



Bela-Bela Local Municipality
Budget Funding Plan
2022/2023

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Purpose

The purpose of this budget funding plan in a municipal context is designed to assist those municipalities that are facing financial challenges in meeting their operational expenditures against collected income and to show a road map of how the municipality is going to improve the financial situation through revenue collection and cost reduction.

Background

Chapter 4 of the Municipal Finance Management Act No.56 of 2003 (“MFMA”) deals with the drafting and adopting of municipal budgets by municipalities. Section 18(1) of the MFMA states that 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).” Section 18(2) adds that “revenue projections in the budget must be realistic, taking into account-*
- d) projected revenue for the current year based on collection levels to date; and*
- e) actual revenue collected in previous financial years.”*

The Municipal Budget and Reporting Regulations (“MBRR”) sets out standards for sound and sustainable management of the budgeting and reporting practices in municipalities. It states in paragraph 10(1)(b) that “*the funding of an annual budget must be consistent with the trends, current and past, of actual funding collected or received.*” It further states in paragraph 10(4) that “*the cash flow budget required in terms of Schedule A must reflect all funds realistically forecast to be collected, including arrears.*”

Discussion

The plan is based on the following five pillars:

1. Positive cash flows with focus on revenue trading services.

Description	Ref	2019/20	2020/21	2021/22	Current Year 2022/23				2023/24 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		23,197	57,316	67,127	102,518	102,518	102,518	48,252	-	-	-
Service charges		43,959	110,665	174,991	201,963	201,963	201,963	134,705	179,118	184,674	196,752
Other revenue		50,674	35,554	20,146	24,721	24,721	24,721	8,102	69,549	63,108	65,586
Transfers and Subsidies - Operational	1	129,274	127,724	123,178	122,518	122,678	122,678	132,521	134,530	145,457	154,670
Transfers and Subsidies - Capital	1	48,000	59,623	35,086	90,683	90,683	90,683	58,133	84,518	91,841	95,829
Interest		-	-	-	1,911	2,911	2,911	1	1,600	1,678	1,757
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Suppliers and employees		251,429	(25,894)	(215,266)	(432,139)	(441,139)	(441,139)	(212,809)	(546,449)	(499,492)	(523,064)
Finance charges		-	-	-	(10,000)	(10,000)	(10,000)	-	(15,000)	(15,000)	(15,000)
Transfers and Subsidies	1	-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		546,533	364,988	205,263	102,175	94,335	94,335	168,905	(92,134)	(27,734)	(23,470)
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current receivables		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments		-	-	-	-	-	-	-	-	-	-
Payments											
Capital assets		(56,824)	(70,870)	(64,795)	(97,309)	(97,309)	97,309	(38,766)	(90,738)	(91,841)	(95,829)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(56,824)	(70,870)	(64,795)	(97,309)	(97,309)	97,309	(38,766)	(90,738)	(91,841)	(95,829)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing		-	-	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits		-	-	-	-	-	-	-	-	-	-
Payments											
Repayment of borrowing		-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	-	-	-	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD		489,709	294,118	140,468	4,866	(2,974)	191,643	130,139	(182,872)	(119,575)	(119,299)
Cash/cash equivalents at the year begin:	2	129,053	-	12,517	40,686	40,686	40,686	16,831	361,023	178,151	58,576
Cash/cash equivalents at the year end:	2	618,763	294,118	152,985	45,553	37,713	232,330	146,969	178,151	58,576	(60,723)

The above table illustrates the municipal projected cash flow statement.

The municipality has taken some stringent measures to ensure positive cash balances at the end of the financial period. The cash flow shows a positive growth in the outer years and the municipality need to ensure that it commits to raising cash in order to finance incoming commitments.

The cash flow budget was calculated using an individual collection rate per service charge on outstanding debtors and for all other revenue sources. These rates are based on the strategies which the municipality will put in place in the 2022/23 financial year and the current trends as a base for calculating the collection rate;

- Property rates collection rate - 96%.
- Electricity collection rate – 76%
- Water collection rate – 85%
- Sanitation collection rate– 65%
- Waste management rate –102%.
- Other revenue – 55%

The above scenario clearly proves that the municipality relies heavily on government funding (grants and subsidies), it is therefore important for the municipality to be effective in revenue collection and enforce cost containment measures.

The municipality need to implement effective cash flow management processes to monitor cash position in terms of annual cash flow budget.

Further to the management of cashflow, the municipality intend to do the following:

- Management of cash flow on a daily basis with weekly reporting to the Accounting Officer and in management meetings.
- Establish revenue enhancement and expenditure committee which meet weekly and manage cash flow of the municipality and specifically:
 - Set aside cash to meet critical operating expenditure.
 - Set aside cash to cash back unspent conditional grants.
 - Engage with creditors and finalise realistic payment arrangements and manage payments in accordance with revised agreements.
 - Continue to review committed contracts to determine which contracts have lapsed or which can be cancelled without the risk of legal action against themunicipality.
 - Developed and implement cost containment measures.
 - Reduce non-essential or wasteful expenditure.
 - Perform land audit to identify those assets that can be disposed.

1.1. Payment agreement with Eskom.

The funding plan takes note of the latest Eskom payment agreement entered into to settle a long outstanding debt which states as follows:

- Bela-Bela Local Municipality hereby undertakes to pay Eskom as follows:
- R7 000 000.00 on or before 15 December 2022.
- R7 000 000.00 on or before 15 March 2023.
- R7 000 000.00 on or before 15 July 2023.
- R7 000 000.00 on or before 19 December 2023.
- R7 000 000.00 on or before 15 March 2024.
- R7 000 000.00 on or before 15 July 2024.
- R2 519 705.38 on or before 19 December 2024.

The above demonstrate that the municipality will make a total payment of R44 519 705.38 to Eskom. The payment will be allocated to the historical debt as per agreement. The municipality will continue to honor monthly payments to Eskom.

1.2. Payment agreement with Magalies Water.

- Bela-Bela Local Municipality hereby undertakes to pay Eskom as follows:
- R7 000 000.00 on or before 15 December 2022.
- R7 000 000.00 on or before 15 March 2023.
- R7 000 000.00 on or before 15 July 2023.
- R7 000 000.00 on or before 19 December 2023.
- R7 000 000.00 on or before 15 March 2024.
- R7 000 000.00 on or before 15 July 2024.
- R2 519 705.38 on or before 19 December 2024.

The Bela-Bela Local Municipality acknowledges having a debt with Magalies Water amounting to R25 524 369.75 as at September 2022.

2. Implementation of cost containment measures and reduction of expenditure.

As a measure to ensure a reduced expenditure, the municipality intends to reduce major operational expenditures by six percent in the 2022/23 financial year.

It is therefore imperative for the municipality to effectively consider implementation of cost containment guidelines as stipulated under MFMA circular 97 and ensure spending is made in line with the approved budget.

The municipality's employee related cost drivers include overtime, standby allowance and travelling costs which are a concern and need stringent measures to ensure they are not abused and curbed to a minimum reasonable figure on a monthly basis.

The municipality will continue with cost reduction in relation to contracted services / professional services and prioritize which services can be done internally or do without.

The following measures will be put in place to ensure adherence to the approved budget:

- Implement budget controls to eliminate unauthorised expenditure.
- Develop, implement, and train employees on the Standard Operating Procedures (SOP's) for expenditure management.
- Review invoices on a daily basis before capturing on the register to ensure that all invoices are paid within 30 days.
- Develop an invoice register to record all invoices received and paid to avoid duplication of invoices.
- Ensure all invoices received are captured timeously.
- Target top 10 outstanding creditors owing for a period of 90 days and over and finalize payment arrangements.
- Develop a repair and maintenance plan to prevent unnecessary breakdowns and ensure sustainable service delivery.

3. Realistic debtors' age analysis

ACCOUNT_TYPE	202303 (Current)	202302 (30 Days)	202301 (60 Days)	202212 (90 Days)	202211 (120 Days)	202210 (150 Days)	202209-202206 (180 Days to 1 Year)	202205+ (Over 1 Year)	Total
NON PROFIT ORG	R 429,295.59	R 32,627.54	R 14,376.29	R 13,223.72	R 13,090.83	R 15,209.87	R 51,257.74	R 290,887.72	R 859,969.30
COMMERCIAL	R 5,823,411.03	R 783,746.01	R (759,359.66)	R 495,428.05	R 463,860.24	R 414,734.77	R 1,730,484.78	R 12,490,059.48	R 21,442,364.70
LAND REFORMED	R 70,941.70	R 70,246.11	R 68,720.93	R 67,904.23	R 67,231.65	R 66,439.50	R 193,134.69	R -	R 604,618.81
RURAL DEVELOPM	R 16,655.88	R 21,227.55	R 17,496.13	R 17,266.10	R 17,138.00	R 16,187.95	R (69,588.10)	R 333,250.16	R 369,633.67
EDUCATION DEPT	R 171,413.57	R 83,996.17	R 91,602.44	R 83,751.36	R 73,350.48	R 74,106.26	R 176,884.99	R 7,419,633.35	R 8,174,738.62
AGRICULTURAL	R 1,657,511.77	R 1,462,848.64	R 1,180,639.85	R 1,215,304.43	R 882,098.84	R 1,118,458.60	R 4,615,311.97	R 46,162,326.60	R 58,294,500.70
HOUSING DEPT	R -	R -	R -	R -	R -	R -	R -	R (14,336.13)	R (14,336.13)
PUBLIC INFRASTR	R 20,566.26	R 17,661.31	R 17,675.40	R 17,457.49	R 17,311.70	R 16,975.74	R 66,093.61	R 338,568.49	R 512,310.00
PLCS OF WORSHIP	R 11,571.09	R 8,370.23	R 7,714.05	R 7,488.93	R 7,724.17	R 5,477.52	R 26,289.84	R 346,473.69	R 421,109.52
MUNICIPAL PROP	R 28,554.31	R 28,867.01	R 25,012.97	R 23,642.56	R 23,740.73	R 13,228.65	R 78,201.66	R 851,755.54	R 1,073,003.43
P/WORKS PROV	R 165,175.61	R 171,691.45	R 139,414.12	R 161,683.25	R 193,001.04	R 176,882.75	R 262,561.33	R 24,954.20	R 1,295,363.75
RESIDENTIAL	R 7,732,984.17	R 4,411,200.74	R 3,621,130.96	R 3,264,944.97	R 3,249,612.03	R 3,160,631.75	R 11,166,691.48	R 89,922,551.80	R 126,529,747.90
VACANT LAND	R 1,277,477.15	R 1,351,673.00	R 1,310,587.20	R 1,252,785.40	R 1,216,166.52	R 1,176,220.06	R 4,158,508.40	R 21,265,064.67	R 33,008,482.40
FARM-RES	R 976,199.18	R 560,075.92	R 552,732.99	R 535,714.25	R 497,104.66	R 471,988.11	R 1,929,675.61	R 13,396,933.05	R 18,920,423.77
FARM-COMMERCIAL	R 199,433.67	R 249,644.07	R 242,150.87	R 243,538.57	R 238,118.43	R 232,426.76	R 495,169.81	R 7,227,559.01	R 9,128,041.19
FARM-NOT USED	R 25,539.49	R 1,540.35	R 1,531.12	R 1,482.95	R 1,474.18	R 1,428.00	R 7,017.03	R 69,847.38	R 109,860.50
FARM-OTHER	R 40,878.31	R 56,229.90	R 55,858.18	R 55,059.90	R 54,926.31	R 45,821.34	R 177,783.25	R 718,503.20	R 1,205,060.39
HEALTH DEPT	R 156,723.20	R 3,520.12	R 746.35	R 746.35	R 746.35	R 746.35	R 2,972.75	R -	R 166,201.47
PROTECTED AREAS	R 172,818.96	R 163,658.85	R 142,335.14	R 124,354.12	R 114,834.08	R 111,193.98	R 493,527.05	R 1,215,521.48	R 2,538,243.66
P/WORKS NTL	R 121,459.93	R 142,347.27	R 47,815.68	R 47,815.67	R 46,562.25	R 47,815.67	R 163,226.82	R 638,027.98	R 1,255,071.27
PRIVATE EST-RES	R 974,224.15	R 650,837.76	R 537,046.58	R 506,584.56	R 452,362.25	R 466,061.56	R 2,029,099.26	R 14,422,344.02	R 20,038,560.14
RES-PENSIONER	R 88,785.85	R 14,968.80	R 11,685.66	R 7,488.15	R 4,865.96	R 5,500.17	R 20,665.86	R 29,520.09	R 183,480.54
SASSA	R 19,224.45	R 74.50	R -	R -	R -	R -	R -	R -	R 19,298.95
FARMSRES_PENSIO	R 18,296.19	R 8,298.62	R 8,884.42	R 6,791.27	R 6,575.04	R 5,410.96	R 18,532.21	R 262,417.18	R 335,205.89
RES-INDIGENT	R 385,567.12	R 286,436.10	R 205,945.52	R (69,910.51)	R 46,536.59	R (185,381.19)	R (94,378.71)	R (1,028,500.40)	R (453,685.48)
PRIVATE OPEN SP	R 16,105.52	R 14,957.82	R 13,914.41	R 13,753.94	R 13,626.60	R 13,241.30	R 41,682.17	R 160,667.92	R 287,949.68
TOWN-PROP DEV	R 33,896.97	R 9,146.56	R 1,272.21	R 2,536.77	R 1,995.89	R -	R -	R -	R 48,848.40
TOTAL	R 20,634,711.12	R 10,605,892.40	R 7,556,929.81	R 8,096,836.48	R 7,704,054.82	R 7,470,806.43	R 27,740,805.50	R 216,544,030.48	R 306,354,067.04

TYPE_OF_SERVICE	202303 (Current)	202302 (30 Days)	202301 (60 Days)	202212 (90 Days)	202211 (120 Days)	202210 (150 Days)	202209-202206 (180 Days to 1 Year)	202205+ (Over 1 Year)	Total
DEPOSITS	R (17,911.75)	R (8,584.63)	R (4,855.51)	R (1,646.25)	R (3,737.04)	R (2,219.27)	R (15,598.74)	R (257,311.11)	R (311,864.30)
RECEIPTS	R (1,786,647.85)	R (432,591.71)	R (1,712,741.22)	R (200,091.45)	R (252,538.24)	R (311,434.75)	R (1,830,574.86)	R (6,022,314.82)	R (12,548,934.90)
INTEREST	R 2,197,886.57	R 2,149,278.57	R 2,100,088.26	R 1,996,193.05	R 1,933,791.78	R 1,835,999.83	R 7,460,747.84	R 58,657,955.50	R 78,331,941.40
AGREEMENTS	R 123,992.05	R 77,865.71	R 42,566.28	R 39,816.54	R 35,994.52	R 63,878.97	R 123,095.98	R 363,737.04	R 870,947.09
SUSPENSE VOTE	R -	R -	R -	R -	R -	R -	R -	R (5,002.28)	R (5,002.28)
FEES	R 219,340.51	R 49,793.36	R 1,938.00	R 2,974.14	R 796.90	R -	R 71,356.14	R 2,445,008.69	R 2,791,207.74
ADMIN FEE	R 3,248.04	R 3,340.00	R -	R -	R -	R 2,505.68	R 1,286.00	R 12,511.14	R 22,890.86
WATER	R 3,246,840.96	R 1,591,930.28	R 1,133,126.99	R 891,002.54	R 946,394.72	R 807,435.29	R 3,149,024.99	R 28,314,366.43	R 40,080,122.20
ELECTRICITY	R 3,118,165.63	R 325,090.91	R 255,701.17	R 122,076.20	R 99,638.11	R 64,373.62	R 183,818.33	R 2,205,066.95	R 6,373,930.92
KVA	R 934,536.15	R 104,637.37	R 88,576.20	R 68,373.71	R (224,854.54)	R 69,326.14	R 193,554.36	R 1,831,070.61	R 3,065,220.00
BASIC ELECTRICITY	R 11,930.34	R 2,681.97	R 2,254.00	R 1,690.50	R 1,690.50	R 1,610.00	R 7,185.57	R 464,714.07	R 493,756.95
RE-IMBURSEMENT	R -	R -	R -	R -	R -	R -	R -	R (10,246.33)	R (10,246.33)
CASH POWER	R -	R -	R -	R -	R -	R -	R -	R 117,504.93	R 117,504.93
RENTAL CHARGES	R 46,489.69	R 28,206.43	R 23,292.00	R 19,517.34	R 16,960.00	R 16,960.00	R 102,054.73	R 1,103,328.64	R 1,356,808.83
SUNDRY SALE OF LAND	R -	R -	R -	R -	R -	R -	R -	R (206,478.26)	R (206,478.26)
HOUSING	R -	R -	R -	R -	R -	R -	R -	R (17,363.56)	R (17,363.56)
RATES	R 8,928,522.71	R 4,937,026.33	R 4,259,497.68	R 4,026,034.48	R 4,029,023.11	R 3,944,385.35	R 14,084,136.37	R 93,989,441.91	R 138,198,067.94
REFUSE	R 749,364.27	R 355,484.83	R 280,557.24	R 221,408.09	R 236,896.75	R 208,978.61	R 883,063.41	R 6,247,485.49	R 9,183,238.69
SEWERAGE	R 1,433,688.04	R 870,026.36	R 710,307.86	R 623,636.39	R 600,489.09	R 520,773.26	R 2,249,989.55	R 16,405,435.54	R 23,414,346.09
MISCELLANEOUS VAT	R -	R -	R -	R -	R -	R -	R -	R 126,558.69	R 126,558.69
MISCELLANEOUS NO VAT	R -	R -	R -	R -	R -	R -	R -	R 813,791.30	R 813,791.30
VAT	R 1,429,578.76	R 500,613.32	R 376,620.86	R 285,851.20	R 283,509.16	R 249,901.97	R 1,077,665.83	R 9,662,768.85	R 13,866,509.95
INCENTIVE WRITE-OFF	R (4,313.00)	R (7,854.70)	R -	R -	R -	R (1,668.27)	R -	R -	R 75,770.58
INDIGENT WRITE-OFF	R -	R 58,948.00	R -	R -	R -	R -	R -	R 212,394.51	R 271,342.51
TOTAL	R 20,634,711.12	R 10,605,892.40	R 7,556,929.81	R 8,096,836.48	R 7,704,054.82	R 7,470,806.43	R 27,740,805.50	R 216,544,030.48	R 306,354,067.04

The municipality has developed and implemented a revenue enhancement strategy which focuses on the following measures to improve the revenue collection and financial position of the municipality. The following interventions are proposed:

1. The total debt as at 20 April 2023 amount to **R 306 354 million** (R 168 156million)

being other services and R138 198 million being rates) **million**.

2. An amount of **R298 257 million** is sitting in the Over 90 Days category.
3. Establishment of a strong debt collection unit.

4. Creditors' Age Analysis

Creditor Name	Ageing :	0days	30days	60days	90days	120days	Total
ESKOM (5740387734)	Current					R 30,519,705.34	R 30,519,705.34
MAGALIES WATER	Current	R 1,640,960.04				R 21,924,165.70	R 23,565,125.74
G S M MOHLABI INC	Current	R 804,960.14					R 804,960.14
DEPT OF PUBLIC TRANSPORT	Current					R 800,788.10	R 800,788.10
Traffic Management Technologies	Current		R 259,900.00			R 500,480.00	R 760,380.00
THE AUDITOR-GENERAL P/BURG	Current					R 685,482.68	R 685,482.68
ZONK ENGINEERING	Current	R 407,857.45					R 407,857.45
DITLOU SUPPLIERS AND SERVICES	Current			R 283,437.72			R 283,437.72
WARMBAD GRASSNYERDIENSTE	Current	R 51,965.00					R 51,965.00
AGANG MASEDING TRADING AND PROJECTS	Current	R 50,945.00					R 50,945.00
TOTAL		R 2,956,687.63	R 259,900.00	R 283,437.72	R -	R 54,430,621.82	R 57,930,647.17

As part of the current plan, the municipality has entered into a payment arrangement with Eskom to service long outstanding debt. The payment agreement came into effect from the 12th of October 2022. The capital amount including interest incurred amounts to R44 520 million (as at October 2022).

A payment agreement has also been signed with Magalies Water to service the long outstanding debt. The municipality has is currently complying with MFMA section 65(1)(e) by ensuring that the payments are processed within 30 days of receiving the invoice and all relevant documents. This can be confirmed by the creditors age analysis denoted above. In addition to that latter, Magalies is not forming part of fruitless and wasteful expenditure as envisaged by s32 of MFMA due to compliance of s65(1) of the MFMA.

The following measures will be implemented to ensure that monthly obligations are honored:

- Develop a consultancy reduction plan.
- Review and assess adequacy of the procurement system.
- Monitor and assess reasons for non-compliance with SCM regulations and policies.
- Maintain a register of irregular expenditure and tabled in council.
- Address the use of S36 of the SCM Regulations. Valid reasons for all deviations and all requisitions to be authorized by the Accounting Officer.

5. Ring fencing of conditional grants and ensuring that conditional grant funding is cash backed.

As per the financial year 2023 DORA allocation, the municipality will receive conditional grants to the sum of R95 292 million. The spending on these grants will be made in line with the approved budget and business plans.

In the past financial years, the municipality utilized part of the conditional grants to finance operational expenditure which was not in line with the grant framework. It is therefore very important that the municipality need to ring fence the funds for the intended purpose.

The municipality will ensure that conditional grant spending is aligned to the IDP, SDBIP and budget. The municipality will also investigate and correct any expenses that do not align with grant conditions.

Conclusion

In order for the municipality to be financially sustainable, the municipality will ensure that

- It will strive to implement the above proposals effectively to realize improved revenue collection and reduced expenditure.
- Prepare a realistic projection and strive for achieving a positive cash and cashequivalent position in the cash flow statement over the three-year MTREF.
- Achieve at least break even or surplus position on the statement of financial performance and improving over the three-year MTREF.
- Conduct a feasibility study to implement cost-reflective tariffs.
- Data cleansing.
- Review all consumer accounts to ensure that they are being billed properly in accordance with approved tariffs.
- Conduct a new indigent registering process.
- Selling and disposing off assets.
- Implementation of revenue enhancement strategies.
- Filling of critical positions.