

16359

## ADOPTED MEDIUM TERM REVENUE EXPENDITURE FRAMEWORK-2023/24

*This report served before the Budget Steering Committee on 25 May 2023. The recommendations were supported.*

### PURPOSE

To submit to Council for approval, the Adopted 2023/24 Budget and Medium Term Revenue and Expenditure Framework (MTREF).

### IDP STRATEGY AND OBJECTIVES

NATIONAL KPA 5: MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT		
GOALS	OBJECTIVES	STRATEGIES
5.1 Sound Financial And Supply Chain Management	5.1.1 Compliance with financial legislation and policies	5.1.1.1 GRAP compliant
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all related financial policies
		5.1.1.4 Compliance with all MFMA and relevant local government financial legislation
	5.2.1 Sustainable Financial management (Expenditure and Revenue)	5.2.1.1 Provide continuous Internal Communication and support on Budget and Financial Management matters
		5.2.1.2 Asset Accounting Management
		5.2.1.3 Accurate and timeous billing and receipting of revenue
		5.2.1.4 Apply Adequate Internal controls
		5.2.1.5 Accurate and timeous payments of creditors
		5.2.1.6 Apply adequate financial management methodologies
	5.3.1 Supply Chain Management	5.3.1.1 Demand and acquisition management
		5.3.1.2 Accurate contracts and logistics management
		5.3.1.3 Apply adequate financial management methodologies

### BACKGROUND

The Municipal Finance Management Act (MFMA), 2003 (No 56 of 2003) issues clear guidelines on the contents of the Budget Framework Plan. The Budget Framework Plan for the City of uMhlathuze has been adapted to incorporate these guidelines.

Section 17 of the Act highlights the following issues relating to the contents of the annual budget.

- “1) The annual budget must be a schedule in the **prescribed format** which should include the following:
- a) realistically anticipated revenue for the budget year from each revenue source;
  - b) appropriating expenditure for the budget year under the different votes of the municipality;
  - c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;

- d) *setting out-*
    - (i) *both estimated revenue and expenditure by vote for the current year; and*
    - (ii) *actual revenue and expenditure by vote for the financial year preceding the current year.*
  - e) *A statement containing any other information required by Section 215(3) of the Constitution or as may be prescribed.*
- 2) *The annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed;*
- 3) *When an annual budget is Adopted in terms of Section 16(2), it must be accompanied by the following documents:*
- a) *Draft resolutions-*
    - (i) *Approving the budget of the municipality;*
    - (ii) *Imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and*
    - (iii) *Approving any other matter that may be prescribed;*
  - b) *measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;*
  - c) *a projection of cash flow for the budget year by revenue source, broken down per month;*
  - d) *any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of Section 34 of the Municipal Systems Act;*
  - e) *any proposed amendments to the budget-related policies of the municipality;*
  - f) *particulars of the municipality's investments;*
  - g) *any prescribed budget information on municipal entities under the sole or shared control of the municipality;*
  - h) *particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;*
  - i) *particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;*
  - j) *particulars of any proposed allocations or grants by the municipality to-*
    - (i) *other municipalities;*
    - (ii) *any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;*
    - (iii) *any other organs of state; and*
    - (iv) *any organisations or bodies referred to in section 67(1);*

- k) *the proposed cost to the municipality for the budget year of the salary, allowances and benefits of-*
  - (i) *Each political office-bearer of the municipality;*
  - (ii) *councillors of the municipality; and*
  - (iii) *the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;*
- l) *the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of-*
  - (i) *each member of the entity's board of directors;*
  - (ii) *the chief executive officer and each senior manager of the entity; and*
- m) *any other supporting documentation as may be prescribed.”*

National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009.

The objectives of the budget formats reforms in terms of these regulations are:

- ❖ To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Municipal Finance Management Act (MFMA).
- ❖ To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.
- ❖ To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability.
- ❖ To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

For the Adopted 2023/24 MTREF, **the Municipal Budget Policy Guide (DMS 1542203 Detail) DMS 1542204 – Summary** read together with the **Budget Process Plan (DMS 1542201)** to guide the Administration in through the whole budget.

Circulars No 122 (**DMS 1573136) Annexure L1** issued on 9 December 2022 and 123 (**DMS 1586728) Annexure L2** are included as part of this report. **These circulars need to be read thoroughly by both the Council and the Administration.** These were also used in compiling the Adopted 2023/24 MTREF

## DISCUSSION

Council approved the 2023/24 Tabled MTREF on the 29 March 2023.

Following the approval of the budget well attended public participation meetings were held.

This year's Budget Participation meetings were well attended and the community participated in the discussions that were held. Refer to **Annexure M (DMS 1598196)** for the minutes of the Budget Participation Meetings.

This report and the supporting schedules have been forwarded to National and Provincial Treasury as required in terms of Section 22 (b)(i) of the MFMA in both printed and electronic formats.

The National Treasury endeavours to ensure that municipalities prepare a budget document that provides concise and understandable financial and non-financial information which will ensure that informed decisions are made to promote effective financial management and service delivery. By ensuring that the allocation of financial resources is aligned to service delivery targets it will be clear what services are being promised when budgets are approved.

The National Treasury created a template called “Batho Pele City” as a guide for municipal officials responsible to produce their real municipal budget documents.

The aim of the “Batho Pele” Budget Guide is to provide more detailed guidance on the format and content of a municipal budget so as to ensure full compliance with both the letter and the spirit of Schedule A of the Municipal Budget and Reporting Regulations. The “Batho Pele” Budget is intended to be a template that municipal officials can use as a basis and guide for producing their own municipality’s budget documents. The Chief Financial Officer has found this template to be very comprehensive and useful for many aspects of assessing financial performance and service delivery monitoring, hence subscribes to the guide fully.

## **NATIONAL TREASURY BENCHMARK ENGAGEMENT**

In terms of the requirements of the Municipal Finance Management Act and as part of its oversight role over Local Government finances, the National Treasury is responsible for reviewing and commenting on the tabled budgets of all non-delegated municipalities prior to their adoption by the respective Municipal Councils.

The tabled budgets of these municipalities are rigorously assessed in terms of quality and compliance with the prescriptions of the MFMA and the Municipal Budget and Reporting Regulations.

From a quality perspective, the budget is assessed in accordance with three criteria, namely:

- **Credibility:** whether the budget assumptions are credible and whether the budget is funded in accordance with the provisions of section 18 of the Municipal Finance Management Act (MFMA);
- **Relevance:** whether the budget responds to the objectives articulated in the municipality’s plans and the alignment between planning and budgeting; and
- **Sustainability:** whether the municipality is financially sustainable.

In addition, the overall assessment of the municipality’s performance was undertaken in accordance with the four pillars namely, institutional arrangement, service delivery, financial governance and financial health. The engagement was well-attended by the City, National Treasury, Department of Cooperative Governance and Traditional Affairs (CoGTA). The City was well-prepared for the engagement and all relevant documents were received prior to the engagement.

**The summarised National Treasury assessment can be found on DMS 1600975.**

The following are recommendation/resolution extracted from National Treasury assessment:

- National Treasury must arrange a technical session with the City to discuss the outcome of the funding assessment.
- The City and National Treasury must arrange a separate session for the live demonstration of the System at the municipal offices to understand how the system operates in its entirety.
- National Treasury and CoGTA must consider reviewing the components of tariffs to include water losses in determining cost reflective tariffs.
- National Treasury, the City and COGTA must engage on the non-recovery of property rates in the traditional authority areas as this affects the financial viability.
- National Treasury must facilitate an engagement with TRANSNET on the impact of failure of rail on municipal roads infrastructure.
- The City must consider applying for the Budget Facility for Infrastructure (BFI) funding.

A critical review was undertaken of expenditure on non-core and non-priority spending items in line with NT's Cost containment measures outlined in NT's MFMA circular number 82 and as endorsed in the Cost Containment Regulations (**DMS 1348572**). The latter read together with the requirements of MFMA Budget circulars 122 and 123 issued in December 2022 and March 2023 respectively were used to compile the Budget.

The following main challenges in compiling this 2023/24 MTREF. They can be summarised as follows:

- Between all the services by far the greatest concern here lies with all the services financed by Property Tax (Rates). This Adopted budget has the Rates Services sitting with a R187 million deficit for 2023/24 and R168 m and R147 m deficit for the outer years;
- The majority of residential households in uMhlathuze are not levied Property Rates. This because the individual properties are within the Ingonyama Trust land are not separately valued and not subject to the Municipal Property Rates Act. This despite the same communities enjoying most of the municipal services that are funded by Property Rates Revenue. This flaw in the current legislation is also applicable to those commercial and business activities taking place within the Ingonyama Trust area. There is a rapid increase in demand for services in these areas – roads, water, refuse, electricity, sanitation but no commensurate revenue;
- The Constitutional mandate for uMhlathuze is to provide basic municipal services in the Ingonyama Trust area, however the deployment of those services without formal town planning and engineering protocol is not only ineffective and inefficient, but the extent thereof and demand for services on such a large scale without order is simply unsustainable from a service delivery perspective;

- There is no Equitable Share allocation for properties that do not pay Property Rates. The significance here is that the delivery of basic services is very dependent on Property Rates in yet there is zero allocation from the National Equitable Share allocation for Property Rates itself. This weakness in the financial structure of the Municipal MTREF needs to be addressed at a National level as it cannot be resolved at a local level. This is a National Policy matter. As an interim measure National Treasury has been requested over the years to increase Equitable Share to the equal extent that the Municipal Property Rates Act cannot be applied to the residents of the Ingonyama Trust land as the residents there hold no legal title to the land. Indirectly, the National Treasury has assisted by increasing it's the ES marginally above inflation over the last few years which has certainly helped;
- Due to a community's perceived poor quality of water quality and supply from the municipality, many residents who can afford alternative sources such as boreholes, are doing so without permission which is putting resident's health at risk and reducing the municipality's revenue streams which are required to cater for the water infrastructure;
- As from the 2021/22 year to the annualized 2022/23 financial year Water sales volumes for commercial business and outside boarder water service (water sold to KCDM) have decreased by 18 percent. This is a cause for concern and is exacerbated by the current economic conditions;
- It appears that the Water Loss's in uMhlathuze are deteriorating. From 2021/22 the gross loss was 40%, as at the end of February 2023 the Gross water loss is sitting at 54%. The projected water loss in financial terms for the 2023/24 MTREF is R340 million.
- Although Council has received Level II Accreditation, the subsidisation of Housing services which is not a Constitutional mandate can be construed as an "unfunded" mandate due to the fact the Property Rates must now fund the deficit of R24.7m – refer to **Table 25** for details;
- Waste Water Management Service shows a deficit of R 99.7 million (R13m deficit for Adjusted 2022/23), this is a concern and efforts will need to be made to reduce this deficit in the coming MTREF by reducing costs therefore the introduction of more efficient and effective operations;
- Although Employee related costs as a percentage of total Expenditure amounts to 24,6% and appears to be below the 30% industry standard, it is not realistic for specifically uMhlathuze Municipality to be comfortable with this figure because of the high electricity purchase cost which distorts Council's budget figures when compared to other secondary cities. Without a properly researched formula in place, it is difficult to guide Council to a specific benchmark, but in COU situation that figure should be no more than the current 24.6% given the distortion in COU budget caused by the high Electricity Turnover. More significantly with a number of services outsourced, a more conservative approach would be to add the Contracted Services costs (8,3%) together with Employee related Costs. This figure amounts to 32.9% (24.6% + 8,3%). As can be seen this cost is over the 30% norm;
- Although extensive effort was made during the budgeting process to retain Repairs and Maintenance of Infrastructure at 8% of Property Plant and Equipment, this internationally accepted norm was not achieved in this budget and now sits at 6.2% of PPE. It appears that the primary reason is due to the reduction of internal labour resources towards this activity.

- The great dependency of the Refuse Service (Solid Waste Management) of Equitable Share to the tune of almost 50% of the revenue is a risk for the Municipality. It does however appear promising that the Senior Management are working on a Revenue Enhancement Strategy which will be applied in the coming financial year.

The main positives that come out of compilation of the 2023/24 MTREF can be summarised as follows:

- The 2023/24 MTREF has a marginal deficit of R5,5m from an Adjusted 2022/23 deficit of R155,9m;
- The Finance has continued with the strategy of ensuring that tariffs are **unit cost reflective** and that the **corresponding Revenue Tariffs** are **more equitable and affordable** across the various consumer and ratepayer categories;
- It is noted with appreciation that for the 2023/24 MTREF Equitable Share was increased by 10 % over the 2022/23 MTREF – R472m to R520m;
- Although all services funded by Rates are running at a deficit, Rates revenue is now greater than the gross contribution made by electricity to the municipality's income base, which trend points in the right direction of lowering dependency on the electricity services which is a significant risk to the financial stability of this municipality.

The following budget principles, guidelines and assumptions directly informed the compilation of the 2023/24 MTREF:

- Revenue does include a projected 2% local economic growth with effect from each of the 2023/24 and outer years;
- Revenue cash flow assumes a 95.5% recovery;
- All Revenue Tariffs are based on a cost reflective unit cost per all trading services;
- Capital from own funding (Capital Replacement Reserve and Borrowing) allocated on a prioritised model between Functions using asset values and Income generating ability;
- The internal capital funding mix for the 2023/24 MTREF is based on a 70% to 30% weighting towards borrowing and capital replacement reserve respectively;
- The above weighting is going to require Council to consider approving a Section 46 loan of R780 million in the 2023/24 year which will have two drawdowns of R406m and R374m in the 2024/25 financial year accordingly;
- The basket of municipal services tariffs collectively has been kept below 14% despite the 18.65% increase in electricity purchases;
- There will be no budget allocated to National and Provincial funded projects unless the necessary grants to the municipality are reflected in the National and Provincial budget and have been gazetted as required by the annual Division of Revenue Act; and

National Treasury's MFMA Circular No. 122 and 123 were used to guide the compilation of the 2023/24 MTREF.

## CONSOLIDATED OVERVIEW

Table 1 Consolidated Overview of the 2023/24 MTREF:

Description  R thousands	Current Year 2022/23	2023/24 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Adopted Budget 2023/24	Adopted Budget 2024/25	Adopted Budget 2025/26
Total Operating Revenue	4 473 675	4 931 451	5 319 626	5 778 030
Total Operating Expenditure	4 629 584	4 937 024	5 296 308	5 756 287
<b>Surplus/ (Deficit) for the year</b>	<b>(155 909)</b>	<b>(5 573)</b>	<b>23 318</b>	<b>21 743</b>
<b>Total Capital Expenditure</b>	<b>1 081 609</b>	<b>802 941</b>	<b>755 990</b>	<b>759 557</b>
<b>TOTAL OPERATING &amp; CAPITAL BUDGET</b>	<b>5 711 192</b>	<b>5 739 965</b>	<b>6 052 298</b>	<b>6 515 845</b>

Table 2 - 2023/24 Proposed Tariff increases:

Categories	Percentage increase (%) (Average) 2023/24	Percentage increase (%) (Average) 2024/25	Percentage increase (%) (Average) 2025/26
Property rates	9.00%	5.00%	7.00%
Electricity	15.50%	10.00%	10.00%
Water	15.00%	7.00%	8.00%
Refuse	9.00%	6.00%	8.00%
Sewer	15.00%	10.00%	26.00%



The following tables summarise the expenditure and revenue budgets by category and source respectively:

**Table 3 Percentage proportion in revenue by main revenue source:**

Description  R thousand	Current Year 2022/23		2023/24 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2023/24	%	Budget Year +1 2024/25	%	Budget Year +2 2025/26	%
<b>Revenue</b>								
<b>Exchange Revenue</b>								
Service charges - Electricity	1 861 758	41.6%	2 150 331	43.6%	2 365 364	44.5%	2 601 901	45.0%
Service charges - Water	512 148	11.4%	588 970	11.9%	630 198	11.8%	680 614	11.8%
Service charges - Waste Water Management	104 066	2.3%	119 676	2.4%	131 644	2.5%	165 871	2.9%
Service charges - Waste Management	105 313	2.4%	114 792	2.3%	121 679	2.3%	131 413	2.3%
Sale of Goods and Rendering of Services	12 455	0.3%	12 366	0.3%	12 737	0.2%	13 119	0.2%
Agency services	6 179	0.1%	6 365	0.1%	6 556	0.1%	6 752	0.1%
Interest earned from Receivables	28	0.0%	29	0.0%	30	0.0%	31	0.0%
Interest earned from Current and Non Current Assets	66 700	1.5%	64 500	1.3%	67 000	1.3%	68 900	1.2%
Rent on Land	825	0.0%	850	0.0%	875	0.0%	902	0.0%
Rental from Fixed Assets	6 977	0.2%	16 074	0.3%	18 175	0.3%	21 235	0.4%
Operational Revenue	8 089	0.2%	8 625	0.2%	9 064	0.2%	9 535	0.2%
<b>Non Exchange Revenue</b>		0.0%		0.0%		0.0%		0.0%
Property rates	675 990	15.1%	736 829	14.9%	773 671	14.5%	823 959	14.3%
Surcharges and Taxes	18 704	0.4%	6 332	0.1%	6 492	0.1%	6 687	0.1%
Fines, penalties and forfeits	57 686	1.3%	15 754	0.3%	16 226	0.3%	16 713	0.3%
Licences or permits	3 526	0.1%	3 632	0.1%	3 741	0.1%	3 853	0.1%
Transfer and subsidies - Operational	525 345	11.7%	551 827	11.2%	597 533	11.2%	639 714	11.1%
Gains on disposal of Assets	140	0.0%	—	0.0%	—	0.0%	—	0.0%
Other Gains	507 743	11.3%	534 500	10.8%	558 641	10.5%	586 832	10.2%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>4 473 675</b>	<b>100%</b>	<b>4 931 451</b>	<b>100%</b>	<b>5 319 626</b>	<b>100%</b>	<b>5 778 030</b>	<b>100%</b>
Total revenue from rates and service charges	3 259 276	72.9%	3 710 598	75.2%	4 022 556	75.6%	4 403 759	76.2%

Table 4 Percentage proportion in revenue by main expenditure type:

Description R thousand	Current Year 2022/23		2023/24 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2023/24	%	Budget Year +1 2024/25	%	Budget Year +2 2025/26	%
<b>Expenditure By Type</b>								
Employee related costs	1 142 648	24.7%	1 212 559	24.6%	1 283 579	24.2%	1 351 176	23.5%
Remuneration of councillors	37 291	0.8%	35 510	0.7%	37 287	0.7%	39 152	0.7%
Bulk purchases - electricity	1 236 242	26.7%	1 492 128	30.2%	1 711 471	32.3%	2 014 401	35.0%
Inventory Consumed	573 235	12.4%	460 979	9.3%	479 209	9.0%	499 731	8.7%
Debt impairment	172 510	3.7%	173 883	3.5%	187 668	3.5%	203 996	3.5%
Depreciation and amortisation	340 537	7.4%	320 160	6.5%	315 234	6.0%	310 573	5.4%
Interest	88 222	1.9%	130 491	2.6%	136 358	2.6%	138 620	2.4%
Contracted services	464 066	10.0%	409 217	8.3%	414 395	7.8%	432 135	7.5%
Transfers and subsidies	9 528	0.2%	14 759	0.3%	13 250	0.3%	13 781	0.2%
Operational costs	350 507	7.6%	343 730	7.0%	360 167	6.8%	378 828	6.6%
Other Losses	214 798	4.6%	343 610	7.0%	357 690	6.8%	373 894	6.5%
<b>Total Expenditure</b>	<b>4 629 584</b>	<b>100%</b>	<b>4 937 024</b>	<b>100%</b>	<b>5 296 308</b>	<b>100%</b>	<b>5 756 287</b>	<b>100%</b>

The following tables represent the 2023/24 Adopted Capital Budget:

Table 5 Proposed Capital Funding:

Description R thousand	Current Year 2022/23	2023/24 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
<b>Funded by:</b>				
National Government	212 414	218 836	199 536	204 022
Provincial Government	11 444	—	—	9 550
<b>Transfers recognised - capital</b>	<b>223 858</b>	<b>218 836</b>	<b>199 536</b>	<b>213 572</b>
<b>Borrowing</b>	<b>598 387</b>	<b>406 569</b>	<b>373 829</b>	<b>360 800</b>
<b>Internally generated funds</b>	<b>259 364</b>	<b>177 536</b>	<b>182 626</b>	<b>185 186</b>
<b>Total Capital Funding</b>	<b>1 081 609</b>	<b>802 941</b>	<b>755 990</b>	<b>759 557</b>

Table 6 : 2023/24 Medium-term capital budget per Vote:

Description R thousand	Current Year 2022/23	2023/24 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
<b><u>Capital Expenditure - Functional</u></b>				
<b><i>Governance and administration</i></b>	<b>113 489</b>	<b>84 291</b>	<b>87 874</b>	<b>92 024</b>
Executive and council	106	118	134	132
Finance and administration	113 383	84 173	87 740	91 892
Internal audit	—	—	—	—
<b><i>Community and public safety</i></b>	<b>264 399</b>	<b>99 478</b>	<b>83 367</b>	<b>83 992</b>
Community and social services	41 933	75 324	54 753	54 012
Sport and recreation	220 066	22 370	26 222	27 735
Public safety	2 400	1 785	2 392	2 245
Housing	—	—	—	—
Health	—	—	—	—
<b><i>Economic and environmental services</i></b>	<b>167 604</b>	<b>147 815</b>	<b>121 852</b>	<b>118 754</b>
Planning and development	50 421	22 127	5 332	622
Road transport	112 433	124 440	115 887	117 501
Environmental protection	4 750	1 248	633	631
<b><i>Trading services</i></b>	<b>521 317</b>	<b>465 913</b>	<b>456 721</b>	<b>458 710</b>
Energy sources	56 265	125 935	83 265	78 664
Water management	350 769	202 482	216 549	253 757
Waste water management	103 410	125 266	145 514	113 468
Waste management	10 873	12 230	11 393	12 821
<b><i>Other</i></b>	<b>14 800</b>	<b>5 444</b>	<b>6 176</b>	<b>6 078</b>
<b>Total Capital Expenditure - Functional</b>	<b>1 081 609</b>	<b>802 941</b>	<b>755 990</b>	<b>759 557</b>

The following Annexures are included under separate cover and form part of this report:

- **Annexure A (DMS 1594805)** - Budget report that has been prepared using the “Batho Pele City” template;
- **Annexure B1 - B56 (DMS 1600596)** - Municipal Annual Budget and MTREF Supporting Tables;
- **Annexure C (DMS 1598102)** - Tariffs of Charges;
- **Annexure D1 (DMS 1597549)** - Rates Policy;
- **Annexure D2 (DMS 1598100)** - Tariff Policy;
- **Annexure E (DMS 1592247)** – 2023/24 Adopted Capital Budget;
- **Annexure F (DMS 1592247)** Component 1: Monthly projections of revenue to be collected for each source;
- **Annexure G (DMS 1592247)** Component 2: Monthly projections of expenditure (operating and capital) and revenue for each Vote;
- **Annexure H1 – H9 (DMS 1592247)** Component 3: Draft annual projections of service delivery targets and performance indicators for each Vote;
- **Annexure I (DMS 1592247)** Component 4: Ward information for Capital expenditure;
- **Annexure J (DMS 1592247)** Component 4: Ward information for operating expenditure;
- **Annexure K (DMS 1592247)** Component 5: Detailed capital works plan broken down by ward over three years;
- **Annexure L1 (DMS 1573136)** - MFMA Budget Circular number 122 dated 9 December 2022; and
- **Annexure L2 (DMS 1586728)** - MFMA Budget Circular number 123 dated 3 March 2023.
- **Annexure M (DMS 1598196)** – Public Participation Meetings
- **Annexure N (DMS 1600420)** – Fixed Asset Management Policy
- **Annexure O (DMS 1600975)** – National Treasury Assessment

## **ENVIRONMENTAL IMPLICATIONS**

No environmental implications.

## **FINANCIAL IMPLICATIONS**

This is dealt with in detail throughout the Budget Report.

## LEGAL IMPLICATIONS

This is dealt with throughout the report with references to various Acts and Regulations.

## COMMENTS OF THE CHIEF FINANCIAL OFFICER

The recommendations are supported.

The Chief Financial Officer's comments have been provided under the Executive Summary contained in **Annexure "A" (DMS 1594805)**.

## DISCUSSION HELD AT THE BUDGET STEERING COMMITTEE ON 25 MAY 2023

The Chief Financial Officer presented the Multi-year Medium Term Revenue and Expenditure Framework for the 2023/2024 financial year which is available on **DMS 1600744**.

Following the presentation, the following issues were raised:

Community Halls – The concern raised was that the planning, construction and completion of community halls is done over three financial years which can be done in a single financial year. The Administration needs to review the manner in which some of the projects are set out and although the municipality strives to spreading projects amongst all wards, it may be more prudent to fully complete projects in one year and move on to other wards in ensuing years. It was requested that the relevant Departments to compile a standard blue print plan which will be used for all halls ensuring that the specifications are outlined at the onset of tender process. This will avoid unnecessary time delays as well as setting a standard for all community halls within the municipal area.

Yellow Plant and Machinery - The procurement of the plant and machinery be revised to allow for the total funding allocated for fleet to be used for the procurement of yellow plant and machinery only. It is important that the wards requiring grading/ gravelling have all plant and machinery on site to complete the work. This housing and availability of yellow plant is an important function within the municipality to ensure unhindered service delivery. It bears noting that the procurement of vehicles be dealt with in the outer financial years. It was pointed out that the current vehicles can be shared between the various departments and are adequate for municipal operations.

Renewable Energy - The municipality to conduct an exercise to investigate alternate options for renewable energy in order for the municipality to provide its own electricity to the municipal area.

Procurement of Land – The Department City Development to explore the available land parcels for future development.

Table A10 – Following the assessment of the MTREF, National Treasury requested that Table A10 be included in the schedules which reflects the equitable shares granted. The Executive Management Committee to deliberate on the coordination and completion of Table A10 as required by National Treasury.

Cost Containment – The municipality needs to enforce stricter measures and discipline to reduce costs within the municipality. It was pointed out that large amount of debts is being written off which could have been avoided through due diligence and proper management. With regards to service delivery, in some areas skips are provided and refuse collected, however, there is no billing for said service and the cost is borne by the municipality. Expenditures of this nature need to be reviewed as the municipality cannot indefinitely provide free services.

Employee Related Costs – The Administration needs to be mindful of the employee related costs as it now includes the appointment of consultants which has resulted in the threshold being exceeded.

Fleet Unit – This function has been an ongoing challenge and with the new management in the section, it is envisaged that the challenges will be addressed. The Fleet Manager is compiling a turnaround strategy to improve operations in this unit.

Parks Department - It was requested that the municipality work towards having its own plant and machinery without being reliant on business to lease equipment.

Ntambanana Area – The Administration needs to address the street names in the area.

In closing the Administration was requested to ensure that the matters raised are dealt with earnestly, fruitless and wasteful expenditure curtailed and that service delivery is improved.

#### RECOMMENDED THAT:

1. the Adopted Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the City of uMhlathuze for the Financial Year 2023/24 and indicative for the projected outer years 2024/25 and 2025/26 be approved as set out in the Budget Report **(DMS 1594805)** and in the Budget tables A1 - A10 **(Annexure B1 - B13) (DMS 1600596)**;
2. the Final Integrated Development Plan (IDP) Review for 2022/23 **(DMS 1530768)** be incorporated into the Adopted 2023/24 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
3. the Adopted 2023/24 Medium Term Revenue and Expenditure Framework aligned with the IDP's Developmental Objectives and Goals and the Municipal Regulation on Standard Chart of Accounts (mSCOA) (Government Gazette 37577 dated 22 April 2014) for the City of uMhlathuze be approved as follows:

Description  R thousands	Current Year 2022/23	2023/24 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Adopted Budget 2023/24	Adopted Budget 2024/25	Adopted Budget 2025/26
Total Operating Revenue	4 473 675	4 931 451	5 319 626	5 778 030
Total Operating Expenditure	4 629 584	4 937 024	5 296 308	5 756 287
<b>Surplus/ (Deficit) for the year</b>	<b>(155 909)</b>	<b>(5 573)</b>	<b>23 318</b>	<b>21 743</b>
<b>Total Capital Expenditure</b>	<b>1 081 609</b>	<b>802 941</b>	<b>755 990</b>	<b>759 557</b>
<b>TOTAL OPERATING &amp; CAPITAL BUDGET</b>	<b>5 711 192</b>	<b>5 739 965</b>	<b>6 052 298</b>	<b>6 515 845</b>

It be further noted that this Budget in as far as the Municipal's administration ability and financial system capability allowed, is Project based;

4. subject to the Chief Financial Officer submitting a report to Council in terms of Section 46 of the MFMA, Council approves in principle a loan for R780m in the 2023/24 financial year of which R406m will be drawn when required in the 2023/24, with the balance of R374m to be drawn down in 2024/25;

5. the following table setting out the surplus/(deficit) across the services be approved:

Description  R thousand	Current Year 2022/23	2023/24 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
<b>Electricity and Energy Sources</b>				
Surplus/(Deficit) for the year	122 080	273 231	251 044	167 785
<b>Water Management</b>				
Surplus/(Deficit) for the year	79 537	(1 400)	18 507	42 959
<b>Waste water management</b>				
Surplus/(Deficit) for the year	(13 037)	(99 711)	(92 424)	(64 004)
<b>Waste management</b>				
Surplus/(Deficit) for the year	(5 262)	9 417	14 318	21 698
<b>Other Services</b>				
Surplus/(Deficit) for the year	(339 227)	(187 110)	(168 127)	(146 694)
<b>Total</b>				
<b>Surplus/(Deficit) for the year</b>	<b>(155 909)</b>	<b>(5 573)</b>	<b>23 318</b>	<b>21 743</b>

6. the Adopted Service Delivery and Budget Implementation Plan (SDBIP) 2023/24 **(DMS 1592247)** as submitted be approved;

7. in terms of Section 2(3) of the Local Government: Municipal Property Rates Act, the following property rates for the 2023/24 financial year be approved:

Category	Proposed tariff (from 1 July 2023)	Ratio to Residential Tariff
	<b>C</b>	
Residential Properties	0,0113	1 : 1
Business / Commercial	0,0237	1 : 2,10
Industrial	0,0249	1 : 2,20
Agricultural Properties	0,0028	1 : 0,25
Public Service Purposes (State Owned)	0,0131	1 : 1,15
Public Service Infrastructure	0,0028	1 : 0,25
Public Benefit Organisation Properties	0,0028	1 : 0,25
Mining Properties	0,0260	1 : 2,30
Vacant Land	0,0237	1 : 2,10

8. on application by the relevant ratepayers, the following rebates be applied subject to the provisions contained in the Rates Policy:
  - Agricultural properties - 5%
  - Non Profit Organisations -20%
9. the Rates Policy as contained in **Annexure D1 (DMS 1597549)** be approved;
10. in addition to the statutory R15 000 reduction in the valuation on residential properties, a further reduction of R145 000 of the valuation on all developed residential properties valued at R480 000 and below be made;
11. in addition to the reductions in recommendation (10) above and subject to the criteria set out in the Property Rates Policy, an additional R250 000 reduction in the value of the primary residential property belonging to a pensioner or a social grantee be made;
12. in accordance with the implementation of the universal approach of the indigent policy improved residential property valued at R160 000 or less will be exempted from refuse and sewer charges. The following sliding scale will be applied for charges on improved residential properties higher than R160 000 on the following basis:
  - a) Properties valued between R160 001 and R200 000 will receive a rebate of 25% in respect of the sewer and refuse charges;
  - b) Properties valued at R200 001 and higher will pay the normal tariff;
13. the amendment of the Tariff of Charges as per **Annexure C (DMS 1598102)** be approved;
14. the Tariff policy as per **Annexure D2 (DMS 1598100)**;
15. any work function or tariff not accommodated in the Tariff of Charges be dealt with as cost plus 20%;
16. in addition to the free 50 units, the indigent customers to be granted additional 300 units that can be bought per month but be capped at 350 units each month;
17. the property rates and tariff adjustments as set out above be dealt with in terms of Section 14 of the Local Government: Property Rates Act and Section 24 of the Municipal Finance Management Act 2003;
18. Free water be capped at 10 kl per month;
19. strategic grouping of water service tariffs, dividing them into groups as follows:
  - Tariff Structure 1 (T1) will be for indigent customers with consumption not exceeding 10 kl per month. These customers will not be liable for paying the basic charge and this applies to both the universal approach and the targeted approach;
  - Tariff Structure 2 (T2) will be for households managing their consumption to be greater than 10 kl per month but not exceeding 20 kl per month; and
  - Tariff Structure 3 (T3) will be for all the customers not in (a) and (b) above, customers consuming above 20 kl per month. These customers will be billed from the first scale to the highest scale based on the consumption consumed using the applicable tariffs;



20. railway siding maintenance be charged to all property owners whose properties are alongside the vicinity of the facility;
21. No person or entity may collect waste for removal from premises unless authorised by Deputy City Manager - Community Services or City Manager;
22. in terms of various policies, the following increases in allowances are submitted to Council for approval:

	Approved Tariffs - 2022/23	Proposed Tariffs - 2023/24
	R	R
Standby - Travel allowance	116	121
Standby - Subsistence allowance	76	79
<b>Subsistence allowances</b>		
Daily allowance	165	172
Overnight allowance	221	231
Own accommodation	304	317
Interview candidates	79	82
<b>Accommodation</b>		
All employees	1 382	1 443
All councillors and Section 56 employees	2 318	2 420
Municipal Manager, Mayor/ Deputy Mayor, Speaker and Municipal Chief Whip	3 867	4 037
Ward committee members	1 662	1 736
<b>Indigent Burial Assistance</b>		
Adult	3 050	3 184
Child (1 day to 15 years)	2 318	2 420
Stillborn / foetus	1 586	1 656

23. the profit on sale of all erven be allocated 100% to the Rates and General Capital Replacement Reserve account;
24. should there be any unspent conditional grants received from the National Fiscus at year end, Council hereby requests that the City Manager via letters to the respective transferring officers apply for a roll-over of funds received in **2022/23** financial year to the next financial year, namely the 2023/24 financial year;
25. although Council has an approved Virement Policy, in terms of this 2023/24 MTREF Budget appropriation, a MFMA mSCOA Circular No. 8 (**DMS 1402904**) be Adopted with the following:
  - No virements (transfers) will be allowed out of:
    - All Repairs and Maintenance Projects unless approval has been sort jointly between the City Manager and the Chief Financial Officer;

- Purchase of Bulk Electricity and Bulk Water Projects;
  - A Project extending over/ incorporating more than one mSCOA function or sub function, then savings in the budgetary allocation in a function or sub-function may be applied across the functions and/ or sub-functions directly linked to the same Project and Funding Source;
  - Where the Finance and Administrative function or sub-function is directly linked to another Function or sub function, then savings in the linked function/ sub-function may be applied in the Finance and Administrative function or *vice versa*<sup>2</sup>. This means that virements between Rates Services and Trading Services and across Trading Service are not allowed;
  - Virements cannot be permitted in relation to the revenue side of the budget;
  - Virements between functions should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
  - Virements from the capital budget to the operating budget should not be permitted, Operational funds to the Capital Budget may be done, but only via an Adjustments budget;
  - Virements towards employee related costs should not be permitted, except where:
  - Temporary / contracted (budget for as contracted services in terms to the mSCOA Classification) staff status has changed to permanent staff; or
  - The budget savings resulted from Outsourced Services within the same function in terms of a Council delegated authority).
26. to ensure that monies are spent efficiently and effectively in the repairs and maintenance environment for both operating and capital budgets, no Repairs and Maintenance budget can be utilised unless each project for repairs and maintenance is utilised strictly in terms of the 2023/24 asset maintenance plan and captured accordingly on the Work Break-down Structure of the uM-SAP system;
  27. to ensure that all capital budgets are spent efficiently and effectively, no approved tenders can proceed unless clearly defined work deliverables are documented in the Contracts module and Project systems module and captured accordingly in the Work Break-down Structure;
  28. Council adopts National Treasury's MFMA Circular number 122 dated 4 December 2022 (**DMS 1573136**) and Circular number 123 dated 03 March 2023 (**DMS 1586728**) that is in line with Section 168(3)(a) of the Municipal Finance Management Act 56 of 2003 with the exception of the following;
  29. Council approves the redirection of R18 579 000 earmarked for procurement of replacement and new vehicles to be used for yellow plant and refuse trucks;
  30. the Benchmark report recommendations by National Treasury for the 2023/24 MTREF Annexure O (**DMS 1600975**) be supported,
  31. the amended Fixed Asset Management Policy included as Annexure N (**DMS 1600420**), be approved; and
  32. the presentation (**DMS 1600744**) on the Multi-year Medium Term Revenue and Expenditure Framework of the City of uMhlathuze for the 2023/2024 financial year be noted.