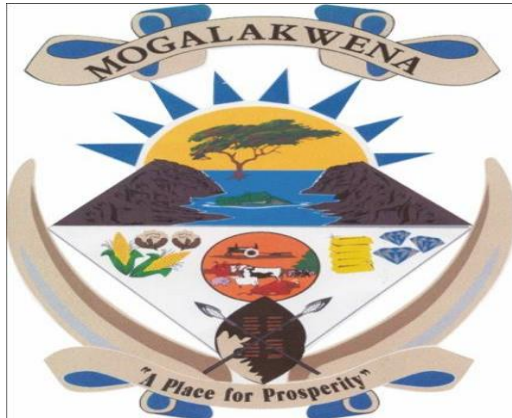


MOGALAKWENA LOCAL MUNICIPALITY



BUDGET FUNDING PLAN 2021/2022 (ADJUSTMENTS BUDGET)

Table of contents

1. Purpose
2. Background
3. Positive Cash Flow
4. Action plan for revenue and expenditure items
5. Items to be funded through budget funding plan
6. Reduction in Non-Core Expenditure
7. Trade Payables
8. Liquidity
9. Collection Rate
10. Oversight
11. Conclusion

1. Purpose

The purpose of the budget funding plan is for the municipality to put measures that will ensure that its budget is funded.

2. Background

The budget funding plan is developed in terms of the framework as provided by National Treasury to Provincial Treasuries to assist the municipality to improve unfunded budget position.

Chapter 4 of the Municipal Finance Management Act No.56 of 2003 ("MFMA") deals with the drafting and adopting of municipal budgets by municipalities. Section 18(1) of the MFMA states that an "annual budget may only be funded from –

- a) realistically anticipated revenues to be collected;*
- b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*
- c) borrowed funds, but only for the capital budget referred to in section 17(2)."*

Section 18(2) adds that "revenue projections in the budget must be realistic, taking into account-

- a) projected revenue for the current year based on collection levels to date; and*
- b) actual revenue collected in previous financial years."*

The municipality therefore has developed the Budget funding plan to address the unfunded budget as assessed by Limpopo Provincial Treasury.

The budget Funding plan in terms of the National Treasury is premised on the following pillars:

1. Positive cash flow with a focus on revenue from trading services;
2. Implementation of cost containment measures and a reduction of expenditure;
3. Realistic debtors' collection rates with incremental improvements year on year;
4. Creditors payment rates that ensure that all fixed obligations for bulk purchases are met; and
5. Ring fencing of conditional grants and ensuring that conditional grant funding is cash backed.

3. Positive Cash Flows

It is imperative to budget for a positive cash flow to ensure that municipality is able to meet its financial obligation when they are due and to prevent financial distress.

The table below depicts 21/22 adjustment budget re-submitted to Council on 02 March 2022.

LIM367 Mogalakwena - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) - 44653												
Description	Ref	Budget Year 2021/22									Budget Year +1 2022/23	Budget Year +2 2023/24
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands	1	A	A1	B	C	D	E	F	G	H		
Revenue By Source												
Property rates	2	87 309	-	-	-	-	-	-	-	87 309	103 547	110 100
Service charges - electricity revenue	2	313 962	-	-	-	-	-	-	-	313 962	359 769	412 259
Service charges - water revenue	2	136 116	-	-	-	-	-	-	-	136 116	155 172	176 896
Service charges - sanitation revenue	2	19 572	-	-	-	-	-	-	-	19 572	20 746	21 991
Service charges - refuse revenue	2	18 618	-	-	-	-	-	-	-	18 618	19 735	20 919
Rental of facilities and equipment		1 837	-	-	-	-	-	-	-	1 837	1 914	1 998
Interest earned - external investments		8 359	-	-	-	-	-	(5 325)	(5 325)	3 034	8 710	9 094
Interest earned - outstanding debtors		44 659	-	-	-	-	-	-	-	44 659	46 534	48 582
Dividends received		-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		3 629	-	-	-	-	-	-	-	3 629	3 782	3 948
Licences and permits		1 777	-	-	-	-	-	-	-	1 777	1 852	1 933
Agency services		9 443	-	-	-	-	-	-	-	9 443	9 840	10 273
Transfers and subsidies		499 305	-	-	-	-	-	-	-	499 305	524 166	515 362
Other revenue	2	4 005	-	-	-	-	-	-	-	4 005	4 173	4 357
Gains		3 487	-	-	-	-	-	-	-	3 487	3 634	3 794
Total Revenue (excluding capital transfers and contributions)		1 152 078	-	-	-	-	-	(5 325)	(5 325)	1 146 753	1 263 575	1 341 506
Expenditure By Type												
Employee related costs		390 861	-	-	-	-	-	(34 293)	(34 293)	356 567	407 630	425 594
Remuneration of councillors		25 103	-	-	-	-	-	(5 152)	(5 152)	19 951	26 117	27 440
Debt impairment		110 901	-	-	-	-	-	-	-	110 901	115 559	120 413
Depreciation & asset impairment		94 906	-	-	-	-	-	(16 000)	(16 000)	78 906	98 892	103 045
Finance charges		686	-	-	-	-	-	-	-	686	715	715
Bulk purchases - electricity		285 544	-	-	-	-	-	(34 363)	(34 363)	251 181	335 996	395 304
Inventory consumed		40 400	-	-	-	-	-	-	-	40 400	45 022	49 786
Contracted services		138 789	-	-	-	-	-	66 870	66 870	205 659	134 182	126 865
Transfers and subsidies		1 201	-	-	-	-	-	(613)	(613)	588	1 251	1 251
Other expenditure		61 993	-	-	-	-	-	9 459	9 459	71 452	64 558	61 734
Losses		-	-	-	-	-	-	-	-	-	-	-
Total Expenditure		1 150 381	-	-	-	-	-	(14 092)	(14 092)	1 136 290	1 229 922	1 312 146
Surplus/(Deficit)		1 697	-	-	-	-	-	8 766	8 766	10 463	33 653	29 360
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		290 164	-	-	-	-	-	63 880	63 880	354 043	348 381	479 021
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)		-	-	-	-	-	-	-	-	-	-	-
Transfers and subsidies - capital (in-kind - all)		-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) before taxation		291 860	-	-	-	-	-	72 646	72 646	364 506	382 033	508 382
Taxation		-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after taxation		291 860	-	-	-	-	-	72 646	72 646	364 506	382 033	508 382
Attributable to minorities		-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality		291 860	-	-	-	-	-	72 646	72 646	364 506	382 033	508 382
Share of surplus/ (deficit) of associate		-	-	-	-	-	-	-	-	-	-	-
Surplus/ (Deficit) for the year		291 860	-	-	-	-	-	72 646	72 646	364 506	382 033	508 382

The municipality's general principle in compiling the adjustments budget 2021-22 entails ensuring that the budget is cash funded and realistic. The budgeted revenue is R 1.146 billion whilst budget expenditure is R1.136 billion. The operating budget surplus amounts to R 10.4 million.

The adjusted budgeted cash flow and historical information is shown in the table below:

LIM367 Mogalakwena - Table B7 Adjustments Budget Cash Flows - 44653												
Description	Ref	Budget Year 2021/22									Budget Year +1 2022/23	Budget Year +2 2023/24
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands		A	A1	B	C	D	E	F	G	H		
CASH FLOW FROM OPERATING ACTIVITIES												
Receipts												
Property rates		65 482	-	-	-	-	-	-	-	65 482	69 410	77 369
Service charges		427 936	-	-	-	-	-	-	-	427 936	487 295	555 080
Other revenue		27 880	-	-	-	-	-	-	-	27 880	29 051	30 330
Transfers and Subsidies - Operational	1	486 579	-	-	-	-	-	-	-	486 579	510 553	501 127
Transfers and Subsidies - Capital	1	298 449	-	-	-	-	-	-	-	298 449	357 367	488 426
Interest		16 719	-	-	-	-	-	-	-	16 719	17 421	18 187
Dividends										-		
Payments												
Suppliers and employees		(831 712)	-	-	-	-	-	(97 185)	(97 185)	(928 897)	(547 769)	(545 593)
Finance charges		(686)	-	-	-	-	-	-	-	(686)	(715)	(715)
Transfers and Grants	1									-		
NET CASH FROM/(USED) OPERATING ACTIVITIES		490 647	-	-	-	-	-	(97 185)	(97 185)	393 461	922 614	1 124 211
CASH FLOWS FROM INVESTING ACTIVITIES												
Receipts												
Proceeds on disposal of PPE		-	-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current receivables		22 561	-	-	-	-	-	-	-	-	323	494
Decrease (increase) in non-current investments										-		
Payments												
Capital assets		(290 790)	-	-	-	-	-	-	-	(290 790)	(348 381)	(479 021)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(268 228)	-	-	-	-	-	-	-	(290 790)	(348 058)	(478 528)
CASH FLOWS FROM FINANCING ACTIVITIES												
Receipts												
Short term loans									-	-		
Borrowing long term/refinancing									-	-		
Increase (decrease) in consumer deposits		(10 249)	-	-	-	-	-	-	-	-	-	-
Payments												
Repayment of borrowing									-	-		
NET CASH FROM/(USED) FINANCING ACTIVITIES		(10 249)	-	-	-	-	-	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD		212 169	-	-	-	-	-	(97 185)	(97 185)	102 672	574 556	645 683
Cash/cash equivalents at the year begin:	2	15 343	-	-	-	-	-	-	-	15 343	192 777	372 088
Cash/cash equivalents at the year end:	2	227 512	-	-	-	-	-	(97 185)	(97 185)	118 015	767 332	1 017 771

The municipality has budgeted for a favourable cash flow amounting to R 118.0 million as indicated above.

4. Action plan for Revenue and Expenditure Items

Revenue

ITEM	MID-YEAR PERFORMANCE	ACTION PLAN TO ADDRESS UNDER-PERFORMANCE
Fines, penalties and forfeits	3%	Traffic department to embark on an extensive law enforcement drive to increase revenue from traffic fines.
Licenses and permits	8%	Licensing department was affected by lockdown. The licensing section is open and fully operational and revenue is expected to increase significantly.
Service charges - electricity	41%	Internal meter audits to identify illegal connections and therefore reduce high electricity losses that are unaccounted for.
		Investigate accounts that are not read and using average consumption for billing. These accounts will be updated for correct billing.
		Disconnection of arrear accounts to increase collection rate to 82%.
Service charges - water	33%	Internal meter audits to identify illegal connections and therefore reduce high water losses that are unaccounted for.
		Investigate accounts that are not read and using average consumption for billing. These accounts will be updated for correct billing.
		Disconnection of arrear accounts to increase collection rate to 82%.
		Quick response to pipe bursts by Technical services in order to minimise water losses.
Interest on external investments	18%	Projected interest on external investments is reduced by R5.3 million in the adjustments budget.
Gains on disposal of PPE	19%	Auction of obsolete assets written-off by council in the fourth quarter.

Expenditure

ITEM	MID-YEAR PERFORMANCE	ACTION PLAN TO ADDRESS UNDER-PERFORMANCE
Bulk purchases - electricity	58%	Bulk purchases for electricity has been increased by R16.1 million after provincial treasury inputs. However, the spending will still be less than originally budgeted as the municipality will be embarking on a programme to reduce illegal connections.
Depreciation	0%	<p>The Auditor General has queried the accuracy of the municipality's asset register and depreciation disclosed in the 2020-21 AFS. At this stage, the municipality does not have an accurate baseline to use for budgeting purposes.</p> <p>The municipality will be conducting an infrastructure asset verification from March 2022 and the updated asset register will be used as an accurate baseline in preparation of the 2022-23 annual budget.</p>

5. Items to be funded through budget funding plan

The following critical items are included in the adjustments budget and the municipality plans to fund them through the implementation of the budget funding plan:

Operational Expenditure

ADJUSTED ITEMS	AMOUNTS
OVERTIME	8 610 000
PRIVATE SECURITY	15 000 000
AUDITOR GENERAL	2 000 000
LANDFILL OUTSOURCE	3 000 000
LITTER PICKING AND STREET CLEANING	1 169 214
WATER TANKERS	1 373 424
INFRASTRUCTURE ASSET VERIFICATION	13 500 000
WATER MAINTENANCE - URBAN	5 000 000
WATER MAINTENANCE - RURAL	1 400 000
ROADS MAINTENANCE	17 000 000
SEWER MAINTENANCE	2 000 000
LEGAL COSTS	2 500 000
MAINTENANCE OF ELECTRICAL EQUIPMENT	4 500 000
HIRING OF PLANT AT LANDFILL	1 000 000
IT OUTSOURCE	3 000 000
PPE AT ELECTRICAL	1 200 000
WATER MATERIAL PURCHASE - URBAN	1 250 000
WATER MATERIAL PURCHASE - RURAL	1 250 000
TOTAL ADDITIONAL EXPENDITURE	84 752 638

The amount of R2 million that was submitted as part of the initial adjustment budget for disaster relief has been removed as the municipality does not have a disaster management unit and the function is currently not the municipality's function.

Capital Expenditure

ADJUSTED ITEMS	AMOUNTS
MAYORAL VEHICLE	1 400 000
ELECTRIFICATION OF LANDFILL SITE	6 000 000
BOREHOLE EQUIPPING LANDFILL SITE	1 000 000
TOTAL ADDITIONAL EXPENDITURE	8 400 000

6. Reduction in non-core expenditure

A critical review was undertaken by Management on all expenditure line items in line with cost containment policy adopted by Council to eliminate non-core items in the 2021/22 adjustments budget. Included in the measures to reduce expenditure, the municipality has approved a limited amount of Overtime which is only worked in line with applicable legislation.

Below is a table indicating the municipality's budgeted operational expenditure:

LIM367 Mogalakwena - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) - 44653												
Description	Ref	Budget Year 2021/22									Budget Year +1 2022/23	Budget Year +2 2023/24
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		3	4	5	6	7	8	9	10			
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Expenditure By Type												
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Depreciation & asset impairment		94 906	-	-	-	-	-	(16 000)	(16 000)	78 906	98 892	103 045
Finance charges		686	-	-	-	-	-	-	-	686	715	715
Bulk purchases - electricity		285 544	-	-	-	-	-	(34 363)	(34 363)	251 181	335 996	395 304
Inventory consumed		40 400	-	-	-	-	-	-	-	40 400	45 022	49 786
Contracted services		138 789	-	-	-	-	-	66 870	66 870	205 659	134 182	126 865
Transfers and subsidies		1 201	-	-	-	-	-	(613)	(613)	588	1 251	1 251
Other expenditure		61 993	-	-	-	-	-	9 459	9 459	71 452	64 558	61 734
Losses		-	-	-	-	-	-	-	-	-	-	-
Total Expenditure		1 150 381	-	-	-	-	-	(14 092)	(14 092)	1 136 290	1 229 922	1 312 146

The municipality will strictly adhere to the cost containment policy in order to spend at a minimal on non-core functions.

4. Trade Payables

Treasury has encouraged municipalities to make arrangements with key creditors and to develop payment plans for the repayment of debt. Mogalakwena Municipality has been able to honour the bulk purchases (Electricity and Water) Eskom and Lepelle Northern Water respectively on monthly basis within 30 days of receipts of invoices.

5. Liquidity

The focus is on cash and short term liquidity. Mogalakwena has Financial Recovery Plan endorsed by the National Treasury, Limpopo Provincial Treasury, and COGHTHA.

The following measures will be put in place in order to improve the municipality's liquidity:

- Implementation of the Financial recovery plan
- Cost curtailment and review of key policies on staff benefits
- Implementation of the budget parameters, revenue targets and spending limits set in the Financial Recovery Plan for the 2021/22 MTREF.
- Implementation of the approved debt collection and credit control policy to improve collection rate
- Special care is taken to manage contracted services through development of consultancy reduction plan.

6. Collection Rate

Collection rate of the municipality has not been stable since the start of the Covid-19 pandemic. At mid-year, the collection rate was at 63%. The collection rate at mid-year is less than the budgeted collection rate of 71% in 2020/21 financial year, the municipality therefore has to improve in its collection to reduce on the debtor's book.

The measures as detailed in the attached Financial recovery Plan are in place to ensure that the improvement of collection rate:

- Implementation of credit control and debt collection rate policy
- Timeous meter reading in order to reduce and even out average billing that was done during the National Lockdown with strict regulations.
- Issue accounts to consumers on time as well as ensuring accurate accounts.
- Issue warning letters to consumers in areas
- Reconciliation of Government debts and entering into payments arrangements
- Meter audits will be conducted and finalised by end of quarter 4 of the current financial year.

7. Oversight

Monthly reports will be submitted to all Municipal Structures and Provincial Treasury to monitor implementation of the funding plan.

8. Conclusion

The implementation of the Financial Recovery Plan together with the budget funding plan is critical to enable the municipality to improve in its cash position. The resuscitation of the mSCOA steering committee will assist the Municipality in ensuring compliance to the mSCOA regulations.