

IMPLEMENTATION OF THE BUDGET FUNDING PLAN 2022/23: 31 JULY 2023 7/1/1- 2023/2024)
BUDGET AND TREASURY OFFICE

Ref. No	: 7/1/1 (2022/23)
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1 st Level	: Finance Portfolio Committee
2 nd Level	: Executive Committee
3 rd Level	: Council
4 th Level	: KZN Provincial Treasury

1. PURPOSE

The purpose of this report is to appraise to provide progress on the implementation of the Budget Funding Plan that was approved by Council together with the budget.

2. LEGISLATIVE FRAMEWORK

This legislative framework which this report is prepared:

- Municipal Finance Management Act 56 of 2003

3. BACKGROUND

At the beginning of the financial year, the municipality had submitted its annual budget both to National and KZN Provincial Treasury, which budget was declared as unfunded upon assessment. The assessment was such that, it will be impractical for the municipality to come up with a funded budget within one financial year. The municipality was then required to amend the Budget Funding Plan together with the original Budget, which will be implemented until such time that the budget is fully funded. The Council of Newcastle Municipality had since tabled a Revised Budget Funding Plan (RBFP) as required by Treasury. This RBFP 2023/24 was developed in response to the municipality's current financial situation and the strategies that will be applied to ensure a funded budget of the municipality within the next five years.

4. DISCUSSION

The aim of the RBFP is to ensure that the municipality continuously moves from an unfunded to a funded budget position. The plan must also ensure that the funding position is maintained even beyond the period in which the budget is projected to be funded in order to maintain a financial stability as required by MFMA Circular No.93. It is therefore imperative that a plan responds to the financial challenges that are faced by the municipality. The importance of tabling funded budgets was indicated to council before and it is also highlighted in the National Treasury circulars, however there are cases that may warrant a plan since the budget could not be funded

IMPLEMENTATION OF THE BUDGET FUNDING PLAN 2022/23: 31 JULY 2023 7/1/1- 2023/2024)
BUDGET AND TREASURY OFFICE

continuously over the Medium-Term Revenue and Expenditure Framework (MTREF) period. The Framework also emphasizes that, the council must provide Treasury with a resolution showing commitment to address the unfunded position and must be reported monthly basis.

The objective of the framework is to assist municipalities in developing a funding plan to improve unfunded budget positions. The framework focuses on five pillars in order to give effect and structure to the RBFP. Those pillars as mentioned on the framework are already part of our approved plan. As a result, our main objective is to commit to the plan and ensure financial viability and sustainability of the municipality as well as to ensure the ability of the municipality to meet its obligations in terms of the IDP and SDBIP. In order to achieve these objectives, the municipality developed strategies which are aimed at improving its budget position. These strategies have been developed by senior management of the municipality and were adopted by Council.

The following section highlight the progress on the implementation of the BFP strategies:

4.1 Increase on the collections rates for service charges and property rates

The Newcastle Municipality is planning to steadily increase collection rate over the next five years by 1% basis points and above the consumer price index (CPIX). This will be done in order to steadily achieve cost reflective tariffs over the same period. Furthermore, through an aggressive awareness campaign aimed at instilling a culture of payment within our communities, arresting water losses and the implementation consumer of incentive schemes, the collection rate is projected to steadily improve from 82% to 87% over the next five years. The steady increase in the tariffs will be implemented through the 2023/24 to 2024/25 MTREF budget. The target of 82% to 87% was not achieved at year end for 2022/2023 due to a number of challenges impacting our collection, one of those challenges being the loadshedding as consumers are always hesitant in paying for their electricity bills. The rolling out of incentive schemes and awareness campaigns for indigents and consumer education has assisted the municipality to better understand its consumers and quickly attend to the community complaints and this will also aid to increase our collection rate.

4.2 Full access to conditional grants

The municipality had planned to drive an aggressive strategy to submit business plans to ensure that its capital programme is gradually and eventually fully funded from government grants. The municipality also planned to put measures in place to ensure that all grants are fully spent. The municipality had not received any new grant in the current financial year.

IMPLEMENTATION OF THE BUDGET FUNDING PLAN 2022/23: 31 JULY 2023 7/1/1- 2023/2024)
BUDGET AND TREASURY OFFICE

4.3 Disposal of unused land and other properties.

The municipality had already identified and put a plan to service unused land for disposal, especially for commercial purposes. For some of the properties the Municipality has already adjudicated bids from the public and for some have since been awarded thorough the supply chain management system, with the transfer processes still underway. The developmental plans include, but not limited to, the upgrading of the Human Resources Development unit's building for use by University of South Africa (Unisa), servicing and disposal of land next to the Medical Precinct Centre next to Mediclinic, renting out of the office space to KZN CoGTA and review of the golf course rental. These processes are already at advanced stages. University Of South Africa has signed a lease agreement for the building and parking bays for R115 290 and R4000 per month respectively.

4.4 Delay recruitment in new positions (cost containment)

The delay in the appointment of new staff has been one of the strategies to limit monthly fixed cost. These include positions that will be exited during the six months of the financial year. However, due to the fact that the strategy is monitored we have revealed that improving employees' lives will put this municipality in a better position as well. We have also done the practical costing where it is evidenced by the variances on the employee cost S71 reports are compared. The return of the employees who were previously dismissed has had a negative impact in the implementation of this strategy as we have to back pay their last threshold in this current financial year. This strategy has not been fully practiced by the municipality as recruitment of new employees has been continuing and these has increased the strain on the salaries budget.

4.5 No commitment to new loans

One of the challenges of the Newcastle Municipality is faced with is its over-commitment on external long-term loans. In order to deal with the funding position, the municipality is not planning to take any long-term loans until a favourable funding position has been achieved. In our loan register there are loans with a balance which sums up to R3.1 Million and the plan is to pay these loans before their due date to save on interest. In the current financial year the municipality had taken no new loan.

4.6 Limit increase on non-core expenditure

The municipality had planned to enforce its cost containment policy to ensure that non-core expenditure is reduced or eliminated over the next five years. In this case, focus was given to items as indicated in the cost containment regulations and any items deemed as unnecessary by the municipality. The municipality will utilise monthly and quarterly reports to trace and monitor expenditure in these items .

IMPLEMENTATION OF THE BUDGET FUNDING PLAN 2022/23: 31 JULY 2023 7/1/1- 2023/2024)
BUDGET AND TREASURY OFFICE

4.7 Reduce internally funded capital expenditure

The municipality had planned to reduce the internally funded capital expenditure over the next five years. While it is acknowledged that this cannot be done in the current year due to commitments, internal funding is expected to be eliminated over the next five years. To supplement this, the municipality is planning to improve the submission of business plans to donor institutions to ensure that those projects that were funded internally are in future funded from grants. It is evidence from the 2023/2024 budget, that the internally funded capital budget has been reduced by R12.7million compared to 2022/2023

4.8 Improve payment of creditors

The municipality had planned to use the Finance Committee to ensure that the payment of key creditors is prioritised. These include the payment of current account and arrear debt to Eskom and uThukela Water, SARS and loan institutions. The municipality has settled its debt with Eskom and has entered into an arrangement with uThukela Water of R3 million per month for the debt of R205 million. This will assist to ensure the outstanding debt does not continue to escalate. It will also help to ensure that interest and penalties on late payment are not incurred and thereby curtailing incidences of fruitless and wasteful expenditure. To date, the municipality has also managed to pay SARS on time.

4.9 Cash-backing of provisions and reserves

One of the key challenges to the funding position of the budget is that provisions of the municipality are not fully cash backed. These include leave provision and other provisions which are required to be cash-backed in line with the Funding and Reserves Policy of Council. This strategy is hard to achieve due to the unfunded budget which makes it impossible to save while operating with an unfunded budget.

➤ **Claiming VAT Refunds from SARS**

The municipality has already appointed a Vat specialist to maximise VAT refunds that are due to the municipality. During the course of the year, it is expected that more refunds will be realised as more payment are done.

5.CONCLUSION

Proper implementation of Budget Funding Plan will help the municipality to improve its status of an unfunded budget to a funded budget and be able to improve the overall financial stability of the municipality.

6.IMPLICATIONS

6.1 LEGAL IMPLICATIONS

There are no legal implications associated with this report.

6.2 SOCIO ECONOMIC IMPLICATIONS

IMPLEMENTATION OF THE BUDGET FUNDING PLAN 2022/23: 31 JULY 2023 7/1/1- 2023/2024)
BUDGET AND TREASURY OFFICE

If not following the BFP will result in equitable share being withheld.

6.3 FINANCIAL IMPLICATIONS

Non submission and creditability may lead to equitable share being withheld.

7 RECOMMENDATIONS

7.1 That the progress report on the implementation of the Revised Budget Funding Plan for the month of July 2023 be noted,

7.2 That the progress report on the Budget Funding Plan to be submitted to the KZN Provincial Treasury

Report seen by:

DX DUBE
PORTFOLIO COUNCILLOR
BUDGET AND TREASURY OFFICE

PHZ KUBHEKA
STRATEGIC EXECUTIVE DIRECTOR:
BUDGET AND TREASURY OFFICE

Annexure A - Budget Funding Plan Reporting Template

Municipality: Newcastle Local Municipality

JULY

2023

STATUS & PERCENTAGE
Task completed: 100%

Task completed: 51% - 99%

Task completed: 1% - 50%

Task completed: 0%

Budget Funding Plan

No.	Strategy	Focus Area	Key Activities	Responsible Person	Start Date	End Date	Status & percentage	Comments regarding status and progress related to activities
1	Inflation link tariff increase and improved collection rate	Property rates	Steadily increase revenue based on CPI target	MM & CFO	2018/01/07	Continuous	85%	Task almost completed
2	Inflation link tariff increase and improved collection rate	Service charges	Steadily increase revenue based on CPI target	MM & CFO	2018/01/07	Continuous	85%	Task almost completed
3	Inflation link tariff increase and improved collection rate	Other revenue	Steadily increase revenue based on CPI target	MM & CFO	2018/01/07	Continuous	90%	Task almost completed
4	Ensure full access to all government grants	Transfers recognised - capital	Submit business plans and ensure conditional grants are fully spent	MM & CFO	2020/01/07	Continuous	70%	Task almost completed
5	Dispose unused land and other assets	Proceeds on disposal of PPE	Identify unused land for residential and business use	MM & CFO	2022/01/07	Continuous	70%	Task almost completed
6	Curb recruitment on new personnel	Employee related costs	Do not fill any non-critical positions being vacated	MM & CFO	2022/01/07	Continuous	40%	Task commenced
7	No commitment on new loans - interest	Finance charges	No new capital expenditure will be financed through external loans	MM & CFO	2020/01/07	Continuous	70%	Task almost completed
8	No commitment on new loans - capital	Repayment of borrowing	No new capital expenditure will be financed through external loans	MM & CFO	2020/01/07	Continuous	70%	Task almost completed
9	Limit exorbitant increase in non-core expenditure	Contracted services	Reduction and very minimal increase on contracted services	MM & CFO	2020/01/07	Continuous	70%	Task almost completed
10	Limit exorbitant increase in non-core expenditure	Other expenditure	Reduction and very minimal increase on other expenditure	MM & CFO	2020/01/07	Continuous	70%	Task almost completed
11	Reduce internally funded capital expenditure	Internally generated funds	Separately invest conditional grants and fast track early appointment of service providers	MM & CFO	2018/01/07	Continuous	85%	Task almost completed
12	Reduce unspent conditional grants	Unspent conditional transfers	Prioritise payment of grant related payments and clean up the grant register	MM & CFO	2018/01/07	Continuous	45%	Task commenced
13	Improve payment of creditors	Other working capital requirement	Keep up with the Eskom agreement and ensure timely payment of other creditors	MM & CFO	2020/01/07	Continuous	30%	Task almost completed
14	Ensure cash-backing of provisions	Other provisions	Build up reserves up ensuring increased cash and cash equivalents	MM & CFO	2020/01/07	Continuous	30%	Task commenced
15	Ensure cash-backing of reserves	Reserves to be cash-backed	Build up reserves up ensuring increased cash and cash equivalents	MM & CFO	2019/01/07	Continuous	45%	Task commenced
16	Claim all vat receivable from SARS	Statutory requirements	Ensure timely payment of invoices and submission of Vat returns	MM & CFO	2020/01/07	Continuous	85%	Task almost completed

Prepared by: Chief Finance Officer

Signature

Date

Prepared by: Municipal Manager

Signature

Date