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## **MUSINA LOCAL MUNICIPALITY FINANCIAL FUNDING LONG TERM PLAN (2022\_2023) (2023\_2024) (2024\_2025)**

### **1. INTRODUCTION**

Financial Management is the cornerstone of any organisation. Controls and policies must be in place to achieve sound financial management. Over the first year of the 5-year plan, financial regulations and policies must be reviewed to ensure all legal, internal control and social requirements are met. Implementing the projects included in the 5-year plan will require large capital investment, which in turn requires effective management and control.

Musina Local Municipality has recognised that credible IDP must be linked to a workable financial plan, which includes a multiyear budget.

#### **Financial Strategies Overview**

The following section sets out general financial strategies that should guide the Municipality in practicing fiscal prudence management. The financial plan would require of us to be conservative when estimating our revenues but accounting for the unforeseen when estimating our expenditure, include a general consideration, which will apply to the detailed financial resources (capital and operational) and revenue raising. Other considerations are:

- Financial Management
- Operational Financing
- Cost Effectiveness
- Financial Issues

### **2. GENERAL CONSIDERATIONS**

- ✓ Social Responsibilities



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All aspects of matters relating to financial matters will take cognizance of Council's social responsibilities including transformation and empowerment such as in Budget related policy in respect of honesty, accountability, compassion, respect and fairness in discharging the contents of those policies.

✓ Investor attraction

In order for the finance department to deliver on these strategies it is. Like the IDP, the funding action plan will be subject to a regular review and comparison of actual performance to predetermined performance measures.

3. FINANCIAL REOURCES

Financial resources which we are wholly going to be interested in tapping in coupled with available sources for both capital projects and operational purposes are as follows:

Capital Expenditure:

- National Government Funding
- Provincial Funding
- Infrastructure Funding
- Own Funding (linked with the IDP projects) because they are key drivers of socio economic activities...

Operational expenditure:

- Own Funding
- Grants

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#### 4. REVENUE RAISING(Positive Cash flow)

Musina Local Municipality main sources of revenue are from property rates, Municipal services such as electricity, refuse removal and Grants. The short-term objective of the municipality is to access all available revenue and to identify additional sources of revenue to extend Councils tax base.

- We further expecting to receive in the last year of MTREF or beginning of 2021/2022 the revenue in a tune of R50 million from Mining house(De Beers Group) when they expand their workforce to underground which will necessitate that we sell land that belongs to council
- Revenue enhancement strategy adherence and quarterly target reviews from MTREF 2020/2021
- A further estimated R30million is expected for the middle class erf/stands to be sold approximately 500 sites as Rhino Ridge project.

#### 5. FINANCIAL MANAGEMENT

It is most important that the Musina Local Municipality maintains a strong finance department an Audit Steering Committee and Internal Audit Function that will be responsible for monitoring financial and other controls. The Budget and Treasury office is committed to sound financial management and as indicated earlier the creation of a sound economic base.

Financial management policies and procedures for the entire municipality as required by legislation will have to thoroughly adhere to and maintained.

Cost containment and Financial recovery Plan is also a key plan to assist us in attaining the positive spins of taking the financial resources afloat and getting out of the quagmire we finding ourselves in.

Staff will be encouraged to adhere to value for money principles in carrying out their work. On the issue of audit reports, both internal and external measures will be put in place to ensure that any material of fundamental issues are addressed immediately. It is expected that the internal audit function will raise any material or fundamental issues before external audit. Other issues arising will be addressed accordingly. Budget and Treasury Office recognises the need to maintain a positive cash flow at all

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times and will be investigating various avenues to improve cash flow. Strong positive cash flow will result in additional revenue in the form of interest earned.

## 6. REDUCTION OF NON CORE EXPENDITURE & ASSET MANAGEMENT.

There was comprehensive and concerted effort taken by management to reduce the non-core expenditure items but not reducing the effort of provincial goals which is based on the uplifting of the lives of our people below is the key drivers which are in the explicit in the 2021/22 budget

- The drivers of expenditure which are statutory in nature are Employee cost and remuneration of councillors and Bulk Purchases and operational expenditure.
- **R 158 392 Million** is for employee related cost, inclusive of pensions, medical cost and allowances, the expected position will be like that for entire duration of medium term. With only increment be as per **CPIX** and percentage growth set by National Treasury, it is also worth noting that we have reduced the overtime related costs which was in the range of R800k and R1million per month which equates to R11.5 million so now with the introduction of capping of hours works to 40 there is a significant drop to R350K to R550k on average per month equate R6.6Million per annum a total of over 50% reduction in year 1 and expected increase in year 2 would be above 70% which further leads to proper planning and work to be budgeted for to only emergencies overtime in the last year of MTREF
- **R 12 822 Million** is budgeted for Remuneration of Councillors as per promulgated gazette on Upper Limits
- **R 42 590 Million** which is non cash item/on straight line is budgeted according to our assets register even though we are not accounting for it monthly due to system challenges however prior year trends and register depicts that position at year end, Finance charges is budgeted at **R1.7 Million** for servicing the loan debt with DBSA bi annually,
- Bulk services is budgeted at **R129 748 Million** for the repayment of current account of Eskom and transfer and grants at **R6 Million** for the purposes of free basic services.



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**R78 186 Million** for contracted services and on other expenditure is broken down as per commitments which has future budgetary implications and cut to the bone general operational expenses as listed below,

<b>Other Expenditure On Schedule A4 &amp; SA1</b>	<b>Final Budget</b>
Advertising	332,032.98
External Auditors	3,841,890.84
Commission Prepaid Electricity (Cigicell)	1,668,423.99
Operating Leases: Community Assets	14,734.00
Bank charges	490,439.54
Bursaries and Learnership	289,254.58
Entertainment	26,174.41
Fuel and oil	1,898,656.30
Insurance	6,162,806.31
Workmen's Compensation Fund	600,000.00
Licence fees - vehicles	60,802.88
Licence fees - computers	1,707,828.79
Mayor's Car wash	816.20
Mayors responsibility	66,850.19
Registration and Membership fees(Salga)	1,680,162.73
Printing and stationery	381,889.75
Communication: Postage/Stamps/Frinking Machines	297,298.26
Skills development levies	1,248,707.71
Salary Clearing Control	332,260.59
Seminars Conferences Workshops and Events: National	301,763.58
Signage	250,000.00
Telephone cost and bulk SMS	1,811,287.16
Uniform	2,002,341.96
Conference and Convention Costs	18,974.00
Travel and subsistence	5,154,620.46
Ward Committe stipends	1,578,775.36
Municipal Activities	314,947.41
<b>Contractors,Consultants and professional and outsourced Services</b>	



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Valuation costs and Township Establishment	2,941,178.95
Business and Advisory: Quality Control	3,529,123.56
Accounting and Auditing	1,391,440.50
Dumping Site	6,522,049.51
Safeguard and Security	9,000,000.00
Legal Advice and Litigation	1,536,579.98
Business and Financial Management	2,393,934.37
Drivers Licence Cards	329,343.88
Burial services	53,559.60
Maintenance of vehicles	1,017,861.17
Repairs and Maintenance - Municipal Buildings	57,670.00
Consultation Fees	1,225,394.70
Contractors: Maintenance of Equipment	4,439,091.24
Catering	298,791.99
Medical examination	3,030,740.56

## 7. TRADE PAYABLE /OPERATIONAL FINANCING AS PER 2019/2020 AFS

The plan is to fund operating expenses from normal revenue streams. It is expected that strong financial management including accurate cash forecasting will obviate the need to resort to short-term borrowings. As indicated earlier it is Budget and Treasury office intention to maintain a strong economic base through good working capital management including setting aside of adequate provisions for working capital. It is anticipated that these reserves will be based on the same principles as currently apply to contributions to existing statutory funds.

The Eskom debt was at R140 million, in our trade and payable for Budget **R 30 million** per annum for 2019/2020 financial year, 2020/21 R27.4million and for 2021/22 budgeted R29.7 million, and the agreement with Eskom has been sought, as attached.

- The debt of department of transport is at R24 Million and the agreement with Dept. is such that we allow them to collect 100% and we made commitment to pay R100 Thousands per month for a year amounting to **R1.2 million**.
- Retentions for contractor is at **R6,9 million** also budgeted for as payable
- Leave accrual 10% of the R19 million as per AFS amounting to **R1.9 million**
- Unspent conditional grants of **R 5.3 million**

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- Provision for prior debts that are due and payable within the year 19/20 amounts to **R27.9 million**
- Amounting to the total of **R73 298 million** on trade and payable for the year 2019/2020.

The other matter as reflected in the annual financial statement is that there is R540 461 Million on trade and payable, however not the entire amount found expression in the budget because with the notes below you will see items which we have no payment agreement with creditors which is explained in details hereto

- Note 14.1 amounting to **R 248 050 million** of which **R24 018 million** is for Department of transport which has a plan as mentioned above and **R224 031 million** of Vhembe district Municipality which will not be payable in the next MTRF even though they have authority over water and sanitation and the service level agreement has not been signed on who should pay who and at what frequency has not been stipulated we still have assets amounting to **R188 119 million** therefore the difference of **R32 913 million** is what is due to them, over and above that there are services that we are doing which requires our own funding e.g. repairs and maintenance, meter readings, billing, printing and stationary, electricity to pump water etc.

The negotiation are at highest level with relation to the writing off the debt. Due to facts that is impractical and improbable to make such cash exchange when there are many accounting issues that must be resolved (issues of disclosure)

- Note 14.2 We have an agreement to pay **R10 million** over 3 quarters as and when we receive equitable share.
- Note 14.3 The retention amounting to **R6.9 million** is included in the trade and payables.
- Note 14.4 Control and clearing account are the month of June and are payable at the begging of the new financial year.
- Note 14.5 Employee Benefits are **R1.9 million** which is 10% of the total as per AFS and we made provision for retirement, long service and death benefits looking at prior year actuals.

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➤ Note 14.6 Other payables

- a) Sale of stands - the value of stand which has not been concluded and registered therefore there will be no refund.
- b) Solly Noor - the amount owed is for services rendered and we have a payment agreement that whatever is charged on their services will reduce the balance.
- c) Cemetery Upgrade - This is unspent conditional grant from VDM that will be used for upgrades.
- d) Payables and Accruals - Creditors list was used to determine how much owed to creditors and Eskom and Dept. of transport were not included.
- e) Unallocated Deposits, other revenue and Advance payments have no effect on the financial position and therefore they can be cleared within the financial year.

## 8. COST EFFECTIVENESS / CASH AND SHORT TERM LIQUIDITY

In any organisation it is necessary to strive for cost effectiveness and Municipalities are no different. It is Council's intention to pursue the shared services concept wherever possible. The sharing of services **will enable the Municipality to minimize total costs on these services.**

- As planning tool for MTERF our status has not yet improved where we can afford to measure possibility to generate own funds.
- We anticipate the position to improve in the 2021/22 financial year.
- However expectations should be limited to trying to reduce prior year's debts, which includes but not limited to Eskom, Dept. Transport, AG, and suppliers in excess of over 90 days.
- In the MTERF we expect by 2 outer years to have improved the status, where we can be able to have surplus budget to be used to fund own projects.
- With that we can strive to create and have Capital Replacement Reserves(CRR)
- With CRR created over years we can be able to ring-fence it annually and utilise it specifically to fund own capital projects
- To ensure that specific needs of the municipality are met through sustainability and review of cash management Policy to recognise debtors balances as cash over a given period of time

## 9. FINANCIAL ISSUES(Collection Rate AND Strategies) to staffing and oversight



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The implementation of the funding plan requires a team effort. A team approach requires the involvement of the Council, Municipal Manager and Chief Financial Officer in implementing these funding plan strategies. It is crucial that individuals to whom the responsibilities have been allocated according to the action plan be held accountable for the outcome of these strategies. The progress made towards achieving these strategies should be measurable, and reviews quarterly and it is essential that these strategies be included in the performance appraisals of individuals.

The budgeted cash flow statement is the first measurement in determining if the budget is credible and funded or unfunded, and our budget show the expected level of cash inflow versus outflow that is likely to result from the implementation of creditors repayment plan for all the prior year debts, which does not limit us to exchange the effects thereof, with the implementation of revenue enhancement the municipality is anticipating that the cash available at year end as budget will amount to **R13.2 million, yr2 R13.5million** as we improve the status of our books and eventually R14.4 million at the end of MTREF.

As depicted above the cost to review the staff structure will remain intact and but not limited to budget organogram but warm bodies so as to allow a swift move when the need arise to either appoint either due to resignations of pension or need as it arise, of key will be that Human resources will update bi annually the age gaps and analysis to ascertain that we fill core functions holistically and across.

The cleansing of our debt book will be reviewed periodically as such noting and dealing with irrecoverable debts swiftly

The oversight role will be implemented as we do our sec 52 reports which will be culmination of all sec71 reports that has been endorsed by management and portfolio committee, adherence to the repayment plans and reduction of creditors which are on 60 days age analysis will be monitored by CFO and reported to Municipal MANAGER monthly.

And the funding plan as a living document will be assessed through the service delivery plan and by monitoring adherence to the council Financial Recovery PLAN and key components of expenditure linked to revenue enhancement strategy.

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## PROGRESS REPORT

### 1. ESKOM ACCOUNT

The Eskom debt was at R86 million, at the beginning of the 2020/2021 financial year. The payment arrangement /agreement with ESKOM is being honoured and the outstanding balance as of 30 April 2022 equal to **R46.9 Million**. The signed agreement with ESKOM to pay **R10 Million** on each instalment received from an equitable share towards the arrear debt will see the outstanding amount settled by July 2023.

### 2. VHEMBE DISTRICT MUNICIPALITY

The net trade payable and receivable on non-exchange transactions of **R310 316 Million** in respect of Vhembe District Municipality for water-related transactions is being reviewed and the Municipality is still negotiating with Vhembe District to write off the debts.

### 3. DEPARTMENT OF TRANSPORT

The debt of department of transport is **at R12 Million** and the agreement with Dept. is such that we allow them to collect 100% and the municipality is honouring the commitment to pay R100 Thousands per month towards the debt.

### 4. MUNICIPAL BANK ACCOUNT

The municipality bank account has significantly increased and excess funds are ring fenced for the purpose that they are intended for. As at 30 April 2022 the municipal bank account reflected a positive bank balance of **R5.9 million**. Though the municipality is facing financial challenges it is doing its best to ensure that it pays its creditors within 30 days.

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## 5. MUNICIPAL INFRASTRUCTURE GRANT

The 2021/22 Allocation for MIG is **R36 988 Million**, the municipality has currently spent **R24.4.3 Million** of the total allocation as the 30 April 2022. The municipality still intends to spend 100% of its allocation by the end of the financial year.

