



**MOHOKARE**  
LOCAL MUNICIPALITY



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# **Mohokare Local Municipality**

## **Budget Funding Plan to accompany the**

**2023/24 to 2025/26**

## **Medium Term Revenue and Expenditure Framework**

## 1. PURPOSE

To devise a plan for financial turnaround of the municipality within a period of three years. The plan will cover the short, medium and long term strategies to improve the financial viability of the municipality.

## 2. LEGISLATIVE FRAMEWORK

Municipal Finance Management Act, 2003

## 3. BACKGROUND, FACTS, EXPOSITION AND PROPOSAL

The municipality's budget for the 2023/24 MTREF is currently funded. Due to various financial constraints that the Municipality experienced in the past it was deemed prudent to table a Budget Funding Plan to accompany the budget for the 2023/24 financial year and the two outer years in order to ensure that the Municipality even further enhance the cash flow and the financial viability of the Municipality.

There are various factors that have resulted in the current cash flow position of the municipality which will be elaborated below.

In consideration of the above, the accounting officer should ensure that the Budget Funding Plan is reviewed at least half yearly to ensure the main objectives of the plan are achieved. Quarterly reviews are recommended to ensure adequate monitoring of the implementation of the MTREF plan.

### Summary of financial implication on the 2023-24 MTREF budget

Revenue Source	2023/24	2024/25	2025/26	Start date	End date
NEW RATES	10 974 671	11 633 151	12 331 140	01/07/2023	30/06/2024
WATER	10 579 705	11 214 487	11 887 356	01/07/2023	30/06/2024
SEWERAGE	6 228 379	6 602 081	6 998 206	01/07/2023	30/06/2024
REFUSE	2 188 896	2 320 229	2 459 443	01/07/2023	30/06/2024
RENT	729 980	773 778	820 205	01/07/2023	30/06/2024
OTHER INCOME	188 764	200 090	212 096	01/07/2023	30/06/2024

<b>30 890 394</b>	<b>32 743 817</b>	<b>34 708 446</b>
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- 3.1. The financial plan covers the MTREF period (2023/24 to 2025/26) which in turn is a short to medium term financial plan.
- 3.1.1 Key focus areas of the financial plan are as follows:
- Positive cash flow balances with a focus on revenue from trading services
  - Implementation of cost containment measures and a reduction of expenditure
  - Realistic debtors' collection rate with incremental improvement
  - Creditors payment rate that ensures that all fixed obligations are met
  - Ring fencing of conditional grants and ensuring that funds are cash-backed.

The root cause of the current cash flow position that is unfavorable is mainly because of the following:

- 4.1 Revenue collection which has been affected by various factors such as:
- Non-payment of services by consumers;
  - Unemployment and increasing number of Indigent Households who are not registered as such;
  - High productivity in providing municipal services (including water losses);
  - Electricity distribution losses;
  - Impact of Covid-19 pandemic recently.
- 4.2 Spiraling employee costs, emanating from recruitment of additional personnel, additional allowances to staff and overtime costs;
- Unspent conditional grant funding that were used for operational purposes;
  - Liabilities that are not cash backed since 2016/17
  - Implement effective budgeting and control techniques

**1. Positive Cash Flows**

The objective is to ensure that the budget is funded and to prevent the municipality from facing financial distress. It is therefore imperative that the cash flows in the cash flow statement show positive net cash flows. Included in the cash flows, the fixed obligations for bulk service providers must be included and revenues must be aligned to realistically anticipated estimates for billable services

Focused area	Key deliverables	Activities	Start date	End date
Positive cash flows	Ensure incremental increase in cash flow as follows: Year 1- at least 30 days cash on hand. Year 2- at least 30 days cash on hand. Year 3 - at least 2 months cash on hand.	1. Establish Cash Management Committee, and meet weekly. 2. Compile, implement and monitor monthly cash-flow projections 3. Ring fencing of conditional grants and cash backed	01-Jul-2023	01-Dec-2023

**2. Reduction in non-core expenditure**

Focused area	Key deliverables	Activities	Start date	End date
Reduction in non-core expenditure	Reduced non-core expenditure with least 50 per cent as follows: •FY 2023/24 – 30 per cent •FY 2024/25 – 20 per cent	Identify and list non-core expenditure: - Finance costs - Legal fees - Consulting fees - Overtime  In the 2022/2023 less than 30% could be cut on Legal & Consulting fees due to contractual agreements and ongoing internal legal matters. Therefore, the main focus was on finance costs and cutting by 50% in the 2022/2023 budget.	01-Jul-2023	01-Dec-2023

**3. Trade payables**

Municipalities are encouraged to make arrangements with their key creditors and to develop payment plans for the repayment of debt. Arrangements must be structured in a manner that would ensure that the net cash flows of the municipality are positive and that the legal obligations of the terms of the arrangements are met.

The municipality has the following major creditors which can give rise to an unfunded budget if the creditor accounts are not closely monitored and a good relationship with the suppliers are not maintained:

- Auditor General of South Africa – R10 434 703
- Munsoft FMS – R8 311 788
- SARS R5 469 000
- SALGA – R5 281 352
- EMS Advisory – R8 236 259
- Eskom – R1 563 174
- Other trade creditors - R6 130 059

<b>Focused area</b>	<b>Key deliverables</b>	<b>Activities</b>	<b>Start date</b>	<b>End date</b>
Trade payables	Ensure that all fixed obligations, including payment for bulk services are met.	1. Development of realistic payment plans that will ensure that cash flow of municipality remains positive.  2. Report on Creditors outstanding. Age analysis	01-Jul-2023	01-Dec-2023

		<p>to be updated and monitored</p> <p>3. Repayment plan of Eskom debt must be in place</p> <p>4. Suggested payment plans:</p> <p>Year 1 - all current payments including current payments to bulk suppliers.</p> <p>Year 2 - Payment arrangement for arrear debt from year 2 forward till creditors are paid fully.</p>		
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**4. Focus on cash and short term liquidity**

As per the financial recovery plans, the focus is on cash and ensuring liquidity for the municipalities

The municipal financial performance for the past five years as per the audited financial statements can be summarized as follows:

The municipality’s working capital position can be summarized as follows:

Description	2016/17	2017/18	2018/19	2019/20	2020/21
Current Assets	49 304 872	53 897 957	57 091 665	40 718 010	46 907 683
Current Liabilities	105 668 854	117 445 706	165 362 122	130 008 419	147 369 517
<b>Net Working Capital</b>	<b>-56 363 982</b>	<b>-63 547 749</b>	<b>-108 270 457</b>	<b>-89 290 409</b>	<b>-100 461 834</b>

The municipality has been struggling with cash flow challenges since 2016/17, where its current assets exceeded its current liabilities. Net working capital was –R56 363 982.

Focused area	Key deliverables	Activities	Start date	End date
Focus on cash and short term liquidity	Improve cost coverage to: <ul style="list-style-type: none"> <li>•FY 2023/24 – 15 days cash on hand.</li> <li>• FY 2023/24 – 30 days cash on hand</li> <li>•FY 2024/25 – 2 months cash on hand</li> </ul>	Calculate Cash Coverage monthly as per Circular 71.  Report on monthly cash coverage	01-Jul-2023	01-Dec-2023

**5. Collection rate**

Due to the culture of non-payment that are showing among the consumers of Mohokare Local Municipality the collection rate is very low. Processes implemented by the municipality to counter act this low rate and to ensure the steady increase and improvement in the payment rate are as follows:

Focused area	Key deliverables	Activities	Start date	End date
Collection rate	<ul style="list-style-type: none"> <li>• Year 1 – 2020 collection rate taking the impact of Covid-19 into account. This would be referred to as the baseline.</li> <li>• Year 2 – 10 per cent increase on baseline</li> <li>• Year 2 – 20 per cent increase on baseline</li> </ul>	<p>Calculate collection rate monthly as per Circular 71.</p> <p>Report monthly collection rate.</p> <ol style="list-style-type: none"> <li>1. Review tariff charged and ensure that they are cost reflective and incremental each year</li> <li>2. Implementation of debtors incentives scheme to enhance payments from customers</li> <li>3. Appointment of the Debt collector to assist with outstanding accounts.</li> <li>4. Ensure that roadshows and campaigns are</li> </ol>	01-Jul-2023	01-Dec-2023

		<p>conducted to increase the indigent registrations, in order to improve the Equitable Share.</p> <p>5. Strict implementation of the credit control measures.</p> <p>6. Implementation of prepaid meter pilot program to link meters to Financial system in order to sell prepaid tokens</p> <p>7. Improve customer care management.</p> <p>8. Implementation of changes on the valuation roll will result in increased billed revenue and the improvement on debt collection.</p> <p>9. Ensuring that the traffic department of the municipality are functional</p>		
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		<p>and that traffic fine revenue is optimized to assist with the cash flow of the municipality</p> <p>10. Review and updating of the lease register for all municipal properties that are leased out to ensure that tenants are paying for the properties that they are renting and in the case on non-payment that action is taken against the tenant and if no rental income is received that the tenant be served with an eviction notice</p>		
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**ACCOUNTS RECEIVABLE VS IMPAIRMENT**

The table below shows the gross debtors and impairment provision for the past four years.

**Exchange Transactions:**

<b>Description</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Gross Debtors	143 793 489	183 295 487	227 492 521	259 551 369	315 647 011
Impairment Provision	(138 256 385)	(180 395 268)	(219 734 643)	(247 650 057)	(305 539 468)
<b>Net Debtors</b>	<b>5 537 104</b>	<b>2 973 306</b>	<b>7 758 878</b>	<b>11 901 312</b>	<b>10 107 543</b>
<b>% Irrecoverable debt</b>	96,1%	98,4%	96,6%	95,4%	96,7%

**Non-Exchange Transactions (excluding traffic fines):**

<b>Description</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Gross Debtors	28 391 338	25 986 594	31 611 420	34 443 831	38 869 022
Impairment Provision	(27 385 212)	(25 566 375)	(29 125 013)	(31 023 196)	(36 324 646)
<b>Net Debtors</b>	<b>1 006 126</b>	<b>420 219</b>	<b>2 486 407</b>	<b>6 884 387</b>	<b>2 544 376</b>
<b>% Irrecoverable debt</b>	96,4%	98,4%	92,1%	90,0%	93,4%

Given the status and the growth of the municipality’s debtors book and the level of irrecoverability the municipality has embarked on measures to reduce the debtors book using external debt collection mechanism.

The municipality has also appointed a debt collection provider during the fourth quarter of the 2023/24 financial year, who will assist the municipality with the areas where debt collection can be increased and the monies owed to the municipality can be recovered.

The municipality is aware of the norms as set for collection rates to be at 95% as set out in MFMA Budget Circular 71, however, due to the current collection rate in the Municipality, we are of the opinion that we will take more than the three-year cycle as covered in this MTREF to reach this target and are therefore prudent in the targets as set out in the above table.

**6. Oversight**

It is critical for the successful implementation of the Budget Funding Plan that regular oversight takes place. Municipal structures that oversee the financial management of the municipality must review the implementation of the Budget Funding Plan on a monthly basis

Focused area	Key deliverables	Activities	Start date	End date
Oversight	Report Monthly to Municipal Structures	Senior Management Meeting, Mayoral, Finance Committee, Council. Report if reports were tabled to municipal structures	01-Jul-2023	01-Dec-2023

**7. Other matters**

Focused area	Key deliverables	Activities	Start date	End date
Other consideration	Clear unallocated deposits  Reduce Debtors Balance  Reduce Employee Related Cost  Minimise capital spending from own funds. FY 2021/22 - Zero Spending. Year 2 - Provide 10% of Cash Surplus Year 3 - Provide 30% of cash Surplus	Review the cash management policy  Credit control implementation and monitoring  Periodic review of staff structure  Reduce capital funding from own sources  Where budgets are assessed as unfunded, municipalities may consider eliminating all contracted services where consultants are used to perform the functions that	01-Jul-2023	01-Dec-2023

		should be done by municipal officials		
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**CONCLUSION**

In order to ensure financial viability of municipalities, funded budgets based on realistically anticipated revenues and expenditure, must be compiled. A Budget Funding Plan is therefore proposed to be tabled together with unfunded budgets in the municipal council. This would provide an achievable plan that the municipality would follow in achieving financial sustainability.

Upon approval by council the plan will be regularly monitored on a monthly basis and reports on implementation will be tabled to Council quarterly and to Provincial Treasury.