MATJHABENG LOCAL MUNICIPALITY

FUNDING PLAN
BUDGET 2024/25 MTREF

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GLOSSARY OF TERMS

BFP	**Budget Funding Plan**
CFO	**Chief Financial Officer**
IDP	**Integrated Development Plan**

KPA	**Key Performance Area**
MCCP	**Municipal Cost Containment Policy**
MFMA	**Municipal Finance Management Act, No.56 of 2003**
MM	**Municipal Manager**
MTREF	**Medium-term revenue and expenditure framework**
REC	**Revenue Enhancement Committee**
SCM	**Supply Chain Management**
SDBIP	**Service Delivery Budget Implementation Plan**

PART 1

1.1 MUNICIPAL OVERVIEW

OUR VISION

By being a benchmark developmental municipality in service delivery excellence.

OUR MISSION STATEMENT

By being a united, non-racial, non-sexist, transparent, responsible municipality.

By providing municipal services in an economic, efficient, and effective way.

By promoting a self-reliant community through the promotion of a culture of entrepreneurship.

By creating a conducive environment for growth and development.

KEY PERFORMANCE AREAS

The Municipality's vision and mission are translated into the following five municipal key performance areas:

KPA1: Good governance

KPA 2: Basic Service delivery

KPA 3: Inclusive economic development and job creation

KPA 4: Institutional Transformation

KPA 5: Financial sustainability and viability

STRATEGIC OBJECTIVES

The following strategic objectives have been set to deliver on the above stated key performance areas:

Ensuring access to basic services for all residents.

Developing and sustaining spatial, natural, and built environments.

Providing integrated and sustainable human settlements.

Addressing the challenges of poverty, unemployment, and social inequality.

Fostering a safe, secure, and healthy environment for employees and communities.

Developing a prosperous and diverse economy.

Accelerating service delivery through the acquisition and retention of competent and efficient human capital.

Ensuring sound financial management and viability.

1.2 MUNICIPAL SWOT ANALYSIS

KPA	CHALLENGES	PRIORITIES	OPPORTUNITIES	THREATS

Municipal Transformation and Institutional Development	Shortage of personnel in critical division – infrastructure departments, Quality of reporting and performance information	Strengthening of critical service delivery division Improving quality of performance information (setting of KPIs by departments)	Opportunities for embarking on an extensive organizational review in the medium to long term. Strong and credible monitoring and evaluation. Attainment of clean audit. Enabling policy and legislative frameworks on staff establishments	Capacity to deliver on assigned developmental mandate
Service Delivery	Housing backlogs and incomplete housing projects: illegal settlements and land invasions Massive service delivery and infrastructure backlogs in the townships and rural areas, roads, and storm water Inadequate funding for key service delivery projects and programmes Ineffective service delivery – refuse and waste collection Ageing service delivery infrastructure (including electricity and water line losses) and utilities (fleet) Unavailability of water at source and declining dam levels	Building of mixed housing (BNG, Gap Market and Bonded houses). Attainment of level 1 accreditation of housing delivery Accelerate the programme of upgrading roads and storm-water in township; Development and implementation of a comprehensive storm-water master-plan increase the pace of eradicating sanitation backlogs Implementation of Integrated Waste Management Plan and purchasing of compaction trucks of waste removal services	BNG, Gap Market and Bonded Houses); Level 1 accreditation for Housing Delivery; Accelerating development land parcels with mixed development trajectory Replication of township revitalization programme Availability of support programme that will be providing resources for township revitalization such as revitalization of Central Business District and Expanded bulk services to Regular waste removal, services and building of transfer stations	Social protest - communities demanding housing Peoples houses being flooded during inclement weather Rising claims lodged against the municipality's lack of security of water supply from sources due to high account from bulk water supplier Degradation of the environment Community protests Illegal dumping may threaten the health and safety of citizens Wastage and losing of monies as a result of water loss Unreliable water supply due to constant pipe bursts

	Maintenance of service delivery infrastructure and utilities (including fleet) Poor planning capital projects resulting to counter-funding	Implementation of Water Conservation and Demand management programmes Development of electricity master plan and business strategy that also deals with green energy and future development outlook Implementation of refurbishment and rehabilitation programmes Multiyear capital program to ensure assets are indeed replaced at the end of their economic life	at strategically located sites Promotion of green environment Adequate budgeting for implementation to Water Demand Management; Water conservation and harvesting of water Civic education on the use of water Budget adequate for rehabilitation of infrastructure Enhancing future and contract fast-tract delivery of	Water usage by citizens – gardening, car washes Correct use of infrastructure by communities Inadequate capital grants and community dissatisfaction about service delivery
Local Development	Provision of land to accommodate emerging township small farmers. Availability of economic marketing	Providing commonages in partnerships with the Department of Agriculture to accommodate farming activity and grazing of animals	Providing commonages in partnership with the Department of Agriculture to accommodate farming activity and grazing of animals.	Availability of land Food Security Rampant poverty
Financial Viability and Sustainability	Rising services arrears debt Rising SCM deviations	Implementation of Revenue Enhancement Strategy and cost containment strategy Revenue and prudent cash flow management	Committed management and staff Stable and supportive political leadership Implementation of valuation roll and data purification	Non-compliance to internal controls procedures and legislation Non-payment for municipal services compounded by unemployment rate

1. Purpose

The municipality assess the immediate, short- and medium-term to identify the financial risks and take action to mitigate the financial risk and ensure financial sustainability. The current financial situation has a direct bearing on the financial sustainability and service delivery of the municipality. The Budget Funding Plan 2024/25 (BFP) has been developed in response to the financial situation of the municipality and to produce a positive outcome.

2. Background

The Budget 2019/20 MTREF of the Municipality budgeted for an operating deficit for the 2019/20 financial year. However National Treasury granted municipalities an opportunity to table a special adjustment budget to move from an unfunded position to a funded position. The Budget 2023/24 MTREF is funded because of the surplus recorded in the Budget Statement of Position, Budgeted Statement of Performance, Budgeted and Cash Flow ans the surplus reflected in the Cash Backed Reserves Reconciliation. The municipality applied for the Municipal Eskom Debt Relief during March 2023 and approval were granted by National Treasury in November 2023. During the period November 2023 to April 2024 the Municipality and National Treasury had engagements whereby it was decided that the Municipality should develop a Budget Funding Plan for the 2024/2025 financial year.

The Matjhabeng Local Municipality Annual Budget for the 2024/24 MTREF is compiled in accordance with the prescripts of the Municipal Finance Management Act 56 of 2003, Municipal Budget and Reporting Regulations and National Treasury's MFMA Circulars. During the above-mentioned engagements, we identified focus areas under revenue and expenditure to be addressed to achieve a credible budget and financial sustainability.

Financial sustainability

3. Operating Framework

The Matjhabeng Municipality's Annual Budget for the 2024/2025 medium term revenue and expenditure framework (MTREF) is compiled as per the Section 9 of the Local Government: Municipal Budget and Reporting Regulations (MBRR) which states that the annual budget and supporting documentation of a municipality must be in a prescribed format specified in Schedule A and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Municipal Finance Management Act, no.56 of 2003. Section 18 of the Municipal Finance states that:

(1) 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).

(2) 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 Municipality's Annual Budget comprise of the Operational Budget that provides for the annual expenditure and revenue estimates for 2024/2025 MTREF and a Capital Budget that provides for the on-going investment in infrastructure necessary to provide services to the community.

PART 2

2.1 Budget Funding Plan

The principal objective of the BFP is to ensure financial viability and sustainability of the municipality, a funded budget and to subsequently ensure its ability to meet its obligations in terms of the SDBIP and IDP.

A high-level analysis was performed to understand the factors contributing to the cash flow challenges experienced by the municipality. The factors contributing to the cash flow position are as follow:

- Lack of a fully cash backed budget.
- Escalation of outstanding debtors across all customer group.
- Escalation of outstanding trade payables.
- Actions and spending that give rise to unplanned cash outflows.
- Limitation in revenue generation.
- Inadequate cash flow management.
- Loadshedding, increases in interest rate and fuel prices.
- Declining economy of the region.
- Gross operating margins of trading services, electricity and water in the main.
- Material losses over the past ten years.
- Metering and collection methodology.

The key pillars of the Budget Funding Plan are:

i. Positive Cash Flow

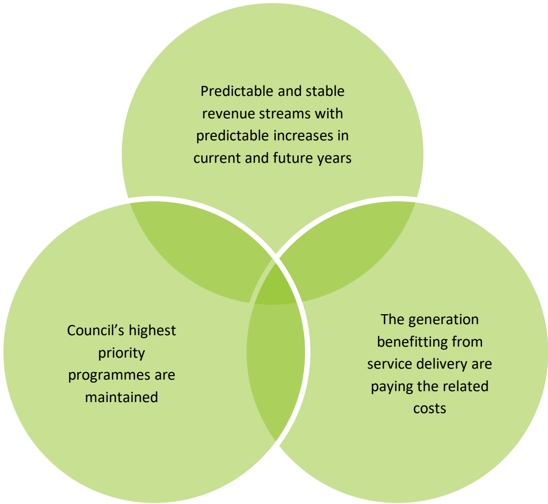
ii. Cash Coverage

iii. Collection Rate

iv. Trade Payable

v. Non-core Expenditure

Financial Sustainability



2.2 Strategic objectives of the Financial Viability and Sustainability Plan.

The principal objective of the Financial Viability and Sustainability Plan is to ensure financial viability and sustainability of the municipality, a funded budget and to subsequently ensure its ability to meet its obligations in terms of the SDBIP and IDP. The Viability Plan comprises of 10 focus areas with detailed activities to enhance financial viability, enforce financial discipline and improve the control environment for various financial years.

1. ESKOM
2. Funded Budget and Budget Spending Limits
3. Revenue Management
4. Indigent Management
5. Debtors Management
6. Cost Containment and Cash Flow Management
7. Revenue Raising Measures
8. Creditor Management
9. Infrastructure and Asset Management
10. Financial Control Environment

2.2.1 Financial Viability Strategy

- ✓ Implementation of the Revenue Enhancement Strategy by increasing the revenue base of the municipality.
- ✓ Implementation of Cost-Reflective Tariffs.
- ✓ Rejuvenate disconnection project (Operation Patala and Operation Kwala) with a revenue protection unit in place to monitor reconnections and disconnections.
- ✓ Revenue Collection Campaign and Indigent Registration Campaign
- ✓ Installation of new meters in unmetered areas and replacement of faulty meters.
- ✓ Implementation and roll-out of smart prepaid metering system for water and electricity.

- ✓ Review budget related policies
- ✓ Implementation of municipal by-laws.
- ✓ Implementation of the Valuation Roll
- ✓ Reconciliation between the billing system and the valuation roll.
- ✓ Encouraging investment in the municipality and region.

2.3 Long Term Financial Plan

Developing a long-term financial plan**,** the long-term financial plan (LTFP) is used to identify future financial challenges and opportunities through financial forecasting and analysis, and to develop strategies to achieve financial sustainability.

The main objectives of the financial plan are to:

- Assess the financial health of the municipality
- Provide opportunities to manage costs and cash flow considerations over a longer-term horizon
- Identify potential funding gaps to inform the development of financial strategies and actions
- Identify current and future resource requirements necessary to achieve the municipality's strategic goals
- Present a framework and tools that can be used to guide Council and the administration in sound financial decision making and sustainability planning.

2.4 Budget Funding Implementation

The Annexure to MFMA Circular 99 states that we must continue to perform our normal billing and credit control in the spirit of good financial management practices to ensure we can still honour our service delivery obligation. Collection rates and expenditure must be closely monitored, and we should continue billing consumers.

Matjhabeng Local Municipality has been diagnosed to have significant challenges in revenue collection, and there are substantial amounts of money owed to the municipality by its customers to the total of R7 540 252 896. The total creditors outstanding over the same period is R12 567 482 818. The arrear amounts have accumulated over a period as a result of poor collection, poor infrastructure, poor systems due to numerous challenges such as stolen/bypassed/stuck water/electricity meters/unmetered water consumption/poor customer education and financial challenges.

Matjhabeng Municipality: Current situation

Total Households	129 420
Indigent Households	21 786
Wards - Municipal Supply area	12
Wards - Eskom Supply area	8
Wards - Eskom and Municipal Supply area	15
Current Blended Average payment rate per quarter	
Municipal Supply area	**55,85%**
Eskom Supply area	**8,09%**
Partial Eskom and Municipal Area	**18,05%**
Payment Rate overall **- Actual**	**49,51%**

2.5 Proposed Tariff increases for 2024/25 MTREF.

The setting of cost-reflective tariffs is a requirement of Section 74(2) of the Municipal Systems Act which is meant to ensure that municipalities set tariffs that enable them to recover the full cost of rendering the service. Cost-reflective tariffs forms the basis of compiling a credible budget.

The following factors were considered during the tariff setting process. The key cost drives to provide basic municipal services, the economic landscape, and the impact of Covid-19, loadshedding and increases in fuel and interest rates.

- The water tariff is increasing with 9% because of the unit price of water and the present difficult economic situation.
- The bulk service provider, Vaal Central Water is increasing it tariffs with 9% for the 2024/25 financial year.
- Eskom, the bulk electricity supplier is increasing with (12.75%).
- The property rates tariffs to increase with 6%.
- The refuse tariff is increasing with 9%.
- The sewerage tariff is increasing with 9%.
- Other revenue is increasing with 6%.

2.6 Material Losses

Can be defined as the difference between bulk purchases of Energy from Service Providers by the municipality less the units sold to its customers. The Financial Difference (Rand value of Loss) can be attributed to either Cost Recovery **Tariff Losses** or Technical / **Distribution Losses** as defined as follows:

2.6.1 Tariff Losses

- These losses are the result of tariff setting practices over the past 10-15 years that were not geared towards recovering the cost of rendering the service; and hence the service is not making a surplus (**Trading Services**) nor breaking even (**Economic Services**) but making a deficit; and shortfalls are either funded from LGES or the Property Rates Revenue. This loss can usually be attributed to the energy regulator NERSA tariff increase prohibitions/limitations on the local government sector as compared to Eskom annual increases.

2.6.2 Distribution Losses

- These losses are the result of **technical losses** caused by the nature of electricity and the manner of its **distribution, via the network**, status / condition and age of the network, **weather conditions** and **load** on the **system** as well as
- **Non-technical losses, e.g., theft, ghost vending and vandalism**.

2.6.3 Material Losses Financial Analysis over 10 Financial Years

Financial Year	Eskom Increase %	Municipal Increase % (guideline by NERSA)	Difference	CPI Guidelines % as per NT Budget Circulars	Bulk Purchases	Gross Loss
14/15	8	7,39	0,61	5,90	R341 427 981	-R80 767 714
15/16	14,24	12,2	2,04	5,80	R403 197 539	-R75 434 684
16/17	9,4	7,64	1,76	6,00	R424 770 185	-R74 080 387
17/18	2,2	1,88	0,32	6,10	R421 072 580	-R70 504 900
18/19	7,32	6,84	0,48	5,20	R450 358 536	-R122 116 273
19/20	9,41	5,6	3,81	5,60	R528 574 945	-R116 350 948
20/21	8,5	6,22	2,28	4,90	R544 880 225	-R127 890 866
21/22	17,8	14,59	3,21	4,10	R643 907 451	-R150 050 786
22/23	9,61	7,47	2,14	4,00	R626 573 708	-R89 357 033
23/24	18,7	15,1	3,6	4,70	R700 095 116	-R81 758 723
Matjhabeng			Total Accumulated Loss			-R988 312 314
FS 184 Loss Analysis 10-Year Period			Material Loss - Financial Tariff Loss			-R460 011 945
			Material -Technical & Distribution Loss			-R528 300 369

Eskom increases	Municipal increase	Material Loss - Financial Tariff Loss	Material Loss - Technical & Distribution
341 427 981	341 427 981		- 80 767 714
390 047 325	383 082 195	- 6 965 131	- 68 469 553
426 477 746	412 349 674	- 14 128 071	- 59 952 316
435 860 256	419 771 968	- 16 088 288	- 54 416 612
467 765 227	448 484 371	- 19 280 856	- 102 835 417
511 781 935	473 599 496	- 38 182 439	- 78 168 509
555 283 399	503 057 385	- 52 226 015	- 75 664 851
654 123 844	576 453 457	- 77 670 387	- 72 380 399
716 985 146	619 514 530	- 97 470 615	8 113 582
851 061 368	713 061 224	- 138 000 144	56 241 421
		- 460 011 945	- 528 300 369
Average % 10-Year Loss	-19%	Total Accumulated -	988 312 314

2.7 Reduction in non-core expenditure

The municipality adopted the Municipal Cost Containment Policy (MCCP) in 2019. The purpose of the MCCP is to regulate spending and to implement cost containment measures at Matjhabeng Local Municipality as per the Municipal Cost Containment Regulations of 2019.

The objective of the policy is to ensure that resources of the municipality are used effectively, efficiently and economically by implementing cost containment measures.

This policy applies to the procurement of the following goods and/or services:

i. Use of consultants

ii. Vehicles used for political office-bearers

iii. Travel and subsistence

iv. Domestic accommodation

vi. Sponsorships, events and catering

vii. Communication

viii. Conferences, meetings and study tours

ix. Any other related expenditure items

The estimated cost reduction in the non-core expenditure for year 1 is set at 30% and year 2 is 40%.

2.8 Trade Payables

The outstanding amounts owed to Eskom and Vaal Central, the arrear for bulk services is recorded under trade payables in the budgeted statement of financial position which in turn has a negative impact on the accumulated surplus.

The municipality applied for the Eskom Debt Relief, which was approved and is currently in the process of applying for the Smart Meter Grant.

2.9 Cash and short-term liquidity

The cash on hand of the municipality is currently below the norm of between 1 month and 3 months. The municipality's cash coverage is poor and is below the recommended 15 days. To ensure an improved cash coverage the municipality developed strategies to ensure increased in cash for the municipality and subsequently an improved liquidity position for the municipality. The municipality is working towards the following cash coverage targets:

Year 1 = 3 months

Year 2 = between 1 and 3 months

3. Reporting timeframe

The BFP should also be accepted by all employees and councillors in the municipality and should from part of the Operational Plans and Procurement Plans.

The BFP should be aligned to all planning documents of the municipality and performance should be reported to on a quarterly basis and monthly basis.

The performance on the BFP will be reported on a monthly basis as per the Budget Funding Reporting Matrix which was developed by Provincial Treasury with the Section 71 report to council and the relevant treasuries.

Annexures

1. **Budget Funding Implementation Plan**
2. **Financial Viability Implementation Plan**

Conclusion

Given the current situation at the municipality, we must pay more attention to the causes of the problem while also addressing the collection issue. This means we will have to start at the beginning of the billing cycle with the process of applying for municipal services. Upon completion, the next step will be preparing accurate bills and ensuring that the precise account reaches the correct consumer on time (getting customers' details in order).

Data cleansing and installation of the smart metering system are therefore of paramount importance for any successful revenue collection. Systems must then be in place to ensure that the municipality receives the money and allocates it correctly on the date for payment. If not paid on the due date, steps must be instituted immediately.