



**NC 094 PHOKWANE LOCAL MUNICIPALITY**  
**DRAFT BUDGET**  
**(2022/2023, 2023/2024 and 2024/2025 FINANCIAL YEAR)**

<b>REPORT</b>	<b>DRAFT BUDGET 2022/23 FINANCIAL YEAR</b>
<b>Compiled by Budget Officer</b>	<b>Sydney Rahlano</b>
<b>Signature</b>	
<b>Compilation date</b>	
<b>Reviewed by Budget Manager</b>	<b>Lesego Jasson</b>
<b>Signature</b>	
<b>Reviewed date</b>	
<b>Approved by Acting CFO</b>	<b>Tsholofelo Modisa</b>
<b>Signature</b>	
<b>Date</b>	

## **Municipal Manager's Quality Certification**

I, B Mgaguli, the Acting Municipal Manager of Phokwane Local Municipality, hereby

Certify that-

- The Draft Budget Statement Report; and
- Supporting documentation for the 2022/2023 financial year has been prepared in accordance with the Municipal Finance Management Act and regulations made under that Act.

Print name: BUSISIWE MGAGULI

Acting Municipal Manager of Phokwane Local Municipality

Signature: .....

Date: 29 March 2022

# **DRAFT BUDGET: 2022/23 FINANCIAL YEAR AND FORECASTS 2023/24 AND 2024/25.**

## **REPORT from the Municipal Manager**

### **Purpose:**

For Council to:

- ❖ Approve the draft Operating, Capital and Personnel Budgets for the 2022/2023 financial year and MTREF in terms of Section 16(2) of the Municipal Finance Management Act (Act No. 56 of 2003) as amended;
- ❖ Recommend the consideration of the information required under Section 17(3) of the Local Government: Municipal Finance Management Act (Act No. 56 of 2003) as amended; and
- ❖ Approve the 2022/2023 draft budget and be taken for public consultation in April/ May 2022.

### **Background:**

The capital, operational and personnel budgets of council for the upcoming financial year 2022/23 have been compiled and are submitted herewith for discussion. In addition forecasts of the requirements for the following two financial years have been made and are provided for consideration.

The following macro-economic forecasts were taken into consideration when preparing the table budget for 2022/23 budget year and MTREF.

### **Macroeconomic performance and projections, 2020-2025**

Fiscal year	2020/21 Actual	2021/22 Estimate	2022/23	2023/24	2024/25
CPI Inflation	2.9%	4.5%	4.8%	4.4%	4.5%

## **Discussion:**

### **Part 1**

#### **Executive summary:**

The draft operational Budget for the 2022/23 financial year is based and benchmarked on the operational budget for the 2021/22 financial year. The draft budget has been prepared in terms of National Treasury Format. The estimated CPI for 2021/22 financial year is 4.5% and it is expected to increase in the coming budget year of 2022/23 to 4.8% this information is extracted from the STATS SA CPI index and the MFMA Circular No. 115 of the National Treasury.

The draft budget deals with the operating budget and tariff proposals as well as the capital budget and funding sources to ensure that Phokwane local municipality is rendering services to their local community in a financially sustainable manner. The application of sound financial management principle is compilation of Phokwane's long term financial plan is important and important to ensure that the municipality remains financial viable and that municipal services are provided sustainable. The process of developing a draft are guided by strategic plans and operational priorities of Integrated Development Plan as well as the MTREF that sets out the expected annual revenue and the projected expenditure for the budget year under review and the two outer years.

The municipality is currently implementing Financial Recovery Plan which seeks to improve the financial position, service delivery and governance. Although there is no significant improvement since implementation of the Financial Recovery Plan due to no senior management which are critical position, unstable politics and financial challenges.

National Treasury issued MFMA circular No.115. The circular give guidance or focuses on 2022/23 Budget process, treasury grants allocations, Municipal Standard of Chart Accounts (Mscoa), maximising revenue base on municipalities, funding choices, employee related cost and remuneration of councillors, Eskom tariffs and bulk purchases, and submission of the budget to National and Provincial Treasury.

**Main Challenges experienced** during the compilation of the 2022/23 MTREF can be summarised as follows:

- ❖ Weak economic performance and revenue shortfalls.
- ❖ High unemployment rate within Phokwane Municipality.
- ❖ Difficulty in implementing credit control policy due to community resistance.
- ❖ Increase in repairs and maintenance cost of infrastructure assets of the municipality.
- ❖ Maintaining a positive cash flow and a funded budget.
- ❖ Lack of reliable supply of municipal services. E.g Electricity and water supply and removal of refusal
- ❖ Infrastructure (water, roads and sewerage) that has aged.
- ❖ A huge backlog with electricity connections, access to piped water and hygienic toilets and increasing informal dwellings.
- ❖ Increasing in employees related cost due to overtime and standby.
- ❖ Slow implementation of the municipal financial recovery plan as a result of financial constraints.
- ❖ High price of fuel (due to the war between Russia and Ukraine) which also affect South Africa economy.

The above mentioned challenges will continue to put more pressure on the revenue of the municipality, hence it is important that the implementation of the Municipal Financial Recovery Plan is given a high priority and fast track. Spending on non- essential items must be eliminated and also reduce and limit spending on non-priority expenditure.

The municipality tariff increase is linked to inflation. This was done to ensure that tariff increase are at levels that reflect an appropriate balance between the affordability to poorer household and other customers while ensuring financial sustainability. And the tariffs charged on service do reflect the cost of providing the service (cost reflecting), the management of the municipality must ensure that all priorities around Phokwane are metered for electricity and water, and they are billed on actual consumption.

The draft budget for 2022/23 was prepared on a payment rate of 70%. The actual average payment rate as at the end of February 2022 was 46% and

anticipated to increase as the implementation of Municipal Financial Recovery Plan is expected to improve revenue.

**The assumptions** on which 2022/2023 budget was prepared are as follows:

- ❖ Proposed increase on tariffs be linked to inflation rate of 4.8%, except electricity tariff.
- ❖ Proposed increase on employee related cost for 2022/23 budget year is 4.8%.
- ❖ Proposed increase on electricity tariff by Eskom was 20.5 per cent in 2022/23 as per the MFMA circular No. 115. NERSA has approved a 9.6 per cent tariff increase for Eskom starting from April 2022 and this figure accounts for a 3.49 per cent increase in 2022/23
- ❖ Reduction of distribution losses on electricity and water through reduction of theft on municipal services.
- ❖ Both incremental and zero base budgeting were used.
- ❖ Revenue enhancement strategies and cost curtailment measure through implementation of Municipal Financial Recovery Plan.

## **OPERATIONAL REVENUE BUDGET FOR 2022/2023**

Table

NC094 Phokwane - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
R thousand	1										
<b>Revenue By Source</b>											
Property rates	2	25 604	27 607	27 043	40 882	40 882	40 882	20 781	43 334	45 241	47 277
Service charges - electricity revenue	2	77 313	84 850	49 456	97 416	117 416	117 416	58 596	103 637	108 197	113 066
Service charges - water revenue	2	40 128	35 389	54 932	22 177	38 177	38 177	27 437	24 744	25 833	26 996
Service charges - sanitation revenue	2	14 777	15 419	15 909	12 674	12 674	12 674	12 201	14 333	14 963	15 637
Service charges - refuse revenue	2	9 500	10 625	10 926	1 803	1 803	1 803	8 343	2 578	2 692	2 813
Rental of facilities and equipment		109	112	61	500	500	500	13	524	547	572
Interest earned - external investments		1 434	2 500	464	3 014	3 014	3 014	-	3 158	3 297	3 446
Interest earned - outstanding debtors		29 868	33 736	28 729	30 612	30 612	30 612	25 434	32 081	33 492	35 000
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		236	417	107	270	270	270	46	283	295	309
Licences and permits		2 154	1 596	1 272	-	1 800	1 800	336	-	-	-
Agency services		-	-	148	-	170	170	32	-	-	-
Transfers and subsidies		128 683	115 940	141 583	119 039	99 039	99 039	-	117 199	136 613	144 587
Other revenue	2	98	2 494	2 780	10	10	10	204	10	11	11
Gains		742	7 957	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		330 648	338 641	333 410	328 395	346 365	346 365	153 423	341 882	371 182	389 712

### **1. General**

Revenue management is fundamental to the financial sustainability and therefore municipal revenue strategy needs to be built around the following key components:

- ❖ Effective implementation of the credit control policy;
- ❖ Meter reading based on technology (usage of devices that are online linked with the billing system. And chair I'm happy to say this technology is what our municipality is using);
- ❖ Removal of illegal connections;
- ❖ Protective structure to prevent tempering and theft;
- ❖ Improve customer relation and promote culture of paying;
- ❖ Reduction on distribution losses on electricity and water;
- ❖ Indigent register management to make sure that only qualified households are benefitting from free basic services;
- ❖ Expand revenue base through implementation of valuation and all interim valuation rolls;
- ❖ Ensuring that the table budget is funded and
- ❖ Use of debt collectors to support the efforts on debt management (this model as municipality we tried to use but it didn't work as those debt collectors were not collecting much during the Administration of Mr. Ndwandwe).

The budget for 2021/22 were used as the baseline to project the revenue for the budget year and the two outer years, to ensure budget projections are realistic and can be achieved. The Municipal Financial Recovery Plan was take into consideration when determining the projected revenue.

Proposed increase on services charges and property rate are as follow:

**Table**

<b>Service description</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Property rates	4.9%	4.9%	6%	4.4%	4.5%
Electricity	8.1%	4.8%	6%	4.4%	4.5%
Water	4.9%	4.8%	6%	4.4%	4.5%
Sanitation	4.9%	4.8%	6%	4.4%	4.5%
Refuse	4.9%	4.8%	6%	4.4%	4.5%

### Assessment rate:

- ❖ The property rates will be levied on the total market value of the property in accordance with the Property Rates Policy. The proposed increase for 2022/2023 financial year is 6.00%

### Table

DRAFT PROPERTY RATES 222/2023 FINANCIAL YEAR					
CATEGORIES	MARKET VALUE	2021/22 TARIFF	6% INCREASE	2022/23 PROPOSED TARIFF	2022/23 PROPOSED BUDGET FOR PROPERTY RATES
Agriculture	6 529 357 000	0.002102128	6%	0.002228256	R 14 549 076.82
Business	729 859 000	0.01093107	6%	0.011586934	R 8 456 828.21
Industrial	247 450 000	0.01093107	6%	0.011586934	R 2 867 186.87
Mining	250 000	0.01488646	6%	0.015779648	R 3 944.91
Place of worship	63 727 000	0	6%	0	R 0.00
Private road	880 000	0	6%	0	R 0.00
Organ of state	273 269 000	0.002013311	6%	0.00213411	R 583 186.01
PBO	13 350 000	0.011451116	6%	0.012138183	R 162 044.74
PSI	40 298 000	0.002102128	6%	0.002228256	R 89 794.25
Residential	1 822 176 000	0.008408514	6%	0.008913025	R 16 241 099.95
					<b>R 42 953 161.76</b>

### Electricity:

- ❖ NERSA has approved electricity increase of 9.6% for Eskom and this figure accounts for a 3.49 per cent increase in 2022/23
- ❖ The municipality will apply for a tariff that is cost reflective which will take into account the cost of providing electricity and also technical distribution losses.

Current Tariffs 2018/19 FY		New Tariffs 2019/20 FY @6%		
<b>Domestic conventional</b>		<b>Domestic conventional</b>		
Electricity: Basic Charge	R137.95	:Basic Charge	R146.22	
0-50kwh	0.9362c/kWh	0-50 kwh	0.9362c/kWh	
51-350kwh	1.1746c/kWh	51-350kwh	1.1746c/kWh	
351-600kwh	1.7909c/kWh	351-600kwh	1.7909c/kWh	



>600kwh	1.9527 c/kWh	>600kwh	1.9527 c/kWh	
<b>Domestic Prepaid</b>		<b>Domestic Prepaid</b>		
<60 Amps	R137.95	<60 Amps	R146.22	
: Basic Charge		: Basic Charge		
0-50kwh	0.9362c/kWh	0-50 kwh	0.9362c/kWh	
51-350kwh	1.1746c/kWh	51-350kwh	1.1746c/kWh	
351-600kwh	1.6517c/kWh	351-600kwh	1.6517c/kWh	
>600kwh	1.8367c/kWh	>600kwh	1.8367c/kWh	
Commercial Pre-paid		Commercial Pre-paid		
>60 amps		>60 amps		
:Energy Charge(c/kWh)	1.9623c/kWh	:Energy Charge(c/kWh)	1.9623c/kWh	
<b>Commercial Tariffs</b>		<b>Commercial Tariffs</b>		
Electricity:		Electricity:		
Business <200 amps		Business <200 amps	R531.42	
:Basic charge	R531.42	Basic charge	1.6601c/kwh	
:Energy Charge (kwh)	1.6601c/kWh	:Energy Charge (kwh)		
Business >200amps		>200amps		
Demand Charges(R/kVA)	R197.23	Demand Charges(R/kVA)	R197.23	
(Bulk consumers)		(Bulk consumers)	R3621.72	
:Basic Charge	R3621.72	:Basic Charge	1.2484c/kWh	
:Energy Charge (kWh)	1.2484c/kWh	:Energy Charge (kWh)		
<b>Government/Schools &amp; Sport Clubs</b>				
: Basic charge	R136.41	: Basic charge	R136.41	
: Energy Charge	1.4460	: Energy Charge	1.4460	
Churches/NGO organizations				
basic charge	R136.41	Basic charge	R136.41	
energy charge	1.4513	Energy charge	1.4513	

**Water:**

The municipality water demand is high a day. The rand value increase on household and business consumers will be as follow:

**Table**

<b>WATER:</b>	<b>2018/2019</b>	<b>WATER: @6%</b>	<b>2019/2020</b>	
<b>Residential 0-6kl</b>	<b>R8.67</b>	<b>Residential 0-6kl</b>	<b>R9.19</b>	
<b>6-10kl</b>	<b>R13.24</b>	<b>6-10kl</b>	<b>R14.03</b>	
<b>10-50kl</b>	<b>R15.20</b>	<b>10-50kl</b>	<b>R16.11</b>	
<b>50-100kl</b>	<b>R17.75</b>	<b>50-100kl</b>	<b>R18.81</b>	
<b>100kl&gt;</b>	<b>R21.20</b>	<b>100kl&gt;</b>	<b>R22.47</b>	
<b>Commercial 0-6kl</b>	<b>R13.24</b>	<b>Commercial: 0-6kl</b>	<b>R14.03</b>	
<b>6-10kl</b>	<b>R15.20</b>	<b>6-10kl</b>	<b>R16.11</b>	
<b>10-50kl</b>	<b>R17.75</b>	<b>10-50kl</b>	<b>R18.81</b>	
<b>50-100kl</b>	<b>R21.20</b>	<b>50-100kl</b>	<b>R22.47</b>	
<b>100kl&gt;</b>	<b>R22.56</b>	<b>100kl&gt;</b>	<b>R23.91</b>	
<b>Schools and sport clubs: 0-6kl</b>	<b>R8.67</b>	<b>Schools and sport clubs: 0-6kl</b>	<b>R9.19</b>	
<b>6-10kl</b>	<b>R13.24</b>	<b>6-10kl</b>	<b>R14.03</b>	
<b>10-50kl</b>	<b>R15.20</b>	<b>10-50kl</b>	<b>R16.11</b>	
<b>50-100kl</b>	<b>R17.75</b>	<b>50-100kl</b>	<b>R18.81</b>	
<b>100kl&gt;</b>	<b>R21.20</b>	<b>100kl&gt;</b>	<b>R22.47</b>	
<b>NGO'S: 0-6kl</b>	<b>R0.00</b>	<b>NGO'S: 0-6kl</b>	<b>R0.00</b>	
<b>6-10kl</b>	<b>R0.00</b>	<b>6-10kl</b>	<b>R0.00</b>	
<b>10-50kl</b>	<b>R0.00</b>	<b>10-50kl</b>	<b>R0.00</b>	
<b>50-100kl</b>	<b>R0.00</b>	<b>50-100kl</b>	<b>R0.00</b>	
<b>100kl&gt;</b>	<b>R21.20</b>	<b>100kl&gt;</b>	<b>R22.47</b>	

- ❖ A 6 kl of water is free for all qualifying indigent consumers.

#### **Sewer:**

- ❖ The rand value increase on household and business consumer will be as follow:

**Table:**

SEWAGE	2021/2022	SEWAGE @6.00%	2022/2023
Residential	R131.96	Residential	R113.16
Commercial:	R233.20	Commercial:	R247.19
Vacume	R193.48	Basic per toilet per month	R205.09
Basic per basin per month	R24.45	Basic per basin per month	R25.91

#### **Refuse Removal:**

- ❖ The proposed increase in respect of refuse removal is 6.00%
- ❖ The refuse removal services tariff is mainly affected by a high labor component, the petrol price increase above the inflation and an increase in vehicle maintenance of refuse vehicles.
- ❖ The rand value increase on household and business consumer will be as follow:

**Table:**

REFUSE	2021/2022	REFUSE @6.00%	2022/2023
Residential	R80.38	Residential	R85.20
Commercial	R125.18	Commercial	R132.69
Bulk holders	R1477.56	Bulk holders	R1566.21
Schools	R63.9	Schools	R67.73

## **2. Impact on Revenue Budget:**

Revenue budget for 2022/2023 financial year amount to R341.8million and this reflects an increase of R4.5million when compared to revenue adjustment budget for 2021/2022 financial year amounting to R346.3million. The decrease is due to a decrease in some user charges such as electricity which was adjusted to R117.4million for 2021/22 and decreased to R103.6million in 2022/23

financial year, this shows a decrease variance of R13.8million. Revenue budget for outer years amounts to R371.1million for 2023/2024 and R389.7million for 2024/2025 financial years.

Description	Adjustment Budget 2021/22	Draft Budget 2022/23	Draft Budget 2023/24	Draft Budget 2024/2025
Total Operating Revenue	314 127 620	331 065 052	357 357 456	385 696 415
Total Operating Expenditure	310 528 896	324 973 087	347 611 869	371 941 149
Surplus/Deficit	3 598 724	6 091 965	9 745 587	13 755 266
Total Capital Expenditure	69 306 424	77 828 000	72 000 000	20 000 000

- a) **Property rate** budget for 2022/23 financial year amounts to R43.3million and reflects an increase when compared with the adjusted budget revenue of R40.8million and have increase variance of R500thousand.
- b) **Electricity** remains the largest source of revenue with an amount of R103.6million budgeted for 2022/23 financial year and was reduced from R117.4million. It constitute 30.3% of the revenue of the municipality
- c) Revenue from **water** budgeted for 2022/2023 amounts to R24.7million and reflect a decrease, when compared with 2021/22 adjusted budget of R38.1million. For us not anticipating much on those two user charges is for the municipality to have a funded budget.
- d) An amount of R14.3million has been budgeted for **sanitation** and will increase with an amount of R1.6million when compared with an adjusted budget of R12.7million for 2021/22. **Refuse** budget will be increased from R1.8million to R2.5million in 2022/23 financial year. The increase on these line item will be attributed from tariff increase.
- e) Revenue of **rental of facilities and equipment** will increase from R500thousand to R524thousand in 2022/23 financial year. The increase is linked to the inflation rate of 4.8%. The municipality will also engage in the process of reviewing lease contract to ensure that properties are strictly used for the purpose they have been leased out for and manage the payment agreed on for.
- f) **Interest on investment** will increase to R3.1million for 2022/23 budget as compared with the adjustment budget for 2021/22 of R3million. Increase is attributed to additional investment that will be made on call investments. This call investments account are made of funds from the grants which are withdrawn as and when a service provider for the projects needs to be paid.

g) **Interest earned on outstanding debts** has increased with an amount of R32million.

h) The **Equitable Share Grant** is an unconditional grant assisting municipalities to supplement their operating revenue for their operational requirements and to provide relief to indigent household.

The approved number to indigent as at the end of February 2022 was 2599. There were +/- 4300 application of which some were disqualified as they did not meet the requirements. The number of indigent is expected to increase to 3500 in the 2022/23 financial year and will be subsidized.

The following table reflect a subsidy per service.

**Other operational grants** include Financial Management Grant for R3.1million; municipal infrastructure grant R29.5million and INEP amount to R15million

## **OPERATIONAL EXPENDITURE BUDGET FOR 2022/2023**

Table

NC094 Phokwane - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
R thousand	1										
<b>Expenditure By Type</b>											
Employee related costs	2	85 437	84 901	78 742	94 501	96 069	96 069	60 214	101 951	106 436	111 226
Remuneration of councillors		7 845	6 340	3 466	5 085	5 085	5 085	4 550	5 329	5 564	5 814
Debt impairment	3	83 361	72 148	-	87 476	87 476	87 476	-	87 476	91 325	95 435
Depreciation & asset impairment	2	71 738	37 259	0	70 948	70 948	70 948	-	70 948	74 070	77 403
Finance charges		31 747	21 739	-	79	39	39	-	82	86	90
Bulk purchases - electricity	2	63 387	68 339	58 268	96 000	96 000	96 000	55 750	96 000	100 224	104 734
Inventory consumed	8	19 181	11 339	13 938	77 082	84 566	84 566	-	75 250	78 561	82 096
Contracted services		17 487	18 369	19 218	24 184	30 209	30 209	20 092	22 445	36 994	44 701
Transfers and subsidies		1 365	1 212	964	1 312	1 312	1 312	-	1 375	1 435	1 500
Other expenditure	4, 5	8 530	6 377	7 458	14 390	16 470	16 470	6 024	28 241	29 483	30 810
Losses		3 231	3	-	-	-	-	-	-	-	-
Total Expenditure		393 310	328 026	182 052	471 057	488 174	488 174	146 630	489 096	524 178	553 808
Surplus/(Deficit)		(62 662)	10 615	151 357	(142 661)	(141 809)	(141 809)	6 793	(147 214)	(152 996)	(164 096)

The expenditure framework for 2022/2023 MTREF is informed by:

- Unbalance budget constraints where the operating budget expenditure is exceeding operating budget revenue.

- Funding of the budget over the medium term which is informed by Section 18 of the MFMA.
- Repairs and maintenance
- Capital programme
- High petrol prices
- Bulk purchases costs for electricity and water
- Eliminating spending on non-priority items
- Cost curtailment measures
- Less financial resource towards meeting the projects as identified in the IDP.

The operational budget provides for the total operating expenditure for 2022/2023 financial year for R489million, in 2023/24 financial year R524.1million and 2024/25 financial year for R553.8million.

There is an increase of R900thousand when taking the adjustment budget for 2021/22 financial year of R488.1million into consideration and compare to the proposed budget of R489million.

Main reason for significant increase or decrease in 2022/2023 operational expenditure budget are the following:

- a) **Remuneration.** The employee element of the personnel budget amount to R101.9million 20.8% of the total expenditure budget.  
Remuneration of councillors will increase from R5.million to R5.3million when compared to the adjustment budget for 2021/22. For 2022/2023 a provision for councillors upper limits on councillors remuneration have been considered.
- b) **Bulk purchase.** Bulk purchases (Electricity and Water) will remain the same as the adjusted budget for 2021/22 as R96million. Bulk purchases constitute 19.6% of the operational expenditure budget. NERSA has approved a 9.6 per cent tariff increase for Eskom starting from April 2022 and this figure accounts for a 3.49 per cent increase in 2022/2023. Budget for bulk water purchase in 2022/2023 will increase to R45.4million.
- c) **Provision for bad debts.** For 2022/23 financial year an amount of R87.4million is provided for provision of bad debts. The calculation for

provision for doubtful debt is based on budgeted collection rate of 70% and also takes into account the revenue enhancement strategies.

- d) **Inventory consumed and contracted services.** The municipality remains committed to maintaining the infrastructure and an amount of R75.2million is provided for inventory and R22.4million for contracted services for the 2022/2023 financial year. Most of the budget on contracted services is for the following services:

- Provision of security services for the municipality – R5million
- Maintenance of the financial system –R3million
- Consultant AFS preparations –R3million
- Auditor General for audit purpose – R3million
- Legal Fees- R1.3million

Repairs and maintenance will be decrease from R13.2million to R11.2million.

- e) **Depreciation.** Provision for depreciation has been informed by the asset register. Budget appropriation on depreciation for 2022/2023 financial year amounts to R70.9million.
- f) **Transfers and subsidies.** For the 2022/2023 financial year a budget of R1.4million has been made available.
- g) **Other expenditure-** has increase form R16.4million to R28.2milion for 2022/23
- h) The overall budget for 2022/2023 financial year reflect a deficit of R147.2million, and for 2023/24 a deficit of R152.9million and R164million for 2024/2025. The deficit is mainly cause by the increase in the provision for debt impairment as a results of a low payment rate.

### **CAPITAL EXPENDITURE BUDGET**

When there is political instability in a municipality it affect the capital project. And this is one of the greatest challenges facing municipalities on the public perception on service delivery.

Hence capital investment is critical important to sustain growth, rehabilitate ageing infrastructure and eradicate service delivery backlog.

Therefore capital financing has taken into consideration the following:

- Ensure that capital programme is based on the IDP
- Expedite spending on capital projects especially on projects that are funded from conditional grants.

- Explore new ways to funds capital project from own fund.
- Maximizing of infrastructural development through utilization of all available source.

The proposed capital expenditure for the 2022/2023 financial year amounts to R196.3million; R200.2million for 2023/2024 financial year and an amount of R210.9million for 2024/2025 financial year.

This constitute a total capital expenditure framework of R607.4million over a period of three years of which R27.5million own funds, and R33.1million government grants.

The capital expenditure for 2022/2023 financial year will be funded as fellow:

Table

<b>Capital Program as per IDP</b>	<b>Amounts in R,000</b>
Municipal Infrastructure Grant (MIG)	R27 569
Integrated National Electrification Program (INEP)	R29 538
Water Service Infrastructure Grant (WSIG)	R10 000
Financial Management Grant (FMG)	R3 100
Equitable share	R126 099
Own Funding	
<b>TOTAL</b>	<b>R196 306</b>

### **CASH FLOW BUDGET**

Cash flow management and forecasting is an important step in determining whether the budget is funded over the medium term.

The projected net cash from operating activities for 2022/2023 financial year amounts to R111.7million, the projected cash used on investing activities amounts to R109.9million. For 2022/2023 financial year the municipality is expected to realise a surplus of R7.6million.

Cash flow statement (table below) clearly indicates that the budgeted cash outflow to operating activities is sufficient as it reflects a positive of R111.7million. The municipality's target for 2022/2023 financial year is to collect at least 20% of the total outstanding debt through intensifying collection strategies (using budget funding plan/ strategy).



Table: cash flow

NC094 Phokwane - Table A7 Budgeted Cash Flows											
Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
R thousand											
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		-	-	2 557	20 441	20 441	20 441	7 513	34 668	35 621	36 639
Service charges		-	-	26 409	109 117	109 117	109 117	64 050	158 769	164 556	170 734
Other revenue		-	-	907	630	630	630	17 288	817	853	892
Transfers and Subsidies - Operational	1	-	-	53 653	119 039	99 039	99 039	185	117 199	136 613	144 587
Transfers and Subsidies - Capital	1	-	-	10 218	52 626	52 626	52 626	29	54 598	63 677	66 410
Interest		-	-	-	3 014	3 014	3 014	-	3 158	3 297	3 446
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Supplies and employees		(174 841)	(177 987)	33 976	(250 085)	(250 085)	(250 085)	(51 222)	(257 507)	(274 885)	(292 290)
Finance charges		(31 747)	(21 739)	-	(1 128)	(1 128)	(1 128)	-	-	-	-
Transfers and Grants	1	(101)	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		(206 690)	(199 726)	127 720	53 655	33 655	33 655	37 842	111 702	129 732	130 417
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		-	-	(30 213)	(63 963)	(63 963)	(63 963)	(19 099)	(109 946)	(121 971)	(127 850)
NET CASH FROM/(USED) INVESTING ACTIVITIES		-	-	(30 213)	(63 963)	(63 963)	(63 963)	(19 099)	(109 946)	(121 971)	(127 850)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing		-	-	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits		-	-	639	-	-	-	784	-	-	-
Payments											
Repayment of borrowing		-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	639	-	-	-	784	-	-	-
NET INCREASE/(DECREASE) IN CASH HELD											
		(206 690)	(199 726)	98 146	(10 308)	(30 308)	(30 308)	19 527	1 756	7 760	2 566
Cash/cash equivalents at the year begin:	2	-	-	41 695	36 179	36 179	36 179	70 106	5 871	7 627	15 388
Cash/cash equivalents at the year end:	2	(206 690)	(199 726)	139 841	25 871	5 871	5 871	89 632	7 627	15 388	17 954

## **STRATEGIES TO BE ADOPTED TO FUND THE BUDGET**

The municipality has discovered that its revenue or cash challenges stems on distribution losses on electricity and water, lack of consumer awareness on the need to pay municipal services, lack of implementation of credit control policy.

Hence the implementation of revenue management and revenue enhancement strategies is paramount for the realisation of additional revenue using Financial Recovery Plan.

One of the main strategy adopted to fund the budget is to split trade creditors (Eskom and water board {Vaalharts water and Sedibeng} as its main creditors which has a huge outstanding balance) into short and long term. Debt that is more than 1 year will be amortised over a long term liabilities (long term trade creditors). This bring the balance for current liabilities low. A payment plan will be developed once the municipality meet with the creditors. It must be noted that was a payment plan with Sedibeng but was not honoured and it must be noted that currently the municipality does not have any payment plan agreement with Eskom.

The following strategies and assumption have adopted for a funded position:

- ❖ Perform a complete meter audit.
- ❖ Performing a physical verification of all services connection points.
- ❖ Perform a complete indigent verification.
- ❖ Analysing electricity and water losses and draft a loss control program.
- ❖ Intensifying cut-off on consumer not paying.
- ❖ Penalty charge on illegal connection.
- ❖ Negotiate with creditors to enter into an affordable long term repayment agreement.
- ❖ Enforce credit control and debt collection policy
- ❖ Improving the accuracy of billing
- ❖ Introduction of an incentives to people reporting illegal connection

## **PART 2:**

### **Draft Budget Related Policies for 2022/2023 Financial Year**

1. Budget Policy
2. Credit Control and Debt Collection Policy
3. Subsistence and Travel Allowance Policy
4. Tariff Policy
5. Supply Chain Policies
6. Property Rates Policy
7. Tariff Listing
8. Indigent Policy
9. Cost Containment Policy
10. Investment and Cash management Policy