



MOHOKARE
LOCAL MUNICIPALITY



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Mohokare Local Municipality

Budget Funding Plan to accompany the

2024/25 to 2026/27

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 2024/25 MTREF is currently unfunded. Due to various financial constraints that the Municipality is currently experiencing, it was deemed prudent to table a Budget Funding Plan to accompany the budget for the 2024/25 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.

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

The municipality's working capital position can be summarised as follows:

Description	2018/19	2019/20	2020/21	2021/22	2022/23
Current Assets	57 091 665	40 718 010	45 648 552	34 125 320	130 202 662
Current Liabilities	165 362 122	130 008 419	147 188 050	181 994 583	215 037 767
Net Working Capital	-108 270 457	-89 290 409	-101 539 498	-147 869 263	-84 835 105

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.

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

- 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;
 - Tampering of Water and Electricity meters by consumers;

- Electricity distribution was previously done by CENTLEC Soc causing the municipality to lose one of its main revenue streams that could also be used to recover outstanding municipal service accounts, but the municipality has taken over electricity;
- 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

FUNDING PLAN 2024/25 MTREF

Below are plans that the municipality proposes for implementation to ensure that the budget moves from being unfunded over the MTREF:

1. Trade payables

The municipality has the following major creditors which give rise to an unfunded budget. These creditor accounts needs to be closely monitored and a good relationship with the suppliers needs to be maintained:

- Auditor General of South Africa – R12 754 489
- Munsoft FMS – R16 631 473
- SALGA – R5 281 352
- EMS Advisory – R8 236 259
- Eskom – R1 563 174

For each of the above mentioned creditors, Management will enter into a payment arrangement for the settling of the arrear accounts over a multi-year period whilst also working towards settling of the current outstanding debts as and when it is incurred.

2. 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:

- Strict implementation of the credit control and debt collection policy;
- Implementation of a debtors' incentive scheme to encourage consumers to pay outstanding consumer accounts;
- The appointment of a debt collector to assist with the collection of outstanding consumer accounts;
- Focus to be placed on business accounts and where there are disputes on the accounts between the Municipality and the owner, these items are to be addressed to ensure that the businesses in the region are able to pay outstanding accounts;
- Significant focus to be placed on the indigent register of the Municipality and ensuring that all accounts of registered indigents are reflected as such on the system as well as on the indigent register;
- All new consumer accounts to be opened within 30 working days from the receipt of the application;
- Any differences on meter readings to be followed up and resolved within 30 days from the first date of the matter being reported;
- Installation of pre-paid water meters and the implementation of a pilot program to link these meters to the financial system and to sell pre-paid water tokens in order to get the pre-paid system in place and to in this manner also recoup outstanding services from the amounts used to purchase water tokens. (Auxiliary services where e.g. 40% of the amount of the water purchase goes towards the settlement of arrears on the service account.)
- Data cleansing processes to ensure that the rights and obligations for each account as per the financial system is in place. Ensure that all consumer accounts as levied towards a specific property are recoverable and that the person can be traced. In the event where old, inactive accounts are identified for which the responsible party cannot be traced, these amounts should be tabled to Council in a report on a quarterly basis for them to consider the write-off of said

amounts in order to ensure that the amounts reported as outstanding debtor accounts are in fact recoverable municipal debt.

- Accounts that are deemed difficult or almost impossible to collect are to be handed over to the debt collection Firm as alluded to above (e.g. Farmers and Sundry accounts, especially rental accounts where the consumers are renting a property from the Municipality). With farmers the municipality will also look at the stakeholders' relationship with farmer unions.

The municipality is also benchmarking on the assessment rates revenue enhancement, looking at the valuation roll and make assessment to determine if valuations are market related and the impact thereof will determine the revenue loss in property rates. Implementation of changes on the valuation roll will result in increased billed revenue and the improvement on debt collection.

Water meter replacement from conventional to prepaid for all consumers are ongoing.

Further steps to be taken by the Municipality to enhance the revenue maximizing of the municipality include under more the following:

- Ensuring that the traffic department of the municipality are functional and that traffic fine revenue is optimized to assist with the cash flow of the municipality;
- 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
- 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.

ACCOUNTS RECIEVABLE VS IMPAIRMENT

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

Exchange Transactions:

Description	2018/19	2019/20	2020/21	2021/22	2022/23
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)
Net Debtors	5 537 104	2 973 306	7 758 878	11 901 312	10 107 543
% Irrecoverable debt	96,1%	98,4%	96,6%	95,4%	96,7%

Non-Exchange Transactions (excluding traffic fines):

Description	2018/19	2019/20	2020/21	2021/22	2022/23
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)
Net Debtors	1 006 126	420 219	2 486 407	6 884 387	2 544 376
% Irrecoverable debt	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 2021/22 financial year, who is assisting the municipality with the areas where debt collection can be increased and the monies owed to the municipality can be recovered.

Action to be Implemented	Impact on Funding Status	Timeframe
1. Increase collection rate	1. Current collection rate at end of the third Quarter of 2022/23 is at 10%, anticipated yearly collection	30 June 2025

	rate is anticipated to be around 35%.	
2.	Year 2 – Achieve 50%	30 June 2026
3.	Year 3 – Achieve 55%	30 June 2027

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.

3.Cashflow

It is of utmost importance that the municipality closely monitors the cash flow of the Municipality.

Items such as the payment arrangements entered into with service providers with long outstanding accounts, arrear pension fund contributions and any other urgent items have to be taken into account.

The municipality should further investigate and identify areas where expenditure can be reduced and implement these reductions with immediate effect. Any items that are not service delivery related and are not included in the budget should not even be entertained by the Municipality.

The above impact should be seen in non-core expenditures which includes under more:

- Stand-by allowance
- Overtime
- Car allowance
- Travel allowance, and
- Any other benefits

Based on each individual circumstance of each municipality, it is proposed that non-core expenditure be reduced by at least 50 per cent as follows:

- Year 1 – 30 per cent
- Year 2 – 20 per cent

Employee related cost will be maintained with the intervention of limiting new appointments to critical positions and reassessment of the workforce for excess capacity and reskilling.

Overtime will be authorised and pre-approved to determine if it's essential.

Dealing with theft and tampering is an ongoing effort to reduce distribution losses. Also addressing water leakages.

4. **CONCLUSION**

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