per the approved credit control and debt collection policy. This will assist with determining the cash backed part of the accounts receivable.  Hand over the debtor’s book to debt collectors using a performance-based agreement that is traceable and measurable.  Contact government departments that owe the municipality and establish the payment terms. If that fails seek Provincial Treasury intervention and/or cut off services.  Stratify debtors into different buckets based on the expected recoverability.  Development of key customer engagements (quarterly) and relationship building.  Implement and update standard operating procedures for debtors management and training of internal staff. |
| **Cost-reflective Tariffs** | Tariffs are not cost reflective.  The deficits for the 2020/21 and 2021/22 financial years show that cost reflective tariffs have not been set which indicates bad budgeting processes.  The cost of sales of water exceeds the selling price, which is a direct result in losses. | Water is provided at a loss.  Historical and forecast tariffs are not cost reflective.  Setting tariffs that do not at least consider break-even point for the provision of electricity. This is contrary to existing legislation.  Lack of profitability analysis for each revenue stream. | Perform a cost reflective tariff calculation and introduce cost reflective tariffs considering affordability of consumers (using NT Tariff Model).  Perform cost-volume profit analysis before setting the base tariff for electricity and water.  Forecast tariffs that align with the rate of growth of tariffs forecasted by ESKOM and Bloem Water. |
| **Indigent Management** | Outdated Indigent register.  Lack of Indigent Household Management.  Lack of a verifying or vetting system.  Consumers who apply for the indigent household support subsidy from the Municipality are not verified and/or vetted prior to approval.  The effect of the above is that the indigent household subsidy may be granted to non-qualifying households. | Revenue Loss.  Indigent Register not credible.  Subsidy on basic services not allocated to the indigent households.  Revenue billing and collection targets will not be reached as customers may inappropriately receive free basic services.  This is contrary to the prescripts of the cost containment endeavour by the municipality as the cost is not recovered from the customers with ability to pay. | Implement the approved Indigent Household Policy and by-laws.  The process should be ongoing to ensure the indigent register is always up to date.  A quantitative cost benefit analysis should be carried out to determine the most financially optimal option for the verification of indigent households. This is essentially an evaluation of manual verification compared to obtaining a system.  A cost benefit analysis should be carried out for the lease vs buy decision in relation to the verification system. |
| **Supply Chain Management Compliance and Value for Money Procurement** | Non-compliance with SCM.  Poor Conditional Grant Management.  Unspent conditional grants as at 30 June 2022 totalled R571.0 million with insufficient cash on hand to cover this.  UIF&W as at 30 June 2022:  Unauthorised: R 5.6 billion;  Irregular: R 3.1 billion; and  Fruitless and Wasteful: R 240 million. | Lack of understanding of SCM regulations.  Lack of consequence management.  Lack of adequate qualified staff to monitor contractors.  Contractors on site were not monitored.  Excessive UIF&W expenditure which clearly indicate the lack of consequence management and deficiencies in the SCM processes. | Adhere to SCM Policy and Regulations.  Consequence management policy to be implemented by HR.  Training of staff regarding the SCM processes.  Compilation of the contract register and contract management policies.  Implement contract monitoring controls and adhere to this on a monthly basis.  UIF&W expenditure to be interrogated with reasons therefore and to be submitted to Council for their decision on what action should be taken based on management’s recommendations. Institute legal action and consequence management based on the outcomes of the investigations.  The disciplinary board must become operational so that action can be taken against staff involved in criminal and legal non-compliant activities. |
| **Financial Control Environment** | Preparation of Annual Financial Statements (AFS) not fully compliant resulting in a qualified audit opinion.  Not paying creditors including bulk purchases within 30 days.  Persistent AG findings not addressed and lack of accountability.  Weak internal control on budget and expenditure management standard operating procedures.  mSCOA strings are not fully implemented and compliant. | Non-compliance with the MFMA, not paying creditors within 30 days.  Poor control over the financial preparation and financial management processes.  Incomplete and poor accounting data. Pervasive issues disclaimed on by the AG limits the reliability of the information for decision making in a turnaround strategy.  Lack of an AFS project plan in preparing the financials and all supporting information and schedules.  Credibility of Municipality at risk. | Update and implement SOPs, training of staff and support.  System vendor to be engaged as regards financial system inaccuracies.  Management of AFS plan should form part of staff’s KPI’s.  Review the progress of the Audit Action Plan immediately after the issue of the audit report, provide practical action plan, track progress thereof around at interim AFS preparation and review stage.  Training of internal audit on the adequate review of AFS and the cash flow statement before submission to the AG.  Make arrangements with creditors to repay current and outstanding amounts.  Comply with the repayment arrangements by compiling a cash backed budget. |
| **Municipal Entity: Centlec** | The relevant balances as at 30 June 2022 are:  Cash on hand R509.3 million;  Payables R890.8 million;  Deficit 2021/22 R189,5 million;  Deficit 2020/21 R13.7 million;  Employee related costs R425.6 million;  Duplication of management and board members; and  MMM not able to use electricity as a lever for collection of other debts e.g., rates, water, etc. | From the figures it is noted that CENTLEC has serious going concern challenges, operating on deficits and do not have sufficient cash at hand to settle short term liabilities. | Perform a section 78 study to see the possibility of incorporating CENTLEC into MMM.  As it currently stands, and before re-incorporating this service into the Municipality, CENTLEC’s performance must be monitored continuously.  Review operating and governance model/ arrangements. |
| **Municipal Entity: FRESHCO** | Per the consultation process, it was established that the non-payment of water and rental accounts followed the liquidation of the managing company, FRESHCO, and the takeover of administration by the Social Housing Regulatory Authority (SHRA) in 2019. | Loss of revenue.  Mismanagement leading to be placed under administration.  Growing liabilities.  Lack of service delivery. | Given the Entity’s poor financial performance, placed under administration, and growing liabilities due to mismanagement, it is recommended that entity be dissolved and incorporated into MMM, taking into account all VAT and related tax implications.  Review operating and governance model/ arrangements. |

**Set out below are a few tables illustrating key financial issues identified:**

Per the table below MMM had audited deficits for the past three financial years, and budget for surpluses for the MTREF period, which are not cash backed.

Table 2 - Income vs Expenditure

The analysis of the operating surplus / (deficit) by service illustrated in the figure below indicates that there is a disconnect between the budget and the historical audited results.

Figure 6 - Analysis of Operating Surplus / (Deficit) by Service

MMM experienced significant losses since 2018/19 in the non-trading side of the business (General) and were unable to offset these losses against the barely profitable trading services. These losses have been significantly reduced in the MTREF period 2023 – 2025. With further analysis it was identified that the reason for the improvement in the budget is not with unrealistic increases in operating revenue (2022/23: 5%; 2023/24: 8%; and 2024/25: 6%) but rather a 15% reduction in operating expenditure for 2022/23 and 5% and 4% increases in 2023/24 and 2024/25 respectively. Whether this is achievable is questionable based on historical trends.

As per the table below, it can be seen that there was an underspend of capital budget for each category of service lines except for Roads Infrastructure, which validates the point of poor cashflow and non-credible budgeting techniques:

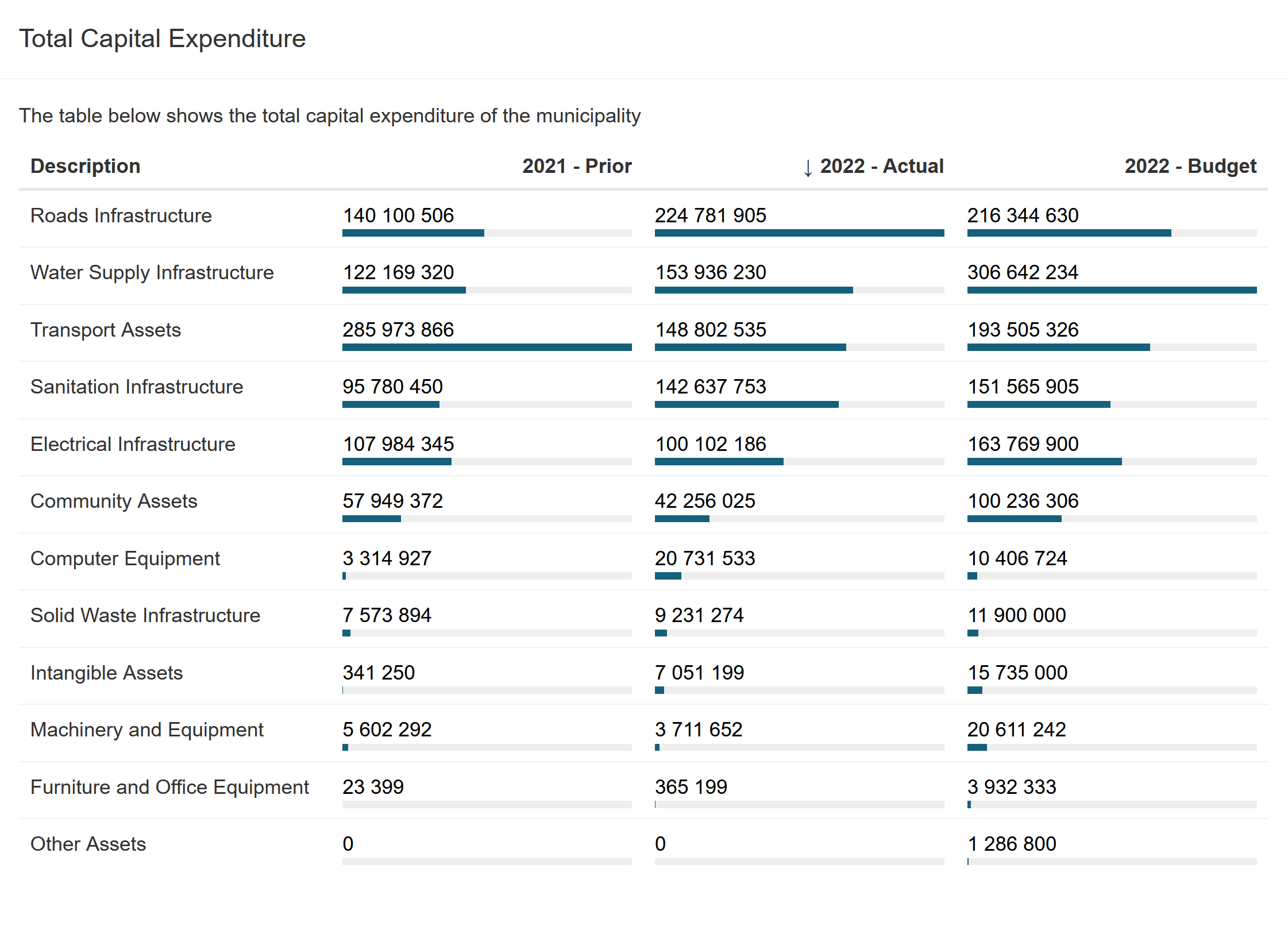


Table 3 - Capital Budget vs Actual Spent

A high reliance was placed on grant funding to fund capital expenditure during the 2020/21 and 2021/2022 financial years. Compared to the budget MMM is relying on own sources (internally generated funds and loans) to fund planned capital expenditure. This is not realistic due to the current solvency and cash flow constraints. Capital expenditure should therefore be reprioritised within its spending capacity and cashflows.

Table 4 -Capital Expenditure Funding Mix

The total outstanding gross consumer receivables from exchange transactions was R 6,690,341,584 with the total allowance for impairment at R 5,309,741,295 as at 30 June 2022 which is 79% of outstanding debt.

It is categorised as follows:

| **Ratio** | **2020/21** | **2021/22** | **2021/22**  **% of Total** |
| --- | --- | --- | --- |
| Residential and Sundry | R 3,717,818,445 | R 4,444,074,799 | **66%** |
| Business / Commercial | R 717,844,790 | R 901,624,988 | **14%** |
| National and Provincial Government | R 1,204,828,190 | R 1,344,641,726 | **20%** |
| **Total** | **R 5,640,491,424** | **R 6,690,341,584** | **100%** |

Table 5 - Categories of Consumer Receivables

The annual collection rate for the three financial years under review are in the region of 80%. The norm is 95%:

| **Ratio** | **Ratio for 2019/20**  **Restated** | **Ratio for 2020/21**  **Restated** | **Ratio for 2021/22**  **Audited** |
| --- | --- | --- | --- |
| Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit. | 83,12% | 81,16% | 79,44% |

Table 6 - Annual Collection Rate

The calculated impact of the low collection ratio on cash flow for MMM indicate R914 million lost through poor collections in 2021/22 which equates to 66% of total revenue generated through property rates. This number is more than the total operational grants for the same period of R877.6 million in 2021/22.

Table 7 - The Impact of the Low Collection Ratio on Cash Flow.

***Load shedding impact:***

Serious consideration should be given to the impact of load shedding on the electricity revenue and profitability of the municipality.

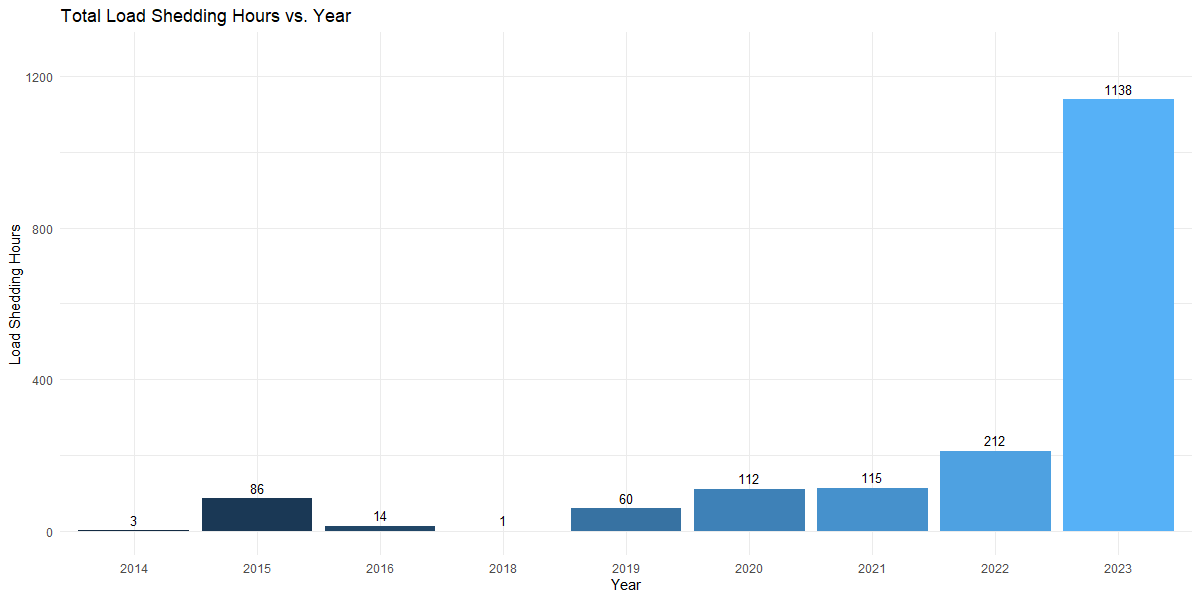


Table 8 - National Load Shedding Hours by Financial Year (2023 updated 11 April 2023)

Chart, line chart

Description automatically generated

Table 9 - Calculated Impact on MMM Electricity Revenue Due to Load Shedding

It is calculated that MMM lost R71.4 million during the 2021/2022 financial year due to load shedding. The Municipality could lose R550 million in electricity sales for the 2022/2023 financial year based on the budgeted revenue for electricity and the current trend in load shedding hours. In order to recover this lost revenue the Municipality would need to increase their electricity tariffs by an additional 7.3% to recover the lost gross margin to cover overheads costs not affected by the reduction in sales.

High unauthorised, irregular and fruitless and wasteful expenditure (UIF&W) is disclosed in the financial statements. As at 30 June 2022 the situation is as follows:

| **Expenditure** | **Accumulated as at 30 June 2021** | **Accumulated as at 30 June 2022** |
| --- | --- | --- |
| Unauthorised | R 4 191 015 979 | R 5 639 510 990 |
| Irregular | R 2 895 923 645 | R 3 082 458 701 |
| Fruitless and Wasteful | R 146 651 685 | R 240 258 728 |
| **TOTAL** | **R 7 233 591 309** | **R 8 962 228 419** |

Table 10 - Unauthorised, Irregular and Fruitless and Wasteful Expenditure

There was an increase in UIF&W of R 1,7 billion (24%) from the 2020/21 to the 2021/22 financial year. This is excessive and clearly indicate the lack of consequence management and deficiencies in the SCM processes. The above total should be compared to the total operating expenditure for 2021/22 of R9.2 billion.

Given that this intervention has been invoked because of a crisis in the financial affairs of the Municipality, in this phase of the recovery plan, emphasis will be placed on the cash and cash position of the Municipality, as well as restoring some of the basic principles of good financial management. The strong emphasis on improving the cash position is to create an availability of resources to address some of the most immediate and visible service delivery challenges. Cost-cutting measures must be implemented. However, an emphasis on cash and municipal finances does not preclude the Municipality from addressing governance and institutional issues.

In the rescue phase, emphasis also leans towards “quick wins” - what are the issues that require relatively little effort or resources to be addressed but would make meaningful inroads towards the overall recovery process. The phase is expected to last between 8 to 12 months.

A few critical, high-level indicators were selected to guide this phase of the recovery plan. Progress on meeting these indicators will be monitored monthly by the Oversight and Monitoring Committee (or the working group if monthly monitoring is delegated to them) as well as the Implementation Team. The Oversight and Monitoring Committee can also approve updating of the targets as the implementation of the plan progresses. The 7 high-level indicators selected for this Phase are:

1. Progress towards a funded budget including a budget funding plan.
2. Cash flow management and periodic cash balancing.
3. Cost Containment: Revenue billing and collection.
4. Decrease in water and electricity losses.
5. Payment of creditors.
6. Ring-fencing of conditional grants.

In addition, indicators relating to the capital program and the reduction of unaccounted, irregular, fruitless, and wasteful expenditure have been included. High-level targets for governance and service delivery are specified separately.

***PHASE 1, 2 and 3: BUDGET PARAMETERS FINANCIAL TARGETS:***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| NO | PERFORMANCE AREA | 2022/23FY BUDGET TARGET | 2023/24FY  BUDGET TARGET | 2024/25FY BUDGET TARGET | 2025/26FY  BUDGET TARGET |
| 1 | CPI Headline | 6.8% | 4.5% | 4.5% | 4.5% |
| 2 | Interest Rate | 11.75% | 9.75% | 9.75% | 9.75% |
| 3 | Household Growth Rate | 1% | 1% | 1% | 1% |
| 4 | Employee Cost Escalation | 6.8% | 4.5% | 4.5% | 4.5% |
| 5 | Bulk Water Escalation | -10% | 4.5% | 4.5% | 4.5% |
| 6 | Bulk Electricity Escalation | -10% | 4.5% | 4.5% | 4.5% |
| 7 | Capital Expenditure Growth Rate | 6.8% | 4.5% | 4.5% | 4.5% |
| 8 | Depreciation Rate | 6.8% | 4.5% | 4.5% | 4.5% |
| 9 | Property Rates Escalation | 2% | 2% | 2% | 2% |
| 10 | Service Charges Escalation - Electricity | 6.8% | 15% | 6% | 6% |
| 11 | Service charges Escalation - Water | 6.8% | 10% | 6% | 6% |
| 12 | Service charges Escalation - Refuse | 6.8% | 10% | 6% | 6% |
| 13 | Service charges Escalation - Sanitation | 6.8% | 10% | 6% | 6% |
| 14 | Collection Rate - Property Rates | 85% | 90% | 95% | 95% |
| 15 | Collection Rate - Electricity | 85% | 90% | 95% | 95% |
| 16 | Collection Rate - Water | 85% | 90% | 95% | 95% |
| 17 | Collection Rate - Sanitation | 85% | 90% | 95% | 95% |
| 18 | Collection Rate - Refuse | 85% | 90% | 95% | 95% |
| 19 | Collection Rate - Fines | 85% | 90% | 95% | 95% |
| 20 | Collection Rate - Other | 85% | 90% | 95% | 95% |
| 21 | Creditors Payment Days | 30 Days | 30 Days | 30 Days | 30 Days |
| 22 | Government debtor’s payment plan | 100% of payment arrangement | 100% of payment arrangement | 100% of payment arrangement | 100% of payment arrangement |

A financial forecasting model has been developed to set financial targets for the Mangaung Metropolitan Municipality FRP over the MTREF period.

The financial model escalation formulas the following rates per annum over the recovery period: **CPI** – 6.8% for 2023/24, 4.5% for 2024/25 and 2025/26.

**Local growth** - 1% per annum.

Grounded on adherence to the above budget parameters, it is anticipated that the municipality will progressively move towards a position of improved financial sustainability over the 3-year period as illustrated in the table below. If key operational efficiencies are achieved in line with FRP Implementation Plan, it could be expected that the cash surplus of R 741 million at the end of the 2021/22 financial year will increase to a cash surplus of R 5,36 billion at the end of the 2025/26 financial year. It should be noted that this cash surplus is before capital and finance investments.

Figure 7 - Net Cash Inflow / (Outflow) from Operating Activities

The net cash position should improve to levels sufficient to boost the cash coverage ratio to within acceptable norms over the MTREF period. Any surplus cash, over and above the required levels, should also be prioritised towards payment of outstanding creditors’ balances. An improved appetite to pay creditors will enhance the public perception and re-establish supplier confidence in the Municipality. If these positive trends could be achieved and sustained, it could realistically be expected that it will take the municipality a period of 7 plus years to move to a fully cash-backed funding position.

Figure 8 - Targeted Surplus/ (Deficit)

The forecasting model is flexible, and figures will be adjusted annually to align with the revised FRP activities and facilitate sustained financial health improvement. The municipality’s adherence to the Financial Recovery Plan will be monitored in terms of its achievement of the targets for revenue and expenditure set out in the financial forecasting model.

***FINANCIAL FORECASTING MODEL FOR IMPLEMENTATION OF THE MANGAUNG METROPOLITAN MUNICIPALITY FINANCIAL RECOVERY PLAN***

The forecast below used 2021/22 Audited Figures as the base year. The assumptions as per the assumptions tables were applied. The model processes mSCOA data strings and it is noted that there may be variances between the figures below and the actual audited figures.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| BUDGET ITEM | 2021/22 AFS AUDITED  R'000 | 2022/23 MTREF BUDGET  R’000 | TARGET  2023/24 MTREF BUDGET  R’000 | TARGETS: 2024/25 MTREF BUDGET  R'000 | TARGETS: 2025/26 MTREF BUDGET  R'000 |
|
| **Property rates** | 1,387,795,158 | 1,415,551,061 | 1,443,862,082 | 1,472,739,324 | 1,502,194,110 |
| **Service charges - electricity revenue** | 2,876,406,359 | 3,072,001,991 | 3,532,704,979 | 3,744,652,750 | 3,969,316,734 |
| **Service charges - water revenue** | 1,059,677,641 | 1,131,735,720 | 1,244,909,292 | 1,319,603,850 | 1,398,780,081 |
| **Service charges - sanitation revenue** | 400,574,061 | 427,813,097 | 470,594,406 | 498,830,071 | 528,759,875 |
| **Service charges - refuse revenue** | 150,196,516 | 160,409,879 | 176,450,867 | 187,037,919 | 198,260,194 |
| **Rental of facilities and equipment** | 49,216,652 | 52,563,384 | 54,928,736 | 57,400,529 | 59,983,553 |
| **Interest earned - external investments** | 18,214,428 | 19,453,009 | 20,328,394 | 21,243,172 | 22,199,115 |
| **Interest earned - outstanding debtors** | 353,504,638 | 377,542,953 | 394,532,386 | 412,286,343 | 430,839,229 |
| **Dividends received** | 2,656 | 2,836 | 2,964 | 3,097 | 3,237 |
| **Fines, penalties, and forfeits** | 12,076,228 | 12,897,411 | 13,477,795 | 14,084,295 | 14,718,089 |
| **Licences and permits** | 1,194,177 | 1,275,381 | 1,332,773 | 1,392,747 | 1,455,421 |
| **Agency services** | 0 | 0 | 0 | 0 | 0 |
| **Transfers and subsidies** | 877,604,193 | 937,281,278 | 979,458,935 | 1,023,534,587 | 1,069,593,644 |
| **Other revenue** | 610,471,523 | 651,983,586 | 681,322,847 | 711,982,376 | 744,021,583 |
| **Gains on disposal of PPE** | 117,592,830 | 0 | 0 | 0 | 0 |
| **Total Operational Revenue** | **7,914,527,060** | **8,260,511,590** | **9,013,906,461** | **9,464,791,066** | **9,940,124,869** |
| **Employee related costs** | 2,244,582,205 | 2,397,213,794 | 2,505,088,415 | 2,617,817,394 | 2,735,619,177 |
| **Remuneration of councillors** | 67,894,942 | 72,511,798 | 75,774,828 | 79,184,696 | 82,748,007 |
| **Debt impairment** | 1,861,118,540 | 1,987,674,600 | 2,077,119,957 | 2,170,590,355 | 2,268,266,921 |
| **Depreciation and asset impairment** | 906,729,493 | 968,387,098 | 1,011,964,517 | 1,057,502,921 | 1,105,090,552 |
| **Finance charges** | 115,415,433 | 123,263,682 | 128,810,548 | 134,607,022 | 140,664,338 |
| **Bulk purchases** | 1,880,329,796 | 1,692,296,816 | 1,768,450,173 | 1,848,030,430 | 1,931,191,800 |
| **Other materials** | 931,549,958 | 994,895,355 | 1,039,665,646 | 1,086,450,600 | 1,135,340,877 |
| **Contracted services** | 691,491,134 | 553,192,907 | 578,086,588 | 604,100,484 | 631,285,006 |
| **Transfers and subsidies** | 7,243,695 | 7,736,266 | 8,084,398 | 8,448,196 | 8,828,364 |
| **Other expenditure** | 560,817,185 | 448,653,748 | 468,843,166 | 489,941,109 | 511,988,459 |
| **Loss on disposal of PPE** | 315,147,268 | 0 | 0 | 0 | 0 |
| **Total Operational Expenditure** | **9,582,319,649** | **9,245,826,067** | **9,661,888,24** | **10,096,673,211** | **10,551,023,506** |
| **Surplus/ (Deficit)** | **(872,668,325)** | **(985,314,477)** | **(647,981,779)** | **(631,882,145)** | **(610,898,636)** |

**Working Capital Requirements**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Description | TARGET  2022/23 | TARGET  2023/24 | TARGETS: 2024/25 | TARGETS: 2025/26 |
| **Bank Balance 30 June 2022** | **741,000, 000** |  |  |  |
|  |  |  |  |  |
| Service Charges and Property Rates Collected (See Assumption Table for collection rates) | 5,321,063,863 | 6,231,105,328 | 6,916,251,222 | 7,274,429,822 |
| Other Revenue - Rental of facilities and equipment (Assumed 100% Collected) | 56,261,509 | 58,793,277 | 61,438,975 | 64,203,729 |
| Other Revenue (Assumed 100% Collected) | 666,156,379 | 696,133,416 | 727,459,419 | 760,195,09 |
| Other Revenue - Grants (Assumed 100% Collected) | 937,281,278 | 979,458,935 | 1,023,534,587 | 1,069,593,644 |
| Interest earned - external investments | 19,453,009 | 20,328,394 | 21,243,172 | 22,199,115 |
| **Total Cash Inflow** | **7,000,216,039** | **7,985,819,352** | **8,749,927,378** | **9,190,621,404** |
| Note: We have excluded interest on outstanding debtors as recovery is not certain. |  |  |  |  |
| Cash Expenses (Excluding Debt Impairment and Depreciation) | 6,166,500,686 | 6,443,993,216 | 6,733,972,911 | 7,037,001,692 |
| Finance charges | 123,263,682 | 128,810,548 | 134,607,022 | 140,664,338 |
| **Total Cash outflow** | **6,289,764,368** | **6,572,803,765** | **6,868,579,934** | **7,177,666,031** |
|  |  |  |  |  |
| Creditor repayments/ settlements - Trade payables and bulk services backlog | **200,000,000** | **300,000,000** | **400,000,000** | **500,000,000** |
|  |  |  |  |  |
| Net Cash Outflow/Inflow from Operating Activities | **510,451,671** | **1,113,015,587** | **1,481,347,443** | **1,512,955,373** |
|  |  |  |  |  |
| **Cash on hand before investing and financing activities** | **1,251,451,671** | **2,364,467,258** | **3,845,814,702** | **5,358,770,075** |

Grounded on adherence to the above budget parameters, it is anticipated that the Municipality’s cash surplus of R 741 million at the end of the 2021/22 financial year will increase to a cash surplus of R 5,36 billion at the end of the 2025/26 financial year. It should be noted that this cash surplus is before capital and finance investments.

## SERVICE DELIVERY

The Municipality is facing financial challenges that are impacting its ability to effectively manage and maintain its critical infrastructure assets and is unable to provide adequate service delivery and maintain its infrastructure.

Roads, Sanitation and Solid waste have high backlogs that need to be addressed and Sanitation is the only service where MMM have households below the minimum service levels. MMM has implemented water restrictions due to its inability to meet the demand and lack of maintenance on their bulk infrastructure.

The analysis of the financials shows that the largest contributor to the operating income is Electricity. However, when determining the adequacy of the operating surplus to fund the rest of MMM, it was found to be a deficit.

Poor project management has resulted in the IDP target not been met resulting in reduce Grant funding availability to complete projects, but this is not the only contributor, political interference, lack of skills and systems and corruption also contribute to the lack of delivery.

* + 1. **BACKLOGS AND SERVICE LEVELS**

The IDP 2022/2027 reports the backlogs per service as:

| **Service** | **Total** | **Access** | **Backlog** | **Backlog % of Total** |
| --- | --- | --- | --- | --- |
| **(**Households unless otherwise indicated) | **(**Households unless otherwise indicated) | **(**Households unless otherwise indicated) |  |
| Water | 265 414 | 247 859 | 17 555 | 6.61% |
| Sanitation | 265 414 | 210 586 | 54 828 | 20.66% |
| Electricity | 265 414 | 254 525 | 10 890 | 4.10% |
| Solid Waste | 265 340 | 217 771 | 47 569 | 17.93% |
| Roads | 3 831 km | 39.13 km | 2 174.87 km | 56.77% |
| Stormwater | 69 km | 69 km | Stormwater is a function of Roads | |

Table 11 - Service Delivery Backlogs

Roads are reported to have the largest backlog (56.77%) due to lack of maintenance and resurfacing of existing roads. MIG grant funding should be applied for and projects should be managed to ensure deliverable in terms of delivery dates and costs are adhered to as poor project management and a dysfunctional SCM division was responsible for unspent grant funding moving from R36 829 318 in 2020/21 to R 248 788 169 in 2021/22, an increase of R 211 958 851 or 675.5%. However, community protests and political interference has also hampered the delivery of services.

Sanitation follows with a backlog of 20.66% and experience the same problems as above.

Solid Waste is reported at 17.93% however it is not a case of not been able to meet the demand as there is enough airspace at landfill sites for the next few years as reported in the IDP. Solid waste backlogs are related to the poor condition of Roads and their impact on the condition of the fleet to dispense the service. In addition, high theft rates and vandalism impacts the current fleet and plant placing a reliance on external service providers to render the service. It can be speculated that these could be related.

The table below was extracted from the A10 reports for 2021/22 and reflects the household counts above and below the minimum service levels per service:

| **Service** | **Total Households** | **Households at and Above a Minimum Service Level** | **Households at and Above a Minimum Service Level** | **Households Below Minimum Service Level** | **% Households Below Minimum Service Level** |
| --- | --- | --- | --- | --- | --- |
| Water | 48 916 971 | 48 916 971 | 100% | 0 | 0% |
| Sanitation | 138 784 | 131 624 | 94.84% | 7 160 | 5.16% |
| Solid waste | 218 678 | 218 678 | 100.00% | 0 | 0.00% |
| Electricity | 151 190 | 151 190 | 100.00% | 0 | 0.00% |

Table 12 - Service Levels

The only reported backlog from the A10 report is for Sanitation services where 5.16% or 7 160 households are reported having either bucket provisions or similar which is below the minimum level of service, which is constrained by system capacity and this requires a new pipeline.

This also implies that Water, Solid Waste and Electricity services are provided to 100% of the households at or above the minimum levels of service.

| **Service** | **Capacity** | **Demand** | **Reported Spare Capacity** | **Strategies to Address** |
| --- | --- | --- | --- | --- |
| Water | 187 Ml/day | 247 Ml/day | 60 Ml/day deficit | Prioritise the Gariep Pipeline interventions by ensuring funding is secured.  Improve system operation and management by ensuring skilled staff is deployed and maintenance budgets are available. |
| Sanitation | Not reported | Not reported | 8.5 Ml/day  Surplus | Phase 3 of Thaba Nchu Wastewater Treatment Works (WWTW).  Botshbelo outfall sewer (Network constraint). |
| Solid waste | 7 landfill sites (IDP reports enough airspace for years to come) | Not reported | Not reported | N/A |
| Electricity | Not reported | Not reported | Not reported | N/A |

Table 13 - Service Capacity

Water has a deficit of 60 Ml/day as reported in the IDP. Currently water restrictions have been imposed to assist in alleviating the load. This is not sustainable and the Gariep pipeline initiative must be prioritsed along with repairing and bringing the existing water treatment works back to full design capacity.

Sanitation currently has a surplus in terms of meeting the current demand however backlogs cannot be adequately addressed until the upgrade of the Botshbelo outfall sewer is completed. This will allow the addition of additional sewer lines and flow to the treatment works.

All other services were not reported on in terms of specifics on the capacity and demand.

* + 1. **State of the assets**

An analysis was done on the FAR provided. A geographic indication of the analysis could not be done as the register contained no location information. Furthermore, based on the fields in the files, it is clear that the register does not meet the requirements of GRAP and mSCOA.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Class | Asset Condition | Asset Count | % of Population | Acquisition Costs | Carrying value | % |
| **Sanitation** | Very Good - 71%-100% | 79 854 | 57.44% | R1 951 415 183 | R1 663 566 993 |  |
|  | Good - 36%-70% | 48 424 | 34.83% | R1 166 581 031 | R693 292 901 |  |
|  | Fair - 16%-35% | 2 400 | 1.73% | R179 773 866 | R54 296 655 |  |
|  | Poor - 1%-15% | 7 973 | 5.73% | R245 001 085 | R16 137 916 |  |
|  | Very Poor - 0% | 379 | 0.27% | R3 505 280 | R4 819 |  |
|  | **Totals** | **139 030** | **100,00%** | **R3 546 276 446.56** | **R2 427 299 286.26** | **68.45%** |
| **Water** | Very Good - 71%-100% | 16 523 | 58.84% | R1 182 972 801 | R938 051 307 |  |
|  | Good - 36%-70% | 6 470 | 23.04% | R782 102 904 | R431 639 056 |  |
|  | Fair - 16%-35% | 1 709 | 6.09% | R171 301 459 | R56 774 666 |  |
|  | Poor - 1%-15% | 3 167 | 11.28% | R387 014 296 | R16 528 317 |  |
|  | Very Poor - 0% | 213 | 0.76% | R5 429 284 | R17 243 |  |
|  | **Totals** | **28 082** |  | **R2 528 820 747** | **R1 443 010 591** | **57.06%** |
| **Roads** | Very Good - 71%-100% | 3 708 | 6.72% | R1 112 583 722 | R1 048 047 373 |  |
|  | Good - 36%-70% | 7 466 | 13.52% | R1 245 392 070 | R681 745 114 |  |
|  | Fair - 16%-35% | 8 358 | 15.14% | R776 513 017 | R177 725 333 |  |
|  | Poor - 1%-15% | 34 706 | 62.86% | R1 660 921 168 | R120 605 060 |  |
|  | Very Poor - 0% | 973 | 1.76% | R10 565 953 | R41 398 |  |
|  | **Totals** | **55 211** |  | **R4 805 975 932** | **R2 028 164 279** | **42.20%** |
| Stormwater | Very Good - 71%-100% | 2 680 | 5.66% | R186 694 793 | R154 121 908 |  |
|  | Good - 36%-70% | 37 134 | 78.40% | R809 101 724 | R454 870 078 |  |
|  | Fair - 16%-35% | 2 573 | 5.43% | R11 248 585 | R2 818 258 |  |
|  | Poor - 1%-15% | 4 980 | 10.51% | R21 534 102 | R2 312 405 |  |
|  | Very Poor - 0% | 0 | 0.00% | R0.00 | R0.00 |  |
|  | **Totals** | **47 367** |  | **R1 028 579 205** | **R614 122 650.83** | **59.71%** |

Table 14 - FAR Analysis

\*No FAR was found for Electricity.

\*\* Only Roads were considered.

The majority of the assets are indicated in a “Very Good” or “Good” condition with the exception of Roads where the majority of the assets are found in a “Poor” condition. The % of the carrying value to the acquisition costs gives the indication of how old the asset base is as new or replacements asset would have a higher carrying value. The percentages also indicate the asset base except for roads is fairly new (percentages above 50%).

This begs the question of how is aging infrastructure reported to be problematic?

It is most likely that the asset register is incorrect, and the financial values reported also incorrect. It is recommended that a complete, accurate and compliant asset register be compiled for MMM.

* + 1. **Service line contributions to total operating income**

Table 15 -Contribution of Main Income Sources to Total Operating Income

On average, 42% of the total operating income over the period of 2018/17 to 2021/22 is provided by electricity which is not managed internally but via CENTLEC which is a SOC. This creates an unnecessary risk to MMM as it is not in direct control of the majority contributor to its income.

* + 1. **INFRASTRUCTURE FINANCIALS**

Infrastructure-related services are the primary source of revenue and therefore significantly influence financial sustainability. The surplus, or deficit of infrastructure-related services is utilised to cross subsidies all other Municipal operating and administrative expenditure and is therefore a critical consideration when it comes to assessing financial sustainability.

| **Income (Trading Services)** | **Total (Rands)** |
| --- | --- |
| Service charges | R4 377 092 068 |
| Property tax | R1 387 795 158 |
| Equitable share | R830 046 000 |
| Operating grants – specific | R333 653 881 |
| Operating grants – allocation | R6 781 364 |
| Other income – specific | R91 516 671 |
| **Total Income** | **R7 026 885 142** |

Table 16 - Income from Trading Services

| **Expenses (Trading Services)** | **Total (Rands)** |
| --- | --- |
| Employee related costs | R1 331 284 093 |
| Depreciation and amortisation | R852 687 813 |
| Repairs and maintenance | R344 052 829 |
| Bulk purchases | R2 897 178 397 |
| Contracted services – specific | R202 698 417 |
| Contracted services – allocation | R3 002 269 |
| General expenses – specific | R52 773 311 |
| General expenses- allocation | R148 522 449 |
| Total Expenditure | **R5 832 199 578** |

Table 17 - Expenses from Trading Services

| **Income and Expenditure** | | **Total (Rands)** |
| --- | --- | --- |
| Income | Total Income (Trading Services) | 7 026 885 142 |
| Expenditure | Total Expenditure (Trading Services) | 5 832 199 578 |
| **Surplus** | | **1 194 685 564** |

Table 18 - Infrastructure Income and Expenses

The analysis shows a surplus of R1 194 685 564 after considering only the revenue and expenditure relating to infrastructure-related services in the Municipality which can be utilized to fund the balance of expenditure arising from the Municipality.

Further analysis was done as shown below.

| **Income and Expenditure** | | **Total (Rands)** |
| --- | --- | --- |
| Income | Total Income (Non-Trading Services) | 1 318 078 174 |
| Expenditure | Total Expenditure (Non-Trading Services) | 3 366 898 725 |
| **Deficit** | | **(2 048 820 551)** |

Table 19 - Income and Expenditure: Non-Trading Services

|  |  |
| --- | --- |
| **Description** | **Total (Rands)** |
| Trading Services surplus | 1 194 685 564 |
| Non-Trading services deficit | (2 048 820 551) |
| Adequacy of the Infrastructure Service Operating Surplus (Deficit) | **(854 134 987)** |

Table 20 - Infrastructure Financials (The above figures were extracted from the 2021/22 Annual Financial Statements)

This revealed that the surplus arising from infrastructure revenue and expenses is inadequate to fund the balance of the expenditure of the Municipality by an amount of R854 million.

* + 1. **IDP**

The Integrated Development Plan 30 March 2023 highlights the following per service and the impact on the Municipal sustainability:

**Electricity services**

* Four embedded generation plants to be installed and commissioned by 30 June 2023.

CENTLEC has a generation license for 103MW. Only nine (9) approved small scale embedded generation with a total capacity of 1 053 kVA were reported. This is a relatively small contribution (1%) to the overall demand. No supporting information could be found regarding the feasibility studies, supporting network readiness and buyback tariffs.

* Current losses within NERSA benchmarks.

The reported losses stand at 11% which is at the upper level of the acceptable losses for electricity (5-12%).

**Water services**

* 1 884 new service connections (disparity with reported figures in A10 report).

The reported demand for water shows a lack of 601ML/day to provide the current customer base. Any new connections will add on to the demand constrained system.

* 38% of water treatment capacity unused.

The Water Refurbishment Program needs to be prioritised and accelerated to ensure water security.

**Sanitation services**

* 1 884 new sewer connections.

There is capacity on the existing systems to accommodate new sewer connections however if these connections are dependent on the upgrade of the Botshabelo outfall sewer, these can only be realised after the commissioning of the project.

**Solid Waste services**

* 500 000 tons of solid waste processed at Landfills.

The processing of Solid Waste is dependent on the fleet for transportation of the collected waste from residents to the landfills sites. Prioritisation should be given to the acquisition, maintenance and security of this fleet to ensure service delivery and the reliance on contractors for the provision of this service. Cost/benefit analysis study needs to be done.

Further analysis on whether this service should be done internally, externally or combination of both has to done.

**Transport and Roads services**

* 6.3km of new roads planned for construction.
* 25% of surfaced roads resurfaced and resealed.

It was reported that only 2.64km of new roads were built which was 1 of 8 projects identified. The contributing reasons given are 4 namely; lack of budget, ineffective project and contract management, lack of skilled staff and high vacancy rate. While all these reasons are valid, by implementing effective project and contractor practices and controls will result in a greater percentage of the grant funding been utilised which will impact available funding in the forthcoming years.

* 100% scheduled access points and service stops that are universally accessible.

The Integrated Public Transport Network (IPTN) program has been implemented: Vehicle, training, access points and service stops implemented. At the time of this report, the handover process was unfolding.

| **Focus Area** | **Brief Diagnostic Analysis (IDP)** | **Effect on Sustainability** | **Proposed Strategy to Resolve** |
| --- | --- | --- | --- |
| **Electricity** | Four embedded generation plants to be installed and commissioned by 30 June 2023. | CENTLEC has a generation license for 103MW. Only nine (9) approved small scale embedded generation with a total capacity of 1 053 kVA were reported. This is a relatively small contribution (1%) to the overall demand. No supporting information could be found regarding the feasibility studies, supporting network readiness and buyback tariffs. | Large scale embedded generation projects should be considered where meaningful contribution to alleviating the consumer demand and reliance on Eskom is made. |
|  | Tariff structures must be finalised is MMM intends on buying power from small scale generation plants. |
|  | Feasibility studies including life cycle costing analysis, Grid impact studies and compliance to Grid codes and NERSA requirements should be done. |
| Current losses within NERSA benchmarks. | The reported losses stand at 11% which is at the upper cusp level of the acceptable losses for electricity NERSA benchmark of 5-12%. | A network study must be undertaken to determine the reasons for the increase losses and outcomes must be implemented through projects to ensure the losses do not spiral upwards to above the acceptable norms. |
| **Water** | 1 884 new service connections (SDBIP 2022/23). | The reported demand for water shows a lack of 60ML/day to provide the current customer base. Any new connections will add on to the demand constrained system. | Two projects need to be prioritised to provide the ability to meet the demand. Maselpoort Water treatment plant, when commissioned will increase the capacity and alleviate the constrained network. This project is reported as experiencing budgetary constraints as reported in the annual consolidated financial statements on 2021/22. |
|  |  | Masterplans and Asset Management Plans (AMPs) must be finalised and approved. |
| Projects must be prioritised and ranked for implementation. |
| Maintenance budgets must be made available to upkeep the service delivery assets. |
| **Sanitation** | 1 884 new sewer connections. | There is capacity on the existing systems to accommodate new sewer connections however if these connections are dependent on the upgrade of the Botshabelo outfall sewer, these can only be realised after the commissioning of the project. This project is reported a halted due to budgetary constraints. | Botshabelo Outfall sewer upgrade project must be prioritised as this is affecting service delivery. |
| **Solid Waste** | 500 000 tons of solid waste processed at Landfills per capita (per household) annually. | The processing of Solid Waste is dependent on the fleet for transportation of the collected waste from residents to the landfill’s sites. Prioritisation should be given to the acquisition, maintenance and security of this fleet and plant to ensure service delivery and reduce or remove the reliance on contractors for the provision of this service. | Cost benefit analysis study needs to be done to determine if this service should be provided internally, externally (contractors) or a combination of both. |
|  | The maintenance workshop needs to be staffed with qualified personnel. |
|  | A fleet management system (including vehicle tracking) must be implemented. |
|  | The security of the existing fleet must be provided for as unnecessary costs are incurred due to theft. |
| **Roads and Transport** | 6.3km of new roads planned for construction and 25% of surfaced roads resurfaced and resealed. | It was reported that only 2.64km of new roads were built from the 6.3km planned for implying on 41.9% was achieved. Furthermore, the 2.64km relate to only 1 of 8 projects identified. The contributing reasons given are four (4) namely, lack of budget, ineffective project and contract management, lack of skilled staff and high vacancy rate. | Implementing effective project and contractor practices and controls will result in a greater percentage of the grant funding been utilised which will impact available funding in the forthcoming years. |
| 100% scheduled access points and service stops that are universally accessible. | The Integrated Public Transport Network (IPTN) program has been implemented: Vehicle, training, access points and service stops implemented. At the time of the consultative process (22-23 February 2023), the handover process was unfolding and planned to have concluded by financial year end. | Ensure the handover is concluded and monitor the operation of the IPTN. |

Table 21 - IDP: Service Line Project Progress

* + 1. **ADEQUACY OF REPAIRS AND MAINTENANCE**

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

| **Infrastructure Service** | **Required R and M** | **Actual R and M** | **Actual vs Required** | **Shortfall** |
| --- | --- | --- | --- | --- |
| Roads and Storm Water | R221 474 371 | R94 393 727 | 43% | -R127 080 644 |
| Electricity | R470 955 780 | R107 148 711 | 23% | -R363 807 069 |
| Built Environment | R167 856 597 | R42 459 580 | 25% | -R125 397 017 |
| Sanitation | R194 183 938 | R53 088 117 | 27% | -R141 095 821 |
| Water | R123 582 171 | R39 409 798 | 32% | -R84 172 373 |
| Solid Waste | R11 269 891 | R11 222 860 | 100% | -R47 031 |
|  | **R1 189 322 747** | **R347 722 793** | **29%** | **-R841 599 954** |

Table 22 - Adequacy of Repairs and Maintenance on Service Levels

Current spent versus suggested spend shows a shortfall of R842 million as per the 2021/22 financial figures.

Based on the current financial position of the Municipality, the above funding may not be achievable, however this needs to be considered in relation to forgone revenue brought about from the inability to deliver services. Under-maintenance will eventually compromise the infrastructure leading to declining performance and service delivery and financial sustainability.

* + 1. **ELECTRICITY AND WATER REVENUE LOSSES**

| **Revenue Losses** | **2020/21 (Rands)** | **Technical losses** | **Non-technical losses** | **Percentage Loss** | **Norm** |
| --- | --- | --- | --- | --- | --- |
| Electricity losses | 241 915 025 | 7.31% | 3.65% | 10.96% | 7-10% |
| 161 350 258 | 80 564 767 | 241 915 025 |  |
| Water losses | 406 666 962 | 45.00% | 0% | 45.00% | 15-30% |
| 406 666 962 | - | 406 666 962 |  |
| **Total revenue losses** | **648 581 987** | **568 017 220** | **80 564 767** | **55.96%** |  |

Table 23 - Electricity and Water Revenue Losses

For Electricity, NERSA benchmarks for losses are from 5-12%. Reported losses stand at 11% which falls within the acceptable range. There is potential R80 million that could assist with addressing the deficit which arises from non-technical losses such as theft, meter tampering and poor billing practices. The Municipality should ensure all customers are metered by smart meters and meter audits conducted in conjunction with meter reads. Technical losses are system losses that occur during the transmission of electricity and are unavoidable. The reported percentage is within the acceptable norms.

Water losses are reported as only technical losses. These are due to system failures of the infrastructure network primarily due to the ageing pipe network. Capital projects would be required to identify areas and replace the aging pipe network. If one considers the upper bounds of 30% for water losses, there is a potential R135 million reduction in losses that can be diverted to recover the capital costs of replacing the pipe network.

| **Revenue Losses** | **2020/21 (Rands)** | **Technical Losses** | **Non-Technical Losses** | **Percentage Loss** |
| --- | --- | --- | --- | --- |
| Water losses  (Upper bound of 30%) | R 406 666 962 | 30.00% | 0% | 30.00% |
| R 271 111 308 |  | R 271 111 308 |
| Water losses  (Potential recoverable revenue) | R 406 666 962 | 15.00% | 0% | 15.00% |
| R 135 555 654 | - | R 135 555 654 |
| **Total revenue losses**  **(Water Only)** | **R 406 666 962** | **R 406 666 962** | **-** | **R 406 666 962** |

Table 24 - Distribution Losses

A concerted drive needs to be undertaken to reduce the losses. Addressing this can result in the total operating deficit been reduced by R216 million (Electricity – R80.5 million and Water – R135.5 million). Without the proper studies been undertaken such as the Masterplans and Asset Management Plans, it is impossible in this report to state specific projects however project types such as smart meter replacements, zonal and bulk metering, obsolete equipment replacement and pipe replacements would be the type of projects that would result in a reduction in losses and should be a focus area in the FRP.

* + 1. **WORKSHOP CONCLUSIONS**

The following findings were confirmed in consultation with the officials at the Municipality during the workshop held on 22 and 23 February 2023:

| **Focus Area** | **Brief Diagnostic Analysis** | **Effect on Sustainability** | **Proposed Strategy to Resolve** |
| --- | --- | --- | --- |
| **No Masterplans approved and in place.** | No budget to undertake (and in some cases to complete) plans. | Impacted project planning and prioritisation, poor budgeting and poor service delivery. | Prioritise budget allocations. |
| **No Asset Management Plans per sector.** | No budget to undertake (and in some cases to complete) plan. | Impacted asset replacement programmes and maintenance of assets resulting in poor service delivery. | Prioritise budget allocations. |
| **Funding for capital projects lacking.** | Funding is available through Grants to assist with capital projects however poor project management and a dysfunctional SCM department has led to a large portion of the Grant allocated not been spent. | Reduced grant funding to implement capital projects. | Implementing effective project and contractor practices and controls will result in a greater percentage of the grant funding been utilised which will impact available funding in the forthcoming years. |
| **Aging infrastructure.** | The analysis of the Asset Register shows the infrastructure is relatively "new" which does not reflect the status on the ground. | Impacts service delivery and financial reporting (asset register). | The completion and adoption of the master plans and Asset Management plans will result in projects been identified where aging infrastructure must be replaced. Budgeting and priortisation can only be done at this stage. |
| **Asset security** | Theft of vehicle parts has become an everyday occurrence but is not limited only to these assets, substations, water and wastewater treatment plants and buildings are not exempt. | In most cases, theft results in the inability to continue to provide services in a localised area. It should be noted that this is not a phenomenon limited to MMM but a national problem. | As a national problem, all major service delivery infrastructure should be considered as key points. Considering only MMM, an investment in additional security measures such as access control, perimeter protection, alarms and armed response should be considered and implemented. This should be augmented by the local security cluster. |
| **Fleet (Lack of and theft/vandalism)** | Theft and Vandalism has been addressed above under Asset Security. Fleet is un-operational and ineffective. It was reported on the day of the workshop that only 2 vehicles were operational, the rest were broken or waiting for repairs that could only occur once budget was available. | Poor service delivery Increased operational costs due to the use of contractors. | A cost benefit analysis study needs to be done to determine if this service should be provided internally, externally (contractors) or a combination of both. |

Table 25 - Workshop Consultation Outcomes

# KEY FRP STRATEGIES PER PILLAR

Set out below are high level key strategies per phase 1 and phase 2 of the FRP. Please refer to the detailed Financial Recovery Implementation Plan for all the key findings and strategies.

|  |  |  |
| --- | --- | --- |
| PILLAR 1: GOVERNANCE | | |
| FOCUS AREA | KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE) | KEY STRATEGIES: PHASE 2 (STABILISATION) | |
| **Governance, Council and Oversight Structures/ Committees** | Permanent Executive Mayor and Chief Whip to be electing before the end of June 2023 as a court order has been made. | Council resolutions implementation to form part of Executive management for effective monitoring and the status be tabled at Council regularly. | |
| **Service Delivery** | Newly elected leadership should develop a service delivery recovery plan to deal with backlogs created by the political and administrative instability. | Adherence to the service delivery recovery plan. | |
| **Political Interference** | The Accounting Officer must act on political interference, that includes instituting criminal charges against Councillors that interfere in the administration of the Municipality. | Enforcement of the Code of Conduct for Councillors.  These should also be escalated to the National and Provincial and respective State Institutions. | |
| **System of Delegations** | Review and approve delegations of powers and functions for implementation of supply chain management policy including the establishment of bid committees. | Incorporate Role clarification in the system of delegations as required by Systems Act. | |
| **By-laws** | Develop a process plan for the review of by-laws and ensure implementation. | Establish an effective reporting structure on reporting on revenue generated from enforcement of by-laws. | |
| **UIF&W and Consequence Management** | Draft UIF&W report to be finalised for approval by Council.  A reduction plan should be developed and implemented with clear timeframes. | Conduct investigations on all reported allegations of financial misconduct against the officials and ensure consequence management is implemented once the Disciplinary Board has been established. Additional investigation should be conducted on the irregular appointment of the service provider. | |
| **Contract Management** | Revive and formally appoint the members Management Committee. | Review existing contracts against the organisational structure to determine duplication of services. Investigate the validity of unsigned contracts. | |
| **Information and Communication Technology** | Develop a recruitment plan for the urgent filling of ICT department posts.  Currently there are acting position and position of the CIO is not defined. | Develop and implement an ICT Strategy, Centralise ICT function with a defined strategy and mandate to support the Municipality’s requirements and strategic imperatives. Develop and implement a clearly defined and resourced ICT Plan. | |
| **Litigation and Legal Landscape** | A process plan must be developed and implemented where actions and legal threats against the Municipality is assessed to make the decision to defend or settle matters. Certain legal matters should be escalated to National Institutions (Hawks) for assistance. | Develop a litigation tracking system based on the litigation register. | |

|  |  |  |
| --- | --- | --- |
| PILLAR 2: INSTITUTIONAL | | |
| FOCUS AREA | KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE) | KEY STRATEGIES: PHASE 2 (STABILISATION) | |
| **Operating Model** | Finalise the review of the organisational structure in line with the Operating Model, current municipal budget & service delivery demands. | Ensure that the reviewed organisational structure is aligned with the Operating Model. | |
| **Effective leadership and management** | Develop a Recruitment plan for the urgent filling CM and Section 56 Managers | Development and approval of the placement policy, process to be undertaken to place employees appropriately for full utilization in consultation with LLF. | |
| **Clarity about roles and responsibilities and performance management** | Review of roles and responsibilities against approved organogram. Implementation of performance management agreements. | Conduct skills audit and define job descriptions. | |
| **Employee Cost** | Conduct regular review and enforcement overtime policy in line with the Basic Conditions of Employment Act including adequate supervision. | Conduct a Salaries benchmarking exercise to ensure employees are paid based according to the correct grading. | |
| **Filling of critical positions** | Organisational restructuring by assessing the critical posts required to operate efficiently and effectively and staff excess to requirements of the Municipality Develop a Recruitment plan. | Develop an HR strategy and Plan that guides recruitment, placement of staff, retention of staff, performance management and disciplinary processes. | |
| **Disciplinary Board** | Establishment of a functioning disciplinary board. | Develop and regularly update the disciplinary case management register. | |
| **Performance management** | Develop a functioning performance management system. | Implement consequence management for non-performance. | |
| **Policy Management** | Develop a process plan to review outdated policies and develop policies not in place. | Approval and Implementation of the policies. | |
| **Records Management** | Develop a file plan in accordance with the National and Provincial Archives Services guidelines. | Implement a records system that is compliant with National Archives and National Treasury. | |
| **Change Management** | Develop a change management strategy. | Sensitise employees and organised labour about the current financial state and the introduction of the FRP. | |

|  |  |  |
| --- | --- | --- |
| PILLAR 3: FINANCIAL HEALTH | | |
| FOCUS AREA | KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE) | KEY STRATEGIES: PHASE 2 (STABILISATION) | |
| **ESKOM** | Consider application for MFMA Circular No. 124 – Municipal Debt Relief through National Treasury. | Ensure monthly compliance with Circular No. 124. | |
| **Funded Budget and Budget Spending Limits** | Prepare, approve, and implement a Budget Funding Plan for the MTREF period linked to the FRP strategies and financial targets (NT Support). | Ensure cost reflective tariffs and scrutinise expenditure for unnecessary expenditure. | |
| **Funded Budget Status – Capital Budget** | Compile credible and cash backed capital budget linked to the IDP’s capital project priorities and compiling and budgeting for a payment plan to pay the outstanding payables and unspent conditional grants. | Establish a plan on how new grant funding will be fully spent as part of their capital budget planning process, aligned to the IDP. | |
| **Cost-reflective Tariffs – Water and Electricity Services** | Conduct a cost of supply study reflective and introduce cost reflective tariffs considering affordability of consumers. | Forecast tariffs that align with the rate of growth of tariffs forecasted by Bloem Water and ESKOM. | |
| **Revenue Management** | The previous cost of supply studies must be updated, and tariffs structures must be applied and implemented and for electricity NERSA’s approval. | Hand over the debtor’s book to debt collectors using a performance-based agreement that is traceable and measurable. | |
| **Indigent Management** | Adopt and implement the approved Indigent Household Policy and by-laws. | A quantitative Cost Benefit Analysis should be carried out to determine the most financially optimal option for the verification of indigent household. This is essentially an evaluation of manual verification compared to obtaining a system. | |
| **Supply Chain Management Compliance and Value for Money Procurement** | UIF&W expenditure to be interrogated with reasons therefore and to be submitted to Council for their decision on what action should be taken based on management’s recommendations. Institute legal action and consequence management based on the outcomes of the investigations. | The disciplinary board must become operational so that action can be taken against staff involved in criminal and legal non-compliant activities. | |
| **Financial Control Environment** | Management should ensure that there is proper record keeping, sufficient staff members assisting with the requested information by the auditors and should submit the information timeously. | Review the progress of the audit action plan immediately after the issue of the audit report, provide practical action plan and track progress thereof. | |
| **mSCOA** | Establish a functioning mSCOA STEERCOM. | Review and update the mSCOA implementation strategy. | |
| **Cost Containment and Realistic Cash Flow Management** | Revise and implement the Cost containment Policy in line with NT Municipal Cost Containment Regulations (2019). | Adopt an active cash management system to enable the municipality to maintain sound liquidity. | |

|  |  |  |
| --- | --- | --- |
| PILLAR 4: SERVICE DELIVERY | | |
| FOCUS AREA | KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE) | KEY STRATEGIES: PHASE 2 (STABILISATION) | |
| **Strategic Positions** | Appointment of permanent senior management position in line with MFMA regulations in a no acting capacity to enable service delivery. | N/A | |
| **Technical Systems** | Conduct a system landscape analysis based on service delivery needs and integration requirements. | Investment is needed in a GIS system to manage all MMM assets. | |
| **Water Quality** | Implement the recommendations of the Blue Drop Report.  Implement the recommendations of the Green Drop Report. | Effective monitoring of the implantation of the recommendations of the Blue Drop and Green Drop reports. | |
| **Policy and Planning** | MMM to adhere to timeframes recommended by SPLUMA and capacitate the department. | Undertake an asset completeness exercise and compile a GRAP compliant asset register. | |
| **Metering** | Targeted meter replacement prioritised by largest loss impact on a yearly basis.  This include aligning technical department with BTO to ensure smooth billing and credit control. | Check meters to be installed in a phased approach. | |
| **Landfill** | Identify the non-compliance criteria and create projects and project implementation plans to ensure compliance. | Install Weighbridges on landfill sites. | |
| **Asset Security** | Review Security Contracts entered into to secure key community facilities. | Use technology to augment the security personnel such as alarm systems and camera monitoring systems with armed response. | |
| **Project Management** | Introduce a monitoring mechanism to track project progress against spend, be a repository for project capitalisation purposes to assist in the capitalisation process. | Review expenditure on Capital projects to ensure the funds received are spent in accordance with the given conditions. | |
| **Plant and Fleet** | Filling of critical vacant positions need to be prioritised to minimise the reliance on contracted services. | Review the current existing lease agreements and perform a cost benefit analysis on leasing versus buying. | |

# PART THREE – IMPLEMENTATION PHASES

The first part of the financial recovery process is to conduct a status quo assessment on the current state of affairs of the Municipality. This was conducted and concluded in this document as per the methodology outlined coupled with further consultations and analysis.

The next step is the development of key strategies specific to the Municipalities financial recovery needs based on the outcomes of the status quo assessment. These strategies will be modelled to assess whether the desired financial impact will be achieved.

The Pareto principle states that for many outcomes, roughly 80% of consequences come from 20% of causes. In other words, a small percentage of causes have an outsized effect. This is important to identify which initiatives to prioritise to make the most impact, and the strategy development and approach should be based on this principle.

The strategies will be developed based on three phases, namely **Rescue, Stabilisation and Sustainability**, more details of each phase are set out below.

## RESCUE PHASE (6 -12 MONTHS)

The rescue phase is the first of three phases in the implementation process and focuses on the most critical aspects of rescuing the municipality from its immediate and most pressing challenges. Given that this intervention has been invoked as a result of a crisis in the financial affairs of the municipality, in the short term, emphasis is placed on improving the short-term liquidity of the municipality while restoring the basic principles of sound financial management. However, this phase also addresses the quick wins identified within governance, institutional and service delivery pillars.

The municipality will need to ensure that resources are made available to implement the strategies recommended in the rescue phase as this will form the base for the stabilisation and sustainability phases that follow to be implemented successfully.

## STABILISATION PHASE (13-24 MONTHS)

The stabilisation phase is the second of three phases in the implementation process and focuses on areas that are depleting the Municipality’s financial resources while taking a deeper focus on governance, service delivery and institutional pillars. The aim in this phase is to institutionalise the achievements of phase one, improve the longer-term liquidity of the Municipality and initiate the processes required to return the municipality to a sustainable and viable position.

## SUSTAINABILITY PHASE (FROM 25 MONTHS ONWARDS)

The sustainability phase is the last of the three phases in the implementation process and focuses on building on institutionalising the efforts of phases one and two in order to prevent a regression in performance and ensure that the municipality is able to continue as a going concern in sustainable and viable manner. The aim in this phase is to improve the long-term financing strategy, implement revenue enhancement and maximisation strategies, improve efficiencies in service delivery through innovative and technological solutions and so on. The successful implementation of this phase will therefore pave the road for the Municipality to build and develop its sustainability in the long term.

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Figure 9 - FRP Development Phases

# 

# PART FOUR – REPORTING FRAMEWORK

## REPORTING FRAMEWORK

**The following approach to reporting and oversight will be required:**

* The NCR/ CM must submit monthly progress reports to NT MFRS and the Municipal Council, and:
* Conducts necessary quality assurance processes to verify performance;
* Confirms/certifies that decisions of the Council/EM/Mayor are consistent with the FRP; and
* Maintains a record of decisions on FRP implementation.
* The CM must submit quarterly implementation progress reports to the Executive Committee and Council.
* NT must conduct quarterly reviews on the effectiveness of the FRP and whether the root causes are being progressively being addressed.
* The NCR/ MM must submit Portfolio of Evidence for claimed performance on a quarterly basis to the MFRS for review.
* The CM and heads of directorate must sign individual performance score-cards/ agreements for each financial year that incorporates the FRP.
* The SDBIP and IDP and ‘Strategic Plan’ must be revised for alignment with the FRP. All monthly FRP reports must be tabled and discussed in monthly Top Management meetings.
* No decision (Executive, Legislative or Administrative) should be approved by Council, Executive Mayor and Accounting Officer that contravenes or defeats the FRP and its objectives.
* The CM must assign an official in his office to coordinate implementation and reporting on the FRP. The CM must sign-off all FRP implementation progress reports before submission to Minister of Finance/ PT, NT MFRS, Executive Committee and Council.

**IT IS SUGGESTED THAT A SCHEDULE OF REPORTING AND COMMITTEE MEETING DATES BE APPROVED AT THE FIRST TECHNICAL WAR ROOM MEETING PER EXAMPLE BELOW:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| No | Report for the month OF | Report due from MM, Provincial Executive Representative ON | The report considered by Technical War Room ON | Considered by Political Oversight Committee ON (Combined meeting all NW mandatory FRPs) |
| 1 | July 2023 | 07 August 2023 | 11 August 2023 | 14 August 2023 |
| 2 | August 2023 | 31 August 2023 | 08 September 2023 | 13 September 2023 |
| 3 | September 2023 | 30 September 2023 | 09 October 2023 | 13 October 2023 |
| 4 | October 2023 | 31 October 2023 | 10 November 2023 | 16 November 2023 |
| 5 | November 2023 | 30 November 2023 | 08 December 2023 | 13 December 2023 |
| 6 | December 2023 | 31 December 2023 | 12 January 2024 | 16 January 2024 |
| 7 | January 2024 | 31 January 2024 | 08 February 2024 | 15 February 2024 |
| 8 | February 2024 | 29 February 2024 | 08 March 2024 | 15 March 2024 |
| 9 | March 2024 | 31 March 2024 | 10 April 2024 | 15 April 2024 |
| 10 | April 2024 | 30 April 2024 | 10 May 2024 | 14 May 2024 |
| 11 | May 2024 | 31 May 2024 | 10 June 2024 | 14 June 2024 |
| 12 | June 2024 | 30 June 2024 | 10 July 2024 | 15 July 2024 |

The municipality must report monthly on each key activity included in the FRP Implementation Plan (Annexure A). The implementation plan will be used as the basis to develop a progress reporting dashboard with the following fields:

***(Example only for illustrative purposes)***

|  |  |
| --- | --- |
| PER FRP IMPLEMENTATION PLAN: | INFORMATION: |
| **Phase** | **Financial Rescue** |
| **Pillar** | **Service Delivery** |
| **Key Activity** | * Prioritise the development, financing, and implementation of a proper programme to address technical water losses. * Properly determine the fundamental reasons for commercial water losses (i.e., non-payment) * Develop a plan to address the reasons. * Make key interventions to address the reasons. |
| **Problem Statement** | **42% water losses (technical and commercial)** |
| **Responsible** | **Technical Director** |
| **Start Date** | **October 2023** |
| **End Date** | **March 2024** |
| **Key Performance Indicator** | **5% reduction per annum** |
| **Financial Target** | **R50 Million per annum** |
| **Progress Report by Municipality:** | |
| **Steps taken** |  |
| **Progress made** |  |
| **Financial impact recorded** |  |
| **Other noteworthy developments** |  |

# CONCLUSION

From the above assessment, the following key issues, *amongst others* were identified and will be addressed in the financial recovery implementation plan:

* Outdated policies and lack of implementation;
* Council and Committees do not sit per the Municipal calendar;
* Political interference in the operations of the Municipality;
* High turn-over in Senior Management and critical positions which impact service delivery negatively;
* Non-existence of a Performance Management System and no consequence management;
* Unfunded budgets and bad budgeting techniques;
* Tariffs are not cost reflective;
* Poor debtors’ collection rate;
* Poor Indigent management;
* Incorporate Centlec into MMM;
* Supply chain management processes not adhered to;
* Excessive overtime payments;
* Breaches in the financial control environment;
* Overall poor asset management;
* Old and aging infrastructure;
* Backlogs in service delivery;
* Underspending on capital budget, utilising capital budget towards operation expenses; and
* High water and electricity distribution losses; etc.

The previous interventions (2) were not adhered too, and the financial recovery initiatives were not followed or achieved. It might be prudent to consider alternative measures combined with the financial recovery process such as an independent forensic investigations and involvement of the Hawks, and /or a nationally supported security measures to assist MMM in the short to medium term.

Remedial actions will not have the desired effect before Mangaung is cleansed of alleged fraud and corruption. Consideration must also be given to dissolve Council during the investigation. (Sections 139 of the Constitution and the MFMA). The decision to dissolve is strengthened by the inability of Council to implement previous financial recovery plans.

# RECOMMENDATIONS

**It is recommended that:**

1. The Mangaung Metro’s Mandatory Financial Recovery Plan be submitted to the Minister of Finance for approval in terms of Section 143(2) of the MFMA.
2. The Mangaung Metro must fully implement all recommended measures set out in the approved Financial Recovery Plan as required in terms of section 146 of the MFMA.
3. An Oversight Committee be established to direct the intervention, monitor progress, and unblock any political challenges that may hinder the success of this intervention.
4. The City Manager drafts an internal and external communication plan to support effective communication throughout the intervention.
5. The adoption and implementation of a comprehensive Change Management Programme, consisting of the presence of uncontaminated and strong change agents to address the following focus areas:
6. **Consequence Management:** The lack of consequence management and accountability arrangements are systemic and symptomatic of a municipality where oversight is lacking.
7. **Capacity Development:** An extensive mentorship, coaching, training, and change management effort is required. A skills audit, new staff structure, well-trained and equipped elected officials and adherence to codes of conduct, consequence management and accountability would be a minimum first step in the right direction.

# ANNEXURE A: FINANCIAL RECOVERY IMPLEMENTATION PLAN

The FRP Implementation Plan is attached to this report in an Excel format to ease project implementation, monitoring and oversight and consists of four sheets addressing each of the pillars, being (1) Governance, (2) Institutionalisation/HR, (3) Financial Health and (4) Service Delivery and is structured per column as follows:

1. Item number.
2. Focus area.
3. Current situation.
4. Key activities.
5. Responsible person.
6. Timeline (Rescue/Stability/Sustainability).
7. Measurable outcome/KPI.
8. PoE.
9. Financial impact.
10. Support required.
11. Start date.
12. End date.
13. Progress and reporting.

# ANNEXTURE B: FINANCIAL RATIO’S

| **Ratio Analysis Report** | | | **Restated** | | **Audited** | **Budget** | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **Norm** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| **FINANCIAL POSITION** | |  |  |  |  |  |  |  |
| **Asset Management/ Utilisation** | | | | | | | | |
| 1 | Capital Expenditure to Total Expenditure | 10% - 20% | 5.38% | 7.95% | 7.76% | 13.06% | 12.79% | 12.92% |
| 2 | Impairment of Property, Plant and Equipment, Investment Property, and Intangible assets (Carrying Value) | 0% | 0.13% | 0.14% | 0.04% |  |  |  |
| 3 | Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value) | 8% | 1.10% | 1.24% | 1.60% | 2.63% | 2.77% | 2.75% |
| **Debtors Management** | | | | | | | | |
| 1 | Collection Rate | 95% | 83.12% | 81.16% | 79.44% | 82.07% | 82.02% | 82.02% |
| 2 | Bad Debts Written-off as % of Provision for Bad Debt | 100% | 6.77% | 0.36% | 2.36% | 0.00% | 0.00% | 0.00% |
| 3 | Net Debtors Days | 30DAYS | 100.51 | 116.21 | 88.15 | 90.16 | 97.17 | 105.29 |
| **Liquidity Management** | | | | | | | | |
| 1 | Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants) | 1 - 3 Months | -0.02 | 0.36 | 0.31 | -5.41 | -6.51 | -7.43 |
| 2 | Current Ratio | 1.5 - 2:1 | 0.93 | 0.95 | 0.87 | 0.63 | 0.50 | 0.42 |
| **Liability Management** | | | | | | | | |
| 1 | Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure | 6%-8% | 3.46% | 4.30% | 2.82% | 4.87% | 2.31% | 1.99% |
| 2 | Debt (Total Borrowings) / Revenue | 45% | 13.90% | 10.83% | 8.20% | 16.73% | 8.43% | 4.14% |
| **FINANCIAL PERFORMANCE** |  |  |  |  |  |  |  |  |
| **Efficiency** | | | | | | | | |
| 1 | Net Operating Surplus Margin | >=0% | 1.78% | -0.55% | -11.41% |  |  |  |
| 2 | Net Surplus /Deficit Electricity | 0% - 15% | 30.12% | 30.14% | 24.12% |  |  |  |
| 3 | Net Surplus /Deficit Water | >=0% | 8.50% | 24.97% | 21.17% |  |  |  |
| **Distribution Losses** | | | | | | | | |
| 1 | Electricity Distribution Losses (Percentage) | 7% - 10% | 8.04% | 10.05% | 10.96% |  |  |  |
| 2 | Water Distribution Losses (Percentage) | 15% - 30% | 41.00% | 45.00% | 45.00% |  |  |  |
| **Revenue Management** | | | | | | | | |
| 1 | Growth in Number of Active Consumer Accounts | None |  |  |  |  |  |  |
| 2 | Revenue Growth (%) | CPI | 5.15% | 2.06% | 8.69% | 2.19 | 9.01% | 6.73% |
| 3 | Revenue Growth (%) - Excluding capital grants | CPI | 4.15.% | -2.07% | 8.20% | 14.67% | 9.01% | 6.73% |
| **Expenditure Management** | | | | | | | | |
| 1 | Creditors Payment Period (Trade Creditors) | 30 | 143.28 | 130.88 | 114.73 | 137.72 | 137.53 | 139.26 |
| 2 | Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure | 0% | 90.23% | 93.69% | 96.40% |  |  |  |
| 3 | Remuneration as % of Total Operating Expenditure | 25% - 40% | 29.21% | 29.15% | 24.71% | 27.18% | 27.62% | 27.39% |
| 4 | Contracted Services % of Total Operating Expenditure | 2% - 5% | 5.18% | 4.73% | 3.79% | 7.70% | 7.75% | 7.60% |
| **Grant Dependency** | | | | | | | | |
| 1 | Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure | None | 31.90% | 26.10% | 15.43% | 23.68% | 23.68% | 23.68% |
| 2 | Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure | None | 20.29% | 17.04% | 15.43% | 23.68% | 23.68% | 23.68% |
| 3 | Own Source Revenue to Total Operating Revenue (Including Agency Revenue) | None | 79.31% | 73.42% | 75.07% | 88.18% | 87.98% | 87.99% |
| **BUDGET IMPLEMENTATION** | | | | | | | | |
| 1 | Capital Expenditure Budget Implementation Indicator | 95% - 100% | 100.00% | 80.60% | 46.23% |  |  |  |
| 2 | Operating Expenditure Budget Implementation Indicator | 95% - 100% | 103.99% | 106.48% | 124.93% |  |  |  |
| 3 | Operating Revenue Budget Implementation Indicator | 95% - 100% | 106.11% | 107.98% | 104.57% |  |  |  |
| 4 | Service Charges and Property Rates Revenue Budget Implementation Indicator | 95% - 100% | 94.50% | 98.45% | 92.39% |  |  |  |

# ANNEXTURE C: FINANCIAL RATIO ANALYSIS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Ratio | Ratio for 2019/20  Restated | Ratio for 2020/21  Restated | Ratio for 2021/22  Audited | Remarks |
| **FINANCIAL POSITION** | | | | |
| **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%.** | 5,38% | 7,95% | 7,76% | The amount outlaid on capital for the 3 financial years is below the norm. This is an indication of insufficient capital budget as a result of insufficient cash to undertake capital investment and ineffective budgeting techniques.  Unspent conditional grants as at 30 June 2022 totalled R571.0 million which indicate that MMM is using capital budget to fund operating expenses.  This will result in insufficient investment in infrastructure to increase capacity and accommodate envisaged growth within the Municipality.  This will result in poor service delivery. |
| Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)  **Norm is 0%** | 0,13% | 0,14% | 0,04% | The ratios for the 3 financial years are slightly above the norm. However, with investment in infrastructure on the decline it is probable that impairments are taking place as aging infrastructure is being used past its life span which will ultimately result in breakdowns and service delivery interruptions. |
| 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%.** | 1,10% | 1,24% | 1,60% | Repairs and maintenance to property, plant and equipment and investment property is very low.  This indicate that insufficient expenditure is being spent on repairs and maintenance and that asset stripping is taking place.  This is further reducing the production capacity of the municipal infrastructure which will result in service delivery interruptions. |
| **Debtors Management** | | | | |
| Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit.  **The norm is 95%.** | 83,12% | 81,16% | 79,44% | The collection rate remained below the norm for all three financial years under consideration.  There is a downward trend in the ratios over the last three financial year.  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.  It is also indictive that with the exclusion of electricity from the revenue mix (and credit control tool) this ratio will decline further.  This also signals a reliance on grants. |
| Bad Debts Written-off as % of Provision for Bad Debt  **Norm is 100%** | 6,77% | 0,36% | 2,36% | This is indicating that either the provision for bad debts is insufficient or unrecoverable debtors are not being written off.  Compared to the norm of 100%, the ratio of 2,36% is unrealistic and not consistent with the low collection rates.  An up-to-date indigent register should be kept. |
| Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts.  **The norm is 30 days.** | 100,51 days | 116,21 days | 88,15 days | The debtors’ payment period was above the norm for all three financial years, which is indicative of its current cashflow challenges and bad debt collection rate.  There is an increasing unemployment rate in South Africa, and MMM’s current unemployment rate sits at 21.9% as at 30 June 2022. This will result in even further deteriorating debtor payment days.  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. |
| **Liquidity Management** | | | | |
| Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)  **Nom is 1 - 3 Months** | -0,02 | 0,36 | 0,31 | The cash cost coverage is substantially below the norm. This is indicative of the poor debtor’s collection rate as well as the poor payment rate of MMM creditors.  The municipality is vulnerable and at a higher risk in the event of financial shocks/setbacks and this affects its ability to meet its obligations to provide basic services or its financial commitment is compromised.  The municipality needs to implement cost containment measures and revenue enhancement initiatives. |
| Liquidity Ratio (Current Ratio) - this ratio indicates the extent to which current assets can be used to settle short-term liabilities.  If current assets do not exceed current liabilities it means a liquidity problem i.e. insufficient cash to meet financial obligations.  **The norm is 1.5 - 2:1.** | 0,93 | 0,95 | 0,87 | The current ratios are well below the norm in all 3 financial years.  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.  If grants are excluded, the municipality was not able to cover its commitments to suppliers and employees for the 2020/21 and 2021/22 financial years, retaining a deficit between receipts from operation and cash paid to suppliers and employees of R1.1billion (2020/21; R 870 million). |
| **Liability Management** | | | | |
| 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%.** | 3,46% | 4,30% | 2,82% | The ratio is below the norm for the 3 financial years.  Borrowing and credit needs to be appropriately managed to avoid a situation where the Municipality is no longer able to service its debt levels.  This ratio is to be read with the Debt/ (Total Borrowing)/ Revenue ratio and its collection rate.  Given the low cash generating ability and the loans from with DBSA, Standard Bank and Absa Bank valued at R668 million, already defaulting during the 2021/22 financial with R 382.1 million, the MMM does not have capacity to take on more debt. A possible renegotiation of the loans would be required. |
| Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue.  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.  **The norm is 45%.** | 13,90% | 10,83% | 8,20% | The level of borrowing within the Municipality has been maintained at an acceptable level for the last three years. This is more than likely due to the fact that MMM is not able to obtain further external borrowings due to the state of its finances.  Given the low cash generating ability and the loans from with DBSA, Standard Bank and Absa Bank valued at R668 million, already defaulting during the 2021/22 financial with R 382.1 million, the MMM does not have capacity to take on more debt. A possible renegotiation of the loans would be required. |
| **FINANCIAL PERFORMANCE** | | | | |
| **Efficiency** | | | | |
| Net Operating Margin – measures the net surplus or deficit as a percentage of revenue.  **The norm is > 0%.** | 1,78% | -0,55% | -11,41% | The net operating margin reflected a small surplus in 2019/20, followed by a small deficit in 2020/21 and a significant deficit in 2021/22.  The deficits are as a result of bad budgeting and insufficient provision being made in the budget for the provision of the impairment of debtors.  The net operating deficit is confirming the high level of reliance that the Municipality places on National Government support to sustain service delivery.  Note that the ideal would be for all surpluses to be cash backed. |
| Net Surplus /Deficit Electricity  **Norm is 0% - 15%** | 30,12% | 28,26% | 22,13% | These surpluses are substantially above the norm.  If these figures are correct, it could indicate that CENTLEC’s electricity tariffs are set to include a large surplus which could be construed to be a surcharge. |
| Net Surplus /Deficit Water  **Norm is >=0%** | 8,50% | 24,97% | 21,17% | These surpluses are substantially above the norm.  If these figures are correct, it could indicate that MMM’s water tariffs are set to include a large surplus which could be construed to be a surcharge. |
| **Distribution Losses** | | | | |
| **Electricity Distribution Losses (%)**  The norm is 7% - 10%. | 8,04% | 10,05% | 10,96% | Electricity Distribution losses for all three financial years are either within the norm or slightly higher.  High electricity distribution losses can be attributed to aged infrastructure and unmetered connections and theft, which should be investigated. |
| **Water Distribution Losses (%)**  The norm is 15% - 30%. | 41,00% | 45,00% | 45,00% | The water distribution losses are significantly high and above the norm for all 3 financial years.  High water distribution losses can be attributed to aged infrastructure and unmetered connections and theft, which should be investigated.  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 =CPI. | 5,15%  CPI  3.3% | 2,06%  CPI  4.9% | 8,69%  CPI  6.9% | Revenue growth reflects an improvement over the last financial year, with the growth rate above inflation.  The 2020/21 growth rate was positive however below the CPI norm for the year.  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 revenue excluding capital grants year on year.  **The norm is =CPI.** | 4,15%  CPI  3.3% | (2,07%)  CPI  4.9% | 8,20%  CPI  6.9% | Revenue excluding capital grants reflected a reliance on grants for 2020/21 financial year with a negative growth which could be attributed to COVID and grant dependency. However, there was growth in the 2019/20 and 2021/22 financial years.  Ideally this growth should be from direct economic development growth and growth in revenue excluding tariff increases. |
| **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.** | 143,28 days | 130,88 days | 114,73 days | The creditor payment period has been declining over the 3 year period.  However, the days are in excess of the norm indicating that suppliers are not being paid within 30 days.  This is consistent with the cash flow challenges being experienced by the Municipality.  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. |
| 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%.** | 90,23% | 93,69% | 96,40% | These ratios were calculated using the accumulated figures for UIF&W.  There is an increase due to the accumulated figures being used which shows that UIFW is still happening.  These matters need to be investigated and submitted to Council for decisions to be made. |
| 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%.** | 29,21% | 29,15% | 24,71% | 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.  However, note that critical vacancies remain unfilled and/or unfunded and if filled could increase this ratio. |
| 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%.** | 5,18% | 4,73% | 3,79% | The ratio is in line with the norm of 2% - 5% for the last three years indicating that the Municipality is reliant on contracted services to perform Municipal related functions but this is not out of control.  Further analysis indicates that this figure is understated as the contracted services line item excludes repairs and maintenance which is partially outsourced. If contracted repairs and maintenance is included in the ratio, the ratio’s are 5.23% (2019/20), 7.31% (2020/21) and 6.45% (2021/22) which is above the norm for all three respective years. |
| **Grant Dependency** | | | | |
| 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.  **There is no Norm** | 31,90% | 26,10% | 15,43% | 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.  Over the 3 years MMM has been more reliant on grants to fund capital projects.  This is consistent with the cashflow challenges being experienced by the municipality. |
| Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure  There is no Norm | 20,29% | 17,04% | 15,43% | For the three years under review, the municipality was reliant on grant funding between 79% to 85%, given that it cannot afford to finance capital expenditure from internally generated funds. Although other metrics indicate that the municipality can potentially apply for debt, it does not have capacity to service debt given the lack of cash generating ability and reliance on funding from National Government. |
| 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.  **There is no Norm** | 79,31% | 73,42% | 75,07% | This is an indication that the Municipality is not solely reliant on government funding to fund its obligated municipal services.  The dependency increased from approximately 20% in 2019/20 to approximately 25% in 2021/22. However, should the collection rates decline further grant dependency would be inevitable. |
| **BUDGET IMPLEMENTATION** | | | | |
| Capital Expenditure Budget Implementation Indicator  **Norm 95% - 100%** | 50.20% | 80,60% | 46,23% | These declining ratios indicate the problem of MMM undertaking capital projects/ infrastructure. This is due to MMM not being able to raise borrowings and the decline in grants being able to be obtained to undertake capital works.  There is therefore a risk of potentially negatively affecting service delivery and indicative of cash flow and capacity challenges to carry out the planned capital spending. |
| Operating Expenditure Budget Implementation Indicator  **Norm 95% - 100%** | 103,99% | 106,48% | 124,93% | This indicates poor budgeting techniques. There has been increased overspending for the last three financial years with 2021/22 ending up with a deficit of R676.9 million. |
| Operating Revenue Budget Implementation Indicator  **Norm 95% - 100%** | 106,11% | 107,98% | 104,57% | This indicates poor budgeting techniques. There has been increased actual revenue when compared to the revenue budget for the last three financial years with 2021/22 ending up with a deficit of R676.9 million. |
| Service Charges and Property Rates Revenue Budget Implementation Indicator  **Norm 95% - 100%** | 94,50% | 98,45% | 92,39% | The budget utilisation for 2019/20 and 2020/21 appears reasonable with a slight decline below the norm during 2021/22  It indicates that the budgets are not fully funded and cost reflective tariffs are not being set. |