

**STRICTLY CONFIDENTIAL**

**EXECUTIVE SUMMARY**

**SUBMISSION TO** : Council

**DIVISION REQUESTING THE SUBMISSION** : Finance

**TITLE OF THE SUBMISSION**

**MFMA Section 16(1)&(2) – Annual budget 2021/22**

**1. SOLUTION REQUIRED**

<b>Strategy Endorsement</b>	
<b>Commercial Options</b>	
<b>Approval</b>	
<b>Information</b>	<b>X</b>

**2. PURPOSE**

To table the annual budget for the 2021/22 Multi Term Revenue and Expenditure Framework (MTREF).

**3. LEGISLATIVE BACKGROUND**

In terms of section 16 (1) and (2) of the MFMA, the council of municipality must for each financial year approve an annual budget for the municipality before the start of that financial year and in order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

**4. DISCUSSION**

**Overview of the Budget Process**

As required by section 21 (1) of the MFMA Council approved an IDP/ Budget Process Plan for the 2021/22 Financial Year in August 2020. The plan outlined schedule of key deadlines for the review of the IDP and adoption of the budget.

Various consultation processes were held with stakeholders in terms of the process plan, at public participation engagements. Furthermore, engagements were held to discuss the IDP priorities and budget formulation and implementation. Inter-alia, the municipality considered National Treasury's budget circulars, which provided guidance and assumptions.

## **Budget assumptions**

National Treasury issued MFMA/Budget Circular 108 indicating information relevant in the compilation of the 2021/22 budget. The following CPI's were used to project expenditure for the 2021/22 financial year as well as the two subsequent years:

<b>Item</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Salaries	3.9%	4.2%	4.4%
General expenditure	3.9%	4.2%	4.4%

There has been an increment of 17.8% on Bulk electricity and 5.8% increase on water and ERWAT. The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2021/22 financial year.

The said circular advises municipalities to give attention to several areas of concern, among others:

- Revenue management
- Collection of outstanding debt
- Pricing services correctly
- Under-spending on repairs and maintenance
- Spending on non-priorities

## **Overview of alignment of the Budget with the IDP**

The strategic objectives as per the draft IDP would be addressed by the budget. A reconciliation of the IDP strategic objectives and the budget are populated in the budget supporting tables SA4 (revenue), SA5 (operational expenditure) and SA6 (capital expenditure).

## **Measurable Performance Objectives and Indicators**

MFMA Circular 13, advises municipality to formulate the Service Delivery and Budget Implementation Plans (SDBIP), after adoption of the budget. The draft SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

## **5. FUNDING OF THE BUDGET**

In terms of section 18(1)(a)(b)(c) of the MFMA, an annual budget may only be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and borrowed funds, but only for the capital budget referred to in section 17(2).

### **Tariff increases**

It is well understandable that the municipality's ability to fund its operations is also based on its own generated revenue. MFMA circular 108 advises municipalities to apply cost-reflective tariffs. The following tariff increments are proposed to be affected in the 2021/22 financial year.

Assessment Rates	-	3.9%.
Electricity	-	14.59%
Water	-	5.8%
Sanitation	-	3.9%
Refuse	-	3.9%.

Other income - 3.9%.

The electricity tariff application is in line with NERSA's guidelines and as a result is approved by them.

The following are budget related policies:

- ❖ Credit Control and Debt Collection Policy
- ❖ Indigent Management Policy
- ❖ Tariff Policy
- ❖ Property Rates Policy
- ❖ Supply Chain Management Policy
- ❖ Asset Management policy
- ❖ Budget policy
- ❖ Virement policy
- ❖ Loan policy
- ❖ Grants policy
- ❖ Funds reserves policy
- ❖ Bursary Policy
- ❖ Inventory management policy
- ❖ Cash Management and payment of creditors policy
- ❖ Supply chain management policy
- ❖ Short term insurance policy
- ❖ Subsistence and travel allowance policy
- ❖ Funding and reserves policy
- ❖ Relocation policy
- ❖ Acting allowance policy
- ❖ Provision for doubtful debtors and debt write off policy
- ❖ Bursary policy
- ❖ Investments policy
- ❖ Long term financial policy

The following are the main changes when compared to the 2021-22 draft budget:

- The Capex and Opex grants increased by an amount of R1.9m and R1m respectively after the additional amounts were gazetted to the municipality the provincial government.
- Debt impairment reduced from R198.9 million to R185.6 million. This was as a result of increasing the collection rate from 76% to 78% as directed by the current collection trends.
- Bulk purchase amount for Eskom was reduced from R340 million to R320 million. The amount for Rand Water was increased from R77.5 million to R85.3 million due to the increase of 5.8%.
- R1 million has been added for forensic audit allocated to the office of the Municipal Manager.
- R500,000 added for replacement of carpets with tiles in the finance department.
- The above changes result in an operating surplus of R64,741 and the deficit after taking into consideration the capital projects amounts to R11,099,048, however this is not a cash deficit.

## Revenue

Proposed revenue for the 2021/22 financial year is as follows:

Description	Budget 2021/22 R	Budget (outer year) 2022/23 R	Budget (outer year) 2023/24 R	Weigh ting
Property rates	146,785,030	152,950,060	159,679,920	12.7
Service charges- electricity revenue	409,569,100	445,794,700	485,244,880	35.5
Service charges – Water revenue	165,120,060	172,055,150	179,625,620	14.3
Service charges – sanitation revenue	34,221,590	35,658,930	37,227,950	3.0
Service Charges refuse revenue	36,151,670	37,670,050	39,327,540	3.1
Fines	31,100,000	32,406,200	33,832,080	2.7
Interest earned outstanding debtors	37,391,710	38,962,200	40,676,560	3.2
Transfers recognized – operational	178,961,970	191,083,940	191,605,300	15.5
Transfers recognized – Capital	99,943,071	80,072,000	82,526,000	8.8
Rental of facilities and equipment	5,921,810	6,170,600	6,442,190	0.5
Other revenue	8,139,350	6,578,150	6,867,640	0.7
<b>Total</b>	<b>1,153,305,361</b>	<b>1,199,401,980</b>	<b>1,263,055,680</b>	100.0

The largest revenue items are electricity at 35.5%, grant income at 24.3% (15.5% is operational grants and 8.8% is capital grants), water sales at 14.3% and property rates at 12.7%. The three items generate 86.8% of the revenue of the municipality.

## Expenditure

Proposed expenditure for the financial year is as follows:

Description	Budget 2021/22 R	Budget (outer year) 2022/23 R	Budget (outer year) 2023/24 R	Weighting
Employee costs	221,870,389	228,929,450	238,927,600	21.2
Councillors remuneration	13,060,950	13,610,560	14,209,410	1.2
Debt Impairment	178,643,760	191,210,440	194,818,400	17.1
Depreciation	39,014,854	40,391,056	42,828,970	3.7
Finance charges	3,873,740	3,258,880	2,854,810	0.4
Bulk purchases: Electricity	320,467,500	348,989,110	380,049,100	30.6
Inventory Consumed	106,972,003	111,551,820	116,454,190	10.2
Contracted services	102,595,303	103,805,800	103,177,500	9.8
Other expenditure	60,031,720	60,963,828	63,675,428	5.8
<b>Total Expenditure</b>	<b>1,046,530,219</b>	<b>1,1102,710,944</b>	<b>1,156,995,408</b>	<b>100.0</b>

The largest expenditure items are bulk purchases at 30.6%, employee related costs at 21.2% and debt impairment at 17.1%. The three items make up 68.9% of the expenditure of the municipality. Inventory consumed is as a result of a function change in the MSCOA description on the A-schedule it includes bulk water purchases which is R85.3m and the repairs maintenance figure that amounts to R21.6m

## Capital Budget

The Capital Budget amounts to R111,106,860 and is funded as follows:

Description	Budget 2021/22 R	Weighting
National Government funded	97,356,860	88%
<i>Lesedi L.M. (own funded)</i>	13,750,000	12%
<b>TOTAL</b>	<b>111,106,860</b>	<b>100%</b>

CAPITAL PROJECTS 2021/22								
GRANT FUNDED PROJECTS								
Typ	Votenummer	Description	Department	Source of Funding	Forecast 1	Forecast 2	Forecast 3	
P	31106151420CLD70ZZWM	COMPUTER SOFTWARE	Libraries	Recapitalisation of Community Grant/ Library Plan	792 789.00	792 789.00	823 708.00	
P	31106420420CLD06ZZWM	VEHICLE	Libraries	Recapitalisation of Community Grant - Libraries	-	-	-	
P	31106456020LBD59ZZWM	FUMIGATION MACHINE	Libraries	Recapitalisation of Community Grant - Libraries	-	-	-	
P	31106456420LBD49ZZW7	RFID GATES	Libraries	Library Plan	-	-	-	
P	31106460420CLC95ZZWM	FURNITURE	Libraries	Recapitalisation of Community Grant - Libraries	275 000.00	275 000.00	275 000.00	
P	31106460420LBD44ZZW7	CCTV CAMERAS	Libraries	Library Plan	-	-	-	
P	31106470020CLC84ZZWM	COMPUTER HARDWARE	Libraries	Recapitalisation of Community Grant - Libraries	496 000.00	500 000.00	519 500.00	
P	31106472420CLD66ZZW1	ROADS CONSTR RENSBURG LIB	Libraries	Library Plan	3 000 000.00	-	-	
P	31106473520CLD03ZZW2	UPGRADING RENSBURG & VISCHKUIL LIBRARY	Libraries	Recapitalisation of Community Grant - Libraries	200 000.00	200 000.00	207 800.00	
P	31106473520CLD08ZZWM	NEW BOOKS	Libraries	Recapitalisation of Community Grant - Libraries/Library Plan	2 000 000.00	4 500 000.00	4 675 500.00	
P	31106473520CLD38ZZW4	FENCING OF RATANDA PROPER	Libraries	Library Plan	-	-	-	
P	31106473520CLD39ZZW4	CAR PORT IN RATANDA	Libraries	Recapitalisation of Community Grant - Libraries/Library Plan	100 000.00	100 000.00	103 900.00	
P	31106473520CLD55ZZWA	KWAZENZELE LIBRARY	Libraries	Library Plan	-	-	-	
P	31206473520CGD05ZZWM	RESCUE VEHICLES	Fire Fighting and Protection	COGTA	2 000 000.00	-	-	
P	31306420420CFD06ZZWM	SEDANS	MHS	Sedibeng	900 000.00	-	-	
P	31556456020CFD83ZZWM	BUSH CUTTERS, CHAINSAWS, BLOWERS	Biodiversity and Landscape	BKB	177 071.00	-	-	
P	31656473520FMC69ZZW5	INSTALLATION OF GRAND STAND PAVILLION IN HED EXT 23 & 26	Sport and Recreation	MIG	2 100 000.00	-	-	
P	34206470020CFD58ZZWM	COMPUTER HARDWARE (FMG)	Finance	FMG	300 000.00	-	-	
P	35206151420CFD62ZZWM	COVID-19 LESEDI & CITIZEN ENGA. APP	ICT	Equitable Share_COVID 19	-	-	-	
P	35206470020CFD61ZZWM	COVID-19 COMPUTER HARDWARE	ICT	Equitable Share_COVID 19	-	-	-	
P	37156432020IPD68ZZW4	SWITCHING STATION RATANDA	Electricity	INEP	9 500 000.00	-	-	
P	37156432020IPD69ZZW7	SWITCHING STATION IMPUMELELO	Electricity	INEP	5 264 000.00	-	-	
P	37156432420CFD65ZZWM	COVID-19 DISTRIBUTION NETWORKS	Electricity	Equitable Share_COVID 19	-	-	-	
P	37156432420IPC61ZZW4	ELECTRIFICATION- OBED NKOSI	Electricity	INEP	13 736 000.00	20 000 000.00	21 000 000.00	
P	37156433020CFD22ZZWM	COVID-19 ELECTRIFICATION- OBED NKOSI	Electricity	Equitable Share_COVID 19	-	-	-	
P	37156437020IPD12ZZW7	ELECTRIFICATION- IMPUMELELO- MV	Electricity	INEP	11 900 000.00	-	-	
P	37306472420FMD01ZZW4	CONSTR ROADS & S/W RATANDA 1;3;6 & OBED N	Roads and Stormwater	MIG	9 216 000.00	29 698 000.00	30 882 000.00	
P	37306472420FMD15ZZW8	CONSTR ROADS & STORMWATER JAMESON PARK	Roads and Stormwater	MIG	6 899 360.98	-	-	
P	37306472420FMD16ZZW4	CONSTR ROADS & STORMWATER RATANDA EXT7	Roads and Stormwater	MIG	-	-	-	
P	37306472420FMD51ZZW5	CONSTR ROADS & STORMWATER EXT 23	Roads and Stormwater	MIG	4 761 523.00	-	-	
P	37306472420FMD53ZZWA	CONSTR ROADS & STORMWATER KWANZENZELE P1	Roads and Stormwater	MIG	1 889 116.02	-	-	
P	37356449420FMD57ZZW5	DRY SANITATION TOILET UNITS (RURAL AREA)	Waste Water Management	MIG	2 850 000.00	-	-	
P	37356449420WGD18ZZWM	UPGR SEWER PIPELINE THOKOLOHONG AGRI VIL	Waste Water Management	WSIG	6 000 000.00	6 000 000.00	6 000 000.00	
P	37356449420WGD54ZZW4	UPGR SEWER PIPELINE RATANDA EXT 2	Waste Water Management	WSIG	5 000 000.00	5 000 000.00	5 000 000.00	
P	37406512420CFD31ZZWM	REFUSE COLLECTION TRUCK	Solid Waste Management	Equitable Share_COVID 19	-	-	-	
P	37456446020WGD17ZZWM	REPLACEMENT OF ASBESTOS PIPES LESEDI P4	Water Management	WSIG	8 000 000.00	7 874 000.00	7 808 000.00	
P	37456446420FMD56ZZW5	BACKUP POWER SUPPLY EMMAS & HED	Water Management	MIG	-	-	-	
<b>Total Grant funded Projects</b>					<b>97 356 860.00</b>	<b>74 939 789.00</b>	<b>77 295 408.00</b>	
INTERNAL FUNDED PROJECTS								
Typ	Votenummer	Description	Department	Source of Funding	Forecast 1	Forecast 2	Forecast 3	
P	31106473520CFD55ZZWA	KWAZENZELE LIBRARY	Libraries	Internal Funding	-	-	-	
P	31156420420CFD71ZZWM	TLB	Centeries	Internal Funding	400 000.00	400 000.00	-	
P	31206456420CFD27ZZWM	FIRE ENGINE	Fire Fighting and Protection	Internal Funding	-	-	-	
P	31556420420CFD73ZZWM	TRACTORS (GRASS CUTTING)	Biodiversity and Landscape	Internal Funding	600 000.00	600 000.00	-	
P	31606420420CFD72ZZWM	SEDANS	Social Development	Internal Funding	900 000.00	-	-	
P	31606473520CFD74ZZW2	UPGRADE OF SHELTER	Social Development	Internal Funding	500 000.00	-	-	
P	32156460020CFD60ZZWM	COVID-19 FURNITURE	Executive Mayor	Internal Funding	-	-	-	
P	35206470020CFD84ZZWM	COMPUTER HARDWARE	ICT	Internal Funding	1 500 000.00	1 500 000.00	1 500 000.00	
P	35306474020CFD85ZZWM	REPLACEMENT OF CARPETS	Facilities	Internal Funding	500 000.00	-	-	
P	37156420420CFD93ZZWM	CRANE TRUCK	Solid Waste Management	Internal Funding	-	-	-	
P	37156433020CFD70ZZW4	ELECTRIFICATION- IMPUMELELO	Electricity	Internal Funding	-	-	-	
P	37156456420CFD24ZZWM	TOOLS & EQUIPMENT	Electricity	Internal Funding	400 000.00	-	-	
P	37306456020CFD81ZZWM	COMPACTOR	Roads and Stormwater	Internal Funding	-	-	-	
P	37306472420CFD87ZZWM	RESEALING OF ROADS	Roads and Stormwater	Internal Funding	-	-	-	
P	37356420420CFD91ZZWM	COMBINATION UNIT AND RODS TRAILER	Waste Water Management	Internal Funding	850 000.00	-	-	
P	37406512420CFD32ZZW4	TLB	Solid Waste Management	Internal Funding	-	-	-	
P	37406512420CFD31ZZWM	REFUSE COLLECTION TRUCK	Solid Waste Management	Internal Funding	4 000 000.00	-	-	
P	37406512420CFD33ZZW1	LDV	Solid Waste Management	Internal Funding	1 400 000.00	700 000.00	-	
P	37456456420CFD37ZZW4	TOOLS & EQUIPMENT	Water Management	Internal Funding	3 000 000.00	-	-	
P	37456512420CFD36ZZWM	WATER TANKER AND PLUMBER TRUCKS	Water Management	Internal Funding	2 400 000.00	900 000.00	-	
<b>Total Internal funded Projects</b>					<b>13 750 000.00</b>	<b>4 100 000.00</b>	<b>1 500 000.00</b>	
<b>TOTAL CAPITAL</b>					<b>111 106 860.00</b>	<b>79 039 789.00</b>	<b>78 795 408.00</b>	

## 5. LEGISLATIVE PROVISION

Section 16 (1) and (2) of the MFMA.

## 6. LC.CM-.../03/2031 RECOMMENDATION

6.1 THAT Council notes the annual budget with operational revenue of R1,053,362,290 operational expenditure of R1,046,530,219 and Capital Expenditure of R111,106,860 for the 2021/22 financial year as contained in the following tables: