

**SUBMISSION OF THE 2020/2021 TO 2022/2023 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS (5/1/1–2020/2021) (CHIEF FINANCIAL OFFICER)**

**Purpose of the report**

To submit the 2020/2021 to 2022/2023 Operating and Capital Budget, IDP, SDF and Policy Documents and comments received on these documents, to council for approval.

The budget in terms of the Schedule A format as prescribed by the Municipal Budgeting and Regulations will be distributed to council at least 3 days before the council meeting of 28 May 2020.

**Legal Framework**

Section 16 - 18 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:

**Annual budgets**

16. (1) The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that 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.
- (3) Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

**Contents of annual budgets and supporting documents**

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;
- (iii) approving the budgets for the relevant financial year of each municipal entity under the sole or shared control of the municipality; and
- (iv) approving any other matter that may be prescribed;
- (b) measurable performance objectives 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 at a remuneration package at least 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.

**Section 23 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:**

**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.

### **Inputs received on tabled budget and reponse to submissions**

The Mayor at the Council Meeting of 26 March 2020 tabled the Budget documents and IDP. Due to the national lockdown public participation on the budget was done through written submissions to the municipality.

The IDP and the Budget was discussed at the Strategic Integrated Management Engagement (SIME) meeting with the Provincial Treasury and Department of Local Government on 5 May 2020 and the Municipality responded on the Provincial Treasury Assessment, the assessment indicated that the budget is responsive, credible and sustainable over the MTREF period. Detailed in this document are all the comments received emanating from the public participation process that needs to be considered and taken in account before the approval of the budget in terms of Section 23 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) that stipulates as follows:

### **SIME**

Below are the key finding from the SIME report:

The Municipality's budget is deemed to be credible, sustainable and funded as there are no immediate sustainability threats. However, the impact and constant changing factors, that the National COVID-19 lockdown will bring, the Municipality need to manage short-term risks and uncertainties, while also planning for long-term financial resilience and sustainability. The gaps and risks identified in this assessment should be taken into consideration prior to the final budget adoption in Council. The Municipality should:

- Mitigate the financial impact of COVID19, and should curtail all non-essential spending, optimise savings that can in turn be applied for disaster relief related projects. The Municipality is also reminded that any expenditure/s relating to COVID-19 should be limited to the implementation of their mandates as outlined in the Constitution, specifically relating to the provision of basic services i.e. water, sanitation, refuse and electricity amongst others.
- Strengthen municipal revenue management strategies, which should be improved in-line with the principles of the National Revenue Management as a Game Changer, thereby improving its revenue management framework that should target improving internal controls, cash flow management, operational efficiencies and reduction of unnecessary and wasteful expenditure.
- Ensure that the proposed tariffs strike the right balance between environmental and social objectives. Excessive increases would increase the proportion of disposable income allocated to municipal services, potentially causing services to become unaffordable. This is caused by the fact that the proposed increases for most of the municipal service charges tariffs are more than the CPI guidance provided by National Treasury. Provincial Treasury note that the increases are required to ensure medium- to long term financial sustainability and represent resource realignments with direct impacts on priority service delivery areas.
- Effective management of employee related costs as it is one of the largest expenditure components.
- Prioritise asset maintenance as no renewal of assets is provided for in the outer years and this may have adversely impact on the infrastructure of the Municipality.
- Prioritise maintenance and where necessary the refurbishment of essential municipal infrastructure as the projected allocation for repairs and maintenance is below the National guideline.
- Have a more concerted effort of avoiding conditional grants being returned to the National Revenue Fund as possible roll over application may result due to low spending on capital budget. -.
- Ensure that the capital funding mix of the Municipality is balanced in context of the restrained financial position of the Municipality, however it would be recommended that the Municipality apply prudent fiscal management and closely monitoring the realisation of cash-backed surpluses to be used for capital.
- Implement multi-year capital budget appropriation as it will benefit the community.
- Note that the credibility of the capital budget is affected by the ability of the Municipality to implement this capital budget. Current trends indicate under spending and a more concerted effort is required to accelerate capital spending.

- Note that NT will use only the mSCOA data strings for submission as prescribed and all publications will use the data collected from the mSCOA data strings. Therefore, it is imperative that the Municipality align the mSCOA budget data strings to the
- The Asset Management ratio results are overall being well maintained, further consideration to improve the capital spending budget and levels of repairs and maintenance to be within the acceptable norm should be exercised over the MTREF.
- The Municipality must ensure they have a proper system in place to monitor compliance with supply chain regulations to avoid further irregular expenditure.
- Revenue, Debtors and Liquidity Management ratio results overall are being well maintained however the Municipality should continue to enforce their credit control policies.
- The Municipality has maintained a healthy financial position, as per the ratio results.
- The liquidity ratios of less than 1 indicates that the Municipality is exposed to liquidity risk and that there is a dependency to convert outstanding debtors to cash.
- An improved debt management strategy needs to be put in place to ensure that outstanding debt is collected.
- The Municipality is cautioned to monitor the increasing in debtors' balances and non-collection of revenue.
- Although the Municipality has capacity to take on additional borrowing it should be considered within the cash flow requirements and affordability parameters.

**Response by Municipality:**

- The municipality considered all the recommendations made in the SIME report taking in account the potential financial sustainability challenges brought about by the covid 19 pandemic and the lockdown. The budget has been reprioritised to allow for reduction in tariffs and cost saving efficiencies.

The summarised version of all comments/objections received from individuals / organisations and businesses was attached as Annexure A.

The municipality has considered the feedback on the tabled budget by the Provincial Treasury, Department of Local Government, businesses and the community and respond with the following proposed amendments:

## **1) AMENDMENTS TO TABLED BUDGET**

### **Sundry Tariffs**

Proposed sundry tariff increase be limited to CPI of 4,5%.

### **Service Tariffs**

- The increase in Rates Tariffs for Residential and Business properties be reduced from 8% to 4,5%.
- The increase for Water Tariffs will be 8% on average and according to the Inclining Block Tariffs of the study that was done in 2014/2015.
- The increase of Sanitation Tariffs be reduced from 8% to 4,5%.
- The tariff increase for Refuse Removal be reduced from 8% to 4,5%.
- The increase of Electricity Tariffs be reduced from 6.5% to 6,35%.

### **Capital Budget**

The capital budget be reduced from R 90 931 010 to R 79 801 866 with R 11 129 144 as certain projects to be moved to outer years over the MTREF period.

### **Operating Budget**

The expenditure budget be revised and reduced to ensure prioritisation of certain expenditures and to be resilient to the possible financial impact of the covid 19 pandemic which at this stage is unknown.

**The new BUDGET , SDF AND S IDP documentation will reflect the mentioned adjustments \***

## **RECOMMENDATION**

1. That the consolidated Operating budget of R 777 861 851, Capital budget of R 79 801 866, and budgeted cash flows, as set out in the Municipal Budget be adopted and approved by Council and that it constitutes the Budget of the Council for 2020/2021 financial year as well as the medium term (indicative) budgets for the 2021/2022 and 2022/2023 financial years.
2. That the Integrated Development Plan and related documents and any amendments thereto, be approved.
3. That the Spatial Development Framework and any amendments thereto, be approved.
4. That the tariffs for property rates be approved.
5. That the rates and tariffs for water, electricity and other municipal services be approved.
6. That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act are included in or accompany the budget document be approved.
7. That the measurable performance objectives for 2020/2021 for operating revenue by source and by vote be approved.
8. All relevant documents be made available for public comment and be forward to all relevant National and Provincial departments.
9. That the following budget related policies be approved and that the ICT policies be noted:
  - Asset Management Policy
  - Credit Control and Debt Collection Policy (Amended)
  - Cash Management and Investment Policy
  - Tariff Policy (Amended)

- Rates Policy (Amended)
- Supply Chain Management Policy (Amended)
- Virement Policy (Amended)
- Borrowing, Funds and Reserves Policy
- Liquidity Policy

**This item served before a Special Meeting of Council on 28 May 2020**

**Hierdie item het gedien voor 'n Spesiale Vergadering van die Raad op 28 Mei 2020**

**Besluit / Resolved**

1. That the consolidated Operating budget of R 777 861 851, Capital budget of R 79 801 866, and budgeted cash flows, as set out in the Municipal Budget be adopted and approved by Council and that it constitutes the Budget of the Council for 2020/2021 financial year as well as the medium term (indicative) budgets for the 2021/2022 and 2022/2023 financial years.
2. That the Integrated Development Plan and related documents and any amendments thereto, be approved.
3. That the Spatial Development Framework and any amendments thereto, be approved.
4. That the tariffs for property rates be approved.
5. That the rates and tariffs for water, electricity and other municipal services be approved.
6. That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act are included in or accompany the budget document be approved.
7. That the measurable performance objectives for 2020/2021 for operating revenue by source and by vote be approved.
8. All relevant documents be made available for public comment and be forward to all relevant National and Provincial departments.
9. That the following budget related policies be approved and that the ICT policies be noted:
  - Asset Management Policy
  - Credit Control and Debt Collection Policy (Amended)
  - Cash Management and Investment Policy
  - Tariff Policy (Amended)
  - Rates Policy (Amended)
  - Supply Chain Management Policy (Amended)
  - Virement Policy (Amended)
  - Borrowing, Funds and Reserves Policy
  - Liquidity Policy