

**A2189 FINAL BUDGET FOR THE MTREF 2022/2023 TO 2024/2025 FINANCIAL YEARS****(5/1/3 (2022/2023))****Cluster : Finance  
Portfolio: Finance****1. PURPOSE**

The purpose of the report is to present the budget for 2022/2023 financial year with projections for the outer years 2023/2024 and 2024/2025

**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 and 115 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 2022/2023 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:

- Clusters to eliminate all luxury and non-priority items;
- 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;
- Increase of 4.9% to be added on employee related cost based on the bargaining council agreement

Possible scenario used to get to a balance budget will be:

- Apply for an exemption on salary increases for the 2022/2023 financial year. This will then have to be applied for at the bargaining council. Projected increase in expenses will be limited to R1,782,959 from the adjustment budget for 2021/2022.
- In line with the new regulations a staff audit be done as a matter of urgency to verify that the relevant incumbent possesses the required qualifications in the post that they occupy.
- A list of all redundant and misplaced staff be compiled by Corporate Service, HR department and a way forward report be prepared for Council.
- Early retirement option for employees over the age of 60 years to be investigated and reported back to Council.
- The management apply for a transformation or retrenchment grant from National Treasury in order to reduce the organisational structure to an affordable salary level.

Below is a summary of the budget projections on a salary increase versus no increment. The outcome of applying no increase will still leave the municipality with an operating deficit of R4,964,589 and is not practically implementable based on past experiences at the bargaining council.

DESCRIPTION	ORIGINAL 2022	ADJ BUDGET 2022	BUDGET 2023	VARIANCE from adj budget	Budget no salary increase 2023	VARIANCE from adj budget
Revenue	(389,122,564)	(389,322,698)	(395,243,706)	(5,921,008)	(395,243,706)	(5,921,008)
Employee related cost	276,281,921	282,216,450	295,644,116	13,427,666	283,999,409	1,782,959
Councillor's remuneration	14,142,716	12,456,928	14,034,991	1,578,063	13,534,447	1,077,519
Other Expenses	108,467,232	104,095,408	102,743,871	(1,351,537)	102,674,439	(1,420,969)

DESCRIPTION	ORIGINAL 2022	ADJ BUDGET 2022	BUDGET 2023	VARIANCE from budget	Budget no salary increase 2023	VARIANCE from adj budget
Total expenses	398,891,869	398,768,786	412,422,978	13,654,192	400,208,295	1,439,509
Operating Deficit	9,769,305	9,446,088	17,179,272	7,733,184	4,964,589	(4,481,499)
Capital procurement	2,372,472	2,143,240	2,445,413	302,173	1,179,250	(963,990)
Total deficit	12,141,777	11,589,328	19,624,685	8,035,357	6,143,839	(5,445,489)

The operational budget for the 2022/23 budget will imply a 4.9% salary increase being approved by council as per the bargaining council agreement 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 and taken into consideration that the capital items need to be funded from internally generated fund as no grant funding is available.

FINANCING OF OPERATING ACTIVITIES

The budget on financial performance 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	2021/22 Estimate	2023 Forecast	2024 Forecast	2025 Forecast
CPI Inflation	4.5%	4.8%	4.4%	4.5%

Source: MFMA Circular 115

*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 2022/2023 below CPI. Effectively, there has only been a R 8,446,000 or 2.957% growth from*

2021/2022 to 2022/2023. 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	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
<b>Revenue By Source</b>											
Property rates	2	0	0	0	0	0	0	0	0	0	0
Service charges - electricity revenue	2	0	0	0	0	0	0	0	0	0	0
Service charges - water revenue	2	0	0	0	0	0	0	0	0	0	0
Service charges - sanitation revenue	2	0	0	0	0	0	0	0	0	0	0
Service charges - refuse revenue	2	0	0	0	0	0	0	0	0	0	0
Rental of facilities and equipment		513,929	222,852	2,590	340,000	56,376	56,376	63,932	165,500	374,850	179,866
Interest earned - external investments		2,944,162	3,307,133	1,717,724	1,035,023	2,002,566	2,002,566	1,440,709	2,015,468	1,141,113	2,190,412
Interest earned - outstanding debtors		0	0	0	0	0	0	0	0	0	0
Dividends received											
Fines, penalties and forfeits											
Licences and permits		125,000	1,445,000	2,351,000	1,575,000	1,575,000	1,575,000	174,000	1,575,000	1,575,000	1,711,710
Agency services		66,156,160	51,965,859	62,114,835	71,679,896	71,679,896	71,679,896	51,488,637	70,979,896	79,027,085	77,140,953
Transfers and subsidies		277,892,099	284,348,636	293,452,733	306,054,190	307,575,864	307,575,864	297,473,566	314,247,000	319,322,190	329,927,136
Other revenue	2	23,839,000	20,120,265	13,878,808	8,345,295	6,111,670	6,111,670	2,758,440	6,260,842	9,200,689	6,804,291
Gains		67,496	47,933	57,554	140,000	40,000	40,000	25,565	40,000	140,000	43,472
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>371,537,846</b>	<b>361,457,679</b>	<b>373,575,243</b>	<b>389,169,404</b>	<b>389,041,372</b>	<b>389,041,372</b>	<b>353,424,848</b>	<b>395,283,706</b>	<b>410,780,927</b>	<b>417,997,840</b>
<b>Expenditure By Type</b>											
Employee related costs	2	264,063,502	277,980,906	287,554,334	276,281,921	282,216,450	282,216,450	234,215,940	295,644,116	304,600,650	308,651,052
Remuneration of councillors		13,431,979	13,379,240	12,802,950	14,142,716	12,456,928	12,456,928	10,270,962	14,034,991	15,592,315	14,709,284
Debt impairment	3	8,777,064	0	5,476	0	0	0	0	0	0	0
Depreciation & asset impairment	2	15,714,686	17,646,767	12,652,799	11,271,875	11,271,875	11,271,875	8,604,697	11,271,875	11,271,875	12,250,376
Finance charges											
Bulk purchases - electricity	2	0	0	0	0	0	0	0	0	0	0
Inventory consumed	8	3,597,882	2,626,483	2,487,682	1,938,161	5,849,339	5,849,339	4,911,947	5,513,484	6,495,268	5,992,080
Contracted services		56,736,314	47,485,997	37,306,509	41,208,051	38,697,997	38,697,997	25,944,439	39,032,003	41,208,051	42,355,123
Transfers and subsidies		9,560,026	8,366,123	6,301,169	12,171,000	12,477,000	12,477,000	8,262,332	13,310,000	11,148,000	13,070,944
Other expenditure	4, 5	43,498,727	41,200,406	39,949,696	36,913,259	35,796,197	35,796,197	28,804,113	33,616,509	37,163,249	36,294,445
Losses		165,949	1,184,931	34,937	40,000	40,000	40,000	0	40,000	40,000	43,472
<b>Total Expenditure</b>		<b>415,546,128</b>	<b>409,870,853</b>	<b>399,095,552</b>	<b>393,966,983</b>	<b>398,805,786</b>	<b>398,805,786</b>	<b>321,014,429</b>	<b>412,462,978</b>	<b>427,519,408</b>	<b>433,366,776</b>
<b>Surplus/(Deficit)</b>		<b>(44,008,283)</b>	<b>(48,413,174)</b>	<b>(25,520,309)</b>	<b>(4,797,579)</b>	<b>(9,764,414)</b>	<b>(9,764,414)</b>	<b>32,410,420</b>	<b>(17,179,272)</b>	<b>(16,738,481)</b>	<b>(15,368,936)</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		0	38,950	2,173,038	0	321,326	321,326	302,483	0	0	0
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	6										
Transfers and subsidies - capital (in-kind - all)		0	0	470,522	0	0	0	0	0	0	0
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>		<b>(44,008,283)</b>	<b>(48,374,224)</b>	<b>(22,876,749)</b>	<b>(4,797,579)</b>	<b>(9,443,088)</b>	<b>(9,443,088)</b>	<b>32,712,902</b>	<b>(17,179,272)</b>	<b>(16,738,481)</b>	<b>(15,368,936)</b>
Taxation											
<b>Surplus/(Deficit) after taxation</b>		<b>(44,008,283)</b>	<b>(48,374,224)</b>	<b>(22,876,749)</b>	<b>(4,797,579)</b>	<b>(9,443,088)</b>	<b>(9,443,088)</b>	<b>32,712,902</b>	<b>(17,179,272)</b>	<b>(16,738,481)</b>	<b>(15,368,936)</b>
Attributable to minorities											
<b>Surplus/(Deficit) attributable to municipality</b>		<b>(44,008,283)</b>	<b>(48,374,224)</b>	<b>(22,876,749)</b>	<b>(4,797,579)</b>	<b>(9,443,088)</b>	<b>(9,443,088)</b>	<b>32,712,902</b>	<b>(17,179,272)</b>	<b>(16,738,481)</b>	<b>(15,368,936)</b>
Share of surplus/ (deficit) of associate	7										
<b>Surplus/(Deficit) for the year</b>		<b>(44,008,283)</b>	<b>(48,374,224)</b>	<b>(22,876,749)</b>	<b>(4,797,579)</b>	<b>(9,443,088)</b>	<b>(9,443,088)</b>	<b>32,712,902</b>	<b>(17,179,272)</b>	<b>(16,738,481)</b>	<b>(15,368,936)</b>

Percentage allocation of revenue towards expenses

Description	Percentage
Employee related costs	74.79%
Remuneration of Councillors	3.55%
Depreciation and Asset Impairment	2.85%
Inventory consumed	1.39%
Contracted services	9.87%
Transfers and subsidies	3.37%
Other expenditure	8.50%

Key Legal Provisions to be Strictly Enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2022/23 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 6.6) 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 2022/23 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 2022 as per Section (16)2 of the MFMA.

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 and 115 of National Treasury.

5. COUNCIL BUDGET RELATED POLICIES

The MTREF for 2022/2023 has been drawn up in alignment with the following financial & budget related policies (as reviewed and adopted by Council):-Annexure "C"

- 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
- Cost containment Policy

During the budget process, these policies were reviewed and found to still be applicable.

6. RECOMMENDATIONS

1. THAT Council note annexure "A" to "C" as required in terms of the MFMA, No 56 of 2003;

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;
3. THAT the final capital and operating budget for 2022/2023 be approved as per Annexure "A" to "C" 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);
4. THAT the proposed tariffs for all services as per Annexure "B" be approved in terms of the Tariff Policy and Section 75A of the Local Government Municipal Systems Act, No 32 of 2000;
5. THAT the consolidated three-year final Capital and Operational Budget as per Annexure "A" to "C" 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);
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;
7. THAT in line with the new regulations staff audit be done as a matter of urgency to verify that the relevant incumbent possesses the required qualifications in the post that they occupy.
8. THAT a list of all redundant and misplaced staff be compiled by Corporate Service, HR department and a way forward report be prepared for Council.
9. THAT a transfer agreement be entered into between Sedibeng District Municipality and the Local Municipalities in order to transfer staff to the Local Municipalities where vacancies arise
10. THAT the management apply for a transformation or retrenchment grant from National Treasury in order to reduce the organisational structure to an affordable salary level.

Annexures:

Annexure "A"	A Schedule
Annexure "B"	Tariff of Charges
Annexure "C"	Budget related policies