

MOPANI DISTRICT MUNICIPALITY



DRAFT BUDGET FUNDING PLAN

DRAFT

2026/2027 FINANCIAL YEAR

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1 Purpose

The objective is to ensure that the budget is funded and to prevent the municipality from facing financial distress that can lead to inability to fulfil the legal obligations and more importantly, unable to fulfil the mandate of service delivery to our respective communities.

2 Background

Mopani district municipalities have been producing budgets over the Medium Term Revenue and Expenditure Framework (MTREF) as per the requirements of the Municipal Finance Management Act No. 56 of 2003 ("MFMA"). The Provincial Treasury assessment on the approved budgets were found to be unfunded which was going to result in the National Treasury imposing punitive measures of withholding equitable share allocations in order to ensure that the municipality complies with the requirement of producing budgets that are funded.

Unfunded budgets in the municipalities results in financially distressed municipalities and municipalities that are unable to fulfil their legal obligations and more importantly, unable to fulfil their mandate of service delivery to their respective communities.

3 Legislation

Chapter 4 of the Municipal Finance Management Act No.56 of 2003 ("MFMA") deals with the drafting and adopting of municipal budgets by municipalities. 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)."
- d) Section 18(2) adds, "revenue projections in the budget must be realistic, taking into account-
 - revenue for the current year based on collection levels to date; and
 - actual revenue collected in previous financial years."

The Municipal Budget and Reporting Regulations ("MBRR") sets out standards for sound and sustainable management of the budgeting and reporting practices in municipalities. It states 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.”

4 Contents of the funding plan

4.1 Positive Cash Flows

Description	2026/2027 Financial Period		
R thousands	Budget 2026/27	Budget 2027/28	Budget 2028/29
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Other revenue	R 132 000	R 138 072	R 144 423
Government – operating	R 1 371 824	R 1 444 754	R 1 528 430
Government – capital	R 365 435	R 334 435	R 375 140
Interest	R18 000	R18 828	R19 694
Payments			
Suppliers and employees	-R 1 093 108	- R 1 230 600	-R 1,399 954
Finance charges	-R 734	-R 32 311	-R 33 962
Transfers and Grants			
NET CASH FROM/(USED) OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) other non-current receivables			
Decrease (increase) in non-current investments			

Payments			
Capital assets	-R 562 785	-R166 855	-R 32 826
NET CASH FROM/(USED) INVESTING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts	-	-	-
Payments	-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD	R 380 329	R 695 883	R 800 559
Cash/cash equivalents at the year begin:	R 18 477	R 398 806	R 1 094 690
Cash/cash equivalents at the year-end:	R 398 806	R 1 094 690	R 1 895 249

Source: Adopted Cash Flow Budget – Table A7

❑ **Cash flow from operating activities**

The municipality cash flow from operating activities shows a positive move on the outer years which indicate that the revenue enhancement strategy of the municipality must be fully implemented in order to maximise revenue. The ability to collect revenue from our customers will lead to a positive cash and cash equivalent over the medium term which will automatically lead to a sustainable and funded budget to enable the municipality to honour its debts.

Projected cash and cash equivalents in the adopted budget indicates cash increase which are indicative of the commitment to manage ballooning expenditure and increase revenue which in turn should result in an improvement in the funding of the budget. Continuous implementation of credit control policies and revenue enhancement strategy as approved by Council will be prioritised in order to maximise revenue.

4.2 Reduction in non-core expenditure

The municipality will continue to implement cost containment measures as guided by the National treasury to reduce on items like consultants, travelling, accommodation, overtime, catering and entertainment expenses. The targeted reductions are captured on the “non-expenditure” component of the Excel Annexure of this Funding Plan.

While the budget projections has been reduced on many occasion as part of achieving a funded budget, it has been noted that the problem is mainly on revenue collection and the municipality needs to do more to collect what is due to council rather than to continuously cut the budgets as this might create unauthorised expenditure or compromise service delivery.

Description	Actual 2025/2026 financial year	Budget 2026/2027 financial year	Reduction (R 'value)
Subsistence and Travel/accommodation costs	R26 250 879	R21 662 172	R4 588 707
Reliance on Consultant _Contracted Service- Accounting and Advisory(AFS preparation, Asset Management and VAT)	R12 899 333	R11 961 256	R938 077
Fuel costs	R12 035 060	R11 252 436	R782 624
Overtime payments	R25 998 807	R23 722 320	R2 276 487
Expenditure on Mayoral Imbizo/Catering ,non-essential programmes etc.	R4 620 424	R3 000 000	R1 620 424
Workshops and training	R2 809 176	R5 700 000	-R2 890 824
Total	R84 613 679	R77 298 184	R7 315 495

Other proposed reductions

- ☐ Employee related cost-Overtime on Fire and Water Services personnel
- ☐ The municipality will reduce the overtime by appointing more personnel
- ☐ Contracted services-Accounting and Auditing
- ☐ The municipality has a consultant reduction plan in place
- ☐ General Expenses-Subsistence and Travelling
- ☐ The municipality in the current financial year will minimise subsistence and travelling by holding meetings in the main office (Giyani) and/or strictly monitoring trips by municipal officials

4.3 Trade Payables

The municipality is having trade payables from exchange transactions that includes LNW, Department of Water and Sanitation, Retentions, trade creditors, bonus, accruals, leave accruals, and local municipalities. The amount owed as at 30 June 2025 is **R1 959 631 255**. This amount includes current and non-current liabilities.

As part of the debt restructuring approach in improving the budget funding status, the municipality has finalised payment arrangements with the major creditors as follows:

Creditor	Debt Owed	Proposed Annual Repayment	Debt Restructured to Long-term
Lepelle Northern Water	R 317 856 784	R 84 000 000	R233 856 784
Department of Water & Sanitation	R 385 646 858	R 36 000 000	R349 646 858
Local Municipalities	674 139 793	R40 000 000	R634 139 793

Status as at 30 June 2025

Note: The repayment agreement with the locals is still in draft format not yet finalised

☐ Dispute Resolution

A number of amounts in the creditors' book are currently in dispute and the municipality, through IGR processes is currently engaging the creditors to resolve such disputes. This should reduce the total amount owed and thus improve the funding status of the municipality.

4.4 Focus on cash and short-term liquidity

Mopani district municipality will continue to develop other sources of income to minimize municipal grant dependency

The Cash and short-term liquidity is forecast to be as follows:

- ☐ **Year 1 (2025/26)** – R65 million (15 days' cash on hand)
- ☐ **Year 2 (2026/27)** – R21 million (30 days' cash on hand)
- ☐ **Year 3 (2027/28)** – R88 million (2 months' cash on hand)

4.5 Collection Rates

The municipality collection rate (water and sanitation) is at 2% and the local municipalities not transferring money to the district municipality cause this. The amount has accumulated over a period due to lack of effective controls in revenue collection. Mopani District Municipality has since kick-start the process of taking over some of the biggest customers in the Ba-Phalaborwa local municipality. The District has also facilitated the signing of new Service Level Agreements (SLA) with all local municipalities. This should address the issues previously identified as hindrances to the District not receiving payment from locals for the water and sanitation revenue collected.

With the partial take over and the implementation of the new SLAs and exercising very stringent credit control policies, the municipality is projecting to improve the collection rate as follows:

- ☐ **Year 1** – 2025/26 the collection rate will increase by 5% from 2% to 7%
- ☐ **Year 2** – 2026/27 collection rate will increase by 8% from 7% to 15%
- ☐ **Year 3** – 2027/28 collection rate will increase by 15% from 15% to 30%

4.3 Monthly oversight

The report will be form part of the section 71 reporting to National and Provincial Treasury. The monthly implementation report (excel sheet together with the supporting evidence) will be submitted to the LG Data Portal as part of the monthly budget funding plan progress reporting.

4.6 Other Considerations

Detailed Funding Implementation Plan

Pillars	Focus Area	Activity	Objective/Purpose	Frequency	Start Date	Due Date	Responsible Designation	Supervisor	POE
Positive Cash Flow	Positive own cash at year end	Ensure municipality has positive own cash on a month to month basis (excl grants)	Financial liquidity	Monthly			Manager Expenditure	CFO	Bank Statement
Positive Cash Flow	Increasing cash flow projections in the budget	Ensure budgeted cash flow increases over the medium term	Financial Sustainability	Annually			CFO	Municipal Manager	Cash Flow Budget
Collection Rates	Debt Collection	Ensure collection of short and long term debt from creditors	Financial liquidity	Monthly			Revenue Manager	CFO	Creditors report
Collection Rates	Debt collection	Activate the Billing Module on the financial system	Financial Management	Once Off Activity			I.T. Manager	Municipal Manager	Debtors report
Reduction In Non-Core Expenditure	Reduction of Subsistence and Travel/accommodation costs	Limit of attendance of functions to core departments and maximum three	Financial Management	Monthly			Budget Manager	CFO	Expenditure Report

		delegates per department.							
Reduction In Non-Core Expenditure	Reduction of catering costs	Limit catering expenditure to meetings longer than 5 hours	Financial Management				Budget Manager	CFO	Expenditure Report
Reduction In Non-Core Expenditure	Reduction of fuel costs	Limit fuel costs to mainly core service delivery vehicles, i.e. water tankers, mayor's vehicle	Financial Management				Budget Manager	CFO	Expenditure Report
Reduction In Non-Core Expenditure	Reduction of overtime payments	Limit overtime payment to credible and necessary payments. - Corporate services develop a standard template for legitimate claims	Financial Management				Expenditure Manager	CFO	Expenditure Report

Reduction In Non-Core Expenditure	Reduction of expenditure on Mayoral Imbizo/Catering , etc.	Limit the number of funded political events to the legislated ones, i.e. public participation	Financial Management	Quarterly			Budget Manager	CFO	Expenditure Report
Reduction In Non-Core Expenditure	Reduction of expenditure on workshops and training	Reduce spending on workshops and training and use virtual platforms	Financial Management	Quarterly			Budget Manager	CFO	Expenditure Report
Reduction In Non-Core Expenditure	Reduction of expenditure on visual equipment	Municipal refrain from budgeting and spending on visual equipment and focus on service delivery related operational projects	Financial Management	Annually			Budget Manager	CFO	Adopted Budget
Reduction In Non-Core Expenditure	Reduction of reliance on consultants for core municipal functions	Reduce use of consultants on AFS compilation	Financial Management	Annually			CFO	Municipal Manager	Consultant Expenditure Report

Trade Payables	Reduction of historic debt	Negotiate affordable payment arrangements with long-term creditors	Financial liquidity	Once Off Activity			CFO	Municipal Manager	Service level agreements
Trade Payables	Reduction of historic debt	Write off common owed amounts in the inter-municipal account	Financial liquidity	Once Off Activity			CFO	Municipal Manager	Council resolution
Trade Payables	Ensure payment of creditors within 30 days of invoicing	Ensure that all valid invoices are paid within 30 days of issuing.	Financial Management	Monthly			Expenditure Manager	CFO	Creditors age analysis
Trade Payables	Ensure payment of creditors within 30 days of invoicing	Where necessary, recoup interest charged by creditors from negligent officials	Financial Management	Monthly			Expenditure Manager	CFO	
Ring Fencing of Conditional Grants	Ring Fencing of Conditional Grant Funding	Ensuring conditional grant funding is not spend outside of its conditions	Financial Management	Monthly			Expenditure Manager	CFO	Bank Statement
Ring Fencing of Conditional Grants	Ring fencing of interest on conditional grants	Ensuring that interest received on conditional grants is spent on payment of outstanding creditors (not salaries)	Financial Management	Monthly			Expenditure Manager	CFO	Bank Statement

Other	Recoup UIFW funds from responsible officials	Implement UIFW Strategy	Completeness Of Revenue	Quarterly				Municipal Manager	Council	Section 52 Report
Other	Recoup UIFW funds from responsible officials	Process recommendations of MPAC	Completeness Of Revenue	Quarterly				Municipal Manager	Council	Section 52 Report

5 Conclusion

- The municipality must develop the cash management policy. In addition to this, cash balances and cash flows must be monitored on a weekly basis.
- Periodic review of debtor's book: The municipality must do periodic review of the debtors' book in order to categorize the collectability of debt for each debtor.
- Periodic review of staff structure: The staff structure should always be geared towards the core mandate of local government as set out in the Constitution. Where a municipal budget is assessed as unfunded and unsustainable despite the reduction of non-core expenditure, as part of its IDP review, the municipality should interrogate its employee budget. Incentives should be adopted to encourage early retirement. Municipalities should avoid bloated staff structures in non-core departments.