

# SECTION 139(5) MANDATORY INTERVENTION

## AMENDED FINANCIAL RECOVERY PLAN

*Prepared for the*  
**GOVAN MBEKI MUNICIPALITY**  
**MAY 2024**



**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**

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## ABBREVIATIONS

The following is a list of abbreviations used in this document and its related attachment/s:

No.	Abbreviation	Full Form
1.	AFS	Annual Financial Statements
2.	AG SA	Auditor General of South Africa
3.	ART	Antiretroviral Therapy
4.	CoS	Cost of Supply
5.	DBSA	Development Bank of Southern Africa
6.	EXCO	Executive Committee
7.	FRP	Financial Recovery Plan
8.	HRD	Human Resources Development
9.	ICT	Information and Communications Technology
10.	IDP	Integrated Development Plan
11.	KPA	Key Performance Area
12.	KPI	Key Performance Indicator
13.	LLF	Local Labor Forum
14.	MEC	Member of the Executive Council
15.	MFMA	Municipal Financial Management Act
16.	MFRS	Municipal Financial Recovery Services
17.	<i>m</i> SCOA	Municipal Standard Chart of Accounts
18.	NT	National Treasury
19.	MPAC	Municipal Public Accounts Committee
20.	PMS	Performance Management System
21.	SAPS	South African Police Service
22.	SCM	Supply Chain Management
23.	SQA	Status Quo Assessment
24.	UIF&W	Unauthorized, Irregular and Fruitless and Wasteful Expenditure
25.	WTW	Water Treatment Works
26.	WWTW	Wastewater Treatment Works
27.	GMM	Govan Mbeki Municipality

## EXECUTIVE SUMMARY

The Financial Recovery Plan aims to tackle the multifaceted financial crisis in GMM. It strives to promote sound financial conditions, ensuring that the municipality can meet its obligations and deliver essential services to the community. By addressing both immediate and long-term financial challenges, the plan seeks to restore stability, improve service delivery, and enhance the overall quality of life for GMM residents. The FRP comprehensively details the challenges faced by the municipality, budget parameters, reporting schedules, and the implementation plan, ensuring a structured approach to recovery and sustainable growth.

The Govan Mbeki Municipality (GMM) has faced significant obstacles in executing its Financial Recovery Plan (FRP). Chief among these challenges is inadequate revenue collection, which has intensified financial constraints and hindered the full implementation of FRP initiatives. Furthermore, substantial distribution losses have exacerbated the municipality's financial difficulties.

Govan Mbeki Municipality's debt to Eskom surged from R1.1 billion (in 2020 financial year) to R4.5 billion, while its debt to Rand Water rose from R200 million to R818 million. At the same time, revenue and debtor collection rates dropped from 67% in the 2021/22 financial year to 65% in the following year. Additionally, delays in creditor payments increased from 775 days in 2021 to 1,049 days in 2023. Moreover, the municipality faced significant distribution losses, with water losses at 40% and electricity losses at 64% in the 2022/23 financial year, highlighting the severe financial strain on the municipality.

Furthermore, Govan Mbeki Municipality encounters significant infrastructure challenges that intensify its difficulty in meeting community demands and facilitating development. The municipality's ageing and inadequate infrastructure significantly hamper its operations. Issues such as illegal connections and dysfunctional meters have led to complex billing complications, making it difficult to accurately account for service usage. Restricted access to meters in certain areas further complicates the billing process, leading to revenue losses and inefficiencies. These infrastructure problems are compounded by insufficient repairs and maintenance, resulting in frequent service interruptions that severely impact residents' quality of life and erode public trust in municipal services.

Addressing the challenges in implementing the existing Financial Recovery Plan (FRP) activities at GMM necessitates a multifaceted strategy to navigate its financial limitations. This strategy should encompass strategic reforms to enhance revenue collection mechanisms, implement targeted measures to curtail distribution losses, and thoroughly revise the FRP to ensure it remains relevant and effective in addressing the current financial predicaments. A key focus for the municipality is advancing the FRP activities related to metering, which are critical for improving billing accuracy but

are currently hindered by insufficient internal funding.

A thorough revision of the FRP is crucial to ensure it remains relevant and effective in addressing the municipality's current financial predicaments. This revised plan should focus on advancing activities related to metering, which are critical for improving billing accuracy but are currently hindered by insufficient internal funding. Securing additional funding through grants or loans and partnering with private sectors or governmental agencies could provide the necessary financial support. Furthermore, fostering community engagement and transparency can help build public trust and encourage compliance with payment obligations. By addressing these key areas, GMM can create a more stable financial foundation, ultimately leading to improved service delivery and enhanced quality of life for its residents.

The Provincial Treasury has set aside R20 million to finance projects for water and electricity meters. At present, more than 1000 water meters have been purchased, while over R6 million has been spent on acquiring smart meters for large power consumers. However, the allocated funds are not enough to resolve the backlog. The municipality has applied for additional funding through the National Treasury to procure smart and prepaid metering solutions to improve its billing and enhance service delivery.

The developed financial recovery plan encompasses the identification of financial problems, the establishment of a sound and sustainable financial condition, and the definition of strategic objectives and means to achieve them. The plan further outlines specific strategies to address the municipality's financial issues, reduce unnecessary expenditures, and enhance revenue collection as required. Moreover, it identifies the necessary human and financial resources to resolve financial problems and specifies their proposed sources. The plan provides a time frame for financial recovery, and milestones to be achieved, and highlights the actions required for successful plan implementation, distinguishing between actions to be taken by the municipality and other parties involved.

Aligned with the National Treasury's assessment pillars for municipal sustainability—Governance, Institutional Stability, Financial Health, and Service Delivery—the Financial Recovery Plan adopts a strategic, focused approach that is both time-bound and comprehensive. It encompasses a phased approach to recovery, addressing short-, medium-, and long-term issues. The recovery plan comprises three interconnected phases: The Rescue Phase (Phase 1) primarily focuses on restoring the municipality's cash position, followed by the Stabilization Phase (Phase 2), which addresses financial indicators, governance, and institutional issues. Finally, the Sustainability Phase (Phase 3) establishes indicators to ensure long-term financial stability. This approach aims not only to achieve financial recovery but also to institutionalize and sustain progress within GMM.

The respective sections of the Financial Recovery Plan comprehensively detail the municipality's challenges, budget parameters, reporting schedules, and implementation plan.

Ultimately, the Financial Recovery Plan endeavours to address the multifaceted financial crisis in GMM, promote sound financial conditions, and secure the provision of basic services to the community.

## **1. PART ONE: INTRODUCTION, LEGISLATIVE CONTEXT AND OVERSIGHT**

### **1.1 MUNICIPAL OVERVIEW**

Govan Mbeki Local Municipality is a category B municipality, which is one of the 7 local municipalities under the jurisdiction of Gert Sibande District (the other districts being Ehlanzeni and Nkangala) and one of the 18 local municipalities within Mpumalanga. It is situated in the south-eastern part of Mpumalanga Province, neighbouring Gauteng Province in the south-west; approximately 150km east of Johannesburg and 300km south-west of Nelspruit (capital city of Mpumalanga). It is bordered by the Nkangala District in the north, Dipaleseng and Lekwa in the south and Msukaligwa in the east.

The Govan Mbeki Municipality was formed in the year 2000 through the amalgamation of three former municipalities: the Highveld Ridge Local Authority, the Bethal Local Authority, and the Leandra Local Authority.

The Municipality is mandated to provide its residents with the following services:

- Electricity supply
- Water supply;
- Sanitation services;
- Solid waste collection and disposal;
- Roads and stormwater; and
- Community services include fire, traffic, and disaster management.

The Govan Mbeki Municipality area is agricultural/rural with three urban centres: Leandra (Leslie, Lebohang, and Eendracht) on the western edge, the Greater Secunda (Trichardt, Evander, Kinross and Secunda / Embalenhle/ Charl Cilliers) conurbation in the central part, and Bethal / Emzimoni in the east.

Govan Mbeki Municipality has the most diversified economy within the Gert Sibande District, dominated by the petrochemical industry (SASOL II and III complexes), and coal and gold mining. Govan Mbeki Municipality has the largest underground coal mining complex in the world, which makes

it an important strategic area within the national context.

## **1.2 STATUTORY AND LEGISLATIVE CONTEXT**

### **THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, 1996 (ACT NO.108 OF 1996)**

The intervention was instituted in terms of S139 (5) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), as read with sections 139, 140 and 146 to 149 of the MFMA.

S139(5)(a) of the Constitution reads as follows: “The provincial executive must impose a recovery plan aimed at securing the municipality’s ability to meet its obligations to provide basic services or its financial commitments, which:

- i. is to be prepared following the national legislation; and
- ii. binds the municipality in the exercise of its legislative and executive authority but only to the extent necessary to resolve the crisis in its financial affairs”.

S139(8) provides that national legislation may regulate the implementation of this section, including the processes established by this section. The Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is one piece of legislation referred to in section 139(8) of the Constitution, which regulates the implementation of section 139 intervention, inclusive of related processes.

### **THE MUNICIPAL FINANCE MANAGEMENT ACT, 2003 (ACT NO. 56 OF 2003)**

Chapter 13 of the MFMA deals with the resolution of financial problems in municipalities and outlines the processes that must be followed in the amendment of existing mandatory financial recovery plans invoked in terms of Section 139(5) of the Constitution.

Section 141 applies to the amendment of imposed financial recovery plans.

- 1) Any suitably qualified person may, on request by the provincial executive, prepare a financial recovery plan for a discretionary provincial intervention referred to in section 137.
- 2) Only the Municipal Financial Recovery Service may prepare a financial recovery plan for a mandatory provincial intervention referred to in section 139.
- 3) When preparing a financial recovery plan, the person referred to in subsection (1) or the Municipal Financial Recovery Service must—
  - (a) consult—
    - (i) the relevant municipality;
    - (ii) the municipality’s principal suppliers and creditors to the extent they can be contacted.
    - (iii) the MEC for finance and the MEC for local government in the province; and

- (iv) Organised labour;
- (b) take into account—
  - (i) any financial recovery plan that has previously been prepared for the municipality; and
  - (ii) any proposed financial recovery plan, or proposals for a financial recovery plan, which may be advanced by the municipality or any creditor of the municipality; and
- (c) at least 14 days before finalising the plan—
  - (i) Submit the plan for comment to—
    - (aa) the municipality;
    - (bb) the MEC for finance and the MEC for local government in the province;
    - (cc) organised local government in the province;
    - (dd) organised labour and
    - (ee) any supplier or creditor of the municipality, on request; and
  - (ii) publish a notice in a newspaper of general circulation in the municipality— (aa) stating the place, including any website address, where copies of the plan will be available to the public free of charge or at a reasonable price; and (bb) inviting the local community to submit written comments in respect of the plan.
- 4) The person charged with preparing the financial recovery plan or the Municipal Financial Recovery Service must—
  - a) Consider any comments received according to subsection (3) (c);
  - b) Finalise the financial recovery plan and
  - c) Submit the final plan to the MEC for finance in the province for approval in terms of Section 143.

Section 144 details the process of amendment of financial recovery plans as follows. —

1. The MEC for local government or the MEC for finance in the province may at any time, but subject to Section 141 (1) and (2), request any suitably qualified person or the Municipal Financial Recovery Service to prepare an amended financial recovery plan in accordance with the directions of the MEC.
2. Section 141, read with such changes as the context may require, applies to the amendment of a financial recovery plan in terms of this section.
3. No amendment of a recovery plan may impede the implementation of any court order or agreement reached regarding the plan before the amendment.

## **1.3 OVERVIEW OF THE AMENDED FINANCIAL RECOVERY PLAN**

### **1.3.1 IMPLEMENTATION PHASES**

GMM's FRP project flow can be set out into the following three interdependent implementation phases:



<b>RESCUE</b>	Minimal set of key indicators across all four pillars necessary to neutralise financial turbulence (6-8 months): <ul style="list-style-type: none"> <li>▪ <b><u>Focus is on cash and short-term liquidity:</u></b> Appointing debt collector, Cash Flow Management, Trading Debtors and collections, Cost containment, Creditor Management</li> <li>▪ <b><u>Include service delivery projects with high visibility</u></b> such as curbing illegal connections and attending to potholes</li> </ul>
<i>Phase 1</i>	
<b>STABILISATION</b>	To address the underlying causes of failure focusing on eradicating problems at the root (12-24 months): "Plugging the holes and fixing the leaks"
<i>Phase 2</i>	
<b>SUSTAINABILITY</b>	To ensure financial and service delivery sustainability and prevent a regression (Subject to progress in Phase 2)
<i>Phase 3</i>	

### 1.3.2 Phase 1 – Rescue Phase

The rescue phase's emphasis will be primarily on cash and restoring the cash position of the municipality as well as instilling financially managed good practices.

The indicators for the rescue phase include recovering monies owed by the councillors and municipal staff, strictly implementing the budget-related policies, ensuring that meter readings and billings are accurate, engaging businesses to settle their accounts, appointing a debt collector, running campaigns to encourage customers to settle their accounts, establishing a vibrant cash flow committee, containing municipal expenditures, negotiating payment arrangements with the creditors. Focus is also placed on service delivery, governance, and institutional matters; however, this is limited to addressing the most visible and critical issues, with an attempt to ensure that the situation does not deteriorate further.

This is a short-term phase that is anticipated to last six (6) to eight (8) months from the approval date of the FRP.

### 1.3.3 Phase 2: Stabilisation Phase

The bulk of the recovery process takes place in the second phase of the Financial Recovery Plan. This phase is referred to as the stabilisation phase. In this phase, GMM must review policies aligning with the financial recovery plan and ensure they are being implemented. A drive should be implemented to cleanse the billing system. Furthermore, a revenue enhancement strategy should be developed and strictly enforced. A cost-of-supply study should be conducted to determine cost-reflective tariffs. The municipality should strictly implement credit control and debt collection policies as revenue increases to improve the collection rate.

Greater attention is placed on the underlying service delivery, governance, and institutional matters that are perpetuating the financial crisis in the municipality. UIF&W expenditure will be investigated, development, and implementation of SoPs across the municipality, cascading competence testing to all the employees at the municipality, implementing master plans, further installation of smart meters, conducting repairs and maintenance of plant and equipment.

All the recurring strategies from the Rescue Phase must be strictly monitored to ensure that there is no regression.

This phase is expected to last between 12 to 24 months or longer, depending on progress made by the municipality.

#### **1.3.4 Phase 3: Sustainability Phase**

GMM should obtain reasonable assurance that Phases 1 and 2 strategies are implemented for continued sustainability. Financial ratios should be monitored to determine the municipality's achievements. Monitoring ratios will be prioritised in this phase to determine the achievements made in the previous phases. The municipality should show beyond reasonable doubt that it is committed to ensuring good practices before concluding the intervention.

### **1.4 PREPARATION, CONSULTATION AND APPROVAL OF THE AMENDED MANDATORY FINANCIAL RECOVERY PLAN**

#### **PREPARATION**

A holistic process was followed in the review of this amended mandatory financial recovery plan as guided by section 142 of the MFMA. Firstly, a Status Quo Assessment review involved a brief diagnostic assessment, identification of the key findings that resulted in the municipality being in financial crisis, their root causes, and the strategies to resolve were proposed. An Implementation Plan (refer to Annexure A) was reviewed for all three phases: Rescue, Stabilisation, and Sustainability. Furthermore, a financial modelling was developed to set spending limits and budget parameters and propose strategic revenue-raising measures. A financial recovery plan was therefore reviewed to improve the financial viability of the municipality. Consultations with the municipality, stakeholders, creditors, and organised labour were done throughout the process in line with the MFMA requirements.

## CONSULTATION

In preparing the amended Financial Recovery Plan, consultations were conducted with various stakeholders, including the Provincial Treasury, creditors, LLF, and municipal management. These engagements facilitated the preparation of the FRP and the subsequent planning process.

An introductory workshop with the municipality was held on the 19<sup>th</sup> of February 2024. Further work streams meeting with the municipality and stakeholders was held on the 4<sup>th</sup> of March 2024 and the 5<sup>th</sup> of April 2024. We further engaged with the municipal officials during the preparation of the SQA on the 8<sup>th</sup> of April, 2024. Consultation on the draft SQA was held with management on the 15<sup>th</sup> of April, and LLF and Creditors was held on the 16<sup>th</sup> of April 2024. A workshop with the Council for FRP was held on the 31<sup>st</sup> of May 2024, and its comments and inputs have been factored into this report

### 1.5 IMPLEMENTATION OF THE MANDATORY INTERVENTION AND AMENDED FINANCIAL RECOVERY PLAN

As this is a mandatory intervention, the municipality must implement the amended financial recovery plan. In terms of s146 (2), the imposed FRP binds the municipality in exercising both its legislative and executive authority, including approval of a budget and legislative measures that affect the budget to the extent necessary to achieve the objectives of the recovery plan.

The financial recovery plan strategies must be institutionalised and performed as part of the daily control activities by the municipal employees. All employees, whether in acting, contractual or permanent capacity, **must** be assigned roles and responsibilities to execute towards the success of this plan. The municipality is further **required** in terms of S146(1)(c) to report monthly to the MEC for Finance on implementing the financial recovery plan.

The **financial resources** required to support the implementation of the Plan will be realised through the adopting of a funded budget, implementation of revenue collection strategies and or revenue enhancement initiatives, reduction of distribution losses for both water and electricity, approval of additional grants for smart metering, relaxation of debt relief for both water and electricity during the period of implementing FRP activities, reduction of expenditure through implementation of cost containment measures, and preventing filling of non-critical positions.

## **1.6 MONITORING AND OVERSIGHT OF THE INTERVENTION AND THE AMENDED FINANCIAL RECOVERY PLAN**

The intervention will be subject to oversight by a Political Oversight and Monitoring Committee, which will report directly to the Premier and the provincial executive council. The Committee will direct the intervention, monitor progress, and unblock any political challenges that may hinder its success.

The Political Oversight Committee will consist of the following representatives:

- a. MEC for Finance Chairperson)
- b. MEC for COGTA
- c. Executive Mayor
- d. Speaker

A Technical War Room Committee should be established to support the political oversight committee and to be constituted by the following:

- a. The HOD: Finance, Mpumalanga (Chairperson).
- b. The HOD: CoGTA, Mpumalanga.
- c. The Provincial Commissioner of Police.
- d. Head: NT MFRS and any other representative as delegated by the NT MFRS Head.
- e. The Municipal Manager and his/her senior managers.
- f. Representatives from the sector are to be co-opted, as and when necessary.

In addition to the oversight committee, a Technical Intervention Team representative of all four pillars must be established to support the Municipal Manager in the implementation of the financial recovery plan. The Municipal Manager should undertake quality assurance processes required to submit monthly performance progress reports in terms of the prescribed framework to Members of the Executive Council for Finance, NT MFRS, MAYCO and Municipal Council on the implementation of the amended FRP.

## **1.7 RISKS ASSOCIATED WITH THE IMPLEMENTATION OF THE AMENDED FINANCIAL RECOVERY PLAN**

The following risks have been identified which must be mitigated for the successful implementation of the financial recovery plan. These risks relate primarily to financial administration, budgeting, financial discipline, and governance. It is proposed that a risk matrix be developed and that appropriate mitigation measures be instituted.

### **Pillar 1 Governance:**

- Political and Administrative instability;
- Community unrest;
- Risk of unforeseen litigations

### **Pillar 2 Institutional and Human Resources:**

- Increase in overtime due to non-enforcement of overtime policy;
- Filling of critical budget posts in line with the cost containment strategy;
- Institutionalising Performance management across all levels of the organization and;
- Lack of adequate skills and competencies.

### **Pillar 3 Financial Management:**

- Rise in interest costs as well as fruitless and wasteful expenditure due to long outstanding creditors payments;
- Failure to agree on payment plans with the major creditors;
- Increase in creditors with no funding plans to address the outstanding creditors;
- Loss of revenue because of ineffective billing/revenue management controls and low collection rates, resulting in an excessive increase in the debtor's book;
- Not applying stringent cost-containment measures resulting in excessive expenditure;
- Inability to apply revenue enhancement strategies;
- Lack of proper budgeting processes;
- Defaulting on Eskom Debt Relief agreement due to high electricity losses; and
- Unrealistic payment plans may lead to an increase in fruitless and wasteful expenditures.

### **Pillar 4 Service Delivery:**

- Increase in lawsuits and protests due to poor service delivery;
- Service delivery backlogs leading to community protest;
- Inability to replace aged infrastructure;
- Lack of adequate infrastructure maintenance;
- Failure to control and account for both electricity and water losses and
- Lack of proper budgeting processes.

## **1.8 COMMUNICATION PLAN**

It is proposed that the Municipal Manager drafts an internal and external communication plan to support effective communication throughout the intervention. This plan needs to be executed in the context of a change management process.

## **2. PART TWO – STATUS QUO ASSESSMENT**

### **2.1 STATUS QUO ASSESSMENT**

In developing this status quo assessment, the following information sources were utilised:

- Audit reports by the Auditor-General of South Africa 2021/22 and 2022/23;
- Management reports by the Auditor-General of South Africa 2021/22 and 2022/23;
- Annual reports 2022/23;
- Audited Annual Financial Statements 2021/22 and 2022/23;
- Integrated Development Plan (IDP) 2023/24;
- Financial Ratios in accordance with MFMA Circular 71;
- Various municipal documents such as reports, policies, and procedures;
- Mid-term assessment report 2023/24;
- Municipal code for by-laws;
- 2016 Marketing and Customer Relations Strategy;
- Budget policy 2023/24;
- Budget Funding Plan 2023/24;
- Collection rate per ward report 2023/24;
- Audit Action Plan;
- Quarterly Internal Audit Progress Reports 2022/23;
- Quarterly Audit Committee Report 2022/23;
- ICT Steering Committee Pack 2022/23;
- Municipality Lease Register;
- Minutes of Council meetings and Portfolio Committee;
- Various municipal documents such as reports, policies, procedures, etcetera.
- Report of Qualifications verification of senior managers 2022; and
- Report on employee verification 2023.

### **2.2 KEY ISSUES IDENTIFIED**

The key issues identified in the status quo assessment were ordered in terms of the following 4 municipal pillars of sustainability:

- a) Governance
- b) Institutional stability and capability

- c) Financial health
- d) Service Delivery

As drawn from the status quo assessment report utilised to prepare this financial recovery plan, the key findings that were identified per pillar are illustrated below:

### 2.2.1 GOVERNANCE PILLAR

The critical key issues identified during the status quo assessment regarding the governance pillar, as well as additional observations from the FRP preparation, are the following:

Focus Area	Findings
<b>Governance Model</b>	<ul style="list-style-type: none"> <li>• Municipality does not have a stakeholder engagement strategy to guide them in engaging the community and its stakeholders on issues of service delivery</li> <li>• Non-payment of municipal services by staff and councillors</li> <li>• As of 30 June 2023, councillors with outstanding municipality accounts over 90 days were at R806k, which does not promote a good culture of service payment by the community.</li> <li>• As of the 26th of March 2024, the staff of the municipality owed the municipality R6.2 million in outstanding municipal services.</li> </ul>
<b>Powers and functions</b>	<ul style="list-style-type: none"> <li>• The municipality bears the full operational costs of library services</li> <li>• The municipality undertakes the unfunded mandate of providing Library services on behalf of the provincial Department of Sports, Arts, and Culture.</li> <li>• The municipality is spending about R1.4 million per month on library services.</li> </ul>
<b>Political/Administrative Interface</b>	<ul style="list-style-type: none"> <li>• There is no indication of interference by the council on the administration's functioning.</li> </ul>
<b>Contract management</b>	<ul style="list-style-type: none"> <li>• There was no adequate and regular monitoring of supplier performance and evaluations.</li> <li>• The Supply chain management legislation and policy prescribe how contracts should be managed to ensure that payments are only made for goods and services that have been received and delivered at the right quality.</li> </ul>
<b>Litigations and contingent liabilities</b>	<ul style="list-style-type: none"> <li>• The municipality is spending high costs on legal fees (R36 million) to defend a possible contingent liability of R69 million, and it appears that there is no cost-benefit analysis (correlation</li> </ul>

Focus Area	Findings
	<p>between legal expenditure vs Contingent Liability) for this spending.</p> <ul style="list-style-type: none"> <li>• The municipality does not have an approved litigation strategy to assist them in establishing which cases to defend and which ones to pursue.</li> </ul>
<b>System of Delegations</b>	<ul style="list-style-type: none"> <li>• The system of delegations was approved by the existing Council in compliance with Section 59(2)(f) of the MSA, 32 of 2000 on 30 June 2023</li> <li>• Delegations have stipulated the conditions of delegations, and sub-delegations and have explicitly indicated the powers which cannot be sub-delegated by the Council. e.g. approval of IDP and Budget, alienation of land etc.</li> <li>• The policy provides for delegations by Council, Council Committee, Mayor, Speaker, MM, Directors and Managers</li> <li>• It could not be established if the municipality has a delegations register and if the delegation is aligned with the policy as the delegation register was not provided.</li> </ul>
<b>By-laws and enforcement</b>	<ul style="list-style-type: none"> <li>• The municipality had a 64% vacancy rate for law enforcement units (by-laws) which makes it difficult to enforce by-laws and deal with issues of development and review of by-laws.</li> <li>• Most of the municipal by-laws were last reviewed and promulgated in 2008 and before. <ul style="list-style-type: none"> <li>○ Standard Drainage laws date back to 1977,</li> <li>○ Public transport by-laws dated 2006,</li> <li>○ Credit control and debt collection dated back to 2008.</li> </ul> </li> <li>• These by-laws are therefore not aligned with the current IDP, other policies of the municipality and legislation enacted by a higher legislative organ of the state.</li> <li>• No reports provided by the municipality indicate that Bylaws are being enforced. We couldn't, therefore, establish if by-laws are enforced.</li> </ul>
<b>UIF&amp;W and consequence management</b>	<ul style="list-style-type: none"> <li>• High level of UIF&amp;W written off with no evidence of consequence management taken by the municipality</li> <li>• In 2022/23, the Council wrote off the following UIF&amp;W after investigations and recommendations by MPAC <ul style="list-style-type: none"> <li>○ Irregular expenditure – R180 million</li> </ul> </li> </ul>



Focus Area	Findings
	<ul style="list-style-type: none"> <li>○ Fruitless and Wasteful expenditure – R242 million</li> <li>○ Unauthorised expenditure – R1.6 billion</li> </ul>
<b>Audit Action Plans (internal&amp; external)</b>	<ul style="list-style-type: none"> <li>• Although the municipality developed an audit action plan, during the AGSA audit for the financial year of 2022/23, there were 87 audit findings, of which about 50% of these findings were repeated findings for the past two financial years (2020/21 and 2021/22)</li> <li>• It was noted during the Council meeting that only 31% of audit findings raised by the Office of the Auditor-General South Africa have been addressed by the 31st of March 2023 (3 months before year-end).</li> <li>• The above analysis indicates that the audit action plan is not fully effective and needs to be improved to achieve its optimal effectiveness.</li> <li>• The municipality received a qualified audit opinion for the past three years from the AGSA.</li> </ul>
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>• A Risk management committee is in place and meets regularly.</li> <li>• There is an annual calendar and work plans, and the committee is chaired by an independent external person,</li> <li>• The municipality has a Business continuity plan in place.</li> </ul>
<b>Information &amp; Communications Technology</b>	<ul style="list-style-type: none"> <li>• The ICT steering committee is in place, and it meets at least four times a year.</li> <li>• The ICT steering committee is not chaired by an independent person.</li> <li>• ICT steering committee reports are not submitted to the audit committee for review and oversight.</li> <li>• AGSA found that there are no significant deficiencies in the IT security controls.</li> </ul>
<b>Immovable property management</b>	<ul style="list-style-type: none"> <li>• No lease agreement was signed between the municipality, tenants and government departments using the municipal buildings.</li> <li>• Non-payment of rental for the use of municipal properties</li> <li>• Per the budget funding plan report (1 July 2023 to 30 June 2024), the projected revenue from the leased municipal-owned properties is R3,6 million while only R191k was collected. This amounts to collections of 6% as of 31st January 2024.</li> <li>• The municipality is paying for water and electricity on these</li> </ul>

Focus Area	Findings
	properties while there is no termination of services and/or eviction to tenants for not paying
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• The audit committee, as part of its oversight, has not at its quarterly meeting for 2022/23: <ul style="list-style-type: none"> <li>○ Reviewed the capacity of the finance function.</li> <li>○ Reviewed the effectiveness of the fraud hotline system and matters reported on the hotline.</li> <li>○ Reviewed the municipality's progress in achieving the budget funding plan targets.</li> <li>○ Report on ICT steering committee meetings and critical ICT matters affecting the municipality.</li> </ul> </li> </ul>

## 2.2.2 INSTITUTIONAL/ORGANISATIONAL/HUMAN RESOURCES

The critical key issues identified during the status quo assessment regarding the institutional pillar as well as additional observations from the FRP preparation, are the following:

Focus Area	Findings
<b>Operating Model</b>	<ul style="list-style-type: none"> <li>• The operating model of the municipality does not have sufficient narratives</li> <li>• The ill-defined operating model will create a lack of understanding of how the municipality should distribute its resources efficiently, leverage on technology and use the socio-economic data in critical planning decisions</li> <li>• The Operating Model and the Organizational structure is not aligned</li> </ul>
<b>Organisational structure</b>	<ul style="list-style-type: none"> <li>• The current approved structure is unaffordable due to cash flow constraints. Currently, the vacancy rate is 40%.</li> <li>• The municipality has not yet determined its critical vacancy and how to fill its funded vacancies.</li> <li>• The TASK Job Description and Job Evaluation are not finalised yet.</li> <li>• Delay in implementing Placement Policy. The council has as per the Council resolution 018/02/2024 referred the policy back for workshopping before implementation.</li> </ul>

Focus Area	Findings
<b>Employee costs (Overtime costs)</b>	<ul style="list-style-type: none"> <li>• A high vacancy rate contributes to a high overtime rate</li> <li>• Departments with high overtime costs: Civil Engineering and Electrical Engineering</li> <li>• High overtime attributed to downtime caused by old infrastructure</li> </ul>
<b>Skills &amp; competencies</b>	<ul style="list-style-type: none"> <li>• The municipality has not conducted a Skills Audit as of 30 May 2024.</li> <li>• Insufficient Human Capital in the Training &amp; Development sub-section.</li> <li>• Only two employees responsible for the training and development of 1,237 employees</li> </ul>
<b>Staff Discipline and Disciplinary Board</b>	<ul style="list-style-type: none"> <li>• There are delays in finalizing staff discipline cases.</li> </ul>
<b>Performance Management (PM)</b>	<ul style="list-style-type: none"> <li>• Insufficient application of the PMS (Performance Management System) policy</li> <li>• Lack of capacity to manage the implementation of the PM system</li> <li>• Municipality has not cascaded the Performance management at all levels of the Organization.</li> </ul>
<b>HR Strategy</b>	<ul style="list-style-type: none"> <li>• Insufficient long-term focus on HR management and Institutional Development.</li> <li>• Lack of HR strategy to guide HR and Institutional matters of the municipality.</li> </ul>
<b>Physical Verification of staff and qualifications</b>	<ul style="list-style-type: none"> <li>• Verification of qualification so far done only on senior staff and has not yet cascaded to lower levels.</li> </ul>
<b>Records Management</b>	<ul style="list-style-type: none"> <li>• No finding reported</li> </ul>

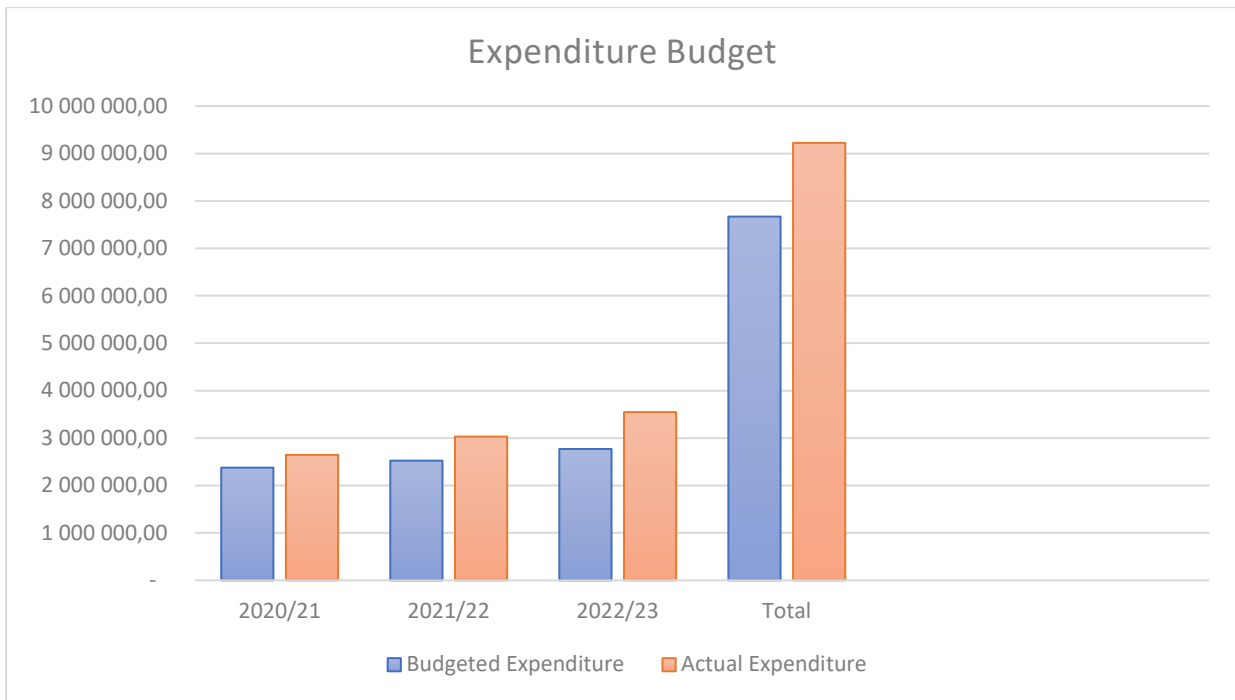
## 2.2.3 FINANCIAL MANAGEMENT

### Budget Management

The municipality has consistently adopted an unfunded budget for the past five years. This is primarily due to overspending on the approved budget, leading to increased municipal debt to trading creditors. Additionally, inaccurate billing information affects revenue projections, while essential factors like distribution losses, interest on Eskom and Water debt, and debt impairments have not been factored into the budgeting process. The deficits and overspending were as follows for the previous three financial years: 2020/21 – R468 million, 2021/22 – R708 million and 2022/23 – R747 million. The operating deficit was disclosed at R 369 million during the budget assessment.

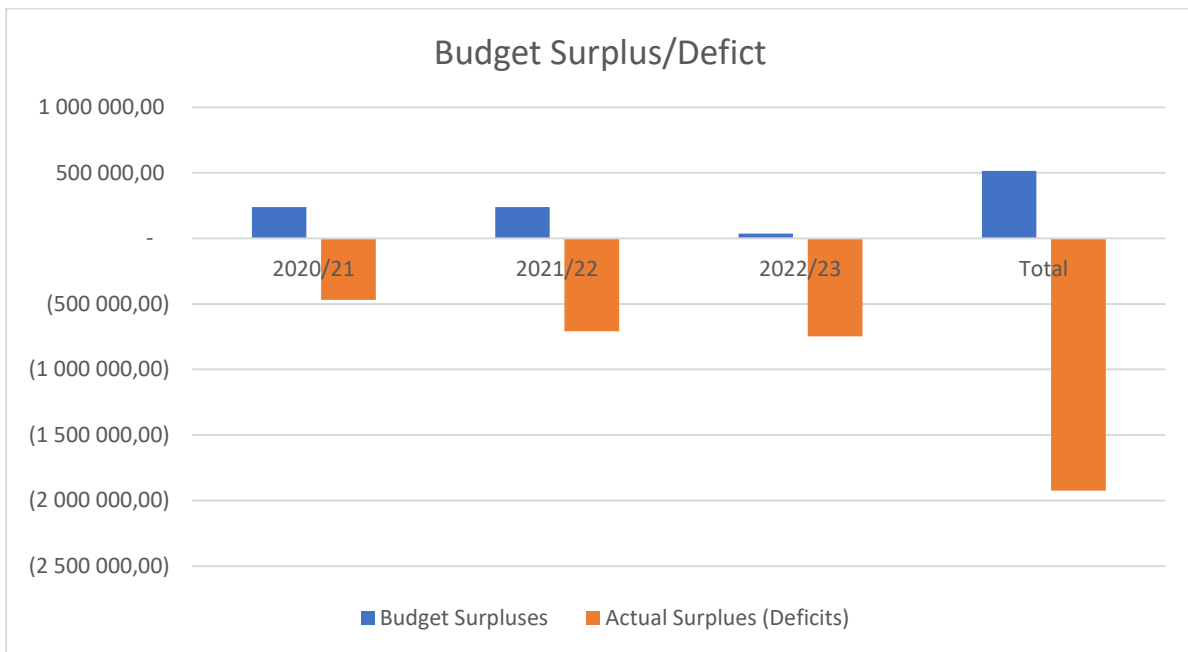
	2019/20 Audited outcome	2020/21 Audited outcome	2021/22 Audited outcome	2022/23 Audited outcome	2023/24 Mid-year 31 December 2023
<i>Operating revenue (excl. capital transfers)</i>	2 165 715 403	2 094 840 438	2 245 175 634	2 678 700 802	1 295 155 000
<i>Operating expenditure</i>	2 911 055 341	2 810 374 275	2 920 388 370	3 562 825 979	1 665 136 000
<i>Operating surplus/deficit</i>	-654 267 742	-608 885 423	-587 116	-747 070 390	-369 981 000

<b>Expenditure analysis</b>			
	<b>Budget</b>	<b>Actual</b>	<b>Diff</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>2020/21</b>	2 376 388	2 645 034	-268 645
<b>2021/22</b>	2 523 646	3 031 107	-517 461
<b>2022/23</b>	2 769 489	3 547 969	-751 480



*Comparison of Budgeted Expenditures for the past three years (Figures in R'000)*

Surplus/Deficit			
Financial years	Budget Surpluses	Actual Deficit	Diff
	R'000	R'000	R'000
<b>2020/21</b>	238 395	-468 155	706 551
<b>2021/22</b>	239 356	-708 412	947 769
<b>2022/23</b>	36 472	-747 070	783 542



*Comparison of Budgeted Surplus for the past three years (Figures in R'000)*

The municipality has faced persistent deficits and overspending over the past three financial years, resulting in the adoption of unfunded budgets and inaccurate budgeting processes. The municipality must base their budget on realistic projections. These challenges have contributed to a high creditors' balance of R4.8 billion during the 2022/23 financial year, which the municipality is currently unable to pay.

### Revenue management

The Municipality is not billing all its customers (lack of completeness) due to inaccurate data, illegal connections, no-go areas, and dysfunctional meters. The municipality has a total backlog of 17,000 water meters and a total backlog of 44,000 electricity meters. The water losses for the mid-term report in 2022/2023 were at 39.4%, and in 2023/2024 (45.8%), the water losses increased by 5%. For electricity, in the mid-year financial performance report of the financial period 2022/2023, the losses were reported at 64% and in 2023/2024 (61%), the electricity losses decreased by 3%.

The increases in non-revenue for water are largely attributed to the non-availability of water meters, water leaks, and unaccounted water supply to farms and communities during Rand Water breakdowns, which have been frequent lately. Electricity losses are attributed to straight connections, ghost vending, illegal connections, and incorrect tariff applications for the different categories of consumers.

The municipality has credit control and debt collection in place; however, it is not being fully implemented. This is due to the Gross receivables balance showing an increasing trend over the years, amounting to R2.4 billion in 2020/21, R2.8 billion in 2021/22, and R3.4 billion in 2022/23. The breakdown of these receivables by category included household consumers at 89%, Industrial/Commercial at 5.7%, and Organs of State at 4.4%.

There are high levels of debt impairment due to low collection, with net debtors showing a balance of R 203 million in 2020/21, R 256 million in 2021/22, and R 186 million in 2022/23. In the mid-term, the net balance was at R 136 million. Even though the municipality charges interest on outstanding consumer debtors, the situation is not improving as the debtors' balances continue to increase. This signals financial risk from a budget perspective as the interest amount is appropriated to the expenditure votes. The collection rate is likely to deteriorate further in FY2023/24 as the municipality is billing all customers based on the normal rates, and it does not have an updated indigent register for FY2023/24.

The municipality collection rate has been below the 95% norm, as depicted by the table below:

Collection rate based on the audited figures.

No#	Year	Percentage Collected
1	2020/21	77%
2	2021/22	67%
3	2022/23	65%

There are wards with very low collection rates, indicating a culture of non-payment of services and a lack of full credit control and debt collection policy implementation.

- Ward 012 – 4%
- Ward 023 – 4%
- Ward 022 – 2%

For the past two years (2021/22 and 2022/23), the municipality has received a disclaimer of audit opinion from AGSA regarding revenue (service charges and, consequently, their receivables). Therefore, revenue billing is not credible and reliable.

The municipality needs to urgently embark on a data cleansing and revenue enhancement project to ensure its revenue data is credible and optimises revenue generation. This will involve the installation of smart metering, regular accurate reading of all meters, urgently addressing issues of ghost vending on prepaid sales, indigent management particularly the allocation of free kilo litres, strict implementation of credit control and debt collections This will also enable it to have accurate and reliable billing information and simultaneously reduce the distribution losses.

### Cost-reflective tariffs

The trading deficit per the 2022/23 audited financial statement indicates that the current tariffs are not cost-reflective. Electricity had a trading deficit of about R1.8 billion, while water had R1.3 billion for the 2022/23 financial year. Cost-reflective studies need to be done urgently to address the issue of trading deficits. This needs to be coupled with revenue enhancement strategies and measures to reduce high distribution losses.

Profit and losses were as follows between billing and bulk purchases before factoring the other costs of supplying water and electricity (i.e. infrastructure maintenance costs, direct salaries)

Period	Total Electricity Billing	Bulk Purchase/ Invoice Eskom	Losses
July 2023	52 683 912,96	166 112 376,93	-113 428 463,97
August 2023	84 272 144,71	151 797 219,58	-67 525 074,87
September 203	67 384 084,30	115 553 290,61	-48 169 206,31
October 2023	67 666 178,03	86 690 025,63	-19 023 847,60
November 2023	56 876 196,80	93 426 375,03	-36 550 178,23
December 2023	58 043 348,01	61 749 969,60	-3 706 621,59
January 2023	52 915 805,82	79 634 613,83	-26 718 808,01
February 2024	88 852 234,76	64 036 213,58	24 816 021,18
March 2024	53 730 261,44	63 724 883,30	-9 994 621,86
April 2024	38 884 820,54	70 177 189,82	-31 292 369,28
<b>Total</b>	<b>621 308 987,37</b>	<b>952 902 157,91</b>	<b>- 331 593 170,54</b>

Period	Total Billing	Bulk Purchase/Invoice Rand Water	Payment Settlement to Rand Water
July 2023	40 096 414,14	37 042 011,00	3 054 403,14
August 2023	37 837 534,62	41 945 743,00	-4 108 208,38
September 203	45 386 606,00	37 634 795,00	7 751 811,00
October 2023	47 892 003,70	38 134 736,00	9 757 267,70
November 2023	44 699 855,92	41 068 155,00	3 631 700,92
December 2023	48 291 511,21	39 923 650,00	8 367 861,21

January 2023	42 905 416,57	47 455 443,88	-4 550 027,31
February 2024	83 282 521,31	37 129 853,65	46 152 667,66
March 2024	39 575 383,25	37 161 232,88	2 414 150,37
April 2024	40 221 500,38	38 388 388,19	1 833 112,19
<b>Total</b>	<b>470 188 747,10</b>	<b>395 884 008,60</b>	<b>74 304 738,50</b>

### Debt Restructuring

Following the approval of the Eskom debt relief program in March 2023 for the municipality's R 3.7 billion historic debt, the municipality has been unable to adhere to the agreed-upon debt payment arrangement. As of March 31, 2024, the cumulative outstanding balance since March 2023 has reached R811 million. Despite the municipality's efforts to service the account by making weekly Payments of R5 million, this amount falls short of covering the monthly accounts. The municipality has entered into payment plans with Rand Water but continues to default on the agreed plans.

The municipality should engage Eskom and Rand Water and re-negotiate for a realistic payment arrangement aligned with the municipality's current cash flow.

### Expenditure and Creditor management

The municipality faces a significant challenge with high creditors' payment days ratios, currently standing at 1,049 days. This issue is primarily driven by low revenue collections, escalating interest on debts owed to Eskom and Rand Water, and distribution losses. Since the 2017/18 financial year, creditors have surged from R924 million to R4.8 billion in 2022/23. This alarming increase indicates the municipality's inability to settle its debts, which is attributed to poor budgeting, collections, and revenue management practices.

In the 2022/23 financial year, the municipality's approved budgeted expenditure was R2.7 billion, while the outstanding creditors' amount reached R4.8 billion. This translates to 177% of the total operating budget, far exceeding the 2% threshold stipulated in Section 140 of the MFMA.

The contributing factors to poor expenditure and creditors management is the actual expenditure which has always exceeded the budgeted expenditure as highlighted above under budget management

### Conditional Grant

Performance on grants audit expenditures improved to 98% during the 2022/23 financial year. The AGSA also found no findings on grant expenditure audits for the 2022/23 financial year.

The following percentage of the total capital expenditure was sourced from grants.

- 2020/21 – 63% grant dependence
- 2021/22 – 86% grant dependence
- 2022/23 – 66% grant dependence

The above percentage indicates that the municipality is dependent on grants to invest in capital expenditure. More than 60% of capital expenditure is sourced from the grants received.



The municipality needs to improve their revenue management and revenue collection and reduce distribution losses to generate enough cash flow so that there is less reliance/dependence on grants for capital expenditure.

### Financial Controls

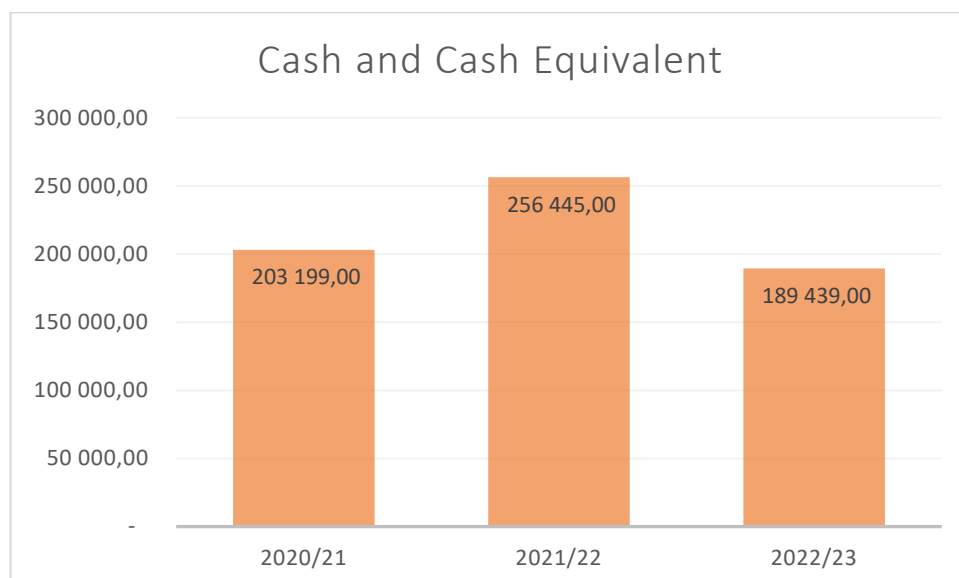
Financial controls for revenue (service charge) and receivables from exchange are weak. The AGSA audit has raised repeated findings for over three years without this being resolved. The repeated findings in revenue and receivables has resulted in the municipality with Qualified audit opinion for the past three financial years.

### Procurement and Contract Management

The municipality contract ratio is within norm of 5%, however there were material non-compliance with procurement and contract management was triggered by issues of contract management (regular evaluations and motoring of service provider performance was not done) and non-compliance with bidding processes.

### Cash flow management

Municipal cash flows are under severe pressure. The municipality has delayed payments to creditors to maintain a positive cash balance. This indicates acute limitations on the municipality's liquidity. The cash cost coverage ratio was recorded at 0.87 in 2020/21, improved slightly to 0.98 in 2021/22, but decreased to 0.86 in 2022/23. Additionally, during the mid-term assessment, this ratio dropped to 0. The current asset ratio also reflects financial strain, with figures of 0.19 in 2020/21, 0.23 in 2021/22, and 0.35 in 2022/23. These ratios are consistently below the norm, highlighting the municipality's ongoing financial difficulties and struggle to meet short-term obligations on time.



## Electricity Liquidity analysis

	Total Cash for Electricity	Bulk Purchase/Invoice Eskom	Payment Settlement to Eskom	Default based on invoice versus 100% collections	Default based on Invoice versus payment
Jul-23	40 998 798,39	166 112 376,93	30 775 430,72	-125 113 578,54	-135 336 946,21
Áugust 2023	53 435 532,23	151 797 219,58	31 072 195,15	-98 361 687,35	-120 725 024,43
September 203	55 881 553,56	115 553 290,61	39 847 504,63	-59 671 737,05	-75 705 785,98
Óctober 2023	59 466 011,66	86 690 025,63	17 041 015,83	-27 224 013,97	-69 649 009,80
Nov-23	50 246 851,89	93 426 375,03	12 644 864,00	-43 179 523,14	-80 781 511,03
Dec-23	44 526 063,33	61 749 969,60	84 214 213,88	-17 223 906,27	22 464 244,28
Jan-23	50 995 177,07	79 634 613,83	10 931 817,65	-28 639 436,76	-68 702 796,18
Feb-24	55 492 947,00	64 036 213,58	10 424 833,67	-8 543 266,58	-53 611 379,91
Mar-24	43 641 865,70	63 724 883,30	28 406 643,05	-20 083 017,60	-35 318 240,25
Ápril 2024	31 823 942,09	70 177 189,82	20 659 421,08	-38 353 247,73	-49 517 768,74

## Water Liquidity analysis

Period	Total Settlements	Bulk Purchase/Invoice Rand Water	Payment Settlement to Rand Water	Cash versus invoice	Invoice versus payment
Jul-23	13 119 215,80	37 042 011,00	41 124 500,10	-23 922 795,20	4 082 489,10
Áugust 2023	23 059 141,53	41 945 743,00	3 858 944,44	-18 886 601,47	-38 086 798,56
September 203	35 544 588,41	37 634 795,00	18 844 885,10	-2 090 206,59	-18 789 909,90
Óctober 2023	28 995 484,09	38 134 736,00	16 470 466,09	-9 139 251,91	-21 664 269,91
Nov-23	28 130 690,27	41 068 155,00	18 323 021,08	-12 937 464,73	-22 745 133,92
Dec-23	25 140 670,25	39 923 650,00	126 118 629,70	-14 782 979,75	86 194 979,70
Jan-23	39 773 236,17	47 455 443,88	8 397 189,45	-7 682 207,71	-39 058 254,43
Feb-24	41 397 824,21	37 129 853,65	10 493 192,52	4 267 970,56	-26 636 661,13
Mar-24	14 453 381,16	37 161 232,88	28 277 282,26	-22 707 851,72	-8 883 950,62
Ápril 2024	25 049 746,20	38 388 388,19	18 013 313,30	-13 338 641,99	-20 375 074,89

GMM's financial crisis emanates from a wide range of inefficiencies within the municipality. The major contributing factors in the financial management sphere are highlighted below, which when resolved will result in an improved financial status of the municipality:

Focus Area	Findings
<b>Budget Management</b> (Funding Status, etc.)	<ul style="list-style-type: none"> <li>• The municipality has been adopting an unfunded budget for the past 4 years 2023/24 inclusive.</li> <li>• Municipality incurred deficits for the past three financial years</li> <li>• The Municipal budget did not factor in the following in their budgeting processes: <ul style="list-style-type: none"> <li>○ Interest on debts (Eskom, Rand Water)</li> <li>○ Distribution losses</li> </ul> </li> </ul>

Focus Area	Findings
	<ul style="list-style-type: none"> <li>○ Debtors' impairment</li> <li>○ Service delivery (pressure to include service delivery expenses) contributes to spending beyond the revenue resources available due to service delivery pressure.</li> <li>● There was overspending (comparison between budgeted and actual spending) for the past three financial years</li> <li>● Budgeted service charge revenue was materially higher than the actual revenue for the past three years</li> </ul>
<b>Budget Related Policies</b>	<ul style="list-style-type: none"> <li>● .No findings</li> </ul>
<b>Revenue Management</b>	<ul style="list-style-type: none"> <li>● High level of poor collections and non-enforcement of credit control measures.</li> <li>● A culture of non-payment of services is prevalent, as evidenced by wards with collection rates of 4% (rates boycott)</li> <li>● High impairment figures further evidencing low collection of rates</li> <li>● Poor collection rates in areas supplied by Eskom due to inability to implement credit control measures</li> <li>● No revenue enhancement strategy has been developed.</li> <li>● Inaccurate and incomplete data (data integrity) hindering complete and accurate billing of customers</li> <li>● AGSA disclaimed Service Charge revenue (water and electricity) for the past three years due to data metering accuracy and billing completeness issues</li> <li>● Challenges regarding the completeness of consumption (metering and billing) of services, with some meters not linked to the billing system and therefore not billed.</li> <li>● Unmetered connections, tampered meters, ghost vending, meters not linked to the billing system, and non-functional meters allow customers free services (distribution losses).</li> <li>● Prepaid meters ghost vending: some prepaid electricity sold is not linked to the municipal system thereby making zero sales</li> <li>● A vacancy rate of 43% for the credit control department responsible for revenue collection and credit control enforcement</li> </ul>
<b>Cost-reflective tariffs</b>	<ul style="list-style-type: none"> <li>● The trading deficits for 30 June 2023 of electricity (R1.8 billion), water (R1.3 billion) and waste (R230 million) show that cost-reflective tariffs have not been set.</li> <li>● This is an indication that the tariffs charged are not cost-reflective.</li> </ul>

Focus Area	Findings
<b>Indigent Management</b>	<ul style="list-style-type: none"> <li>• Per the AGSA report for 2022/23/ The indigent register seems incomplete, as some indigent applications were not traceable to it, and some incorrectly included applications were on it.</li> <li>• There is a decline in the number of indigent customers from 12819 (2017/18) to 9510 (2022/23) which cannot be reconciled with the high unemployment rate and adverse economic conditions.</li> <li>• With high unemployment and a decline in economic growth, the number of indigents is expected to increase;</li> <li>• The indigent register is not credible and based on the above incomplete as there should be more indigent than was on the register</li> <li>• Of the total debt of R3.9 billion in April 2024, R257 million relate to indigent debtors.</li> </ul>
<b>Supply chain management compliance and value for money procurement</b>	<ul style="list-style-type: none"> <li>• Movement in irregular expenditure incurred during the respective current periods: <ul style="list-style-type: none"> <li>○ 2020/21 – R79.6 million</li> <li>○ 2021/22 – R101 million</li> <li>○ 2022/23 – R141 million</li> </ul> </li> <li>• The AGSA management report highlighted the following as the cause of non-compliance to SCM: <ul style="list-style-type: none"> <li>○ Contract management – contract performance and monitoring.</li> <li>○ Non-compliance: competitive bidding process.</li> </ul> </li> </ul>
<b>Financial control environment and preparation of AFS</b>	<ul style="list-style-type: none"> <li>• Qualified audit opinion for the past three financial years.</li> <li>• Repeated audit disclaimer for service charge revenue and receivables. for the past three financial years.</li> <li>• Financial statements subjected to material adjustment after being submitted for audit for the past three financial years</li> </ul>
<b>Expenditure and Creditor management</b>	<ul style="list-style-type: none"> <li>▪ Municipality creditors have been increasing year on year for the past three years, and amounts for the three years are as follows: <ul style="list-style-type: none"> <li>▪ 2020/21 – R3 billion (20% growth)</li> <li>▪ 2021/22 - R3.8 billion (26% growth)</li> <li>▪ 2022/23 – R4.8 billion (26% growth)</li> </ul> </li> <li>• Top two creditors as at 31 March 2024 <ul style="list-style-type: none"> <li>• Eskom R4.5 billion (. R1.1 billion 29 Feb 2019)</li> <li>• Rand Water R818 million (R200 million 29 Feb 2019)</li> </ul> </li> </ul>

Focus Area	Findings
	<ul style="list-style-type: none"> <li>The municipality defaulted on the payment of suppliers within 30 days. The average payment term of trade creditors during 2022/23 was 1 049 days, (2020/21: 719 days).</li> </ul>
<b>Debt Restructuring</b>	<ul style="list-style-type: none"> <li>Debt restructuring arrangements for Eskom and Rand Water have not been complied with.</li> <li>The municipality is behind with their payment arrangement with Eskom. The cumulative outstanding balance from March 2023 to 31 March 2024 was R811 million.</li> <li>Municipality issues with a non-compliance notice for Eskom debt</li> </ul>
<b>Grant management</b>	<ul style="list-style-type: none"> <li>The municipality is grant-dependent for its capital expenditure. For 2022/23, 66% of their capital expenditure of R203 million was from grants.</li> </ul>
<b>Customer Care</b>	<ul style="list-style-type: none"> <li>The municipality customer care policy was last reviewed eight years ago in 2016.</li> <li>Vacancy for Heard Marketing, responsible for leading the Customer care unit.</li> <li>Service standards are not yet developed, which will guide on turnaround time issues for resolving queries and how/when this will be communicated back to the complainant/customer.</li> </ul>
<b>Cost Containment and Realistic Cash Flow Management</b>	<ul style="list-style-type: none"> <li>The cash/ cost coverage ratio has been 1 month for the past three financial years, which exposes the municipality to cash flow risks.</li> <li>The above ratio should be read in context in that the Municipality cannot pay its short-term obligations (creditors) as they fall due.</li> <li>Poor debtors' collection rate is the reason for the poor payment rate of GMM creditors and the culture of non-payment of services.</li> <li>High distribution losses contributing to the cash flow challenges</li> <li>Tariffs are not cost-reflective and contribute to cash flow.</li> <li>High historical debt on the bulk services including interest.</li> </ul>

## Key Financial Ratio Analysis

Ratio	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23	INTERPRETATION
<b>Asset Management Utilization</b>				
<b>Capital Expenditure to Total Expenditure</b> – indicates the prioritization of expenditure towards current operations versus future capacity in terms of Municipal Services.  The norm is 10% - 20%.	6%	11%	5%	Spending on capital expenditure is below the norm, and this could partly be attributed to low revenue collections and deficits.
<b>Repairs and Maintenance to Property, Plant Equipment and Investment Property</b> – measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to service delivery.  The norm is 8%.	2%	2%	2%	The municipality is not investing in the maintenance of its assets, as the spending is far below the norm of 8%. This could partly be attributed to budget deficits and low revenue collections
<b>Debtors Management</b>				
<b>Annual Collection Rate</b> - indicates the level of payments as a percentage of revenue billed on credit.  The norm is 95%.	77%	67%	65%	The ratio is far below the norm and therefore requires an aggressive drive on the implementation of credit control and debt collection policy.

Ratio	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23	INTERPRETATION
				The ratio has been deteriorating for the past three years
<p><b>Bad Debts Written-off as % of the Bad Debt Provision</b></p> <p>The Ratio compares the value of Bad Debts Written-off on Consumer Debtors to Bad Debts Provided for Consumer Debtors to ensure that the Provision for Bad Debts is sufficient.</p> <p>The norm is 100%.</p>	0%	67%	13%	This further highlights the major challenge the municipality is facing of low revenue collections and credit policy enforcement.
<p><b>Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts.</b></p> <p>The norm is 30 days.</p>	342days	488 days	413 days	<p>The ratio is far below the norm and therefore requires an aggressive drive on the implementation of credit control and debt collection policy. Collections days have been increasing over the past three years.</p> <p>The ratio has been deteriorating for the past three years</p>

Ratio	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23	INTERPRETATION
<b>Liquidity Management</b>				
<p><b>Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants)</b></p> <p>The Ratio indicates the Municipality's or Municipal Entity's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue.</p> <p>The norm is 1-3 months</p>	1 Months	1 month	1 month	Cost containment, revenue enhancement and revenue collections have to be stringently enforced to ensure that the municipality does not regress.
<p><b>Current Ratio</b> - this ratio indicates the extent to which current <b>assets</b> 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.</p> <p>The norm is 1.5 - 2:1.</p>	0.19	0.23	0.20	The ratio is decreasing year after year, but it remains unsustainable. Debts must be collected, and Credit control debt collection policies must be implemented
<b>Liability Management</b>				



Ratio	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23	INTERPRETATION
<p><b>Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure</b> - indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure.</p> <p><b>The norm is 6% - 8%</b></p>	4%	7%	10%	The interest (capital costs) is caused by the high outstanding Eskom debt.
<p><b>Debt (Total Borrowings)/ Revenue</b> - indicates the extent of total borrowings concerning total operating revenue.</p> <p>The purpose of the ratio is to ensure that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings.</p> <p><b>The norm is 45%.</b></p>	0%	0%	0%	The municipality does not have borrowings (loans) except the high payables for Water and Electricity. The high creditors and constant defaulting on the creditors are a disadvantage to the municipality to access finance for the projects that cannot be financed with internally generated funds.

Ratio	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23	INTERPRETATION
<b>Efficiency</b>				
<p><b>Net Operating Surplus Margin</b> – measures the net surplus or deficit as a percentage of revenue.</p> <p><b>The norm is &gt; 0%.</b></p>	-21%	-25%	-22%	<p>This indicates the municipality spending more than the revenue it generates.</p> <p>Proper budgeting and adherence to it is required</p>
<b>Distribution Losses</b>				
<p><b>Electricity Distribution Losses (%)</b></p> <p>The purpose is to measure the percentage loss of potential revenue from Electricity Services through electricity units purchased and generated but not sold because of losses incurred.</p>	61%	63%	64%	<p>Abnormal level of distribution losses. The municipality is in a trading deficit considering the astronomical rate of distribution losses</p>

Ratio	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23	INTERPRETATION
<p><b>The norm is 7% - 10%</b></p>				
<p><b>Water Distribution Losses (Percentage)</b>                      The purpose of this ratio is to determine the percentage loss of potential revenue from water service through kilolitres of water purchased but not sold because of losses.</p> <p><b>The norm is 15% - 30%.</b></p>	33%	37%	41%	Abnormal level of distribution losses. The municipality is in a trading deficit considering the astronomical rate of distribution losses.
<p><b>Revenue Management</b></p>				
<p><b>Revenue Growth (%)</b> – measures the growth in revenue year on year.</p> <p>The norm is at the rate of CPI</p>	3%	0%	21%	Though revenue has increased above CPI for 2022/23 the municipality is still battling to collect the revenue it bills

Ratio	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23	INTERPRETATION
<b>Revenue Growth (%) - Excluding Capital Grants</b> Measures the growth in revenue excluding capital grants year on year. <b>The norm is &gt; 5%.</b>	3%	1%	19%	Though revenue has increased above CPI for 2022/23 the municipality is still battling to collect the revenue it bills
<b>Expenditure Management</b>				
<b>Creditors Payment Period</b> This ratio indicates the average number of days taken for trade creditors to be paid. <b>The norm is 30 days.</b>	719 days	952 days	1049 days	The municipality is currently in financial distress and is unable to meet its short-term liabilities
<b>Irregular, Fruitless Wasteful and Unauthorized Expenditure to Total Expenditure</b> – this ratio measures the extent of irregular, fruitless wasteful and unauthorized expenditure to total expenditure. <b>The norm is 0%.</b>	35%	69%	26%	Unacceptable levels of UIFWE indicate a breakdown of controls and a lack of discipline in following rules. Disciplinary actions must be implemented against anyone breaking the rules.
<b>Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure</b> - Indicates the extent to which expenditure is applied to the payment of personnel.	21%	20%	24%	The ratio is within the norm.  This should be read in the context that there are still

Ratio	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23	INTERPRETATION
The norm is 25% - 40%.				vacant posts and should be monitored to ensure that the filling of vacancies does not result in the ratio exceeding the norm
<b>Contracted Services as a % of Total Operating Expenditure</b> - indicates the extent to which the municipality resources are committed towards contracted services to perform Municipal-related functions. <b>The norm is 2%-5%.</b>	4%	5%	5%	The municipality is within the norm.  The rate should continually be monitored in case the total expenditure is being adjusted downwards or reduced to align with the revenue generated
<b>Budget Implementation</b>				
<b>Operating Expenditure Budget Implementation Indicator</b>  The norm is 95% to 100%	119%	117%	127%	The municipality overspent on budget; this is also evidenced by the deficit.  Financial discipline is required to spend within the budget
<b>Operating Revenue Budget Implementation Indicator</b>  The norm is 95% to 100%	86%	86%	95%	The municipality is unable to achieve the revenue budget it sets.

Ratio	Ratio for 2020/21	Ratio for 2021/22	Ratio for 2022/23	INTERPRETATION
				This could be attributed to poor budgeting and inaccurate billing data used in projecting the revenue budget
<b>Billed Revenue Budget Implementation Indicator</b>  <b>The norm is 95% to 100%</b>	<b>90%</b>	<b>86%</b>	<b>84%</b>	This could be attributed to poor budgeting and inaccurate billing data used in projecting the revenue budget

#### 2.2.4 SERVICE DELIVERY

The critical key issues identified during the status quo assessment regarding the service delivery pillar as well as additional observations from the FRP preparation, are the following:

Focus Area	Findings
<b>Infrastructure Asset Management</b>	<ul style="list-style-type: none"> <li>• Maintenance of key infrastructure assets not implemented as per sector plans developed:</li> <li>• The following key sector plans were developed:                             <ul style="list-style-type: none"> <li>○ Water and Sanitation services master plans</li> <li>○ Electrical master plans</li> <li>○ Integrated Waste Management plans</li> </ul> </li> <li>• Repairs and Maintenance ratios for the past three financial years were as follows:                             <ul style="list-style-type: none"> <li>○ 2020/21 – 2%</li> <li>○ 2021/22 - 2%</li> <li>○ 2022/23 – 2%</li> </ul> </li> </ul>

Focus Area	Findings
	<ul style="list-style-type: none"> <li>Maintenance spending below the norm of 8% for the past three financial years</li> </ul>
<b>Water Supply Services</b>	<ul style="list-style-type: none"> <li>There are material distribution losses which render the financial and service delivery recovery difficult to achieve.</li> <li>Water losses are attributed to damaged, ageing infrastructure, vandalism, and utilization of inferior material during illegal connections.</li> <li>As of 30 June 2023, water losses were 40%</li> <li>The material losses significantly contribute to the poor financial health of the municipality</li> <li>The municipality is unable to respond to all bursts due to the unavailability of spares</li> </ul>
<b>Sanitation Services</b>	<ul style="list-style-type: none"> <li>There are 10 pump stations which are not operational due to vandalism, pump damages, cable theft</li> <li>The Municipality's sewer infrastructure consists of 36 pump stations</li> <li>Load shedding is affecting the operation of pump stations &amp; WWTW's</li> <li>Embalenhle WWTW is not operational due to vandalism</li> <li>Trichardt WWTW (2ML capacity) is overloaded with a current inflow of 2.3 ML/d.</li> <li>Kinross WWTW (2ML capacity) is operating at a maximum capacity of 2 ML/d. This will soon be out of capacity</li> <li>The municipality has ageing and dilapidated sewage infrastructure</li> <li>Sewage spillages, ageing infrastructure, and inadequate maintenance of sewer lines</li> <li>The municipality has been fined R200 million for non-compliance with legislation for sewage spillage</li> <li>High sewer discharge volumes recorded at Sasol due to stormwater ingress</li> </ul>
<b>Electricity Distribution and</b>	<ul style="list-style-type: none"> <li>Default in Eskom payment threatens electricity supply to the municipality</li> </ul>

Focus Area	Findings
<b>Supply</b>	<ul style="list-style-type: none"> <li>• There are high distribution losses of 64%.</li> <li>• Low maintenance of the new and existing infrastructure</li> <li>• The municipality's electrical equipment is outdated, especially oil-type switchgear</li> <li>• The municipality is experiencing cable theft (copper cables &amp; bus bars)</li> <li>• The municipality is unable to apply for the required Notable Maximum Demand (NMD) increase on affected substations due to outstanding Eskom's debt management</li> </ul>
<b>Roads and Stormwater Services</b>	<ul style="list-style-type: none"> <li>• Unmaintained gravel roads with rutting, potholes, and blocked stormwater drains, vegetation growth on stormwater channels</li> <li>• Poor road conditions impacting service delivery, including durability of fleet</li> </ul>
<b>Planning, Building Control and Spatial Development Framework (SDF)</b>	<ul style="list-style-type: none"> <li>• The LED strategy has been at draft stage since March 2023 (awaiting council approval)</li> <li>• Tenants refuse to sign lease agreements.</li> <li>• Inadequate human resources and tools of trade, including fine books.</li> <li>• Monthly rental payments are not honoured. There is currently a payment rate of 6%.</li> </ul>
<b>Local Economic Development (LED)</b>	<ul style="list-style-type: none"> <li>• The LED strategy is outdated and not reviewed for alignment with the current status and economic conditions of the municipality</li> </ul>
<b>Fire Services</b>	<ul style="list-style-type: none"> <li>• Budget allocation for vehicle maintenance is a challenge that leads to poor fleet maintenance.</li> <li>• 37% of the current fleet is non-operational.</li> <li>• Bethal fire stations do not have fire engines.</li> <li>• Call centres are affected during load shedding.</li> </ul>
<b>Waste and Refuse Removal</b>	<ul style="list-style-type: none"> <li>• The operational landfill sites are running out of airspace and approaching</li> </ul>



Focus Area	Findings
	<p>their lifespan.</p> <ul style="list-style-type: none"> <li>• The estimated lifespan is Bethal ± 20 years; Leandra ± 50 years; Secunda ± 1 year.</li> <li>• No alternative Waste disposal sites have been identified.</li> <li>• The conditions not met are Fencing and gate control, Ablution and Security office, internal road infrastructure, and no weighbridges.</li> <li>• The Landfill sites are operated and maintained through service providers, excluding the Bethal landfill site (service provider being procured)</li> <li>• Infrastructure and maintenance do not meet the minimum requirements of the Waste Act and national norms and standards.</li> <li>• The four closed landfill sites have not been rehabilitated as per licence requirements.</li> <li>• Non-compliance with Waste Disposal Facility. Insufficient and ageing infrastructure.</li> <li>• Illegal dumping of general waste, building rubble and soil</li> <li>• No compactor trucks are available to meet the demand for refuse collection.</li> <li>• The Truck Fleet is 10 years old and needs to be sold and/or replaced.</li> </ul>
<p><b>Community Facilities, Operational Buildings, Sports, and Recreational Facilities</b></p>	<ul style="list-style-type: none"> <li>• The Municipality needs to conduct a maintenance assessment of all facilities.</li> <li>• Lack of maintenance of library facilities (load shedding and lack of water)</li> <li>• No environmental studies or authorisations for the cemeteries have been conducted.</li> <li>• The condition of some facilities is not in a state to be hired out due to the dilapidated state.</li> </ul>
<p><b>Fleet Management</b></p>	<ul style="list-style-type: none"> <li>• The condition of 44% of the fleet is fair, broken and poor and contributes to poor turnaround time for services &amp; maintenance of vehicles</li> <li>• Inadequate fleet for use by different service delivery sections within the</li> </ul>

Focus Area	Findings
	municipality
<b>Libraries</b>	<ul style="list-style-type: none"> <li>• Lack of backup and redundancy systems in the library to ensure continuity of services.</li> <li>• The number of membership enrolments has significantly dropped, indicating that the library is not generating adequate revenue to support all expenditure requirements</li> </ul>
<b>Public Safety, Traffic and Licensing</b>	<ul style="list-style-type: none"> <li>• High vacancy for the Traffic and Security division will impact the delivery of service for traffic.</li> </ul>

### 3. PART THREE – AMENDED FINANCIAL RECOVERY PLAN

#### 3.1 MUNICIPAL RESCUE PHASE (6 – 8 MONTHS)

Given that this intervention was invoked due to a financial crisis in the municipality, the rescue phase's emphasis will be primarily on cash and restoring the cash position of the municipality as well as instilling financial managed good practices.

The indicators for the rescue phase include recovering monies owed by the councillors, strictly implementing the budget-related policies, ensuring that smart meters are installed for the funds that have already been given to the municipality, investigating the issues of ghost vending for prepaid meters and closing the gaps on this, engaging businesses to settle their accounts, appointing a debt collector, running campaigns to encourage customers to settle their accounts, containing municipal expenditures, negotiating payment arrangements with the creditors. Focus is placed on service delivery, governance, and institutional matters; however, they are limited to addressing the most visible and critical issues, with an attempt to ensure that the situation does not deteriorate further.

This is a short-term phase and is anticipated to last up to six (6) months to eight (8) months from the approval date of the FRP.

*Governance*

The Governance Rescue Phase's Implementation Plan should focus on the following strategies:

Focus Area	Strategies
<b>Governance Model</b>	<ul style="list-style-type: none"> <li>• Awareness and workshop on engagement strategy and its benefits to the Council</li> <li>• Develop a stakeholder engagement strategy</li> <li>• Deduction of Councillors and Staff outstanding services payment directly from their salaries and allowances</li> <li>• Collection of all arrear debt of councillors and staff</li> <li>• Signing of payment arrangements and deduction of monthly payment for arrears account</li> <li>• Develop an advocacy program for the payment of municipal services.</li> <li>• Ward Councillors to lead from the front by engaging their wards in encouraging them to pay for municipal services.</li> </ul>
<b>Powers and functions</b>	<ul style="list-style-type: none"> <li>• Municipality to enter into a formal agreement with the department which states how costs that are currently paid by the municipality will be recovered</li> <li>• Negotiate and enter into fully funded mandates or terminate mandates</li> </ul>
<b>Contract management</b>	<ul style="list-style-type: none"> <li>• Training of staff on SCM contract management to ensure compliance with contract management regulations</li> <li>• Development and approval of contract management framework</li> <li>• Terminate irregular contracts</li> <li>• Identify list of goods and services required on an ongoing basis and procure long terms contracts</li> <li>• Development of contract management evaluation tool</li> <li>• Payments of contractors are to be accompanied by a contract performance evaluation and/or monitoring declaration</li> </ul>
<b>Litigations and contingent liabilities</b>	<ul style="list-style-type: none"> <li>• Approval of draft litigation strategy by Council</li> <li>• Reduce legal costs</li> <li>• Reduce contingent liability related to litigation and claims against the municipality</li> <li>• Conduct a legal assessment on reasonable prospects of</li> </ul>

Focus Area	Strategies
	<p>success and cost-benefit analysis on current legal matters</p>
<b>By-laws and enforcement</b>	<ul style="list-style-type: none"> <li>• Determination and prioritisation of which position are key to filled based on impact and affordability</li> <li>• Review and amendment of bylaws to align them with the IDP, policies and legislation enacted by a higher legislative organ of the state.</li> <li>• Develop and update the register of by-laws with a date of promulgation and the next review date</li> </ul>
<b>UIF&amp;W and consequence management</b>	<ul style="list-style-type: none"> <li>• Train councillors on governance, their oversight duties and responsibilities</li> <li>• Investigate, in line with Section 32 of MFMA, whether any municipal official is liable for some of the UIF &amp;W, referral of criminal investigations, recovery of monies before recommending a write-off of the expenditure</li> <li>• Implement consequence management for all completed investigations.</li> <li>• UIF&amp;W expenditure reduction plan</li> <li>• Develop solutions to address the underlying issues that give rise to UIF&amp;W expenditure</li> </ul>
<b>Audit Action Plans (internal&amp; external)</b>	<ul style="list-style-type: none"> <li>• Establishment of a regular Audit Steering committee comprising Senior Management</li> <li>• Internal Audit to assist in the follow-up of outstanding audit findings</li> <li>• Risk Management to incorporate both the internal and external audit findings in the Risk register to prevent recurrence</li> <li>• Audit action plan to be incorporated into the performance management and agreements for staff</li> <li>• Determination and prioritisation of which position are key to filled based on impact and affordability</li> </ul>
<b>Information &amp; Communications Technology</b>	<ul style="list-style-type: none"> <li>• ICT steering committee charter to be reviewed to incorporate appointment of external chairperson</li> <li>• ICT steering committee to be chaired by an external independent person from the municipality</li> <li>• The report of the ICT steering committee should form part of the agenda of the audit committee for oversight</li> </ul>
<b>Immovable property</b>	<ul style="list-style-type: none"> <li>• A lease audit is to be conducted on the municipality to identify</li> </ul>

Focus Area	Strategies
<b>management</b>	<p>tenants with no lease agreement or expired contract</p> <ul style="list-style-type: none"> <li>• Rental audit to be done on all municipal properties to identify tenants staying on municipal properties without paying rent</li> <li>• Ensure market related rentals are paid</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Review the audit committee plan to identify all key oversight areas and include them in the plan</li> <li>• Regular performance evaluation of audit committee function</li> </ul>

*Institutional*

The Institutional Rescue Phase's Implementation Plan should focus on the following strategies:

Focus Area	Strategies
<b>Organizational structure</b>	<ul style="list-style-type: none"> <li>• Determine critical budgeted posts for 2024/25 to be filled based on affordability (budget) for the entire municipality.</li> <li>• Filling of sec 56 employees namely the Chief Financial Officer (CFO)</li> <li>• Finalising TASK-aligned Job description and Job Evaluation processes or benchmarking of the TASK Job description and Job evaluation with sister municipalities.</li> </ul>
<b>Employee cost (Overtime Costs)</b>	<ul style="list-style-type: none"> <li>• Develop a Standard Operating Procedure (SOP) when responding to emergencies and work to be performed to mitigate high overtime claims.</li> <li>• Job cards be pre-authorized. Callouts/job cards be linked to the Call Centre service delivery reference calls.</li> </ul>
<b>Skills &amp; competencies</b>	<ul style="list-style-type: none"> <li>• To conduct a skill, audit to identify Skills and competencies gaps</li> <li>• Conduct a qualification audit</li> </ul>
<b>Staff Discipline and Disciplinary Board</b>	<ul style="list-style-type: none"> <li>• To train management and supervisory staff on disciplinary matters.</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>• Develop IPMS Policy for cascading PMS to lower levels.</li> </ul>
<b>Physical Verification of staff and qualifications</b>	<ul style="list-style-type: none"> <li>• Fast-track the process of appointment of a service provider to perform the service of screening and verification.</li> <li>• Conduct a comprehensive physical verification of staff</li> </ul>
<b>Records Management</b>	<ul style="list-style-type: none"> <li>• Acquisition of Electronic Records Management System.</li> </ul>

*Financial Management*

The Financial Management Rescue Phase's Implementation Plan should focus on the following strategies:

Focus Area	Strategies
<b>Budget Management</b> (Funding Status, etc.)	<ul style="list-style-type: none"> <li>• To prepare a budget that is aligned with the funding plan and set FRP targets on expenditure and revenue for 2025/26</li> <li>• Adjustment of budget 24/25 to align to set budget parameters</li> </ul>
<b>Revenue Management</b>	<ul style="list-style-type: none"> <li>• Appointment of debtor's collectors on a risk basis (without cost to the municipality and will be paid based on what they have collected)</li> <li>• Audit the zero and low sales pre-paid meters and if tampered with, disconnect, charge a reconnection fee and impose fines for non-paying customers</li> <li>• Develop and approve revenue enhancement strategy the municipality's revenue generation, with clear activities and timelines.</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Analyse prepaid purchases and block zero purchases and low purchases</li> <li>• Block pre-paid electricity sales where accounts are in arrears.</li> <li>• Monthly prepaid reconciliation: all monies due and payable to the municipality must be collected in full.</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Conduct an investigation to any revenue loss and/or leakage on the prepaid ghost vending</li> <li>• Closing of gaps and/or implement revenue measures to prevent further losses</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Convert default conventional meters into prepaid smart meters.</li> <li>• Conduct a data cleansing and revenue enhancement to optimize revenue billing and collections rates.</li> <li>• Municipality to consider sourcing funds (i.e. DBSA, Treasury) to develop and implement the strategy.</li> </ul>
<b>Customer care and data accuracy</b>	<ul style="list-style-type: none"> <li>• Review the policy to be in line with the current environment of the municipality and develop service standards and charter"</li> <li>• Development of service standards and turnaround times for customer care queries</li> </ul>
<b>Cost-reflective tariffs</b>	<ul style="list-style-type: none"> <li>• Development of cost-reflective tariffs based on the cost of delivering the services by the municipality</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Develop an Implementation plan of tariff adjustment over the periods to be (phased-in approach)</li> </ul>
<b>Indigent Management</b>	<ul style="list-style-type: none"> <li>• Data cleansing to identify those who are indigent and those who need to be removed from the register</li> <li>• Monthly and regular update of an indigent register</li> <li>• Awareness campaign to register those who qualify so that the register is complete</li> <li>• Detailed analysis of the debtors is done so that indigent debtors are cleared/written off on the debtors.</li> </ul>
<b>Supply chain management compliance and value for money procurement</b>	<ul style="list-style-type: none"> <li>• Regular SCM training to be one for SCM and all other Senior Managers</li> </ul>
<b>Financial control environment and preparation of AFS</b>	<ul style="list-style-type: none"> <li>• Review of the annual AFS for compliance with GRAP</li> <li>• Submit the working papers and evidence to the internal audit for review.</li> <li>• Request to AGSA to commence in June, starting with last year's findings and working papers.</li> <li>• Compile the interim 9-month AFS</li> </ul>
<b>Expenditure and Creditor management</b>	<ul style="list-style-type: none"> <li>• Implement interventions to improve the accuracy of billing and collections</li> <li>• Implement interventions to improve the accuracy of billing and collections</li> <li>• Prepare budgets in accordance with S18(a), which stipulates that the budget can only be funded through realistic projected revenue to be collected.</li> <li>• Increase revenue collection to service debts</li> </ul>
<b>Grant management</b>	<ul style="list-style-type: none"> <li>• No measure to implement under Rescue phase</li> </ul>
<b>Cost containment</b>	<ul style="list-style-type: none"> <li>• Analysis of contract that brings value to the municipality (value for money reviews)</li> </ul>
<b>Debt Restructuring</b>	<ul style="list-style-type: none"> <li>• Ring fence revenue from electricity to settle the ESKOM debt.</li> <li>• Municipality to engage Eskom and Rand Water for a reprieve from payment arrangement while they are urgently implementing meter replacements.</li> <li>• Develop revenue enhancement strategies</li> </ul>

*Service Delivery*

Service Delivery Rescue Phase's Implementation Plan should focus on the following strategies:

Focus Area	Strategies
<p><b>Water Supply Services</b></p>	<ul style="list-style-type: none"> <li>• The municipality needs to ensure that there are adequate repairs and maintenance stock to enable maintenance to be conducted by maintenance teams</li> <li>• Investigate mechanisms for securing infrastructure to avoid vandalism</li> <li>• Conduct data cleansing and field verification of meters</li> <li>• Investigate zero-consumption customers and meter them</li> <li>• Must keep minimum stock level for popular items used for emergency repairs.</li> </ul>
<p><b>Sanitation Services</b></p>	<ul style="list-style-type: none"> <li>• Provide round-the-clock security services for municipal infrastructure</li> <li>• Municipal ward councillors to engage the community in a campaign to protect municipal infrastructure</li> <li>• Provide security service to safeguard the facility, including infrastructure protection campaigns by municipal ward councillors</li> <li>• Municipality should prepare designs to refurbish &amp; upgrade WWTWs for compliance with the R200 million fine recommendations (remedial plans for the R200 million fine)</li> </ul>
<p><b>Electricity Distribution and Supply</b></p>	<ul style="list-style-type: none"> <li>• Municipality should comply with the debt relief plan for Eskom</li> <li>• Conduct physical meter audit for verification to identify non-functional and illegally connected meters</li> <li>• Compile and implement the Electricity Loss Management Plan</li> <li>• Refurbish old gear switches and replace damaged ones</li> <li>• Install tamperproof doors at substations to improve security</li> </ul>
<p><b>Fleet Management</b></p>	<ul style="list-style-type: none"> <li>• Cancel licenses of redundant vehicles and update new licenses</li> <li>• Introduce a fleet management system to reduce fuel and other operating</li> </ul>



Focus Area	Strategies
	vehicle-related costs

### 3.2 MUNICIPAL STABILISATION PHASE (12 – 24 MONTHS)

The bulk of the recovery process takes place in the second phase of the Financial Recovery Plan. This phase is referred to as the stabilisation phase. In this phase, GMM must review policies that are in line with the financial recovery plan as well as ensure that they are being implemented. A drive should be implemented to cleanse the billing system. As the revenue increases the municipality should strictly implement the credit control and debt collection policy to improve the collection rate.

Greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality. UIF&W expenditure will be investigated, development, and implementation of SoPs across the municipality, cascading competence testing to all the employees at the municipality, installation of additional smart meters, conducting repairs and maintenance of plant and equipment.

All the recurring strategies from the Rescue Phase must be strictly monitored to ensure that there is no regression.

This phase is expected to last between 12 to 24 months or longer depending on progress made by the municipality.

#### *Governance*

To support the achievement of the FRP and the targets specified for the Stabilisation/Recovery Phase, it is recommended that the municipality focuses on the following governance strategies:

Focus Area	Strategies
<b>Governance Model</b>	<ul style="list-style-type: none"> <li>• Deduction of Councillors and Staff outstanding services payment directly from their salaries and allowances</li> </ul>
<b>Powers and functions</b>	<ul style="list-style-type: none"> <li>• Municipality to FastTrack the process of relinquishing the function of Libraries to the Department of Sports, Arts and Culture should payment not be received.</li> <li>• Enforce the municipal credit control policies for moneys owed for the provision of municipal services</li> </ul>

Focus Area	Strategies
<b>Contract management</b>	<ul style="list-style-type: none"> <li>• Payments of contractors are to be accompanied by a contract performance evaluation and/or monitoring declaration</li> <li>• Conduct an audit on all Municipal Contracts to assess the legality of contracts</li> <li>• Report on termination of contract not complying with legislation and supply chain requirements</li> <li>• Implementation of consequence measures for non-compliance with legislation</li> </ul>
<b>Litigations and contingent liabilities</b>	<ul style="list-style-type: none"> <li>• Settle matters out of court where the legal fees exceed and/or will exceed amounts being defended</li> </ul>
<b>By-laws and enforcement</b>	<ul style="list-style-type: none"> <li>• Review institutional arrangements to make provision for the enforcement of by-laws</li> <li>• Appointment of key critical vacant positions within the law enforcement unit to lead the law enforcement and development/reviews of by-laws</li> <li>• Review and amendment of bylaws to align them with the IDP, policies and legislation enacted by a higher legislative organ of the state</li> <li>• Develop and update the register of by-laws with a date of promulgation and the next review date</li> </ul>
<b>UIF&amp;W and consequence management</b>	<ul style="list-style-type: none"> <li>• Investigate, in line with s 32 of MFMA, whether any municipal official is liable for some of the UIF &amp;W before recommending a write-off of the expenditure</li> <li>• Consequence management is to be taken for all investigations completed</li> </ul>
<b>Audit Action Plans (internal&amp; external)</b>	<ul style="list-style-type: none"> <li>• Internal Audit to assist in the follow-up of outstanding audit findings</li> <li>• There should be consequence management for poor (repeat findings reported) performance by staff</li> <li>• Filling of critical vacant posts throughout the municipality to ensure a smooth and effective implementation of an audit Action plan</li> </ul>
<b>Information &amp; Communications Technology</b>	<ul style="list-style-type: none"> <li>• The report of the ICT steering committee should form part of the agenda of the audit committee for oversight</li> </ul>
<b>Immovable property</b>	<ul style="list-style-type: none"> <li>• Drafting and signing of lease agreement</li> </ul>

Focus Area	Strategies
<b>management</b>	<ul style="list-style-type: none"> <li>• Enforcement of credit control for the non-payment of rental</li> <li>• Cutting off services (electricity) for defaulting tenants on payments</li> <li>• Eviction of the tenants whose accounts have been long outstanding without payment.</li> </ul>

*Institutional*

Focus Area	Strategies
<b>Organisational Structure and Operating Model</b>	<ul style="list-style-type: none"> <li>• Review the current operating model and its financial viability with a detailed narrative for coherent application.</li> <li>• Filling of critical vacant positions based on determination done based on affordability and impact to FRP</li> <li>• Finalising TASK aligned Job description and Job Evaluation processes or benchmarking of TASK Job description and Job evaluation with sister municipalities.</li> </ul>
<b>Employee cost (overtime management)</b>	<ul style="list-style-type: none"> <li>• Reduce employee costs in line with the cost containment strategy</li> <li>• Job cards be pre-authorized. Callouts/job cards be linked to the Call Centre service delivery reference calls.</li> </ul>
<b>Skills &amp; competencies</b>	<ul style="list-style-type: none"> <li>• Appointment of staff to the Human capital section responsible for training and development in affordability and Impact to FRP</li> <li>• Development of the competencies and capacity requirements of the municipality in line with the HR strategy and long term service delivery needs.</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>• Fill vacancies in the IPMS sub-section in line with affordability and impact to FRP</li> <li>• Institutionalised the culture of performance management in the municipality</li> </ul>
<b>HR Strategy</b>	<ul style="list-style-type: none"> <li>• Development of the HR strategy for the municipality</li> </ul>
<b>Physical Verification of staff and qualifications</b>	<ul style="list-style-type: none"> <li>• Conduct a staff qualification verification for all levels of staff</li> </ul>

*Financial Management*

To support the achievement of the FRP and the targets specified for the Stabilisation/Recovery Phase, it is recommended that the municipality focus on the following financial management strategies:

Focus Area	Strategies
<b>Budget Management</b> (Funding Status, etc.)	<ul style="list-style-type: none"> <li>To prepare a budget that is aligned with the funding plan</li> <li>Develop a revenue enhancement strategy to optimise revenue generation of the municipality</li> <li>Conduct a data cleansing on billing and revenue data</li> </ul>
<b>Revenue Management</b>	<ul style="list-style-type: none"> <li>Municipality to continue with the audit of zero and/or low sales pre-paid meters, and if tampered with, disconnect, charge a reconnection fee and impose fines for non-paying customers</li> <li>Block pre-paid electricity sales where accounts are in arrears.</li> <li>Monthly prepaid reconciliation: all monies due and payable to the municipality must be collected in full.</li> <li>Convert default conventional meters into prepaid smart meters.</li> <li>A full comprehensive meter audit is to be done to identify additional customers with no meter, meters not linked to the billing system and meters that have been tampered with</li> <li>Conduct a data cleansing and revenue enhancement to optimize revenue billing and collections rates.</li> </ul>
<b>Customer care and data accuracy</b>	<ul style="list-style-type: none"> <li>Appointment of critical vacancy for head of Customer Care Unit</li> <li>Adherence to query resolution timelines</li> <li>Follow up on the non-resolved account queries</li> <li>Ongoing data updates based on the standard operating procedures (SOP)</li> </ul>
<b>Indigent Management</b>	<ul style="list-style-type: none"> <li>Data cleansing to identify those who are indigent and those who need to be removed from the register</li> <li>Monthly and regular updates of an indigent register.</li> </ul>
<b>Supply chain management compliance and value for money procurement</b>	<ul style="list-style-type: none"> <li>Regular SCM training to be one for SCM and all other Senior Managers</li> <li>Performance management of staff to incorporate compliance with SCM regulations</li> <li>Consequence management to be implemented for non-compliance with SCM Policy</li> </ul>
<b>Financial control environment and preparation of AFS</b>	<ul style="list-style-type: none"> <li>Review of the annual AFS for compliance with GRAP</li> <li>Submit the working papers and evidence to the internal audit for review.</li> <li>Compile the interim 9-month AFS</li> </ul>
<b>Expenditure and Creditor management</b>	<ul style="list-style-type: none"> <li>Procurement plan and all procurement should be done based on the available cash flow of the municipality</li> <li>Payment should be done based on the cash flow projections</li> </ul>

Focus Area	Strategies
<b>Grant management</b>	<ul style="list-style-type: none"> <li>• Implement interventions to improve the accuracy of billing and collections</li> <li>• Develop revenue enhancement strategies</li> </ul>
<b>Cost Containment</b>	<ul style="list-style-type: none"> <li>• Re-negotiate contract prices (align it with market prices/rates)</li> </ul>
<b>Debt Restructuring</b>	<ul style="list-style-type: none"> <li>• Ring fence revenue from electricity to settle the Eskom debt.</li> </ul>

### Service Delivery

To support the achievement of the FRP and the targets specified for the Stabilisation/Recovery Phase, it is recommended that the municipality focus on the following service delivery strategies:

Focus Area	Strategies
<b>Infrastructure asset management</b>	<ul style="list-style-type: none"> <li>• Develop long-term asset management plans for long-term investments, replacement, maintenance &amp; sustainability of the Municipality</li> <li>• The municipality must approach DBSA with a view to participating in the Asset Care Program.</li> </ul>
<b>Water Supply Services</b>	<ul style="list-style-type: none"> <li>• Municipality must develop an Infrastructure Maintenance Plan and implement its recommendations</li> <li>• Development of by-laws for fines and penalties for illegal connection</li> </ul>
<b>Sanitation Services</b>	<ul style="list-style-type: none"> <li>• Municipality to assess the damage and develop a funding model for repairs to the facility</li> <li>• Provide and install a standby generator to ensure that the plant is in operation all the time</li> <li>• Implement recommended actions of the Sanitation Master Plan and identified projects based on the latest socio-economic data</li> <li>• Municipality to upgrade the two WWTW plants</li> <li>• Construction of a new WWTW at Charl Cilliers is underway which will reduce cost for Honey suckers</li> <li>• Municipality must conduct sanitation infrastructure conditional assessment</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Develop and implement a sanitation Infrastructure Maintenance plan.</li> <li>• Develop and implement a sanitation master plan.</li> <li>• Implementation of the remedial actions to comply with the recommendation for the R200 million fine</li> <li>• Municipality to manage and procure new fleet as per the fleet policy and upgrade workshop facility to attend to repairs timeously</li> <li>• Identify critical positions and develop a recruitment plan to fill the position</li> <li>• Develop a maintenance plan and implement</li> <li>• Allocate budget to upgrade outfall sewer manholes</li> </ul>
<p><b>Electricity Distribution and Supply</b></p>	<ul style="list-style-type: none"> <li>• Conduct a cost-of-supply study to determine the appropriate tariff charge for the municipality</li> <li>• Develop and implement Electricity Maintenance and Refurbishment plan including an implementation programme for the meters</li> <li>• Implementation programme.</li> <li>• Source funding for adequate training of staff.</li> <li>• Appointment of Service providers to close identified gaps</li> </ul>
<p><b>Roads and Stormwater Services</b></p>	<ul style="list-style-type: none"> <li>• Classification of roads should be done, and higher order roads transferred to SANRAL and Mpumalanga Province</li> <li>• Conditional assessment of the existing roads to be conducted and maintenance prioritised accordingly</li> </ul>
<p><b>Planning, Building Control and Spatial Development Framework (SDF)</b></p>	<ul style="list-style-type: none"> <li>• Filling of vacant posts and training of staff</li> <li>• Appoint an independent Service Provider to facilitate the signing of lease agreements</li> <li>• Retrieval of Municipal Land not paid for</li> <li>• Streamline the building plan approval process</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Set cost-reflective building approval tariffs</li> <li>• Address building contraventions and enforce the building bylaws, this includes compliance with zoning status</li> <li>• Approval and implementation of LED strategy</li> </ul>
<b>Local Economic Development (LED)</b>	<ul style="list-style-type: none"> <li>• Review of the LED strategy for alignment with the current IDP and socio-economic environment of the municipality</li> </ul>
<b>Waste Disposal and Refuse Removal</b>	<ul style="list-style-type: none"> <li>• The Municipality should Implement the approved Integrated Waste Management Plan</li> <li>• The Municipality to develop Business plans to source funds for the implementation of the intervention projects as listed in the IDP. The construction of the regional landfill site in Leandra</li> <li>• Develop a closure and rehabilitation plan for the five landfill sites with closure licences</li> <li>• Review tariffs and policy</li> <li>• The municipality must lease compactors where possible</li> <li>• The Municipality should do a conditional assessment of the fleet and develop a vehicle replacement plan based on the Municipality's fleet policy</li> <li>• The Municipality should develop Environmental Impact Assessments for the Landfill sites</li> </ul>
<b>Community Facilities, Operational Buildings, Sports, and Recreational Facilities</b>	<ul style="list-style-type: none"> <li>• The municipality needs to ensure the correct funding model for the provision of such services.</li> <li>• Identify critical positions as per the approved organisational structure to feed into the recruitment plan and implement</li> <li>• Source funds for the implementation of the cemetery master plan</li> <li>• The municipality needs to upgrade sports and recreation facilities</li> </ul>

Focus Area	Strategies
<b>Fleet Management</b>	<ul style="list-style-type: none"> <li>Update fleet management strategy including a vehicle funding and replacement plan.</li> </ul>
<b>Project Management Unit</b>	<ul style="list-style-type: none"> <li>Review the project management policy to factor issues of project monitoring performance and terminations</li> <li>Improve the Municipality's capacity and technical skills for monitoring and managing projects.</li> <li>The project management unit must be assisted in increasing business planning capacity to solicit funding for replacing aged infrastructure.</li> </ul>
<b>Fire Services</b>	<ul style="list-style-type: none"> <li>Assessment of municipal compliance to SANS 10090</li> <li>The Municipality should develop and implement a fleet replacement policy</li> </ul>
<b>Library services</b>	<ul style="list-style-type: none"> <li>Budgeting for and provision of water through water storage tanks</li> <li>The Department of Culture, Sports and Recreation in conjunction with the Department of Public Works, roads and Transport is addressing the leaking roof challenge at Secunda library</li> <li>Stores to stock and keep regularly used stock items and make them available at all times.</li> </ul>

### 3.3 MUNICIPAL SUSTAINABILITY PHASE

GMM should obtain reasonable assurance that the strategies in Phases 1 and 2 are implemented for continued sustainability. Financial ratios should be monitored to determine the municipality's achievements. Monitoring of ratios will be prioritized in this phase to determine the achievements so made from the previous phases. The municipality should show beyond reasonable doubt that it is committed to ensuring good practices before concluding the intervention.



#### **4. PART FOUR: BUDGET PARAMETERS AND FINANCIAL TARGETS**

This financial modelling was developed in line with the requirements of s142 of the MFMA. Key assumptions were made, spending limits were set, budget parameters were set, and revenue-raising measures we identified. The municipality must implement the strategies as set out in the FRP and its annexures to ensure the achievement of an improved financial position.

**Budget Parameters**

No #	PERFORMANCE AREAS	ASSUMPTIONS/BUDGET PARAMETERS	PROJECTIONS BASELINE	2024/25 BUDGET TARGET	2025/26 BUDGET TARGET	2026/27 BUDGET TARGET	2027/28 BUDGET TARGET	2028/29 BUDGET TARGET
1	Property Rates	Good efficiencies in Revenue Management Value Chain and Valuation roll regularly reconciled to billing system	2023/24 Adj Budget	2023/24 + CPI (5%) + 1% (growth)	2024/25 + CPI (5%)+ 1% growth	2025/26 + CPI(5%)+ 1% growth	2026/27 + CPI(5%)+ 1% growth	2027/28 + CPI(5%)+ 1% growth
2	Service Charges - Electricity	Good efficiencies in Revenue Management Value Chain	2023/24 Adj Budget	0% (Cost Reflective)+9.86%+ 5% billing efficiency	1% (Cost Reflective)+9.86% +5% billing efficiency	1% (Cost Reflective)+9.86%+ 5% billing efficiency	0% (Cost Reflective)+9.86% +5% billing efficiency	0% (Cost Reflective)+9.86% +5% billing efficiency
	Service Charges - Water Revenue	Good efficiencies in Revenue Management Value Chain	2023/24 Adj Budget	0% (Cost Reflective)+5.9%+ 1.5% billing efficiency	0.5% (Cost Reflective)+5.9%+ 2% billing efficiency	0.5% (Cost Reflective)+5.9%+ 2% billing efficiency	0% (Cost Reflective)+5.9%+ 0% billing efficiency	0% (Cost Reflective)+5.9%+ 0% billing efficiency
	Service Charges - Sanitation Revenue	Good efficiencies in Revenue Management Value Chain	2023/24 Adj Budget	0% (Cost Reflective)+5.9%+ 1.5% billing efficiency	0.5% (Cost Reflective)+5.9%+ 2% billing efficiency	0.5% (Cost Reflective)+5.9%+ 2% billing efficiency	0% (Cost Reflective)+5.9%+ 0% billing efficiency	0% (Cost Reflective)+CPI+0 % billing efficiency
	Service Charges - Refuse Revenue	Good efficiencies in Revenue Management Value Chain	2023/24 Adj Budget	2023/24 + CPI (5%) + 1% (growth)	2024/25 + CPI (5%)+ 1% growth	2025/26 + CPI(5%)+ 1% growth	2026/27 + CPI(5%)+ 1% growth	2027/28 + CPI(5%)+ 1% growth
	Interest Income Debtos		2023/24 Adj Budget	0	0	0	0	0
4	Operating Expenditures Targets	<b>Employee Costs:</b> <35% <b>Councilors REM:</b> 100% <b>Depreciation:</b> Per GRAP 17 <b>Debt impairment:</b> 100% based on budgeted collection rates <b>Contracted Services:</b> 5% (2024/25), 5% (2025/26), 5% (2026/27) of OPEX.	Per Approved Budget Parameters	Per Approved Budget Parameters	Per Approved Budget Parameters	Per Approved Budget Parameters	Per Approved Budget Parameters	Per Approved Budget Parameters
5	Cash/Bank Balances	Adherence to approved budget	Per Funded Budget	Per Funded Budget	Per Funded Budget	Per Funded Budget	Per Funded Budget	Per Funded Budget

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	Consumer Debtor's Collection Rates	Adherence to approved budget	72%	75%	77%	82%	86%	95%
6								
7	Water Distribution Losses	Reduction in Inventory Expe and Rander water increase (5,9%)	(2022/23) Distrib Losses - 40%	35% = (-5)% expenses)+Water(5.9%)	30% = (-5%)+(5.9%)	25% = (-5%)+(5.9%)	25%= (-0%)+(5.9%)	25%= (-0%)+(5.9%)
8	Electricity Distribution Lossses	Reduction in Bulk Purchase Expe and NERSA increase rates (12.7%)	(2022/23) Distrib Losses - 64%	54% = (-10%) bulk expense+Nersa 12.7%)	50% =(-4%)+12.7%)	45%= (-5%)+(12.7%)	40%=(-5%)+(12.7%)	35%=(-5%)+(12.7%)
9	Government Debtor's Payment Plan	Adherence to payment plan	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements
10	Major Creditors's Payment Plan	Adherence to payment plan		100% of payments arrangements	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements	100% of payments arrangements
11	Ring Fencing of Conditional Grant	Adherence to SOP's 100% Cash-backed	All bank accounts and sub-accounts reported monthly					

Revenue and Expenditure

BUDGET ITEM	2022/23 AFS AUDITED R'000	2023/24 (Adj Budget) R'000	FRP TARGETS: 2024/25 R'000	FRP TARGETS: 2025/26 R'000	FRP TARGETS: 2026/27 R'000	FRP TARGETS: 2027/28 R'000	FRP TARGETS: 2028/29 R'000
<b>REVENUE</b>							
<i>Property Rates</i>	380 366	424 452	449 919	476 914	505 529	535 861	568 013
<i>Electricity</i>	568 368	882 082	1 013 159	1 173 846	1 360 019	1 562 117	1 794 248
<i>Water Revenue</i>	548 136	674 301	724 199	785 032	854 900	905 339	958 754
<i>Sanitation Revenue</i>	146 195	172 527	185 294	200 859	218 735	231 640	245 307
<i>Refuse Revenue</i>	141 429	171 626	181 924	192 839	204 409	216 674	229 674
<i>Operational Revenue</i>	-	11 643	12 225	12 836	13 478	14 152	14 860
<i>Rental of facilities and equipments</i>	7 408	5 432	5 704	5 989	6 288	6 603	6 933
<i>Interest Received Debtors</i>	218 576	240 945	-	-	-	-	-
<i>Interest Received - Bank</i>	17 936	-	-	-	-	-	-
<i>Fair Value Adjustment Invest</i>	184 074	-	-	-	-	-	-
<i>Fines, Penalties &amp; forfeits</i>	15 297	19 807	20 797	21 837	22 929	24 076	25 279
<i>Actuarial Gains</i>	16 520	-	-	-	-	-	-
<i>Transfers and subsidies</i>	549 385	607 738	638 125	670 031	703 533	738 709	775 645
<i>Donations</i>	5 987	-	-	-	-	-	-
<b>Total Operational Revenue</b>	<b>2 799 677</b>	<b>3 210 553</b>	<b>3 231 346</b>	<b>3 540 184</b>	<b>3 889 820</b>	<b>4 235 171</b>	<b>4 618 713</b>
<b>EXPENDITURE</b>							
<i>Employee Cost</i>	610 903	680 419	721 244	764 519	810 390	859 013	910 554
<i>Remuneration of Councillors</i>	25 691	33 822	35 851	38 002	40 283	42 699	45 261
<i>Depreciation and impairment</i>	131 094	205 829	327 119	342 542	349 393	331 923	315 327
<i>Debt Impairment</i>	681 776	220 158	638 624	650 783	565 847	483 228	189 800
<i>Finance Charges</i>	370 808	11 869	-	-	-	-	-
<i>Transfers and Subsidies</i>	22 991	36 461	38 284	40 198	42 208	44 319	46 535
<i>Bulk Purchases - Electricity</i>	818 685	757 734	778 193	845 896	911 030	981 179	1 056 730
<i>Inventory consumed (Water)</i>	456 630	564 226	569 304	574 428	579 598	613 794	650 008
<i>Contracted Services</i>	169 356	352 592	177 824	186 715	196 051	205 853	216 146
<i>Bad Debts Writeen Off</i>	88 170	-	0	0	0	0	0
<i>General expenditure</i>	171 711	277 845	180 297	189 311	198 777	208 716	219 152
<b>Total Operational Expenditure</b>	<b>3 547 815</b>	<b>3 140 955</b>	<b>3 466 740</b>	<b>3 632 394</b>	<b>3 693 575</b>	<b>3 770 725</b>	<b>3 649 512</b>

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<b>Surplus/ (Deficit)</b>	<b>(748 138)</b>	<b>69 598</b>	<b>(235 393)</b>	<b>(92 210)</b>	<b>196 245</b>	<b>464 446</b>	<b>969 201</b>
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**CASH FLOW PROJECTIONS**

<b>BUDGET ITEM</b>			<b>FRP TARGETS: 2024/25 R'000</b>	<b>FRP TARGETS: 2025/26 R'000</b>	<b>FRP TARGETS: 2026/27 R'000</b>	<b>FRP TARGETS: 2027/28 R'000</b>	<b>FRP TARGETS: 2028/29 R'000</b>
<b>Cash Flow from Operating Activities</b>							
Surplus/(Deficit) for the year			(235 393,21)	(92 210,00)	196 245,28	464 446,33	969 200,81
Add Back depreciation			327 119,00	342 542,00	349 392,84	331 923,20	315 327,04
<b>Cash Flow before Working Capital</b>							
			91 725,79	250 332,00	545 638,12	796 369,53	1 284 527,85
Application of Cash (repayment of creditors)			(175 140,17)	(175 140,17)	(351 899,67)	(425 250,00)	-
<b>Cash Flow after Working Capital</b>							
			(83 414,38)	75 191,83	193 738,46	371 119,53	1 284 527,85
Cash at opening (beginning of year)			236 708,00	153 293,62	228 485,45	422 223,91	793 343,44
<b>Cash at end of year</b>			<b>153 293,62</b>	<b>228 485,45</b>	<b>422 223,91</b>	<b>793 343,44</b>	<b>2 077 871,29</b>
<b>Impact of Legacy Creditors Repayment</b>							
Add back Working Capital Repayments			<b>175 140,17</b>	<b>175 140,17</b>	<b>351 899,67</b>	<b>425 250,00</b>	-
<b>Cash at end of year if there were no Creditors</b>			<b>328 433,79</b>	<b>403 625,62</b>	<b>774 123,58</b>	<b>1 218 593,44</b>	<b>2 077 871,29</b>
<b>Working Capital Requirements:</b>	<b>30-April-24</b>	<b>Terms</b>					
	R'000						
<b>Eskom</b>	861 000	4 Years Repay	215 250,00	215 250,00	215 250,00	215 250,00	-
<b>Rand Water</b>	840 000	4 Years Repay	210 000,00	210 000,00	210 000,00	210 000,00	-
<b>Government Debtors</b>	47 296	2 Years Repay	(23 648,00)	(23 648,00)	-	-	-
<b>Business Debtors</b>	306 223	2 Years Repay	(153 111,50)	(153 111,50)	-	-	-
<b>Residential (0 - 90 days debtors)</b>	220 051	3 Years Repay	(73 350,33)	(73 350,33)	(73 350,33)	-	-
			<b>175 140</b>	<b>175 140</b>	<b>351 900</b>	<b>425 250</b>	-
<b>Working Capital Payment</b>			- 175 140	- 175 140	- 351 900	- 425 250	-

Grounded on adherence to the budget parameters, the municipality is anticipated to progressively move towards improved financial sustainability over five years, as illustrated on the previous slide. If key operational efficiencies are achieved in line with the FRP Implementation Plan, the cash surplus of R793 million (after paying all creditors) could be achieved at the end of the 2027/28 financial year.

The following are the critical operational efficiencies that need to be achieved:

- accurate billing and complete billing of all customers/residents,
- optimal revenue collections and strict enforcement of credit control,
- cost-reflective tariffs charged,
- indigent management, particularly the allocation of free kilo litres,
- the installation of smart metering, regular, accurate reading of all meters,
- urgently addressing issues of ghost vending on prepaid sales,
- Municipality agreeing to payment terms for Eskom and Rand water based on realistic cash flow (revenue collections) of the municipality and
- Approval of additional grants for smart metering and reduction of distribution losses

Should the municipality not be approved for additional grants for smart metering and/or be taken out of the Eskom debt relief program during the 5-year period of FRP implementation, the municipality will not improve its finances and/or will regress further.

If the amended FRP strategies are continuously implemented and monitored, it could realistically be expected that it will take the municipality 4 years to move to a fully cash-backed funding position. The forecasting model is flexible, and figures will be adjusted annually, aligned with the revised FRP activities to facilitate sustained financial health improvement. The municipality's adherence to the amended 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.

## **5. PART FIVE – REPORTING ON THE ACHIEVEMENTS OF TARGETS**

The forthcoming reporting and oversight measures shall be deemed mandatory, necessitating strict adherence to the prescribed approach:

- The MM must submit monthly progress reports to MEC for Finance, NT MFRS and the Municipal Council, and:
  - Conducts necessary quality assurance processes to verify performance.
  - Confirms/certifies that decisions of the Council/EM are consistent with the FRP.
  - Maintains a record of decisions on the amended FRP implementation.

- The MM must submit quarterly implementation progress reports to the Mayoral Committee and Council.
- PT must conduct quarterly reviews on the effectiveness of the FRP and whether the root causes are being progressively addressed.
- The MM must submit a Portfolio of Evidence for claimed performance quarterly to PT and MFRS for review.
- The MM and heads of the directorate must sign individual performance scorecards/ agreements for each financial year that incorporate the FRP.
- The SDBIP 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 the Council, Executive Mayor and Accounting Officer that contravenes or defeats the FRP and its objectives.
- The MM must assign an official in his office to coordinate implementation and reporting on the FRP.
- The MM must sign off all FRP implementation progress reports before submission to NT MFRS, PT, Mayoral 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 THE EXAMPLE BELOW:**

No.	Report for the month OF	Report due from MM	The report considered by Technical War Room ON	Considered by Political Oversight Committee ON (Combined meeting for all mandatory interventions)
1	August 2024	10 September 2024	N/A	N/A
2	September 2024	10 October 2024	N/A	N/A
3	October 2024	11 November 2024	18 November 2024 (Quarterly report)	25 November 2024 (Quarterly report)
4	November 2024	10 December 2024	N/A	N/A
5	December 2024	10 January 2025	N/A	N/A
6	January 2025	10 February 2025	18 February 2025 (Quarterly report)	27 February 2025 (Quarterly report)

No.	Report for the month OF	Report due from MM	The report considered by Technical War Room ON	Considered by Political Oversight Committee ON (Combined meeting for all mandatory interventions)
7	February 2025	10 March 2025	N/A	N/A
8	March 2025	10 April 2025	N/A	N/A
9	April 2025	12 May 2025	19 May 2025 (Quarterly report)	26 May 2025 (Quarterly report)
10	May 2025	10 June 2025	N/A	N/A
11	June 2025	10 July 2025	N/A	N/A
12	July 2025	11 August 2025	18 August 2022 (Quarterly report)	25 August 2025 (Quarterly report)

## 6. PART SIX – REPORTING FRAMEWORK: PROGRESS AGAINST TARGETS

GMM report monthly on the amended FRP Implementation Plan activities per 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:
<b>Phase</b>	Financial Rescue	
<b>Pillar</b>	Financial Management	
<b>Focus area</b>	Budget Management	
<b>Key Activity</b>		
<b>Problem Statement</b>		
<b>Responsible</b>	MM was supported by PER and the rescue task team (for alignment with FRP IP responsibilities)	
<b>Start Date</b>	At the initiation of the rescue phase probably 1 July 2024	
<b>End Date</b>	During rescue phase	
<b>Key Performance Indicator</b>		
<b>Financial Target</b>	Not quantifiable but will be in the case of most other pillars	



PER FRP IMPLEMENTATION PLAN:		INFORMATION:
Progress Report by Municipality:		
<b>Steps taken</b>	The rescue task team reviewed the budget implementation plan in line with the financial recovery plan activities.	
<b>Progress made</b>	Meetings between the municipality and rescue task team were held to conclude the drafted budget implementation plan.	
<b>Financial impact recorded</b>	Revenue to be increased by XXXX upon the implementation of XXXX activities.	
<b>Other noteworthy developments</b>	Reporting on the achievement of the budget funding plan activities will be strictly monitored by the CFO and SMART-compliant action plans will be developed to ensure achievement within reasonable timeframes.	

## 7. PART SEVEN – CONCLUSION

The development of this amended mandatory Financial Recovery Plan (FRP) was in response to the request made by the MEC of Finance to have the previous FRP amended and align it to the status at the municipality and the new FRP approach. The previous FRP was not fully implemented, and this FRP will directly respond to the persistent governance, institutional, financial management and service delivery crisis faced by GMM. The following key success factors must be adhered to, to ensure the successful and effective implementation of the amended FRP:

- **Change Management:** Implementing effective change management strategies will foster a deeper understanding of the problems and solutions at hand.
- **Linking FRP Activities to Financial Outputs:** It is important to align amended FRP activities with key financial outcomes such as increasing revenue and reducing expenditure.
- **Mobilizing Resources:** Identifying and mobilizing the necessary human and financial resources, as well as clarifying the roles and responsibilities of relevant stakeholders, is critical for successful FRP implementation as outlined in Section 142 of the MFMA.
- **Alignment with Support Packages:** Ensuring that national and provincial Section 154 Support Packages align with the amended FRP, will provide additional assistance in achieving the desired outcomes.
- **Performance Assurance:** It is important to address the assurance level of claimed performance against FRP targets through effective monitoring and evaluation mechanisms.
- **Institutionalizing IGR Structure:** Establishing an Inter-Governmental Relations (IGR) structure or steering committee with defined Terms of Reference will assist with the monitoring of the implementation of the amended FRP.
- **Quarterly Monitoring:** Regular measurement of financial outcomes and progress against the amended FRP is crucial to ensure its success.
- **Consequence Management:** amended FRP strategies should be aligned with the Performance Agreements of senior management. The MFMA provides for consequences in cases of non-compliance, and invoking Section 216(2) of the Constitution, which allows for the withholding of equitable share, can be considered if necessary.

By adhering to these key success factors, the municipality can effectively implement the FRP and work towards sustainable financial recovery, improved governance, and service delivery.

## **8. PART EIGHT – RECOMMENDATIONS**

The following recommendations are made:

- a. Govan Mbeki amended Financial Recovery Plan be approved by the MEC of Finance in terms of Section 143(2) of the MFMA.
- b. The Political Oversight Committee be established to be chaired by the Premier/ MEC of Finance,.

- c. The Technical War Room Oversight Committee be established by the provincial HoD (PT).
- d. The Mpumalanga Provincial Support Package for GMM be aligned with the priorities as set out in Phase 1: Financial Rescue of the amended FRP.
- e. The Mpumalanga section 154 Provincial Support Package for GMM be aligned with the priorities as set out in Phase 1: Financial Rescue of the amended FRP.

## **9. PART NINE: APPROVAL**

This amended FRP is submitted by the NT MFRS in terms of section 141(4)(c) of the MFMA to the MEC for Finance for approval.

I **XXXX**, Member of the Executive Council in the Mpumalanga Provincial Cabinet responsible for finance hereby confirm that I have verified and confirmed that all statutory processes as set out in section 141 of the MFMA have been followed and that the criteria contained in section 142 have 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 2024 at Nelspruit, Mpumalanga Province.

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XXXX

MEC of Finance

**10. PART TEN: ANNEXURE A – AMENDED FRP IMPLEMENTATION PLAN**

The FRP Implementation Plan is attached as Annexure A to this financial recovery plan. The plan covers the rescue phase, stabilisation phase and sustainability phase. Governance, institutional, financial management and service delivery pillars are covered in each of the phases. This plan will ensure a smooth implementation of FRP as well as monitoring of the achievements of the strategies.

The structure of the FRP Implementation Plan is as follows:

- a. Focus area number
- b. Focus area
- c. Baseline Finding/Key Issues
- d. Key Intervention Activities (deliverables)
- e. Resources required
- f. Resources mobilised
- g. Responsible person
- h. Start date
- i. End date
- j. Key performance indicator
- k. Portfolio of evidence
- l. Budget parameter/ revenue target/ spending limit/ financial impact
- m. Municipal progress report

**11. PART ELEVEN: UPDATED STATUS QUO ASSESSMENT (ANNEXURE B)**

Annexure B of the FRP covers the summarised Status Quo Assessment Report which covers all four pillars of sustainability which are governance, institutional, financial management and service delivery.

The report has the following columns:

- a. Focus area
- b. Brief diagnostic analysis
- c. Problem/key issues
- d. Root causes
- e. Strategy to solve
- f. Source of information