



FINANCIAL PLAN TEMPLATE

CITY OF MATLOSANA

TABLE OF CONTENTS

1. MAYOR'S OVERVIEW.....	3
2. EXECUTIVE SUMMARY.....	4
3. THE FINANCIAL PLAN.....	4
3.1.1 PURPOSE OF THE FINANCIAL PLAN.....	4
3.1.2 KEY FOCUS AREAS OF FINANCIAL PLAN	5
3.2.1 OPERATIONAL BUDGET.....	5
3.2.2 CAPITAL BUDGET.....	6
4. OUTSTANDING CREDITORS AND CURRENT PROVISIONS.....	6
5. OPERATIONAL BUDGET.....	7
6. OPERATION EXPENDITUE.....	10
7. CAPITAL EXPENDITURE – DELAYED PROJECTS.....	12
8. CONCLUSION.....	14

1. MAYORS OVERVIEW

City of Matlosana has for the past five (5) financial years' (2014/15 to 2020/21) experience financial difficulties resulted from unfunded budget for number of reasons. Municipality was put under section 139 administration by North West Provincial administration as a result management experience challenges in preparation of credible and funded budget. Municipality 's exposure on unrealistic anticipated revenue and unsustainable expenditure commitment were some of the reasons municipality did not have funded budgets.

To this end, Municipality current leadership have carefully considered all factors that unadorned the institution to sustainably operate and optimally provides uninterrupted services to its communities in exchange for constant payment of services. Though little has been achieved in galvanizing the communities to pay services, it is worth noting that slight improvement on revenue collection has been realized.

In terms of section 64 (1) of the Municipal Finance Management Act No 56 of 2003 amongst others requires the Accounting Officer must take all reasonable steps to ensure effective revenue collection systems. Therefore, Municipality reported low Revenue and Debt collection rate of 56 % and 0,3 % respectively particularly in 2019/2020. These unpleasant states of affairs necessitated Accounting Officer to establish Multi-Disciplinary committee to develop, advice and implement revenue management strategy in an endeavor to improve financial situation of the Municipality for service delivery provision. This was also prompted by difficulties in payment of bulk services such as Eskom and Midvaal.

Consequently, management held a strategic planning session on the 17th of March 2021 which resolved to develop Financial Recovery plan to address all challenges that are impediment for municipality to becomes financial sustainable and stabilize our liquidity position post COVID 19 Lockdown.

2. EXECUTIVE SUMMARY

City of Matlosana Municipal Management after careful consideration of a municipality financial situation over the last five financial years realized municipality have been tabling unfunded budget. It is for this reason that management provided an honest overview and observation on the status of the budget as to whether how municipal financial position can be changed and repositioned for a positive budget trajectory in an endeavor to financially improve liquidity position of the institution.

Therefore, management through its internal institutional checks and balances mechanisms took conscious decision to analyze the key contributing factors as well as the recovery and redress measures that will be implemented to get the budget gradually funded. To this end, management further elaborate on the roles that will be played by both political and administrative leadership in engaging the all the relevant key stakeholders and ensuring that all the deliverables are executed. The relevant key stakeholders include, but are not limited to;

- ❖ Residents
- ❖ Business community
- ❖ Farmers community
- ❖ Organs of state
- ❖ Creditors
- ❖ Labour component

It is for these reason that during 2021/2022 Budget engagement processes Municipality participated in an inclusive public and stakeholder's engagement in an endeavor to encourage our consumers about the important for the payment of municipal services. In conclusion City of Matlosana Management have detailed the supervisory and monitoring processes mechanism that will be played by the middle management with regards to the implementation of the Financial Plan.

3. THE FINANCIAL PLAN

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

3.1. PURPOSE OF THE FINANCIAL PLAN

The purpose of the Financial Plan is to guide the Municipality in preparing the necessary remedial and redress measures aimed at ensuring that revenue is generated and collected and such revenue is appropriated to key essential expenditure items. Thereby enabling Municipalities to execute their constitutional mandate.

3.2. KEY FOCUS AREAS OF THE FINANCIAL PLAN

Section 17(2) of the Municipal Finance Management Act states that an annual budget of a Municipality must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.

The focus of the Financial Plan will be on the operating and capital budgets of the Municipality as in compliance with Section 17(2) of the Municipal Finance Management Act. The Municipality will be expected to demonstrate how it will effectively and efficiently conduct its operations in order to realize surpluses and to ultimately re-invest the surpluses towards eradication of long outstanding creditors as well as to start building financial reserves.

3.2.1 OPERATIONAL BUDGET

Revenue generation and debt collection by management as well as retention of cash are critical measures in ensuring improved municipal financial management and maturity, with sufficient surpluses, the municipality will be in a position to settle expenditure commitments for the budget year as well as being able to reduce previous year's creditors.

In order to achieve the above, the Municipality is therefore expected to develop and monitor implementation of credible and realistic revenue raising measures in order to fund the anticipated key operational expenditure items. The crux and focus on revenue raising measures should be on addressing those factors that impedes the Municipality from achieving its revenue raising targets, factors such as the state and conditions of revenue raising assets like water and electricity meters, electricity and water distribution channels, etc. The state of the latter infrastructure assets as well as other revenue raising assets must be considered prior to the Municipality deciding and/or an estimation of possible revenue it could raise.

Revenue generation in this context is the ability by the Municipality to collect readings for services provided by the Municipality, in order to eventually issue a bill to the affected consumers. The most critical process in the Financial Plan is the ability of the Municipality to convert the revenue generation (billing) process to actual cash that the Municipality can utilize to fund the budget and provide services to the communities. It is for these reason that municipality has appointed new service provider (Mosekate Group) for Billing. These efforts will assist municipality to improve its promptness and eliminates unnecessarily inefficiencies in meter reading and billing.

Therefore, Municipality will deliver services to their respective communities and it is recognized that community members have different and sometimes, unrealistic demands that Municipality is expected to budget for. While being cognizant of the latter conundrum that Municipality find themselves in, City of Matlosana management expected to base their operational budget on what they can afford. The latter implies that operating expenditure budget of Municipality must be based on the realistically anticipated operating revenue even during difficult COVID 19 period. Municipal Budget Reporting Regulation requires Municipality to adopt unfunded budgets, based on the fact and material condition in Matlosana the 2021/2022 budgeted operating expenditure was high and unaffordable as compared with our realistic anticipated budget operating revenue.

3.2.2. CAPITAL BUDGET

City of Matlosana Capital spending is essential for the Municipality's advancement in its legislative mandate, it is therefore critical for the City to develop their capital asset base. In the past three financial years Matlosana has observed a consistent destruction of municipal infrastructure which have drastically increase insurance claims and increase burden on repairs and maintenance budget.

As already stated above, Municipality do not have sufficient capital asset base to deliver basic services to the communities, despite the fact that all Municipality tasked with functions of delivering

services to communities are allocated government grants to execute such a legislative mandate. The most contributing factor to the latter is that most Municipality have struggled to complete their infrastructure projects due unnecessarily delay by members of the communities described themselves as imaging contractors demanding 30 % stake to each and every contraction work done. Some of the reasons for non-completion of projects are amongst others that funds/grants were stopped due to slow or low capital spending.

The result of the above is that Municipality is compelled to finance the stopped funds or the misused funds to complete previous years' projects, the latter is however unachievable in most cases as the Municipality do not have surplus funds to finance the capital shortfall. It then follows that Municipalities utilize current/budget year capital allocations to fund completion of projects delayed from previous years.

The above paragraph indicates that either the previous years' incomplete projects will be unfunded or there is a budget shortfall in current year projects.

Development of infrastructure is one of the critical measures in addressing and redressing the past injustices endured by the previously marginalized people of South Africa, it is therefore important that Municipality promptly deliver these projects without fail. Municipality with delayed or incomplete projects from previous years are therefore directed to prepare the cost of completing these projects and to further develop realistic measures to complete these delayed projects.

4. Outstanding Creditors and Current Provisions

Section 65(2)(e) of the MFMA states that all money owing by the municipality must be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. The ever - increasing creditors book balance is a clear indication that Municipalities fail to honour the latter section of the MFMA. Key to this unfortunate situation is slow and poor collection of municipal revenue which is currently at averaging 68 % per month.

Financial Plans of Municipality are therefore expected to demonstrate how the creditors' book balance will eventually be eradicated through implementation of the recovery measures as well as a demonstration on how Municipalities must will ensure availability of sufficient cash reserves to fund Provisions which are due and payable at a certain point in the financial year. In this case Municipality is currently reported Trade and other payables a mounting to R 2 ,1 Billion which R800 Million and R700 Million owed to Midvaal and Eskom.

5. Operational Budget

Revenue enhancement

PRIORITY ARE	FOCUS AREA	ACTIVITY	TIME FRAME (start & end)	RESPONSIBLE PERSON	COSTS (& Source of funding)	OUTCOME	EXPECTED INFLOW
Revenue Enhancement	Billing	<ul style="list-style-type: none"> To provide amnesty to 4500 additional customers in the entire Kosh area that were never included in the municipal billing 	01/03/2022-30/06/2022	CFO	No cost	Increased Revenue	R 12 Million
		<p>Proclamation of additional 15,359 stands and properties to be billed</p> <p>Kanana Extention 5 Kanana Extention 16 Jouberton Extention 31 Jouberton Extention 34 Sunny Side Tigane Extention 7 Tigane Extention 8</p>	01/03/2022-30/06/2024	Director Choche		Increased Revenue	R8,293,860.00 (Income expected only from Basic Service Charges)

		Proclamation of additional 7,199 stands to be billed Alabama Extention 5 Kananaxtention 14 Kanana Extention 15	01/03/2022-30/06/2023	Director Choche	No cost	Increased Revenue	R3,887,118.79 (Income expected only from Basic Service Charges)
	Land	Disposal of 176 serviced/ subserviced Municipal owned land for Residential, Commercial & Industrial Developments 2 Business Stands Sold as at 10 March 2022	01/07/2021-30/06/2023	Director Choche	R2,310,000.00	Increased Revenue	R55,733,850.00 By 30 June 2023 Collected R1,426,000.00 as at 10 March 2022
	Land	Disposal of 29 serviced/ subserviced Municipal owned land for Residential, Commercial & Industrial Developments	01/07/2021-30/06/2022	Director Choche	No cost	Increased Revenue	R19 214 050 By 30 June 2022
	Disposal	Auctioning of 36 old vehicles.	01/01/2022-30/06/ 2022	CFO and Director Technical	R100 000	Increased Revenue	R1 million
Debt collection	Electricity	Procurement and Installation of Anti-Tampering boxes. 2022/23 FY 714	01/08/2022 – 30/06/2023	Director Technical Services	2022/23- R25 M	Revenue protection and improved collection	R55 million R70 million

		2023/24 1500	FY	01/07/2023 – 30/06/2024		2023/24- R55.5 M		
Electricity	Electricity losses (In Jouberton and Alabama)	<ul style="list-style-type: none"> • Audits on all bypassed meters • Energy Efficiency • Revenue improvement of Medium voltage network 		01 July 2021– 30 December 2022	Director Technical Services	R 500 000 DBSA Grant	Reduction of Electricity losses by 50 %	Saving Electricity losses by R 15 Million per annum Expected inflow due to implementation of credit control on those in arrears.
	Debt collection and Recovery	Appoint 4 Debt collectors to assist in Intensifying debt collection of R 5,6 billion debt		01/12/2021-30/06/2023	CFO	R 5 million	Reduced debtors book and improved collection	R18 million
		<ul style="list-style-type: none"> • Provide incentives scheme to customers for encouraging them to pay outstanding debt: This debt incentives applies to Residentials (70% payment of the debt and write off 30%) Business (80% payment of the debt and write off 20%). This debt incentives takes place every 2nd Quarter of the year for the next three years(2021/22- 		01/12/2021-30/06/2023	CFO	No cost	Reduced debtors book and improved collection	R50 million

		2023/24 year)	MTREF				
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6. Operating Expenditure

PRIORITY ARE	FOCUS AREA	ACTIVITY	TIME FRAME (start & end)	RESPONSIBLE PERSON	COSTS (& Source of funding)	OUTCOME	EXPECTED INFLOW
Cost Cutting measure	Indigent Support	Reduce provision of paraffin to 3 449 household that were reenergized or electrified (Skierlek 1809 household and Kanana Ext 15 1640)	01/01/2022–30/06/2022	CFO	No Cost	Reduced expenditure	R6 million savings
	Travelling and subsistence	Cutting unnecessarily travelling and accommodation (Office of the CFO and Municipal Manager have jointly issued moratorium to suspend all non-essential travelling and accommodation for the whole financial year).	01/10/2021-30/06/2022	All Managers agreement	No Cost	Reduced expenditure	R1 million savings

	Contracted Services	<p>To review operational contract to scale down their services and support on the following expenditure items:</p> <ul style="list-style-type: none"> • Hire charges - reduce printing and photocopy machine from 101 to 58 number of stand-alone high-volume devices and replace 34 desktop devices machines in order to decrease copy production and costs. • Telephone - Monitoring telephone usage and approving the reviewed telephone policy which makes provision of the budget barring telephone system costing R500 000 once off. 	<p>01/04/2022-30 /06/2023</p> <p>01/07/2022-30/06/ 2023</p>	<p>Director Corporate Support</p> <p>Director Corporate Support</p>	<p>No cost</p> <p>R500 000 once off (purchasing of the budget barring telephone system)</p>	<p>Reducing excessive spending on printing/copy almost on</p> <p>Reduced expenditure Improved productivity</p>	<p>Savings of atleast R327 655 on printing tender per month.</p> <p>R360 000 p/a saving</p>
	Repairs and maintenance	Reduce spending on Repairs and maintenance on fleet management through procurement of new 2	01/01/2022 30/06/2023	CFO and Director Technical	R12 Million	Reduced Expenditure	R 15 million savings

		refuse track during the 2021/2022 and additional 4 in 2022 to 2025 financial year and 2 each year					
		Procurement of 36 vehicle and reduce spending on Repairs and maintenance (To date 19 of the 36 have already been delivered.)	01/01/2022-30/06/2022	CFO and Director Technical	R20 Million	Reduced Expenditure	R18 million savings

7. CONCLUSION

In the mist of the difficult business environment City of Matlosana had to Development of a credible and realistic Financial Plan is a critical step towards alleviating the financial challenges that Municipalities are facing, but it is the implementation of the Financial Plan that will yield the actual expected results and demonstrate if a Municipality is on the correct path towards financial recovery.

As indicated above, the crux and the critical success factor is the monitored implementation of the Financial Plan, cognizance must be borne to the fact that the Financial Plan is a Municipality wide document which will need intense contribution and support from all units within the Municipality for it to be successfully implemented and realize the anticipated outcomes. It is on the basis on the latter that all the components Council and Administration of the Municipality must contribute towards implementation of the Financial Plan.

In order to achieve the above, the Administration must prepare a credible and realistic Financial Plan, the Financial Plan must be submitted to Provincial Treasury for review. Subsequent to review of the Financial Plan, the Administration must present the Financial Plan to the Council of the Municipality for adoption.

The Municipality must on a monthly basis, consider the status with regards to implementation of the Financial Plan. The Accounting Officer must on a monthly basis, present to a Mayor/Executive Mayor, a status with regards to implementation of the Financial Plan. The Executive Mayor must report the status with regards to implementation of the Financial Plan to Council.

The Accounting Officer must on a monthly basis, when reporting on the Section 71, report also on the status with regards to implementation of the Financial Plan.