

Council (S): 2023-05-30

A79 REPORT ON THE APPROVAL OF THE 2023/2024 TO 2025/2026 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) (5/1/2/1/1) (5/1/2/1/2)

Report: Executive Mayor: 2023-05-25

1. PURPOSE

The purpose of this report is to enable the Committee to consider approving the 2023/2024 to 2025/2026 Medium Term Revenue and Expenditure Framework (MTREF) and as well as the amendments made on budget related policies in terms of section 24 of the MFMA as well as to enable the municipality to approve a 3 years operational plan in line with its IDP for Council approval.

2. BACKGROUND

The Municipal Finance Management Act (MFMA) No 56 of 2003 section (24)(1) stipulates the municipal council must at least 30 days before the start of the budget consider approval of the annual budget (31st May each year)

Section 24(2) of the MFMA requires the following annual budget –

- (a) must be approved before the start of the budget year;
- (b) is approved by the adoption by the council of a resolution referred to in section 17(3)(a)(i); and
- (c) must be approved together with the adoption of resolutions as may be necessary –
 - (i) imposing any municipal tax for the budget year;
 - (ii) setting any municipal tariffs for the budget year;
 - (iii) approving measurable performance objectives for revenue from each source and for each vote in the budget;
 - (iv) approving any changes to the municipality's integrated development plan; and
 - (v) approving any changes to the municipality's budget-related policies.

3. DISCUSSION

Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

In line with section 16 of the Municipal Budget & Reporting Regulations, the Municipality has considered the views of stakeholders received during the IDP & budget consultations. It is worth mentioning that though there were numerous priority areas that were listed the Municipality still needed to ensure that it remains sustainable.

During the community consultation on the IDP & budget that will be implemented with effect from 1st July 2023, the community raised key service delivery priorities that the Municipality has taken into consideration when preparing both the IDP & the budget. The key priority areas included but not limited to the following:

- That there are areas that have inconsistent water supply
- That there are areas that do not have access to water supply
- That there are areas that have inadequate electricity supply
- There are areas that have high illegal connections and
- That there is inadequate roads maintenance thus resulting in potholes & roads that are not drivable
- Inadequate billing and meter reading.
- Refuse collection and illegal dumping
- Non-functional high-mast lights

It will not be possible to finance all the key service delivery issues raised in one financial year however systems and strategies will need to be implemented overtime to ensure the provision of services to communities in a sustainable manner as enshrined in section 152 (b) of the Constitution of the Republic of South Africa, 1996.

The Municipality had budget engagement with the Provincial Treasury to assess the credibility, relevancy and sustainability of the budget.

The objective for credibility is to determine if the budget is funded in terms of Section 18 of the MFMA perspective. In assessing the credibility of the budget, the revenue planning framework and associated assumptions are interrogated to determine if they are realistic and indicative of multi-year budgeting.

The objective for relevancy is to:

- Test if the budget is aligned to the Integrated Development Plan (IDP) of the Municipality and the extent to which the National Development Plan and provincial priorities, including MFMA Circulars were considered.
- Determine whether the Municipality adopted a budget process with evidence of sufficient political oversight and public participation.
- Ensure political oversight and guidance is crucial for the budget process as the approval of the budget is the responsibility of Council and not that of the Budget and Treasury Office. The budget brings effect to Council priorities and hence these priorities should be funded and Council must ensure that its priorities are affordable from a budgeting perspective.

The following were some of the key observation made by Provincial Treasury:

- The operational revenue budget has been increased by 14.8 percent from the adjusted budget. Own revenue generation contribute 87 percent of the R1.3 billion operational budget;
- The budget for sale of goods and rendering of service has been increased by 23.4 percent, which is above the 5.3 percent guide of circular 123 of the MFMA (It should be noted that this is as a result of the municipality identifying new sources of revenue)
- The tabled operational budget for the municipality has a deficit of R315 million;
- The total operating expenditure for the municipality is projected to increase by 8.1 percent from the adjusted budget of R1,2 billion in 2022/23 to R1,3 billion for 2023/24 financial year;
- The employee related costs have been increased by 2.2 percent and remuneration of councillors by 0.3 percent which is below the CPI of 5.3 percent as guided by circular 123 of the MFMA;
- Bulk purchases have been increased by 13.7 percent which is below the 18.7 percent as guided by circular 123 of the MFMA;
- Depreciation and amortization decreased by 5.0 percent from the adjusted budget of R 85,6 million to R81,4 million for the budget year 2023/24;
- Debt impairment remained unchanged from the adjusted budget of R69,3 million to the current financial year budget amount of R69,3 million;
- Irrecoverable debt written off increased by 5.7 percent from the adjusted budget amount of R1,0 million to R1,1 million for the current budget year;
- The tabled budget for other expenditure will increase by 2 percent which is below the CPI of 5.3 percent as per circular 123;

In principle Provincial Treasury notes that it will take the Municipality number of yes to get the budget to be funded. The engagements has further revealed that the Municipality should ensure that the unfunded position reduces overtime through the constant implementation of the budget funding plans.

Progress on the implementation of the Financial Recovery

Key Findings and Conclusions drawn from the 2022 FRP Update

Demographic, Economic and Household Infrastructure

- Lekwa LM's economy expanded by 2.04% in 2022, while GVA per capita increased modestly to R88 274 p.a. The 5-year average growth rate of 3.69% is indicative of reasonable economic growth since 2018.
- The population growth rate came in at 1.08%, with a 5-year average rate of 1.04%. This is reasonably low.
- Lekwa LM has the third lowest population density in the Gert Sibande District, with 27.4 people per km².
- The official unemployment rate dropped to 22.1% in 2022; This is the lowest rate in the district and is low in the provincial (36.1%) and national (33.9%) contexts. It must be noted that the current narrow definition of the unemployment rate excludes discouraged workers - thus it is reasonable to assume that the true figure, upon inclusion of discouraged workers, is far higher.
- The total number of employment opportunities grew by 499 jobs during 2022, with community services remaining the predominant provider of employment, followed by trade and finance.

- The Tress Index of 32.40 indicates a well-diversified economy. The top three contributing sectors to GVA are: Community Services (17.7%), Mining (13.7%) and Trade (13.2%). The higher the degree of economic diversification, the lower the level of risk should adverse economic conditions arise.
- Tourism spend increased for the second consecutive year, with an increase of R121.6 million (27.31%) in 2022. The tourism sector's contribution to GVA in 2022 amounted to just 2.87%. Total tourism trips totalled 57 600 trips, an increase of 16.5% from 2021.
- Household formation saw over the assessment period amounted to 11.4% or 3 586 additional households in absolute terms. The municipality has been able to maintain its infrastructure index of 0.82; indicative of its ability to keep up with the rate of household formation. This score is high relative to the national index of 0.77. The infrastructure index is, however, limited to the extent that it only provides a view on access to basic level of services and not the security and/or quality of the service provision.
- 20.3% of households fall below the Equitable Share Bracket, while 82.4% of households receive a level of service above the RDP level of service.

Historic Financial Assessment

The historical analysis shows:

- Lekwa LM's liquidity position remains in a dire state. The liquidity ratio as at FYE2021/22 was just 0.09:1. This indicates a severely constraint liquidity position and in which the municipality will not be able to meet its short-term obligations as and when they fall due.
- The outstanding creditors balance increased by R266.5 million to an astonishing total of R2.39 billion as at FYE2021/22. Considering the municipality's total income for FY2021/22 totalled R917.8 million, this is the predominant threat to the financial sustainability of the municipality.
- An operating deficit (excluding capital grants) of R372.8 million was posted in FY2021/22; increasing from R244.1 million posted in FY2020/21. The municipality has posted accounting and operating deficits throughout the review period.
- Cash was utilised by operations for the second consecutive year, to the value of R27.3 million. Concerning to note, this is despite an increase of R266.5 million in the outstanding creditors balance.
- The collection rate declined to 64% as at FYE2021/22 from 68% at the prior year-end. This is a prominent factor in the lack of cash generation.
- Creditors' days totalled 1 395 days as at FYE2021/22. This is reflected in the significant increases in the creditors balance. Negotiations must take place with creditors to attempt to discuss possible extension of payment terms and to limit the amount of interest incurred on outstanding debt.
- Electricity distribution losses totalled 26.8% in FY2021/22. Water distribution losses were exorbitantly high in FY2021/22, amounting to 77.1%. Both metrics well-exceed their respective NT norms.
- Total grants received (R164.9 million) constituted 18% of total revenue (R917.8 million) in FY2021/22.
- The municipality's unencumbered cash of R15.5 million fell well short of the NT and statutory minimum liquidity requirements of R121.7 million - resulting in a cash shortfall of R106.2 million. The municipality has posted cash shortfalls throughout the review period.
- The municipality finds itself in a dire financial position, it is of critical importance that the municipality follows the recommendations provided in this update, to get itself on a path to stabilising its distressed financial situation.

Financial Recovery Plan Update

Based on the results of the Long-Term Financial Model, *it is recommended that* Lekwa:

1. Limits the capital investment programme to capital grants received, as the municipality is not currently in a position to utilise own cash to fund capital investment.
2. Maintain a balanced approach for the long-term capital investment programme which prioritises investments that contribute to economic growth and revenue generation and prioritise timeous investment in bulk infrastructure.
3. Formalise a capital investment prioritisation and tracking system to optimise management's capital investment decisions and mitigate the risk of underspending on capital projects. Priority must be given to upgrading water bulk infrastructure in an attempt to curtail extensive distribution losses.
4. The outstanding creditors balance must be reduced as a priority. It is of absolute importance that the municipality applies for participation in the Eskom Municipal Debt Relief programme and upon doing so, strictly adheres to the conditions of the programme to ensure the benefits are reaped. This will give a significant boost to the dire liquidity position.
5. Develop a cost-reflective tariff structure that is underpinned by a detailed, thorough tariff modelling process. Tariff increases, over which the municipality has control, must reflect annual inflation related input costs reflected in bulk purchases and operating expenditure.
6. Achieve and maintain a higher collection rate by prioritising decisions and actions that will support and improve the low collection rate without compromising profitability / surpluses.
7. Employ a prioritised, efficient and targeted approach to operating expenditure, with a view of restricting growth in and reducing operating expenditure items where possible, to curtail deficits.
8. Finally, Lekwa's current distressed financial position is as a result of a long period of sustained deficits, a low collection rate and the consistent non-payment of creditors. The municipality needs to fundamentally and formally commit to and institutionalise full financial recovery, prioritising the implementation of improved financial and operational management, to bring the municipality into a stable financial environment. Once a sense of stability has been reached, the municipality can begin to shift its focus towards growth and development.

This is further evident from the quantification of the Financial Recovery Plan that suggested that it will take the Municipality anything between 5 – 7 years to get the budget to be funded. That with the intervention that the Municipality is receiving this should assist with the reduction of the deficit. The Municipality must have clear revenue raising targets with clear deadlines to all for adequate oversight.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. This includes but not limited to;

- Data Enrichment
- Property Valuation Roll reconciliation and billing reconciliation
- Account corrections (linking service tariffs to accounts)
- Credit Control
- Meter audit and replacement of faulty meters (both electrical and water meters)
- Implementing a project for eradication of illegal electricity connection
- Indigent Management including building capacity within the indigent registration unit
- Improve meter reading

The Municipality has established governance structure that are functional these includes Council, Mayoral Committee, Section 79 & 80 Committees as well as the Audit Committee. The stability within the governance structure will assist immensely in ensuring that the Municipality is able to implement the Financial Recovery Plan thus enabling the financial stability and provision of sustainable basic services.

In terms of section 18 of the MFMA the municipality may only fund its budget from realistically anticipated revenue to be collected as well as cash-backed surpluses. Therefore the municipality must provide for expenditure in line with the revenue that can be collected and don't overstate the revenue as this will result in cash flow challenges.

The budget has to be cash-backed in order for the municipality to be able to implements its Service Delivery Budget Implementation Plans,

National Treasury has issued Municipal Finance Management Act (MFMA) circular numbers 122 and 123 to guide the compilation of the 2023/2024 medium term revenue and expenditure framework (MTREF) which emphasises that during this tough economical period the municipalities should tighten their spending and reduced unnecessary or nice to have expenditures, improve and prioritise service delivery.

The National Treasury projects real economic growth of 0.9 per cent in 2023. Real GDP growth is expected to moderate to 1.8 per cent over the medium term.

The municipality has fallen into financial distress and face liquidity problems. These include the municipality being unable to meet their payment obligations to Eskom, water boards and other creditors. There is a need for municipality to focus on collecting revenues owed to it, and eliminate wasteful and non-core spending.

The non-payment of creditors is a symptom of underlying problems which include, among others, weaknesses in revenue collection and underinvestment in asset maintenance and renewal, which compromises the reliability of delivering basic services. In order to achieve financial sustainability, the municipality must demonstrate the political & administrative will to implement the changes required to improve the performance.

The Municipality must ensure that expenditure is limited to the maximum revenue collected and not spend on money that it does not have. The municipality is reminded that, the local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise some of the administrative costs. The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basic services will likely increase and it will become even more difficult to collect revenue. The household budget will be under pressure and trade-offs will be applied as it may be unaffordable to pay all household expenses with regularity.

The Risks to the fiscal framework in the compilation of the 2023/2024 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Slowing global and domestic economic growth (exacerbated by the war between Russia and Ukraine)
- The need for permanent increase in social protection (Indigent support) that exceed available resources.
- Pressures from employee related costs that contribute 24% of the total operating expenditure budget.
- Pressure from the increased cost of bulk electricity that contributes 39% of the total operating expenditure budget (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2023/24 MTREF process; and

- The increase in unemployment due to slow economic growth within Lekwa
- Demand for increased bulk infrastructure (electricity, water, and sanitation) to stimulate growth and unlock developments
- Reprioritization of projects and expenditures given the cash flow realities of the municipality
- Revenue recovery, credit control and declining revenue base due to the current economic environment

The application of sound financial management principles is essential to ensure the municipality remains financially viable and the municipal services are provided economically and sustainably.

Overview of the proposed 2023/24 Medium-term Revenue and Expenditure Framework:

The operating revenue decreased from R 1 174 166 000 in the 2022/23 financial year to R 1 133 123 000 in the 2023/24 financial period. This reflects a revenue decrease of 3.4% or R41 million over the period.

The main revenue projections are contributed to the following revenue streams:

Property Rates R 203 million (17%)

Electricity R 467 million (47%)

Water R 84 million (7%)

Sanitation R 42 million (4%)

Solid Waste R 33 million (3%)

Grants & Subsidies R 173 million (15%)

From the above it is evident that electricity is the main revenue sources, thus requires and compels that the stream should be nurtured and protected in order to ensure that the service is profitable. The Municipality should ensure that mechanisms are in place including but not limited to:

- Eradication of illegal electricity connection
- Replacement of bridged, faulty & tempered electricity meters
- Installation of meters to areas that are not metered
- Ensuring that all properties are billed correct tariffs
- Constant reviewing of electricity to ensure cost reflecting whilst ensuring affordability by consumers
- Investigating the possibility of collect arrears debt through the prepaid vending system
- The municipality should also consider investing in technologies that will reduce the impact of loadshedding on businesses and community in general, this may include deployment of renewable energy technologies and storage systems, smart load management (peak load shifting; shedding off non critical loads).

The operating expenditure has increased from R 1 279 915 000 in 2022/23 to R 1 361 480 000 in the 2023/2024 financial year. This reflects an increase of R 81 million (6.3%) on expenditure. The increase in expenditure is attributed mainly to employee related costs increase amounting to R 22 million and bulk purchases increase R 62 million.

The main expenditure projections are contributed to the following expenditure streams:

Employee related costs R326 million (24%)

Bulk Purchases R 531 million (39%)

Other Material R 80 million (6%)

Contracted services R 124 million (9%)

The capital budget amounts to R 75 million in the 2023/24 financial year.

Table below illustrate Revenue & Expenditure Medium Term Revenue Expenditure Framework

MP305 Lekwa - Table A1 Budget Summary

Description	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
R thousands										
Financial Performance										
Property rates	98 385	156 421	170 255	191 633	190 052	190 052	190 052	203 391	214 985	227 239
Service charges	441 363	479 954	508 037	759 142	756 979	756 979	756 979	627 925	663 088	700 221
Investment revenue	1 978	1 931	1 788	700	700	700	700	638	674	713
Transfer and subsidies - Operational	122 249	152 770	139 953	158 754	158 754	158 754	158 754	173 958	187 550	195 603
Other own revenue	75 076	60 125	79 074	69 317	67 681	67 681	67 681	127 211	134 228	141 660
Total Revenue (excluding capital transfers and contributions)	739 051	851 201	899 108	1 179 546	1 174 166	1 174 166	1 174 166	1 133 123	1 200 525	1 265 436
Employee costs	238 547	239 497	258 333	305 229	304 532	304 532	304 532	326 221	342 118	360 759
Remuneration of councillors	20 883	12 090	7 517	13 024	12 500	12 500	12 500	13 913	14 648	15 424
Depreciation and amortisation	87 252	76 811	78 038	85 679	85 679	85 679	85 679	82 660	82 365	82 740
Interest	121 999	35 422	86 202	44 306	62 661	62 661	62 661	73 256	77 771	82 011
Inventory consumed and bulk purchases	439 298	423 977	488 396	572 244	564 963	564 963	564 963	611 904	644 382	678 502
Transfers and subsidies	-	-	-	-	-	-	-	-	-	-
Other expenditure	379 111	336 991	380 753	251 686	254 596	254 596	254 596	253 526	256 012	260 814
Total Expenditure	1 287 089	1 124 787	1 299 239	1 272 168	1 284 930	1 284 930	1 284 930	1 361 480	1 417 297	1 480 250
Surplus/(Deficit)	(548 038)	(273 586)	(400 131)	(92 622)	(110 764)	(110 764)	(110 764)	(228 357)	(216 772)	(214 815)
Transfers and subsidies - capital (monetary allocations)	31 835	38 320	24 933	37 888	73 262	73 262	73 262	40 640	49 139	51 226
Transfers and subsidies - capital (in-kind)	-	14 683	1 151	-	-	-	-	-	-	-
	(516 203)	(220 582)	(374 047)	(54 734)	(37 502)	(37 502)	(37 502)	(187 716)	(167 633)	(163 589)
Surplus/(Deficit) after capital transfers & contributions										
Share of Surplus/Deficit attributable to Associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	(516 203)	(220 582)	(374 047)	(54 734)	(37 502)	(37 502)	(37 502)	(187 716)	(167 633)	(163 589)
Capital expenditure & funds sources										
Capital expenditure	586 136	96 841	34 880	54 888	101 094	101 094	101 094	75 687	66 191	68 282
Transfers recognised - capital	381 255	337 565	20 646	37 888	73 436	73 436	73 436	40 637	49 139	51 226
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	91 052	(335 531)	35 416	17 000	27 658	27 658	27 658	35 050	17 053	17 056
Total sources of capital funds	472 307	2 035	56 062	54 888	101 094	101 094	101 094	75 687	66 191	68 282
Financial position										
Total current assets	754 784	695 625	787 935	144 327	84 336	84 336	84 336	(204 278)	(383 641)	(556 148)
Total non current assets	1 234 210	1 565 993	1 560 969	1 162 644	1 208 850	1 208 850	1 208 850	(6 974)	(23 147)	(37 605)
Total current liabilities	2 250 277	2 606 500	3 021 205	1 972 553	1 941 535	1 941 535	1 941 535	(23 535)	(51 438)	(74 815)
Total non current liabilities	577 845	230 969	256 606	-	-	-	-	-	-	-
Community wealth/Equity	(323 109)	(707 409)	(928 907)	(665 582)	(648 349)	(648 349)	(648 349)	(187 716)	(355 350)	(518 938)
Cash flows										
Net cash from (used) operating	1 814 747	2 681 927	509 888	(45 360)	(27 186)	(27 186)	(27 186)	(360 697)	(333 631)	(365 931)
Net cash from (used) investing	(24 908)	(45 304)	(36 256)	(54 888)	(147 300)	(147 300)	(147 300)	(75 687)	(66 191)	(68 282)
Net cash from (used) financing	-	-	-	-	-	-	-	-	-	-
Cash/cash equivalents at the year end	1 802 286	2 636 623	510 945	(96 897)	(171 134)	(171 134)	(171 134)	(436 384)	(836 206)	(1 270 419)
Cash backing/surplus reconciliation										
Cash and investments available	44 377	28 481	17 930	(96 897)	(171 484)	(171 484)	(171 484)	(319 096)	(595 023)	(898 358)
Application of cash and investments	1 536 196	1 433 133	1 922 491	1 846 054	1 807 037	1 807 037	1 807 037	(42 783)	(89 962)	(130 813)
Balance - surplus (shortfall)	(1 491 819)	(1 404 652)	(1 904 561)	(1 942 951)	(1 978 521)	(1 978 521)	(1 978 521)	(276 313)	(505 061)	(767 545)
Asset management										
Asset register summary (WDV)	994 416	1 488 371	1 477 134	(66 039)	(55 210)	(55 210)		(70 610)	(140 922)	(211 606)
Depreciation	87 252	76 811	78 038	85 679	85 679	85 679	85 679	82 660	82 365	82 740
Renewal and Upgrading of Existing Assets	471 209	58 601	12 563	43 748	79 796	79 796	79 796	59 452	34 674	41 376
Repairs and Maintenance	17 417	14 167	16 540	58 812	56 213	56 213	56 213	52 035	52 630	54 354
Free services										
Cost of Free Basic Services provided	-	-	-	-	-	-	-	-	-	-
Revenue cost of free services provided	8 741	6 527	6 983	1 342	5 690	5 690	5 690	17 148	18 118	19 143
Households below minimum service level										
Water:	-	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-

Operating Revenue Framework

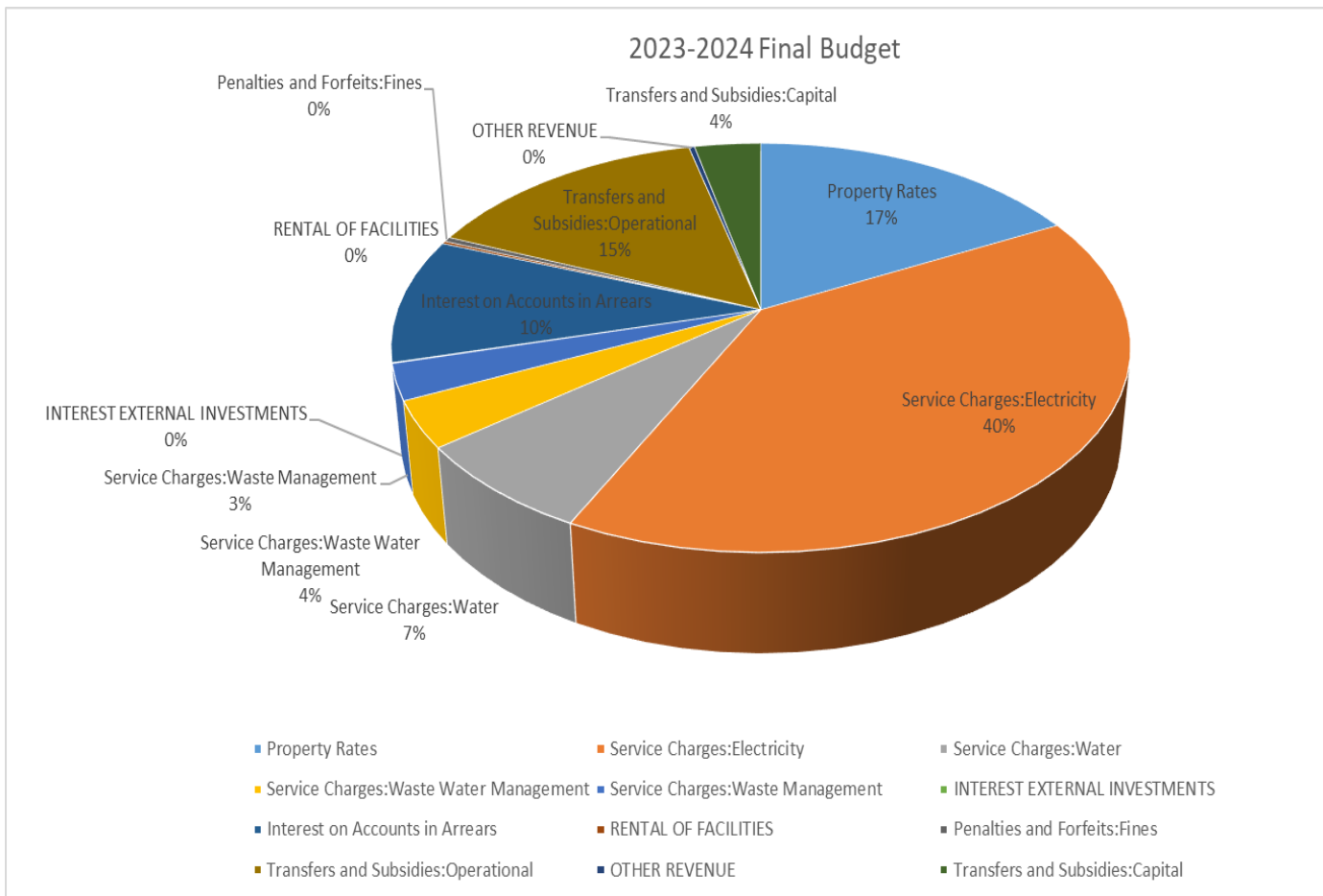
Revenue management is fundamental to the financial sustainability of the Municipality. The reality is that we are faced with development backlogs and poverty and therefore the municipal revenue strategy is built around the following key components:

- To seek alternative sources of own revenue to increase the municipal revenue base (rental of properties, outdoor advertising, sales of stands etc)
- Tightening credit control measures and increase debt collection targets
- Improve customer relations and promote a culture of payment of services
- Create an environment which enhances growth, development and service delivery
- Implementation of the indigent support policy to provide free basic services to poor households and protect them from the worst impacts of the economy; and
- Implementation of Revenue Enhancement Strategy
- Implementation of Financial Recovery Plan
- Creation of Job Opportunities
- Installation and Replacement of Meters including meter audit
- Ensure all tariffs are fully cost reflective.

Total operating revenue decreased from R 1 174 166 000 to 1 133 123 000 when compared to the 2022/23 adjustments budget, which will increase to R 1 265 436 000 in the 2025/2026 financial year. The effects of Loadshedding are evident in the performance of municipalities in the financial year 2022/23. The municipality was equally affected, this is when looking at the performance of the municipality in the 2022/23 MTREF mainly because during loadshedding the municipality stops generating revenue. It is based on among other the above that National Treasury has Advised municipalities to reduce the budget of sales to municipal consumers

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)

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
Revenue											
Exchange Revenue											
Service charges - Electricity	2	303 059	327 762	371 385	553 182	552 151	552 151	552 151	467 837	494 036	521 702
Service charges - Water	2	80 043	84 716	71 733	98 388	96 756	96 756	96 756	84 373	89 098	94 088
Service charges - Waste Water Management	2	34 660	40 957	37 169	77 607	77 607	77 607	77 607	42 599	44 984	47 503
Service charges - Waste Management	2	23 602	26 519	27 750	29 965	30 465	30 465	30 465	33 115	34 970	36 928
Sale of Goods and Rendering of Services		629	695	1 125	2 674	2 884	2 884	2 884	3 150	3 301	3 471
Agency services		-	-	-	-	-	-	-	-	-	-
Interest		15 162	-	-	-	-	-	-	-	-	-
Interest earned from Receivables		53 966	46 930	65 431	57 693	57 693	57 693	57 693	116 639	123 208	130 147
Interest earned from Current and Non Current Assets		1 978	1 931	1 788	700	700	700	700	638	674	713
Dividends		-	-	-	-	-	-	-	-	-	-
Rent on Land		-	-	-	-	-	-	-	-	-	-
Rental from Fixed Assets		1 690	1 666	1 729	2 100	2 254	2 254	2 254	2 502	2 722	2 964
Licence and permits		-	-	0	-	-	-	-	-	-	-
Operational Revenue		425	338	451	350	350	350	350	370	388	407
Non-Exchange Revenue											
Property rates	2	98 385	156 421	170 255	191 633	190 052	190 052	190 052	203 391	214 985	227 239
Surcharges and Taxes		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		3 203	1 181	2 983	6 500	4 500	4 500	4 500	4 550	4 609	4 671
Licences or permits		-	-	-	-	-	-	-	-	-	-
Transfer and subsidies - Operational		122 249	152 770	139 953	158 754	158 754	158 754	158 754	173 958	187 550	195 603
Interest		-	-	-	-	-	-	-	-	-	-
Fuel Levy		-	-	-	-	-	-	-	-	-	-
Operational Revenue		-	-	-	-	-	-	-	-	-	-
Gains on disposal of Assets		-	-	-	-	-	-	-	-	-	-
Other Gains		-	9 316	7 355	-	-	-	-	-	-	-
Discontinued Operations		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contrib		739 051	851 201	899 108	1 179 546	1 174 166	1 174 166	1 174 166	1 133 123	1 200 525	1 265 436



Impact of the Revenue Budget on the Municipal Budget

The local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise the administrative costs of the smaller and more rural municipalities. The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basic services will likely increase, and it will become even more difficult to collect revenue. Household budgets are becoming increasingly under more pressure, and trade-offs might be applied when it becomes unaffordable to pay all household expenses on a monthly basis.

Municipalities must ensure that they render basic services, maintain their assets and clean environment. Furthermore, there must be continuous communication with the community and other stakeholders to improve the municipality's reputation. This will assist in attracting investment in the local economy which may result in reduced unemployment. Some municipalities are experiencing serious liquidity challenges.

It is essential that municipalities reconcile their most recent valuation roll data to that of the billing system to ensure that revenue anticipated from property rates are accurate. Municipalities should undertake this exercise as a routine practice during the budget process so that supplementary adjustments to the valuation roll are kept up to date. The list of exceptions derived from this reconciliation will indicate where the municipality may be compromising its revenue generation in respect of property rates. A further test would be to reconcile this information with the Deeds Office registry.

Loadshedding not only affects the electricity service but also some municipalities' ability to pump water, thereby negatively impacting the stability of water supplies and the related functioning of the wastewater reticulation network. Municipalities are always asked to try to balance full cost recovery on services with affordability for their residents. In practice, this means that where the full increase in the cost of a service is not passed on to consumers, municipalities must offset the increased costs through savings identified elsewhere in their operations. Therefore, reducing/ limiting overall expenditure is a key part of budgeting for the response to loadshedding. The municipality should stick to its core mandate and functions and carefully review overall expenditure to manage the net effect. Measures should include aggressively cutting costs, frills, and vanity projects, dealing with bloated administrations and structures possibly duplicated across Municipal Manager and Mayoral offices, and applying for exemptions from the annual salary increases if these are not affordable

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. This forms the basis of compiling a credible budget. A credible budget is one that ensures the funding of all approved items and is anchored in sound, timely and reliable information on expenditure and service delivery (FFC, 2011).

Municipality must adopt a tariff setting methodology that achieves an appropriate balance between the interest of poor households and other customers while ensuring financial sustainability of the municipality

When setting tariffs the following was considered:

- cost of bulk purchases and the fluctuation of seasonal consumption;
- consumption patterns to enable better planning;
- cost of providing services; and
- Sound baseline information.

The proposed tariffs are contained in the draft resolution and attached schedule which provides a comparison of proposed tariffs with the previous financial year. During the IDP and budget consultation held during the months of April to May 2023, the community sighted that the Municipal Tariffs are unaffordable in comparison to the level of service as the unreliable service provision the community inputted that the Municipality should not increase the tariffs whilst improving service delivery. In terms of section 152 (b) of the Constitution of the Republic of South Africa, 1996 - Chapter 7: Local Government that the Municipality object are to ensure the provision of services to communities in a sustainable manner.

The Municipality needs to ensure that there is improvement on the level of services thus rebuilding the trust and confidence of the Municipality thus ensuring that the communities are willingly paying for services.

The Municipality for the 2023/24 financial year will be increasing tariffs for the services charges on an average of 5.3% (water, sanitation, refuse and other sundry services) an electricity will be increased with 15% in line with the NERSA guidelines.

Proposed Tariffs Increases

Property rates

An average increase of 5.3%.

The tariff structure is in accordance with the different categories in the valuation roll as per the Municipal Property Rates Act, adjustments will be made to the business tariffs as well as the introduction of a new tariff for guesthouse and accommodations establishments.

Sewerage tariffs

An average increase of 5.3%.

Refuse tariffs

An average increase of 5.3%.

Water tariffs

An average increase of 5.3%.

Electricity tariffs

An average increase of 15 %.

Operating Expenditure Framework

National Treasury has again emphasized in the MFMA circular that municipalities must implement cost containment measures and eliminate non-priority spending and the cost containment measures were regulated in Government

Employee related costs

Pressures from the municipal employee related that contribute 24% of the total operating expenditure budget. Provision has been made for salary increases of 5.4% in line with the collective agreement. The Municipality needs to find alternative ways to reducing the employee related costs this includes amongst other:

- Organizational restructuring
- Performance of skills audit & job placement
- Strick monitoring of the overtime and standby allowance
- Reviewing scares skills policy in line with the skills sector plans
- Reviewing of acting, travelling allowance amongst other benefit
- Prioritisation of recruitment process

Operating Expenditure

The Municipality will be reducing some of the operating costs inline with the cost curtailment policy which includes but not limited to:

- Ensuring value for money through the procurement process
- The affordability of providing free basic services to all households
- Use of consultants.
- Travel and subsistence according to maximum limits set by National Treasury.
- No credit cards are allowed.
- No sponsorships or municipal funds may be used for social functions, team building, year-end functions such as staff year-end functions, staff wellness and attendance of sporting events by municipal officials.
- Catering to be provided only when meetings exceed five (5) hours.
- Communication to be done in an electronic format, such as internal newsletters et cetera.
- Curbing the consumption of water and electricity by the indigents to ensure that they do not exceed their allocation
- Not taking on unfunded mandates

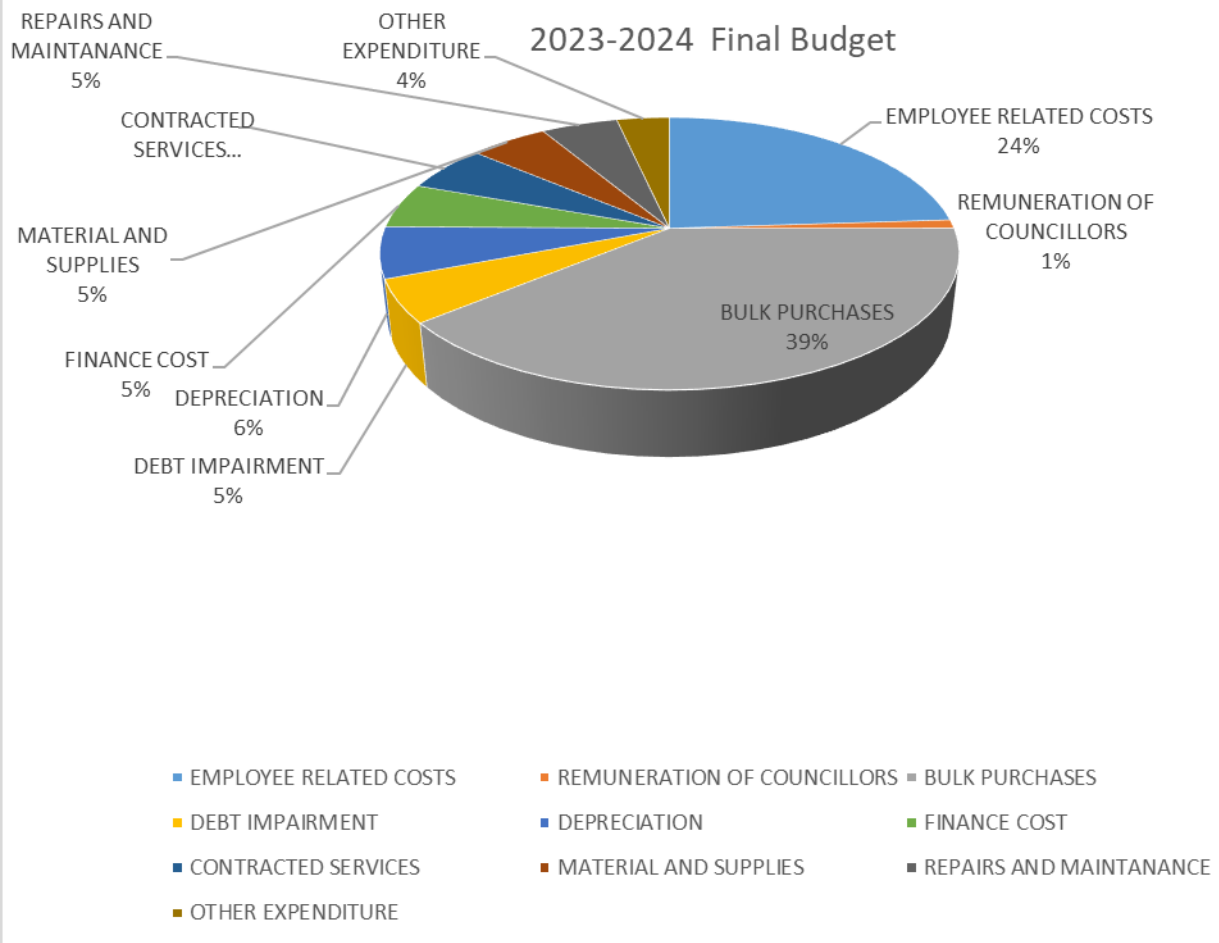
The Municipality has further implemented the following cost curtailment measure to reduce expenditure:

- Monitor employee related costs by ensuring employees only work 40 hrs overtime
- Prioritising of filling of critical post that have impact on revenue generation and reduces overtime
- Enforce all procurement to be undertaken through and by SCM Unit only
- Manage all procurement through Cashflow Management Committee on procurement below R 200 000.00 including contracted services

The operating expenditure increased from R 1 297 101 000 to R 1 361 480 000 when compared to the 2022/23 adjustments budget and will subsequently increase to R 1 480 250 000 in the 2025/26.

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)

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
Expenditure											
Employee related costs	2	238 547	239 497	258 333	305 229	304 532	304 532	304 532	326 221	342 118	360 759
Remuneration of councillors		20 883	12 090	7 517	13 024	12 500	12 500	12 500	13 913	14 648	15 424
Bulk purchases - electricity	2	360 425	363 481	444 124	469 965	469 965	469 965	469 965	531 559	559 731	589 397
Inventory consumed	8	78 873	60 497	44 272	102 279	94 998	94 998	94 998	80 345	84 651	89 105
Debt impairment	3	187 332	235 172	231 511	69 319	69 319	69 319	69 319	69 319	70 340	71 418
Depreciation and amortisation		87 252	76 811	78 038	85 679	85 679	85 679	85 679	82 660	82 365	82 740
Interest		121 999	35 422	86 202	44 306	62 661	62 661	62 661	73 256	77 771	82 011
Contracted services		67 780	53 541	100 879	120 393	120 687	120 687	120 687	124 068	121 482	122 984
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Irrecoverable debts written off		1 905	431	236	1 041	1 041	1 041	1 041	1 100	1 162	1 227
Operational costs		122 094	45 552	48 127	60 933	63 549	63 549	63 549	59 039	63 028	65 185
Losses on disposal of Assets		-	-	-	-	-	-	-	-	-	-
Other Losses		-	2 295	-	-	-	-	-	-	-	-
Total Expenditure		1 287 089	1 124 787	1 299 239	1 272 168	1 284 930	1 284 930	1 284 930	1 361 480	1 417 297	1 480 250
Surplus/(Deficit)		(548 038)	(273 586)	(400 131)	(92 622)	(110 764)	(110 764)	(110 764)	(228 357)	(216 772)	(214 815)



Repairs & Maintenance

Row Labels	2023-2024 Final	2024-2025	2025-2026 Final
	Budget	Final Budget	Budget
BUILDING AND STRUCTURES	650 000.00	415 600.00	421 513.60
ELECTRICAL MAINTENANCE	33 176 500.00	34 430 660.50	35 681 177.49
GENERAL REPAIRS	200 000.00	211 200.00	223 027.20
IT EQUIPMENT	1 306 680.00	242 000.00	266 200.00
LANDFILL SITE	6 000 000.00	6 000 000.00	6 000 000.00
MACHINERY AND EQUIPMENT	1 050 000.00	1 166 800.00	1 298 460.80
ROADS MAINTENANCE	7 150 000.00	7 550 400.00	7 973 222.40
SEWER NETWORK	4 515 700.00	4 767 529.20	5 033 405.19
VEHICLE REPAIRS	4 367 990.00	3 689 550.43	3 889 397.55
WATER NETWORK	10 840 400.00	10 868 400.00	10 897 968.00
Grand Total	69 257 270.00	69 342 140.13	71 684 372.23

In terms of the National Treasury Norms and Standards the municipality should provide for at least 8% of the budget towards repairs and maintenance. The municipality has budgeted 5% of the budget towards repairs and maintenance, whilst a provision of R 7 million has been allocated towards maintenance of roads network, R 33 million to address electricity network, R 10 million towards water network and R 4 million towards addressing sewer network related challenges.

The Municipality needs additional budget for the Electricity maintenance that amounts to R 164.9 million to stabilise the current electricity challenges over the medium term. The Municipality further needs to additional funding for the Sewer network, water network and roads maintenance estimated to be in excess of R 400 million.

Bulk Purchases

National Treasury recommended Municipalities to budget for reduced bulk purchases and sales to municipal customers based on loadshedding assumptions. Municipalities are also advised to carefully monitor their Eskom accounts for any penalties that result from increased demand immediately after a period of loadshedding is ended. Eskom has indicated that they will reverse any penalties for exceeding notified maximum demand that results from the implementation of loadshedding. This should be factored into the tariff calculation to ensure that consumers are not overcharged.

During 2018/19, intense work had been undertaken to resolve systemic and structural issues pertaining to the electricity function in municipalities. Core to this work was addressing the escalating Eskom debt that threatened the sustainability of Eskom as well as that of municipalities

During the process, Eskom was engaged on providing relieve in certain areas. Municipalities must be made aware that the following concessions were agreed upon:

- Reducing the interest rate charged on overdue municipal bulk accounts from prime plus 5 per cent to prime plus 2.5 per cent;
- Payment terms being extended from 15 days to 30 days for municipal bulk accounts; and
- Payments received from municipalities will be allocated to capital first and then the interest.

These concessions are aligned to the MFMA and are meant to curb the growing debt levels by allowing municipalities a more conducive payment regime than what was previously employed. In addition, municipalities are encouraged to budget for bulk services and honour their current account payments religiously to avoid stringent application of the bulk suppliers' credit control policy.

Municipalities are also advised to enforce a culture of payment for services through their normal credit control processes. In this regard it should be noted that municipalities are only compensated for free basic services based on an indigent user component calculation through the equitable share. As such, a municipality's allocation of free basic services to all of the municipality's consumers is not funded in the equitable share. Every municipality, during the budget process, must consider the affordability to the municipality when allocating free basic services above the national norm and to consumers other than indigent consumers. If a municipality has any arrears on any of its bulk supplier's accounts, it must limit its provision of free basic services to registered indigent consumers only. In this regard municipalities are reminded to take note of the Constitutional Court decision in

The National Energy Regulator of South Africa (NERSA) is responsible for the price determination of the bulk costs of electricity. In January 2023, NERSA approved tariff increases of 18.7 per cent in 2023/24 and 12.7 per cent increase in 2024/25. For purposes of calculating the free basic energy subsidy in the local government equitable share formula, the National Treasury has added 2 per cent to these increases. This is in anticipation of higher increases than those published in January, for municipalities, due to the difference in the financial years of Eskom customers and municipalities meaning that Eskom only has nine months to collect the allowable revenue from municipalities. R1.1 billion is added to the free basic energy subcomponent of the free basic services component of the local government equitable share formula to fund these higher tariff increases. To this end, the free basic electricity subsidy in the local government equitable share is calculated based on a 20.7 per cent tariff increase in 2023/24 and a 14.7 per cent increase in 2024/25. In the absence of an approved tariff increase in the outer year of the MTEF period, the formula assumes an increase of 17.7 per cent in 2025/26. This is the average of the estimated increases for the first two years of the MTEF period

The Municipality should ensure that measures & systems are put in place and continue to be implemented which includes amongst others aggressive revenue improvement strategy, employee related cost reduction, phasing out contracted services, better contract management, reduction in material losses, decreasing of general expenditure in line with the cost curtailment measures as well as the implementation of the Financial Recovery Plan.

Municipal Debt Relief

An optimally designed debt solution for Eskom can leverage the structural reform of the electricity sector that is needed both on the Eskom side and the municipal side, however, the municipal debt owed to Eskom pose a material risk to any Eskom debt relief package. In parallel the challenge of inability to honour the current account cannot be separated from a consumer culture to not pay for services.

Municipal Debt Relief that is conditional and application based, has therefore been sanctioned. The relief is aimed to correct the underlying behaviour and operational practices in defaulting municipalities and Eskom while in parallel, progressively introducing a smart metering solution to change consumer behaviour by instilling a culture of payment for services consumed. The proposal consists of 4 elements:

- I. Eskom will write-off all debt municipalities owe as on 31 March 2023 (excluding the March 2023 current account). This will be done over three national financial years and require as a critical qualification that municipalities monthly honour their current (monthly consumption) Eskom and water accounts going forward and maintain a minimum average quarterly collection, etc;
- II. Secondly, new mechanisms are explored to resolve non-payment – this to include a dispute ombud mechanism and re-assigning the license of persistent defaulters;
- III. Thirdly, Eskom will continue to implement a regime of installation of pre-paid meters in Eskom supplied areas to improve Eskom collection. Municipalities are additionally encouraged to adopt a similar operating regime; and
- IV. Lastly, the National Treasury will continue to implement municipal revenue enhancement initiatives, including a transversal tender for a smart pre-paid meter solution to change to a forward looking culture of payment of the consolidated municipal bill.

The municipality's exorbitant outstanding creditors balance, the majority of which is owed to Eskom, must be reduced as a priority. This is a trend within the municipal sector, with the total outstanding municipal debt amounting to over R56 billion. Considering this and the low likelihood of repayment, Eskom and NT announced a Municipal Debt Relief programme earlier this year.

Considering the municipality’s current debt owed to Eskom, it is recommended that Lekwa LM jumps at this opportunity and applies for participation in the debt relief scheme. The benefits thereof are tremendous. Should the municipality comply with the conditions for a consecutive 12-month period, Eskom will write off a third of the municipality's debt annually. The conditions include but are not limited to; the regular payment of the current Eskom bill, the adoption of a realistic and funded budget, disconnection of defaulting consumers’ water and electricity supply and a collection rate of at least 80%. It must be stated that failure to adhere to any of the conditions will result in the municipality’s participation being voided, in which case the municipality must reapply for participation.

In light of this, a scenario was run to indicate the impact of the municipality’s participation in this debt relief scheme. In running the scenario, the LTFM indicated that an 80% collection rate was insufficient for Lekwa LM. As such, the collection rate in this scenario is assumed to improve to 90% within 3 years, as in the Base Case. Furthermore, the outstanding creditors balance was substantially reduced in FY2023/24.

The outcomes of this scenario are reflected in **TABLE 15**. This scenario is built around the premise that the conditions as stated will be met, with a particular focus on servicing the current Eskom account. Considering this fact, it is likely that there will not be a significant impact on the municipality’s cash position, as indicated in the planning period-end bank balance that is on par with the Base Case.

The most prevalent and important outcome of this scenario is the significant improvement to the liquidity position. The planning period-end forecast liquidity ratio of 0.6:1 is a marked improvement on the Base Case. While the ratio is still forecast to be below 1:1, this provides a stable platform for the municipality to begin to achieve growth and move into an environment of financial sustainability.

The positive impact of such a scenario on a municipality in as dire a financial state as Lekwa LM, cannot be understated. The municipality is urged to apply for and commit to the debt relief scheme. The municipality’s long-term financial sustainability is currently at risk, to a large extent due to the municipality's outstanding creditors balance and this programme provides an opportunity to alleviate this risk.

TABLE 15: SCENARIO 4: ESKOM DEBT RELIEF

Outcome	Base Case	Eskom Debt Relief
Average annual % increase in Revenue	6,0%	6,0%
Average annual % increase in Expenditure	2,7%	2,7%
Accounting Surplus accumulated during Planning. Period (Rm)	-R 677	-R 677
Operating Surplus accumulated during Planning. Period (Rm)	-R 1 120	-R 1 120
Cash generated by Operations during Planning. Period (Rm)	-R 182	-R 36,8
Average annual increase in Gross Consumer Debtors	2,0%	2,0%
Capital investment programme during Planning. Period (Rm)	R 458	R 458

Outcome	Base Case	Eskom Debt Relief
External Loan Financing during Planning Period (Rm)	R 0	R 0
Cash and Cash Equivalents at the end of the Planning Period (Rm)	R 65	R 64
No of Months Cash Cover at the end of the Planning Period (Rm)	0,5	0,5
Liquidity Ratio at the end of the Planning Period	0,1 : 1	0,6 : 1
Gearing at the end of the Planning Period	0,0%	0,0%
Debt Service to Total Expense Ratio at the end of the Planning Period	0,0%	0,0%

The positive outcomes of this scenario are significant. The main threat to the financial sustainability of the municipality is the liquidity position, and this is addressed in this scenario. The planning period-end liquidity ratio of 0.6:1, while remaining low, is indicative of Lekwa being on a path towards achieving financial stability.

The participation in the Municipal Debt Relief programme is of absolute importance to the long-term financial sustainability of the municipality. It is not realistic to think that the municipality will be able to service its historic debt owed to Eskom, considering its current liquidity position as well as the extent to which this debt has been allowed to grow. It is crucial that the municipality applies for participation in this programme, and then strictly adheres to the conditions to reap the benefits of this programme.

Overview of the Revenue & Expenditure

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)

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
Revenue											
Exchange Revenue											
Service charges - Electricity	2	303 059	327 762	371 385	553 182	552 151	552 151	552 151	467 837	494 036	521 702
Service charges - Water	2	80 043	84 716	71 733	98 388	96 756	96 756	96 756	84 373	89 098	94 088
Service charges - Waste Water Management	2	34 660	40 957	37 169	77 607	77 607	77 607	77 607	42 599	44 984	47 503
Service charges - Waste Management	2	23 602	26 519	27 750	29 965	30 465	30 465	30 465	33 115	34 970	36 928
Sale of Goods and Rendering of Services		629	695	1 125	2 674	2 884	2 884	2 884	3 150	3 301	3 471
Agency services		-	-	-	-	-	-	-	-	-	-
Interest		15 162	-	-	-	-	-	-	-	-	-
Interest earned from Receivables		53 966	46 930	65 431	57 693	57 693	57 693	57 693	116 639	123 208	130 147
Interest earned from Current and Non Current Assets		1 978	1 931	1 788	700	700	700	700	638	674	713
Dividends		-	-	-	-	-	-	-	-	-	-
Rent on Land		-	-	-	-	-	-	-	-	-	-
Rental from Fixed Assets		1 690	1 666	1 729	2 100	2 254	2 254	2 254	2 502	2 722	2 964
Licence and permits		-	-	0	-	-	-	-	-	-	-
Operational Revenue		425	338	451	350	350	350	350	370	388	407
Non-Exchange Revenue											
Property rates	2	98 385	156 421	170 255	191 633	190 052	190 052	190 052	203 391	214 985	227 239
Surcharges and Taxes		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		3 203	1 181	2 983	6 500	4 500	4 500	4 500	4 550	4 609	4 671
Licences or permits		-	-	-	-	-	-	-	-	-	-
Transfer and subsidies - Operational		122 249	152 770	139 953	158 754	158 754	158 754	158 754	173 958	187 550	195 603
Interest		-	-	-	-	-	-	-	-	-	-
Fuel Levy		-	-	-	-	-	-	-	-	-	-
Operational Revenue		-	-	-	-	-	-	-	-	-	-
Gains on disposal of Assets		-	-	-	-	-	-	-	-	-	-
Other Gains		-	9 316	7 355	-	-	-	-	-	-	-
Discontinued Operations		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contrib		739 051	851 201	899 108	1 179 546	1 174 166	1 174 166	1 174 166	1 133 123	1 200 525	1 265 436
Expenditure											
Employee related costs	2	238 547	239 497	258 333	305 229	304 532	304 532	304 532	326 221	342 118	360 759
Remuneration of councillors		20 883	12 090	7 517	13 024	12 500	12 500	12 500	13 913	14 648	15 424
Bulk purchases - electricity	2	360 425	363 481	444 124	469 965	469 965	469 965	469 965	531 559	559 731	589 397
Inventory consumed	8	78 873	60 497	44 272	102 279	94 998	94 998	94 998	80 345	84 651	89 105
Debt impairment	3	187 332	235 172	231 511	69 319	69 319	69 319	69 319	69 319	70 340	71 418
Depreciation and amortisation		87 252	76 811	78 038	85 679	85 679	85 679	85 679	82 660	82 365	82 740
Interest		121 999	35 422	86 202	44 306	62 661	62 661	62 661	73 256	77 771	82 011
Contracted services		67 780	53 541	100 879	120 393	120 687	120 687	120 687	124 068	121 482	122 984
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Irrecoverable debts written off		1 905	431	236	1 041	1 041	1 041	1 041	1 100	1 162	1 227
Operational costs		122 094	45 552	48 127	60 933	63 549	63 549	63 549	59 039	63 028	65 185
Losses on disposal of Assets		-	-	-	-	-	-	-	-	-	-
Other Losses		-	2 295	-	-	-	-	-	-	-	-
Total Expenditure		1 287 089	1 124 787	1 299 239	1 272 168	1 284 930	1 284 930	1 284 930	1 361 480	1 417 297	1 480 250
Surplus/(Deficit)		(548 038)	(273 586)	(400 131)	(92 622)	(110 764)	(110 764)	(110 764)	(228 357)	(216 772)	(214 815)

Overview of Trading Services

It should be noted that trading & economic services are operating at a loss of R 191 million in the 2023/24 financial period and the loss will reduce in the 2024/25 financial year. The municipality is experiencing poor revenue collection as the Municipality is delivering the electricity service at a gross loss due to meter tampering, unmetered properties, and faulty meters, lack of bulk meters and vandalism and theft. Not all domestic and big consumers are getting metered. The Municipality should continue to introduce and implementation of adequate measures to properly sustain the funding of the trading & economic Services. The Municipality needs to fulfil the obligations of correcting accounts and metering all services correctly as this will ensure that the deficit is reduced.

Function	2023-24 Final Budget	2024-25 Final Budget	2025-26 Final Budget
I	- 716 827 197.38	- 763 667 520.43	- 806 257 157.58
Electricity:Electricity (Dept 603)	- 497 622 843.80	- 532 187 723.05	- 561 814 491.54
Solid Waste Removal:Cleansing (Dept 302)	- 44 627 866.78	- 47 127 027.32	- 49 766 140.85
Waste Water Treatment:Sewerage (Dept 407)	- 57 983 338.00	- 61 230 404.93	- 64 659 307.60
Water Distribution:Water (Dept 607)	- 116 593 148.80	- 123 122 365.13	- 130 017 217.58
E	908 551 554.26	952 035 948.06	997 684 304.97
Electricity:Electricity (Dept 603)	684 922 553.72	720 791 356.17	757 605 107.97
Solid Waste Removal:Cleansing (Dept 302)	53 118 593.15	53 753 500.00	55 189 792.60
Waste Water Treatment:Sewerage (Dept 407)	48 364 444.99	50 381 319.89	52 550 125.06
Water Distribution:Water (Dept 607)	122 145 962.40	127 109 772.00	132 339 279.33
Grand Total	191 724 356.88	188 368 427.63	191 427 147.39

The table below shows the consolidated revenue and expenditure per function.

MP305 Lekwa - Table A2 Budgeted Financial Performance (revenue and expenditure by functional classification)

Functional Classification 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	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
Revenue - Functional										
Governance and administration		290 042	381 828	383 139	366 624	365 258	365 258	412 750	441 700	464 250
Executive and council		326	-	-	-	-	-	-	-	-
Finance and administration		289 716	381 828	383 139	366 624	365 258	365 258	412 750	441 700	464 250
Internal audit		-	-	-	-	-	-	-	-	-
Community and public safety		2 224	1 282	2 008	5 199	5 199	5 199	5 246	5 259	5 278
Community and social services		137	94	155	399	399	399	316	329	348
Sport and recreation		-	-	-	-	-	-	-	-	-
Public safety		2 086	1 188	1 853	4 800	4 800	4 800	4 930	4 930	4 930
Housing		-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-
Economic and environmental services		30 816	31 125	19 837	37 369	72 893	72 893	38 940	39 037	40 877
Planning and development		339	404	702	850	69 038	69 038	35 097	36 617	38 215
Road transport		30 477	30 720	19 136	36 519	3 855	3 855	3 843	2 420	2 662
Environmental protection		-	-	-	-	-	-	-	-	-
Trading services		447 805	489 969	520 208	808 242	804 079	804 079	716 827	763 668	806 257
Energy sources		309 514	337 777	383 555	573 197	570 166	570 166	497 623	532 188	561 814
Water management		80 029	84 716	71 733	114 321	112 689	112 689	116 593	123 122	130 017
Waste water management		34 660	40 957	37 169	85 159	85 159	85 159	57 983	61 230	64 659
Waste management		23 602	26 519	27 750	35 565	36 065	36 065	44 628	47 127	49 766
Other	4	-	-	-	-	-	-	-	-	-
Total Revenue - Functional	2	770 886	904 205	925 192	1 217 434	1 247 428	1 247 428	1 173 763	1 249 664	1 316 662
Expenditure - Functional										
Governance and administration		349 622	208 113	287 835	219 422	227 169	227 169	230 921	239 885	249 844
Executive and council		101 469	42 126	58 381	68 630	72 010	72 010	64 080	67 513	71 315
Finance and administration		248 153	165 987	229 454	150 793	155 159	155 159	166 841	172 371	178 529
Internal audit		-	-	-	-	-	-	-	-	-
Community and public safety		170 369	75 726	83 052	111 673	100 774	100 774	109 083	112 993	117 158
Community and social services		47 158	35 741	40 793	50 256	56 763	56 763	47 756	48 380	49 031
Sport and recreation		6 376	87	466	10 764	296	296	11 476	12 104	12 765
Public safety		112 814	39 896	41 793	44 939	43 631	43 631	44 146	46 491	49 015
Housing		4 021	3	0	5 715	84	84	5 706	6 018	6 347
Health		-	-	-	-	-	-	-	-	-
Economic and environmental services		23 805	89 430	59 217	103 225	112 020	112 020	109 903	109 196	112 199
Planning and development		11 479	16 468	17 774	18 801	23 492	23 492	19 958	19 418	20 534
Road transport		12 325	72 962	41 443	84 424	88 528	88 528	89 945	89 778	91 665
Environmental protection		-	-	-	-	-	-	-	-	-
Trading services		743 294	734 153	848 144	837 847	844 968	844 968	911 572	955 224	1 001 050
Energy sources		535 762	482 408	587 865	596 080	616 353	616 353	687 923	723 959	760 951
Water management		145 015	150 513	149 018	132 576	129 768	129 768	122 166	127 130	132 359
Waste water management		37 552	52 356	54 699	51 860	46 126	46 126	48 364	50 381	52 550
Waste management		24 964	48 876	56 561	57 331	52 721	52 721	53 119	53 753	55 190
Other	4	-	-	-	-	-	-	-	-	-
Total Expenditure - Functional	3	1 287 089	1 107 423	1 278 248	1 272 168	1 284 930	1 284 930	1 361 480	1 417 297	1 480 250
Surplus/(Deficit) for the year		(516 203)	(203 218)	(353 056)	(54 734)	(37 502)	(37 502)	(187 716)	(167 633)	(163 589)

Overview of Monthly Revenue & Expenditure Targets

MP305 Lekwa - Supporting Table SA25 Budgeted monthly revenue and expenditure

Description	Ref	Budget Year 2023/24												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
Revenue																
Exchange Revenue																
Service charges - Electricity		38 986	38 986	38 986	38 986	38 986	38 986	38 986	38 986	38 986	38 986	38 986	38 986	467 837	494 036	521 702
Service charges - Water		7 031	7 031	7 031	7 031	7 031	7 031	7 031	7 031	7 031	7 031	7 031	7 031	84 373	89 098	94 088
Service charges - Waste Water Management		3 550	3 550	3 550	3 550	3 550	3 550	3 550	3 550	3 550	3 550	3 550	3 550	42 599	44 984	47 503
Service charges - Waste Management		2 760	2 760	2 760	2 760	2 760	2 760	2 760	2 760	2 760	2 760	2 760	2 760	33 115	34 970	36 928
Sale of Goods and Rendering of Services		263	263	263	263	263	263	263	263	263	263	263	263	3 150	3 301	3 471
Agency services		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest earned from Receivables		9 720	9 720	9 720	9 720	9 720	9 720	9 720	9 720	9 720	9 720	9 720	9 720	116 639	123 208	130 147
Interest earned from Current and Non Current Assets		53	53	53	53	53	53	53	53	53	53	53	53	638	674	713
Dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rent on Land		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rental from Fixed Assets		209	209	209	209	209	209	209	209	209	209	209	209	2 502	2 722	2 964
Licence and permits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operational Revenue		31	31	31	31	31	31	31	31	31	31	31	31	370	388	407
Non-Exchange Revenue																
Property rates		16 949	16 949	16 949	16 949	16 949	16 949	16 949	16 949	16 949	16 949	16 949	16 949	203 391	214 985	227 239
Surcharges and Taxes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		379	379	379	379	379	379	379	379	379	379	379	379	4 550	4 609	4 671
Licences or permits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer and subsidies - Operational		14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	173 958	187 550	195 603
Interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel Levy		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operational Revenue		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains on disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Gains		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discontinued Operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contri		94 427	94 427	94 427	94 427	94 427	94 427	94 427	94 427	94 427	94 427	94 427	94 427	1 133 123	1 200 525	1 265 436
Expenditure																
Employee related costs		27 185	27 185	27 185	27 185	27 185	27 185	27 185	27 185	27 185	27 185	27 185	27 185	326 221	342 118	360 759
Remuneration of councillors		1 159	1 159	1 159	1 159	1 159	1 159	1 159	1 159	1 159	1 159	1 159	1 159	13 913	14 648	15 424
Bulk purchases - electricity		44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	531 559	559 731	589 397
Inventory consumed		6 695	6 695	6 695	6 695	6 695	6 695	6 695	6 695	6 695	6 695	6 695	6 695	80 345	84 651	89 105
Debt impairment		5 777	5 777	5 777	5 777	5 777	5 777	5 777	5 777	5 777	5 777	5 777	5 777	69 319	70 340	71 418
Depreciation and amortisation		6 888	6 888	6 888	6 888	6 888	6 888	6 888	6 888	6 888	6 888	6 888	6 888	82 660	82 365	82 740
Interest		6 105	6 105	6 105	6 105	6 105	6 105	6 105	6 105	6 105	6 105	6 105	6 105	73 256	77 771	82 011
Contracted services		10 339	10 339	10 339	10 339	10 339	10 339	10 339	10 339	10 339	10 339	10 339	10 339	124 068	121 482	122 984
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Irrecoverable debts written off		92	92	92	92	92	92	92	92	92	92	92	92	1 100	1 162	1 227
Operational costs		4 920	4 920	4 920	4 920	4 920	4 920	4 920	4 920	4 920	4 920	4 920	4 920	59 039	63 028	65 185
Losses on disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Losses		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditure		113 457	113 457	113 457	113 457	113 457	113 457	113 457	113 457	113 457	113 457	113 457	113 457	1 361 480	1 417 297	1 480 250
Surplus/(Deficit)		(19 030)	(19 030)	(19 030)	(19 030)	(19 030)	(19 030)	(19 030)	(19 030)	(19 030)	(19 030)	(19 030)	(19 030)	(228 357)	(216 772)	(214 815)

Cash Flow Statement

MP305 Lekwa - Table A7 Budgeted Cash Flows

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		372 527	96 038	198 123	153 306	150 674	150 674	150 674	159 944	169 061	178 774
Service charges		407 460	1 341 803	479 478	662 632	650 842	650 842	650 842	464 341	514 883	517 803
Other revenue		2 081	3 035	358 227	57 489	58 216	58 216	58 216	9 527	9 916	10 347
Transfers and Subsidies - Operational	1	129 547	875 443	226 364	158 754	158 754	158 754	158 754	173 958	187 550	201 579
Transfers and Subsidies - Capital	1	84 043	105 520	75 306	37 888	108 636	108 636	108 636	40 640	49 139	51 226
Interest		-	34	357	700	700	700	700	-	-	-
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Suppliers and employees		819 089	260 053	(827 967)	(1 071 823)	(1 078 992)	(1 078 992)	(1 078 992)	(1 209 107)	(1 264 179)	(1 325 660)
Interest		-	-	-	(44 306)	(76 015)	(76 015)	(76 015)	-	-	-
Transfers and Subsidies	1	-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		1 814 747	2 681 927	509 888	(45 360)	(27 186)	(27 186)	(27 186)	(360 697)	(333 631)	(365 931)
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current receivables		-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments		1 270	-	973	-	-	-	-	-	-	-
Payments											
Capital assets		(26 178)	(45 304)	(37 229)	(54 888)	(147 300)	(147 300)	(147 300)	(75 687)	(66 191)	(68 282)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(24 908)	(45 304)	(36 256)	(54 888)	(147 300)	(147 300)	(147 300)	(75 687)	(66 191)	(68 282)
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		1 789 840	2 636 623	473 632	(100 248)	(174 486)	(174 486)	(174 486)	(436 384)	(399 822)	(434 213)
Cash/cash equivalents at the year begin:	2	12 446	-	37 313	3 351	3 351	3 351	3 351	-	(436 384)	(836 206)
Cash/cash equivalents at the year end:	2	1 802 286	2 636 623	510 945	(96 897)	(171 134)	(171 134)	(171 134)	(436 384)	(836 206)	(1 270 419)

The following were taken into consideration and would require significant oversight.

- Increased revenue through revenue enhancement
- Increased collection rate from 65% to 85%
- Adequate Expenditure Management and reduction of non-essential expenditure

Monthly Cashflow Projections

MP305 Lekwa - Supporting Table SA30 Budgeted monthly cash flow

MONTHLY CASH FLOWS	Budget Year 2023/24												Medium Term Revenue and Expenditure Framework		
	July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
R thousand															
Cash Receipts By Source													1		
Property rates	13 329	13 329	13 329	13 329	13 329	13 329	13 329	13 329	13 329	13 329	13 329	13 329	159 944	169 061	178 774
Service charges - electricity revenue	28 620	28 620	28 620	28 620	28 620	28 620	28 620	28 620	28 620	28 620	28 620	28 620	343 442	362 675	382 985
Service charges - water revenue	5 237	5 237	5 237	5 237	5 237	5 237	5 237	5 237	5 237	5 237	5 237	5 237	62 843	90 901	70 079
Service charges - sanitation revenue	2 715	2 715	2 715	2 715	2 715	2 715	2 715	2 715	2 715	2 715	2 715	2 715	32 576	34 400	36 327
Service charges - refuse revenue	2 123	2 123	2 123	2 123	2 123	2 123	2 123	2 123	2 123	2 123	2 123	2 123	25 479	26 906	28 413
Rental of facilities and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest earned - external investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest earned - outstanding debtors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	292	292	292	292	292	292	292	292	292	292	292	292	3 500	3 500	3 500
Licences and permits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agency services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers and Subsidies - Operational	14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	14 496	173 958	187 550	201 579
Other revenue	502	502	502	502	502	502	502	502	502	502	502	502	6 027	6 416	6 847
Cash Receipts by Source	67 314	67 314	67 314	67 314	67 314	67 314	67 314	67 314	67 314	67 314	67 314	67 314	807 770	881 410	908 503
Other Cash Flows by Source															
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	3 387	3 387	3 387	3 387	3 387	3 387	3 387	3 387	3 387	3 387	3 387	3 387	40 640	49 139	51 226
Transfers and subsidies - capital (monetary allocations) (Nat / Prov Departm Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educ Institutions)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds on Disposal of Fixed and Intangible Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short term loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Receipts by Source	70 701	70 701	70 701	70 701	70 701	70 701	70 701	70 701	70 701	70 701	70 701	70 701	848 410	930 549	959 729
Cash Payments by Type															
Employee related costs	27 271	27 271	27 271	27 271	27 271	27 271	27 271	27 271	27 271	27 271	27 271	27 271	327 257	343 211	361 911
Remuneration of councillors	1 074	1 074	1 074	1 074	1 074	1 074	1 074	1 074	1 074	1 074	1 074	1 074	12 886	13 566	14 283
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bulk purchases - electricity	44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	44 297	531 559	559 731	589 397
Acquisitions - water & other inventory	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contracted services	11 241	11 241	11 241	11 241	11 241	11 241	11 241	11 241	11 241	11 241	11 241	11 241	134 888	134 210	135 779
Transfers and subsidies - other municipalities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers and subsidies - other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expenditure	16 876	16 876	16 876	16 876	16 876	16 876	16 876	16 876	16 876	16 876	16 876	16 876	202 518	213 461	224 290
Cash Payments by Type	100 759	100 759	100 759	100 759	100 759	100 759	100 759	100 759	100 759	100 759	100 759	100 759	1 209 107	1 264 179	1 325 660
Other Cash Flows/Payments by Type															
Capital assets	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	75 687	66 191	68 282
Repayment of borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Cash Flows/Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Payments by Type	107 066	107 066	107 066	107 066	107 066	107 066	107 066	107 066	107 066	107 066	107 066	107 066	1 284 794	1 330 371	1 393 941
NET INCREASE/(DECREASE) IN CASH HELD	(36 365)	(36 365)	(36 365)	(36 365)	(36 365)	(36 365)	(36 365)	(36 365)	(36 365)	(36 365)	(36 365)	(36 365)	(436 384)	(399 822)	(434 213)
Cash/cash equivalents at the month/year begin:		(36 365)	(72 731)	(109 096)	(145 461)	(181 827)	(218 192)	(254 557)	(290 922)	(327 288)	(363 653)	(400 018)	-	(436 384)	(836 206)
Cash/cash equivalents at the month/year end:	(36 365)	(72 731)	(109 096)	(145 461)	(181 827)	(218 192)	(254 557)	(290 922)	(327 288)	(363 653)	(400 018)	(436 384)	(436 384)	(836 206)	(1 270 419)

Overview of Government & Other Grants

Total capital grants for the 2023/24 MTREF financial year are summarised in the table below:

MP305 Lekwa - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding

Vote 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
R thousand	1										
Capital multi-year expenditure sub-total	7	–	–	–	–	–	–	–	–	–	–
Single-year expenditure to be appropriated	2	–	–	–	–	–	–	–	–	–	–
Vote 1 - Council & Executive		–	–	–	500	500	500	500	–	–	–
Vote 2 - Budget and Treasury Office		7 274	(1 513)	1 721	500	500	500	500	–	–	–
Vote 3 - Corporate Services		13 020	(5 160)	(0)	2 000	2 300	2 300	2 300	7 000	7 000	7 000
Vote 4 - Community Services		8 446	(9 921)	(11 643)	–	120	120	120	50	4 053	5 056
Vote 5 - Roads		88 012	(342 539)	20 675	13 140	35 727	35 727	35 727	10 000	20 000	25 000
Vote 6 - Planning and Development		–	–	–	–	–	–	–	–	465	850
Vote 7 - Electricity		88 314	92 334	19 827	7 000	7 000	7 000	7 000	8 500	19 674	21 376
Vote 8 - Water		106 986	24 316	1 043	17 748	11 950	11 950	11 950	30 137	6 000	–
Vote 9 - Waste Water Management		274 086	339 324	3 257	14 000	42 997	42 997	42 997	2 000	9 000	9 000
Vote 10 - Waste Management		–	–	–	–	–	–	–	18 000	–	–
Vote 11 -		–	–	–	–	–	–	–	–	–	–
Vote 12 -		–	–	–	–	–	–	–	–	–	–
Vote 13 -		–	–	–	–	–	–	–	–	–	–
Vote 14 -		–	–	–	–	–	–	–	–	–	–
Vote 15 -		–	–	–	–	–	–	–	–	–	–
Capital single-year expenditure sub-total		586 136	96 841	34 880	54 888	101 094	101 094	101 094	75 687	66 191	68 282
Total Capital Expenditure - Vote		586 136	96 841	34 880	54 888	101 094	101 094	101 094	75 687	66 191	68 282
Capital Expenditure - Functional											
Governance and administration		105 447	100 157	2 967	5 640	15 940	15 940	15 940	17 000	17 000	17 000
Executive and council		–	–	–	500	500	500	500	–	–	–
Finance and administration		105 447	100 157	2 967	5 140	15 440	15 440	15 440	17 000	17 000	17 000
Internal audit		–	–	–	–	–	–	–	–	–	–
Community and public safety		8 446	(9 921)	(11 643)	–	120	120	120	50	4 053	5 056
Community and social services		721	80	1 594	–	–	–	–	–	4 000	5 000
Sport and recreation		7 725	(10 002)	(13 237)	–	120	120	120	50	53	56
Public safety		–	–	–	–	–	–	–	–	–	–
Housing		–	–	–	–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–	–	–	–
Economic and environmental services		2 858	(449 368)	19 429	10 500	23 087	23 087	23 087	–	10 465	15 850
Planning and development		–	–	–	–	–	–	–	–	465	850
Road transport		2 858	(449 368)	19 429	10 500	23 087	23 087	23 087	–	10 000	15 000
Environmental protection		–	–	–	–	–	–	–	–	–	–
Trading services		469 385	455 973	24 128	38 748	61 947	61 947	61 947	58 637	34 674	30 376
Energy sources		88 314	92 334	19 827	7 000	7 000	7 000	7 000	8 500	19 674	21 376
Water management		106 986	24 316	1 043	17 748	11 950	11 950	11 950	30 137	6 000	–
Waste water management		274 086	339 324	3 257	14 000	42 997	42 997	42 997	2 000	9 000	9 000
Waste management		–	–	–	–	–	–	–	18 000	–	–
Other		–	–	–	–	–	–	–	–	–	–
Total Capital Expenditure - Functional	3	586 136	96 841	34 880	54 888	101 094	101 094	101 094	75 687	66 191	68 282
Funded by:											
National Government		381 255	337 565	20 646	37 888	73 436	73 436	73 436	40 637	49 139	51 226
Provincial Government		–	–	–	–	–	–	–	–	–	–
District Municipality		–	–	–	–	–	–	–	–	–	–
Transfers and subsidies - capital (monetary allocations) (Nat / Prov Departm Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educ Institutions)		–	–	–	–	–	–	–	–	–	–
Transfers recognised - capital	4	381 255	337 565	20 646	37 888	73 436	73 436	73 436	40 637	49 139	51 226
Borrowing	6	–	–	–	–	–	–	–	–	–	–
Internally generated funds	6	91 052	(335 531)	35 416	17 000	27 658	27 658	27 658	35 050	17 053	17 056
Total Capital Funding	7	472 307	2 035	56 062	54 888	101 094	101 094	101 094	75 687	66 191	68 282

Capital Projects Framework

One of the greatest challenges facing municipalities is the public perception in service delivery. Investment in municipal infrastructure is critical to sustaining growth, rehabilitating ageing infrastructure and eradicating service delivery backlogs. Therefore the capital financing strategies taken into consideration are:

- Ensure capital programme is based on priorities, programmes and projects of the IDP;
- Expedite spending on capital budget especially projects that are funded from conditional grants;
- Explore new ways to fund capital expenditure from own revenue contribution;
- Analyze feasibility and impact on operating budget before capital projects are approved

MUNICIPAL INFRASTRUCTURE PROGRAM FUNDED PROJECTS

IDP No	Project name	2023/2024 FY	2024/2025 FY	2025/2026 FY	Scope for 2023/2024 FY	Planned job opportunities for 2023/2024 FY	Ward Location	Ward/s Benefitting
MIG 01/2324	Upgrading of the Standerton Bulk Water Supply System phase 3	27 952 311			Construction of Kieser Reservoir & Pressure Tower (Phase 2)	20	10	10
MIG 02/2324	Installation of VIP toilets	2 000 000	3 000 000	5 000 000	Installation of 100 VIP toilets	20	9,12 & 13	9,12 & 13
MIG 03/2324	Installation of boreholes	1 000 000	6 000 000		Installation of two boreholes	4	9,12 & 13	9,12 & 13
MIG 04/2324	Rehabilitation of 5km tarred road (Bauman Street) adjoining the R39 and R50 Provincial Roads	400 000	10 000 000	15 000 000	Design and tender documentation			
MIG 05/2324	Installation of High mast lights within Lekwa LM	400 000	4 000 000	5 000 000	Design and tender documentation			
MIG 06/2324	Fencing of Cemeteries within Lekwa LM	184 289	4 000 000	5 000 000	Design and tender documentation			
MIG 06/2324	Rehabilitation of Morgenzon landfill Site	200 000	6 000 000	4 000 000	Design and tender documentation		14	14
MIG 01/2425	Installation of Market Stalls		464 700	850 000				
	Project Management Unit	1 691 400	1 761 300	1 834 200	PMU Operational Cost			
	TOTAL	33 828 000	35 226 000	36 684 200				

INTEGRATED NATIONAL ELECTRIFICATION PROGRAM PROJECTS

IDP No	Project name	Budget		
		2023/2024 FY	2024/2025 FY	2025/2026 FY
INEP 01/2324	Upgrade of A Sub Station	7 000 000	15 674 000	16 376 000
INEP 02/2324	Construction of 11Kv, SWS at Rooikoppen (pre- Eng)	1 500 000		
	TOTAL	8 500 000	15 674 000	16 376 000

INTERNALLY FUNDED PROJETS

IDP No	Project name	Proposed Budget		
		2023/2024 FY	Scope for 2023/2024 FY	Project category
LLM 01/2324	Upgrade of the Standerton Landfill Site	18 000 000	Upgrade of the Standerton Landfill Site	Solid Waste
	TOTAL	18 000 000		

Overview of Monthly Capital Expenditure

MP305 Lekwa - Supporting Table SA29 Budgeted monthly capital expenditure (functional classification)

Description	Ref	Budget Year 2023/24												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	Nov.	Dec.	January	Feb.	March	April	May	June	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
Capital Expenditure - Functional	1															
Governance and administration		1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	17 000	17 000	17 000
Executive and council		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance and administration		1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	1 417	17 000	17 000	17 000
Internal audit		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community and public safety		4	4	4	4	4	4	4	4	4	4	4	4	50	4 053	5 056
Community and social services		-	-	-	-	-	-	-	-	-	-	-	-	-	4 000	5 000
Sport and recreation		4	4	4	4	4	4	4	4	4	4	4	4	50	53	56
Public safety		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic and environmental services		-	-	-	-	-	-	-	-	-	-	-	-	-	10 465	15 850
Planning and development		-	-	-	-	-	-	-	-	-	-	-	-	-	465	850
Road transport		-	-	-	-	-	-	-	-	-	-	-	-	-	10 000	15 000
Environmental protection		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trading services		4 886	4 886	4 886	4 886	4 886	4 886	4 886	4 886	4 886	4 886	4 886	4 886	58 637	34 674	30 376
Energy sources		708	708	708	708	708	708	708	708	708	708	708	708	8 500	19 674	21 376
Water management		2 511	2 511	2 511	2 511	2 511	2 511	2 511	2 511	2 511	2 511	2 511	2 511	30 137	6 000	-
Waste water management		167	167	167	167	167	167	167	167	167	167	167	167	2 000	9 000	9 000
Waste management		1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500	18 000	-	-
Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Capital Expenditure - Functional	2	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	75 687	66 191	68 282
Funded by:																
National Government		3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	40 637	49 139	51 226
Provincial Government		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
District Municipality		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
allocations) (Nat / Prov Departm Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educ Institutions)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers recognised - capital		3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	3 386	40 637	49 139	51 226
Borrowing		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Internally generated funds		2 921	2 921	2 921	2 921	2 921	2 921	2 921	2 921	2 921	2 921	2 921	2 921	35 050	17 053	17 056
Total Capital Funding		6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	6 307	75 687	66 191	68 282

Overview of Budget Process

Political Oversight of Budget Process

The concept of political oversight over the budget process is an important one and it is the key to ensuring that strategy informs the budget.

The political oversight role of the Mayor is contained in Section 53 (1)(a) and (b) of the Municipal Finance Management Act (MFMA). It requires that the Mayor must provide political guidance over the budget process and the priorities that guide the preparation of the budget. It further requires that the Mayor co-ordinate the revision of the IDP and the preparation of the annual budget and to determine how the IDP is to be taken into account for the purpose of the budget.

The demands on the Municipality to address service delivery backlogs and to improve service delivery to all of its citizens, within current financial resources, are challenging. Political oversight of the budget process is therefore essential to ensure that the priorities of the municipality are addressed through budget allocations.

Schedule of Key Deadlines Relating of Budget Process

One of the objectives of the budget timetable is to ensure the development/review of the IDP and the budget and also to ensure that a funded budget is tabled for consideration and approval. The timetable schedule for the compilation of the 2023/24 budget cycle was approved by council during August 2022 in compliance with the MFMA.

Process for Consultations with Stakeholder Groups and Outcomes [MFMA 21(1)(b)]

Section 22 of the MFMA requires that after tabling of the annual budget in Council, the municipality must make public the draft budget and also invite the local communities to submit representations thereon. Accordingly the tabling of the budget in the Council will be followed by the following activities:

The tabled budget document to be published on the website generally to be distributed to libraries and other municipal offices. Submission of the tabled budget to Provincial and National Treasuries. Public meetings were held in various wards and their inputs during the public consultation were considered when the budget was prepared.

RECOMMENDATION BY THE EXECUTIVE MAYOR

- (1) That the report of the Executive Mayor regarding the approval of the 2023/2024 to 2025/2026 Medium Term Revenue and Expenditure Framework (MTREF) **BE NOTED**
- (2) That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the annual budget of the municipality for the financial year 2023/24; and indicative allocations for the two projected outer years 2024/25 and 2025/26; and the multi-year capital appropriations **BE APPROVED**;
- (3) That the Operating Revenue amounting to R 1 133 127 757.62 for the 2023/24 financial year **BE APPROVED**
- (4) That the Operating Expenditure amounting to R 1 361 464 618.42 for the 2023/24 financial year **BE APPROVED**
- (5) That the Capital Expenditure amounting to R 75 686 600 for the 2023/24 financial year **BE APPROVED**
- (6) That, pending approval by NERSA, the 15% the proposed increase on electricity tariffs, for the supply of electricity accounts rendered with effect from 1 July 2023, **BE APPROVED**; Annexure “F”
- (7) That the principles and budget assumptions upon which both the Operating Budget and Capital Budget have been based **BE NOTED**; Annexure ‘A’ Budget tables
- (8) That in terms of section 24(2)(c)(i) of the Municipal Finance Management Act, 56 of 2003, and sections 74 and 75A of the Local Government Municipal Systems Act, 32 of 2000 as amended, the tariffs for the supply of water, cleansing services, sanitation services property rates and sundry tariffs as set out “Annexure B - F” **BE APPROVED** for accounts rendered with effect from 1 July 2022.
- (9) That the proposed tariffs increase of services of 5.3% as indicated in “Annexure ‘B - F” **BE PUBLISHED**;
- (10) That Adjustments to **BE MADE** on the business tariffs as well as the introduction of a new tariff for guesthouse and accommodations establishments **BE APPROVED**.
- (11) That the 2023/24 budget together with the related policies as tabled attached as Annexure G, **BE APPROVED**
- (12) That the annual salary increase of 5.4% **BE NOTED**;
- (13) That provision **BE MADE** for a 4.1% estimate increase in the salaries of councillors, of which final approval is still to be announced in terms of Public Office Bearers Act;
- (14) That Heads of Department Ensure that the revenue and expenditure of their relevant department/section is monitored regularly, and, should it be found that the estimate revenue would not be realised, the Budget and Treasury Office **BE ADVISED** accordingly in order for the revenue budget to be adjusted during the budget adjustment process;
- (15) That the following Budget Related Policies **BE APPROVED**:
 - a) Credit Control & Debt Collection Policy

- b) Supply Chain Management Policy.
- c) Property Rates Policy
- d) Tariff Policy
- e) Bad Debt Provision & Write-off Policy
- f) Budget Policy (Virement Policy)
- g) Asset Management Policy
- h) Petty Cash Policy
- i) Indigent Policy
- j) S & T Policy
- k) Banking & Cash Policy
- l) Unauthorised, Irregular & Fruitless Expenditure
- m) Cost Curtailment Austerity Policy
- n) Cell phone Policy

(16) That all Municipal Employees and Councillors **BE GIVEN** until 30 June 2023 to enter into repayment agreement for the arrears Municipal service Accounts