



DRAFT BUDGET 2024-2025 MTREF 30 MARCH 2024

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PART 1 – ANNUAL BUDGET

1.1 Mayor's Report

1.2 Council Resolution

- 1) That Council approves the **2024/25** Draft Budget 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 16(2) of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
 - a) The annual budget of the municipality for the financial year 2024/25 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.
 - b) 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 2023 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 17 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts the following existing policies:
 - i. Asset management policy - Reviewed
 - ii. Cash Management and Investment Policy - Reviewed
 - iii. Credit control and Debt collection Policy - Reviewed

- iv. Property Rates – Changes - Reviewed
- v. Tariff policy – Changes - Reviewed
- vi. Property Rates By-law - Reviewed
- vii. Supply Chain Management Policy - Reviewed
- viii. Funding and Reserves Policy - Reviewed
- ix. Budget Implementation and Monitoring Policy - Reviewed
- x. Indigent Policy - Reviewed
- xi. Expenditure Management Policy - Reviewed

5) That the detailed capital program per project, department and funding source attached as Annexure “C” be approved.

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CLLR. Y. VARA
EXECUTIVE MAYOR

.....
P.M. KATE
MUNICIPAL MANAGER

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 of looking at avenues increasing revenue collection of outstanding debtors with specific focus to commercial properties. 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 measuring the municipal compliance with legislated requirements. The FRP plan is still in work-in-progress and progress is evident though a lot still needs to be done to take the municipality out of the rescue phase.

National Treasury’s MFMA Circular No.128 and other applicable previous budget circulars were used to guide the compilation of the 2024/25 MTREF.

The following table is a consolidated overview of the proposed 2024/25 Medium-term Revenue and Expenditure Framework:

Table 1: Consolidated Overview of the 2024/25 MTREF

EC104 Makana - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	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	Budget Year 2024/25	Budget Year +1 2025/26	Budget Year +2 2026/27
<i>Revenue</i>								
Total Revenue (excluding capital transfers and contributions)	519,880	574,927	644,010	741,972	788,453	843,211	880,142	880,281
<i>Expenditure</i>								
Total Operating Expenditure	588,505	650,996	681,259	684,903	764,152	799,711	852,218	809,174
Surplus/(Deficit)	(68,625)	(76,069)	(37,249)	57,069	24,301	43,499	27,924	71,106

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 2024/25 financial year is projected at **R843 million** and the two outer years at R880 million and R880.3 million respectively over the MTREF. The basis for increased budget is informed by the ongoing data cleansing exercise and meter audit for both water and electricity that has been performed for the purpose of revenue completeness and improved collection rate.

The municipality has adopted a principle of protecting the poor households 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, to the amount allowable by National Treasury on the equitable share allocation.

The municipality also strived to budget for a moderate surplus over the MTREF to enable the municipality to build cash reserves back statutory funds and provisions and to build an operating as well as capital replacement reserve. The surplus has also been provided to enable the municipality to pay its creditors where payment arrangements have been made.

Operating Expenditure

Total operating expenditure including repairs and maintenance for the 2024/25 financial year has been appropriated at **R814.6 million** and at R867 million and R879 million for the two outer years respectively. The expenditure framework is informed by the following:

- Improvement in the provision of the quality-of-service delivery across all services.
- Repairs and maintenance expenditure are still limited and below the required NT norm due to financial difficulties, however an amount of **R14,9 million**, **R15 million** and **R15.6 million** over the MTREF has been set aside for refurbishment of infrastructure.
- 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 the financial muscle of the institution especially those related Bulk Account and 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 for the MTREF amounts to **R71,4 million**, **R72.9 million** and **R74,4 million** respectively. The following are sources of grant funding from gazette National government transfers :

- MIG funding contributes **R26,5 million**, R27,6 million and R29,7 million towards capital expenditure over the MTREF;
- WSIG funding contributes **R19,8 million**, R20,7 million and R25 million towards capital expenditure over the MTREF; and
- INEP funding contributes **R8,6 million** and R7,8 million towards capital expenditure over the MTREF;

There is no borrowing in the Capital Budget due to the lack of cash resources to repay the annual instalments, the municipality is however still servicing the old debt of DBSA. An amount of **R25.2 million** is budgeted for internally and this will only be possible upon improved collection rate and cost containment measures implementation to unnecessary expenditure to improve service delivery.

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. Capital grants contribute about **65%** to the coming years' capital budget expenditure. The municipality is intending to contribute **35%** towards capital replacement in year 1, however this depends on availability of resources for its successful implementation.

Table 2: Tabled Draft Capital Budget MTREF 2024/25 to 2026/27

EC104 MAKANA MUNICIPALITY DRAFT CAPITAL BUDGET 2024-2025 MTERF				
	MIG			
	2023/24 Adjusted Budget	2024/25 Draft Budget	2025/26 Draft Budget	2026/27 Draft Budget
Upgrade of Ncame Street in Joza Kingsflats in Makhanda (Grahamstown)	6,989,873	-	-	-
Replacement of Ageing Asbestos pipes in Makhanda Phase 3/4	13,722,702	2,165,100	14,399,650	27,000,000
Upgrade of Sports Facilities in Oval Stadium, Lavendar Valley Makhanda.	2,722,304	2,800,000	5,600,350	-
Upgrade of Makana way Phase 1	989,521	20,000,000	5,800,350	-
Upgrade of Miki Yili	-	-	-	2,714,100
Fencing of Mayfield WWTW	-	-	-	-
Refurbishment Waainek Water Treatment Works	800,000	-	-	-
Fencing of Mayfield, Tantiyi, low level and intermediate reservoirs	-	-	-	-
Refuse Compactor	-	1,500,000	1,800,000	-
	25,224,400	26,465,100	27,600,350	29,714,100
WSIG				
	2023/24 Adjusted Budget	2024/25 Draft Budget	2025/26 Draft Budget	2026/27 Draft Budget
Installation of domestic smart water meters	-	5,200,000	15,681,000	15,000,000
Refurbishment of Belmont Valley	21,947,000	14,600,000	-	-
Refurbishment Waainek Water Treatment Works	-	-	5,000,000	-
Fencing of Mayfield, Tantiyi, low level and intermediate reservoirs	-	-	-	5,000,000
Fencing of Mayfield WWTW	-	-	-	5,000,000
	21,947,000	19,800,000	20,681,000	25,000,000
INEP				
	2023/24 Adjusted Budget	2024/25 Draft Budget	2025/26 Draft Budget	2026/27 Draft Budget
Upgrade of Electricity Network	-	-	8,580,000	7,751,000
	-	-	8,580,000	7,751,000
Internally Generated Funds				
	2023/24 Adjusted Budget	2024/25 Draft Budget	2025/26 Draft Budget	2026/27 Draft Budget
Upgrade of Ncame Street in Joza Kingsflats in Makhanda (Grahamstown)	1,800,000	0	-	-
Equipment	5,401,000	6,702,000	5,272,020	5,537,319
Replacement of Fleet-Vehicles	10,710,000	16,224,000	8,338,000	5,067,920
Computer equipment	1,070,000	1,296,000	1,389,840	299,754
Office Furniture	1,900,000	1,000,000	1,040,000	1,081,600
	20,881,000	25,222,000	16,039,860	11,986,593
Total Capital Budget	68,052,400	71,487,100	72,901,210	74,451,693

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 and subsequent circulars 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 2024/25 financial year

EC104 MAKANA MUNICIPALITY APPROVED PROPERTY RATES FOR 2024/25			
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 2023/2024 (i.e 1 July 2023 to 30 June 2024) on the categories of rateable properties in the Makana Municipality area of jurisdiction as follows:-			
PROPERTY TYPE	APPROVED CENT IN RAND (RAND/TARIFF) 2022/23	APPROVED CENT IN RAND (RAND/TARIFF) 2023/24	APPROVED CENT IN RAND (RAND/TARIFF) 2024/25
1. Business & Commercial Properties	0.021821	0.023130	0.024286
2. Public Service Purposes	0.028056	0.029739	0.031226
3. Residential Properties	0.007349	0.007790	0.008179
4. Agriculture Properties	0.001839	0.001949	0.002047
5. Public Service Infrastructure (PSI)	0.001839	0.001949	0.002047
6. Industrial Properties	0.010911	0.011566	0.012144
7. Properties Used for Multipurposes	0.021821	0.023130	0.024286
8. Vacant Land	0.007349	0.007790	0.008179
9. Public Benefit Organisations (P.B.O.)	0.001839	0.001949	0.002047
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 Councils'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 5% from 01 July 2024. The current General Valuation Roll was implemented on 01 July 2019. The municipality is currently busy with the 5th 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 6 percent from 1 July 2024 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 considerably.

EC104 MAKANA MUNICIPALITY APPROVED WATER TARRIFS 2024/25 (Excl VAT)					
CATEGORY	KILOLITRES	STEPPED TARRIF (NORMAL PERIOD) 2023/2024	STEPPED TARRIF (CRITICAL PERIOD) 2023/2024	STEPPED TARRIF (NORMAL PERIOD) 2024/2025	STEPPED TARRIF (CRITICAL PERIOD) 2024/2025
RESIDENTIAL PROPERTIES	0 - 10kl/pm	10.83	12.74	11.37	13.38
	11 - 20kl/pm	15.11	17.79	15.87	18.68
	21 - 30kl/pm	20.15	23.72	21.16	24.91
	31 - 40kl/pm	25.19	29.65	26.45	31.13
	41 - 50kl/pm	37.78	44.48	39.67	46.70
	>51kl/pm	50.38	59.30	52.89	62.27
BUSINESS; INDUSTRIAL AND OTHER PROPERTIES	0 - 10kl/pm	12.87	15.15	13.52	15.91
	11 - 20kl/pm	17.19	20.23	18.05	21.25
	21 - 30kl/pm	18.91	22.27	19.86	23.38
	31 - 40kl/pm	20.80	24.49	21.84	25.71
	41 - 50kl/pm	22.88	26.93	24.02	28.28
	>51kl/pm	25.19	29.65	26.45	31.13
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 tariffs.					
(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 2023/2024		TARIFF 2024/2025
Raw	1st 10 kl		7.45		7.82
	>10kl kl		9.17		9.63
Standpipe	Consumption		28.56		29.99

1.4.3 Sale of Electricity and Impact of Tariff Increases

Bulk electricity cost is consistently higher than inflation, having gone up to 15% in 2023/24 financial year. Nersa has approved 12.7% for Eskom tariff increase in 2024/25 financial year. Considering the Eskom increases, the consumer tariff had to be increased by approximately 12.7% to offset the additional bulk purchase cost from 1 July 2024 and to allow the municipality to recover the cost of rendering the service, as currently the municipality is billing below the

collection rate. The municipality has also introduced a winter tariff as it was realized upon review by SALGA that the municipality is losing more revenue in winter as it is not recovering the cost of rendering the service.

Registered indigent 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 increase of **5%** for sanitation from 1 July 2024 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 **R40,5 million** for the 2024/25 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 introducing a fixed charge. Consideration of 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 2024:

EC104 MAKANA MUNICIPALITY APPROVED MISCELLANEOUS TARIFFS 2024/25 (Excl VAT)			
ANNUAL SEWER CONNECTION CHARGES			
		2023/2024	2024/2025
Domestic	First 2 units	R 2,060.64	R 2,184.28
	Each unit over 2	R 1,030.32	R 1,092.14
Sporting/Churches /Monument	per each unit	R 1,030.32	R 1,092.14
Flats	First 2 units	R 2,060.64	R 2,184.28
	Each unit over 2	R 2,060.64	R 2,184.28
Business Sub-Economic	per each unit	R 2,060.64	R 2,184.28
Housing	per each unit	R 1,030.32	R 1,092.14
Industrial Area	per point In respect of the first 25 units	R 2,289.60	R 2,426.98
	after which the costs are the same as the business tariff of	R 2,060.64	R 2,184.28

1.4.5 Waste Removal and Impact of Tariff Increases

An increase of 5% in the waste removal tariff is proposed from 1 July 2024. 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 5% 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 2024:

EC104 MAKANA MUNICIPALITY APPROVED MISCELLANEOUS TARIFFS 2024/25 (Excl VAT)			
		2023/2024	2024/2025
Annual Refuse Removal Charges	That the charge for the removals where this is charged separately for de-rated properties be fixed at (per annum per bag removed once per week)	R 1,991.95	R 2,111.47
MONTHLY REFUSE REMOVAL CHARGES		2023/2024	2024/2025
Domestic		R 113.40	R 119.07
Business		R 225.75	R 237.04
Removal of Garden Refuse		R 682.50	R 716.63
Removal of Garden Refuse (domestic Notice)		R 824.25	R 865.46
Removal of Condemned Goods		R 430.50	R 452.03
Illegal dumping of Refuse (domestic or Other)		R 840.00	R 882.00
Special Refuse Removals (Festival)		R 210.00	R 220.50
Refuse Bins / Bags & Otto Bins		Cost determined by suppliers prices	Cost determined by suppliers prices

New indirect conditional grant for smart prepaid meters

A new indirect grant, which will be managed by the National Treasury will be introduced in 2024/25. This grant will present an important opportunity for municipalities in the debt relief programme. While debt relief is a critical component of supporting struggling municipalities, it is important to also provide the municipalities with the tools and the necessary funding to improve their operations and long-term sustainability. This new indirect conditional grant for smart prepaid meters is a meaningful step towards providing municipalities with the financial support they need to better manage their utilities, by ensuring timely and accurate billing; reducing losses; and enhancing operational sustainability. Municipalities will be able to manage their utility services and provide to water and electricity services effectively and efficiently. The grant will initially focus on providing debt relief for Eskom and will be implemented targeting specific municipalities in its initial years.

1.5 Operating Expenditure Framework

The expenditure framework for the 2024/2025 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.

The below table is a high-level summary of the 2024/25 budget and MTREF (classified per main type of operating expenditure):

Expenditure by Type	ORIGINAL BUDGET 2023/24	ADJUSTED BUDGET 2023/24	DRAFT 0 2024/2025	DRAFT 1 2025/2026	DRAFT 2 2026/2027
	R'000	R'000	R'000	R'000	R'000
Employee Related Costs	247 243	247 243	252 839	262 939	272 963
Remuneration of Councillors	14 389	14 389	15 253	15 863	16 497
Debt Impairment	73 920	121 092	131 437	136 694	142 162
Depreciation & Asset Impairment	35 275	35 275	37 392	38 887	40 443
Finance Charges	6 969	6 969	6 969	7 317	7 683
Bulk Purchases	183 744	183 744	204 160	238 867	274 697
Other Materials	14 565	14 565	15 152	15 758	16 388
Contracted Services	51 828	48 859	46 780	42 917	42 619
Transfers & Grants	992	500	600	624	649
Other Expenditure	55 978	69 125	69 127	68 551	45 208
Grant Expenditure		10 000	20 002	23 800	4 000
Repairs and Maintenance			14 924	15 092	15 642
TOTAL	684 903	751 761	814 635	867 309	878 951

The budgeted allocation for employee-related costs for the 2024/25 financial year totals **R252.8 million**, which is equivalent to **31%** of the total operating expenditure.

Cost of Employment (Employee-related cost and Remuneration of Councilors) are budgeted at R268 million equivalent to **33%** of the total operating expenditure and within the acceptable NT norm of between 30% to 40%. The municipality has therefore not excessively budgeted on this line item. Whilst also maintain the set target in the financial recovery plan of 5 per cent reduction.

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 is ranging between 51% and 63.4% as at end of February 2024 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 **R37.4 million** for 2024/25 financial year. This expenditure item equivalent to **5%** of the total operating expenditure.

Bulk purchases are directly informed by the purchase of electricity from Eskom. Bulk purchases equal **26%** of total expenditure. The annual price increase has not been factored into the budget appropriations and directly informed the revenue provisions. The expenditure includes electricity distribution losses which equals approximately **19%**. Water distribution losses as at 30 June 2023 amounted to **46%** 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 is equivalent to 6% of operating expenditure for the 2024/2025 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, 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 R69 million equivalent to 7% of the operating expenditure for the 2024/25 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, in August each year, 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 August 2023.

SCHEDULE OF KEY DEADLINES SUMMARY

August 2023	Planning
September 2023	Public Participation inputs
October 2023	Management Planning
November 2023	Mayoral Committee / Council Planning
December 2023 - March 2024	Budget Process / IDP Development
	Draft IDP Review and Budget Approval
April 2024	Public Participation report-back
May 2024	Final Approval of IDP and Budget
June 2024	Performance system development SDBIP

2.1.2 IDP and Service Delivery and Budget Implementation Plan

The draft Integrated Development Plan (IDP) for the 2023/24 – 2027/28 financial years is to be submitted to Council for approval in March 2024.

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 2024/25 MTREF, based on the approved 2023/24 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 2024/25 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 2023/24 Top Level Service Delivery and Budget Implementation Plan. The long-term financial plan has been revised and is updated with current financial and statistical information for the MTREF. 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. 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 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 2023/2024 for implementation on 1 July 2024 in accordance with MBRR regulation. All budget policies will be available for scrutiny and input with the budget documentation.

All budget related policies were reviewed by the BTO team and are tabled to Council for consideration and comments for review before the approval of the budget. The policies that are reviewed are as follows:

1. Credit control and Debt Collection Policy

2 Property Rates Policy

3. Tariff Policy

4. Cash Management Policy

5. Asset Management Policy

6. Supply Chain Management Policy

7. Expenditure Management Policy

8. Funding and Reserves Policy

9.Indigent Policy

2.4 Overview of Budget Assumptions

2.5.1 External factors

Headline inflation is projected to moderate from 6 per cent in 2023 to 4.9 per cent in 2024 and 4.6 per cent in 2025 and 2026 as food and fuel inflation continue to decline. In 2023 food inflation slowed less than expected due to power cuts and rand depreciation, keeping imported food costs high. The world economy is expected to grow by 5.3 per cent this year. This is higher than the 4.9 per cent that was anticipated when tabling the medium-term budget policy statement (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 2024/2025 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 33% of total operating expenditure in the 2024/2025 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 2024/25 financial year.

2.5.5 Salary increases

Calculation of salary related expenditure for the 2024/2025 financial year increase of 5% which is in accordance with the 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 95% will be achieved on operating expenditure and at least 97% on the capital programme for the 2024/2025 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 realizing 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.

2.6 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 were appointed with effect from 1 April 2019 which were funded through the FMG, however the contract has since lapsed. An advert for appointment of eight FMG interns in

underway and envisaged appointments before the end of the 2023/24 financial year. Vacancies that will occur from time to time will be 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, and the municipality has embarked to filling critical vacancies that existed within BTO, due to resignation of key staff members. The process has progressed well as currently left with filling Asset manager position on key appointments and as well as accountants 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 2024/25 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 ongoing and timeously 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 sub-modules to the core financial system such as asset management and payroll still need to be fully seamlessly integrated for complete mSCOA implementation. All data strings submitted by the municipality have been validated and have been found to be in order and perfectly aligned with budget schedules.



Municipal Manager’s Quality Certification

Quality Certificate

I, P.M. Kate, Municipal Manager of EC104 Makana Municipality, hereby certify that the 2024/25 MTREF budget and supporting documentation has been prepared in accordance with the Municipal Finance Management Act (No. 56 of 2003) and the regulations made under that Act, and that the budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.

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P.M. KATE
MUNICIPAL MANAGER
Makana Municipality EC104
30 March 2024