



MANGAUNG METROPOLITAN MUNICIPALITY

DRAFT STATUS QUO ASSESSMENT

JUNE 2023



national treasury

Department:
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REPUBLIC OF SOUTH AFRICA



FREE STATE PROVINCE

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1. ABBREVIATIONS

No.	Abbreviation	Full Form
1.	AFS	Annual Financial Statements
2.	AG	Auditor General
3.	ART	Antiretroviral Therapy
4.	CoS	Cost of Supply
5.	DBSA	Development Bank of Southern Africa
6.	EXCO	Executive Committee
7.	FRESHCO	Free State Social Housing Company
8.	FRP	Financial Recovery Plan
9.	HRD	Human Resources Development
10.	ICT	Information and Communications Technology
11.	IDP	Integrated Development Plan
12.	IPTN	Integrated Public Transport Network
13.	KPA	Key Performance Area
14.	KPI	Key Performance Indicator
15.	LLF	Local Labor Forum
16.	MEC	Member of the Executive Council
17.	MFMA	Municipal Financial Management Act
18.	MFRS	Municipal Financial Recovery Services
19.	MMM	Mangaung Metropolitan Municipality

No.	Abbreviation	Full Form
20.	mSCOA	Municipal Standard Chart of Accounts
21.	NCR	National Cabinet Representatives
22.	NERSA	National Energy Regulator of South Africa
23.	NT	National Treasury
24.	MPAC	Municipal Public Accounts Committee
25.	PMS	Performance Management System
26.	SAPS	South African Police Service
27.	SCM	Supply Chain Management
28.	SHRA	Social Housing Regulatory Authority
29.	SQR	Status Quo Report
30.	UIF&W	Unauthorised, Irregular and Fruitless and Wasteful Expenditure
31.	WTW	Water Treatment Works
32.	WWTW	Wastewater Treatment Works

2. 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

3. EXECUTIVE SUMMARY

3.1 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.



Figure 1: Map of Mangaung and Neighbouring Municipalities

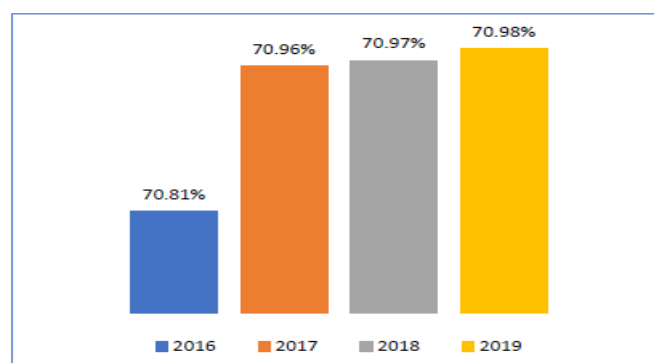
The Mangaung Local Municipality was established in 2000 with the amalgamation of four former Transitional Local Councils but was in April 2011 elevated from category “B” Municipality to a category “A” Metropolitan Municipality. On the 3rd of August 2016, the former Naledi Local Municipality and Ikgomotseng 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%.

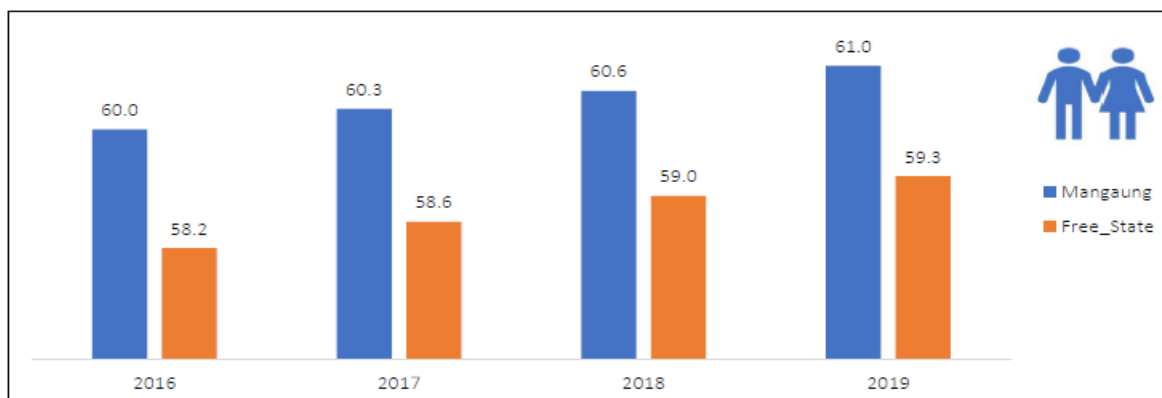
The functional adult literacy rate of the population is the percentage of persons older than 20 with the highest level of education being Grade 7 and higher (those that have less than Grade 7 as the highest level of education are classified as illiterate). The literacy rate of the population influences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



Source: Quantec, 2020

Figure 2: 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.



Source: Quantec, 2021

Figure 3: 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	10,721	10,416	8,856	7,916
	treatment						
Free State	Patients	starting	ART	46,765	40,676	36,617	35,058
	treatment						

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);
- Inadequate governance practices;
- Poor communication with communities and key stakeholders; and
- Lack of strengthening and improving the functionality of the administration.

The Municipality is plagued by 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.

The FRP will be used to guide the Municipality, the Intervention Team, and a new management team in addressing the financial, service delivery and governance crisis and associated challenges at MMM.

3.2 STATUTORY AND LEGISLATIVE CONTEXT

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 140 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 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(7) 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 140. When preparing a financial recovery plan various stakeholders must be consulted and previous FRP's considered.

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.

3.3 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.

3.4 STATUS QUO ASSESSMENT METHODOLOGY

Methodology used and extent of the work done:

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:

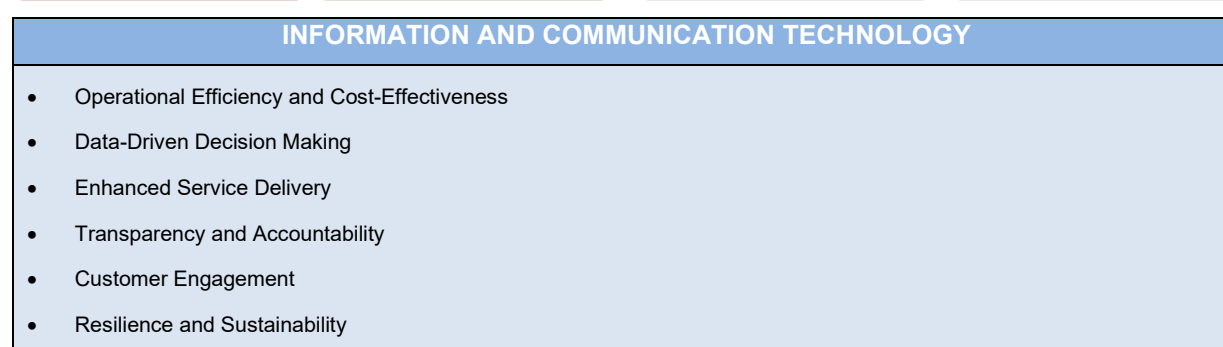
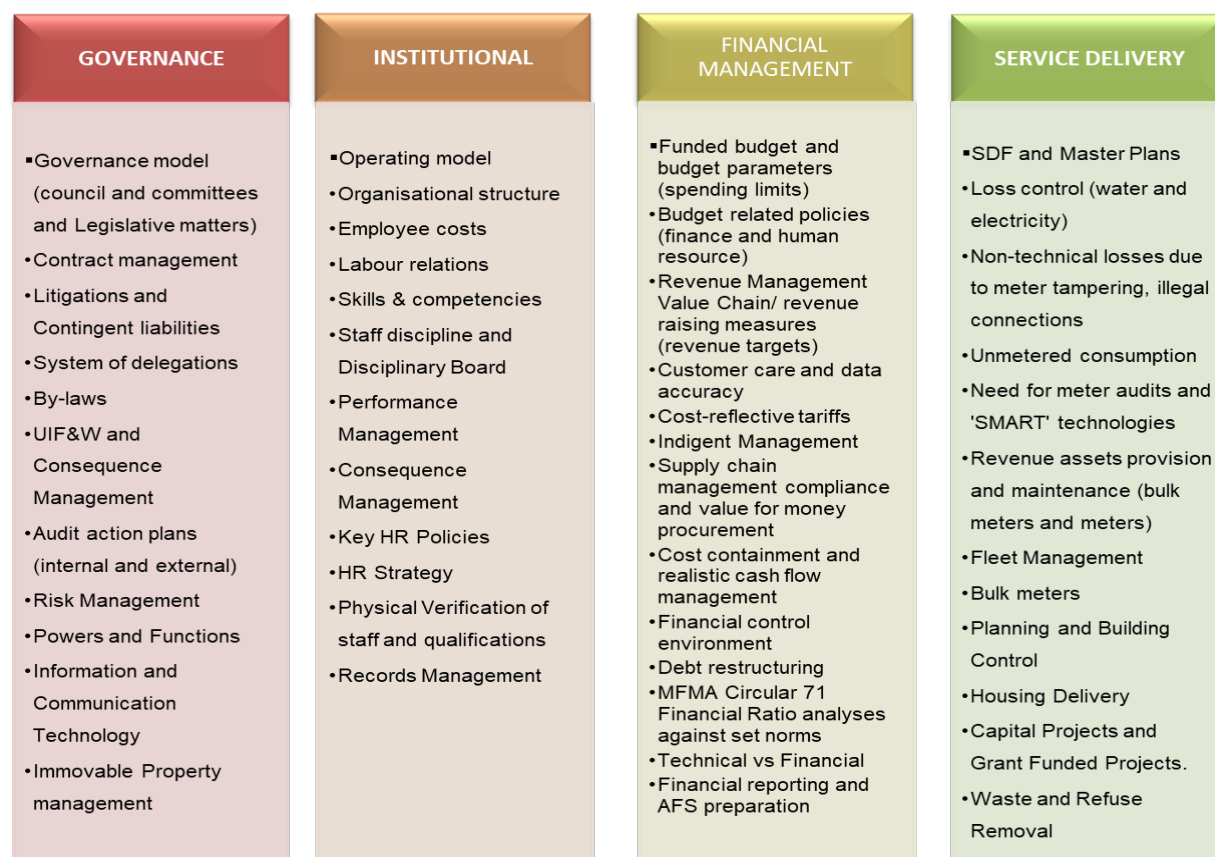


Figure 4 - Assessment framework

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.

Customer Engagement:

Communication has been highlighted by consumers as the single most important requirement when dealing with governments and businesses beating customer service and going digital by far.

Despite this, organisations have failed dismally in communicating with consumers in a bi-directional manner. The internet and digitisation have successfully removed consumers even further from being able to have a meaningful engagement with organisations. The best they can expect is to speak to an uninformed call centre or be called by a call centre when it suits the call centre. Engagement (if any) is one directional and fails to address consumer needs.

Customer relationships are built via ongoing customer engagement. The more business engage with their customers the better the relationship leading to huge return on investment. Engagement must also transcend just the standard bill presentation and disputes but include things that are important to consumers like financial and emotional wellness. Utilising engagement as a tool to obtain an understanding of your customers will help organisations to do better targeted products and services and to identify challenges that may occur (i.e. non-payment) long before it becomes a challenge.

Customer relationship management and engagement must be an integral part of any Municipal strategy to better serve their customers.

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.

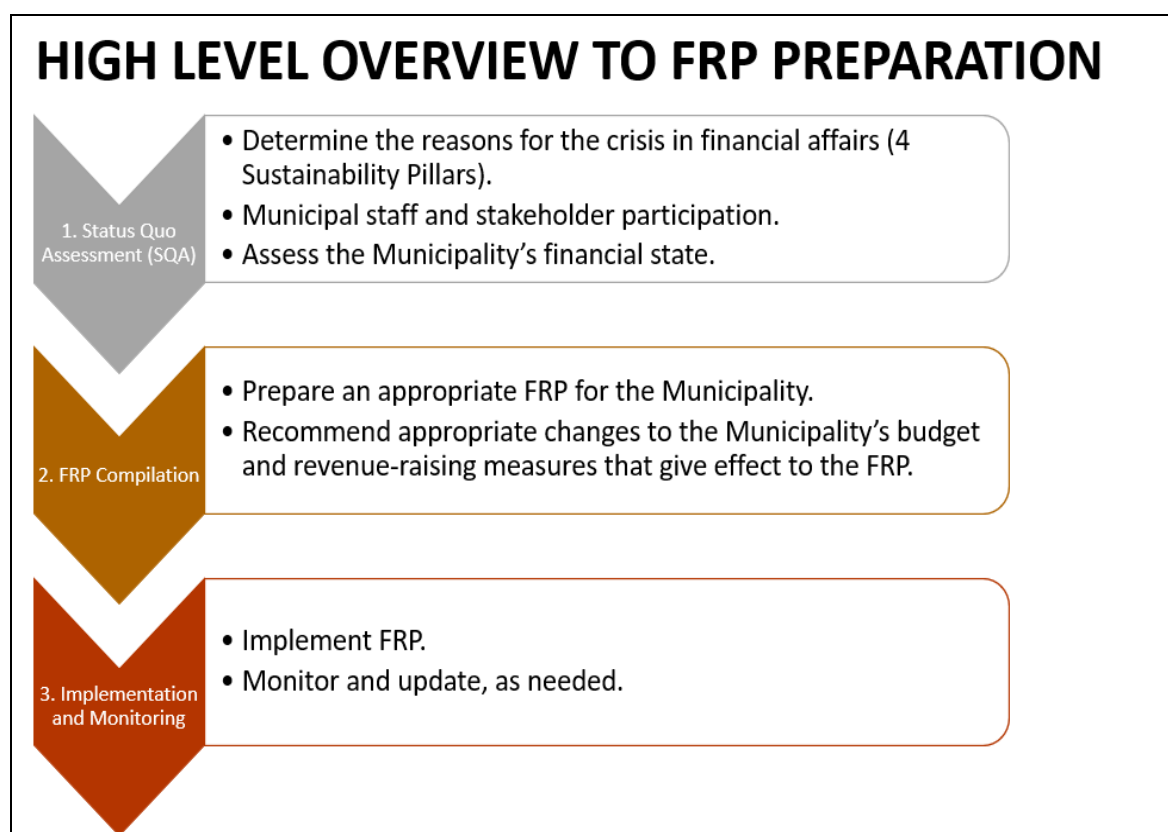


Figure 5 - FRP Preparation Process

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. The mandatory financial recovery plan that was previously prepared for the municipality during 2020 was taken into account.

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 2023 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.
5. Include consultation (22-23 June 2023)

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.

Submission

This Status Quo Assessment will be submitted to the the Minister of Finance whereafter, the latter will submit same to the municipality and the Minister of COGTA.

3.5 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

- inadequate political oversight and historical interference in the administration;
- Failure to implement the code of conduct for Councillors and staff;
- Lack of oversight over municipal entities (CENTLEC, FRESHCO);
- Breakdown of relations between the municipality and stakeholders including business chamber;
- Political factionalism amongst senior management;
- Poor oversight of grant expenditure;
- Failure to implement regulations on financial misconduct procedures and criminal proceedings;
- Violent Community service delivery protests;
- Volatile and sporadic staff protests;
- Inadequate systems of delegation that impact on governance, administration and operational efficiency;
- Litigations issues due to SCM challenges; and
- Court Orders with financial implications.

Institutional

- Delay in the filling of critical vacant posts with people that have the appropriate experience, skills and qualifications;
- Industrial actions owing to communications and resistance to the changes due to any organisational restructuring or realignment and the implementation thereof;
- Escalating employee costs due to unmanaged overtime and prolonged acting arrangements;
- Inadequate integration of erstwhile municipalities into the Mangaung Metro municipality;
- Failure to ensure consequence management leading to rampant mal-administration and high level ill-discipline;
- Unnecessary and prolonged appointment of senior management contributing towards uncertainty and instability;

- Irregular appointments and removal of staff;
- Establishment of metro police department and related appointments, transfers and promotions of staff with major financial implications without prior financial impact study;
- Delays in approval of the revised organisational structure aligned with the operating model; and
- Lack of appropriate organisational culture and resistance to change.

Financial Health

- Loss of grant funding due to non-compliance with grant conditions;
- Continued non-collection of revenue and increase in the debtors' book;
- Non-commitment to stringent expenditure controls and non-implementation of the revenue enhancement initiatives;
- Increase in financial charges due to nonpayment of creditors; and
- Poor reporting and lack of accountability which led qualified audit opinion by AG (SA).

Service Delivery

- Failure to materially control and reduce non-revenue electricity and water losses, which losses will negate the impact of other interventions;
- Poor performance by project management unit which contributes to loss of allocated infrastructure grants;
- Potential loss of customers at the Fresh Produce Market due poor maintenance of the facilities;
- Potential loss of income due to illegal issuance of building compliance certificates;
- Potential loss of income due to delays in the implementation of the Rapid Bus Transit System;
- 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.

4. PART TWO – STATUS QUO ASSESSMENT

4.1 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.

4.2 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.

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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, and maladministration that leads to poor service delivery and poor financial management.

In the path leading to this intervention, National Treasury, in conjunction with the Free State Provincial Treasury, developed a Status Quo Report dated August 2022. It is understood that the findings made in the report, is still currently relevant.

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

Governance model (Council and oversight structures/Committees): The Mangaung Council is constituted by 101 elected public representatives of which 51 are ward representatives and 50 represent their political parties on a proportional basis. The parties in Council are illustrated in the table below:

- African National Congress (ANC), 51 members (Governing Party)
- Democratic Alliance (DA), 26 members (Official Opposition)
- Economic Freedom Fighters (EFF) 12 members (Opposition)
- Freedom Front Plus (VF+), 5 members (Opposition)
- ASSD, 2 members (Opposition)
- Patriotic Alliance, 2 (opposition)
- Congress of the People (COPE), 1 member (Opposition)
- African Christian Democratic Party, 1 member (Opposition)
- African Independent Congress, 1 member (Opposition)
- African Transformation Movement, 1 member (opposition)

MMM has an executive mayoral with a ward participatory system. It has both sections 79 and 80 committees. Section 79 committees report to Council through the Office of the Speaker. Prior to the intervention Mangaung the municipality was plagued by political and administrative instability, and maladministration that lead to poor service delivery and poor financial management. Council and other oversight structures were not functional due to political infighting and hung council. Stability has returned after the deployment of the national intervention team and the election of the Speaker, Acting Executive Mayor and Acting Chief Whip. The Disciplinary board is not in place which affects consequence management in the Municipality.

Contract Management: There is no efficient management of contracts in the Municipality and some contracts continue without end dates.

System of Delegations: Delegations of authority for the Municipality are outdated and there are no delegations register in place. There are no role clarification provisions and SCM sub-delegations.

By-laws and Enforcement: The municipal by-laws are not regularly updated as required

and enforcement is not adequately done. There is no efficient system reporting on revenue generated from enforcement of by-laws.

Unauthorised, Irregular and Fruitless and Wasteful Expenditure (UIF&W): The UIF&W expenditure is high and continues to increase due to non-compliance to SCM processes, poor contract management and late payments of creditors, resulting in interests. There are no section 32 investigations that have been conducted.

Political Interference: Politicians are interfering in administration processes particularly in SCM and recruitment processes.

Service Delivery: The political and administrative instability in the Municipality has led to service delivery protests by the community.

Litigations and Legal Landscape: The Municipality has high levels of litigations resulting from factors such as non-payment of service providers and poor contract management.

ICT Strategy and Governance: There is a leadership vacuum in the ICT department that has led to a lack of an ICT strategy. The Municipality is paying for software licenses that are under or unutilised. There is lack of various IT systems that can enhance performance for the Municipality such as a document management system, contract management system and resolutions management system.

Immovable Property Management: The Municipality does not have updated most lease agreements as most leases are now on a month-to-month basis.

Audit Action Plan: The Municipality does not have an approved Post Audit Action Plan for the previous AG outcomes and there is no quarterly reporting of PAAP to Council.

Risk Management and Internal Audit: The Municipality has a council approved Risk Management Policy that includes the strategy and implementation plan. However, there is no Business Continuity Plan. Audit Committee recommendations are not adequately implemented by management and monitored by Internal Audit.

The table below reflects on matters that have been noted under Governance pillar and provides an analysis of the problems and possible solutions:

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
Governance Model (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	Pending litigation.	Permanent Executive Mayor and Chief Whip to be electing before the end of June 2023 as a court order has been made.	Engagement with officials
	All section 79 and 80 oversight structures are in place and now functional. 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.	Political infighting and instability.	MPAC chairperson to be elected/appointed by end of August 2023. Terms of reference to be finalised by end of August 2023.	Engagement with officials
	The Municipality has a manual resolutions register but not being effectively monitored for implementation.	No centrally monitoring process or system to monitor implementation.	Poor planning and mismanagement.	Council resolutions implementation to form part of Executive Management for effective monitoring and the status be tabled at Council regularly.	Engagement with officials
	The Municipality has one public entity (Centlec) which is 100% owned by the	The Municipality is losing potential revenue from Centlec.	SLA has not been signed and adequate provisions	Council should review the SLA to ensure that the Municipality receives	Engagement with officials

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	municipality. The SLA with Centlec does not provide for revenue to be transferred to the Municipality.		for revenue management not provided for.	revenue as per reviewed SLA. Develop plan to recover lost revenue.	
	The Municipality does not have a stakeholder engagement strategy and public participation policy in place.	Failure by Council to appoint a permanent Accounting Officer to stabilise the administrative function of Council.	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.	Engagement with officials
	Disciplinary Board not in place and therefore not functional.	Inadequate consequence management in the Municipality.	Terms of office expired in January 2023.	Re-advert to be placed urgently for the appointment of the new Disciplinary Board.	Engagement with officials
	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.	Poor management.	Develop a process plan of monitoring declaration of interests by councillors and staff.	Engagement with officials
	Council does not approve statutory reports timeously in line with the approved MFMA	Non-compliance to statutory reporting timeframes and functioning of council.	Political instability, infighting and hung council meetings.	New leadership and City Manager to ensure urgent approval of all	Engagement with officials

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	calendar, e.g., MPAC report, Annual Report for 2022/23 not yet tabled, budget not yet passed, etc.			reports in line with the MFMA calendar.	
	The Municipality did not adhere to the Institutional Calendar for 2022/23. There are improvements in the adherence of the 2023/24 institutional calendar.			Maintain adherence to the current Institutional calendar.	Engagement with officials
Contract Management	<p>Contract Management Committee not functional.</p> <p>There is no functioning contract management system in place.</p> <p>Not clear where the function should be performed or located.</p> <p>There is no up-to-date contract register.</p>	<p>The Contract Management Committee is no longer sitting.</p> <p>No synergy between legal and SCM.</p> <p>No online system to deal with contracts or document management system.</p> <p>No value for money assessments.</p>	<p>Poor contract management and officials appointed in posts without qualifications.</p> <p>Lack of an effective contract management system.</p> <p>Maladministration within MMM governance structures.</p>	<p>Revive the sitting of the Contract Management Committee.</p> <p>Monthly service provider contract performance reports must be submitted to the Contracts Committee for review.</p> <p>Consider re-locating this function to SCM.</p>	<p>AGSA management report</p> <p>Engagement with officials.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>The contracted services were 4.73% (2020/21) and 3.79% (2021/22) respectively which was within the Circular 71 norm of 2-5%.</p> <p>The Municipality has contracted services with service providers where there is staff employed to do the same work.</p> <p>Bid committees illegally constituted.</p> <p>Some contracts have not been signed by the previous CM.</p> <p>The Municipality has evergreen contracts that are automatically renewed without going back to the market.</p> <p>For the past 2 months the Municipality did comply with section 116 of the MFMA on</p>	<p>Political Interference in the appointment of service providers.</p> <p>Inadequate contract performance monitoring measures.</p>	<p>Instability in the leadership position which has delayed the appointments of key positions.</p> <p>Non-implementation of internal controls relating to contract management.</p>	<p>Establish an online document management system.</p> <p>Invite National Treasury and/or Provincial Treasury to conduct workshop on contract management.</p> <p>Review existing contracts against the organisational structure to determine duplication of services and the cost implication to the municipality for the duplications.</p> <p>Investigate the validity of unsigned contracts.</p> <p>Evergreen contracts to be investigated and reviewed for an open and transparent procurement</p>	

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>submission of monthly monitoring reports on contracts, however this process need to be reviewed.</p> <p>Performance of contractors or providers was monitored on a monthly basis.</p>			<p>process to be undertaken.</p> <p>Compliance with MFMA section 116 reporting.</p>	
System of Delegations	<p>The system of delegations is outdated and in certain areas not in line with local government recent legislative amendments.</p> <p>There are no updated delegation registers in place.</p> <p>There are no written and signed sub-delegations below the City Manager.</p> <p>The old system of delegations does not incorporate role clarification as required by law</p>	<p>Non-compliance with legislation specifically Municipal Systems Act that requires review of system of delegations after every local government election.</p> <p>Ineffective management processes as delegations are outdated.</p> <p>Employees not empowered to do their work resulting in inefficient administration and operations.</p>	<p>Weak internal controls and records management system.</p> <p>Lack of consequence management.</p>	<p>Review and approve delegation framework urgently and develop delegations' registers.</p> <p>Sub-delegate powers and functions to Heads of directorate.</p> <p>Sub-delegate further to maximise administrative and operational efficiencies.</p> <p>Incorporate role clarification in the system</p>	

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>and are centralised at the level of heads of departments.</p> <p>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.</p>	<p>No checks and balances on what the officials are doing on a daily basis.</p>		<p>of delegations as required by Systems Act.</p> <p>Review and approve delegations of powers and functions for implementation of supply chain management policy including the establishment of Bid committees.</p> <p>Conduct training on the system of delegations through CoGTA, National or Provincial Treasury.</p>	
By-laws and Enforcement	<p>Most by-laws are outdated and not recently reviewed.</p> <p>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.</p>	<p>Implementation of outdated By-laws that are not relevant to the current operating environment.</p> <p>By-laws not respected and enforced.</p>	<p>No strategic leadership and management to due to vacancies at senior management levels.</p> <p>Maladministration and mismanagement.</p>	<p>Conduct a review of by-laws and ensure implementation.</p> <p>Develop a Register that reflects all Bylaws applicable to MMM.</p>	<p>Engagement with officials</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	The Municipality does not have an effective reporting structure on revenue generated from enforcement of by-laws in place.	Outdated by-laws and no by-law drafter appointed. Loss of potential revenue from ineffective enforcement of by-laws.		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.	Disregard of SCM processes. No declaration of pecuniary interest by members. Late payments of creditors, resulting in Interests and Penalties and delays in service delivery.	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.	AGSA Management Report Annual Financial Statements Engagement with officials 2021/22 Annual Report

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>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.</p> <p>The CM is not submitting UIF&W expenditure reports quarterly to the Mayor and annually to the Council for oversight as required by Regulations.</p>			<p>A reduction plan should be developed and implemented with clear timeframes.</p> <p>Conduct investigations into all reported allegations of financial misconduct against the officials.</p> <p>Implement Consequence Management for historical Fruitless & Wasteful expenditure and take steps to recover or rectify such expenditure and to prevent recurrence as prescribed by section 32 of the MFMA.</p> <p>Reporting on the UIF&W should be included in the Municipality's calendar</p>	

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
				for monitoring and implementation.	
Political Interference	<p>Politicians interfere in the administration and specifically in staff appointments and procurement.</p> <p>There are tensions between Council and senior Management and mutual mistrust exist, whether permanent, acting or deployed officials.</p>	<p>Maladministration in the municipality.</p> <p>Political interference in the Municipal administration, staff appointments and procurement processes.</p>	Lack of ethical leadership and political interference.	<p>Through National Treasury, institute a forensic investigation on all fraud and corruption allegations in all relevant departments.</p> <p>It is proposed that the period for investigation be for the three years ending June 2023 and any matter that comes to the attention of the investigators which dates outside of the period as proposed.</p> <p>Institute criminal charges against Councillors that interfere in the</p>	<p>Engagements with officials.</p> <p>Engagements with LLF.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
				<p>administration of the Municipality.</p> <p>Enforcement of the Code of Conduct for councillors.</p> <p>These should also be escalated to the National and Provincial and respective State Institutions.</p>	
Service Delivery	Protests over water and sewerage and poor service delivery happen 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.	Maladministration Political and administrative instability.	The newly elected leadership has led to stability and should continue to prioritise service delivery.	Engagement with officials
Litigation and Legal Landscape	The legal department is not functioning optimally. The legal department is not consulted on contract	High number of litigations from service providers due to the non-payment of service providers.	Poor contract management Political instability and politicised administration.	Legal to be involved timeously in contracting (procurement).	Engagement with officials Audited 2021/22 AFS

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>management, expenditure and implementation of by-laws.</p> <p>Contingent liabilities as at 30 June 2022 were R 83.9 million.</p> <p>Legal fees budgeted for 2021/22 were R 26.7 million with actual legal fees incurred at R 52.7 million.</p> <p>The Municipality has an updated litigation register but the tracking of court matters is not efficient.</p> <p>The Municipality has legal support protocols in the form of standard operating procedures, but no adequate capacity to provide adequate legal support.</p> <p>The Municipality has a legitimate appointed panel of attorneys procured through an</p>	<p>Inadequate litigation management</p> <p>Inadequate Legal services capacity.</p> <p>Inadequate budgeting for legal costs.</p>		<p>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.</p> <p>Certain legal matters should be escalated to National Institutions (Hawks) for assistance.</p> <p>Review legal Services organisational structure to ensure appropriate provision of posts for effective legal support.</p> <p>Budget for litigation/legal costs should be reviewed in line with municipality's operational needs.</p> <p>Terms of reference for the new term of panel of</p>	<p>AGSA Management report</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	open tender process which ends in March 2024. The panel has taken the Municipality to court due to non-payment.			attorneys should be developed for urgent advertising for procurement.	
ICT Strategy and Governance	<p>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.</p> <p>There is no ICT strategy or centralisation and oversight of ICT.</p> <p>No approved ICT policies.</p> <p>No key systems in place such as document management system, contract management system and time and</p>	<p>No ICT leadership</p> <p>Poor archiving and storage of supporting documents and an inadequate records management system.</p>	<p>Political instability</p> <p>Internal Control Deficiencies.</p>	<p>Centralise ICT function with a defined strategy and mandate to support the Municipality's requirements and strategic imperatives.</p> <p>Develop and implement a clearly defined and resourced ICT Plan.</p> <p>Review all software licenses and terminate those not being utilized to save costs.</p>	<p>Annual Report 2021/22</p> <p>Audited AFS 2021/22</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>attendance, and resolutions management system.</p> <p>No list of licences and software currently in place.</p> <p>The Municipality is 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.</p> <p>The internal audit department does not have the resources and skills to carry out ICT audits.</p>				
<p>Immovable Property Management</p>	<p>The Municipality has an approved land alienation policy.</p> <p>Most lease agreements are not updated as most leases are</p>	<p>Inadequate lease management.</p>		<p>Review outdated leases for renewal.</p> <p>The municipality to make Strategic land parcels available to the private sector.</p>	<p>Engagement with officials</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>now on a month-to-month basis.</p> <p>The Municipality collects market related rentals from Council leased property based on private property valuations.</p>			<p>A process of reconciliation between council resolutions on land alienation and the deeds office records to be conducted.</p>	
Audit Action Plan	<p>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.</p> <p>The Post Audit Action Plan for the previous AG outcomes has not been tabled before Council for approval. The Action plan</p>	<p>Lack of an approved Post Audit Action Plan.</p> <p>Ineffective implementation and monitoring of PAAP.</p> <p>Unresolved audit findings in the previous years, keep accumulating, resulting in repeat findings by AGSA.</p>	<p>Political and administrative instability.</p>	<p>Management should develop and implement the post audit action plan timeously and report on progress in the Audit Steering Committee meetings.</p> <p>Internal audit should assist in the implementation and monitoring of the PAAP.</p> <p>Management should urgently table the Audit Action Plan to Council</p>	

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>was discussed at the Mayoral Committee and EMT.</p> <p>No quarterly reporting of PAAP to Council.</p>			<p>and provide quarterly reports to Mayoral Committee and Council.</p> <p>PAAP implementation should be included in the Performance Agreements for Senior Manager to ensure consequence management for non-performance against the identified audit findings.</p>	
Risk Management	<p>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.</p>	<p>A decision was taken to start with ICT BCP instead of the broad BCP.</p>	<p>Lack of capacity</p> <p>Poor planning</p>	<p>The Municipality need to prioritise the development of the enterprise wide BCP that will include the ICT BCP.</p> <p>Management should submit quarterly reports on the implementation of mitigating measures against identified risks to</p>	<p>Engagement with officials</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
				<p>risk management committee. Mayoral Committee and Council.</p> <p>Internal Audit to assist in monitoring risk mitigation measures in the Municipality.</p>	
Internal Audit	<p>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 ended on 31 May 2023 and Council is in the process of finalising the appointment of the new members.</p>	<p>The Municipality's 2022/23 Internal Audit Plan was approved by the Audit Committee.</p> <p>Internal Audit submits 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.</p>	<p>Lack of management</p> <p>Inadequate monitoring systems and processes</p>	<p>Internal Audit should provide support and monitor the implementation of Audit Committee recommendations by management.</p> <p>The process of appointing the new Audit Committee should be fast-tracked.</p>	<p>Engagement with officials</p>

4.3 INSTITUTIONAL, ORGANISATIONAL AND HUMAN RESOURCES

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 identifies 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. To this end, there are key areas where further intervention is required.

Leadership and Management

The Municipal Structures Act (117 of 1998) and the Municipal Systems Act (32 of 2000) clearly stipulate the internal functioning of internal Municipal structures. These include both the political and administrative structures. Mangaung has been marred with instability in both the administrative and political spheres. Notably, the Section 56 positions have been vacant and there are acting or deployed incumbents in these critical positions. The lack of filling of key senior management positions is affecting the organisation's stability and acting incumbents do not have the necessary authority to make critical and bold decisions including the implementation of the activities as envisaged in the FRP, as was evident from the previous FRP's.

The non-filling of key managerial positions could be the root cause of the AG's finding which is as follows: "I was unable to obtain sufficient appropriate audit evidence for expenditure relating to overtime, shift and standby allowances included in employee-related costs, as inadequate processes were in place to ensure that a need was established for overtime to be worked or that overtime was actually worked by the Municipal officials. I was unable to confirm overtime, shift and standby allowances by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to overtime, shift and standby allowances, stated at R182 066 600 in note 43 to the financial statements". The appointment of effective personnel at management level, coupled with the requisite skills set and the enforcement of policies and procedures with consequence management creates the basis for a stable work environment and contributes to the effective management and control of overtime and employee related

costs. These costs, if not effectively managed, can easily contribute to the demise of the financial sustainability of a Municipality.

Operating Model and Organisational Structure

The organogram was adopted in 2016 and it seems to be the guiding document in the organisation. The 2022 status quo indicated that the process of review of the organisational structure has commenced, and per our consultation process with MMM during February 2023 this review has not been finalised. Notwithstanding the finalisation of the review of the organisational structure and without conducting a functional efficacy process (organisational review) in line with emerging priorities, the existing organogram seems to be in line with most organisational structures in most Municipalities. The 2022 status quo review identified the absence of the organisation’s operating model, as defined by the Municipal Staff Regulations.

Filling of Critical Posts

Linked to the organisational structure is an examination of the organisation’s vacancy rate. The below tables are abstracts from the Annual Report 2021/22 and stipulated MMM’s employment and vacant positions for key positions as follows:

Designation	Total No Approved Posts	No. Vacancies
Municipal Manager	1	1
CFO	1	1
Other S57 Managers (excluding Finance Posts)	9	8
Other S57 Managers (Finance posts)	0	0
Traffic officers	198	56
Fire fighters	169	69
Senior management: Levels 002-003 (excluding Finance Posts)	243	120
Senior management: Levels 002-003 (Finance posts)	32	18

Designation	Total No Approved Posts	No. Vacancies
Highly skilled supervision: levels 004-006 (excluding Finance posts)	895	434
Highly skilled supervision: levels 004-006 (Finance posts)	83	44
Totals	1 631	751

Table 2 - Vacancies

The table below sets out the current number of staff employed per department versus the total number of vacancies per department which shows an unacceptable vacancy rate of 50.58%.

Departments	Year 2021/22	
	Employees	Vacancies
	No.	No.
Corporate Services	381	276
Economic and Rural Development	22	42
Engineering Services	739	1224
Finance	248	233
Human Settlements and Housing	113	150
Office of the City Manager	355	102
Planning	84	176
Social Services	466	561
Strategic Programmes and Service Delivery Monitoring	62	78
Waste and Fleet Management	591	491

Departments	Year 2021/22	
	Employees	Vacancies
	No.	No.
Municipal Police Services	277	1 388
Totals	3 338	4 721

Table 3 – Current Employees and Vacancies per Department

Further, analysis of the filling of key positions is paramount to effective service delivery and the Metro’s capacity and capability to fulfil its key functions.

Employee Costs

The municipality has high employee costs due to bloated salaries, overspending on overtime costs and acting allowances resulting in an unfavorable variance of R105,8 million (5%) on the year-to-date adjusted budget. The overspending on overtime to date is R96,6 million (Budget R90.7 million vs Actual R187.3) which has resulted in unauthorised expenditure in most of the votes.

Performance Management

The 2022 AG’s report indicates that “The performance management system and related controls were inadequate due to the significant internal control deficiencies identified resulting in usefulness and reliability findings on indicators and targets, as required by Municipal planning and performance management regulation 7(1)”.

Further, the 2022 status quo report indicates the following: “There is a performance management system (PMS) in place although it is at senior management level. No cascading of PMS to lower levels as yet”. The PMS has not been cascaded to all lower levels. There are inadequate systems and processes in place to monitor and measure organisational performance leading to lack of usefulness and reliability of the performance information.

HR Key Policies

A whole suite of organisational policies exists and as per the 2022 status quo report but were not updated. Whilst a suite of policies does exist, they are not periodically reviewed and updated to ensure alignment with legislation, other relevant prescripts and/or changes in the Municipal context. The lack of updating of human resources policies also leads to labour instability and

the Municipality needs to address this to ensure good governance and a healthy labour relations climate.

Training and Development

The human resources development (HRD) strategy is in place albeit outdated.

Further, a training and development report and/or a skills development report will help assess how many employees comply with the Municipal Regulations on Minimum Competency Levels for Municipal officials as well as the relevant sections of the MFMA.

Per the consultation in February 2023 with the Municipality, it was noted that a skills audit and institutional assessment was not recently conducted. Such a report will assist to determine the skills the Municipalities have and the identified gaps as a mechanism to evaluate whether expenditure in training and development is commensurate with the organisational needs for the implementation of the IDP's strategic objectives.

Staff Discipline and Disciplinary Board

In terms of the Municipal Regulations for Financial Misconduct and Offences, the Disciplinary Board must conduct an independent preliminary or full investigation relating to allegations of financial misconduct and offences. The functionality of this board is crucial in ensuring that the Municipality can receive reports of allegations of financial misconduct and offences in terms of section 171 and 173 of the MFMA, investigate and ensure consequence management where there has been transgression against legislation. In addition, it will also ensure that disciplinary processes are instigated, and cases finalised within the required timeframes against all possible transgressors.

The disciplinary board's existence, its functionality and associated reports could not be established. Per the consultation process, it was established that no register exists of staff under suspension, under disciplinary action nor under legal prosecution. This links to the culture of non-performance and zero accountability or consequence management.

As a consequence of this, a consolidated list of staff investigated or disciplined is not available. If a disciplinary board existed and performed its functions properly, it would help in preventing and deterring future misconduct.

A report on the number of completed and finalised disciplinary cases and grievances is often an indicator of a sound labour relations environment and can also be a measure for staff morale

and organisational culture. The absence of such a report hinders such an analysis and it needs to be provided to complete the findings on the 2023 state of the organisation.

Per the consultation with the Municipality, it was established that there is no register of staff under suspension, on disciplinary action nor involved with legal processes.

The table below reflects on matters that have been noted under Institutional Capacity and provides an analysis of the problems and possible solutions:

Focus Area	Brief Diagnostic Analysis	Key Issues	Root Causes	Proposed Strategy to Resolve	Source of Information
Leadership and Management	There is instability at MMM as the City Manager and Section 56 positions 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.	Political instability.	Achieve stability at a political and administrative level. This includes the filling of the City Manager and the Section 56 appointments positions.	2021/22 Annual Report 2021/22 Audit Report Engagement with officials
Operating Model	The municipality does not have an Operating Model as defined by the Municipal Staff Regulations.	Operating model not fit for purpose.	Poor planning. Lack of requisite skills.	MMM should engage in the process of defining its operating model. Conduct cost benefit analysis of use of contracted services vs internal resourcing.	Engagements with officials
Organisational Structure	MMM does not have a well-defined and approved organisational structure to support the functioning of the Municipality.	Outdated organisational structure. Inefficient placement of staff during integration process.		The review of the structure should be completed for lower (micro) levels. The adoption and periodic review the organisational structure in line with the Municipality's IDP strategic objectives,	Organogram Engagements with officials

Focus Area	Brief Diagnostic Analysis	Key Issues	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>The process for the review of the organisational structure has been completed at the macro level but not at the other levels.</p> <p>Inadequate integration of erstwhile municipalities into the MMM.</p> <p>The municipality is still using an outdated Job Evaluation system</p>	Outdated Job Evaluation System		<p>the Municipal Regulations on Staff Establishment and Section 12 notice.</p> <p>Placement policy should be developed for approval for the process to place employees appropriately to be undertaken for full utilization.</p> <p>Move to the TASK Job Evaluation System.</p>	
Employee Costs	Escalating employee costs due to unmanaged overtime and bloated salaries and acting allowances. The overspending on overtime costs and acting allowances resulted in an unfavorable variance of R105.8 million (5%) on the	<p>High employee costs.</p> <p>Remuneration not in line with Municipal Staff Regulations salary dispensation.</p>	<p>Maladministration.</p> <p>Inadequate planning and monitoring of overtime.</p>	<p>Develop a remuneration strategy based on affordability and LLF agreement.</p> <p>Conduct Job evaluation process.</p> <p>Conduct staff verification regularly and implement the recommendations of the staff verification report.</p>	<p>Section 71 report</p> <p>2021/22 Audit Report</p>

Focus Area	Brief Diagnostic Analysis	Key Issues	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>year-to-date adjusted budget. The overspending on overtime to date is R96,6 million (Budget R90,7 million vs actual R187,3) which resulted in unauthorised expenditure in most of the votes.</p> <p>Staff verification has not been conducted against the organisational structure</p>				
Performance Management	<p>Non-adherence to performance management.</p> <p>Performance agreements are not in place.</p> <p>There are no job descriptions to clarify roles and responsibilities.</p>	<p>Inefficient performance management.</p> <p>Lack of consequence management.</p> <p>Duplication of roles and responsibilities.</p> <p>Inadequate systems and processes in place to monitor and measure</p>	<p>Lack of Employee Engagement.</p> <p>Low Employee Self-Esteem.</p> <p>Lack of skilled of capacity and lack of consequence management.</p>	<p>Review of roles and responsibilities against approved organogram.</p> <p>Adoption, implementation and oversight of a delegation system including adherence to such.</p> <p>Implementation of performance management agreements.</p> <p>Conduct skills audit and define job descriptions.</p>	<p>2021/22 Annual Report</p> <p>2021/22 Audit Report</p> <p>Engagement with officials</p>

Focus Area	Brief Diagnostic Analysis	Key Issues	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>No consequence management can be implemented.</p> <p>Reported performance information is not reliable.</p>	<p>organisational performance leading to lack of usefulness and reliability of the performance information.</p>	<p>Lack of proper planning and management.</p>	<p>Develop systems and processes to manage performance information.</p>	
<p>Filling of Critical Positions</p>	<p>Delay in the filling of critical vacant posts with people that have the appropriate experience, skills and qualifications.</p> <p>There is a high vacancy rate of 50.58% in relation to all approved positions on the Staff Establishment.</p>	<p>High vacancy rate in critical and leadership positions.</p>	<p>Poor service delivery as the Municipality is not operating efficiently.</p>	<p>Organisational restructuring by assessing the critical posts required to operate efficiently and effectively and staff excess to requirements of the Municipality.</p> <p>Improve its human resource strategy that guides recruitment, placement of staff, retention of staff, performance management and disciplinary processes.</p> <p>The filling of critical positions and the training and development of all functionaries on their role, especially vacancies directly influencing service delivery.</p>	<p>2021/22 Annual Report</p> <p>2021/22 Audit Report</p> <p>Engagement with officials</p>

Focus Area	Brief Diagnostic Analysis	Key Issues	Root Causes	Proposed Strategy to Resolve	Source of Information
				It is advisable that National Treasury/ CoGTA intervene in this process.	
Management of Overtime	The overtime incurred for the 2021/22 FY is R209 510 763 (2021: R210 741 439; 2020:194 443 080) which is excessive.	High levels of overtime.	Critical Vacant positions. General understaffing. Poor management of overtime claims resulting in high employee costs which results in a culture of poor work ethics and poor management practices.	Regular review and enforcement overtime policy in line with the Basic Conditions of Employment Act including adequate supervision. HR to conduct continuous monitoring of the implementation of the Overtime Policy by departments. Perform an audit of the overtime for each department. Review the system description relating to overtime and identify control issues.	2021/22 Audit Report mSCOA data strings
Key HR Policies and Procedures	Policies are outdated and were last reviewed during 2017. Lack of clarity on who is responsible for drafting and reviewing policies.	Poor policy management and implementation.	Non-Compliance with laws and regulations. Poor controls in place to manage overtime.	The adoption and periodic review of applicable policies Implementation of policies and legislation.	2021/22 Annual Report Engagement with officials

Focus Area	Brief Diagnostic Analysis	Key Issues	Root Causes	Proposed Strategy to Resolve	Source of Information
	Lack of implementation and monitoring of policies.		No consequence management on breach of policy.	Municipality to enforce the regulation on political affiliation disclosures by staff members	
Training and Development	The Human Resource Development (HRD) Strategy is outdated. No skills audit has been conducted recently.	Lack of review of HRD Strategy. No assessment of skills levels in the municipality.	Lack of poor planning. Lack of leadership to drive the process.	Review the HRD strategy for approval. Conduct a Skills audit to assist with the placement process.	2021/22 Annual Report
Change Management	There is an urgent need for leadership alignment of council and management in ensuring that everyone rallies behind turning around the finances of the municipality by reducing expenditure, adhering to legislation and commitment to change.	The morale of the officials is generally low amongst the staff in the municipality. No change management plan or strategy exist in the Municipality.	Decline in Productivity and efficiency.	Sensitize employees and organised labour about the current financial state and the introduction of the FRP. Conduct employee satisfaction survey. Develop and implement a change management strategy.	Engagement with officials

The areas identified above will then be used as a basis for determining the status quo with regard to institution and governance at MMM. 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.

4.4 FINANCIAL MANAGEMENT

MMM is facing huge financial distress and cash flow issues, unfunded budgets and overall poor financial management. Their 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	Source of Information
Funded Budget and Budget Spending Limits	<p>MMM budgeted surpluses as follows:</p> <p>2020/21: R 1,035 billion</p> <p>2021/22: R 622,7 million</p> <p>Audited financial results:</p> <p>2020/21: R 20.2 million deficit</p> <p>2021/22: R 827.7 million deficit</p> <p>This indicate that the historical budgets were not funded.</p> <p>Low collection rates not adequately considered in the budgeting processes.</p>	<p>Insufficient provision for non-cash items (depreciation and debtor impairment provision).</p> <p>Unrealistic budgeting.</p> <p>Credibility of Municipality and sustainability risks, including service delivery.</p> <p>The 2023/24 MTREF has been assessed and adopted as funded by MMM' Council.</p> <p>This is however based on unrealistic assumptions, collection</p>	<p>Realistic collection rates not adequately considered in revenue projections and provision for impairment of debtors in budgeting processes.</p> <p>Poor revenue management with inability to collect revenue.</p> <p>Poor budgeting techniques.</p>	<p>Compile realistic cash backed budgets going forward.</p> <p>Provide realistic allocations for the provision for debt impairment.</p> <p>Ensure cost reflective tariffs and scrutinise expenditure for unnecessary expenditure.</p> <p>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</p>	<p>2022/23 MTREF budget.</p> <p>Annual report.</p> <p>2019/20, 2020/21 and 2021/22 Audited AFS.</p> <p>Workstream meetings.</p> <p>NT Budget Funding Tool.</p> <p>2023/24 MTREF Budget.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
		rates and inadequate provisions for outstanding creditors.		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.	Inability to collect outstanding debt. Consumer meters not read on monthly basis but billed on estimates. High vacancy rate in critical positions. Inability to perform a debt collection drive as MMM can't utilise power-cuts for collection of other outstanding service charges owned by consumers.	Incorrect billing. Loss of revenue. SLA with Centlec not finalised.	Prioritise the finalisation of the SLA with Centlec. MMM and Centlec need to combine all Municipal services on one invoice. 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	Workstream meetings. Section 71 Ratio's. Annual Report.

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
		Centlec and MMM are billing consumers separately for electricity and other services.		<p>and validation of customer information (contact details and tariff information) and continuous and regular updating of information.</p> <p>Conducting quarterly VR reconciliation with the billing system.</p> <p>Filling of critical vacant positions.</p> <p>Revenue enhancement initiatives need to be implemented and billing and collection and credit control processes need to be set and complied with.</p>	
Revenue Management: Infrastructure and Service Delivery	<p>Inability to repair and replace meters by Technical Department.</p> <p>Illegal connections in water and electricity.</p>	<p>Loss of revenue.</p> <p>Inconsistent, interrupted, and low quality of supply of water and electricity services.</p>	<p>Un-metered water and electricity consumption.</p> <p>Aged and inefficient infrastructure.</p>	<p>Ensure all properties are metered.</p> <p>Engage community Liaison Officers and local</p>	<p>Workstream Meetings.</p> <p>2021/22 Audited AFS.</p> <p>Annual Report.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>High technical and non-technical distribution losses due to old infrastructure and illegal connections.</p> <p>Electricity distribution losses:</p> <p>2021/22: 10.96% (R 242 mil)</p> <p>2020/21: 10.05% (R 183 mil)</p> <p>Water distribution losses:</p> <p>2021/22: 45% (R 407 mil)</p> <p>2020/21: 45% (R 337 mil)</p>	Incomplete/inaccurate meter readings.	<p>Lack of control and enforcement of by-laws over illegal connections.</p> <p>Lack of plan to monitor and repair old infrastructure.</p> <p>Non-payment of contractors resulting in incomplete meter readings.</p>	<p>councillors to engage the “no go areas”.</p> <p>Metering (verification, auditing, and consistent reading of meters).</p> <p>Identification and valuing of municipal properties for leasing purposes.</p> <p>Prioritise curbing of water and electricity distribution losses.</p>	
Revenue Raising Measures	MMM is not optimising alternative revenue raising measures.	Billboards, advertising and rental of facilities and equipment are not adequately utilised and rented out.	Vacant positions and lack of skilled staff.	Conduct an audit on all Municipal owned billboards and facilities that can generate revenue.	Workstream meetings.

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
				<p>Ensure billboards in use are billed and collected.</p> <p>Utilise facilities that can be rented out.</p>	
Debtors Management	<p>Inefficient and ineffective internal controls.</p> <p>Disruptions on implementation of credit control.</p> <p>Reconciliations not performed monthly.</p> <p>Category of Debtors'</p> <p>Residential and Sundry R 4,444,074,799 (66%)</p> <p>Business / Commercial R 901,624,988 (14%)</p> <p>National and Provincial Government</p>	<p>Low collection rate results in cash flow challenges for the Municipality.</p> <p>Growing debtors' book and a culture of non-payment by consumers.</p> <p>Political interference in payments of outstanding debt from top 10 most owing debtors.</p>	<p>Credit control not being fully implemented.,</p> <p>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.</p> <p>Political interference.</p> <p>No appointment of a independent debt collection company.</p>	<p>Making the payment for services easier for the clients e.g. satellite offices in outlying areas, community halls, etc.</p> <p>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.</p> <p>Hand over the debtor's book to debt collectors using a performance-based agreement that is traceable and measurable.</p>	<p>Section 71 Ratio's.</p> <p>2021/22 Audited AFS.</p> <p>Workstream sessions.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	R 1,344,641,726 (20%)			<p>Contact government departments that owe the municipality and establish the payment terms. If that fails seek Provincial Treasury intervention and/or cut off services.</p> <p>Stratify debtors into different buckets based on the expected recoverability.</p> <p>Development of key customer engagements (quarterly) and relationship building.</p> <p>Implement and update standard operating procedures for debtors' management and training of internal staff.</p>	

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
Cost-reflective Tariffs	<p>Tariffs are not cost reflective.</p> <p>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.</p> <p>The cost of sales of water exceeds the selling price, which is a direct result in losses.</p>	<p>Water is provided at a loss.</p> <p>Lack of profitability analysis for each revenue stream.</p>	<p>Historical and forecast tariffs are not cost reflective.</p> <p>Setting tariffs that do not at least consider break-even point for the provision of electricity. This is contrary to existing legislation.</p>	<p>Perform a cost reflective tariff calculation and introduce cost reflective tariffs considering affordability of consumers (using NT Tariff Model).</p> <p>Perform cost-volume profit analysis before setting the base tariff for electricity and water.</p> <p>Forecast tariffs that align with the rate of growth of tariffs forecasted by ESKOM and Bloem Water.</p>	<p>Mid Term Budget and Performance Assessment Report 2022/23.</p> <p>Sections 71 Ratios.</p> <p>2021/22 Audited AFS.</p>
Indigent Management	<p>Outdated Indigent register.</p> <p>Consumers who apply for the indigent household support subsidy from the Municipality are not</p>	<p>Revenue Loss.</p> <p>Indigent Register not credible.</p> <p>Lack of Indigent Household Management.</p>	<p>Subsidy on basic services not allocated to the indigent households.</p> <p>Revenue billing and collection targets will not be reached as customers may inappropriately</p>	<p>Implement the approved Indigent Household Policy and by-laws.</p> <p>The process should be ongoing to ensure the indigent register is always up to date.</p>	<p>Workstream meetings.</p> <p>Indigent register.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>verified and/or vetted prior to approval.</p> <p>The effect of the above is that the indigent household subsidy may be granted to non-qualifying households.</p>	Lack of a verifying or vetting system.	<p>receive free basic services.</p> <p>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.</p>	<p>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.</p> <p>A cost benefit analysis should be carried out for the lease vs buy decision in relation to the verification system.</p>	
Cost Containment	<p>Cost containment policy not implemented.</p> <p>Cost containment targets not included in performance contracts.</p> <p>Excessive overtime</p>	<p>MMM is operating without an implemented cost containment policy.</p> <p>MMM is operating without a implemented</p>	<p>Lack of accountability.</p> <p>Lack of internal controls.</p>	<p>Revise the Cost containment Policy in line with NT Municipal Cost Containment Regulations (2019).</p>	<p>Policy register.</p> <p>Audit report.</p> <p>Workstream meetings.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	due to non-filling of critical vacancies.	cash flow management committee. Non filling of critical vacant positions.		Implement the approved Cost Containment Policy. Include cost containment targets in performance contracts. Monitor overtime in line with the approved and adopted policy.	
Cashflow Management	Poor Cashflow. The cash/ cost coverage is substantially below the norm of 1 – 3 months: 2019/20: (0.02) 2020/21: 0.36 2021/22: 0.31	The poor debtors' collection rate which is the reason for the poor payment rate of MMM creditors. Cash flow management committee not established.	Excessive expenditure with no system of control. Tariffs are not cost reflective.	Establish a cashflow committee. Revenue enhancement strategies must be prioritised. Establish a system of expenditure control where no expenditure/ order is authorised unless it is provided for in the cash backed budget.	2021/22 Audited AFS. Section 71 Ratio's. Workstream meetings.

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
Creditor Management	<p>A review of the amounts owed by the Municipality reflected the following:</p> <p>Creditors as at 30 June 2022 is R 2,4 billion.</p> <p>Creditors have increased by R 216.3 million year on year, between June 2021 and June 2022.</p> <p>29% of the amounts owed by MMM relates to bulk water purchases with Bloem Water.</p>	<p>Not performing creditors reconciliations.</p> <p>The entity defaulted on the payment of suppliers within 30 days. The average term of payment of trade creditors during 2021/22 were 115 days, (2021: 131 days).</p>	<p>Poor debtors collection rate resulting in cash flow contains.</p> <p>No data cleansing implemented for creditor information.</p> <p>SLA with Bloem Water not finalised.</p>	<p>Pay new creditors within 30 days and design a tool for monitoring of the payment and obtain CFO and CM sign off of the tool.</p> <p>Renegotiating parts of amounts owed such as penalties relating to Bloem Water.</p> <p>Creditor reconciliations should be performed weekly and reconciling item resolved promptly.</p> <p>Review the SLA with Bloem Water and re-negotiate the bulk supply tariffs.</p>	<p>Meeting with Bloem Water.</p> <p>2021/22 Audited AFS.</p> <p>Workstream meetings.</p>
Debt Restructuring	<p>MMM has loans with DBSA, Standard Bank and Absa Bank valued at 30 June 2022 at R668</p>	<p>These loans are often serviced late due to cash flow constraints. The loans in default as at 30 June 2022 totalled</p>	<p>Cash flow constraints.</p> <p>Lack of additional income streams that are</p>	<p>Review the loans for a possibility to restructure and re-negotiate payment terms.</p>	<p>2021/22 Audited AFS.</p> <p>Creditors meeting.</p> <p>Workstream meetings.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	million (2020/21 R 776 million).	R382.1 million (2020/21 R 441.5 million), which is 57% of the outstanding balance. This is a further indication of the cash flow problems being experienced by MMM. Unfavourable interest rates.	cash based to improve cash flow.	Curtail unnecessary expenditure by putting controls in place. Make arrangements with loan creditors to repay current and outstanding amounts. Comply with the repayment arrangements by compiling a cash backed budget.	
Budget Related Policies	Budget related policies not updated and not in place.	The municipality has no updated budget related policies.	Generic policies not relevant to Mangaung are being used for compliance purposes. Lack of oversight from the accounting officer and those charged with Governance.	Develop and implement all budget related policies.	Workstream meetings.

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
Conditional Grants	As at 30 June 2022 MMM had cash and cash equivalents of R 741 million with unspent conditional grants of R 571 million.	Unspent conditional grants are not ring-fenced fully cash backed.	MMM is utilising capital grants on operating expenditure.	Ensure unspent conditional grants are cash backed and are not being spent on operating expenditure.	2021/22 Audited AFS.
Supply Chain Management Compliance and Value for Money Procurement	<p>Non-compliance with SCM.</p> <p>Poor Conditional Grant Management.</p> <p>Unspent conditional grants as at 30 June 2022 totalled R571.0 million with insufficient cash on hand to cover this.</p> <p>UIF&W as at 30 June 2022:</p> <p>Unauthorised: R 5.6 billion;</p>	<p>Excessive UIF&W expenditure which clearly indicate the lack of consequence management and deficiencies in the SCM processes.</p> <p>Contractors on site were not monitored.</p> <p>Contracts entered into without due dates.</p> <p>None performance of demand management before tenders are advertised and contracts</p>	<p>Lack of understanding of SCM regulations.</p> <p>Lack of consequence management.</p> <p>Irregular contracts entered into and no contract management in place.</p> <p>Lack of adequate qualified staff to monitor contractors.</p> <p>None performance of demand management</p>	<p>Adhere to SCM Policy and Regulations.</p> <p>Consequence management policy to be implemented by HR.</p> <p>Training of staff regarding the SCM processes.</p> <p>Compilation of the contract register and contract management policies.</p> <p>Perform a demand management exercise before any contract is entered into.</p>	<p>2021/22 Audited AFS.</p> <p>2022/23 MTREF Budget.</p> <p>Workstream meetings.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	<p>Irregular: R 3.1 billion; and</p> <p>Fruitless and Wasteful: R 240 million.</p>	<p>entered into resulting in over-payment on contractors.</p>	<p>before contracts are entered into.</p>	<p>Implement contract monitoring controls and adhere to this on a monthly basis.</p> <p>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.</p> <p>The disciplinary board must become operational so that action can be taken against staff involved in criminal and legal non-compliant activities.</p>	

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
<p>Financial Control Environment</p>	<p>Preparation of Annual Financial Statements (AFS) not fully compliant resulting in a qualified audit opinion.</p> <p>Not paying creditors including bulk purchases within 30 days.</p> <p>Persistent AG findings not addressed and lack of accountability.</p> <p>Weak internal control on budget and expenditure management standard operating procedures.</p> <p>mSCOA strings are not fully implemented and compliant.</p>	<p>Poor control over the financial preparation and financial management processes.</p> <p>Incomplete and poor accounting data.</p> <p>Credibility of Municipality at risk.</p>	<p>Non-compliance with the MFMA, not paying creditors within 30 days.</p> <p>Pervasive issues disclaimed on by the AG limits the reliability of the information for decision making in a turnaround strategy.</p> <p>Lack of an AFS project plan in preparing the financials and all supporting information and schedules.</p>	<p>Update and implement SOPs, training of staff and support.</p> <p>System vendor to be engaged as regards financial system inaccuracies.</p> <p>Management of AFS plan should form part of staff's KPI's.</p> <p>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.</p> <p>Training of internal audit on the adequate review of AFS and the cash flow statement</p>	<p>Auditor General reports.</p> <p>Section 71 Ratio's.</p> <p>Workstream meetings.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
				<p>before submission to the AG.</p> <p>Make arrangements with creditors to repay current and outstanding amounts.</p> <p>Comply with the repayment arrangements by compiling a cash backed budget.</p>	
Municipal Entity: Centlec	<p>The relevant balances as at 30 June 2022 are:</p> <p>Cash on hand R509.3 million;</p> <p>Payables R890.8 million;</p> <p>Deficit 2021/22 R189,5 million;</p> <p>Deficit 2020/21 R13.7 million;</p> <p>Employee related costs R425.6 million;</p>	<p>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.</p> <p>SLA not signed.</p> <p>Non-payment of amounts owing to MMM.</p> <p>Inability to perform a debt collection drive as MMM</p>	<p>Poor management.</p> <p>SLA with MMM not yet finalised.</p> <p>MMM and Centlec bill consumers separately for electricity and other Municipal services.</p>	<p>Perform a section 78 study to see the possibility of incorporating Centlec into MMM.</p> <p>Prioritise the finalisation of the SLA with Centlec.</p> <p>MMM and Centlec need to combine all Municipal services on one invoice.</p> <p>As it currently stands, and before re-incorporating this service into the Municipality,</p>	<p>Workstream meetings.</p> <p>Centlec's 2021/22 audited AFS.</p> <p>Consolidated audited AFS.</p>

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
	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.	can't utilise power-cuts for collection of other outstanding service charges owned by consumers. Centlec and MMM are billing consumers separately for electricity and other services.		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. Growing liabilities. Lack of service delivery.	Mismanagement leading to be placed under administration.	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.	Audited 2021/22 AFS. Workstream meetings.

Focus Area	Brief Diagnostic Analysis	Key Issue	Root Causes	Proposed Strategy to Resolve	Source of Information
				Review operating and governance model/arrangements.	

The financial management status quo assessment was undertaken using the following main criteria:

- Funded Budget and Budget Spending Limits;
- Budget Related Policies;
- Revenue Management;
- Customer Care and Data Accuracy;
- Cost Reflective Tariffs;
- Indigent Management;
- Supply Chain Management, Compliance and Value for Money;
- Cost Containment and Cash Flow Management;
- Debt Restructuring; and
- Financial Control Environment.

Each criterion will be dealt with separately as stipulated below:

4.4.1 FUNDED BUDGET AND BUDGET SPENDING LIMITS

The main areas of concerns are:

Operating Budgets are not Credible and Cash Backed:

During the 2020/21 and 2021/22 financial years, MMM budgeted surpluses of R 1,035 billion (2020/21) and R 622,7 million (2021/22). The financial results for the two years reflected deficits of R 20,2 million (2020/21) and a deficit of R 872,7 million (2021/22) which clearly indicate that the budgets were not funded.

Poor budgeting techniques and insufficient provision for the impairment of bad debt are the main contributors. In 2021/22 in respect of impairment of bad debts R933.4 million was budgeted and R1.8 billion had to be provided for.

The recently approved and adopted 2023/24 MTREF budget for MMM was reviewed by National Treasury and confirmed to be funded. There are however concerns around the assumptions used which may not be achievable in light of the current challenges and recent developments at the Municipality. The specific shortcomings of the approved budget include the assumed collection rates applied for the MTREF period as well as the completeness of the historical

creditor balances that are due and payable by the Municipality. The table below indicates the severity of the situation as at the 2021/22 financial year end and as predicted for the 2022/23 financial year end.

Note that the current liabilities included in the calculation only trade and other payable from exchange transactions, VAT payable and unspent conditional grants. Based on these calculations, and assuming the current trajectory, post the benchmark exercise, the Municipality is unable to meet its obligations in the short term.

Description	2021/22 Actuals Audited (R)	2023 YTD M11 as per mSCOA data strings (Extrapolated) (R)
Cash on Hand	741,000,000	1,057,000,000
Commitments		
Trade and Other Payable Exchange Transactions:	2,391,868,669	2,582,764,053
Unspent Conditional Grants	571,039,043	725,325,529
VAT Payable	62,626,296	0
Current Cash Commitments	3,025,534,008	3,308,089,582
Cash Shortfall to meet Current Cash Commitments	(2,284,534,008)	(2,251,089,582)

Table 4 - Cash surplus/ (Shortfall)

Based on the above, it is recommended that the Municipality establish a cash management committee to assess the budget assumptions and completeness of creditors and put in place measures to address the long outstanding debtors and current creditors as part of a budget funding process.

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.

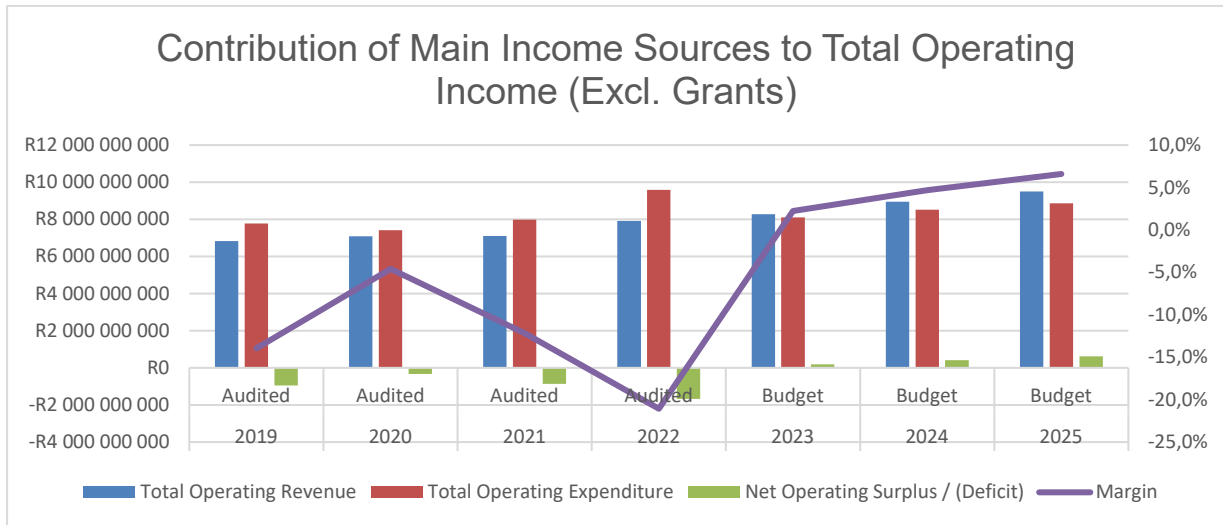


Table 5 - Income vs Expenditure

The proposed strategy going forward is to compile credible and cash backed expenditure and revenue budgets.

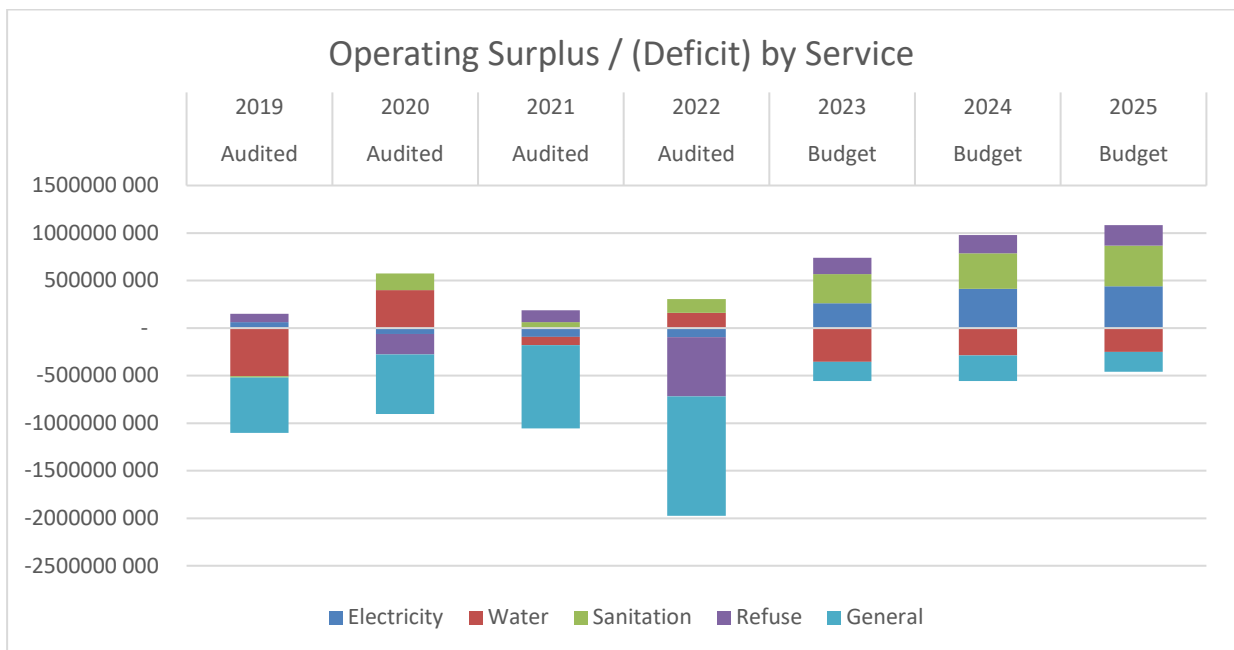


Table 6 - Analysis of Operating Surplus / (Deficit) by Service

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

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.

In addition, a line-item analysis of the expenditure budget should be undertaken and cost reflective tariffs should be set for the revenue budget.

Capital Budget not Adequate and Full Budget Not Spent:

The capital budgets for 2020/21 and 2021/22 were only 80.6% and 46.23% spent respectively. This is because of poor cash flow and planning, as well as issues resulting from their poor supply chain management processes. As at 30 June 2022 cash on hand was R728.3 million with liabilities for payables and unspent conditional grants of R2.6 billion.

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:

Total Capital Expenditure			
The table below shows the total capital expenditure of the municipality			
Description	2021 - Prior	↓ 2022 - Actual	2022 - Budget
Roads Infrastructure	140 100 506	224 781 905	216 344 630
Water Supply Infrastructure	122 169 320	153 936 230	306 642 234
Transport Assets	285 973 866	148 802 535	193 505 326
Sanitation Infrastructure	95 780 450	142 637 753	151 565 905
Electrical Infrastructure	107 984 345	100 102 186	163 769 900
Community Assets	57 949 372	42 256 025	100 236 306
Computer Equipment	3 314 927	20 731 533	10 406 724
Solid Waste Infrastructure	7 573 894	9 231 274	11 900 000
Intangible Assets	341 250	7 051 199	15 735 000
Machinery and Equipment	5 602 292	3 711 652	20 611 242
Furniture and Office Equipment	23 399	365 199	3 932 333
Other Assets	0	0	1 286 800

Table 7 - Capital Budget vs Actual Spent

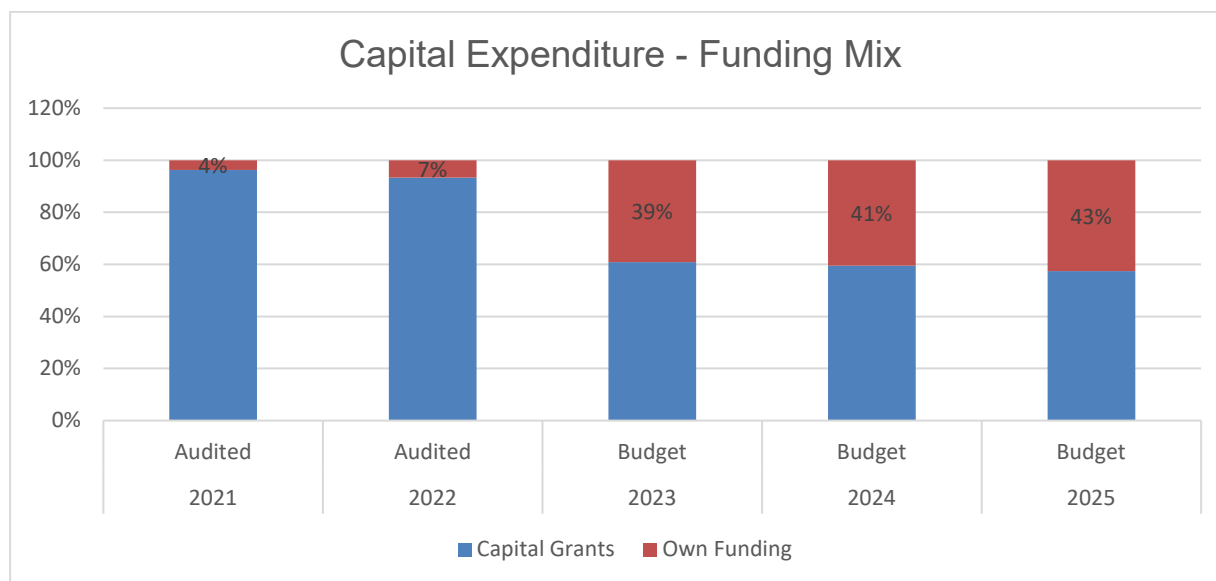


Table 8 -Capital Expenditure Funding Mix

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.

The proposed strategy is to compile credible and cash backed capital budgets 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. MMM also needs to plan on how new grant funding will be fully spent as part of their capital budget planning process, aligned to the IDP, else these funds are to be returned to National Treasury.

4.4.2 BUDGET RELATED POLICIES

The main area of concern is:

All budget policies were not supplied by MMM.

The only budget policies provided by MMM were:

- Tariff Policy for 2021/22;
- Indigent Policy for 2022/23; and
- Property Rates Policy for 2022/23 but only in draft form.

No other budget policies were provided. Even though budget policies are reviewed, it just for compliance issue and no full analysis are being done. Generic policies not relevant to Mangaung are being used for compliance purposes.

All Budget Policies need to be reviewed annually and aligned to the policies and priorities applicable and set by MMM.

The policies need to be reviewed, aligned and workshopped with Council and Management. Once adopted by Council the policies need to be implemented and strictly applied.

4.4.3 REVENUE MANAGEMENT

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:

Category of Debtors'	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 9 - 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%:

The ratios for the three financial years applying MFMA Circular No. 71: Financial Ratios and Norms are as follows:

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

Table 10 - Annual Collection Rate

The above indicates that 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 contributing the cash flow challenges being experienced by the Municipality. As such, the recommendation on revenue collection must be hard-hitting to stem the trend of non/poor collection of revenue, with an adequate safety net for the poor.

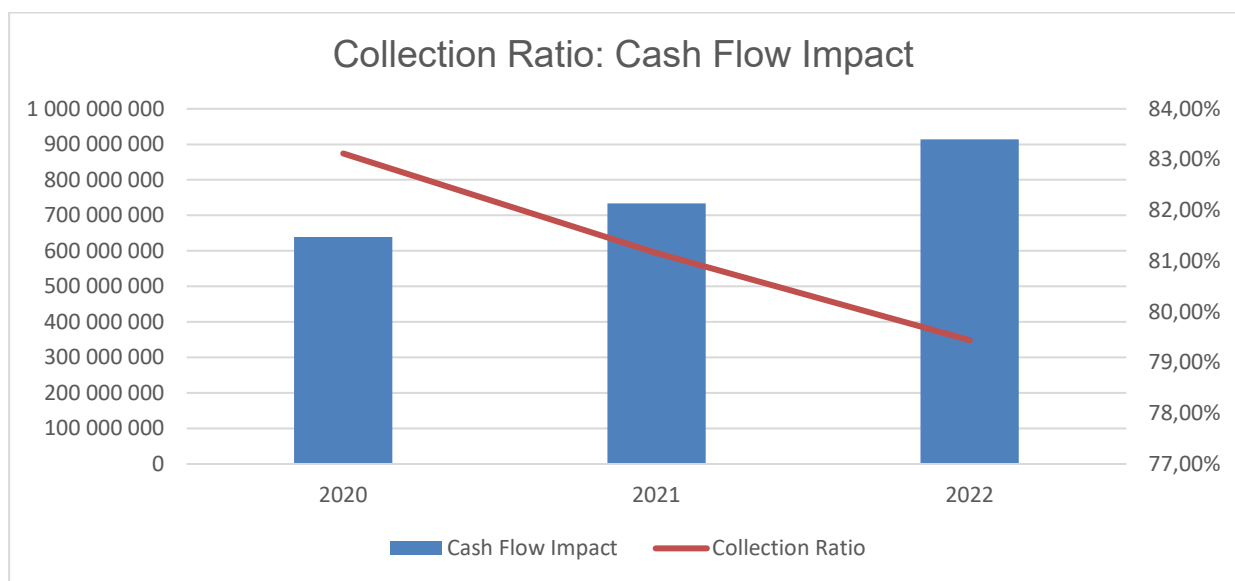


Table 11 - The Impact of the Low Collection Ratio on Cash Flow.

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. The trend of collections and the impact on cash flow is alarming.

Other factors contributing to this non-performance are:

- Critical vacant posts are not filled;
- Broken meters not being fixed;
- Billing is inaccurate and not timeously sent out; and
- The non-implementation of revenue enhancement measures.

The strategy going forward:

- Fill critical vacancies and ensure that the revenue value chain activities are streamlined;

- Revenue enhancement initiatives need to be implemented and billing and collection and credit control processes need to be set and complied with;
- 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; and
- Development of key customer engagements (quarterly) and relationship building.

4.4.4 CUSTOMER CARE AND DATA ACCURACY

This section ties in with 4.4.3 above.

The main areas of concern are:

Debtors' data not accurate:

There is no effective system of internal control for revenue resulting in payment rates being low. There are insufficient staff in the revenue collection section and the billing system does not have suitable checks and controls.

The strategies going forward are as follows:

- Fill key vacancies;
- Undertake a data cleansing exercise of all the billing data;
- Ensure tariffs are cost reflective;
- Ensure all properties are being charged the correct rates and are charged the correct tariffs; and
- Ensure that meters are installed and read for metered services.

Customer care is non – existent:

The customer care unit is dysfunctional. Critical vacancies in the Customer Care Unit are not being filled.

The strategy going forward:

- Fill critical vacancies and train staff in customer care techniques;
- Resuscitate the billing committee, town planning and key technical personnel to form part;
- Meter readers should capture changes on the properties to update the user profile;

- Commission the CRM module; and
- Use debt collectors when appointed to update the data for the customers.

4.4.5 COST REFLECTIVE TARIFFS

The main area of concern is:

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.

As part of the budgeting processes going forward cost of supply surveys and detailed tariff calculations need to be carried out to ensure cost reflective tariffs are set in terms of the different services tariff policies. In the case of the water service discussions should be held with Bloem Water as regards their bulk tariffs.

Load shedding impact:

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

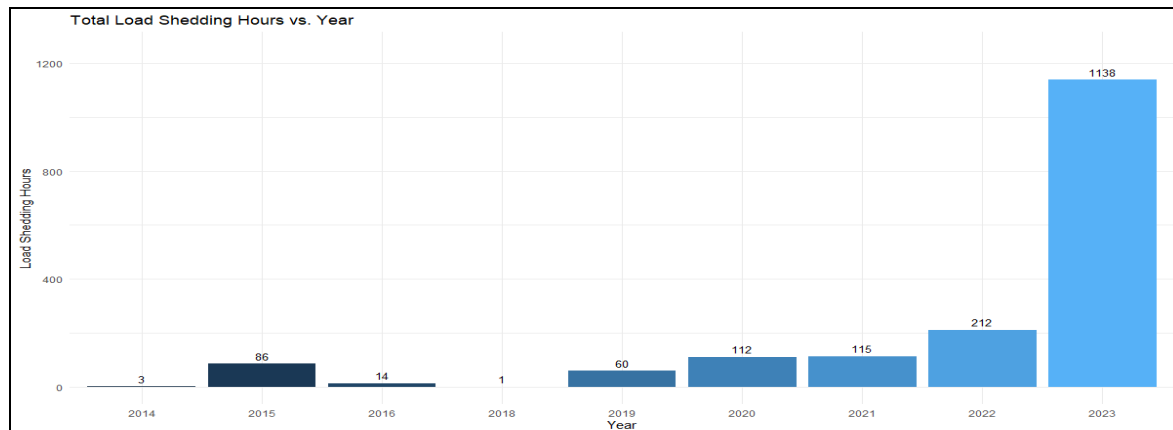


Table 12 - National Load Shedding Hours by Financial Year (2023 updated 11 April 2023)

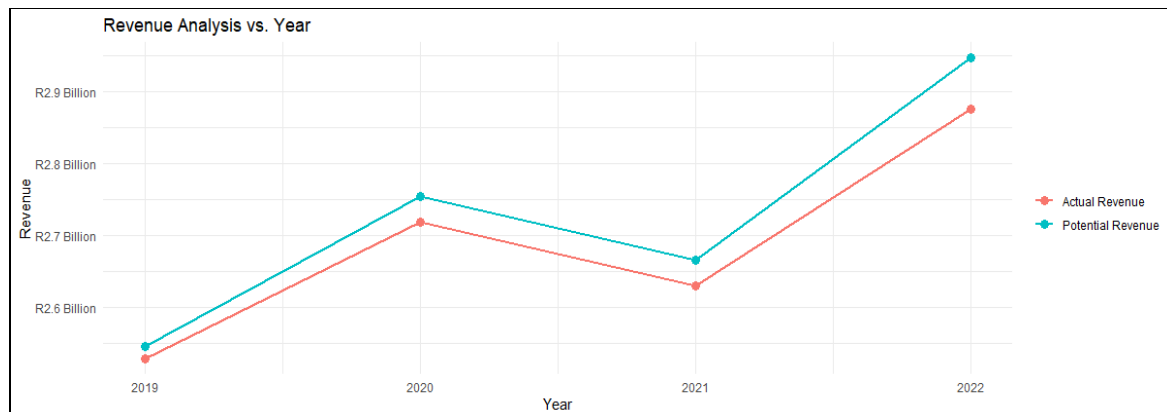


Table 13 - Calculated Impact on MMM Electricity Revenue Due to Load Shedding

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.

4.4.6 INDIGENT MANAGEMENT

The main area of concern is:

Indigent Register is not updated:

There is an indigent register, but it needs to be reviewed. The indigent policy was reviewed during June 2022 however not yet approved and adopted.

It has 52 925 active accounts and 1 261 inactive accounts. The indigent register is not updated and reviewed on a regular basis, that can lead to cash leakage and misalignment with the equitable share allocation.

The strategies going forward are:

- The indigent policy needs to be updated and adopted;
- 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; and
- The indigent register needs to be updated in line with the requirements of the policy and thereafter managed in terms of the policy.

4.4.7 SUPPLY CHAIN MANAGEMENT, COMPLIANCE AND VALUE FOR MONEY

The main areas of concerns are:

Poor Conditional Grant Management:

Unspent conditional grants as at 30 June 2022 total R571.0 million. There is insufficient cash on hand to cover payables and unspent conditional grants hence underspending on the capital budget. This is an indication that conditional grants have been spent on operating expenditure. In addition, there is insufficient financial and project management.

The strategy required is to devise a plan to repay unspent conditional grants and payables and include the monetary implications of the plan in future budgets to ensure payments are made in terms of the plan.

As at 30 June 2022 MMM has already committed R 258 million on capital projects which they have not yet provided funding for.

Non – Compliance with SCM Rules and Regulations:

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 14 - 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.

The contributing factors to the above are:

- SCM Policy not adhered to;

- Disregard for SCM policy and regulations; and
- Spending limits are too high and need to be reviewed.

The strategies going forward are:

- Standard operating procedures need to be set for the SCM section;
- The SCM policy needs to be reviewed to ensure ethical and legal processes in the SCM processes;
- 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; and
- The disciplinary board must become operational so that action can be taken against staff involved in criminal and legal non-compliant activities.

No contract management in place and no monitoring for value for money:

Capital projects and operating services provided by contractors are not monitored and this is a contributing factor to the situation MMM finds itself in at present. There is poor financial management and controls and poor SCM practices.

The strategy is all current contract documents to be scrutinised to identify whether MMM is receiving value for money and if not, appropriate legal action should be taken. In addition, a system of contract service and performance needs to be put in place and should be incorporated into the SCM policy. The Municipality should also ensure value for money. Performance of service providers should be measured and monitored continuously to ensure that services are rendered at the agreed standard, frequency and cost.

MMM should establish a Project Management Office to ensure that contract management and value for money monitoring are affected. Without this process in place, it is unlikely that fraud and corruption will be detected and rooted out.

4.4.8 CONTAINMENT AND CASH FLOW MANAGEMENT

The main area of concern is:

Poor Cashflow:

The cash/ cost coverage ratio is below 0.5 months when the norm is 1 to 3 months.

The ratios for the three financial years applying MFMA Circular No. 71: Financial Ratios and Norms are as follows:

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited
Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants) Nom is 1 - 3 Months	-0,02	0,36	0,31

Table 15 - Cash to Cost Coverage

The cash/ cost coverage is substantially below the norm. This is a result of:

- The poor debtors' collection rate which is the reason for the poor payment rate of MMM creditors;
- Excessive expenditure with no system of control; and
- Tariffs are not cost reflective.

The strategy going forward is to establish a Cash Management Committee that sits daily to identify revenue received and control expenditure in line with the revenue received. In addition, establish a system of expenditure/ order control where no expenditure/ order is authorised unless it is provided for in the cash backed budget. Revenue collection should also be enhanced.

4.4.9 DEBT RESTRUCTURING

The main areas of concern are:

MMM has loans with DBSA, Standard Bank and Absa Bank valued at 30 June 2022 at R668 million (2020/21 R 776 million):

These loans are often serviced late due to cash flow constraints. The loans in default as at 30 June 2022 totalled R382.1 million (2020/21 R 441.5 million), which is 57% of the outstanding balance. This is a further indication of the cash flow problems being experienced by MMM.

All the defaults on the above borrowings were remedied through payment of the accrued capital and interest amounts on the 8th of July 2021 and the 8th of July 2022 respectively.

During 2020, rating agency Moody's downgraded MMM's credit rating from B3 to Caa1. This has a negative effect on the Municipalities overall ability to obtain external funding and unfavourable interest rates.

If a new rating would be done, the possibility of a further downwards adjustment is high given the current state of affairs in the Municipality.

The strategy going forward is:

- Curtail unnecessary expenditure by putting controls in place;
- Review the loans for a possibility to restructure, and re-negotiate payment terms;
- Make arrangements with loan creditors to repay current and outstanding amounts; and
- Comply with the repayment arrangements by compiling a cash backed budget.

Payments to service providers in excess of 30 days:

Creditors payment period as at 30 June 2022 was 115 days. Total payables outstanding as at 30 June 2022 amounted to R2.0 billion, which is 27% of the total operating expenses budget.

This is a further indication of:

- Cash flow problems; and
- Low revenue collection.

The strategies going forward are:

- Enhance revenue collection;
- Curtail unnecessary expenditure by putting controls in place;
- Adhere to procurement plan;
- Make arrangements with creditors to repay current and outstanding amounts; and
- Comply with the repayment arrangements by compiling a cash backed budget.

4.4.10 FINANCIAL CONTROL ENVIRONMENT

The main areas of concern are:

Preparation of Annual Financial Statements (AFS) not fully compliant:

- The 2021/22 financial statements submitted were not prepared in all material respects in accordance with the requirements of Section 122(1) of the MFMA;

- There were material uncorrected misstatements resulting in a **qualified audit opinion**; and
- There were also material restated figures in the 2019/20 and 2020/21 AFS.

The reason for the above is high reliance on consultants for assistance in the preparation of the AFS and inexperienced personnel due to the lack of skills transfer and poor employment practices.

The strategy is to send existing qualified personnel on the requisite training course/s. Interim AFS should be prepared and assessed to form the base of the year end AFS preparation.

mSCOA strings are not in accordance with requirements:

The *mSCOA* strings are 85 percent compliant. The reason for this is due to too much reliance on consultants with no transfer of skills by the consultants. This should be further investigated as no value for money achieved.

The strategy is to provide relevant and necessary training for finance staff regarding *mSCOA*.

Municipal Entity: CENTLEC:

The principal activity of CENTLEC is the distribution of electricity to industries, businesses and households mainly in the Mangaung and Southern Free State areas.

The relevant balances as at 30 June 2022 are:

- Cash on hand R509.3 million;
- Payables R890.8 million;
- Deficit R189,5 million 2022 and R13.7 million 2021;
- 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 above 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.

Assessment conducted by EMS Solutions (Pty) on Centlec:

An assessment was conducted by EMS Solutions (Pty) Ltd on the consideration for the sale of Centlec and incorporation of the Entity into MMM.

In the review of MMM, they assessed the financial impact of the Centlec entity on MMM's current financial position. They examined a report on the new Sale of Business Agreement (unsigned) and their findings are summarised below:

- The report considered relevant legislation, including the Income Tax Act No. 58 of 1962, Municipal Finance Management Act 56 of 2003, Municipal Systems Act 32 of 2000, and Generally Recognised Accounting Practice (GRAP).

It addressed three main topics:

- 1) Guidance on shareholders' loans;
 - 2) Intercompany loans, and capital advances loans; transfer of assets to MMM; and
 - 3) Revenue management and collection.
- Regarding shareholders' loans, intercompany loans, and capital advances loans, the report identified going concern implications for Centlec, noting serious financial challenges and likely liquidity problems. It analysed a few options, such as adjusting the interest rate charged, adjusting the interest rate period, and capitalising the loan account (converting into equity). However, none of these options resolve the combined or consolidated going concern issues.
 - The primary concern with transferring assets to MMM is the accounting treatment and tax implications under the Income Tax Act (ITA). Several points need to be addressed upon the transfer of assets, including responsibility for maintaining the fixed asset register, maintenance and insurance of the assets, procurement of new assets, and ownership of assets procured from Centlec's funds. Compensation for the use of assets should be explored if Centlec still uses the assets after the transfer.
 - Revenue management and collections play a vital role in the working relationship between MMM and Centlec. Research indicates an average improvement of 8% in the collection rate if MMM gains control over service charges like electricity. A standing committee for revenue and debt collection should be formed, with representatives from both entities, meeting at least twice a month. The billing function should be consolidated within MMM, with staff transferred from Centlec and a billing system integration implemented. Clear communication lines should be established for resolving disputes, providing payment updates, and executing reconnection requests. Agreements should be reached on bank accounts for revenue collection and the transfer of revenue to Centlec for operational and capital expenditure.

In conclusion, the financial relationship between MMM and Centlec requires a comprehensive review and strategic actions to address the challenges both entities face, particularly concerning liquidity and going concern issues. By consolidating the billing function within MMM, establishing a standing committee for revenue and debt collection, and implementing clear communication lines, the working relationship between MMM and Centlec can be significantly improved. Furthermore, careful consideration should be given to the transfer of assets and the treatment of shareholders' loans, intercompany loans, and capital advances loans to ensure compliance with relevant legislation and accounting practices. By taking these steps, MMM and Centlec can strengthen their collaboration, enhance their financial stability, and better serve the needs of their customers and stakeholders.

Strategy going forward is to do 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.

Entities - FRESHCO (Free State Social Housing Company):

FRESHCO Vision - Implement and pursue a programme of Social Housing suitable for low to medium income households.

Land Availability Hillside View - The entity has entered into agreements with developers to implement and pursue a programme of land development, which will provide infrastructure and housing suitable for low to medium income households.

The agreement commenced on 10 July 2014 and shall be terminated on 31 October 2032, unless both parties agree to review the agreement period. In terms of the agreement, the developer will develop 762 erven in Mangaung Extension 34, and 1580 erven in Mangaung Extension 35.

Land Availability Vista Park III - The agreement commenced on 11 September 2014 and shall be terminated on 31 October 2032, unless both parties agree to review the agreement period. In terms of the agreement, the developer will develop approximately 6 529 erven of various categories in Mangaung Extension 256 to 266. This development will be known as the Vista Park III.

Analysis and Conclusion

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.

As per the group AFS as at 30 June 2022, FRESCO had liabilities of R149.5 million.

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.

Auditor General Reports:

2021/22 Audit Findings

- Qualified audit opinion.
- Material uncertainty relating to going concern.
- Materially underspent the conditional grants by R 571 039 043.
- The performance management system and related controls were inadequate due to the significant internal control deficiencies identified resulting in usefulness and reliability findings on indicators and targets, as required by municipal planning and performance management regulation 7(1).

Employee-related costs:

- Inadequate processes were in place to ensure that a need was established for overtime to be worked or that overtime was actually worked by the municipal officials. Unable to determine whether any adjustments were necessary to overtime, shift and standby allowances, stated at R182 066 600 in note 43 to the financial statements.

Contracted services

- Adequate supporting documentation could not be provided to confirm that the goods and services were actually received at the correct quantity, quality and price and therefore unable to determine whether any adjustments were necessary to contracted services stated at R508 843 210 in the financial statements.

Payables from exchange transactions

- The municipality did not recognise all trade payables that met the definition of a liability in accordance with GRAP 1, Presentation of financial statements., therefore note 19 to the financial statements was understated and general expenditure and contracted services were understated by R55 748 293.

Revenue from exchange transactions

- Unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions due to the municipality not having adequate systems in place to recognise revenue from the rendering of services. Consequently, I was unable to determine whether any adjustments were necessary to revenue from exchange transactions, stated at R2 218 632 410 in the financial statements.

Consequence management

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

2020/21 Audit Findings

- Unqualified audit opinion.
- Material uncertainty relating to going concern.

Material losses

Material water distribution losses of R337 156 445 (2020: R221 045 754) were incurred mainly due to burst water pipes, leakages, and unmetered sites.

Material uncertainty relating to claims against the group

The group is the defendant in various claims. The group is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result was made in the consolidated financial statements.

Procurement and contract management

Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.

Consequence management

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

The strategies going forward:

The MM / CFO should enforce the implementation of the audit action plan and get written commitment from HODs;

Investigate all reported allegations of financial misconduct against the officials and ensure consequence management is implemented;

Internal Audit to provide risk ranking of Audit findings and timelines for implementation to be reported bi-weekly and coordinate implementation of the remedial plan;

Conduct a skills audit to determine the knowledge gaps; and

Enroll key staff in appropriate training programs to build adequate capacity.

4.5 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 has 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.

The current spending on maintenance of infrastructure is not adequate and below the norm of 8% as recommended by National Treasury. Electricity shows the largest shortfall of 23% of the required spend spent. This is followed by Built Environment with 25%, Sanitation with 27%, Water with 32% and Roads and Stormwater with 43%.

It is important to note that service delivery challenges are not confined to only financial aspects, other factors that impact service delivery such as the organisations structures and delegations, asset security, infrastructure masterplans and asset care plans, political will, etc. These factors impact service delivery but cannot be directly correlated to financial impact.

4.5.1 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 subsidise all other Municipal operating and administrative expenditure and is therefore a critical consideration when it comes to assessing financial sustainability.

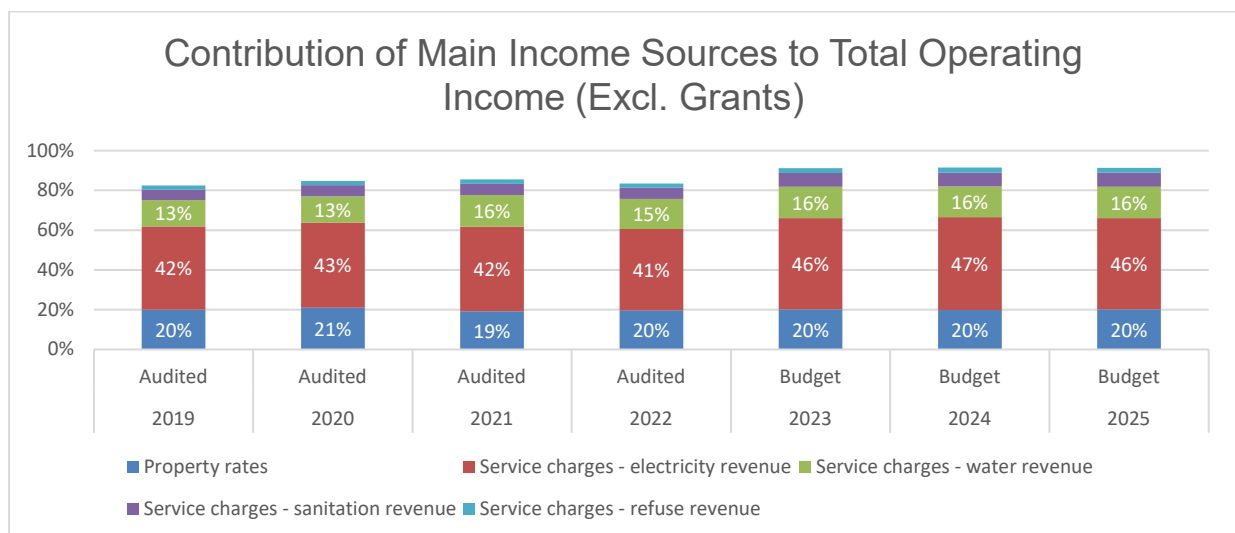


Table 16 -Contribution of Main Income Sources to Total Operating Income

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.

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 17 - 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 18 - 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 19 - 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 20 - 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 21 - 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.

4.5.2 ELECTRICITY (CENTLEC)

4.5.2.1 BACKLOGS AND SERVICE LEVELS

The IDP 2022/2027 reports the backlogs for electricity are:

Service	Total (Households unless otherwise indicated)	Access (Households unless otherwise indicated)	Backlog (Households unless otherwise indicated)	Backlog % of Total
Electricity	265 414	254 525	10 890	4.10%

Table 22 - Service Delivery Backlogs

Electricity backlogs are below 5% which is in an acceptable range, but care must be taken to not let this backlog increase.

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
Electricity	151 190	151 190	100.00%	0	0.00%

Table 23 - Service Levels

Electricity services are provided to 100% of the households at or above the minimum levels of service. Note that the reporting is inconsistent as if you have reported backlogs, you cannot have 0% households below the minimum service levels.

4.5.2.2 DEMAND AND CAPACITY

Service	Capacity	Demand	Reported Spare Capacity	Strategies to Address
Electricity	323 MVA	211 MVA	112 MVA	There is a negative growth over the year due to power failures and load shedding. CENTLEC needs to ensure a higher level of service and ensure constant supply. To do this, the Energy Plan must include larger scale embedded

Service	Capacity	Demand	Reported Spare Capacity	Strategies to Address
				generation options as CENTLEC has a 103 MW generation licence.

Table 24 - Service Capacity

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

4.5.2.3 STATE OF THE ASSETS

CENTLEC has reported a total of R6.3 billion rands of assets. It has reported on the extent of its assets on a high level. The assets are:

- 118km of 132kV overhead lines,
- 50km of 33kV overhead lines,
- 97km of 33kV underground cables
- 2.5million km of low voltage lines and cables
- 42 Distribution Centres
- 1,372 Hight Mast lights
- 34,733 Public lighting

The condition, remaining useful lives (RUL) and locations are not reported however it is reported that obsolete oil filled switchgear is still in operation.

4.5.2.4 ADEQUACY OF MAINTENANCE SPEND

Repairs and maintenance are 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
Electricity	R470 955 780	R107 148 711	23%	-R363 807 069

Table 25 - Adequacy of Repairs and Maintenance on Service Levels

Current spent versus suggested spend shows a shortfall of R364 million as per the 2021/22 financial figures.

Based on the current financial position of the Municipality and a combined shortfall of R842 million for all infrastructure services, 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.

4.5.2.5 REVENUE COLLECTION

Currently the consumers in MMM receive two utility bills, one from CENTLEC for electricity and the other from MMM for the rest of the services. Credit control is proving difficult for MMM. There needs to be an agreement on the management approach of the entity (including consolidating invoices submitted to customers to facilitate credit management).

4.5.2.6 OTHER CONSIDERATIONS

Supply diversification

CENTLEC has a 103MW generation licence, but the power station has not been operating since 2007. A clear strategy is needed to deal the consistency of supply due to load shedding. This also will reduce the dependency on Supply from Eskom. Options should be explored on renewable energy sources including PPP options such as concentrated solar with battery storage option.

Losses

Reported losses (11%) are just above the upper bound of the benchmark (8-10%). This is acceptable and current loss reduction strategies deploy must be consistently applied so that the losses do not increase but continue the downward trajectory.

Obsolete assets

It was reported that there is oil filled switchgear in operation. These assets should be prioritised on the asset replacement program. Replacing these assets will result in better efficiencies on the network, reduction in technical losses and less of an operator safety risk.

Revenue collection

Currently enforcing credit control measures by MMM is problematic as the customer receives two utility bills, one from CENTLEC for Electricity and the other from MMM for the remaining

services. Enforcing credit control measures by MMM is proving difficult as the customer pays his electricity bill and continues to receive that service while MMM cannot disconnect the water to the consumer. A consolidated billing system is required to implement proper credit control measures.

Issue reporting on service delivery

Digital channels such as mobile applications or Whatsapp can be used by residents to report on electricity supply disruptions and streetlights not working. The system should be able to track the reported date and repair date and link to the implemented maintenance system.

4.5.3 WATER

4.5.3.1 BACKLOGS AND SERVICE LEVELS

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

Service	Total (Households unless otherwise indicated)	Access (Households unless otherwise indicated)	Backlog (Households unless otherwise indicated)	Backlog % of Total
Water	265 414	247 859	17 555	6.61%

Table 26 - Service Delivery Backlogs

Water backlogs are 6.61%. The SDBIP 2022/23 reports 1884 new service connections planned. While the backlog percentage is not extremely high, it is above the 5% threshold. Additional households should be included as projects to reduce the backlogs to acceptable levels.

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%

Table 27 - Service Levels

Water services are provided to 100% of the households at or above the minimum levels of service. Note that the reporting is inconsistent as if you have reported backlogs, you cannot have 0% households below the minimum service levels.

4.5.3.2 DEMAND AND CAPACITY

Service	Capacity	Demand	Reported Spare Capacity	Strategies to Address
Water	187 MI/day	247 MI/day	60 MI/day deficit	<p>Prioritise the Gariep Pipeline interventions by ensuring funding is secured.</p> <p>Improve system operation and management by ensuring skilled staff is deployed and maintenance budgets are available.</p>

Table 28 - Service Capacity

Water has a deficit of 60 MI/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 prioritised along with repairing and bringing the existing water treatment works back to full design capacity. This should not be confused with the A10 report on Water backlogs which is reported a 0%. Houses can be provided with the minimum levels of service however the ability to supply water to the households, as in this case, is a capacity constraint of the infrastructure to deliver the service.

4.5.3.3 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, the register does not meet the requirements of GRAP and mSCOA.

Class	Asset Condition	Asset Count	% of Population	Acquisition Costs	Carrying value	%
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	

Class	Asset Condition	Asset Count	% of Population	Acquisition Costs	Carrying value	%
	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 %

Table 29 - FAR Analysis

On the water assets, 81.88% of the assets are reported in a Very Good and Good condition. The percentage 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 percentage of 57.06% also indicate the asset base fairly new (percentages above 50%).

Water assets conditions in the FAR do not reflect the discussion with the department. The water assets were reported as been in a poor condition however the analysis of the asset register indicate differently. It is most likely that the asset register is incorrect which will imply the financial values reported also incorrect. It is recommended that a complete, accurate and compliant asset register be compiled for MMM.

4.5.3.4 ADEQUACY OF MAINTENANCE SPEND

Repairs and maintenance are 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
Water	R123 582 171	R39 409 798	32%	-R84 172 373

Table 30 - Adequacy of Repairs and Maintenance on Service Levels

Current spent versus suggested spend shows a shortfall of R84 million as per the 2021/22 financial figures.

Based on the current financial position of the Municipality and a combined shortfall of all infrastructure services is R842 million, 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.

4.5.3.5 OTHER CONSIDERATIONS

Water Re-Use System

The water re-use system at Maselpoort must be optimised and the water quality monitored. This system allows for “Grey water” usage applications.

Non-Revenue Water

Non-Revenue Water is reported at 46% (June 2022). The upper bound of the norm is 30%. The loss reduction strategies in the Water Masterplan (which has not been adopted yet) detail various options and the potential savings in MI and rand values. It is critical that these strategies are staged, prioritised, and budgeted for.

Revenue Enhancement Strategies

The Masterplan mentioned above also details strategies to improve the revenue collection. These strategies must be considered in the FRP, stages, prioritised and budgeted for.

Obsolete Assets

SMEC in 2019 identified 159km of asbestos pipelines that need to be replaced as they pose a health risk and contribute to the non-revenue water losses.

Blue Drop Report Considerations

Of the seven supply systems, two (2) have received a critical risk rating (Botshabelo and Soutpan), two (2) a high-risk rating (Vanstadensrus and Wepener) and the remaining three (3) a medium risk rating (Bloemfontein, Dewetsdorp and Thaba Nchu). This implies most of the water supplied to consumers is not fit for consumption. Corrective measures need to be urgently implemented and quality monitoring programmes enforced to remedy this situation. Suitably qualified controller and operators is required to ensure the processes are understood and enforced. All this must be supported by a Water Safety Plan that must be budgeted for, adopted, and enforced.

Issue Reporting on Service Delivery

Digital channels such as mobile applications or Whatsapp can be used by residents to report on Water leaks. The system should be able to track the reported date and repair date and link to the implemented maintenance system.

4.5.4 SANITATION

4.5.4.1 BACKLOGS AND SERVICE LEVELS

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

Service	Total (Households unless otherwise indicated)	Access (Households unless otherwise indicated)	Backlog (Households unless otherwise indicated)	Backlog % of Total
Sanitation	265 414	210 586	54 828	20.66%

Table 31 - Service Delivery Backlogs

Sanitation follows with a backlog of 20.66% 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.

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
Sanitation	138 784	131 624	94.84%	7 160	5.16%

Table 32 - 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.

4.5.4.2 DEMAND AND CAPACITY

Service	Capacity	Demand	Reported Spare Capacity	Strategies to Address
Sanitation	140MI/day	146MI/day	5.6 MI/day Deficient	Phase 3 of Thaba Nchu Wastewater Treatment Works (WWTW). Botshbelo outfall sewer (Network constraint). Repair and maintain existing WWTW's

Table 33 - Service 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.

4.5.4.3 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, 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 %

Table 34 - FAR Analysis

On the sanitation assets, 92.27% of the assets are reported in a Very Good and Good condition. The percentage 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 of 68.45% also indicate the asset base fairly new (percentages above 50%).

Sanitation assets do not reflect the discussion with the department. The stormwater assets were reported as been in a poor condition however the analysis of the asset register indicate differently. It is most likely that the asset register is incorrect which will imply the financial values reported also incorrect. It is recommended that a complete, accurate and compliant asset register be compiled for MMM.

4.5.4.4 ADEQUACY OF MAINTENANCE SPEND

Repairs and maintenance are 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
Sanitation	R194 183 938	R53 088 117	27%	-R141 095 821

Table 35 - Adequacy of Repairs and Maintenance on Service Levels

Current spent versus suggested spend shows a shortfall of R141 million as per the 2021/22 financial figures.

Based on the current financial position of the Municipality and a combined shortfall across all infrastructure services is R842 million, 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.

4.5.4.5 OTHER CONSIDERATIONS

VIP toilets

It was reported that there are 50,000 VIP toilets. This does not align with the reported backlogs and levels of service reported. These need to be replaced and projects identified for the eradication of these toilets. The Botshabelo outfall sewer is noted as a system constraint which must be attended to first to allow the system and the additional connections to be added to the system. Another consideration is the cost of desludging of VIP toilets which should happen twice

a year which adds to the operational costs of the Municipality rather than a service that can be billed.

Green drop report considerations

The scoring has moved from 79% in 2013 to 33% in 2021, a drop of 46% over 8 years. Six (6) plants are reported at a Critical Risk (Northern Works, Bloemindustria, Soutpan, Dewetsdorp, Van Stadensrus and Wepener. Furthermore, 3 plants are reported in the 2021/22 report as hydrologically overloaded. This means the ability of the plant to treat the demand flowing into it is above the capacity it is operating at. Some urgent interventions are needed namely the maintenance of existing plants, the compliance to regulations including the treatment and testing of effluent. WWTW plants identified as been overloaded must be prioritised for upgrade. A critical systems action plan must be implemented. DWS has initiated consultative processes with the support of SALGA, CoGTA and MISA to assist with interventions needed.

Issue reporting on service delivery

Digital channels such as mobile applications or Whatsapp can be used by residents to report on Sanitation leaks. The system should be able to track the reported date and repair date and link to the implemented maintenance system.

4.5.5 ROADS AND STORMWATER

4.5.5.1 BACKLOGS AND SERVICE LEVELS

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

Service	Total (Households unless otherwise indicated)	Access (Households unless otherwise indicated)	Backlog (Households unless otherwise indicated)	Backlog % of Total
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 36 - Service Delivery Backlogs

Roads are reported to have the largest backlog (56.77%) due to lack of maintenance, resurfacing of existing roads, potholes, traffic control measures, roads signs and markings, blocked drains, and stormwater flooding. 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.

4.5.5.2 DEMAND AND CAPACITY

It was reported that there are gravel roads identified for conversion to surfaced roads, but the extent was not provided for.

4.5.5.3 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, the register does not meet the requirements of GRAP and mSCOA.

Class	Asset Condition	Asset Count	% of Population	Acquisition Costs	Carrying value	%
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 37 - FAR Analysis

On the road's assets, 62.86% of the assets are reported in a Poor condition. The percentage 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 of 42.20% also indicate the asset base fairly older (percentages above 50%).

On the stormwater assets, 84.06% of the assets are reported in a Poor condition. The percentage 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 of 59.71% also indicate the asset base fairly newer (percentages above 50%).

Road assets reflect the discussion with the department. The stormwater assets were reported as been in a similar condition as the roads however the analysis of the asset register indicate differently. It is most likely that the asset register is incorrect which will imply the financial values reported also incorrect. It is recommended that a complete, accurate and compliant asset register be compiled for MMM.

4.5.5.4 ADEQUACY OF MAINTENANCE SPEND

Repairs and maintenance are 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

Table 38 - Adequacy of Repairs and Maintenance on Service Levels

Current spent versus suggested spend shows a shortfall of R127 million as per the 2021/22 financial figures.

Based on the current financial position of the Municipality and a combined shortfall of R842 million across all infrastructure services, 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.

4.5.5.5 OTHER CONSIDERATIONS

A roads masterplan is needed to provide MMM with the identification and prioritisation of road projects (new and refurbishment projects) over the next 10 years. This plan must be adopted by council and projects identified prioritised for budget allocation. A Maintenance plan is also urgently required. The lack of road maintenance has an impact on the local economy and service delivery. It also impacts fleet vehicles as they also incur additional maintenance costs due to pothole damage.

Issue reporting on service delivery

Digital channels such as mobile applications or Whatsapp can be used by residents to report on Potholes, blocked stormwater drains, etc. The system should be able to track the reported date and repair date and link to the implemented maintenance system.

4.5.6 SOLID WASTE

4.5.6.1 BACKLOGS AND SERVICE LEVELS

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

Service	Total (Households unless otherwise indicated)	Access (Households unless otherwise indicated)	Backlog (Households unless otherwise indicated)	Backlog % of Total
Solid Waste	265 340	217 771	47 569	17.93%

Table 39 - Service Delivery Backlogs

Solid Waste is reported at 17.93%. Solid waste backlogs are related to:

- the poor condition of Roads and their impact on the condition of the fleet to dispense the service.
- high theft rates and vandalism impacts the current fleet and plant (Including weighbridges), placing a reliance on external service providers to render the service.
- Vandalism of transfer stations.

4.5.6.2 DEMAND AND CAPACITY

It is reported in the IDP that 500 000 tons of solid waste is processed in total across the landfills in MMM. However, overcapacity of the northern landfill site (R35 million required as part of the

rehabilitation costs, only R8million allocated) means that waste has to be diverted to other sites. The Northern Landfill is also reported with having a remaining life of 2 years. Furthermore, Wepenaar landfill site is unlicensed.

MMM has allocated R52 million on a separation-at-source program, a buy back centre, and a composting facility.

4.5.6.3 STATE OF THE ASSETS

It was discussed at the consultative process with the department that the budgets allocated for maintenance is not sufficient. The primary cause is theft and vandalism while leads to fencing been removed, weighbridges and plant rendered in-operational. The security of MMM assets is a concern that is noted and addressed as a focus area in the key findings table.

4.5.6.4 ADEQUACY OF MAINTENANCE SPEND

Repairs and maintenance are 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
Solid Waste	R11 269 891	R11 222 860	100%	-R47 031

Table 40 - Adequacy of Repairs and Maintenance on Service Levels

Current spent versus suggested spend shows a shortfall of R47 thousand as per the 2021/22 financial figures. The required R and M value appears too low for the service. Furthermore, the high occurrence of theft of vehicle and plant components needs to be factored in the budgets.

Based on the current financial position of the Municipality and a combined shortfall of across all infrastructure services is R842 million, 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.

4.5.6.5 OTHER CONSIDERATIONS

Regulatory requirements

Currently, the landfills are reporting to the regulatory on landfill management nor are they operating at the minimum requirements. Rehabilitation costs are a requirement to maintain the licence and funding must be allocated for this function.

Fleet and plant

Fleet and plant are vital to deliver this service and the maintenance, safety and acquisition of new assets must be budgeted for to maintain this service and remove the reliance on external service providers which place a higher operational cost on the Metro. Fleet and plant currently lack policies, plans and strategies and these need to be addressed. Details have been added in the key findings table.

Revenue enhancement strategies

Additional revenue streams are possible and need to be considered and implemented where possible. Currently the composting facility is operational, and a sales and marketing strategy should be implemented. Markets should be sourced for recyclable waste for the buyback centre. The separation at source strategy must be implemented. MMM does not have a hazardous waste disposable facility and Waste Recycling facilities. Both these are revenue options that should be considered as revenue streams. Other revenue options should also be considered in the Integrated Waste management Plan and aligned with national strategies of waste diversion and recycling.

Issue reporting on service delivery

Digital channels such as mobile applications or Whatsapp can be used by residents to report on waste collection schedules not adhered to. The system should be able to track the reported date a reason for not meeting the schedule.

4.5.7 COMMUNITY FACILITIES

Sports and recreation facilities have the potential to add to the revenue of MMM however they require maintenance and upgrades. A cultural and sports strategy is required to unlock this potential which can include partnering.

Cemeteries and their upkeep is an important community and social service on MMM. Maintenance and upgrades must be considered.

Another untapped revenue stream is the nature reserve owned by the municipality. This introduces holiday type accommodation and activities, and a PPP option can be explored. A similar approach should be taken with Bloemfontein Zoo. If the zoo cannot be returned to operational status with the necessary skills and resources required, alternate options should be explored to generate revenue from this site. Possible alternatives would be an amusement/adventure park, flea market stalls, wedding venue, etc

A concern on the operational building side is the non-compliance to the Fire Service Brigade Act 99 of 1997 where MMM would be found having inadequate firefighting equipment and trucks. It is also unclear if the fire hydrants are in a working condition as there is no evidence of maintenance work undertaken. The Fire Risk Management Plan must be updated and implemented. This should include a vehicle and equipment funding and replacement plan and the service delivery model for delivering Fire services. The tariff model should be cost reflective. Staff safety should not be overlooked with attention given to safe working accommodation and PPE requirements.

4.5.8 TOWN PLANNING AND HUMAN SETTLEMENTS

Development and planning had been hampered by the availability lack of land for development purposes resulting in a loss of potential revenue. Local economic development has also been slow. The resultant is informal Settlement sprawl. MMM processes are too lengthy so a review of the processes must be undertaken to speed up the approvals required. Consideration should be given, and the delegation of authority revised to align to the approval of short-term leases and the monetary values for the HOD of Human Settlements to approve.

Land development underway have also been impeded by the lack of funding such as in Hamiton and Bloemindustria to be able to sell serviced stands. Bulk infrastructure is needed for the VISTA 3 development. MMM has also experienced poor performance on grant expenditure to complete the implementation of these projects. Project Management and Supply chain processes must be looked at to address the bottlenecks of appointments and execution. There are 47 informal settlement which are home to an estimated 30 329 households. Land should also be identified and aligned to the SDF for the land development and relocation of informal settlement. Bulk capacity constraints also contribute to the delays in this process especially for Thaba-Nchu and Botshabelo.

It is important that building contravention in terms of bylaws and zoning is enforce by MMM and legal action should be taken against defaulters.

4.5.9 INTEGRATED PUBLIC TRANSPORT NETWORK (IPTN)

While this program has been implemented, it has been fraught with delays. Progress reported was:

- Thirty-seven (37) bus stops completed.
- One (1) university bus stop completed.
- Operational licences for buses needed.
- Theft experienced, batteries stolen from Busses.
- Vehicle inspection list by manufacturer completed.

At the time of the consultative process, it was reported that the handover process was unfolding and will be concluded by year end (June 2023). The operators requested a vehicle inspection list to be attended to before accepting handover. It is expected that the implementation of the pilot and go live phase be completed by year end. The ticket sales office must be operational, and all bus stops are expected to be complete as at June 2023. The operators should take operation by July 2023.

4.5.10 FRESH PRODUCE MARKET

The fresh produce market has been a consequential revenue steam for MMM in the past however poor facilities management has had an adverse impact on the lessors/users. A maintenance plan must address the maintenance activities, frequencies, and costs. The plan must also include the continuity of power supply due to the nature of the produces stored. A staged approach should then be taken to ensure that the facilities are return to full operational status in a minimum of three (3) years.

Some of the mitigating concerns leading to the decline in the facility are:

- High vacancy rate in critical positions,
- Lack of maintenance,
- Inadequate security, and
- Dilapidated infrastructure.

As an interim step between the facilities plan requirement, a turn around plan has been developed by the department and is in the council approval process.

4.5.11 TESTING AND LICENSING

MMM has an outdated service level agreement with the Provincial department of safety. To provide the service, costs should be remodelled showing cost recovery against the cost of maintenance. The provincial department of safety would be involved in this process as when completed, the service level agreement will have to be re-negotiation and concluded between the parties.

4.5.12 1.1.1 BLOEMFONTEIN AIRPORT

Bloemfontein airport facility has been generating income by leasing out hangars. There was a facilities management company responsible for operating the facility, but it is undergoing the process of liquidation. Currently, there has not been an appointment of a successor to take over.

The facility has the potential to increase its revenue generated as there is available land for the construction of additional hangers however current revenue generated is only 30% of expected.

This is contributed to:

- Rental disputes;
- Change of ownership;
- Delays in processing new owners;
- Owners being untraceable; and
- Unavailability of the Management Company.

It is also noted that 76% of the rental agreements have expired and new agreements have not been entered into. This results in revenue collected not been market related.

4.5.13 KEY FINDINGS

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
Strategic Positions	Strategic positions need to be filled to allow governance and strategic direction and focus required for the optimal function of the municipality.	Key managerial technical positions as identified in the approved organogram must be filled to capacity MMM to ensure service delivery.	There are delays in filling out critical positions with people that have the appropriate skills, experience and qualifications.	Appointment of permanent senior management position in line with MFMA regulations to enable service delivery.	Annex A - MMM Top 05 July 2021.
Asset Management	No asset management policy No asset management plans available. Asset register analysis does not reflect the feedback from the departments on the condition of the assets. Furthermore, the register does not have all the necessary fields required	Asset register analysis shows the majority of MMM assets in a Good and Very Good condition. Asset register was found incomplete, not all asset sectors found.	Asset Management not institutionalised. There is no asset management policy or Asset Management Plans (AMPs) in place. A condition assessment was done however current analysis on the Asset Register does not reflect the outcomes of the assessment. Asset Register updates are poor and manual.	Condition assessment outcomes must reflect on the asset register of MMM. The Asset Register must be updated with the latest condition assessment outcomes. Undertake an asset completeness exercise to ensure the asset register is complete and all required information to comply with	Asset Register Asset Management Policy (Approved Revised February 2019)

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>by GRAP</p> <p>There is no GIS system available to display the location of the assets.</p>	<p>Asset register was found incomplete, not all asset sectors found.</p> <p>Asset useful lives and residual values need to be accurate.</p> <p>Asset do not have location information. Spatial representation of assets.</p>	<p>There is no GIS system in place to identify the location of assets.</p>	<p>GRAP such as condition, asset type, Location, etc is captured.</p> <p>Compile a GRAP compliant asset register using the outcomes of the asset completeness exercise to update the asset register.</p> <p>Using the conditional assessment outcomes, assess and update useful lives and residual values of assets.</p> <p>Investment is needed in a GIS system to manage all MMM assets by displaying the updated asset register within the system.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
Electricity	Four embedded generation plants to be installed and commissioned by 30 June 2023. Centlec has not indicated a clear strategy to deal future energy security, considering SSEG and risk mitigation for loadshedding. The feasibility study is in progress on the most optimal model for the energy entity, Centlec. 103MW generation license. Power station not operating since 2007. Current losses within	No asset management strategy.	Lack of strong leadership and management. No budget to undertake (and in some cases to complete) plans Masterplans and Maintenance plans not in place or adopted. Losses reported at 11% but should be between 5-7% and no evidence of a loss reduction strategy, revenue enhancement strategy, maintenance plan or masterplan. Aging and obsolete assets not replaced including meters.	Allocate budget, complete and implement.	Consultative process
		The municipality requires an Electricity Master plan for planning purposes.		Allocate budget, complete and implement.	AFS 2021/22 Final IDP 2022 - 2027
		The municipality has not indicated a clear strategy to deal future energy security, considering SSEG and risk mitigation for loadshedding.		Clearly define and document the Energy Security Strategy.	Asset Register Centlec Business Plan
		Loss Reduction strategies need to be documented and must be measurable outcomes.		Formalise the loss reduction strategies deployed into the Loss Reduction Strategy document.	Centlec Annual Report 2020/2021
	Need for meter audits and 'SMART' technologies due to inaccurate meter database and poor revenue collected. Faulty meters, inaccurate billing and old meters leads to incorrect billing information and estimated billing which in turn results in		Targeted meter replacement prioritised by largest loss impact on a yearly basis.	Centlec Service Delivery and Budget	
			Prioritise budget for smart meter replacements.	Implementati	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>NERSA benchmarks. The municipalities electrical equipment is outdated, especially oil type switchgear. Centlec is invoicing customers separately from the rest of the utility services provided.</p>	<p>inaccurate billing and inflated debt. Theft, illegal connections and Meter tampering result in Electricity losses of 10.92% (Technical and non-technical losses). Malfunctioning of bulk meters due to aging and tampering. Enhance revenue by installing Bulk meters and Zonal meters to curb revenue losses and to detect tampers remotely. Government debt is about R800m due to Government departments are not honouring their debt in full. Currently 4620 meters are not allocated to the financial system and information on installed meters do not always reach the finance office.</p>		<p>Check meters to be installed in a phased approach.</p> <p>Install bulk smart meters for LPU customers.</p> <p>All municipal properties should have meters installed and the readings should be taken monthly.</p> <p>Joint MMM teams (finance and engineering) should conduct in-loco inspections (audits) of metered customers.</p> <p>Departments in arrears with their accounts should be treated the same as customers in arrears.</p>	<p>on plan 2021/22</p>

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>Need for meter audits and 'SMART' technologies due to inaccurate meter database and poor revenue collected.</p> <p>The municipality requires an Electricity Infrastructure Maintenance plan. Lack of funding for maintenance, refurbishment and capital projects has accelerated the decline in the condition of the infrastructure resulting in failing equipment. Loadshedding is another accelerant factor.</p>		<p>Install bulk smart meters for LPU customers.</p> <p>Meter readers should have technical skills and should report on illegal connections or meter tampering.</p> <p>Allocate budget, complete and implement.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>The municipality requires an Electricity Infrastructure Maintenance plan Lack of funding for maintenance, refurbishment and capital projects has accelerated the decline in the condition of the infrastructure resulting in failing equipment. Loadshedding is another accelerant factor.</p> <p>The municipality has not indicated a clear strategy to deal future energy security, considering SSEG and risk mitigation for loadshedding.</p> <p>The municipality has not indicated a clear strategy to deal future energy security, considering SSEG and risk mitigation for loadshedding.</p> <p>Loss Reduction strategies need to be documented and must be measurable outcomes.</p>		<p>Identify implementable project at critical plants to implement Allocate budget and implement.</p> <p>Call for proposals based on other outcomes of the Energy security Strategy.</p> <p>Assess and engage to implement the Energy Security strategy.</p> <p>Deploy loss reduction strategies.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>Need for meter audits and 'SMART' technologies due to inaccurate meter database and poor revenue collected. Faulty meters, inaccurate billing and old meters leads to incorrect billing information and estimated billing which in turn results in inaccurate billing and inflated debt. Theft, illegal connections and Meter tampering result in Electricity losses of 10.92% (Technical and non-technical losses). Malfunctioning of bulk meters due to aging and tampering. Enhance revenue by installing Bulk meters and Zonal meters to curb revenue losses & to detect tampers remotely. Government debt is about R800m due to Government departments are not honouring their debt in full. Currently 4620 meters are not allocated to the financial system and information on installed meters do not always reach the finance office.</p>		<p>Targeted meter replacement prioritised by largest loss impact on a yearly basis.</p> <p>Prioritise budget for smart meter replacements.</p> <p>Zonal meters to be installed in a phased approach.</p> <p>The calculation of distribution losses should correctly deduct internal usage and the Rand value should be based on the cost of purchase.</p> <p>Joint MMM teams (finance and engineering) should conduct in-loco inspections (audits) of metered customers.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>There is no asset management strategy, policy or Asset Management Plans (AMPs) in place.</p> <p>Loss Reduction strategies need to be documented and must be measurable outcomes.</p>		<p>Enforce by-laws and disconnect illegal connections.</p> <p>Determine pattern of household usage and flag for any irregularities.</p> <p>Equip meter readers with technical skills so they can report on illegal connections or meter tampering.</p> <p>Allocate budget, complete and implement the Asset Management Plan.</p> <p>Refine the loss reduction strategies based on outcomes.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>Loss Reduction strategies need to be documented and must be measurable outcomes.</p> <p>Need for meter audits and 'SMART' technologies due to inaccurate meter database and poor revenue collected. Faulty meters, inaccurate billing and old meters leads to incorrect billing information and estimated billing which in turn results in inaccurate billing and inflated debt. Theft, illegal connections and Meter tampering result in Electricity losses of 10.92% (Technical and non-technical losses). Malfunctioning of bulk meters due to aging and tampering. Enhance revenue by installing Bulk meters and Zonal meters to curb revenue losses & to detect tamperers remotely. Government debt is about R800m due to Government departments are not honouring their debt in full. Currently 4620 meters are not allocated to the</p>		<p>Deploy refined loss reduction strategies.</p> <p>Maintain meter replacement prioritised by largest loss impact on a yearly basis.</p> <p>Maintain budget for smart meter replacements.</p> <p>Enforce by-laws and disconnect illegal connections.</p> <p>Determine pattern of household usage and flag for any irregularities.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
Water	<p>1 884 new service connections (SDBIP 2022/23).</p> <p>High outstanding debt on the Bloem water bulk account.</p> <p>Inadequate usage of the Re-use system in Maselpoort.</p> <p>Non-revenue water – 46% (June 2022). This</p>	<p>financial system and information on installed meters do not always reach the finance office.</p> <p>The municipality requires a Water Master plan.</p>	<p>Lack of strong leadership and management</p> <p>Outdated water conservation and demand strategy. Masterplans and Maintenance plans not in place or adopted.</p> <p>No budget to undertake (and in some cases to complete) plans.</p> <p>Maintenance budget not sufficient to maintain the</p>	<p>Allocate budget, complete and implement.</p>	<p>AFS 2021/22 Final IDP 2022 - 2027 Asset Register WCDM Strategy Updated First Draft_Third Submission_Signed</p>
		<p>The municipality does not have a Water Conservation and Water Demand Management Plan (WCWDMP)</p> <p>Water losses attributed to meter tampering and illegal connections due to customers not prioritising the payment of services.</p> <p>Water losses are reported at 46% largely due to lack of proper network maintenance.</p>		<p>Allocate budget, complete and implement.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>translates to a loss of R227 million (June 2020). The municipality offers Free Basic Water. There is inadequate credit control on both indigents and normal clients. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.</p> <p>The municipality does not have readily available burst frequency calculations per area (norm 13 bursts/100km of pipeline/year).</p> <p>The minimum night flows have been identified to be above average in certain</p>	<p>The municipality does not have a Water Services Development Plan (WSDP)</p> <p>The municipality has 7 supply systems according to the Blue Drop report with a Blue Drop Risk Rating (BDRR) of 72.5% (BDRR < 50% is low risk, 50%-70% is medium risk, 70%-90% is high risk, above 90% is critical risk).</p> <p>For five (Bloemfontein, Dewetsdorp, Wepener, Botshabelo and Thaba Nchu) of the seven supply systems, Bloem Water is the Water Services provider to the municipality. Bloemfontein, Dewetsdorp and Thaba Nchu supply systems achieved medium BDRR while Vanstadensrus and Wepener achieved high-risk ratings and Botshabelo and Soutpan are in the critical-risk rating category. Under operational capacity, only Dewetsdorp and Wepener have operational flow data while the remainder of the systems do not have information</p>	<p>assets.</p> <p>Old and obsolete assets.</p> <p>Tariffs are not cost reflective.</p> <p>No Loss reduction strategies in place.</p> <p>No revenue enhancement strategies in place.</p>	<p>Allocate budget, complete and implement.</p>	<p>Minutes - Monthly Progress Meeting no. 18 MMM WSDP 12 December 2022 FY2122 Water Balance Annexure B Method Statement for Compilation of Annual Water Balance for the Entire MMM FY21...Final 2022-07-29</p>

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>district metered areas. SMEC in 2019 identified that 159km of pipeline (asbestos) needed to be replaced.</p> <p>The municipality has 7 supply systems. Bloem water is the Water Services provider of 5 of the 7 namely Bloemfontein, Dewetsdorp, Wepener, Botshabelo and Thaba Nchu.</p> <p>The Blue Drop report provides a Blue Drop Risk Rating (BDRR). If the BDRR is <50%, it is low risk. If the BDRR is between 50 and 70%, it is medium risk. If the BDRR is between 70 and 90%, it</p>	<p>Water Loss Management. Water losses are reported at 46% largely due to lack of proper network maintenance.</p> <p>Water Loss Management.</p> <p>Unmetered self-consumption. Need for meter audits and 'SMART' technologies due to inaccurate meter database and poor revenue collected.</p> <p>Faulty meters, inaccurate billing and old meters leads to incorrect billing information and estimated billing which in turn results in inaccurate billing and inflated debt.</p> <p>Theft, illegal connections and Meter tampering result in Electricity losses of 10.92% (Technical and non-technical losses).</p> <p>Malfunctioning of bulk meters due to aging and tampering.</p> <p>Enhance revenue by installing Bulk meters and Zonal meters to curb revenue losses & to detect tamperers remotely.</p> <p>Government debt is about R800m due to</p>		<p>Targeted meter replacement prioritised by largest loss impact on a yearly basis.</p> <p>Prioritise budget for smart meter replacements.</p> <p>Check meters to be installed in a phased approach.</p> <p>Install bulk smart meters for LPU customers.</p> <p>All municipal properties should have meters installed and the readings should be taken monthly.</p> <p>Joint MMM teams (finance and engineering) should conduct in-loco inspections (audits) of metered customers.</p>	<p>Blue Drop report 2021/22</p>

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>is a high risk. Above 90% is critical risk. Of the 7 supply systems, only 3 achieved a medium risk (Bloemfontein, Dewetsdorp and Thaba Nchu). 2 achieved a high-risk rating (Vanstadensrus and Wepener) and 2 a critical risk rating (Botshabelo and Soutpan). Under operational capacity, only Dewetsdorp and Wepener have operational flow data while the remainder of the systems do not have information.</p>	<p>Government departments are not honouring their debt in full. Currently 4620 meters are not allocated to the financial system and information on installed meters do not always reach the finance office.</p> <p>There is inadequate credit control on both indigents and normal clients. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA. There are not loss reduction strategies in place to address this.</p> <p>159km of asbestos pipeline needed to be replaced.</p> <p>Need for meter audits and 'SMART' technologies due to inaccurate meter database and poor revenue collected.</p>		<p>Departments in arrears with their accounts should be treated the same as customers in arrears.</p> <p>Install bulk smart meters for LPU customers.</p> <p>Allocate budget, complete strategy document.</p> <p>Allocate budget, complete and implement.</p> <p>Meter readers should have technical skills and should report on illegal connections or meter tampering.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>The municipality requires a Water Infrastructure Maintenance plan Dilapidated components at Water Treatment Plants and sewer spillage upstream from Waste Water Treatment Works is a threat to water quality.</p> <p>Lack of funding for maintenance, refurbishment and capital projects has accelerated the decline in the condition of the infrastructure resulting in failing equipment. Loadshedding is another accelerant factor.</p>		<p>Allocate budget, complete and implement.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>The municipality requires a Water Infrastructure Maintenance plan. Dilapidated components at Water Treatment Plants and sewer spillage upstream from Waste Water Treatment Works is a threat to water quality. Lack of funding for maintenance, refurbishment and capital projects has accelerated the decline in the condition of the infrastructure resulting in failing equipment. Loadshedding is another accelerant factor.</p> <p>The municipality does not have a Water Conservation and Water Demand Management Plan (WCWDMP) Water losses attributed to meter tampering and illegal connections due to customers not prioritising the payment of services. Water losses are reported at 46% largely due to lack of proper network maintenance.</p>		<p>Identify implementable project at critical plants to implement.</p> <p>Allocate budget and implement.</p> <p>Implement key activities as required by the plan.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>The municipality does not have a Water Services Development Plan (WSDP).</p> <p>Need for meter audits and 'SMART' technologies due to inaccurate meter database and poor revenue collected. Faulty meters, inaccurate billing and old meters leads to incorrect billing information and estimated billing which in turn results in inaccurate billing and inflated debt. Theft, illegal connections and Meter tampering result in Electricity losses of 10.92% (Technical and non-technical losses). Malfunctioning of bulk meters due to aging and tampering. Enhance revenue by installing Bulk meters and Zonal meters to curb revenue losses & to detect tampers remotely. Government debt is about R800m due to Government departments are not honouring their debt in full. Currently 4620 meters are not allocated to the</p>		<p>Implement key activities as required by the plan.</p> <p>Targeted meter replacement prioritised by largest loss impact on a yearly basis.</p> <p>Prioritise budget for smart meter replacements.</p> <p>Zonal meters to be installed in a phased approach.</p> <p>The calculation of distribution losses should correctly deduct internal usage and the Rand value should be based on the cost of purchase.</p> <p>Joint MMM teams (finance and engineering) should conduct in-loco inspections</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>financial system and information on installed meters do not always reach the finance office.</p> <p>There is inadequate credit control on both indigents and normal clients. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA. There are no loss reduction strategies in place to address this.</p>		<p>(audits) of metered customers.</p> <p>Enforce by-laws and disconnect illegal connections.</p> <p>Determine pattern of household usage and flag for any irregularities.</p> <p>Equip meter readers with technical skills so they can report on illegal connections or meter tampering.</p> <p>Implement loss reduction strategies.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>159km of asbestos pipeline needed to be replaced.</p> <p>The municipality does not have a Water Conservation and Water Demand Management Plan (WCWDMP). Water losses attributed to meter tampering and illegal connections due to customers not prioritising the payment of services. Water losses are reported at 46% largely due to lack of proper network maintenance.</p> <p>The municipality does not have a Water Services Development Plan (WSDP).</p> <p>There is no asset management strategy, policy or Asset Management Plans (AMPs) in place.</p> <p>Need for meter audits and 'SMART' technologies due to inaccurate meter database and poor revenue collected.</p>		<p>Allocate budget, complete and implement.</p> <p>Implement remaining activities as required by the plan.</p> <p>Implement key activities as required by the plan.</p> <p>Allocate budget, complete and implement the Asset Management Plan.</p> <p>Maintain meter replacement prioritised by largest loss impact on a yearly basis.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>Faulty meters, inaccurate billing and old meters leads to incorrect billing information and estimated billing which in turn results in inaccurate billing and inflated debt. Theft, illegal connections and Meter tampering result in Electricity losses of 10.92% (Technical and non-technical losses). Malfunctioning of bulk meters due to aging and tampering. Enhance revenue by installing Bulk meters and Zonal meters to curb revenue losses and to detect tampers remotely. Government debt is about R800m due to Government departments are not honouring their debt in full. Currently 4620 meters are not allocated to the financial system and information on installed meters do not always reach the finance office.</p>		<p>Maintain budget for smart meter replacements.</p> <p>Enforce by-laws and disconnect illegal connections.</p> <p>Determine pattern of household usage and flag for any irregularities.</p>	
Sanitation	1 884 new sewer connections.	The municipality requires a Sanitation Master plan.	Lack of strong leadership and management.	Allocate budget, complete and implement.	AFS 2021/22 Final IDP

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>1000 bucket toilets 50000 VIP toilets which require desludging twice a year which is costly to maintain.</p> <p>Plant design capacity is 140MI/d and is operating at 104% above capacity. Effluent compliance (3 WUL; 1 GA; 1 Permit; 7 Not authorised; 1 Unknown).</p> <p>The VROOM cost presents a “very rough order of measurement” cost to return a WWTWs functionality to its original design is estimated at R164m.</p>	<p>The municipality requires a Sanitation Infrastructure Maintenance plan. Dilapidated components at Waste Water Treatment Works result in sewer spillage which is threat to water quality.</p> <p>The Green Drop report shows the following plants as a Critical Risk Rating (Dewetsdorp, Vanstadensrus, Wepener, Soutpan) and these with a High Risk Rating (Bloemindustria, Bloemspruit, Botshabelo, Sterkwater, Thaba Nchu, Welvaart). Plant design capacity is 140MI/d and is operating at 104% above capacity. The VROOM cost presents a “very rough order of measurement” cost to return a WWTWs functionality to its original design is estimated at R164m.</p>	<p>Outdated water conservation and demand strategy. Masterplans and Maintenance plans not in place or adopted. No budget to undertake (and in some cases to complete) plans.</p> <p>Maintenance budget not sufficient to maintain the assets.</p> <p>Old and obsolete assets</p> <p>Tariffs are not cost reflective</p> <p>No Loss reduction strategies in place</p> <p>No revenue enhancement strategies in place</p>	<p>Allocate budget, complete plan.</p>	<p>2022 - 2027 (24052022) Asset Register Bloemfontein Sewer Masterplan Report - Revision 2_Draft Dewetsdorp Sewer Masterplan Report - Revision 1_Draft Soutpan Master Plan Final Report</p>

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>R 71 m allocated for the refurbishment of wastewater treatment works.</p> <p>The Green Drop Score in 2013 was 79% (2013) and it dropped to 33% (2021). The Northern Works, Bloemindustria, Soutpan, Dewetsdorp, Van Stadensrus and Wepener scored less than 31% (critical state). The audit data shows that Bloemspruit, Botshabelo, Sterkwater are hydraulically overloaded. Critical Risk Rating (Dewetsdorp, Vanstadensrus, Wepener,</p>	<p>The municipality is currently developing and concluding on the Sanitation Infrastructure Maintenance plan Dilapidated components at Waste Water Treatment Works result in sewer spillage which is threat to water quality. The Green Drop report shows the following plants as a Critical Risk Rating (Dewetsdorp, Vanstadensrus, Wepener, Soutpan) and these with a High Risk Rating (Bloemindustria, Bloemspruit, Botshabelo, Sterkwater, Thaba Nchu, Welvaart) Plant design capacity is 140MI/d and is operating at 104% above capacity. The VROOM cost presents a “very rough order of measurement” cost to return a WWTWs functionality to its original design is estimated at R164m.</p>		<p>Identify implementable project at critical plants to implement.</p> <p>Allocate budget and implement.</p>	<p>Rev 1 Vanstadensrus Sewer Masterplan Report - Revision 1_Draft Wepener Sewer Masterplan Report - Revision 1_Draft Green Drop report 2021/22</p>

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>Soutpan). High Risk Rating (Bloemindustria, Bloemspruit, Botshabelo, Sterkwater, Thaba Nchu, Welvaart).</p>	<p>The municipality requires a Sanitation Infrastructure Maintenance plan. Dilapidated components at Waste Water Treatment Works result in sewer spillage which is threat to water quality. The Green Drop report shows the following plants as a Critical Risk Rating (Dewetsdorp, Vanstadensrus, Wepener, Soutpan) and these with a High Risk Rating (Bloemindustria, Bloemspruit, Botshabelo, Sterkwater, Thaba Nchu, Welvaart). Plant design capacity is 140MI/d and is operating at 104% above capacity. The VROOM cost presents a “very rough order of measurement” cost to return a WWTWs functionality to its original design is estimated at R164m.</p> <p>There is an influx of people to Mangaung resulting in an increase in population and</p>		<p>Identify implementable project at critical plants to implement.</p> <p>Allocate budget for the eradicate the VIP toilets in a phase approach.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>informal settlements which adds to the backlogs.</p> <p>The municipality requires a Sanitation Infrastructure Maintenance plan Dilapidated components at Waste Water Treatment Works result in sewer spillage which is threat to water quality. The Green Drop report shows the following plants as a Critical Risk Rating (Dewetsdorp, Vanstadensrus, Wepener, Soutpan) and these with a High Risk Rating (Bloemindustria, Bloemspruit, Botshabelo, Sterkwater, Thaba Nchu, Welvaart) Plant design capacity is 140MI/d and is operating at 104% above capacity. The VROOM cost presents a “very rough order of measurement” cost to return a WWTWs functionality to its original design is estimated at R164m.</p>		<p>Projects identified from the Maintenance Plan must go through the project budget cycle with Project Implementation Plans (PIP).</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
Roads and Stormwater	6.3km of new roads planned for construction and 25% of surfaced roads resurfaced and resealed. Reported maintenance challenges on road signs and markings, potholes, traffic control, stormwater	There is an influx of people to Mangaung resulting in an increase in population and informal settlements which adds to the backlogs.	Lack of strong leadership and management Outdated water conservation and demand strategy. Masterplans and Maintenance plans not in place or adopted. No budget to undertake (and in some cases to complete) plans. Maintenance budget not	Accelerate the implementation of new human settlements developments following an integrated approach across all departments aligned to the Project Management Focus area key activities.	AFS 2021/22 Final IDP 2022 - 2027 Asset Register Consultative process
		There is no asset management strategy, policy or Asset Management Plans (AMPs) in place.		Allocate budget, complete and implement the Asset Management Plan.	
		The municipality is currently developing and concluding on the Roads and Stormwater Masterplan.		Allocate budget, complete and implement.	
		The municipality is currently developing and concluding on the Roads and Stormwater Infrastructure Maintenance plan. Up to 90% of surfaced roads are in poor condition (reported potholes, stormwater drainage and related blocked drains).		Allocate budget, complete and implement.	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information	
Solid Waste	500 000 tons of solid waste processed at Landfills per capita (per household) annually. Pending Court Cases relating to waste management Integrated waste management plan still in a draft format still undergoing consultation.	flooding, blocked drains, etc.	The municipality is currently developing and concluding on the Roads and Stormwater Infrastructure Maintenance plan. Up to 90% of surfaced roads are in poor condition (reported potholes, stormwater drainage and related blocked drains).	sufficient to maintain the assets. Old and poorly maintained assets.	Identify implementable project at critical plants to implement. Allocate budget and implement.	AFS 2021/22 Final IDP 2022 - 2027 (24052022) Asset Register Consultative process
			There is no asset management strategy, policy or Asset Management Plans (AMPs) in place.		Allocate budget, complete and implement Asset Management Plan.	
			The municipality is currently developing and concluding on the Integrated Waste Management Plan (IWMP).	Lack of strong leadership and management No IWMP in place. Dependency on fleet and yellow plant.	Allocate budget, complete and implement	
			The municipality is currently developing and concluding on the Integrated Waste Management Plan (IWMP).	Theft and vandalism results in a high dependency on contracted services to deliver services. Maintenance budget not sufficient to maintain the	Identify implementable project at critical plants to implement. Allocate budget and implement.	
		Landfills are currently not complying to the legislation which could lead to licences been		Identify the non-compliance criteria and create projects		

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>Unlicensed Wepenaar landfill site. Overcapacity of the Northern landfill site and R35 million required as part of the rehabilitation costs and currently R 8 million is allocated. Vandalised transfer stations R 52 million allocated for a composting facility, mobile buy-back centre, and separation -at- source program.</p>	<p>revoked. All existing landfill sites weighbridges are currently not functioning. The fences have also been stolen. There is currently no revenue collected at the landfill sites, gates except revenue from the destruction of condemned goods which is not frequent. There are no sufficient resources to cover areas that are badly affected by the illegal dumping. Furthermore, lack of sufficient human capacity to provide education and awareness to the community members.</p> <p>Landfills are currently not complying to the legislation which could lead to licences been revoked.</p> <p>All existing landfill sites weighbridges are currently not functioning. The fences have also been stolen. There is currently no revenue collected at the landfill sites, gates except revenue from the destruction of condemned goods which is not frequent.</p>	<p>assets Old and poorly maintained assets.</p>	<p>and project implementation plans to ensure compliance.</p> <p>Install Weighbridges on landfill sites.</p> <p>Collect revenue from users at landfill sites.</p> <p>Collaborate with Private waste removal companies.</p> <p>Allocate budget for projects to remove non-compliance.</p> <p>Implement projects to remove non-compliance.</p> <p>Design and implement Waste Management Maintenance and Refurbishment Plan.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>There are no sufficient resources to cover areas that are badly affected by the illegal dumping. Furthermore, lack of sufficient human capacity to provide education and awareness to the community members.</p> <p>There is no asset management strategy, policy or Asset Management Plans (AMPs) in place.</p>		<p>Internalise waste removal service.</p> <p>Allocate budget, complete and implement the Asset Management Plan.</p>	
Community Facilities	<p>The municipality needs to upgrade sports and recreation facilities and cemeteries.</p> <p>The municipality needs to have cost reflective tariffs for the use of its facilities.</p>	<p>The municipality needs to upgrade sports and recreation facilities and cemeteries. The municipality needs to have cost reflective tariffs for the use of its facilities. Poor revenue collection for use of facilities. The municipality owns a Nature Reserve facility that it has not been optimized for revenue collection.</p>	<p>There are not enough vehicles are available due to breakdowns.</p> <p>There is no maintenance budget available.</p>	<p>Development and Implementation of a cultural and sport tourism strategy.</p>	<p>AFS 2021/22 Final IDP 2022 - 2027 (24052022) Asset Register</p>

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>Poor revenue collection for use of facilities. The municipality owns a Nature Reserve facility that it has not been optimized for revenue collection.</p>	<p>The municipality does have Community Facilities Maintenance Plan and Operation Plan but should be updated Parks has a maintenance strategy in place which stipulates the maintenance standards on how Parks have to be maintained and looked after however there are not enough vehicles are available due to breakdowns and there is no maintenance budget available.</p> <p>The municipality does have Communnality Facilities Maintenance Plan and Operation Plan but should be updated Parks has a maintenance strategy in place which stipulates the maintenance standards on how Parks must be maintained and looked after however there are not enough vehicles are available due to breakdowns and there is no maintenance budget available.</p>		<p>Allocate budget, complete and implement.</p> <p>Identify implementable project at critical plants to implement. Allocate budget and implement.</p>	<p>Consultative process</p>

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
Town Planning and Human Settlement	SLA's are delayed due to the document not been signed timeously. Lack of land for	The municipality needs to upgrade sports and recreation facilities and cemeteries. The municipality needs to have cost reflective tariffs for the use of its facilities. Poor revenue collection for use of facilities. The municipality owns a Nature Reserve facility that it has not been optimized for revenue collection.	Inefficient processes and lack of interest in responsibilities of appointed positions.	The municipality must consider entering into partnerships with sporting bodies to maintain sports facilities. The Service Level Agreements must contain cost reflective tariffs to the sporting bodies.	SDF 2022 ToR for Municipal Housing
		There is no asset management strategy, policy or Asset Management Plans (AMPs) in place.		Introduce a revenue collection mechanism including seasonal tokens for use of recreational facilities.	
		SPLUMA has been implemented however MMM takes too long to sign the SLA resulting in delays as the owner cannot install services.		Allocate budget, complete and implement the Asset Management Plan.	
				MMM to adhere to timeframes recommended by SPLUMA and capacitate the department.	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>development. Loss of potential revenue. Slow local economic development. Informal Settlement Sprawl.</p>	<p>Lack of land for development. Loss of potential revenue. Slow local economic development. Informal Settlement Sprawl.</p>		<p>Review the process leading to approval of submissions by Council.</p> <p>Institute immediate legal action against all the habitual defaulters.</p> <p>Delegate approvals of the short-term leases to the HOD: Human Settlements, subject to quarterly reporting to Council for noting.</p> <p>Prioritizing funding for the installation of services on all the land development initiatives for mixed development and sell newly developed sites to expand the revenue base.</p>	<p>Sector Plan__MMM 2023 Permission to adopt priority Human Settlements Development areas (PHDAs) for the MMM Mangaung-Residential-Property-Market-Final-report-Feb-2018-1 Human settlements housing projects</p>

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>47 informal settlements which are home to an estimated 30 329 households, sporadic land invasion, accreditation and beneficiary management, Bulk Infrastructure for VISTA 3, challenges in the upgrading of informal settlements is the lack of bulk capacity especially for sanitation in regions of Thaba-Nchu and Botshabelo.</p>		<p>Prioritising funding for the installation of services on all the industrial sites in Hamilton and Bloemindustria.</p> <p>Address building contraventions and enforce the building bylaws, this includes compliance with zoning status.</p> <p>Exploring the alternative sanitation solutions to provide flushing toilets to households.</p> <p>Council approval of commonage framework.</p> <p>Land audit exercise.</p>	<p>status 17 JAN 2023 Human Settlements Catalytic Integrated Mix Land Use Development s Business Plan 25-7-16 (To be reviewed).</p>

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>Lack of land for development. Loss of potential revenue. Slow local economic development. Informal Settlement Sprawl.</p> <p>47 informal settlements which are home to an estimated 30 329 households, sporadic land invasion, accreditation and beneficiary management, Bulk Infrastructure for VISTA 3, challenges in the upgrading of informal settlements is the lack of bulk capacity</p>		<p>Acquire more land for forward land development planning and relocation of informal settlements located on unhabitable land.</p> <p>Implement reviewed the process leading to approval of submissions by Council.</p> <p>Institute immediate legal action against all the habitual defaulters.</p> <p>Increase bulk infrastructure rollout to accommodate human settlements.</p> <p>Allocate funding for management of alternative sanitation systems.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
Integrated Public Transport Network (IPTN)	100% scheduled access points and service stops that are universally accessible.	especially for sanitation in regions of Thaba-Nchu and Botshabelo.	The handover process was unfolding and planned to have concluded by financial year end.	Relocation of illegal commonages.	Consultative process
		Lack of land for development. Loss of potential revenue. Slow local economic development. Informal Settlement Sprawl.		Relocation of communities (Gatvol, Khayelisha).	
		37 Bus stops completed, 7 Bus shelters, 1 university stop. No operational license for buses, vandalism (batteries missing), vehicle inspection list completed.		Institute immediate legal action against all the habitual defaulters.	
				Implementation of the Pilot & Go Live phase.	
				Operation of the ticket sales office.	
				Completion of all bus stops.	
				Review the contract and ensure alignment for appointed operator.	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
Fresh Produce Market	The facility has fallen into disrepair.	Poor Facilities Management including poor management of loadshedding resulting in adverse impact on facility users.	Insufficient maintenance budgets. No facilities maintenance plan.	Develop a facilities maintenance plan.	Consultative process
				Allocate funding for the maintenance and implement to protect revenue that is currently being generated.	
Testing and Licencing	SLA costs are not reflective.	Outdated Service Level Agreement between the municipality and the Provincial Department of Safety.	Outdated SLA	Re-model cost of the licencing services.	Consultative process
		Outdated Service Level Agreement between the municipality and the Provincial Department of Safety.		Re-negotiate the licencing service level agreement with Provincial Department of Safety.	
Fire Services	The municipality may be in violation of the Fire Services Brigade Act 99 Of 1987. The municipality has a limited number of trucks	The municipality may be in violation of the Fire Services Brigade Act 99 Of 1987. The municipality has a limited number of trucks and inadequate fire fighting equipment. It is unclear if the fire hydrants are in a good	No maintenance. Lack of Vehicles, equipment and PPE. Lack of understanding of the Fire Service Brigade Act.	Develop an optimal service delivery model for delivering the Fire Services. Tariffs for fire services must be cost reflective.	Consultative process Fire Services Brigade Act 99 Of 1987

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>and inadequate firefighting equipment. It is unclear if the fire hydrants are in a good working condition as there is no evidence of maintenance work done. There is poor enforcement of national fire code on buildings. Fire tariffs may not be cost reflective and may not be applied consistently.</p>	<p>working condition as there is no evidence of maintenance work done.</p> <p>There is poor enforcement of national fire code on buildings. Fire tariffs may not be cost reflective and may not be applied consistently.</p> <p>The municipality may be in violation of the Fire Services Brigade Act 99 Of 1987. The municipality has a limited number of trucks and inadequate fire fighting equipment.</p> <p>It is unclear if the fire hydrants are in a good working condition as there is no evidence of maintenance work done. There is poor enforcement of national fire code on buildings. Fire tariffs may not be cost reflective and may not be applied consistently.</p>		<p>Update and implement Fire Risk Management Plan.</p> <p>Develop a vehicle and equipment funding and replacement plan.</p> <p>Ensure safe working accommodation for fire station staff.</p>	
Fleet	Theft and vandalism has crippled the fleet to the	The municipality does not have Fleet Management Strategy.	Theft and vandalism. Insufficient budgets.	Allocate budget, complete and implement.	Consultative process

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
	<p>extent it is barely functional. Vehicle and plant that cannot return to service should be disposed of. Dependency on contracted services. lack of policies and plans to provide strategic vision</p>	<p>The municipality does not have Fleet Management Policy.</p> <p>Inadequate plant and equipment to manage the landfill sites. There is a refuse removal schedule, but it is frequently not adhered to due to lack of sufficient vehicles to remove waste and lack sufficient human resources (critical positions not filled). The mechanical workshop is in a good condition but under-utilized due to budget constraints to procure adequate and specialized equipment and spares. Dysfunctional plant, equipment and fleet that cannot be repaired or salvaged should be disposed off.</p> <p>Parks has a maintenance strategy in place which stipulates the maintenance standards on how Parks have to be maintained and</p>	<p>No policies and strategic plans in place. Workshop not functional.</p>	<p>Allocate budget, complete and implement.</p> <p>A comprehensive needs analysis including cost benefit analysis on the maintenance costs and lease vs buy analysis should be implemented in the Fleet strategy.</p> <p>Review the current existing lease agreements and perform a cost benefit analysis on leasing versus buying.</p> <p>Incorporate the vehicle replacement plan under Fleet management strategy plan.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>looked after however there are not enough vehicles are available due to breakdowns and there is no maintenance budget available.</p> <p>The Fleet Management Policy must be updated, and the Vehicle Maintenance plan detailed within the Policy.</p> <p>MMM does not have separate Insurance and Fuel Management Policy. Vehicles are insured in line with the Asset Management Policy of the Municipality and the use of fuel is covered in the Fleet Management Policy.</p> <p>Inadequate plant and equipment to manage the landfill sites. There is a refuse removal schedule, but it is frequently not adhered to due to lack of sufficient vehicles to remove waste and lack sufficient human resources (critical positions not filled). The mechanical workshop is in a good condition but under-utilized due to budget</p>		<p>Budget for the mechanical workshop must be provided for.</p> <p>Allocate budget, complete and implement.</p> <p>Allocate budget, complete and implement.</p> <p>Allocate budget, complete and implement.</p> <p>Optimise the current fleet to provide maximum services.</p> <p>Fleet records should be updated on time and accident committee should be established to monitor progress of all fleet damaged.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		constraints to procure adequate and specialized equipment and spares. Dysfunctional plant, equipment and fleet that cannot be repaired or salvaged should be disposed off. Parks has a maintenance strategy in place which stipulates the maintenance standards on how Parks have to be maintained and looked after however there are not enough vehicles are available due to breakdowns and there is no maintenance budget available.		Establish accident committee that will investigate all accidents and apply consequence management where necessary. Budget for the mechanical workshop must be provided for.	
Customer Service	No centralised service delivery complaints centre as compared to other Metro's.	No proper policy and service charter to improve customer service.	IT systems must be clearly defined. Budget must be allocated.	Allocate budget, complete and implement. Allocate budget, complete and implement.	Consultative process

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>Up to 90% of surfaced roads are in poor condition (reported potholes, stormwater drainage and related blocked drains). Complaints from the community that the response time is too long to attending to all reported faults and blockages, addressing sewage spillages, and Reducing sewer blockages.</p>		<p>Allocate budget for digital channel reporting (Webpage, mobile application, Whatsapp) of service delivery issues and interruptions on streetlights, outages, water leaks, sewer leaks, water supply issues, Sewer spillages, potholes, blocked stormwater, etc.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
Project Management	The municipality significantly underspent the budget for capital expenditure and repairs and maintenance of infrastructure assets. There was underspending in 2021/22 of 35.7%. The performance has been bad (<15%) for 2018/19 and average (5%-15%).	Time taken to reticulate peri-urban areas is too long leading to community protests. The rate of rehabilitation and development of sewer reticulation networks is very slow. Lack of funding for maintenance, refurbishment and capital projects has accelerated the decline in the condition of the infrastructure resulting in failing equipment. Loadshedding is another accelerant factor. Projects for refurbish /upgrade electrical network are delayed due to insufficient budgets.	Poor application of project management principles. SCM processes ineffective. Projects lack a Project Implementation Plan. Poor contractor management. Lack of skilled and knowledgeable project managers. Lack of a project tracking tool. Projects not prioritised.	<p>Introduce a monitoring mechanism to track project progress against spend, be a repository for project capitalisation purposes to assist in the capitalisation process.</p> <p>Review expenditure on Capital projects to ensure the funds received are spent in accordance with the given conditions.</p> <p>An integrated approach is needed for multidisciplinary projects.</p> <p>Project prioritisation matrix must be developed.</p> <p>All projects must feed into the CAPEX plan and have</p>	AFS 2021/22 IDP 2021/22

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>Time taken to reticulate peri-urban areas is too long leading to community protests. The rate of rehabilitation and development of sewer reticulation networks is very slow. Lack of funding for maintenance, refurbishment and capital projects has accelerated the decline in the condition of the infrastructure resulting in failing equipment.</p>		<p>an associated Project Implementation plan.</p> <p>Provide training in grant conditions and guidelines.</p> <p>Ring fence of grant funds and preferably pay service providers from this dedicated account in order to monitor and minimise misuse.</p> <p>All projects must feed into the CAPEX plan and have an associated Project Implementation plan and Feasibility study.</p> <p>Create a database for Local Subcontractors.</p>	

FOCUS AREA	Brief Diagnostic Analysis	Key Issue	Root Cause	Proposed Strategy to Resolve	Source of Information
		<p>Loadshedding is another accelerant factor. Projects for refurbish /upgrade electrical network are delayed due to insufficient budgets.</p> <p>Time taken to reticulate peri-urban areas is too long leading to community protests. The rate of rehabilitation and development of sewer reticulation networks is very slow. Lack of funding for maintenance, refurbishment and capital projects has accelerated the decline in the condition of the infrastructure resulting in failing equipment. Loadshedding is another accelerant factor. Projects for refurbish /upgrade electrical network are delayed due to insufficient budgets.</p>		<p>Implementation of procurement plan.</p> <p>Capital projects should be included in the three-year rolling internal audit plan.</p> <p>All projects must feed into the CAPEX plan and have an associated Project Implementation plan and Feasibility study.</p>	

5. 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.

5.1 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.

5.2 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.

5.3 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.

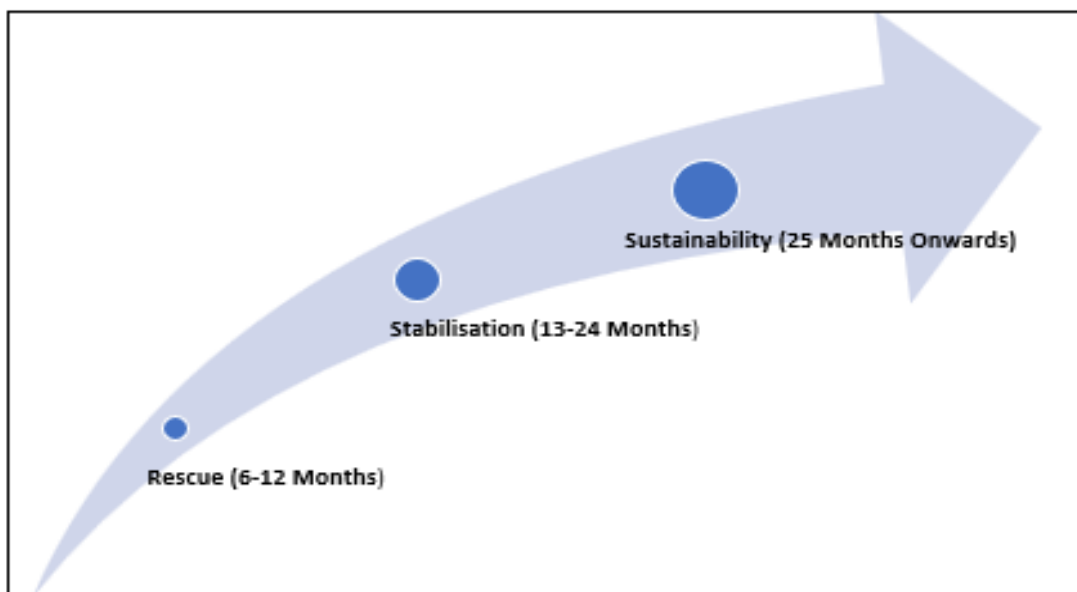


Figure 6 - FRP Development Phases

6. PART FOUR – REPORTING FRAMEWORK

6.1 REPORTING FRAMEWORK

In order for the implementation of the FRP to be successful, monitoring and review of the plan against targets and updates, where required is critical. The internal reporting structure for the purposes of the FRP will be guided by the Municipal Executive Committee.

The City Manager is therefore required to closely monitor and evaluate progress and must report to Council and National and Provincial Government on a regular basis. The reports on the implementation of the Plan should form part of discussions at every Mayoral Committee and management meeting. The City Manager must take corrective action when activities in the Plan are falling behind implementation timelines or when there is a risk of non-achievement of the desired targets or outcomes.

Reporting outside of the Municipality is guided by S146 (1) (c) of the MFMA which states that the Municipality must report monthly to the MEC for finance in the Province on the implementation of the plan.

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

The report to be submitted must at a minimum include the following:

- Detailed Activity Plan and Status (Section 7);
- Risk Matrix, Mitigation Plan and Updates; and
- Items for Intervention, Escalation and/or Further Discussion.

Below is an example of a basic internal reporting structure:


																	
PHASE 2: STABILISATION																	
NO	FOCUS AREA	KEY ASSESSMENT FINDING (BASELINE)	KEY ACTIVITIES	RESOURCES REQUIRED	RESOURCES MOBILISED	RESPONSIBLE	START DATE	END DATE	KEY PERFORMANCE INDICATOR	PORTFOLIO OF EVIDENCE	BUDGET PARAMETER/ REVENUE TARGET/	MUNICIPAL PROGRESS REPORT					
												STEPS TAKEN	PROGRESS MADE	FINANCIAL IMPACT	OTHER NOTEWORTHY DEVELOPMENTS		

Figure 7 - Internal Reporting Structure

7. 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.

8. ANNEXTURE A: 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%			

Ratio Analysis Report			Restated		Audited	Budget		
		Norm	2020	2021	2022	2023	2024	2025
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%			

Ratio Analysis Report			Restated		Audited	Budget		
		Norm	2020	2021	2022	2023	2024	2025
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%			

9. ANNEXTURE B: FINANCIAL RATIO ANALYSIS

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited	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.	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.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited	Remarks
The norm is 8%.				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.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited	Remarks
				The inability to collect revenue and thereby convert revenue to cash is a contributing factor to the cash flow challenges being experienced by the Municipality.
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				

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited	Remarks
<p>Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure - indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure.</p> <p>The norm is 6% - 8%.</p>	3,46%	4,30%	2,82%	<p>The ratio is below the norm for the 3 financial years.</p> <p>Borrowing and credit needs to be appropriately managed to avoid a situation where the Municipality is no longer able to service its debt levels.</p> <p>This ratio is to be read with the Debt/ (Total Borrowing)/ Revenue ratio and its collection rate.</p> <p>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.</p>
<p>Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue.</p> <p>The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings.</p> <p>The norm is 45%.</p>	13,90%	10,83%	8,20%	<p>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.</p> <p>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.</p>
FINANCIAL PERFORMANCE				
Efficiency				

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited	Remarks
<p>Net Operating Margin – measures the net surplus or deficit as a percentage of revenue. The norm is > 0%.</p>	1,78%	-0,55%	-11,41%	<p>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.</p> <p>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.</p> <p>The net operating deficit is confirming the high level of reliance that the Municipality places on National Government support to sustain service delivery.</p> <p>Note that the ideal would be for all surpluses to be cash backed.</p>
<p>Net Surplus /Deficit Electricity Norm is 0% - 15%</p>	30,12%	28,26%	22,13%	<p>These surpluses are substantially above the norm.</p> <p>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.</p>
<p>Net Surplus /Deficit Water Norm is >=0%</p>	8,50%	24,97%	21,17%	<p>These surpluses are substantially above the norm.</p> <p>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.</p>
Distribution Losses				
<p>Electricity Distribution Losses (%) The norm is 7% - 10%.</p>	8,04%	10,05%	10,96%	<p>Electricity Distribution losses for all three financial years are either within the norm or slightly higher.</p> <p>High electricity distribution losses can be attributed to aged infrastructure and unmetered connections and theft, which should be investigated.</p>
<p>Water Distribution Losses (%) The norm is 15% - 30%.</p>	41,00%	45,00%	45,00%	<p>The water distribution losses are significantly high and above the norm for all 3 financial years.</p>

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited	Remarks
				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.	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.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited	Remarks
<p>The norm is 30 days.</p> <p>Irregular, Fruitless and Wasteful and Unauthorised Expenditure to Total Expenditure – this ratio measures the extent of irregular, fruitless and wasteful and unauthorised expenditure to total expenditure.</p> <p>The norm is 0%.</p>	90,23%	93,69%	96,40%	<p>This is consistent with the cash flow challenges being experienced by the Municipality.</p> <p>This may also be as a result of inadequate payment processes and related controls, disputes and delays in the processing of payments or cash flow challenges, as indicated above.</p> <p>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.</p> <p>These matters need to be investigated and submitted to Council for decisions to be made.</p>
<p>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.</p> <p>The norm is 25% - 40%.</p>	29,21%	29,15%	24,71%	<p>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.</p> <p>However, note that critical vacancies remain unfilled and/or unfunded and if filled could increase this ratio.</p>
<p>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.</p> <p>The norm is 2%-5%.</p>	5,18%	4,73%	3,79%	<p>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.</p> <p>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,</p>
	Ratio including R&M. 5.23%	Ratio including R&M. 7.31%	Ratio including R&M. 6.45%	

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited	Remarks
				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.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Draft Unaudited	Remarks
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.