

TABLED BUDGET FOR THE MTREF 2024/2025 TO 2026/2027 FINANCIAL YEARS**(5/1/3 (2024/2025))****Cluster : Finance
Portfolio: Finance****1. PURPOSE**

The purpose of the report is to present the tabled budget for 2024/2025 financial year with projections for the outer years 2025/2026 and 2026/2027

2. INTRODUCTION

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, 99, 107, 108, 115, 123 and 128 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 2024/2025 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. DISCUSSION

The budget approach was applied by taking the following principles into account:

- No growth allowed on general expenses
- Programs to be performed in-house first with no use of Consultants by all Clusters;
- Moratorium be placed on vacancies and attrition positions not to be filled, subject to Accounting Officer approval;
- Moratorium on controllable salary line items such as acting, overtime, cell phone allowances and car allowance;
- As per circular 128 the municipality need to apply for exemption on salary increases based on affordability

The operational budget for the 2024/25 budget will apply a 0% salary increase with an application for exemption while taken into consideration that only critical vacancies will be filled using the internal advertisement option.

Capital expenses will be limited as a result of the current financial position, taken into consideration that the capital items need to be funded from internally generated fund as only the energy saving grant is available from grant funding.

FINANCING OF OPERATING ACTIVITIES

The budget on financial performance has been drawn up in line with the GRAP (Generally Recognized 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.

<i>Fiscal year</i>	<i>2022/23 Actual</i>	<i>2023/24 Estimate</i>	<i>2024/25 Forecast</i>	<i>2025/26 Forecast</i>	<i>2026/27 Forecast</i>
<i>CPI Inflation</i>	6.9%	6.0%	4.9%	4.6%	4.6%

Source: MFMA Circular 128

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 2024/2025 below CPI. Effectively, there has only been a R 6.404,000 or 2.111% growth from 2023/2024 to 2024/2025. As indicated below salaries is currently higher than the total equitable share received.

DC42 Sedibeng - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2020/21	2021/22	2022/23	Current Year 2023/24				2024/25 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
Revenue											
Exchange Revenue											
Service charges - Electricity	2	-	-	-	-	-	-	-	-	-	-
Service charges - Water	2	-	-	-	-	-	-	-	-	-	-
Service charges - Waste Water Management	2	-	-	-	-	-	-	-	-	-	-
Service charges - Waste Management	2	-	-	-	-	-	-	-	-	-	-
Sale of Goods and Rendering of Services		9,531	1,760	192	235	224	224	131	233	233	233
Agency services		62,115	66,529	74,002	75,239	76,836	76,836	45,807	74,446	86,333	92,513
Interest		-	-	-	-	-	-	-	-	-	-
Interest earned from Receivables		-	-	-	-	-	-	-	-	-	-
Interest earned from Current and Non Current Assets		1,718	1,847	3,932	2,325	3,561	3,561	3,514	3,915	4,111	4,317
Dividends		-	-	-	-	-	-	-	-	-	-
Rent on Land		-	-	-	-	-	-	-	-	-	-
Rental from Fixed Assets		3	367	549	480	530	530	372	604	634	669
Licence and permits		-	-	-	-	-	-	-	-	-	-
Operational Revenue		4,348	31,298	5,241	4,765	4,830	4,830	2,447	4,977	5,199	5,433
Non-Exchange Revenue											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Surcharges and Taxes		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		-	-	-	-	-	-	-	-	-	-
Licences or permits		2,351	174	212	1,680	1,680	1,680	150	1,500	1,500	1,500
Transfer and subsidies - Operational		293,453	302,065	311,014	323,574	322,553	322,553	236,587	329,333	339,824	351,111
Interest		-	-	-	-	-	-	-	-	-	-
Fuel Levy		-	-	-	-	-	-	-	-	-	-
Operational Revenue		-	-	-	-	-	-	-	-	-	-
Gains on disposal of Assets		36	-	12	40	40	40	30	60	63	66
Other Gains		22	-	-	-	-	-	-	-	-	-
Discontinued Operations		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contribution)		373,575	404,039	395,154	408,337	410,254	410,254	289,039	415,069	437,898	455,842
Expenditure											
Employee related costs	2	287,554	282,313	290,100	306,391	306,037	306,037	203,791	307,432	322,854	338,928
Remuneration of councillors	2	12,803	12,271	14,519	14,738	14,270	14,270	9,512	14,157	14,865	15,608
Bulk purchases - electricity	2	-	-	-	-	-	-	-	-	-	-
Inventory consumed	8	2,488	5,546	3,495	4,054	4,702	4,702	3,463	3,873	4,067	4,270
Debt impairment	3	-	-	53	-	-	-	-	-	-	-
Depreciation and amortisation		12,653	11,611	8,787	9,026	8,504	8,504	4,959	8,504	8,929	9,375
Interest		-	-	-	-	-	-	-	-	-	-
Contracted services		37,307	34,933	36,600	42,700	42,739	42,739	16,357	42,535	44,684	47,036
Transfers and subsidies		6,301	8,510	8,089	12,390	12,390	12,390	6,651	12,533	12,330	12,330
Irrecoverable debts written off		5	-	1,138	-	-	-	-	-	-	-
Operational costs		39,950	36,586	36,240	33,733	36,097	36,097	24,041	36,287	38,101	40,006
Losses on disposal of Assets		20	-	141	40	40	40	-	60	63	66
Other Losses		15	16	-	-	-	-	-	-	-	-
Total Expenditure		399,096	391,786	399,162	423,072	424,778	424,778	268,775	425,381	445,893	467,621
Surplus/(Deficit)		(25,520)	12,253	(4,008)	(14,735)	(14,524)	(14,524)	20,264	(10,312)	(7,995)	(11,779)
Transfers and subsidies - capital (monetary allocations)	6	2,173	302	-	367	367	367	41	5,000	5,000	5,000
Transfers and subsidies - capital (in-kind)	6	471	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		(22,877)	12,556	(4,008)	(14,368)	(14,157)	(14,157)	20,305	(5,312)	(2,995)	(6,779)
Income Tax		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after income tax		(22,877)	12,556	(4,008)	(14,368)	(14,157)	(14,157)	20,305	(5,312)	(2,995)	(6,779)
Share of Surplus/Deficit attributable to Joint Venture		-	-	-	-	-	-	-	-	-	-
Share of Surplus/Deficit attributable to Minorities		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality		(22,877)	12,556	(4,008)	(14,368)	(14,157)	(14,157)	20,305	(5,312)	(2,995)	(6,779)
Share of Surplus/Deficit attributable to Associate	7	-	-	-	-	-	-	-	-	-	-
Intercompany/Parent subsidiary transactions		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	1	(22,877)	12,556	(4,008)	(14,368)	(14,157)	(14,157)	20,305	(5,312)	(2,995)	(6,779)

Percentage allocation of revenue towards expenses

Description	Percentage
Employee related costs	74.07%
Remuneration of Councillors	3.41%
Depreciation and Asset Impairment	2.05%
Inventory consumed	0.93%
Contracted services	10.25%
Transfers and subsidies	3.02%
Other expenditure	8.74%

Key Legal Provisions to be Strictly Enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2024/25 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 6.8) 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 2024/25 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 final budget before Council is 31 May 2024 as per Section (16)2 of the MFMA. See circular 123 for details as per annexure “C”

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

“FUNDING OF EXPENDITURE”:

- (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 not 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.*

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, 108, 115, 123 and 128 of National Treasury.

5. COUNCIL BUDGET RELATED POLICIES

The MTREF for 2024/2025 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 Technorama Policy
- Acting Allowance Policy
- Donation Policy
- Cost containment Policy

During the budget process, these policies need to be reviewed. National Treasury has appointed an advisor who will assist in the process of reviewing these policies to be submitted to Council for final approval in May 2024.

6. RECOMMENDATIONS

1. THAT Council take note of the constrains within the 2024/2025 draft budget.
2. THAT it be noted that currently the projected 2024/25 budget is in deficit which is not allowed as per MFMA regulations and therefore be deferred for further scrutiny.
3. THAT finalization on the tariff model for the licensing services be taken into consideration during the final budget
4. THAT the projected budget be presented to the Mayoral Committee and Council for final consideration and approval in May 2024.
5. THAT all budget related policies be reviewed and tabled before council for adoption in May 2024 with the approval of the final budget.

Annexures: "A" - A schedule version 6.8
"B" - Draft tariffs
"C" - Circular 128