



# BUDGET FUNDING PLAN - 2025/26 MTREF

## 1. Introduction

The Budget Funding Plan sets out the measures that the Municipality will take in order to achieve a funded budget over 2025/2026 to 2028/2029 MTREF.

Laingsburg Municipality understands that a realistic, credible, viable, and sustainable budget is achieved through the simultaneous alignment of projected financial performance, financial position, and cash flows. The municipality is committed to achieving this goal, but realistically, this objective can only be accomplished over multiple financial years. Therefore, the municipality proposes the funding plan as outlined below.

## 2. Legislative requirement for a funded budget

The Municipal Finance Management Act No.56 of 2003 ("MFMA") requires that a municipality's budget must be credibly funded. Section 18(1) of the MFMA states that an *"annual budget may only be funded from –*

- a) realistically anticipated revenues to be collected.*
- b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*
- c) borrowed funds, but only for the capital budget referred to in section 17(2)."*

Section 18(2) adds that *"revenue projections in the budget must be realistic, taking into account-*

- a) projected revenue for the current year based on collection levels to date; and*
- b) actual revenue collected in previous financial years."*

The Municipal Budget and Reporting Regulations ("MBRR") further clarifies in paragraph 10(1)(b) that *"the funding of an annual budget must be consistent with the trends, current and past, of actual funding collected or received."* It, further states in paragraph 10(4) that *"the cash flow budget required in terms of Schedule A must reflect all funds realistically forecast to be collected, including arrears."*

The requirement for municipal budgets to be prepared based on realistically anticipated estimates of revenue and expenditure is therefore clearly established in legislation.

### **3. Summary of why the adopted budget was found to not be funded**

The 2024/25 MTREF tabled budget adopted by Council on 27 March 2024 was assessed by the Provincial Treasury and found to not be credibly funded. The reasons for assessing the budget as unfunded were:

- The Municipality is highly dependent on traffic fines revenue. The budget assumptions indicated a collection rate of 35 per cent for municipal fines, 12 per cent for provincial fines and 25 per cent for average speed over distance fines. A combined collection rate of 20.6 per cent was calculated using the 30 June 2024 audited Annual Financial Statements as the 2023/24 AFS amount for fines revenue collection rate is doubtful.
- The Municipality indicated in the budget document a collection rate of 96 per cent for households and agriculture and 100 per cent for businesses and government institutions during 2025/26 budget year. However, based on the collection rate as per the 30 June 2024 audited financial statement the collection rate is 86.5 per cent.
- Trading Services Operating at a Deficit
- The outcome of the budget funding tool indicated an unfunded budget, with concerns raised about the credibility of the disclosed information pertaining to working capital.
- Inadequate Cash Reserves and liquidity under pressure.
- The Municipality was advised to implement cost containment measures to mitigate the impact of increased expenditure.
- The increase in contracted services of 17 per cent in 2025/26 budget year when compared to the adjustment budget is a concern as the increase continues to 52 and 122 per cent in the outer two years of the MTREF respectively.

#### 4. Changes to achieve a funded budget.

This section outlines the specific pillars that the Municipality will implement to bridge the gap between revenue and expenditure and achieve a credibly funded budget.

Positive Cash Flows from Trading Services	Ensure and confirm billing completeness and accuracy
	Develop a tariff strategy to implement cost recovery over the MTREF
	Perform a complete meter verification
	Improved debtors' management
	Broaden revenue base (services related to windfarms and contractors)
	Improved losses management

Credit Control & Collections	Installation of Smart meters (target being indigent households & Eskom areas)
	Improve and maintain the collection rate
	Roadblocks and actively pursuing traffic offenders
	Implementation of controls to prevent prescription
	Improved Indigent management

Cost Containment & Expenditure	Improved management of consultants and performing a GAP analysis
	Introduce a reduction plan in the use of consultants
	Management and reduction of operating costs, including S&T.
	Compliance with section 65 of the MFMA – Expenditure Management
	Review and strengthen the Implementation of HR policies

Grant Management	Grants to be ringfenced and cash-backed
	Grants to be invested in a 32-day call account
	Grant money to be spent in full and in terms of the conditions.

Other Matters	Clearing creditors and recognized unallocated receipts as revenue
	Demand compliance to section 23 of the PAA and AG to write-off interest
	Improved management of working capital.

## 4.1 Positive cash flows with a focus on revenue from trading services

### Short to medium term actions to improve liquidity (3-6 months)

- The revenue department's capacity faced limitations due to a prolonged absence of an accountant. However, this issue has been resolved, which will significantly aid in addressing revenue-related concerns, including internal control and potentially billing completeness. A billing completeness assessment will be conducted to ensure that all properties receive services, including those without meters.
- Quarterly rates, billing, and valuation roll reconciliation to ensure completeness of billing and correctly in terms of use. This will greatly assist in maintaining the valuation roll and enable more accurate revenue forecasting. The municipality underwent a new general valuation process to be implemented on 1 July 2024, it is important to ensure that all properties are billed and billed according to their use, with permitted use to be confirmed accordingly.
- The municipality will assess the cost reflectiveness of tariffs and develop a strategy to implement cost-reflective tariffs over the Medium-Term Revenue and Expenditure Framework (MTREF). The lack of differentiation between the base tariff and business tariffs will be addressed and phased in, with the impact becoming apparent in the outer years of the MTREF.
- Meter verification process will be conducted to ensure that the municipality is billing all properties and ensuring all consumption is being accounted for and billed in accordance with the applicable category.
- The revenue base of the municipality will include additional services to be provided to the wind farms pertaining to refuse and sewerage-related functions. The contribution of the wind farms should be maximized without discouraging future investment. The potential for electricity wheeling will also be investigated. This initiative can be extended to providing services to contractors working on the roads as well.
- Improved management of debtors will include billing being based on actual readings, exceptions being monitored, improved customer care and improved communication. A much bigger emphasis will be placed on the relationship between the municipality and the customer.
- Improved losses management will include activities such as enhanced exception reporting, facilitated by the availability of additional capacity and control measures. The municipality faces issues with a lack of meters and/or malfunctioning meters, particularly in the Matjiesfontein area. All water input into the distribution network will be measured, broken meters will be replaced, and meters will be installed where they are lacking. The municipality is committed to progressively installing Smart meters.

The item above will be supported by addressing the lack of communication between various departments that includes building control, the technical and the revenue department. Bulk meters need to be calibrated annually and the top consumers will be closely monitored to enable timeous detection of any issues.

In achieving positive cash flows and short-term liquidity, the municipality realizes the imperative nature of presenting positive net cash flows in the cash flow statement. The cash flow statement will include fixed obligations for bulk service providers and revenue will be aligned with realistically anticipated estimates for billable services, while also considering the impact of the budget funding plan on the budget assumptions.

To emphasize cash and short-term liquidity, significant effort will be directed towards restructuring the cash flows to ensure they remain positive. Additionally, to promote further sustainability, the budget funding plan will aim for an incremental increase in the municipality's cash flows, set at:

- Year 1 – At least 15 days cash on hand (dependent on the circumstances of the municipality)
- Year 2 – At least 30 days cash on hand (dependent on the circumstances of the municipality)
- Year 3 – At least 2 months cash on hand (dependent on the circumstances of the municipality)

Improved revenue management alone is insufficient to address the short-term problems; the strategy should involve a collaborative effort across all departments, with all stakeholders understanding and agreeing on the necessary actions.

#### **4.2 Realistic debtors' collection rates with incremental improvements year on year**

- Smart water and electricity meters are effective methods of credit control that will be fully utilized to the benefit of the municipality. It can address the over and above subsidized use that has contributed to the annual indigent write-off in recent years.
- To improve collection rates and indigent management, the municipality will introduce additional payment options and prioritize awareness campaigns targeting indigent individuals. Furthermore, the municipality will focus on addressing outstanding debts from top debtors and ensuring the accuracy and timeliness of all government accounts. Uncollectable debt, including prescribed debt, and indigent debt will be written off as part of the debtors cleansing process, among other activities.
- The traffic department, which had generated a significant surplus in prior years, is now regaining its full potential. This municipal function holds the highest revenue potential and is crucial for the sustainability of the municipality. Measures will be implemented to enhance the collection of fines and enforce strict control.

- The municipality will regularly follow up on all outstanding debt and take measures to collect it. The measures are aimed at ensuring that interruption will take place and no debt will be subject to prescription.

#### **4.3 Implementation of cost containment measures and a reduction of expenditure**

- The municipality will conduct a GAP Analysis beforehand, and a consultant will be appointed accordingly. The objective is to ensure that consultants are only engaged where the municipality lacks expertise, and that a transfer of skills will occur wherever possible.
- Reducing non-core expenditure - Cost containment measures will be fully implemented in line with Treasury directives and additional cost containment measures specific to the municipality. The target will be to reduce by at least 50% and planned over the MTREF as follow:
  - Year 1 – 20%
  - Year 2 – 15%
  - Year 3 – 15%
- Review and update HR policies will take place to strengthen organizational discipline and apply consequence management. This may include dealing with notch increase as discretionary and to be linked to performance management and affordability (to be supported by the implementation of the Staff Regulations).
- Manage and reduce operating expenditure without compromising the underlying asset and monitor the use of wet fuel especially with the additional demand because of load-shedding. The activity to include management of meetings, entertainment, travel and subsistence to be cut too only the essential.

#### **4.4 Creditors payment rates that ensure that all fixed obligations, including obligations for bulk purchases, are met.**

- The municipality will develop a control checklist to ensure that the legislative requirements of section 65 of the MFMA will be met. This will include expenditure to be incurred in terms of the municipal cash flow plan and timeously accounted for on the accounting system. In other words, expenditure will be recognized when incurred and not only when paid as the current practice dictates and refrain from incurring interest charges due to late payment.
- All statutory payment obligations will be timeously met with interest to be paid on overdue accounts.

- Operational expenditure will be prioritized according to service delivery demands and preventative maintenance will be considered a priority with the budget steering committee constantly monitoring the implementation of the budget and react to any potential risks and deviations.
- The SCM official will ensure that procurement will be a planned activity in terms of needs and cash flow. Value for money will be pursued with the effective, efficient, and economic approach to acquisition and demand management in the way as envisaged by section 2017 of the Constitution.

#### **4.5 Ring fencing of conditional grants and ensuring that conditional grant funding is cash backed.**

- All municipal conditional grants are cash back and this practice of ringfencing will be persisted with and constantly being monitored to ensure that the status quo remain the same.
- Grant money will be invested in a 32-day call account to ensure that the municipality capitalizes on a higher interest rate.
- A budget steering committee will be established to ensure that a procurement plan will be in place, being implemented and that grant funding is not only being spent but also will be spent within the parameters of the conditions of the applicable grant.

#### **4.6 Other measures**

- The municipality will develop an asset management and maintenance plan to ensure the optimal use of assets. The objectives are to reduce asset impairment costs, extend the economic life of assets, reduce overtime and standby associated with unreliable assets and ultimately maximize the asset performance.
- R4,381 million received and previously classified as unallocated payments will be transferred to revenue in terms of the amended accounting policy. These payments relate to traffic fines received for which provincial traffic authorities could not produce a corresponding fine. The classification of these receipts within the AFS also led to the collection rate pertaining to traffic fines being questioned and raised a question mark on the credibility of the budget assumption relating to the traffic fine collection rate and consequently debt impairment.
- The unfunded status of the budget was mainly caused by the working capital situation, with the difference between creditors and debtors playing a decisive role. The Auditor General is the single largest creditor of the municipality. The municipality will pursue the short payment of R14.2 million not refunded in terms of section 23 of the Public Audit Act and R606,000 charged in interest on an amount that was not actually due by the municipality. If offset against the amount owed

to the AG, it will almost clear the R19 million owed, with an amount of R4.8 million to be ringfenced.

## **5. Implementation plan (timelines and targets)**

An implementation plan with measurable targets (Annexure A) will be implemented, responsibility allocated and will be monitored to ensure a funded sustainable budget.

If targets are not realized, reasons must be provided to the Council and Provincial Treasury, and the Budget Funding Plan adjusted accordingly. If there is continued non-adherence or lack of commitment to the implementation of the budget funding plan, consequence management must ensue.

## **6. Monitoring**

The implementation of this plan will be monitored monthly by the Budget Steering Committee. Reports on the achievement of the targets set under the pillars will be presented to the Council on a quarterly basis and submitted to the Provincial Treasury within 10 working days after the end of each month.

## **7. Conclusion**

The municipality recognizes the importance of this funding plan and its implementation. The municipality commits to the active participation of the Budget Steering Committee to provide advice and ensure effective oversight of the plan's implementation.

Please find attached the implementation schedule that breaks down the activities, with responsible individuals allocated. This schedule will be updated to comply with the latest National Treasury reporting requirements.



## Budget Funding Plan 2024/25 MTREF – TO BE REVIEWED FOR THE 2025/26 MTREF

REPORTING ON THE IMPLEMENTATION PLAN TOWARDS A FUNDED BUDGET FOR THE PERIODS UP TO JUNE 2025										
Main Pillars	Key priority areas	Milestone/Output	Responsible	Target			Achieved Targets			Activities (To be implemented immediately)
				Short Term (July 2024 to June 2025)	Medium Term (July 2025 to June 2026)	Long Term (July 2026 to June 2027)	Short Term	Medium Term	Long Term	
1. Positive cash flows with a focus on revenue from trading services	Revenue Management	Improve sanitation revenue. Additional sewer dumping services to wind farms and several road-works projects	• CFO • Revenue Accountant • Technical Manager	Improve revenue by R400 000	Improve revenue by R120 000	Improve revenue by R120 000	Yes/No	Yes/No	Yes/No	<ul style="list-style-type: none"> <li>• Sending out billing for additional sewer dumping. Various road and alternative energy projects within the municipal jurisdiction.</li> <li>• Amounts to be paid in advance by wind farms prior to the delivery of the service. Projects mentioned are multi-year projects, extending beyond the MTREF</li> </ul>
		Improve refuse revenue. Additional sewer dumping services to wind farms and several road-works projects	• CFO • Revenue Accountant • Technical Manager	Improve revenue generation by R400 000	Improve revenue generation by R120 000	Improve revenue generation by R120 000	Yes/No	Yes/No	Yes/No	<ul style="list-style-type: none"> <li>• Sending out billing for additional refuse dumping / removal. Various road and alternative energy projects within the municipal jurisdiction.</li> <li>• Amounts to be paid in advance by wind farms prior to the delivery of the service. Projects mentioned are multi-year projects, extending beyond the MTREF</li> </ul>
		Evaluate and confirm billing completeness	• Revenue Accountant • CFO	Additional revenue potential R100 000	Additional revenue potential R110 000	Additional revenue potential R120 000	Yes/No	Yes/No	Yes/No	<ul style="list-style-type: none"> <li>• Perform a rates reconciliation on a quarterly basis and implement the new GV on 1 July 2024</li> <li>• Confirm that all services are linked to properties and billed according to the correct category. Multiple purpose not fully utilized and additions can be expected.</li> <li>• Main source of revenue will be linked to "use" and corresponding category. To lesser degree, "permitted use" (Zoning and land-use linked)</li> </ul>
		Improved management of distribution losses	• Revenue Accountant • BTO Manager • CFO • Technical Manager	Additional revenue potential R90 000	Additional revenue potential R60 000	Additional revenue potential R50 000				<ul style="list-style-type: none"> <li>• Insure that all network inputs are measured and timeously accounted for;</li> <li>• Improved exception reporting;</li> <li>• Replace faulty meters and install where there are none (Matjiesfontein);</li> <li>• Replacement meters - Smart metering (200-300 water-meters not connected)</li> </ul>
		Improved management of municipal debtors	• CFO • Revenue Accountant • Officer Credit Control	R25 000 • Impact on collection rate	R20 000	R20 000	Yes/No	Yes/No	Yes/No	<ul style="list-style-type: none"> <li>• Ensure that prescription is prevented through continuous follow-up</li> <li>• Ensure interruption and appoint contractor to deal with summoning.</li> </ul>
		Cost reflective tariff setting	• CFO • BTO Manager • Technical Manager	2% increase on billed electricity revenue	2% increase on billed revenue	2% increase on billed revenue				<ul style="list-style-type: none"> <li>• Assess the cost reflectiveness of tariffs (See to correct allocation of cost drivers)</li> <li>• Draft a strategy to phase in cost reflective tariffs</li> <li>• Nersa to reconsider inflation assumptions and need for a cost of supply study</li> <li>• If no increase in revenue - expenditure may be impacted (less)</li> </ul>
2. Realistic debtors' collection rates with incremental improvements year on year	Maintain collection on service revenue and improve collection rates on fines, penalties & forfeits	To improve the collection of revenue and working capital management of the municipality by maintaining positive cash-flows	• CFO • Officer Credit Control • Revenue Accountant	<ul style="list-style-type: none"> <li>• Improve revenue collection on fines revenue</li> <li>• Average collection on Service Charges 94%</li> <li>• Electricity collections 98.5%</li> <li>• R200 000 (Service charges)</li> </ul>	<ul style="list-style-type: none"> <li>• Improve revenue collection on fines revenue</li> <li>• Average collection on Service Charges 95%</li> <li>• Electricity collections 98.5%</li> <li>• R240 000 (Service charges)</li> </ul>	<ul style="list-style-type: none"> <li>• Improve revenue collection on fines revenue</li> <li>• Average collection on Service Charges 95%</li> <li>• Electricity collections 98.5%</li> <li>• R250 000 (Service charges)</li> </ul>	Yes/No	Yes/No	Yes/No	<ul style="list-style-type: none"> <li>• Maintain collection rates of over 93% on service charges across all service charges revenue - to be improved to 94%</li> <li>• Increase revenue and the collection of traffic fines - Municipal</li> <li>• Increase the collection of traffic fines - Provincial</li> <li>• Increase the collection of traffic fines - ASOD</li> <li>• Write-Off debt of first time indigent registrations</li> <li>• Write-Off prescribed debt and prevent prescription</li> <li>• Assess collectability of debt and target collectable debt</li> <li>• All meter replacements should be Smart pre-paid installations</li> <li>• Smart water-meters to be utilized as a method of credit control on combination with Smart electricity meters</li> <li>• Perform a benchmarking exercise on fines revenue with possibility of introducing good revenue collection practices over fines revenue, i.e. Linked payment system, Sending of SMS, Payfines, Paycity etc.</li> </ul>

**REPORTING ON THE IMPLEMENTATION PLAN TOWARDS A FUNDED BUDGET FOR THE PERIODS UP TO JUNE 2025**

Main Pillars	Key priority areas	Milestone/Output	Responsible	Target			Achieved Targets			Activities (To be implemented immediately)
				Short Term (July 2024 to June 2025)	Medium Term (July 2025 to June 2026)	Long Term (July 2026 to June 2027)	Short Term	Medium Term	Long Term	
3. Implementation of cost containment measures and a reduction of expenditure	Reduce expenditure and the cost of providing services	Reduce total operating expenditure and the cost of providing municipal services	• All HOD's	Decrease of R500k operating expenditure	Decrease of R400k operating expenditure (cumulative for the financial year)	Decrease of R400k cumulative operational expenditure on the municipal budget	Yes/No	Yes/No	Yes/No	• Reduce overtime costs (introduce stringent measures, and limit overtime to emergency overtime only)
										• Perform a cost versus benefit analysis on stand by allowances, and the introduction of shift system for traffic department.
										• Reduce computer related expenditure.
										• Implement cost containment measures contained in the council resolution of 2017
										• Perform a detailed skill assessment and audit on municipal employees parallel to review of all municipal contracts.
	Human Resource	Review and strengthen the implementation of HR policies / staff regulations.	• HR Manager • Technical Services • CFO • SCM Accountant	Reduced overtime & stand-by 2% R30k	Improved internal efficiencies - 1% reduction in employee related expenditure R25k	Improved internal efficiencies - 1% reduction in employee related expenditure R25k	Yes/No	Yes/No	Yes/No	• Review all HR policies in context of the cost containment measures; • Phased-in implementation of cost cutting measures on allowances; • Ensure completeness of HR records; • Cost containment measures implemented & reported upon; • Ensure that all policies be workshopped and well understood; and • Ensure compliance to Staff Regulations
Contract Management	Improved contract management	• HR Manager • Technical Services • CFO • SCM Accountant Contract Owners	5% Reduction on contracted and outsourced services R330k	5% Reduction on contracted and outsourced services R370k	5% Reduction on contracted and outsourced services R900k	Yes/No	Yes/No	Yes/No	• Strengthen policy for the appointment of consultants, stringent monitoring and see to value for money. • A "needs" analysis must be completed and ensure that the appointment is justifiable - Complete the GAP Analysis & Implement consultant reduction plan • Monitor performance • Skills transfer - less consultant dependent	
4. Creditors payment rates that ensure that all fixed obligations, including obligations for bulk purchases, are met	Write off trade creditors no longer meeting recognition criteria	Assess creditors legal claim to be considered a liability & differentiate between creditor and contingent liability	• CFO	• Reduce creditors • Enforce 1% rule - Section 23 of the PAA • No late payments & reduced interest charges 60%	Ensure payments of creditors are effected within 30 days of invoice receipt. Interest paid reduced by 90%	Ensure payments of creditors are effected within 30 days of invoice receipt No interest to be paid on overdue accounts.	Yes/No	Yes/No	Yes/No	• Perform a write-off exercise of creditors if regarded as not valid • Check retentions and recognise as revenue if outdated i.t.o Council policy
										• Implement SOP's over creditors and expenses as reviewed in the 2023/24 financial year
5. Ring fencing of conditional grants and ensuring that conditional grant funding is cash backed	Conditional grant funding is used only for grant related expenses	Introduce stringent cash management and bank account management controls separating operational funds from conditional funds. Realistic procurement plan	• CFO	Maintain separate banking accounts for operational and grant related expenses R10k	Maintain separate banking accounts for operational and grant related expenses R12k	Maintain separate banking accounts for operational and grant related expenses R15k	Yes/No	Yes/No	Yes/No	• Implement SOP's reviewed by NT Advisor • Improved inter-departmental communication • Improved procurement planning & investing grant money on a 32-day call account • Submit a creditable procurement plan
6. Other measures	Maximise the use and economic life of Municipal assets. Enforce legislation	An implementable repairs and maintenance plan  Obtain full allocation in terms of the PAA Reduce audit fees	• CFO • BTO Manager • Technical Manager	Reduction of R7 million in outstanding creditors	Ensure full application of the 1% audit Fee  Reduced asset impairment	Ensure full application of the 1% audit Fee  Reduced asset impairment	Yes/No	Yes/No	Yes/No	• Engage with the AG, PT & NT to get full credit of the 1% audit fee allocation of which more than R7 million was not received. • AG to write-off corresponding interest charges • Draft a R&M plan to ensure that there is no asset impairment and that the economic life of assets are extended. • Identify uneconomical assets and address

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