

ANNEXURE A

RECOVERY

PLAN



KNYSNA
Municipality Munisipaliteit uMasipala

inclusive || innovative || inspired



2023/2024

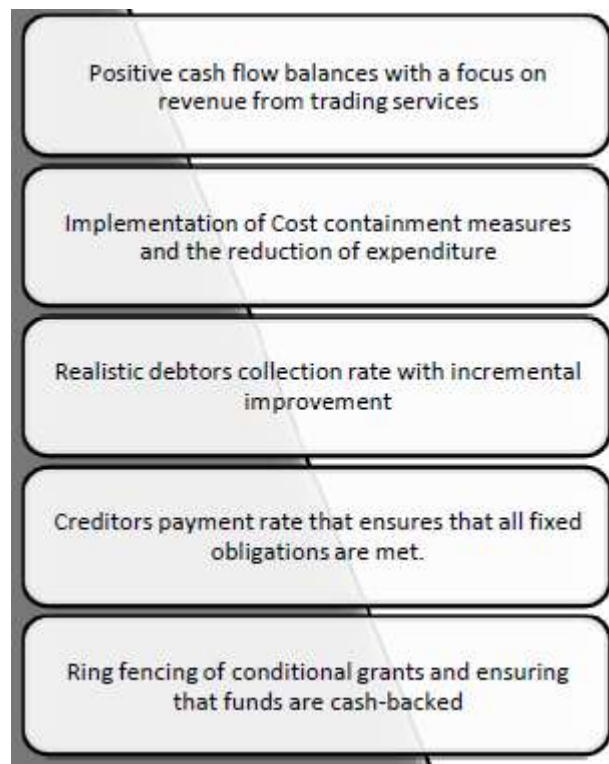
Budget Funding Plan (Draft)

March 2023



1. The Budget Funding Plan

This Budget Funding Plan sets out the measures the Municipality will take in order to achieve a funded budget. This plan will include timeframes and targets to be monitored on a monthly basis by relevant structures within the municipality. As per the guidelines provided by treasury the Municipality will make focus to the following 5 pillars:



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 Roll-over Adjusted Budget adopted by Council on 25 August 2022 was assessed by the Provincial Treasury and found to not be credibly funded. The reasons the budget was assessed to not be funded included:

- Cash and cash equivalents to be collected from the projected revenue has declined significantly from the projection in the 2022/23 Approved Budget to the first Adjustments for the 2022/23 financial year.
- The collection rate has also declined significantly since the assessment of the main budget. The collection rate used to assess the Adjusted Budget is based on pre-audited 2021/22 Annual Financial statements (AFS), which shows a collection rate for Property Rates of **89.8 per cent** and Services of **78.4 per cent**. This is a large drop from the collection rate based on the audited 2020/21 AFS for Property Rates of **96.7 per cent** and for Services of **87.3 per cent**, which was used in the assessment of the Main Budget.
- The municipality made adjustments to its operating expenditure, which is not in line with Section 28 (2)(e) of the MFMA and Regulation 23(5) of the Municipal Budget & Reporting Regulations. These changes included –
 - □ Employee related costs line item was increased by R6.8 million;
 - □ Other Expenditure line item was increased by R2.7 million; and
 - □ Transfers and Subsidies line item was increased by R1 million.
- The municipality is planning to take up additional borrowing in the current financial year to fund the capital programme. The additional borrowing increases the municipality's liability for the repayment of borrowing which adversely affects the municipality's available cash and cash equivalents and therefore in the new budget year additional borrowing is not recommended.

4. Changes to achieve a funded budget

This section outlines the specific pillars that the Municipality will implement in order to close the gap between revenue and expenditure and achieve a credible, funded budget.

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

- Revenue Management Value Chain - The focus is on revenue from trading services e.g. electricity, water, sanitation and refuse as these are revenue generating items controllable by the municipalities. In addition to this, the revenue from property rates should be maximized, where possible and for KM this has been partly achieved through a new GV to be implemented 1 July 2023 which dealt with a lot of properties previously undervalued.
- Achieving positive Cash Flows and short term liquidity - It is imperative that the cash flows in the cash flow statement show positive net cash flows. Included in the cash flows, the fixed obligations for bulk service providers must be included and revenues must be aligned to realistically anticipated estimates for billable services.
- Focus on cash and short term liquidity: Great emphasis is placed on the restructuring of the cash flows and ensuring that they are positive. To ensure further sustainability, it is proposed that the budget funding plan includes working capital and cash reserves. An incremental increase in the cash flows of the municipality that must be included in the budget funding plan.

4.2. Implementation of cost containment measures and a reduction of expenditure

- Reducing non-core expenditure - Cost containment measures must be fully implemented in line with Treasury directives and additional cost containment measures policy of the municipality could be considered and implemented by the municipality.
- The purpose is to reduce expenditure beginning with a reduction of non-core expenditure.
- This must be reduced, according to the reduction in revenue. Non-core expenditure should be reduced first and other expenditure reduced in order to achieve a positive cash position for the municipality and this should be done without compromising service delivery initiatives.

4.3. Realistic debtors' collection rates with incremental improvements year on year

- KM will deploy measures to increase revenue collection rates - Debtors collection rates should be realistically assessed as indicated above which forms the baseline for the collection rate.
- The collection rates have been determined using the past trends of actual revenue received, taking the impact of the Covid-19 pandemic on the economy into account.
- Year on year, the municipality needs to enforce stringent credit control measures and must show an incremental increase in the collection rate.
- An increased collection rate equates to an increase in revenue which then suggest that the municipality also specifically put measures in place to improve revenue management as we can only collect more if we bill more.

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

- Fixed obligations, including all current payments for bulk electricity and water purchases, must be included in the creditors' payments however for KM the municipality is up to date with this category of creditors.
- It is only the creditors payment period in overall that will need to be improved and ensure all creditors are paid within 30 days of receipt of invoice.

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

Both conditional grants and borrowing the move to ensure that the funds are cash backed, must be budgeted for and the funds must only be used for their intended purpose.

4.6. Other measures

All cost containment strategies and requirements to be implemented

5. Implementation plan (timelines and targets)

- The timelines are outlined for when each measure will be implemented and set clear targets that implementation can be measured against (See Annexure A)
- If targets are not realized, reasons will be provided to Council and Provincial Treasury and the budget funding plan adjusted accordingly. If there is continued non-adherence of the budget funding plan, consequence management will follow.

6. Monitoring

The plan is tabled in Council and it's a credible budget funding plan for the Council take ownership of the report for appropriate monitoring and reporting to be done by Council thereafter.

The implementation of this plan will be monitored monthly, with reports on the achievement of the targets set under the pillars to be reported to Council and the Provincial Treasury submitted 14 working days after the end of each month.

7. Conclusion

Reference is made to annexure A with detailed activities and timeframes that speak to the funding plan.

IMPLEMENTATION PLAN TOWARDS A FUNDED BUDGET

Main Pillars	Key priority areas	Milestone/Output	Responsible	Target			Achieved Targets			Activities (To be implemented immediately)	Status
				Short Term (July 2022 to 30 June 2023)	Medium Term (July 2023 to June 2024)	Long Term (July 2024 to June 2025)	Short Term (July 2022 to 30 June 2023)	Medium Term (July 2023 to June 2024)	Long Term (July 2024 to June 2025)		
1. Positive cash flows with a focus on revenue from trading services	Revenue Management	Improve the monthly Debt Collection Rate	Revenue Manager/ CFO	Improve Debt Collection by 10%	Improve Debt Collection by 5%	Improve Debt Collection by 5%	Yes/No	Yes/No	Yes/No	Sending out final demand letters for rates and services. And cutting of services where payment is not received. Solving all outstanding queries on business accounts to ensure payment of arrears by the respective customers. Introduce sms/whatsapp system to send out reminders. Make focus on government accounts in order to collect at least 50% of total outstanding. Revision of Debt Collection, Credit control and indigent policies.	Part of the current budget process that is underway.
		Improve Accuracy of Monthly Billing	Revenue Manager/ CFO	Improve Revenue generation by 10%	Improve Revenue generation by 15%	Improve Revenue generation by 20%				Water and Electricity meters to be recorded correctly and linked to the financial system. Ensure Accurate Monthly Meter Reading and provision of necessary resources to ensure efficiency. Thorough follow on exception reports outcomes to ensure accuracy of accounts so as to avoid unnecessary disputes. Update of the billing information regularly and timely to ensure credibility. Implementation of the improved/corrected valuation of properties.	
		Improved debtors book, replacing conventional meters to pre-paid meter (water and electricity) and Introduction of Smart Meters	CFO/Director Technical	30% of the total population	80% of the total population	100% of the total population				Replacement list be provided by Finance to technical for execution.	Process has been started with a list of more than 7000 meters sent to technical for implementation.
		Implementation of the water/electricity meter audit outcome as per DBSA revenue enhancement project	CFO/Manager Revenue	30% of the total population	80% of the total population	100% of the total population				Ensure that optimal metering and meter management is achieved through timely replacement and repairs of meters where necessary.	
		Implemenation of GV with corrected values where undervalued properties were identified.	CFO/Manager Revenue	100%	100%	100%				All undervalued properties were corrected on the 2023 GV and to be implemented in July 2023.	
		Strict expenditure control must be applied to ensure that unauthorised expenditure is avoided, and that there is no abuse of municipal funds. Unauthorised, Irregular and Fruitless and Wasteful Expenditure must be prevented. The approved Cost Containment Policy must be fully implemented.	Manager Expenditure	50% Reduced budget during May 2023	100% compliance	100% compliance				Cut back the budget of the following cost containment items: - Use of consultants - Travel and subsistence - Sponsorships, events and catering	

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2. Implementation of cost containment measures and a reduction of expenditure	Reduction of excessive expenditure	Overtime Policy to be approved by Council Implementation of Shift Systems; and	HR Manager/DCS	Approval of policy by May 2023	n/a	n/a				Council to consider all budget related policies together with the budget in May 2023	
		In-sourcing of internal audit projects to save costs	CAE/MM	none	Revision of structure	Budget for the revised structure and appointment be done					
3. Realistic debtors' collection rates with incremental improvements year on year	Credit Control	Implementation of stringent credit control measures to improve the collection rate must.	Revenue Manager/CFO	5% increase	10% increase	20% increase				Sending out final demand letters for rates and services. And cutting of services where payment is not received.	
4. Creditors payment rates that ensure that all fixed obligations, including obligations for bulk purchases, are met	Creditors management	Payment of creditors within 30 days, interest bearing invoices being a priority.	Manager Expenditure/Departments	100% Compliance	100% Compliance	100% Compliance				Strengthen controls around payment of creditors	
		Prioritisation of service delivery expenses	Manager Expenditure	100% Compliance	100% Compliance	100% Compliance				ensure timely approval of invoices	
		Improved spending of capital expenditure to avoid stopping of funds.	PMU/Director Infrastructure	100% Compliance	100% Compliance	100% Compliance				ensure cash coverage is improved	
5. Ring fencing of conditional grants and ensuring that conditional grant funding is cash backed	Grants management	All conditional grants to be cash back at all times i.e Improved Cash Management	Manager Expenditure	100% Compliance	100% Compliance	100% Compliance				The move to ensure that the funds are cash backed, must be budgeted for and the funds must only be used for their intended purpose	
		Management of the Intergrated Human Settlement grant	Director HIS	Reduction of unpaid grant by 50%	Reduction of unpaid grant by 50%	100% compliance				Reduction of Unpaid conditional grants (timely processing of claims)	
		Ensure that grants are utilised for their intended purpose, there should be no deviation from laid down conditions.	Director HIS	Reduction of unpaid grant by 50%	Reduction of unpaid grant by 50%	100% compliance					
6. Borrowings	Good Governance	All unspent borrowings to be cash back at all times i.e Improved Cash Management	Manager Compliance Reporting AFS, and	100% Compliance	100% Compliance	100% Compliance				The move to ensure that the funds are cash backed, must be budgeted for, the funds must only be used for their intended purpose, invested/ring fenced per project	

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7. Other	Good Governance	Filling of critical senior manager positions to mitigate the risk of unapproved roll-overs of conditional grants.	MM/Council	All directors positions to be filled by end of the FY	n/a	n/a				Specific Roll-over Grant applications have been rejected by both National Treasury and Provincial Treasury. A total of R 3,5 million was deducted from the Equitable Share received during December 2022. This must be avoided by making sure grants are fully spend at year end and senior management positions are filled	