



## **FUNDING PLAN/STRATEGY TO IMPROVE UNFUNDED BUDGETS POSITION**

## Contents

- 1. Purpose**
- 2. Background**
- 3. Legislation**

### **Budget Funding Plan**

- **Positive Cash Flows**
- **Reduction in non-core expenditure**
- **Trade Payables**
- **Focus on cash and short term liquidity**
- **Collection Rates**
- **Conclusion**

## **Purpose**

The objective is to ensure that the budget is funded and to prevent the municipality from facing financial distress that can lead to inability to fulfill the legal obligations and more importantly, unable to fulfill the mandate of service delivery to our respective communities.

## **Background**

Ba-Phalaborwa municipalities have been producing budgets over the Medium Term Revenue and Expenditure Framework (MTREF) as per the requirements of the Municipal Finance Management Act No. 56 of 2003 ("MFMA"). The Provincial Treasury assessment on the approved budgets were found to be unfunded which was going to result in the National Treasury imposing punitive measures of withholding equitable share allocations in order to ensure that the municipality complies with the requirement of producing budgets that are funded.

Unfunded budgets in the municipalities results in financially distressed municipalities and municipalities that are unable to fulfill their legal obligations and more importantly, unable to fulfill their mandate of service delivery to their respective communities.

## **Legislation**

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-

- a) projected revenue for the current year based on collection levels to date; and
- b) 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.”

## Positive Cash Flows

Description  R thousand	Current Year 2021/22			2022/23 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
<b>Receipts</b>						
Property rates	83 583	83 583	83 583	87 595	91 449	95 564
Service charges	212 812	191 516	191 516	209 931	217 673	226 201
Other revenue	21 116	21 116	21 116	32 008	33 416	34 920
Transfers and Subsidies - Operational	188 075	178 963	178 963	202 139	218 880	232 122
Transfers and Subsidies - Capital	52 001	52 001	52 001	36 186	37 681	39 270
Interest	2 832	41 435	41 435	2 481	2 590	2 707
Dividends	–	–	–	–	–	–
<b>Payments</b>						
Suppliers and employees	(606 481)	(483 947)	(483 947)	(505 871)	(528 176)	(549 782)
Finance charges	(2 866)	(2 866)	(2 866)	(2 500)	(2 610)	(2 727)
Transfers and Grants	–	–	–	(1 091)	(1 139)	(1 190)
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>(48 928)</b>	<b>81 801</b>	<b>81 801</b>	<b>60 878</b>	<b>69 764</b>	<b>77 085</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
<b>Receipts</b>						
Proceeds on disposal of PPE	–	–	–	–	–	–
Decrease (increase) in non-current receivables				–	–	–
Decrease (increase) in non-current investments				–	–	–
<b>Payments</b>						
Capital assets	(56 127)	(56 127)	(56 127)	(43 877)	(43 797)	(7 313)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(56 127)</b>	<b>(56 127)</b>	<b>(56 127)</b>	<b>(43 877)</b>	<b>(43 797)</b>	<b>(7 313)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
<b>Receipts</b>						
Short term loans	–	–	–	–	–	–
Borrowing long term/refinancing	–	–	–	–	–	–
Increase (decrease) in consumer deposits	–	–	–	355	(188)	(201)
<b>Payments</b>						
Repayment of borrowing	(20 400)	(20 400)	(20 400)	(20 400)	(20 400)	(20 400)
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>(20 400)</b>	<b>(20 400)</b>	<b>(20 400)</b>	<b>(20 045)</b>	<b>(20 588)</b>	<b>(20 601)</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>(125 455)</b>	<b>5 274</b>	<b>5 274</b>	<b>(3 043)</b>	<b>5 379</b>	<b>49 171</b>
Cash/cash equivalents at the year begin:	54 987	124 307	124 307	69 320	66 276	71 656
Cash/cash equivalents at the year-end:	<b>(70 467)</b>	<b>129 581</b>	<b>129 581</b>	<b>66 276</b>	<b>71 656</b>	<b>120 826</b>

## Cash flow from operating activities

The municipality cash flow from operating activities shows a positive move on the outer years which indicate that the revenue enhancement strategy of the municipality must be fully implemented in order to maximise revenue.

The ability to collect revenue from our customers will lead to a positive cash and cash equivalent over the medium term which will automatically lead to a sustainable and funded budget to enable the municipality to honour its debts.

Projected cash and cash equivalents indicate cash increase which are indicative of a sustainable budget and this will lead to the municipality to provide quality services to our communities.

Continuous implementation of credit control policies and revenue enhancement strategy as approved by Council will be prioritised in order to maximise revenue.

## Reduction in non-core expenditure

The municipality will continue to implement cost containment measures as guided by the National treasury to reduce on items like Travelling, Accommodation, overtime, catering and entertainment expenses.

While the budget projections has been reduced on many occasion as part of achieving a funded budget, it has been noted that the problem is mainly on revenue collection and the municipality need to do more to collect what is due to council rather than to continuously cut the budgets as this might create unauthorised expenditure or compromise service delivery.

## Trade Payables

The municipality is having a debt of **R296 million** as at 30 June 2021 to Mopani district as a water service authority (WSA) and a long outstanding historic debt to Lepelle Northern Water.

Ba-Phalaborwa municipality as a water service provider(WSP) has since signed a payment agreement of **R1.7 million** per month payable to Lepelle Northern Water for long outstanding debt that arose when the Municipality was still a Water Supply Authority.

The municipality is paying the **R1.7 million** monthly to Lepelle Northern Water without fail

Ba-Phalaborwa municipality together with the Mopani District Municipality will continue to engage in order to find a solution on the issues of SLA implementation which is still a problem for both parties.

## Cash and short term liquidity

Ba-Phalaborwa municipality will continue to implement the revenue enhancement strategy approved by Council which aims to:

- To increase debt collection on municipal property rates and other service charges.
- To develop other sources of income to minimize municipal grant dependency

The Cash and short term liquidity is planned to be as follows:

- **Year 1** – R25 million 15 days' cash on hand
- **Year 2** – R30 million 30 days' cash on hand
- **Year 3** – R35 million 2 months' cash on hand

## Collection Rates

The municipality collection rate is at 68% and there is a serious need to implement the revenue enhancement strategy in order to maximise collection.

The Municipality has been diagnosed to have significant challenges in revenue collection and there are significant amounts of money owed to the municipality by customers especially from the townships. The amount has accumulated over a period of time due to lack of effective controls in revenue collection.

Since the municipality cannot cut electricity in townships in order to force customers to pay for other services like property rates, as this service is supplied by Eskom, the municipality will continue to make use of Debt Collectors as part of implementing stringent credit control policies.

With the implementation of revenue enhancement strategy and also exercising very stringent credit control policies, the municipality is projecting to achieve the following:

- **Year 1** – 2022 collection rate might remain at same at 68%
- **Year 2** – 2023 collection rate will increase by 5% which will take us to 71.4%
- **Year 2** – 2024 collection rate will increase by 5% which will take us to 75%

## Conclusion

Council **note** the municipal budget funding plan to move from an unfunded budget to fully funded budget

Council **approve** the municipal budget funding plan for implementation to move from an unfunded budget to fully funded.