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LOCAL MUNICIPALITY



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Mohokare Local Municipality

Draft Budget 2023/24 to 2025/26

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. 122 and 123 were used where necessary.

Background

GDP is expected to grow by 0.9 per cent in real terms in 2023, compared with an estimate of 1.4 per cent at the time of the medium-term budget policy statement (MTBPS), recovering slowly to 1.8 per cent in 2025.

The economic outlook faces a range of risks, including weaker-than-expected global growth, further disruptions to global supply chains and renewed inflationary pressures from the war in Ukraine, continued power cuts and a deterioration in port and rail infrastructure, widespread criminal activity, and any deterioration of the fiscal outlook. Government is taking urgent measures to reduce load-shedding in the short term and transform the sector through market reforms to achieve long-term energy security. Several reforms are under way to improve the performance of the transport sector, specifically freight rail and to improve the capability of the state.

The following macro-economic forecasts must be considered when preparing the 2023/24 MTREF municipal budgets.

Fiscal year	2021/22	2022/23	2023/24	2024/25	2025/26
Actual		Estimate		Forecast	
CPI	4.9%	6.9%	5.3%	4.9%	4.7%
Inflation					

Over the 2023 MTEF period, local government allocations will increase by a total of R14.3 billion, made up of R8.1 billion in the local government equitable share and R6.2 billion in direct conditional grants. This takes the total direct allocation to R521.7 billion over the same period. These allocations alleviate some of the financial pressures, particularly in basic services, where the costs of providing services are rising. The *local government equitable share* and related allocations increases at an annual average rate of 7.8 per cent and municipal conditional grants increase by 3.5 per cent over the 2023 MTEF period.

The *local government equitable share* formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the 2023 MTEF period. It also includes allocations for the operational and maintenance costs associated with the provision of free basic services.

Conditional grant funds may only be used for the purposes, and subject to the conditions specified in the framework for each conditional grant. These conditions are binding in terms of sections 11 and 12 of the annual Division of Revenue Act. Any instruction by a municipal, provincial, or national official or politician that is inconsistent with the framework of a conditional grant is invalid. Municipalities are reminded that in terms of section 32 of DoRA, spending of a grant that is inconsistent with DoRA is considered irregular or unauthorised expenditure.

There has been a growing trend where municipalities are deducting pension and/ or medical aid contributions from officials but are not paying it over to their pension- and/ or medical aid fund. This is inconsistent with the intent and spirit of the MFMA and constitutes an act of financial misconduct in terms of section 171 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014 and also a financial offence in terms of section 173 of the MFMA read together with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings. Municipal Councils should refer these actions to the Disciplinary Boards for further investigation and should also lay criminal charges against the accounting officer or any other responsible or delegated official who has failed to perform the responsibility outlined in terms of section 65(2)(f) of the MFMA which states that “the accounting officer of a municipality must take all reasonable steps to ensure that the municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments”. Municipal Councils should also consider further measures and actions in terms of the Pension Funds Act, as may be applicable.

Similar to the rest of government, municipalities face a difficult fiscal environment. The weak economic growth has put pressure on consumers’ ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, Water Boards and other creditors. There is a need for municipalities to focus on collecting revenues owed to them and eliminate wasteful and non-core spending. It is important to note that the municipal equitable share as a policy instrument is meant to subsidise services to the poorest of the poor and not to pay municipal creditors. This bad practice by municipalities will have to be addressed as a matter of urgency. Municipal creditors should be advised that municipalities cannot use funds allocated for basic service provision to pay creditors. Municipalities must ensure that they render basic services, maintain their assets and a clean environment. Furthermore, there must be continuous communication with the community and other stakeholders to strengthen awareness and participation and to improve the municipality’s reputation. This will assist in attracting investment in the local economy which may result in increased employment.

Some municipalities are experiencing serious liquidity challenges. Therefore, the new leadership is advised to:

- Decisively address unfunded budgets by reducing non-priority spending and improving revenue management processes to enable collection; and
- Address service delivery failures by ensuring adequate maintenance, upgrading and renewal of existing assets to enable reliable service delivery.

The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this is a fundamental reason for municipalities not attaining their desired collection rates.

The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this is a fundamental reason for municipalities not attaining their desired collection rates.

Budget Summary

The budget for the 2023/24 financial year is at a surplus of R66,6 million. A provision of R9,94 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 an average payment level of 47%. 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. appointment of a debt collector during the current financial year, installing of pre-paid water meters which is still on-going, etc.). We believe that our credit control measures are not harsh, but measured, targeted and backed up by good data management.

Capital Budget

The capital budget for the 2023/24 financial year totals to R56,5 million of which R48,6 million is funded from National and Provincial grants and R7,9 million from internally generated funds (replacing and improving of movable assets e.g. machinery and equipment, laptops, new fleet etc.). Find below an extract of the projects to be funded from the 2023/24 capital budget:

Description of project	Funding	Capital budget
Roleleathunya: Construction of the sports ground (MIS:234965)	<i>MIG</i>	931,950.03
Smithfield/Mofulatshepe: The construction of 1km access road with related storm water in Greenfield_ Phase 1	<i>MIG</i>	9,182,670.09
Zastron/Matlakeng: The construction of a sewer network in Refengkhotoso for 900 erven	<i>MIG</i>	9,557,029.88
The construction of a 27km raw bulk water pipeline from the Orange River to Paisley dam	<i>RBIG</i>	4,102,393.23
Upgrading of the Rouxville/Roleleathunya water treatment works (WTW) (civil works) to a capacity of 3.2ml/day, construction of new 4..8 km long main rise from the WTW to the 3 existing reservoirs and upgrading o infrastructure for 5 existing boreholes.	<i>RBIG</i>	4,793,606.77
The Construction of an abstraction works on the Orange River and equipping of x2 raw water pump stations in Rouxville	<i>WSIG</i>	8,273,271.23
The supply, delivery and installation of pre-paid water meters in Zastron	<i>WSIG</i>	1,832,705.37
Smithfield.Mofulatshepe: The upgrading of the outfall sewer	<i>WSIG</i>	9,894,023.40

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. 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 municipalities and municipal entities will have to implement the provisions of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

Municipalities must prioritise the provision of basic services such as electricity, water, sanitation and refuse removal in their MTREF budgets. 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 municipality in terms of national and provincial legislation;
- The municipality has prioritised the provision of basic services; and
- It does not jeopardise the financial viability of the municipality.

The budget for the 2023/24 financial year eliminates all non-priority spending and will be monitored closely to ensure that overspending is limited 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 2022/23		2023/24 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
R thousand					
Expenditure By Type					
Employee related costs	87 809	85 363	89 639	94 032	98 451
Remuneration of councillors	5 676	5 537	5 830	6 116	6 403
Debt impairment	36 767	36 767	38 716	40 613	42 522
Depreciation & asset impairment	21 899	21 899	23 060	24 190	25 327
Finance charges	7 056	7 056	7 430	7 794	8 160
Bulk purchases	27 619	26 727	28 144	29 523	30 911
Inventory Consumed	1 658	970	10 598	11 117	11 640
Contracted services	15 671	17 183	11 751	12 214	12 690
Other expenditure	19 816	22 386	18 524	19 402	20 424
Total Expenditure	223 971	223 887	233 692	245 000	256 528

The expenditure on salaries is set at 38,4% of the operating expenditure.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R119,381 million (excluding electricity), the relation of salary expense to operating income amounts to 75,1%. 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. Assessment rates, 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 2022/23		2023/24 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
R thousand					
Revenue By Source					
Property rates	8 888	10 415	11 040	11 592	12 172
Service charges - electricity revenue	32 627	32 627	34 584	36 314	38 129
Service charges - water revenue	45 041	46 396	49 180	51 639	54 221
Service charges - sanitation revenue	9 902	11 899	12 613	13 243	13 906
Service charges - refuse revenue	5 495	7 832	8 301	8 717	9 152
Rental of facilities and equipment	560	560	594	623	654
Interest earned - external investments	250	250	265	278	292
Interest earned - outstanding debtors	9 584	9 584	10 159	10 667	11 201
Dividends received	12	12	13	13	14
Fines, penalties and forfeits	13 250	13 250	14 045	14 747	15 485
Transfers and subsidies	92 025	92 025	96 733	103 631	106 570
Other revenue	12 425	12 425	13 171	13 829	14 521
Total Revenue (excluding capital transfers and contributions)	230 060	237 275	250 698	265 294	276 316

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 2022/23		2023/24 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
R thousand					
<u>Operating Transfers and Grants</u>					
National Government:					
Local Government Equitable Share	86 952	86 952	93 733	100 631	103 432
Finance Management	3 000	3 000	3 000	3 000	3 138
EPWP Incentive	1 073	1 073	–	–	–
Total Operating Transfers and Grants	91 025	91 025	96 733	103 631	106 570
<u>Capital Transfers and Grants</u>					
National Government:	46 486	46 486	49 603	42 399	47 263
Municipal Infrastructure Grant	19 991	19 991	20 707	21 469	22 263
Regional Bulk Infrastructure	4 407	4 407	8 896	–	–
Water Services Infrastructure Grant	22 088	22 088	20 000	20 930	25 000
Provincial Government:	–	–	–	4 476	3 000
Integrated National Electrification Programme	–	–	–	4 476	3 000
Other grant providers:	–	–	–	–	–
CoGTA Provincial Government	–	–	–	–	–
Total Capital Transfers and Grants	46 486	46 486	49 603	46 875	50 263
TOTAL RECEIPTS OF TRANSFERS & GRANTS	137 511	137 511	146 336	150 506	156 833

Conclusion

The 2023/24 budget for Mohokare Local Municipality is the second budget to be prepared by the new Council.

All efforts have been made, including a successful consultative period, 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 a funded budget for the 2023/24 period.

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 on by the large amount of conditional capital grants allocated to the Municipality for the financial year. As the relating expenditure which are incurred using said recognised grants are capitalised as work-in-progress and the relating 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 for 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, VAT receivable as well as interest income that falls within the budget of the department. Included in the revenue budget of the Community Services Department are under more the revenue budgeted for 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 constructions.

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 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

86% 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 2023/24 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 6 and 7 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 are able to meet its financial obligations as it falls due along with the repayment of old outstanding debt (trade and third party related), a close watch should be kept on the spending of the Municipality.

The increase in non-current assets are brought along 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 incurred during the 2023/24 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 2022 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.

The community and other stakeholders were consulted during the review of Integrated Development Plan which informed this annual budget. Further consultation will take place during April and May 2023. 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 on 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 that 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 2023-24 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 in the assumption that no allocations as per 2023 Annual Division of Revenue Act will be withheld / offset / paid back to the National Revenue Fund.
- (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

During the past three years, Mohokare Local Municipality has maintained their audit opinion audit opinion to be a qualified audit opinion 2019/20 and 2020/21. The municipality's audit opinion for 2021/22 financial year is still a qualified audit opinion.

Mohokare Local Municipality has experienced severe cash flow problems during the past years due to the withholding of a total of R18,6 million from equitable share by National Treasury as a result the roll-over of a conditional grant from 2021/22 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 2023/24 financial period as well as the two MTREF out-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 2023/24 financial year has to be monitored closely to ensure that over expenditure does not occur.

Council 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.

Cash flow

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

The cash flow of Mohokare Local Municipality should be monitored closely in the 2023/24 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 2023/24 financial year totals to R56,453 million of which R48,568 million is funded from National and Provincial grants and R7,885 million from internally generated funds.

Operating Expenditure

Employee related costs

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2023/24 MTREF. In terms of the

agreement, all employees covered by this agreement shall receive with effect from 01 July 2023 and 01 July 2024 an increase based on the projected average CPI percentages for 2023 (5.4 per cent according to the Reserve Bank's Monetary Committee Statement for January 2023) and 2024 (4.8 per cent according to the Reserve Bank's Monetary Committee Statement for January 2023). In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R119 million (excluding electricity), the relation of salary expense to operating income amounts to 75,1%. 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 2023/24 financial year contains a provision of R9,94 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) increased by the NERSA proposed tariff increase;
- 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 1,600 indigent households for the 2023/24 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)	153 965	51.27%
Operating grants	96 733	32.21%
Capital grants	49 603	16.52%
TOTAL	300 301	100.00%

The municipality is still greatly reliant on grants as set out above.

Tariff implications of the annual budget

Council has taken into consideration the guidelines of the Municipal Budget Circular for the 2023/24 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%) are recommended.

The following calculations was 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 new valuation roll was implemented on 01 July 2019 to 30 June 2024.
- We performed a zero based calculation in terms of the budgeted revenue to be received in respect of property rates
- We used the new valuation roll together with the proposed tariffs for each of the stakeholder groups and determined the amount of revenue to be budgeted for the 2023/24 as well as the MTREF outer-years.
- Property rate rebates (per the historic trend as identified by inspecting previous financial years) was adjusted to be in line with the property rates as budgeted.

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 2021/22 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 charges has been increased in accordance with the NERSA guidelines
- Interest on arrears has been included in the 2023/24 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 2023/24 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 2023/24 MTREF

Description	Allocated amount
	Budget Year
R thousand	2023/24
<u>Operating Transfers and Grants</u>	
National Government	
Local Government Equitable Share	93 733
Finance Management	3 000
EPWP Incentive	-
Total Operating Transfers and Grants	96 733
<u>Capital Transfers and Grants</u>	
National Government:	
Municipal Infrastructure Grant	20 707
Regional Bulk Infrastructure	8 896
Water Services Infrastructure Grant	20 000
Integrated National Electrification Programme	-
Total Capital Transfers and Grants	49 603
TOTAL RECEIPTS OF TRANSFERS & GRANTS	146 336

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 2023/24 MTREF doesn't 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 85,363 million** (2022-23 adjustment budget) to **R 89,639 million** that are in line with the prescriptions of the Collective Agreement that are in place.

(b) The Council Remuneration of **R 5,830 million** for 23/24 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 bill all its budgeted revenue.

This meant that the municipality had to prioritise its spending as the spending is informed by 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 (SALA Pension Fund, Municipal Workers Provident Fund (MWPF), The Auditor General of South Africa, The South African Local Government Association (SALGA) and several other smaller 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 49 603 000**.

Water Services Infrastructure Grant is allocated at **R 20 000 000** and the Regional Bulk Infrastructure Grant is allocated at **R 8 896 000**. No allocation has been made to the municipality in relation to Expanded Public Works Programme.

The Municipal Infrastructure Grant amounts to **R 20 707 000** 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 1 035 350**

Description of project	Funding	Capital budget
Roleleathunya: Construction of the sports ground (MIS:234965)	<i>MIG</i>	931,950.03
Smithfield/Mofulatshepe: The construction of 1km access road with related storm water in Greenfield_ Phase 1	<i>MIG</i>	9,182,670.09
Zastron/Matlakeng: The construction of a sewer network in Refenghotso for 900 erven	<i>MIG</i>	9,557,029.88
The construction of a 27km raw bulk water pipeline from the Orange River to Paisley dam	<i>RBIG</i>	4,102,393.23
Upgrading of the Rouxville/Roleleathunya water treatment works (WTW) (civil works) to a capacity of 3.2ml/day, construction of new 4..8 km long main rise from the WTW to the 3 existing reservoirs and upgrading o infrastructure for 5 existing boreholes.	<i>RBIG</i>	4,793,606.77

The Construction of an abstraction works on the Orange River and equipping of x2 raw water pump stations in Rouxville	WSIG	8,273,271.23
The supply, delivery and installation of pre-paid water meters in Zastron	WSIG	1,832,705.37
Smithfield.Mofulatshepe: The upgrading of the outfall sewer	WSIG	9,894,023.40

2.14 Legislation compliance

The Municipality has improved in terms of reporting to National Treasury within the legislated timeframes compared to the previous financial years. The municipality plans to keep this momentum of adhering to the legislated timeframes and working on improving on the credibility of their reports.

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 Policy
4. Tariff Policy
5. Water estimates Policy
6. Unallocated deposits Policy
7. Debt write-off Policy

Other Finance Policies:

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

- 12. Travel and Subsistence Policy
- 13. Cost containment Policy
- 14. SIPDM Policy
- 15. Fleet Management Policy

GRAP Related Policies:

- 16. Accounting Policy
- 17. Asset Management Policy
- 18. Inventory Management Policy

Rates and Tariffs Schedule

The 2023/24 tariff list is included.

Other supporting documents

MFMA Budget Circulars:

- MFMA Budget Circular No 122
- MFMA Budget Circular No 123

Division of Revenue Act Bill 2023

2.16 Municipal Manager's Quality Certificate

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