

2024/10/25

NLM/lml



3) DITSOBOTLA LOCAL MUNICIPALITY 2024/25 MTREF BUDGET FUNDING PLAN IMPLEMENTATION REPORT FOR SEPTEMBER 2024

Report of the Mayor

1. PURPOSE

To submit the 2024/25 to 2026/27 MTREF Budget Funding Plan/ Financial Plan implementation report to council for monitoring and noting.

2. BACKGROUND

Ditsobotla Local Municipality adopted the 2024/25 to 2026/27 MTREF on the 31st of May 2024. The budget was accompanied by a financial plan which dates to the 2021/22 financial year due to the fact that the budget adopted was unfunded. The National Treasury communicated its first notice of non-compliance on 31st of October 2023 (Annexure A), highlighting that the municipality's continuous adoption of unfunded budgets is in contravention of section 18 of the MFMA. In addition to the communication highlighted above, the National Treasury communicated its second notice of non-compliance on the 28th of November 2023 (Annexure B), highlighting the intention to invoke section 216(2) of the constitution which includes stopping of the imminent Equitable Share due to the 6th of December 2023.

3. LEGISLATIVE REQUIREMENTS

Section 18 states: Funding of expenditure

18. (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 in to account-
- (a) Projected revenue for the current year based on collection levels to date; and
 - (b) actual revenue collected in previous financial years.

In instances where the budget is unfunded, a budget financial plan (budget funding plan) must be developed.

4. MOTIVATION

Ditsobotla Local Municipality's proposed budget financial plan (budget funding plan) implementation report is attached as Annexure C.

5. RECOMMENDATION

It is recommended that;

That Council take cognizance of the submitted budget financial plan (funding plan) implementation report;

Submitted for consideration

ANNEXURE C

Ditsobotla Local Municipality



FINANCIAL PLAN 2024/25 IMPLEMENTATION REPORT Q1

1. EXECUTIVE SUMMARY BY THE MUNICIPAL MANAGER

The Municipality's financial situation continues to be under pressure and the Municipality's revenue collection has not yielded satisfactory progress. Hence, a need for the development of a financial plan to address the unfunded portion of the budget.

The Municipal Manager was tasked to ensure that the financial plan is monitored on a monthly basis and that if there is no progress registered, a proper action plan or remedial action should be put in place to ensure that ultimately the Municipality improves its finances and continues to operate in the foreseeable future. The implementation of the financial plan will be a standing item at the Municipality's monthly Management Meetings.

2. THE FINANCIAL PLAN

The Financial Plan is NOT a Financial Recovery Plan in terms of Section 139 of MFMA. A Financial Plan is a detailed plan which is developed by the Municipality in response to the identified material budget deficits (**Unfunded budget**), the focus and essence of the Financial Plan is for the Municipality to develop and monitor implementation of realistic measures which will ensure that, if successfully implemented, the Municipality will be able to generate and collect sufficient revenue as well as realize savings through implementation of cost containment measures.

3.1. PURPOSE OF THE FINANCIAL PLAN

3.1.1. The purpose of the financial plan is to ensure that the liquidity of the Municipality improves.

3.1.2 To identify key challenges that are hindering the Municipality from providing uninterrupted basic services to the communities.

3.1.3 To ensure that the financial position of the Municipality improves.

3.1.4 To initiate strategies that will decrease unnecessary expenditure and increase revenue collection.

3.2. KEY FOCUS AREAS OF THE FINANCIAL PLAN

The key focus of the Financial Plan will be credible revenue enhancement strategies and cost containment measures to be implemented. The ultimate point of departure is that the financial plan will ensure that the Municipality improves its liquidity and able to meet its commitments. The realistic measures that the Municipality will take will ensure that going forward revenue

generation improves and that the Municipality realizes savings at the end of each month. The plan is implemented together with the Financial Recovery Plan.

Consolidated budget overview

Description	Budget Year 2024/25	Budget Year 2025/26	Budget Year 2027
Total Revenue excl. capital transfer	497 221	538 329	556 718
Capital transfer	46 499	48 863	50 871
Total Revenue Budget for the year	543 720	587 192	607 589
Total Revenue	543 720	587 192	607 589
minus Total Expenditure	(715 488)	(735 784)	(768 038)
Total Budget Surplus (Deficit)	(171 768)	(148 592)	(160 449)

- The overall budget disclosed in the above indicates that the municipal budget without capital budget is estimated at **R497 million**, with the grant received amounting to **R46million**. The projected revenue and income amount to **R543 million**.
- Should the municipality collect 100 % of its billed revenue, then the municipality will be able to finance its operational costs projected at **R715 488 million** inclusive of non-cash items(Provisions), given the economic conditions and challenges highlighted in table above, the municipality's financial situation is in the red with **deficit of R171 million**.
- With the implementation of the Financial Plan, the deficit over the MTREF will be reduced.

Outstanding Creditors and Current Provisions

Section 65(2)(e) of the MFMA states that all money owing by the municipality must be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. The ever-increasing creditor book balance is a clear indication that Municipalities fail to honour the latter section of the MFMA.

Ditsobotla Local Municipality has a large creditors' book that is made up of the huge Eskom debt. The Municipality currently owes Eskom in excess of R1 billion. The municipality is, as part of the Financial Recovery Plan (FRP) and Circular 124 debt relief compliance, approved for debt relief but is running a risk of being disqualified because of non-compliance with the condition of paying the current account up to date.

The table below highlighted the municipality's major creditors as at 31 August 2024.

NO.	CREDITORS	DISCRIPTION	AMOUNT
1.	ESKOM	Electricity	R 1 140 104 874,93
2.	SARS	Vat 201 and PAYE	R 41 000 000,00
3.	Botshelo/Sedibeng Water	Supply Water	R 17 543 239,55
4.	BULA MOSEBETSI	On-Site billing & Credit control	R 6 007 114,92
5.	SUPERFECTA	Maintanance,Testing,Inspection Electical Equip	R 3 558 948,53
6.	CCG	FINANCIAL SYSTEM	R 953 240,00
7.	TSK RESOURCES	Supply/Delivery Mini Sub	R 915 394,25
8.	FORTUIN & SONS	Part Payment/ASPHALT	R 800 000,00
9.	MATH ENGINEERING	Electricity Material	R 703 940,00
10.	MORATI MATAKA ATTONEYS	LEGAL	R 733 660,00

3. Operational Revenue Plan

PRIORITY ARE	FOCUS AREA	ACTIVITY	BASELINE	TIME FRAME (start & end)	RESPONSIBLE PERSON	COSTS (& Source of funding)	OUTCOME	EXPECTED INFLOW	STATUS
Other Revenue	Business Licenses	Issuance of business licenses to all business within the municipal jurisdiction	400	01st June 2024 till 30 June 2024	Manager LED Revenue Manager Director Planning CFO	R168 000	Collection of business licenses in line with the approved tariffs	R344 000	Not Achieved. A letter was written to DEPT DEDECT for training because the municipality cannot continue without proper training
	Meter Conversion- Electricity Pre-paid	Convert remaining conventional electricity meters to prepaid for all residential consumers (450 meters). <ul style="list-style-type: none"> Coligny-100 meters Lichtenburg-150 meters Blydeville-200 meters 		01 st September 2024 till 30 June 2025	Revenue Manager Manager Electricity Manager Legal Director Infrastructure CFO MM	R1 575 000	Reduction of outstanding amount on electricity	R2 520 000 per annum or R 210 000 per month	Not Achieved. Busy sourcing quotations for smart meters plus awaiting the outcomes from National Treasury for smart meter grant.

	Illegal Connections	Monitoring of prepaid electricity purchases to identify R 0 and low purchases		01 st July 2024 till 30 June 2025	Revenue Manager Manager Electricity Manager Legal Director Infrastructure CFO MM		To eliminate all the illegal connections and full recovery of electricity sales		Ongoing. It is coupled with meter readings.
		Audit: Legally bridged connections (replacement of meters)		01 st July 2024 till 30 June 2025	Revenue Manager Manager Electricity Manager Legal Director Infrastructure CFO MM		Reduction of distribution losses, elimination of all the legally bridge meters and full recovery of electricity sales		Ongoing. Meter replacements not yet started.
	Meter Audit-Water	Installation and replacement of meters (272 meters) <ul style="list-style-type: none"> Itekeng area-466 meters Public Works Houses-Burgesdor p – 60 meters 	1054	01 st September 2024 till 30 June 2025	Revenue Manager Manager Electricity Manager Legal Director Infrastructure CFO MM	R 263 000	Reduction of distribution losses, Reduced estimated readings, Completeness of Revenue	R 237 965	Ongoing.

	Credit Control	Business to Business- door to door blitz will be conducted to ensure that all businesses pay their outstanding balances. Implementation of credit control across all other consumer categories	R231 Million R688 Million	01 st July 2024 till 30 June 2025	Revenue Manager Manager Electricity Manager Legal Director Infrastructure CFO MM	R0	1)To reduce the debtors' book and ensure that businesses pay their dues. 2)To reduce the debtors' book and ensure that residence pay their dues.	R60 000 000 (R5 million is envisaged to be collected from the business from July till June) R18 000 000 (R1.5 million is envisaged to be collected from the business from July till June)	Ongoing but very slow. Challenges: - Disputes -Clients taking the municipality to court. - Not yet implemented on households. - Collecting data to start implementation on Councillors and Employees. Revenue Collection trends from 39% in June 24 to 50% in July 24 and 47% in August 24 41% in September 2024 despite the challenges.
ANTICIPATED 2024/25 CASH FLOW								R81 101 965	

Expenditure	
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Operating Expenditure-Cost cutting measure

PRIORITY AREA	FOCUS AREA	ACTIVITY	TIME FRAME (start & end)	RESPONSIBLE PERSON	COSTS (& Source of funding)	OUTCOME	EXPECTED INFLOW	STATUS
Employee related Costs	Overtime and standby	To ensure that overtime is pre-approved and limited to 40 hours as per legislation	01st June 2024 till 30 June 2025.	Acting MM CFO Directors" Technical and Community Services Director Corporate Human Resource	R 0	To avoid unauthorized overtime.	R2 Million savings on overtime	Not achieved
Other Expenditure		Prioritizing critical expenditure relating to water and electricity or essential services only.	01st December 2024 till 30 June 2025	Acting MM CFO SCM Accountant Directors	R 0	Improved cash flow		Ongoing
Establishment of Cashflow Management Committee	To enforce cost containment measures and to reduce procurement on none core service delivery mandates	Payment toward infrastructure development will be prioritized	01st July 2024 and ongoing	All Managers and Municipal Manager	R 0	Improved financial management	A more responsible way of spending public finances	Not Achieved

The municipality will embark with activities for the MTREF period, and the anticipated cash flow is as follows:

- 2024/25 – R81 101 965

The municipality's shortfall will reduce in the MTREF, however due to the Eskom debt the budget will not be funded within the MTREF. Furthermore, Council has approved Provincial Treasury's assistance to develop financial recovery improve the municipality's financial position as the municipality is in a financial crisis as per the determination of Sec 138 &140 of the MFMA.

4. Repairs and Maintenance of assets

The municipality has prioritized the maintenance of roads, water, sanitation and refuse infrastructure to ensure service delivery however it is still below the National Treasury norm of 8%.

5. Summation

The Municipality is in the process of the following:

- Installing pre-paid electricity meters to the remaining residential consumers which are around 450 households which will result in increased sales and collection of electricity revenue.
- Reviving the operation to ensure that Municipal employees and Councillors pay outstanding amounts for rates and taxes.
- Billing reconciliation to ensure completeness of revenue.
- Follow up and act on all non-purchase meters.
- Resuscitation of the Revenue Management Enhancement Committee to monitor and ensure implementation of all revenue enhancement initiatives.

To date, the Municipality has concluded a payment arrangement of R1 million per month with ESKOM to subsidise whatever municipal clients are paying directly however, as and when the Equitable Share tranche is transferred the amount will be increased.

6. Conclusion

The Municipality will implement the financial plan to ensure that revenue collection is sufficient to ensure that the Municipality's budget becomes funded. This will ensure that the Municipality's

liquidity improves and that the Municipality will continue to have operational existence in the foreseeable future. The Councilors and Officials will work together to ensure the success of this financial plan because at the end of the day “*two hands are better than one*”. All the stakeholders will play their part to ensure that the Municipality moves to a better position.

Mr. O.T Bojosinyane

Municipal Manager