

ADJUSTED BUDGET

1. STRATEGIC TRUST

Sound Financial Management.

2. OBJECTIVE

Approval of the draft budget for the 2024/2025 financial year.

3. SUMMARY

(a) *Introduction*

In terms of section 15 of the MFMA, a municipality may, except where otherwise provided in the MFMA, incur expenditure only in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget.

This item is henceforth tabled to council in terms of section 16 of the Municipal Finance Management Act which stipulates that:

- (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 and
- (2) 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.

(b) *Background*

The municipality is experiencing tough financial times as a result of extremely low revenue collection coupled with decreasing capital transfers from national government and operational grants that are growing very slow. Hence, there is a need, now more than ever, for the municipalities to focus on collecting revenues owed and eliminate wasteful and non-core spending. The Municipality must decisively address unfunded budgets by reducing non-priority spending and improving revenue management processes to enable collection. Potential service delivery failures must be mitigated by ensuring adequate maintenance, upgrading and renewal of existing assets to enable reliable service delivery, however, the municipality finds itself without sufficient funds to carry out the required maintenance.

The setting of cost-reflective tariffs is a requirement of Section 74(2) of the Municipal Systems Act which is meant to ensure that municipalities set tariffs that enable them to recover the full cost of rendering the service. This forms the basis of compiling 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. The revenue increase for the

2024/25 FY has therefore been set at 5% across all services, except for property rates which remain unchanged.

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 is expiring soon with a new agreement yet to be finalised. An analysis of the macro economic factor indicates that any new agreement is unlikely to go above the current increase and hence the salary increase was calculated at 5.4% increasing the total salary bill to just over R 700m.

The municipality is under pressure to collect revenue for services delivered. The pressure emanates from the rather unusual financial situation the municipality is likely to find itself in of not having sufficient amounts in the bank at year end . While in the past, the municipality was able to rely on savings already in the bank, indications are that the municipality will have to collect the revenue during the budget year to fund the budget. The ability of customers to pay for services is declining and this means that a concerted effort will be required to collect the revenue. To ensure that the municipality remains financially viable, the municipality adopted the following core principles when compiling this 2023/24 Draft budget:

- Improving the effectiveness of revenue management processes and procedures.;
- 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;
- Ensuring value for money through the procurement process and standardisation of prices;
- Not taking on mandates belonging to other state organs and in particular allowing department and other state organs to be the ones incurring expenditures on their core mandates.

4. FINANCIAL IMPLICATIONS

The approved budget decreases by **-2.1%** from **R 2,563,195,000** to **R 2,509,343,288** with Operational Expenditure budgeted at **R 1,742,624,228.43** and Capital Expenditure at **R 766,719,000**. Table 1 below shows a summary of budget movements for the last two financial years.

TABLE 1: SUMMARY OF APPROVED BUDGETS FOR 2022/23 FY AND 2023/24 FY

	2022/23 FINAL BUDGET	2023/24 ADJUSTED BUDGET	2024/25 DRAFT BUDGET	% INCREASE / DECREASE
OPEX	R 1,435,592	1,851,215.00	1,742,624.00	-5.87%
CAPEX	R 789,191	R 711,980	R 766,719	7.69%
TOTAL BUDGET	R 2,224,783	R 2,563,195	R 2,509,343	-2.10%
Own Revenue	R 741,769	R 928,609	R 837,075	-9.86%
Grants	R 1,483,014	R 1,634,586	R 1,672,268	2.31%
TOTAL BUDGET	R 2,224,783	R 2,563,195	R 2,509,343	-2.10%

4.1 ADJUSTMENTS TO GRANTS RECEIVED IN TERMS OF DORA:

GRANT DESCRIPTION	2023/24 FY	2024/25 FY	% Increase/ Decrease
Municipal Infrastructure Grant	421,007,000.00	437,117,000.00	4%
Water Service Infrastructure Grant	53,486,632.00	40,000,000.00	-34%
Expanded Public Works Programme Incentive Grant	3,062,000.00	3,149,000.00	3%
Financial Management Grant	2,650,000.00	2,600,000.00	-2%
Equitable Share Grant	1,054,098,000.00	1,119,258,000.00	6%
INEP	16,682,579.00	4,093,000.00	-308%
EEDG		5,000,000.00	100%
RBIG capital	30,000,000.00	30,000,000.00	0%
Neighbourhood Development Partnership Grant	10,499,960.00	20,000,000.00	48%
Municipal Disaster Grants	43,100,000.00	11,051,000.00	-290%
	1,634,586,171.00	1,672,268,000.00	2%

NOTES

Transfers and subsidies, which are grants received from national treasury are decreasing as a general trend. A cause for concern is the EPWP grant which only allocated R3.1m while the municipality spends over R10m on EPWP.

Find attached annexures for referencing!

- **Annexure A:** DRAFT CAPEX BUDGET
- **Annexure B:** DRAFT OPEX BUDGET
- **Annexure C:** DRAFT REVENUE BUDGET

5. LEGAL IMPLICATION

Compliance with the MFMA and MPRA.

6. IMPLEMENTATION PLAN

The 2023/24 draft budget shall be taken through the process of public participation for further inputs from various stakeholders.

7. RECOMMENDATIONS

It is recommended that:

- a) Council approves the draft budget and draft municipal rates and tariffs for 2024/25 for public participation.
- b) The Municipal Manager submits the draft budget and draft municipal rates and tariffs to Provincial and National Treasury in hard copy and electronic copy.

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