MANGAUNG METROPOLITAN MUNICIPALITY

DRAFT FINANCIAL RECOVERY PLAN

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national treasury
Department:
National Treasury
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

No.	Abbreviation	Full Form
19.	MMM	Mangaung Metropolitan Municipality
20.	*m*SCOA	Muncipal 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

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.

The Mangaung Metropolitan Municipality (MMM) 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 (7) (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 (NCR) and the appointed support team to assume the responsibility for the implementation of the imposed mandatory financial recovery plan and the overall recovery processes. Given the inability or reluctance to implement the previous recovery plans, it will be recommended that measures now be implemented that would go to the core of the problems in the Municipality in terms of service delivery, administration, financial management and governance.

The challenges in summary include:

- Significant deterioration of the City's financial health and service delivery performance demonstrated by the financial and non-financial performance since 2016/17 as evident in annual financial statements and mid-year performance reports;
- Deteriorating financial management and credit control (including declining Auditor-General outcomes);
- Poor governance and political oversight;
- Poor communication with communities and key stakeholders; and
- Lack of strengthening and improving the functionality of the administration.

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

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

4. PART ONE - LEGISLATIVE CONTEXT, INTERVENTION AND OVERSIGHT

4.1 OVERVIEW OF THE FINANCIAL RECOVERY PLAN (FRP)

S142 of the MFMA outlines the criteria for FRP.

The intervention at MMM was instituted through section 139(7) of the Constitution where the provincial executive cannot or does not adequately exercise the powers or perform the functions referred to in subsection (4) and (5), the national executive must intervene in terms of subsection (4) or (5) in the stead of the relevant provincial executive.

Chapter 13 of the MFMA deals with the resolution of financial problems in municipalities and outlines the processes that must be followed in terms of mandatory interventions invoked in terms of Section (5) of the Constitution.

Section 139 (1) of the MFMA places the responsibility on the Provincial Executive Committee to request the MFRS in the National Treasury to prepare a FRP, which considers the reasons for the financial crisis and an assessment of the municipality's financial state of affairs (status quo assessment).

In terms of Section 139(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 FRP are approved.

Section 142 of the MFMA specifies criteria for FRPs irrespective of whether the FRP is discretionary or mandatory in nature. In this regard, the following subsections are important:

> Section 142 (1) A financial recovery plan must be aimed at securing the municipality's ability to meet its obligations to provide basic services or its financial commitments, and such a plan, whether for a mandatory or discretionary intervention –
>
> (a) *"Must –*
>
> i. *Identify the financial problems of the municipality;*
>
> ii. *Be designed to place the municipality in a sound and sustainable financial condition as soon as possible;*
>
> iii. *State the principal strategic objectives of the plan, and ways and means for achieving those objectives;*
>
> iv. *Set out a specific strategy for addressing the municipality's financial problems, including a strategy for reducing unnecessary expenditure and increasing the collection of revenue, as may be necessary;*
>
> v. *Identify the human and financial resources needed to assist in resolving financial problems, and where those resources are proposed to come from;*
>
> vi. *Describe the anticipated timeframe for the 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.*

j) Section 142 (2) states that in addition, a financial recovery plan –

(a) "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."

Regarding the implementation of the FRP in mandatory national interventions, the Municipality's attention is drawn to the following provisions of Section 146 of the MFMA.

Section 146(1) of the MFMA provides that if the recovery plan was prepared in a mandatory national intervention referred to in section 139 –

(a) "The municipality must implement the approved recovery plan;

(b) all revenue, expenditure and budget decisions must be taken within the framework of, and subject to the limitations of, the recovery plan; and

(c) the municipality must report monthly to the Minister for Finance on the implementation of the plan in such manner as the plan may determine".

In conclusion, unlike a voluntary or discretionary financial intervention, the National Treasury, through the MFRS must develop the FRP for the Mangaung Metropolitan Municipality. The FRP binds the Municipality in the exercise of both its legislative and executive authority including the approval of a budget and legislative measures giving effect to the budget, to the extent necessary to achieve the objectives of the FRP.

4.2 PREPARATION, CONSULTATION AND APPROVAL OF THE FRP

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

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

GOVERNANCE

- Governance model (council and committees and Legislative matters)
- Contract management
- Litigations and Contingent liabilities
- System of delegations
- By-laws
- UIF&W and Consequence Management
- Audit action plans (internal and external)
- Risk Management
- Powers and Functions
- Information and Communication Technology
- Immovable Property management

INSTITUTIONAL

- Operating model
- Organisational structure
- Employee costs
- Labour relations
- Skills & competencies
- Staff discipline and Disciplinary Board
- Performance Management
- Consequence Management
- Key HR Policies
- HR Strategy
- Physical Verification of staff and qualifications
- Records Management

FINANCIAL MANAGEMENT

- Funded budget and budget parameters (spending limits)
- Budget related policies (finance and human resource)
- Revenue Management Value Chain/ revenue raising measures (revenue targets)
- Customer care and data accuracy
- Cost-reflective tariffs
- Indigent Management
- Supply chain management compliance and value for money procurement
- Cost containment and realistic cash flow management
- Financial control environment
- Debt restructuring
- MFMA Circular 71 Financial Ratio analyses against set norms
- Technical vs Financial
- Financial reporting and AFS preparation

SERVICE DELIVERY

- SDF and Master Plans
- Loss control (water and electricity)
- Non-technical losses due to meter tampering, illegal connections
- Unmetered consumption
- Need for meter audits and 'SMART' technologies
- Revenue assets provision and maintenance (bulk meters and meters)
- Fleet Management
- Bulk meters
- Planning and Building Control
- Housing Delivery
- Capital Projects and Grant Funded Projects.
- Waste and Refuse Removal

INFORMATION AND COMMUNICATION TECHNOLOGY

- Operational Efficiency and Cost-Effectiveness
- Data-Driven Decision Making
- Enhanced Service Delivery
- Transparency and Accountability
- Customer Engagement
- Resilience and Sustainability

Figure 1 - Assessment framework

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

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

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

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

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

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.

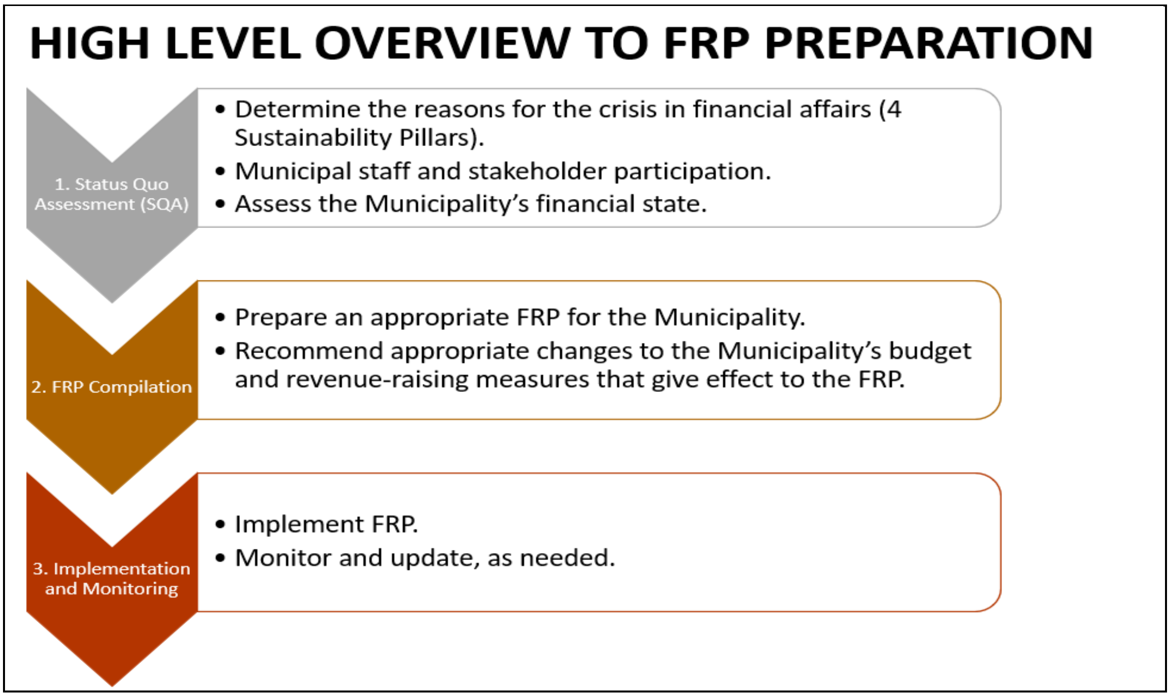


Figure 2 - FRP Preparation Process

Preparation

The approach adopted in the development of the Status Quo assessment is a holistic and consultative approach that also involves a detailed analysis of all relevant documentation coupled with engagements between the Executive Mayor, City Manager, Management and other staff of the Municipality as well as engagements with the National and relevant Provincial Government Departments, Key Stakeholders, Major Creditors and the Local Labor Forum.

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

Additionally, this FRP 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. ICT being the enabler for change and sustainability was subsequently added as a cross cutting pillar.

The key objective of the development of the FRP is to improve short-term liquidity and cash flow management, ensuring stabilisation and ultimately establishing long-term recovery and sustainability of the Municipality.

Consultation Approach

In preparing this FRP, the MFMA requires the NT MFRS to consult with the Municipality, the Municipality's suppliers, and creditors, the MEC's for Finance and Local Government in the Province and organised labour.

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

Key consultation engagements included:

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

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

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

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

The Financial Recovery Plan will be published for a duration of fourteen days. As per the requirements of section 141(3)(c)(ii) of the Municipal Finance Management Act (MFMA), this notice aims to invite the public, including the local community, to submit written comments regarding the draft Financial Recovery Plan.

Approval

In terms of S141(4) the NT MFRS must consider any stakeholder comments received, finalise the FRP; and submit the FRP to the Minister of Finance in the Province for approval in terms of Section 143(2).

In terms of S143(2) mentioned above the Minister of Finance must verify that the process set out in S141 has been followed and that the criteria contained in S142 are met and if so, approve the FRP.

4.3 IMPLEMENTATION OF THE FRP

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

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

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

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

However, it must also be emphasised that the strategies set out in this Plan relate to activities that must be institutionalised and performed by various municipal officials, as part of their routine duties and tasks. Those appointed to such positions, even in acting capacities, and/or deployed within the MMM are given specific roles and responsibilities, which must be re-enforced and captured in a revised performance agreement that also includes key aspects of this Plan.

Oversight by Council and other structures also need to be strengthened to ensure proper governance, service delivery, budget implementation and early warning systems are developed, implemented and corrective measures are taken timeously. Regular, robust and honest interaction must be enforced and sustained beyond this turnaround period at Mangaung for long term sustainability. In Mangaung's case more regular reporting and stringent oversight may be required given the current state of affairs.

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

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

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

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

Where necessary National and Provincial Government should support the Municipality to ensure it "kicks start" the recovery process as the Municipality will be unable to move forward based on its current challenges, without external support.

This FRP encourages a strong political and organisational will to implement the following:

a) The adoption and implementation of a **comprehensive change management programme**, consisting of the presence of uncontaminated and strong change agents to address the following focus areas:

    i. **Consequence management:** The lack of consequence management and accountability arrangements are systemic and symptomatic of a Municipality where oversight is lacking.

    ii. **Capacity development:** An extensive mentorship, coaching, training, and change management effort is required. A skills audit, new staff structure, well trained and equipped elected officials and adherence to codes of conduct, consequence management and accountability would be a minimum first step in the right direction.

b) The activation of the detailed FRP activities is premised on a two-pronged approach running in parallel, namely:

    i. **Rescue team:** A tactical and operational team (80 % outsourced and 20% in-house) to address the rescue activities within the Municipality, namely the immediate and continuous provision of basic municipal services. This team will be operational for a period of three-years, whereafter the capacitated municipal resources appointed through the stability and sustainability team will take over the full responsibility.

    ii. **Stability and sustainability team:** A strategic and tactical team (40 % outsourced and 60% in-house) to address the stabilisation and sustainability activities related to establish a soundly governed Municipality. This team will be operational for a period of three-years, whereafter the municipal leadership will take over the full responsibility.

4.4 MONITORING AND OVERSIGHT OF THE FRP

The Political Oversight Committee to be stablished by the Minister of Finance will direct the intervention, monitor progress, and unblock any political challenges. The said Committee will be constituted as follows:

a) The Premier.

b) Minister of Finance.

c) Minister for CoGTA.

d) Executive Mayor.

e) Speaker.

The intervention in the Mangaung MM will be subject to oversight by a Technical War Room Oversight Committee to be stablished by the HoD, that will direct the intervention, monitor progress, unblock and escalate any political challenges that may hinder the success of this intervention and will report directly to the Minister of Finance and CoGTA jointly and separately.

A National Cabinet Representative for Mangaung MM has been appointed as a full-time deployment to Mangaung MM. Her mandate is to oversee the intervention and implementation of the FRP. Going forward she will also be the point of entry at the Municipality.

The Technical **War Room Oversight Committee** will be established by the HoD PT consisting of:

a) The HOD: Finance, Free State (Chairperson).

b) The HOD: CoGTA, Free State.

c) The Provincial Commissioner of Police.

d) Head: NT MFRS.

e) The National Cabinet Representative (NCR)

f) The Municipal Manager and his/her Senior Managers.

Mindful of the risk areas identified during the status quo assessment and development of the FRP and its Implementation Plan for the Mangaung MM, it is recommended that the activation of the required FRP activities focus on the following two distinct levels which run in parallel, each with its own implementation team being:

i. **Rescue team:** A tactical and operational team (80 % outsourced and 20% in-house) to address the rescue activities within the Municipality, namely the immediate and continuous provision of basic municipal services. This team will be operational for a period of three-years, whereafter the capacitated municipal resources appointed through the stability and sustainability team will take over the full responsibility.

ii. **Stability and sustainability team:** A strategic and tactical team (40 % outsourced and 60% in-house) to address the stabilisation and sustainability activities related to establish a soundly governed Municipality. This team will be operational for a period of three-years, whereafter the municipal leadership will take over the full responsibility.

4.5 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

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

Institutional

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

Financial Health

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

Service Delivery

- Failure to materially control and reduce non-revenue electricity and water losses, which losses will negate the impact of other interventions;
- Failure to reverse the trend of under-maintenance and failure of timely replacement of aged infrastructure; and
- Community unrest and vandalism.

Given this, a proper risk management matrix must also be developed as part of this process, managed, and reported to Council on a regular basis. The risk management matrix should be updated on a regular basis, to incorporate additional risks which may be identified by the Municipality, clearly addressing those that will undermine the national efforts and support.

4.6 COMMUNICATION PLAN

In order for the plan to be institutionalised, a change management and communication plan will need to be developed for both internal and external stakeholders. It is proposed that the NCR drafts an internal and external communication plan to support effective communication throughout the intervention. The communication plan requires a rethink of stakeholders and beneficiaries and role-players due to the extent of the mistrust that exists according to reports and the fact that this is yet another intervention.

Internally, there would need to be a collaborative approach and the functioning and operations in silos will need to be challenged. It is also only fair that all external stakeholders including suppliers, customers and the general community that calls Mangaung home are made aware of the FRP, the circumstances that lead to it and how they will be affected. These individuals also have a vested interest in how the Municipality intends to overcome these challenges.

Honesty and transparency is key to this process.

4.7 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.

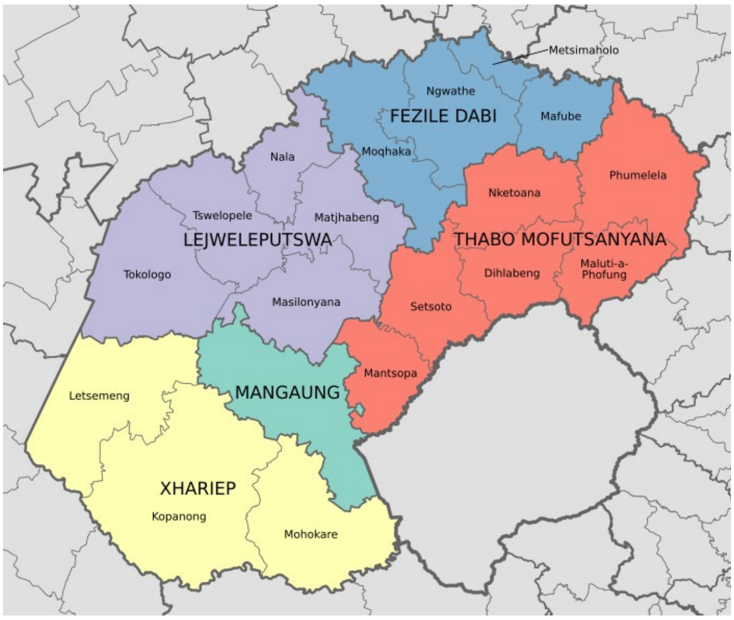


Figure 3: Map of Mangaung and Neighbouring Municipalities

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

Municipality and Ikgomotseng which formed part of Masilonyana Local Municipality were merged with the Mangaung Metropolitan Municipality (MMM) to form one Municipality.

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

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

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

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

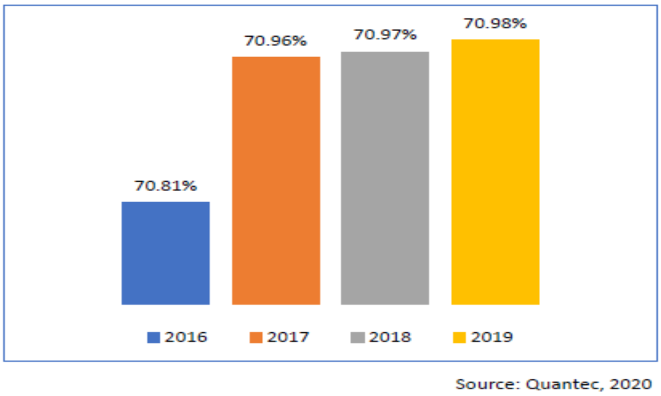
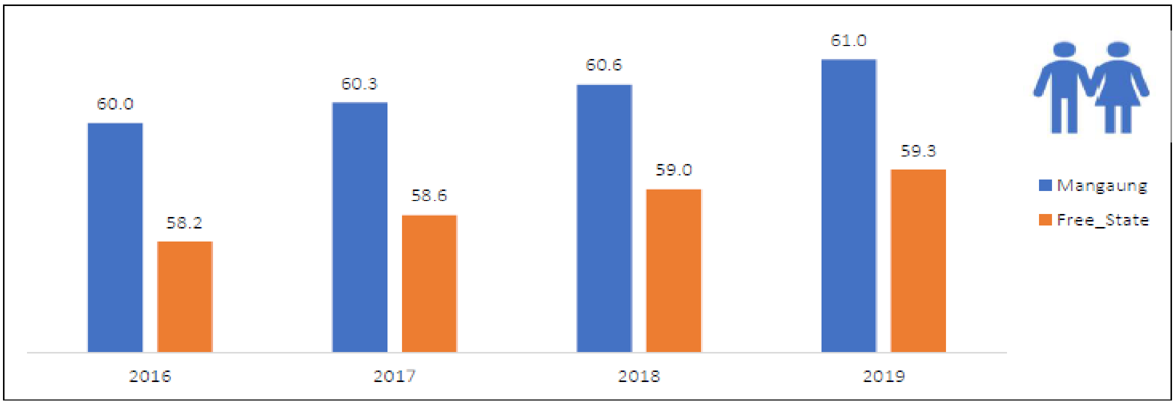


Figure 4: Adult literacy rate

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



Source: Quantec, 2021

Figure 5: Mangaung life expectancy

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

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

Table 1 - HIV Treatment: Source National Treasury

5. PART TWO – STATUS QUO ASSESSMENT

5.1 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.

5.2 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.

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

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

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
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.
	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	Previous chairperson among the expelled councilors. Programming Committee was newly established, and ToR's not developed yet.	MPAC chairperson to be elected/appointed by end of August 2023. Terms of reference to be finalised by end of August 2023.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	Committee not developed yet.	Political infighting and instability.	
	The Municipality has a manual resolutions register but not being effectively monitored for implementation.	No central 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.
	The Municipality has one public entity (Centlec) which is 100% owned by the municipality. The SLA with Centlec does not provide for revenue to be transferred to the Municipality.	The Municipality is losing potential revenue from Centlec. SLA has not been signed and adequate provisions for revenue management not provided for.	Council should review the SLA to ensure that the Municipality receives revenue as per reviewed SLA. 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.
	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.
	Councillors and staff declare their interests in registers but there is no	Ineffective coordination and monitoring process	Develop a process plan of monitoring

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	monitoring process of the status of the declarations.	of disclosure of interests. Poor management.	declaration of interests by councillors and staff.
	Council does not approve statutory reports timeously in line with the approved MFMA calendar, e.g., MPAC report, Annual Report for 2022/23 not yet tabled, budget not yet passed, etc.	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 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.
Contract Management	Contract Management Committee not functional. There is no functioning contract management system in place. Not clear where the function should be performed or located. There is no up-to-date contract register. The contracted services were 4.73% (2020/21) and 3.79% (2021/22) respectively which was	The Contract Management Committee is no longer sitting. No synergy between legal and SCM. No online system to deal with contracts or document management system. No value for money assessments. Political Interference in the appointment of service providers.	Revive the sitting of the Contract Management Committee. Monthly service provider contract performance reports must be submitted to the Contracts Committee for review. Consider re-locating this function to SCM. Establish an online document management system. Invite National Treasury and/or Provincial Treasury to conduct

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	within the Circular 71 norm of 2-5%. The Municipality has contracted services with service providers where there is staff employed to do the same work. Bid committees illegally constituted. Some contracts have not been signed by the previous CM. The Municipality has evergreen contracts that are automatically renewed without going back to the market. For the past 2 months the Municipality did comply with section 116 of the MFMA on submission of monthly monitoring reports on contracts, however this process needs to be reviewed. Performance of contractors or providers was monitored monthly.	Inadequate contract performance monitoring measures. Poor contract management and officials appointed in posts without qualifications. Lack of an effective contract management system. Maladministration within MMM governance structures. Instability in the leadership position which has delayed the appointments of key positions. Non-implementation of internal controls relating to contract management.	workshop on contract management. Review existing contracts against the organisational structure to determine duplication of services and the cost implication to the municipality for the duplications. Investigate the validity of unsigned contracts. Evergreen contracts to be investigated and reviewed for an open and transparent procurement process to be undertaken. Compliance with MFMA section 116 reporting.
System of Delegations	The system of delegations is outdated and in certain areas not in line with local government recent	Non-compliance with legislation specifically Municipal Systems Act that requires review of system of delegations	Review and approve delegation framework urgently and develop delegations' registers.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	legislative amendments. There are no updated delegation registers in place. There are no written and signed sub-delegations below the City Manager. The old system of delegations does not incorporate role clarification as required by law and are centralised at the level of heads of departments. The City Manager did not delegate the powers and functions related to supply chain management and the establishment of Bid committees in line with statutory requirements.	after every local government election. Ineffective management processes as delegations are outdated. Employees not empowered to do their work resulting in inefficient administration and operations. No checks and balances on what the officials are doing on a daily basis. Weak internal controls and records management system. Lack of consequence management.	Sub-delegate powers and functions to Heads of directorate. Sub-delegate further to maximise administrative and operational efficiencies. Incorporate role clarification in the system of delegations as required by Systems Act. Review and approve delegations of powers and functions for implementation of supply chain management policy including the establishment of Bid committees. Conduct training on the system of delegations through CoGTA, National or Provincial Treasury.
By-laws and Enforcement	Most by-laws are outdated and not recently reviewed. The promulgated of by-laws are not done and reviewed yearly and not done for 2023/24. There is no by-law drafter in place.	Implementation of outdated By-laws that are not relevant to the current operating environment. By-laws not respected and enforced.	Conduct a review of by-laws and ensure implementation. Develop a Register that reflects all Bylaws applicable to MMM. Establish an effective reporting structure on reporting on revenue

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	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. No strategic leadership and management to due to vacancies at senior management levels. Maladministration and mismanagement.	generated from enforcement of by-laws. Appointment of a by-law drafter.
Unauthorised, Irregular and Fruitless and Wasteful Expenditure. (UIF&W)	UIF&W is huge and increasing. The cumulate balances of UIF&W as at 30 June 2022 are as follows: Unauthorised: R 5.6 billion. Irregular: R 3.1 billion. Fruitless and Wasteful: R 240 million. There is no approved UIF&W expenditure policy and reduction plan in place, but a draft policy is in place. There are no section 32 investigations that have been conducted. The analysis and identification of UIF&W	Disregard of SCM processes. Political and administrative instability. No declaration of pecuniary interest by members. Late payments of creditors, resulting in Interests and Penalties and delays in service delivery. Lack of consequence management. Lack of efficient management of reporting requirements.	Adhere to SCM policy and regulations. MPAC must conduct investigations urgently. Enforcement of consequence management. Training of staff regarding the SCM processes. Draft UIF&W policy to be finalised for approval by Council. A reduction plan should be developed and implemented with clear timeframes. Conduct investigations into all reported allegations of financial

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	was outsourced but the report is not being used by the Municipality due to the irregular appointment of the service provider. The CM is not submitting UIF&W expenditure reports quarterly to the Mayor and annually to the Council for oversight as required by Regulations.		misconduct against the officials. 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. Reporting on the UIF&W should be included in the Municipality's calendar for monitoring and implementation.
Political Interference	Politicians interfere in the administration and specifically in staff appointments and procurement. There are tensions between Council and senior Management and mutual mistrust exist, whether permanent, acting or deployed officials.	Maladministration in the municipality. Political interference in the Municipal administration, staff appointments and procurement processes. Lack of ethical leadership and political interference.	Through National Treasury, institute a forensic investigation on all fraud and corruption allegations in all relevant departments. 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. Institute criminal charges against

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
			Councillors that interfere in the administration of the Municipality. Enforcement of the Code of Conduct for councillors. These should also be escalated to the National and Provincial and respective State Institutions.
Service Delivery	Protests over water and sewerage and poor service delivery 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.
Litigation and Legal Landscape	The legal department is not functioning optimally. The legal department is not consulted on contract management. expenditure and implementation of by-laws. Contingent liabilities as at 30 June 2022 were R 83.9 million.	High number of litigations from service providers due to the non-payment of service providers. Inadequate litigation management Inadequate Legal services capacity. Inadequate budgeting for legal costs.	Legal to be involved timeously in contracting (procurement). A process must be written and implemented where actions and legal threats against the Municipality is assessed to make the decision to defend or settle matters. Certain legal matters should be escalated to

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	Legal fees budgeted for 2021/22 were R 26.7 million with actual legal fees incurred at R 52.7 million. The Municipality has an updated litigation register but the tracking of court matters is not efficient. The Municipality has legal support protocols in the form of standard operating procedures, but no adequate capacity to provide adequate legal support. The Municipality has a legitimate appointed panel of attorneys procured through an open tender process which ends in March 2024. The panel has taken the Municipality to court due to non-payment.	Poor contract management Political instability and politicides administration.	National Institutions (Hawks) for assistance. Review legal Services organisational structure to ensure appropriate provision of posts for effective legal support. Budget for litigation/legal costs should be reviewed in line with municipality's operational needs. Terms of reference for the new term of panel of attorneys should be developed for urgent advertising for procurement.
ICT Strategy and Governance	The ICT department has had instability and lack of leadership as there has been no Chief Technology Officer (CTO) since 2019 and no permanent managers since 2011.	No ICT leadership Poor archiving and storage of supporting documents and an inadequate records management system. Political instability.	Centralise ICT function with a defined strategy and mandate to support the Municipality's requirements and strategic imperatives. Develop and implement a clearly defined and resourced ICT Plan.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	There is no ICT strategy or centralisation and oversight of ICT. No approved ICT policies. No key systems in place such as document management system, contract management system and time and attendance, and resolutions management system. No list of licences and software currently in place. 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. The internal audit department does not have the resources and skills to carry out ICT audits.	Internal Control Deficiencies.	Review all software licenses and terminate those not being utilized to save costs.
Immovable Property Management	The Municipality has an approved land alienation policy. Most lease agreements are not updated as most	Inadequate lease management.	Review outdated leases for renewal. The municipality to make Strategic land parcels available to the private sector.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	leases are now on a month-to-month basis. The Municipality collects market related rentals from Council leased property based on private property valuations.		A process of reconciliation between council resolutions on land alienation and the deeds office records to be conducted.
Audit Action Plan	The Municipality received qualified audit outcomes for 2017/18 and 2018/19, improved to unqualified for 2019/20 and 2020/21 but regressed to qualified audit outcomes in the 2021/22 The past five financial years show stagnation in this regard. The Post Audit Action Plan for the previous AG outcomes has not been tabled before Council for approval. The Action plan was discussed at the Mayoral Committee and EMT. No quarterly reporting of PAAP to Council.	Lack of an approved Post Audit Action Plan. Ineffective implementation and monitoring of PAAP. Unresolved audit findings in the previous years, keep accumulating, resulting in repeat findings by AGSA. Political and administrative instability.	Management should develop and implement the post audit action plan timeously and report on progress in the Audit Steering Committee meetings. Internal audit should assist in the implementation and monitoring of the PAAP. Management should urgently table the Audit Action Plan to Council and provide quarterly reports to Mayoral Committee and Council. PAAP implementation should be included in the Performance Agreements for Senior Manager to ensure consequence management for non-performance against the identified audit findings.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
Risk Management	A new Risk Management Committee was appointed in March 2023 and was inducted in June 2023. The Municipality has a CRO in place. However, the Municipality does not have a Business Continuity Plan (BCP) in place.	A decision was taken to start with ICT BCP instead of the broad BCP.	The Municipality need to prioritise the development of the enterprise wide BCP that will include the ICT BCP. Management should submit quarterly reports on the implementation of mitigating measures against identified risks to risk management committee. Mayoral Committee and Council. Internal Audit to assist in monitoring risk mitigation measures in the Municipality.
Internal Audit	The Municipality's Internal Audit function is in place and functional. However, recommendations of the Audit Committee have been partially implemented by the Municipality. The term of the current Audit Committee ended on 31 May 2023 and Council is in the process of finalising the appointment of the new members.	The Municipality's 2022/23 Internal Audit Plan was approved by the Audit Committee. 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.	Internal Audit should provide support and monitor the implementation of Audit Committee recommendations by management. The process of appointing the new Audit Committee should be fast-tracked.

5.3 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 to 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.

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	Proposed Strategy to Resolve
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.
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.
Organisational Structure	MMM does not have a well-defined and approved organisational structure to support the functioning of the Municipality. The process for the review of the organisational structure	Outdated organisational structure. Inefficient placement of staff during integration process. Outdated Job Evaluation System	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, the Municipal Regulations on Staff

Focus Area	Brief Diagnostic Analysis	Key Issues	Proposed Strategy to Resolve
	has been completed at the macro level but not at the other levels. Inadequate integration of erstwhile municipalities into the MMM. The municipality is still using an outdated Job Evaluation system.		Establishment and Section 12 notice. Placement policy should be developed for approval for the process to place employees appropriately to be undertaken for full utilization. Move to the TASK Job Evaluation System.
Employee Costs	Escalating employee costs due to unmanaged overtime and bloated salaries. Staff verification has not been conducted against the organisational structure.	High employee costs. Remuneration not in line with Municipal Staff Regulations salary dispensation. Maladministration. Inadequate planning and monitoring of overtime.	Develop a remuneration strategy based on affordability and LLF agreement. Conduct Job evaluation process. Conduct staff verification regularly and implement the recommendations of the staff verification report.
Performance Management	Non- adherence to performance management. Performance agreements are not in place. There are no job descriptions to clarify roles and responsibilities. No consequence management can be implemented.	Inefficient performance management. Lack of consequence management. Duplication of roles and responsibilities. Lack of Employee Engagement. Low Employee Self-Esteem. Lack of skilled of capacity and lack of	Review of roles and responsibilities against approved organogram. Adoption, implementation and oversight of a delegation system including adherence to such. Implementation of performance management agreements. Conduct skills audit and define job descriptions.

Focus Area	Brief Diagnostic Analysis	Key Issues	Proposed Strategy to Resolve
		consequence management.	
Filling of Critical Positions	Delay in the filling of critical vacant posts with people that have the appropriate experience, skills and qualifications.	There is a high vacancy rate of 50.58% in relation to all approved positions on the Staff Establishment. Poor service delivery as the Municipality is not operating efficiently.	Organisational restructuring by assessing the critical posts required to operate efficiently and effectively and staff excess to requirements of the Municipality. Improve its human resource strategy that guides recruitment, placement of staff, retention of staff, performance management and disciplinary processes. The filling of critical positions and the training and development of all functionaries on their role, especially vacancies directly influencing service delivery. It is advisable that National Treasury/ CoGTA intervene in this process.
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.

Focus Area	Brief Diagnostic Analysis	Key Issues	Proposed Strategy to Resolve
			Perform an audit of the overtime for each department. Review the system description relating to overtime and identify control issues.
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. Lack of implementation and monitoring of policies.	Non-Compliance with laws and regulations. Poor controls in place to manage overtime. No consequence management on breach of policy. Poor policy management and implementation.	The adoption and periodic review of applicable policies Implementation of policies and legislation. 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.	Review the HRD strategy for approval. Conduct a Skills audit to assist with the placement process.
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.

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

5.4 FINANCIAL MANAGEMENT

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

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
Funded Budget and Budget Spending Limits	MMM budgeted surpluses as follows: 2020/21: R 1,035 billion 2021/22: R 622,7 million Audited financial results: 2020/21: R 20.2 million deficit 2021/22: R 827.7 million deficit This indicate that the historical budgets were not funded. Low collection rates not adequately considered in the budgeting processes.	Insufficient provision for non-cash items (depreciation and debtor impairment provision). Unrealistic budgeting. Credibility of Municipality and sustainability risks, including service delivery. The 2023/24 MTREF has been assessed and adopted as funded by MMM' Council. This is however based on unrealistic assumptions, collection rates and inadequate provisions for outstanding creditors. Realistic collection rates not adequately considered in revenue projections and provision for impairment of debtors in budgeting processes. Poor revenue management with inability to collect revenue. Poor budgeting techniques.	Compile realistic cash backed budgets going forward. Provide realistic allocations for the provision for debt impairment. Ensure cost reflective tariffs and scrutinise expenditure for unnecessary expenditure. Prepare, approve, and implement a Budget Funding Plan for the MTREF period linked to the FRP strategies and financial targets. Progress must be reported monthly and include targets as KPIs in performance plans. Implement accurate budgeting for non-cash items to generate cash to move the Municipality to a funded position.
Revenue Management: **Billing and Collection**	Collection rate indicates a downward trend: 2019/20: 83.12% 2020/21: 81.16% 2021/22: 79.44% Billing inconsistencies. Municipal data (billing) not credible. Critical vacant posts are not filled. Broken meters not being fixed.	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.	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 and validation of customer

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
		Centlec and MMM are billing consumers separately for electricity and other services. Incorrect billing. Loss of revenue. SLA with Centlec not finalised.	information (contact details and tariff information) and continuous and regular updating of information. Conducting quarterly VR reconciliation with the billing system. Filling of critical vacant positions. Revenue enhancement initiatives need to be implemented and billing and collection and credit control processes need to be set and complied with.
Revenue Management: **Infrastructure and Service Delivery**	Inability to repair and replace meters by Technical Department. Illegal connections in water and electricity. High technical and non-technical distribution losses due to old infrastructure and illegal connections. Electricity distribution losses: 2021/22: 10.96% (R 242 mil) 2020/21: 10.05% (R 183 mil) Water distribution losses: 2021/22: 45% (R 407 mil) 2020/21: 45% (R 337 mil)	Loss of revenue. Inconsistent, interrupted, and low quality of supply of water and electricity services. Incomplete/inaccurate meter readings. Un-metered water and electricity consumption. Aged and inefficient infrastructure. Lack of control and enforcement of by-laws over illegal connections. Lack of plan to monitor and repair old infrastructure. Non-payment of contractors resulting in incomplete meter readings.	Ensure all properties are metered. Engage community Liaison Officers and local councillors to engage the "no go areas". Metering (verification, auditing, and consistent reading of meters). Identification and valuing of municipal properties for leasing purposes. Prioritise curbing of water and electricity distribution losses.
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. Ensure billboards in use are billed and collected.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
			Utilise facilities that can be rented out.
Debtors Management	Inefficient and ineffective internal controls. Disruptions on implementation of credit control. Reconciliations not performed monthly. **Category of Debtors'** **Residential and Sundry** R 4,444,074,799 (66%) **Business / Commercial** R 901,624,988 (14%) **National and Provincial Government** R 1,344,641,726 (20%)	Low collection rate results in cash flow challenges for the Municipality. Growing debtors' book and a culture of non-payment by consumers. Political interference in payments of outstanding debt from top 10 most owing debtors. Credit control not being fully implemented., Lack of engagement (for collection of outstanding amounts and making payment plans) with debtors that have capacity to pay such as organs of the state and businesses. Political interference. No appointment of an independent debt collection company.	Making the payment for services easier for the clients e.g. satellite offices in outlying areas, community halls, etc. Write-off bad debts as per the approved credit control and debt collection policy. This will assist with determining the cash backed part of the accounts receivable. Hand over the debtor's book to debt collectors using a performance-based agreement that is traceable and measurable. Contact government departments that owe the municipality and establish the payment terms. If that fails seek Provincial Treasury intervention and/or cut off services. Stratify debtors into different buckets based on the expected recoverability. Development of key customer engagements (quarterly) and relationship building. Implement and update standard operating procedures for debtors' management and training of internal staff.
Cost-reflective Tariffs	Tariffs are not cost reflective. The deficits for the 2020/21 and 2021/22 financial years show that cost reflective tariffs have not been	Water is provided at a loss. Lack of profitability analysis for each revenue stream. Historical and forecast tariffs are not cost reflective.	Perform a cost reflective tariff calculation and introduce cost reflective tariffs considering affordability of consumers (using NT Tariff Model).

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	set which indicates bad budgeting processes. The cost of sales of water exceeds the selling price, which is a direct result in losses.	Setting tariffs that do not at least consider break-even point for the provision of electricity. This is contrary to existing legislation.	Perform cost-volume profit analysis before setting the base tariff for electricity and water. Forecast tariffs that align with the rate of growth of tariffs forecasted by ESKOM and Bloem Water.
Indigent Management	Outdated Indigent register. Consumers who apply for the indigent household support subsidy from the Municipality are not verified and/or vetted prior to approval. The effect of the above is that the indigent household subsidy may be granted to non-qualifying households.	Revenue Loss. Indigent Register not credible. Lack of Indigent Household Management. Lack of a verifying or vetting system. Subsidy on basic services not allocated to the indigent households. Revenue billing and collection targets will not be reached as customers may inappropriately receive free basic services. This is contrary to the prescripts of the cost containment endeavour by the municipality as the cost is not recovered from the customers with ability to pay.	Implement the approved Indigent Household Policy and by-laws. The process should be ongoing to ensure the indigent register is always up to date. A quantitative cost benefit analysis should be carried out to determine the most financially optimal option for the verification of indigent households. This is essentially an evaluation of manual verification compared to obtaining a system. A cost benefit analysis should be carried out for the lease vs buy decision in relation to the verification system.
Cost Containment	Cost containment policy not implemented. Cost containment targets not included in performance contracts. Excessive overtime due to non-filling of critical vacancies.	MMM is operating without an implemented cost containment policy. MMM is operating without a implemented cash flow management committee. Non filling of critical vacant positions. Lack of accountability. Lack of internal controls.	Revise the Cost containment Policy in line with NT Municipal Cost Containment Regulations (2019). Implement the approved Cost Containment Policy. Include cost containment targets in performance contracts. Monitor overtime in line with the approved and adopted policy.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
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.
Creditor Management	A review of the amounts owed by the Municipality reflected the following: Creditors as at 30 June 2022 is R 2,4 billion. Creditors have increased by R 216.3 million year on year, between June 2021 and June 2022. 29% of the amounts owed by MMM relates to bulk water purchases with Bloem Water.	Not performing creditors reconciliations. 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). Poor debtors' collection rate resulting in cash flow contains. No data cleansing implemented for creditor information. SLA with Bloem Water not finalised.	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. Renegotiating parts of amounts owed such as penalties relating to Bloem Water. Creditor reconciliations should be performed weekly and reconciling item resolved promptly. Review the SLA with Bloem Water and re-negotiate the bulk supply tariffs.
Debt Restructuring	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. Unfavourable interest rates. Cash flow constraints. Lack of additional income streams that are cash based to improve cash flow.	Review the loans for a possibility to restructure and re-negotiate payment terms. 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.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
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.
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.
Supply Chain Management Compliance and Value for Money Procurement	Non-compliance with SCM. Poor Conditional Grant Management. Unspent conditional grants as at 30 June 2022 totalled R571.0 million with insufficient cash on hand to cover this. UIF&W as at 30 June 2022: Unauthorised: R 5.6 billion; Irregular: R 3.1 billion; and Fruitless and Wasteful: R 240 million.	Excessive UIF&W expenditure which clearly indicate the lack of consequence management and deficiencies in the SCM processes. Contractors on site were not monitored. Contracts entered into without due dates. None performance of demand management before tenders are advertised and contracts entered into resulting in over-payment on contractors. Lack of understanding of SCM regulations. Lack of consequence management. Irregular contracts entered into and no contract management in place. Lack of adequate qualified staff to monitor contractors. None performance of demand management before contracts are entered into.	Adhere to SCM Policy and Regulations. Consequence management policy to be implemented by HR. Training of staff regarding the SCM processes. Compilation of the contract register and contract management policies. Perform a demand management exercise before any contract is entered into. Implement contract monitoring controls and adhere to this on a monthly basis. UIF&W expenditure to be interrogated with reasons therefore and to be submitted to Council for their decision on what action should be taken based on management's recommendations. Institute legal action and consequence management based on the outcomes of the investigations.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
			The disciplinary board must become operational so that action can be taken against staff involved in criminal and legal non-compliant activities.
Financial Control Environment	Preparation of Annual Financial Statements (AFS) not fully compliant resulting in a qualified audit opinion. Not paying creditors including bulk purchases within 30 days. Persistent AG findings not addressed and lack of accountability. Weak internal control on budget and expenditure management standard operating procedures. mSCOA strings are not fully implemented and compliant.	Poor control over the financial preparation and financial management processes. Incomplete and poor accounting data. Credibility of Municipality at risk. Non-compliance with the MFMA, not paying creditors within 30 days. Pervasive issues disclaimed on by the AG limits the reliability of the information for decision making in a turnaround strategy. Lack of an AFS project plan in preparing the financials and all supporting information and schedules.	Update and implement SOPs, training of staff and support. System vendor to be engaged as regards financial system inaccuracies. Management of AFS plan should form part of staff's KPI's. Review the progress of the Audit Action Plan immediately after the issue of the audit report, provide practical action plan, track progress thereof around at interim AFS preparation and review stage. Training of internal audit on the adequate review of AFS and the cash flow statement before submission to the AG. Make arrangements with creditors to repay current and outstanding amounts. Comply with the repayment arrangements by compiling a cash backed budget.
Municipal Entity: Centlec	The relevant balances as at 30 June 2022 are: Cash on hand R509.3 million; Payables R890.8 million; Deficit 2021/22 R189,5 million;	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. SLA not signed. Non-payment of amounts owing to MMM.	Perform a section 78 study to see the possibility of incorporating Centlec into MMM. Prioritise the finalisation of the SLA with Centlec. MMM and Centlec need to combine all Municipal services on one invoice.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	Deficit 2020/21 R13.7 million; Employee related costs R425.6 million; Duplication of management and board members; and MMM not able to use electricity as a lever for collection of other debts e.g., rates, water, etc.	Inability to perform a debt collection drive as MMM 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. Poor management. SLA with MMM not yet finalised. MMM and Centlec bill consumers separately for electricity and other Municipal services.	As it currently stands, and before re-incorporating this service into the Municipality, Centlec's performance must be monitored continuously. Review operating and governance model/ arrangements.
Municipal Entity: FRESHCO	Per the consultation process, it was established that the non-payment of water and rental accounts followed the liquidation of the managing company, FRESHCO, and the takeover of administration by the Social Housing Regulatory Authority (SHRA) in 2019.	Loss of revenue. 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. Review operating and governance model/ arrangements.

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

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

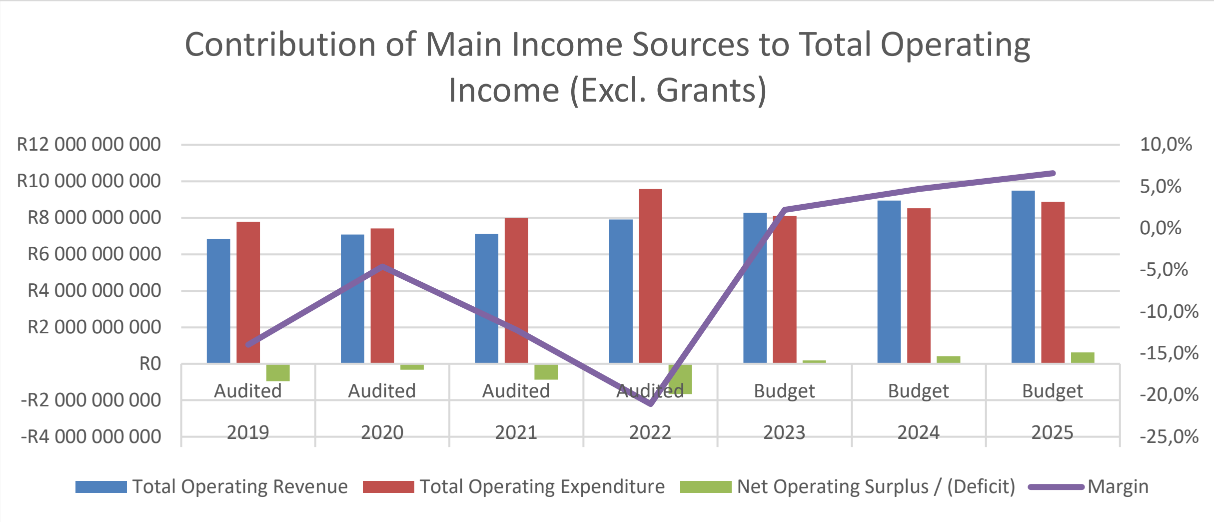


Table 2 - Income vs Expenditure

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

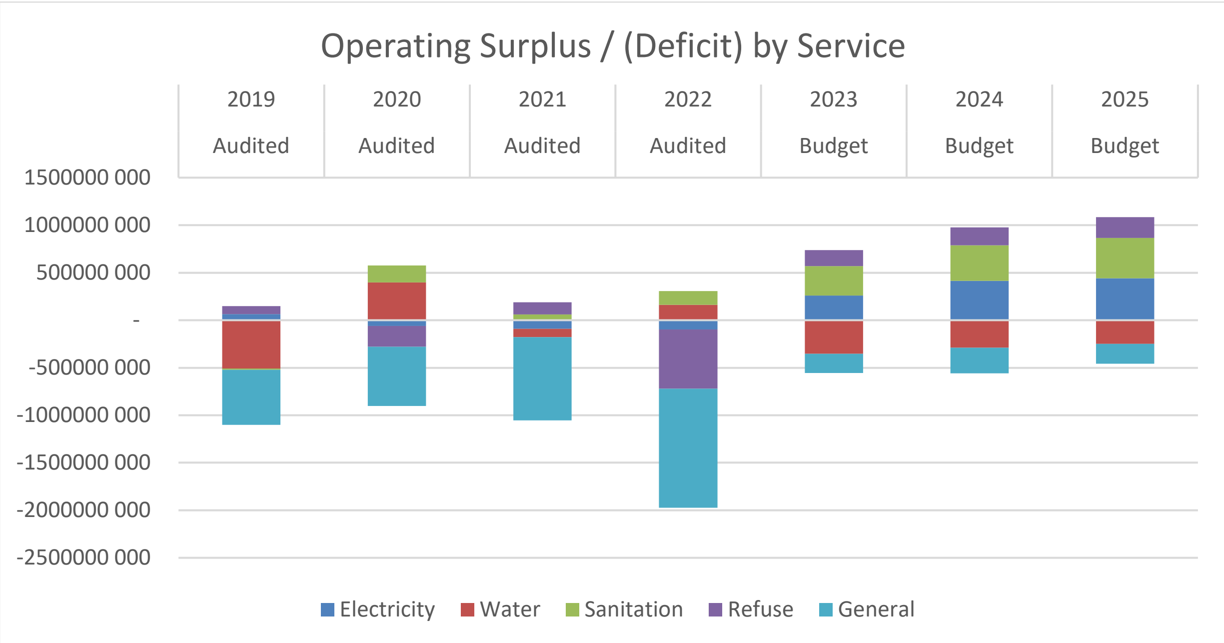


Table 3 - Analysis of Operating Surplus / (Deficit) by Service

MMM experienced significant losses since 2018/19 in the non-trading side of the business (General) and were unable to offset these losses against the barely profitable trading services.

These losses have been significantly reduced in the MTREF period 2023 – 2025. With further analysis it was identified that the reason for the improvement in the budget is not with unrealistic increases in operating revenue (2022/23: 5%; 2023/24: 8%; and 2024/25: 6%) but rather a 15% reduction in operating expenditure for 2022/23 and 5% and 4% increases in 2023/24 and 2024/25 respectively. Whether this is achievable is questionable based on historical trends.

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

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 4 - Capital Budget vs Actual Spent

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

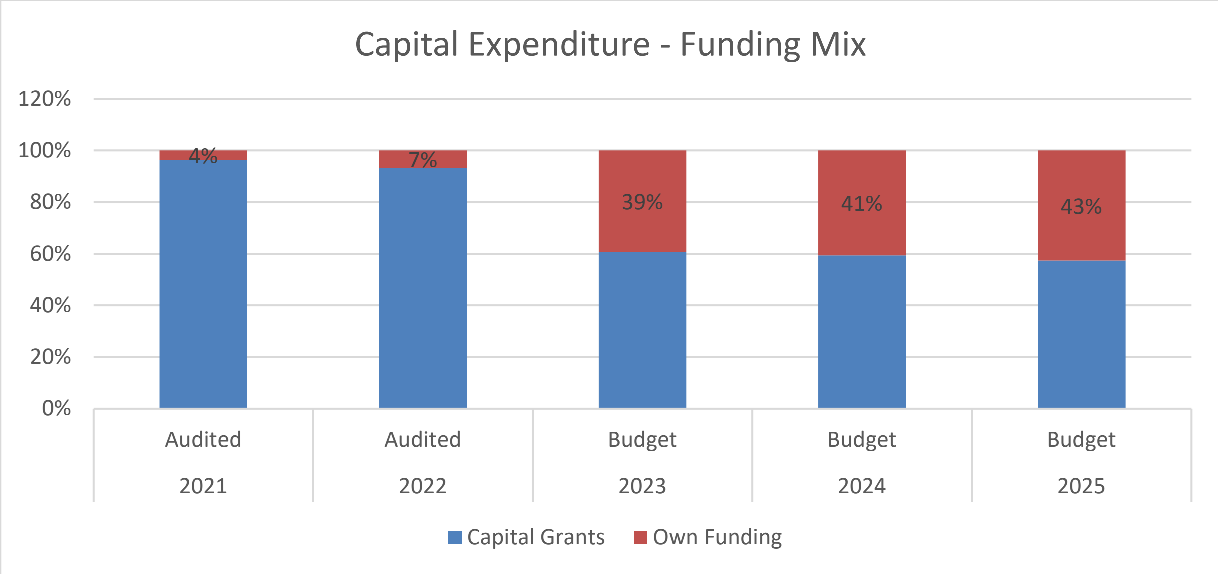


Table 5 -Capital Expenditure Funding Mix

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

It is categorised as follows:

Debtor Category	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 6 - Categories of Consumer Receivables

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

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

Table 7 - Annual Collection Rate

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

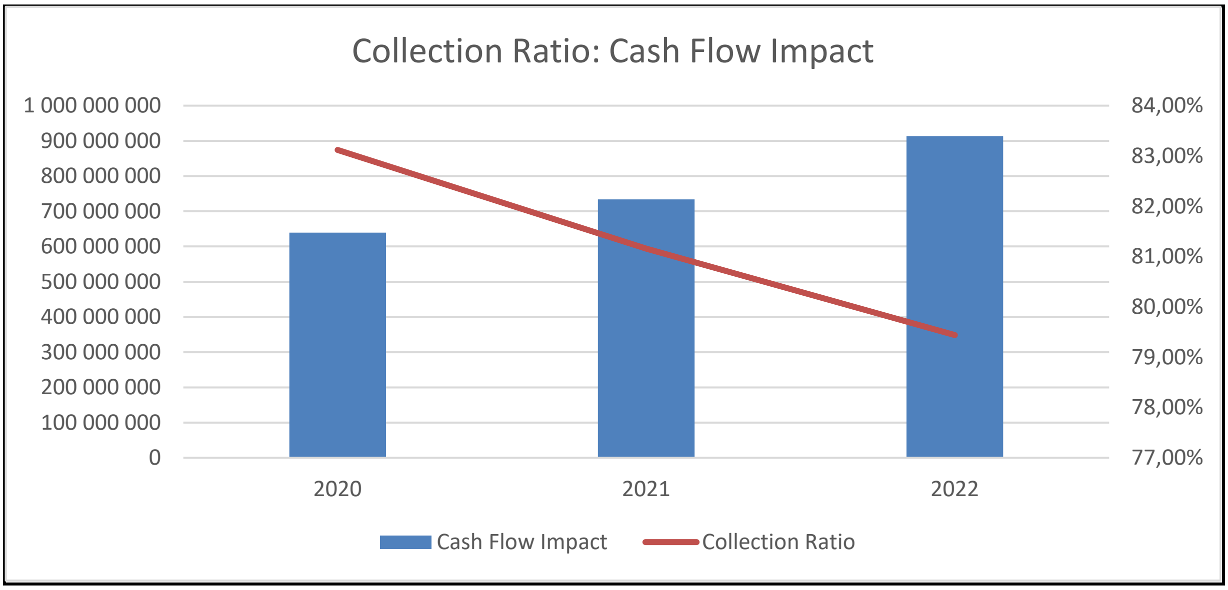


Table 8 - The Impact of the Low Collection Ratio on Cash Flow.

Load shedding impact:

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

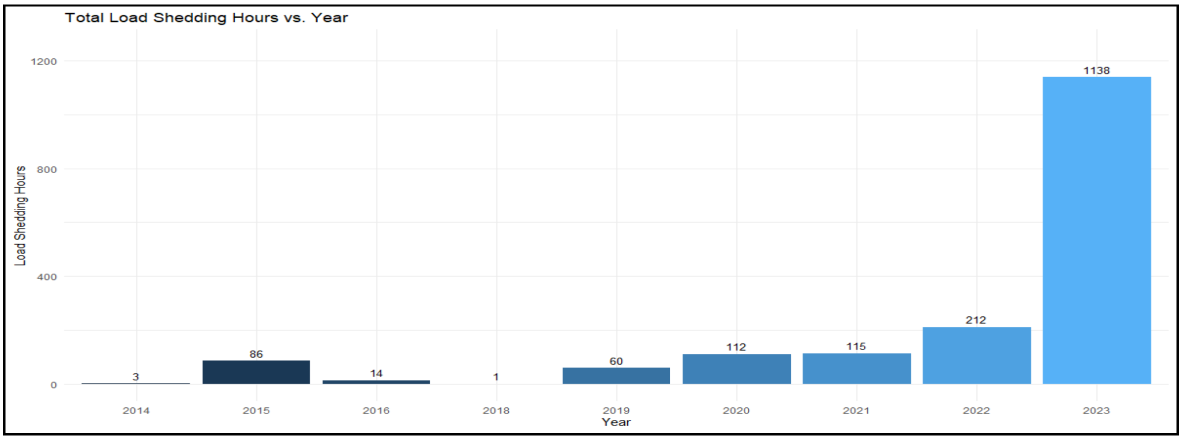


Table 9 - National Load Shedding Hours by Financial Year (2023 updated 11 April 2023)

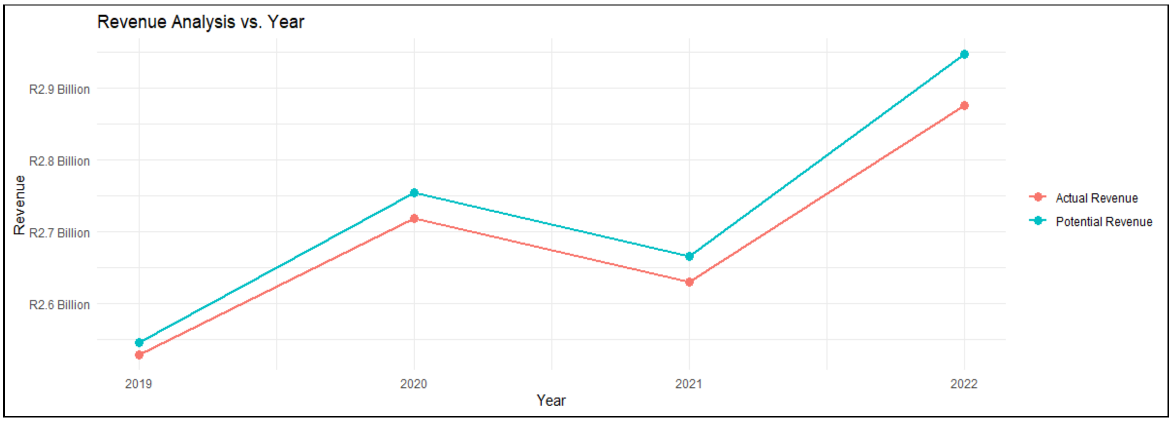


Table 10 - Calculated Impact on MMM Electricity Revenue Due to Load Shedding

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

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

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

Table 11 - 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.

5.5 FINANCIAL RATIO ANALYSIS

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
FINANCIAL POSITION				
Asset Management/ Utilisation				
Capital Expenditure to Total Expenditure – indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services. **The norm is 10% - 20%.**	5,38%	7,95%	7,76%	The amount outlaid on capital for the 3 financial years is below the norm. This is an indication of insufficient capital budget as a result of insufficient cash to undertake capital investment and ineffective budgeting techniques. Unspent conditional grants as at 30 June 2022 totalled R571.0 million which indicate that MMM is using capital budget to fund operating expenses. This will result in insufficient investment in infrastructure to increase capacity and accommodate envisaged growth within the Municipality. This will result in poor service delivery.
Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value) **Norm is 0%**	0,13%	0,14%	0,04%	The ratios for the 3 financial years are slightly above the norm. However, with investment in infrastructure on the decline it is probable that impairments are taking place as aging infrastructure is being used past its life span which will ultimately result in breakdowns and service delivery interruptions.
Repairs and Maintenance to Property, Plant and Equipment and Investment Property – measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to services delivery. **The norm is 8%.**	1,10%	1,24%	1,60%	Repairs and maintenance to property, plant and equipment and investment property is very low. This indicate that insufficient expenditure is being spent on repairs and maintenance and that asset stripping is taking place. This is further reducing the production capacity of the municipal infrastructure which will result in service delivery interruptions.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
Debtors Management				
Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit. **The norm is 95%.**	83,12%	81,16%	79,44%	The collection rate remained below the norm for all three financial years under consideration. There is a downward trend in the ratios over the last three financial year. The inability to collect revenue and thereby convert revenue to cash is a contributing factor to the cash flow challenges being experienced by the Municipality. It is also indictive that with the exclusion of electricity from the revenue mix (and credit control tool) this ratio will decline further. This also signals a reliance on grants.
Bad Debts Written-off as % of Provision for Bad Debt **Norm is 100%**	6,77%	0,36%	2,36%	This is indicating that either the provision for bad debts is insufficient or unrecoverable debtors are not being written off. Compared to the norm of 100%, the ratio of 2,36% is unrealistic and not consistent with the low collection rates. An up-to-date indigent register should be kept.
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. **The norm is 30 days.**	100,51 days	116,21 days	88,15 days	The debtors' payment period was above the norm for all three financial years, which is indicative of its current cashflow challenges and bad debt collection rate. There is an increasing unemployment rate in South Africa, and MMM's current unemployment rate sits at 21.9% as at 30 June 2022. This will result in even further deteriorating debtor payment days. The inability to collect revenue and thereby convert revenue to cash is a contributing factor to the cash flow challenges being experienced by the Municipality.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
Liquidity Management				
Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants) **Nom is 1 - 3 Months**	-0,02	0,36	0,31	The cash cost coverage is substantially below the norm. This is indicative of the poor debtor's collection rate as well as the poor payment rate of MMM creditors. The municipality is vulnerable and at a higher risk in the event of financial shocks/setbacks and this affects its ability to meet its obligations to provide basic services or its financial commitment is compromised. The municipality needs to implement cost containment measures and revenue enhancement initiatives.
Liquidity Ratio (Current Ratio) - this ratio indicates the extent to which current assets can be used to settle short-term liabilities. If current assets do not exceed current liabilities it means a liquidity problem i.e. insufficient cash to meet financial obligations. **The norm is 1.5 - 2:1.**	0,93	0,95	0,87	The current ratios are well below the norm in all 3 financial years. This is an indication that the Municipality will not be able to pay its current or short-term liabilities (Debt and Payables) with its short-term assets (i.e., Cash, Inventory, Receivables) as and when they fall due. If grants are excluded, the municipality was not able to cover its commitments to suppliers and employees for the 2020/21 and 2021/22 financial years, retaining a deficit between receipts from operation and cash paid to suppliers and employees of R1.1billion (2020/21; R 870 million).
Liability Management				
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure - indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed	3,46%	4,30%	2,82%	The ratio is below the norm for the 3 financial years. Borrowing and credit needs to be appropriately managed to avoid a situation where the Municipality is no longer able to service its debt levels.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
as a percentage of total operating expenditure. **The norm is 6% - 8%.**				This ratio is to be read with the Debt/ (Total Borrowing)/ Revenue ratio and its collection rate. Given the low cash generating ability and the loans from with DBSA, Standard Bank and Absa Bank valued at R668 million, already defaulting during the 2021/22 financial with R 382.1 million, the MMM does not have capacity to take on more debt. A possible renegotiation of the loans would be required.
Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue. The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings. **The norm is 45%.**	13,90%	10,83%	8,20%	The level of borrowing within the Municipality has been maintained at an acceptable level for the last three years. This is more than likely due to the fact that MMM is not able to obtain further external borrowings due to the state of its finances. Given the low cash generating ability and the loans from with DBSA, Standard Bank and Absa Bank valued at R668 million, already defaulting during the 2021/22 financial with R 382.1 million, the MMM does not have capacity to take on more debt. A possible renegotiation of the loans would be required.
FINANCIAL PERFORMANCE				
Efficiency				
Net Operating Margin – measures the net surplus or deficit as a percentage of revenue. **The norm is > 0%.**	1,78%	-0,55%	-11,41%	The net operating margin reflected a small surplus in 2019/20, followed by a small deficit in 2020/21 and a significant deficit in 2021/22. The deficits are as a result of bad budgeting and insufficient provision being made in the budget for the provision of the impairment of debtors. The net operating deficit is confirming the high level of reliance that the Municipality

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				places on National Government support to sustain service delivery. Note that the ideal would be for all surpluses to be cash backed.
Net Surplus /Deficit Electricity **Norm is 0% - 15%**	30,12%	28,26%	22,13%	These surpluses are substantially above the norm. If these figures are correct, it could indicate that CENTLEC's electricity tariffs are set to include a large surplus which could be construed to be a surcharge.
Net Surplus /Deficit Water **Norm is >=0%**	8,50%	24,97%	21,17%	These surpluses are substantially above the norm. If these figures are correct, it could indicate that MMM's water tariffs are set to include a large surplus which could be construed to be a surcharge.
Distribution Losses				
Electricity Distribution Losses (%) The norm is 7% - 10%.	8,04%	10,05%	10,96%	Electricity Distribution losses for all three financial years are either within the norm or slightly higher. High electricity distribution losses can be attributed to aged infrastructure and unmetered connections and theft, which should be investigated.
Water Distribution Losses (%) The norm is 15% - 30%.	41,00%	45,00%	45,00%	The water distribution losses are significantly high and above the norm for all 3 financial years. High water distribution losses can be attributed to aged infrastructure and unmetered connections and theft, which should be investigated. These losses are contributing to the financial challenges being experienced by the Municipality and mitigation strategies need to be developed and implemented to reduce losses.
Revenue Management				

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
Revenue Growth (%) – measures the growth in revenue year on year. The norm is =CPI.	5,15% CPI 3.3%	2,06% CPI 4.9%	8,69% CPI 6.9%	Revenue growth reflects an improvement over the last financial year, with the growth rate above inflation. The 2020/21 growth rate was positive however below the CPI norm for the year. Ideally this growth should be from direct economic development growth and growth in revenue excluding tariff increases.
Revenue Growth (%) - Excluding Capital Grants - measures the growth in revenue excluding capital grants year on year. **The norm is =CPI.**	4,15% CPI 3.3%	(2,07%) CPI 4.9%	8,20% CPI 6.9%	Revenue excluding capital grants reflected a reliance on grants for 2020/21 financial year with a negative growth which could be attributed to COVID and grant dependency. However, there was growth in the 2019/20 and 2021/22 financial years. Ideally this growth should be from direct economic development growth and growth in revenue excluding tariff increases.
Expenditure Management				
Creditors Payment Period This ratio indicates the average number of days taken for trade creditors to be paid. **The norm is 30 days.**	143,28 days	130,88 days	114,73 days	The creditor payment period has been declining over the 3 year period. However, the days are in excess of the norm indicating that suppliers are not being paid within 30 days. This is consistent with the cash flow challenges being experienced by the Municipality. This may also be as a result of inadequate payment processes and related controls, disputes and delays in the processing of payments or cash flow challenges, as indicated above.
Irregular, Fruitless and Wasteful and Unauthorised Expenditure to Total Expenditure – this ratio measures the extent of	90,23%	93,69%	96,40%	These ratios were calculated using the accumulated figures for UIF&W. There is an increase due to the accumulated figures being used which shows that UIFW is still happening.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
irregular, fruitless and wasteful and unauthorised expenditure to total expenditure. **The norm is 0%.**				These matters need to be investigated and submitted to Council for decisions to be made.
Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure - Indicates the extent to which expenditure is applied to the payment of personnel. **The norm is 25% - 40%.**	29,21%	29,15%	24,71%	The ratio is within the norm of 25% to 40% for the last three years indicating that the Municipality has maintained staffing levels and/or salaries at an appropriate level. However, note that critical vacancies remain unfilled and/or unfunded and if filled could increase this ratio.
Contracted Services as a % of Total Operating Expenditure - indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions. **The norm is 2%-5%.**	5,18% Ratio including R&M. 5.23%	4,73% Ratio including R&M. 7.31%	3,79% Ratio including R&M. 6.45%	The ratio is in line with the norm of 2% - 5% for the last three years indicating that the Municipality is reliant on contracted services to perform Municipal related functions but this is not out of control. Further analysis indicates that this figure is understated as the contracted services line item excludes repairs and maintenance which is partially outsourced. If contracted repairs and maintenance is included in the ratio, the ratio's are 5.23% (2019/20), 7.31% (2020/21) and 6.45% (2021/22) which is above the norm for all three respective years.
Grant Dependency				
Own Funded Capital Expenditure (Internally Generated Funds plus Borrowing) to Total Capital Expenditure - Measures the extent to which the Municipality's total capital expenditure is funded through internally generated funds and Borrowings.	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.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
There is no Norm				
Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure There is no Norm	20,29%	17,04%	15,43%	For the three years under review, the municipality was reliant on grant funding between 79% to 85%, given that it cannot afford to finance capital expenditure from internally generated funds. Although other metrics indicate that the municipality can potentially apply for debt, it does not have capacity to service debt given the lack of cash generating ability and reliance on funding from National Government.
Own Source Revenue to Total Operating Revenue (Including Agency Revenue) - measures the extent to which the Municipality's total revenue is funded through internally generated funds and borrowings. **There is no Norm**	79,31%	73,42%	75,07%	This is an indication that the Municipality is not solely reliant on government funding to fund its obligated municipal services. The dependency increased from approximately 20% in 2019/20 to approximately 25% in 2021/22. However, should the collection rates decline further grant dependency would be inevitable.
BUDGET IMPLEMENTATION				
Capital Expenditure Budget Implementation Indicator **Norm 95% - 100%**	50.20%	80,60%	46,23%	These declining ratios indicate the problem of MMM undertaking capital projects/ infrastructure. This is due to MMM not being able to raise borrowings and the decline in grants being able to be obtained to undertake capital works. There is therefore a risk of potentially negatively affecting service delivery and indicative of cash flow and capacity challenges to carry out the planned capital spending.
Operating Expenditure Budget Implementation Indicator **Norm 95% - 100%**	103,99%	106,48%	124,93%	This indicates poor budgeting techniques. There has been increased overspending for the last three financial years with

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

5.6 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.

They key findings of the Status Quo Assessment are highlighted in the table below:

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
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.	CENTLEC has a generation license for 103MW. Only nine (9) approved small scale embedded generation (SSEG) with a total capacity of 1 053 kVA were reported. This is a relatively small contribution (1%) to the overall demand. No supporting information could be found regarding the feasibility studies, supporting network readiness and buyback tariffs.	CENTLEC energy plan should include large scale embedded generation projects that would make a meaningful contribution to alleviating the consumer demand and reducing the dependency on Eskom. The energy plan must be completed and approved for implementation. Developed and implement Policy and Tariff for the Embedded Generation. Tariffs must be part of NERSA submission for consideration and approval. Feasibility studies including life cycle costing analysis, Grid impact studies and compliance to Grid codes and NERSA requirements should be done. Develop and implement a distributed energy exchange platform to act as aggregator and reseller of excess power for embedded generation.
	Current losses within NERSA benchmarks.	The reported losses stand at 11% which is at the upper cusp level of the acceptable losses for electricity NERSA benchmark of 5-12%.	A network study must be undertaken to determine the reasons for the increase losses and outcomes must be implemented through projects to ensure the losses do not spiral upwards to above the acceptable norms.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	The municipalities electrical equipment is outdated, especially oil type switchgear.	Outdated and obsolete equipment contribute to the technical losses on the system. They also pose a health and safety concern	Implement the Electricity Maintenance and Refurbishment plan. Maintain a budget allocation of at least 8% for repairs and maintenance.
	CENTLEC is invoicing customers separately from the rest of the utility services provided.	Separate utility bills hamper revenue collection and credit control measures.	Agreement on the management approach of the entity (including consolidating invoices submitted to customers to facilitate credit management).
Water	1 884 new service connections (SDBIP 2022/23). High outstanding debt on the Bloem water bulk account. Inadequate usage of the Re-use system in Maselpoort.	The reported demand for water shows a lack of 60ML/day to provide the current customer base. Any new connections will add on to the demand constrained system.	Two projects need to be prioritised to provide the ability to meet the demand. Maselpoort Water treatment plant, when commissioned will increase the capacity and alleviate the constrained network. This project is reported as experiencing budgetary constraints as reported in the annual consolidated financial statements on 2021/22. Optimisation of the water Re-use system and monitoring of the water quality output for appropriate use for irrigation instead of expensive clean water.
	Non-revenue water – 46% (June 2022). This 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. The municipality does not have readily available burst frequency	Demand system input reduction strategies Pressure and Network Zone Management (R45m – saving 5,67ML/d). Pro-active leak detection and repair (R87m – saving 1,7Ml/d). Maselspoort Upgrade (Rising Main/Pipeline (R35m – saving 4Ml/d).	Projects must be prioritised and ranked for implementation. Maintenance budgets must be made available to upkeep the service delivery assets. Adoption, funding and the implementation of the Water

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	calculations per area (norm 13 bursts/100km of pipeline/year). The minimum night flows have been identified to be above average in certain district metered areas.	Pipe Replacement Project (R45,7m - saving 0.35Ml/d). Routine or domestic leak repairs (R98,9m – saving 1,02 Ml/d). Standpipe Audit and Disconnections (R0,475m – saving 0,03Ml/d). Replacement of Water Meters (R64,8m – saving 0,38Ml/d). Billed metered consumption audit (R9,68m – saving 0,46Ml/d). SCADA and Telemetry + bulk meters (R59,5m – saving 18,49Ml/d). Maselspoort Treatment Upgrades (R994m – saving 2,4Ml/d). Water Re-use (R307m – saving 4Ml/d). Increasing billed authorized consumption. Metering Unmetered Sites (R301m – saving 22,40Ml/d). Prepaid program (automated meter reading R48,8m – saving 7Ml/d). Indigent consumption policy assessment (R1,2m – saving 0,72Ml/d). Reticulations Backlogs and Metering of sites (R834m – saving 12,89Ml/d).	Conservation and Demand Management Plan.
	SMEC in 2019 identified that 159km of pipeline (asbestos) needed to be replaced.	Old and obsolete pipes pose a health hazard and contribute to the non-revenue water losses.	Allocation of budget for the replacement of asbestos pipes.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
	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. 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 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	Poor water quality has a direct impact on service delivery and the health of the community. It is also a right of the citizens to have safe drinking water.	Installation and calibration of flow meters to monitor operational capacity at all water treatment works where flow monitoring is lacking. Records of such should then be made available to the Regulator. Development and implementation of corrective measures in the event of microbiological and chemical failures to always ensure delivery of safe drinking water. Alignment of microbiological and chemical water quality monitoring programmes to SANS 241: 2015 requirements in terms of frequency, coverage, and number of samples. Appointment of suitably qualified staff process controllers and maintenance teams to ensure compliance with regulatory requirements. Existing staff can also be subjected to relevant training to ensure adequate compliance with the set criteria. Development and implementation of Water Safety Plan as per SANS 241: 2015 and WHO guidelines including risk assessment of entire supply system, water quality evaluation based on full SANS 241: 2015 analysis of raw and final water, development of risk-based monitoring programmes, and implementation of mitigating measures to address all medium and high risks.
Sanitation	1 884 new sewer connections. 1000 bucket toilets 50000 VIP toilets which require desludging twice a year which is costly to maintain.	There is capacity on the existing systems to accommodate new sewer connections however if these connections are dependent on the upgrade of the Botshabelo outfall sewer, these can only be realised after the commissioning of the	Botshabelo Outfall sewer upgrade project must be prioritised as this is affecting service delivery. Eradicate bucket toilets. Allocate appropriate budget to deal with non-waterborne sanitation systems and the management thereof.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
		project. This project is reported a halted due to budgetary constraints.	
	Plant design capacity is 140Ml/d and is operating at 104% above capacity. Effluent compliance (3 WUL; 1 GA; 1 Permit; 7 Not authorised; 1 Unknown). The VROOM cost presents a ''very rough order of measurement" cost to return a WWTWs functionality to its original design is estimated at R164m. R 71 m allocated for the refurbishment of wastewater treatment works.		Provide for additional budget to upgrade the WWTW's. Network Maintenance. 1. Attend to all reported faults and blockages, 2. Address sewage spillages, and 3. Reduce sewer blockages. Improve customers services; Attend to customer complaints urgently. Sewer reticulation development: Rehabilitate and develop sewer reticulation network in urban areas and peri-urban areas and commence billing.
	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, Soutpan). High Risk Rating (Bloemindustria, Bloemspruit, Botshabelo, Sterkwater, Thaba Nchu, Welvaart).	Poor sanitation service has a direct impact on service delivery and the dignity of the community.	Improve management of WWTW 1. Ensure the WWTW effluent are compliance with the relevant regulations, 2. Refurbish the plants and network, 3. Upgrading WWTWs to increase capacity or rehabilitate, and 4. Continuously treat and test effluent quality and introduce quick corrective measures.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
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. 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.	The processing of Solid Waste is dependent on the fleet for transportation of the collected waste from residents to the landfill's sites. Prioritisation should be given to the acquisition, maintenance and security of this fleet and plant to ensure service delivery and reduce or remove the reliance on contractors for the provision of this service.	Operate landfill sites in line with Minimum Requirements. Reporting to regulator on landfill management. Procure additional yellow fleet for waste management. Training of landfill staff. Repair and maintenance of weighbridges. Repair of fencing and signage at landfill sites. Repair and maintenance of transfer stations. Source markets for recyclable waste. Allocation of funding for rehabilitation of sites to improve airspace. Implements the separation at source strategy. Optimize the sales for the composting facility. Cost benefit analysis study needs to be done to determine if this service should be provided internally, externally (contractors) or a combination of both. Plan for revenue generation on the operating of the composting facility and mobile buy – Centre. Review tariffs and policy for the sale of compost, and recyclable materials.
Roads and Transport	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 flooding, blocked drains, etc.	It was reported that only 2.64km of new roads were built from the 6.3km planned for implying on 41.9% was achieved. Furthermore, the 2.64km relate to only 1 of 8 projects identified. The contributing reasons given are four (4) namely, lack of budget,	Implementing effective project and contractor practices and controls will result in a greater percentage of the grant funding been utilised which will impact available funding in the forthcoming years. Conduct an audit of potholes in agriculture and farmland.

Focus Area	Brief Diagnostic Analysis	Key Issue	Proposed Strategy to Resolve
		ineffective project and contract management, lack of skilled staff and high vacancy rate.	Attend to all reported potholes, stormwater drainage and clean related blocked drains, and urgent maintenance on priority surfaced and gravel roads. Rehabilitate roads as per Maintenance Plan.
	100% scheduled access points and service stops that are universally accessible.	The Integrated Public Transport Network (IPTN) program has been implemented: Vehicle, training, access points and service stops implemented. At the time of the consultative process (22-23 February 2023), the handover process was unfolding and planned to have concluded by financial year end.	Ensure the handover is concluded and monitor the operation of the IPTN.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability	Proposed Strategy to Resolve
Community Facilities, and Operational Buildings	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.	Increased revenue if these facilities can be upgraded and made available for public use.	Development and Implementation of a cultural and sport tourism strategy. The municipality must consider entering partnerships with sporting bodies to maintain sports facilities. The Service Level Agreements must contain cost reflective tariffs to the sporting bodies. Introduce a revenue collection mechanics including seasonal tokens for use of recreational facilities.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability	Proposed Strategy to Resolve
	The municipality may be in violation of the Fire Services Brigade Act 99 0f 1987. The municipality has a limited number of trucks 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.	Health and safety concern to the residents. Risk of litigation if MMM is found in contravention of the Fire Services Brigade Act.	Develop an optimal service delivery model for delivering the Fire Services. Tariffs for fire services must be cost reflective. Update and implement Fire Risk Management Plan. Develop a vehicle and equipment funding and replacement plan. Ensure safe working accommodation for fire station staff.
Development and Planning	Lack of land for development. Loss of potential revenue. Slow local economic development. Informal Settlement Sprawl.	Development must align to the strategic objectives of the municipality.	Reviewing the process leading to approval of submissions by Council; the process is compromised and not uniform anymore. Taking immediate legal action against all the habitual defaulters; evict them and robustly implement the lessor's hypothec. Delegating approvals of the short-term leases to the HOD: Human Settlements, subject to quarterly reporting to Council for noting. 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. Prioritizing funding for the installation of services on all the industrial sites in Hamilton and Bloemdustria. Availing and selling all serviced sites in formalized areas for development.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability	Proposed Strategy to Resolve
			Avoiding unnecessary moratoriums on land release/sale. Acquiring more land for forward land development planning and relocation of informal settlements located on unhabitable land. Address building contraventions and enforce the building bylaws, this includes compliance with zoning status.
Human Settlement	Poor performance on grant expenditure (grant recovery plan had to be implemented to stop return of funds). 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.		Increase bulk infrastructure rollout to accommodate human settlements. Exploring the alternative sanitation solutions to provide flushing toilets to households (allocate funding for management of alternative sanitation systems). Council approval of commonage framework. Relocation of illegal commonages. Land audit exercise. Informal settlement Upgrades. Relocation of communities (Gatvol, Khayelisha). Improve on delivery and management of social housing and community residential units.
Integrated Public Transport Network (IPTN)	37 Bus stops completed, 7 Bus shelters, 1 university stop. No operational license for buses, vandalism (batteries missing), vehicle inspection list completed.	Reduction on MMM carbon footprint by reducing the number of vehicles on the road. Public access to more affordable and safer modes of transport.	Implementation of the Pilot & Go Live phase. Operation of the ticket sales office. Completion of all bus stops

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability	Proposed Strategy to Resolve
			Review the contract and ensure alignment for appointed operator.
Fresh Produce Market	Poor Facilities Management including poor management of loadshedding resulting in adverse impact on facility users.	Additional revenue stream for MMM.	Develop a maintenance plan. Allocate funding for the maintenance and implement to protect revenue that is currently being generated.
Testing and Licensing	Outdated Service Level Agreement between the municipality and the Provincial Department of Safety.		Re-model cost of the licencing services. Re-negotiate the licencing service level agreement with Provincial Department of Safety. Confirm cost recovery on testing against the cost of equipment maintenance.
Masterplans and Strategies	No budget to undertake (and in some cases to complete) plans. Outdated water conservation and demand strategy. Masterplans and Maintenance plans not in place or adopted. Separate meter readings for Electricity and Water, look at having a joint meter reading initiative between CENTLEC and MMM. **S**hortage of fleet for efficient service delivery.	Impacted project planning and prioritisation, poor budgeting, and poor service delivery.	Prioritise budget allocations. Update the water conservation and demand management strategy. Implementation of the sanitation master plan. Implementation the sanitation Infrastructure Maintenance plan. Update and implement the Electricity master plan (including sourcing funding for the plan). Implement the Electricity Maintenance and Refurbishment plan. Develop and implement the Electricity Loss Management Plan. Raise funding to support the Meter Audit Plan that is in place.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability	Proposed Strategy to Resolve
			Conduct a diagnostic analysis of the financial and service delivery impact of the service delivery agreement between the municipality and CENTLEC (integration of credit management). Ensure entity compliance with MFMA (Section 87, 90, 94, 101, 109). Ensure the Metros compliance with MFMA on entity management (Section 89, 90). Implementation of Fleet management strategy and plan. Implementation of the vehicle maintenance plan. Implementation of insurance and fuel management policies. Implementation of the vehicle replacement plan. Update and implement Integrated Waste Management Plan and align with national strategy of waste diversion and recycling.
Asset 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%).	Poor asset management, lack of effective revenue collection, impacted asset replacement programmes and maintenance of assets resulting in poor service delivery.	Development and implementation of an Integrated Asset Management policy and strategy. Development and implementation of a long-term asset management master plans that will investigate long term investments, replacement, maintenance and sustainability of the municipality, amongst others.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability	Proposed Strategy to Resolve
			Audit of current infrastructure to determine state, taking into consideration service backlogs and long-term strategy aligned to the operating model IDP, budget and long-term financial plan. Asset Register compliance with GRAP. Update and maintain Asset Register. Track revenue generating assets. Increase budget allocation for repairs and maintenance. Spend 100% of allocated Capital Expenditure budget.
Funding for Capital Projects Lacking.	Funding is available through Grants to assist with capital projects however poor project management and a dysfunctional SCM department has led to a large portion of the Grant allocated not been spent.	Reduced grant funding to implement capital projects.	Implementing effective project and contractor practices and controls will result in a greater percentage of the grant funding been utilised which will impact available funding in the forthcoming years.
Municipal Economic Recovery Plan	The municipality is experiencing high numbers of unemployment and has been impacted by Covid-19.		Support with the development of an LED Strategy as well as support with the establishment of a LED Forum for the municipality. Allocation or set asides of work to local entities. Allocation of 1% of the total tender values for internship and training.
Aging Infrastructure.	The analysis of the Asset Register shows the infrastructure is relatively "new" which does not reflect the status on the ground.	Impacts service delivery and financial reporting (asset register).	The completion and adoption of the master plans and Asset Management plans will result in projects been identified where aging infrastructure must be replaced. Budgeting and

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability	Proposed Strategy to Resolve
			prioritisation can only be done at this stage.
Asset Security	Theft of vehicle parts has become an everyday occurrence but is not limited only to these assets, substations, water and wastewater treatment plants and buildings are not exempt.	In most cases, theft results in the inability to continue to provide services in a localised area. It should be noted that this is not a phenomenon limited to MMM but a national problem.	As a national problem, all major service delivery infrastructure should be considered as key points. Considering only MMM, an investment in additional security measures such as access control, perimeter protection, alarms and armed response should be considered and implemented. This should be augmented by the local security cluster. The security of the existing fleet must be provided for as unnecessary costs are incurred due to theft.
Fleet (Lack of and Theft/ Vandalism)	Theft and Vandalism has been addressed above under Asset Security. Fleet is un-operational and ineffective. It was reported on the day of the workshop that only 2 vehicles were operational, the rest were broken or waiting for repairs that could only occur once budget was available. **S**hortage of fleet for efficient service delivery. Challenge with fuel, oil and tyre management. Challenges with vehicle licensing.	Poor service delivery Increased operational costs due to the use of contractors.	A cost benefit analysis study needs to be done to determine if this service should be provided internally, externally (contractors) or a combination of both. Licences of redundant vehicles to be cancelled, new licences to be updated. Review insurance payments. Insurance claims to be submitted as necessary and costs recouped. Check all operable vehicles for roadworthiness repaired and certified as roadworthy. If unsalvageable then use as scrap parts or auction off

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability	Proposed Strategy to Resolve
			vehicle in terms of legislation and policy. A fleet management system (including vehicle tracking) must be implemented.

6. PART THREE - KEY FRP STRATEGIES PER PILLAR

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

The Excel Financial Recovery Implementation Plan attached to this report, provides details per focus area of each Pillar addressing the key activities, the recommended actions, and the responsible parties, as well as the required support, target dates, key performance indicators, and portfolio of evidence. The following, therefore, serves to merely summarise the key activities identified per phase 1 and phase 2 of the FRP per focus area.

PILLAR 1: GOVERNANCE		
FOCUS AREA	KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE)	KEY STRATEGIES: PHASE 2 (STABILISATION)
Governance, Council and Oversight Structures/ Committees	Permanent Executive Mayor and Chief Whip to be electing before the end of June 2023 as a court order has been made.	Council resolutions implementation to form part of Executive management for effective monitoring and the status be tabled at Council regularly.
Service Delivery	Newly elected leadership should develop a service delivery recovery plan to deal with backlogs created by the political and administrative instability.	Adherence to the service delivery recovery plan.
Political Interference	The Accounting Officer must act on political interference, that includes instituting criminal charges against Councillors that interfere in the administration of the Municipality.	Enforcement of the Code of Conduct for Councillors. These should also be escalated to the National and Provincial and respective State Institutions.
System of Delegations	Review and approve delegations of powers and functions for implementation of supply chain management policy including the establishment of bid committees.	Incorporate Role clarification in the system of delegations as required by Systems Act.
By-Laws	Develop a process plan for the review of by-laws and ensure implementation.	Establish an effective reporting structure on reporting on revenue generated from enforcement of by-laws.
UIF&W and Consequence Management	Draft UIF&W report to be finalised for approval by Council.	Conduct investigations on all reported allegations of financial misconduct against the officials and ensure consequence

PILLAR 1: GOVERNANCE		
	A reduction plan should be developed and implemented with clear timeframes.	management is implemented once the Disciplinary Board has been established. Additional investigation should be conducted on the irregular appointment of the service provider.
Contract Management	Revive and formally appoint the members Management Committee.	Review existing contracts against the organisational structure to determine duplication of services. Investigate the validity of unsigned contracts.
Information and Communication Technology	Develop a recruitment plan for the urgent filling of ICT department posts. Currently there are acting position and position of the CIO is not defined.	Develop and implement an ICT Strategy, Centralise ICT function with a defined strategy and mandate to support the Municipality's requirements and strategic imperatives. Develop and implement a clearly defined and resourced ICT Plan.
Litigation and Legal Landscape	A process plan must be developed and implemented where actions and legal threats against the Municipality is assessed to make the decision to defend or settle matters. Certain legal matters should be escalated to National Institutions (Hawks) for assistance.	Develop a litigation tracking system based on the litigation register.

PILLAR 2: INSTITUTIONAL		
FOCUS AREA	KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE)	KEY STRATEGIES: PHASE 2 (STABILISATION)
Operating Model	Finalise the review of the organisational structure in line with the Operating Model, current municipal budget & service delivery demands.	Ensure that the reviewed organisational structure is aligned with the Operating Model.
Effective leadership and management	Develop a Recruitment plan for the urgent filling CM and Section 56 Managers.	Development and approval of the placement policy, process to be undertaken to place employees

PILLAR 2: INSTITUTIONAL		
		appropriately for full utilization in consultation with LLF.
Clarity about roles and responsibilities and performance management	Review of roles and responsibilities against approved organogram. Implementation of performance management agreements.	Conduct skills audit and define job descriptions.
Employee Cost	Conduct regular review and enforcement overtime policy in line with the Basic Conditions of Employment Act including adequate supervision.	Conduct a Salaries benchmarking exercise to ensure employees are paid based according to the correct grading.
Filling of Critical Positions	Organisational restructuring by assessing the critical posts required to operate efficiently and effectively and staff excess to requirements of the Municipality Develop a Recruitment plan.	Develop an HR strategy and Plan that guides recruitment, placement of staff, retention of staff, performance management and disciplinary processes.
Disciplinary Board	Establishment of a functioning disciplinary board.	Develop and regularly update the disciplinary case management register.
Performance Management	Develop a functioning performance management system.	Implement consequence management for non-performance.
Policy Management	Develop a process plan to review outdated policies and develop policies not in place.	Approval and Implementation of the policies.
Records Management	Develop a file plan in accordance with the National and Provincial Archives Services guidelines.	Implement a records system that is compliant with National Archives and National Treasury.
Change Management	Develop a change management strategy.	Sensitise employees and organised labour about the current financial state and the introduction of the FRP.

PILLAR 3: FINANCIAL HEALTH		
FOCUS AREA	KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE)	KEY STRATEGIES: PHASE 2 (STABILISATION)

PILLAR 3: FINANCIAL HEALTH		
ESKOM	Consider application for MFMA Circular No. 124 – Municipal Debt Relief through National Treasury.	Ensure monthly compliance with Circular No. 124.
Funded Budget and Budget Spending Limits	Prepare, approve, and implement a Budget Funding Plan for the MTREF period linked to the FRP strategies and financial targets (NT Support).	Ensure cost reflective tariffs and scrutinise expenditure for unnecessary expenditure.
Funded Budget Status – Capital Budget	Compile credible and cash backed capital budget linked to the IDP's capital project priorities and compiling and budgeting for a payment plan to pay the outstanding payables and unspent conditional grants.	Establish a plan on how new grant funding will be fully spent as part of their capital budget planning process, aligned to the IDP.
Cost-reflective Tariffs – Water and Electricity Services	Conduct a cost of supply study reflective and introduce cost reflective tariffs considering affordability of consumers.	Forecast tariffs that align with the rate of growth of tariffs forecasted by Bloem Water and ESKOM.
Revenue Management	The previous cost of supply studies must be updated, and tariffs structures must be applied and implemented and for electricity NERSA's approval.	Hand over the debtor's book to debt collectors using a performance-based agreement that is traceable and measurable.
Indigent Management	Adopt and implement the approved Indigent Household Policy and by-laws.	A quantitative Cost Benefit Analysis should be carried out to determine the most financially optimal option for the verification of indigent household. This is essentially an evaluation of manual verification compared to obtaining a system.
Supply Chain Management Compliance and Value for Money Procurement	UIF&W expenditure to be interrogated with reasons therefore and to be submitted to Council for their decision on what action should be taken based on management's recommendations. Institute legal action and consequence management based on the outcomes of the investigations.	The disciplinary board must become operational so that action can be taken against staff involved in criminal and legal non-compliant activities.
Creditor Management	Creditor reconciliations should be performed weekly and reconciling item resolved promptly.	Renegotiating parts of amounts owed such as penalties relating to Bloem Water.

PILLAR 3: FINANCIAL HEALTH		
Debtors Management	Write-off bad debts as per the approved credit control and debt collection policy. This will assist with determining the cash backed part of the accounts receivable.	Hand over the debtor's book to debt collectors using a performance-based agreement that is traceable and measurable.
Financial Control Environment	Management should ensure that there is proper record keeping, sufficient staff members assisting with the requested information by the auditors and should submit the information timeously.	Review the progress of the audit action plan immediately after the issue of the audit report, provide practical action plan and track progress thereof.
mSCOA	Establish a functioning mSCOA STEERCOM.	Review and update the mSCOA implementation strategy.
Cost Containment and Realistic Cash Flow Management	Revise and implement the Cost containment Policy in line with NT Municipal Cost Containment Regulations (2019).	Adopt an active cash management system to enable the municipality to maintain sound liquidity.

PILLAR 4: SERVICE DELIVERY		
FOCUS AREA	KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE)	KEY STRATEGIES: PHASE 2 (STABILISATION)
Strategic Positions	Appointment of permanent senior management position in line with MFMA regulations in a no acting capacity to enable service delivery.	Ensure that all senior management positions remain held by permanent appointments.
Asset Management	Undertake an asset completeness exercise to ensure the asset register is complete and all required information to comply with GRAP such as condition, asset type, Location, etc is captured.	Compile a GRAP compliant asset register using the outcomes of the asset completeness exercise to update the asset register.
Electricity	Formalise the loss reduction strategies deployed into the Loss Reduction Strategy document.	Targeted meter replacement priortised by largest loss impact on a yearly basis.
Water	Formalise the loss reduction strategies deployed into the Loss Reduction Strategy document.	Install bulk smart meters for LPU customers.

PILLAR 4: SERVICE DELIVERY		
Sanitation	Identify implementable project at critical plants to implement.	Allocate budget for the eradicate the VIP toilets in a phase approach.
Roads and Stormwater	Concluding on the Roads and Stormwater Masterplan.	Implement the Roads and Stormwater Masterplan.
Solid Waste	Identify implementable project at critical plants to implement.	Install Weighbridges on landfill sites.
Community Facilities	Conclude on the development of a cultural and sport tourism strategy.	Implement the development of a cultural and sport tourism strategy.
Town Planning and Human Settlement	Review the process leading to approval of submissions by Council.	MMM to adhere to timeframes recommended by SPLUMA and capacitate the department.
Integrated Public Transport Network (IPTN)	Implementation of the Pilot and Go Live phase.	Completion of all bus stops.
Fresh Produce Market	Develop a facilities maintenance plan.	Allocate funding for the maintenance and implement to protect revenue that is currently being generated.
Fire Services	Develop an optimal service delivery model for delivering the Fire Services.	Tariffs for fire services must be cost reflective.
Fleet	A comprehensive needs analysis including cost benefit analysis on the maintenance costs and lease vs buy analysis should be implemented in the Fleet strategy.	Review the current existing lease agreements and perform a cost benefit analysis on leasing versus buying.
Project Management	Introduce a monitoring mechanism to track project progress against spend, be a repository for project capitalisation purposes to assist in the capitalisation process.	Review expenditure on Capital projects to ensure the funds received are spent in accordance with the given conditions.

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

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

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

a) Progress towards a funded budget including a budget funding plan.

b) Cash flow management and periodic cash balancing.

c) Cost Containment: Revenue billing and collection.

d) Decrease in water and electricity losses.

e) Payment of creditors.

f) Ring-fencing of conditional grants.

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

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

NO.	PERFORMANCE AREA	2022/23FY BUDGET TARGET	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET
1	CPI Headline	Actual YTD Extrapolated	4.5%	4.5%	4.5%
2	Interest Rate	Actual YTD Extrapolated	9.75%	9.75%	9.75%
3	Household Growth Rate	Actual YTD Extrapolated	1%	1%	1%
4	Employee Cost Escalation	Actual YTD Extrapolated	4.5%	4.5%	4.5%
5	Bulk Water Escalation	Actual YTD Extrapolated	0%	4.5%	4.5%
6	Bulk Electricity Escalation	Actual YTD Extrapolated	0%	4.5%	4.5%
7	Capital Expenditure Growth Rate	Actual YTD Extrapolated	4.5%	4.5%	4.5%

NO.	PERFORMANCE AREA	2022/23FY BUDGET TARGET	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET
8	Depreciation Rate	Actual YTD Extrapolated	4.5%	4.5%	4.5%
9	Property Rates Escalation	Actual YTD Extrapolated	4.5%	4.5%	4.5%
10	Service Charges Escalation - Electricity	Actual YTD Extrapolated	15%	4.5%	4.5%
11	Service charges Escalation - Water	Actual YTD Extrapolated	10%	4.5%	4.5%
12	Service charges Escalation - Refuse	Actual YTD Extrapolated	4.5%	4.5%	4.5%
13	Service charges Escalation - Sanitation	Actual YTD Extrapolated	4.5%	4.5%	4.5%
14	Collection Rate - Property Rates	75%	80%	85%	90%
15	Collection Rate - Electricity	95%	95%	95%	95%
16	Collection Rate - Water	75%	80%	85%	90%
17	Collection Rate - Sanitation	75%	80%	85%	90%
18	Collection Rate - Refuse	75%	80%	85%	90%
19	Collection Rate - Fines	75%	80%	85%	90%
20	Collection Rate - Other	75%	80%	85%	90%
21	Creditors Payment Days	180 Days	90 Days	60 Days	30 Days
22	Government debtor's payment plan	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement

** 0% increase for bulk water and electricity in 2023/24 as a result of active plans to reduce losses.*

** Electricity (15%) and Water (10%) increase in 2023/24 as a result of addressing billing issues, cost reflective tariffs and approved increased from NERSA.*

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

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

Local growth - 1% per annum.

Grounded on adherence to the above budget parameters, it is anticipated that the municipality will progressively move towards a position of improved financial sustainability over the 3-year period as illustrated in the table below. If key operational efficiencies are achieved in line with FRP Implementation Plan, it could be expected that the cash surplus of R 741 million at the end of the 2021/22 financial year will increase to a cash surplus of R 5,25 billion at the end of the 2025/26 financial year. It should be noted that this cash surplus is before capital and finance investments.

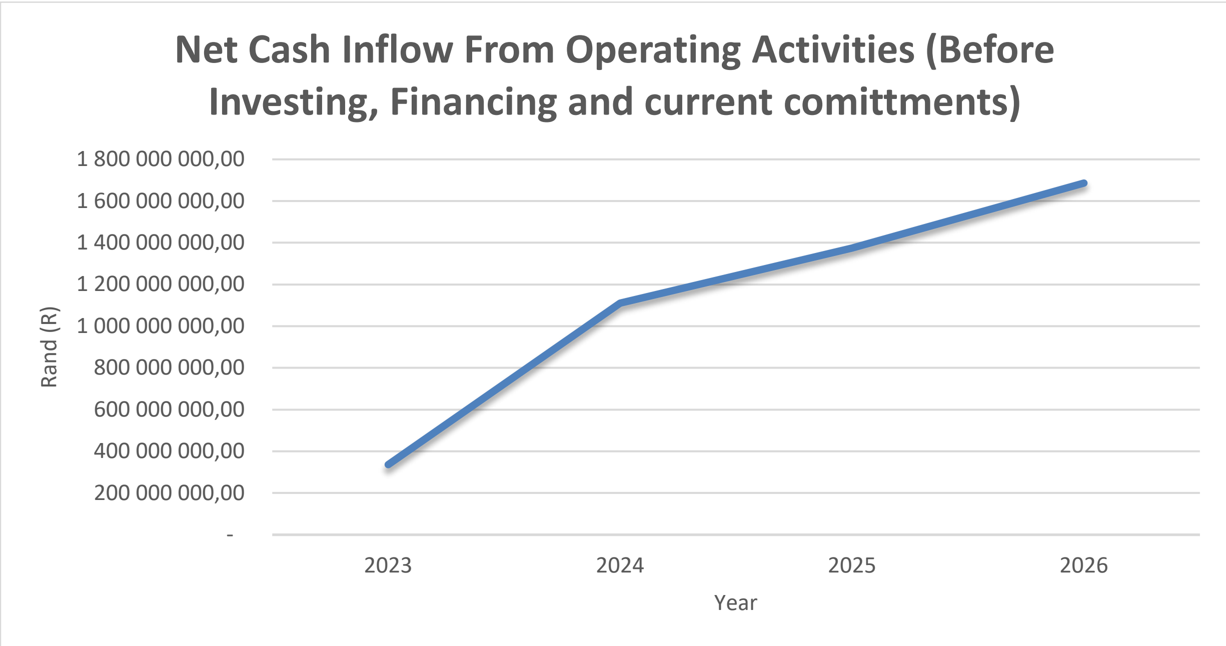


Table 12 - Net Cash Inflow / (Outflow) from Operating Activities

The net cash position should improve to levels sufficient to boost the cash coverage ratio to within acceptable norms over the MTREF period. Any surplus cash, over and above the required levels, should also be prioritised towards payment of outstanding creditors' balances. An improved appetite to pay creditors will enhance the public perception and re-establish supplier confidence in the Municipality. If these positive trends could be achieved and sustained, it could realistically be expected that it will take the municipality a period of 2-5 years to move to a fully cash-backed funding position.

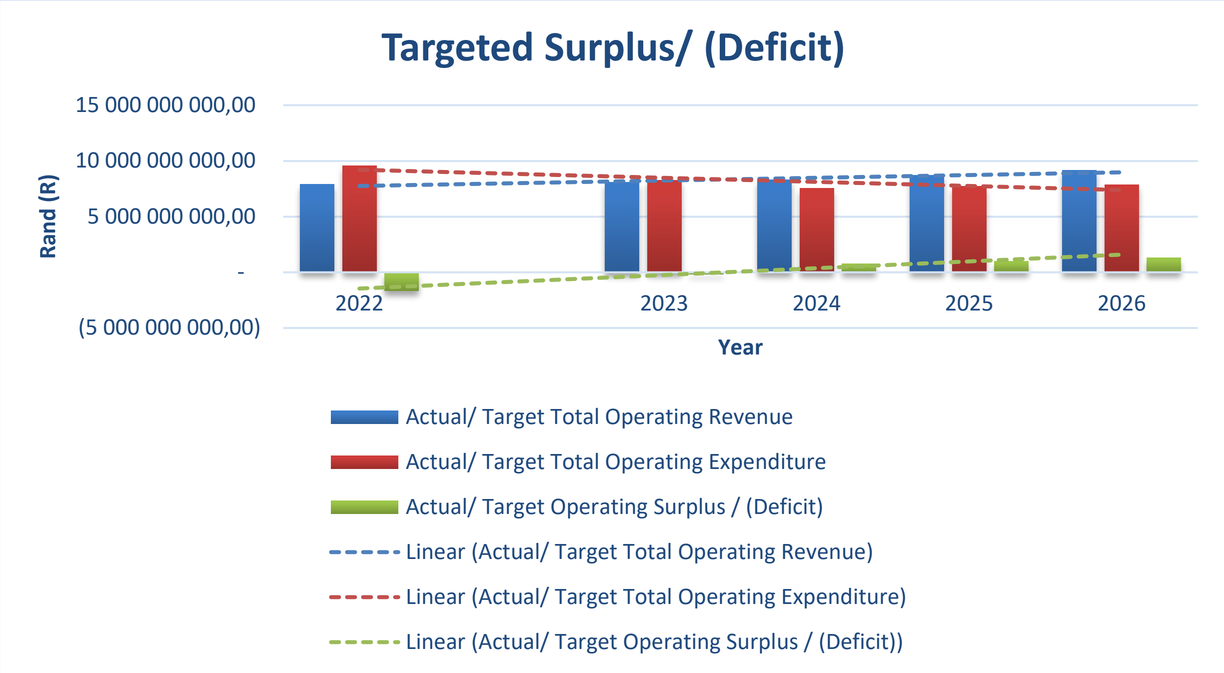


Table 13 - Targeted Surplus/ (Deficit)

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

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

The forecast below used the 2022/23 actual figures for eleven (11) months from July 2022 to May 2023, extrapolated to obtain the full year's figures as the base year. The assumptions as per the assumptions tables were applied. The model processes mSCOA data strings and it is noted that there may be variances between the figures below and the actual audited figures.

BUDGET ITEM	2022/23 MTREF BUDGET (R)	TARGET 2023/24 MTREF BUDGET (R)	TARGETS: 2024/25 MTREF BUDGET (R)	TARGETS: 2025/26 MTREF BUDGET (R)
Property rates	1,508,520,819	1,445,037,234	1,510,063,910	1,578,016,786
Service charges - electricity revenue	2,871,335,341	3,026,772,270	3,162,977,023	3,305,310,989
Service charges - water revenue	1,166,466,322	1,176,186,875	1,229,115,285	1,284,425,472
Service charges - sanitation revenue	473,631,643	453,699,645	474,116,129	495,451,355
Service charges - refuse revenue	169,449,230	162,318,241	169,622,562	177,255,577

BUDGET ITEM	2022/23 MTREF BUDGET (R)	TARGET 2023/24 MTREF BUDGET (R)	TARGETS: 2024/25 MTREF BUDGET (R)	TARGETS: 2025/26 MTREF BUDGET (R)
Rental of facilities and equipment	33,581,976	32,168,734	33,616,327	35,129,062
Interest earned - external investments	52,949,071	50,720,798	53,003,234	55,388,379
Interest earned - outstanding debtors	557,928,224	534,448,745	558,498,938	583,631,391
Dividends received	12,937	12,392	12,950	13,533
Fines, penalties, and forfeits	9,530,938	9,129,845	9,540,688	9,970,019
Licences and permits	1,447,445	1,386,532	1,448,926	1,514,127
Transfers and subsidies	1,053,610,617	1,230,629,300	1,318,931,335	1,439,080,657
Other revenue	186,332,630	178,491,132	186,523,232	194,916,778
Gains on disposal of PPE	1,572,949	0	0	0
Total Operational Revenue	**8,086,370,147**	**8,301,001,748**	**8,707,470,543**	**9,160,104,129**
Employee related costs	2,378,049,225	2,277,972,987	2,380,481,772	2,487,603,451
Remuneration of councillors	69,501,590	66,576,731	69,572,684	72,703,455
Debt impairment	1,160,102,450	843,022,261	700,255,910	542,933,467
Depreciation and asset impairment	927,728,898	888,686,974	928,677,887	970,468,392
Finance charges	141,527,625	135,571,671	141,672,396	148,047,654
Bulk purchases	2,130,455,938	1,952,917,944	2,040,799,251	2,132,635,217
Other materials	780,054,873	747,227,564	780,852,804	815,991,181
Contracted services	341,408,523	327,040,914	341,757,755	357,136,854
Other expenditure	318,459,829	305,057,977	318,785,586	333,130,938
Loss on disposal of PPE	305,182	0	0	0
Total Operational Expenditure	**8,247,594,138.36**	**7,544,075,027**	**7,702,856,050**	**7,860,650,614**
Surplus/ (Deficit)	**(161,223,991)**	**756,926,720**	**1,004,614,492**	**1,299,453,515**

Table 14 - Financial Forecasting Model

Working Capital Requirements

Description	TARGET 2022/23	TARGET 2023/24	TARGETS: 2024/25	TARGETS: 2025/26
Bank Balance 30 June 2022	**741,000,000**			
Revenue Collected (See Assumptions table for % Collected)	5,389,489,328	5,642,168,250	6,076,768,174	6,539,056,701
Other Revenue - Grants (Assumed 100% Collected)	1,053,610,61	1,230,629,300	1,318,931,335	1,439,080,657
Interest earned - external investments	52,949,071	50,720,798	53,003,234	55,388,379
Total Cash Inflow	**6,496,049,017**	**6,923,518,348**	**7,448,702,743**	**8,033,525,738**
Note: We have excluded interest on outstanding debtors as recovery is not certain.				
Cash Expenses (Excluding Debt Impairment and Depreciation)	6,018,235,164	5,676,794,120	5,932,249,855	6,199,201,099
Finance charges	141,527,625	135,571,671	141,672,396	148,047,654
Total Cash outflow	**6,159,762,789**	**5,812,365,791**	**6,073,922,252**	**6,347,248,753**
Net Cash Outflow/Inflow from Operating Activities	**336,286,227**	**1,111,152,556**	**1,374,780,491**	**1,686,276,984**
Projected cash on hand before investing and financing activities	**1,077,286,227**	**2,188,438,784**	**3,563,219,275**	**5,249,496,260**

Table 15 - Working Capital Requirements

Grounded on adherence to the above budget parameters, it is anticipated that the Municipality's cash surplus of R 741 million at the end of the 2021/22 financial year will increase to a cash surplus of R 5,25 billion at the end of the 2025/26 financial year. It should be noted that this cash surplus is before capital and finance investments.

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 16 - 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.

6.1 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.

6.2 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.

6.3 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.

6.4 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.

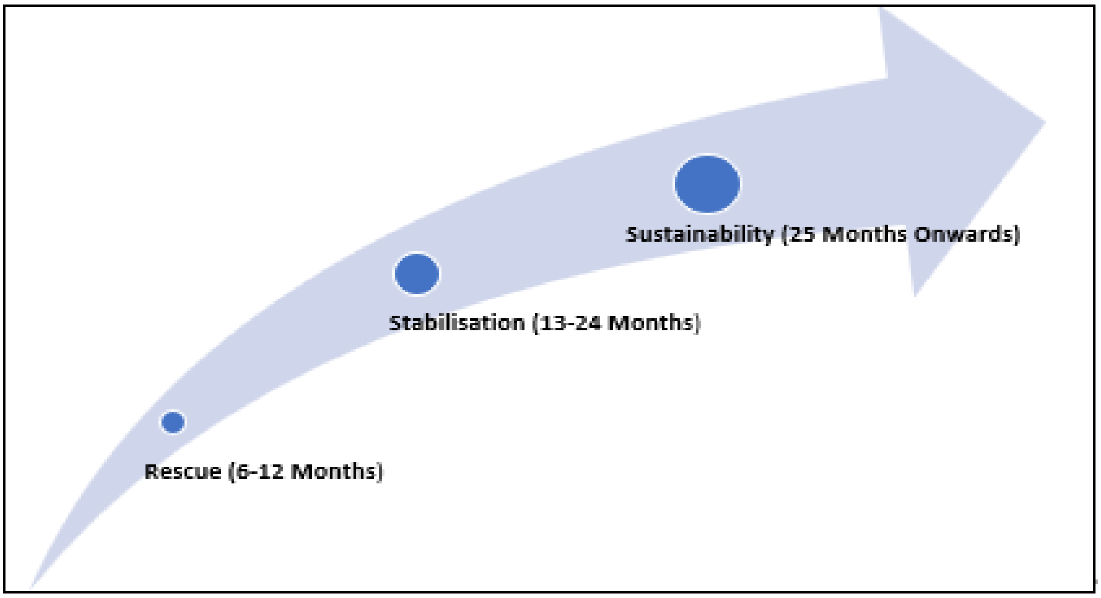


Figure 6 - FRP Development Phases

7. PART FOUR – REPORTING FRAMEWORK

7.1 REPORTING FRAMEWORK

The following approach to reporting and oversight will be required:

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

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

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

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

(Example only for illustrative purposes)

Per FRP Implementation Plan:	Information:
Phase	**Financial Rescue**
Pillar	**Service Delivery**
Key Activity	▪ Prioritise the development, financing, and implementation of a proper programme to address technical water losses. ▪ Properly determine the fundamental reasons for commercial water losses (i.e., non-payment) ▪ Develop a plan to address the reasons. ▪ Make key interventions to address the reasons.
Problem Statement	**45% water losses (technical and commercial)**
Responsible	**Technical Director**

Per FRP Implementation Plan:	Information:
Start Date	October 2023
End Date	March 2024
Key Performance Indicator	5% reduction per annum
Financial Target	R50 Million per annum
Progress Report by Municipality:	
Steps taken	
Progress made	
Financial impact recorded	
Other noteworthy developments	

8. PART FIVE – STRATEGIC ASSESSMENT AND CONCLUSION

From the above assessment, the following key issues, *amongst others* were identified and are 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;
- Centlec's poor performance and liquidity issues;
- 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.

9. PART SIX - RECOMMENDATIONS

The following recommendations are made for consideration:

a) The Mangaung MM Mandatory Financial Recovery Plan be approved by the Minister of Finance in terms of Section 143(2) of the MFMA.

b) The Political Oversight Committee be established by the Office of the Premier supported by the HoD (PT) to provide for political oversight.

c) The Technical War Room Oversight Committee be established by the provincial HoD (PT) to direct the intervention, monitor progress, unblock any political and strategic challenges that may hinder the success of this intervention from a National and Provincial government level and report to the MECs for Finance and CoGTA in the Free State Province on progress and issues for escalation.

d) The identification, appointment, and mobilisation of the members of two task teams to activate the required FRP activities focusing on the following two distinct levels which run in parallel, each with its own implementation team being (subject to budget considerations and NT approval):

   i. **Rescue team:** A tactical and operational team (80 % outsourced and 20% in-house) to address the rescue activities within the Municipality, namely the immediate and continuous provision of basic municipal services. This team will be operational for a period of three-years, whereafter the capacitated municipal resources appointed through the stability and sustainability team will take over the full responsibility.

   ii. **Stability and sustainability team:** A strategic and tactical team (40 % outsourced and 60% in-house) to address the stabilisation and sustainability activities related to establish a soundly governed Municipality. This team will be operational for a period of three-years, whereafter the municipal leadership will take over the full responsibility.

e) The Free State Provincial Government commit to providing expert support for the implementing of the FRP.

f) The Free State Provincial Support Package for Mangaung MM be aligned with the priorities as set out in Phase 1: Financial Rescue of the FRP.

g) The adoption and implementation of a comprehensive Change Management Programme, consisting of the presence of uncontaminated and strong change agents to address the following focus areas:

   i. **Consequence Management:** The lack of consequence management and accountability arrangements are systemic and symptomatic of a municipality where oversight is lacking.

   ii. **Capacity Development:** An extensive mentorship, coaching, training, and change management effort is required. A skills audit, new staff structure, well-trained and equipped elected officials and adherence to codes of conduct, consequence management and accountability would be a minimum first step in the right direction.

APPROVAL

This FRP is submitted by the NT MFRS in terms of section 141(4)(c) of the MFMA.

"I Enoch Godongwana, Minister of Finance in the National Cabinet hereby confirm that I have verified and confirmed that all statutory processes as set out in section 141 of the MFMA has been followed and that the criteria contained in section 142 has been met".

I therefore approve the Financial Recovery Plan in terms of the powers vested in me under section 143(2) of the MFMA"

Signed on this ____ day of July 2023 at Mangaung, Free State Province.

____

Enoch Godongwana

Minister of Finance

9.1 ANNEXURE A: FRP IMPLEMENTATION PLAN

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

a) Item number.
b) Focus area.
c) Current situation.
d) Key activities.
e) Responsible person.
f) Timeline (Rescue/Stability/Sustainability).

g) Measurable outcome/ KPI.
h) PoE.
i) Financial impact.
j) Support required.
k) Start date.
l) End date.
m) Progress and reporting.

9.2 ANNEXURE B: UPDATED STATUS QUO ASSESSMENT REPORT