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LOCAL MUNICIPALITY



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Mohokare Local Municipality

Draft Budget 2025/26 to 2027/28

Medium Term Revenue and Expenditure Framework

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Glossary

Adjustment Budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

AFS – Annual Financial Statements

Budget – The financial plan of the Municipality

Budget related Policy – Policy of a municipality affecting or affected by the budget, examples include the tariff policy, rates policy and credit control and debt collection policy.

Capital Expenditure – Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Performance.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

CFO – Chief Financial Officer

DoRA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting and the basis on which the AFS are prepared.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

KPI's – Key Performance Indicators. Measures of service output and/or outcome.

MFMA – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal finance management.

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

NT – National Treasury

Net assets – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the “net wealth” of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of revenue or expenses, such as an increase in the values of Property, Plant and Equipment where there is no inflow or outflow of resources, are accounted for in net assets.

Operating expenditure – Spending on the day to day expense of the municipality such as salaries and wages.

Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed ratable value of the property is multiplied by the predetermined rate.

R&M – Repairs and maintenance on property, plant and equipment.

SCM – Supply Chain Management

SDBIP – Service Deliver and Budget Implementation Plan. A detailed plan comprising of quarterly performance targets and monthly budget estimates.

Strategic objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – Generally, spending without, or in excess of, an approved budget.

Virement – A transfer of budget.

Virement Policy – The policy that sets out the rules of budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an adjustment budget.

mSCOA – Municipal Standard Chart of Accounts.

PART 1 – ANNUAL BUDGET

1.1 Mayor's report

See report attached

1.2 Resolutions

See council resolution attached

1.3 Executive Summary

Introduction

In assisting in the compilation of this MTREF, National Treasury MFMA Circulars No. 129 and 130 were used where necessary.

Background

The National Treasury estimates real economic growth of 1.8 per cent from 2025 to 2027. Medium-term growth will be underpinned by household consumption on the back of rising purchasing power, moderate employment recovery and wealth gains. Continued investments in renewable energy and easing structural constraints are expected to support higher investment. Key factors for achieving faster economic growth and creating much-needed jobs include greater collaboration with the private sector in energy and transport, rapid implementation of structural reforms, easing of regulatory constraints and increased infrastructure investment.

The following macro-economic forecasts must be considered when preparing the 2025/26 MTREF municipal budgets.

Fiscal year	2023/24	2024/25	2025/26	2026/27	2027/28
Actual		Estimate		Forecast	
CPI	6.0%	4.4%	4.3%	4.6%	4.4%
Inflation					

Headline inflation declined to 2.9 per cent in the fourth quarter of 2024, resulting in average inflation of 4.4 per cent for the year. Consumer inflation is projected to average 4.3 per cent in 2025 and 4.6 per cent in 2026, picking up slightly as the value-added tax (VAT) increase pushes up prices. The VAT effect is seen mainly in core inflation, which, after averaging 4.3 per cent in 2024, is projected to rise to 4.6 per cent in 2026. Lower global crude oil prices are expected to support muted fuel price inflation.

Due to weaker economic growth and other economic factors such as the current VAT increase which puts added pressure on households, households will likely struggle to pay municipal accounts which will impact negatively on municipal own revenues. It is therefore noted that variations in regional specifics are possible, however, any variation of assumptions must be explicitly set out and well explained in the budget narratives, in the absence of which the Treasuries will refer the budget back to council for alignment to the macroeconomic performance projections or for clear articulation of all the factors affecting the tariffs.

Over the 2025 MTEF, the local government equitable share and direct conditional grants amount to a total of R552.7 billion, made up of R332.4 billion in the local government equitable share, R52.9 billion in the general fuel levy sharing with metros and R167.4 billion in direct conditional grants. Direct transfers to local government grow in line with inflation, increasing at an annual average of 4.4 per cent over the MTEF, with the local government equitable share growing at a slightly higher rate (5.2 per cent).

As part of the next phase of the ongoing review of local government capacity-building programmes, the National Treasury will consolidate its financial management support initiatives into a unified Local Government Financial Management Capability Development Programme. This integrated programme will provide a comprehensive framework for equipping municipalities with the tools, knowledge and resources needed to strengthen governance and improve service delivery. By streamlining existing initiatives and fostering collaboration, the programme aims to deliver targeted, impactful and sustainable support to municipalities across the country.

The programme will align with the National Treasury's Capability Development Framework and adopt a differentiated approach tailored to the unique needs and maturity levels of municipalities. Key features include pre-grant capacity assessments to identify gaps, multi-year grants to build sustainable in-house capabilities and a municipal scorecard to monitor progress and link it to grant allocations. Collaboration with partners such as South African Local Government Association (SALGA), the Department of Cooperative Governance (DCoG) and academic institutions will ensure the design and delivery of customised capacity-building packages. Beyond financial management, the programme will serve as a foundation for a broader government-wide initiative to integrate capability development across all municipal functions, including governance and service delivery. This cohesive, long-term strategy underscores the importance of a unified effort to achieve sustainable municipal development and improve outcomes for communities nationwide.

The new Salary and Wage Collective Agreement came into effect on the 1st of July 2024. This agreement shall remain in force until 30 June 2029. In respect of the 2025/2026 financial year, all employees covered by this agreement shall receive, with effect from 1 July 2025, an increase based on the average CPI percentage for the period 1 February 2024 until 31 January 2025, plus zero comma seventy-five percent (0,75%).

The Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. It is anticipated that this salary determination will also consider the fiscal constraints. Municipalities should also consider guidance provided on salary increases for municipal officials during this process. Any overpayment to councillors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of Section 167 of the MFMA and must be recovered from the councillor(s) concerned.

Past years' increasing electricity tariffs continue to strain consumers' ability to afford this service. Municipalities as a result are at higher risk of non-technical losses particularly related to theft and illegal by-passing. The Municipality do not have enough dedicated Revenue Protection staff in place or have reduced their operational funding for Revenue Protection culminating in an overall reduced collection and related strain on cash flow and the ability to pay creditors. Municipalities are advised by the NT to prioritise the following Revenue Protection measures in the 2025/26 and future MTREFs:

- A dedicated Revenue Protection Unit for Electricity administered by the senior manager responsible for the municipal Electricity Infrastructure Directorate taking into consideration the recommendations and standards set-out in NRS055 (Code of Practice for Revenue Protection);
- Allocating adequate funds in the budget to fund the municipality's Electricity Revenue Protection Unit's operational needs;
- In allocating funding, the business threat of increasing non-technical losses to the municipality's particular specifics must be considered to achieve a balance, while ensuring the Revenue Protection staff organogram and operational program is adequately funded and able to fulfil its role; and
- The municipality to demonstrate in its MTREF submission that a percentage of the revenue from the Energy function is ring-fenced to fund the municipal Revenue Protection Program operational need(s) towards developing the program to fruition.

Budget Summary

The budget for the 2025/26 financial year is at a surplus of R52,8 million. A provision of R11,07 million was provided for the rendering of free basic services. Details on the calculation of this amount are available in the detailed discussion of the budget further on in this document.

Financial position and MTREF strategy

The financial position of Mohokare Local Municipality is such that the funding of the service delivery program depends on a steady flow of cash. The salary component should be curtailed and steps to be taken to ensure that there is not a waste of man-power anywhere.

The budget is based on different average payment level for each revenue source. For electricity payment level is at 80%, for Water at 50%, for Property Rates at 75%, for Sanitation and Refuse Removal at 65%. This is based on the premise of an improvement in the management of debt. We are confident that we can reach this level as several debt management strategies (i.e. reinforcing debt collection mechanisms, meter audits and installing of pre-paid water meters, etc.). The municipality has also taken over electricity from Centlec during March 2024, the process for which the Municipality still has to improve especially on the accuracy of electricity billing. Two service providers are appointed to assist with pre-paid electricity sales and debt collection, additionally the Municipality is making use of in-house electricians to assist with prompt response of maintenance of electrical infrastructure. We believe that our credit control measures are not harsh, but measured, targeted and backed up by data management. There are areas involving accuracy of data that needs to be attended to in the 2024/2025 and in 2025/2026

Capital Budget

The capital budget for the 2025/26 financial year totals to R48,2 million of which R47,7 million is funded from National and Provincial grants and R500 thousand from internally generated funds (replacing and improving of movable assets e.g. machinery and equipment, laptops, etc.). Find below an extract of the projects to be funded from the 2025/26 capital budget:

Description of project	Funding	Capital budget
Zastron/Matlakeng: Installation of 5 highmast lights in Extension 10	<i>MIG</i>	2,993,556.09
Rouxville/Roleleathunya Upgrading WWTW MIS253354	<i>MIG</i>	1,749,916.49
Smithfield/Mofulatshepe: Repairs and Refurbishment of the Waste Water Treatment Works	<i>MIG</i>	2,199,300.00
Smithfield/Mofulatshepe: Phase2_Construction of 1km access	<i>MIG</i>	11,759,527.42
Rouxville/Roleleathunya: Construction of the Sports Ground – Phase 2	<i>MIG</i>	1,500,750.00
Rouxville/Roleleathunya: Repairs and Refurbishment of the waste water pump station	<i>MIG</i>	1,518,700.00
The Construction of an abstraction works on the Orange River and equipping of x2 raw water pump stations in Rouxville	<i>WSIG</i>	5,000,000.00
Smithfield.Mofulatshepe: The upgrading of the outfall sewer	<i>WSIG</i>	15,000,000.00
Upgrading of the Smithfield Power Station	<i>INEP</i>	6,000,000.00

Operating Expenditure

Building on cost containment guidelines as set out in MFMA Circular 97 (31 July 2019) which are effective from 1 July 2019, government at all levels will need to identify opportunities to increase efficiency and reduce waste. At a national level, the budget will pay particular attention to reducing line items that are not critical to service delivery to reinforce cost containment. Under this circular, the Municipalities are urged to implement the cost containment measures on the focus areas namely:

- use of consultants;
- vehicles used for political office bearers;
- no credit cards;
- travel and subsistence;
- domestic accommodation;
- advertising;
- conferences, meeting and study tours;
- excessive spending on furniture and equipment;
- limitation of amounts spent on tools of trade (not to exceed what is allowed by the Public Office Bearers Act);
- All unplanned overtime to be approved beforehand;
- communication;
- sponsorships;
- catering; and
- events costs

Enforcement of above cost containment measures:

The non-adherence to the provisions of the MCCR will be an act of financial misconduct as defined in section 171 and 172 of the MFMA and the municipality will have to implement the provisions of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

The Mohokare Local Municipality prioritises the provision of basic services such as electricity, water, sanitation and refuse removal in its MTREF budget. The Municipality may only budget for non-core functions if:

- The function is listed in Schedule 4B and 5B of the Constitution;
- The function is assigned to the municipality in terms of national and provincial legislation;
- The municipality has prioritized the provision of basic services; and
- It does not jeopardize the financial viability of the municipality.

The budget for the 2025/26 financial year eliminates all non-priority spending and will be monitored closely to ensure that overspending is brought to the minimum.

Table 1.1 below, is an extract from Table A4 of the budget. The schedule indicates the relation between the various expenditure items as budgeted for.

Extract from Table A4 Budgeted Financial Performance (revenue and expenditure)

Table 1.1

Description	Current Year 2024/25		2025/26 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
R thousand					
Expenditure By Type					
Employee related costs	90 284	–	94 704	99 136	106 071
Remuneration of councillors	5 790	–	5 975	6 250	6 525
Debt impairment	25 086	–	25 086	26 239	27 394
Depreciation & asset impairment	24 988	–	24 988	26 137	27 287
Finance charges	16 000	–	15 000	15 713	16 891
Bulk purchases	42 000	–	54 000	56 484	58 969
Inventory Consumed	10 560	–	9 020	9 435	9 850
Contracted services	10 652	–	9 000	9 304	9 707
Irrecoverable debt written off	–	–	–	–	–
Water losses	600		600	628	655
Other expenditure	18 758	–	17 629	18 413	19 196
Total Expenditure	244 718	–	256 001	267 738	282 546

The expenditure on salaries is set at 37% of the operating expenditure budget.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R154,297 million, the relation of salary expense to operating income amounts to 61%, which is relatively high. This indicates that income from own generated funds should be monitored closely to ensure that Mohokare Local Municipality is not reliant on equitable share to fund the salary bill.

Operating Revenue

Local government is in essence funded from three sources. Electricity sales, Assessment rates, other revenues from trading services and transfers from national government.

The following schedule sets out the various revenue components of Mohokare Local Municipality's operating budget.

Extract from Table A4 Budgeted Financial Performance (revenue and expenditure)

Table 1.2

Description	Current Year 2024/25		2025/26 Medium Term Revenue & Expenditure Framework		
R thousand	Original Budget	Adjusted Budget	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
Revenue By Source					
Property rates	17 371	–	18 239	19 078	19 918
Service charges - electricity revenue	37 981	–	39 880	41 715	43 550
Service charges - water revenue	27 509	–	28 885	30 213	31 543
Service charges - sanitation revenue	12 026	–	12 614	13 194	13 775
Service charges - refuse revenue	7 940	–	8 337	8 721	9 105
Rental of facilities and equipment	786	–	869	908	948
Interest earned - external investments	100	–	100	105	109
Interest earned - outstanding debtors	40 000	–	40 000	41 840	43 681
Dividends received	20	–	20	21	22
Fines, penalties and forfeits	10 000	–	5 000	5 230	5 460
Transfers and subsidies	103 582	–	105 636	108 816	113 692
Other revenue	246	–	353	369	385
Total Revenue (excluding capital transfers and contributions)	257 562	–	259 933	270 211	282 188

National, Provincial and District priorities

The Municipality's budget must always be seen within the context of the policies and financial priorities of National and Provincial government. All spheres of Government are partners in meeting the service delivery challenges we face in Mohokare and the municipality cannot meet these challenges alone. South Africa has achieved considerable success in reaching the current level of macro-economic stability, but our own local economy is still plagued with high levels of unemployment and poverty.

The following table sets out the allocations to Mohokare Local Municipality as per the National Division of Revenue Act for the MTREF period:

Extract from table SA18 Transfers and grant receipts:*Table 1.3*

Description	Current Year 2024/25		2025/26 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2025/26	Budget Year +1 2026/27	Budget Year +2 2027/28
R thousand					
<u>Operating Transfers and Grants</u>					
National Government:					
Local Government Equitable Share	99 365	–	102 636	105 816	110 592
Finance Management	3 000	–	3 000	3 000	3 100
EPWP Incentive	1 217	–	–	–	–
Total Operating Transfers and Grants	103 582	–	105 636	108 816	113 692
<u>Capital Transfers and Grants</u>					
National Government:	55 867	–	42 865	43 635	45 551
Municipal Infrastructure Grant	23 776	–	22 865	22 635	23 501
Regional Bulk Infrastructure	16 161	–	–	–	–
Water Services Infrastructure Grant	15 930	–	20 000	21 000	22 050
Provincial Government:	3 900	–	6 000	3 000	3 136
Integrated National Electrification Programme	3 900	–	6 000	3 000	3 136
Other grant providers:	–	–	–	–	–
CoGTA Provincial Government	–	–	–	–	–
Total Capital Transfers and Grants	59 767	–	48 865	46 635	48 687
TOTAL RECEIPTS OF TRANSFERS & GRANTS	163 349	–	154 501	155 451	162 379

Conclusion

The 2025/26 budget for Mohokare Local Municipality is the fourth budget to be prepared by the current Council.

All efforts have been made to ensure that this budget mitigates as far as possible the rate and tariff burden on our domestic and business customers and also allows for the necessary funds to be available to attain service delivery priorities as per the 2025/26 Integrated Development Plan.

1.4 Annual Budget Tables

Find below a brief discussion of the annual tables as per the requirements of Municipal Budget and Reporting Regulations:

a) Table A1: Budgeted Summary

The surplus reported is brought about by the large amount of conditional capital grants allocated to the Municipality for the financial year. As the related expenditure which is incurred using the said recognised grants is capitalised as work-in-progress and the related revenue is recognised in the statement of Financial Performance, the user of the financial information should not be under the impression that the amount is available to apply to other areas as the revenue recognised are to be used to pay the corresponding contractor/engineer in respect of the specific capital project.

b) Table A2: Budget Financial Performance (revenue & expenditure by functional classification)

As the main purpose of the Municipality is to deliver services to the consumers, the major portion of revenue is generated from trading services. Expenditure is budgeted to focus on service delivery and limit non-priority spending to the absolute minimum. As reported above, the budgeted surplus correlates with the capital grant allocation of the Municipality for the financial year.

c) Table A3: Budget Financial Performance (revenue & expenditure by municipal vote)

The main contributor to municipal revenue is the Technical Services Department (also where the bulk of capital grant funding is being applied in order to maintain, renew, replace and construct service delivery related municipal assets). Finance also makes a significant contribution with items such as Property rates and taxes, as well as interest income that falls within the budget of the department. Included in the revenue budget of the Community Services Department are more under the revenue budget for income to be received from Traffic Fines as well as the portion of capital grant funding to be applied to community related asset renewals, replacements and construction.

Expenditure budgeted for correlates to the revenue budget with the main expenditures falling within the finance department where several of the operational functions of the municipality are housed.

Technical services again show a large budget as the bulk of service delivery are performed by the divisions in the said department.

d) Table A4: Budget Financial Performance (revenue & expenditure)

Refer to the discussions above.

e) Table A5: Budgeted Capital Expenditure by vote, functional classification and funding

96.4% of the total capital budget are being utilised in the Technical Services Department. The main area where conditional capital grants will be applied in the 2025/26 financial year is the water division, focussing mainly on bulk supply. The full breakdown of how the conditional grant funding are to be applied are set out on page 10 of this document.

f) Table A6: Budget Financial Position

Liquidity remains a concern as the low collection rate on trade receivables remains an issue. In order to ensure that the Municipality is able to meet its financial obligations as it falls due along with the repayment of long outstanding debt (trade creditors and third party related), a close watch should be kept on the spending of the Municipality.

The increase in non-current assets is brought by the budgeted Work in Progress to be completed during the financial year.

g) Table A7: Budget Cash Flow

The municipal cash flow is under severe pressure due to the amount of outstanding consumer debtors to be collected as well as the significant amount pertaining to outstanding creditors. Close monitoring of expenditure to be incurred during the 2025/26 financial year should be done to ensure that budgeted amounts are not overspent.

PART 2 – SUPPORTING DOCUMENTATION

2.1 Overview of annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2024 a time schedule that sets out the process to revise the IDP and prepare the annual budget.

The Mayor tabled the required IDP process plan and budget time schedule in line with the applicable legislation.

Consultation with the community and other stakeholders will take place during April and May 2025. Plans are in place for Council to consider approval of the IDP and annual budget at least 30 days before the start of a new financial year, as required by the Municipal Finance Management Act.

2.2 Overview of alignment of annual budget with Integrated Development Plan

The municipality has improved in terms of aligning its integrated development plan; annual budget and service delivery & budget implementation plan. The integration has improved due to the mSCOA that was implemented from 1 July 2017.

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the predetermined strategic objectives and priorities in accordance with legislative requirements and good business practices as informed by the National Framework for Managing Program Performance Information. The measurable performance objectives will be included in the service delivery and budget implementation plan when it is submitted to the Council for approval.

2.4 Overview of budget related policies

The budget related policies, as attached, formed the basis of the proposed budget. The salient points of the proposed budget that are the budget must be cash-funded, tariff

adjustments must be fair, employee related costs must be all-inclusive and the conditions of all provisions must be met with cash where required.

2.5 Overview of budget assumptions

Budgets are prepared in an environment of uncertainty and assumptions need to be made about internal and external factors that could impact on the budget during the course of the financial year. In compiling the 2025-26 Annual Budget, the following key issues and assumptions were taken into consideration and modelled into the budget planning process:

- (a) Economic climate and poverty levels within the municipality will remain the same / constant for major part of the financial year given the limited economic activities with the vicinity;
- (b) Cash flow projections will be strictly maintained to ensure the municipality's ability to meet its financial obligations;
- (c) The budget is prepared with the assumption that allocations as per 2025 Annual Division of Revenue Act will be withheld / offset / paid back to the National Revenue Fund due to unspent conditional grants of 2022/23 and 2023/24 financial year.
- (d) Operational costs will be maintained at current levels or reduced as cost containment measures and where there is material decrease in revenue collection rate, expenditure will have to be reduced at the same proportion;
- (e) This impact has been taken into account for as far as it falls within the mandate of the Municipality as set out in the guidelines of the attached MFMA circular warning that the Municipality should not place itself under further financial strain by budgeting for items that are not within the mandate of the Municipality as per the constitution.

2.6 Overview of budget funding

Past performance

For the past two years, Mohokare Local Municipality has regressed its audit opinion to a disclaimer audit opinion.

Mohokare Local Municipality has experienced severe cash flow problems during the past years due to the withholding of a total of R23,4 million from equitable share by National Treasury as a result the roll-over of a conditional grant from 2022/23 and 2023/24 which were disallowed. This impacted the cash flow of Mohokare Local Municipality negatively.

This in turn requires Mohokare Local Municipality to cut all non-priority spending to the absolute minimum during the 2025/26 financial period as well as the two MTREF outer-years to be able to repay long outstanding creditors.

Budget summary

Due to the impact of the above mentioned factors Mohokare Local Municipality's budget for the 2025/26 financial year has to be monitored closely to ensure that over expenditure does not occur.

Council and its committees is requested to assist the municipality by setting the example of limiting unnecessary spending.

Economically Mohokare Local Municipality remains weak. Fundamentally we are an agriculture and tourist region near the Lesotho border. Funds has been availed for the LED Unit to maximize the potential of the municipality. More can be done when the Municipality partners with DESTEA and other institutions of higher learning.

To stimulate the economy of the municipality, the municipality will enter into public private partnerships for investment purposes.

Cash flow

For the past years, Mohokare was handicapped with a poor cash-flow. This has resulted in poor maintenance of the infrastructure. The pot-holes in various towns are a matter of concern.

Electricity services will increase our revenue base for 2025/2026 financial year as the municipality will increase the electricity tariffs as approved by NERSA. The municipality is going to use electricity as a tool to increase collection on arrear services accounts. An audit will be performed on water and electricity meters to curb distribution losses.

The cash flow of Mohokare Local Municipality should be monitored closely in the 2025/26 financial year to ensure that the municipality is able to meet its obligations and is able to pay outstanding creditors (from the previous financial year as well as for the current financial year) as they fall due.

Capital Budget

The capital budget for the 2025/26 financial year totals to R48,222 million of which R47,222 million is funded from National and Provincial grants and R500 thousand from internally generated funds.

Operating Expenditure

Employee related costs

The new Salary and Wage Collective Agreement came into effect on the 1st of July 2024. This agreement shall remain in force until 30 June 2029. In respect of the 2025/2026 financial year, all employees covered by this agreement shall receive, with effect from 1 July 2025, an increase based on the average CPI percentage for the period 1 February 2024 until 31 January 2025, plus zero comma seventy-five percent (0,75%).

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R154,297 million, the relation of salary expense to operating income amounts to 61%. This indicates that income from own generated funds should be monitored closely to ensure that Mohokare Local Municipality is not reliant on equitable share to fund the salary bill.

The following items are under more included in the line item “other expenditure”:

- Insurance
- Uniforms and protective clothing
- Subsistence and travelling
- Legal costs
- License and internet fees
- Printing and stationery
- Telephone costs
- Advertising costs
- Water chemicals
- Training expenses
- Electricity expenses
- Fuel and Oil expenses

Free Basic Services

The budget for the 2025/26 financial year contains a provision of R11,07 million for free basic services. These services are off-set from the equitable share.

The calculation of the amount provided for free basic services was determined by taking the following into account:

- The proposed tariffs regarding sewerage, refuse and water;
- The current year tariff for electricity (as confirmed with Eskom's Free Basic Electricity Department);
- The amount of 6kl of free water per indigent household per month;
- The amount of 50kWh of free electricity per indigent household per month;
- The budgeted amount of 2,500 indigent households for the 2025/26 financial year

Operating Revenue

Local government is in essence funded from three sources: assessment rates, revenues from trading services (the majority is water in the case of Mohokare Local Municipality) and transfers from National Government.

The percentage of revenue from the various sources are as follows:

Source of income	Amount	Percentage
Self-generated income (incl. electricity)	154 297	49.97%
Operating grants	105 636	34.21%
Capital grants	48 865	15.82%
TOTAL	308 798	100.00%

Tariff implications of the annual budget

Council has taken into consideration the guidelines of the Municipal Budget Circular for the 2025/26 MTREF when preparing the budget. National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interest of poor households, other customers and ensuring the financial sustainability of the municipality. For this reason, a proposed increase in line with inflation (3 - 6%) is recommended.

The following calculations were performed to support the proposed tariff increases as per the attached draft tariff list.

Property Rates

The calculation for property rates was done with the following taken into account:

- A valuation roll was implemented on 01 July 2019 to 30 June 2024, and it was extended until 30 June 2025
- We performed a zero based calculation in terms of the budgeted revenue to be received in respect of property rates
- We used the valuation roll together with the proposed tariffs for each of the stakeholder groups and determined the amount of revenue to be budgeted for the 2025/26 as well as the MTREF outer-years.

Water, sanitation and refuse removal rates

The increase in the tariffs of water, sanitation and refuse removal are explained below:

The following approach was used in all calculations.

- The figures per the audited 2023/24 final AFS has been used as a base for the cost per unit calculations
- We determined the total cost allocated to each of the three units (water, refuse and sanitation)
- We obtained the number of households in Mohokare Local Municipality

Other operating revenue considerations

- Electricity services will increase our revenue base for 2025/2026 financial year as the municipality has taken over the function from Centlec and new tariff implementation.
- The tariffs for electricity has now been incorporated in the municipality's tariff list.
- Interest on arrears has been included in the 2025/26 budget as well as for the MTREF outer years.
- All figures relating to the outer years was reviewed to ensure that it is in line with the 2025/26 budgeted projections.

2.7 Expenditure on allocations and grant programs

It is the intention of the municipality to spend all of its grant allocations within the current year according to the conditions of such allocations / grants. Performance review will be done during the mid-year budget assessment and where under spending is foreseeable; the necessary procedure will be followed to ensure that spending is done 100%.

DORA GRANTS ALLOCATIONS FOR MOHOKARE MUNICIPALITY FOR 2025/26 MTREF

Description	Allocated amount
R thousand	Budget Year 2025/26
<u>Operating Transfers and Grants</u>	
National Government	
Local Government Equitable Share	102 636
Finance Management	3 000
EPWP Incentive	–
Total Operating Transfers and Grants	105 636
<u>Capital Transfers and Grants</u>	
National Government:	
Municipal Infrastructure Grant	22 865
Regional Bulk Infrastructure	–
Water Services Infrastructure Grant	20 000
Integrated National Electrification Programme	6 000
Total Capital Transfers and Grants	48 865
TOTAL RECEIPTS OF TRANSFERS & GRANTS	154 501

All the grants allocated are conditional i.e. have to meet an obligation except Equitable Share grant which is unconditional.

2.8 Allocations and grants made by the municipality

The 2025/26 MTREF does not have any allocation and grants made by the municipality.

2.9 Councillor and board member allowances and employee benefits

The Municipal System Act, section 66(1) requires the Municipal Manager to approve a staff establishment for the municipality within a policy framework determined by the municipal council and subject to any applicable legislation. The act further requires the Municipal Manager to provide a job description for each post on the staff establishment and to attach to those posts the remuneration and other conditions of service as may be determined in accordance with any applicable labour legislation.

(a) Employee costs will increase from **R 90,284 million** (2024-25 adopted budget) to **R 94,704 million** that is in line with the prescriptions of the Collective Agreement that is in place.

(b) The Council Remuneration of **R 5,975 million** for 25/26 was budgeted taking into consideration the regulations of the Public Office Bearers Act and prescriptions as per the MFMA Circular guidance.

2.10 Monthly targets for revenue, expenditure and cash flow

The municipality has not over the years been in a position to collect all its billed revenue.

This means that the municipality has to prioritise its spending as the spending is informed by the availability of cash. Therefore, the spending on operational expenditure has been marginally less than anticipated due to cash flow constraints. The municipality still has to take into consideration the payments agreements it has entered into with its outstanding creditors especially for third parties, The Auditor General of South Africa, The South African Revenue Services (SARS), MUNSOFT and several other outstanding creditors.

2.11 Annual budgets and service delivery and budget implementation plans – internal departments

The departmental service delivery implementation plans are at a draft stage and will be completed after adoption of the annual budget in order to form the high level of the municipal service delivery and budget implementation plan to be approved by the Mayor, 28 days after the annual budget has been approved.

2.12 Contracts having future budgetary implications

The municipality does not intend to enter into contracts that have future budgetary implications. In terms of the municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation or Adjudication committees must obtain formal financial comments from the Budget and Treasury Office.

2.13 Capital expenditure details

The total capital expenditure budget of the municipality is **R 48 221 750**.

Water Services Infrastructure Grant is allocated at **R 20 000 000**.

No allocation has been made to the municipality in relation to Regional Bulk Infrastructure Grant and Expanded Public Works Programme.

The Municipal Infrastructure Grant amounts to **R 22 865 000** and 5% of this grant will be funding the Project Management Unit related costs. Below are planned projects for the coming financial year:

❑ Project Management Unit operational budget (5% of allocation): **R 1 143 250**

Description of project	Funding	Capital budget
Zastron/Matlakeng: Installation of 5 highmast lights in Extension 10	<i>MIG</i>	2,993,556.09
Rouxville/Roleleathunya Upgrading WWTW MIS253354	<i>MIG</i>	1,749,916.49
Smithfield/Mofulatshepe: Repairs and Refurbishment of the Waste Water Treatment Works	<i>MIG</i>	2,199,300.00
Smithfield/Mofulatshepe: Phase2_Construction of 1km access	<i>MIG</i>	11,759,527.42
Rouxville/Roleleathunya: Construction of the Sports Ground – Phase 2	<i>MIG</i>	1,500,750.00
Rouxville/Roleleathunya: Repairs and Refurbishment of the waste water pump station	<i>MIG</i>	1,518,700.00
The Construction of an abstraction works on the Orange River and equipping of x2 raw water pump stations in Rouxville	<i>WSIG</i>	5,000,000.00
Smithfield.Mofulatshepe: The upgrading of the outfall sewer	<i>WSIG</i>	15,000,000.00

Upgrading of the Smithfield Power Station	<i>INEP</i>	6,000,000.00
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2.14 Legislation compliance

The Municipality has regressed in terms of reporting to National Treasury within the legislated timeframes compared to the previous financial years. This is due to the instability in senior management positions and the industrial strikes that have been taking place during the year. This situation will change in the coming financial year as the municipality has undertaken the process of filling all vacant senior managers posts and addressing the employee grievance.

2.15 Other supporting documents

The documents mentioned below are attached as annexures to the annual budget:

Budget related Policies

The detailed policies themselves are included in this section of the budget documentation.

The following policies are included in the folder “Budget Policies”

Budget-related policies:

1. Indigent Policy
2. Rates Policy
3. Credit Control and Debt Collection Policy
4. Tariff Policy
5. Water estimates Policy
6. Unallocated deposits Policy
7. Debt write-off Policy

Other Finance Policies:

8. Budget Policy
9. Banking and Investment Policy
10. Virement Policy
11. Unauthorized, Irregular, Fruitless and Wasteful Expenditure Policy
12. Cost containment Policy

- 13. Supply Chain Management Policy
- 14. Preferential Procurement Policy
- 15. Fleet Management Policy
- 16. Consumer Deposit Policy

GRAP Related Policies:

- 17. Accounting Policy
- 18. Asset Management Policy

Rates and Tariffs Schedule

The 2025/26 tariff list is included.

Other supporting documents

MFMA Budget Circulars:

- MFMA Budget Circular No 129
- MFMA Budget Circular No 130

Division of Revenue Act Bill 2025

2.16 Municipal Manager's Quality Certificate

The Municipal Manager's quality certificate as required by the Municipal Budget and Reporting Regulations is attached.