

15439

## ADOPTED MEDIUM TERM REVENUE EXPENDITURE FRAMEWORK - 2022/23

*This report is submitted simultaneously to the Financial Services Portfolio Committee, Executive Committee and Council.*

### PURPOSE

To submit to Council for approval, the Adopted 2022/23 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 compliance
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all financial related policies
		5.1.1.4 Compliance with all MFMA and related local government financial legislation
	5.2.1 Sustainable Financial and supply chain Management	5.2.1.1 Provide continuous Internal Communication 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 Demand and acquisition management
		5.2.1.6 Contracts and Logistics management
		5.2.1.7 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 tabled 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.

Specifically, for the 2022/23 Budget, Circulars No 112 (**DMS 1506508**) **Annexure L1** issued on 8 December 2021 and 115 (**DMS 1520257**) issued on 4 March 2022 **Annexure L2** are included as part of this report. **These circulars need to be read thoroughly by both the Council and the Administration.**

## DISCUSSION

Council approved the 2022/23 Tabled MTREF on the 30 March 2022.

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

It is important to note that due to the relaxing of the Covid-19 restrictions, this year's Budget Participation meetings were well attended and the community participated in the discussions that were held. Refer to **Annexure M (DMS 1529076)** 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:** to determine if the budget is **funded** in terms of Section 18 of the MFMA and whether the City adopted a budget process with evidence of sufficient political oversight and public participation. Political oversight and guidance is crucial for the budget process as the approval of the budget is the responsibility of Council and not that of the Budget and Treasury Office. In assessing the credibility of the budget, the revenue planning framework and associated assumptions are interrogated to determine if they are realistic and indicative of multi-year budgeting.
- **Relevance:** The municipality’s performance against the governance KPA is satisfactory considering that it conducts regular strategic public participation meetings.
- **Sustainability:** to determine whether the budget gives effect to the long-term financial and operational sustainability of the municipality. This is crucial that the budget is a **multi-year budget** over the MTREF.
- **mSCOA:** to determine if the tabled budget was prepared directly on the financial system and whether the A1 schedule is aligned to the data strings.

National Treasury’s has elected to continue with virtual sessions and the 2022/23 Budget Engagement and Municipal Benchmark exercise is scheduled for 18 May 2022.

This report was finalised prior to the engagement and therefore the Chief Financial Officer will provide feedback on the engagement at the Council Meeting.

The main positives that come out of compilation of the 2022/23 MTREF can be summarised as follows:

- All the Trading Services except Waste Water Management are making a surplus. See **Table 24 (DMS 1527003)** on recommendation 5;
- Extensive effort has been made within the categories of tariffs to make them more equitable between the various consumer and ratepayer categories;
- It is noted with appreciation that for the 2022/23 MTREF Equitable Share was increased by 13% over the 2021/22 MTREF;
- All services in the municipality are cost reflective of all the relevant municipal activities applicable to those services;
- There has been no trimming of resources allocated to Infrastructure repairs and maintenance. All the best practice standards of budget allocation to the repairs and maintenance activities are met;
- Although the budgeting of deficits is not sustainable in the long term, this municipality is financially sound enough to sustain such deficits in the short and medium term;
- 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 historically was a significant risk to the financial stability of this municipality.

The following budget principles, guidelines and assumptions directly informed the compilation of the 2022/23 MTREF:

- Revenue does include a projected 2% local economic growth with effect from each of the 2023/24 and 2024/25 years;
- Revenue cash flow assumes a 95% recovery;
- 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 2022/23 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 loan of R1250 million for the three year MTREF. This will require two separate tenders one for R600 million in 2022/23 and the second for R650 million in 2024/25;
- The basket of municipal services tariffs collectively has been kept below 7% despite the 9.6% 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
- Repairs and Maintenance provisions will be in line with international best practice parameters of 8% of PPE and are sitting at 11.7% for the 2022/23 financial year.

The **main challenges** experienced during the compilation of the 2022/23 MTREF can be summarised as follows:

- Between all the services far the greatest concern here lies with all the services financed by Property Tax (Rates). This Tabled budget has the Rates Services sitting with a R242 million deficit for 2022/23 and R236 million and R225 million deficit for the outer years;
- As from the 2018/19 year to the annualised 2020/21 financial year, Water sales volumes for commercial and industrial businesses have decreased by 2%. However, for exactly the same period residential consumers water sale volumes have increased by 6%. Both these numbers clearly pointing to a larger residential population but a reduction in the job creating environment. An even more negative trend is conspicuous with the volumes of electricity sold, where for the same period there is a 12% reduction.
- The majority of domestic households in uMhlathuze are not levied Property Rates. It is because the individual properties 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;
- 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 R26,8 million – refer to **Table 25 (DMS 1527003)** for details;
- Waste Water Management Service shows a deficit of R18.7 million (R29 million deficit for 2021/22), 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 25,6% and appear 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 Council's situation that figure should be no more than the current 25,6% given the distortion in Council's 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 (8,7%) together with Employee related Costs. This figure amounts to 34,3% (25,6% + 8,7%). As can be seen this cost is over the 30% norm;

## CONSOLIDATED OVERVIEW:

**Table 1: Consolidated Overview of the 2022/23 MTREF:**

Description	Current Year 2021/22	2022/23 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Adopted Budget 2022/23	Adopted Budget 2023/24	Adopted Budget 2024/25
<b>R thousands</b>				
Total Operating Revenue	4 170 571	4 468 276	4 761 992	5 083 755
Total Operating Expenditure	4 321 276	4 541 932	4 813 518	5 096 419
<b>Surplus/ (Deficit) for the year</b>	<b>(150 705)</b>	<b>(73 656)</b>	<b>(51 526)</b>	<b>(12 664)</b>
Total Capital Expenditure	834 530	835 076	790 986	807 214
<b>TOTAL OPERATING &amp; CAPITAL BUDGET</b>	<b>5 155 806</b>	<b>5 377 008</b>	<b>5 604 504</b>	<b>5 903 633</b>

**Table 2 - 2022/23 Tariff increases**

Categories	Percentage increase (%) (Average) 2022/23	Percentage increase (%) (Average) 2022/23	Percentage increase (%) (Average) 2023/24
Property rates	7,00%	7,00%	7,00%
Electricity	7,83%	7,00%	7,00%
Water	9,00%	7,00%	7,00%
Refuse	6,00%	7,00%	7,00%
Sewer	6,00%	7,00%	7,00%

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 2021/22		2022/23 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2022/23	%	Budget Year +1 2023/24	%	Budget Year +2 2024/25	%
<b>Revenue By Source</b>								
Property rates	617 378	14.8%	681 140	15.2%	722 009	15.2%	772 549	15.2%
Service charges - electricity revenue	1 733 295	41.6%	1 857 292	41.6%	1 987 303	41.7%	2 126 414	41.8%
Service charges - water revenue	470 144	11.3%	511 401	11.4%	542 085	11.4%	580 031	11.4%
Service charges - sanitation revenue	107 610	2.6%	114 066	2.6%	120 910	2.5%	129 374	2.5%
Service charges - refuse revenue	107 656	2.6%	114 115	2.6%	120 959	2.5%	129 426	2.5%
Rental of facilities and equipment	19 241	0.5%	6 477	0.1%	16 866	0.4%	18 346	0.4%
Interest earned - external investments	65 000	1.6%	66 700	1.5%	68 400	1.4%	71 000	1.4%
Interest earned - outstanding debtors	126	0.0%	128	0.0%	136	0.0%	145	0.0%
Fines, penalties and forfeits	57 636	1.4%	57 681	1.3%	61 142	1.3%	65 422	1.3%
Licences and permits	3 526	0.1%	3 526	0.1%	3 738	0.1%	3 999	0.1%
Agency services	6 179	0.1%	6 179	0.1%	6 550	0.1%	7 009	0.1%
Transfers and subsidies	444 067	10.6%	504 462	11.3%	538 856	11.3%	585 790	11.5%
Other revenue	36 985	0.9%	37 225	0.8%	38 532	0.8%	40 126	0.8%
Gains	501 730	0.0%	507 883	11.4%	534 507	11.2%	554 124	10.9%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>4 170 571</b>	<b>88%</b>	<b>4 468 276</b>	<b>100%</b>	<b>4 761 992</b>	<b>100%</b>	<b>5 083 755</b>	<b>100%</b>
Total revenue from rates and service charges	3 036 082	72.8%	3 278 015	73.4%	3 493 266	73.4%	3 737 794	73.5%

**Table 4: Percentage proportion in expenditure by main expenditure type:**

Description  R thousand	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2022/23	%	Budget Year +1 2023/24	%	Budget Year +2 2024/25	%
<b>Expenditure By Type</b>								
Employee related costs	1 070 366	24.8%	1 164 608	25.6%	1 222 558	25.4%	1 282 952	25.2%
Remuneration of councillors	35 116	0.8%	37 291	0.8%	39 157	0.8%	41 116	0.8%
Debt impairment	128 584	3.0%	172 510	3.8%	183 486	3.8%	196 251	3.9%
Depreciation & asset impairment	400 000	9.3%	326 822	7.2%	340 811	7.1%	352 252	6.9%
Finance charges	67 032	1.6%	72 865	1.6%	71 892	1.5%	65 402	1.3%
Bulk purchases - electricity	1 219 002	28.2%	1 258 204	27.7%	1 384 024	28.8%	1 522 427	29.9%
Inventory Consumed	501 091	11.6%	557 492	12.3%	586 453	12.2%	614 395	12.1%
Contracted services	342 264	7.9%	395 298	8.7%	403 910	8.4%	416 084	8.2%
Transfers and subsidies	14 217	0.3%	14 217	0.3%	14 643	0.3%	15 082	0.3%
Other expenditure	300 510	7.0%	327 827	7.2%	340 098	7.1%	353 189	6.9%
Loss on disposal of PPE	243 095	5.6%	214 798	4.7%	226 485	4.7%	237 269	4.7%
<b>Total Expenditure</b>	<b>4 321 276</b>	<b>100%</b>	<b>4 541 932</b>	<b>100%</b>	<b>4 813 518</b>	<b>100%</b>	<b>5 096 419</b>	<b>100%</b>

The following tables represent the 2022/23 Adopted Capital Budget:

**Table 5: Proposed Capital Funding:**

Description	Current Year 2020/21	2021/22 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2021/22	Budget Year +1 2022/23	Budget Year +2 2023/24
<b>R thousand</b>				
<b>Funded by:</b>				
National Government	178 857	162 013	163 351	164 420
Provincial Government	8 650	10 943	10 937	10 097
<b>Transfers recognised - capital</b>	<b>187 507</b>	<b>172 956</b>	<b>174 288</b>	<b>174 517</b>
<b>Borrowing</b>	89 996	226 138	154 000	170 000
<b>Internally generated funds</b>	485 205	431 874	363 868	398 504
<b>Total Capital Funding</b>	<b>762 709</b>	<b>830 967</b>	<b>692 156</b>	<b>743 020</b>

**Table 6: 2022/23 Medium-Term Capital Budget per Vote:**

Description	Current Year 2021/22	2022/23 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
<b>R thousand</b>				
<b>Capital Expenditure - Functional</b>				
<b><i>Governance and administration</i></b>	<b>97 730</b>	<b>52 068</b>	<b>54 295</b>	<b>55 600</b>
Executive and council	–	141	183	216
Finance and administration	97 730	51 927	54 112	55 384
<b><i>Community and public safety</i></b>	<b>87 372</b>	<b>91 645</b>	<b>124 205</b>	<b>83 493</b>
Community and social services	38 481	47 503	76 662	59 556
Sport and recreation	48 080	41 805	45 341	21 800
Public safety	812	2 337	2 202	2 137
<b><i>Economic and environmental services</i></b>	<b>126 285</b>	<b>183 240</b>	<b>175 509</b>	<b>167 697</b>
Planning and development	2 457	48 603	22 135	3 285
Road transport	121 427	132 137	152 374	163 912
Environmental protection	2 401	2 500	1 000	500
<b><i>Trading services</i></b>	<b>503 643</b>	<b>496 623</b>	<b>428 977</b>	<b>486 424</b>
Energy sources	163 888	51 602	65 917	77 547
Water management	274 709	311 419	217 984	266 475
Waste water management	65 046	121 800	134 129	131 058
Waste management	–	11 802	10 947	11 344
<b><i>Other</i></b>	<b>19 500</b>	<b>11 500</b>	<b>8 000</b>	<b>14 000</b>
<b>Total Capital Expenditure - Functional</b>	<b>834 530</b>	<b>835 076</b>	<b>790 986</b>	<b>807 214</b>

The following pertinent issues were raised during the community consultation process. Minutes of various meetings have been prepared and are included as **Annexure M (DMS 1529076)**:

- Poor service delivery and response time;
- Pedestrian bridges and bus shelters;
- Provision of community sportfields;
- Community waste skips;
- Streetlights in high crime areas;
- Provision of speed humps and traffic calming measures;
- Electricity supply in Eskom supply areas;
- Building of new clinics and libraries;
- Roads maintenance and upgrading of existing roads and new rural roads;
- Cleaning of greenbelts to improve security and reduce crime;
- Upgrade of beach infrastructure e.g. lifeguard building and ablution facilities;
- Boreholes and water pipes replacements to replace water tankers which are not reliable;
- Fresh produce markets for community to sell;
- Increase the number of water tankers deployed in the rural areas;
- Market shelters for street vendors; and
- Public Wi-Fi in rural areas.

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

- **Annexure A (DMS 1527003)** - Budget report that has been prepared using the “Batho Pele City” template;
- **Annexure B1 - B56 (DMS 1530667)** - Municipal Annual Budget and MTREF Supporting Tables;
- **Annexure C (DMS 1527372)** - Tariffs of Charges;
- **Annexure D1 (DMS 1527375)** - Rates Policy;
- **Annexure D2 (DMS 1527377)** - Tariff Policy;
- **Annexure E (DMS 1523225)** – 2022/23 Adopted Capital Budget;
- **Annexure F (DMS 1523225)** Component 1: Monthly projections of revenue to be collected for each source;
- **Annexure G (DMS 1523225) Component 2: Monthly projections of expenditure (operating and capital) and revenue for each Vote;**
- **Annexure H1 – H9 (DMS 1523225)** Component 3: Draft annual projections of service delivery targets and performance indicators for each Vote;
- **Annexure I (DMS 1523225)** Component 4: Ward information for Capital expenditure;
- **Annexure J (DMS 1523225)** Component 4: Ward information for operating expenditure;
- **Annexure K (DMS 1523225)** Component 5: Detailed capital works plan broken down by ward over three years;
- **Annexure L1 (DMS 1506508)** - MFMA Budget Circular number 112 dated 8 December 2021; and
- **Annexure L2 (DMS 1520257)** - MFMA Budget Circular number 115 dated 4 March 2022.
- **Annexure M (DMS 1529076)** - Minutes of Public Participation meetings.

#### **MUNICIPAL MANAGER’S QUALITY CERTIFICATION**

Refer to **DMS 1531435 (Annexure N)**.

#### **ENVIRONMENTAL IMPLICATIONS**

No environmental implications.

#### **FINANCIAL IMPLICATIONS**

This is dealt with in detail throughout the Budget Report.

#### **LEGAL IMPLICATIONS**

This is dealt 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 in the presentation contained in **Appendix “A” (DMS 1527003)**.

## RECOMMENDED THAT:

1. the Adopted Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the City of uMhlathuze for the Financial Year 2022/23 and indicative for the projected outer years 2023/24 and 2024/25 be approved as set out in the Budget Report **(DMS 1527003)** and in the Budget tables A1 - A10 **(Annexure B1 - B13) (DMS 1530667)**;
2. the Final Integrated Development Plan (IDP) Review for 2021/22 **(DMS 1469964)** be incorporated into the Tabled 2022/23 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
3. the Adopted 2022/23 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 2021/22	2022/23 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Adopted Budget 2022/23	Adopted Budget 2023/24	Adopted Budget 2024/25
Total Operating Revenue	4 170 571	4 468 276	4 761 992	5 083 755
Total Operating Expenditure	4 321 276	4 541 932	4 813 518	5 096 419
<b>Surplus/ (Deficit) for the year</b>	<b>(150 705)</b>	<b>(73 656)</b>	<b>(51 526)</b>	<b>(12 664)</b>
<b>Total Capital Expenditure</b>	<b>834 530</b>	<b>835 076</b>	<b>790 986</b>	<b>807 214</b>
<b>TOTAL OPERATING &amp; CAPITAL BUDGET</b>	<b>5 155 806</b>	<b>5 377 008</b>	<b>5 604 504</b>	<b>5 903 633</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 R600 m in the 2022/23 financial year of which R390 m will be drawn when required in the 2022/23, with the balance of R210 m to be drawn down in 2024/25;
5. the following table setting out the surplus/(deficit) across the services be approved:

Description	Current Year 2021/22	2022/23 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
<b>Electricity and Energy Sources</b>				
Surplus/(Deficit) for the year	87 251	102 674	83 672	64 680
<b>Water Management</b>				
Surplus/(Deficit) for the year	54 165	80 712	93 292	116 668
<b>Waste water management</b>				
Surplus/(Deficit) for the year	(27 107)	(18 773)	(1 629)	14 665
<b>Waste management</b>				
Surplus/(Deficit) for the year	(3 303)	1 456	6 981	14 652
<b>Other Services</b>				
Surplus/(Deficit) for the year	(261 711)	(239 725)	(233 842)	(223 329)
<b>Total</b>				
<b>Surplus/(Deficit) for the year</b>	<b>(150 705)</b>	<b>(73 656)</b>	<b>(51 526)</b>	<b>(12 664)</b>

6. the Adopted Service Delivery and Budget Implementation Plan (SDBIP) 2022/23 **(DMS 1523225)** 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 2022/23 financial year be approved:

Category	Proposed tariff (from 1 July 2022)	Ratio to Residential Tariff
	<b>C</b>	
Residential Properties	0,0104	1 : 1
Business / Commercial	0,0218	1 : 2,10
Industrial	0,0228	1 : 2,20
Agricultural Properties	0,0026	1 : 0,25
Public Service Purposes (State Owned)	0,0120	1 : 1,10
Public Service Infrastructure	0,0026	1 : 0,25
Public Benefit Organisation Properties	0,0026	1 : 0,25
Mining Properties	0,0238	1 : 2,30
Vacant Land	0,0218	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 1527375)** 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 (11) 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 1527372)** be approved;
14. the Tariff policy as per **Annexure D2 (DMS 1527377)**;
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. no basic water charge for customers consuming 10 kl and below in 30 days;
20. strategic grouping of water service tariffs, dividing them into groups as follows:
  - a) 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;
  - b) Tariff Structure 2 (T2) will be for households managing their consumption to be greater than 10 kl per month but not exceeding 25 kl per month; and
  - c) Tariff Structure 3 (T3) will be for all the customers not in (a) and (b) above, customers consuming above 25 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;
21. all state properties be increased by 5% above City of uMhlathuze average rate increase of 6%;
22. in terms of various policies, the following increases in allowances are submitted to Council for approval:

	Approved Tariffs - 2021/22	Adopted Tariffs - 2022/23
	R	R
Standby - Travel allowance	113	116
Standby - Subsistence allowance	74	76
<b>Subsistence allowances</b>		
Daily allowance	160	165
Overnight allowance	215	221
Own accommodation	295	304
Interview candidates	77	79
<b>Accommodation</b>		
All employees	1 342	1 382
All councillors and Section 56 employees	2 250	2 318
Municipal Manager, Mayor/ Deputy Mayor, Speaker and Municipal Chief Whip	3 754	3 867
Ward committee members	1 613	1 662
<b>Indigent Burial Assistance</b>		
Adult	2 961	3 050
Child (1 day to 15 years)	2 250	2 318
Stillborn / foetus	1 540	1 586

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 Municipal Manager via letters to the respective transferring officers apply for a roll-over of funds received in **2021/22** financial year to the next financial year, namely the 2022/23 financial year;
25. although Council has an approved Virement Policy, in terms of this 2022/23 MTREF Budget appropriation, a MFMA mSCOA Circular No. 8 (**DMS 1402904**) be Tabled with the following:
  - No virements (transfers) will be allowed out of:
    - All Repairs and Maintenance Projects unless approval has been sort jointly between the Municipal Manager and the Chief Financial Officer;
    - Purchase of Bulk Electricity and Bulk Water Projects;
  - 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 2022/23 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; and
- 28. Council adopts National Treasury's MFMA Circular number 115 dated 4 March 2022 **(DMS 1520257)** that is in line with Section 168(3)(a) of the Municipal Finance Management Act 56 of 2003.