

MAYORAL COMMITTEE: MAY 2022

REPORT ON THE ANNUAL MTREF BUDGET REPORT FOR 2022/2025

1. PURPOSE

The purpose of the report is to table before the Mayoral Committee the 2022/2025 Annual Medium-Term Revenue and Expenditure Framework (MTREF) budget before the Adoption of the Annual Budget to Council.

2. BACKGROUND

2.1 In terms of Local Government Municipal Finance Management act 56 of 2003, section 16

(1) The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.

(2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

2.2 It is further prescribed in the Local Government Municipal Finance Management act 56 of 2003, section 22 that:

(2) When preparing the annual budget, the mayor of a municipality must:

(a) Consider the municipality's integrated development plan; and take all reasonable steps to ensure that the municipality revise the integrated development plan (IDP) in terms of section 34 of the Municipal Systems Act, considering realistic revenue and expenditure projections.

3. DISCUSSION

3.1 Objectives of the Msukaligwa municipality budget

is to align itself to the object of local government in terms of section 152 of the Constitution of the Republic as follows

(1) The objects of local government are—

(a) to provide democratic and accountable government for local communities.

(b) to ensure the provision of services to communities in a sustainable manner.

(c) to promote social and economic development.

(d) to promote a safe and healthy environment; and

(e) to encourage the involvement of communities and community organizations in the matters of local government

3.2 In aligning to the above

- i. The administration of the municipality has a vision to improve the basic services and delivery thereof by means of creating a sustainable, credible, and realistic operational and capital budget.

- ii. The municipality is currently driving processes and actions that need to improve the sustainability by means of a financial recovery plan, a five-year budget plan approved in October 2021 and departmental action plans as to be able to carry out basic day to day functions.
- iii. To improve as a major departure, point and focus in 2022 /2023 the improvement of revenue collection and revenue billing, to ensure that the municipality will have sufficient funds to improve the lives of its community members.
- iv. To focus on the communities' concerns raised during the IDP strategic meetings and to align the budget regarding implement that of which is listed as highest priority.
- v. To ensure clean portable water, reduction of electricity breakdown in service, reduction of potholes, clean town and parks and cemeteries, streetlights to light the town to safeguard and reduce criminal activities
- vi. To be able to replace outdated and aged water and electricity infrastructure
- vii. To implement a five (5) year asset maintenance plan, providing sufficient funds as to maintain roads, buildings, and vehicles as to ensure that the community can use service to its fullest.
- viii. To revive service delivery units which have been left unattended for very long time

3.3 MFMA Budget circulars to consider

The municipality in compiling the 2022/23 and 2024/25 has considered various circulars from National Treasury to ensure that the budget credible, relevant, and sustainable

Guidance on compilation of the 2022/2023 MTREF is derived from the MFMA circulars number 86, 89, 91, 93 and 94 ,108 and the latest 115 issued 4 March 2022 and 116 issued 26 April 2022. (See MFMA circular 115 attached as Annexure A).

The circular gives directions to municipalities on preparing the budget. The purpose of circulars is to guide municipalities with their compilation of the 2022/2025 Medium Term Revenue and Expenditure Framework (MTREF).

These circulars are linked to the Municipal Budget and Reporting Regulations (MBRR); and strive to support municipalities' budget preparation processes so that the minimum requirements of the MBRR are achieved within the current economic climate.

3.3.1 The main matters within the attached MFMA Circular 115, to be consider are follows

➤ The South African economy and inflation targets

The world economy is expected to grow by 4.4 per cent this year. This is lower than the 4.9 per cent that was anticipated when tabling the medium-term budget policy statement (MTBPS).

The Omicron variant of the coronavirus caused many countries to impose restrictions to manage its spread. In addition, continued imbalances in global value chains have limited the pace of the world's economic recovery. The South African economy has not been shielded from these global developments. National Treasury has revised South Africa's economic growth estimate for 2021 to 4.8 per cent, from 5.1 per cent at the time of the MTBPS.

This revision reflects a combination of the impact of changes in the global environment, along with South Africa's own unique challenges. Commodity prices, which have supported South Africa's economic recovery, slowed in the second half of 2021.

Also, violent unrest in July, and restrictions imposed to manage the third wave of COVID-19 further eroded the gains South Africa made in the first half of the year. Industrial action in the manufacturing sector, and the re-emergence of loadshedding, also slowed the pace of the recovery. This will have impact as well in Msukaligwa Local Municipality.

The following macro-economic forecasts must be considered when preparing the 2022/23 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2020 - 2025

Fiscal year	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
Actual Estimate					
Forecast	2.9%	4.5%	4.8%	4.4%	4.5%
CPI Inflation					

3.3.2 Key focus areas for the 2022/23 budget process

- Local government conditional grants allocations
 - Division of Revenue Bill, 2022: changes to local government allocations
 - Changes to gazetted frameworks and allocations
- ✓ Infrastructure Skills Development Grant (ISDG) – The grant framework for the infrastructure skills development grant is amended to include a condition that municipalities must have a capacitated Project Management Units with qualified people to act as supervisors in terms of the relevant statutory council requirements.
 - ✓ Municipal Infrastructure Grant (MIG) – Over the 2022 MTREF, the Department of Cooperative Governance (DCoG) will introduce an indirect component to the MIG. This is to improve efficiency in grant expenditure to develop more and better-quality infrastructure. The conversion will be done in-year. The criteria as determined by DCoG includes indicators related to expenditure and reliability of infrastructure.
 - ✓ Municipal Systems Improvement Grant – Over the MTREF, a portion of the grant will be utilised to continue to support institutionalisation of the district development model.
 - ✓ Municipal Disaster Relief Grant – The name of the Municipal Disaster Relief Grant is changed to the Municipal Disaster Response Grant. The objective of the grant remains the same and the change aligns to existing National Disaster Management Centre (NDMC) processes in responding to disasters that have occurred.
 - ✓ Local Government Financial Management (FMG) Grant – Over the 2022 MTREF, the grant framework for the FMG will make provision for the preparation of asset registers

3.3.3 IDP Consultation Process Post 2021 Local Government Elections

This circular indicates that the previous municipal councils had an obligation to ensure that the legislative stipulations were complied with. Therefore, they were expected to continue the process of the development of the IDP starting with the development and adoption of the process plans as provided for in section 28 of the Municipal Systems Act, Municipalities unable to pass the annual budget after 1 July.

Important extractions of previous budget circulars that need to be reconsidered:

- Accounting officers are reminded of their responsibility in terms of section 62(1) (a) of the MFMA to use the resources of the municipality effectively, efficiently, and economically. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings promulgated on 30 May 2014.
- Addressing unfunded budgets in local government this strategy is based on an analysis of performance failures in governance, financial management, institutional capabilities, and service delivery. As part of this strategy, municipalities must ensure that their budgets are adequately funded
- **Revenue budget:** There is a need for municipalities to focus on collecting revenues owed to them and eliminate wasteful and non-core spending. Municipal budgets will be scrutinised to ensure that municipalities adequately provide to service their debt obligations.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality.

The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2021/22 MTREF budgets from realistically anticipated revenues to be collected. **Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this has been identified as a fundamental reason for municipalities not attaining their desired collection rates**

- **Setting cost reflective tariffs:** Cost reflective tariff setting is a requirement of Section 74(2) of the Municipal Systems Act, 2000 (Act No.32 of 2000) which states that tariffs must "*reflect the costs reasonably associated with rendering the service*".

This is meant to assist municipalities to generate sufficient revenue to fully recover their costs, deliver services to customers sustainably and invest in infrastructure that promotes local economic development.

- **The starting point for sound tariff setting is a credible budget.** A credible budget is one that ensures the funding of all approved items and is anchored in sound, timely and reliable information on expenditure and service delivery (FFC, 2011).

Credible budgets are critical for local government to fulfil its mandate to sustainably provide services. **If the budget is not credible then tariffs will not result in financial sustainability even if they are set using a sound methodology.**

A credible expenditure budget reflects the costs necessary to provide a service efficiently and effectively:

- An *effective* budget is one that is adequate to deliver a service of the necessary quality on a sustainable basis.
- An *efficient* budget is one that delivers services at the lowest possible cost.

Before embarking on the tariff setting process, a municipality must assess its budget to determine its efficiency and effectiveness.

Ideally, a budget should be zero-based, at least periodically. This would typically require an assessment of what infrastructure is in place and what is needed to operate and maintain this infrastructure.

Non-technical losses refer to losses due to theft or to metering inaccuracies. In these cases, there is no physical loss of water or electricity: someone is using the water or electricity and simply not paying for it.

Reducing non-technical losses will have no effect on the cost of supplying a service but it will influence the volumes sold. Since the tariff is calculated as the revenue required divided by the volume sold, increasing the volume sold will reduce the tariff required.

Reducing technical losses will thus reduce the tariffs required because the cost of supplying the service will be reduced. Reducing non-technical losses will reduce the tariffs required because the volumes sold will be increased.

- **Tariff policy:** Section 75A of MSA empowers municipalities to “levy and recover fees, charges or tariffs in respect of any function or service of the municipality”. Municipalities must also adopt and implement a tariff policy on the levying of fees for municipal services in terms of section 74 of the Systems Act. Approval for surcharges is done by the municipality in terms of section 75A of the Systems Act but subject to the norms and standards prescribed by the Minister of Finance in terms of the MFPFA.

The Minister of Finance has not yet prescribed the norms and standards (the power to prescribe is discretionary). The absence of norms and standards does not prevent municipalities from including surcharges in their tariffs as the power to impose a surcharge is given in the Municipal Systems Act. The collective tariff must be approved by the municipal council and published for public comments in terms of section 75A of the Municipal Systems Act (MSA). It must also be subjected to the prescribed budget processes in terms of the MFMA

- **Funding choices and Budgeting issues**

The ability of customers to pay for services is declining and this means that less revenue will be collected.

Therefore, municipalities must consider the following when compiling their 2022//23 MTREF budgets:

- Improving the effectiveness of revenue management processes and procedures.
- Paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as per the Cost Containment Regulations that was issued on 07 June 2019.
- Ensuring value for money through the procurement process.
- The affordability of providing free basic services to all households; and
- Curbing consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.

- **Expenditure spending: *Municipalities must ensure that expenditure is limited to the maximum revenue collected.***

Municipalities must apply the budgeted assumed collection rate to determine the cash flow budgets.

Therefore, expenditure can only be processed against items with funding in line with the anticipated cash inflow and not billing.

Municipalities should therefore identify the relevant source in the funding segment where revenue is received from and identify the funds to be used when payments are made. Guidance on this was provided in MFMA Circular No. 98.

- **Bulk electricity tariffs (Par 6.8 of circular 115)**

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. Bulk electricity costs are consistently much higher than inflation, having gone as high as 17.8 per cent in the 2021/22 municipal financial year. Eskom's need for increased funding means that over the period ahead they are applying for much higher tariff increases. In their Multi-Year Price Determination (MYPD 5) application

Eskom requested approval for municipal bulk tariff increases of 20.5 per cent in 2022/23, 15 per cent in 2023/24 and 10 per cent in 2024/25. NERSA rejected this revenue application at the end of September 2021 and in October 2021 ESKOM filed an application in the High Court to review NERSA's decision.

Following the deliberations, NERSA has approved a 9.6 per cent tariff increase for Eskom starting from April 2022 **and this figure accounts for a 3.49 per cent increase in 2022/23.**

- **Employee related costs: (par 7, circular 115)**

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2022/23 MTREF.

In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2022 and 01 July 2023 an increase based on the projected average CPI percentages for 2022 and 2023.

The forecasts of the Reserve Bank, in terms of the January 2022 and January 2023, shall be used to determine the projected average CPI. Municipalities are encouraged to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, to root out ghost employees.

(The Reserve bank CPI for January 2022 as per google reference is 5,7%)

- **Remuneration of Councillors (par 7.2 Circular 115)**

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance.

It is anticipated that this salary determination will also consider the fiscal constraints. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process.

Any overpayment to councillor's contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of Section 167 of the MFMA and must be recovered from the councillor(s) concerned.

(A provision equal to that of the municipal staff were made at a rate of 5,7% in the draft budget contained in table A4: Statement of performance)

- **Equitable Share allocation (par 7.3 Circular 115)**

As highlighted in Minister Enoch Godongwana's 2022 Budget Speech, municipalities must be mindful that the Equitable Share is meant to fund basic municipal services to the indigent. Municipalities must ensure that monies are used for the purpose they were allocated for.

4. EXECUTIVE SUMMARY

4.1 Tariff increases

To ensure that the municipality succeed in provision of services to communities in a sustainable manner, it must align itself to the guidelines of circular 115 of National Treasury by adjust its tariffs to be relatively close to cost reflective tariffs, although a further cost of supply study must be conducted, the municipal must rely to the inflation available at their disposal. It is therefore against this background that the Municipal has proposed the below tariff increase (See Annexure A for the Adjusted Tariff Structure).

MSUKALIGWA MUNICIPALITY		
SUGGESTED TARIFF INCREASES (NOT BASED ON COST RECOVERY) : DRAFT BUDGET 2022/2023		
Revenue	Draft : Increase	
Property rates	5,00%	plus 5% rebate recovered
Electricity	7,47%	
Water	6,00%	
Sewerage	6,00%	
Refuse	6,00%	
Other	6,00%	
SUGGESTED EXPENDITURE INCREASES		
Expenditure	Draft : Increase	
Employee related costs	4,90%	
Councilors remuneration	4,90%	
Bulk purchases Electricity	9,61%	
Bulk water : Inventory	10,00%	
Contracted services	4,40%	
Repair and maintenance (10 % total of operating expenditure)	30,00%	
Other expenditure	4,40%	
Interest : Late payments Eskom	15,00%	
Diesel & Petrol (World wide : Russia sanctions)	20,00%	

As a result of the above Tariff adjustment, the following Revenue and Expenditure performance will be realised

4.2 Revenue performance

MP302 Msukaligwa - 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	107 806	115 906	126 006	191 337	183 123	183 123	151 383	197 037	205 707	214 963
Service charges - electricity revenue	2	208 568	224 517	217 317	276 349	242 727	242 727	199 676	246 323	257 161	268 733
Service charges - water revenue	2	57 341	71 020	73 615	70 556	64 319	64 319	54 601	67 192	70 148	73 305
Service charges - sanitation revenue	2	32 540	39 906	46 957	43 432	48 326	48 326	47 514	52 787	55 110	57 590
Service charges - refuse revenue	2	26 901	32 383	38 971	50 859	40 183	40 183	41 080	45 048	47 030	49 146
Rental of facilities and equipment		2 067	2 891	2 500	2 688	2 657	2 657	2 262	2 700	2 819	2 946
Interest earned - external investments		3 136	1 853	949	300	300	300	740	932	927	968
Interest earned - outstanding debtors		29 923	35 810	41 446	41 985	27 580	27 580	24 251	31 001	32 365	33 822
Dividends received											
Fines, penalties and forfeits		5 992	5 751	5 971	5 239	5 239	5 239	147	5 177	5 405	5 647
Licences and permits		2 814	5 524	3 432	1 553	2 560	2 560	3 038	3 636	3 796	3 967
Agency services		-	-	9 276	9 000	8 600	8 600	7 075	8 490	8 864	9 263
Transfers and subsidies		157 248	180 256	226 918	207 727	208 157	208 157	203 422	231 689	241 883	252 768
Other revenue	2	16 726	13 482	5 571	5 142	7 649	7 649	5 434	8 633	9 013	9 418
Gains		(3 006)	7 908	2 283	-	953	953	1 016	-	-	-
Total Revenue (excluding capital transfers and contributions)		648 058	737 210	801 211	906 168	842 373	842 373	741 638	900 645	940 227	982 537

- The Municipality expect to generate revenue amounting to R 900,645 million in 2022/2023. R 940 million (2023/2024) and R982 million (2024/2025) throughout the Medium-Term Revenue and Expenditure Framework. However, the analysis will focus on the ensuing year which is 2022/23.
- **Property rates**, the Municipality implemented its valuation roll on the 1st of July 2021, this has at least been reconciled with the financial system. The only challenges on what we have observed is the drastic decrease in some commercial properties as well as mining which needs to be investigated in the 2022/23 financial year.

Take note that the Ermelo mall, building in progress, revenue on property rates were not included yet and will boost revenue after a supplementary valuation were received, when the mall is active.
- **Sale of Electricity**, this is one of the commodities in which the Municipality must conduct research to source alternative power supply. In the meantime, a different approach in supplying commercial business and complexes in sense that the administration of such commodity should be supplied in bulk to these property developers or body corporate, convert all conventional meters to prepaid, Council must consider that these changes will be at the expense of the Municipality
- **Water**, the issue of metering needs an urgent attention, that an urgent meter audit is conducted. In the meantime, a different approach in supplying commercial business and complexes in sense that the administration of such commodity should be supplied in bulk to these property developers or body corporate, convert all conventional meters to prepaid, Council must consider that these changes will be at the expense of the Municipality
- **Sanitation**, a benchmark exercise needs to be conducted as the current tariff structure does not provide adequate revenue as the charges are no linked to water usage but a fixed rate
- **Agency Services**, the service level agreement needs to be reviewed with the department of Community, Safety, Security and Liaison that at least the commission be increased to 40 %
- **Fines and penalties**, Benchmarking needs to be undertaken to improved debt collection on fines issued, that judicial system be engaged to assist in reclaiming paid fines

- **Other commodity such as refuse, and other revenue** are fairly performing in line with the set norms
- **Grants: Equitable share**, it should be noted that these grants may not improve as the level and response of indigent registration is concern, Council need to attend to this drive as it will have an impact on the debt collection.

4.3 Expenditure Performance

MP302 Msukaligwa - 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
Expenditure By Type											
Employee related costs	2	207 127	230 898	244 257	271 209	282 891	282 891	208 798	294 075	307 015	320 659
Remuneration of councillors		15 145	15 651	16 058	17 648	17 648	17 648	11 749	18 513	19 328	20 197
Debt impairment	3	115 700	66 522	49 764	152 853	80 202	80 202	62 426	156 536	231 025	241 421
Depreciation & asset impairment	2	122 638	129 549	137 048	139 146	140 616	140 616	41 953	140 616	146 803	153 409
Finance charges		34 764	28 834	103 372	-	29 200	29 200	-	20 000	20 880	21 820
Bulk purchases - electricity	2	216 463	249 020	264 680	340 294	208 789	208 789	196 444	319 126	333 167	348 160
Inventory consumed	8	6 525	12 653	18 473	79 215	119 156	119 156	5 604	133 992	140 055	146 357
Contracted services		59 468	80 400	63 101	84 523	66 405	66 405	38 966	77 589	81 002	84 037
Transfers and subsidies		-	21	-	-	-	-	-	-	-	-
Other expenditure	4, 5	46 935	44 757	50 372	58 624	54 257	54 257	35 485	62 252	86 424	80 997
Losses		111	15 826	9 759	-	-	-	-	-	-	-
Total Expenditure		824 874	874 132	956 883	1 143 511	999 163	999 163	601 425	1 222 698	1 365 697	1 417 057
Surplus/(Deficit)		(176 816)	(136 922)	(155 671)	(237 342)	(156 790)	(156 790)	140 213	(322 054)	(425 470)	(434 521)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		10 367	117 171	169 259	199 069	199 069	199 069	118 239	292 052	304 903	318 623
Transfers and subsidies - capital (in-kind - all)		-	1 650	1 480	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		(166 449)	(18 101)	15 068	(38 274)	42 279	42 279	258 452	(30 001)	(120 568)	(115 897)
Taxation											
Surplus/(Deficit) after taxation		(166 449)	(18 101)	15 068	(38 274)	42 279	42 279	258 452	(30 001)	(120 568)	(115 897)
Attributable to minorities											
Surplus/(Deficit) attributable to municipality		(166 449)	(18 101)	15 068	(38 274)	42 279	42 279	258 452	(30 001)	(120 568)	(115 897)
Share of surplus/ (deficit) of associate	7										
Surplus/(Deficit) for the year		(166 449)	(18 101)	15 068	(38 274)	42 279	42 279	258 452	(30 001)	(120 568)	(115 897)

- The Municipality is estimating to spend R1,222 billion whilst excluding non-cash item such as depreciation R 140 million and debt impairment R 156,536 million, this result to a shortfall of R 322,054 million, the major contributor is as follows
- **Employee related cost**, Although the percentage of employee cost is between 25% to 40 %, 29% against total expenditure and 34% against revenue, the cost is relatively high, management will have to exercise caution when employing more official which are not revenue and service delivery driven and they will need to always guard against the abuse of overtime
- **Bulk purchases Electricity**, illegal connection, non-established informal settlement are areas of great concern in sense that if left unattended the, this will have a bearing in servicing Eskom debt as well providing suitable power supply to most deserving community members
- **Contracted Services and General expenses**, as a distressed Municipality it will be wise that Council seek approval from Government to be exempted in some of the requirement of the SCM where key basic service delivery infrastructure equipment and material may need to procure directly from manufactures until the Municipality has sought its finances out,

4.4 Summary: Statement of performance versus cash flow management

(Table A 4)	Billed/Direct	Cash budget (Table A 7)
Operational revenue	R 900,645 million	R 759,500 million
• Operational expenditure	(R 1,222 billion)	(R 943, 815million)
• Operational deficit	(R 322,054 million)	(R 184,315 million)
• Capital grant funding	(R 292,052 million)	R 292,052 million
• Capital expenditure: Grant	(R 292,052 million)	(R 292,052 million)
Internal capital funding	(R 5,783 million)	(R 5,783 million)
Total Cash shortfall: 2022/2023: Draft Budget		R 187,011 million

MP302 Msukaligwa - Table A7 Budgeted Cash Flows

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
R thousand											
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		-	-	118 519	146 439	132 030	132 030	115 365	123 248	128 671	134 461
Service charges		-	-	601 825	408 773	418 130	418 130	301 200	385 213	347 977	363 636
Other revenue		-	-	243 671	124 940	17 686	17 686	177 872	21 421	(71 833)	22 885
Transfers and Subsidies - Operational	1	-	-	-	207 077	204 875	204 875	287 181	228 686	332 480	249 492
Transfers and Subsidies - Capital	1	-	-	-	199 069	199 069	199 069	82 913	295 055	308 037	321 699
Interest		-	-	949	300	300	300	33	932	973	1 017
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Suppliers and employees		-	-	(715 670)	(843 064)	(709 241)	(709 241)	(9 919)	(923 815)	(942 551)	(984 965)
Finance charges		-	-	-	-	(29 900)	(29 900)	-	(20 000)	(20 880)	(21 820)
Transfers and Grants	1	-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		-	-	249 094	243 534	232 949	232 949	954 645	110 739	82 875	86 604
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		-	-	(1 824)	-	953	953	1 016	-	-	-
Decrease (increase) in non-current receivables		(162)	162	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments		-	-	-	-	-	-	-	-	-	-
Payments											
Capital assets		-	-	(3 442)	(243 924)	(237 386)	(237 386)	(137 369)	(297 835)	(320 730)	(324 910)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(162)	162	(5 266)	(243 924)	(236 434)	(236 434)	(136 353)	(297 835)	(320 730)	(324 910)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans		-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing		-	-	20	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits		(16 120)	3 357	(1 159)	(3 511)	13 923	13 923	(525)	-	(28 976)	28 192
Payments											
Repayment of borrowing		-	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES		(16 120)	3 357	(1 139)	(3 511)	13 923	13 923	(525)	-	(28 976)	28 192
NET INCREASE/ (DECREASE) IN CASH HELD		(16 282)	3 519	242 688	(3 902)	10 439	10 439	817 767	(187 096)	(266 831)	(210 114)
Cash/cash equivalents at the year begin:	2	(53 988)	24 780	22 016	70 001	7 861	7 861	-	85	(187 011)	(453 842)
Cash/cash equivalents at the year end:	2	(70 270)	28 299	264 704	66 099	18 300	18 300	817 767	(187 011)	(453 842)	(663 956)

- The budget indicates a non-cashed back budget by R 187,011 million. In terms of National, treasury guidelines as per the MFMA circulars 112 and 115 this is unacceptable, and it imply that the budget will have to be readjusted to ensure that the operational and capital spending is cash backed.

The threat of not approving a cash backed budget is that equitable share allocations can be withheld in the event the municipality cannot reached such requirement.

- Cash flow for property rates and services has been based on a collection rate of 70% on property rates, water, sewer and refuse and 78% on electricity
- **Taking all other direct revenue income, property rates and services into account the collection rate as per the A schedule is 79%**
- This will mean management has to cut the budget at least to break even or be a surplus and ensure that weekly planning regarding procurement of goods and supplies as well as cash payments will have to be approved by the cash flow committee.
- Furthermore, a serious revenue enhancement and collection implementation plan, monitored need to be driven tom ensure that the 79% and beyond, aiming for the ideal of 95% collection rate be reached as to cover operational and internal capital funding.

4.5 Budget processes followed 31 March 2022

Following the 31 March draft budget report the Budget office arranged, one on one meetings from the 1 April 2022 until the 26 April 2022 with all relevant managers in the various departments.

The outcome of the "new draft budget "based on zero based budgeting method where every department had to submit motivational templates explaining their needs and wish lists, indicated a shortfall in cash flow of R 433 million at the end of 26 April 2022. This wish list includes critical positions and intern al capital funding that will ensure that basic service delivery can be effectively rendered. The amount of R 32 million needed for critical positions and R 91 million for capital funding from own funds is not currently included in the latest draft budget, discussed below.

The only internal capital funding that should be considered and be included is:

- | | |
|--|-----------------|
| • Replacement or installation of new prepaid meters – | R 2 million |
| • Replacement of water meters - | R 1 million |
| • Purchasing of 16 additional handheld meter apparatus | R 240 thousand |
| • Additional funding needed to purchase a compactor truck of which R 1, 7 million is funded through MIG funds - own funds needed R 893 000 | |
| • Current printer lease agreement | R 1,650 million |

Total internal capital funding to be considered R 5,783 million

- The critical positions and list of internal funded capital items requested, but not included in the budget is attached as Annexure B

4.6 Table A8: Cash backed reserves and accumulated surplus

This table is the deciding factor when explaining if a budget is funded or not funded:

From the undermentioned the budget is unfunded in the amount of R 1,326 billion. A five-year operational plan was drafted in October 2021, approved by Council but will need to be reviewed by the incoming Council, after election as to reconfirm the plan

- Eskom, DWS and the Department of safety and security is the main creditors that need to be serviced and payment plans approved must be honoured
- The matter of the dispute with the Department of water and sanitation of more than R 1 billion must be resolved as this dispute is 8 years or more and give a wrong impression when creditors are reviewed.

MP302 Msukaligwa - Table A8 Cash backed reserves/accumulated surplus reconciliation

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
Cash and investments available											
Cash/cash equivalents at the year end	1	(70 270)	28 299	264 704	66 099	18 300	18 300	817 767	(187 011)	(508 077)	(718 191)
Other current investments > 90 days		94 804	(6 274)	(258 501)	(43 467)	(9 027)	(9 027)	(607 561)	57 810	309 785	510 976
Non current assets - Investments	1	-	-	-	-	-	-	-	-	-	-
Cash and investments available:		24 534	22 025	6 203	22 632	9 273	9 273	210 206	(183 436)	(198 292)	(207 216)
Application of cash and investments											
Unspent conditional transfers		73 811	16 697	1 741	88 241	2 917	2 917	190 632	700	76 282	764
Unspent borrowing		-	-	-	-	-	-	-	-	-	-
Statutory requirements	2										
Other working capital requirements	3	852 721	1 215 157	376 485	423 983	1 255 550	1 255 550	739 697	1 141 951	1 216 461	1 201 769
Other provisions											
Long term investments committed	4	-	-	-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments	5	724	724	-	-	-	-	-	-	-	-
Total Application of cash and investments:		927 256	1 232 578	378 225	512 223	1 258 467	1 258 467	930 329	1 142 651	1 292 742	1 202 533
Surplus(shortfall)		(902 722)	(1 210 553)	(372 022)	(489 591)	(1 249 194)	(1 249 194)	(720 124)	(1 326 087)	(1 491 035)	(1 409 749)

Notes:

- National Treasury demand that table A7: Cash flow must have positive outcome and that a non -cash backed budget will require the municipality to redo the budget until is cash backed regarding operational and capital spending.
- Table A8: Cash reconciliation: Cash reserves and accumulated surplus can be unfunded only if a 5-year budget plan to be reviewed by National treasury is approved. Such a plan was approved by Council in October 2021 and will be applicable for 2022/203 as a well.
- The average collection rate projected for 2023/2024 is budgeted at an average rate of 70% of billed revenue for property rates and services.
- The municipality need to step up on the task of generating credible consumer accounts, strict credit control and debt collection. The additional revenue that can be generated, after all erven is to be metered is not yet included.
- The known list of +/- 7000 households which possibly tampered and/or is guilty of theft of electricity services must receive serious attention as the non-technical distribution losses need to be attended to.

4.7 FUNDING/BUDGET PLAN MATTERS TO BE CONSIDERED

- 4.7.1 **Cash based spending:** That the principal not to spend on the approved available budget but that spending be concluded per the available cash as requested, be enforced.
- 4.7.2 **That a fixed amount to offset creditors, before operating expenses be incurred, be determined** by the cash flow committee, and not be deviated of. Eskom payments must include current accounts and the honouring of the payment plan before any operational orders can be issued. That the aim will be to reduce the creditors as soon as possible to loosen cash flow for future operational purposes.
- 4.7.3 That a **procurement plan be determined** from the start of the financial year and that spending of the operational and internal funded capital budget be spread evenly over the period of 12 months, controlled by the Directors and the Finance department as a team effort.
- 4.7.4 **The principle that we do not spend what we do not have to be applied.**
- 4.7.5 **That expenditure orders to be issued, in the process of cash flow control,** be prioritised to serve income generating departments and emergency services (Fire department) in the quest to ensure basic service delivery, until such time that the cash flow stabilise. That the Finance department will ensure control on orders issued.
- 4.7.6 That **no new appointments of staff** of any kind be make, if not budgeted for.
- 4.7.7 **That no expenditure be approved and be implemented** by the administration (Accounting officer), committees or Council if financial comments, referring to an approved budget for the allowance or service or supply of material were not included in an approved budget.
- 4.7.8 That to compile a **credible, realistically anticipated revenue budget**, as enacted per section 18 of the MFMA (Act 56 of 2003), that the collection rate of 64- to 75% % be accepted to be the norm in calculating a funded budget and that the notion to increase the collection rate to ensure that the budget be set aside.
- 4.7.9 **Revenue forgone in reference to property rates to be reconsidered:**

➤ **Indigents:**

In term sf the MPRA the impermissible rate is not charged on the value of the first R 15 000

Property rates based on a discount value for 11 383 indigents, that is supposed to be registered indigents (RDP houses) were increased in the amount to R 70 000 (of which revenue forgone is based on R 55 000 from the 1 July 2020). The discount of indigent levies is covered by the equitable share.

The current shortcoming regarding indigents is that only +-6 635 (57,28%) are truly registered whilst the rest of the community to be classified as indigent is abstaining to do so. This could jeopardise future allocations to be received from National treasury determined by the Division of revenue act.

It should be noted that these 11 583 indigents indirectly do receive basic services but because they are not registered the allocation cannot be given as received from the equitable share, which place a burden on the municipality.

It is suggested that no further adjustments to the current R 70 000 per stand per registered indigent household rebate (Revenue forgone above impermissible rate of R 15 000 market value) be made as the municipality will not be able to subsidise further on the property rates

➤ **Residential and Agricultural owners:**

Council took the following resolution in May 2021

Extraction: Council resolution A 649 (LM 999/05/2021): Item 7

"That it **BE NOTED** that it is suggested that the current revenue forgone of allowing owners not to pay assessment rates for the first R 55 000 of the property value plus a 15% discount **BE PHASED out** from the 1 July 2022 at a rate of a lesser subsidy of 5% per year **for** property owners who is not registered indigents "

It is suggested that the first R 55 000 rebate of all residential properties taxed be maintained but that current 15% discount that is applicable for residential be decreased to 10% discount from the 1 July 2022 as per Council resolution.

That the 10% discount for agricultural properties be maintained.

That a phased-out approach for the next 4 years to come be implemented where the "revenue forgone discount of 15% (this year 10% be reduced with 5% per year until such time that the loss of revenue that could have been billed to finance the operational budget is recovered.

A suggested 5% increase in revenue on top of the lesser 5% discount per market value increase is included in the estimated budget (effectively the increase in property rates is 10%)

4.7.10 Revenue enhancement: Electricity and water meters to be installed where services rendered are not measured and damaged meters to be replaced need to receive urgent attention as to enhance

Revenue:

- That **the task of meter audit**, the replacement of water and electricity meters where nil or very little consumptions are recorded be undertaken by the technical department and that meters be replaced.
- That the matter of 7000 plus stands where prepaid is installed but where no consumption is registered be included in the meter audit as to ensure that revenue is improved.
- That meters be read as a matter of urgency as to correct the estimated readings that has caused incorrect accounts rendered to the community

4.7.11 Bulk Sms and emails: That all **departments and ward councillors be included in the drive to improve data on the financial system.**

That a data collection form be developed, be submitted, be recovered from the stand/erf owner and all the different departments be requested to visit business and households (ward councillors), or to assist in phoning to update personal data for example ID numbers (copy to be submitted), cell phone numbers, emails, car registration numbers etc. to ensure that the account on the system is verified.

4.7.12 That the operating and capital ***budget should be drawn in such away, moving forward, that a cash surplus (cash backed) be realised*** to ensure that creditors of prior years and the building of cash backed reserves be instituted.

4.7.13 *The Bulk purchases for electricity is budgeted at 9,61 %*

4.7.14 *The Bulk purchase for water, in absence of any directive was fixed at 10%*

4.7.15 To take note that no New **critical positions to be identified were included yet.**

4.7.16 *The* already not cash backed, or unfunded budget suggest, that because the municipality has reached the 34,8% employee related cost ration based on cash flow, that no additional positions should be considered if a cash backed operational budget cannot be achieved before the 31 May 2022.

4.7.17 That the matter of **Overtime** in the amount of R 24,556 million and **Standby** of R 11,324 million be considered. That the matter of overtime be referred to a section 79 meeting to take serious action in suggesting alternative means as the municipality cash flow need to be protected. That a stringent policy be determined regarding what departments be limited (totally or partially) to reduce the unnecessary expenses in reduction of cash flow within the administration.

4.7.18 *That it be considered to stop all overtime over weekends* except for electricity, water, and the Fire department, controlled by the Directors to preapprove such when it is to be incurred. In the case of cemeteries that no council spades or other relevant tools be given to private parties but that the private sector be encourages to supply the families with such tools. Currently staff is paid overtime just to assist in the support of Council tools of trade.

4.7.19 **Appointment of staff within existing vacancies:** That in the case where existing positions (from July 2019) became vacant for whatever reason that those positions be filled, especially in the case of general assistants, especially in the income generating departments or sections. That the municipal manager has a right to freeze a position that is not critical until such time that funds will be available. This suggestion is to curb overtime.

4.7.20 **Acting allowances must be limited:** paying acting allowances to junior staff acting in their immediate senior's position whilst the Director or another capable manager could hold the ford, whilst the incumbent is off sick or on vacation should be stopped. This could reduce expenditure dramatically.

4.7.21 That **internal capital funded budget requests be set aside except for the acquiring of water and electricity meters which can enhance revenue collection. That no funds be allocated to any request if the basic operational budget is not cash backed.**

4.7.22 **Reduction in security services costs need a review.** Budget R 26,961 million

Per Council resolution A 441 dated 28 May 2020, just before a "new tender was invited, the budget was reduced from R 23 million to R 15, 8 million. Again, as in the case of overtime and standby, the administration allowed normal continuation of the security contract spending and an additional R 10 million had to be added to the 2020/21 adjustment budget.

The principal decision that needs to be made is that security systems (example cameras and security gates with access control need to replace human security as this contract could be cut by 50% or more to assist in the reduction of expenditure)

4.7.23 **Consequence management principal must be introduced and be maintained**

4.7.24 **Traveling and accommodation is not fully budgeted for as virtual meetings are encouraged.**

This is a serious cost driver that needs attention during the Budget steering committee cutbacks. If a municipality has the type of cash flow constraints that Msukaligwa is experiencing, it be agreed that these expenses be **done away with until such time that it is affordable.**

That the delegated staff or councillors be limited in so far as numbers to attend the same meeting. The matter should be dealt with and be reaffirmed during the deliberations in the Budget steering committee

4.7.25 Catering –The Cost containment regulations to supply food and drink for a meeting, less than 5 hours, as gazetted per Regulation in June as amended in July 2020, should be done away with. Catering is a luxury, and it must be expected from every staff member and council to ensure that they have enjoyed food at home or bring a lunchbox with. The matter of external guests that can assist the municipality should however be entertained.

4.7.26 Free basic services: Indigent: The 2022/23 MTREF budget for the subsidisation of the indigent is provide for 7000 of the possible 11 583 indigents
It is indicated that most of the other indigents that was supposed to be registered, receive electricity direct from Eskom. Indigent subsidies currently in the financial system are based on 6 635 registered applicants for water, sewage, and refuse.
The allocated equitable share is used to subsidise services which the draft budget for 2022/2023 amounts to R 37,908 million (2021/2022 R 42 million).
The net amount of R 189,610 million which is to serve indigents of the R 227,520 equitable share allocated to Msukaligwa for 2022/2023, is available for funding the rest of the operational expenditure

4.7.27 Public participation for political offices. A budget of R 156 600 (thousand) for 2022/2023 for the mayor's public participation were provided whilst the Chief Whip budget was increased with 6% with a budget of R 31,320 (thousand). The Speaker's vote is budgeted un the amount of R 156 600. The matter of such allocations should be dealt with during the deliberations in the budget steering committee.

4.7.28 Trading services and cost reflective tariffs: When a service is to be covered by tariff structure such service must be ring-fenced in the calculations of revenue versus expenditure.

The electricity and water services are making serious losses. These losses are not all related to tariff increases that must be considered but is mostly related to non –and technical losses.

Distribution loss through tampering and theft as well as illegal connections must be dealt with in 2022/2025

Tariffs must be approved by 31 May and published 30 days before the new financial year start.

5. ASSESSMENT OF TRADING SERVICE PERFROMANCE (WATER, SEWER, ELECTRICTY AND SANITATION)

- **Trading losses below show the actual increases in revenue or the decrease in expenditure needed to break even (without surplus allowed)**

The undermentioned extraction of the non-cash backed budget, which align with the current cash flow shortfall experienced in the operation and capital budget

Trading losses : Read with the poor collection rate the main reason for an unfunded budget

Service		Tariff increase included	2021-2022 Adjustment budget	2022-2023 MTREF	Increase /(Decrease)	2022-2023 Cash estimate	Collection rate
Electricity	Revenue	7,47%	245 613 845,00	-260 018 711,14	- 14 404 866,14	202 814 594,69	78,00%
	Operational Expenditure		391 341 129,62	460 364 152,66	69 023 023,03	399 906 641,03	
	Capital expenditure (internal)		-	2 000 000,00	2 000 000,00	2 000 000,00	
	Deficit budgeted 2022/2023		145 727 284,62	202 345 441,52	56 618 156,90	199 092 046,34	98,16%
	Additional increase needed-Break even					98,16%	
					401 906 641,03		
Water	Revenue	6,00%	73 787 332,28	- 78 475 025,24	- 4 687 692,96	53 633 686,99	68,34%
	Operational Expenditure		125 328 575,11	159 365 550,95	34 036 975,84	105 677 814,83	
	Capital expenditure (internal)		0	1 000 000,00	1 000 000,00	1 000 000,00	
	Deficit budgeted 2022/2023		51 541 242,83	81 890 525,71	30 349 282,88	53 044 127,84	98,90%
	Additional increase needed-Break even					98,90%	
					106 677 814,83		
Sewerage	Revenue	6,00%	61 903 506,00	- 65 813 201,74	- 3 909 695,74	37 513 524,99	57,00%
	Operational Expenditure		56 357 821,12	76 127 951,16	19 770 130,04	36 808 739,68	
	Capital expenditure (internal)		0	0	0	0	
	Deficit budgeted 2022/2023		5 545 684,88	10 314 749,42	15 860 434,30	704 785,31	-1,88%
	No Additional increase needed-Break even					-1,88%	
					-		
Refuse	Revenue	6,00%	53 140 144,84	- 58 454 159,32	- 5 314 014,48	31 046 757,98	53,11%
	Operational Expenditure		46 006 106,38	69 573 912,38	23 567 806,00	69 573 912,38	
	Capital expenditure (internal)		-	893 000,00	893 000,00	893 000,00	
	Deficit budgeted 2022/2023		7 134 038,46	12 012 753,05	19 146 791,52	39 420 154,40	127%
	Additional increase needed-Break even					127%	
					70 466 912,38		
Total services	Revenue		434 444 828,12	-462 761 097,44	- 28 316 269,32	325 008 564,65	
	Operational Expenditure		619 033 632,23	765 431 567,15	146 397 934,92	611 967 107,92	
	Capital expenditure (internal)		-	3 893 000,00	3 893 000,00	3 893 000,00	
	Deficit budgeted 2022/2023		184 588 804,11	306 563 469,71	121 974 665,60	290 851 543,27	
Average collection rate							64,11%

5.1 NERSA: INPUTS on 2022/2023 increase of Eskom from 1 July 2022

EXECUTIVE SUMMARY: Consultation Paper – Municipal Tariff Guideline, Benchmarks and Proposed Timelines for FY 2022/23

The National Energy Regulator of South Africa (NERSA) is the regulatory authority of the energy sector in South Africa and its mandate includes the regulation of the electricity supply industry. In terms of section 4(ii) of the Electricity Regulation Act, 2006 (Act No. 4 of 2006) ('the Electricity Regulation Act'), NERSA must regulate electricity prices and tariffs.

NERSA, on an annual basis, approves a percentage guideline increase and reviews the municipal tariff benchmarks. The guideline increase assists the municipalities in the preparation of their budgets, while the revised benchmarks are used in the evaluation of the municipal tariff applications.

This process is dependent on the approval of Eskom's revenues and Retail Tariff Structural Adjustment (ERTSA).

NERSA approved Eskom's Retail Tariff Structural Adjustment (ERTSA) which resulted in an increase of 9,61 % to municipalities (on bulk purchases). Tariff setting is 7,47% and the implementation thereof is subject to Nersa 's official letter to be received in this regard.

The following NERSA guideline for calculation of cost recovery for the electricity service suggest that the increase should be 20,21%

Type of expense	2022/2023 Amounts per draft budget	Ratio of expense (Contribution)	Nersa proposed contribution	Suggested Increase in costing	Not official Guideline 2022/2023
	R	%	%	%	%
Salaries	25 157 395	5 %	4.0	4.9	0.3
Bulk purchases (Draft budget include distribution loss of 10%)	319 125 639	69%	76.0	9.61	9.61
NMD costs	Nil	Nil	0.2		
Debt impairment 100%-84%=16%	45 185 716	9 %	2.7	0.1	0.1
Indigent FBE to Eskom			0.6		0
Repair & maintenance	14 381 760	3 %	6.2	1.00	0.3
General expenditure	4 504 481	1%	6.6	4.4	0.3
Finance costs (Interest on arrears -No borrowing)	20 000 000	4 %	1.7	0	0
Internal charges	14 737 366	3 %	2.1	0.3	0.1
Depreciation	17 271 795	3.44	Not addressed	0	0
Total	460 364 152	100%	100%	20,21	10.44

- As per the above table it is clear, that the norm of NERSA is exceeded, mainly due to the salary account that is greater than the norm by 1 % (exceeding norm by R 2,516 million).
- Debt impairment should be 2,7 % as the ideal collection rate is 95%. In the case of Msukaligwa the expenditure ratio is 9% which is totally unacceptable especially in the view that 23 575 consumers are prepaid based (Prepaid is used to recover arrears as well through the prepaid the collection rate is 78% which is 22 % less due to poor collection)
- Insufficient provision for repair and maintenance that should be 6,2% as per the guidelines is underestimated by 3,2% or R 14,732 million

The application for an increase in tariff application was completed by 15 March 2022. Nersa's final guidelines however indicated that a maximum of 7,47% increase in tariffs will be allowed and where a Municipality need higher increases that a proper presentation be make in this regard.

It is suggested that NERSA and Eskom be requested to assist the municipality is an exercise to determine such. It must be stressed that the statistics will have to be improved and that actual meter readings and consumption be recorded for 9- 12 months as to determine sales and households serviced or not serviced.

5.2 Indigent subsidies: How it is financed and included in the budget

<u>Equitable share : Contribution to Indigent : 2022/2023</u>						
		<u>2021/2022</u>	<u>2022/2023</u>	<u>2022/2023</u>	<u>2022/2023</u>	
Possible indigents to be registered 11 785						
		<u>Current rate</u>		<u>New rate per</u>	<u>New amount</u>	
Based on 6700 indigents	Per month	(excluding	Suggested	household	subsidy	Annual cost
6700		VAT)	increase	(excluding VAT)	R	R
		R	%	R		R
Electricity	50 kwh per household	1,2583	7,47%	1,3523	67,61	15 475 680,00
Electricity basic		209,73	7,47%	225,3968	225,40	
Water	6 kl per household	10,11	6,00%	10,72	64,30	4 206 000,00
Water basic		94,00	6,00%	99,64	99,64	
Refuse		137,00	6,00%	145,2200	145,22	16 927 700,00
Sewerage services		149,00	6,00%	157,9400	157,94	15 300 386,00
Property rates	Up to R 70 000 (R 55 000 subs)	0,0095004	5,00%	0,0100	43,54	11 854 918,00
					803,65	63 764 684,00
Total equitable share	223 221 416,00		Indigent			-28,57%

64 613 836,39

5.3 Capital grant funding allocated

Capital grants to be aligned with IDP

			<u>2022/2023</u>
Municipal infrastructure grant	MIG		R57 052 250,00
INEP	INEP		0
Water services infrastructure grant	WSIG		60 000 000,00
Regional Bulk infrastructure grant (administered by Gert Sibande District)	RBIG		175 000 000,00
			R292 052 250,00

6. Way forward

6.1 Funding choices and management issues (par.7 MFMA -circular 115)

Municipalities are under pressure to generate revenue because of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services.

The ability of customers to pay for services is declining and this means that less revenue will be collected.

Therefore, municipalities must consider the following when compiling their 2022/23 MTREF budgets:

- i. Improving the effectiveness of revenue management processes and procedures.

- II. Cost containment measures to, amongst other things, control unnecessary spending on nice-to-have items and non-essential activities as highlighted in the Municipal Cost Containment Regulations read with MFMA Circular No. 82.
- III. Ensuring value for money through the procurement process.
- IV. The affordability of providing free basic services to all households.
- V. Not taking on unfunded mandates.
- VI. Strictly control the use of costly water tankers and fix the water infrastructure to enable the sustainable provision of water.
- VII. Prioritise the filling of critical vacant posts, especially linked to the delivery of basic services; and
- VIII. Curbing the consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.
- IX. Accounting officers are reminded of their responsibility in terms of section 62(1)(a) of the MFMA to use the resources of the municipality effectively, efficiently, and economically. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA, read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
- X. That all Managers and Directors to interact with the budget office, this item will include Contracted services, Inventory as well as other general expenditure to be incurred).
- XI. Critical positions and internal capital funding will be listed but will not be included in the operational and capital budget if a cash backed budget cannot be generated.
- XII. It is important that the Budget steering committee regularly, to deal with the principals suggested in this report and that improved policies and rules, on matters that is costly and not aligned with the cost curtailment regulations and not applicable in basic service delivery be dealt with.
- XIII. **Smart Prepaid Meters Solution (Par 6.5 MFMA Circular 115)**

The Inter-Ministerial Task Team (IMTT) of the 5th administration appointed a panel to investigate the electricity function to better understand what is causing the non-payment to Eskom. Cabinet subsequently endorsed the panel's recommendation that a smart prepaid solution for all municipalities must be explored. Municipalities are advised that the National Treasury, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a transversal contract to standardise prepaid smart meter solutions for electricity that align to minimum and critical technical specifications for local government. Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) Sadesh.Ramjathan@treasury.gov.za.

Principal decisions must be reflected in the recommendation that will deal with Technical and **non- technical distribution losses**. Tampering and theft, non-capturing of meter readings, non-capturing of meters installed need to receive serious attention as the municipality do have the ability to improve the current back sliding situation.

- **Metering:** Installation of prepaid meters to reduce the reliance on meter readers for the 70% conventional meter consumers are encouraged. It is suggested that the purchase and the installation as well as the capturing of the action on the financial system of water- and prepaid electricity be continued as budgeted for.
- Areas where water tankers deliver water, or where communal taps are used or where no meters are installed because of a technical matter, until such time that water meters can be installed be levied a flat rate. That this principal be considered when cost reflective tariffs are calculated on the National treasury tool, be considered in April 2020.

- XIV. **Flat rate for those who receive water at water tanks and communal taps must be introduced.** The administrative handling problem on the how to charge and collect need to be considered.
- XV. **Revenue generation and the task of collection of arrears (debtors for the period 0-90 days), not the current debt collector, must be undertaken by the Credit control and debt collection section.** A detail review with legal based suggestions, by an external company registered in terms of the national credit act, (who is specialists in this field of collection and debt management) need to be undertaken, to ensure that full capacity can collect up to 100% of outstanding monies recorded.
- XVI. **The municipality need to ensure that all debt collection processes be concluded through an electronic debt management system.**
- XVII. That prescription of consumption to be investigated for late estates, child headed households and any other account that will not be collected. That it be noted that property rates and basic charges cannot be written off before 30 years expire.
- XVIII. That all vacant stands default accounts be handed over to Attorneys (Collection orientated).
- XIX. That an administrative charge for defaulters be calculated on every aspect of credit control and debt collection as to recover the cost of the credit control unit.

7. Table A5: Capital Budget: Statement of Performance:

Grant funding in the amount of R 292,052 million and internal capital funding in the amount of R 5, 783 million is to be considered:

Vote 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
Capital Expenditure - Functional											
Governance and administration		1 064	1 331	(2 999)	12 991	8 117	8 117	2 568	1 890	2 508	2 040
Executive and council		1 051	1 331	2 171	210	1 450	1 450	-	-	555	-
Finance and administration		13	-	(5 170)	12 781	6 667	6 667	2 568	1 890	1 952	2 040
Internal audit											
Community and public safety		2 018	-	6 441	4 664	3 922	3 922	1 707	10 817	11 293	11 801
Community and social services		839	-	41	2 300	300	300	60	10 817	11 293	11 801
Sport and recreation		235	-	-	2 364	1 170	1 170	524	-	-	-
Public safety		944	-	1 230	-	2 452	2 452	1 122	-	-	-
Housing											
Health		-	-	5 170	-	-	-	-	-	-	-
Economic and environmental services		22 938	-	-	58 813	19 000	19 000	8 691	19 964	20 842	21 780
Planning and development		1 994	-	-	3 030	-	-	-	-	-	-
Road transport		20 944	-	-	55 583	19 000	19 000	8 691	19 964	20 842	21 780
Environmental protection											
Trading services		54 886	2 478	-	167 656	197 542	197 542	223 728	265 164	286 087	289 289
Energy sources		6 289	898	-	30 500	34 792	34 792	11 823	3 826	13 250	4 174
Water management		6 337	-	-	87 080	111 087	111 087	187 882	183 575	191 652	200 277
Waste water management		40 078	-	-	50 000	49 187	49 187	21 657	75 096	78 401	81 929
Waste management		2 182	1 580	-	76	2 476	2 476	2 365	2 667	2 784	2 909
Other											
Total Capital Expenditure - Functional	3	80 905	3 809	3 442	243 924	228 581	228 581	236 693	297 835	320 730	324 910
Funded by:											
National Government		71 901	-	5 170	199 069	188 936	188 936	222 837	292 052	314 294	318 765
Provincial Government		-	-	-	-	-	-	-	-	-	-
District Municipality		-	-	-	-	-	-	-	-	-	-
Transfers recognised - capital	4	71 901	-	5 170	199 069	188 936	188 936	222 837	292 052	314 294	318 765
Borrowing	6	-	-	-	-	-	-	-	-	-	-
Internally generated funds		9 004	3 809	(1 728)	44 856	39 645	39 645	13 857	5 783	6 436	6 145
Total Capital Funding	7	80 905	3 809	3 442	243 924	228 581	228 581	236 693	297 835	320 730	324 910

The Capital program financed from grant funding suggested is attached as Annexure C

It is suggested that the Council do not consider internal funded capital projects, except the purchases of water and electricity meters, purchasing of handheld meter reading gadgets and the subsidising of mainly MIG funded Waste compactor truck to be acquired in 2022/2023. The cash flow situation does not allow internal funded projects as the budget is not cash backed.

8. TARIFFS TO BE CONSIDERED FOR 2022/2023- Annexure A

The operational and capital budget is currently not cash backed. The municipality is however required by legislation to approve a set of tariffs 30 days before implementation. The undermentioned tariffs therefore need to be considered based on National treasury affordable guidelines, Nersa guidelines and is not based on a cost recovery basis but is based on affordable rates in the trying times where the economy is struggling after the Covid 19 pandemic.

To review the municipal tariffs together with the budget for the 2022-2023 financial year as categorised on the proposed structure.

8.1 BACKGROUND

In terms of section 64 of Municipal finance management act-The accounting officer is responsible for the management of revenue of the municipality.

- That the revenue due to the municipality is calculated monthly
- That accounts for municipal tax and charges for municipal services are prepared monthly, or less often as may be prescribed where monthly accounts are uneconomical.
- That the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed.

8.2 DISCUSSION

Municipal billing / accounts which according to chapter 9, Section 95, sub-sections, (d) and (e) of Municipal systems act 32 of 2000 states that:

In relation to the levying of rates and other taxes by a municipality and the charging of for municipal services, a municipality must, within its financial and administrative capacity intends to review the current tariff structure particularly on property rates and services for example, water and electricity with the aim to proper and affordable billing which will also benefit the community:

Proposed changes in the current tariff structure are as follows:

8.2.1 PROPERTY RATES

Rates determination for 2022/23 Financial Year: -

There is a general increase of 5% on Property rates effective from 01 July 2022,

1. In terms of a Council resolution that was taken in 2020/21 the Council approved a reduction of 5% per year until the current 15% rebate was discounted. For 2021/2022 the rebate on all residential properties has decreased from 15% to 10% with effect from 01 July 2022,
2. The first R15 000 of the Market Value of a property assigned in the valuation roll or supplementary valuation roll of a Municipality for all residential properties would be exempted as per section 17(1)(h) of the Municipal Property Rates Act,
3. Those not registered as indigent is receiving a rebate on a maximum of R 55 000. (R First 15 thousand is impermissible)
4. All registered indigents property owners will receive a further R55 000 in addition to R15 000 exemption as stated in section 17(1)(h) of MPRA; which means R70 000 of the market value of a property assigned in the valuation roll or supplementary valuation roll of a Municipality will not pay rates.
5. Rebate on all Agricultural properties will remain at 10%

8.2.2 ELECTRICITY TARIFFS

Electricity tariff increase is 7.47% as per the suggested tariff structure in Annexure A, subject to final NERSA approval of which the municipality will implement from the 1 July 2022

8.2.3 WATER TARIFFS

Msukaligwa municipality has benchmarked with other municipality and the outcome reflected that the municipality current step tariff that is up to nine incline block steps tariff need to be addressed

The suggested tariff for residential consumers is mentioned below:

Kilolitres	2021/2022 per kl	Increase per kl (6%)	New step tariff suggested (kl)	Suggested tariff 2022/2023 per kl
Indigent	R0.00	R0.00	0-6	R0.00
1-6	R10.11	R0.89	1-6 kl	R11.00
3	R21.35	R21.35	7-20 kl	R 22.00
3	R22.47	R22.47	21-35 Kl	R 32.00
6	R26.97	R4.97	36-60 kl	R 40.00
7	R30.34	R1.66	> 60 kl	R 66.00
75	R52.81	R52.81		

The suggested tariff for business consumers is mentioned below

Kilolitres	2021/2022 per kl	Increase per kl (6%)	New step tariff suggested (kl)	Suggested tariff 2022/2023 per kl
1-6	R 26.97		1-6 kl	R 35.00
3	R 26.97		36-100 kl	R 59 00
3	R 28.09		➤ 100 Kl	R 65.00
6	R 30.34			
75	R 55.06			
100	R 64.05			

8.3 FINANCIAL IMPLICATION: 2022/2023

The municipality will receive an additional revenue of 5% on the property rates because of the 15% which have been reduced to 10%. Currently the revenue is R 60,372 million based on 15% discount. Reducing the rebate to 10% will improve the revenue to R 67,116 million that imply an additional revenue in the amount of R 6,744 million

In the case of water, the revenue implication of the suggested minimizing of the step tariff will only be known after the interim meter readings for the last 12 months were corrected by actual water meter readings that is currently underway.

Revenue budgeted for water sales is possible not credible as possible overcharging took place in many instances over a period of 12 months.

It is suggested that a cost recovery model, as suggested by national treasury be implemented after a period of 6 months starting 1 July 2022 to coincide with the adjustment budget.

9. BUDGET RELATED POLICIES

- **Budget related policies must be reviewed annually. See attached annexures for budget related policies**
- **That it be noted that the Budget related policies and accompanied by-laws were not yet reviewed in March /April 2022 as was scheduled and that amendments be included during the finalisation of the budget in May 2022**
 - a) *Tariff policy*
 - b) *Property rates policy*
 - c) *Creditor's control and debt collection policy*
 - d) *Cash management and investment policy*
 - e) *Asset management policy*
 - f) *Budget policy*
 - g) *Writing off bad debts, advance payments, and impairment of debtor's policy*
 - h) *Indigent policy*
 - i) *Petty cash policy*
 - j) *Supply chain management policy*

8. RECOMMENDATIONS BY THE ACTING MUNICIPAL MANAGER

- 8.1 That the Mayoral committee to **TAKE NOTE** of the content of the 2022/23 to 2024/2025 MTREF budget report is unfunded, and that the operational and capital expenditure as mentioned above
- 8.2 That the Mayoral committee to **TAKE NOTE** That the 2022/23 to 2024/2025 MTREF is not cash backed by R 187,011 million and that the budget be **REFERRED as to BE REWORKED**
- 8.3 That the Mayoral committee to **TAKE NOTE** of the 2022/23 to 2024/2025 MTREF budget report is unfunded by **R 1,326 million**
- 8.4 That the Mayoral committee to **TAKE NOTE** of the 2022/23 to 2024/2025 MTREF five-year budget funding plan that was approved by Council and **BE REAFFIRMED**
- 8.5 That the Mayoral committee to **TAKE NOTE AND APPROVE THE SUGGESTED TARIFFS** of the 2022/23 financial year to be implemented from 1 July 2022 as per Annexure A
- 8.6 That the Mayoral committee to **TAKE NOTE AND APPROVE THE SUGGESTED Capital program to be funded from grant funding** of the 2022/23 financial year to be implemented from 1 July 2022 as per Annexure B
- 8.7 That the Mayoral committee to **TAKE NOTE** of the internal capital funding projects requested and Critical positions required but **NOT INCLUDED** in the 2022/23 financial year as per Annexure C as the **BUDGET PRESENTED is not cash backed at this stage.**
- 8.8 Mayoral committee to **TAKE NOTE** of the 2022/23 to 2024/2025 MTREF budget report assessment by Provincial Treasury Annexure D
- 8.9 That the Mayoral committee to **RECOMMENDS** for **APPROVAL** of the 2022/23 to 2024/2025 MTREF budget related policies (attached per Annexure E)
- 8.10 That the contents of MFMA Circulars 112 (6 December 2021) and 115 (4 March 2022) and the principals suggested within the unfunded draft 2022/23 MTREF budget report, as attached **BE CONSIDERED** as presented.