

## **MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK FOR THE 2020/2021 FINANCIAL AND TWO OUTER YEARS**

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**FILE NUMBER** : (6/1/1-2020/2020)

**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 2020/21 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 2020/2021 Draft Annual Budget:

Description	Audited Outcome 2018/2019	Original Budget 2019/2020	Special Adjustment 2019/20	Adjusted Budget 2019/2020	Budget 2020/2021	Budget 2021/2022	Budget 2022/2023
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Total Operating Revenue	1 758 967	2 000 926	2 241 409	2 241 409	2 402 142	2 670 077	2 852 794
Total Operating Expenditure	1 736 664	2 415 650	2 251 409	2 241 208	2 391 835	2 587 356	2 798 155
Surplus /(Deficit) for the year	22 303	(414 425)	(10 000)	201	10 307	82 721	54 639
Total Capital Expenditure	124 232	142 187	142 187	142 187	451 186	112 336	117 371

#### OPERATING BUDGET

- The council approved the 2019/20 original operational revenue budget to the amount of R2, 241 (excluding grants of R 364million) billion, the budget increased to R 2,402. Operational expenditure increased from 2,251 to 2,391 which resulted in the surplus of 10.307 million.
- The main increase on the expenditure was bulk purchases, debt impairment as a result of increase in the debt book and employee related cost.

#### CAPITAL BUDGET

- A capital budget amount to R 142 million was approved by council for the 2019/20 financial year The 2020/21 budget amounts to R451 million, which 17% of it is funded by grants.
- Capital items budgeted from internal funds amounts to R 331.3 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 99 FOR THE 2020/21 MTREF

National Treasury issued Municipal Budget Circular 99 for preparation of the 2020/21 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.

In line with the above, take note of the following important dates in preparation of the 2020/21 budget:

No	Activity	Proposed Dates
1	Approval of MTREF budget	26 March 2020
2	Council budget workshop	To be confirmed
3	Budget consultations with Community	To be confirmed
4	Submission of Final Annual Budget to Council	31 May 2020

## 5. IMPLICATIONS:

### 5.1. FINANCIAL

The annual budget has a surplus of R **10.3 million**.

Currently the municipality's creditors amount to R 2.26 billion with Eskom and Rand Water debt totaling to R 2.0billion. Based on the payment rate of 68%, only R352million of the 2.0 billion debt book is collectible. The R490 million might be collectible which will not be able 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 of the Municipal Finance Management Act.

An intervention by National Treasury to develop the financial recovery plan is underway, the plan is aimed at turning around the financial situation at the municipality and to restore its financial viability.

## **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 inadequacy of the budget and cash flow constraints.

## **5.4. COMMUNICATION**

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

## 6. **RECOMMENDATIONS OF THE EXECUTIVE MAYOR**

1. That the 2020/2021 annual budget, comprising of an Operating Revenue of **R 2 402 142 490** , an Operating Expenditure of **R 2 391 835 399** and capital budget of **R 451 186 000** with the indicative allocation for the two outer years, as set out in the following tables **BE ADOPTED** in terms of Section 16 (2) of the Municipal Finance Management Act (No 56 of 2003):
2. That the budget related policies of Council be **APPROVED**.
3. That the budget be approved
4. That proposed tariff increases **BE ADOPTED** as follows:

### 6.1 ASSESSMENT RATES

*All property taxes as per the 2019/2020 tariff book increased by 0%.*

### 6.2 SEWERAGE

*All sewerage charges as per the 2019/2020 tariff book increased by 6.6%.*

### 6.3 REFUSE

*All refuse charges as per the 2019/2020 tariff book increased by 4.9%.*

### 6.4 WATER

*All basic water charges as per the 2019/2020 tariff book increased by 6.6%*

### 6.5 ELECTRICITY

*All basic electricity charges increase with 6.24% in line with NERSA.*

### 6.6 DEPOSITS

*Increase with 4.9%.*

### 6.7 MISCELLANEOUS TARIFFS

- As per the 2019/20 tariff book increased by 4.9%.
- These are tariffs that are used on a need's basis.
- All tariffs exclude VAT except in the case of assessment rates that are zero-rate.

*6.8INTEREST / 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 budget **BE SUBMITTED** in print form and electronically to Provincial and National Treasury.
6. That the budget workshop **BE HELD** on the date to be confirmed, for all Councillors and senior staff from various departments **TO DISCUSS** the budget in details.
7. That the Council **TAKE NOTE** of the budget consultation on the dates to be confirmed and that the Office of the Speaker **TO CO-ORDINATE** budget consultation with communities.