



DRAFT ANNUAL BUDGET FOR 2021/2022-2023/2024 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

EXECUTIVE SUMMARY ON THE DRAFT ANNUAL BUDGET FOR 2021/2022 TO 2023/2024 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

1. PURPOSE

- 1.1 The purpose of the item is to table before council Draft Summary of 2021/2022 to 2023/2024 Medium Term Revenue and Expenditure Framework (MTREF Annual Budget in terms of section 16 (2) of the Municipal Finance Management Act No 56 of 2003.

2. LEGISLATIVE FRAMEWORK

- 2.1 Constitution of the Republic Act No.108 of 1996
- 2.2 Municipal System Act No 32 of 2000
- 2.3 Municipal Finance Management Act, No.56 of 2003
- 2.4 Division of Revenue Act 2018
- 2.5 Municipal Budget and Reporting Regulation No. 32141
- 2.6 MFMA Circular No.108

3. BACKGROUND

- 3.1 The council of Thaba Chweu Local Municipality approved the IDP/Budget Process Plan in its council sitting of 13 August 2020 as per resolution number A53/2020. The Budget process plan outlined the key deadlines for the preparation of the Annual Budget, annual review of the Integrated Development Plan and budget related policies.
- 3.2 Section 16(2) of the Municipal Finance Management Act No 56 of 2003, it states that 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.
- 3.3 Section 22 of the Municipal Finance Management Act No 56 of 2003 states immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must make public the annual budget and the documents referred to in section 17; invite the local community to submit representations in connection with the budget; and submit the annual budget in both printed and electronic formats to the National Treasury and the relevant provincial treasury.
- 3.4 After considering all budget submissions, the council must give the mayor an opportunity to respond to the submissions; and if necessary, to revise the budget and table amendments for consideration by the council.

3.5 National Treasury issued MFMA circular No.108 for 2021/2022 MTREF budget, the contents of the circular and its purpose is to guide municipalities in drafting and tabling credible funded budgets while also ensuring compliance to budget regulations.

4. DISCUSSIONS / DELIBERATIONS

4.1 National Treasury issued Circular 108 dated 08 March 2019 to guide the compilation of the 2019/20 MTERF. Some of the key issues addressed on the circular are:

- Real Economic Growth will be 3.9% in 2021/2022, 4.2% and 4.4% on the respective two outer years.
- CPI Inflation is forecast to be around 3.9%
- Eskom Bulk Tariffs will increase between 14.49%.

4.2 Thaba Chweu Local Municipality prepares this Draft Budget still against the backdrop of the Mandatory provincial interventions arising from financial crises in terms of section 139 of the MFMA wherein a Financial Recovery Plan is in implementation.

4.3 The Draft Financial Recovery plan has already identified the following matters which needs to be addressed within the 2019/2020 MTREF budget to ensure compliance with the principles of a funded and credible budget. The municipality continuous to report to Treasury on a monthly basis.

4.4 Municipal finance management act section 18 state the following conditions which further lays the foundation of having credible funded budget:

Subsection (1) state that the annual budget may only be funded from-

- (a) Realistically anticipated revenues to be collected;
- (b) Cash-backed accumulated funds from previous years' surplus not committed for other purposes; and
- (c) Borrowed funds, but only for the capital budget.

Subsection (2) further states that; 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 the previous financial years.

4.5 MFMA section 19 (1)(d) state the following when it comes to capital projects: The sources of funding have been considered, are available and have not been committed for other purposes.

IDP PRIORITIES

4.6 Priorities for the community of Thaba Chweu municipality over the pandemic period has not changed much as per the reviewed IDP, and the following issues remains priority:

- Water
- Roads
- Unemployment

4.7 Executive Summary of the Draft 2021/2022 MTREF Budget is as follows:

Description	2021/2022	2022/2023	2023/2024
Revenue	R 723 924 940	R 799 871 585	R 825 602 029
Operational Expenditure	-R 628 400 423	-R 675 492 954	-R 692 242 965
Capital Expenditure	-R 83 582 900	-R 101 211 650	-R 85 435 600
Surplus / (Deficit)	R 11 941 617	R 23 166 981	R 47 923 464

Total Revenue for 2021/2022 financial year is projected at R723.9 Million which is comes from National Transfers (Grants) constituting 34% of the budget and own revenue generation projected to be around 66% of the total revenue Budget. Total Expenditure for 2021/2022 financial year has been projected at R712 Million, with operational expenditure sitting at 88% and capital expenditure at 12%.

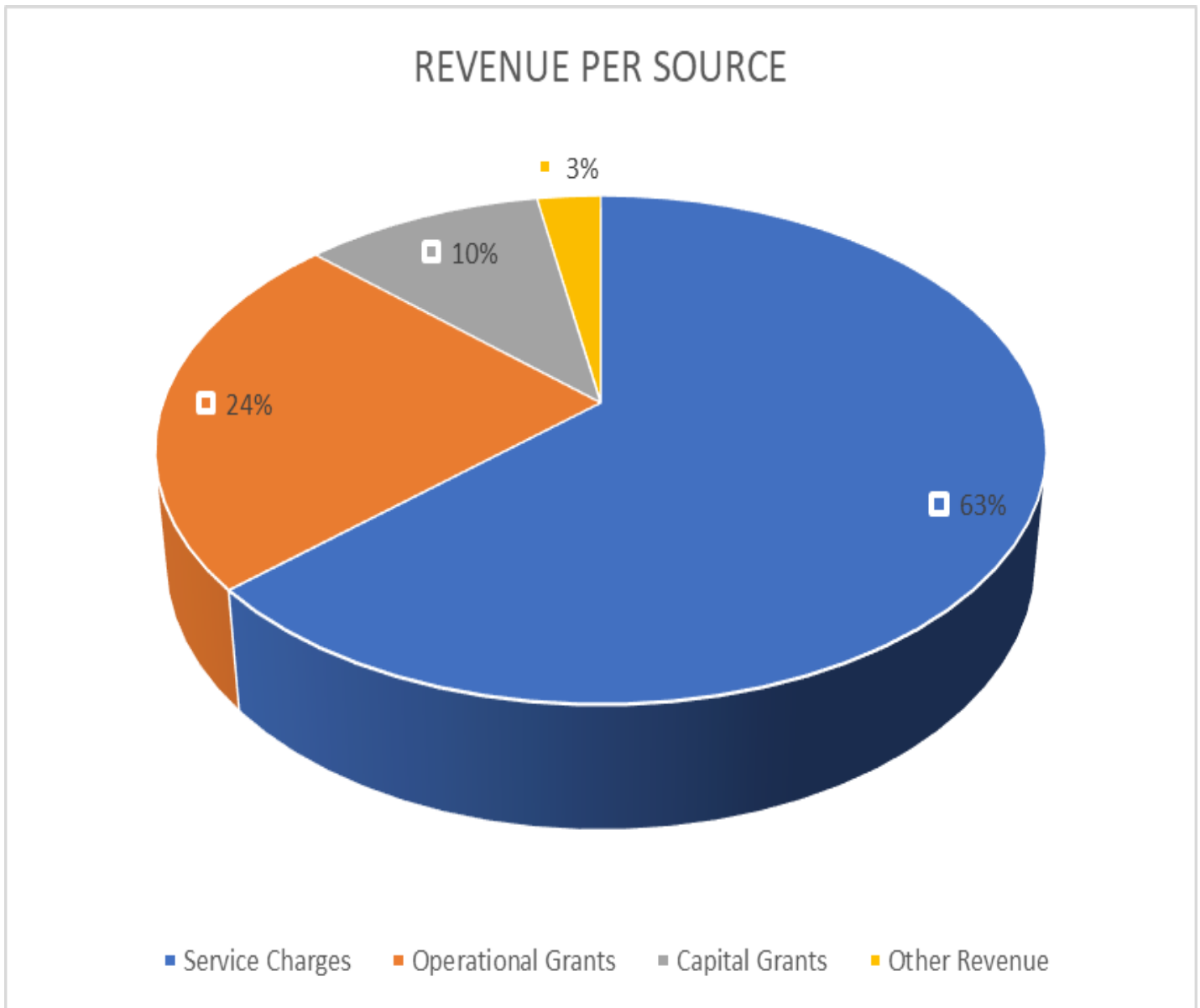
The budget as summaries above indicate a surplus of R11.9 Million which is realised after suppressing the projection of non-cash items in the form of debt impairment and depreciations.

4.7 OPERATING REVENUE PER SOURCE

Revenue By Source	Draft Budget 2021/2022	Draft Budget 2022/2023	Draft Budget 2023/2024
Service Charges	R 458 541 940	R 492 932 585	R 529 902 529
<i>Property rates</i>	R 125 000 000	R 134 375 000	R 144 453 125
<i>Service charges - electricity revenue</i>	R 206 323 985	R 221 798 284	R 238 433 155
<i>Service charges - water revenue</i>	R 59 817 542	R 64 303 858	R 69 126 647
<i>Service charges - sanitation revenue</i>	R 19 194 370	R 20 633 948	R 22 181 494
<i>Service charges - refuse revenue</i>	R 18 206 042	R 19 571 495	R 21 039 357
<i>Interest earned - outstanding debtors</i>	R 30 000 000	R 32 250 000	R 34 668 750
Operational Grants	R 170 401 000	R 181 532 000	R 184 339 000
<i>Equitable share</i>	R 165 565 000	R 178 532 000	R 181 339 000
<i>Financial Management Grant</i>	R 3 000 000	R 3 000 000	R 3 000 000
<i>Disaster Relief Grant</i>	R -	R -	R -
<i>EPWP grant</i>	R 1 836 000	R -	R -
Capital Grants	R 74 982 000	R 103 907 000	R 88 248 000
<i>MIG</i>	R 49 982 000	R 53 907 000	R 56 248 000
<i>WSIG</i>	R 25 000 000	R 40 000 000	R 20 000 000
<i>INEP</i>	R -	R 10 000 000	R 12 000 000
Other Revenue	R 20 000 000	R 21 500 000	R 23 112 500
<i>Rental of facilities and equipment</i>	R 5 000 000	R 5 375 000	R 5 778 125
<i>Interest earned - external investments</i>	R 2 500 000	R 2 687 500	R 2 889 063
<i>Dividends received</i>	R -	R -	R -
<i>Fines, penalties and forfeits</i>	R 2 500 000	R 2 687 500	R 2 889 063
<i>Licences and permits</i>	R -	R -	R -
<i>Agency services</i>	R -	R -	R -
<i>Other revenue</i>	R 5 000 000	R 5 375 000	R 5 778 125
<i>Gains on disposal of PPE</i>	R 5 000 000	R 5 375 000	R 5 778 125
GRAND TOTAL	R 723 924 940	R 799 871 585	R 825 602 029

Over 66% of the projected revenue needs to be generated (billed and recovered from the consumers of municipal services). In order to achieve financial sustainability during 2021/2022 financial period, Thaba Chweu must implement the credit control and debt collection measures without fail.

The graph below depicts the Executive Summary of Revenue Per Source:



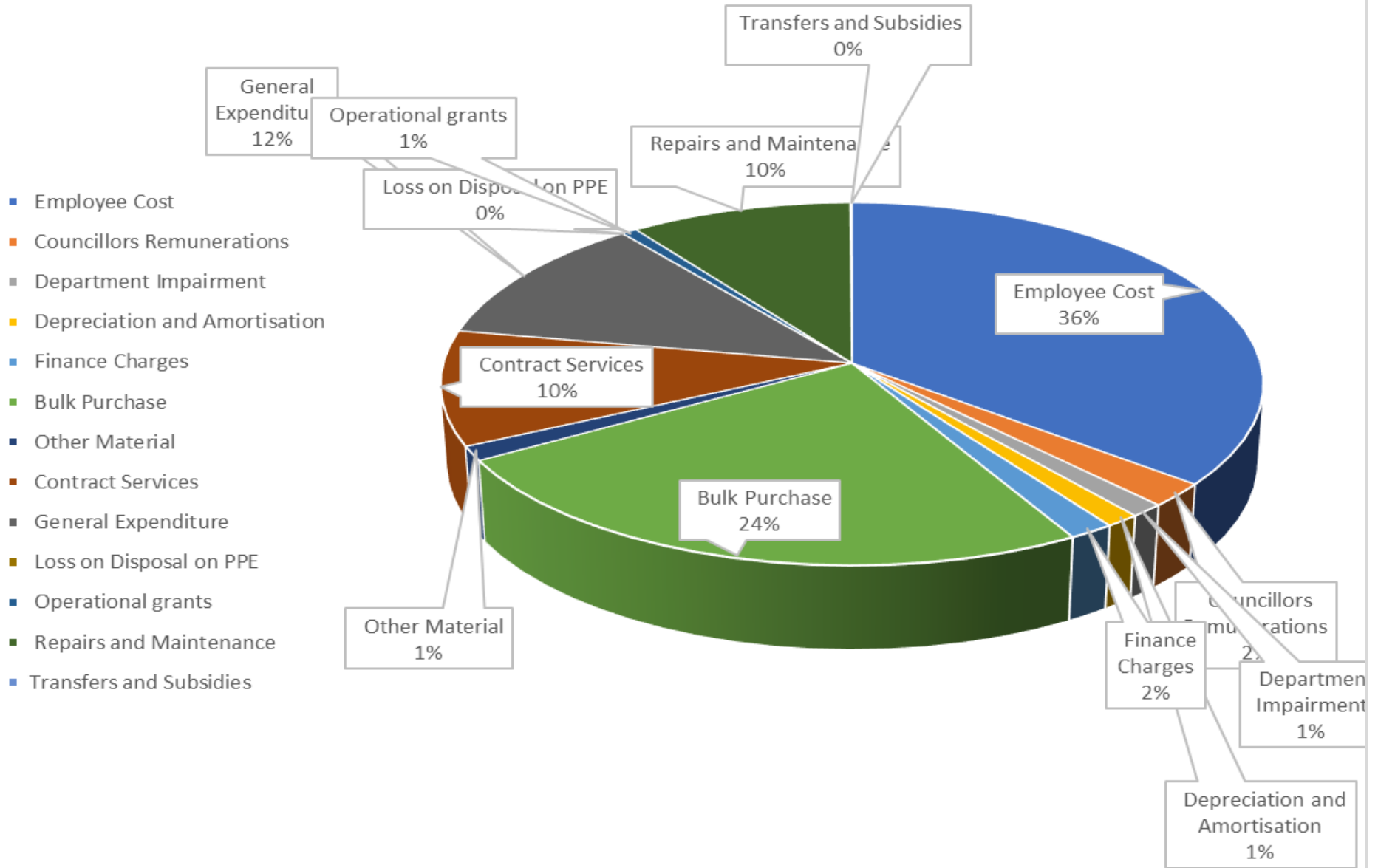
Key Assumption for the projections:

- Service charges will increase with an average of 7.25% across all services. That collection rate will be maintained above 85% and debtors book reduced by minimum of 25%.
- Electricity tariff will increase by 16.49%
- That National Transfers will be released as allocated to the municipality and the spending of capital grants will be 100% before the end of the financial period.
- That other revenue projections as estimated will be realised within the financial period.

4.8 OPERATIONAL EXPENDITURE PER TYPE:

Operational Expenditure By Type	Draft Budget 2021/2022	Draft Budget 2022/2023	Draft Budget 2023/2024
<i>Employee Cost</i>	R 225 000 000	R 241 875 000	R 260 015 625
<i>Councillors Remunerations</i>	R 13 462 995	R 14 472 719	R 15 558 173
<i>Department Impairment</i>	R 7 500 000	R 8 062 500	R 8 667 188
<i>Depreciation and Amortisation</i>	R 7 500 000	R 8 062 500	R 8 667 188
<i>Finance Charges</i>	R 10 000 000	R 10 750 000	R 11 556 250
<i>Bulk Purchase</i>	R 154 000 000	R 165 550 000	R 177 966 250
<i>Other Material</i>	R 8 030 000	R 8 632 250	R 7 500 000
<i>Contract Services</i>	R 64 320 004	R 69 144 004	R 48 000 000
<i>General Expenditure</i>	R 72 667 424	R 78 117 481	R 83 976 292
<i>Loss on Disposal on PPE</i>		R -	
<i>Operational grants</i>	R 4 260 000	R 4 579 500	R 4 836 000
<i>Repairs and Maintenance</i>	R 61 160 000	R 65 747 000	R 65 000 000
<i>Transfers and Subsidies</i>	R 500 000	R 500 000	R 500 000
GRAND TOTAL	R 628 400 423	R 675 492 954	R 692 242 965

OPERATIONAL EXPENDITURE PER TYPE



Key assumptions:

The operational expenditure budget has been projected on the assumption that the following cost will be contained within their allocated budget:

Overall OPEX expenditure from final 2020/2021 budget has been increased by less than 5% and the following line items have been contained:

Overtime	R5 million
Cellphone	R3 million
Travelling allowance	R18 million
Shift allowance	R1.650 million
Travelling and subsistence	R1 million

4.8 CAPITAL BUDGET

GRANT FUNDED PROJECTS	DEPARTMENT	FUNDING	DRAFT BUDGET 2021/2022
MIG PROJECTS:			R 47 482 900
Installation of 25 Boreholes in Thaba Chweu Local Municipality	Technical Services	MIG	R 9 837 490
Refurbishment of Sanitation Infrastructure in Thaba Chweu Local Muni	Technical Services	MIG	R 2 611 835
Refurbishment of Aparar (Matibidi) Ring Road Street (Didimala Phase	Technical Services	MIG	R 6 963 492
Refurbishment of Morothong-Kanana Street at Moremela (Tshirelang)	Technical Services	MIG	R 8 992 046
Provision of Water Reticulation at Emshinini Township	Technical Services	MIG	-
Refurbishment of Aparar (Matibidi) Ring Road Street (Didimala Phase 2	Technical Services	MIG	R 2 953 355
Refurbishment of De Clerq Street at Mashishing Lydenburg.	Technical Services	MIG	R 7 827 094
Refurbishment of Potgieter Street at Mashishing Lydenburg.	Technical Services	MIG	R 8 297 590
WSIG PROJECTS:			R 25 000 000
Sabie AC Pipeline Replacement Phase1 (WSIG Funded)	Technical Services	WSIG	R 25 000 000
INTERNAL FUNDED PROJECTS			R 11 100 000
Procurement of Brushcutters	Community	Own Funding	R 400 000
Fencing Simile Library	Community	Own Funding	R 300 000
20 Skip Bins	Community	Own Funding	R 400 000
Supply & Delivery of Transformers	Technical Services	Own Funding	R 5 000 000
Supply & Delivery of Mini-Substation	Technical Services	Own Funding	R 5 000 000
TOTAL CAPITAL PROJECTS BUDGET			R 83 582 900

Key assumptions:

Capital project are funded 87% by grants and 13 is on service delivery items which are classified as CAPEX in terms of mSCOA.

5. BUDGET RELATED POLICY MATERIAL CHANGES

The municipality has developed an Inventory policy which is now table before council for approval.

Indigent policy has been adjusted in terms of qualification criteria. Residents who own more than one property will be subsidized on for one property provided they stay there. Other properties will not be subsidized.

INDIGENT POLICY			
PAGE NO	PARAGRAPH/APPLICABLE SECTION	CURRENT POLICY	PROPOSED CHANGE/ ADDITION
Pg 4	Par 3(c) Criteria	The applicant may not own either on her/his own or together with other persons, more than one fixed property.	The applicant must be the registered owner of the property/ in possession of the letter of authority, for which application is made. If the applicant has more than one property, he/she will only be subsidized for only one(1) property
Pg 6	Par 5 Electricity		Indigent status for consumer utilizing more than 300 kwh per month of electricity will be reviewed and indigent status may be terminated
Pg 7	Par 11 Ee-evaluation (e)	That if a person who was or who is enlisted as indigent sell his property, the arrears written-off will have to be paid before a clearance certificate can be issued.	The amount written off will be reinstated should the owner sell the property or found to have purposely neglected to disclose other information related to the total income household.

The below policies are also tabled as reviewed with no material changes except to the policies indicated above.

- Asset management policy
- Budget policy
- Cash management and investment policy
- Cellphone allowance policy
- Credit control and debt collection policy
- Debt impairment and write-off policy

- Indigent Policy
- Inventory Policy
- Overtime Policy
- Property rates policy
- Supply management policy
- Tariff policy
- Travelling and subsistence policy
- Unclaimed deposits
- UIFW Policy

6. CONCLUSION

In order to realise and guard the objectives of local government as captured in section 152 of the Constitutions of the Republic of South Africa. The municipality must concentrate on revenue generation projects including the full implementation of its policies and resolutions. Taking into consideration that 66% of the projected revenue needs to be generated and collected from our consumers. The sustainability of Thaba Chweu municipality in terms of financial capacity rest upon all of us. The drive from this point onward must be the collection of arrear debts and also implementation of credit control measures.

Eskom account is on the continuous trajectory of going above R1 billion. The account renders the financial position of the municipality to be in crisis. Activities as accurately captured in the FRP which have the potential of turning around the financial performance and position of this Municipality must be supported. Thaba Chweu is also not a position to budget accurately the non-cash items of Debt Impairment and Depreciation including the Eskom Interest. The three items if were to be budget accurately will consume more than 40% of the operational budget.

Stringent measures have been captured in the budget projections such as containment of cost on overtime, travelling allowance, cellphone allowance, contracted service services etc. Directors will have to assist the municipal manager in containing and monitoring these costs.

7. RECOMMENDATIONS

7.1 THAT, Council approve the draft annual budget for 2021/2022-2023/2024 Medium Term Revenue and Expenditure Framework as follows:

Description	2021/2022	2022/2023	2023/2024
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7.2 THAT, Council approve the Draft Tariff Structure for the services provided by the municipality as contained in the tariff policy

7.3 That, council approve the tariffs to be increased above inflation rates as follows:

Residential 6%

Business 8.5%

Government 8.5%%

Electricity services 16.49%

7.4 THAT, Council approve the following reviewed budget related policies:

- Asset management policy
- Budget policy
- Cash management and investment policy
- Cellphone allowance policy
- Credit control and debt collection policy
- Debt impairment and write-off policy
- Indigent Policy
- Inventory Policy
- Overtime Policy
- Property rates policy
- Supply management policy
- Tariff policy
- Travelling and subsistence policy
- Unclaimed deposit.
- UIFW policy

5.4 THAT, Council approves the proposed dates for the public participation to fall within 4 April 2021 to 9 May 2021.