

**PRESENTATION TO NCOP ON
MANGAUNG METRO FINANCIAL
RECOVERY PLAN
MEC: TS NXANGISA**

29 OCTOBER 2020



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BACKGROUND

- Mangaung Metropolitan Municipality partnered National Treasury to develop a Financial Recovery Plan aimed at dealing with plethora of challenges facing the Municipality.
- The main thrust of the Financial Recovery Plan was to assist the municipality with the long-term financial sustainability of the city and the re-focus on the administration on embedded the fundamentals of efficiency, cost-containment, revenue enhancement.
- Given the nature of the financial problems, an independent and detailed assessment was undertaken to ensure that the key objective of developing a holistic Financial Recovery Plan is achieved meeting the requirements of Section 142 of the MFMA dealing with the following:
 - Section 142(1) provides that:” 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 must amongst others:
 - 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 their objectives;
 - iv. Set out specific strategy for addressing the municipality’s financial problems, including a strategy for reducing unnecessary expenditure and increasing the collection of revenue;
 - v. Identify the human and financial resources needed to assist in resolving financial problems and where those resources should come from;
 - vi. Describe the anticipated time frame for financial recovery and milestones to be achieved; including
 - vii. Identifying what actions are necessary for the implementation of the plan.

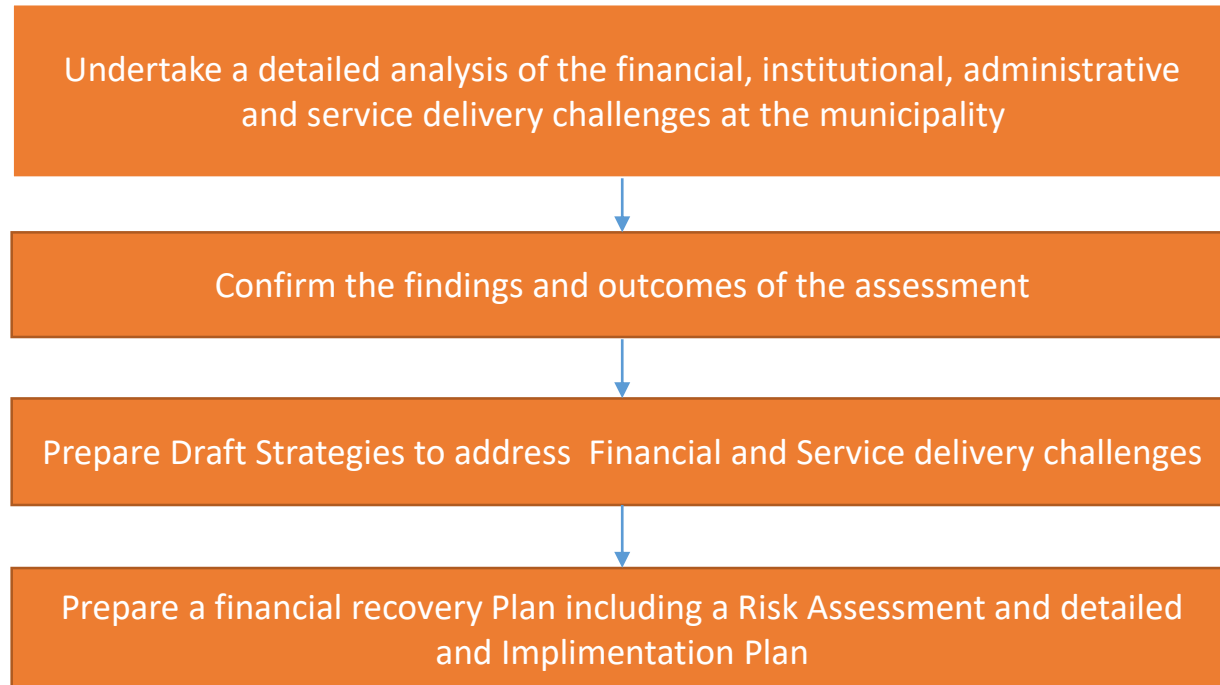


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APPROACH TO THE FINANCIAL RECOVERY PLAN

The approach in the development of the FRP should be holistic and consultative by involving detailed analysis of all relevant documentation coupled with engagements among all relevant stakeholders.

- The process in developing the FRP is as follows:



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APPROACH TO THE FINANCIAL RECOVERY PLAN.....CONTINUES

- Council approved the adoption and implementation of the Financial Recovery Plan on the 31st July 2018 with the development of six(6) strategies focusing on the short, medium and long term deliverables



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APPROACH TO THE FINANCIAL RECOVERY PLAN...CONTINUES

- National Treasury has furthermore assisted Mangaung Metropolitan Municipality to develop a dashboard toolkit aimed at tracking the implementation and generating necessary reports on monthly basis to National Treasury and quarterly to the Municipal Council.
- The Municipality failed to implement the voluntary Financial Recovery Plan which then compelled the Deputy Minister of Finance to write to the Premier requesting the Executive Council to consider placing the Municipality under Section 139(5) (b) and (c) of the constitution providing for either a dissolution or mandatory Financial Recovery Plan.



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GOVERNANCE CHALLENGES

- The Municipality has faced and continue to face various challenges in terms of service delivery, administration, financial management and governance.
- Significant deterioration of the City's Financial health and service delivery performance demonstrated by the financial and non-financial performance both 2016/17 financial year and 2017/18 mid year performance.
- Financial Management and credit control including declining Auditor General outcomes.
- Governance and Political oversight.
- Communication with communities and key stakeholders, and
- The need for strengthening and improving the functioning of the Administration



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ORGANISATIONAL STRUCTURE AND HUMAN RESOURCES

- The Municipality currently has 7 130 positions of which 3 771 positions are filled (53%) with vacancy rate of (47%).
- There is further a need to embark on a process of identification, prioritization, reskilling and redeployment and filling of critical vacancies with skilled and competent employees.
- Each post created on the organizational structure should add value to the overall performance of an organisation.
- Employee related cost have been escalating over the years with no impact on performance improvement and benchmarking exercise should be prioritized to determine if its Organisational Structure is bloated given its current collection and financial situation.



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ORGANISATIONAL STRUCTURE AND HUMAN RESOURCES...CONTINUES

- There is a further a need to relook the breakdown and ratio between service delivery related post functions against the support or non-core functions to rest this against the industry norm.
- Conduct skills audit and ensure that all employees within finance meet the minimum competency level requirements.
- Poor Management of overtime claims resulting in high employee costs and employees do not comply with attendance and time management requirement which result in a culture of poor work ethics, weak management and lack of internal controls resulting in leave and absenteeism being mismanaged and abused.
- Poor management of telephone usage which contributes to unproductive workforce and excessive expenditure and there is a need for comprehensive change management intervention.



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ORGANISATIONAL STRUCTURE AND HUMAN RESOURCES...CONTINUES

PUBLIC PARTICIPATION

- The Municipality provides for an opportunity through public participation for the community to contribute, interrogate and engage municipal strategies, plans and service delivery issues. Currently, The Municipality has fifty (50) wards which are clustered due to the vastness of the Municipality. This enables the Municipality to reach the widest audience possible and consult with the public during the course of the financial year on the revised tariffs and IDP priorities including annual reports and by-laws.
- Ward Committees in the Municipality serve as an interface between the community and the Municipality. They identify day to day service delivery issues in wards and through the ward Councilor escalate these issues to Council attention. Ward Committees are the single most important institutional arrangement to ensure an efficient and result based participatory system. Ward Committees are fully functional and have regular meetings.



ORGANISATIONAL STRUCTURE AND HUMAN RESOURCES...CONTINUES

PUBLIC PARTICIPATION

- The Municipality publishes details of its public meetings in local newspapers, on radio and on the municipal website. There is no information regarding the conducting of satisfactory surveys to determine the satisfactory level of community with the service they receive from the Municipality. There is however no indication of service delivery protests.
- The average monthly collection rate from all revenue sources for the past nine (9) months is R1,7 million and monthly gross salary of all employees, including councilors is R9,1 million.



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ORGANISATIONAL STRUCTURE AND HUMAN RESOURCES...CONTINUES

DISCIPLINARY BOARD

- The other gap identified is the establishment of the disciplinary board. In terms of the municipal regulations for financial misconduct and offences, it must conduct an independent preliminary or full investigation for financial misconduct and offences. The municipality must establish a disciplinary board.

POLITICAL STRUCTURE

- It is critical that the Code of Conduct for Councilors as provided for in Municipal Systems Act (MSA) is implemented and enforced. It is clearly defined in the MSA that interference between the two structures (Council and Administration) within the municipalities is prohibited. This also in place to promote good governance and accountability at all times to ensure that political office bearers and administration of the Municipality. Work towards a common goal in harmony. Also, it is important to ensure that Council meetings which are planned, meet according to the corporate calendar as this has an effect on the decisions that needs to be taken by council and have an effect on service delivery.



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POLICIES REVIEWED

- The policies made available are not all inclusive and do not seem to be revised annually. The following policies were obtained.
 - Credit Control 2018/19 (Draft);
 - Indigent Policy 2017/18 (Draft);
 - Supply Chain Management-June 2016;
 - Property Rates 2018/19 (Draft; and
 - Tariff Policy-2018 (Draft).
- The policies and those that might impact on external parties do not seem to be all in place and there is a need to review these, consult with stakeholders and the relevant ones listed on the municipal website for public access and internal policies shared and consulted with staff.
- All external policies including the financial policies need to be aligned to the by laws so that they are legally enforceable and can be used as instrument to assist with financial recovery and sustainability.



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POLICIES REVIEWED...CONTINUED

- The Municipality needs to develop and implement an overtime policy and performance management policy. There is also a need to develop a group policy on policies between the municipality and its entities. The development of these and other policies requires a standardised approach



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POLICIES REVIEWED

LEGAL AND CONTRACT MANAGEMENT

- According to the Mangaung Annual Report for the 2016/17 financial year the Legal Services Sub-Directorate's main purpose is to provide professional legal advice and assistance services to the Municipality to ensure the proper protection of municipal interests and compliance with its (legal) obligations.
- The sub-directorate consist of only 4 (four) legal advisors out of a staff complement of employees in excess of 3000 (three thousand) at the Municipality. This matter should be prioritized as part of the identification of critical positions.

As of 30 June 2017 the municipality incurred:

- R14 143 768 for legal services for the 2016/17 financial year (2015/16: R24 930 209); and
- R4 496 999 for Deeds searches in respect of Tittle Deeds and related instruments (2015/16:R8 071 311)



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POLICIES REVIEWED...CONTINUES

LEGAL AND CONTRACT MANAGEMENT

- Incidents of unauthorized expenditure during the 2016/17 financial year totaled about R722 194 168, while fruitless and wasteful expenditure for the 2016/17 financial year amounted to R7 546 861.
- No disciplinary steps were taken against the offending employees, nor any criminal proceedings instituted in the same regard (a trend going back at least the past five financial years)

Irregular waste caused by

- Supply Chain Management processes not being followed;
- During the year overpayment of Councilors' remuneration and cellphone allowance was made and led to a subsequent overpayment on fixed motor car allowance;
- Overpayment of contracts; and
- Supporting documentation relating contracts awarded not provided for audit purposes; and
- Incorporation of the former Naledi Municipality.



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INFRASTRUCTURE AND SERVICE DELIVERY MATTERS

- Infrastructure-related service of electricity and water provision, sanitation solid waste disposal and roads and storm-water are constitutional rights to the citizens of South Africa and therefore the obligation of the municipality wherein those citizens reside.
- The provision, operation and maintenance and timely lifecycle replacements are to assure sustainable and quality services provision; and the efficiency and effectiveness with which it is delivered is a key determinant of the financial sustainability of the Municipality.



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INFRASTRUCTURE AND SERVICE DELIVERY MATTERS...CONTINUES

POWER AND FUNCTIONS

- The Municipality is mandated to provide all constitutionally-prescribed service to the community and provides these through own resources as well as government grant funding and these include:
 - Electricity supply, the Municipality is the sole shareholder of Centlec, its electricity service utility company/entity;
 - Water supply;
 - Sanitation services;
 - Solid waste collection and disposal;
 - Roads and storm water; and
 - Built-environment facilities for accommodation of Municipality administration and operations and for community services



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INFRASTRUCTURE AND SERVICE DELIVERY MATTERS...CONTINUES

SERVICE DELIVERY PERFORMANCE

- The table below present the infrastructure service to households and against the minimum service levels.

Service	Households at minimum service level	Household below minimum service level	% households at minimum service level
Water	261 815	3 645	98%
Sanitation	197 650	67 600	74.5%
Solid Waste	249 735	15 515	94.2%
Electricity	254 525	10 890	95.9%

Table1: Infrastructure services to households and against the Minimum Service Levels
The Municipality is achieving +90% minimum service level households with the exception of sanitation (74.5%)



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INFRASTRUCTURE AND SERVICE DELIVERY MATTERS...CONTINUES

INFRASTRUCTURE SERVICES FINANCIAL PERFORMANCE

- Municipal financial sustainability is influenced by all considerations presented in this report, however for sake of emphasis, it is the infrastructure related services that are primary source of revenue. The revenue less the expenditure directly related to the infrastructure services, is the surplus that primarily funds all other municipal operating and administrative expenditure.
- The analysis methodology in this report entailed allocation of revenue and expenditure to infrastructure services, either to specific services, or where applicable to all, then in proportion to asset value.



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INFRASTRUCTURE AND SERVICE DELIVERY MATTERS...CONTINUES

INFRASTRUCTURE SERVICES FINANCIAL PERFORMANCE

The outcome of the analysis is presented in table below and indicates that the infrastructure services in total is delivering a surplus of R975 million based on the 2016/17 annual financial statements

Income and Expenditure		Amount in Rands
Income	Service Charges	3 275 891 715
	Property tax	993 753 704
	Operating grants-specific	279 691 000
	Operating grants-allocation	622 989 000
	Other income-specific	31 024 016
	Total	5 185 349 435
Expenditure	Employee related cost	640 585 282
	Depreciation and amortisation	909 272 947



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INFRASTRUCTURE AND SERVICE DELIVERY MATTERS...CONTINUES

INFRASTRUCTURE SERVICES FINANCIAL PERFORMANCE

Income and Expenditure		Amounts in Rands
	Repairs and maintenance	397 507 138
	Bulk purchase	1 906 618 478
	Contracted services-specific	106 042 900
	Contacted services-allocation	135 302 860
	General expenses-specific	12 896 890
	General expenses-allocation	102 438 943
	Total expenditure	4 210 665 483
Surplus (+ value)/ shortfall (- value)		974 683 997



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INFRASTRUCTURE AND SERVICE DELIVERY MATTERS...CONTINUES

INFRASTRUCTURE SERVICES FINANCIAL PERFORMANCE

Table2 previous slide: Infrastructure Services Financial Performance

As much as the surplus is positive, the consideration is whether this is adequate to service the balance of Municipal operating and administrative expenditure. The table below present the surplus/deficit after the balance of the expenditure is taken into account.

Description	Amount in Rands
Infrastructure surplus	974 683 997
Total expenditure per annual financial statements	6 566 851 616
Expenditure accounted against infrastructure services	4 210 665 438
Balance of operating expenditure to be serviced from infrastructure surplus	2 356 186 178
Operating surplus /(deficit)(Infrastructure surplus less balance of operating expenditure)	(1 381 502 181)



INFRASTRUCTURE AND SERVICE DELIVERY MATTERS...CONTINUES

INFRASTRUCTURE SERVICES FINANCIAL PERFORMANCE

Table 3 previous slide: Deficit after Balance of Expenditure

- The result is that the municipality is in deficit to the value of R1.382 billion, stated differently, the municipality's primary source of revenue generated from infrastructure services, less the expenditure required to deliver those services; cannot fund the balance of operating expenditure. The correction of this deficit scenario is fundamental to achieving a financial sustainable position and /or reduce dependency on government grants subsidies.
- Further analysis indicated that the municipality is under maintaining the infrastructure by 60% when compared to the National Treasury benchmarks and therefore the infrastructure services surplus is not credible because reduced maintenance spend is unsustainable.



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CONCLUSION

- The implication of the status quo findings is that the infrastructure-related service delivery financial surplus will not contribute to bringing the municipality into a financial sustainable position.
- The following requires work and attention;
 - ❑ Enhancing human resource capacity
 - Identify and fill in critical vacancies seriously affecting delivery of services; and
 - Explore use of shift system to mitigate against high overtime cost.
 - ❑ Enabling recovering of revenue related to delivery of electricity, water, sanitation and waste removal services, and the following are important to CENTLEC; City's Engineering Services and City's waste Departments:
 - All deficient water and electricity supply and consumption metering must be addressed to enable revenue billing for actual consumption;



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CONCLUSION... CONTINUES

- Accelerate the implementation of prepaid metering to replace credit-metering;
- Assess tariffs to assure they are cost-reflective; and
- Indigent communities are receiving a higher service level from the City than recommended, which is unaffordable. This implies that the City must fund the difference between grants and actual expenditure.

□ Reduced expenditure related to bulk water supply:

- Resolve the constraints to increase supply of bulk water from City's catchment to reduce reliance of higher-cost water from Bloemwater; and
- A long-term intervention is required to optimise the supply of bulk water for City's benefit, i.e . The sources and role of Bloemwater and City's own bulk water supply function.



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CONCLUSION... CONTINUES

- ❑ Turnaround deficient infrastructure assessed management:
 - The City's financial position is causing existing infrastructure and required supporting resources not to be maintained, and with required capital lifecycle replacements. This scenario places the City into a negative spiral of unreliable infrastructure, high cost, service delivery failure, reducing revenue and disinterest in private sector investment as explained . The longer and deeper the spiral, the higher the capital and operating cost required and longer the time to recover; and
 - Infrastructure related planning including sector plans and master plans are not maintained or acted upon placing the City's medium to long term sustainability in jeopardy.



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Thank you



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