

**STRICTLY CONFIDENTIAL**

**EXECUTIVE SUMMARY**

**SUBMISSION TO** : Council

**DIVISION REQUESTING THE SUBMISSION** : Finance

**TITLE OF THE SUBMISSION**

**MFMA Section 16(1)&(2) – Draft Annual budget 2022/23**

**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 Draft annual budget for the 2022/23 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 2022/23 Financial Year in August 2021. 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 115 indicating information relevant in the compilation of the 2022/23 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>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Salaries	4.8%	4.4%	4.5%
General expenditure	4.8%	4.4%	4.5%

There has been an increment of 9.6% on Bulk electricity and 4.8% increase on water and ERWAT. The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2022/23 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

## **Cost containment measures**

In MFMA Circular No. 70 municipalities were strongly advised to take note of the Cabinet resolution of 23 October 2013 by which all national and provincial departments, constitutional institutions and all public entities are required to implement cost containment measures with effect of January 2014. **The cost containment measures must be implemented to eliminate waste, reprioritize spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and event costs as well as costs for accommodation.** Municipalities were subsequently strongly urged to take note of the cost containment measures as approved by Cabinet and align their budgeting policies to these guidelines to the maximum extent possible.

Although it's acknowledged that local government is autonomous in its strategy formulation (IDP) and setting of budget appropriations, local government remains a sphere of government and must therefore align itself to the maximum extent possible to that of national and provincial government. In this regard in terms of section 62(1) of the MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- That the resources of the municipality are used effectively, efficiently and economically;
- That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards; and
- That unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.

## **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 115 advises municipalities to apply cost-reflective tariffs. The following tariff increments are proposed to be affected in the 2022/23 financial year.

Assessment Rates	-	4.8%.
Electricity	-	9.6%
Water	-	4.8%
Sanitation	-	4.8%
Refuse	-	4.8%.
Other income	-	4.8%.

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

**Revenue**

Proposed revenue for the 2022/23 financial year is as follows:

Description	Draft Budget 2022/23 R	Budget (outer year) 2023/24 R	Budget (outer year) 2024/25 R	Weighting
Property rates	152,885,816	159,612,792	166,795,368	12.9
Service charges- electricity revenue	421,834,521	440,395,240	460,213,027	35.7
Service charges – Water revenue	158,026,872	164,980,054	172,404,156	13.4
Service charges – sanitation revenue	34,796,779	36,327,838	37,962,590	2.9
Service Charges refuse revenue	38,921,410	40,633,952	42,462,480	3.3
Fines	31,000,000	31,100,000	31,200,000	2.6
Interest earned	50,330,926	52,545,486	54,910,034	4.3
Transfers recognized – operational	192,560,000	202,276,000	223,477,000	16.3
Transfers recognized – Capital	91,030,000	70,690,000	73,438,000	7.7
Rental of facilities and equipment	6,105,491	6,374,132	6,660,967	0.5
Other revenue	4,468,913	4,665,545	4,875,494	0.4
<b>Total</b>	<b>1,181,960,728</b>	<b>1,209,601,039</b>	<b>1,274,399,116</b>	<b>100.0</b>

The largest revenue items are electricity at 35.7%, grant income at 24.0% (16.3% is operational grants and 7.7% is capital grants), water sales at 13.4% and property rates at 12.9%. The three items generate 86.0% of the revenue of the municipality.

## Expenditure

Proposed draft expenditure for the financial year is as follows:

Description	Draft Budget 2022/23 R	Budget (outer year) 2023/24 R	Budget (outer year) 2024/25 R	Weighting
Employee costs	234,266,552	242,248,253	253,149,429	20.3
Councilors remuneration	13,061,950	13,636,674	14,250,325	1.1
Debt Impairment	191,857,799	199,160,940	206,954,680	16.7
Depreciation	43,097,622	44,430,346	48,873,378	3.7
Finance charges	4,247,817	4,247,817	4,247,817	0.4
Bulk purchases: Electricity	377,159,060	393,754,059	411,472,992	32.7
Inventory Consumed	124,707,767	129,829,508	135,671,838	10.8
Contracted services	110,672,065	113,389,837	118,477,128	9.6
Other expenditure	52,722,309	53,930,770	56,351,409	5.8
<b>Total Expenditure</b>	<b>1,151,792,941</b>	<b>1,194,628,204</b>	<b>1,249,448,996</b>	<b>100.0</b>

The largest expenditure items are bulk purchases at 32.7%, employee related costs at 20.3% and debt impairment at 16.7%. The three items make up 69.7% of the expenditure of the municipality.

## Capital Budget

The draft Capital Budget amounts to R99,642,827 and is funded as follows:

Description	Draft Budget 2022/23 R	Weighting
National Government funded	83,442,827	84%
<i>Lesedi L.M. (own funded)</i>	16,200,000	16%
<b>TOTAL</b>	<b>99,642,827</b>	<b>100%</b>

DRAFT CAPITAL PROJECTS FOR 2022/23							
GRANT FUNDED PROJECTS							
Typ	Votenummer	Description	Department	Source of Funding	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
P	31106456420LBD49ZZW7	RFID GATES	Libraries	LP	50 000.00	-	-
P	31106460420CLC95ZZWM	FURNITURE	Libraries	LP	1 469 898.00	-	-
P	31106470020CLC84ZZWM	COMPUTER HARDWARE	Libraries	Recap	450 000.00	-	-
P	31106473520CLD03ZZW2	UPGRADING RENSBURG & VISCHKUIL LIBRARY	Libraries	Recap	700 000.00	-	-
P	31106473520CLD08ZZWM	NEW BOOKS	Libraries	Recap	1 662 929.0	-	-
P	31106473520CLD55ZZWA	KWAZENZELE LIBRARY	Libraries	LP	680 000.00	-	-
P	31206473520CGD50ZZWM	RESCUE VEHICLE	Fire Fighting and Protection	Cogta	4 200 000.00	-	-
P	31656473520FMC69ZZW5	INSTAL GRAND STAND PAVILLION HED EXT 23	Sports and Recreation	MIG	2 000 005.00	-	-
P	34206470020CFD58ZZWM	COMPUTER HARDWARE (FMG)	Finance	FMG	200 000.00	250 000.00	150 000.00
P	37156432020IPD69ZZW7	SWITCHING STATION IMPUMELELO	Electricity	INEP	11 009 500.00	-	-
P	37156432420IPC61ZZW4	ELECTRIFICATION- OBED NKOSI	Electricity	INEP	5 180 000.00	21 000 000.00	21 943 000.00
P	37156437020IPD12ZZW7	ELECTRIFICATION- IMPUMELELO - MV	Electricity	INEP	9 268 500.00	-	-
P	37156437420IPD13ZZWM	INSTALLATION OF HIGHMASTS AT LESEDI	Electricity	MIG	2 971 000.00	2 500 000.00	3 950 000.00
P	37306472420FMD01ZZW4	CONST ROADS & S/W RATANDA 1;3;6 & OBED N	Roads and Stormwater	MIG	2 350 000.00	-	-
P	37306472420FMD15ZZW8	CONSTR ROADS & STORMWATER JAMESON PARK	Roads and Stormwater	MIG	9 800 000.00	12 400 000.00	12 654 000.00
P	37306472420FMD52ZZW7	CONSTR ROADS & STORMWATER IMPUMELELO	Roads and Stormwater	MIG	5 916 000.00	12 482 000.00	13 537 000.00
P	37306472420FMD53ZZWA	CONSTR ROADS & STORMWATER KWANZENZELE P1	Roads and Stormwater	MIG	4 500 000.00	-	-
P	37356449420FMD57ZZW5	DRY SANITATION TOILET UNITS (RURAL AREA)	Waste Water Management	MIG	2 160 995.00	-	-
P	37356449420WGD18ZZWM	UPGR & INSTAL OF ZONAL METERS AND PRV'S	Waste Water Management	WSIG	4 000 000.00	2 000 000.00	2 500 000.00
P	37356449420WGD54ZZW4	UPGR SEWER PIPELINE RATANDA EXT 2	Waste Water Management	WSIG	600 000.00	-	-
P	37456446020WGD17ZZWM	REPLACEMENT OF ASBESTOS PIPES LESEDI P7	Water Management	WSIG	14 274 000.00	15 808 000.00	16 854 000.00
P	37456446420FMD56ZZW5	DRILLING OF BOREHOLES AND MECHANICAL GRINDER	Water Management	MIG	-	3 500 000.00	2 000 000.00
P	37456449420WGC72ZZWM	FENCING OF RESERVOIR JAMESON PARK	Water Management	WSIG	-	1 000 000.00	-
<b>Total Grant funded Projects</b>					<b>83 442 827.00</b>	<b>70 940 000.00</b>	<b>73 588 000.00</b>
INTERNAL FUNDED PROJECTS							
Typ	Votenummer	Description	Department	Source of Funding	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
P	34106474020CFC44ZZHO	OVERHAUL OF FUEL PUMPS	Finance	Internal Funding	4 000 000.00	-	-
P	37156435020CFC10ZZWM	JAMESON PARK SUBSTATION	Electricity	Internal Funding	8 000 000.00	-	-
P	37156433020CFC66ZZW4	ELECTRIFICATION	Electricity	Internal Funding	4 000 000.00	-	-
P	37156433020CFC66ZZW4	BOARDROOM CHAIRS	Municipal Office	Internal Funding	200 000.00	-	-
<b>Total Internal funded Projects</b>					<b>16 200 000.00</b>	-	-
<b>TOTAL CAPITAL</b>					<b>99 642 827.00</b>	<b>70 940 000.00</b>	<b>73 588 000.00</b>

## 5. LEGISLATIVE PROVISION

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

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

6.1 THAT Council notes the draft annual budget with operational revenue of R1,090,930,728 operational expenditure of R1,151,792,941 and Capital Expenditure of R99,642,827 for the 2022/23 financial year as contained in the following tables: