

17095

ADOPTED MEDIUM TERM REVENUE EXPENDITURE FRAMEWORK - 2024/2025

This report is submitted directly to the Special Executive Committee and Council.

PURPOSE

To submit to Council for approval the Adopted 2024/2025 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 Tabled 2024/25 MTREF, the Municipal Budget Policy Guide (**DMS 1626405 – Detail and DMS 1626404 – Summary**) read together with the Budget Process Plan (**DMS 1613274**) to guide the Administration throughout the compilation of the whole budget.

MFMA Circulars No 126 (DMS 1642080) Annexure L1 issued on 8 December 2023 and 128 (DMS 1648167) issued on 8 March 2024 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 Tabled 2024/25 MTREF.

DISCUSSION

Council approved the 2024/2025 Adopted MTREF on the 29 March 2024.

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 N (DMS 1668688)** 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.

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 126 and 128 issued in December 2023 and March 2024 respectively were used to compile the Budget.

The following main challenges in compiling this 2024/2025 MTREF. They can be summarised as follows:

- Between all the services by far the greatest concern lies with all the services financed by Property Tax (Rates). This Adopted budget has the Rates Services sitting with a R152 million deficit for 2024/2025 and R153 million and R163 million deficit for the outer years.
- The majority of residential households in uMhlathuze are not levied Property Rates. This is because the individual properties are within the Ingonyama Trust land are not separately valued and not subject to the Municipal Property Rates Act. This is 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, 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 these residents hold no legal title to the land. Indirectly, the National Treasury has assisted by increasing 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. This is putting resident's health at risk and reducing the municipality's revenue streams which are required to cater for the water infrastructure.
- It appears that the Water Losses in uMhlathuze are deteriorating. From 2021/2022 the gross loss was 38%, 2022/2023 gross loss was 57% as at the end of February 2024 the Gross water loss is sitting at 51,8%. The projected water loss in financial terms for the 2024/25 MTREF is R370 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 million – refer to **Table 26** for details.
- Waste Water Management Service shows a deficit of R92,8 million (R89,4 million deficit for Adjusted 2023/2024), 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 22,5% 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 22.5% 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 (8,5%) together with Employee related Costs. This figure amounts to 31% (22.5% + 8,5%). 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 7.7% of PPE. This has increased from 2023/24 at 6.1%. The outer years 2025/26 and 2026/27 increase to 8.4% and 8.9% respectively. Over the MTREF the norm is achieved.
- The great dependency of the Refuse Service (Solid Waste Management) to Equitable Share is a risk for the Municipality. However, it does appear promising that the Senior Management are working on a Revenue Enhancement Strategy, which will be applied in the coming financial year.

- A broad management view (Particularly from Finance Department) is held that with the uMhlathuze Municipality not having a correct municipal grading, the strategic long term negative effect thereof is now taking its toll on efficient and effective service delivery. The long term reality of not attracting appropriate capacity from the market is the output resulting in the latter outcome. Evidence of this fact is apparent in the extent to which services are outsourced and professional advisory services that are contracted to perform both mundane and many professional municipal skills required by the Municipality on a daily basis. This point further substantiated by the fact that the combination of Municipal Remuneration Plus Contracted Services, now amount to 47 per cent of Gross Income (Total Income Less Electricity and Water Purchases) or 31 per cent of Expenditure Budget. Both these figures over the norm of 30%.

The main positives that come out of compilation of the 2024/25 MTREF can be summarised as follows:

- The 2024/2025 MTREF has a surplus of R9,5 million from an Adjusted 2023/2024 deficit of R163,4 million.
- 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 2024/2025 MTREF Equitable Share was increased by 7% over the 2023/24 MTREF – R520 million to R556 million.
- 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 2024/2025 MTREF:

- Revenue does include a projected 2% local economic growth with effect from each of the 2024/2025 and outer years;
- Revenue cash flow assumes a 93% 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 2024/2025 MTREF is based on a 95% to 5% weighting towards borrowing and capital replacement reserve respectively;
- The above weighting is going to require Council to consider approving a Section 46 loan of R380 million in the 2024/2025 year;
- The basket of municipal services tariffs collectively has been kept below 11.00% despite the 12.72% increase in electricity purchases; and
- 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.

Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the following Councillors and officials:

- Mayor
- Deputy Mayor
- Speaker
- Municipal Whip
- City Manager
- Chief Financial Officer – Chairperson
- Deputy City Managers
- Any other official on invitation

The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the City's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

The Budget Steering committee met on 15 March 2024 for the Mayor to provide guidance on the Budget Process. A follow-up meeting took place on 20 March 2024. Consultation will continue until the Adopted Budget is approved on 23 May 2024.

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 will be undertaken in accordance with the four pillars namely, institutional arrangement, service delivery, financial governance and financial health.

This engagement was conducted on the 17 May 2024. Due to the timing aspects, National Treasury's report could not be included in this report and therefore will be presented verbally by the Chief Financial Officer (CFO).

CONSOLIDATED OVERVIEW:

Table 1: Consolidated Overview of the 2024/25 MTREF:

Description R thousands	Current Year 2023/24	2024/25 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Adopted Budget 2024/25	Adopted Budget 2025/26	Adopted Budget 2026/27
Total Operating Revenue	5 122 627	5 599 452	5 965 030	6 402 328
Total Operating Expenditure	5 286 027	5 589 918	5 952 519	6 389 144
Surplus/ (Deficit) for the year	(163 401)	9 534	12 511	13 185
Total Capital Expenditure	817 407	610 994	617 524	572 573
TOTAL OPERATING & CAPITAL BUDGET	6 103 434	6 200 912	6 570 044	6 961 717

Table 2: 2024/25 Proposed Tariff increases

Categories	Percentage increase (%) (Average) 2024/25	Percentage increase (%) (Average) 2025/26	Percentage increase (%) (Average) 2026/27
Property rates	9.00%	6.00%	6.00%
Electricity	10.09%	8.00%	8.00%
Water	10.00%	7.00%	7.00%
Refuse	6.00%	6.00%	6.00%
Sewer	9.00%	5.00%	5.00%

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 2023/24		2024/25 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2024/25	%	Budget Year +1 2025/26	%	Budget Year +2 2026/27	%
Revenue								
Exchange Revenue								
Service charges - Electricity	2 290 831	44.7%	2 542 822	45.4%	2 767 000	46.4%	3 013 264	47.1%
Service charges - Water	585 000	11.4%	643 500	11.5%	676 962	11.3%	712 164	11.1%
Service charges - Waste Water Management	120 256	2.3%	132 282	2.4%	138 896	2.3%	145 841	2.3%
Service charges - Waste Management	114 669	2.2%	120 402	2.2%	126 422	2.1%	132 743	2.1%
Sale of Goods and Rendering of Services	94 781	1.9%	75 526	1.3%	45 930	0.8%	63 313	1.0%
Agency services	8 365	0.2%	8 365	0.1%	8 365	0.1%	8 365	0.1%
Interest earned from Receivables	29	0.0%	29	0.0%	31	0.0%	32	0.0%
Interest earned from Current and Non Current Assets	40 000	0.8%	45 000	0.8%	50 000	0.8%	55 000	0.9%
Rent on Land	1 950	0.0%	1 912	0.0%	2 007	0.0%	2 108	0.0%
Rental from Fixed Assets	15 019	0.3%	19 840	0.4%	20 833	0.3%	21 874	0.3%
Operational Revenue	11 131	0.2%	11 627	0.2%	11 672	0.2%	11 672	0.2%
Non Exchange Revenue								
Property rates	713 967	13.9%	778 224	13.9%	817 135	13.7%	857 992	13.4%
Surcharges and Taxes	6 332	0.1%	6 208	0.1%	6 518	0.1%	6 844	0.1%
Fines, penalties and forfeits	12 284	0.2%	12 284	0.2%	12 284	0.2%	12 284	0.2%
Licences or permits	3 632	0.1%	3 632	0.1%	3 813	0.1%	4 004	0.1%
Transfer and subsidies - Operational	568 973	11.1%	587 345	10.5%	613 555	10.3%	644 094	10.1%
Interest	870	0.0%	870	0.0%	870	0.0%	870	0.0%
Other Gains	534 540	10.4%	609 585	10.9%	662 738	11.1%	709 865	11.1%
Total Revenue (excluding capital transfers and contributions)	5 122 627	100%	5 599 452	100%	5 965 030	100%	6 402 328	100%
Total revenue from rates and service charges	3 824 723	74.7%	4 217 230	75.3%	4 526 415	75.9%	4 862 003	75.9%

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

Description R thousand	Current Year 2023/24		2024/25 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2024/25	%	Budget Year +1 2025/26	%	Budget Year +2 2026/27	%
Expenditure By Type								
Employee related costs	1 186 692	22.4%	1 257 068	22.5%	1 315 508	22.1%	1 381 001	21.6%
Remuneration of councillors	35 510	0.7%	35 203	0.6%	36 960	0.6%	38 805	0.6%
Bulk purchases - electricity	1 627 634	30.8%	1 802 031	32.2%	1 962 412	33.0%	2 137 066	33.4%
Inventory Consumed	494 717	9.4%	492 834	8.8%	527 553	8.9%	559 346	8.8%
Debt impairment	238 597	4.5%	274 733	4.9%	294 828	5.0%	316 695	5.0%
Depreciation and amortisation	320 160	6.1%	305 950	5.5%	340 255	5.7%	380 500	6.0%
Interest	158 678	3.0%	178 824	3.2%	199 420	3.4%	214 616	3.4%
Contracted services	493 057	9.3%	475 795	8.5%	460 317	7.7%	498 152	7.8%
Transfers and subsidies	9 960	0.2%	7 582	0.1%	7 938	0.1%	8 311	0.1%
Operational costs	377 359	7.1%	389 896	7.0%	406 252	6.8%	425 704	6.7%
Other Losses	343 664	6.5%	370 004	6.6%	401 076	6.7%	428 946	6.7%
Total Expenditure	5 286 027	100%	5 589 918	100%	5 952 519	100%	6 389 144	100%

The following tables represent the 2024/2025 Tabled Capital Budget:

Table 5: Proposed Capital Funding:

Description R thousand	Current Year 2023/24	2023/24 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Funded by:				
National Government	216 337	218 503	199 912	224 844
Provincial Government	–	500	2 612	2 729
District Municipality				
Transfers and subsidies - capital (monetary allocations) (Nat / Prov Departm Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educ Institutions)	2 194	–	–	–
Transfers recognised - capital	218 530	219 003	202 524	227 573
Borrowing	418 775	380 000	360 000	325 000
Internally generated funds	180 101	11 991	55 000	20 000
Total Capital Funding	817 407	610 994	617 524	572 573

Table 6 - 2024/2025 Medium-term capital budget per Vote:

Description R thousand	Current Year 2023/24	2024/25 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Capital Expenditure - Functional				
Governance and administration	64 557	58 787	71 212	59 313
Executive and council	123	36	40	33
Finance and administration	64 434	58 751	71 172	59 280
Internal audit	–	–	–	–
Community and public safety	136 699	32 483	55 566	45 941
Community and social services	57 555	9 249	13 981	11 580
Sport and recreation	77 578	19 361	37 102	30 627
Public safety	1 565	675	912	759
Housing	–	3 198	3 571	2 975
Health	–	–	–	–
Economic and environmental services	152 737	104 276	62 765	51 978
Planning and development	14 777	35 175	755	627
Road transport	133 382	69 023	61 826	51 198
Environmental protection	4 579	78	184	153
Trading services	449 989	403 049	423 204	410 809
Energy sources	106 705	76 690	62 232	47 493
Water management	260 751	246 309	258 418	256 381
Waste water management	75 003	64 815	89 326	91 935
Waste management	7 530	15 235	13 228	15 000
Other	13 424	12 399	4 777	4 532
Total Capital Expenditure - Functional	817 407	610 994	617 524	572 573

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

- **Annexure A (DMS 1666573)** - Budget report that has been prepared using the “Batho Pele City” template.
- **Annexure B1 - B56 (DMS 1670890)** - Municipal Annual Budget and MTREF Supporting Tables.
- **Annexure C (DMS 1631239)** - Tariffs of Charges.
- **Annexure D1 (DMS 1668889)** - Rates Policy.
- **Annexure D2 (DMS 1668895)** - Tariff Policy.
- **Annexure E (DMS 1659776)** – 2024/25 Adopted Capital Budget.
- **Annexure F (DMS 1659776)** Component 1: Monthly projections of revenue to be collected for each source.
- **Annexure G (DMS 1659776)** Component 2: Monthly projections of expenditure (operating and capital) and revenue for each Vote.
- **Annexure H1 – H9 (DMS 1659776)** Component 3: Draft annual projections of service delivery targets and performance indicators for each Vote.
- **Annexure I (DMS 1659776)** Component 4: Ward information for Capital expenditure.
- **Annexure J (DMS 1659776)** Component 4: Ward information for operating expenditure.
- **Annexure K (DMS 1659776)** Component 5: Detailed capital works plan broken down by ward over three years.
- **Annexure L1 (DMS 1642080)** - MFMA Budget Circular number 126 dated 7 December 2023.
- **Annexure L2 (DMS 1658167)** - MFMA Budget Circular number 128 dated 8 March 2024.
- **Annexure M (DMS 1659183)** – Debt Impairment Policy.
- **Annexure N (DMS 1668688)** – Public Participation Meetings
- **Annexure O (DMS 1668788)** – Metered Services Policy
- **Annexure P (DMS 1600420)** – Fixed Asset Management Policy
- **Annexure Q (DMS 1670730)** – Funding and Reserves Policy
- **Annexure R (DMS 1670731)** – Insurance Policy
- **Annexure S (DMS 1670730)** – Borrowing Policy
- **Annexure T (DMS 1670730)** – Cash and Investments Policy

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 1666573)**.

RECOMMENDED THAT:

1. the Adopted Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the City of uMhlathuze for the 2024/2025 financial year and indicative for the projected outer years 2025/2026 and 2026/2027 be approved as set out in the Budget Report **(DMS 1666573)** and in the Budget tables A1 - A10 **(Annexure B1 - B13) (DMS 1670890)**;
2. the Final Integrated Development Plan (IDP) Review for 2023/24 **(DMS 1583533)** be incorporated into the Adopted 2024/25 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
3. the Adopted 2024/2025 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 2023/24	2024/25 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Adopted Budget 2024/25	Adopted Budget 2025/26	Adopted Budget 2026/27
Total Operating Revenue	5 122 627	5 599 452	5 965 030	6 402 328
Total Operating Expenditure	5 286 027	5 589 918	5 952 519	6 389 144
Surplus/ (Deficit) for the year	(163 401)	9 534	12 511	13 185
Total Capital Expenditure	817 407	610 994	617 524	572 573
TOTAL OPERATING & CAPITAL BUDGET	6 103 434	6 200 912	6 570 044	6 961 717

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 R380 million for the 2024/2025 financial year of which if approved by Council, will only be drawn down during the 2024/2025 financial year. It be further recommended that the Chief Financial Officer proceeds with the commencement of the Section 46 process before the commencement of the 2024/2025 financial year;

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

Description R thousand	2024/25 Medium Term Revenue & Expenditure Framework		
	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Electricity and Energy Sources			
Surplus/(Deficit) for the year	227 650	256 190	290 200
Water Management			
Surplus/(Deficit) for the year	8 017	(11 738)	(24 704)
Waste water management			
Surplus/(Deficit) for the year	(92 830)	(100 290)	(112 993)
Waste management			
Surplus/(Deficit) for the year	19 549	21 655	23 792
Rates and other Services			
Surplus/(Deficit) for the year	(152 852)	(153 306)	(163 110)
Surplus/(Deficit) for the year	9 534	12 511	13 185

6. the Adopted Service Delivery and Budget Implementation Plan (SDBIP) 2024/2025 (**DMS 1659776**) 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 2024/2025 financial year be approved:

Category	Proposed tariff (from 1 July 2024)	Ratio to Residential Tariff
	C	
Residential Properties	0,0123	1 : 1
Business / Commercial	0,0258	1 : 2,10
Industrial	0,0271	1 : 2,20
Agricultural Properties	0,0031	1 : 0,25
Public Service Purposes (State Owned)	0,0141	1 : 1,15
Public Service Infrastructure	0,0030	1 : 0,25
Public Benefit Organisation Properties	0,0030	1 : 0,25
Mining Properties	0,0283	1 : 2,30
Vacant Land	0,0258	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 1668889)** 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 1631239)** be approved;
14. the Tariff policy as per **Annexure D2 (DMS 1668895)**;
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 eight (8) kilolitres per month;
19. 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 eight (8) 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 eight (8) 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 kilolitres 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 subject to the Cost Containment Policy:

	Approved Tariffs - 2023/24	Proposed Tariffs - 2024/25
	R	R
Standby - Travel allowance	121	127
Standby - Subsistence allowance	79	83
Subsistence allowances		
Daily allowance	172	180
Overnight allowance	231	242
Own accommodation	317	333
Interview candidates	82	86
Accommodation		
All employees	1 443	1 514
All councillors and Section 56 employees	2 420	2 539
Municipal Manager, Mayor/ Deputy Mayor, Speaker and Municipal Chief Whip	4 037	4 235
Ward committee members	1 736	1 822
Indigent Burial Assistance		
Adult	3 184	3 340
Child (1 day to 15 years)	2 420	2 539
Stillborn / foetus	1 656	1 737

23. the funding for Indigent Burial Assistance be capped for the 2024/2025 financial year at R689 100;
24. the profit on sale of all erven be allocated 100% to the Rates and General Capital Replacement Reserve account;
25. 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 **2023/2024** financial year to the next financial year, namely the 2024/2025 financial year;
26. although Council has an approved Virement Policy, in terms of this 2024/2025 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; and
 - 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*². 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).
27. 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 2024/2025 Asset Maintenance Plan and captured accordingly on the Work Break-down Structure (WBS) of the uM-SAP System;
28. 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 (WBS);
29. Council adopts National Treasury's MFMA Circular number 126 dated 7 December 2023 **(DMS 1642080)** and Circular number 128 dated 8 March 2024 **(DMS 1658167)** that is in line with Section 168(3)(a) of the Municipal Finance Management Act 56 of 2003;
30. the Debt Impairment Policy as per **Annexure M (DMS 1659183)** be approved;
31. Refuse Basic Charge be applied for companies utilising private companies for waste removal;

32. all sectional title properties be billed water basic charges as a charge related to the ownership of the property rather than one charge to the Body Corporate individually;
33. cease charging normal water basic charge based on the quantity of the meters and volumes for the sectional titles;
34. National Treasury's Benchmark report containing the resolutions and recommendations for the 2024/25 MTREF be supported;
35. the amended Fixed Asset Management Policy included as **Annexure P (DMS 1671240)**, be approved;
36. the Metered Services Policy as per **Annexure O (DMS 1668788)** be approved;
37. the following policies as contained in the respective documents be approved:
 - a. Funding and Reserves Policy **Annexure R (DMS 1670730)**;
 - b. Insurance Policy **Annexure S (DMS 1670731)**;
 - c. Borrowing Policy **Annexure T (DMS 1670732)**; and
 - d. Cash and Investments Policy **Annexure U (DMS 1670734)**;
38. the presentation **(DMS 1670590)** on the Multi-year Medium Term Revenue and Expenditure Framework of the City of uMhlathuze for the 2024/25 financial year be noted; and
39. the Department Corporate Services: ICT to submit a progress report on SAP implementation to serve at the Financial Services Portfolio Committee in August 2024.