



MOSES KOTANE LOCAL MUNICIPALITY

Council Resolution Number 132/03/2023

Date of Council 31 March 2023

Municipal Manager Signature _____

1. PURPOSE

The purpose of this document is to provide a response/remedy to the municipality's unfunded budget position. This plan considers the 2023/24 Budget year and the 2 Outer Years of the Medium-Term Revenue and Expenditure Framework (MTREF).

2. LEGISLATIVE FRAMEWORK

Municipal Finance Management Act No.56 of 2003.

Chapter 4 of the Municipal Finance Management Act No.56 of 2003 ("MFMA") deals with the drafting and adopting of municipal budgets by municipalities. Section 18(1) of the MFMA states that an "annual budget may only be funded from –

- a) Realistically anticipated revenues to be collected;
- b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- c) Borrowed funds, but only for the capital budget referred to in section 17(2)."

Section 18(2) adds that "revenue projections in the budget must be realistic, taking into account-

- d) Projected revenue for the current year based on collection levels to date; and
- e) Actual revenue collected in previous financial years."

The Municipal Budget and Reporting Regulations ("MBRR") sets out standards for sound and sustainable management of the budgeting and reporting practices in municipalities. It states in paragraph 10(1)(b) that "the funding of an annual budget must be consistent with the trends, current and past, of actual funding collected or received." It further states in paragraph 10(4) that "the cash flow budget required in terms of Schedule A must reflect all funds realistically forecast to be collected, including arrears."

3. BACKGROUND, FACTS, EXPOSITION AND PROPOSAL

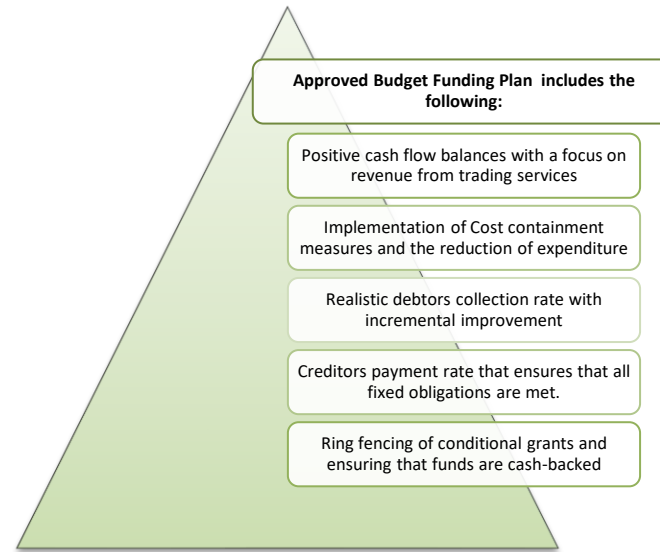
The municipality's budget for the 2023/24 MTREF reflects a shortfall, indicating that the budget is unfunded. There are various factors that have resulted in the current cash flow position of the municipality as outlined in this plan and the remedial action that the municipality will be implementing to address these issues in order to achieve a funded budget position.

Moses Kotane is classified as Category B4 Local Municipality which is mainly rural with communal tenure. Its headquarters are based in Mogwase Townships with satellite offices in Madikwe Township.

- The municipality has a total population of 242 553 (as per the 2011 Census),
- Estimate that there are 75 193 households. The Municipality has predominantly African population, with fewer Indian, Coloured and White groups mostly residing in Sun City
- The official Unemployment rate was at 33.5% (2011),
- The total households within the municipality's jurisdiction amounts to 75 193 as at 2011,
- The current number of households registered as indigent vs the total municipal households equates to **41% (which directly impacts on our revenue and the debtors book),**

4. FUNDING PLAN PILLARS

In order to give effect and structure to the Budget Funding Plan referenced above, the budget funding plan must be based on pillars.



The following Budget funding plan pillars are been looked at in detail:

1. Positive cash flows with a focus on revenue from trading services;
2. Implementation of cost containment measures and a reduction of expenditure;
3. Realistic debtors' collection rates with incremental improvements year on year;
4. Creditors payment rates that ensure that all fixed obligations, including obligations for bulk purchases, are met; and
5. Ring fencing of conditional grants and ensuring that conditional grant funding is cash backed.

Below are plans that the municipality commits to implement to ensure that it has a funded budget over the MTREF:

5. POSITIVE CASH FLOW BALANCES

(a) Financial Ratios

The cash coverage ratio measures the municipality's ability to meet monthly fixed operating commitments with the available cash and short-term investments without collecting additional revenue. The ratio for Moses Kotane is unfavorable. It is requirement that the municipality maintains a cash coverage of at least between 1 to 3 months.

Current ratio measures the extent to which the current assets covers the current liabilities. The ratio is also unfavorable, indicating inability to fund short-term obligations when they fall due. This is not consistent with the requirements of MFMA Circular No. 71, which require that the municipality maintain a ratio norm range between 1:5 to 2:1.

Collectin rate measures the rate at which consumers pay for the services provided by the municipality, the rate is below the recommended norm of 95%.

The municipality's financial ratios for the past four years can be summarized as follows:

NW375 Moses Kotane - Key financial indicators				
Performance Indicator (R'000)	2018/19 Audited Outcome	2019/20 Audited Outcome	2020/21 Audited Outcome	2021/22 Audited Outcome
Cash/ Cost coverage	0.07 Months	0.12 Months	0.13 Months	0.04 Months
Current ratio	0.42	0.49	0.85	0.75
Collection rate	42%	23%	10%	22%

The municipality strives to pay the creditors within legislated timeframe, i.e. MFMA sec.65. However, the municipality has serious challenges with regard to revenue collection which put pressure on the financial position. With the implementation of the financial plan, the financial position will gradually improve over the MTREF.

6. DETAILED FINANCIAL PLAN

PRIORITY AREA	FOCUS AREA	ACTIVITY	TIME FRAME (start end) &	RESPONSIBLE PERSON	COSTS (& Source of funding)	OUTCOME	EXPECTED INFLOW	IMPACT ON FUNDING STATUS	
Revenue Management	Water	Replacement of water meters to prepaid meters,	July 2022 to 30 June 2026	CFO	N/A	Improved debtors book from the 32% current collection rate	Projected Collection rate 60% amount	The municipality's overall service delivery will improve	Year 1 –15% Year 2–10% Year 3 – 3%
Revenue Management	New Developments(Municipal Services)	Billing Newly completed Private Hospital	Started July 2021 ongoing	CFO	N/A	Revenue generation	R 1 800 000	Improved Cash flow status	Year 1 – R 300 T Year 2 – R 500 T Year 3 – R 1 M
Revenue Management	Accounts in Arrears	Debt collection – (E.g NWDC Agreement for 1.5 M pm)	July 2021 to June 2026	CFO	N/A	Reduced debtors book	R 44 000 000	Reduction on the debtors book and improved cash flow	Year 1 – R 12 M Year 2 – R18 M Year 3 – R 6 M
Revenue Management	Traffic fines	Appointment of additional law	Sep 2021 to 30 June 2023	HOD community services	R800 000 Own source	Adherence to traffic laws	R 5 800 000	Improved Cash Flow Status	Year 1 – R 2.8 M Year 2 – R 2 M

PRIORITY AREA	FOCUS AREA	ACTIVITY	TIME FRAME (start end) &	RESPONSIBLE PERSON	COSTS (& Source of funding)	OUTCOME	EXPECTED INFLOW	IMPACT ON FUNDING STATUS	
		enforcement officers							Year 3 – R 1 M
Revenue Management	Registration of motor vehicles	Claiming 20% Commission from the department of Community Safety and Transport Management	July 2021 to 30 June 2026	HOD Community Services	R 200 000	Compliance with the National Road Traffic ACT	R3 000 000	Improved Cash flow status	Year 1 – R1 M Year 2 – R1 M Year 3 – R1 M
Revenue Management	Learners licenses testing	Appointment of examiners for learners license	July 2022 to June 2026	HOD Community Services	R200 000	Compliance to traffic regulations	R500 000	Improved Cash flow Status	Year 1 – R0 Year 2 – R 300 T Year 3 – 200 T
Revenue Management	Outdoor advertising	Appointment of additional law enforcement officer to implement by-laws unit	July 2022 to June 2026	HOD community services and HOD Planning	R 200 000 Own source	Adherence to the bylaws of the institution	R 300 000	Improved Cash flow Status	Year 1 – R0 Year 2 – R 150 T Year 3 – 150 T

PRIORITY AREA	FOCUS AREA	ACTIVITY	TIME FRAME (start & end)	RESPONSIBLE PERSON	COSTS (& Source of funding)	OUTCOME	EXPECTED INFLOW	IMPACT ON FUNDING STATUS	
Revenue Management	Rental of equipment & facilities (Rental of stalls)	Leasing of Municipal satellites & facilities	July 2021 to 30 June 2026	HOD LED and HOD Corporate Services	No cost implications	Additional Rental Income	R 7 800 000	Improved Cash flow status	Year 1 – R 1.4 M Year 2 – R2.7 M Year 3 – R3.7 M

7. IMPLEMENTATION OF COST CONTAINMENT MEASURES

(a) REDUCTION OF NON-CORE EXPENDITURE

The municipality has identified the following expenditure items for reduction during the MTREF period, so as to improve the municipality's cash position and the impact on the overall annual budget:

Expenditure	outsourced services/Contracted services	Preparation of financial statements	July 2024 to ongoing	CFO	SETA	Employee skills development and reduction on outsourced service/consultants	R 10 000 000	SETA has engaged ACCA as well as the municipality to nominate employees	Year 1 – (R1.5 M) Year 2 – (R1.5 M)
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PRIORITY AREA	FOCUS AREA	ACTIVITY	TIME FRAME (start end) &	RESPONSIBLE PERSON	COSTS (& Source of funding)	OUTCOME	EXPECTED INFLOW	IMPACT ON FUNDING STATUS	
								internally to study with ACCA ,this will help with improving the skills set of the employees within the municipality to prepare Financial Statement internally	Year 3 – (R7 M)
Expenditure	outsourced services/Contracted services	Vat recovery and Vat reconciliation	July 2023 ongoing	CFO		Employee skills development and reduction on outsourced service/consultants	R 2 000 000	The consultants have already started with the skills transfer this financial year, the municipality will be doing the activity internally.	Year 1 – (R500 T) Year 2– (R500 T) Year 3 – (R1 M)
Expenditure	outsourced services/Contracted services/Contracted services	Call Centre	July 2023 to June 2026	HOD CORPORATE SERVICES		Reduction on outsourced services /contracted services	R27 000 000	The consultants are providing skills transfer and the	Year 1 – (R3 M) Year 2– (R9 M)

PRIORITY AREA	FOCUS AREA	ACTIVITY	TIME FRAME (start end) &	RESPOS IBLE PERSON	COSTS (& Source of fundin g)	OUTCOME	EXPECT ED INFLOW	IMPACT ON FUNDING STATUS	
								municipality will use its internal employees to do this activity.	Year 3 – (R9 M)
Expenditure	Reduction on spending on outsourced services/Contracted services	ICT Services	July 2023 to June 2026	HOD CORPORATE SERVICES		Reduction on outsourced services /contracted services	R55 M	Improved Cash Flow Status	Year 1 – (R 30 M) Year 2– (R 5 M) Year 3 – (R 5 M)
Expenditure	Reductions on repairs and maintenance of vehicle	Repairs and Maintenance Fleet	July 2023 to June 2026	HOD COMMUNITY SERVICES		Reductions on repairs and maintenance of vehicle	R 7 500 000	Municipality will be leasing cars ,and old vehicles will be auctioned	Year 1 – (2.1 M) Year 2– (2.45 M) Year 3 – (2.8 M)
Expenditure	Water Tankering	Implementati on of cost containment	July 2023 to June 2026	HOD TECHNICAL SERVICES		Reduction on operational costs.	R6 000 000	Moses Kotane received water tankers from Bakubung mine as a donation so	Year 1 – (600 T) Year 2– (600 T)

PRIORITY AREA	FOCUS AREA	ACTIVITY	TIME FRAME (start end) &	RESPONSIBLE PERSON	COSTS (& Source of funding)	OUTCOME	EXPECTED INFLOW	IMPACT ON FUNDING STATUS	
								municipality will save on the cost of hiring water tankers	Year 3 – (900 T)
Expenditure	Telephone/ Cell Phone Contracts operational costs	Data Cleansing – Process	July 2023 to June 2026	HOD CORPORATE SERVICES		Reduction on operational costs.	R 6 000 000	The telephone/ cell phone expense has been linked to the existing personnel and a new contractor for ICT Services	Year 1 – (3.5 M) Year 2– (2 M) Year 3 – (500 T)

8. REPLACEMENT OF WATER METERS

Since the inception of Moses Kotane Local Municipality one of its revenue source is sale of water, where conventional meters have been utilized. However it has not yield positive results over a period time as currently the institution's debtors book its over 2 Billion rands due to none payment. Management has therefore envisaged to go out on a procurement process to request bids on the installation of smart prepaid water meters, this will be on risk basis with the successful better. Process will be done in phases approach in particular to our billable townships, thereafter a roll out will follow to our villages has an appetite from our constituencies to assist the municipality in payment services rendered.