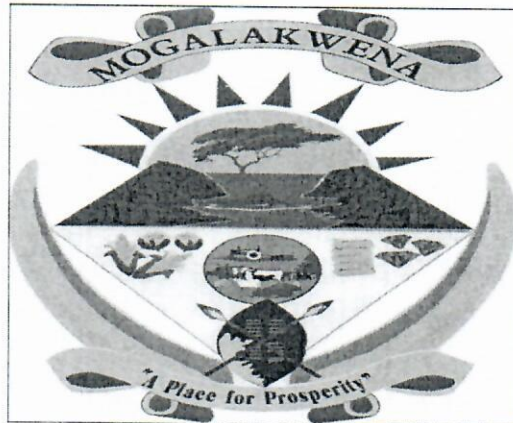


MOGALAKWENA LOCAL MUNICIPALITY



BUDGET FUNDING PLAN 2022/2023 (FINAL BUDGET)

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1. 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.

2. 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 22/23 final budget approved by Council on 30 May 2022.

LIM367 Mogalakwena - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Revenue By Source							
Property rates	87 309	87 309	87 309	73 296	91 500	95 526	99 824
Service charges - electricity revenue	313 962	313 962	313 962	226 208	337 415	362 619	389 707
Service charges - water revenue	136 116	136 116	136 116	78 324	142 649	148 926	155 627
Service charges - sanitation revenue	19 572	19 572	19 572	17 573	20 511	21 414	22 377
Service charges - refuse revenue	18 618	18 618	18 618	16 487	19 511	20 370	21 286
Rental of facilities and equipment	1 837	1 837	1 837	1 208	1 925	2 010	2 100
Interest earned - external investments	8 359	3 034	3 034	2 313	3 180	3 320	3 469
Interest earned - outstanding debtors	44 659	44 659	44 659	51 847	46 802	48 862	51 060
Dividends received	-	-	-	-	-	-	-
Fines, penalties and forfeits	3 629	3 629	3 629	167	3 803	3 971	4 149
Licences and permits	1 777	1 777	1 777	222	1 863	1 945	2 032
Agency services	9 443	9 443	9 443	10 073	9 897	10 332	10 797
Transfers and subsidies	499 305	499 305	499 305	483 230	552 377	586 450	625 745
Other revenue	4 005	4 005	4 005	7 421	4 198	4 382	4 579
Gains	3 487	3 487	3 487	2 953	3 655	3 815	3 987
Total Revenue (excluding capital transfers and contributions)	1 152 078	1 146 753	1 146 753	971 323	1 239 285	1 313 941	1 396 742
Expenditure By Type							
Employee related costs	390 861	356 567	356 567	317 164	402 653	424 391	447 727
Remuneration of councillors	25 103	19 951	19 951	13 994	21 493	22 654	23 900
Debt impairment	110 901	110 901	110 901	(6)	127 926	133 555	139 565
Depreciation & asset impairment	94 906	78 906	78 906	-	99 461	103 837	108 510
Finance charges	686	686	686	-	719	750	784
Bulk purchases - electricity	285 544	251 181	251 181	203 355	296 501	315 142	334 974
Inventory consumed	40 400	40 400	40 400	8 561	46 040	48 088	50 252
Contracted services	138 789	209 804	209 804	172 532	159 780	162 501	171 130
Transfers and subsidies	1 201	508	508	102	616	643	672
Other expenditure	61 993	67 387	67 387	34 838	77 416	80 718	84 383
Losses	-	-	-	2 556	-	-	-
Total Expenditure	1 150 381	1 136 290	1 136 290	753 096	1 232 604	1 292 281	1 361 897
Surplus/(Deficit)	1 697	10 463	10 463	218 227	6 681	21 660	34 845
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	290 164	354 043	354 043	-	265 381	299 021	259 711
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) after capital transfers & contributions	291 860	364 506	364 506	218 227	272 062	320 681	294 557
Taxation							
Surplus/(Deficit) after taxation	291 860	364 506	364 506	218 227	272 062	320 681	294 557
Attributable to minorities							
Surplus/(Deficit) attributable to municipality	291 860	364 506	364 506	218 227	272 062	320 681	294 557
Share of surplus/ (deficit) of associate							
Surplus/(Deficit) for the year	291 860	364 506	364 506	218 227	272 062	320 681	294 557

The municipality's general principle in compiling the final budget approved by Council on 30 May 2022 entailed ensuring that the budget is cash funded and realistic. The budgeted revenue is R 1.239 billion whilst budget expenditure is R1.232 billion. The overall budget surplus amounts to R 6.681 million.

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

LIM367 Mogalakwena - Table A7 Budgeted Cash Flows											
Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
R thousand											
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		-	-	54 167	65 482	65 482	65 482	71 183	64 050	66 868	69 877
Service charges		-	-	344 393	427 936	427 936	427 936	405 818	424 135	450 779	479 339
Other revenue		-	-	364 233	27 880	27 880	27 880	532 402	21 685	22 640	23 658
Transfers and Subsidies - Operational	1	-	-	944	486 579	486 579	486 579	3 242	552 377	586 450	625 745
Transfers and Subsidies - Capital	1	-	-	171 183	298 449	298 449	298 449	211 800	265 381	299 021	259 711
Interest		-	-	735	16 719	16 719	16 719	2 120	3 180	3 320	3 469
Dividends									-	-	-
Payments											
Suppliers and employees		-	-	(518 717)	(540 922)	(638 108)	(638 108)	(916 654)	(1 003 905)	(1 053 496)	(1 112 367)
Finance charges		-	-	-	(686)	(686)	(686)	-	(719)	(750)	(784)
Transfers and Grants	1	-	-	-	-	-	-	-	(157)	(164)	(172)
NET CASH FROM/(USED) OPERATING ACTIVITIES		-	-	416 938	781 436	684 251	684 251	309 911	326 027	374 667	348 478
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	-	-	-	-	-	-	3 655	3 815	3 987
Decrease (increase) in non-current receivables		4 959	(15 891)	4 509	22 561	-	-	-	-	-	-
Decrease (increase) in non-current investments									-	-	-
Payments											
Capital assets		-	-	(156 351)	(290 790)	(290 790)	(290 790)	(144 069)	(265 381)	(299 021)	(260 156)
NET CASH FROM/(USED) INVESTING ACTIVITIES		4 959	(15 891)	(151 843)	(268 228)	(290 790)	(290 790)	(144 069)	(261 726)	(295 206)	(256 169)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans									-	-	-
Borrowing long term/refinancing									-	-	-
Increase (decrease) in consumer deposits									-	-	-
Payments											
Repayment of borrowing									-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	-	-	-	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD		4 959	(15 891)	265 095	513 208	393 461	393 461	165 842	64 301	79 461	92 308
Cash/cash equivalents at the year begin:	2	161 439	27 491	35 913	15 343	15 343	15 343	-	6 679	70 981	150 442
Cash/cash equivalents at the year end:	2	166 398	11 600	301 008	528 551	408 804	408 804	165 842	70 981	150 442	242 750

The municipality has budgeted for a favourable cash flow amounting to R70.981 million as indicated above.

Management is preparing mSCOA implementation road map which will be submitted to both National and Provincial Treasury for 2022/2023 financial year to ensure compliance to mSCOA regulations. This will address the current budgeting as well as reporting challenges currently experienced by the Municipality on the Cash Flow. The mSCOA project steering committee is also being resuscitated and will meet on monthly basis.

3. 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 and nice to have items in the 2022/23 final budget approved 30 May 2022. Included in the measures to reduce expenditure, the municipality has approved a limited amount of Overtime which is only for essential services. The cost containment policy form part of the budget related policies for 2022/23 financial year.

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

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Finance charges	686	686	686	–	719	750	784
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Transfers and subsidies	1 201	508	508	102	616	643	672
Other expenditure	61 993	67 387	67 387	34 838	77 416	80 718	84 383
Losses	–	–	–	2 556	–	–	–
Total Expenditure	1 150 381	1 136 290	1 136 290	753 096	1 232 604	1 292 281	1 361 897

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 the 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 COGHTA.

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 2022/23 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 the end of the third quarter, the collection rate was 69%. The collection rate of the quarter is less than the budgeted collection rate of 75% for the 2022/23 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 3 of the currently 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