**Mohokare Local Municipality**

Acting Municipal Manager

13 May 2011

Budget Narrative for the Annual Budget for the 2011/12 – 2013/14 MTREF

The following summary is intended to enhance the understanding of the basis and assumptions used in the compilation of the municipality’s 2011/12 – 2013/14 MTREF Budget document:

1. The municipality’s operational budget is in a deficit of R 11,685. This is due to the fact that:

* The municipality’s creditors listing totals about R 8 million which cannot be serviced.
* The municipality currently owes SALA and the compensation commissioner a combined amount of R 1, 8 million. Added to that is a number of critical positions which were not budgeted for in the previous financial year (about R 2 million). Hence salary expenses have increased by R 5,842 million (the year on year increase on current salaries is about 6%)
* Thirdly the municipality’s own revenue is budgeted at R 13 million for the 2011/12 year because it is based on the collection rate of about 30%.
* Based on these and other factors, the municipality, after consultations with the provincial treasury revised its budget to show the deficit amount on both operational and capital budget.

1. The municipality’s capital budget is showing that the municipality will fund out of its own funds capital projects of R 13, 282 million. This is because the municipality has a previous rollover of R 11,482 million the funds of which do not exist. The municipality still plans to complete the projects but no funding is available.
2. The municipality returned its fleet in April 2011 and has as result of that budgeted R 1, 8 million of the own revenue in the 2011/12 year to start replacing the fleet.
3. The municipality budgeted R 1, 032 million in 2011/12 for repairs and maintenance expenses as can be seen in table SA 34c. This amount is clearly low as no repairs of infrastructure or major renewals are budgeted for. The main reason for the above is the fact that the municipality is in the process of appointing engineers to de-componentise and value its infrastructure assets with the main challenge being the funding of the project. Therefore it becomes difficult budgeting for major repairs and renovations to existing pipelines, sewerage etc.
4. Funding compliance assessment (budget does not comply with s18 of MFMA):
   1. The municipality’s budget is not correctly funded as the budgeted expenditure exceeds available funds by over R 23, 13 million which is currently being discussed with the provincial government institutions.
   2. The municipality’s own revenue is only R 12, 43 million out of a possible R 34 million. This is due to the low collection rate of about 30%. The municipality is planning to embark on a programme to improve the revenue collection in the next financial year.
   3. The operational transfers received by the municipality represent over 80% of the municipality’s revenue and shows over reliance on grants.
   4. The capital transfers received are not adequate to meet the objectives and planned activities of the municipality. The municipality requires an additional R 11,482 million in order to cover the backlog of certain infrastructure projects.