

IMPLEMENTATION OF THE BUDGET FUNDING PLAN 2023/24: 31 DECEMBER 2023 7/1/1- 2023/2024)
BUDGET AND TREASURY OFFICE

Ref. No	: 7/1/1 (2023/24)
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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 adopt the Budget Funding Plan together with the Budget, which will be implemented until such time that the budget is fully funded. The Council of Newcastle Municipality had since tabled a Budget Funding Plan (BFP) as required by Treasury, which was developed in response to the municipality's current financial situation.

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 seeks to 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 continuously over the Medium-Term Revenue and Expenditure Framework (MTREF) period. The framework

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also emphasis that, the council demonstrate commitment to address the unfunded position and must report progress on a 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 as part of the BFP.

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 improve from 82% to 87% over the next five years. The steady increase in the tariffs was implemented in 2023/24 and will also be implemented to 2024/25 MTREF budget.

The current collection rate as at December 2023 is 83%. 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 has received all grants that were due per payment schedules.

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 through 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.

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No proceeds have yet been received from sale of land in the new year.

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 continues for the positions which are considered as critical.

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 has only taken an overdraft facility of R30m which will serve as bridging finance to pay salaries.

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 is applying the cost containment strategy and the Interim finance committee (IFC) to eliminate non-core expenditure.

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. Expenditure is closely monitored by the Interim finance committee.

4.8 Improve payment of creditors.

The municipality is using the Interim 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

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institutions. Requisitions also approved by the IFC before commitments to curtail costs. The municipality has settled its arrear 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.

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

None.

6.3 FINANCIAL IMPLICATIONS

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

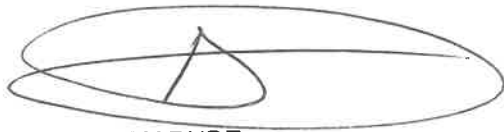
7 RECOMMENDATIONS

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

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

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DX DUBE
PORTFOLIO COUNCILLOR
BUDGET AND TREASURY OFFICE

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PHZ KUBHEKA
STRATEGIC EXECUTIVE DIRECTOR:
BUDGET AND TREASURY OFFICE