



ORIGINAL BUDGET
2022-2023 MTREF
31 MAY 2022

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PART 1 – ANNUAL BUDGET

1.1 Mayor's Report

The Mayoral Budget Speech is made available separately.



1.2 Council Resolution

- 1) That Council approves the **2022/23** Final Budget as based on contemplated expenditure and revenue for the MTREF and therefore all the budget recommendations including the Financial Recovery Plan initiatives be taken into- consideration.

- 2) That Council of Makana Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
 - a) The annual budget of the municipality for the financial year 2022/23 and the multi-year and single-year capital appropriations as set out in the following tables:
 - i. Budgeted Financial Performance (revenue and expenditure by standard classification) – Table A2
 - ii. Budgeted Financial Performance (revenue and expenditure by municipal vote) – Table A3
 - iii. Budgeted Financial Performance (revenue by source and expenditure by type) – Table A4; and
 - iv. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source – Table A5.

 - a) The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
 - i. Budgeted Financial Position – Table A6
 - ii. Budgeted Cash Flows – Table A7
 - iii. Cash backed reserves and accumulated surplus reconciliation – Table A8
 - iv. Asset management – Table A9; and
 - v. Basic service delivery measurement – Table A10.

- 3) The Council of Makana Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2022 the tariffs for other services as contained in the tariff list included in the budget document.

- 4) The following policies were reviewed and the Council of Makana Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts the following existing policies:
 - i. Asset management policy - No Changes
 - ii. Cash Management and Investment Policy - No Changes
 - iii. Credit control and Debt collection Policy - Changes made

- iv. Property Rates - Changes made
 - v. Tariff policy - Changes made
 - vi. Virement policy- No Changes
 - vii. Property Rates By-law - No Changes
 - viii. Supply Chain Management Policy - No Changes
 - ix. Borrowing Policy - No Changes
 - x. Funding, Reserves and Long-Term Financial Planning Policy - No Changes
 - xi. Budget Implementation and Monitoring Policy - No Changes
 - xii. Debt Incentive Policy - Changes made
 - xiii. Indigent Policy - No changes
 - xiv. Cost Containment Policy - New
 - xv. UIF& W Policy & Strategy - Changes made
- 5) That the Service Level Standards attached as Annexure “C” be approved.
- 6) That the detailed capital program per project, department and funding source attached as Annexure “D” be approved.

1.3 Executive Summary

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The Municipality has put some efforts to improve the financial health and implementation of strategic plans, such as decreasing the outstanding creditor book and increasing revenue collection of outstanding debtors. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

Implementation of Financial Recovery Plan has been used as tool to address the short comings in respect of improving the financial health, service delivery issues and ensuring that the Municipality meets the legislated requirements. The FRP plan is still in work-in-progress and progress is evident.

National Treasury's MFMA Circular No. 112 & 115 and other applicable previous budget circulars were used to guide the compilation of the 2022/23 MTREF.

The following table is a consolidated overview of the proposed 2022/23 Medium-term Revenue and Expenditure Framework:

Table 1: Consolidated Overview of the 2022/23 MTREF

Description	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
R thousands					
Financial Performance					
Total Revenue (excluding capital transfers and contributions)	607,681	607,581	695,026	676,964	690,577
Total Expenditure	528,282	524,465	626,484	627,187	658,300
Surplus/(Deficit)	79,399	83,116	68,542	49,777	32,277
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	49,227	57,146	42,629	45,920	50,053
Surplus/(Deficit) for the year	128,626	140,262	111,171	95,697	82,330

Operating Revenue

To continue improving the quality of life through the delivery of high-quality services, it is necessary to generate sufficient revenue from rates and services charges. It is also important to ensure that all billable revenue is firstly correctly charged and adequately collected.

The revenue enhancement unit has been capacitated to aid and ensure that all revenue is accurately and efficiently billed and collected. Total Operating Revenue for the 2022/23 financial year is projected at R695 million for 2022/23 MTREF. The basis for increased budget is informed by the data cleansing exercise and meter audit for water both water and electricity that has been performed for the purpose of revenue completeness and improved collection rate.

The municipal has adopted a principle of protecting the poor from excessive tariff increases and will therefore endeavour to limit the increase to lower income consumers in line with inflationary trends as far as possible. Subsidization of free basic services have been extended to pensioners and the most vulnerable category of consumers.

Budgeting for a moderate surplus at the conclusion of the MTREF to enable the municipality to build cash reserves to back statutory funds and provisions and to build an operating as well as capital replacement reserve.

Operating Expenditure

Total operating expenditure for the 2022/23 financial year has been appropriated at R626 million and expenditure framework is informed by the following:

- Improvement in the quality-of-service delivery across all services.
- Repairs and maintenance expenditure are still limited due to the financial difficulties however an amount of R 13,5 million has been set aside for materials in respect of repairs and maintenance and in addition thereto 9 per cent the capital budget is allocated for the upgrading of existing assets representing an amount of R24.4 million.
- Continued provision of basic services remains a high priority as well as the financial sustainability of services.

Repayment of long outstanding debts continues to cripple financial muscle of the institution especially Eskom account; Amatola Water & Department of Water & Sanitation. Service delivery has previously been neglected due to the financial burden of payment plans that are in place.

Capital Expenditure

The capital budget of R46 million for 2022/23 represents a decrease of 10.3 million when compared to the 2021/22 Adjustment Budget. The capital programme decreases are attributable to the reduction to WSIG allocation, INEP and Rollovers that are in the 2021/22 Adjustments Budget. The Capital Budget will decrease further in outers year to R42 million in the 2023/24 financial year There is no borrowing in the Capital Budget due to the lack of cash resources to repay the annual instalments. There will only be R4.2 million funded from internally generated funds in the 2022/23 financial year and R500 thousand for Finance Management Grant.

A major portion of the capital budget is mainly funded from government grants and subsidies as the municipality has limited financial resources to commit large amounts of its own funds to capital financing.

Table 2: Tabled Draft Capital Budget MTREF 2022/23 to 2024/25

EC104 MAKANA MUNICIPALITY DRAFT CAPITAL EXPENDITURE 22/23			
	MIG		
	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
Upgrade of Ncame Street in Joza Kingsflats in Makhanda (Grahamstown)	3,892,456.19		
Replacement of Ageing Asbestos pipes in Makhanda Phase 3	10,790,996.50	9,172,520.00	
Infrastructure Asset Management Plan	1,350,000.00	1,000,000.00	
Purchase of Solid Waste Waste Compactor Vehicle	1,369,300.00	1,422,950.00	
Upgrade of Sports Facilities in Oval Stadium, Lavendar Valley Makhanda.	4,157,900.00	4,268,850.00	
Upgrade of Makana way Phase 1	4,456,047.00	9,748,780	
	26,016,700	25,613,100	24,451,348
	WSIG		
	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
Makana Bulk Sewer Phase 3	12,112,000	16,475,652	17,217,391
Howiesonspoort Pumpset Replacement	4,000,000	-	-
	16,112,000	16,475,652	17,217,391.30
	INEP		
	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
Upgrade 11KV Mini Substations	-	8,695,652	9,086,087
	-	8,695,652	9,086,087
	2022/23 Draft Budget	2023/24 Draft Budget	2024/25 Draft Budget
Finance Management Grant			
ICT Infrastructure Upgrading	500,000	-	500,000
	500,000	-	500,000
Internally Generated Funds			
Community Services Equipment	300,000	-	-
Technical Services Equipment	350,000	-	-
Replacement of Fleet	1,050,000	-	-
Refurbishment of Halls in Alicedale	2,200,000	-	-
Office & Computer Equipment	300,000	-	-
	4,200,000	-	-
Total Capital Budget	46,828,700.00	50,784,404	50,754,826

1.4 Operating Revenue Framework

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- For pensioners a rebate may be granted to owners of rate-able property. In this regard the following stipulations are relevant:
 - The rate-able property concerned must be occupied only by the applicant as his / her primary residence, and;
 - The applicant must be at least 60 and submit proof of his/her age and identity and;
 - In the case of a person being declared medical unfit even if not yet 60, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
 - Proof of monthly household income being less than the income threshold determined by the municipal council, R14 991 per month.

Comparison of proposed rates to levy for the 2022/23 financial year

EC104 MAKANA MUNICIPALITY APPROVED PROPERTY RATES FOR 2022/23		
Notice is hereby given that, in terms of the Local Government Municipality Property Rates Act (Act No. 6 of 2004) the under-mentioned cents in rands will be levied for the financial year 2022/2023 (i.e 1 July 2022 to 30 June 2023) on the categories of rateable properties in the Makana Municipality area of jurisdiction as follows:-		
PROPERTY TYPE	APPROVED CENT IN RAND (RAND/TARIFF) 2021/22	APPROVED CENT IN RAND (RAND/TARIFF) 2022/23
1. Businesses	0.020019	0.021821
2. Government Properties (e.g Public Schools, Government Buildings, etc)	0.025739	0.028055
3. Schools (Private & Public)	0.006742	0.007348
4. Residential Properties	0.006742	0.007348
5. Tertiary Institutions (e.g University)	0.013279	0.014474
6. Domestic Farmers (bona fide farmers)	0.001687	0.001838
7. Public Service Infrastructure (PSI)	0.001687	0.001838
8. Industrial Properties	0.010010	0.010910
9. Monument	0.010010	0.010910
10. Tourism/Game	0.001687	0.001838
11. RDP Houses	0.001687	0.001838
12. Sectional Titles	0.006742	0.007348
13. B&B Properties	0.006741	0.007348
14. Museum Properties	EXEMPT	EXEMPT
15. Sporting Bodies	EXEMPT	EXEMPT
16. Places of Worship	EXEMPT	EXEMPT
17. Public Benefit Organisations (P.B.O.)(Including Private Schools)	0.001687	0.001838
Please note that the municipality does not levy property rates on places of worship (churches) as in line with the Property Rates Act and the Council's Property Rates Policy. Also note that rebates as per Council Resolution, as well as rebates as per the Municipal Property Rates Act No. 6 of 2004 for all the qualifying rateable properties are available on application, which must be completed on or before 30 September each year.		

Property Rates tariffs are proposed to increase by 9 percent from 01 July 2022. The new General Valuation Roll was implemented on 01 July 2019. The municipality is currently busy with the 3rd supplementary valuation roll which will add in the rates revenue base over the MTREF.

The municipality is in the process of addressing variances identified on property rates reconciliation and the following activities are performed for the purpose of completeness:

- Identifying account with inaccurate classifications
- Undervalued properties
- Unregistered properties since 2019 and transferring of billing

1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges regarding water supply as it did with electricity since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion.
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

Better maintenance of infrastructure, new reservoir construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of approximately 9 percent from 1 July 2022 for water is proposed. In addition, 6 kℓ water per month will **ONLY** be granted free of charge to registered indigent residents. In light of the Drought situation, Makana Municipality's punitive tariff structure will continue to be implemented until the Settlers' Dam level increases to considerably above 30%.

EC104 MAKANA MUNICIPALITY APPROVED WATER TARRIFS 2022/23 (Excl VAT)							
CATEGORY	KILOLITRES	STEPPED TARRIF (NORMAL PERIOD) 2021/2022	STEPPED TARRIF (NORMAL PERIOD) 2022/2023	STEPPED TARRIF (CRITICAL PERIOD) 2021/2022	STEPPED TARRIF (CRITICAL PERIOD) 2022/2023	STEPPED TARRIF (CRITICAL PERIOD) 2021/2022	STEPPED TARRIF (CRITICAL PERIOD) 2022/2023
RESIDENTIAL PROPERTIES	0 - 10kl/pm	8.60	9.37	9.37	10.21	10.12	11.03
	11 - 20kl/pm	10.91	11.89	13.08	14.26	14.13	15.40
	21 - 30kl/pm	12.02	13.10	17.44	19.01	18.84	20.53
	31 - 40kl/pm	13.21	12.12	21.80	23.76	23.54	25.66
	41 - 50kl/pm	14.53	15.84	32.70	35.64	35.32	38.49
	>51kl/pm	15.99	17.43	43.60	47.52	47.09	51.33
BUSINESS; INDUSTRIAL AND OTHER PROPERTIES	0 - 10kl/pm	8.84	9.64	11.14	12.14	12.03	13.12
	11 - 20kl/pm	11.80	12.86	14.88	16.21	16.07	17.51
	21 - 30kl/pm	12.98	14.15	16.37	17.84	17.68	19.27
	31 - 40kl/pm	14.26	15.54	18.00	19.63	19.45	21.20
	41 - 50kl/pm	15.70	17.11	19.80	21.58	21.39	23.31
	>51kl/pm	17.26	18.81	21.80	23.76	23.54	25.66
NB:(i) Critical periods will be based on the Dam Levels such as when Settlers Dam is less than 30% the situation will be critical and Engineers will alert Finance in order to alter tarrifs.							
(ii) All other properties not listed amongst the above categories will be categorised by the Chief Financial Officer after motivation by applicant.							
MISCELLANEOUS WATER CHARGES							
CATEGORY	KILOLITRES					TARIFF 2021/	TARIFF 2022/
Raw	1st 10 kl					6.45	7.03
	>10kl kl					7.94	8.66
Standpipe	Consumption					24.72	26.94

1.4.3 Sale of Electricity and Impact of Tariff Increases

Bulk electricity cost is consistently higher than the inflation, having gone up to 17.8 per cent in 2021/22 financial year. Nersa has approved 9.6 per cent for Eskom tariff increase in 2022/23 budget. Considering the Eskom increases, the consumer tariff had to be increased by approximately 9 per cent to offset the additional bulk purchase cost from 1 July 2022.

Registered indigents households will be granted 50 units as per the national norm and allowed in accordance with the equitable share grant to municipalities, pensioners qualifying for assessment rates rebate will also be given the first 50 units of electricity free of charge.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure.

1.4.4 Sanitation and Impact of Tariff Increases

A tariff increases of 9 % for sanitation from 1 July 2022 is proposed. The increase in tariff is necessary to ensure that service delivery standards are met and to secure the long-term sustainability of the service over the medium term.

This is based on the input cost assumptions related to water. It should be noted that electricity costs contribute approximately 20 percent of wastewater treatment input costs, and therefore the cost-reflective tariff study will determine future tariff increases. The following factors also contribute to the proposed tariff increase:

- Free basic sanitation will be applicable to registered indigents; and
- The total revenue expected to be generated from rendering this service amounts to R52 million for the 2022/23 financial year.

The municipality is considering linking the sewer charge based on a certain percentage of water consumed in the variable charge's category, and to introduce a fixed charge. Consideration to the fact that variable sewer charges based on a percentage of water consumption, in the time of drought and water restrictions, will also be considered when investigating the above method of billing.

The exercise will also assist the municipality in addressing Auditor-General recurring findings and completeness of billing.

The below table compares current and proposed amounts payable from 1 July 2022:

ANNUAL SEWER CONNECTION CHARGES	2021/2022	2022/2023
Domestic	R 1,944.00	R 2,118.96
	R 972.00	R 1,059.48
Sporting/Churches /Monument	R 972.00	R 1,059.48
Flats	R 1,944.00	R 2,118.96
	R 1,944.00	R 2,118.96
Business Sub-Economic	R 1,944.00	R 2,118.96
Housing	R 972.00	R 1,059.48
	R 0.00	R 0.00
Industrial Area	R 2,160.00	R 2,354.40
	R 1,944.00	R 2,118.96

1.4.5 Waste Removal and Impact of Tariff Increases

An increase of 9 per cent in the waste removal tariff is proposed from 1 July 2022. The removal and sewerage services charges are running at a deficit and the municipality has taken steps to budget for a breakeven or surplus position. However, due to continued struggles to adequately deliver services with aged fleet and plant, the municipality must propose an increase of 9% to reduce the deficit. The increased charge is still well below the market price charged by other municipalities and far below private sector charges for the same service.

The following table compares current and proposed amounts payable from 1 July 2022:

	2021/2022	2022/2023
Annual Refuse Removal Charges	R 1,879.20	R 2,048.33
MONTHLY REFUSE REMOVAL CHARGES	2021/2022	2022/2023
Domestic	R 108.00	R 117.72
Business	R 215.00	R 234.35
Removal of Garden Refuse	R 650.00	R 708.50
Removal of Garden Refuse (domestic Notice)	R 785.00	R 855.65
Removal of Condemned Goods	R 410.00	R 446.90
Illegal dumping of Refuse (domestic or Other)	R 800.00	R 872.00
Special Refuse Removals (Festival)	R 200.00	R 218.00
	Cost determined by suppliers prices	Cost determined by suppliers prices
Refuse Bins / Bags & Otto Bins		
Street Traders Fruit and Veg p/m	R 41.00	R 44.69
Street Traders Clothing p/m	R 270.00	R 294.30
Street Traders Groceries p/m	R 410.00	R 446.90
NEW - LANDFILL SITE DUMPING CHARGE PER	R 43.20	R 47.09

1.5 Operating Expenditure Framework

The expenditure framework for the 2022/2023 budget and MTREF is informed by the following:

- Continued provision of basic services remains a high priority as well as the financial sustainability of services.
- Ensuring value for money through procurement process; and
- Cost containment measures to key control to unnecessary spending.

Summary of 2022/23 budget and MTREF (classified per main type of operating expenditure):

The budgeted allocation for employee related costs for the 2022/22 financial year totals R 238 million, which equals 38% of the total operating expenditure. Employee related cost has reached the upper limit of an acceptable ratio for employee cost to total expenditure being 39% the target set in the financial recovery plan of 5 per cent reduction. The municipality is currently busy with the organogram review and also cost analyses on current year expenditure to find ways of reducing costs.

The cost associated with the remuneration of public office bearers is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The remuneration cost of councilors is partially subsidized through the equitable share allocation awarded to the municipality in terms of the division of revenue Act.

The provision of debt impairment was determined based on an annual collection rate of 90% and the Debt Write-off Policy of the Municipality. The current average collection rate equals 85% as at end of March 2022 and it is anticipated that the recovery of debt will again increase with new revenue enhancement strategies that have been implemented and strict debt collection policy implementation .

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate at which assets are consumed. Budget appropriations has been increased to R30.90 million for 2022/23 financial year. This expenditure item equates to 5% of the total operating expenditure.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from the Department of Water. Bulk purchases equal 30% of total expenditure. The annual price increase has been factored into the budget appropriations and directly inform the revenue provisions. The expenditure includes electricity distribution losses which equals approximately 6%. Water distribution losses as at 30 June 2019 amounted to 12% and a concerted effort is necessary to ensure the reduction of the losses to further reduce and stay within acceptable norms.

Contracted services relate to the provision of services by means of the appointment of service providers where the necessary in-house skills are not available or have not yet been adequately developed. Specialist services such as security services, speeding fines services as well as technical expertise in both engineering and finance are also used for specific programs and projects to supplement in-house capacity and to provide professional expertise where required.

Certain functions also require the contracting of specialist knowledge contracted from time to time due to the fact that the municipality cannot afford to employ experts on a full-time basis. This category of expenditure equates 10 percent of operating expenses for the 2022/2023 financial year. The increase in the budget is mainly expenditure for Financial System and current SLA's .

Other general expenditure comprises of various line items relating to the daily operations of the municipality. These costs include items such as audit fees in the amount of R6 million, rates rebates, SALGA membership fees, fuel and lubricants, insurance cost, telephone expenses, printing cost, and other domestic expenses as well as a variety of other operating cost. This group of expenditure remains an area in which cost savings and efficiencies can further be achieved. Other general expenditure amounts to 5% or R66 million for the 2022/23 financial year.

Annual Budget Tables

Please see attached PDF A1 Schedule Budget Document.

PART 2 – SUPPORTING DOCUMENTATION

2.1 Overview of the Annual Budget Process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act. The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Mayor.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Councils IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality’s revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2020) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule during September 2021.

SCHEDULE OF KEY DEADLINES SUMMARY

AUGUST 2021	Planning
SEPTEMBER 2021	Public Participation (Inputs)
OCTOBER 2021	Management Planning
NOVEMBER 2021	Mayoral Committee / Council Planning
DECEMBER 2021– MARCH 2022	Budget Process / IDP Development Draft IDP Review and Budget Approvals
APRIL 2022	Public Participation (Report Back)
MAY 2022	Final approval of IDP and Budget
JUNE 2022	Performance System Development (SDBIP)

2.1.2 IDP and Service Delivery and Budget Implementation Plan

The draft Integrated Development Plan (IDP) for the 2022/23 – 2026/27 financial years is to be submitted to Council for approval in March 2022.

The Municipality's IDP is its principle strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into strategic goals, strategic objective, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the annual revisions of IDP included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental strategic plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2022/23 MTREF, based on the approved 2021/22 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2022/23 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2021/22 Top Level Service Delivery and Budget Implementation Plan. Long term financial planning The long-term financial plan has been revised and is updated with current financial and statistical information for the MTREF and a Covid 19 Impact analysis have been made. It clearly sets out funding needs as well as economic, demographic and socio economic as well as other factors that may influence the financial performance of the municipality over the next 10 to 15 years. Borrowing as a funding option is required as a result of the fact that internally generated funds are insufficient to cover the cost of ailing infrastructure that needs to be replaced or repaired on an urgent basis. The municipality needs to plan for cash-backed provisions and reserves and is barely able to do so over the MTREF. The current portion of long-term employee benefits consisting of medical aid contributions for retired personnel and for the payment of long service bonuses should be cash backed and was included in table A8, but no funding is available for reserves. The fact that salary related expenditure has reached the upper limits of the acceptable norm for this ratio is very concerning as there is virtually no room for growth in this category of expenditure over the MTREF and therefore a concerted effort will be made to rationalize and reduce this expenditure going forward. Business planning links back to priority needs and master planning and informed the detail operating budget appropriations and three-year capital programme.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to use integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five-year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Council, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Council strategically complies with the key national and provincial priorities.

The aim of the IDP review is to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Council's response to these requirements.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP but must also conduct its affairs in a manner which is consistent with its IDP.

2.3 Public Input and Responses

The normal public participation processes were followed as per legislation and inputs were requested from the public before the closing date of 16 May 2022. The following was received and considered:

Request for reconsideration of the tariff increases community believe that they are above affordability.

In addressing the concerns from the public who appealed the property rates and tariff increases in light of the failing economy, the council to still need to ensure financial sustainability in the short-term. Property rates, services charges tariff increases were limited to 9%. This is above the inflation indicator as prescribed in MFMA Circular 108, however, municipality tariffs are not cost reflective and some of the services are provided at a loss.

The effect of the draught and COVID 19 on the economy been considered, and expenditure on non-essential goods and services have been stopped to ensure cost saving initiatives are enforced. Tariff increases above the inflation indicator are necessary to ensure enough financial resources are available to provide for all the basic service delivery needs.

2.4 Overview of Budget Related Policies

The budgeting process is guided and governed by relevant legislation, strategies, and related policies. The purpose of policies is to ensure that there are controls and procedures in place that are not in contravention with the Acts. Below is reference to the budget related policies that have been reviewed during 2022/2023 for implementation on 1 July 2022 in accordance with MBRR regulation. All budget policies will be available for scrutiny and input with the budget documentation.

2.4.1 Credit control and Debt Collection Procedures/Policies

To ensure Council collects all debts in respect of rates, service fees and to provide a framework for credit control and debt collection procedures and mechanisms. This strategy further seeks to explore other sources of revenue to enhance the financial muscle of the municipality and address Auditor- General findings. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate.

The proposed policy amendments are as follows:

- All customers must complete an official application form if possible, if not, the documentation received from the conveyance attorneys will be used to create a new owners account formally requesting the Municipality to connect them to service supply lines.
- When tenants are moving out, the services will be linked to the current owner account and applicable deposit(s) will be debited on the account.

- All consumers wishing to utilize municipal services must apply to enter into a service agreement or a contract will be generated upon receiving confirmation of transfer property from the rates section. The Application for Clearance will serve as proof of personal details.
- The service agreement shall set out the conditions under which the services are provided and shall require the signatories thereto to accept the contents of the municipality's credit control and debt collection policy, as well as the provisions of the Municipal Systems Act, 2000 (Act No. 32 of 2000). Existing owners and new owners who did not sign service agreements, must ensure that they obtain the applicable policy.
- The municipality shall/will disconnect the municipal services where an owner or a tenant of a residential premises/property illegally eradicate a house shop/spaza shop or any other business without official permission from the municipality was granted.

2.4.2 Property Rates Policy

The Local Government Municipal Property Rates Act (No. 6 of 2004) and section 62(1) of the Municipal Finance Management Act (No 56 of 2003) requires municipalities to develop, adopt and implement a rates policy on the levying of rates on rateable properties in the municipality.

The municipality needs a reliable source of revenue to provide basic services and perform its functions. Revenue from property rates is used to fund services that benefit the community as opposed to individual households. These include installing and maintaining streets, roads, sidewalks, lighting, and storm drainage facilities, parks, recreational facilities and cemeteries and municipal administration.

The following amendments are proposed to this policy:

- Policy provides for categories of properties and categories of owners of properties for the purposes of granting relief measures (exemptions, reductions, and rebates) in terms of section 15 of the Act.
- Cater for amendments on the Act to fully comply with the provisions of section 8 of the Act; from 1 July 2022

2.4.3 Tariff Policy

The General Financial Management functions covered in Section 62 of the Municipal Finance Management Act (No 56 of 2003) includes the implementation of a Tariff Policy. Specific legislation applicable to each service to been taken into consideration.

2.4.4 Cost Containment Policy

The purpose of this policy is to direct the Municipality on cost containment measures that must be implemented to ensure that resources of the Municipality are used effectively, efficiently and economically. National Treasury 2019 Cost Containment Regulations requires municipality to put in place austerity and cost cutting measures to be reflected in the budget.

2.4.5 Debt Incentive Policy

The purpose of the policy is to provide for the uniform introduction of a consumer debt incentive scheme; to regulate eligibility criteria for participation within the scheme, and to define terms and conditions within which identified debts of participants to the scheme will be written-off in exchange for prompt and timeous payments of future accounts rendered by the Municipality.

2.4.5 Unauthorised, Irregular, Fruitless and Wasteful Expenditure policy/Strategy

The aim of this policy is to prevent, identify, and investigate and to respond appropriately in accordance with the law and address instances of unauthorised, irregular, or fruitless and wasteful expenditure conclusively.

On the 16 November 2021 National treasury has issued Circular 111 regarding development of UIF & W strategy. The purpose of this Circular is to introduce the generic unauthorised, irregular, fruitless and wasteful (UIF&W) expenditure reduction strategy which aims to support and introduce measures that will assist in reducing such expenditures.

2.5 Overview of Budget Assumptions

2.5.1 External factors

The world economy is expected to grow by 4.4 per cent this year. This is lower than the 4.9 per cent that was anticipated when tabling the medium-term budget policy statement (MTBPS). The Omicron variant of the coronavirus caused many countries to impose restrictions to manage its spread. In addition, continued imbalances in global value chains have limited the pace of the world's economic recovery.

The South African economy has not been shielded from these global developments. National Treasury has revised South Africa's economic growth estimate for 2021 to 4.8 per cent, from 5.1 per cent at the time of the MTBPS

Makana municipality still finds itself in a position where economic growth is stagnant and the cash flow is under pressure resulting in limited financial resources being available for service delivery, this is also evident in the effort that needs to be made for the recovery of debt owed to the municipality. It is also therefore necessary to carefully evaluate spending decisions and to ensure value for money in all procurement processes.

2.5.2 General inflation outlook and its impact on the municipal activities

There are many factors that have been taken into consideration in the compilation of the 2022/2023 MTREF the list hereunder represents a few of these:

- National Government macro-economic targets.
- The general inflationary outlook and the impact on the municipality's residents and businesses.
- The impact of municipal cost drivers.
- COVID 19 pandemic
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration. Employee related costs comprise 38% of total operating expenditure in the 2022/2023 MTREF and includes critical vacancies.

2.5.3 Credit rating outlook

The Municipality has not had a credit rating done and considering the current financial position it is not advisable to have it performed.

2.5.4 Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate higher than CPI over the MTREF to aid in the financial recovery of the municipality. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term, it is however anticipated that interest rates may decline in the medium term providing some form of relief to cash strapped consumers.

The rate of revenue collection is currently expressed as a percentage of annual billings. Cash flow is assumed to be 90% of billing, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

Economic circumstances as well as past deficiencies in the application of the credit control and debt collection policy, a write-off of debt that has become irrecoverable will once again be inevitable during the 2022/23 financial year.

2.5.5 Salary increases

Calculation of salary related expenditure for the 2022/2023 financial year increase of 4,8% which is in accordance with the bottom bracket of the inflation target put by National Treasury. The organogram review process and cost analysis study will determine the way forward and strict control over salary and related expenses needs to be done to curb escalating staff cost.

2.5.6 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of 100% will be achieved on operating expenditure and at least 98% on the capital programme for the 2022/2023 MTREF of which performance has been factored into the cash flow budget.

As the municipality needs to recover financially and austerity measures are still applied to ensure savings on all categories of expenditure. The spending on the operating budget will be dependent on the realising of the revenue as per the revenue and cash flow estimates for the MTREF.

2.6 Overview of budget funding

Funding of the Budget Section 18(1) of the MFMA determines that an annual budget can only be funded from:

- Realistically expected revenue to be collected.
- Cash-backed accumulated funds of preceding years' surpluses not earmarked for other purposes; and
- Borrowed funds, but only for the capital budget referred to in Section 17.

Long Term Financial Planning

The municipality is the process of updating the long-term financial plan with current financial and statistical information for the MTREF and perform analysis on Covid 19 Impact. Borrowing as a funding option is required because internally generated funds are insufficient to cover the cost of ailing infrastructure that needs to be replaced or repaired on an urgent basis.

The municipality needs to plan for cash-backed provisions and reserves and is barely able to do so over the MTREF. The current portion of long-term employee benefits consisting of medical aid contributions for retired personnel and for the payment of long service bonuses should be cash backed and was included in table A8, but no funding is available for reserves. The fact that salary related expenditure has reached the upper limits of the acceptable norm for this ratio is very concerning as there is virtually no room for growth in this category of expenditure over the MTREF and therefore a concerted effort will be made to rationalize and reduce this expenditure going forward.

2.7 Legislation Compliance Status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1) In-Year Reporting

On a monthly basis section 71 is reported by the Executive Mayor (within 10 working days) and publish financial performance

2) Internship Program

Makana Municipality is participating in the Municipal Financial Management Internship program. Eight interns have been appointed with effect from 1 April 2019 which are funded through the FMG in the current financial year. Vacancies that occur from time to time are filled once they are available in accordance with the grant conditions.

3) The Budget and Treasury Office

Has been established in accordance with the MFMA, the municipality is currently suffering as critical vacancies exist in the BTO, due to resignation of key staff member. The appointment of adequate management staff in the BTO is receiving priority and the necessary budgetary allocation has been made in the MTREF.

4) An Audit Committee has been established and is fully functional.

5) The detail SDBIP document is submitted as draft with the MTREF and will be approved in accordance with the legislative framework after the budget approval it is directly aligned and informed by the 2022/23 MTREF.

6) Annual report is compiled in terms of the MFMA and National Treasury requirements. The annual report was tabled in Council and is currently available for public comments before submission to the oversight committee and thereafter final adoption by Council.

7. Minimum competency training

Minimum competency training is underway and all required staff members are enrolled for the completion of the required training. Extension for the compliance has been granted by the National Treasury. Our participation in this program is in line with the assessment of current skills pool and capacity building to ensure less reliance on consulting services. The filling of critical vacancies will also require compliance by candidates to the minimum competency requirements.

8. Policies

Various policy amendments are proposed as part of the budget process, all policies being revised are to be made available with budget documentation for public input.

9. mSCOA Readiness

The municipality is compliant in respect of all mSCOA requirements yet certain modules of the core financial system such as asset management still needs to be implemented. All data strings submitted by the municipality have been validated and have been found to be in order and perfectly aligned with budget schedules.

