

**DRAFT MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK FOR THE 2021/2022 FINANCIAL AND TWO OUTER YEARS**

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**FILE NUMBER** :  
**RESPONSIBLE DEPARTMENT** : **Finance**  
**DELEGATED AUTHORITY** : **A3**

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**1. STRATEGIC INTENT:**

Financial Sustainability	✓
Sustainable Physical Infrastructure and Improve Customer Care Services	
Economic Growth and Development	
Institutional Transformation	
Spatial Integration and Safe Protected Environment	
Governance and Stakeholder Participation	

**2. PURPOSE:**

To table the 2021/22 Draft Annual Budget and for the two outer years for consideration and approval by the Council.

**3. BACKGROUND:**

Section 16(1) and (2) of the Local Government: Municipal Finance Management Act, Act 56 of 2003, stipulates the following:

“1. The Council of a municipality must for each year approve an Annual Budget for the municipality before the start of the new financial year.

2. In order for the municipality to comply with subsection (1), the mayor of a municipality must table the Annual Budget at a council meeting at least 90 days before the start of the budget year.”

#### 4. DISCUSSION:

In terms of Section 9 of the Municipal Budget and Reporting Regulations, the Annual Budget and Supporting documentation of the municipality must be in a format specified in Schedule A and include all the required tables, explanatory information, taking into account any guidelines issued by the Minister of Finance in terms of Section 168(1) of the MFMA.

A copy of the budget, including recommendations, the executive summary, annual budget tables, overview of the budget and budget related policies is attached as **ANNEXURE A**. The table below depicts the consolidated Overview of the Annual Budget:

#### CONSOLIDATED OVERVIEW OF THE 2021/2022 DRAFT ANNUAL BUDGET:

Description	Original Budget 2020/2021	Adjusted Budget	Budget 2021/2022	Budget 2022/2023	Budget 2023/2024
		2020/2021			
Total Operating Revenue	2 432 912 000	2 432 912 000	2 534 606 727	2 646 129 390	2 765 205 213
Total Operating Expenditure	2 382 411 000	2 405 774 000	2 603 881 162	2 718 451 933	2 840 782 270
Surplus /( Deficit) for the year before capital grants	50 501 000	27 138 000	(69 274 435)	(72 322 543)	(75 577 057)
Grantas revenue -Capital	172 422 000	181 872 000	124 693 000	130 179 492	136 037 569
Surplus /(Deficit)for the year	222 923 000	209 010 000	55 418 565	57 856 949	60 460 512
Total Capital Expenditure	<b>253 274 900</b>	<b>309 111 710</b>	<b>296 580 325</b>	<b>308 264 338</b>	<b>324 895 712</b>

#### OPERATING BUDGET

- The council approved the draft budget 2021/22 original operational revenue budget to the amount of R2,614 billion, the budget increased to R 2,534 billion. Operational expenditure increased from 2,090 to 2,603 which resulted in the operating deficit of R 69 million.
- The main drivers of the municipality's expenditures are bulk purchases, employee related costs and finance costs and contracted services

#### CAPITAL BUDGET

- An amount of R296.5 million has been allocated for the capital investment program for 2021/2022 financial year. This is a decrease from the R253 million budget for 2020/21. The main reason for this decrease is no adequate internal funding is available for capital program.
- Capital items budgeted from internal funds amounts to R 159 million and extra ordinary efforts should be put in place to collect outstanding debtors and reduce the water and electricity losses which will subsequently reduce the bulk purchases expenditure

Attached as **ANNEXURE A** is a detailed report.

#### MUNICIPAL BUDGET CIRCULAR 107 & 108 FOR THE 2021/22 MTREF

National Treasury issued Municipal Budget Circular 107 and 108 for preparation of the 2021/2022 Multi-Year Revenue and Expenditure Framework which serve as guideline to municipalities. The circular clarifies and proposes key deadlines with respect to budget preparation as results and/or implication of the election. The following approach is proposed:

## **KEY CONSIDERATIONS**

- There is a need for renewed attitude towards revenue management, good governance and financial management to support service delivery. The adoption of funded budgets and the implementation of mSCOA is key in response to the stimulus package.
- Funded budgets has a bearing on the financial viability, no municipality may adopt an unfunded budget.
- If there are cases where an unfunded budget is adopted a plan must be tabled in council as to how they will improve from an unfunded position.
- Funds set aside for other initiatives that will assist the turnaround of municipalities.

## **5. IMPLICATIONS:**

### **5.1. FINANCIAL**

The annual budget has an operating deficit of R **69 million** and overall surplus of **R 55million**

Currently the municipality's creditors amount to R 2.7 billion with Eskom and Rand Water debt totaling to R 2.5billion. The current outstanding creditors in line with the cash flow , therefore the municipality is unable to pay its creditors timeously which might lead to litigations.

Based on the payment rate of R 1 456 billion debt is collectible over a longer term, however it's not adequate to cover the outstanding creditors and operational expenditures of the municipality

The municipality will be unable to pay the obligations when they become due and that will result in non-compliance with section 99(2)(b) of the Municipal Finance Management Act.

### **5.2. LEGAL**

Non-payment of creditors on time will result in increase in interest on overdue accounts and civil action against the municipality. As a result, the legal fees will also increase over and above what is budgeted for.

### **5.3. PERSONNEL**

Certain critical vacant positions might remain unfilled due to cash flow constraints which will therefore impact on the service delivery

### **5.4. COMMUNICATION**

The annual budget be sent to Provincial and National Treasury as prescribed and published on the municipality website.

## 6. RECOMMENDATIONS OF THE EXECUTIVE MAYOR

1. That the report on the Medium Term Revenue and Expenditure Framework for 2021/2022 and two outer years **BE ACKNOWLEDGED**.
2. That the budget comprising of operating Income budget of **R 2 534 606 727**, operating expenditure budget of **R 2 603 881 162** and capital budget of **R 296 580 325** as set out in Annexure A **BE APPROVED** for the adoption to ensure compliance with section 16 (2) of the Municipal Finance Management Act (No 56 of 2003 to take in to account the Division of Revenue Bill published in the Government Gazette No. 44173 of 05 February 2021, and the indicative allocation for outer years BE APPROVED set out .
3. That the budget related policies of 2022 be approved.
4. That proposed tariff increases **BE ADOPTED** as follows:
  - 4.1 *ASSESSMENT RATES*  
All property taxes as per the 2020/2021 tariff book increased by 4.1%.
  - 4.2 *SEWERAGE*  
All sewerage charges as per the 2020/2021 tariff book increased by 5.8%.
  - 4.3 *REFUSE*  
All refuse charges as per the 2020/2021 tariff book increased by 4.1%.
  - 4.4 *WATER*  
All basic water charges as per the 2020/2021 tariff book increased by 5.8%
  - 4.5 *ELECTRICITY*  
All basic electricity charges Increase with 14.59% in line with NERSA
  - 4.6 *DEPOSITS*  
Increase with 4.1%
  - 4.7 *MISCELLANEOUS TARIFFS*
    - As per the 2020/21 tariff book increased by 4.1%.
    - These are tariffs that are used on a needs basis.
    - All tariffs exclude VAT except in the case of assessment rates that are zero-rate.
  - 4.8 *INTEREST / CAPITALIZED ARREARS*

- No interest will be levied on those arrears for which the consumer made formal arrangements.
- Interest will only be levied on those arrears for which no formal arrangement exist and/or arrear as a result of not complying with the said arrangements.
- Interest rates will be levied at market related rates.

5. That a copy of the approved draft budget **BE SUBMITTED** in print form and electronically to Provincial and National Treasury.