

**A2037 ANNUAL OPERATING AND CAPITAL MTREF FOR 2020/2021 TO 2022/23 PERIOD FOR
SEDIBENG DISTRICT MUNICIPALITY**

(5/1/1) (2020/2021)

Cluster: Finance
Portfolio: Finance

1. PURPOSE

To table before the Committee the Annual Operating and Capital MTREF for the 2020/2021 to 2022/23 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 country's 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. These 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 and 99as 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 2020/2021 MTREF as the municipality's revenue base (primarily composed of grants & subsidies) has begun to 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 Annual Budget is strategically aligned to the IDP 2020/2021 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 2020/2021 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 2020/21 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.

FINANCING OF OPERATING ACTIVITIES

The budget on financial performance (previously income and expenditure statement) 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:

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	2019 Estimate	2020 Forecast	2021 Forecast	2022 Forecast
<i>CPI Inflation</i>	4.1%	4.5%	4.6%	4.6%

Source: MFMA Circular 98

NB: The declining 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 2020/2021 below CPI. Effectively, there

has only been a R8,358,000 or 3.11% growth from 2019/2020 to 2020/2021. As indicated below salaries are currently higher than the total equitable share received.

	Salaries	% Salaries Growth	Equitable Share	% Equitable Share Growth	Percentage of salaries versus equitable share
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 budget	286823567	3.39%	268626000	3.76%	106.77%

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.

<i>National Allocation as per DORA Bill, Government Gazette No. 41432 of 9 February 2018</i>	2020/2021 Allocation	2021/2022 Forward Estimate	2022/2023 Forward Estimate
	R'000	R'000	R'000
EQUITABLE SHARE	279 984	285 906	293 770
Local Government Financial Management Grant	1,000	1,200	1,400
Municipal Systems Improvement Grant	0	0	0
Extended Public Works Program Integrated Grant	1,000	0	0
Water Services Infrastructure Grant	15 825	0	0
Rural Roads Asset Management Systems Grant	2,456	2,591	2,741
TOTAL ALLOCATION GAZETTED	297 265	289 697	297 911

Key Legal Provisions to be Strictly Enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2020/21 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 Service Delivery and Budget Implementation Plan in both printed and electronic format;
- the 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 2020/21 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 budget before Council is 31 May 2020 as per Section (16)2 of the MFMA however based on extension provided as a result of the lockdown the deadline is before 30 June 2020.

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.

Operating Income

The service charges and rental income have been increased by 6% taken into consideration the guidelines as prescribed by National Treasury.

Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand	1										
Revenue By Source											
Property rates	2	–	–	–	–	–	–	–	–	–	–
Service charges - electricity revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - water revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - sanitation revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - refuse revenue	2	–	–	–	–	–	–	–	–	–	–
Rental of facilities and equipment		–	358	514	514	514	514	223	516	540	564
Interest earned - external investments		–	2 836	2 944	1 995	2 615	2 615	3 116	2 700	2 822	2 948
Interest earned - outstanding debtors		–	–	–	–	–	–	–	–	–	–
Dividends received		–	–	–	–	–	–	–	–	–	–
Fines, penalties and forfeits		–	2 255	125	1 575	1 575	1 575	1 345	1 575	1 646	1 720
Licences and permits		–	60 727	66 156	75 634	75 634	75 634	47 962	75 630	79 034	82 590
Agency services		–	263 244	277 892	301 541	300 871	300 871	283 790	313 062	306 033	315 057
Transfers and subsidies		–	22 488	23 839	24 412	24 366	24 366	14 950	24 139	25 225	26 361
Other revenue	2	–	–	–	–	–	–	–	–	–	–
Gains		–	88	67	140	140	140	28	140	146	153
Total Revenue (excluding capital transfers and contributions)		–	351 996	371 538	405 811	405 715	405 715	351 414	417 763	415 446	429 393

Expenditure

Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand											
Expenditure By Type											
Employee related costs	2	-	255 327	264 064	276 025	273 798	273 798	249 333	274 644	287 003	299 918
Remuneration of councillors		-	12 898	13 432	14 031	13 871	13 871	12 186	14 018	14 649	15 308
Debt impairment	3	-	44 584	8 777	-	-	-	-	-	-	-
Depreciation & asset impairment	2	-	25 866	15 715	11 620	11 272	11 272	3 437	11 272	11 779	12 309
Finance charges		-	-	-	-	-	-	-	-	-	-
Bulk purchases	2	-	-	-	-	-	-	-	-	-	-
Other materials	8	-	7 628	8 224	7 827	7 538	7 538	5 428	6 905	7 216	7 541
Contracted services		-	52 004	56 736	53 937	47 701	47 701	29 007	46 534	48 652	50 858
Transfers and subsidies		-	10 625	9 560	25 141	24 942	24 942	7 285	27 973	11 454	12 027
Other expenditure	4, 5	-	38 511	43 499	40 443	37 087	37 087	32 355	35 875	37 490	39 177
Losses		-	74	166	40	40	40	-	40	42	44
Total Expenditure		-	447 518	420 172	429 062	416 250	416 250	339 031	417 261	418 284	437 181
Surplus/(Deficit)		-	(95 522)	(48 634)	(23 251)	(10 536)	(10 536)	12 383	502	(2 838)	(7 788)

Employee and Councillor Related Costs (69.48%)

Salaries are projected at R288.7million for the 2020/2021 financial year. There is a collective labour salary agreement (SALGA & SALGBC) currently in place and therefore a 6.25% increase must be used for the calculation of salaries. This will however result in an unfunded budget and alternative steps need to be implemented in order to get to a funded budget.

Council therefore needs to apply for exemption for the implementation of 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 2020/2021 financial year.

Impact on a 6.25% increase will amount to an additional R 16,125 million placing the draft budget in a deficit and unfunded position.

Depreciation (2.71%)

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 2020/2021 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 2021/22 and 2022/23.

Repair and maintenance (2.14%)

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 R8.9 million has been provided, which equates to 2.14% 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.

Contracted services (11.20%)

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	12,714
Municipal Health Services	19,928
Maintenance of CCTV Equipment	2,954
Legal Charges	2,500

Other Expenses - General (8.64%)

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.

INVESTMENT INTO CAPITAL

The total Capital investment for 2020/2021 will be R2.15million whereby the full amount will be funded from our internal provisions. 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 2020/21 budget is approved by Council.

Annual Procurement Plans

On matters relating to financial investment activities into operational, maintenance, repair, improvement and additions to property, plant and equipment, as well as Council programmes, it has been recommended that Clusters prepare their procurement plans in accordance with their planned targets as set out in their SDBIPs with the purpose of regular monitoring and reporting on the performance of the organisation against these procurement plans.

This process is required as per the MEC Finance's directive of 2014 whereby approved annual procurement plans must be submitted to Gauteng Provincial Treasury by no later than 31 July annually for reporting and monitoring purposes.

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 budget preparation process, and arising from discussions at the Budget Panel, 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;
- Transferring of staff to local municipalities and other organs of state where the functions must be performed

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 and 98 of National Treasury.

Council Budget Related Policies:

The MTREF for 2020/2021 has been drawn up in alignment with the following financial & budget related policies (as reviewed and adopted by Council):-

- 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 Teknorama Policy
- Acting Allowance Policy
- Donation Policy

During the budget process, these policies were reviewed and although found to still be applicable some requirement for amendments were identified.

5. FINANCIAL IMPLICATIONS

The total estimated operating revenue of	R 417,763,249;
The total estimated operating expenditure of	R 417,261,171;
Resulting in an operational surplus of	R 502,078 and
The total estimated Capital Budget of	R 2,150,000
Resulting in a netdeficit of	R 1,647,922

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 2020/2021 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.

6. LEGAL IMPLICATIONS

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.”

7. RECOMMENDATIONS

It is therefore recommended:

- 7.1 THAT Council note Annexures “A” to “B” as required in terms of the MFMA, No 56 of 2003.
- 7.2 THAT the inputs and comments received during public participation processes from Gauteng Provincial Treasury, National Treasury, MEC for Co-Operative Governance, the local municipalities, the public and other stakeholders be duly noted and recorded.
- 7.3 THAT the final capital and operating budget for 2020/2021 be approved as per Annexure “A” to “B” in accordance with the requirements as set out in the MFMA and MFMA: Municipal Budget and Reporting Regulations (MBRR GN 393 of 2009) and MFMA: Municipal Standard Chart of Accounts Regulations (MSCOA GNR. 312 of 2014).

- 7.4 THAT the proposed tariffs for all services as per Annexure “C” be approved in terms of the Tariff Policy (A1631) and Section 75A of the Local Government Municipal Systems Act, No 32 of 2000.
- 7.5 THAT the consolidated three year final Capital and Operational Budget as per Annexure “A” to “B” be submitted to National Treasury, MEC for Finance, MEC for Co-Operative Governance, Auditor-General and South African Local Government Association (SALGA) within ten working days of Council approval of the annual budget as per Regulation 18 of the MFMA: Municipal Budget and Reporting Regulations (MBRR GN 393 of 2009).
- 7.6 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) Transferring of staff to local municipalities and other organs of state where the functions must be performed.
8. THAT the Municipal Manager be hereby delegated to write a letter in connection with resolution (7.6) mentioned above.
9. ANNEXURES
- * Annexure “A” -A Schedule
 - ** Annexure “B” -Tariff of Charges