



Item A81. 29.05.2023

MTREF BUDGET: 2023-2024 TO 2025-2026 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS

N Kruger : Chief Financial Officer

(Ref.: 6/1/B & 6/1/1/1)

PURPOSE OF REPORT

The purpose of the report is to table the budget for 2023/2024 MTREF to Council for consideration.

BACKGROUND

In terms of section 16 of the Local Government: Municipal Financial Management Act, 2003 (Act 56 of 2003), Council must approve an annual budget before the start of the financial year.

LEGAL FRAMEWORK

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:

Municipal budgets

16. (1) The Council of a municipality must for each year approve an annual budget for the municipality before the start of the financial year.
- (2) In order for a municipality to comply with subsection (1), the Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Contents of annual budgets and supporting documentation

17. (1) An annual budget of a municipality must be a schedule in the prescribed format -
- (a) setting out 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) 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; and
 - (e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.
- (2) An 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;
 - (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; and
 - (ii) the chief executive officer and each senior manager of the entity; and (m) any other supporting documentation as may be prescribed.

22. Publication of annual budgets – (1) Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—

- (a) in accordance with Chapter 4 of the Municipal Systems Act—
 - (i) make public the annual budget and the documents referred to in section 17(3); and
 - (ii) invite the local community to submit representations in connection with the budget; and
- (b) submit the annual budget—
 - (i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and
 - (ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

23. Consultations on tabled budgets - (1) When the annual budget has been tabled, the municipal council must consider any views of—

- (a) the local community; and
 - (b) the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity—
- (a) to respond to the submissions; and
 - (b) if necessary, to revise the budget and table amendments for consideration by the council.
- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

COMMENTS

The draft 2023/24 Medium Term Revenue and Expenditure Framework (MTREF) report inclusive of the budget schedules, which have been compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), have been distributed after tabling it in the Council meeting of 27 March 2023, while a notice has been placed in the local newspapers to invite the public/community to submit comments on the draft/taled budget.

Input from Provincial Treasury

Provincial Treasury has submitted their 2023 SIME/ LG MTEC Assessment Report on 26 April 2023 and the municipal response was discussed with Provincial Treasury on 8 May 2023. The following aspects were highlighted by the Province Treasury and herewith the issues raised as well as the respective response from ODM Management:

The Municipality's budget reflects funded, yet in a deficit, furthermore cash is on a declining trajectory over the MTREF period indicating risks to future sustainability.

- (a) The Municipality tabled an operating deficit budget over the 2023/24 MTREF period. As a district municipality, the Municipality has limited revenue sources, but great effort is noted in identifying additional revenue sources. Tariffs are proposed aligned to inflation.

- (b) The Municipality has over the last three (3) financial years shown great resilience to remain financially stable under exceptionally uncertain economic conditions. The Municipality's continued success depends on its ability to recognise when to adapt and adjust plans during any uncertainty. The Municipality is encouraged to continue with ongoing assessments of assumptions to ensure that revenue, expenditure projections and policy decisions to be accurately informed over the MTREF.
- (c) The strategic goals (SGs) noted in budget tables SA5 and SA6 for the 2023/24 MTREF are aligned to the strategic goals in the IDP and reflects financial commitments for all five SGs.
- (d) Operating expenditure growth for SG1, is 5.9 per cent in 2023/24, compared to overall operating spend growth of 4.6 per cent, while for capital spending, overall spend in 2023/24 declines from R15.320 million to R5.771 million in 2023/24 (declining by 62.3 per cent), compared with SG1's declining from R10.327 million to R3.546 million in 2023/24 (declining by 65.7 per cent).
- (e) The ODM tabled an operating budget with projected operating revenue of R848.94 million and estimated operating expenditure of R856.71 million over the 2023/24 MTREF. Total operating revenue is projected to increase by 5.5 per cent in 2023/24, 3.7 per cent in 2024/25 and 3.2 per cent in 2025/26 whilst operating expenditure is estimated to increase by 4.6 per cent in 2023/24, 2.4 per cent in 2024/25 and 4.5 per cent in 2025/26.
- (f) The operating budget projections result in deficits over the MTREF period. It was noted that the operating expenditure is not in line with the scenario projections in the Long-Term Financial Plan (LTFP) which could hamper the long-term objectives. For the LTFP to remain a relevant and effective planning tool, the Municipality is advised to update its LTFP to consider the current economic reality, inclusive of the energy crisis, as well as recent economic shocks as a result of the Covid-19 pandemic.
- (g) The Municipality is under pressure to fund costs which are increasing at rates above inflation on the operating budget and salary increases above the revenue projections. This may suggest that current operating revenue is not sufficient over the MTREF necessitating that the Municipality must identify savings and efficiencies to generate operating surplus budgets in the future to improve its overall financial sustainability.
- (h) The Municipality has projected steady year on year increases in the surplus after application of cash and investments. ODM's projected positive cash position and cash flows should enable it to meet obligations as and when they are due.
- (i) The Municipality's budget is funded over the 2023/24 MTREF, suggesting that the Municipality is compliant with section 18 of the Municipal Finance Management Act, No. 56 of 2003 (MFMA).

FURTHER COMMENTS

Comments and inputs had been received on the advertised budget and tariffs.

Requests regarding Health Services fees (e.g. certificates) to alleviate tariffs for grant dependant institutions (old, aged homes, ECDs/schools), to accommodate smaller enterprises and including tariffs for short duration events was received. These were all addressed to assist the communities. Other enquiries regarding infrastructure fees on sewerage at the resorts was also made, and sufficient feedback was provided.

Other necessary amendments based on changed assumptions and additions were made in the 2023/24 budget document, as proposed and tabled to the Budget Steering Committee for consideration on 22 May 2023.

RESOLVED : (Proposed by Ald J Nieuwoudt and seconded by Cllr M Nomatiti)

- 1) That the consolidated budget of **R273 979 238**, consisting of an **Operating budget of R276 810 560** (resulting in a deficit of **R 2 831 322** including capital grant receipts) and a **Capital budget of R 6 355 000** and budgeted cash flows, as set out in the Municipal Budget is adopted and approved by Council and that it constitutes the Budget of the Council for 2023/2024 financial year as well as the medium term (indicative) budgets for the 2024/2025 and 2025/2026 financial years.
- 2) The tariffs as per tariff list is approved.
- 3) That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act 56 of 2003, are included in or that accompany the budget document was approved.
- 4) That the measurable performance objectives for 2023/2024 for operating revenue by source and by vote is approved.
- 5) The following budget related policies are approved:
 - 5.1 Asset Management Policy (as amended)
 - 5.2 Credit Control and Debt Collection Policy (as amended)
 - 5.3 Cash Management and Investment Policy (as amended)
 - 5.4 Tariff Policy (as amended)
 - 5.5 Supply Chain Management Policy (as amended)
 - 5.6 Virement Policy (as amended)
 - 5.7 Borrowing Policy (as amended)
 - 5.8 Funding and Reserves Policy (as amended)
 - 5.9 Budget Policy (as amended)
 - 5.10 Customer Care Policy (as amended)
 - 5.11 Demand Management Policy (as amended)
 - 5.12 Infrastructure and delivery Management Policy (Repealed)
 - 5.13 Infrastructure investment and Capital projects Policy (as amended)
 - 5.14 Liquidity Policy (as amended)
 - 5.15 Long term Financial Planning Policy (as amended)
 - 5.16 Management and Admin of Immovable Assets Policy (as amended)
 - 5.17 Payroll Management and Administration Policy (as amended)
 - 5.18 Preferential Procurement Policy (Repealed)
 - 5.19 Cost containment Policy (as amended)
 - 5.20 Travelling and Subsistence Policy (as amended)
 - 5.21 Acting, Secondment and Additional Allowance Policy (as amended)
 - 5.22 Expanded Public Works Policy (EPWP) (as amended)

CERTIFIED A TRUE EXTRACT FROM THE MINUTES OF THE COUNCIL MEETING HELD ON 29 MAY 2023.



R BOSMAN
MUNICIPAL MANAGER