## Introduction:

1. PURPOSE

The purpose of the report is to table before the Committee the draft Annual Operating and Capital MTREF for the 2021/2022 to 2023/24 financial period in terms of Section 16(2) of the MFMA.

2. BACKGROUND

National Treasury prescribes the guidelines of the MTREF period through a sustained and viable process as taken from the priorities of the countries National Development Plan. This is confined to our Growth and Development Strategy (as revised) and Council's 5-Year IDP. In addition the Gauteng Province has pronounced on plans to Transform, Modernise and Re-Industrialise (TMR) the beauty and resiliency of the province. This plans are confined in a ten pillar vision by the Premier which states the following:

- *Radical economic transformation;*
- *Decisive spatial transformation;*
- *Accelerating social transformation;*
- *Transformation of the state and governance;*
- *Modernisation of the economy;*
- *Modernisation of the public service and the state;*
- *Modernisation of human settlements and urban development;*
- *Modernisation of the public transport and other infrastructure;*
- *Re-industrialising Gauteng as the country's economic hub; and*
- *Taking the lead in Africa's new industrial revolution.*

However, as economic uncertainty continues throughout the country, it is imperative that we take a conservative approach to the budget in order to give financial stability and start building financial reserves for the municipality. Controlling municipal spending by spending less than the municipality takes in, demonstrates a commitment to common-sense budgeting and economic health that Sedibeng District Municipality deserve. In addition the District has been able to sustain our cost containment or austerity measures program during our budgeting process which is still ongoing.

The reporting requirements of this draft budget are disclosed in terms of the MFMA circulars 48, 51, 54, 55, 58, 66, 67, 70, 74, 78, 79, 85, 86, 91, 99, 107 and 108 as well as the Municipal Budget and Reporting Regulations (MBRR GN 393 of 2009).

The municipality has had to adopt a very conservative approach to budgeting for 2021/2022 MTREF as the municipality's revenue base (primarily composed of grants & subsidies) has shrink, while operational expenditure continues to grow at a rate of CPI with salaries & employee-related costs growing at above CPI (due to the collective bargaining agreement).

The implementation of the Municipal Standard Chart of Accounts (MSCOA), has also assisted the municipality in moving away from cost line budgeting towards project-based budgeting.

3. BUDGET DISCUSSION

The Draft Annual Budget is strategically aligned to the IDP 2021/2022 and provides the financial framework to the strategic objectives and targets. Our budget conforms to the key objectives and strategies of the District Municipality. In this process the Budget Steering Committee met with the MMCs, EDs and HODs (or their duly delegated representatives) of all Clusters. As a result of the limited resources as determined by National Treasury by means of the equitable share allocation the budget had to be drawn up within those tight constraints based on the decline of this major revenue source over the last seven years.

During the 2021/2021 budget process, Clusters were tasked to provide their budgetary requests as per their needs analysis, using the MSCOA project-based approach, and in alignment to IDP key performance areas. Incremental based budgeting was only used for expenses which have existing obligations, such as employee-related costs.

The budget was compiled based on a trend analysis taking into consideration the anticipated revenue realisable in the 2021/22 financial year. Contractual obligations such as salaries and contracted services were first determined whereby general expenses were reduced in an effort to obtain a balanced budget. Minimal allocations have been made for capital purposes due to these restricted revenue streams and lack of internal reserves.



3.1. FINANCING OF OPERATING ACTIVITIES

The budget on financial performance has been drawn up on the GRAP (Generally Recognised Accounting Practices) principles of accounting where provision for depreciation has been taken into account.

The following should be noted:

3.1.1 Indicative Macroeconomic Forecasts

Municipalities are expected to levy their tariffs taking into account their local economic conditions, affordability levels and remain broadly in line with macro-economic policy. Municipalities must also take account the policy and recent developments in government sectors relevant to their local communities. Tariff increases must be thoroughly substantiated in the municipal budget documentation for consultation with the community.

| ***Fiscal year*** | ***2020 Estimate*** | ***2021 Forecast*** | ***2022 Forecast*** | ***2023 Forecast*** |
|---|---|---|---|---|
| *CPI Inflation* | 3.3% | 3.9% | 4.2% | 4.4% |

*Source: MFMA Circular 108*

*NB: The reclining growth of the equitable share from National Treasury coupled with the increase towards personnel costs over the past years has had a negative impact on the Municipality meeting its short-term obligations towards the operations and programmes of the District.*

*National Treasury funding model for district municipalities has increased the municipality's equitable share allocation for 2021/2022 below CPI. Effectively, there has only been a R3, 713,000 or 1, 32% growth from 2020/2021 to 2021/2022. As indicated below salaries is currently higher than the total equitable share received.*

| | Salaries | % Salaries Growth | Equitable Share | % Equitable Share | Percentage of salaries versus equitable share |
|---|---|---|---|---|---|
| | | | | Growth | |
| 2010/11 | 183027724 | | 213221000 | | 85.84% |
| 2011/12 | 186888524 | 2.11% | 220439000 | 3.39% | 84.78% |
| 2012/13 | 196353882 | 5.06% | 226009000 | 2.53% | 86.88% |

| | | | | | |
|---|---|---|---|---|---|
| 2013/14 | 211515678 | 7.72% | 232785000 | 3.00% | 90.86% |
| 2014/15 | 220831373 | 4.40% | 239539000 | 2.90% | 92.19% |
| 2015/16 | 241430189 | 9.33% | 245760000 | 2.60% | 98.24% |
| 2016/17 | 256954627 | 6.43% | 250882000 | 2.08% | 102.42% |
| 2017/18 | 268136096 | 4.35% | 254779000 | 1.55% | 105.24% |
| 2018/19 | 277411483 | 3.46% | 258891000 | 1.61% | 107.15% |
| 2019/20 | 291178639 | 4.96% | 268626000 | 3.76% | 108.40% |
| 2020/21 budget | 293095573 | 0.66% | 281832000 | 4.92% | 104.00% |
| 2021/22 budget | 290424637 | -0.91% | 285545000 | 1.32% | 101.71% |



### 3.1.1. Transfers to Municipalities

Section 214 of the Constitution provides for national government to transfer resources to municipalities in terms of the Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions. Transfers to municipalities from national government are supplemented with transfers from provincial government. The two spheres of government must gazette these allocations as part of the budget implementation process. The DoRA and Section 37 of the MFMA further requires transfers between district and local municipalities to be made transparent and reflected in the budgets of both transferring and receiving municipalities.

| ***National Allocation as per DORA Bill,***<br>*Government Gazette No. 44173 of 5 February 2021* | **2021/2022 Allocation R'000** | **2022/2023 Forward Estimate R'000** | **2023/2024 Forward Estimate R'000** |
|---|---|---|---|
| EQUITABLE SHARE | 285,545 | 293,350 | 299,510 |
| Local Government Financial Management Grant | 1,200 | 1,400 | 1,400 |
| Municipal Systems Improvement Grant | 0 | 0 | 0 |
| Extended Public Works Program Integrated Grant | 1,023 | 0 | 0 |
| Water Services Infrastructure Grant | 0 | 0 | 0 |
| Rural Roads Asset Management Systems Grant | 2,489 | 2,612 | 2,615 |
| TOTAL ALLOCATION GAZETTED | 290 257 | 297 362 | 303 525 |

### 3.1.2. Key Legal Provisions to be Strictly Enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2021/22 financial year in accordance with the Municipal Budget and Reporting ***AND*** Municipal Standard Chart of Accounts Regulations. In this regard, municipalities must comply with both:

- the budget documentation as set out in Schedule A (version 6.4.1) of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and ALL the supporting tables (SA1 – SA38) in both printed and electronic formats (the Excel schedules);
- the Draft Service Delivery and Budget Implementation Plan in both printed and electronic format;
- the Draft Integrated Development Plan;
- the Council Resolution;
- the signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations; and
- the Budget Locking Certificate as signed by the accounting officer.

All municipalities must do a funding compliance assessment of their 2021/22 budgets in accordance with the guidance given in MFMA Circular 80 and the Municipal Standard Chart of Accounts Regulations, GN 312 of 2014, before tabling their budget, and where necessary revise their budget submissions to comply with a properly funded budget.

The deadline for tabling a draft budget before Council is 31 March 2021 as per Section (16)2 of the MFMA.

The deadline for the submission to National Treasury, MEC, DLG, AG and SALGA of approved budgets is ten working days after Council approves the annual budget.

### 3.1.3 Operating Income

The service charges and rental income have been increased by 4% taken into consideration the guidelines as prescribed by National Treasury.

| **Description** | **Ref** | **2020/21 Medium Term Revenue & Expenditure Framework** | | |
|---|---|---|---|---|
| **R thousand** | 1 | **Budget Year 2021/22** | **Budget Year +1 2022/23** | **Budget Year +2 2023/24** |
| **Revenue By Source** | | | | |
| Rental of facilities and equipment | | 340 000 | 357 000 | 374 850 |
| Interest earned - external investments | | 1 035 023 | 1 086 774 | 1 141 113 |

| | | | | |
|---|---|---|---|---|
| Interest earned - outstanding debtors | | 0 | 0 | 0 |
| Dividends received | | | | |
| Fines, penalties and forfeits | | | | |
| Licences and permits | | 1 575 000 | 1 575 000 | 1 575 000 |
| Agency services | | 71 679 896 | 75 263 891 | 79 027 085 |
| Transfers and subsidies | | 306 054 190 | 313 159 190 | 319 322 190 |
| Other revenue | 2 | 8 345 295 | 8 762 560 | 9 200 689 |
| Gains | | 140 000 | 140 000 | 140 000 |
| **Total Revenue (excluding capital transfers and contributions)** | | **389 169 404** | **400 344 415** | **410 780 927** |

Expenditure

| **Description** | **Ref** | **2020/21 Medium Term Revenue & Expenditure Framework** | | |
|---|---|---|---|---|
| **R thousand** | 1 | **Budget Year 2021/22** | **Budget Year +1 2022/23** | **Budget Year +2 2023/24** |
| **Expenditure By Type** | - | | | |
| Employee related costs | 2 | 276 281 921 | 290 095 858 | 304 600 650 |
| Remuneration of councillors | | 14 142 716 | 14 849 825 | 15 592 315 |
| Debt impairment | 3 | 0 | 0 | 0 |
| Depreciation & asset impairment | 2 | 11 271 875 | 11 271 875 | 11 271 875 |
| Finance charges | | | | |
| Bulk purchases | 2 | 0 | 0 | 0 |
| Other materials | 8 | 10 135 268 | 6 495 268 | 6 495 268 |
| Contracted services | | 41 208 051 | 41 208 051 | 41 208 051 |
| Transfers and subsidies | | 12 171 000 | 11 148 000 | 11 148 000 |
| Other expenditure | 4, 5 | 36 913 259 | 37 035 207 | 37 163 249 |
| Losses | | 40 000 | 40 000 | 40 000 |
| **Total Expenditure** | | **398 924 090** | **412 144 084** | **427 519 408** |
| **Surplus/(Deficit)** | | **-9 754 686** | **-11 799 669** | **-16 738 481** |

### 3.1.3. Employee and Councillor Related Costs (72.15%)

Salaries are projected at R290.3million for the 2021/2022 financial year. There is no collective labour salary agreement (SALGA & SALGBC) currently in place. Based on the budget circular and current financial situation Council will not be in any position to budget for any increase in salary. Applying any increase will result in a higher unfunded budget and alternatives steps need to be implemented in order to get to a funded budget.

Council therefore need to apply for exemption for the implementation on salary increases and a moratorium be put in place with immediate effect on all internal promotions. The projected budget therefore makes provision for the current staff structure with no increases and only the normal notch increase for the 2021/2022 financial year.



### 3.1.4. Depreciation (2.80%)

In accordance with the GRAP principles and standards and the prescription of the approved asset management policy, depreciation on all assets needs to be provided for within the statement of financial performance. This will allow Council to charge consumers during the useful life of the asset on a proportionate basis and not at the date of acquiring the asset. The amount provided for the 2021/2022 financial year amounts to R11.3million, which is meant to be cash generated in order to serve as capital replacement reserves to maintain the assets for the outer years of 2022/23 and 2023/24.

### 3.1.5. Repair and maintenance (1.83%)

Repairs and maintenance will be for current buildings occupied by Sedibeng District Council as well as the movable assets on the asset register. An amount of R7.4million has been provided, which equates to 1.83% of the total budget of Council. It must be noted that the prescribed threshold for repair and maintenance is 8percent, however, that would be unaffordable for Council to implement,

### 3.1.6. Contracted services (10.24%)

Contracted services have been determined by the need for services to be rendered by service providers and taking the current obligations into account.

The top contractual services are stated below:-

| ***CONTRACTED SERVICES*** | ***R'000*** |
|---|---|
| Security Services | 8,275 |
| Municipal Health Services | 19,928 |
| Maintenance of CCTV Equipment | 2,500 |
| Legal Charges | 2,000 |

3.1.7 Other Expenses - General (9.17%)

The general expenditure budget has been drawn up in order to assist the employees of Council to provide them with the necessary tools and consumables to achieve the deliverables as set in the NDP, TMR, GDS and IDP, while remaining within the constraints of the municipality's limited revenue sources. The budget has also been drawn up taking into consideration that the main purpose of the District is to plan and co-ordinate, whereas the service delivery execution process will be performed at a Local Municipality level. Note should be taken that strict austerity measures has been applied on general expenses during the budget process and only essential items will be approved during the procurement processes. No growth has been allowed based on the current financial position.



3.2 INVESTMENT INTO CAPITAL

The total Capital investment for 2021/2022 will be R2.37million whereby R2,28million will be funded from our internal provisions and the remaining R90,000 from grant funding. Clusters are encouraged to source grant funding for future capital projects. Donor and Grant Funding must also be considered for planned projects as outlined in the IDP to ensure that it is properly funded before the final 2021/22 budget is approved by Council.

3.3 BUDGET STEERING COMMITTEE

In terms of the Municipal Budget and Reporting Regulations no. 4, the Executive Mayor must establish a *budget steering committee* (Budget Panel) to provide technical assistance to the Executive Mayor in discharging her responsibilities as per section 53 MFMA. The MMC: Finance together with the Finance Cluster consulted internally during the drafting of this annual budget and as a result, present to the Executive Mayor with a budget that is aligned to the strategic objectives of Council's IDP as well as conformed to MFMA requirements. The Committee must take note that as tabled, the 2021/2022 MTREF is not yet balanced, and the municipality will strive to balance expenditure to revenue during the public participation process, prior to tabling the final budget to Council for approval.

The budget preparation process highlighted several operational issues for evaluation and assessment. These included:-

- Further inter-governmental discussion over the provision of funding for the Disaster Management function with specific reference to Schedule 4 – Part A of the Constitution (108/1996);
- The underfunded mandate on the provision for Motor Vehicle Licensing services done on behalf of Province;
- All unfunded mandates currently perform on behalf of other organs of state;
- The medium term outlook for the NDPG unit in SPED now that the funding has been relocated to the local municipalities;
- Organisational redesign assisted by GoGTA

4. ALIGNMENT WITH COUNCIL STRATEGIES

This report is aligned to the Reviewed IDP, the district's GDS-3, Municipal Budget and Reporting regulations GN 393 of 2009, Municipal Standard Chart of Accounts Regulations, GN 312 of 2014 as well as circulars 48, 51, 54, 55, 58, 66, 67, 70, 74, 78, 79, 85, 86, 91, 98, 99, 107 and 108 of National Treasury.

5. COUNCIL BUDGET RELATED POLICIES

The MTREF for 2021/2022 has been drawn up in alignment with the following financial & budget related policies (as reviewed and adopted by Council): - Annexure ”C”

- Cash Handling Policy
- Management of Foreign Exchange Policy
- Cash Management & Investment Policy
- Revenue Management Policy
- Debt Management Policy
- Sundry Tariff Policy
- Loans Policy
- Fixed Asset Management Policy
- Capital Projects and Infrastructure Development Policy
- Strategic Budget Policy
- Long Term Financial Plan Policy
- Budget Oversight Policy
- Virement Policy
- Unforeseen and Unavoidable Expenses Policy
- Supply Chain Management Policy & Procedures
- Unauthorised, Irregular, Fruitless & Wasteful Expenditure Policy
- Accounts Payable Policy
- Payroll Management Policy
- Subsistence & Travel Policy
- Funding & Reserves Policy
- Journal Entry Policy
- Vaal Tecknorama Policy
- Acting Allowance Policy
- Donation Policy
- Cost containment Policy

During the budget process, these policies were reviewed and found to still be applicable.

6. FINANCIAL IMPLICATIONS

| | |
|---|---|
| The total estimated operating revenue of | R 389,169,404; |
| The total estimated operating expenditure of | R 398,924,090; |
| Resulting in an **operational deficit** of | **R (9,754,686)** and |
| The total estimated Capital Budget of | R 2,370,000 |
| **Resulting in a net deficit of** | **R (12,124,686)** |

Section 18 of the MFMA act needs to be adhered to when looking at the budget funding requirements. This section indicates the following:

“18. *(1) an annual budget may only be funded from—*

*(a) realistically anticipated revenues to be collected;*

*(b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*

*(c) borrowed funds, but only for the capital budget referred to in section 17(2).*

*(2) Revenue projections in the budget must be realistic, taking into account—*

*(a) projected revenue for the current year based on collection levels to date; and*

*(b) actual revenue collected in previous financial years*."



The Committee must take note that as tabled, the 2021/2022 MTREF is not yet balanced, and the Municipality will strive to balance expenditure to revenue during the public participation process, prior to tabling the final budget to Council for approval.

Alternatives must be found to fund the salary budget in line with the bargaining council agreement

The following Annexures are attached:

| | |
|---|---|
| Annexure "A" | A Schedule |
| Annexure "B" | Tariff of Charges |
| Annexure "C" | Budget related policies |

7. <u>LEGAL IMPLICATIONS</u>

The budget has been drawn up in line with the MFMA, Act 56 of 2003 (SS 16-17) which inter alia states:

*"The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year."*

**<u>RECOMMENDED</u>**

1. THAT Council note annexure "A" to "C" as required in terms of the MFMA, No 56 of 2003;

2. THAT the Municipal Manager as Accounting Officer be provided with approval to make public the consolidated three year draft Capital and Operational Budget as per Annexure "A" to "B" for public consultation and submission to National Treasury, Gauteng Treasury and the MEC in terms of Section 22 and 23 of MFMA, No 56 of 2003;

3. THAT the proposed tariffs for all services as per Annexure "B" be approved for public consultation in terms of the Tariff Policy and Section 75A of the Local Government Municipal Systems Act, No 32 of 2000;

4. THAT the process of community participation through stakeholders meetings as contemplated in terms of Section 16 of the Local Government Municipal Systems Act, No 32 of 2000 be followed in conjunction with the IDP process of consultation;

5. THAT Council provide approval to compile the final capital and operating expenditure budget in accordance with the requirements as set out in the Municipal Budget and Reporting Regulations;

6. THAT Council delegate the Budget Panel to reconvene during the public participation period prior to the tabling of the final budget for approval, with the purpose of balancing the budget to the anticipated revenue to ensure that a realistic, credible and funded budget is presented to the Council for approval 30 days prior to the commencement of the 2021/2022 financial year, as in accordance with section 24 MFMA (56/2003);

7. THAT Council delegate the Executive Mayor to escalate the following inter-governmental issues to the platform of the Premier's Coordinating Forum (PCF):-

   a) Further inter-governmental discussion over the provision of funding for the Disaster Management function with specific reference to Schedule 4 – Part A of the Constitution (108/1996);
   b) The underfunded mandate on the provision for Motor Vehicle Licensing services done on behalf of Province;
   c) All unfunded mandates currently perform on behalf of other organs of state;
   d) The medium term outlook for the NDPG unit in SPED now that the funding has been relocated to the local municipalities;
   e) Implement the organisational redesign as assisted with CoGTA