MADIBENG LOCAL MUNICIPALITY
FINANCIAL RECOVERY PLAN

JUNE 2023

Table of Contents

1. ABBREVIATIONS

No.	Abbreviation	Full Form
1.	AFS	Annual Financial Statements
2.	AG	Auditor General
3.	ART	Antiretroviral Therapy
4.	CoS	Cost of Supply
5.	DBSA	Development Bank of Southern Africa
6.	EXCO	Executive Committee
7.	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 Labour Forum
14.	MEC	Member of the Executive Council
15.	MFMA	Municipal Financial Management Act
16.	MFRS	Municipal Financial Recovery Services
17.	MLM	Madibeng Local Municipality
18.	*m*SCOA	Municipal Standard Chart of Accounts
19.	NERSA	National Energy Regulator of South Africa
20.	NT	National Treasury
21.	MPAC	Municipal Public Accounts Committee
22.	PER	Provincial Executive Representative

No.	Abbreviation	Full Form
23.	PMS	Performance Management System
24.	SAPS	South African Police Service
25.	SCM	Supply Chain Management
26.	SQR	Status Quo Report
27.	UIF&W	Unauthorised, Irregular and Fruitless and Wasteful Expenditure

2. MAJOR SOURCES OF INFORMATION AND DOCUMENTATION

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

3. EXECUTIVE SUMMARY

The Madibeng Local Municipality (MLM) or Municipality, is situated in the Bojanala Platinum District in the North West Province and covers 3 720km². The seat of the Municipality is Brits, situated between the Magaliesberg and Witwatersrand, 60km from Rustenburg and 50km north of Pretoria. It is one of five Municipalities in the District. The popular tourist area of Hartbeespoort is also located in the Municipal area and is the second most visited place after the Waterfront in Cape Town.

The average monthly household income of Madibeng is well below the average for the Bojana District, and significantly below the average income in South Africa. This has a direct impact on affordability of services and revenue collection. The unemployment rate within the Madibeng Municipal area was 41.71% during 2021/22, well above the unemployment rate of South Africa stated at 32.70%. The Municipality has faced and continues to face various challenges in terms of service delivery, administration, financial management and governance.

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

Section 140 of the MFMA highlights the factors, singularly or in combination, that may indicate a serious material breach of its obligations to meet its financial commitments and any recurring or continuous failure by a municipality to meet its financial commitments which substantially impairs the Municipality's ability to procure goods, services or credit on usual commercial terms, may indicate that the Municipality is in persistent material breach of its obligations to meet its financial commitments.

The Provincial Treasury conducted an assessment in terms of section 140 of the MFMA and Madibeng LM met the criteria of a Municipality in a financial crisis. As a result, the North West Provincial Executive Council resolved to place Madibeng LM under mandatory intervention by invoking Section 139(5)(a) and (c) of the Constitution read together with Section 139 of the MFMA. The North West Provincial Executive thereafter requested the MFRS within the National Treasury to prepare a mandatory Financial Recovery Plan (FRP).

The Provincial Executive assumed responsibility for the implementation of the plan in terms of Section 139(5)(c) of the Constitution and to this end appointed a Provincial Executive Representative (PER) to discharge this responsibility on behalf of the Provincial Executive.

In accordance with S141 of the MFMA, only the Municipal Financial Recovery Service may prepare a Financial Recovery Plan (FRP) for a mandatory intervention referred to in Section 139. When preparing a FRP various stakeholders must be consulted and previous FRPs taken into account.

S139 (1) of the MFMA places the responsibility on the Provincial EXCO to request the Municipal Financial Recovery Services (MFRS) unit in the National Treasury to prepare an FRP, which considers the reasons for the financial crisis and an assessment of the Municipality's financial status (status quo assessment).

S139(1)(a)(iv) also empowers the MFRS to recommend appropriate changes to the budget and revenue raising measures that will support the implementation of the FRP; and in terms of

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

In conclusion, the MFRS under National Treasury developed the FRP for the MLM. The FRP binds the Municipality in the exercise of both its legislative and executive authority, including the approval of budget and legislative measures giving effect to the budget to the extent necessary to achieve the objectives of the FRP and the Municipality is obligated to ensure that such a FRP is implemented within the timeframes outlined.

4. LEGISLATIVE CONTEXT, INTERVENTION AND OVERSIGHT

4.1 OVERVIEW OF THE FINANCIAL RECOVERY PLAN (FRP)

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

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

The intervention at MLM was instituted through the North West Provincial Executive in terms of Section 139 (5)(a) and (c) of the Constitution, read in conjunction with Section 139 of the MFMA.

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

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

Only the MFRS may prepare a FRP for a mandatory provincial intervention referred to in section 139 of the MFMA. Section 139(1)(a)(iv) also empowers the MFRS to recommend appropriate changes to the budget and revenue raising measures that will support the implementation of the FRP.

In terms of Section 139(1)(b), the Mayor of the Municipality must be consulted on the FRP to obtain cooperation (political support) for the implementation and ensure that the budget and any other legislative measures to support the implementation of the FRP are approved.

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

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

v. *Identify the human and financial resources needed to assist in resolving financial problems, and where those resources are proposed to come from;*

vi. *Describe the anticipated timeframe for the financial recovery, and milestones to be achieved; and*

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

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

(a) "For a mandatory intervention must –

i. Set spending limits and revenue targets;

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

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

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

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

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

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

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

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

4.2 PREPARATION, CONSULTATION AND APPROVAL OF THE FRP

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

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

GOVERNANCE	INSTITUTIONAL	FINANCIAL MANAGEMENT	SERVICE DELIVERY
▪Governance model (council and committees and Legislative matters) •Contract management •Litigations and Contingent liabilities •System of delegations •By-laws •UIF&W and Consequence Management •Audit action plans (internal and external) •Risk Management •Powers and Functions •Information and Communication Technology •Immovable Property management	▪Operating model •Organisational structure •Employee costs •Labour relations •Skills & competencies •Staff discipline and Disciplinary Board •Performance Management •Consequence Management •Key HR Policies •HR Strategy •Physical Verification of staff and qualifications •Records Management	▪Funded budget and budget parameters (spending limits) •Budget related policies (finance and human resource) •Revenue Management Value Chain/ revenue raising measures (revenue targets) •Customer care and data accuracy •Cost-reflective tariffs •Indigent Management •Supply chain management compliance and value for money procurement •Cost containment and realistic cash flow management •Financial control environment •Debt restructuring •MFMA Circular 71 Financial Ratio analyses against set norms •Technical vs Financial •Financial reporting and AFS preparation	▪SDF and Master Plans •Loss control (water and electricity) •Non-technical losses due to meter tampering, illegal connections •Unmetered consumption •Need for meter audits and 'SMART' technologies •Revenue assets provision and maintenance (bulk meters and meters) •Fleet Management •Bulk meters •Planning and Building Control •Housing Delivery •Capital Projects and Grant Funded Projects. •Waste and Refuse Removal

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

Table 1 - Assessment framework

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

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

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

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

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

Customer Engagement:

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

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

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

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

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

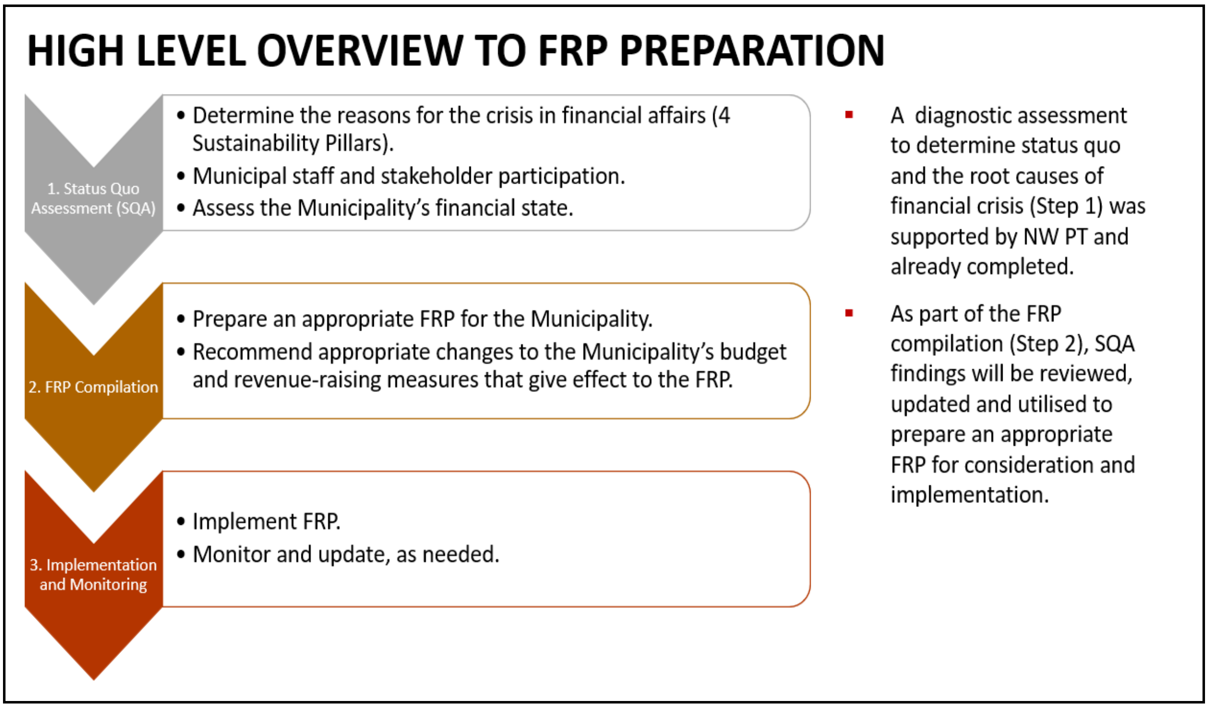

Figure 1 - FRP Preparation Process

Preparation

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

It should be noted that the status quo assessment prepared by North West Provincial Treasury during August 2022 was updated and utilised in preparation of the FRP.

Additionally, this FRP is aligned to the four (4) pillars used by the National Treasury to assess Municipal sustainability, namely Governance, Institutional Stability, Financial Management and Service Delivery. ICT being the enabler for change and sustainability was subsequently added as a cross cutting pillar.

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

Consultation

In preparing this FRP, the MFMA requires the NT MFRS to consult with the Municipality, the Municipality's suppliers, and creditors, the MEC's for Finance and Local Government in the Province and organised labour. Both the MECs have been extensively involved in the FRP preparation process especially through intervention roadshows held in the province, including with the MLM.

Various consultation meetings with the municipality were held, including:

i. A 1-day workshop at MLM with Management on the key issues identified on their current status quo assessment on 24 March 2023.

ii. A 1-day break-away session with the Governance and Institutional/ Organisation Departments on 30 March 2023.

iii. A 1-day break-away session with the Finance and Service Delivery Departments on 5 April 2023.

Madibeng LM Senior Management, Provincial Treasury, Provincial CoGTA, the South African Local Government Association (SALGA) and sector departments were consulted on the Draft FRP in meetings held on 21 June 2023. FRP documentation were circulated before the workshop and stakeholders that couldn't attend had an opportunity to provide their inputs to the consultation process, in writing.

The Municipality's largest creditors were invited to a consultation workshop held in Brits on 21 June 2023. This workshop was attended by Eskom and Rand Water. The City of Tshwane did not attend. The municipality's labour representatives were also invited to a consultation workshop held on the same day. This workshop was attended by the LLF representatives from IMATU and SAMWU.

The Final Draft FRP was published in terms of Section 141(3)(c)(ii) of the MFMA inviting the public, including the local community to submit written comments and representations in respect of the Draft FRP. On 10 July 2023, advertisements were placed in 2 newspapers of general circulation in the area of jurisdiction of the local municipality over a 14-day period. Hardcopies of the FRP were made available at key locations in the Municipality.

The MFRS wrote to stakeholders on 10 July 2023 to provide them with a copy of the draft FRP and invite them to submit comments in terms of Section 141(3)(c)(i) of the MFMA before or on 24 July 2023. These letters were sent to:

i. The Madibeng Local Municipality.

ii. The Provincial Executive Representative Madibeng LM.

iii. Chief Executive Officer, South African Local Government Association.

iv. IMATU representatives Local Labour Forum.

v. SAMWU representative Local Labour Forum.

vi. Eskom Holdings SOC Distribution, North West.

vii. Bojanala Platinum District Municipality.

The NT MFRS wrote to both the MEC for Finance and the MEC for CoGTA on 10 July 2023 with an opportunity to submit written comments by 24 July 2023.

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

Approval

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

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

4.3 IMPLEMENTATION OF THE FRP

The Provincial Executive Council has exercised its rights in terms of S139(5) of the Constitution, imposed a Mandatory FRP to be prepared by the NT MFRS and appointed a Provincial Executive Representative (PER) to assume the responsibility for the implementation of the FRP.

As this is a mandatory intervention, the Municipality must implement the FRP. The FRP sets spending limits and revenue targets, provide for budget parameters, which bind the Municipality and identify specific revenue-raising measures that are necessary for financial recovery in terms of Sections 142(2)(a) of the MFMA.

The municipality is also required in terms of Section 146(1)(c) of the MFMA to report monthly to the MEC for Finance on the implementation of the FRP. Given that a Provincial Executive Representative (PER) has been deployed, reporting to the MEC for Finance will be done via the PER.

It must be emphasised that the strategies set out in this FRP relate to activities that must be institutionalised and performed by various municipal officials, as part of their routine duties and tasks. Those appointed to such positions, even in acting capacities, must be given specific roles and responsibilities, which must be captured in a revised performance agreement. The PER will oversee this process.

The Provincial Executive Council assumed responsibility for the implementation of the plan in terms of Section 139(5) (c) of the Constitution and to this end appointed the PER to discharge this responsibility on behalf of the Provincial Executive. The role and powers of the PER are set out in the "*GUIDELINES ON ROLES AND RESPONSIBILITIES FOR KEY IMPLEMENTATION ROLE-PLAYERS DURING SECTION 139 MUNICIPAL INTERVENTIONS".*

The financial resources required to support the implementation of the Plan, will be realised through restructuring of the budget, implementing the revenue collection strategy and revenue enhancement initiatives and a commitment to stringent expenditure controls, with particular emphasis on the elimination of non-essential expenditure, limitations on appointment of staff and non-revenue generating activities. Additional financial support for some projects will be mobilised from stakeholders such as DBSA. Furthermore, the provincial support package will be aligned with the FRP strategies.

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

- **Phase 1: Rescue Phase (6 – 12 Months)** – This phase focuses on the most critical aspects of rescuing the Municipality from its immediate and most pressing challenges.
- **Phase 2: Stabilisation Phase (13 – 24 months)** – This phase focuses on areas that are depleting the Municipality's financial resources while taking a deeper focus on governance, service delivery and institutional pillars.
- **Phase 3: Sustainability Phase (25 months and onwards)** – This phase focuses on building on institutionalising the efforts of previous phases in order to prevent a regression

in performance and ensure that the Municipality is able to continue as a going concern in a viable and sustainable manner. The aim in this phase is to improve the long-term financing strategy, implement revenue enhancement and maximisation strategies and improve efficiencies in service delivery through innovative and technological solutions. In summary, this phase has as outcome the functioning of the Municipality as intended in the Constitution and other legislation.

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

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

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

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

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

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

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

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

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

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

4.4 MONITORING AND OVERSIGHT OF THE FRP

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

a) The Premier.

b) MEC of Finance.

c) MEC for CoGTA.

d) Executive Mayor.

e) Speaker.

The intervention in the Madibeng LM will be subject to oversight by a Technical War Room Oversight Committee to be stablished by the HoD (PT), that will direct the intervention, monitor progress, unblock and escalate any political challenges that may hinder the success of this intervention and will report directly to the MECs for Finance and CoGTA in the Province (COGTA) jointly and separately.

A ‘Provincial Executive Representative’ for Madibeng LM has been appointed as a full-time deployment to Madibeng LM. His mandate is to oversee the intervention and implementation of the FRP. Going forward he will also be the point of entry at the Municipality.

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

a) The HOD: Finance.

b) North West (Chairperson)

c) The HOD: CoGTA, North West.

d) The Provincial Commissioner of Police.

e) Head: NT MFRS.

f) The Provincial Executive Representative (PER)

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

4.5 RISK MATRIX

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

The emerging risks identified, include amongst others:

Governance

- Outdated policies and lack of implementation;
- Council and Committees do not sit per the Municipal calendar;
- Political interference in the operations of the Municipality;
- Supply chain management processes not adhered to; and
- Litigations issues due to SCM challenges.

Institutional

- High turn-over in Senior Management and critical vacant positions which impact service delivery negatively;
- Non-existence of a Performance Management System (PMS) and no consequence management; and
- Industrial actions owing to communications and resistance to the changes due to any organisational restructuring or realignment and the implementation thereof.

Financial Health

- Unfunded budgets and bad budgeting techniques;
- Tariffs are not cost-reflective;
- Poor debtors' collection rate;
- Poor Indigent management; and
- Breaches in the financial control environment.

Service Delivery

- Overall poor asset management;
- Old and aging infrastructure;
- Backlogs in service delivery;
- Underspending on capital budget;
- Utilising capital budget towards operation expenses; and
- High water and electricity distribution losses.

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

Below is an example of a risk matrix for managing the successful implementation of the FRP and reporting to all relevant authorities.

FINANCIAL RECOVERY PLAN WEEKLY OVERALL PROJECT RISK SCHEDULE LAST UPDATED: XXX																					
					Risk Severity Before Treatment							Risk Severity After Treatment						Risk Management Plan		
Number	Weighting	Rank	Risk Description (Event/Consequence/Cause)	Category	Consequence/ Impact	Rating	Likelihood	Rating	Risk Level Before Treatment	Risk Treatment Plan	Ability to Influence	Consequence	Rating	Likelihood	Rating	Rating	Risk Level After Treatment	Corrective Action	Person Responsible	Due Date
						4	Moderate	B	*Extreme*		High	Moderate	3	Unlikely	D	2	*Moderate*			

Figure 2 - Risk Matrix Example

Risk Map Before Treatment			Consequence				
			1	2	3	4	5
			Insignificant	Minor	Moderate	Major	Catastrophic
Likelihood	A	Almost Certain					
	B	Likely					
	C	Moderate					
	D	Unlikely					
	E	Rare					
			Low	Moderate	High	Extreme	
			0	0	0	0	

Figure 3 - Risk Map

4.6 COMMUNICATION PLAN

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

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

Honesty and transparency is key to this process.

5. PART TWO – STATUS QUO ASSESSMENT

5.1 KEY ISSUES IDENTIFIED AND PROPOSED INTERVENTION STRATEGIES

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

4.2) Governance;

4.3) Institutional, Organisational and Human Resources;

4.4) Financial Management; and

4.5) Service Delivery.

5.2 GOVERNANCE

Municipalities have no inherent powers. It derives all its powers and functions from legislation. In order for a Municipality to function in a sustainable manner, it must perform all its powers and functions optimally.

Allegations are made of wide-spread fraud and corruption in Madibeng, and that consequence management is non-existent. This state of affairs means that there are no consequences for malfeasance by officials, and no deterring effect for would-be transgressors of legislation. This situation is untenable and would need to be arrested as a matter of priority. Although various allegations are made, a full investigation will have to be launched to test the veracity of the allegations.

As stated above, a Municipality can only function in a sustainable manner if full legal compliance is present. That means that Council must hold the administration and its management accountable to ensure that the Municipal mandate, of delivering services to the residents of Madibeng, is delivered on. Through consultation it was established that senior management are in acting positions and therefore cannot make long-term decisions. For instance, Madibeng is currently interdicted by the previous Municipal Manager to make a new appointment. The positions of Corporate Services as well as Chief Financial Officer, currently also have incumbents in an acting position, as an example.

What exacerbates this state of affairs, is the allegation of political interference in the operational functioning of the Municipality. Specifically, mention was made interference in eviction matters, driven by the Legal Department to recover outstanding debt, being halted by Councillors. This situation, if proven to be the case in a full investigation, is unacceptable and sends out the wrong message to defaulting debtors, in that non-payment has little consequences.

Other examples of political interference, it is alleged, in appointments of staff as well as in procurement for services. There is a specific allegation that in one instance, the job description for a specific appointment, was altered illegally, to ensure that a “preferred” candidate got accepted. Apparently, it was easy to alter the job description/ qualifying criteria, as the document was in Word format, and not pdf.

The litigation register for the 3rd quarter of 2022 indicates that Madibeng is defending claims in the amount of R196 336 959 and has incurred legal costs, on these matters in the amount of R7 787 775. The high litigation seen can be attributed to general legal non-compliance.

MLM has a panel of approved attorneys appointed on a rotational basis, as well as matters being allocated according to their expertise. It was established that the panel expired at the end of March 2023. No confirmation has been received whether a new panel has been appointed, and that in many instances, Attorneys are only paid for services rendered when they issue a letter of demand against MLM. Attorneys and litigation are not managed pro-actively and places MLM at risk.

The internal audit function has as part of its mandate assurance that activities of officials are legally sanctioned. In one instance, it is alleged that an Official colluded with a Service Provider, in that the banking details of the Official was entered into the financial payment system, and in fact received payment due to the Service Provider, was reported to Internal Audit for investigation. Through consultation it was established that the report was non-specific and that no real consequences followed the investigation.

Other examples of alleged fraud include the procurement of tracking devices for the vehicle fleet, the outsourcing of security and information technology services, and duplicate payments to service providers.

All these allegations of fraud and corruption, if found to be true by an independent investigator, indicates that governance at Madibeng is not functioning as it should. In a properly functioning Municipality, wrongdoing will be acted upon, and Council will hold Officials accountable for malfeasance. In none of the examples mentioned, criminal cases were opened with SAPS.

Therefore, hard-hitting recommendations need to be included in this FRP. It is unlikely that mere cosmetic remedial actions will go to the core of the alleged problems faced by Madibeng.

It is further recommended that a full forensic investigation, independently to Madibeng, be done. Simultaneously, other remedial actions should be held in abeyance until the governance of Madibeng is stabilised.

The table below set out the key issues and findings from the Status Quo assessment.

Focus Area	Key Diagnostic Finding	Effect on Sustainability
Council and Committees	Ineffective oversight of the reporting process by those charged with governance. Council did not have adequate oversight over the political and administrative functions of MLM; Misuse of public funds; Administrative instability; Political interference in the governance structures; Breakdown in communication between governance structures within MLM; Community unrest and inadequate action or willingness to address the concerns of the community with regard to service delivery; and Councillors doing business with the Municipality contravening MFMA legislation.	Council holds the executive and legislative powers in the Municipality. If Council don't meet regularly, decisions (resolutions) that will guide and govern strategy and operations, will not be taken timeously or at all, which affects service delivery.
Political Interference	It is alleged that Politicians interfere in the administration and specifically in staff appointments and procurement. There are tensions between Council and Senior Management and mutual mistrust exist, whether permanent, acting or deployed officials.	It is a criminal offence for Councillors to interfere in the administration of the Municipality. When this happens, officials delegated to perform certain functions, are overruled that will have a negative effect on service delivery. The Municipal Manager is the Accounting Officer of the Municipality, and when overruled by Council, cannot be held accountable.
Leadership and Administrative Stability and Continuity.	There is a high turn-over in Senior Management and specifically the position of Municipal Manager.	Senior Management drives service delivery in the Municipality. With a high turn-over, as currently experienced, implementation of Municipal programmes suffers. Similarly, the turn-over in the position of Executive Mayor increases instability in the

Focus Area	Key Diagnostic Finding	Effect on Sustainability
		Municipality. In the recent election of the Speaker, Councillors of the ruling party voted for a candidate of the opposition, that increased the tensions and trust issues in Council.
Legal Landscape	The Legal Department is not functioning optimally and seemed to fail in its function to mitigate risk to the Municipality. It seems that the Legal Department is not consulted as it should that leads to poor contracting, that includes procurement, and management, high litigation instances, policies not reviewed as required, little to no consequence management for employees implicated in irregular, unauthorised and fruitless expenditure and implementation of by-laws.	The Legal Department must be properly capacitated to function effectively. Senior management must ensure that legal is consulted to identify and mitigate risks to the Municipality. It is evident that this is not happening as evidenced by the numerous legal actions against the Municipality and service delivery protests.

5.3 INSTITUTIONAL, ORGANISATIONAL AND HUMAN RESOURCES

In 2022, a status quo was conducted by the North West Provincial Treasury, and key issues were identified. The approach to this assessment builds on the work already done and identifies the state of affairs in the Municipality as at March 2023.

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

The table below identifies the key issues of MLM:

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
Organisational Structure	The MLM organisational structure was last updated in the 2018/2019 financial year. The organisational structure is not fit for purpose.	Without a well-defined organisational structure, the Municipality will continue to experience issues in operational and administrative effectiveness.
Filling of Critical Vacant Positions	The post Accounting Officer (section 57) and some Section 56 Senior Manager posts have not been filled for the past 3 years.	Poor service delivery as the Municipality is not operating efficiently without the proper structures, skills and capacity.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
	MLM advertised for the following posts on 19 of June 2022 and as of 4 August 2022, the process was not concluded: Municipal Manager, Chief Financial Officer, Directors Infrastructure and Technical Services, Human Settlements and Planning, Community Services, Corporate Support Service, Public Safety, Economic Development, Tourism and Agriculture.	
Skills and Competencies	44 % of Senior Managers did not meet the minimum competencies.	Poor service delivery as the Municipality is not operating efficiently. High reliance on contracted services as the Municipality does not have the necessary competency in their employ to perform their functions effectively and efficiently.
Performance Management	Performance management in place for senior managers only (Section 56/57). No performance agreements for Senior Managers in place.	This contributes to dysfunctional operations and administration. Employees take no responsibility or accountability for non-performance. Duplication in roles and responsibilities. No benchmark for performance management and subsequently lack of consequence management.
Labour Relations	LLF not convening per the approved calendar, only 1 meeting held out of 11 planned meetings during the 2021/2022 financial year. Outcomes from the LLF consultation session held on 21 June 2023: • Political interference and corruption – unable to talk	Lack of contract, policy and procedure consultations. Employees are untrained on collective bargaining, grievance processes, administration, investigation, mediation and arbitration matters. Lack of performance management. Lack of consequence management.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
	based on intimidation and/ or suspension. • Only Managers and upwards staff receive performance bonuses. Performance management need to be implemented throughout the organisation to allow all employees the opportunity for a performance bonus. • Tools of trade: Employee's safety clothes are not adequately provided and old. • People working in the sewage function do not have the correct and appropriate protective clothing. • Sewage infrastructure is very old and not maintained. Many leaks, bad smell and increased health risks for the community. • The water taste and colour are extremely bad. • Many roads are still gravel, potholes are increasing, and street robots are replaced with stop signs. • Revenue crises - House rentals, B&B's, Malls and Factories are not generating sufficient revenue. Traffic fines are not collected. • Organisational structure is big and bloated. Vacant positions are shown on the organogram which are filled. • Political interference. MM sit with Politicians on 7th floor and is therefore not accessible because no officials are	Employees unable to perform their duties optimally due to the lack of proper PPE. Community unrest due to the lack of service delivery, and poor water quality. Lack of skills development due to poor and ineffective budgeting. Poor overtime management, lack of a proper approval systems. Political interference in procurement and staff appointment. Poor communication between the LLF and management.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
	allowed on the political floor (7th floor). • The skills development budget for all departments are around R 800 000 per annum and insufficient. • General Managers instruct employees to work overtime and then issues of non-payment arise when salaries fall due. • Overtime approval form need to be the same for all departments. • Clear approval of overtime needs to be in place, for urgent situations. • There is an urgent need to appoint permanent security staff. Municipal infrastructure is being vandalised due to the lack of sufficient security staff. • The cost containment policy was not given to LLF for inputs. It is an old document with another Municipality's name on it and LLF will not accept that. • Yellow Fleet – MLM do not have any, all contracted. MLM need to budget and procure their own fleet.	
Human Resource Planning	The HR plan was last prepared and approved in 2018.	Lack of qualified and skilled employees. Staff skills and requirements are unknown and no defined recruitment process in place. Lack of staff training and upskilling leads to poor service delivery.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
Records Management	No approved file plan and records are not centralised. Poor record keeping. AG findings on missing documents from the employee files. AG findings on missing tender documents.	Lack of supporting evidence from the operations of the Municipality. Repeated AG findings, resulting in disclaimer of audit opinions.

5.4 FINANCIAL MANAGEMENT

MLM has low revenue generating capability as a result of poor institutional capacity. This is evidenced by incorrect meter reading due to damaged/ faulty meters and restriction in some areas (no go areas, therefore cannot read meters), inaccurate and incomplete billing information and setting tariffs that are not cost-reflective for water, electricity and refuse services.

When setting the tariffs for water and electricity, the Municipality does not align its tariffs and growth rates to those set by Eskom, City of Tshwane and Rand Water. Consequently, the cash generating capabilities is also low, as a result of the revenue budgeted not realised and low collection rates. Some of the reasons noted for low collection rates are customers culture of not willing to pay and failure to implement credit control to facilitate collection of outstanding amounts, and political interference in collections.

The Municipality has in the past and currently submitted budgets that are not credible for which expenses are not realistically expected to be covered by the expected revenue (unfunded budgets). MLM is cash strapped and overly dependent on grant funding.

Given the cash flow challenges and lack of commitment, there is general lack of creditor management as evidenced by MLM's failure to pay creditors within 30 days and defaulting on payment arrangements made.

Set out below are a few graphs illustrating MLM's financial position:

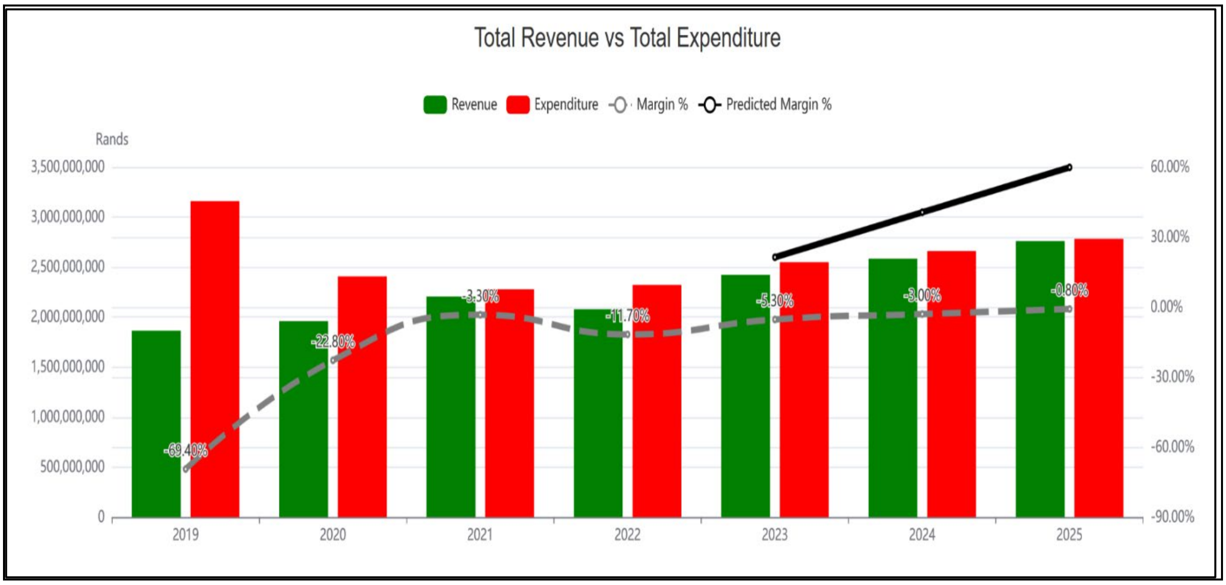

Figure 4 - Total Revenue vs Total Expenditure

As per the illustration above, it is noted the MLM's expenditure for the past few financial years exceeds their revenue and are thus running into deficits. The budget period also portrays deficits which indicate that the Municipality does not have a cash backed and funded budget. This is unsustainable.

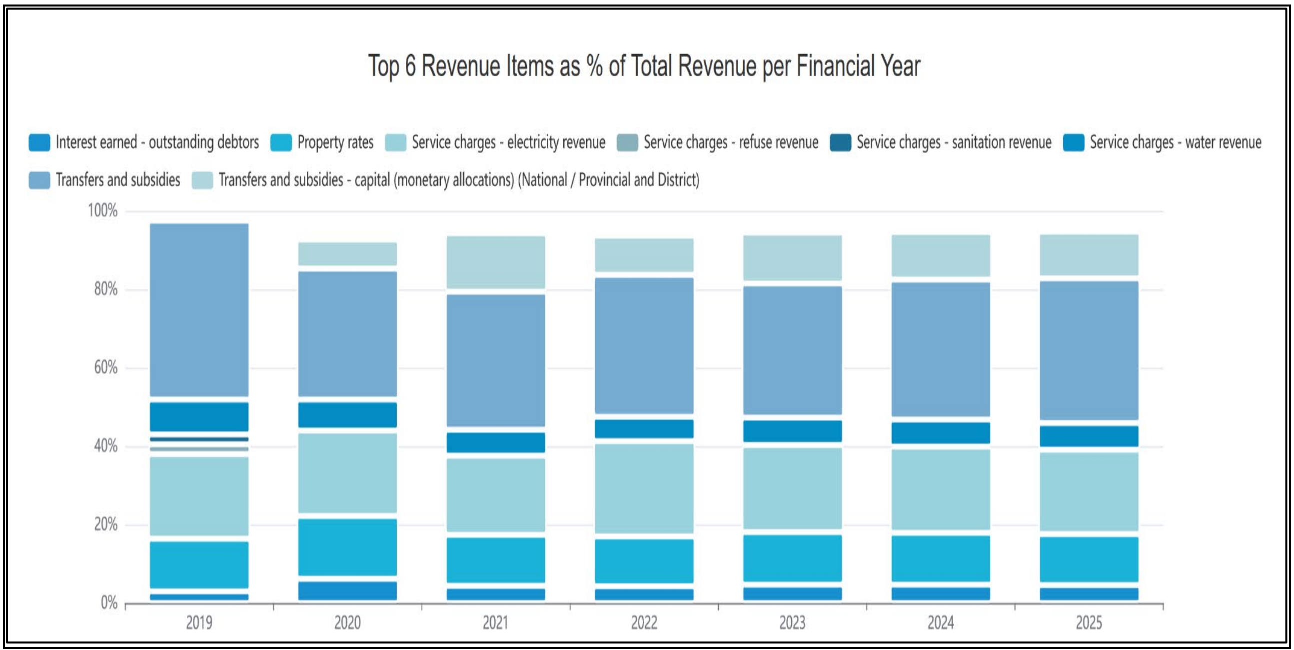

Figure 5 - MLM's top six revenue sources

Illustrated above are the top six (6) revenue sources of MLM, namely Transfers and Subsidies, Services Charges for Electricity, Water, Sanitation, and Refuse, Property Rates and Interest Earned on outstanding debtors. Their biggest source of revenue is Transfers and Subsidies which is an indication of high dependency on grants.

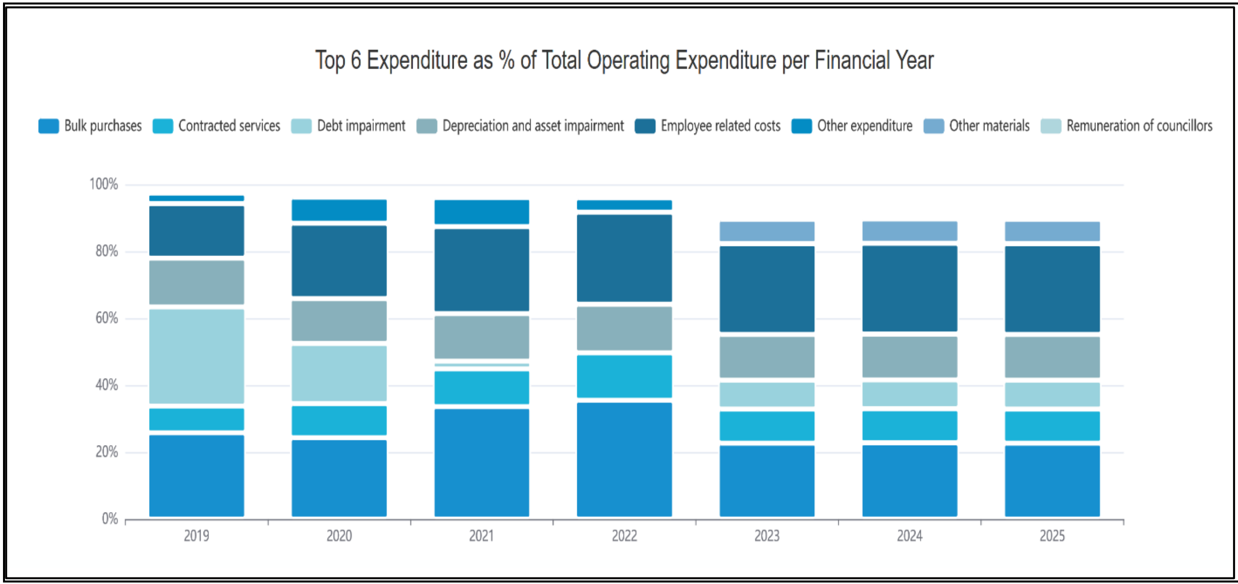

Figure 6 - MLM's top six expenditure sources

Illustrated above are the top six (6) expenditure sources of MLM, namely Bulk Purchases, Contracted Services, Debt Impairment, Depreciation and Asset Impairment, Employee Related Cost, Other Expenditure, Other Materials and Remuneration of Councillors. The top two highest sources are Bulk Purchases and Employee Related Cost.

The table below identifies the key financial management issues of MLM:

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
Funded Budget and Budget Spending Limits	The Municipality budgeted for cash shortfalls: • 2019/20: R (1 290 106) • 2020/21: R (405 645) • 2021/22: R (473 895) • 2022/23: R (510 369) Low collection rates not adequately considered in the budgeting processes.	The Municipality is not sustainable as their budgets are not cash backed. Poor revenue management with inability to collect revenue due and poor service delivery.
Revenue Management: Billing	Billing inconsistencies. Property rates on the billing system are not aligned to the valuation roll. Municipal billing data not credible.	Incorrect customer billing – incomplete and inaccurate data in the billing management system (SOLAR)

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
		Tariffs linked to incorrect category on consumer account. Incomplete billing information (properties water, electricity, refuse and sanitation connection points).
Revenue Management: **Infrastructure and Service Delivery**	Inability to repair and replace meters by Technical Department. Illegal connections in water and electricity. Inconsistent, interrupted, and low quality of supply of water and electricity services. High technical and non-technical distribution losses due to old infrastructure and illegal connections.	Loss of revenue due to incorrect billing. Poor service delivery due to insufficient spend towards repair and maintenance and old infrastructure. Increasing illegal connections due a lack of control. Incomplete billing information resulting in unbilled services.
Debtors Management	Culture of non-payment by consumers. Inefficient and ineffective internal controls. Disruptions on implementation of credit control. The debtor's collection rates are as follows: • 2019/20: 32% • 2020/21: 36% • 2021/22: 42% Reconciliations not performed monthly.	Low collection rate results in cash flow challenges for the Municipality. Escalating debtors' book and not making adequate provision for the impairment of debtors.
Cost-reflective Tariffs – Electricity Services	Electricity tariffs are not cost reflective as below: • 2019/20 nett deficit -4% • 2020/21 nett deficit -20%. • 2021/22 nett deficit -18.72%	Forecasted electricity tariffs are set without considering the growth rate in tariffs set by Eskom. Electricity is provided at a loss.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
FINANCIAL POSITION				
Asset Management/ Utilisation				
Capital Expenditure to Total Expenditure – indicates the prioritisation of expenditure towards current operations versus future capacity in terms of Municipal Services. **The norm is 10% - 20%.**	6%	13%	9.6%	The amount outlaid on capital for the 2019/20 financial year is below the norm, and within the lower bracket of the norm for the 2020/21 and 2021/22 financial years. This is an indication of insufficient capital budget but is more than likely as a result of insufficient own cash to undertake capital investment. This will result in insufficient investment in infrastructure to increase capacity and accommodate envisaged growth within the Municipality. There is need to balance between social services investments and service delivery investments. The municipality has indicated that they have challenges with electricity and water infrastructure. External borrowing is also affected due to the precarious financial situation.
Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value) **Norm is 0%**	0%	0%	0.14%	Metric is normal at 0% in 2019/20 and 2020/21, and slightly above the norm for the 2021/22 financial year at 0.14%. Therefore, there appears to be a lower risk to service delivery due to excessive impairment of assets (impairment can be regarded in this case as a misjudgement of the economic benefits expected to be derived from an asset.
Repairs and Maintenance to Property, Plant and	2%	2%	1.40%	The ratio is below the norm of 8%. Increased investment is required in

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
Equipment and Investment Property – measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to services delivery. **The norm is 8%.**				this area to ensure that service delivery is not disrupted due to breakdowns and leakages. NB: 8% is adequate if it is set aside annually – but if a Municipality persistently underinvests in Repairs and Maintenance, the amount required will far exceed 8%. The Municipality under invested in repairs and maintenance for at least 3 consecutive years. The Municipality must ensure that there is a fully funded maintenance plan. **Adequate investments in infrastructure are critical to secure current and future revenue flows.**
Debtors Management				
Annual Collection Rate - indicates the level of payments as a percentage of revenue billed on credit. **The norm is 95%.** **Alternative** Receipts from customers / Gross Debtors Opening Balance + Gross Debtors Closing Balance - Bad debts written off x 100.	32% 61%	36% 76%	42% 82.67%	The ratio for the Municipality fluctuated over the last 3 years and remained under the norm. The ratio questions the ability of the Municipality to set affordable tariffs, bill correctly and ensure what is billed is collected. The debtors book continues to grow without a solution. The situation is exacerbated by the failure by indigents to register with the Municipality. Indigent register is incomplete. From the review of the IDP as of 30 June 2022, it was noted that the Municipality had challenges accessing some of the households to register them as indigents.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				Relatedly, as per the 5-Year IDP 2022 - 2027, the unemployment rate in Madibeng is 41.7%. Therefore, indigents households are being billed as normal consumers thus the non- payment which reduces collection rate. Additionally, the indigents households are expected to increase which will worsen the collection rate.
Bad Debts Written-off as % of Provision for Bad Debt **Norm is 100%**	0%	0%	0%	There has been no change in the Bad Debts Written Off as % of the Bad Debt Provision in the current year. This is because of the Municipality providing for bad debts each year and not writing off bad debts. Compared to the norm, the ratio of 0% is unrealistic and not consistent with the low collection rates. This is an indication of non-adherence to the debts write off policy. An up-to-date indigent register should be kept.
Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts. **The norm is 30 days.** **Alternative ratio** Gross Debtors Days	80 Days 760 Days	130 Days 799 Days	157 Days 680 Days	There is an increase in the debtors' days from 130 days to 157 days over the two-year period. The ratio is far above the NT norm of 30 days. Significant cash flow risk is evident due to poor quality of credit control and revenue management. The net debtor's days is 127 days above norm in 2021/22, (2020/21 100 days).

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
Gross Debtors / Billed Revenue × 365 **The norm is 30 days**				A significant amount of potential cash is tied up in consumer debtors and the Municipality must improve its revenue and cash flow management. The Municipality has not written off bad debtors in the past three financial years; 2019/20 to 2021/22. This ratio therefore shows that the Municipality can expect delayed payments from customers in 680 days (2020/21: 799 days), (2019/20: 760 days), which is 650 days over the net debtors' days norm. The net debtor days of 680 (2020/21:799 days) are excessive, however if the Municipality processes a bad debt write-off this ratio would be a true reflection of the Municipality's status, as this would reduce the actual gross debtors.
Liquidity Management				
Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants) **Norm is 1 - 3 Months**	0.64 Months	0.73 Months	0.91 Months	The ratio is below the 1-3 months threshold for all three years. This means that the Municipality will not be able to meet its obligations in the event where collections were to drop significantly. To improve the situation, the following must be achieved in the shortest possible time: - • Immediate reduction in expenditure on non-essentials, non-core activities, non-revenue generating activities; • Increase revenue through improved collections and billing

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				efficiencies and seeking alternate revenue sources; and • Ensuring proper administrative and governance arrangements are in place to manage daily bank deposits and withdrawals. The Municipality is vulnerable and at high risk in the event of financial 'shocks/ set-backs' and its ability to meet its obligations to provide basic services. The Municipality need to grow its cash reserves to lower the risk of not being able to render sustainable services.
Liquidity Ratio (Current Ratio) - this ratio indicates the extent to which current assets can be used to settle short-term liabilities. If current assets do not exceed current liabilities, it means a liquidity problem i.e. insufficient cash to meet financial obligations. **The norm is 1.5 - 2:1.**	0.28	0.40	0.45	The Municipality's Current Ratio is weakening and below the norm. The Municipality generates insufficient cash to meet short-term financial obligations. The Municipality must increase its current assets to appropriately cover current liabilities or risk that non-current assets will need to be liquidated to settle current liabilities. This could be attributed to the low cash generating ability of the Municipality: • Considering the Grants received, the Municipality can meet the operating expenses obligations but is not able to meet the Capital Expenditure obligations as evidenced by the -R110,170,704 change in cash flow in 2020/21. The net cash position stabilised during the 2021/22 financial year with a

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				positive cash increase of R 100,501,906; and • If they do not include the grant, the situation worsens even further: The Municipality was not able to cover its commitments to suppliers and employees for the 2019/20 and 2020/21 financial years, retaining a deficit between receipts from operation and cash paid to suppliers and employees of R207million (2019/20; 533million). For the 2021/22 financial year, the situation stabilised with a positive cash flow balance of R 137,726,758 if cash from operations was taken less supplier and employee obligations.
Liability Management				
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure - indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure. **The norm is 6% - 8%.**	2.37%	2.08%	1.45%	The ratios all three financial years are below norm indicating that the Municipality has the capacity to take on additional financing from borrowing to invest in infrastructure projects or it could relate to cash flow problems where it is unable to access borrowed funds, or the funding decisions of the Municipality impacts of these levels. However, given the low cash generating ability and a loan from the Public Investment Cooperation of R325 279 924 which was payable in 12 months as at 30 June 2022. The Municipality does not have capacity to take on more debt.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				A possible renegotiation of the loan would be required.
Debt (Total Borrowings)/ Revenue - indicates the extent of total borrowings in relation to total operating revenue. The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings. **The norm is 45%.**	28%	27%	14.92%	The ratio is less than 45% for all three financial years implying that the Municipality still has capacity to take increase funding from borrowings. However, given the low cash generating ability and a loan from the Public Investment Cooperation of R325 279 924 which was payable in 12 months as at 30 June 2022. The Municipality does not have capacity to take on more debt. A possible renegotiation of the loan would be required.
FINANCIAL PERFORMANCE				
Efficiency				
Net Operating Margin – measures the net surplus or deficit as a percentage of revenue. **The norm is > 0%.**	(29%)	(4%)	(0.07%)	The net operation surplus margin for the Municipality was negative for 3 successive years due to the losses that the Municipality is recording. Operational efficiencies must be achieved for enhanced financial wealth. The Municipality should at least recover operational costs for the trading services being delivered. The ratios for all three financial years are less than 0% implying that the Municipality is operating at a deficit. Measures must be implemented to address this situation to ensure sustainable service delivery. The accurate costing of services linked to cost-reflective tariffs will be required.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				In a case of an operating deficit, it is critical to ascertain the extent to which the accounting policy, i.e., revaluation method has impacted on the calculations to avoid any distortions in interpretation of the outcome. Refer to Circular 58 section 4.3 regarding revaluation in terms of GRAP 17 and treatment of depreciation and GRAP 24. The net operating deficit is confirming the high level of reliance that the Municipality places on National Government support to sustain service delivery.
Net Surplus /Deficit Electricity **Norm is 0% - 15%**	(4%)	(20%)	(18.72)	The norm is between 0% and 15% The ratios for all three financial years are below 0 depicts that electricity service is rendered at a deficit/loss and is not sustainable. This is evidenced by that the Eskom debt as at 30 June 2022 that is above R91 million. The ratio must be between 0% and 15% to ensure services are sustainable and that all costs associated with the delivery of electricity services are at least recovered with a margin for future growth and/ or capital funding for electricity assets. This may signal billing issues, incorrect tariffs for different zones. This is also a result of illegal connections.
Net Surplus /Deficit Water **Norm is >=0%**	14%	21%	(8.60%)	Norm is 0% or greater. During the 2021/22 financial year, the Municipality made a loss on the sale of water where their bulk

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				purchases were more than their sales in water. This is a major regression from the 2020/21 financial year where the ratio was good and within the norm at 21%. The Municipality must at least ensure that all costs associated with the delivery of water services are at least recovered with a margin for future growth and/ or capital funding for water assets. The ratio will increase if distribution losses are minimised.
Net Surplus /Deficit Refuse **Norm is >=0%**	(40%)	(54%)	(14%)	Norm is 0% or greater. The ratios for all three financial years are below norm indicating that that the services are not sustainable and that all costs associated with the delivery of refuse services are excessive and possibly duplicated. The costs are burdened by the lease rental for refuse truck and the costs of insourcing the service, over and above the internal operating cost and salaries for the waste department.
Distribution Losses				
Electricity Distribution Losses (%) **The norm is 7% - 10%.**	30%	37%	Not Disclosed	The 2019/20 and 2020/21 distribution losses are high and above the norm and this could be attributable to the internal usage not being accounted for, illegal connections, unbilled consumption, and incorrect allocation of electricity to invalid indigents. The distribution losses for the 2021/22 financial year were not

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				disclosed in the AFS and noted in the 2021/22 AG Report.
Water Distribution Losses (%) **The norm is 15% - 30%.**	30%	30%	Not Disclosed	The distribution losses are high as they are at the higher end of the norm and this could be attributable to the internal usage not being accounted for, illegal connections, unbilled consumption, and lack of monitoring of water supplied by City of Tshwane as detailed in the Service Delivery Pillar. The distribution losses for the 2021/22 financial year were not disclosed in the AFS and noted in the 2021/22 AG Report.
Revenue Management				
Revenue Growth (%) – measures the growth in revenue year on year. **The norm is =CPI**.	8%	23%	(-11%)	Norm is CPI. There was a huge decrease in Revenue from the 2020/21 to the 2021/22 financial year, and this is imminent that the Municipality does not prioritise the collection of outstanding debt. The positive growth rates in the 2019/20 and 2020/21 is corroborated by the fact that total revenue growth was largely driven by grants revenue recognised.
Revenue Growth (%) - Excluding Capital Grants - measures the growth in revenue excluding capital grants year on year. **The norm is =CPI.**	13%	13%	(6%)	Norm is CPI There was a huge decrease in Revenue from the 2020/21 to the 2021/22 financial year, and this is imminent that Municipality does not prioritise the collection of outstanding debt.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				The positive growth rates in the 2019/20 and 2020/21 is corroborated by the fact that Total Revenue Growth was largely driven by grants revenue recognised.
Expenditure Management				
Creditors Payment Period This ratio indicates the average number of days taken for trade creditors to be paid. **The norm is 30 days.**	420 Days	323 Days	275 Days	The ratio is significantly above the norm of 30 days in all three financial years, (2021/22) 275 days, 2019/20 and 2020/21 at 420 and 323 days respectively. The Municipality is not able to settle creditors within normal credit terms, this is an indication that the Municipality is experiencing cash flow problems. However, in certain instances this may be as a result of disputes, delayed processing of payments, etc. The poor collection rate and high level of debtors must be addressed to recover the Municipality's cash flow position. The Municipality is under these circumstances failing to honour financial commitments as and when due. In addition, this may also indicate an inadequacy of management of Working Capital, or that effective controls are not in place to ensure prompt payment. S65(2)(e) of the MFMA requires payment within 30 days. Cash ratios is negatively affected by interest paid on long outstanding creditors that is recorded as irregular expenditure.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
Irregular, Fruitless and Wasteful and Unauthorised Expenditure to Total Expenditure – this ratio measures the extent of irregular, fruitless and wasteful and unauthorised expenditure to total expenditure. **The norm is 0%.**	32%	27%	147.14%	Results from ratio indicates ineffectiveness in addressing these forms of expenditure being incurred with continued high occurrence. Any result above the norm must be investigated, controls must be re-evaluated and strengthened, and actions taken following this investigation, including against those who caused Irregular, Fruitless and Wasteful and Unauthorised expenditure to occur. Reoccurrence of UIF&W shows the failure of adherence to Supply Chain Policy in relation to UIF&W. **The ratio was calculated using the accumulated balance of UIF&W.**
Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure - Indicates the extent to which expenditure is applied to the payment of personnel. **The norm is 25% - 40%.**	24%	27%	28%	The ratio is within the norm at 28%. There is room to fill critical vacancies to increase capacity and skills levels, but only if it can be afforded and in line with improvement in the cash flow position of the Municipality.
Contracted Services as a % of Total Operating Expenditure - indicates the extent to which the municipalities resources are committed towards contracted services to perform Municipal related functions. **The norm is 2%-5%.**	4.8%	5.8%	5.8%	Without adjustment for non-cash items, the ratio is above norm by 0.8. in 2021/22. There appears to be an increase in contracted services indicating that more functions are being outsourced to consultants, or that Contracted Services are not effectively utilised. Reuse of consultants means that there is effectively no skills transfer taking place.

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				The Municipality must build its internal capacity and be less reliant on contractors to render municipal related functions.
Grant Dependency				
Own Funded Capital Expenditure (Internally Generated Funds plus Borrowing) to Total Capital Expenditure - Measures the extent to which the Municipality's total capital expenditure is funded through internally generated funds and Borrowings. **There is no Norm**	0%	0%	0%	For the three years under review, the Municipality is 100% reliant on grant funding given that it cannot afford to finance capital expenditure from internally generated funds. Although other metrics indicate that the Municipality can potentially apply for debt, it does not have capacity to service debt given the lack of cash generating ability and reliance on funding from National Government.
Own Source Revenue to Total Operating Revenue (Including Agency Revenue) - measures the extent to which the Municipality's total revenue is funded through internally generated funds and borrowings. **There is no Norm**	59%	50%	54%	As reflected in the ratios explaining grant dependency, the ratio suggests that the Municipality's reliance on grant funding has increased as the proportion of the revenue generate internally has increased from 50% to 54%.
BUDGET IMPLEMENTATION				
Capital Expenditure Budget Implementation Indicator **Norm 95% - 100%**	48%	81%	79%	Despite some levels of infrastructure investment, there has been an inability to implement the Capital Budget. Results below the norm indicates potential discrepancies in planning and budgeting, capacity challenges to implement the project or SCM process challenges. Under-

Ratio	Ratio for 2019/20 Restated	Ratio for 2020/21 Restated	Ratio for 2021/22 Audited	Remarks
				spending also indicates likely Cash Flow problem. Variances from the norm need be investigated.
Operating Expenditure Budget Implementation Indicator **Norm 95% - 100%**	105%	94%	92%	The budget utilisation for 2020/21 and 2021/22 appears reasonable. The 2019/20, overspending may indicate inaccurate budgeting or poor financial management, although the magnitude is not significant. This is an acceptable deficiency in budgeting processes and monitoring control in respect of budget control.
Operating Revenue Budget Implementation Indicator **Norm 95% - 100%**	103%	103%	106%	A ratio of 106% during the 2021/22 financial year points towards inaccurate budgeting and is not an indicator of cash generation due to the low collection rate.
Service Charges and Property Rates Revenue Budget Implementation Indicator **Norm 95% - 100%**	100%	98%	92%	Norm is 95 to 100%. The ratio of 92% for the 2021/22 financial year points towards inaccurate budgeting. The Municipality is not effectively collecting from billed customers.

Given that this intervention has been invoked because of a crisis in the financial affairs of the Municipality, in this phase of the FRP, emphasis will be placed on the cash and cash position of the Municipality, as well as restoring some of the basic principles of good financial management.

The strong emphasis on improving the cash position is to create an availability of resources to address some of the most immediate and visible service delivery challenges. Cost-cutting measures must be implemented. However, an emphasis on cash and municipal finances does not preclude the Municipality from addressing governance and institutional issues.

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

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

The 7 high-level indicators selected for this Phase are:

a) Progress towards a funded budget including a budget funding plan.
b) Cash flow management and periodic cash balancing.
c) Cost Containment: Revenue billing and collection.
d) Decrease in water and electricity losses.
e) Payment of creditors.
f) Ring-fencing of conditional grants.

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

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

NO.	PERFORMANCE AREA	2022/23FY BUDGET TARGET	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET	2026/27FY BUDGET TARGET
1	CPI Headline	6.8%	4.5%	4.5%	4.5%	4.5%
2	Interest Rate	11.75%	11.75%	11.75%	11.75%	11.75%
3	Household Growth Rate	1%	1%	1%	1%	1%
4	Employee Cost Escalation	-25% Monetary Performance Awards only considered when Phase 1: Financial Rescue objectives achieved.	4.5% Monetary Performance Awards only considered when Phase 1: Financial Rescue objectives achieved.	4.5% Monetary Performance Awards only considered when Phase 1: Financial Rescue objectives achieved.	4.5% Monetary Performance Awards only considered when Phase 1: Financial Rescue objectives achieved.	4.5% Monetary Performance Awards only considered when Phase 1: Financial Rescue objectives achieved.

NO.	PERFORMANCE AREA	2022/23FY BUDGET TARGET	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET	2026/27FY BUDGET TARGET
	Council Remuneration	100% as Gazetted, subject to affordability and FRP performance	100% as Gazetted, subject to affordability and FRP performance	100% as Gazetted, subject to affordability and FRP performance	100% as Gazetted, subject to affordability and FRP performance	100% as Gazetted, subject to affordability and FRP performance
5	Bulk Water Escalation	4.5%	3%	3%	4.5%	4.5%
6	Bulk Electricity Escalation	4.5%	3%	3%	4.5%	4.5%
7	Capital Expenditure Growth Rate	6.8%	4.5%	4.5%	4.5%	4.5%
8	Depreciation Rate	6.8%	4.5%	4.5%	4.5%	4.5%
9	Property Rates Escalation	2%	2%	2%	2%	2%
10	Service Charges Escalation - Electricity	6.8%	10%	4.5%	4.5%	4.5%
11	Service Charges Escalation - Water	6.8%	10%	4.5%	4.5%	4.5%
12	Service Charges Escalation - Refuse	6.8%	10%	4.5%	4.5%	4.5%
13	Service Charges Escalation - Sanitation	6.8%	10%	4.5%	4.5%	4.5%
14	Collection Rate - Property Rates	45%	60%	70%	80%	90%
15	Collection Rate - Electricity	45%	60%	70%	80%	90%

NO.	PERFORMANCE AREA	2022/23FY BUDGET TARGET	2023/24FY BUDGET TARGET	2024/25FY BUDGET TARGET	2025/26FY BUDGET TARGET	2026/27FY BUDGET TARGET
16	Collection Rate - Water	45%	60%	70%	80%	90%
17	Collection Rate - Sanitation	45%	60%	70%	80%	90%
18	Collection Rate - Refuse	45%	60%	70%	80%	90%
19	Collection Rate - Fines	45%	60%	70%	80%	90%
20	Collection Rate - Other	45%	60%	70%	80%	90%
21	Creditors Payment Days	60 Days	60 Days	60 Days	60 Days	60 Days
22	Government Debtor's Payment Plan	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement	100% of payment arrangement

A financial forecasting model has been developed to set financial targets for the Madibeng LM FRP over the MTREF period.

The financial model escalation formulas the following rates per annum over the recovery period: **CPI** – 6.8% for 2023/24, 4.5% for 2024/25, 2025/26 and 2026/27.

Local growth - 1% per annum.

Grounded on adherence to the above budget parameters, it is anticipated that the Municipality will progressively move towards a position of improved financial sustainability over the 4-year period as illustrated in the table below.

If key operational efficiencies are achieved in line with FRP Implementation Plan, it could be expected that the cash surplus of R 224 843 799 million at the end of the 2021/22 financial year will increase to a cash surplus of R 817 522 543 million at the end of the 2026/27 financial year.

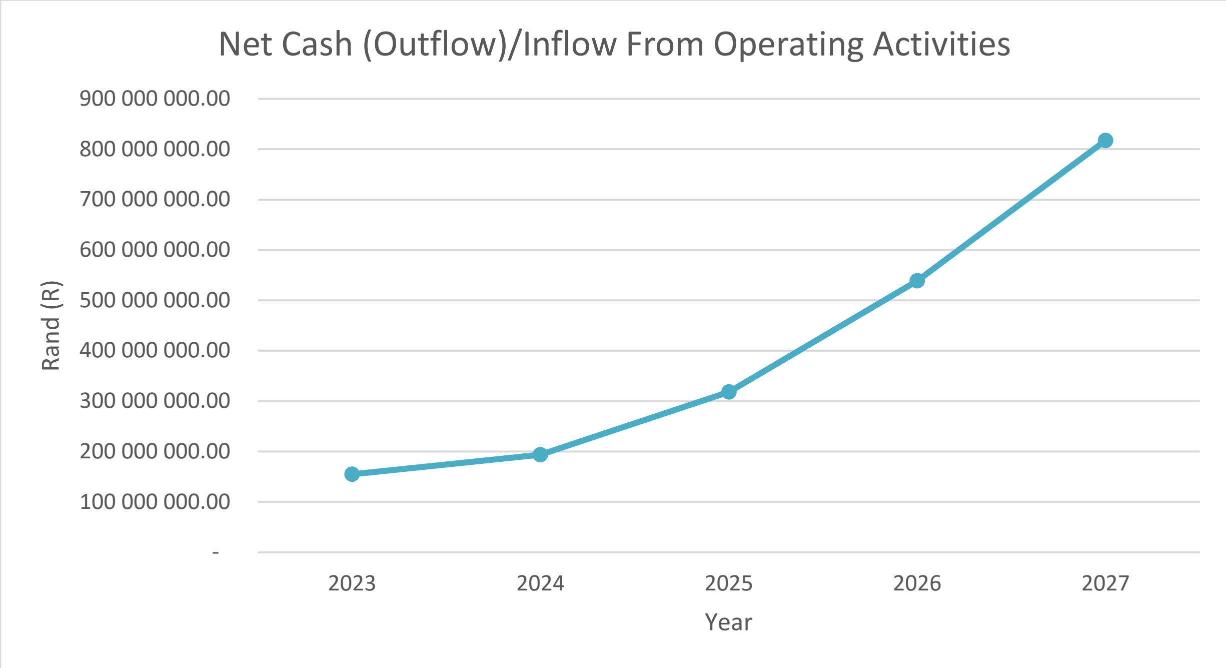

Figure 7 - Net Cash Inflow / (Outflow)

The net cash position should improve to levels sufficient to boost the cash coverage ratio to within acceptable norms over the MTREF period. Any surplus cash, over and above the required levels, should also be prioritised towards payment of outstanding creditors' balances. An improved appetite to pay creditors will enhance the public perception and re-establish supplier confidence in the Municipality. If these positive trends could be achieved and sustained, it could realistically be expected that it will take the Municipality a period of 3-4 years to move to a fully cash-backed funding position.

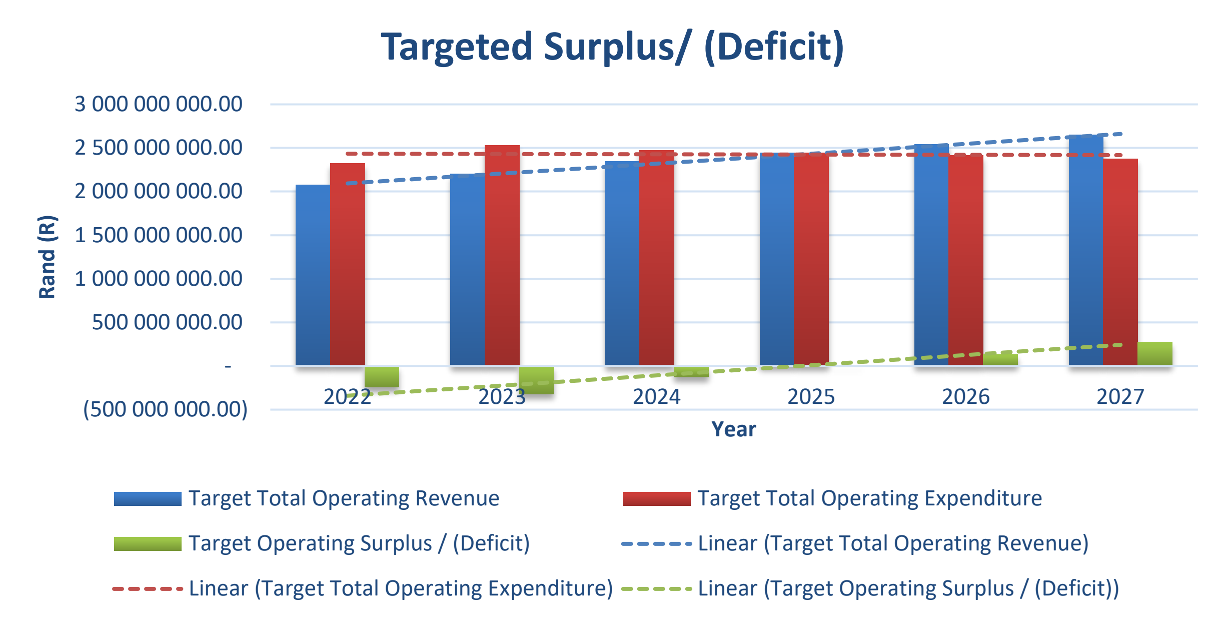

Figure 8 - Targeted Surplus/ (Deficit)

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

FINANCIAL FORECASTING MODEL FOR IMPLEMENTATION OF THE MADIBENG LM FINANCIAL RECOVERY PLAN

The forecast below used 2021/22 Audited Figures as the base year.

The assumptions as per the assumption tables were applied. The model processes *m*SCOA data strings and it is noted that there may be variances between the figures below and the actual audited figures.

BUDGET ITEM	2021/22 AFS AUDITED R'000	2022/23 MTREF BUDGET R'000	TARGET 2023/24 MTREF BUDGET R'000	TARGETS 2024/25 MTREF BUDGET R'000	TARGETS 2025/26 MTREF BUDGET R'000	TARGETS 2026/27 MTREF BUDGET R'000
Property Rates	293,589,052	299,460,833	305,450,049	311,559,050	317,790,231	324,146,036
Service Charges - Electricity Revenue	561,712,139	599,908,564	659,523,311	689,201,860	720,215,943	752,625,661

BUDGET ITEM	2021/22 AFS AUDITED R'000	2022/23 MTREF BUDGET R'000	TARGET 2023/24 MTREF BUDGET R'000	TARGETS 2024/25 MTREF BUDGET R'000	TARGETS 2025/26 MTREF BUDGET R'000	TARGETS 2026/27 MTREF BUDGET R'000
Service Charges - Water Revenue	142,138,788	151,804,225	16,984,648	174,498,957	182,351,410	190,557,223
Service Charges - Sanitation Revenue	47,834,380	51,087,117	56,195,829	58,724,641	61,367,250	64,128,777
Service Charges - Refuse Revenue	57,180,774	61,069,066	67,175,973	70,198,892	73,357,842	76,658,945
Rental Of Facilities and Equipment	1,837,245	1,962,177	2,050,475	2,142,747	2,239,170	2,339,933
Interest Earned - External Investments	6,752,895	7,212,091	7,536,635	7,875,784	8,230,194	8,600,553
Interest Earned - Outstanding Debtors	99,040,463	105,775,214	110,535,099	115,509,178	120,707,091	126,138,910
Dividends Received	0	0	0	0	0	0
Fines, Penalties, and Forfeits	3,642,972	3,890,694	4,065,775	4,248,735	4,439,928	4,639,725
Licences and Permits	6,432,730	6,870,155	7,179,312	7,502,381	7,839,988	8,192,788
Agency Services	14,180,025	15,144,266	15,825,758	16,537,917	17,282,124	18,059,819
Transfers and Subsidies	836,190,23	893,051,17	933,238,473	975,234,204	1,019,119,744	1,064,980,132
Other Revenue	6,974,700	7,448,979	7,784,183	8,134,471	8,500,523	8,883,046
Gains on Disposal of PPE	1,344,137	0	0	0	0	0

BUDGET ITEM	2021/22 AFS AUDITED R'000	2022/23 MTREF BUDGET R'000	TARGET 2023/24 MTREF BUDGET R'000	TARGETS 2024/25 MTREF BUDGET R'000	TARGETS 2025/26 MTREF BUDGET R'000	TARGETS 2026/27 MTREF BUDGET R'000
Total Operational Revenue	**2,078,850,535**	**2,204,684,558**	**2,343,545,526**	**2,441,368,824**	**2,543,441,445**	**2,649,951,554**
Employee Related Costs	638,672,866	479,004,649	500,559,858	523,085,052	546,623,879	571,221,954
Remuneration of Councillors	32,005,386	34,181,752	35,719,931	37,327,328	39,007,057	40,762,375
Debt Impairment	6,992,326.00	659,255,344	516,894,127	402,824,896	279,076,882	145,023,195
Depreciation and Asset Impairment	337,457,220	360,404,310	376,622,504	393,570,517	411,281,190	429,788,844
Finance Charges	16,580,115	17,707,562	18,504,403	19,337,101	20,207,270	21,116,598
Bulk Purchases	824,693,565	618,520,173	646,353,581	675,439,492	705,834,26	737,596,812
Other Materials	28,157,589	30,072,305	31,425,558	32,839,708	34,317,495	35,861,783
Contracted Services	330,460,244	247,845,183	258,998,216	270,653,135	282,832,527	295,559,990
Transfers and Subsidies	6,530,196	6,974,249	7,288,090	7,616,054	7,958,777	8,316,922
Other Expenditure	100,389,685	75,292,263	78,680,415	82,221,034	85,920,980	89,787,425
Loss on Disposal of PPE	732,685	0	0	0	0	0
Total Operational Expenditure	**2,322,671,877**	**2,529,257,795**	**2,471,046,687**	**2,444,914,322**	**2,413,060,332**	**2,375,035,901**
Surplus/ (Deficit)	**(1,532,088)**	**(324,573,236)**	**(127,501,161)**	**(3,545,498)**	**130,381,112**	**274,915,653**

Working Capital Requirements

DESCRIPTION	TARGET 2022/23	TARGET 2023/24	TARGETS 2024/25	TARGETS 2025/26	TARGETS 2026/27
Bank Balance 30 June 2022	**224,843,799**				
Revenue Collected (See Assumptions table for % Collected)	539,390,736	775,341,190	939,924,759	1,116,307,531	1,305,208,761
Other Revenue - Grants (Assumed 100% Collected)	893,051,170	933,238,473	975,234,204	1,019,119,744	1,064,980,132
Interest Earned - External Investments	7,212,091	7,536,635	7,875,784	8,230,194	8,600,553
Total Cash Inflow	**1,439,653,999**	**1,716,116,300**	**1,923,034,748**	**2,143,657,470**	**2,378,789,447**
Note: We have excluded interest on outstanding debtors as recovery is not certain.					
Cash Expenses (Excluding Debt Impairment and Depreciation)	1,491,890,576	1,559,025,652	1,629,181,806	1,702,494,988	1,779,107,262
Finance Charges	17,707,562	18,504,403	19,337,101	20,207,270	21,116,598
Total Cash outflow	**1,509,598,139**	**1,577,530,055**	**1,648,518,908**	**1,722,702,259**	**1,800,223,860**
Creditor Repayments/ Settlements - Trade Payables and Bulk Services Backlog		100,000,000	150,000,000	200,000,000	300,000,000
Net Cash Outflow/Inflow from Operating Activities	(69,944,140)	38,586,244	124,515,840	220,955,211	278,565,587
Cash On Hand Before Investing and Financing Activities	**154,899,658**	**193,485,903**	**318,001,744**	**538,956,955**	**817,522,543**

Grounded on adherence to the above budget parameters, it is anticipated that the Municipality's cash position of R 224 843 799 million at the end of the 2021/22 financial year will increase to a cash surplus of R 817 522 543 million at the end of the 2026/27 financial year. It should be noted that this cash surplus is before capital and financing investments.

5.5 SERVICE DELIVERY

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

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

The table below identifies the key service delivery issues of MLM:

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
SDF and Masterplans **General**	The Asset Maintenance plan was developed in 2017 and is still under review. The Municipality does not have the Bulk Master Plans in place for water and sanitation. The electricity refurbishment plan dated 24/06/2022 still needs to be taken to Council for approval. The wastewater risk abatement plan dated 2012 still needs to be updated.	Loss of revenue. Poor service delivery. Infrastructure is not adequately managed and maintained. Outdated plans in place.
Asset Register	The Municipality does not have a GRAP and *m*SCOA compliant asset register.	Non-compliance to: • Systems Act. • MFMA. • GRAP. • *m*SCOA. Which impacts: • Technical reviews and updates. • Financial reporting. • Asset management.
Demand Management	The Municipal capacity to supply water (38 703ML/year) is	Current load more than capacity (ability to supply)

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
	less than the demand from customers (57 700 ML/year).	Restrictions of the Brits Water Supply Scheme causing water supply shortages. There are excessive water losses in the Municipality. The network is aging which contributes to high losses and service delivery interruptions.
Distribution Losses	The Municipality indicates high technical and non-technical distribution losses due to old infrastructure and illegal connections. **Electricity – Norm is 7%-10%** 2020/21 is 37%. **Water – Norm is 15%-30%** 2020/21 is 30%. **(Note 2021/22 were not disclosed)**	Loss of revenue due to increases in water and electricity losses relating to illegal connections. Dilapidated infrastructure. There are excessive water losses in the Municipality. The network is aging which contributes to high losses and service delivery interruptions.
Damaged, Faulty, By-passed or Missing Meters and Associated Losses	MLM is losing revenue due to unreachability of meters in certain areas. Bulk meters were not installed. No installed meters at some of the substations. Command reservoirs do not have bulk meters.	Loss of revenue. Incorrect measurement and billing leading to estimates. Ineffective monitoring of meters. Internal control deficiencies in implementing the process.
Poor Project Management	Delayed appointment of service providers. Litigation by service providers. Poor contract management. Project stoppages by communities. Late payments to service providers.	Lack of accountability and clear roles and responsibilities. Slow turnaround on SCM processes to conclude. No value for money assessments undertaken.

Focus Area	Brief Diagnostic Analysis	Effect on Sustainability
	Lack of monitoring of performance. Interventions by Provincial Government causing delays in implementation of capital projects.	

5.6 KEY FRP STRATEGIES PER PILLAR

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

PILLAR 1: GOVERNANCE		
FOCUS AREA	KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE)	KEY STRATEGIES: PHASE 2 (STABILISATION)
Governance Model (Council and Committees)	Escalate Councillor Political Interference to appropriate legislative structures.	Disciplinary Board to report on investigation of all reported allegations of financial misconduct.
System of Delegations	Develop process plan for the development of a system of delegations with clear deliverables and timeframes and identify responsible officials.	Review and approve delegations of powers and functions for implementation of supply chain management policy.
UIF&W and Consequence Management	Reports on progress towards reducing UIF&W expenditure to be tabled monthly to Council.	Implement Consequence Management for historical UIF&W and take steps to recover or rectify such expenditure and to prevent recurrence as prescribed by section 32 of the MFMA.
Audit Action Plans (Internal and External)	Develop and implement audit action plan.	Weekly audit steering committee to discuss the implementation of the audit action plan, implementation of audit action plan should be integral part of performance agreement of Senior Managers.
Risk Management	Risk management must be standing agenda item for all scheduled Management and Executive meetings.	Monitor and report on the implementation on risk mitigating measures that may have impact on implementation of financial

PILLAR 1: GOVERNANCE		
		recovery plan, audit action plan and other risks identified in the risk registers.
Powers and Functions	Re-negotiate mandate agreements.	Conduct an in-depth analysis of cost implications/ reductions.
Information and Communication Technology	Procure an integrated records management system compatible to cloud and financial system.	Review, develop and implement ICT general controls (policies and SOPs).
Auditor General Findings	Enforce the implementation of the audit action plan and get written commitment from HODs.	Internal Audit to provide risk ranking of audit findings and timelines for implementation to be reported bi-weekly and coordinate SMART implementation of the remedial plan.

PILLAR 2: INSTITUTIONAL		
FOCUS AREA	KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE)	KEY STRATEGIES: PHASE 2 (STABILISATION)
Operating Model	Review the organisational structure to ensure it is in line with the Operating Model, current municipal budget and service delivery demands.	Ensure that the reviewed organisational structure is aligned with the Operating Model.
Organisational Structure	Review the current organisational structure to ensure it is in line with the Operating Model, current municipal budget and service delivery demands.	Development and approval of the placement policy, process to be undertaken to place employees appropriately for full utilization in consultation with LLF.
Employee Costs	Conduct a Salaries benchmarking exercise to ensure employees are paid based according to the correct grading.	Control of payroll by planning for the acquisition of skills in line with cash flow improvements and service delivery requirements.
Management of Overtime	Conduct regular review and enforcement overtime policy in line with the Basic Conditions of Employment Act including adequate supervision.	Conduct quarterly monitoring of the implementation of the Overtime Policy by Department and perform an audit of the overtime per each Department.

PILLAR 2: INSTITUTIONAL		
Filling of Critical Vacant Positions	Fast track recruitment process for the Senior Management positions in accordance with the relevant legislative prescripts that have been vacant due to political and administrative instability.	Review the operating model and structure for the identification and filling of critical vacant positions.
Skills and Competencies	Verify competency levels of Senior and Middle Managers and Employees in the BTO in line with the Regulations on Minimum Competency Levels, 2007.	Conduct a skills audit using Department of Cooperative Governance Gap Skills tool.
Staff Discipline and Disciplinary Board	Finalise Disciplinary Board TORs.	Utilise Officials from other government departments, Municipalities and/ or SALGA database to conduct disciplinary cases on behalf of the Municipality.
Performance Management	Develop, adopt, and implement a Performance Management System.	Implement consequence management for non-performance.
Consequence Management	Develop and implement of Consequence Management Policy.	Conduct Workshops to communicate the Code of Conduct for staff and Councillors.
Key HR Policies	Review of the Overtime, Leave Management, HR Recruitment and Selection, Stand-by Policy, Acting Allowances, Travel and Subsistence and Bursary Policy.	Approval and Implementation of the policies.
Human Resources Plan	Assess the organisational structure against the organisational strategy to determine misplacements, duplications of functions, excesses, span of control.	Approval and implementation of the HR Plan.
Physical Verification of Staff and Qualifications	Conduct an employee head count and identify any ghost employees or employee's surplus to the organisation, on the payroll.	Implement an attendance register be it electronic or manual.
Records Management	Develop a file plan in accordance with the National and Provincial Archives Services guidelines.	Review of the Records Management structure to include Record Manager and appropriate capacity.

PILLAR 2: INSTITUTIONAL		
Change Management	Develop a change management strategy.	Sensitise employees and organised labour about the current financial state and the introduction of the FRP and implement change management strategy.

PILLAR 3: FINANCIAL HEALTH		
FOCUS AREA	KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE)	KEY STRATEGIES: PHASE 2 (STABILISATION)
Creditor Management/ ESKOM	Consider application for MFMA Circular No. 124 – Municipal Debt Relief through National Treasury.	Ensure monthly compliance with Circular No. 124.
Funded Budget and Budget Spending Limits	Prepare, approve, and implement a Budget Funding Plan for the MTREF period linked to the FRP strategies and financial targets.	Progress must be reported monthly and include targets as KPIs in performance plans.
Funded Budget Status – Capital Budget	Ensure unspent conditional grants are cash backed and are not being spent on operating expenditure.	Consequence management should be strengthened where SCM staff do not procure on time for invalid reasons.
Revenue Management	The previous cost of supply studies must be updated, and tariffs structures must be applied and implemented and for electricity NERSA's approval.	Conducting quarterly VR reconciliation with the billing system.
Cost-reflective Tariffs - Electricity Services	Conduct a cost of supply study reflective and introduce cost reflective tariffs considering affordability of consumers.	Forecast tariffs that align with the rate of growth of tariffs forecasted by ESKOM.
Cost-reflective Tariffs – Water Services	Conduct a Cost-of-supply study to inform cost-reflective tariffs.	Forecast tariffs that align with the rate of growth of tariffs forecasted by Rand Water and City of Tshwane.
Indigent Management	Implement the approved Indigent Household Policy and By-laws.	A quantitative cost benefit analysis should be carried out to determine the most financially optimal option for the verification

PILLAR 3: FINANCIAL HEALTH		
		of indigent household. This is essentially an evaluation of manual verification compared to obtaining a system.
Supply Chain Management Compliance and Value for Money Procurement	Consequence management policy to be incorporated in HR.	Adhere to SCM Policy and Regulations.
Financial Control Environment	Verification of all invoices before payment.	Review the progress of the audit action plan immediately after the issue of the audit report, provide practical action plan and track progress thereof.
***m*SCOA**	Establish a functioning *m*SCOA STEERCOM.	Review and update the *m*SCOA implementation strategy.
Cost Containment and Realistic Cash Flow Management	Revise and implement the Cost containment Policy in line with NT Municipal Cost Containment Regulations (2019).	Adopt an active cash management system to enable the Municipality to maintain sound liquidity.

PILLAR 4: SERVICE DELIVERY		
FOCUS AREA	KEY STRATEGIES: PHASE 1 (FINANCIAL RESCUE)	KEY STRATEGIES: PHASE 2 (STABILISATION)
Strategic Positions	Appointment of permanent senior management position in line with MFMA regulations in a no acting capacity to enable service delivery.	Ensure that all senior management positions remain held by permanent appointments.
Technical Systems	Conduct a system landscape analysis based on service delivery needs and integration requirements.	Undertake a data cleaning exercise focused on assets and implementation of the GIS system.
Policy and Planning	Develop the Spatial Development plan. Engage with ward councillors to identify non reported complaints.	Compile a GRAP and *m*SCOA compliant asset register.

PILLAR 4: SERVICE DELIVERY		
Electricity Tariffs	Engage with NERSA to understand if the previous cost of supply study was acceptable or not and the reasons thereto.	Adjust the tariffs in line with the approved cost of supply outcome considering affordability.
Metering	Review and revise the plans to implement smart technologies.	Install bulk smart meters for LPU customers for water and electricity.
Landfill	MLM to develop and implement landfill study.	Install weighbridges on landfill sites and collect revenue from users.
Water Quality	MLM to implement recommendations of the water quality audit report.	Implement the recommendations of the Blue Drop Report.
Asset Security	Review security contracts entered into to secure key community facilities.	Use technology to augment the security personnel such as alarm systems and camera monitoring systems with armed response.
Project Management	Introduce a monitoring mechanism to track project progress against spend, be a repository for project capitalisation purposes to assist in the capitalisation process.	Review expenditure on capital projects to ensure the funds received are spent in accordance with the given conditions.
Water Security	Accelerate the Brits WTW upgrade so secure the additional 20Ml/day to meet current demand.	Accelerate the Brits WTW upgrade so secure the additional 20Ml/day to meet current demand.
Plant and Fleet	A comprehensive needs analysis including cost benefit analysis on the maintenance costs and lease vs buy analysis should be implemented.	Review the current existing lease agreements and perform a cost benefit analysis on leasing versus buying.
Housing Delivery	Engage with the Tribal Authority to find alternative households for illegal occupants.	Continual engagement between the Northwest Housing department and MLM.
Community Facilities	Determine the condition of mechanical workshops to repair vehicles and equipment internally.	Ensure the Workshop equipped with basic tools and equipment and stock and is compliance with the OHS standards.

6. PART THREE – IMPLEMENTATION PHASES

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

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

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

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

6.1 RESCUE PHASE (6 -12 MONTHS)

The Rescue Phase (Phase 1) focuses primarily on cash and restoring the cash position of the Municipality. In this phase, the focus is primarily on cash and restoring the cash position of the Municipality. The indicators for rescue phase include a funded budget (or demonstrating that the Municipality is on a credible path to a funded budget), monitoring of the daily cash and cash balances, cost containment measures, focusing on improving the debtor's collection rate, the ring-fencing of conditional grants and ensuring that creditors are paid timeously and that negotiations are entered into to settle any outstanding debt.

There is some focus on service delivery and governance matters, however, these are limited to addressing the most visible and easy to resolve issues. However, as resources become available through better cash management, the collection of outstanding debt and the prioritisation of expenditure, service delivery issues can be addressed more comprehensively to secure the revenue base.

This is a short-term phase and is anticipated to last up to one year from the approval date of the FRP.

6.2 STABILISATION PHASE (13-24 MONTHS)

The Stabilisation Phase (Phase 2) expands on the financial indicators to be monitored and emphasises key governance and institutional issues which must simultaneously be addressed. The bulk of the recovery process takes place in the second phase of the recovery plan. This phase is referred to as the stabilisation phase. In this phase, a strong focus on cash, finances and financial management is still maintained but greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality, such as the design of a fit for purpose organogram, plans to address the repairs and maintenance and renewal of infrastructure for the water and electricity network through which the municipality loses significant revenues, ensuring that the property valuation roll is updated and that all customers are billed according and other similar measures.

This phase is expected to last between 13 to 24 months or longer depending on progress made by the Municipality.

6.3 SUSTAINABILITY PHASE (FROM 25 MONTHS ONWARDS)

The Sustainability Phase ensure that indicators are developed that will give effect to the long-term financial sustainability of the municipality. Phase 3 of the FRP precedes the exit of the Provincial Executive Representative. Prior to concluding the intervention, there must be a reasonable assurance that measures implemented in Phases 1 and 2 are sustainable, that the Municipality is committed to ensuring the implementation of good practice. In this phase, it is also important to include indicators that have an effect on the long-term financial sustainability of the municipality. These would be derived from the strategic development review of the municipality and the long-term financing strategy.

In each of the phases and each of the pillars, appropriate targets have been selected to guide the recovery process. These targets have been identified as most appropriate given the nature of issues confronting the municipality. These targets provide an indication of high-level outcomes that must be achieved but do not specify the steps to be taken or the methods to be used to achieve those outcomes. The choice of methods is at the discretion of the PER/MM and Senior Managers who will be monitored on the progress made in achieving the set targets.

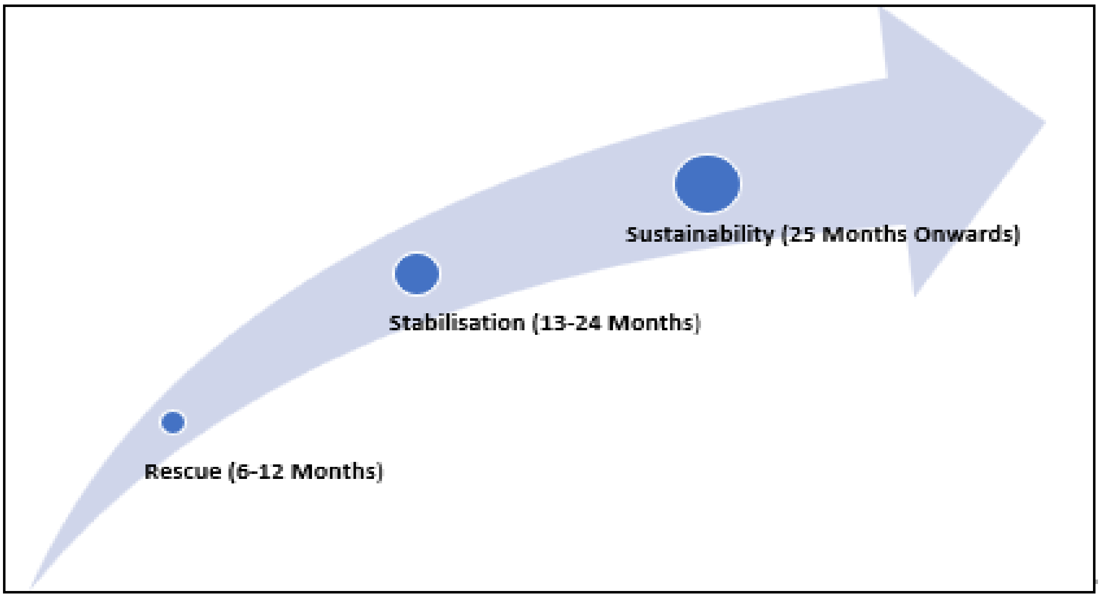

Figure 9 - FRP Development Phases

7. PART FOUR – REPORTING FRAMEWORK

7.1 REPORTING FRAMEWORK

The following approach to reporting and oversight will be required:

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

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

No	Report for the month OF	Report due from MM, Provincial Executive Representative ON	The report considered by Technical War Room ON	Considered by Political Oversight Committee ON (Combined meeting all NW mandatory FRPs)
1	July 2023	07 August 2023	11 August 2023	14 August 2023
2	August 2023	31 August 2023	08 September 2023	13 September 2023

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

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

(Example only for illustrative purposes)

PER FRP IMPLEMENTATION PLAN:	INFORMATION:
Phase	**Financial Rescue**
Pillar	**Service Delivery**
Key Activity	▪ Prioritise the development, financing, and implementation of a proper programme to address technical water losses. ▪ Properly determine the fundamental reasons for commercial water losses (i.e., non-payment) ▪ Develop a plan to address the reasons. ▪ Make key interventions to address the reasons.
Problem Statement	**42% water losses (technical and commercial)**
Responsible	**Technical Director**

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

8. CONCLUSION

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

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

It might be prudent to consider alternative measures combined with the financial recovery process such as an independent forensic investigations and involvement of the Hawks, and /or a nationally supported security measures to assist MLM in the short to medium term.

Remedial actions will not have the desired effect before Madibeng is cleansed of alleged fraud and corruption.

The FRP will be used to guide the Municipality and the management team in addressing the financial crisis and other challenges at MLM.

9. RECOMMENDATIONS

The following recommendations are made for consideration:

a) The Madibeng LM Mandatory 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 by the Office of the Premier supported by the HoD (PT) to provide for political oversight.

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

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

   i. **Strategic level being called the Stability and Sustainability Task Team:** A strategic and tactical team (40 % outsourced and 60% inhouse) to address the stabilisation and sustainability activities related to establishing a soundly governed municipality. This team will be operational for a period of three-years, whereafter the municipal leadership will take over the full responsibility.

   ii. **Operational and tactical level being called the Rescue Task Team:** A tactical and operational team (80% outsourced and 20% inhouse) to address the rescue activities within the municipality, namely the immediate and continuous provision of basic municipal services. This team will be operational for a period of three years, whereafter the capacitated municipal resources appointed through the Stability and Sustainability team will take over the full responsibility.

e) The North West Provincial Government commit to providing expert support for the implementing of the Madibeng FRP.

f) The North West Provincial Support Package for Madibeng LM be aligned with the priorities as set out in Phase 1: Financial Rescue of the FRP.

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

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

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

APPROVAL

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

"I Motlalepula Ziphora Rosho, Member of the Executive Council in the North West 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 has been followed and that the criteria contained in section 142 has been met".

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

Signed on this ____ day of June 2023 at Mahikeng, North West Province.

____

Motlalepula Ziphora Rosho

MEC of Finance

9.1 ANNEXURE A: FRP IMPLEMENTATION PLAN

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

a) Item number.

b) Focus area.

c) Current situation.

d) Key activities.

e) Responsible person.

f) Timeline (Rescue/Stability/Sustainability).

g) Measurable outcome/KPI.

h) PoE.

i) Financial impact.

j) Support required.

k) Start date.

l) End date.

m) Progress and reporting.

9.2 ANNEXURE B: UPDATED STATUS QUO ASSESSMENT REPORT