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LOCAL MUNICIPALITY



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Mohokare Local Municipality

Final Budget 2024/25 to 2026/27

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. 126 and 128 were used where necessary.

Background

The National Treasury estimates real economic growth of 0.6 per cent in 2023. This is a decrease from growth of 0.8 per cent projected in the 2023 MTBPS due to weaker than expected outcomes in the third quarter of 2023, resulting in downward revisions to household spending growth and spending on gross fixed investment. GDP growth is projected to average 1.6 per cent from 2024 to 2026 as the frequency of power cuts declines, lower inflation supports household consumption, and employment and credit extensions recover gradually. New energy projects will improve fixed investments and business sentiment.

The following macro-economic forecasts must be considered when preparing the 2024/25 MTREF municipal budgets.

Fiscal year	2022/23	2023/24	2024/25	2025/26	2026/27
Actual		Estimate		Forecast	
CPI	6.9%	6.0%	4.9%	4.6%	4.6%
Inflation					

Headline inflation is projected to moderate from 6 per cent in 2023 to 4.9 per cent in 2024 and 4.6 per cent in 2025 and 2026 as food and fuel inflation continue to decline. In 2023 food inflation slowed less than expected due to power cuts and rand depreciation, keeping imported food costs high. An avian influenza outbreak also increased the costs for poultry and eggs. These factors are expected to dissipate over the medium term. The current economic challenges in the country place pressure on households' ability to pay municipal accounts, therefore municipal own revenue generation gets affected. It is noted that variations in regional specifics are possible, however, any variation of assumptions must be explicitly set out and well explained in the budget narratives, in the absence of which the Treasuries will refer the budget back to council for alignment to the macroeconomic performance projections.

Over the 2024 MTEF, the local government equitable share and direct conditional grants will be reduced by a total of R15.5 billion, made up of R9.6 billion in the local government equitable share and R5.9 billion in direct conditional grants. Despite reduction, local government equitable share growth remains high with transfers to local government significantly increasing by 5.2 per cent annually, driven mainly by the strong growth of local government equitable share by 6.1 per cent. National revenue share increases by 2.6 per cent annually, while transfers to provinces grow by 3.8 per cent annually, with the equitable share growing faster than conditional grants.

Government's five-year programme of action to improve local governance, as endorsed by the Budget Forum, includes efforts to improve the funding model for local government. The National Treasury is reviewing a draft report for regulating municipal surcharges on electricity and identifying alternative sources of revenue to replace these. The next step will be consultation with external stakeholders.

The local government equitable share formula is being updated in various ways, including improving its responsiveness to the different functions assigned to district and local municipalities. In addition, the formula will be refined with reforms such as exploring the feasibility of introducing a cost differential model, community services components for health services and firefighting functions, objective criteria for benchmarking municipalities in relation to their administrative functions. The Department of Cooperative Governance, the National Treasury, the South African Local Government Association, the Financial and Fiscal Commission and statistics South Africa are identifying areas for refinement over the 2024 MTEF period.

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 has come to an end and a new agreement is under consultation, which is anticipated to consider the current fiscal constraints faced by government. Therefore, in the absence of any information in this regard from the South African Local Government Bargaining Council (SALGBC), municipalities are advised to consider their financial sustainability when considering salary increases. It has been observed over the previous years that salary increases were above inflation and this has posed challenges to most municipalities' sustainability. In addition, municipalities that could not afford such increases did not apply for exemption as provided by SALGBC.

Therefore, municipalities are urged to consider projecting salary and wage increases that would reflect their affordability given the current economic challenges. The 2022 State of Local Government Finance Report revealed that 157 municipalities are in financial distress. These municipalities need to ensure that they seek an early exemption from this dispensation of this salary agreement. Municipalities should also avoid paying out leave in cash while having major financial challenges.

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 above on salary increases for municipal officials during this process. Any overpayment to councilors 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 councilor(s) concerned.

Budget Summary

The budget for the 2024/25 financial year is at a surplus of R72,1 million. A provision of R10,54 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 100%, 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. appointment of a debt collector, installing of pre-paid water meters which is still on-going, etc.). The municipality has also taken over electricity from Centlec during March 2024. Two service providers has already been appointed to assist with the collection of revenue and prompt response of maintenance of electrical infrastructure. We believe that our credit control measures are not harsh, but measured, targeted and backed up by good data management.

Capital Budget

The capital budget for the 2024/25 financial year totals to R60,5 million of which R58,6 million is funded from National and Provincial grants and R1,9 million from internally generated funds (replacing and improving of movable assets e.g. machinery and equipment, laptops, new fleet etc.). Find below an extract of the projects to be funded from the 2024/25 capital budget:

Description of project	Funding	Capital budget
Roleleathunya: Construction of the sports ground – Phase 1 (MIS:484877)	<i>MIG</i>	3,400,000.00
Smithfield/Mofulatshepe: The construction of 1km access road with related storm water in Greenfield_ Phase 1	<i>MIG</i>	1,385,000.00
Zastron/Matlakeng: The construction of a sewer network in Refenghotso for 900 erven	<i>MIG</i>	11,641,374.53
Smithfield/Mofulatshepe: Phase2_ Construction of 1km access	<i>MIG</i>	384,805.47
Rouxville/Roleleathunya: Construction of the Sports Ground – Phase 2	<i>MIG</i>	1,069,920.00
Zastron/Matlakeng: Specialized vehicles for waste management	<i>MIG</i>	2,328,500.00
Zastron/Matlakeng: The refurbishment of the Waste Water Treatment Works (WWTW)	<i>MIG</i>	2,377,600.00
The construction of a 27km raw bulk water pipeline from the Orange River to Paisley dam	<i>RBIG</i>	2,353,736.20
Upgrading of the Rouxville/Roleleathunya water treatment works (WTW) (civil works) to a capacity of 3.2ml/day, construction of new 4..8 km long main rise from the WTW to the 3 existing reservoirs and upgrading o infrastructure for 5 existing boreholes.	<i>RBIG</i>	13,807,263.80
The Construction of an abstraction works on the Orange River and equipping of x2 raw water pump stations in Rouxville	<i>WSIG</i>	7,127,462.90
Smithfield.Mofulatshepe: The upgrading of the outfall sewer	<i>WSIG</i>	8,802,537.10
Electrification of 300 House Holds (HH) in Smithfield	<i>INEP</i>	3,900,000.00

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. 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 municipalities and municipal entities will have to implement the provisions of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

Municipalities must prioritise the provision of basic services such as electricity, water, sanitation and refuse removal in their MTREF budgets. 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 municipality in terms of national and provincial legislation;
- The municipality has prioritised the provision of basic services; and
- It does not jeopardise the financial viability of the municipality.

The budget for the 2024/25 financial year eliminates all non-priority spending and will be monitored closely to ensure that overspending is limited 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 2023/24		2024/25 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
R thousand					
Expenditure By Type					
Employee related costs	88 588	88 816	90 284	94 437	98 687
Remuneration of councillors	5 327	5 520	5 790	6 056	6 329
Debt impairment	38 716	53 980	25 086	26 239	27 420
Depreciation & asset impairment	23 060	23 820	24 988	26 137	27 313
Finance charges	7 430	16 000	16 000	16 736	17 489
Bulk purchases	31 523	48 400	42 000	43 932	45 909
Inventory Consumed	9 184	11 136	10 560	11 046	11 543
Contracted services	12 951	16 946	10 752	11 136	11 529
Irrecoverable debt written off	19 489	19 489	–	–	–
Other expenditure	17 426	26 614	19 158	20 012	20 885
Total Expenditure	253 693	310 721	244 618	255 732	267 105

The expenditure on salaries is set at 37% of the operating expenditure.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R153,380 million, the relation of salary expense to operating income amounts to 58%. 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. Assessment rates, 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 2023/24		2024/25 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
R thousand					
Revenue By Source					
Property rates	11 662	16 388	17 371	18 170	18 988
Service charges - electricity revenue	34 584	35 831	37 981	39 728	41 516
Service charges - water revenue	49 180	25 952	27 509	28 775	30 070
Service charges - sanitation revenue	12 613	11 346	12 026	12 579	13 145
Service charges - refuse revenue	8 301	7 491	7 940	8 306	8 679
Rental of facilities and equipment	735	742	786	822	859
Interest earned - external investments	265	20	100	105	109
Interest earned - outstanding debtors	26 453	40 000	40 000	41 840	43 723
Dividends received	13	–	20	21	22
Fines, penalties and forfeits	14 045	2 809	10 000	10 460	10 931
Transfers and subsidies	96 733	96 733	103 582	105 401	107 370
Water losses	–	–	(600)	(628)	(656)
Other revenue	13 171	248	246	257	269
Total Revenue (excluding capital transfers and contributions)	267 755	237 560	256 962	265 836	275 025

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 2023/24		2024/25 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
R thousand					
<u>Operating Transfers and Grants</u>					
National Government:					
Local Government Equitable Share	93 733	93 733	99 365	102 401	104 370
Finance Management	3 000	3 000	3 000	3 000	3 000
EPWP Incentive	–	–	1 217	–	–
Total Operating Transfers and Grants	96 733	96 733	103 582	105 401	107 370
<u>Capital Transfers and Grants</u>					
National Government:	49 603	47 184	55 867	41 180	43 677
Municipal Infrastructure Grant	20 707	18 288	23 776	21 180	22 677
Regional Bulk Infrastructure	8 896	8 896	16 161	–	–
Water Services Infrastructure Grant	20 000	20 000	15 930	20 000	21 000
Provincial Government:	–	–	3 900	3 000	3 000
Integrated National Electrification Programme	–	–	3 900	3 000	3 000
Other grant providers:	–	–	–	–	–
CoGTA Provincial Government	–	–	–	–	–
Total Capital Transfers and Grants	49 603	47 184	59 767	44 180	46 677
TOTAL RECEIPTS OF TRANSFERS & GRANTS	146 336	143 917	163 349	149 581	154 047

Conclusion

The 2024/25 budget for Mohokare Local Municipality is the third budget to be prepared by the current Council.

All efforts have been made, including a successful consultative period, 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 2024/25 IDP.

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 on by the large amount of conditional capital grants allocated to the Municipality for the financial year. As the relating expenditure which are incurred using said recognised grants are capitalised as work-in-progress and the relating 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 for 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 under more the revenue budgeted for 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 constructions.

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 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

94.5% 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 2024/25 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 6 and 7 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 are able to meet its financial obligations as it falls due along with the repayment of old 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 are brought along 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 incurred during the 2024/25 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 2023 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.

The community and other stakeholders were consulted during the review of Integrated Development Plan which informed this annual budget. Further consultation will take place during April and May 2024. 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 on 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 that 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 2024-25 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 in the assumption that allocations as per 2024 Annual Division of Revenue Act will be withheld / offset / paid back to the National Revenue Fund due to unspent conditional grants of 2021/22 and 2022/23 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

During the past years, Mohokare Local Municipality had maintained their audit opinion audit opinion to be a qualified audit opinion. But the municipality's audit opinion regressed during 2022/23 financial year 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 R25,7 million from equitable share by National Treasury as a result the roll-over of a conditional grant from 2022/23 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 2024/25 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 2024/25 financial year has to be monitored closely to ensure that over expenditure does not occur.

Council 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.

To stimulate the economy of the municipality, the municipality will enter into public private partnerships for investment purposes. This are identified projects under LED: Hemp and Cannabis Projects and Precision Feed Projects. The above projects will stimulate job opportunities around Mohokare for the coming financial year

Cash flow

For the past years, Mohokare was handicapped with a poor cash-flow. This has resulted in poor maintenance of especially the infrastructure. The pot-holes in various towns are a matter of concern.

Electricity services will increase our revenue base for 2024/2025 financial year as the municipality has taken over the function from Centlec. 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 2024/25 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 2024/25 financial year totals to R59,728 million of which R58,578 million is funded from National and Provincial grants and R1,950 million from internally generated funds.

Operating Expenditure

Employee related costs

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 has come to an end and a new agreement is under consultation, which is anticipated to consider the current fiscal constraints faced by government. Therefore, in the absence of any information in this regard from the South African Local Government Bargaining Council (SALGBC), municipalities are advised to consider their financial sustainability when considering salary increases. It has been observed over the previous years that salary increases were above inflation and has posed challenges to most municipalities' sustainability. In addition, municipalities that could not afford such increases did not apply for exemption as provided by SALGBC.

Therefore, municipalities are urged to consider projecting salary and wage increases that would reflect their affordability given the current economic challenges. Municipalities that are already not in a position to afford the current wage cost, would have to limit the increase in the 2024/25 MTREF and to exercise the option for exemption for any negotiated increase above the level of their affordability.

In relation to budgeted operating income from own generated funds (refer to table 1.2) which amounts to R153,380 million, the relation of salary expense to operating income amounts to 58%. 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 2024/25 financial year contains a provision of R10,5 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) increased by the NERSA proposed tariff increase;
- 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 2024/25 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)	153 380	48.43%
Operating grants	103 582	32.70%
Capital grants	59 767	18.87%
TOTAL	316 729	100.00%

Tariff implications of the annual budget

Council has taken into consideration the guidelines of the Municipal Budget Circular for the 2024/25 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 new valuation roll was implemented on 01 July 2019 to 30 June 2024.
- We performed a zero based calculation in terms of the budgeted revenue to be received in respect of property rates
- We used the new valuation roll together with the proposed tariffs for each of the stakeholder groups and determined the amount of revenue to be budgeted for the 2023/24 as well as the MTREF outer-years.
- Property rate rebates (per the historic trend as identified by inspecting previous financial years) was adjusted to be in line with the property rates as budgeted.

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 2022/23 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 2024/2025 financial year as the municipality has taken over the function from Centlec.
- The tariffs for electricity has now been incorporated in the municipality's tariff list for 2024/25 financial year.
- Interest on arrears has been included in the 2024/25 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 2024/25 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 2024/25 MTREF

Description	Allocated amount
R thousand	Budget Year 2024/25
<u>Operating Transfers and Grants</u>	
National Government	
Local Government Equitable Share	99 365
Finance Management	3 000
EPWP Incentive	1 217
Total Operating Transfers and Grants	103 582
<u>Capital Transfers and Grants</u>	
National Government:	
Municipal Infrastructure Grant	23 776
Regional Bulk Infrastructure	16 161
Water Services Infrastructure Grant	15 930
Integrated National Electrification Programme	3 900
Total Capital Transfers and Grants	59 767
TOTAL RECEIPTS OF TRANSFERS & GRANTS	163 349

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 2024/25 MTREF doesn't 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 88,816 million** (2023-24 adjustment budget) to **R 90,284 million** that are in line with the prescriptions of the Collective Agreement that are in place.

(b) The Council Remuneration of **R 5,790 million** for 24/25 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 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 58 578 200.**

Water Services Infrastructure Grant is allocated at **R 15 930 000** and the Regional Bulk Infrastructure Grant is allocated at **R 16 161 000**. No allocation has been made to the municipality in relation to Expanded Public Works Programme.

The Municipal Infrastructure Grant amounts to **R 23 776 000** 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 1 188 800**

Description of project	Funding	Capital budget
Roleleathunya: Construction of the sports ground – Phase 1 (MIS:484877)	<i>MIG</i>	3,400,000.00
Smithfield/Mofulatshepe: The construction of 1km access road with related storm water in Greenfield_ Phase 1	<i>MIG</i>	1,385,000.00
Zastron/Matlakeng: The construction of a sewer network in Refenghotso for 900 erven	<i>MIG</i>	11,641,374.53
Smithfield/Mofulatshepe: Phase2_ Construction of 1km access	<i>MIG</i>	384,805.47
Rouxville/Roleleathunya: Construction of the Sports Ground – Phase 2	<i>MIG</i>	1,069,920.00
Zastron/Matlakeng: Specialized vehicles for waste management	<i>MIG</i>	2,328,500.00
Zastron/Matlakeng: The refurbishment of the Waste Water Treatment Works (WWTW)	<i>MIG</i>	2,377,600.00
The construction of a 27km raw bulk water pipeline from the Orange River to Paisley dam	<i>RBIG</i>	2,353,736.20
Upgrading of the Rouxville/Roleleathunya water treatment works (WTW) (civil works) to a capacity of 3.2ml/day, construction of new 4.8 km long main rise from the WTW to the 3 existing reservoirs and upgrading o infrastructure for 5 existing boreholes.	<i>RBIG</i>	13,807,263.80

The Construction of an abstraction works on the Orange River and equipping of x2 raw water pump stations in Rouxville	<i>WSIG</i>	7,127,462.90
Smithfield.Mofulatshepe: The upgrading of the outfall sewer	<i>WSIG</i>	8,802,537.10
Electrification of 300 House Holds (HH) in Smithfield	<i>INEP</i>	3,900,000.00

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. This situation will change in the coming financial year as the municipality has undertaken the process of filling all vacant senior managers posts.

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

Other Finance Policies:

8. Budget Policy
9. Banking and Investment Policy
10. Virement Policy
11. Unauthorized, Irregular, Fruitless and Wasteful Expenditure Policy
12. Cost containment Policy

- 13. Supply Chain Management Policy
- 14. Preferential Procurement Policy
- 15. Fleet Management Policy

GRAP Related Policies:

- 16. Accounting Policy
- 17. Asset Management Policy

Rates and Tariffs Schedule

The 2024/25 tariff list is included.

Other supporting documents

MFMA Budget Circulars:

- MFMA Budget Circular No 126
- MFMA Budget Circular No 128

Division of Revenue Act Bill 2024

2.16 Municipal Manager's Quality Certificate

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