



**FINAL BUDGET
2023-2024 MTREF
30 MAY 2023**

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PART 1 – ANNUAL BUDGET

1.1 Mayor’s Report

1.2 Council Resolution

- 1) That Council approves the **2023/24** Final 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(1) of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
 - a) The annual budget of the municipality for the financial year 2023/24 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 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

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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 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 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. For the municipality to see the fruits of the FRP, it needs to develop its own that it will monitor on a monthly basis to address the revenue collection and service delivery challenges faced by the municipality.

National Treasury’s MFMA Circular No. 122 & 123 and other applicable previous budget circulars were used to guide the compilation of the 2023/24 MTREF. The following table is a consolidated overview of the proposed 2023/24 Medium-term Revenue and Expenditure Framework:

Table 1: Consolidated Overview of the 2023/24 MTREF

Item Description	2022/2023 BUDGET YEAR		BUDGET YEAR 2023/2024	BUDGET YEAR 2 2024/2025	BUDGET YEAR 3 2025/2026
	Original Budget	Adjustment Budget			
Statement of Financial Performance					
Total Operating Revenue (excluding capital grants and transfers)	695 026	725 980	741 972	777 174	816 233
Less: Operating Expenditure	626 484	639 052	684 903	720 406	773 109
Surplus/ (Deficit)	68 542	86 928	57 069	56 768	43 124

The above table presents a budgeted surplus for the MTREF period so as to cover the payment plans that the municipality has with its creditors. The municipality has budgeted for **R57 million**, **R56,8 million** and **R43 million** over the MTREF.

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 2023/24 financial year is projected at **R742 million** and the two outer years at **R777 million** and **R816 million** respectively for the 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 day to day engagements with municipal customers and corrective measures taken to address municipal accounts would make it possible to achieve the budget.

The municipality 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, to the amount allowable by National Treasury on the equitable share allocation.

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. The surplus has been provided to enable municipality to pay its creditors where payment arrangements have been made, as to date it is not yet possible to build municipal reserves.

Operating Expenditure

Total operating expenditure for the 2023/24 financial year has been appropriated at **R685 million** and at **R720 million** and **R773 million** for the two outer years respectively. The 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 **R14,6 million**, **R13,7 million** and **R14,2 million** for the MTREF has been set aside for materials in respect of repairs and maintenance and in addition **R18,4 million** **R15,8 million** and **R15,6 million** for the MTREF has been budgeted for the replacement of ageing fleet and upgrading of existing assets.
- 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 Eskom 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 **R67,4 million**, **R73,7 million** and **R48,6 million** respectively. The Capital Budget reflects a decrease in the third year as there is no indication of MIG funding in that year. The uncertainty on INEP allocations continues to destabilize planning by the municipality as the amount reflected in the previous year gazette, is not reflected in the current year. 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 **R18,4 million** is budgeted internally and this will only be possible upon improved collection rate and cost containment measures implemented on 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 **73%** to the coming year budget.

Table 2: Final Capital Budget MTREF 2023/24 to 2025/26

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EC104 MAKANA MUNICIPALITY FINAL CAPITAL EXPENDITURE 2023-24 MTREF			
	MIG		
	2023/24 Final Budget	2024/25 Final Budget	2025/26 Final Budget
Upgrade of Ncame Street in Joza Kingsflats in Makhanda (Grahamstown)	5 622 390.00		
Replacement of Ageing Asbestos pipes in Makhanda Phase 3	4 356 730.00	8 796 000.00	
Purchase of Solid Waste Waste Compactor Vehicle	-		
Upgrade of Sports Facilities in Oval Stadium, Lavendar Valley Makhanda.	4 268 250.00	4 438 800.00	
Upgrade of Makana way Phase 1	5 224 880.00	7 398 000.00	
Fencing of Mayfield WWTW	2 000 000.00	3 000 000.00	
Refurbishment Waainek Water Treatment Works	2 559 800.00	1 479 600.00	
Fencing of Mayfield, Tantyi, low level and intermediate reservoirs	3 000 000.00	3 000 000.00	
Erection of street light at stonehill	-		
	27 032 050	28 112 400	-
WSIG			
	2023/24 Final Budget	2024/25 Final Budget	2025/26 Final Budget
Refurbishment of Belmont Valley	15 947 000	9 800 000	-
Installation of domestic smart water meters	6 000 000	10 000 000	20 000 000
	21 947 000	19 800 000	20 000 000
INEP			
	2023/24 Final Budget	2024/25 Final Budget	2025/26 Final Budget
Upgrade 11KV Mini Substations	-	10 000 000	13 000 000
	-	10 000 000	13 000 000
Internally Generated Funds	2023/24 Final Budget	2024/25 Final Budget	2025/26 Final Budget
Equipment	3 804 000	3 653 360	3 798 294
Replacement of Fleet-Vehicles	11 400 000	9 892 000	9 495 680
Computer equipment	1 045 000	684 800	750 192
Office equipment	2 150 000	1 530 000	1 582 000
	18 399 000	15 760 160	15 626 166
Total Capital Budget	67 378 050	73 672 560	48 626 166

1.4 Operating Revenue Framework

Revenue By Source	Approved Budget 2022/23	Adjusted Budget 2022/23	2023/2024 Y1 MTREF Budget	2024/2025 Y2 MTREF Budget	2025/2026 Y3 MTREF Budget
	R'000	R'000	R'000	R'000	R'000
Property Rates	125 187	114 787	114 122	119 372	124 863
Service Charges - Electricity	200 894	191 394	171 132	180 818	198 900
Service Charges - Water	103 771	173 271	175 295	180 038	188 124
Service Charges - Sanitation	52 163	49 663	40 536	42 401	44 351
Service Charges – Refuse	13 402	22 731	15 551	16 167	17 137
Rental Equipment	818	168	150	159	169
Interest Earned - Investments	5 500	3 902	3 800	4 028	4 270
Interest Earned - Outstanding DR	46 174	31 763	77 685	81 258	84 996
Fines	1 693	293	1 800	1 908	2 022
Licences & Permits	6 213	6 213	545	578	612
Agency Services	2 180	2 480	3 700	3 922	4 157
Operating Grants & Subsidies	126 467	126 467	137 657	146 526	146 633
Other Revenue	10 563	2 847			
TOTAL	695 025	725 979	741 973	777 175	816 234

The above table reflects the total operating revenue at **R742 million**, **R777 million** and **R816 million** for the MTREF. The revenue increases are between 2% and 5%, below the inflation rates as the actual billing was taken into account during this budget. The national fiscus is also constrained in that there is no much increase coming from both conditional grants and equitable share.

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 2023/24 financial year

1. Business & Commercial Properties	0.021821	0.023130
2. Public Service Purposes	0.028056	0.029739
3. Residential Properties	0.007349	0.007790
4. Agriculture Properties	0.001839	0.001949
5. Public Service Infrastructure (PSI)	0.001839	0.001949
6. Industrial Properties	0.010911	0.011566
7. Properties Used for Multipurposes	0.000000	0.000000
8. Vacant Land	0.007349	0.007790
9. Public Benefit Organisations (P.B.O.)	0.001839	0.001949
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 6 percent from 01 July 2023. The new General Valuation Roll was implemented on 01 July 2019. The municipality is currently busy with the 4th 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:

- o Identifying account with inaccurate classifications
- o Undervalued properties
- o 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:

- o 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.
- o 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
- o 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 2023 for water is proposed. In addition, 6 kilo of water per month will **ONLY** be granted free of charge to registered indigent residents.

EC104 MAKANA MUNICIPALITY APPROVED WATER TARRIFS 2022/23 (Excl VAT)					
CATEGORY	KILOLITRES	STEPPED TARRIF (NORMAL PERIOD) 2022/2023	STEPPED TARRIF (CRITICAL PERIOD) 2022/2023	STEPPED TARRIF (NORMAL PERIOD) 2023/2024	STEPPED TARRIF (CRITICAL PERIOD) 2023/2024
RESIDENTIAL PROPERTIES	0 - 10kl/pm	9.37	11.03	9.93	11.69
	11 - 20kl/pm	11.89	15.40	12.61	16.32
	21 - 30kl/pm	13.10	20.53	13.89	21.76
	31 - 40kl/pm	14.39	25.66	15.26	27.20
	41 - 50kl/pm	15.84	38.49	16.79	40.80
	>51kl/pm	17.43	51.33	18.47	54.41
BUSINESS; INDUSTRIAL AND OTHER PROPERTIES	0 - 10kl/pm	9.64	13.12	10.21	13.90
	11 - 20kl/pm	12.86	17.51	13.63	18.56
	21 - 30kl/pm	14.15	19.27	15.00	20.43
	31 - 40kl/pm	15.54	21.20	16.48	22.47
	41 - 50kl/pm	17.11	23.31	18.14	24.71
	>51kl/pm	18.81	25.66	19.94	27.20
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.					
MISCELLANEOUS WATER CHARGES					
CATEGORY	KILOLITRES		TARIFF 2022/2023		TARIFF 2023/2024
Raw	1st 10 kl		7.03		7.46
	>10kl kl		8.66		9.17
Standpipe	Consumption		26.94		28.56

1.4.3 Sale of Electricity and Impact of Tariff Increases

Bulk electricity cost is consistently higher than inflation, having gone up to 20 per cent in 2022/23 financial year. Nersa has approved between **10 to 15 per cent** for Eskom tariff increase in 2023/24 budget. Considering the Eskom increases, the consumer tariff had to be increased by approximately **15 per cent** to offset the additional bulk purchase cost from 1 July 2023 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 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 **6%** for sanitation from 1 July 2023 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 2023/24 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 2023:

EC104 MAKANA MUNICIPALITY APPROVED MISCELLANEOUS TARIFFS 2023/24 (Excl VAT)			
		2022/2023	2023/2024
ANNUAL SEWER CONNECTION CHARGES			
Domestic	First 2 units	R 2 118.96	R 2 246.10
	Each unit over 2	R 1 059.48	R 1 123.05
Sporting/Churches /Monument	per each unit	R 1 059.48	R 1 123.05
Flats	First 2 units	R 2 118.96	R 2 246.10
	Each unit over 2	R 2 118.96	R 2 246.10
Business Sub-Economic	per each unit	R 2 118.96	R 2 246.10
Housing	per each unit	R 1 059.48	R 1 123.05
Industrial Area	per point In respect of the first 25 units	R 2 354.40	R 2 495.66
	after which the costs are the same as the business tariff of	R 2 118.96	R 2 246.10

1.4.5 Waste Removal and Impact of Tariff Increases

An increase of **6 per cent** in the waste removal tariff is proposed from 1 July 2023. 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 proposed an increase of **6%** 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 2023:

EC104 MAKANA MUNICIPALITY APPROVED MISCELLANEOUS TARIFFS 2023/24 (Excl VAT)			
		2022/2023	2023/2024
	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)		
Annual Refuse Removal Charges		R 2 048.33	R 2 171.23
MONTHLY REFUSE REMOVAL CHARGES		2022/2023	2023/2024
Domestic		R 117.72	R 124.78
Business		R 234.35	R 248.41
Removal of Garden Refuse		R 708.50	R 751.01
Removal of Garden Refuse (domestic Notice)		R 855.65	R 906.99
Removal of Condemned Goods		R 446.90	R 473.71
Illegal dumping of Refuse (domestic or Other)		R 872.00	R 924.32
Special Refuse Removals (Festival)		R 218.00	R 231.08
Refuse Bins / Bags & Otto Bins		Cost determined by suppliers prices	Cost determined by suppliers prices

1.5 Operating Expenditure Framework

The expenditure framework for the 2023/2024 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 2023/24 budget and MTREF (classified per main type of operating expenditure):

Expenditure by Type	Approved Budget 2022/23	Adjusted Budget 2022/23	2023/2024 Y1 MTREF Budget	2024/2025 Y2 MTREF Budget	2025/2026 Y3 MTREF Budget
	R'000	R'000	R'000	R'000	%
Employee Related Costs	238 440	235 390	247 242	257 118	266 911
Remuneration of Councillors	15 158	14 358	14 389	14 965	15 563
Debt Impairment	42 000	57 000	73 920	76 877	79 952
Depreciation & Asset Impairment	30 900	33 278	35 275	36 687	38 154
Finance Charges	9 000	10 500	6 969	7 317	7 683
Bulk Purchases	128 000	158 000	183 744	214 980	247 228
Other Materials	35 248	35 248	23 278	20 462	22 476
Contracted Services	61 192	43 692	51 828	45 592	47 346
Repairs & Maintenance			14 565	13 714	14 196
Transfers & Grants	150	990	992	1 012	1 052
Other Expenditure	66 395	50 595	32 700	31 682	32 549
TOTAL	626 483	639 051	684 902	720 406	773 110

The budgeted allocation for employee related costs for the 2023/24 financial year totals **R247 million**, which equals **36%** of the total operating expenditure.

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 72% and 58% as at end of March 2023 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 **R35,3 million** for 2023/24 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. Bulk purchases equal 27% 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 **11%**. Water distribution losses as at 30 June 2022 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 equates **9,9 percent** of operating expenses for the 2023/2024 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 **3,3%** or **R22 million** for the 2023/24 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 2022.

SCHEDULE OF KEY DEADLINES SUMMARY

AUGUST 2022	Planning
SEPTEMBER 2022	Public Participation (Inputs)
OCTOBER 2022	Management Planning
NOVEMBER 2022	Mayoral Committee / Council Planning
DECEMBER 2022– MARCH 2023	Budget Process / IDP Development Draft IDP Review and Budget Approvals
APRIL 2023	Public Participation (Report Back)
MAY 2023	Final approval of IDP and Budget
JUNE 2023	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 2023.

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 2023/24 MTREF, based on the approved 2022/23 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 2023/24 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 2022/23 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. 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 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 2023 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

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 2023/2024 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 36.5% of total operating expenditure in the 2023/2024 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 2023/24 financial year.

2.5.5 Salary increases

Calculation of salary related expenditure for the 2023/2024 financial year increase of 4,9% 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 95% will be achieved on operating expenditure and at least 97% on the capital programme for the 2023/2024 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.

2.6 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 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 members. 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 2023/24 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.



Municipal Manager's Quality Certification

Quality Certificate

I, P.M. Kate, Municipal Manager of EC104 Makana Municipality, hereby certify that the 2023/24 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 May 2023