

SCHEDULE A
AN ANNUAL BUDGET AND
SUPPORTING
DOCUMENTATION
FINAL ANNUAL BUDGET OF
MBHASHE LOCAL
MUNICIPALITY

2022/23 TO 2024/25
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS (MTREF)

Final Budget

1.1 Mayors Report

It gives me great privilege to present the 2022/23 Final Medium Term Revenue and Expenditure Framework (MTREF) budget to council for its consideration. Budget process for 2022/23 financial year and the outer two financial years were guided by the Budget Process Plan which was adopted by Council on the 31 May 2022; It is of utmost importance to mention that the budget for the Financial year 2022/23 preparation process is faced by drastic changes in the economy of the country which is as a result of impact of Covid 19 and other factors such as decline in the world economy due to conflict wars current happening in Europe. Although Covid 19 is on its lower levels at the moment, its impact forces or raises expectations of the Municipality having to reflect in a form of reduced revenue collection expectations. This is mainly due to loss of income by some family members which in turn affects buying power within the economy of Mbhashe. In line with what I have mentioned above, we have incorporated in our budget policies statements/clauses or guidelines that will ensure that the Municipality will implement procedures that will help improve the livelihood of the residents of Mbhashe through supporting SMEs and also helping in easing the restrictions/requirements of opening a business in Mbhashe Local Municipality Area. Some of the measures will be enforcing continuation of payment of SMEs that have rendered business with the Municipality within 7 or at-most 14 days of receipt of the invoices. National Treasury issued MFMA Budget Circular No. 112 and 115 which were used to guide the compilation of the 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) budget. The main objective of a municipal budget is to allocate realistically anticipated resources to the service delivery goals identified as priorities in the Integrated Development Plan. Municipal finances continue to remain under pressure as a result of rising costs to deliver services; declining revenue collection trends and high salary bill and the impact of Covid 19. The Municipality is faced with various challenges; which among them include a culture of non-payment of rates and service charges by customers which negatively affects municipal revenue collection. The municipality is banking on effective implementation of cost containment measures and Revenue enhancement strategy to turn the situation around. It is worth noting that in the 2021/2022 mid year performance the Municipality has experienced decline in spending patterns, this has also occurred in the conditional grants that the municipality has received. We are anticipating that this might have a negative bearing in conditional grants amounts that the Municipality will receive in the year 2022/2023 and its MTREF years

Management within local government has a significant role to play in strengthening the link between the citizen and government's overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within Mbhashe Municipality and also to attract investors in order to contribute to reduced unemployment which has been a challenge in our country for number of decades.

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The detail of the Final Annual Budget is presented in the schedules attached to this report.

1.2 Final Budget Related Resolutions

Below are the resolutions that must be approved by council with final adoption of the 2022/23 budget.

- a. That the Final budget for 2022/2023 and the indicative 2 outer financial years 2023/2024 and 2024/2025 **be approved** as set out in the following budget tables:-
 - 1.1 Table A1 Budget Summary
 - 1.2 Table A2 Budgeted Financial Performance by Functional Classification
 - 1.3 Table A3 Budgeted Financial Performance by Vote
 - 1.4 Table A4 Budgeted Financial Performance – Revenue by Source and Expenditure by type
 - 1.5 Table A5 Budgeted Capital
 - 1.6 Table A6 Budgeted Financial Position
 - 1.7 Table A7 Budgeted Cash Flows
 - 1.8 Table A8 Budgeted Backed Reserves and Accumulated Surplus Reconciliation
 - 1.9 Table A9 Asset management
 - 1.10 Table A10 Basic Service Delivery Measurement and the supporting tables
- b. That the Final Tariffs for Property Rates and other Service Charges **be approved** as attached.
- c. That the Final Capital Projects **be approved**.
- d. That the Final Budget **be approved**.

1.3 Budget Related Policies

That it be noted that there is no indication of any changes in budget related policies as these were recently reviewed and the following budget related policies **be noted**:-

- Banking Policy
- Borrowing Policy
- Credit Control and Debt Collection Policy
- Creditors, Councillors and Staff Payment Policy
- EFT Policy
- Funding and Reserves Policy
- Infrastructure Procurement and Delivery Management Policy
- Investment Policy
- Long Term Financial Planning Policy
- SCM Commodity Based Procurement Policy
- Payroll Management and Administrative Policy
- Petty Cash Policy
- Management of Accumulated Surplus and Bad Debts Policy
- Planning and Approval of Capital Projects Policy
- Write Off of Irrecoverable Debt Policy

- Property Rates Policy
- Related Party Policy
- SCM Process Turnaround Policy
- Tariff Policy
- Unauthorised, Irregular, Fruitless and Wasteful Expenditure Policy
- Virement Policy

1.4 Executive Summary

Section 16 (1) of the MFMA; Act 56 of 2003 states that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of the financial year. Section 16 (2) of the MFMA; Act 56 of 2003 states that; in order for the municipality to comply with subsection (1); the Mayor of the Municipality must table the annual budget at council meeting at least 90 days before the start of the financial year. Section 17 of the MFMA; Act 56 of 2003 states that an annual budget of the municipality must be a schedule in the prescribed format:-

- a. Setting out realistically anticipated revenue for the budget year from each revenue source.
- b. Appropriating expenditure for the budget year under the different votes of the municipality;
- c. Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- d. Setting out-
 - (i) Estimated revenue and expenditure by vote for the current year; and
 - (ii) Actual revenue and expenditure by vote for the financial year preceding the current year; and
 - (iii) A statement contained any other information required by section 215(3) of the constitution or as may be prescribed
- e. An annual budget must generally be divided into a capital and operating budget in accordance with international best practice, as may be prescribed.

The municipal budget is 92% funded by grants which therefore means that the municipality is heavily grant dependant. The remaining funding is 8% which is made up of rates; services and other revenue. Service charges for refuse and rates have a history of being not fully collected, but for long outstanding debtors we do make use of collecting agent to assist municipality. The municipality have updated details of customer information in line with the information that is in the Valuation Roll that has been completed and effective from 01 July 2020 and also on monthly basis we do visit Register of Deeds office to track and update properties that have been changed ownership, this means that we are better placed as far as the billing of accounts and the subsequent collection of revenues is concerned. The municipality needs to accelerate the implementation of Revenue Enhancement Strategy and this is becoming more important as the Economy has been heat hard by Covid 19. Equitable Share grant has slightly increased by 8% which is above the CPI of 4.8%; MIG have increased by 2 %, FMG increased by 0% and EPWP have decreased by 24%.Municipal revenue collection has declined drastically and as such it is imperative that the municipality implement strict cost containment measures. It is worth noting that the current years equitable share allocation is not sufficient to cover the budgeted cost of

employees as per current funded positions in the organogram. Measurable performance objectives and indicators are detailed in the Final IDP. The main challenges that were experienced during compilation of the 2021/22 budget can be summarised as follows:-

- Anticipated declines in revenue collections
- Implementation of cost containment measures
- Inability to spend on conditional grants which might lead to reduced Grant Allocations as per DORA section 19.
- Steady rise of the Personnel Expenditure
- Capital projects that have been sitting in Work in Progress for years

In view of the aforementioned; the following is the table depicting the overview of the 2022/23 budget.

DEPARTMENT	ORIGINAL BUDGET	ADJUSTED BUDGET	BUDGET YEAR	BUDGET YEAR	BUDGET YEAR
	2021/2022	2021/2022	2022-2023	2023-2024	2024-2025
Personnel Budget	145 167 249.07	145 167 249.07	150 143 965.90	159 429 852.02	169 292 298.68
Budget and Treasury	22 690 000.00	27 247 291.54	36 390 000.00	29 117 160.00	30 427 432.20
Infrastructure	100 855 001.93	113 990 639.59	123 371 119.52	118 921 120.78	124 272 571.21
Community Services	16 332 000.00	18 034 921.00	14 971 557.00	15 588 545.51	16 290 030.06
Developmental Planning	20 450 000.00	22 900 000.00	21 685 000.00	22 639 140.00	23 657 901.30
Operations	25 468 000.00	25 493 000.00	27 073 250.00	28 107 873.00	29 372 727.29
Corporate Services	17 898 581.00	17 898 581.00	21 424 000.00	21 583 656.00	22 554 920.52
Total Expenditure	348 860 832.00	370 731 682.20	395 058 892.42	395 387 347.31	415 867 881.26
Grants and Subsidies	350 644 000.00	355 004 850.20	393 599 000.00	405 981 000.00	421 066 000.00
Own Revenue	28 770 000.00	39 180 000.00	32 150 000.00	34 079 000.00	36 464 530.00
	379 414 000.00	394 184 850.20	425 749 000.00	440 060 000.00	457 530 530.00
Transfer from Reserves	20 646 832.00	27 746 832.00	21 309 892.65	10 973 107.63	14 147 170.80
Total Revenue(Including transfer from reserves)	400 060 832.00	421 931 682.20	447 058 892.65	451 033 107.63	471 677 700.80
Surplus/(Deficit)	51 200 000.00	51 200 000.00	52 000 000.23	55 645 760.32	55 809 819.54
Depreciation - Immovable Assets (Non cash)	50 000 000.00	50 000 000.00	50 000 000.00	50 000 000.00	50 000 000.00
Debt Impairment	1 200 000.00	1 200 000.00	2 000 000.23	5 645 760.32	5 809 819.54
	51 200 000.00	51 200 000.00	52 000 000.23	55 645 760.32	55 809 819.54
Final Budget Surplus	-	-	0.00	0.00	0.00

The total revenue **excluding** capital transfers has increased to R425m for the 2022/23 budget when compared to 2021/22 adjusted budget of R394m; Although the municipality has reduced its own revenue targets in order to cater for the impact of Covid, Some Grants have increased compared to 2021/2022. Also included in operating expenditure is non-cash items such as depreciation and impairment of assets which have increased compared to year 2021/22 Adjusted Budget, part of the negative contributing factors to this is the fact that the municipality roads infrastructure has been damaged by heavy rains and storms, and secondly some of the Constructed Assets that will be completed this year will be depreciated each year thereafter starting in 2022/23, Included in the Capital transfers is an amount of R20 million to be received from Office of the Premier which is the conditional allocation referred to Small Town Revitalisation.

1.5 Overview of assumptions used

The assumptions used were guided by MFMA Circular 112 and 115 issued by National Treasury for compilation of 2022/23 MTREF Budget. The following assumptions were used:-

- Collection rate for own revenue services; taking into consideration the current economic conditions and revenue collection trends.
- Inflation outlook as indicated in the table below:-
- **Tariffs** for property rates and all other service charges have not been increased to absorb the impact of Covid 19.
- **Employee related costs** in line with South African Local Government Bargaining Council. The projections are based on the fact that the municipality will be filling any currently critical vacant positions during the 2022/23 financial year, and some of the posts are already advertised.
- **Remuneration of Councillors** An assessment of affordability will be conducted prior to the implementation of upper limits as per the gazette on Remuneration of Office bearers

1.6 Overview of budget funding

National Treasury in year out consistently issue circulars which provide guidance for compilation of municipal budgets. 2022/23 budget preparation was no exception. They emphasise that municipalities must table funded budgets; and if not funded the municipality must reprioritise and ensure that the budget is fully funded.

The funding of the annual budget has been calculated taking into account the following:-

- Rates and Service Charges
- Interest on outstanding debtors
- Interest expected to be received from investments
- Grants as guided by the division of revenue act

1.7 Operating Revenue Framework

Section 18 (1) of the MFMA states that the annual budget may be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for any other purposes; and borrowed funds, but only to fund capital projects. Furthermore section 18 (2) states that revenue projections in the budget must be realistic, taking into account *projected* revenue for the current year based on collection levels to date; and actual revenue collected in previous financial years. In these difficult economic times strong revenue management is fundamental to the financial sustainability of the municipality and continued service delivery. Below is the table reflecting the summary of budgeted revenue by source.

Table: 1 (Revenue by source)

EC121 Mbashe - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Revenue By Source											
Property rates	2	11 087	12 760	11 637	7 500	7 500	7 500	18 040	7 500	7 950	8 507
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	706	309	3 491	500	500	500	2 897	500	530	567
Rental of facilities and equipment		1 849	1 653	1 654	1 850	1 850	1 850	1 717	1 850	1 961	2 098
Interest earned - external investments		2 854	5 743	5 717	1 500	10 500	10 500	6 354	5 000	5 300	5 671
Interest earned - outstanding debtors		2 790	1 169	3 031	-	-	-	3 184	-	-	-
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		1 446	2 103	1 083	650	1 270	1 270	426	650	689	737
Licences and permits		2 136	2 024	831	200	400	400	4 929	200	212	227
Agency services		-	(786)	1 859	400	900	900	1 683	400	424	454
Transfers and subsidies		241 383	262 714	332 729	278 277	280 818	280 818	287 046	308 564	338 060	350 073
Other revenue	2	11 143	8 550	2 096	16 170	16 260	16 260	4 841	16 050	17 013	18 204
Gains		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		275 395	296 239	364 129	307 047	319 998	319 998	331 117	340 714	372 139	386 538

Property rates and service charges have been kept steady at the same budget value because of effect of Covid 19 in the income sources of our customers. Although the Municipality has implemented a new valuation roll, the values of properties did not change much as compared to the old valuation roll that was previously applied. Operational transfers and subsidies have increased from R280m to R308m.

Table: 2 (Grants and subsidies)

The table below depicts the grants to be received by the Municipality during 2022/23 financial year.

EC121 Mbashe - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22			2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		10 716	33 197	45 536	278 277	279 115	279 115	300 141	329 485	346 337
Local Government Equitable Share					271 935	271 935	271 935	294 923	309 715	325 759
EPWP Incentive	-	-	5 630	9 777	4 622	4 622	4 622	3 498	-	-
Finance Management	-	1 770	3 540	5 240	1 720	1 720	1 720	1 720	1 770	1 770
Integrated National Electrification Programme Grant	-	8 946	24 027	30 519		838	838		18 000	18 808
Other transfers/grants [insert description]										
Provincial Government:		-	-	-	5 000	8 523	6 820	25 000	5 000	-
Energy efficiency								4 500	5 000	
Grant from Office of The Premier (OTP)					5 000	6 820	6 820	20 000		
Sport and Recreation						1 703		500		
Other transfers/grants [insert description]										
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total Operating Transfers and Grants	5	10 716	33 197	45 536	283 277	287 638	285 935	325 141	334 485	346 337
Capital Transfers and Grants										
National Government:		72 283	142 077	207 433	-	-	-	68 458	71 496	74 729
Municipal Infrastructure Grant (MIG)	-	58 053	118 045	176 909	-	-	-	68 458	71 496	74 729
Eastern Cape_Capacity Building and Other_Capacity	-	5 284	5	5	-	-	-	-	-	-
Integrated National Electrification Programme Grant	-	8 946	24 027	30 519	-	-	-	-	-	-
Other capital transfers/grants [insert desc]										
Provincial Government:		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]										
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total Capital Transfers and Grants	5	72 283	142 077	207 433	-	-	-	68 458	71 496	74 729
TOTAL RECEIPTS OF TRANSFERS & GRANTS		82 999	175 274	252 969	283 277	287 638	285 935	393 599	405 981	421 066

1.8 Operating Expenditure Framework

The table below depicts the high level summary of 2022/23 MTREF Budget classified per main type of operating expenditure.

Table: 4 (Expenditure by Type)

EC121 Mbashe - Table A4 Budgeted Financial Performance (revenue and expenditure)

Expenditure By Type											
Employee related costs	2	132,963	150,710	141,540	119,172	119,172	119,172	111,747	125,769	133,272	141,257
Remuneration of councillors		-	-	7,449	24,861	24,861	24,861	9,598	26,353	28,198	30,172
Debt impairment	3	225	207	6,482	1,200	1,200	1,200	-	2,000	5,646	5,810
Depreciation & asset impairment	2	38,904	6,972	55,743	55,000	56,657	56,657	27,392	55,000	55,220	55,455
Finance charges		1,680	1,773	2,075	-	-	-	1	-	-	-
Bulk purchases - electricity	2	-	-	-	-	-	-	(162)	-	-	-
Inventory consumed	8	-	-	-	-	-	-	-	-	-	-
Contracted services		72,436	42,934	60,241	63,032	75,454	75,454	38,442	75,124	72,281	75,492
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	39,724	33,451	37,301	54,325	53,546	53,546	32,182	57,720	59,972	62,708
Losses		-	-	-	-	-	-	-	-	-	-
Total Expenditure		285,932	236,047	310,830	317,589	330,890	330,890	219,200	341,967	354,588	370,893

The employee related costs are projected based on the approved organogram and that non critical vacancies available will not be filled in order to curb the salary bill of 2022/23 financial year due to municipal revenue that is declining and implementation of cost containment measures.

1.9 Capital Expenditure

The following table provides a breakdown of budgeted capital expenditure by vote.

Table: 5 (Capital Expenditure by vote)

EC121 Mbashe - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding											
Capital Expenditure - Functional											
<i>Single-year expenditure to be appropriated</i>	2										
Vote 1 - Executive & Council		244	244	244	10	10	10	244	15	16	16
Vote 2 - Finance and Admin		239,505	242,393	255,170	5,733	14,635	14,635	266,482	15,000	6,003	6,273
Vote 3 - Internal Audit		-	-	-	-	-	-	-	-	-	-
Vote 4 - Community and Social Services		10,252	(6,698)	(10,698)	546	2,412	2,412	(8,789)	800	626	655
Vote 5 - Sport & Recreation		30,682	44,184	38,854	25,477	28,506	28,506	51,146	22,423	23,409	24,463
Vote 6 - Public Safety		-	-	-	-	-	-	-	-	-	-
Vote 7 - Housing		-	-	-	-	-	-	-	-	-	-
Vote 8 - Health		-	-	-	-	-	-	-	-	-	-
Vote 9 - Planning & Development		-	-	-	500	650	650	350	480	501	524
Vote 10 - Road Transport		691,303	707,447	770,724	50,206	44,829	44,829	802,827	65,874	65,367	68,309
Vote 11 - Environmental Protection		-	-	-	-	-	-	-	-	-	-
Vote 12 - Energy Sources		9,199	9,199	10,833	-	-	-	10,833	-	-	-
Vote 13 - Water Management		-	-	791	-	-	-	791	500	522	545
Vote 14 - Waste Management		-	-	-	-	-	-	-	-	-	-
Vote 15 - 0		-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		981,184	996,768	1,065,917	82,471	91,042	91,042	1,123,884	105,092	96,445	100,785
Total Capital Expenditure - Vote		981,184	996,768	1,065,917	82,471	91,042	91,042	1,123,884	105,092	96,445	100,785

1.10 Annexures

- ✓ Signed Quality Certificate
- ✓ Final A Schedule