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LOCAL MUNICIPALITY



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Mohokare Local Municipality

Draft Budget 2026/27 to 2028/29

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. 134 was used where necessary.

Background

GDP growth is expected to average 1.8 per cent from 2026 to 2028. Medium-term growth will be underpinned by household consumption supported by further gains in real purchasing power, moderately stronger wage growth, easing inflation, wealth gains from rising asset prices, improved consumer sentiment and better credit conditions. 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 2026/27 MTREF municipal budgets.

Fiscal year	2024/25	2025/26	2026/27	2027/28	2028/29
Actual		Estimate		Forecast	
CPI	4.4%	3.2%	3.4%	3.3%	3.2%
Inflation					

Inflation is expected to increase from 3.2 per cent in 2025 to 3.4 per cent in 2026, driven by higher food prices (particularly meat due to supply disruptions linked to foot-and-mouth disease). Inflation is forecast to ease to 3.3 per cent in 2027 and 3.2 per cent in 2028, but risks from geopolitical tensions, exchange rate volatility, administered prices and animal disease outbreaks remain elevated. The reduction of the inflation target to 3 per cent with a 1 percentage point tolerance band will structurally reduce inflation, helping to protect real income levels.

In April 2024, the National Treasury initiated a comprehensive review of the budget process, with the goal of identifying and implementing reforms that would enhance the efficiency, transparency, and effectiveness of public resource allocation. It has resulted in a set of accountable reform proposals outlined below.

These MTEF guidelines introduce a new mechanism entitled Targeted and Responsible Savings (TARS), which is intended to identify and remove low-priority or underperforming programmes from the budget to reduce aggregate expenditure and, where appropriate, reallocate funding towards the priorities of governments outlined in the Medium-Term Development Plan (MTDP).

In line with the government's commitment to identify wasteful, inefficient, underperforming, and low priority programmes and ensure a more streamlined and effective allocation of resources. At national level the following initiatives are being utilised for the identification of programmes to be included the TARS process:

- Spending reviews;
- Previous work should be updated where appropriate to inform implementation;
- Outcomes of new sectoral reviews such as the Active Labour Market Policy (ALMP) and the review of infrastructure conditional grants should be implemented;
- New data driven approaches;
- Use of technology to eliminate double dipping in social grants and other programmes (e.g. community works programme);
- Annual audit of ghost workers and payroll irregularities;
- Updated proposals on public entity and departmental rationalisation;
- Resolve inefficiencies in public sector wage bill;
- Implement personnel expenditure review completed by the Department of Public Service and Administration (DPSA);
- Finalise extended review of public entities remuneration; and
- Technical baseline analysis and institutional reviews to ensure that departments and public entities are appropriately aligned to mandates.

All municipalities are encouraged as part of the annual municipal budget preparations process to progressively introduce the same approach which will enable the Council of a municipality to consider more appropriate the trade-offs when policy choices are made in conclude the budget for a specific cycle. Depending on the response observed by the National Treasury, further guidance will be issue in future.

For the 2026/27 financial year, the overall direct allocations to local government amount to R182.3 billion, made up of R110.1 billion in the local government equitable share; R54.7 billion in direct conditional grants and R17.5 billion in the General fuel levy sharing with metros. These allocations alleviate some of the financial pressures, particularly in basic services, where the costs of providing services are rising. The

overall direct allocations to local government grow by an annual average rate of 3.1 per cent and the local government equitable share and related allocations grow by 4.4 per cent over the 2026 MTEF period.

Government continues to be fully committed to a comprehensive review of the local government fiscal framework, and the Budget Forum has approved a detailed programme of action to guide this work, including detailed terms of reference and the procurement of specialist expertise to undertake the technical analysis. The review will consider the financial viability, effectiveness, stability and long-term sustainability of the local government fiscal framework, through a detailed examination of the policies, practices and mechanisms that govern how resources are allocated, managed and used at municipal level, because this examination is crucial to understanding the current state of local government finance. The work is organised around five core thematic areas: a national baseline profile of the local government fiscal framework, including distressed and better-performing municipalities, and refinement of the problem statement, the local government equitable share formula, local government expenditure reviews, fiscal leakages in local government, and additional revenue options, including undersubscribed existing instruments, new own-revenue sources and improved municipal borrowing to enhance infrastructure investment and maintenance.

Oversight and engagement structures have been established, including a Reference Group to provide expert input and validate findings, with four meetings aligned with key deliverables, a Working Group to coordinate technical inputs and monitor progress, with online meetings every two months, and a Core Project Management Group to manage execution, research and reporting, with fortnightly meetings. The review also provides for interviews and up to four online sessions with chief financial officers, municipal managers and senior planners from a sample of 32 municipalities, to ensure that the findings are credible, evidence-based and grounded in municipal realities.

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 2026/2027 financial year, all employees covered by this agreement shall receive, with effect from 1 July 2026, an increase of 4.75%.

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.

The 2026 National Budget was tabled by the Minister of Finance on 25 February 2026, which implies that Provincial Governments have two weeks thereafter to table the 2026 Provincial Budgets in the Provincial Legislators, i.e., 12 March 2026. This is in line with the PFMA – Treasury Regulations. Municipalities have sufficient time to accommodate the allocations in the DOR Bill in their 2026/27 MTREF Budgets before tabling on 31 March 2026.

The transfers from provinces to municipalities which are supposed to be included in provincial budgets and gazetted by provinces, should for all practical reasons also be available. Given that municipalities are currently preparing their upcoming budgets prior to tabling it in Council for consideration, National Treasury have always advised municipalities to use the outer years of the Annual DoRA as projections, add inflation to calculate the third year of the MTREF, when finalising the tabled budget. For those municipalities where the budget was already in an advanced stage of preparations, they will have between tabling and the adoption stage (end of May 2026) to include and accommodate all the transfers for both national and provincial governments. This will allow National and Provincial Treasuries to verify and reconcile the transfers with the DoR Bill and provincial Gazettes.

Budget Summary

The budget for the 2026/27 financial year is at a deficit of R9,5 million. A provision of R11,6 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. 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 2025/2026 and in 2026/2027

Capital Budget

The capital budget for the 2026/27 financial year totals to R36,4 million of which R32,3 million is funded from National and Provincial grants and R4,1 million 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 2026/27 capital budget:

Description of project	Funding	Capital budget
Rouxville/Roleteathunya: Upgrading of the Waste Water Sewerage Treatment works (MIS:253354)	<i>MIG</i>	5,134,527.38
Smithfield/Mofulatshepe: Construction of 1km paved access road with storm water (Phase 2) in Greenfields (MIS:504267)	<i>MIG</i>	3,499,860.96
Roleleathunya (Rouxville): Construction of a Sports Facility Phase 2	<i>MIG</i>	2,206,000.01
Zastron/Matlakeng: The refurbishment of the Reichenberg sports grounds Phase 1	<i>MIG</i>	413,311.65
Smithfield/Mofulatshepe: Construction of 482 toilet structure	<i>WSIG</i>	6,000,000.00
Smithfield.Mofulatshepe: The upgrading of the outfall sewer	<i>WSIG</i>	15,000,000.00
Electrification Project	<i>INEP</i>	100,000.00

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 2026/27 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 2025/26		2026/27 Medium Term Revenue & Expenditure		
	Original Budget	Adjusted Budget	Budget Year 2026/27	Budget Year +1 2027/28	Budget Year +2 2028/29
R thousand					
Expenditure By Type					
Employee related costs	94 704	98 783	99 964	103 263	106 567
Remuneration of councillors	5 975	5 975	5 501	5 683	5 865
Debt impairment	25 086	25 086	26 340	27 209	28 080
Depreciation & asset impairment	24 988	24 988	24 988	25 812	26 638
Finance charges	15 000	15 000	15 000	15 495	15 991
Bulk purchases	54 000	54 000	75 000	77 475	79 954
Inventory Consumed	9 020	9 020	10 300	10 640	10 980
Contracted services	9 000	13 655	25 806	26 658	27 511
Irrecoverable debt written off	–	–	–	–	–
Water Losses	600	600	630	651	672
Other expenditure	17 629	17 954	19 828	20 482	21 138
Total Expenditure	256 002	265 061	303 357	313 367	323 395

The expenditure on salaries is set at 33% of the operating expenditure budget.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R151,884 million, the relation of salary expense to operating income amounts to 65,8%, 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 2025/26		2026/27 Medium Term Revenue & Expenditure		
R thousand	Original Budget	Adjusted Budget	Budget Year 2026/27	Budget Year +1 2027/28	Budget Year +2 2028/29
Revenue By Source					
Property rates	18 239	18 239	19 133	20 090	21 095
Service charges - electricity revenue	39 880	39 880	42 566	44 695	46 929
Service charges - water revenue	28 885	28 885	30 329	31 845	33 438
Service charges - sanitation revenue	12 614	12 614	13 245	13 907	14 602
Service charges - refuse revenue	8 337	8 337	8 754	9 192	9 652
Rental of facilities and equipment	869	869	839	881	925
Interest earned - external investments	100	100	145	153	160
Interest earned - outstanding debtors	40 000	40 000	35 807	37 597	39 477
Dividends received	20	20	25	26	28
Fines, penalties and forfeits	5 000	5 000	500	525	551
Transfers and subsidies	105 636	105 636	109 117	110 824	115 442
Other revenue	353	353	500	525	551
Total Revenue (excluding capital transfers and contributions)	259 933	259 933	260 961	270 260	282 850

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 2025/26		2026/27 Medium Term Revenue & Expenditure		
	Original Budget	Adjusted Budget	Budget Year 2026/27	Budget Year +1 2027/28	Budget Year +2 2028/29
R thousand					
<u>Operating Transfers and Grants</u>					
National Government:					
Local Government Equitable Share	102 636	102 636	104 848	107 724	112 342
Finance Management	3 000	3 000	3 000	3 100	3 100
EPWP Incentive	–	–	1 269	–	–
Total Operating Transfers and Grants	105 636	105 636	109 117	110 824	115 442
<u>Capital Transfers and Grants</u>					
National Government:	42 865	45 865	32 846	45 346	46 952
Municipal Infrastructure Grant	22 865	25 865	11 846	23 296	23 912
Regional Bulk Infrastructure	–	–	–	–	–
Water Services Infrastructure Grant	20 000	20 000	21 000	22 050	23 040
Provincial Government:	6 000	6 000	100	3 136	3 278
Integrated National Electrification Programme	6 000	6 000	100	3 136	3 278
Other grant providers:	–	–	–	–	–
CoGTA Provincial Government	–	–	–	–	–
Total Capital Transfers and Grants	48 865	51 865	32 946	48 482	50 230
TOTAL RECEIPTS OF TRANSFERS & GRANTS	154 501	157 501	142 063	159 306	165 672

Conclusion

The 2025/26 budget for Mohokare Local Municipality is the final 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 2026/27 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

92.1% 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 2026/27 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 11 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 2026/27 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 2026. 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 2026-27 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 2026 Annual Division of Revenue Act will be withheld / offset / paid back to the National Revenue Fund due to unspent conditional grants of 2024/25 and 2025/26 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 three 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 R19,2 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 2026/27 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 2026/27 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 2026/2027 financial year as the municipality will increase the electricity tariffs as approved by NERSA. The tariff application to NERSA is set at 9.01% plus 3% CPI. 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 2026/27 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 2026/27 financial year totals to R36,444 million of which R32,354 million is funded from National and Provincial grants and R4,090 million 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 2026/2027 financial year, all employees covered by this agreement shall receive, with effect from 1 July 2026, an increase of 4.75%.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R151,884 million, the relation of salary expense to operating income amounts to 65,8%. 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 2026/27 financial year contains a provision of R11,6 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 2026/27 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)	151 844	51.66%
Operating grants	109 117	37.13%
Capital grants	32 946	11.21%
TOTAL	293 907	100.00%

Tariff implications of the annual budget

Council has taken into consideration the guidelines of the Municipal Budget Circular for the 2026/27 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 2026/27 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 2024/25 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 2026/2027 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 at 12.01% (9.01 + CPI)
- Interest on arrears has been included in the 2026/27 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 2026/27 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 2026/27 MTREF

Description	Allocated amount
R thousand	Budget Year 2026/27
<u>Operating Transfers and Grants</u>	
National Government:	
Local Government Equitable Share	104 848
Finance Management	3 000
EPWP Incentive	1 269
Total Operating Transfers and Grants	109 117
<u>Capital Transfers and Grants</u>	
National Government:	
Municipal Infrastructure Grant	11 846
Regional Bulk Infrastructure	–
Water Services Infrastructure Grant	21 000
Integrated National Electrification Programme	100
Total Capital Transfers and Grants	32 946
TOTAL RECEIPTS OF TRANSFERS & GRANTS	142 063

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 2026/27 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 98,783 million** (2025-26 adjusted budget) to **R 99,964 million** that is in line with the prescriptions of the Collective Agreement that is in place.

(b) The Council Remuneration of **R 5,501 million** for 26/27 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 36 443 700**.

Water Services Infrastructure Grant is allocated at **R 21 000 000**.

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 11 846 000** 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 592, 300**

Description of project	Funding	Capital budget
Rouxville/Roleteathunya: Upgrading of the Waste Water Sewerage Treatment works (MIS:253354)	<i>MIG</i>	5,134,527.38
Smithfield/Mofulatshepe: Construction of 1km paved access road with storm water (Phase 2) in Greenfields (MIS:504267)	<i>MIG</i>	3,499,860.96
Roleleathunya (Rouxville): Construction of a Sports Facility Phase 2	<i>MIG</i>	2,206,000.01
Zastron/Matlakeng: The refurbishment of the Reichenberg sports grounds Phase 1	<i>MIG</i>	413,311.65
Smithfield/Mofulatshepe: Construction of 482 toilet structure	<i>WSIG</i>	6,000,000.00
Smithfield.Mofulatshepe: The upgrading of the outfall sewer	<i>WSIG</i>	15,000,000.00
Electrification Project	<i>INEP</i>	100,000.00

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
8. Debt Impairment Policy
9. Budget Policy

Other Finance Policies:

10. Banking and Investment Policy
11. Virement Policy
12. Unauthorized, Irregular, Fruitless and Wasteful Expenditure Policy
13. Cost containment Policy
14. Supply Chain Management Policy
15. Preferential Procurement Policy
16. Consultant reduction Policy
17. Fleet Management Policy
18. Consumer Deposit Policy

GRAP Related Policies:

- 19. Accounting Policy
- 20. Asset Management Policy
- 21. Inventory Management Policy

Rates and Tariffs Schedule

The 2026/27 tariff list is included.

Other supporting documents

MFMA Budget Circulars:

- MFMA Budget Circular No 132

Division of Revenue Act Bill 2026

2.16 Municipal Manager's Quality Certificate

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