

**SECTION 139(5) MANDATORY INTERVENTION**

**FINANCIAL RECOVERY PLAN**

*Prepared for the*

**MAFUBE LOCAL MUNICIPALITY**

**AUGUST 2023**



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**ABBREVIATIONS**

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

<b>ABBREVIATION</b>	<b>DEFINITION</b>
<b>AG</b>	Audit General (South Africa)
<b>CFO</b>	Chief Financial Officer
<b>COGTA</b>	Cooperative Governance and Traditional Affairs
<b>MLM</b>	Mafube Local Municipality
<b>FRP</b>	Financial Recovery Plan
<b>ICT</b>	Information Communication and Technology
<b>IDP</b>	Integrated Development Plan
<b>SDBIP</b>	Service Delivery and Budget Implementation Plan
<b>MTREF</b>	Medium Term Revenue and Expenditure Framework
<b>MFRS</b>	Municipal Finance Recovery Service
<b>MM</b>	Municipal Manager
<b>MPAC</b>	Municipal Public Accounts Committee
<b>PEC</b>	Provincial Executive Committee
<b>PER</b>	Provincial Executive Representative
<b>SALGA</b>	South African Local Government Association
<b>EMC</b>	Electricity Management Contract
<b>RM</b>	Rural Maintenance (Pty) Ltd or Rural Maintenance Free State

## EXECUTIVE SUMMARY

Mafube Local Municipality (MLM) has been experiencing financial, governance and institutional problems thereby impacting negatively on service delivery for at least the past decade. The Free State Executive Council, on the 11<sup>th</sup> of May 2022, resolved to invoke Section 139 (5) (a) and (c) of the Constitution at Mafube Local Municipality pursuant to the Free State Division of the High Court Order.

In accordance with the Municipal Finance Management Act (MFMA) of 2003, a mandatory intervention requires the Municipal Finance Recovery Services Unit within the National Treasury to develop a financial recovery plan for the municipality. Consequently, in 2022, the Minister of Finance received a request from the MEC for Finance, under Section 144 of the MFMA, to prepare a mandatory financial recovery plan through the Municipal Financial Recovery Service (MFRS).

To gain a comprehensive understanding of the financial, institutional, and governance crises plaguing Mafube Local Municipality, the Municipal Finance Recovery Service conducted a diagnostic assessment, as mandated by Section 139 of the Municipal Finance Management Act. MLM satisfied the criteria of a municipality in a financial crisis, with one prominent reason being its failure to meet financial commitments and persistent breaches of obligations in providing basic services.

An analysis of the Creditors Age Analysis as of January 31, 2023, revealed MLM's failure to meet the creditor payment requirement of 30 days stipulated in Section 140(2)(a) of the MFMA. The total creditor balance as of the mentioned date amounted to R663,794,402.21. Notably, DWS emerged as the highest creditor with a balance of R472,560,975.48, followed by Rural Maintenance (R52,711,970.28), ESKOM (R57,489,402.75), Auditor General (R12,689,669.82), and Malanda Engineering & Construction (R11,613,205.15), among others. Moreover, MLM faced challenges in settling employee pension contributions, resulting in an inability to retire 40 employees due for retirement. The pension arrears amounted to R64,008,301.01 for MWRF Pension Fund and R104,647,350.72 for SALA. While the municipality-initiated payment arrangements with some creditors, it failed to honour them, leading to legal actions and court orders against the municipality. Additionally, SARS collected R23,085,797.22 from MLM for tax debts between July 2021 and the present, with interest expenses averaging R50 million over past financial years due to outstanding payments.

The financial viability of MLM's decision to outsource the sale of electricity to Rural Maintenance (Pty) Ltd (RM) for a meagre royalty of R24,494,102 from February 2012 to January 2023 raised concerns. The lack of validation regarding the contract's financial soundness prompted a recommendation for financial and technical due diligence to be initiated by the municipality.

Given the gravity of the situation, a mandatory intervention became imperative, leading to the development of this Financial Recovery Plan under section 142 except for section 142 (2) (b) of the MFMA. The plan aims to ensure MLM's ability to fulfil its obligations in providing basic services and meeting its financial commitments. It encompasses the identification of financial problems, the establishment of a sound and sustainable financial condition, and the definition of strategic objectives and means to achieve them. The plan further outlines specific strategies to address the municipality's financial issues, reduce unnecessary expenditures, and enhance revenue collection as required. Moreover, it identifies the necessary human and financial resources to resolve financial problems and specifies their proposed sources. The plan provides a time frame for financial recovery, and milestones to be achieved, and highlights the actions required for successful plan implementation, distinguishing between actions to be taken by the municipality and other parties involved.

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

The challenges faced by the municipality, budget parameters, reporting schedules, and the implementation plan are comprehensively detailed in the respective sections of the Financial Recovery Plan.

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

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

### **1.1 MUNICIPAL OVERVIEW**

Mafube Local Municipality is a municipality with an area covering 460432.7 ha of which 65.8% has remained natural habitat. Frankfort, Villiers, Cornelia and Tweeling are the towns that makes up the municipality. MLM is a category B municipality and is one of the local municipalities in the Fezile Dabi District Municipality in Free State Province. MLM was demarcated into 9 wards. The municipal council has 17 members elected by mixed-member proportional representation. Nine councillors are elected by first-past-the-post voting in the said nine wards, while the remaining eight are chosen from party lists so that the total number of party representatives is proportional to the number of votes received.

The population of the municipality was 57 574 in terms of the 2016 community survey conducted by Statistics South Africa. 64.1 % of the total population relates to youth (0 – 34 years). In comparison with the 2011 census the population declined slightly by 0.12% from 57 876 per 2011 census to 57 574 in 2016. Despite a slight decline in the population, the municipality is still under significant pressure to provide adequate service delivery to its residents.

The municipality is a Water Service Authority (WSA) and Water Service Provider (WSP) and supplies drinking water to the community using water purified from 3 treatment plants with a total design capacity of 27 Ml/d. The status currently is that electricity is outsourced to Rural Maintenance (Pty) Ltd Free State which manages and maintains the electricity networks for Ward 1, 3, 4, 5, 8, 9 and Part of ward 7. ESKOM supplies electricity to ward 2, 6 and part of ward 7. Energy capacity limitation has proven to have a negative impact on the economic development in MLM and in South Africa as whole. Development of Energy Master Plan should be prioritised to allow proper planning, and growth of the economy.

### **1.2 STATUTORY AND LEGISLATIVE CONTEXT**

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

The intervention was instituted in terms of S139 (4) and (5) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) per the High Court order, as read with sections 139, 140 and 146 to 149 of the LGMFMA.

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

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

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

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

Chapter 13 of the MFMA deals with the resolution of financial problems in municipalities and outlines the processes that must be followed in terms of mandatory interventions invoked in terms of S139(5) of the Constitution.

- 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 a financial recovery plan, which considers the reasons for the financial crisis and an assessment of the municipality's financial status (status quo assessment).
- Only the MFRS may prepare a financial recovery plan for a mandatory provincial intervention referred to in S139.
- 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 recovery plan.
- In terms of S139(1)(b), the mayor of the municipality must be consulted on the recovery plan to obtain cooperation (political support) for the implementation and ensure that the budget and any other legislative measures to support the implementation of the recovery plan are approved.

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

S142 (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.
- (b) May –
- i. provide for the liquidation of specific assets, excluding those needed for the provision of the minimum level of basic municipal services;
  - ii. provide for debt restructuring or debt relief in accordance with Part 3 of this Chapter;
  - iii. provide for special measures to prevent unauthorised, irregular, and fruitless and wasteful expenditures and other losses; and
  - iv. identify any actual and potential revenue sources.

Section 142 (2) (a) 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 financial recovery plan in mandatory provincial interventions, the municipality's attention is drawn to the following provisions of S146 of the MFMA.

S146 (1), 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.

S146 (2) The financial recovery plan 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, but only to the extent necessary to achieve the objectives of the recovery plan.

S146 (3) The provincial executive must in terms of section 139(5)(b) of the Constitution either-

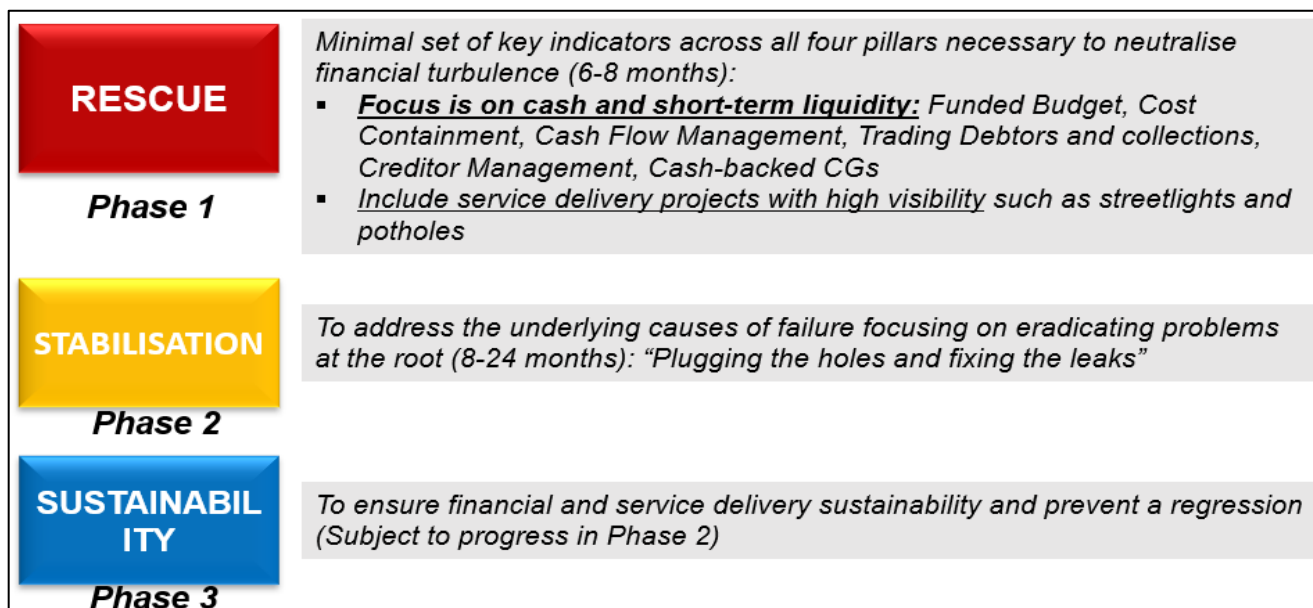
- a) dissolve the council of the municipality, if the municipality cannot or does not approve legislative measures, including a budget or any revenue-raising measures, necessary to give effect to the recovery plan within the time frames specified in the plan and-
  - (i) appoint an administrator until a newly elected council has been declared elected;
  - (ii) approve a temporary budget and revenue-raising measures, and other measures to give effect to the recovery plan and to provide for the continued functioning of the municipality; or
- (b) assume responsibility for the implementation of the recovery plan to the extent that the municipality cannot or does not take executive measures to 25 give effect to the recovery plan

Section 146 (4) Sections 34(3) and (4) and 35 of the Municipal Structures Act apply when a provincial executive dissolves a municipal council in terms of section 139(5)(b) (i) of the Constitution.

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

#### **1.3.1 IMPLEMENTATION PHASES**

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



### 1.3.2 Phase 1 – Rescue Phase

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

The indicators for the rescue phase include existence of policies and strategies to enhance revenue, instilling good practices for revenue management, adoption of a funded budget, monitoring of the daily cash and cash balances, application of cost containment measures, focusing on cleansing the billing system, ring-fencing of conditional grants, improving the utilisation of grant funding as well as entering into payment arrangements with creditors. Some focus is placed on service delivery, governance, and institutional matters; however, they are limited to addressing the most visible and critical issues, with an attempt to ensure that the situations does not deteriorate further.

As the billing is cleansed this will allow the municipality to correctly bill its customers and improve on service delivery. In addition, the availability of Standard Operating Procedures as well as council approved policies will improve the way the municipality runs its business, revenue collection and cost containment.

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

### 1.3.3 Phase 2: Stabilisation Phase

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 are still maintained with a greater attention placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality. These include monitoring of the implementation of the approved and costed organogram; implementation of service delivery sector plans, by-laws, and policies; curbing illegal connections; refurbishment of infrastructure; replacement of ageing infrastructure; and repayment of creditors.

It is imperative that all the recurring strategies from the Rescue Phase are monitored to prevent regression.

This phase is expected to last between twelve (12) to twenty-four (24) months or longer depending on the progress made by the municipality.

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

There must be a reasonable assurance that measures implemented in Phases 1 and 2 are sustainable and that the municipality is committed to ensuring the implementation of good practice prior to concluding the intervention. In this phase, it is also important to include indicators that give 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 indicate 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.

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

### **PREPARATION**

A wholistic processes was followed in the preparation of this mandatory financial recovery plan as guided by section 142 of the MFMA. Firstly, a Status Quo Assessment was performed which involved a brief diagnostic assessment, identification of the key findings that resulted in the municipality being in financial crisis, their root causes thereof and the strategies to resolve were proposed. An Implementation Plan (refer to Annexure A) was developed for all the three phases which are Rescue Phase, Stabilisation Phase and Sustainability Phase. Furthermore, a financial modelling was developed setting spending limits, budget parameters, as well as proposing strategic revenue raising measures. A financial recovery plan was therefore developed to improve the financial viability of the municipality.

Consultations with the municipality, stakeholders, creditors, organised labour were done throughout the process in line with the MFMA requirements.

## **CONSULTATION**

The preparation of the Financial Recovery Plan involved initial discussions among key stakeholders, including the National Treasury's Municipal Financial Recovery Service (MFRS), the Provincial Treasury, the Department of Cooperative Governance and Traditional Affairs (CoGTA), the South African Local Government Association (SALGA), and the Municipal Infrastructure Support Agent (MISA). These discussions laid the foundation for the subsequent planning process.

On the 8th of February 2023, an introductory workshop was conducted with the municipality to initiate the development of the plan. This workshop provided an opportunity for stakeholders to come together and align their objectives and strategies.

Subsequently, workstream meetings were held on the 10th of March 2023 and the 29th of May 2023, involving the municipality and various stakeholders. These meetings served as collaborative platforms to discuss and refine the aspects and contents of the financial recovery plan.

To ensure comprehensive stakeholder involvement, consultation sessions were conducted on the 5th of April 2023, the 12th of April 2023, and the 29th of May 2023. These sessions engaged major creditors, suppliers, and labour representatives, providing them with detailed information about the mandatory intervention. During these consultations, a draft financial recovery plan was presented, and stakeholders were encouraged to provide written comments within a 14-day period. Their valuable insights and feedback were then carefully considered and incorporated into the plan's final version.

A consultative meeting was proposed with both MEC for Finance and CoGTA whereafter the two MECs indicated in writing that they are satisfied with the preparation of the Financial Recovery Plan including its contents and deemed it not necessary to have a formal consultative meeting.

Furthermore, the municipal council was actively engaged on the 5th of April 2023 and 29th of May 2023. These engagements aimed to gather the council's insights and perspectives on the plan. All contributions from the municipal council were taken into account during the finalization of the Financial Recovery Plan.

By involving key stakeholders, conducting consultation sessions, and engaging the municipal council, the Financial Recovery Plan was enriched with diverse perspectives and expertise. This collaborative approach ensured that the final plan was comprehensive and well informed.

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

The Provincial EXCO has exercised its rights in terms of S139(5)(c) of the Constitution and assumed the responsibility for the implementation of the financial recovery plan. The Provincial EXCO has appointed a Provincial Executive Representative (PER) to give effect to the assumption of responsibilities to implement the financial recovery plan.

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

It is therefore crucial to note that the strategies in this financial recovery plan must be institutionalised and performed as part of the daily control activities by the municipal employees. All employees whether in acting, contractual or permanent capacity **must** be assigned roles and responsibilities to execute towards the success of this plan.

In addition, the municipality is **required** in terms of S146(1)(c) to report monthly to the MEC for Finance on the implementation of the financial recovery plan. The reporting to the Provincial Executive will be done by the appointed provincial Exco Representative through the MEC for Finance.

The **financial resources** required to support the implementation of the Plan, will be realised through adopting of a funded budget, implementation of revenue collection strategies and or revenue enhancement initiatives, reduction of expenditure through implementation of cost containment measures, and preventing filling of non-critical positions.

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

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

The Political Oversight Committee will consist of the following representatives:

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

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

- a. The HOD: Finance, Free State (Chairperson).
- b. The HOD: CoGTA, Free State.
- c. The Provincial Commissioner of Police.
- d. Provincial Treasury.
- e. Cogta.
- f. Head: NT MFRS and advisors.
- g. The Provincial Executive Representative (PER).
- h. The Municipal Manager and his/her senior managers.
- i. Representatives from the sector to be co-opted, as and when necessary.

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

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

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

### **Pillar 1 Governance:**

- Council resolutions not being implemented resulting in poor service delivery.
- Ineffective oversight committees.

- Inadequate systems of delegation that impact on governance, administration, and operational efficiency.
- Persistent failure to honour financial commitments.
- Lack of consequence management.
- Risk of unforeseen litigations due to poor systems of internal controls over Contract Management.
- Community and stakeholders resistance as evidenced by Mafube Business Forum vs MLM and low collection rates.
- High levels of UIF&W expenditure.
- Loss of important information due to the use of unlicensed softwares.
- Lack of continuity due to overreliance on Service Providers work.

**Pillar 2 Institutional and Human Resources:**

- Filling of positions in the organisational structure not being informed by need and budget.
- Lack of adequate oversight over workforce discipline.
- Excessive employee related costs resulting in worsened financial constraints.
- Noncompliance with Human Resource policies.
- Lack of adequate skills and competences.
- Internal and external stakeholders might resistance to change.

**Pillar 3 Financial Management:**

- Rise in interest costs as well as fruitless and wasteful expenditure due to late creditors payments.
- Failure to agree payment plans with major creditors.
- Loss of revenue because of low collection rates resulting in an excessive increase in the debtors book.
- Not applying cost-containment measures resulting in excessive expenditure.
- Inability to apply revenue enhancement strategies.
- Lack of consequence management over UIF&W expenditure.
- Not implementing systems of internal controls over the financial environment.



**Pillar 4 Service Delivery:**

- Increase in lawsuits and protests due to poor service delivery.
- Service delivery backlogs
- Loss of grant funding due to breach of grant conditions.
- Inability to replace aged infrastructure.
- Lack of adequate infrastructure maintenance.
- Failure to control water losses.
- Inability to procure the services of Contractors due to non-responses because of creditors accounts being in arrears.

**1.8 COMMUNICATION PLAN FOR DEVELOPING 2023 FRP**

It is proposed that the Provincial Executive Representative 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. This plan needs to be executed in the context of a change management process.

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

### **2.1 STATUS QUO ASSESSMENT**

In developing this status quo assessment report, various information sources were used that vary from physical documents to the internet and interviews were conducted with key management of the municipality. The information received or obtained corroborated the evidence obtained. The following source documents were utilised; but not limited to:

- Audit reports by the Auditor-General of South Africa 2020/21 and 2021/22;
- Annual reports 2020/21 and 2021/22;
- Medium Term Revenue and Expenditure Framework (MTREF) Budget assessment;
- Service Delivery and Budget Implementation Plan 2022/23;
- Integrated Development Plan 2022 - 2027;
- Financial Ratios in accordance with MFMA Circular 71;
- Annual Financial Statements 2021/22;
- Municipal Fixed Asset Register;
- The Municipal Website;
- Council Resolutions;
- Minutes of Council meetings and Portfolio Committee; and
- Various municipal documents such as reports, policies, procedures, etcetera.

### **2.2 KEY ISSUES IDENTIFIED**

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

- a) Governance

- b) Institutional stability and capability
- c) Financial health
- d) Service Delivery

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

### 2.2.1 GOVERNANCE PILLAR

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

Focus Area	Findings
<b>Governance Model</b>	<ul style="list-style-type: none"> <li>• Inadequate oversight role by Council over the implementation of the audit action plan.</li> <li>• Reports are not submitted on time to the various committees to effectively perform their oversight functions.</li> <li>• Delays in investigating UIF&amp;W expenditure and there is inadequate consequence management.</li> <li>• Some Council resolutions are not being implemented.</li> <li>• The municipality does not have its own Disciplinary Board to handle disciplinary matters.</li> <li>• Community concerns are not being addressed timely resulting in poor service delivery. There is no Stakeholder Engagement Strategy. This has a negative impact on the municipality's ability to collect outstanding debts as the customers will be reluctant to settle their dues.</li> <li>• Non-payment for services by Councillors impacts on the integrity of the municipality's governance as residents will follow the councillors' lead and not pay for services resulting in loss of revenue.</li> </ul>
<b>Powers and functions</b>	<ul style="list-style-type: none"> <li>• The municipality has not been able to perform its powers and functions due to financial constraints thereby compromising service delivery (Water and Sanitation services, maintenance of municipal roads, electricity).</li> <li>• There are no services that are provided by the municipality in terms of a mandate agreement.</li> </ul>
<b>Political/Administrative</b>	<ul style="list-style-type: none"> <li>• There is no indication that council resolutions are implemented.</li> </ul>

Focus Area	Findings
<b>Interface</b>	<ul style="list-style-type: none"> <li>• The resolutions are critical as some relates to the financial affairs of the municipality and some relates to service delivery.</li> <li>• Mafube Business Forum and other civic organisations are mobilising the community against paying for municipal services rendered.</li> <li>• All statutory reports were approved in line with the MFMA calendar.</li> <li>• Municipal departments are not fully functional thereby impacting service delivery.</li> </ul>
<b>Contract management</b>	<ul style="list-style-type: none"> <li>• Badly drafted contracts, drafted without considering the timeframe within which the municipality requires the goods or services.</li> <li>• Contract Management Committee not in place</li> <li>• Extension of contracts and overpaying the contracted value without following proper SCM processes and leading to increased irregular expenditure.</li> <li>• There are no processes for contract performance monitoring and reporting.</li> <li>• Evergreen contracts (Vodacom, AONSA, MTN, SAGE VIP, Konica Minolta)</li> <li>• Lack of a Contract Management Policy Framework</li> <li>• Contracts were awarded through a competitive bidding process that were not adjudicated by the bid adjudication committee - due process.</li> <li>• MLM does not derive value for money on the Electricity Management Contract with Rural Maintenance (Pty) Ltd.</li> <li>• Inadequate monitoring of the Electricity Management Contract (EMC) with Rural Maintenance, as errors are not identified and rectified timely.</li> <li>• The supply agreement with ESKOM is in the name of MLM; however, per clause 4.4.1 of the EMC, the obligation to pay the ESKOM Bulk Purchases is that of Rural Maintenance.</li> </ul>
<b>Litigations and contingent liabilities</b>	<ul style="list-style-type: none"> <li>• Contingencies amounted to R31 507 009 in both FY2020/21 and FY2021/22.</li> <li>• Completeness of contingencies is compromised resulting in unforeseen lawsuits.</li> <li>• Poor litigations document management.</li> <li>• The municipality's bank accounts were attached due to nonpayment of creditors.</li> <li>• MLM is unable to pay its creditors and employees due to bank accounts having been attached.</li> <li>• Rising litigations against the municipality over the past years.</li> </ul>

Focus Area	Findings
<b>System of Delegations</b>	<ul style="list-style-type: none"> <li>• System of delegations reviewed and approved in January 2023.</li> <li>• No further sub delegations beyond level of s56/57 reporting to the Municipal Manager.</li> <li>• No systems of delegation register in place.</li> </ul>
<b>By-laws and enforcement</b>	<ul style="list-style-type: none"> <li>• Loss of revenue due to lack of bylaws enforcement.</li> <li>• There are no financial by-laws that were approved and adopted to support budget implementation for the FY2023/24.</li> </ul>
<b>UIF&amp;W and consequence management</b>	<ul style="list-style-type: none"> <li>• UIF&amp;W post 2017/18 have not been investigated.</li> <li>• MPAC recommended write off of historical UIF&amp;W expenditure from 2011/12 to FY2017/18 amounting to R2 233 543 103.06 without holding officials accountable per S32 of the MFMA.</li> <li>• There is overspending on budget exposing the municipality to financial losses.</li> <li>• Non-compliance with SCM regulations and policies. The main findings identified were failure to obtain required price quotations, accepting written quotations from or contracting with non-tax compliant service providers amongst others.</li> <li>• Lack of consequence management.</li> <li>• UIF&amp;W expenditure remains high showing an increase of 29% from R1 296 687 808.00 in the FY2020/21 to R 1 672 665 132.00 in the FY2021/22.</li> <li>• UIF&amp;W expenditure continues to increase despite having a UIF&amp;W Reduction Plan.</li> <li>• The municipality does not monitor the implementation of the UIF&amp;W Reduction Plan.</li> <li>• There is no evidence that was received to substantiate that quarterly and reports were submitted to the Mayor and council respectively.</li> </ul>
<b>Audit action plans (internal and external)</b>	<ul style="list-style-type: none"> <li>• Disclaimer of opinions for the FY2016/17 and FY2017/18.</li> <li>• Qualified audit opinions for the past three (3) years up to and including the FY2021/22.</li> <li>• There is an improvement on the audit outcome but room for improvement to unqualified audit opinion.</li> <li>• No evidence to confirm that PAAP implementation progress was reported to audit committee and council quarterly.</li> <li>• There is possible repeat of findings as some of the compliance matters and internal controls deficiencies persist.</li> <li>• Poor record management system resulting in limitation of scope findings.</li> </ul>

Focus Area	Findings
	<ul style="list-style-type: none"> <li>• Annual financial statements prepared by the municipality were not reviewed by APC which makes them susceptible to material misstatements and possible repeated audit findings.</li> <li>• Reliance on consultants during reporting circle with limited skills transfer to BTO.</li> <li>• Auditor General audit findings are not fully addressed prior to the next audit and there are no regular updates to Council on PAAP progress.</li> <li>• Lack of an Audit Steering Committee.</li> </ul>
<p><b>Internal Audit and Risk Management</b></p>	<ul style="list-style-type: none"> <li>• Lack of formalized Standard Operating Procedures (SOPS) for Risk Management.</li> <li>• Delays in the approval of FY2022/23 Risk Management Framework documents (policies and strategies).</li> <li>• No evidence of PAAP having been submitted to council.</li> <li>• Inadequate Implementation of risk and internal audit strategies and plans.</li> <li>• Poor internal Control Environment.</li> <li>• Material non-compliance with legislation.</li> <li>• Failure in implementing risk management mitigation plan</li> </ul>
<p><b>Information &amp; Communications Technology</b></p>	<ul style="list-style-type: none"> <li>• No ICT Steering committee.</li> <li>• Actions to guard against unforeseen accidents and damages to municipality infrastructure are not being practised.</li> <li>• Usage of unlicensed softwares (MS Office, Windows, Anti-Virus and other related sever softwares)</li> <li>• Shortage of ICT equipment due to aged infrastructure and lack of adequate infrastructure maintenance.</li> <li>• ICT governance reports not presented before Audit and Performance Committee as of December 2022.</li> <li>• Lack of business continuity and disaster recovery plans</li> <li>• The council did not approve the ICT Governance Framework.</li> </ul>
<p><b>Immovable property management</b></p>	<ul style="list-style-type: none"> <li>• MLM has one block of flats in Tweeling and plots in Frankfort, Villiers, Cornelia as well as Tweeling.</li> <li>• Lack of an Asset Management System to record immovable assets.</li> <li>• Overreliance on the consultant's Asset Management System.</li> <li>• Loss of revenue due to non-market related rentals.</li> <li>• Uncertainty concerning status of some municipal land.</li> <li>• No Policy on Land Alienation is in place.</li> </ul>

## 2.2.2 INSTITUTIONAL/ORGANISATIONAL/HUMAN RESOURCES

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

Focus Area	Findings
<b>Organizational structure and operating model</b>	<ul style="list-style-type: none"> <li>• The approved organogram is not implemented due to financial constraints.</li> <li>• There are employees appointed outside the old Organisational Structure.</li> <li>• Job evaluations, and job descriptions were not reviewed and evaluated.</li> <li>• Job gradings were not performed resulting in employees of the same level being remunerated differently.</li> <li>• Delays in filling of critical vacancies.</li> <li>• No organogram implementation plan.</li> <li>• High vacancy rate in senior management positions.</li> </ul>
<b>Overtime Management</b>	<ul style="list-style-type: none"> <li>• Failure to enforce overtime policy.</li> <li>• Abuse of overtime (26.07% increase between FY2021 and FY2022) and other employee related allowances (15.28% increase between FY2021 and FY2022).</li> <li>• No monthly overtime budgets prepared by departments.</li> <li>• Overtime and other related allowances are not reviewed and approved on time.</li> <li>• No adhoc overtime and other related allowances audits performed by Internal Audit resulting in these benefits being received by employees based on favouritism.</li> </ul>
<b>Employee cost</b>	<ul style="list-style-type: none"> <li>• Remuneration of Councillors and Employee Related Costs as a % of Total Operating Expenditure was within the norm of (25% - 40%) in the FY 2020/21 at 26% and in the FY2021/22 at 25%.</li> <li>• Increased financial burden due to increases in salaries of employees of 4.9%.</li> <li>• Increase in positions which when filled will result in increased payroll.</li> <li>• The organisational structure is bloated.</li> </ul>
<b>Labour relations</b>	<ul style="list-style-type: none"> <li>• Local Labour Forum is meeting however there are no resolutions being taken due to lack of coordination between members.</li> </ul>

Focus Area	Findings
	<ul style="list-style-type: none"> <li>• Employees were not workshopped on the Code of Conduct, Disciplinary Code, Grievance Procedure and SOP.</li> <li>• Employee were on strike during the month of June 2023 due to nonpayment of May 2023 salaries.</li> </ul>
<b>Skills &amp; competencies</b>	<ul style="list-style-type: none"> <li>• Limited capacity and skills.</li> <li>• MLM did not follow up on the outstanding skills questionnaires.</li> <li>• Some employees are not willing to develop.</li> <li>• No Competence Assessment Policy in place.</li> <li>• Competence testing not cascaded to all employees.</li> <li>• Most of the senior managers at the municipality falls below the unit standards for the positions they are holding: Municipal Manager by 3 points; Middle Manager: Finance by 6 points; CFO Municipality by 1 point; and SCM Manager = 6 points.</li> <li>• Skills audits were done in the FY2022/23; however, 63 employees returned the questionnaire.</li> <li>• No random skills surveys done.</li> </ul>
<b>Staff Discipline and disciplinary board</b>	<ul style="list-style-type: none"> <li>• No in-house capacity to handle disciplinary matters.</li> <li>• High rate of disregard for work procedures and respect for work protocols.</li> <li>• No established Disciplinary board.</li> <li>• No internal systems of internal controls to address disciplinary matters.</li> <li>• Ill-discipline from employees.</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>• A Performance Management Policy is in place; however, it was last reviewed and approved in 2016.</li> <li>• Nothing has been done to prepare for performance reviews to all employees in line with the Municipal Staff Regulations.</li> <li>• Performance reviews are not cascaded to all employees.</li> <li>• No consequence management in terms of poor performance.</li> <li>• Nothing has been done to prepare for performance reviews to all employees.</li> </ul>
<b>Consequence Management</b>	<ul style="list-style-type: none"> <li>• Consequence management is not institutionalised.</li> <li>• No financial misconduct board.</li> </ul>
<b>Key HR Policies</b>	<ul style="list-style-type: none"> <li>• Due to the fluxion of time policies are outdated and does not incorporate changes in the laws and regulations.</li> <li>• Managers and employees were not workshopped on HR related policies.</li> </ul>
<b>HR Strategy</b>	<ul style="list-style-type: none"> <li>• Lack of alignment of Human resources with the municipality's values and overall strategies.</li> </ul>



Focus Area	Findings
	<ul style="list-style-type: none"> <li>• Lack of management oversight.</li> <li>• Lack of Skills Development Strategy</li> </ul>
<b>Physical Verification of staff and qualifications</b>	<ul style="list-style-type: none"> <li>• No regular verification of employees against payroll.</li> <li>• Employees' qualifications are not verified to determine their validity.</li> <li>• No background checks are performed on employees.</li> </ul>
<b>Records Management</b>	<ul style="list-style-type: none"> <li>• Limitations of scope from AG.</li> <li>• No proper filing systems in place.</li> <li>• Loss of important information due to inadequate backup.</li> <li>• Poor document management as minutes were not furnished for review.</li> </ul>

### 2.2.3 FINANCIAL MANAGEMENT

#### Budget Management (Funding Status, Policies, etc.)

Mafube Local Municipality (MLM) has been operating an unfunded budget for the past 5 years. Provincial Treasury assessed Mafube Local Municipality's 2022/23 MTREF Budget and concluded that it is unfunded. This is mainly due to the following:

- The tabled budget data strings are not aligned with the budget. This indicates that the budget was not generated from the core financial system.
- The budget reflected an operating surplus over MTREF period of (R60.3 million for the 2022/23 financial year), (R67.3 million for 2023/24) and (R1 million for 2024/25) which was not a true reflection of the municipality's operating MTREF outlook.
- Capital projects were predicted to be funded with R17.4 million; however, given the sources of revenue for the municipality there is a low probability of realisation. Per inspection of financial statements for the FY2021/22, the municipality's actual revenue from exchange transactions is R112 306 200 versus actual expenditure of R454 000 601. Own revenue as a percentage of total expenditure is sitting at 24.74%. This indicates that the municipality is over reliant on grant funding as compared to its own revenue.
- Low collection rate.

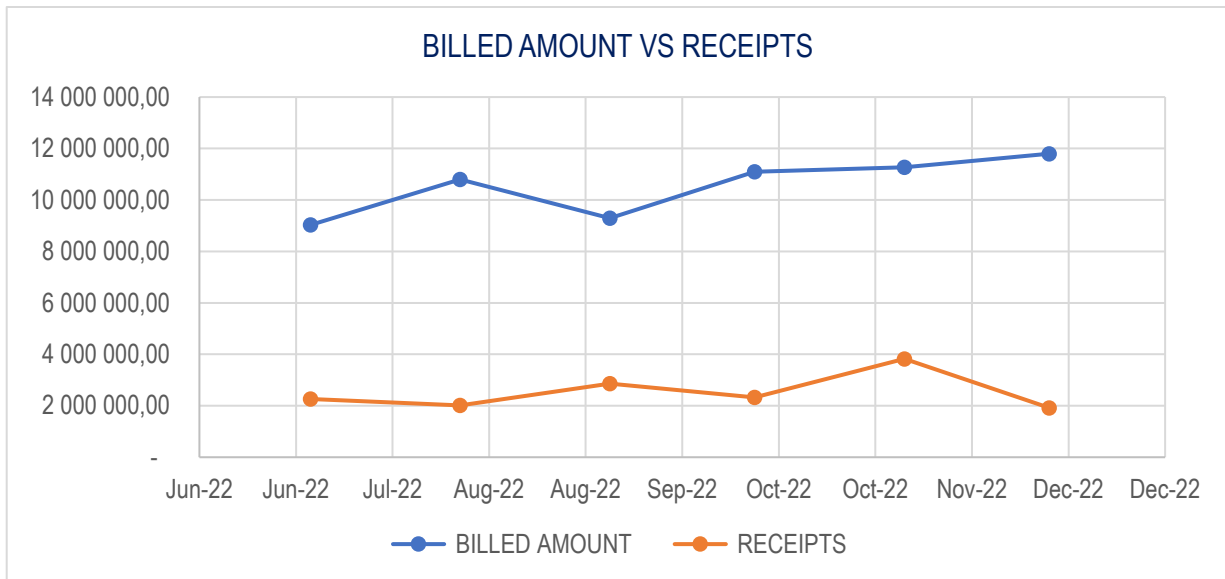
Per analysis of the Annual Budget Performance as of December 2022, it indicates that the municipality has been spending within budget. However, per analysis of the FY2021/22 audited outcome the municipality had a deficit of R200 337 000. The deficit as a percentage of revenue was 83.52%. The credibility of the budget prepared for the municipality is therefore concerning.

## Financial Recovery Plan for Mafube Local Municipality

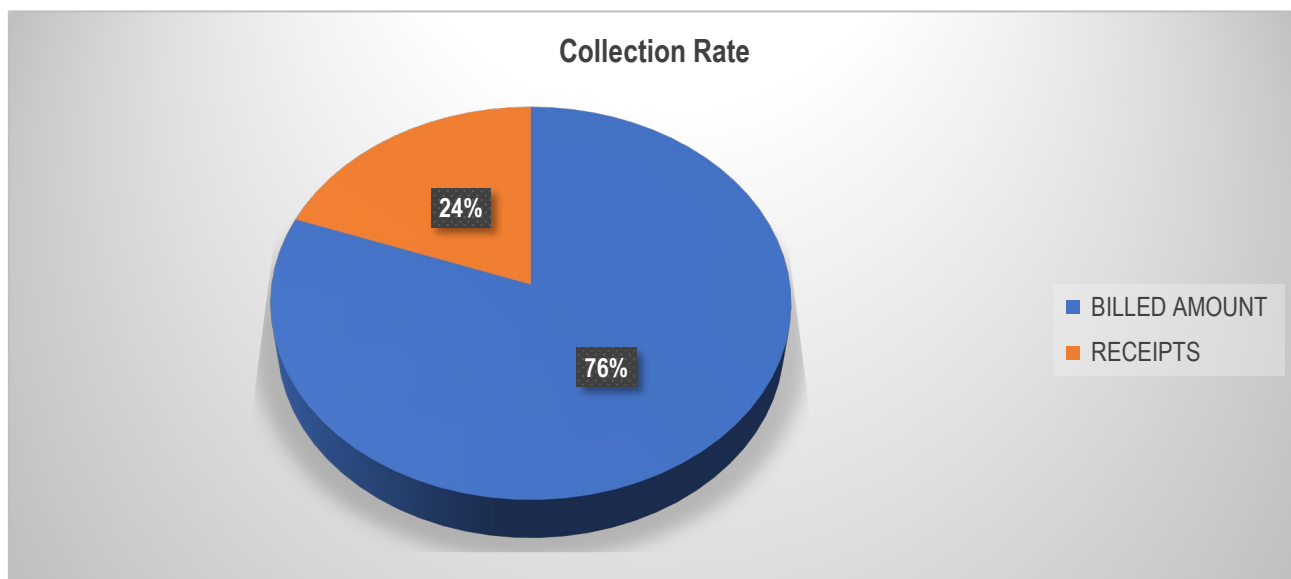
FS205 Mafube - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December										
Description	Ref	2021/22	Budget Year 2022/23							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands										
<b>Revenue By Source</b>										
Property rates		21 661	30 335	30 335	1 545	13 666	15 167	(1 502)	-10%	30 335
Service charges - electricity revenue		0	3 530	3 530	-	0	1 765	(1 765)	-100%	3 530
Service charges - water revenue		32 518	39 227	39 227	5 461	22 352	19 614	2 738	-14%	39 227
Service charges - sanitation revenue		22 277	44 749	44 749	1 276	8 304	22 374	(14 071)	-63%	44 749
Service charges - refuse revenue		16 742	18 286	18 286	1 364	8 175	9 143	(968)	-11%	18 286
Rental of facilities and equipment		1 966	673	673	29	172	337	(169)	-49%	673
Interest earned - external investments		540	1 068	1 068	0	40	534	(494)	-93%	1 068
Interest earned - outstanding debtors		39 632	20 792	20 792	5 021	28 630	10 396	18 234	175%	20 792
Dividends received		-	3 456	3 456	-	-	1 728	(1 728)	-100%	3 456
Fines, penalties and forfeits		61	-	-	-	72	-	72	#DIV/0!	-
Transfers and subsidies		101 019	122 003	122 003	21 302	67 958	61 001	6 956	11%	122 003
Other revenue		3 456	2 010	2 010	1 064	1 570	1 005	566	56%	2 010
<b>Total Revenue</b>		<b>239 874</b>	<b>286 129</b>	<b>286 129</b>	<b>37 062</b>	<b>150 937</b>	<b>143 064</b>	<b>7 873</b>	<b>6%</b>	<b>286 129</b>
<b>Expenditure By Type</b>										
Employee related costs		102 297	130 593	130 593	8 602	51 327	65 297	(13 970)	-21%	130 593
Remuneration of councillors		6 247	11 399	11 399	505	3 198	5 700	(2 501)	-44%	11 399
Debt impairment		134 229	8 663	8 663	271	2 283	4 332	(2 049)	-47%	8 663
Depreciation & asset impairment		29 118	19 268	19 268	-	-	9 634	(9 634)	-100%	19 268
Finance charges		54 172	17 290	17 290	59	78	8 645	(8 567)	-99%	17 290
Bulk purchases - electricity		14 540	5 000	5 000	-	43	2 500	(2 457)	-98%	5 000
Inventory consumed		39 890	20 783	20 783	1 309	3 708	10 392	(6 684)	-64%	20 783
Contracted services		21 067	25 873	25 873	2 282	4 020	12 936	(8 916)	-69%	25 873
Transfers and subsidies		659	4 019	4 019	-	9	2 009	(2 000)	-100%	4 019
Other expenditure		37 942	40 694	40 694	2 561	9 195	20 347	(11 152)	-55%	40 694
Losses		49	500	500	-	-	250	(250)	-100%	500
<b>Total Expenditure</b>		<b>440 211</b>	<b>284 082</b>	<b>284 082</b>	<b>15 590</b>	<b>73 861</b>	<b>142 041</b>	<b>(68 180)</b>	<b>-48%</b>	<b>284 082</b>
<b>Surplus/(Deficit)</b>		<b>(200 337)</b>	<b>2 047</b>	<b>2 047</b>	<b>21 473</b>	<b>77 076</b>	<b>1 023</b>	<b>76 053</b>	<b>0</b>	<b>2 047</b>

### Revenue management

There are poor revenue management and debtors management systems of internal controls. The municipality has been unable to collect from what it billed customers. As illustrated below, receipts from customers remained below the billed amounts for all the periods. Billed amount showed an increase momentum from October 2022 to December 2023. All the receipts gains in the month of November 2023 were outweighed by a sharp decline in the month of December 2023.



The collection rate for the first half of the FY2022/23 has remained below the norm of 95% consistent with prior years.



MLM utilises reading estimates resulting in billing inconsistencies. Billing estimates are as a result of broken meters as well as customers not granting meter readers access to their properties. In addition, the municipality is not billing some customers based on the approved budget tariffs resulting in the municipality losing revenue. Revenue is further lost due to not enforcing bylaws.

Customers are currently disputing billed property rates due to the billing system not having been cleansed to align market values to the Valuation Roll, supplementary valuation roll or appeals and objections.

The municipality had a debtors' book of R 861 725 443.10 as at 31 Jan 2023 excluding debtors with credit balances of R5 349 607.01. 95.45% of its debtors are in the 90 + days category. 66.54% debtors balance is in 3+ years category, 16.80% is in 2-years and 6.26% is in 1-years. Applying the period of prescription, the municipality is at risk of not being able to collect 66.54% of its debt. There have been service delivery protests from the community over poor refuse collection, poor road maintenance as well as poor water quality which contributes to customers' reluctance to settle their bills.

### Cash Flow Management

Furthermore, the following ratios indicates that MLM is experiencing severe liquidity challenges:

#### *Current Ratio*

The current ratio was at 0.11:1 (2021/22); 0.15:1 (2020/21); and 0.20:1 (2019/20). The ratio is below the norm of 1.5 - 2:1. This is an indication that current liabilities exceed current assets,

highlighting insufficient cash to meet short-term financial obligations. The municipality must therefore increase its current assets to appropriately cover current liabilities.

*Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants)*

Cost coverage ratio is critical at -0.44 months; 0.02 months; and 0.01 months for FY2021/22; FY2020/21; and FY2019/20 respectively against a 1–3-month norm. The municipality's ratio remained below the norm for the past financial years. This indicates that the Municipality's ability to meet its obligations to provide basic services and honour its financial commitments is severely compromised. MLM can only sustain itself for few days to meet its obligation to provide basic services and meet its financial commitments.

*Cash and Cash Equivalent*

The cash and cash equivalent balance has been positive across financial years 2020/21 and 2021/22; however, it is not sufficient to pay creditors in arrears and refund unspent conditional grant. This indicates that the municipality is under financial distress.

**Going Concern Assumption**

The municipality has been deducting pension and pay as you earn from employee's salaries but has been unable to pay over R172 999 325 (2021: R145 031 070) and R26 647 559 (R30 598 661) of these amounts deducted to the relevant third parties. Moreover, the municipality owed Eskom R48 309 919 (2021: R52 620 799) and the water board R457 588 874 (2021: R396 176 162) as at 30 June 2022, which was long overdue.

The municipality incurred a net loss of R175 133 511 during the year ending 30 June 2022 (2021: R59 428 526) which is a significant deterioration in financial performance of 194.70% as compared to the prior year. On the other hand, current liabilities exceeded current assets by R889 671 000 during the year ending 30 June 2022 (2021: R721 003 059) indicating that the municipality is technically insolvent.

The above events or conditions, along with the other matters raised in the financial recovery plan indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. It is therefore crucial that the municipality implements the strategies in this FRP to resuscitate the going concern assumption.

**Key Issues Identified:**

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

Focus Area	Findings
<p><b>Budget Management</b> (Funding Status, Policies, etc.)</p>	<ul style="list-style-type: none"> <li>• Adopting an unfunded budget for the past 5 (five) years.</li> <li>• Projected operating deficit is R133 358 771.43; R122 311 463.36; R140 097 709.03; and R152 083 541.94 for the FY2022/23; FY2023/24; FY2024/25 and FY2025/26 respectively.</li> <li>• Projected negative cash and cash equivalents is R 4 534 563.63; R100 596 947.64; R122 828 630.13; and R17;442;631.67 for the FY2022/23; FY2023/24; FY2024/25 and FY2025/26 respectively.</li> <li>• Financial sustainability of the municipality is therefore under threat.</li> <li>• Budget related policies are not updated and approved timely to incorporate latest changes in the budgetary environment.</li> </ul>
<p><b>Revenue Management</b></p>	<ul style="list-style-type: none"> <li>• The financial sustainability of the municipality is under threat due to limited sources of revenue resulting in high grant reliance.</li> <li>• Inaccurate water billings as meter readers normally uses estimates resulting in loss of revenue or overbilling of customers.</li> <li>• Billing done late.</li> </ul>
<p><b>Property Rates</b></p>	<ul style="list-style-type: none"> <li>• Value of properties are not correct on the valuation roll as customers are disputing it.</li> <li>• Billing system market values are incorrect and are not as per the GVR.</li> <li>• Tariffs charged for property rates on the billing system are not according to the approved budget.</li> </ul>
<p><b>Debtor’s Management</b></p>	<ul style="list-style-type: none"> <li>• No contacts are made to remind customers with overdue accounts.</li> <li>• Indigent customer’s accounts are excessively high and are not monitored.</li> <li>• Roles and responsibilities in the Revenue Unit are not clearly defined.</li> <li>• Uncorrected prior period billing errors are not cleared timely.</li> <li>• 66.54% (R569 841 401.50) in the debtors are in the 3+ years category and 94.89% (R817 730 921.38) of debtors are in the 90+ days category.</li> <li>• Debtors with potential to pay do not pay on time and some do not pay at all due to poor service delivery</li> <li>• The suspense accounts are not investigated and cleared timely.</li> <li>• Rural Maintenance represented that it is owing MLM for previous periods up to April 2023 an amount of R1 970 475.41 which comprises of for errors identified on royalties escalations (R 1 538 515.34); royalties from the renewable energy (R 387 722.73) not previously accrued to the</li> </ul>

Focus Area	Findings
	<p>municipality, and interest on the outstanding royalties from renewable energy (R 44 237.34).</p>
<p><b>Customer care and data accuracy</b></p>	<ul style="list-style-type: none"> <li>• No effective customer care management Unit and policy implementation.</li> <li>• Customer queries remain unresolved for prolonged periods.</li> <li>• Customer details on the billing system are outdated resulting in statements being send to incorrect customers. Ultimately, this contributes to the low collection rate.</li> </ul>
<p><b>Cost-reflective tariffs</b></p>	<ul style="list-style-type: none"> <li>• Tariffs are not cost reflective as the municipality uses the CPIX as an increment factor.</li> <li>• Financial loss of R6 192 881.00 from the sale of water during the FY2021/22.</li> </ul>
<p><b>Indigent Management</b></p>	<ul style="list-style-type: none"> <li>• No Indigent Management Committee.</li> <li>• Indigent registrations are slow, and the records of qualifying indigents are not updated on time.</li> <li>• Inaccurate recording of indigents.</li> </ul>
<p><b>Supply chain management compliance and value for money procurement</b></p>	<ul style="list-style-type: none"> <li>• Procurement of goods and services outside the Procurement Plan.</li> <li>• Non-compliance with SCM policy and regulations.</li> <li>• High levels of UIF&amp;W expenditure.</li> </ul>
<p><b>Financial control environment</b></p>	<ul style="list-style-type: none"> <li>• Reconciliations are not performed monthly.</li> <li>• Recurring AG findings.</li> <li>• Misstatements in the financial statements despite using service providers.</li> <li>• Compromised S71 reports sent to NT are as some expenditure items are not captured timely due to cashflow issues.</li> <li>• BTO lacks capacity to prepare AFS.</li> <li>• No clear responsibilities are assigned to employees for the preparation of AFS.</li> </ul>
<p><b>Expenditure and Creditor management</b></p>	<ul style="list-style-type: none"> <li>• MLM entered into unrealistic payment plans with creditors resulting in continuous defaults of payment arrangements.</li> <li>• The fair value of trade payables increased by R131 767 732.00 (15.60%) between the FY2020/21 and FY2021/22.</li> <li>• Significant pressure on limited financial resources.</li> <li>• Inadequate controls over spending.</li> <li>• Based on the Debtors Age Analysis as at 31 January 2023, MLM owed Rural Maintenance R 57 871 818.91 for the municipality's own electricity consumption and ESKOM R57 489 402.75 for the historical bulk purchases debt.</li> <li>• Rural Maintenance has not fully discharged its obligations in terms of clause 4.4.1 of the EMC to pay the ESKOM Bulk Supply Account resulting in a debt of R140 429 779.43 as at 30 June 2022.</li> </ul>

Focus Area	Findings
	<ul style="list-style-type: none"> <li>The supply agreement with Eskom is in the name of MLM; however, per clause 4.4.1 of the EMC, the obligation to pay the Eskom Bulk Purchases is that of Rural Maintenance.</li> <li>MLM's Eskom debt was R52 620 799.37 as at 30 June 2022.</li> <li>Rural Maintenance proposed for MLM to apply for the National Treasury "Municipal Debt Relief" programme on the balance of R140 429 779.43 as at 30 June 2022; which amount it is obliged to pay per clause 4.4.1 of the EMC.</li> </ul>
<b>Grant management</b>	<ul style="list-style-type: none"> <li>Underutilisation of grant funds which showed a 78.21% deterioration between the FY2020/21 (R 10 919 157) and FY2021/22 (R 19 458 649) resulting in the municipality forfeiting available funds to improve service delivery.</li> <li>Misappropriation of grant funds which results in financial mismanagement practices. Should the grant opportunity be lost the municipality will be in deep financial crisis as it is grant dependent.</li> </ul>
<b>mSCOA implementation</b>	<ul style="list-style-type: none"> <li>Utilising an mSCOA non-compliant financial system.</li> <li>Working outside the financial system and only uploading the results compromises data integrity.</li> </ul>

### Ratio Analysis

MLM is currently in financial distress and based on financial ratios below, the municipality has not been able to meet its short-term liabilities for the past two fiscal years. Creditors and debtors' balances as disclosed in the AFS are increasing year on year. The municipality is not paying its creditors within 30 days after receiving the relevant statement/invoice which is in contravention of section 65(2) (e) of the MFMA. It is evident that the municipality's current credit control or debt collection strategies are not effective or efficient enough to improve the financial status of the municipality. Therefore, it is crucial that the municipality must prioritise on the implementation of debtors control and creditors control policies and development of appropriate strategies to improve its liquidity position.

Please note that debt management ratios have shown an improvement in the FY2021/22 as compared to prior years due to bad debts written off amounting to R452 155 860 and not due to improved operating efficiencies. Not all bad debts written off were approved by council therefore it is imperative that when applying credit and debt control measures the municipality must eliminate those debtors that were approved by council only.

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
<b>Asset Management Utilization</b>				
<p><b>Capital Expenditure to Total Expenditure –</b> indicates the prioritisation of expenditure towards current operations versus future capacity in terms of <b>Municipal Services.</b></p> <p>The norm is 10% - 20%.</p>	12%	9%	5%	<p>Capital expenditure has shown substantial declines over the years posing potential risks to service delivery. It is important for MLM to have a well-maintained asset base to ensure continued operations and service provision and from which future revenue flows will be secured.</p>
<p><b>Repairs and Maintenance to Property, Plant and Equipment and Investment Property –</b> measures the level of repairs and maintenance to ensure adequate repairs and maintenance to prevent breakdowns and interruptions to services delivery.</p> <p>The norm is 8%.</p>	1%	0,25%	0.25%	<p>MLM's percentage is significantly below the norm, and it has been on declining slope over the years.</p> <p>This is an indication of insufficient spending on repairs and maintenance to the extent that it could impact on the use of assets and have a resulting increase on the impairment of useful assets. The municipality must ensure adequate maintenance of assets to prevent breakdowns and interruptions to service delivery.</p>
<b>Debtors Management</b>				
<p><b>Annual Collection Rate -</b> indicates the level of payments as a percentage of revenue billed on credit.</p> <p>The norm is 95%.</p>	17%	19%	-838%	<p>MLM with outstanding debtors should aim to achieve a collection rate of more than 100% to ensure a reduction in the outstanding debtors accrued from previous years.</p> <p>The municipality's Collection Rate is materially low as compared to the norm. Revenue collection (billing), and credit control of the</p>



Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
				municipality requires urgent attention and corrective measures should be implemented.
<p><b>Debtors Management Net Debtors Days – indicates the average number of days taken for debtors to pay their accounts.</b></p> <p><b>The norm is 30 days.</b></p>	1 779	2 281	77 days	<p>Net Debtors' Days ratio for the year under view is above the norm of 30 days.</p> <p>The ability of the municipality to manage debtors poses risks associated with the provision of debt to consumers.</p>
<b>Liquidity Management</b>				
<p><b>Cash/ Cost Coverage Ratio (Excluding Unspent Conditional Grants)</b></p> <p><b>The Ratio indicates the Municipality's or Municipal Entity's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue.</b></p> <p><b>The norm is 1-3 months</b></p>	-0,01	0,02	-0.44	<p>The municipality's ratio remained below the norm for the past financial years.</p> <p>It is clear that the municipality's ability to meet its obligations to provide basic services and honour its financial commitment is compromised.</p>
<p><b>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.,</b></p>	0,20	0,15	0.11	<p>The municipality's Current Ratio for the past financial years has been below the norm of 1:5 - 2:1.</p> <p>This an indication that current liabilities exceed current assets, highlighting insufficient cash to meet short-term financial</p>

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
<p>insufficient cash to meet financial obligations.</p> <p><b>The norm is 1.5 - 2:1.</b></p>				<p>obligations. The municipality must therefore increase its current assets to appropriately cover current liabilities</p>
<b>Liability Management</b>				
<p><b>Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure</b> – indicates the cost required to service the borrowing. It assesses the borrowing or payment obligation expressed as a percentage of total operating expenditure.</p> <p><b>The norm is 6% - 8%</b></p>	6%	7%	0.27%	<p>The ratio did not exceed the norm of 6%-8% for the past financial years.</p> <p>However, this does not mean the municipality was able to service its current debt levels and can take up additional debt or loan.</p>
<p><b>Debt (Total Borrowings)/ Revenue</b> - indicates the extent of total borrowings in relation to total operating revenue.</p> <p>The purpose of the ratio is to provide assurance that sufficient revenue will be generated to repay liabilities. Alternatively stated, the ratio indicates the affordability of the total borrowings.</p> <p><b>The norm is 45%.</b></p>	0%	0%	0%	<p>The ratio is within the norm.</p> <p>This is an indication that the municipality might take up increased funding from borrowings, however, this should pass the affordability test.</p>
<b>Efficiency</b>				
<p><b>Net Operating Surplus Margin</b></p> <p>– measures the net surplus or deficit as a</p>	-20%	-33%	-64%	<p>The ratio is declining which is an indication that the municipality is operating at a deficit and measures must be implemented</p>

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
percentage of revenue.  <b>The norm is &gt; 0%</b>				to address this situation to ensure sustainable service delivery.
<b>Distribution Losses</b>				
<b>Water Distribution Losses (Percentage)</b> The purpose of this ratio is to determine the percentage loss of potential revenue from water service through kilolitres of water purchased but not sold because of losses.  <b>The norm is 15% - 30%.</b>	<b>81%</b>	<b>96%</b>	<b>91%</b>	The norm for Water Distribution Losses is between 15% and 30%.  The water losses are materially high, and the extreme-drastic measures should be taken as a matter of urgency, this high loses could be due to the following factors:  <ul style="list-style-type: none"> <li>• Unrepaired leakages</li> <li>• Poorly maintained aging infrastructure</li> <li>• Insufficient water repairs network team</li> <li>• Unmetered customers.</li> </ul>
<b>Revenue Management</b>				
<b>Revenue Growth (%)</b> – measures the growth in revenue year on year.  The norm is at the rate of CPI	<b>-12%</b>	<b>-13%</b>	<b>-17%</b>	The revenue growth percentage measures the overall revenue growth.  The municipality's revenue growth percentage has been negative for the past financial years.
<b>Expenditure Management</b>				
<b>Creditors Payment Period</b> This ratio indicates the average number of days taken for trade creditors to be paid.	<b>388 days</b>	<b>385 days</b>	<b>358 days</b>	The municipality's ratio is above the norm and urgent attention must be paid to cash flow management and the avoidance of interest charged by creditors.

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
<b>The norm is 30 days.</b>				Non-compliance with MFMA regulations guiding the payment of creditors should be considered.
<b>Irregular, Fruitless and Wasteful and Unauthorized Expenditure to Total Expenditure</b> – this ratio measures the extent of irregular, fruitless and wasteful and unauthorized expenditure to total expenditure.  <b>The norm is 0%.</b>	<b>130%</b>	<b>121%</b>	<b>362%</b>	The norm set for Irregular, Fruitless and Wasteful and Unauthorized expenditure is 0%.  The municipality's ratio for the past financial years is significantly above the norm.  This indicates weaknesses within the municipality's SCM processes and non-compliance with procurement regulations and guidelines. The municipality must investigate the incurrence of this expenditure in line with applicable legislation.
<b>Remuneration (Councillor Remuneration and Employee Related Costs) as % of Total Operating Expenditure</b> - Indicates the extent to which expenditure is applied to the payment of personnel.  <b>The norm is 25% - 40%.</b>	<b>26%</b>	<b>26%</b>	<b>25%</b>	Although remuneration as a percentage of Total Operating Expenditure has been within the norm for all the two years, the preliminary analysis indicates organisational bloating at the higher levels and there are concerns regarding the amounts of overtime claimed.
<b>Contracted Services as a % of Total Operating Expenditure</b> - indicates the extent to which the municipalities resources are committed towards contracted services to	<b>4%</b>	<b>3%</b>	<b>3%</b>	Contracted Services' ratio is within the norm range of 2%-5%, however the municipality still need to develop Contract Management policy and the municipality should avoid over reliant on contracted services to

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
perform Municipal related functions. <b>The norm is 2%-5%.</b>				perform municipal related functions as opposed to filling critical positions based on the new well researched and informed organisational structure that is fit for purpose and appointment of qualifying and skilled people.
<b>Budget Implementation</b>				
<b>Capital Budget Implementation Indicator</b>  <b>The norm is 95% to 100%</b>	<b>64%</b>	<b>87%</b>	<b>33%</b>	The municipality should improve on the capital budget expenditure as this is way below the norm.  The municipality needs to improve planning, supply chain management process, and its capacity to implement capital projects. This is critical especially during this difficult financial period that the Municipality is encountering as it will enable the required services to be provided by the Municipality to build and restore confidence rather than the funds being returned and not utilised.
<b>Operating Expenditure Budget Implementation Indicator</b>  <b>The norm is 95% to 100%</b>	<b>172%</b>	<b>172%</b>	<b>195%</b>	The municipality does spend in terms of the budget; however, it overspends during the implementation which could mean that the municipality does not adequately provide for non-cash items (Which also dominate the expenditure accrued), there are insufficient controls to ensure that budget is implemented within limits or controls are being

Ratio	Ratio for 2019/20	Ratio for 2020/21	Ratio for 2021/22	INTERPRETATION
				overridden.
<p><b>Operating Revenue Budget Implementation Indicator</b></p> <p>The norm is 95% to 100%</p>	113%	122%	111%	<p>This ratio shows that the municipality implements its billing in accordance with what was projected through the budget. The municipality's Credit Control may be effective in terms of billing.</p>
<p><b>Billed Revenue Budget Implementation Indicator</b></p> <p>The norm is 95% to 100%</p>	25%	19%	91%	<p>The municipality is unable to collect beyond a quarter of its collection projections, particularly on service charges, this means that the service functions of the municipality are not able to sustain themselves in terms of funding day-to-day expenses.</p> <p>Revenue collection evidently remains the biggest challenge for the municipality which should call for more stringent collection measure to be implemented in terms of the Debt Collection and Credit Control Policy. The municipality should also consider optimally utilising its cash-generating resources for revenue enhancement e.g., Parks and recreational facilities, mining of sand and gravel, economic development projects etc.</p>

## 2.2.4 SERVICE DELIVERY

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

Focus Area	Findings
<b>Infrastructure Asset Management</b>	<ul style="list-style-type: none"> <li>• Poor infrastructure planning and no infrastructure sector plans.</li> <li>• Lack of infrastructure operation and maintenance plans and programmes.</li> <li>• The asset management policy is outdated and non-compliance and lack of commitment by management.</li> <li>• Ineffective security service. Losing municipal assets due to theft.</li> </ul>
<b>Water and Sanitation Services</b>	<ul style="list-style-type: none"> <li>• Water debt of about R472m with the Department of Water and Sanitation.</li> <li>• Revenue losses for water were at 91% in FY2021/22 (96%: FY2020/21) representing a major contributor to the current financial challenges at MLM. The norm is 15% - 30%.</li> <li>• Poor drinking water quality, water losses, lack of accounting, and poor revenue collection.</li> <li>• Limited Wastewater Treatment capacity, and poor infrastructure maintenance.</li> <li>• Some areas do not have VIP toilets and the bucket system being used.</li> <li>• WWTW plants are being overwhelmed. Villers, Tweeling, Cornelia and Frankfort need upgrading.</li> <li>• Per the Department of Water and Sanitation 2022 progress report the Municipal Blue Drop Risk Rating score was at 95.1%.</li> </ul>
<b>Electricity Distribution and Supply</b>	<ul style="list-style-type: none"> <li>• Outsourcing the sale of electricity to Rural Maintenance under a 25-year lease which is MLM's main revenue source, leaving the municipality struggling financially.</li> <li>• Rural Maintenance has not fully discharged its obligations in terms of clause 4.4.1 of the EMC to pay the ESKOM Bulk Supply Account resulting in a debt of R140 429 779.43 as at 30 June 2022.</li> <li>• Depreciation expense on electricity network increased by 3.22% between FY2020/21 and FY2021/22 whilst royalties decreased by 4.49%.</li> <li>• No adequate controls in place to prevent water distribution losses.</li> <li>• Outsourcing the sale of electricity to Rural Maintenance which is MLM's main revenue source of leaving the municipality struggling financially.</li> <li>• Rural Maintenance acknowledged not paying the municipality royalties from the renewable energy which is in contravention of clause 4.2.1 of</li> </ul>

Focus Area	Findings
	<p>the Electricity Management Contract. According to Rural Maintenance the total PV kWh generated from June 2021 to April 2023 was 7 692 693 kWh resulting in royalties of R337 150.20 – excl. VAT calculated after deducting the 12.5% losses as per EMC. Interest on the unpaid royalties from the renewable energy amounts to R44 237.34 during the same period.</p> <ul style="list-style-type: none"> <li>• Royalties are calculated after deducting an energy loss of 12.5% as included in the EMC which is higher than the actual 5.5% loss as reflected in the 2021/22 D-forms.</li> <li>• According to Rural Maintenance there was an error that it identified on the royalties escalation calculations as on the 15<sup>th</sup> of February 2023 which resulted in an amount of R1 538 515.34 (VAT incl.) for periods up until April 2023 not having been paid to the municipality.</li> <li>• Per representation by Rural Maintenance, MLM has received a benefit of R24 128 386.72 (VAT incl.) in respect of royalties from contract inception to April 2023 which includes VAT Output of R1 953 108.88 that cannot be classified as a benefit to the municipality.</li> <li>• As at 31 January 2023, MLM owed Rural Maintenance R 57 871 818.91 and ESKOM R 57 489 402.75.</li> <li>• There are issues with the Electricity Management Contract with Rural Maintenance Contract: <ul style="list-style-type: none"> <li>○ Bulk electricity is not constantly paid;</li> <li>○ Errors in royalties calculations;</li> <li>○ The original electricity debt was not transferred;</li> <li>○ Royalties are only about R2.5m/year;</li> <li>○ The distribution losses are unknown;</li> <li>○ The losses claimed are fixed at 12.5% (The norm is 7% - 10%);</li> <li>○ The municipality lost the opportunity of using electricity for credit control;</li> <li>○ There is no contract management performed by the municipality; and</li> <li>○ No evidence of royalties from other energy sources other than ESKOM bulk.</li> </ul> </li> <li>• Risk of a non-compliant solar plant supplying MLM.</li> <li>• It is not clear whether the renewable energy from the solar power plant is distributed through the National Grid or directly to the municipality.</li> </ul>
<b>Roads and Stormwater Drainage</b>	<ul style="list-style-type: none"> <li>• Poor condition of roads. Potholes, poor road signs and road surface marking visibility.</li> </ul>
<b>Capital Grant Funds</b>	<ul style="list-style-type: none"> <li>• Poor planning and implementation of MIG projects.</li> </ul>



Focus Area	Findings
	<ul style="list-style-type: none"> <li>• Underspending of capital grant funds. Roll-over was declined. No growth in grant funds.</li> </ul>
<b>Waste Disposal and Refuse Removal</b>	<ul style="list-style-type: none"> <li>• Lack of maintenance and operations at landfill sites.</li> <li>• Inadequate refuse removal trucks and equipment leading to minimal refuse removal.</li> <li>• Increase in illegal dumping sites. Lack of Maintenance of refuse removal equipment.</li> </ul>
<b>Fleet Management and Mechanical Workshops</b>	<ul style="list-style-type: none"> <li>• Lacking fleet management systems and procedures, fleet generally in poor condition.</li> <li>• High vehicle maintenance costs and poor workmanship by service providers.</li> <li>• No write-off of vehicles which are not road worthy.</li> <li>• Utilisation of vehicles by employees for personal reasons without consequences.</li> </ul>
<b>Town Planning and Land Development</b>	<ul style="list-style-type: none"> <li>• Building control unit incapacity, and lack of resources, creating a backlog.</li> <li>• The 2012 Spatial Development Framework (SDF) is outdated. It must inform the development of the municipality.</li> <li>• Lack of land for further developments. Some of the land available have contracts and the contract are missing.</li> <li>• There are incomplete housing developments and some developments do not have services.</li> </ul>
<b>Local Economic Development</b>	<ul style="list-style-type: none"> <li>• Inadequate preparation of enabling environment for economic activities and investments.</li> <li>• The LED forum is not functional.</li> </ul>
<b>Community Facilities, Buildings, Sports, and Recreational Facilities</b>	<ul style="list-style-type: none"> <li>• Municipal buildings and facilities not maintained.</li> <li>• Lacking facilities and resources for municipal staff.</li> </ul>

### 3. PART THREE – FINANCIAL RECOVERY PLAN

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

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

The indicators for the rescue phase include existence of policies and strategies to enhance revenue, instilling good practices for revenue management, adoption of a funded budget, monitoring of the daily cash and cash balances, application of cost containment measures, focusing on cleansing the billing system, ring-fencing of conditional grants, improving the utilisation of grant funding as well as entering into payment arrangements with creditors. Some focus is placed on service delivery, governance, and institutional matters; however, they are limited to addressing the most visible and critical issues, with an attempt to ensure that the situations does not deteriorate further.

As the billing is cleansed this will allow the municipality to correctly bill its customers and improve on service delivery. In addition, the availability of Standard Operating Procedures as well as council approved policies will improve the way the municipality runs its business, revenue collection and cost containment.

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

#### *Governance*

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

Focus Area	Strategies
<b>Governance Model</b>	<ul style="list-style-type: none"> <li>• Monitor implementation of the institutional calendar for committee meetings by requiring submission of minutes of committee meetings monthly.</li> <li>• Timely submit report to the oversight committee.</li> <li>• Refer matters of non-submission of reports by officials to the newly established disciplinary board.</li> <li>• Council to reject recommendations from MPAC to write-off UIF&amp;W expenditure for the period FY2011/12 to FY2017/2018.</li> <li>• Develop and implement a Stakeholder strategy.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Develop a workplan for committees and track community concerns ensuring they are addressed timely and adequately.</li> <li>• Implement Municipal Systems Act Schedule 1 and/or institute debt recovery process on outstanding councillors debt.</li> <li>• Educate councillors on the Code of Conduct for Councillors</li> <li>• There should be a separate agenda in all council meetings to remind councillors to pay municipal accounts within the due dates.</li> </ul>
<b>Powers and functions</b>	<ul style="list-style-type: none"> <li>• Prioritise functions that significantly impact service delivery most for example, water and sanitation when making budget allocations.</li> <li>• Promote local advertising on billboards to increase revenue flows.</li> <li>• Engage the District to acquire other functions such as fishing and licensing to improve revenue base.</li> </ul>
<b>Political/Administrative Interface</b>	<ul style="list-style-type: none"> <li>• Develop a resolutions tracking register.</li> <li>• Train councillors on their roles and responsibility as well as oversight on the administrative function.</li> <li>• Request Provincial and or National Government to engage Mafube Business Forum and other civic organisations to prevent them from encouraging residents from not paying for municipal services.</li> <li>• Exhort councillors to urge residents to pay for municipal services as well as stopping any elements of sabotage.</li> <li>• Capacitate municipal departments to perform their administrative functions effectively and efficiently.</li> </ul>
<b>Contract management</b>	<ul style="list-style-type: none"> <li>• Audit and review all contracts considering issues like legality and irregularities.</li> <li>• Utilise legal skills and competences from the acting Municipal Manager till cashflows improve to appoint legal manager.</li> <li>• Establish a Contract Management Committee to perform oversight over contract management.</li> <li>• Monitor contract performance monthly.</li> <li>• Report the outcome of contract monitoring to Audit Committee and other oversight committees.</li> <li>• Performance monitoring must be performed prior to settling of any invoice.</li> <li>• Withhold payments for service providers until performance is up to contract standard.</li> <li>• Assess and terminate irregular month to month contracts.</li> <li>• Develop and approve a Contract Management Framework and Policy.</li> <li>• Monitor the implementation of the Contract Management Framework and Policy.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• With the assistance of COGTA and PT assess the legality of the Electricity Management Contract (EMC) with Rural Maintenance (Pty) Ltd.</li> <li>• Should the EMC with Rural Maintenance (Pty) Ltd be noncompliant with the SCM policies, regulations, and national legislation we recommend that the municipality must approach the high court for its immediate termination.</li> <li>• Enforce compliance with the EMC for Rural Maintenance to settle the ESKOM Bulk Account.</li> <li>• Perform a due diligence analysis on the cemeteries fencing contract with Malanda Engineering &amp; Construction to determine if the services were indeed delivered and to confirm the contract's compliance with the SCM policies and regulations.</li> </ul>
<b>Litigations and contingent liabilities</b>	<ul style="list-style-type: none"> <li>• Negotiate payment arrangements with all long outstanding creditors prior to them instituting legal proceedings.</li> <li>• Utilise services of the current MM (an advocate) for legal matters to reduce legal costs and when the municipality's finances have improved prioritise hiring a legal manager.</li> <li>• Diagnose the root causes of litigations and claims.</li> <li>• Develop a Litigation Reduction Plan.</li> <li>• Monitor the implementation of the Litigation Reduction Plan.</li> <li>• Report to Council on the remedial actions taken to reduce litigations and claims.</li> <li>• Apply to High Court for a debt relief and restructuring per MFMA circular 95.</li> <li>• Conduct a legal assessment on reasonable prospects of success on all pending litigations.</li> </ul>
<b>System of Delegations</b>	<ul style="list-style-type: none"> <li>• Update the system of delegation to incorporate sub-delegations to the lowest level of staff.</li> <li>• Prepare and approve a delegations register.</li> </ul>
<b>By-laws and enforcement</b>	<ul style="list-style-type: none"> <li>• Review and approve financial by-laws annually in line with the legislation during the budget processes.</li> <li>• Gazette all by-laws adopted by council.</li> <li>• Identify twelve (12) existing employees who can be redeployed as by-law enforcement officers.</li> <li>• Enforce by-laws.</li> <li>• Monthly reconcile revenue from enforcement of by-laws.</li> <li>• Publish all by-laws on the municipal website.</li> </ul>
<b>UIF&amp;W and consequence management</b>	<ul style="list-style-type: none"> <li>• Engage the system provider to configure the financial system to prevent spending on votes with exhausted budget.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Internal Audit to test compliance with SCM regulations and policies on an Adhoc basis.</li> <li>• Identify, investigate, and report on irregular, unauthorised, fruitless, and wasteful expenditure timely as per the legislation (Regulations).</li> <li>• Implement a training program for officials responsible for Disciplinary matters.</li> <li>• Council to reject MPAC proposal to write off UIF&amp;W expenditure for the period FY2011/12 to FY2017/18 and require MPAC to determine if any municipal officials should be held personally liable.</li> <li>• MPAC must report to Council quarterly on the outcome of investigations and consequent management.</li> <li>• Implement consequence management for UIF&amp;W expenditure in terms of section 32 investigation of MFMA.</li> <li>• Monitor the implementation of the UIF&amp;W Expenditure Reduction Strategy monthly.</li> <li>• Internal Audit must give assurance on the implementation of that UIF&amp;W Expenditure Reduction Strategy.</li> <li>• Consider establishing an anonymous reporting hotline to protect whistle-blowers.</li> <li>• Prepare, approve, and submit S32 investigations reports quarterly and annually to the mayor and council respectively.</li> </ul>
<p><b>Post Audit action plans (internal and external)</b></p>	<ul style="list-style-type: none"> <li>• Include clearing of audit findings in municipal employees performance management contracts.</li> <li>• Establish an Audit Steering Committee that convenes biweekly to monitor progress of PAAP.</li> <li>• Report on the progress of implementing PAAP to oversight committees and council.</li> </ul>
<p><b>Internal Audit and Risk Management</b></p>	<ul style="list-style-type: none"> <li>• Adequately institutionalise Risk Management at the municipality.</li> <li>• Appoint a chairperson for the Risk Management Committee.</li> <li>• Identify two (2) existing employees to redeploy to the Risk Management Unit.</li> <li>• Train Risk Management Unit personnel to capacitate them on risk management aspects.</li> <li>• Senior management and council must review and approve risk management reports timely.</li> <li>• Develop and approve Risk Management Policy.</li> <li>• Monitor implementation of the Risk Management Policy.</li> <li>• Develop an operational and strategic risk register for council approval.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>Internal Audit function to provide assurance on the implementation of remedial actions.</li> </ul>
<b>Information &amp; Communications Technology</b>	<ul style="list-style-type: none"> <li>Develop and approve ICT Governance Strategy</li> <li>Establish an ICT Steering Committee.</li> <li>Appoint a skilled and competent chairperson to oversee the functions of the ICT steering committee.</li> <li>ICT governance reports to be a standing item on the Audit committee.</li> <li>Develop a Business Continuity and Disaster Recovery plan.</li> <li>Review policies and strategies with the assistance of the ICT committee.</li> <li>Develop and implement appropriate strategies to provide for off-site back up of financial and other critical non-financial information.</li> </ul>
<b>Immovable property management</b>	<ul style="list-style-type: none"> <li>Review and align rentals charged for municipal properties with market related rentals.</li> <li>Perform a due diligence between renting out the flats of selling them at market values to the occupants.</li> <li>Include in the Terms of References of the service provider the need for skills transfers.</li> <li>Monitor skills transfers to Assets Management Unit employees.</li> <li>Identify two (2) existing to be redeployed to the Assets Management Unit.</li> <li>Perform an audit of council-owned immovable properties to determine the state and completeness of the immovable assets register.</li> <li>Maintain an updated GRAP-compliant immovable asset register.</li> <li>Develop and approve a land alienation policy.</li> <li>Ensure that all tenants are paying monthly rentals.</li> </ul>

*Institutional*

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

Focus Area	Strategies
<b>Organizational Structure and operating model</b>	<ul style="list-style-type: none"> <li>Review job descriptions and conduct job evaluations prior to the implementation of the approved organisational structure. Assistance from COGTA may be solicited.</li> <li>Perform job gradings to eliminate salaries disparities.</li> <li>Cost the organisational structure.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Place employees appropriately for full utilization guided by the approved placement policy.</li> <li>• Fast track the filling of the senior managers' positions and other identified critical vacant posts considering internal talent first before recruiting externally.</li> </ul>
<b>Overtime Management</b>	<ul style="list-style-type: none"> <li>• Introduce the shift system to curb overtime expenditure.</li> <li>• Prepare and approve monthly overtime budgets per department.</li> <li>• Managers to motivate overtime budget inputs and strictly adhere to them.</li> <li>• Perform overtime and allowances reasonability testing to curb abuse. Follow up on any exceptions noted.</li> <li>• Internal Audit must perform adhoc audits on overtime and other benefits and recommend disciplinary action for any abuse noted.</li> </ul>
<b>Employee cost</b>	<ul style="list-style-type: none"> <li>• Prevent filling of non-critical positions.</li> <li>• Engage Organised Labour and municipal employees to temporarily freeze annual salaries and benefits increases through exemption in terms of s18.3.2 of the SALGBC Main collective agreement.</li> <li>• Acquire critical skills externally after conducting a job evaluation and exhausting internal talent.</li> </ul>
<b>Labour relations</b>	<ul style="list-style-type: none"> <li>• Establish a functional and well-coordinated LLF.</li> <li>• Institutionalize attendance of LLF meetings by Senior Management.</li> <li>• Workshop LLF member regularly on the Code of conduct.</li> <li>• Develop and incorporate LLF meetings in the municipal annual corporate calendar.</li> <li>• Submit application (formal letter) to the Bargaining Council for Joint Training Sessions.</li> <li>• Train Organized Labour members on local labour forum matters.</li> <li>• Engage COGTA/SALGA to initiate a stakeholders strategic session between the municipality, municipal employees, community, organised labour, and other interested parties to discuss labour related matters as well as service delivery issues.</li> </ul>
<b>Skills &amp; competencies</b>	<ul style="list-style-type: none"> <li>• Develop, approve, and implement a Competency Assessment Policy. Assistance from COGTA may be solicited.</li> <li>• Conduct skills audits for all employees and hold employees accountable for non-submission. Assistance from COGTA may be solicited.</li> <li>• Ensure that all senior managers meet the minimum competences requirements.</li> <li>• Conduct verification of qualifications of all employees.</li> <li>• Determine why employees lacks interest in development.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Cascade skills competence testing to all municipal employees.</li> <li>• Ring-fence the discretionary and mandatory grants for training and skills development.</li> </ul>
<b>Staff Discipline and disciplinary board</b>	<ul style="list-style-type: none"> <li>• Source the services of the district, SALGA, and other state organs to assist with presiding and prosecuting of all disciplinary matters.</li> <li>• Train s56 and other senior managers to be used as Presiding Officers and Prosecutors.</li> <li>• Develop, implement, and regularly update the disciplinary case management register.</li> <li>• Establish and institutionalise a municipal Disciplinary Board.</li> <li>• Train members of the Disciplinary Board.</li> <li>• Workshop all employees on aspects of disciplinary procedures and processes.</li> <li>• Strictly implement the 2 days salary deduction for any non-compliances with signing of registers.</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>• Develop, approve, and implement a system of performance management for all employees.</li> <li>• Hold officials accountable for poor performance.</li> <li>• Cascade PMS to staff below s56/57 managers.</li> <li>• All employees reporting to the MM must sign performance agreements.</li> </ul>
<b>Consequence Management</b>	<ul style="list-style-type: none"> <li>• Develop, approve, and implement Consequence management Policy.</li> <li>• Establish a functional disciplinary Board.</li> <li>• Educate employees on processes to be followed on reporting any misconducts identified.</li> <li>• Institute consequence management.</li> </ul>
<b>Key HR Policies</b>	<ul style="list-style-type: none"> <li>• With the assistance from COGTA review, approve, and implement all HR related policies including overtime, traveling and subsistence, cell phone, stand-by policies, and other related allowances.</li> <li>• Workshop the employees on the policies.</li> </ul>
<b>HR Strategy</b>	<ul style="list-style-type: none"> <li>• Fast-track the review, approval, and implementation of the HR strategy.</li> <li>• Apply for all available grants when WSP is submitted.</li> <li>• Capacitate the Skills Development Facilitator to facilitate/coordinate and oversee the development and implementation of the WSP.</li> <li>• Establish a Training Committee.</li> </ul>
<b>Physical Verification of staff</b>	<ul style="list-style-type: none"> <li>• Perform monthly employees' verifications prior to payroll run to</li> </ul>



Focus Area	Strategies
<b>and qualifications</b>	determine their existence. <ul style="list-style-type: none"> <li>• Conduct regular physical staff verification.</li> <li>• Verify qualifications for all employees.</li> <li>• Perform background checks for all the municipal employees both existing and new.</li> </ul>
<b>Records Management</b>	<ul style="list-style-type: none"> <li>• Review, approve and implement a Records Management Policy and File Plan.</li> <li>• Internal staffing and training of Records management unit.</li> <li>• Centralize records keeping.</li> </ul>

### *Financial Management*

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

Focus Area	Strategies
<b>Budget Management</b> (Funding Status, Policies, etc.)	<ul style="list-style-type: none"> <li>• Prepare and approve a Budget Funding Plan.</li> <li>• Monitor the implementation of the Budget Funding Plan.</li> <li>• Implement activity-based budget through Demand Management Plans that details monthly expenditure and procurement needs per department.</li> <li>• Strictly implement debt control policies to improve the collection rates.</li> </ul>
<b>Revenue Management</b>	<ul style="list-style-type: none"> <li>• Establish a Revenue Technical Committee that meets monthly.</li> <li>• Educate the public through campaigns about the importance of meter readings.</li> <li>• Perform a reasonability testing on meter reading prior to billing. Any exceptions noted must be rectified immediately.</li> <li>• Develop, approve, and implement water distribution losses preventive measures.</li> <li>• Approach COGTA and PT for assistance with the billing system cleansing.</li> <li>• Engage the community to reassure them of service delivery to improve revenue collection.</li> <li>• Implement a debt relief incentive scheme through discounts or incentives to encourage customers to settle their accounts.</li> <li>• Increase the number of debt collectors to five (5) whose contracted fees will be based on reasonable commission for collected debts.</li> <li>• Implement debtors and creditors control measures for example restricting municipal services for non-paying customers.</li> <li>• Set targets for the debt collector and implement consequence management for poor performance</li> <li>• Commence with the clearance of the balances in the suspense account as well as debtors with credit balances.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>Enforce payment of the outstanding royalties by Rural Maintenance after a royalties review from contract inception to date is done.</li> </ul>
<b>Customer care and data accuracy</b>	<ul style="list-style-type: none"> <li>Identify five (5) existing employees and place them in the Customer Care Unit.</li> <li>Train Customer Care Unit personnel.</li> <li>Obtain latest customers information from the debt collector and update the financial system.</li> </ul>
<b>Cost-reflective tariffs</b>	<ul style="list-style-type: none"> <li>Engage COGTA and PT to assist with the Cost of Supply study on service charges and assessment rates.</li> </ul>
<b>Indigent Management</b>	<ul style="list-style-type: none"> <li>Establish an Indigent Management Committee that meet monthly.</li> <li>Develop and approve an Indigent Management Framework.</li> <li>Prepare monthly monitoring reports for indigent expenditure.</li> <li>Liaise with the systems vendor to ensure that uploading of indigents information is easier.</li> <li>Perform awareness campaigns and educate the community on the indigents criteria.</li> <li>Identify five (5) existing employees and place them in the Indigent Management Unit.</li> </ul>
<b>Supply chain management compliance and value for money procurement</b>	<ul style="list-style-type: none"> <li>Engage COGTA and PT to assist with the review of SCM policy to align it with the applicable legislation.</li> <li>Prepare and approve an Annual Procurement Plan for all goods or services.</li> <li>Monitor adherence to SCM regulations and policies.</li> <li>Hold officials accountable for contravening SCM policies and regulations.</li> <li>Monitor adherence with the Annual Procurement Plan.</li> <li>Ensure value for money is considered for on all procurement of goods and services.</li> </ul>
<b>Financial control environment</b>	<ul style="list-style-type: none"> <li>Prepare and approve monthly reconciliations.</li> <li>Train BTO staff on reconciliations requirements.</li> <li>Engage PT to develop SoPs.</li> <li>Engage PT to provide training on SoPs.</li> <li>Capture expenditure items timely.</li> <li>Ensure transfers of skills from service providers performing BTO functions.</li> <li>Assign clear roles and responsibilities for the preparation of AFS.</li> </ul>
<b>Expenditure and Creditor management</b>	<ul style="list-style-type: none"> <li>Apply to NT per circular MFMA Circular No. 124 for a conditional debt relief on ESKOM debt in the old account 8273837158 whose balance was R52 620 799.37 as at 30 June 2022 and ensure that all the conditions attached to it are adhered to.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Enforce compliance with the EMC for Rural Maintenance to settle the ESKOM Bulk Account.</li> <li>• Negotiate realistic payment arrangements with creditors.</li> <li>• Negotiate with creditors to waive the interest expense right.</li> <li>• Urgently address the discrepancies with DWS ensuring that the supply of water event occurred.</li> <li>• Ring fence the collected revenue from the sale of water towards the payment of the DWS debt.</li> <li>• Engage COGTA and or PT to assist with the development of a Cost Containment Policy.</li> </ul>
<b>Grant management</b>	<ul style="list-style-type: none"> <li>• Develop and approve a yearly Project Plan.</li> <li>• Monitor the implementation of the yearly Project Plan.</li> <li>• Prepare monthly grants reconciliations.</li> <li>• Ring fence all conditional grants.</li> <li>• Monitor compliance with grant conditions.</li> <li>• Hold officials accountable for misappropriation of conditional grants.</li> <li>• Unspent conditional grants must be cash backed.</li> </ul>
<b>mSCOA implementation</b>	<ul style="list-style-type: none"> <li>• Solicitate funding from COGTA and or PT to procure an mSCOA compliant system.</li> <li>• Develop and approved an mSCOA roadmap.</li> <li>• Setup an mSCOA Steering Committee that meets monthly with PT invited.</li> <li>• Ensure skills transfers to municipal employees by the system vendor.</li> </ul>

### Service Delivery

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

Focus Area	Strategies
<b>Infrastructure Asset Management</b>	<ul style="list-style-type: none"> <li>• Update all records of contracts/leases entered to use municipality facilities and buildings.</li> <li>• Urgent maintenance of municipal buildings.</li> <li>• Finalise all the sector plans in development and get approval.</li> <li>• Finalise and implement all municipal by-laws and policies.</li> </ul>
<b>Water and Sanitation Services</b>	<ul style="list-style-type: none"> <li>• Urgently attend to all reported water faults and leakages</li> <li>• Conduct Water meter audits and replacing malfunctioning meters and</li> </ul>

Focus Area	Strategies
	<p>capture non-metered households.</p> <ul style="list-style-type: none"> <li>• Start the process for Blue Drop compliance.</li> <li>• Improve customers services. Attend to customer complaints urgently.</li> <li>• Source funding to purchase bulk meters and install them and maintain a register of installed meters.</li> <li>• Negotiate with DWS to reduce the huge water debt and create a credible bulk water billing system.</li> <li>• Installing bulk water meters and zonal meters to confirm purchased water, monitor water losses and reduce unaccounted Water (water losses).</li> <li>• Insure the WWTW effluent is compliance with the relevant regulations. Achieve the Green Drop Compliance</li> <li>• Request technical capacity from MISA, DM, and DBSA.</li> <li>• Collaborate and seek assistance from other SOEs such as DBSA that currently assist with developing infrastructure master plans.</li> </ul>
<p><b>Electricity Distribution and Supply</b></p>	<ul style="list-style-type: none"> <li>• Update records of electricity services and the contract with Rural Maintenance.</li> <li>• Create and institutionalize a Rural Maintenance Contract Management Team/Committee that meets biweekly to manage the Electricity Management Contract prior to the conclusion of the financial and technical due diligence analysis.</li> <li>• Perform a financial and technical due diligence analysis on the Electricity Management Contract between MLM and Rural Maintenance with the assistance of COGTA and PT to determine its legality and financial viability.</li> <li>• Ensure timeous payment by Rural Maintenance of Eskom Current Account.</li> <li>• Rural Contract Management Committee must deliberate on the fixed energy loss of 12.5% to determine its reasonability.</li> <li>• Review royalties on the EMC from the inception of the contract to date.</li> <li>• Review the Rural Maintenance solar power plant licence and documents to ensure that they comply with the relevant laws and regulations.</li> <li>• Investigate whether the renewable energy from the solar power plant is distributed through the National Grid or directly to the municipality.</li> </ul>

Focus Area	Strategies
<b>Roads and Stormwater Drainage</b>	<ul style="list-style-type: none"> <li>• Conduct urgent road maintenance. Attend to all reported potholes, stormwater drainage and clean related blocked drains.</li> <li>• Repair most urgent current equipment to carry out basic maintenance and operations of refuse removal.</li> </ul>
<b>Capital Grant Funds</b>	<ul style="list-style-type: none"> <li>• Ring fence funds for capital projects.</li> </ul>
<b>Waste Disposal and Refuse Removal</b>	<ul style="list-style-type: none"> <li>• Engage with Technical Services to get access to the MIG grant for waste management equipment.</li> </ul>
<b>Fleet Management and Mechanical Workshops</b>	<ul style="list-style-type: none"> <li>• Ensure that the mechanical workshop is functional to repair vehicles and equipment internally.</li> <li>• Auction off redundant equipment in line with legislation and policy.</li> <li>• Monitor utilization of municipal vehicles by officials and institute disciplinary action against officials found guilty of utilizing municipal vehicles for personal use.</li> <li>• Perform an audit to determine if all municipal vehicles are licensed. Immediately ensure that all unlicensed vehicles are licensed.</li> </ul>
<b>Town Planning and Land Development</b>	<ul style="list-style-type: none"> <li>• Utilise the shared service with other municipalities within the district.</li> <li>• Set cost reflective building approval tariffs on all services.</li> <li>• Re-establish a functional the Municipal Planning Tribunal (MPT).</li> <li>• Clear the backlog of land use and land development applications. Solicitate the district assistance.</li> <li>• Speed up of township establishment and thus collect more levy from rates.</li> <li>• Conduct a land audit of municipal land to identify the leases and contracts available and confirm the land use with zoning.</li> <li>• Investigate the extend of incomplete development projects and find solutions to complete the projects.</li> <li>• Identify houses that need to be transferred and fast-track the transfer process.</li> </ul>
<b>Local Economic Development</b>	<ul style="list-style-type: none"> <li>• Re-establish the Economic Development (LED) forum.</li> <li>• Finalize the Local Economic Development (LED) Strategy.</li> </ul>

Focus Area	Strategies
<b>Community Facilities, Buildings, Sports, and Recreational Facilities</b>	<ul style="list-style-type: none"> <li>• Review leases for public amenities, halls and facilities, and charge cost reflective tariffs.</li> </ul>
<b>Security Services, Public Safety, Traffic and Licensing</b>	<ul style="list-style-type: none"> <li>• Develop and implement Security Management Plan and review security contracts.</li> <li>• Ensure physical security on the infrastructure that is prone to theft.</li> <li>• Constant community engagements to use the communities as watchdogs of municipal infrastructure.</li> <li>• Issue street and business trading permits.</li> </ul>

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

The bulk of the recovery process takes place in the second phase of the Financial Recovery Plan. This phase is referred to as the stabilisation phase. In this phase, a strong focus is on the implementation and monitoring the implementation of strategies and policies, implementation of the drive to bill customers correctly and implementation financial management best practices. Furthermore, focus will be on enhancing revenue for the municipality through strategic initiatives and adoption of cost reflective tariffs including those for electricity. Greater attention is placed on the underlying service delivery, governance and institutional matters perpetuating the financial crisis in the municipality. These include monitoring of the implementation of the approved and costed organogram; implementation of service delivery sector plans; by-laws and policies; curbing illegal connections; refurbishment of infrastructure; and replacement of ageing infrastructure.

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

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

#### *Governance*

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

Focus Area	Strategies
<b>Governance Model</b>	<ul style="list-style-type: none"> <li>• Council must monitor implementation of the institutional calendar for committee meetings by requiring submission of minutes of committee meetings monthly.</li> <li>• Timely submit reports to oversight committees.</li> <li>• Refer matters of non-submission of reports by officials to the newly established disciplinary board.</li> <li>• Annually review the Stakeholder strategy for council approval.</li> <li>• Develop a workplan for committees and track community concerns ensuring they are addressed timely and adequately.</li> <li>• Educate councillors on the Code of Conduct for Councillors.</li> <li>• There should be a separate agenda in all council meetings to remind councillors to pay municipal accounts within the due dates.</li> </ul>
<b>Powers and functions</b>	<ul style="list-style-type: none"> <li>• Prioritise functions that significantly impact service delivery most for example, water and sanitation when making budget allocations.</li> <li>• Promote local advertising on billboards to increase revenue flows.</li> </ul>
<b>Political/Administrative Interface</b>	<ul style="list-style-type: none"> <li>• Update the resolutions tracking register timely.</li> <li>• Make council resolutions implementation a standing agenda item to all council meetings to ensure continuous monitoring of the resolutions issued.</li> <li>• Train councillors on their roles and responsibility as well as oversight on the administrative function.</li> <li>• Council to continuously engage business, civic organisations, and communities to restore trust and facilitate payment of their accounts.</li> </ul>
<b>Contract management</b>	<ul style="list-style-type: none"> <li>• Audit and review all contracts considering issues like legality and irregularities.</li> <li>• Utilise legal skills and competences from the acting Municipal Manager till cashflows improve to appoint legal manager.</li> <li>• Ensure that the Contract Management Committee remains functional.</li> <li>• Monitor contract performance monthly.</li> <li>• Report the outcome of contract monitoring to Audit Committee and other oversight committees.</li> <li>• Performance monitoring must be performed prior to settling of any service providers invoices.</li> <li>• Withhold payments for service providers until performance is up to contract standard.</li> <li>• Annually review the Contract Management Framework and Policy.</li> <li>• Monitor the implementation of the Contract Management Framework and Policy.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• With the assistance of COGTA and PT assess the legality of the Electricity Management Contract (EMC) with Rural Maintenance (Pty) Ltd.</li> <li>• Should the EMC with Rural Maintenance (Pty) Ltd be noncompliant with the SCM policies, regulations, and national legislation we recommend that the municipality must approach the high court for its immediate termination.</li> <li>• Employ a Legal Manager.</li> </ul>
<b>Litigations and contingent liabilities</b>	<ul style="list-style-type: none"> <li>• Diagnose the root causes of litigations and claims.</li> <li>• Annually review a Litigation Reduction Plan.</li> <li>• Monitor the implementation of the Litigation Reduction Plan.</li> <li>• Report to Council on the remedial actions taken to reduce litigations and claims.</li> <li>• Apply to High Court for debt relief and restructuring per MFMA circular 95.</li> <li>• Conduct a legal assessment on reasonable prospects of success on all pending litigations.</li> </ul>
<b>System of Delegations</b>	<ul style="list-style-type: none"> <li>• Annually review the systems of delegations.</li> <li>• Prepare and approve a delegations register.</li> </ul>
<b>By-laws and enforcement</b>	<ul style="list-style-type: none"> <li>• Annually review by-laws for council approval.</li> <li>• Monthly reconcile revenue from enforcement of by-laws.</li> <li>• Publish any updated or new by-laws on the municipal website.</li> <li>• Enforce by-laws.</li> </ul>
<b>UIF&amp;W and consequence management</b>	<ul style="list-style-type: none"> <li>• Engage the system provider to configure the financial system to prevent spending on votes with exhausted budget.</li> <li>• Internal Audit to test compliance with SCM regulations and policies on an Adhoc basis.</li> <li>• Immediately refer matters of UIF&amp;W expenditure to MPAC.</li> <li>• Investigate UIF&amp;W expenditure immediately.</li> <li>• MPAC must report to Council quarterly on the outcome of investigations and consequent management.</li> <li>• Implement consequence management for UIF&amp;W expenditure in terms of section 32 investigation of MFMA.</li> <li>• Monitor the implementation of the UIF&amp;W Expenditure Reduction Strategy monthly.</li> <li>• Internal Audit must give assurance on the implementation of that UIF&amp;W Expenditure Reduction Strategy.</li> </ul>
<b>Post Audit action plans (internal and external)</b>	<ul style="list-style-type: none"> <li>• Include clearing of audit findings in municipal employees performance management contracts.</li> </ul>



Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Monitor the progress of PAAP and hold officials accountable for not clearing AG findings.</li> <li>• Report on the progress of implementing PAAP to oversight committees and council.</li> </ul>
<b>Internal Audit and Risk Management</b>	<ul style="list-style-type: none"> <li>• Train Risk Management Unit personnel to capacitate them on risk management aspects.</li> <li>• Senior management and council must review and approve risk management reports timely.</li> <li>• Annually review Risk Management Framework and Policy.</li> <li>• Monitor implementation of the Risk Management Policy.</li> <li>• Annually review the operational and strategic risk register for council approval.</li> <li>• Internal Audit function to provide assurance on the implementation of remedial actions.</li> </ul>
<b>Information &amp; Communications Technology</b>	<ul style="list-style-type: none"> <li>• Ensure that the ICT Steering Committee remains functional.</li> <li>• ICT governance reports to be a standing item on the Audit committee.</li> <li>• Annually review the Business Continuity and Disaster Recovery plan.</li> <li>• Annually review policies and strategies with the assistance of the ICT committee.</li> <li>• Develop and implement appropriate strategies to provide for off-site back up of financial and other critical non-financial information.</li> <li>• Allocate sufficient budget in the FY2024/25 to procure latest and licensed software as well as upgrading ICT infrastructure.</li> </ul>
<b>Immovable property management</b>	<ul style="list-style-type: none"> <li>• Allocate sufficient budget resources in the FY2024/25 to acquire an Asset Management system.</li> <li>• Include in the Terms of References of service provider the need for skills transfers.</li> <li>• Monitor skills transfers to Assets Management Unit employees.</li> <li>• Annually perform an immovable assets count.</li> <li>• Maintain an updated GRAP compliant immovable asset register.</li> </ul>

*Institutional*

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

Focus Area	Strategies
<b>Organizational Structure and operating model</b>	<ul style="list-style-type: none"> <li>• Develop SOPs on the implementation of the organogram.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Monitor implementation of the organogram in line with budget constraints.</li> <li>• Place employees appropriately for full utilization guided by the approved placement policy.</li> <li>• Only fill critical positions in line with budget constraints to contain payroll.</li> </ul>
<b>Overtime Management</b>	<ul style="list-style-type: none"> <li>• Ensure that the shift system remains functional.</li> <li>• Prepare and approve monthly overtime budgets per department.</li> <li>• Managers to motivate overtime budget inputs and strictly adhere to them.</li> <li>• Perform overtime and allowances reasonability testing to curb abuse. Follow up on any exceptions noted.</li> </ul>
<b>Employee cost</b>	<ul style="list-style-type: none"> <li>• Prevent the filling of non-critical positions.</li> <li>• Provide clear roles and responsibilities after performing a job description assessment.</li> </ul>
<b>Labour relations</b>	<ul style="list-style-type: none"> <li>• Ensure that the LLF remains functional, and its resolutions are implemented.</li> </ul>
<b>Skills &amp; competencies</b>	<ul style="list-style-type: none"> <li>• Cascade skills and competence testing to all employees.</li> <li>• Upskill employees with skills and competencies shortages.</li> <li>• Place employees in positions they meet the minimum competencies requirements.</li> <li>• Ensure that all senior managers meet the minimum competencies requirements.</li> <li>• Ringfence the mandatory grants for training and development.</li> </ul>
<b>Staff Discipline and disciplinary board</b>	<ul style="list-style-type: none"> <li>• Budget for an electronic clocking system software.</li> <li>• Strictly implement the 2 days salary deduction abscondment to work.</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>• Implement performance management systems of internal controls.</li> <li>• Monitor the performance of all municipal employees.</li> <li>• Hold officials accountable for poor performance.</li> <li>• All employees reporting to the MM must sign performance agreements.</li> </ul>
<b>Consequence Management</b>	<ul style="list-style-type: none"> <li>• Monitor implementation of the Consequence Management Policy.</li> <li>• Ensure that the Disciplinary Board remains functional.</li> <li>• Educate employees on processes to be followed on reporting any misconducts identified.</li> </ul>
<b>Key HR Policies</b>	<ul style="list-style-type: none"> <li>• Monitor implementation of HR related policies.</li> <li>• Workshop supervisors and staff on approved HR related policies.</li> <li>• Hold official accountable for noncompliance with the policies.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>Regularly review and approve policies in line with changes in the legislative environment.</li> </ul>
<b>HR Strategy</b>	<ul style="list-style-type: none"> <li>Monitor implementation of the HR Strategy.</li> <li>Regularly review and approve the HR Strategy.</li> </ul>
<b>Physical Verification of staff and qualifications</b>	<ul style="list-style-type: none"> <li>Perform monthly employees' verifications prior to payroll run.</li> <li>Perform annual employees verifications.</li> <li>Perform qualifications verifications and background checks for all new employees.</li> </ul>
<b>Records Management</b>	<ul style="list-style-type: none"> <li>Procure an electronic system for keeping municipality documents.</li> </ul>

### *Financial Management*

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

Focus Area	Strategies
<b>Budget Management</b> (Funding Status, Policies, etc.)	<ul style="list-style-type: none"> <li>Train BTO staff on how to prepare a credible budget.</li> <li>Timely review budget-related policies for council approval.</li> <li>Eliminate all non-essential expenditure items.</li> <li>Approve and adopt a funded budget.</li> <li>Prepare and approve a Budget Funding Plan.</li> <li>Monitor the implementation of the Budget Funding Plan.</li> <li>Implement an activity-based budget through Demand Management Plans that detail monthly expenditure and procurement needs per department.</li> <li>Strictly implement debt control policies to improve the collection rates.</li> </ul>
<b>Revenue Management</b>	<ul style="list-style-type: none"> <li>Monitor implementation of Revenue Technical Committee resolutions.</li> <li>Perform a reasonability testing on meter readings prior to billing. Any exceptions noted must be rectified immediately.</li> <li>Monitor the implementation of water distribution loss preventive measures.</li> <li>Finalise billing system cleansing.</li> <li>Perform campaigns encouraging customers to continue settling their accounts.</li> <li>Implement a debt relief incentive scheme through discounts or incentives to encourage customers to continue settling their accounts.</li> <li>Clear balances in the suspense accounts timely.</li> <li>Implement debtors and creditors control measures.</li> <li>Set targets for the debt collector and implement consequence</li> </ul>

Focus Area	Strategies
	management for poor performance
<b>Customer care and data accuracy</b>	<ul style="list-style-type: none"> <li>• Monitor the implementation of the customer care policy.</li> <li>• Develop a custom-made Windows-based customer query system.</li> </ul>
<b>Cost-reflective tariffs</b>	<ul style="list-style-type: none"> <li>• Finalise the Cost of Supply study on service charges and assessment rates.</li> <li>• Benchmark the tariffs with other municipalities to ensure consistency.</li> <li>• Recommend to the council for the approval of cost-reflective time tariffs.</li> <li>• Engage NERSA to approve cost-reflective tariffs for electricity.</li> <li>• Accurately update the billing system with the approved tariffs.</li> </ul>
<b>Indigent Management</b>	<ul style="list-style-type: none"> <li>• Ensure that the Indigent Management Framework is regularly reviewed where necessary.</li> <li>• Monitor the implementation of the Indigent Management Framework.</li> <li>• Prepare and review monthly monitoring reports for indigent expenditure.</li> <li>• Perform awareness campaigns and educate the community on the indigent criteria.</li> </ul>
<b>Supply chain management compliance and value for money procurement</b>	<ul style="list-style-type: none"> <li>• Regularly review the SCM policy in line with changes in legislation.</li> <li>• Prepare and approve an Annual Procurement Plan for all goods or services.</li> <li>• Ensure proper coordination between departments on the acquisition of goods and services.</li> <li>• Monitor adherence to SCM regulations and policies.</li> <li>• Hold officials accountable for contravening SCM policies and regulations.</li> <li>• Monitor adherence to the Annual Procurement Plan.</li> </ul>
<b>Financial control environment</b>	<ul style="list-style-type: none"> <li>• Prepare and approve monthly reconciliations.</li> <li>• Review Sops in line with municipal improved changes.</li> <li>• Capture expenditure items timely.</li> <li>• Ensure transfers of skills from service providers performing BTO functions.</li> </ul>
<b>Expenditure and Creditor management</b>	<ul style="list-style-type: none"> <li>• Honor payment arrangements with creditors.</li> <li>• Allocate the greater part of the equitable shares towards the settlement of DWS, ESKOM and Pension Fund debts.</li> <li>• Strictly monitor compliance with the Cost Containment policy and hold officials for any breaches.</li> <li>• Apply to High Court for a debt relief and restructuring per MFMA circular 95 in line with cashflow improvements.</li> <li>• Pay new invoices within 30 days from 1 July 2024 onwards.</li> <li>• Establish a panel of service providers to utilise in emergency procurement.</li> <li>• Align the needs of the municipality with the length of the contracts for</li> </ul>

Focus Area	Strategies
	goods and services.
<b>Grant management</b>	<ul style="list-style-type: none"> <li>• Develop and approve a yearly Project Plan.</li> <li>• Monitor the implementation of the yearly Project Plan.</li> <li>• Prepare monthly grants reconciliations.</li> <li>• Ring fence all conditional grants.</li> <li>• Monitor compliance with grant conditions.</li> <li>• Hold officials accountable for misappropriation of conditional grants.</li> <li>• Unspent conditional grants must be cash backed.</li> </ul>
<b>mSCOA implementation</b>	<ul style="list-style-type: none"> <li>• All modules must be incorporated on the system.</li> <li>• Monitor implementation of the mSCOA roadmap.</li> <li>• An mSCOA Steering Committee must remain functional.</li> <li>• Ensure skills transfers to municipal employees by the system vendor.</li> </ul>

### Service Delivery

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

Focus Area	Strategies
<b>Infrastructure Asset Management</b>	<ul style="list-style-type: none"> <li>• Implement service delivery sector plans, by-laws, and policies.</li> <li>• Audit of current infrastructure to determine state, taking into consideration service backlogs and long-term strategy aligned to the operating model IDP, budget and long-term financial plan.</li> <li>• Compile a report with the condition of all infrastructure and state of each.</li> <li>• Develop infrastructure business plans and funding proposals for infrastructure funding. Create plans for counter funding.</li> <li>• Development and implement of bulk services contribution policy and set bulk contribution fees.</li> </ul>
<b>Water and Sanitation Services</b>	<ul style="list-style-type: none"> <li>• Replace the pipe from the intake tower in Frankfort.</li> <li>• Develop and implement a system to constantly deal with illegal connections.</li> <li>• Conduct a cost benefit analysis for installing smart meters and implement the outcome.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Provide additional VIP toilets to reduce the sanitation backlog.</li> </ul>
<b>Electricity Distribution and Supply</b>	<ul style="list-style-type: none"> <li>• Implement Rural Maintenance contract management with the support of a Contract Management Team/Committee.</li> <li>• Finalize the financial and technical due diligence analysis.</li> <li>• Ensure timeous payment by Rural Maintenance of Eskom Current Account.</li> </ul>
<b>Roads and Stormwater Drainage</b>	<ul style="list-style-type: none"> <li>• Monitor and report state of roads monthly or quarterly.</li> <li>• Implement a system to monitor and track all reported pothole and storm drainage cases.</li> </ul>
<b>Capital Grant Funds</b>	<ul style="list-style-type: none"> <li>• Implement the plan to improve grant spending based on the findings made.</li> <li>• Ensure that planned projects for the next MTEF have been approved by council.</li> <li>• Develop a list of potential projects and conduct feasibility studies for projects.</li> </ul>
<b>Waste Disposal and Refuse Removal</b>	<ul style="list-style-type: none"> <li>• Source funds to purchase new fleet of solid waste collection trucks and equipment for maintaining landfill sites.</li> <li>• Conduct illegal dumping educational campaigns and cleaning campaigns.</li> <li>• Upgrading of the existing landfill sites.</li> <li>• Undertake the electrification and fencing of all landfill sites. Install weighbridges on landfill sites. Collect revenue from users at landfill sites.</li> <li>• Adhere to legislation to become compliant as a landfill site operator.</li> <li>• Develop and implement mechanisms to access funding for waste infrastructure.</li> <li>• Collaborate with private waste removal companies.</li> <li>• Initial recycling projects for waste in communities.</li> <li>• Purchase additional refuse removal fleet including, tipper trucks, more compactor trucks, tractors, dozers and TLB's.</li> </ul>
<b>Fleet Management and Mechanical Workshops</b>	<ul style="list-style-type: none"> <li>• Establish an accident committee that will investigate all accidents and apply consequence management where necessary.</li> </ul>

Focus Area	Strategies
	<ul style="list-style-type: none"> <li>• Ensure that the mechanical workshop is functional to repair vehicles and equipment internally.</li> </ul>
<b>Town Planning and Land Development</b>	<ul style="list-style-type: none"> <li>• Source funds to procure equipment for the town planning unit, including computers, printers, filing cabinets etc.</li> <li>• Conduct inspections to determine buildings that were built without approved plans and enforce by laws.</li> <li>• Procure a GIS system.</li> <li>• Develop area-based plans to assist with making land available.</li> <li>• Rezone land in Villiers and Qalabotjha to ensure that the available land is fit for business.</li> <li>• Streamline the land development application process and feedback system to ensure quicker approvals.</li> <li>• Engage the department of human settlement and consider Public Private Partnership (PPP) to provide social housing.</li> <li>• Engage with mining companies to help solve the housing backlog through PPPs.</li> <li>• Expedite the processes to ensure budget spending on funding for infrastructure development.</li> </ul>
<b>Local Economic Development</b>	<ul style="list-style-type: none"> <li>• Control street trading by building trading facilities and issuing street trading licenses.</li> <li>• Maintenance and refurbishment of Community Facilities, Buildings, Sports, and Recreational Facilities.</li> <li>• Ensure functional community services committee.</li> <li>• Evaluate the needs and source funding to develop multi-use community facilities which may serve as pension-pay-points, indoor sports facility, and place of assembly.</li> <li>• Improve cemeteries by developing ablution facilities and storerooms.</li> <li>• Identify land to develop new cemeteries, likely in Frankfort and Villiers.</li> </ul>

### **3.3 MUNICIPAL SUSTAINABILITY PHASE**

Reasonable assurance should be obtained that measures implemented in Phases 1 and 2 are sustainable and that the municipality is committed to ensuring the implementation of good practice prior to concluding the intervention. Monitoring of ratios will be prioritized in this phase to determine the achievements so made from the previous phases. Exiting will be considered should there be a reasonable assurance that the municipality's financial health has been resuscitated.



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

A financial modelling was developed in line with s142 of the MFMA. Key assumptions were made, spending limits were set, budget parameters were set, and revenue-raising measures we identified. It is imperative that the municipality implements the strategies as set out in the FRP and its annexures to ensure the achievement of this alleviated financial position.

BUDGET ITEM	2023/24 BUDGET PARAMETERS	2024/25 BUDGET PARAMETERS	2025/26 BUDGET PARAMETERS	ASSUMPTIONS
Service charges - Electricity	Per approved budget parameter.  0% adjustment for improved revenue management practices.	Per approved budget parameter.  0% adjustment for improved revenue management practices.	FY2025/26 budget parameter + [Rural Maintenance's revenue from sale of electricity (FY2021/22: R150 957 881.37) adjusted for growth rate (0.96% over 2022/23 to 2025/26) and CPI Rate (FY2022/23: 6.9%; FY2023/24: 5.3%; FY2024/25: 4.90%; and FY2025/26: 4.70%).  Plus 5% increase due to improved revenue management practices.	<ul style="list-style-type: none"> <li>MLM assumes its function to sale electricity during the FY2025/26.</li> <li>Cost reflective tariffs are approved by council.</li> <li>NERSA approves the maximum allowable increase in electricity tariffs.</li> <li>All properties are metered.</li> <li>Decrease in illegal connections.</li> <li>Improved revenue management practices.</li> <li>Post billing reconciliations are performed. Reconciling items are addressed timely.</li> </ul>
Service charges - Water	Recalculated based on the approved budget parameter increased by 10% for improved billing efficiencies.	Recalculated based on the approved budget parameter increased by 20%	Recalculated based on the approved budget parameter increased by 40%	<ul style="list-style-type: none"> <li>The Cost of Supply Study is performed for service charges.</li> <li>Council approves cost reflective tariffs.</li> </ul>

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BUDGET ITEM	2023/24 BUDGET PARAMETERS	2024/25 BUDGET PARAMETERS	2025/26 BUDGET PARAMETERS	ASSUMPTIONS
		for improved billing efficiencies.	for improved billing efficiencies.	<ul style="list-style-type: none"> <li>All properties are metered with functional meters.</li> </ul>
Service charges - Waste Water Management	Recalculated based on the approved budget parameter increased by 10% for improved billing efficiencies.	Recalculated based on the approved budget parameter increased by 20% for improved billing efficiencies.	Recalculated based on the approved budget parameter increased by 40% for improved billing efficiencies.	<ul style="list-style-type: none"> <li>Decrease in illegal connections.</li> <li>Improved revenue management practices.</li> <li>Post billing reconciliations are performed. Reconciling items are addressed timely.</li> </ul>
Service charges - Waste Management	Recalculated based on the approved budget parameter increased by 10% for improved billing efficiencies.	Recalculated based on the approved budget parameter increased by 20% for improved billing efficiencies.	Recalculated based on the approved budget parameter increased by 40% for improved billing efficiencies.	
Sale of Goods and Rendering of Services	Per approved budget parameter.	Per approved budget parameter.	Per approved budget parameter.	<ul style="list-style-type: none"> <li>Improved revenue management practices in line with the Implementation Plan strategies.</li> </ul>
Interest earned from Receivables	Per approved budget parameter.	Per approved budget parameter.	Per approved budget parameter.	<ul style="list-style-type: none"> <li>Improved revenue management practices in line with the Implementation Plan strategies.</li> </ul>
Interest earned from Current and Non-Current Assets	Per approved budget parameter.	Per approved budget parameter.	Per approved budget parameter.	<ul style="list-style-type: none"> <li>Improved revenue management practices in line with the Implementation Plan strategies.</li> </ul>
Rent on Land	Per approved budget parameter.  15% increase due to charging of market related rentals.	Per approved budget parameter.  20% increase due to charging of	Per approved budget parameter.  20% increase due to charging of	<ul style="list-style-type: none"> <li>Improved revenue management practices in line with the Implementation Plan strategies.</li> </ul>

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BUDGET ITEM	2023/24 BUDGET PARAMETERS	2024/25 BUDGET PARAMETERS	2025/26 BUDGET PARAMETERS	ASSUMPTIONS
		market related rentals.	market related rentals.	
Rental from Fixed Assets	Per approved budget parameter.  15% increase due to charging of market related rentals.	Per approved budget parameter.  20% increase due to charging of market related rentals.	Per approved budget parameter.  20% increase due to charging of market related rentals.	<ul style="list-style-type: none"> <li>Improved revenue management practices in line with the Implementation Plan strategies.</li> </ul>
Operational Revenue	Per approved budget parameter.	Per approved budget parameter.	Per approved budget parameter.	<ul style="list-style-type: none"> <li>Improved revenue management practices in line with the Implementation Plan strategies.</li> </ul>
Property rates	Per approved budget parameter.  10% increase due to billing efficiencies	Per approved budget parameter.  20% increase due to billing efficiencies	Per approved budget parameter.  40% increase due to billing efficiencies	<ul style="list-style-type: none"> <li>All rateable properties are included on the General Valuation Roll.</li> <li>The new General Valuation Roll is uploaded completely and accurately on the billing system. All reconciling items addressed timely.</li> <li>Market Values on the new GRV are accurately determined and will show an upward trend.</li> <li>Tariffs are uploaded accurately on the billing system per council approved tariffs.</li> </ul>

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BUDGET ITEM	2023/24 BUDGET PARAMETERS	2024/25 BUDGET PARAMETERS	2025/26 BUDGET PARAMETERS	ASSUMPTIONS
				<ul style="list-style-type: none"> <li>Monthly reconciliations between the GVR and the billing system are performed and reviewed. All reconciling items addressed timely.</li> <li>Improved revenue management practices.</li> <li>The results of the property rates reconciliations are uploaded on the billing system accurately and completely.</li> </ul>
Fines, penalties, and forfeits	Per approved budget parameter plus 10% revenue generation increase due enforcement of by-laws	Per approved budget parameter + 30% revenue generation increase due enforcement of by-laws	Per approved budget parameter + 60% revenue generation increase due enforcement of by-laws	<ul style="list-style-type: none"> <li>Improved revenue management practices in line with the Implementation Plan strategies.</li> <li>By-laws are enforced effectively.</li> </ul>
Transfer and subsidies - Operational	100% of grant funding received is utilised.	100% of grant funding received is utilised.	100% of grant funding received is utilised.	<ul style="list-style-type: none"> <li>Full utilisation of government grants and subsidies.</li> <li>Grant conditions are fully complied with.</li> </ul>
Other income - Reconnection fees	n/a	n/a	Rural Maintenance's revenue (FY2021/22: R72 524.20) increased for growth rate (0.96% over	<ul style="list-style-type: none"> <li>MLM assumes its functions on electricity.</li> </ul>

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BUDGET ITEM	2023/24 BUDGET PARAMETERS	2024/25 BUDGET PARAMETERS	2025/26 BUDGET PARAMETERS	ASSUMPTIONS
			2022/23 to 2025/26) and CPI Rate (FY2022/23: 6.9%; FY2023/24: 5.3%; FY2024/25: 4.90%; and FY2025/26: 4.70%)	
Other income - new connections	n/a	n/a	Rural Maintenance's revenue (FY2021/22: 2 576 475.57) increased for growth rate (0.96% over 2022/23 to 2025/26) and CPI Rate (FY2022/23: 6.9%; FY2023/24: 5.3%; FY2024/25: 4.90%; and FY2025/26: 4.70%)	<ul style="list-style-type: none"> <li>MLM assumes its functions on electricity.</li> </ul>
Other Income - Other non-supply-based income	n/a	n/a	Rural Maintenance's revenue (FY2021/22: 3407211.4) increased for growth rate (0.96% over 2022/23 to 2025/26) and CPI Rate (FY2022/23: 6.9%; FY2023/24: 5.3%; FY2024/25: 4.90%; and FY2025/26: 4.70%)	<ul style="list-style-type: none"> <li>MLM assumes its functions on electricity.</li> </ul>
Other Income - Interest received on	n/a	n/a	Rural Maintenance's revenue	<ul style="list-style-type: none"> <li>MLM assumes its functions on electricity.</li> </ul>

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BUDGET ITEM	2023/24 BUDGET PARAMETERS	2024/25 BUDGET PARAMETERS	2025/26 BUDGET PARAMETERS	ASSUMPTIONS
outstanding debtors accounts			(FY2021/22: R10 689 845) increased for growth rate (0.96% over 2022/23 to 2025/26) and CPI Rate (FY2022/23: 6.9%; FY2023/24: 5.3%; FY2024/25: 4.90%; and FY2025/26: 4.70%) 5% increase due to improved revenue management practices.	<ul style="list-style-type: none"> <li>All outstanding debtors are charged interest.</li> </ul>
Employee related costs	<p>Per approved budget parameter</p> <p>5% reduction from:</p> <ul style="list-style-type: none"> <li>Introduction of the shift system.</li> <li>Noncritical positions are not filled.</li> <li>Containment of non-statutory employee-related costs.</li> </ul>	<p>Per approved budget parameter</p> <p>10% reduction due to:</p> <ul style="list-style-type: none"> <li>Introduction of the shift system.</li> <li>Noncritical positions are not filled.</li> <li>Containment of non-statutory employee-related costs.</li> </ul>	<p>Per approved budget parameter</p> <p>10% reduction due to:</p> <ul style="list-style-type: none"> <li>Introduction of the shift system.</li> <li>Noncritical positions are not filled.</li> </ul> <p>Containment of non-statutory employee-related costs.</p> <p>4.9% reduction due to the temporary freezing of salaries and benefits</p>	<ul style="list-style-type: none"> <li>Application to temporarily freeze salaries and benefits increases approved in the FY2025/26.</li> <li>Reduction in non-contractual benefits and allowances.</li> <li>The shift system is operating efficiently.</li> <li>Critical vacancies remain filled.</li> <li>Noncritical positions are not filled</li> </ul>
Remuneration of councillors	100% per Gazetted maximums, subject to FRP Progress	100% per Gazetted maximums,	100% per Gazetted	<ul style="list-style-type: none"> <li>Operational efficiencies achieved in line with</li> </ul>

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BUDGET ITEM	2023/24 BUDGET PARAMETERS	2024/25 BUDGET PARAMETERS	2025/26 BUDGET PARAMETERS	ASSUMPTIONS
		subject to FRP Progress	maximums, subject to FRP Progress	the FRP Implementation Plan
Bulk purchases - electricity	Per the approved budget parameter	Per the approved budget parameter	Per approved budget parameter increased by Rural Maintenance's electricity bulk purchases for the FY2021/22 of R102 463 674.05 increased for growth rate (0.96% over 2022/23 to 2025/26) and CPI Rate (FY2022/23: 6.9%; FY2023/24: 5.3%; FY2024/25: 4.90%; and FY2025/26: 4.70%)	<ul style="list-style-type: none"> <li>MLM assumes its function to sale electricity in FY2025/26.</li> <li>Improved efficiencies per approved Budget Funding Plan.</li> </ul>
Inventory consumed	Per approved budget parameter	Per approved budget parameter	Per approved budget parameter	<ul style="list-style-type: none"> <li>Operational efficiencies achieved in line with the FRP Implementation Plan</li> </ul>
Debt impairment	75% of billed revenue with the collection rate at 25%	70% of billed revenue with the collection rate at 30%	60% of billed revenue with the collection rate at 40%	<ul style="list-style-type: none"> <li>Operational efficiencies achieved in line with the FRP Implementation Plan.</li> <li>Improved debt collection rate due to enforcement of debtors and creditors policies.</li> </ul>
Depreciation and amortisation	100% per GRAP 17 Standard	100% per GRAP 17 Standard	100% per GRAP 17 Standard	<ul style="list-style-type: none"> <li>Operational efficiencies achieved in line with</li> </ul>

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BUDGET ITEM	2023/24 BUDGET PARAMETERS	2024/25 BUDGET PARAMETERS	2025/26 BUDGET PARAMETERS	ASSUMPTIONS
				the FRP Implementation Plan
Interest	<p>Per approved budget parameter</p> <p>90% reduction from: Creditors agreeing to interest right waiver</p>	<p>Per the approved budget parameter</p> <p>90% reduction from: Creditors agreeing to interest right waiver</p>	<p>Per the approved budget parameter</p> <p>90% reduction from: Creditors agreeing to interest right waiver</p>	<ul style="list-style-type: none"> <li>• Payment plans has been established.</li> <li>• Creditors agreed to interest right waiver.</li> <li>• The municipality is on track with the payment of trade creditors.</li> <li>• Revenue from the sale of electricity has been ring-fenced to settle ESKOM debt.</li> <li>• Greater portion of equitable share has been allocated to settle ESKOM debt as well as DWS debt.</li> </ul>
Contracted services	<p>Per the approved budget parameter</p> <p>10% reduction from:</p> <ul style="list-style-type: none"> <li>• Some tasks being performed by municipal employees.</li> <li>• Skills transfers from service providers</li> </ul>	<p>Per the approved budget parameter</p> <p>20% reduction from:</p> <ul style="list-style-type: none"> <li>• Some tasks being performed by municipal employees.</li> <li>• Skills transfers from service providers</li> </ul>	<p>Per the approved budget parameter</p> <p>20% reduction from:</p> <ul style="list-style-type: none"> <li>• Some tasks being performed by municipal employees.</li> <li>• Skills transfers from service providers</li> </ul> <p>Capped between 2% - 5% per NT benchmarks</p>	<ul style="list-style-type: none"> <li>• Municipal employees are capacitated to perform tasks assigned to contractors.</li> <li>• Contracted services remain within the 2% - 5% norm.</li> <li>• Municipal employees are placed on positions based on their skills and competences.</li> </ul>



BUDGET ITEM	2023/24 BUDGET PARAMETERS	2024/25 BUDGET PARAMETERS	2025/26 BUDGET PARAMETERS	ASSUMPTIONS
Transfers and subsidies	Per the approved budget parameter	Per the approved budget parameter	Per the approved budget parameter	<ul style="list-style-type: none"> <li>Operational efficiencies achieved in line with the FRP Implementation Plan</li> </ul>
Irrecoverable debts written - off	Per the approved budget parameter  10% reduction from improved revenue management practices.	Per the approved budget parameter  20% reduction from improved revenue management practices.	Per the approved budget parameter  30% reduction from improved revenue management practices.	<ul style="list-style-type: none"> <li>The political function managed to motivate communities to settle their accounts.</li> <li>Improved debt collection rate due to enforcement of debtors and creditors policies.</li> </ul>
Operational costs	Per the approved budget parameter  25% reduction from cost containment.	Per the approved budget parameter  30% reduction from cost containment.	Per the approved budget parameter  40% reduction from cost containment.	<ul style="list-style-type: none"> <li>Cost containment measures are effective.</li> <li>Improved expenditure management per approved Budget Funding Plan.</li> </ul>
Other Losses	FY2021/22 actual audit outcome was reduced by 10% from improved loss control.	FY2021/22 actual audit outcome was reduced by 10% from improved loss control.	FY2021/22 actual audit outcome was reduced by 10% from improved loss control.	<ul style="list-style-type: none"> <li>Improved loss control measures.</li> </ul>

In light of, the above budget parameters, spending limits, assumptions, and implementation of the FRP strategies, the results in **Fig. 01** are expected to be achieved. Furthermore, the financial model utilised escalation rates per annum over the recovery period are as follows:

Financial Year	2021/22	2022/23	2023/24	2024/25	2025/26
<b>Consumer Price Index</b>	4.90%	6.90%	5.30%	4.90%	4.70%
<b>Averaged GDP Growth</b>	0.96%	0.96%	0.96%	0.96%	0.96%
<b>Collection Rate</b>			25%	50%	70%

Fig. 01

BUDGET ITEM	2022/23 ADJUSTMENT BUDGET	TARGETS 2023/24 MTREF BUDGET R'000	TARGETS 2024/25 MTREF BUDGET R'000	TARGETS 2025/26 MTREF BUDGET R'000
<b>REVENUE</b>				
Service charges - Electricity	253.00	269.00	285.00	203;597;003.29
Service charges - Water	38;074;019.00	44;677;989.40	51;664;002.00	63;891;149.00
Service charges - Waste Water Management	13;013;811.00	16;597;677.80	19;192;952.40	23;735;283.60
Service charges - Waste Management	14;014;056.00	-	18;895;432.80	23;367;352.40
Sale of Goods and Rendering of Services	2;692;179.00	2;853;710.00	3;024;932.00	3;206;428.00
Interest earned from Receivables	42;871;696.00	54;021;509.00	47;946;743.00	50;823;549.00
Interest earned from Current and Non- Current Assets	68;176.00	72;266.00	76;602.00	81;198.00
Rent on Land	-	7;566;949.40	8;369;703.60	8;871;885.60
Rental from Fixed Assets	294;225.00	358;659.70	396;709.20	420;512.40
Operational Revenue	101.00	107.00	114.00	121.00
Property rates	23;658;336.00	27;585;619.60	31;899;007.20	39;448;439.80
Fines, penalties, and forfeits	123;514.00	144;017.50	222;049.60	235;371.20
Transfer and subsidies - Operational	122;003;000.00	132;281;000.00	140;911;000.00	145;171;000.00
Interest	-	-	-	-
Other income - Reconnection fees	-	-	-	93;100.15
Other income - new connections	-	-	-	3;307;451.37
Other Income - Other non-	-	-	-	4;373;876.52

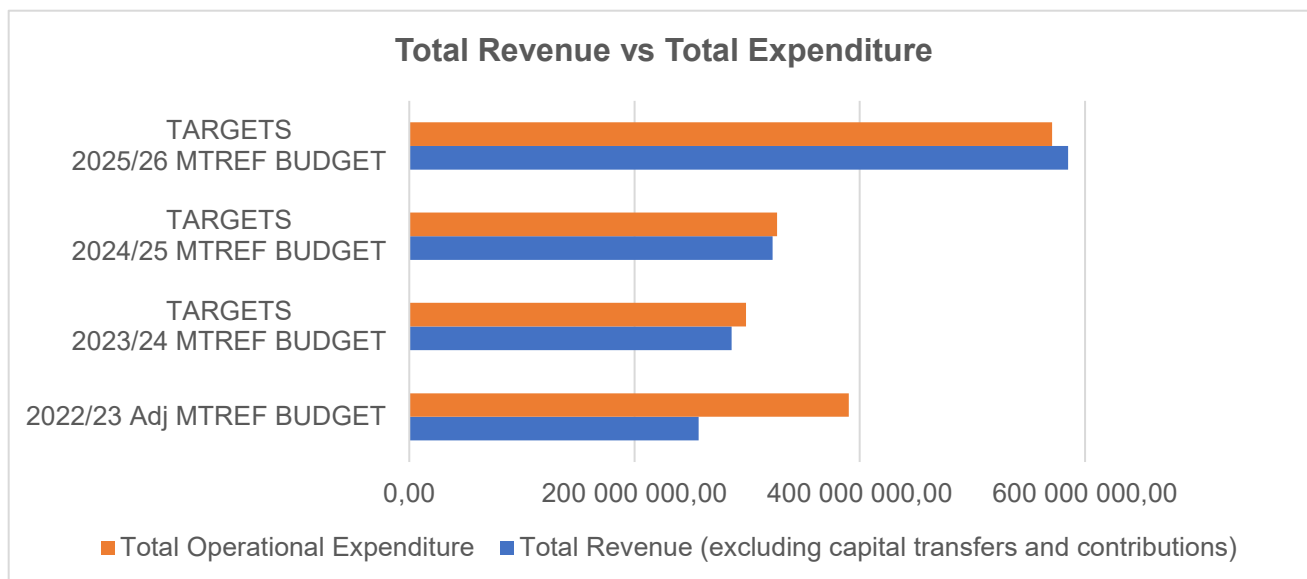
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BUDGET ITEM	2022/23 ADJUSTMENT BUDGET	TARGETS 2023/24 MTREF BUDGET R'000	TARGETS 2024/25 MTREF BUDGET R'000	TARGETS 2025/26 MTREF BUDGET R'000
supply-based income				
Other Income - Interest received on outstanding debtors accounts	-	-	-	14;408;811.02
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>256;813;366.00</b>	<b>286;159;774.40</b>	<b>322;599;532.80</b>	<b>585;032;532.35</b>
<b>EXPENDITURE</b>				
Employee related costs	112;069;940.00	106;466;443.00	113;353;564.50	97;019;315.86
Remuneration of councillors	7;169;933.00	6;625;780.00	7;023;324.00	7;444;727.00
Bulk purchases - electricity	5;000;000.00	5;300;000.00	5;618;000.00	137;488;878.65
Inventory consumed	19;577;560.00	20;752;210.00	21;997;347.00	23;317;186.00
Debt impairment	124;658;265.43	66;646;166.85	85;156;175.58	212;423;536.85
Depreciation and amortisation	19;267;600.00	27;797;679.00	29;465;540.00	31;233;471.00
Interest	17;290;125.00	2;500;000.00	2;650;000.00	2;809;000.00
Contracted services	18;768;262.00	19;455;121.80	18;335;758.40	19;435;904.00
Transfers and subsidies	2;642;663.00	2;801;223.00	2;969;297.00	3;147;453.00
Irrecoverable debts written off	22;049;203.00	7;840;054.80	7;387;073.60	6;851;511.10
Operational costs	41;178;586.00	32;739;477.75	32;425;068.90	29;426;614.80
Other Losses	500;000.00	44;020.80	35;216.64	21;129.98
<b>Total Operational Expenditure</b>	<b>390;172;137.43</b>	<b>298;968;177.00</b>	<b>326;416;365.62</b>	<b>570;618;728.24</b>
<b>Surplus/ (Deficit)</b>	<b>- 133;358;771.43</b>	<b>- 12;808;402.60</b>	<b>- 3;816;832.82</b>	<b>14;413;804.11</b>
<b>SCHEDULE A8:</b>				
<b>Cash and Investments available</b>				
Cash Equivalents at year end	- 11;632;064.43	- 70;594;117.53	- 106;784;967.47	13;593;505.69
<b>Total</b>	<b>- 11;632;064.43</b>	<b>- 70;594;117.53</b>	<b>- 106;784;967.47</b>	<b>13;593;505.69</b>

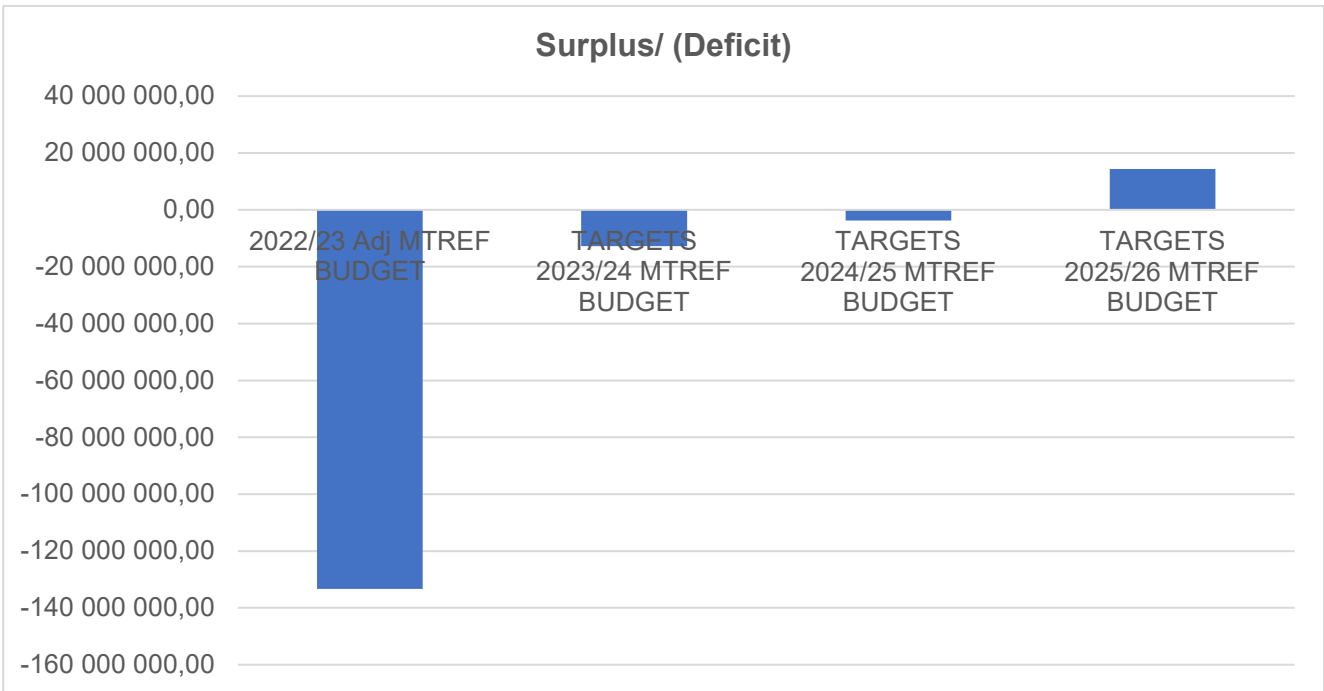
BUDGET ITEM	2022/23 ADJUSTMENT BUDGET	TARGETS 2023/24 MTREF BUDGET R'000	TARGETS 2024/25 MTREF BUDGET R'000	TARGETS 2025/26 MTREF BUDGET R'000
<b>Application of Cash and Investments</b>				
Unspent Conditional Grants	-	-	-	-
Working Capital Requirements (Debtors minus creditors)	- 978;307;020.00	- 897;383;931.42	- 820;345;923.15	- 738;003;891.09
Other provisions	-	-	-	-
<b>Total</b>	<b>- 978;307;020.00</b>	<b>- 897;383;931.42</b>	<b>- 820;345;923.15</b>	<b>- 738;003;891.09</b>
<b>Surplus/ (Shortfall)</b>	<b>- 989;939;084.43</b>	<b>- 967;978;048.95</b>	<b>- 927;130;890.62</b>	<b>- 724;410;385.40</b>

Per analysis of the above results, in the early years of the FRP implementation, operating expenditure exceeds operating revenue as depicted in **fig. 01** below. However, as the municipality continues adhering to the set budget parameters, it is anticipated that there will be progressive financial improvements over the 3 years of FRP implementation. In FY2025/26 it is anticipated that operating revenue will exceed operating expenditure and achieve an operating surplus as depicted in **fig.02** below

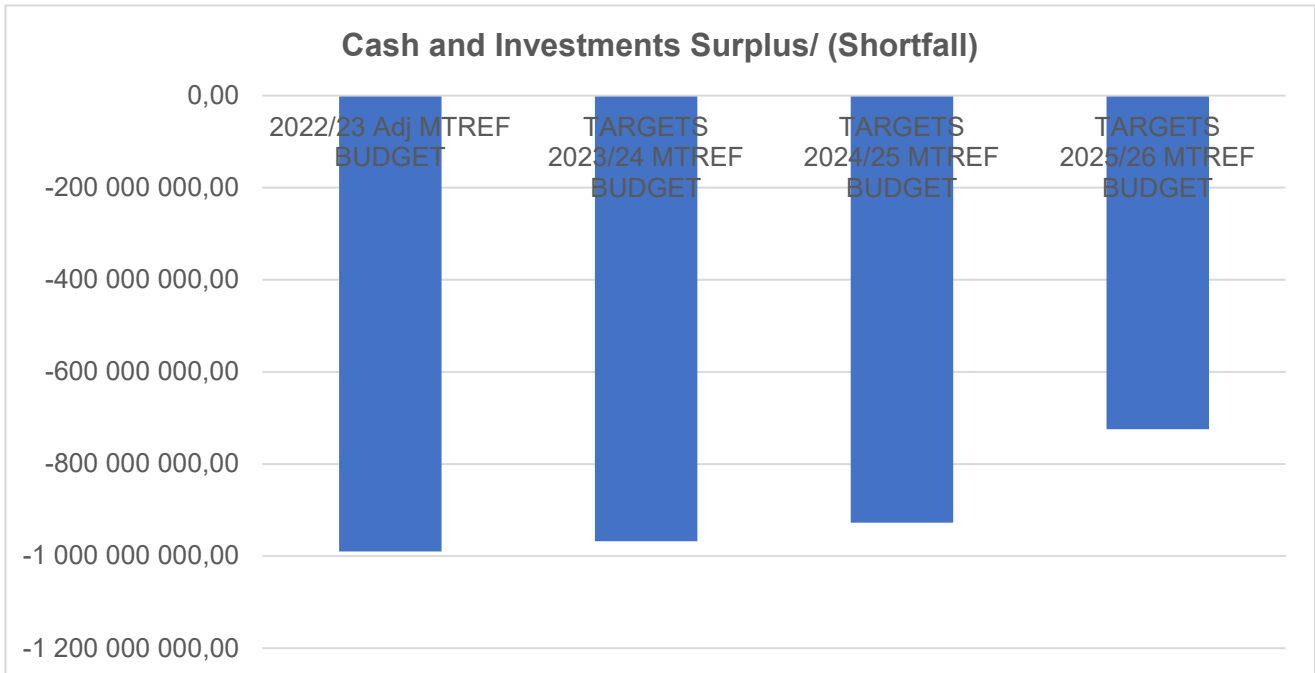
**Fig.01**



**Fig. 02**



**Fig. 03**



Due to improved collection rates and cost containment measures the cash coverage ratio will significantly improve to be in line with the NT standards. The availability of cash inflow will enhance and the municipality’s ability to pay its creditors will improve. Should the improvement momentum be followed, the municipality will be fully self-sufficient financially in seven (7) to ten (10) years.

The forecasting model is however flexible, and figures will be adjusted annually to align with the revised

FRP activities and facilitate sustained financial health improvement. The municipality's adherence to the Financial Recovery Plan will be monitored in terms of its achievement of the targets for revenue and expenditure set out in the financial forecasting model.

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

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

- The 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 addressed.
- The PER/MM must submit a Portfolio of Evidence for claimed performance on a quarterly basis to PT and MFRS for review.
- The MM and heads of the directorate must sign individual performance scorecards/ 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 NT MFRS, PT, 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 THE EXAMPLE BELOW:**

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



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

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:
<b>Phase</b>	Financial Rescue	
<b>Pillar</b>	Institutional	
<b>Focus area</b>	Safety and Security	
<b>Key Activity</b>		
<b>Problem Statement</b>		
<b>Responsible</b>	MM was supported by PER and the rescue task team (for alignment with FRP IP responsibilities)	
<b>Start Date</b>	At the initiation of the rescue phase probably 1 July 2023	
<b>End Date</b>	During rescue phase	
<b>Key Performance Indicator</b>		
<b>Financial Target</b>	Not quantifiable but will be in the case of most other pillars	
Progress Report by Municipality:		
<b>Steps taken</b>	The rescue task team set up meeting with the security cluster identified at the national and provincial levels with all role-players	
<b>Progress made</b>	Meetings and intelligence gathered, and a plan of action and strategy drafted by the security task team	
<b>Financial impact recorded</b>	Not quantifiable but disciplinary and criminal incidents have shown a decline which impacts the UIFW expenditure which has declined to R...or % reduction.	
<b>Other noteworthy developments</b>	The stability of the workforce and the morale of staff shows improvement and levels of reporting on threats and intimidations have shown a marked decline from .... per month to ... per month.	

## 7. PART SEVEN – CONCLUSION

The development of this mandatory Financial Recovery Plan (FRP) is a direct response to the persistent financial and institutional crisis faced by Mafube Local Municipality over the past three years. These crises have severely impacted service delivery, governance, financial management, and institutional processes. The implementation of this FRP aims to address these challenges and improve the overall functioning of the municipality. Several key success factors are crucial for the effective implementation of the FRP:

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

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

## 8. PART EIGHT – RECOMMENDATIONS

The following recommendations are therefore put forth for consideration:

- a. The Mafube 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 Premier/ MEC of Finance, with the support of the HoD (PT), to ensure political supervision.
- c. The Technical War Room Oversight Committee be established by the provincial HoD (PT) to oversee the intervention, monitor progress, address any political and strategic challenges that may hinder its success, and provide reports to both MECs for Finance and CoGTA in the Free State Province for escalation.
- d. The Free State Provincial Support Package for Mafube LM be aligned with the priorities as set out in Phase 1: Financial Rescue of the FRP.
- e. The adoption and implementation of a comprehensive Change Management Programme. The intervention team should consist of dedicated and competent change agents who will focus on the following key areas:
  - (i) Consequence management: The lack of consequence management and accountability arrangements are systemic and symptomatic of a municipality where oversight is lacking. Implementing consequence management and accountability measures are vital initial steps in the right direction.
  - (ii) Capacity development: A significant undertaking involving mentoring, coaching, training, and change management is necessary to enhance the municipality's capabilities. This includes conducting a thorough skills audit, restructuring the staff framework, ensuring appointed officials are well-trained and equipped, and promoting adherence to codes of conduct.

## 9. PART NINE: APPROVAL

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

I Gadija Brown, Member of the Executive Council in the Free State Provincial Cabinet responsible for finance hereby confirm that I have verified and confirmed that all statutory processes as set out in section 141 of the MFMA have been followed and that the criteria contained in section 142 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 August 2023 at Bloemfontein, Free State Province.

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Gadija Brown  
MEC of Finance

**10. PART TEN: ANNEXURE A - FRP IMPLEMENTATION PLAN**

The FRP Implementation Plan is attached as Annexure A to this financial recovery plan. It addresses all three phases of the FRP the rescue phase, stabilisation phase and sustainability phase. In each of the phases, the four pillars of sustainability are addressed which are governance, institutional, financial management and service delivery. The Implementation Plan facilitates smoothness of the FRP implementation, easiness of progress monitoring and measuring of milestones achievements.

Annexure A is structured to include the following columns:

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

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

A summarised Status Quo Assessment Report was prepared per Annexure B covering all four pillars of sustainability which are governance, institutional, financial management and service delivery. The following columns are included in the reporting forming part of the assessment that was performed:

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