



Fezile Dabi

District Municipality

FINAL ANNUAL BUDGET

2021/22 TO 2023/24

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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PART 1- ANNUAL BUDGET

1.1 MAYOR'S REPORT

1.1.1. Mayoral Budget Speech

The budget speech is on a separate budget.

1.2 COUNCIL RESOLUTIONS

On the 31 May 2021 the Council of Fezile Dabi District Municipality scheduled a meeting to approve annual budget for the year 2021/22.

(a) That the following policies are reviewed and no changes made.

- (i) Budget Reporting policy;
- (ii) Budget Virement policy;
- (iii) Funding and Reserves policy;
- (iv) Debtors Policy;
- (v) Infrastructure Policy;
- (vi) Banking and Investment policy;
- (vii) Assets Management Policy;
- (viii) Commitments Policy;
- (ix) Bad Debts Policy;
- (x) Provisions, Contingencies and Accrual Policy;
- (xi) Subsequent Events Policy;
- (xii) Unauthorized, Irregular and Fruitless and Wasteful Expenditure Policy

(b) That the following policies that are reviewed and changes were made.

(i) Supply Chain Management Policy; (Reviewed and changes were made as per SCM Model Policy) National Treasury Norms.

- Approval of the annual budget of the municipality, and specifically appropriately the amounts to different votes, and for single-year and multi-year capital expenditures note should be taken that Fezile Dabi district municipality does not have infrastructural assets and therefore multi-year budgeting on capital expenditure is not applicable)
- Approval of measurable performance objectives for the draft annual budget for each year of the medium term revenue and expenditure framework

(c) That the annual budget documentation for 2021/22 – 2023/24 as outlined in the budget regulations be submitted to National and Provincial government or organ of state after approval by the Council.

The aforesaid information is set out in detail on Circular 107 & 108 Schedule A1 Version 6.5–mSCOA Implementation March 2021 budget tables, other supporting documents.

1.3 EXECUTIVE SUMMARY AND BUDGET ASSUMPTIONS

MFMA Circulars (Recent circular 108)

Introduction

This budget circular is a follow-up to the one issued in December 2020. It guides municipalities with their preparation of the 2021/22 Medium Term Revenue and Expenditure Framework (MTREF) and, as with previous annual budget circulars, it should be read within this context. This Circular is linked to the Municipal Budget and Reporting Regulations (MBRR) and the municipal Standard Chart of Accounts (mSCOA); and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved. The key focus of this Circular is the grant allocations per the 2021 Budget Review and the 2021 Division of Revenue Bill. Municipalities are reminded to refer to the previous years' annual budget circulars for guidance on budget preparation that is not covered in this circular.

1.3.1 The South African economy and inflation targets

The South African economy contracted by an estimated 7.2 per cent in 2020 compared with the 7.8 per cent contraction projected in the 2020 Medium Term Budget Policy Statement (MTBPS). The revised estimate results from easing lockdown restrictions in the third quarter and a faster-than-expected resumption of global growth, especially in China. The National Treasury projects real economic growth of 3.3 per cent in 2021, following an estimated contraction of 7.2 per cent in 2020. **Real GDP growth is expected to moderate to 1.9 per cent in 2022 and 2023.**

The outlook remains highly uncertain, and the economic effects of the pandemic are far reaching. There were 1.7 million fewer jobs by the third quarter of 2020 compared to the same period in 2019. Rising unemployment and income losses have entrenched existing inequalities. GDP is only expected to recover to pre-pandemic levels in late 2023. High-frequency data for the third quarter, such as the volume of electricity distributed, mining and manufacturing output, business confidence and the ABSA Purchasing Managers' Index (PMI) shows evidence of a limited economic rebound. Although growth rates are likely to improve quickly as restrictions are removed, based on current projections, the output is only expected to return to pre-pandemic levels in 2024.

Given South Africa's structural constraints, its recovery will be slower than many of its developing-country peers. Industrial sectors (which include mining, manufacturing, construction and utilities) lagged substantially, undermined by structural constraints including unreliable electricity supply and weak public investment that preceded the pandemic. Over the next several years, the country requires the implementation of long-standing structural reforms to sustainably move to a higher growth path. These economic challenges will continue to exert pressure on municipal revenue generation and collection levels; hence a conservative approach is advised for revenue projections. **The following macro-economic forecasts must be considered when preparing the 2021/22 MTREF municipal budgets.**

Other challenges facing Fezile Dabi District Municipality

- The corona virus outbreak (national and global)

- The continued negative effect of the economic downturn;
- The higher dependency on grants available for funding; operating grants and subsidies have marginally decreased by **3.5% from 2020/21 to 2021/22**.
- Overhead cost growing at a higher rate than income;
- Weaker outlook as a result of lower commodity prices, drought and diminished business and consumer confidence;
- Persistent high unemployed remains one of our pressing challenges;
- A provision for contribution to the capital replacement reserve (CRR) in the operating budget has been made in order to grow our reserve;

These circumstances make it essential for the municipality to reprioritize expenditure and implement stringent cost – containment measures.

TOTAL REVENUE BY SOURCE.

Reductions to municipal conditional grants by 3.5% from 2020/21 to 2021/22

In the Medium-Term Policy Budget Statement, the Minister of Finance indicated that R10.5 billion is required for the rescue plan for the **South African Airways**. Therefore, R613 million has been proportionately reduced across municipalities in respect of conditional grants while no reductions were made to the local government equitable share for the 2020/21 financial year.

These changes are shown in Schedule 4, Part B; Schedule 5, Part B and Schedule 6, Part B of the bill.

TOTAL REVENUE BY SOURCE	Annual Budget 2021/22	Budget Year 2022/23	Budget Year 2023/24
Operating Grants and Subsidies	172 525 000	173 694 000	173 212 000
Capital Grants	2 236 000	2 347 000	2 349 000
Exchange Revenue - External investments	5 000 000	5 220 000	5 454 900
Operational Revenue	210 000	219 240	229 106
Sales and Rendering of Services	30 000	31 320	32 729
Transfer from accumulated Surplus (CRR)	16 005 099	50 535 425	57 300 749
TOTAL	<u>196 006 099</u>	<u>232 046 985</u>	<u>238 578 484</u>

Revenue Notes

- Operating Grants and Subsidies are as per Division of Revenue Act (Gazetted 2021).
- Exchange Revenue: Interest on investment was calculated based on Current Interest rates taking Inflation into account.
- Operating revenue consist of telephone deductions from employees and, refund from insurance and skills levy from SETA.
- Sales and rendering of services consist of entrance fees for HIV Benefit concert and sale of tender documents.
- A transfer of R 16.0 million will be taken from the previous year's accumulated surplus account to balance the current financial year budgeted projections.

TOTAL EXPENDITURE BY SOURCE	Annual Budget 2021/22	Budget 2022/23	Budget Year 2023/24
Employees' Related Cost	130 691 000	140 740 596	147 073 923
Remuneration of Councillors	8 688 000	9 070 272	9 478 434
Depreciation and Amortization	2 250 000	3 132 000	3 272 940
Other Materials	2 400 900	2 315 592	2 419 794
Contracted Services	23 607 000	37 401 377	34 800 824
Transfers and Subsidy	3 830 000	6 483 240	6 774 986
Other Expenditure	23 909 199	31 629 755	33 053 094
Capital Expenditure	630 000	1 274 153	1 704 489
TOTALS	<u>196 006 099</u>	<u>232 046 985</u>	<u>238 578 484</u>

Expenditure Notes

- Employee related costs, The South African Local Government Bargaining Council entered into a three-year Salary and Wage Collective Agreement (15 August 2018) for the period 01 July 2018 to 30 June 2021 has come to an end. Salaries and wages increased by 4.00%
The previous years were:
 - 2020/21 Financial Year – average CPI of 4.9% (Feb 2019 – Jan 2020) + 1.25% per cent
 - 2019/20 Financial Year – 4.3% per cent
 - 2018/19 Financial Year – average CPI of 4.7% (Feb 2018 – Jan 2019) + 1 per cent
- Remuneration of councillors are in accordance with the Government Gazette on the Remuneration of the Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published by Department of Cooperative Governance.
- Depreciation and Amortisation was made as a provision for all council assets (CRR Policy)
- Other material projections is based on the current price of a litre of fuel plus average increase based on inflation and increased number of pooled Council Vehicles.
- Contracted services include amongst other things Auditor General fee, VAT Consultant, Annual Financial Statement preparation and Asset count. As well as Financial Management Grant to hire minimum of five interns in finance for a period not exceeding three years.
- Other expenditure includes wellbeing of Cllrs Funeral support and establishments of cooperatives as well as SMME Support.
- Other expenses for the 2020/2 were based on the departmental inputs in line with their IDP objectives of each department. The 2021/22 & 2021/22 calculations were based on Consumer Price Index of 4.2% 2022/23 and 4.4% 2023/24 published on the **MFMA Circular no. 108.**

- In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures.

1.4 ANNUAL BUDGET OVERVIEW OF THE 2021/22 MTREF

This section provides an overview of the Fezile Dabi District Municipality’s 2021/22 to 2023/24 MTREF. It includes an assessment of how the budget links with the national and provincial government context along with a view of the fiscal position of Fezile Dabi District Municipality.

The municipality’s budget must be seen within the context of the policies and financial priorities of national, provincial and local government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced at Fezile Dabi District Municipality. Fezile Dabi District Municipality cannot alone meet these challenges. It requires support from others spheres of Government through the direct allocation of resources as well as the achievement of their own policies.

According to Circular No 108, the following headline macro-economic forecast must be taken into consideration when preparing 2021/22 budgets and MTREF:

Fiscal Year	2020/21 Estimate	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
CPI Inflation	3.3%	3.9%	4.8%	4.8%
Real GDP growth	1.0%	1.00%	1.00%	1.00%

Source: 2020 Budget Review.

The budget process in Fezile Dabi District Municipality followed the requirements of the MFMA. A Table of key deadlines was prepared for tabling in Council by the Executive Mayor on the 30 August 2020.

A budget Committee was established to examine, review and prioritize budget proposals from departments.

The MFMA requires municipalities to set out measurable performance objectives when tabling their budgets. These “key deliverables” link the financial inputs of the budget to service delivery on the ground.

As a further enhancement to this, quarterly service targets and monthly financial targets are contained in the Draft Service Delivery and Budget Implementation Plan (SDBIP). This must be approved by the Mayor within 28 days after the approval of the final budget and forms the basis for the Municipality’s in year monitoring.

In view of the aforementioned, the following table is a consolidated overview of the proposed MTREF:

**Table 1 Consolidated Overview of the 2021/22 MTREF:
AGGREGATE TOTAL**

DETAILS	ORIGINAL BUDGET 2020/21	REVISED BUDGET 2020/21	ANNUAL BUDGET 2021/22	DIFFERENCE
Total Operating Income	176 999 000	183 089 000	180 001 000	(1.69 %)
Total Expenditure	190 321 150	195 423 850	196 006 099	0.30%
Surplus/(Deficit)	(13 322 150)	(12 334 850)	(15 375 099)	24.65%
Total Capital Expenditu	160 000	914 100	630 000	(31.08%)
Capital Replacement R	(160 000)	(914 100)	(630 000)	(31.08%)

The surplus/ (deficit) in the above table differs from that in the SA Tables, as the SA Tables does not take into account the appropriations.

For Fezile Dabi District Municipality to continue maintaining /improving the quality of services provided to its citizens it needs to generate the required revenue.

The municipality's revenue strategy is built around the following key components:
National Treasury's guidelines ,Circular No 85 & 86

**Table 2 Summary of Revenue Classes by Main Revenue Sources
SUMMARY OF INCOME BY SOURCE 2021/22**

DETAILS	ORIGINAL BUDGET 2020/21	REVISED BUDGET 2020/21	ANNUAL BUDGET 2021/22	DIFFERENCE
Exchange Revenue	8000 000	8 000 000	5 000 000	(37.50 %)
Operational Revenue	310 000	310 000	210 000	(32.26 %)
Transfers and Subsidies	165 343 000	172 543 000	172 525 000	(0.01 %)
Capital Grants	2 206 000	2 206 000	2 236 000	1.36%
Sales and Rendering Ser	1 140 000	30 000	30 000	0%
TOTAL INCOME	176 999 000	183 089 000	180 001 000	(1.69%)

The following table gives a breakdown of the various grants allocated to Fezile Dabi District Municipality over the medium term:

Table 3 Grants Allocation

Medium –Term Estimates

DETAILS	ORIGINAL BUDGET 2020/21	REVISED BUDGET 2020/21	ANNUAL BUDGET 2021/22
Equitable Share	12 970 000	12 970 000	11 809 000
Local Government Financial Management Grant	1 000 000	1 000 000	1 200 000

Municipal Systems Improvement Grant	-	-	3 290 000
Rural Roads Asset Management Systems Grant	2 206 000	2 206 000	2 236 000
Expanded Public Works Programme Integrated Grant			
RSC Levy Replacement Grants	148 073 000	148 073 000	152 226 000
Energy Efficiency & Demand Side Management Grant	3 000 000	2 700 000	4 000 000
TOTAL INCOME	167 549 000	174 749 000	174 761 000

1.4 – Operating Expenditure Framework

The expenditure framework for the 2021/22 budget and MTREF is informed by the National Treasury’s guidelines and the following:

Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;

Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA; Operational gains and efficiencies will be directed to funding the capital budget and other core services;

Strict adherences to the principle of no project plan no budget. If there is no business plan no funding allocation can be made.

The operating expenditure increased from **R194, 5million (2020/21) to R195.3 million in 2021/22 shows an increase of 0.45% that’s is below the prime lending and inflation rate.**

The following table is a summary of the 2021/22 MTREF (classified by main expenditure by category)

Table 4: Summary of operating expenditure by category

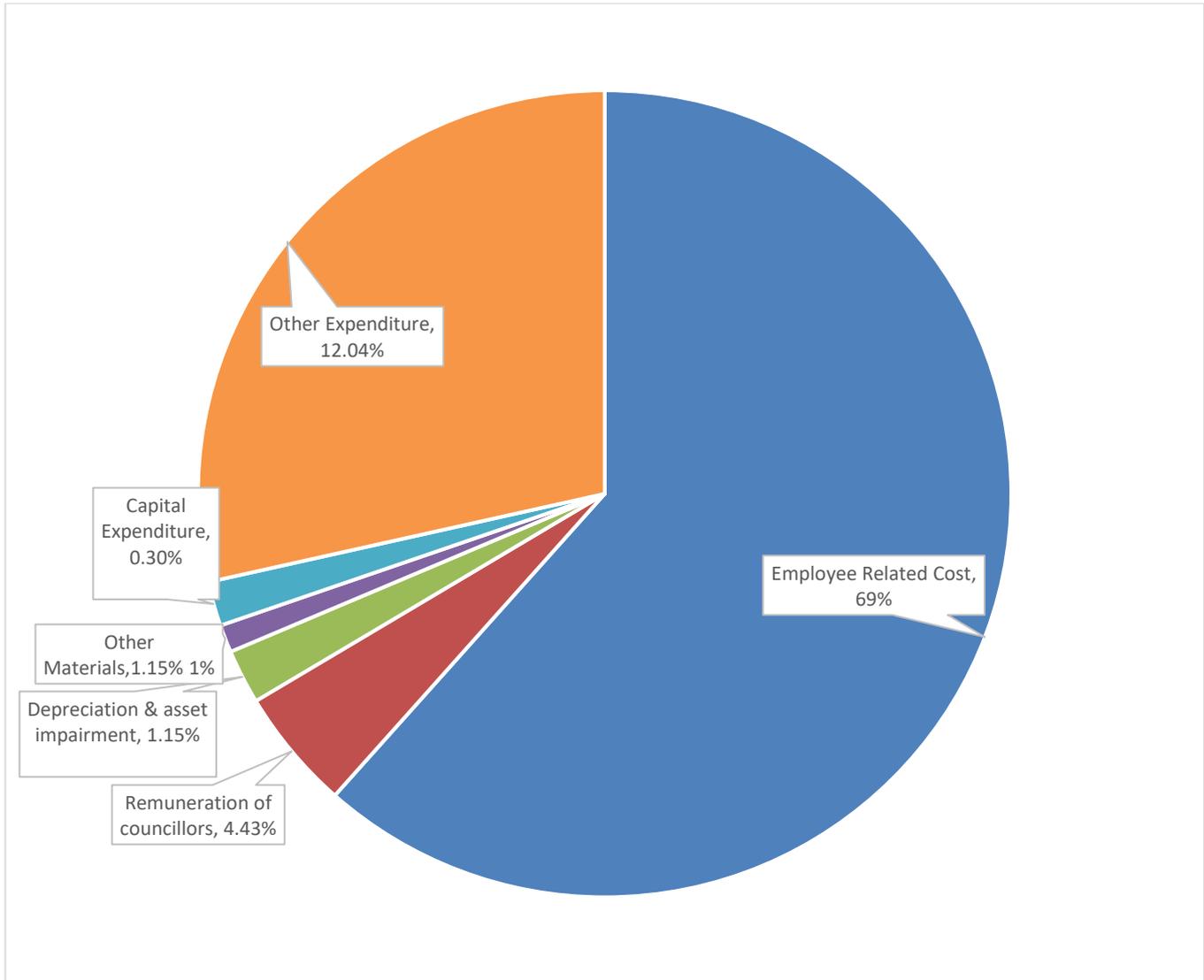
DETAILS	ORIGINAL BUDGET 2020/21	REVISED BUDGET 2020/21	ANNUAL BUDGET 2021/22	DIFFERENCE
Employee Related Cost	119 190 800	117 675 500	130 691 000	11.06%
Remuneration of councilors	8 758 000	8 758 000	8 688 000	(0.80%)
Depreciation & asset impairment	3 000 000	3 000 000	2 250 000	(25%)
Other Materials	2 035 900	2 155 900	2 400 900	(11.36 %)
Contracted Services	27 652 000	33 509 101	23 607 000	(29.55%)
Transfer and Subsidy	4 090 000	3 825 000	3 830 000	0.13%
General Expenditure	25 469 450	25 586 249	23 909 199	(6.55%)
TOTAL EXPENDITURE	190 161 150	194 509 750	195 376 099	0.45%

Expenditure Notes

- An increase has been made for all employee remuneration on estimation of consumer price inflation (3.9%) + and real GDP growth (1.25%) =4.00% increase. Based on the current agreement of labour unions and bargaining council.
- Councillor remuneration Remuneration of Public Bearers Act. On Aggregate increased by 0%
- Provision for depreciation and asset impairment is informed by the municipality's asset management policy.
- Other materials budget is based on the current cost of litre of petrol plus inflation but petrol cost fluctuate.
- Contracted Services consist of budgeted specialized skill that the institution need from outside consultants and specialized legal services.
- Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. This makes up 12.24% of operating expenditure.

The following table gives a breakdown of the main expenditure categories for the 2021/22 financial year.

Operating Expenditure Chart



Employee Related Cost	130 691 000	66.68 %
Remuneration of councillors	8 688 000	4.43%
Depreciation & asset impairment	2 250 000	1.15%
Other Materials	2 400 900	1.22%
Capital Expenditure	630 000	0.32%
General Expenditure	23 909 199	12.20%
Transfer and Subsidies	3 830 000	1.95%
Contracted Services	23 607 000	12.04%
TOTAL EXPENDITURE	196 006 099	

1.5 ANNUAL BUDGET TABLES

Background on the main budget tables

(Budget main tables A1 to A10)

- **Table A1** is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance). The table provides an overview of the amounts to be approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance.
- Financial management reforms emphasize the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
- The operating surplus/deficit (after Total Expenditure) is negative over the MTREF and is being funded from short term investments and positive bank balances.
- Capital expenditure is funded from internally generated funds (positive cash balances)
- Total revenue is R180.8 million in 2020/21 and escalates to R180, 0 million by 2021/22. This represents a year-on-year decrease of 3.54% for the 2022/23 financial year and 2.69% for the 2022/23 financial year.
- Transfers recognized: It needs to be noted that in real terms the grants receipts from national government are growing slightly over the MTREF by 3.03% (2018/19), 3.33% (2019/20), and 3% (2020/21)
- Capital Budget The capital budget decreased from R 914 100 (2020/21) to R 630 000 in 2021/22. Total capital budget will be spent on furniture; other equipment and for computer software.
- The Budget Committee went through several stages of prioritizing the capital budget to contain the budget within the available funding.

- **Table A2** is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification, the modified GFS standard classification divides the municipal services into 15 functional areas.
- Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enable the National Treasury to compile government's reports.

- **Table A3** is a view of the budgeted financial performance in relation to revenue and expenditure by vote

Table A3: Summary of operating expenditure by Vote

DETAILS	ORIGINAL BUDGET 2020/21	REVISED BUDGET 2020/21	ANNUAL BUDGET 2021/22	DIFFERENCE
Council General	12 861 000	12 956 000	11 418 000	(11, 87%)
Executive Mayor	14 145 000	12 792 000	12 088 350	(5.50%)
Speaker	8 068 000	8 411 000	8 509 000	1.17%
Mayoral Committee	4 016 000	3 961 000	3 983 000	0,56% /1.00%
Municipal Manager	27 138 480	27 493 700	31 333 000	13,96%
Finance	21 057 680	22 631 700	19 391 850	(14, 32%)
Information Technology	3 125 000	10 860 000	3 340 000	(69, 24%)
Project Management	11 903 650	10 605 650	13 096 800	23,49%
Corporate Support Service	24 908 680	26 644 700	27 069 899	1,60%
Fire & Emergency	12 615 000	11 918 000	12 661 000	6.23%
Disaster Management	5 294 000	4 362 000	5 396 000	23,70%
Local Economic Dev	15 803 368	14 037 700	16 030 500	14,20%
Environmental Health	24 684 380	22 841 300	26 789 700	17,29%
Environmental Management	4 540 600	4 529 000	4 269 000	(5.74%)
TOTAL EXPENDITURE BY VOTE	190 161 150	194 509 750	195 376 099	0.45%

- **Table A4** Total revenue is R174.7 million 2020/21 and escalates to R 174.4 million by 2021/22. This represents a year-on-year decrease of 3.00% for the 2022/23 financial year; 2.69% for the 2022/23 financial year and -0.13% 2023/24 financial year

- Transfers recognized-operating, includes the local government equitable share and levy replacement grant, other operating grants from national and provincial government.

- An increase has been made for all employee remuneration based on inflation plus real GDP growth 4.1% on the current agreement.
- Councillors remuneration: Remuneration of Public Bearers Act no Upper limit has been set to date the budget is based on actual estimate.
- Provision for depreciation and asset impairment is informed by the municipality's asset management policy.
- Other Materials major expense is petrol
- Capital expenditure comprises of office furniture and equipment has decreased dramatically. But when adding Rural Roads Management Grant this Category of expenditure show a slight increase
- General expenditure comprises of various line items relating to the daily operations of the municipality.

- **Table A5** is a breakdown of the capital programme in relation to capital expenditure by municipal vote (single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget.
- **Capital Budget** The capital budget decreased from R 914 100 (2020/21) to R 630 000 in 2021/22. Total capital budget will be spent on furniture; air conditioners.
- The Budget Committee went through several stages of prioritizing the capital budget to contain the budget within the available funding.
- The capital programme is funded from the Capital Replacement Reserve.

Table A5 & A5A is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

- An amount of R2 206 000 for 2020/21, R2 236 000 2021/22 and R2 347 000 2022/23 and R 2 349 000 for 2023/24 financial year is from national government for the Rural Roads Assets Management System within the District.

- **Table A6** is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
- Table 6 is supported by an extensive table of notes (SA3) providing a detailed analysis of the major components of a number of items,
- including:
 - Call investments deposits;
 - Property, plant and equipment;
 - Trade and other payables;
 - Provisions non-current;
 - Changes in net assets; and
 - Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
- Any movement on the budgeted financial performance or the capital budget will inevitably impact on the budgeted financial position

- **Table A7** budgeted cash flow statement is the first measurement in determining if the budget is funded, it shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

- The cash flow management and forecasting is a critical step in determining if the budget is funded over medium-term. The table above is consistent with international standards of good financial management practice and also improves understandability for councillors and management. Some specific features include:
 - Clear separation of receipts and payments within each cash flow category.
 - Clear separation of capital and operating receipts from government, also enables cash from “debtors and other” to provide for as cash inflow based on actual performance.
 - Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long-term borrowing (debt).

- The above table shows a decrease in the cash and cash equivalents to R107. million for 2021/22 financial year. The negative cash position will decrease to R95. million. In the past performances, the municipality used to have Positive cash flow position.

Decrease /Increase reconciliation

Opening balance R 107. Million
 Less capital expenditure (R 630) Thousand
 Less transfer to operations (R 12, 9) Million
 = Net cash at end of 2021 fin year 95. Million

- **Table 8** The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – funding a municipal budget in accordance with sections 18 and 19 of the MFMA. The 2020/21 budget is showing a positive outcome.
- From the above table it can be seen that the cash and investments available total R60.million in the 2021/22 financial year. The following is a breakdown of the application of this funding:
 - Unspent conditional transfers (grants) are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the revenue fund at the end of the financial year. In the past these have been allowed to ‘roll-over’ and be spent in the ordinary course of business, but this practice has been discontinued.
 - Provision for statutory requirements including VAT owing due to timing differences resulting from year-end obligations. The main purpose of other working capital is to ensure that sufficient funds are available to meet obligations as they fall due.
 - This liability is informed by all provisions.
 - The level of cash-backing is directly informed by the municipality’s cash backing policy.
 - It can be concluded that the council has a surplus against the cash backed and accumulated surpluses reconciliation.

- **Table A9 Assets Management** Capital expenditure comprises of office furniture and equipment has decreased dramatically.
- An amount of R2 318 000 for 2019/20, (2020/21) R2 206 000 and for (2021/22) R2 236 000 for 2022/23 R2 347 000 is from national government for the Rural Roads Assets Management System within the District.

- **Table A10** has not been completed as the district municipality does not render any basic services

PART 2- SUPPORTING DOCUMENTS

2.1 OVERVIEW OF ANNUAL BUDGET PROCESS

PAST ACTIVITIES	DATE
Approval of the consolidated IDP and Budget process plan by council	30 August 2020
Budget steering committee (S 72 report and working session on the Adjustment budget for 2020/21)	08 February 2020
Approval of the adjustment budget	26 February 2021
Publication of the Adjustment budget 2020/21 (Budget documents distributed in local libraries and local municipalities within the district)	05 March 2021
IDP steering committee	18 March 2021
Finance Portfolio committee meeting MPAC meeting (noting the tabling of the draft budget 2021/22)	24 March 2021
Mayoral committee meeting (noting the tabling of the draft budget 2021/22)	24 March 2021

PAST ACTIVITIES	DATE
IDP & Budget steering committee (ensuring a realistically funded Draft budget 2021/22)	19 March 2021 & 23 March 2021.
Council meeting (tabling of the draft budget 2021/22)	29 March 2021
Adherence to the internal MFMA compliance calendar for the Month of April (submission and publication of documents)	08 April 2021
Public Participation meetings (Draft IDP and Draft budget 2021/22)	29 April 2021 30 April 2021 06 and 07 May 2021
Budget steering committee meeting (consideration of the public participation report)	11 May 2021 the committee form quorum on the absence of mayoral committee members meeting postponed to sit on 13 May 2021
Finance Portfolio committee meeting	18 May 2021
Mayoral committee meeting (noting the approval of the annual budget 2021/22)	19 May 2021

Council meeting (approval of the annual budget 2021/22)	28 May 2021
Adherence to the internal MFMA compliance calendar for the Month of May 2021(submission and publication of documents)	14 June 2021

2.2 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

There is an active team in charge of the alignment on the strategic documents, which deals with the following; intergrated development planning, annual budgets, performance management, reporting, monitoring and evaluation.

SA4

This table shows the reconciliation of IDP strategic objectives and budget (revenue)

SA5

This table shows the reconciliation of IDP strategic objectives and budget (operating expenditure)

SA6

This table shows the reconciliation of IDP strategic objectives and budget (capital expenditure)

(supporting tables SA4, SA5, SA6)

2.3 MEASURABLE PERFORMANCE OBJECTIVES

Table SA7 is linked to Table A10 which outlines the basic service delivery measurement, no information has been captured on these tables, the information relates to household service targets on water, sanitation/ sewerage, energy and refuse.

2.4 OVERVIEW OF BUDGET-RELATED POLICIES

Council must take note that the following policies relate to the budget and its implementation:

Budget and Reporting Policy	(Reviewed no changes made)
Asset management Policy	(Reviewed no changes made)
Supply Chain Management Policy	(Reviewed and changes were made)
Budget Virement Policy	(Reviewed no changes made)
Banking and Investment Policy	(Reviewed no changes made)
Funding and reserves Policy	(Reviewed no changes made)

The above policies can also be accessed from www.feziledabi.gov.za

2.5 OVERVIEW OF BUDGET ASSUMPTIONS

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. Documentation of the assumptions used in preparing the budget assists understanding of the information. This section provides a comprehensive summary of all the assumptions used in preparing the budget.

Revenue assumptions

Operating grants and subsidies

In the Medium-Term Policy Budget Statement, the Minister of Finance indicated that R10.5 billion is required for the rescue plan for the **South African Airways**. Therefore, R613 million has been proportionately reduced across municipalities in respect of conditional grants while no reductions were made to the local government equitable share for the 2020/21 financial year.

These changes are shown in Schedule 4, Part B; Schedule 5, Part B and Schedule 6, Part B of the bill.

R 172,525,000

Operating grants and subsidies are as per the Division of Revenue Act

Interest earned on external investments

Investment	R 3 500 000
Interest on Current Account	R 1 500 000
Total Interest for the year	R 5 000 000

The interest earned on external investments is based on the assumption that the average interest rate range from 3 - 4, 8 % on the investments in the next financial year and these are short term investments.

Other Income

R 240 000

Description	Amount (R)
Insurance Claims Received	10 000.00
Skills levy- seta	0.00
Private Telephone Deductions	200 000.00
Tender deposits	30 000.00

Entrance Fees	0.00
TOTAL	240 000.00

Assumptions used for projecting some of the above figures are based on averaging methods and the most appropriate average was used to come up with the estimation

Sales on tender documents is expected to be as follows:

443 documents @ R50, 2 documents @ R250 and 12 documents @ R150 which gives a total of R 20 000 (**users of this document should take note of a rounding error amounting to R 20**)

Expenditure assumptions

An increase of 4.1% on employee's related costs (excluding updates on salary notches) and 0.00% on Remuneration of councilors has been applied; in the absence of other information contained in circular 107 and 108 which has been issued after the tabling of the National budget the aforesaid estimates are as per circular.

All other General and Capital Expenses have been budgeted in line with the user's Inputs, applying the combination of Zero-Based and Incremental Budgeting approaches, projected cost of living increase adjustments as well as taking into account previous years' circulars, circular 59, circular 74 and application of circular 75 and 80, 86 will also be effected as well during the steering committee session.

2.6 OVERVIEW OF BUDGET FUNDING

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

Realistically anticipates revenues to be collected

Cash- backed accumulated funds from previous years 'surpluses not committed for other purposes; and

Borrowed funds, but only for capital budget referred to in section 17(2)

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

Under old budget formats a 'balanced' income generated approach was key objective and this assisted in ensuring that outflows were matched by inflows, provided revenue collections were realistic . However, GRAP compliant budgets necessitate that budget 'balancing' be much more comprehensive.

New budgeting and accounting formats (mSCOA) demand that the budgeted Statement of Financial Performance, the Budgeted Statement of Financial Position and the Budgeted Statement of Cash Flows must be considered simultaneously to ensure effective financial management and sustainability to ensure that the budget is funded.

Total revenue

R 180 001 000

Table A7 and Table A8 - budget main tables indicate the detailed funding of the budget, derived from the said tables there is a **budget deficit amounting to R 16 005 099**, thus there was scheduled meeting from **19 and 23 of March 2021 (Budget steering committee) and for the final budget after public participation meetings/ the Budget Steering Committee held other meetings on the 11 and 13 May 2021** in order to ensure that the budget is funded from realistically anticipated sources of revenue and that prioritization takes place to avoid budget deficits.

Credible Budget

Amongst other things, a credible budget is a budget that:

Funds only activities consistent with the revised IDP and vice versa, ensuring the IDP is realistically achievable given the financial constraints of the municipality;

Is achievable in terms of agreed service delivery and performance targets;

Contains revenue and expenditure projections that are consistent with current and past performance and supported by documented evidence of future assumptions;

Does not jeopardize the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in short term, medium and long term);and

Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget set out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

2.7 EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

Table S A19

This table outlines the expenditure on transfers and grant programmes

(Please turn over for attached table S A19)

2.8 COUNCILLORS AND BOARD MEMBER ALLOWANCES AND EMPLOYEE BENEFITS

Table S A22

This table gives a summary of councilor and staff benefits (was updated in line with circular 99 issued recently)

Table S A23

This table gives a summary of salaries, allowances & benefits for political office bearers/councilors/senior managers (was updated in line with circular 99 issued recently)

Table S A24

This table gives a summary of personnel numbers (was updated in line with circular 99 issued recently)

(S A22, S A23 and S A 24)

MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

Table S A25

This table shows the consolidated budgeted monthly revenue and expenditure

Table S A26

This table shows the consolidated budgeted monthly revenue and expenditure by municipal vote

Table S A27

This table shows the consolidated budgeted monthly revenue and expenditure by standard classification

Table S A28

This table shows the consolidated budgeted monthly capital expenditure by municipal vote

Table S A29

This table shows the consolidated budgeted monthly capital expenditure by standard classification

Table S A30

This table shows the consolidated monthly budget cash flow

Table S A34a

This table show the capital expenditure on new assets by assets class

Table S A34c

This table shows the consolidated repairs and maintenance expenditure by assets class

Table S A34d

This table shows the consolidated depreciation by assets class

Table S A35

This table shows the consolidated future financial implication of the capital budget
Table S A36

This table shows the consolidated detailed capital budget

(S A25, S A26, S A27, S A28, S A29 and S A30)
(S A34a, SA34c, S A35and S A36)

2.9 ANNUAL BUDGETS AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLANS- INTERNAL DEPARTMENTS

The annual budget divided in quarterly periods and meant for strategic implementation will be contained in the draft SDBIP 2021/22.

2.10 CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

Contracts with future budgetary implications will be considered during the prioritizing process to take place and will be accounted for.

2.11 CAPITAL EXPENDITURE DETAILS

DEPARTMENTS AND DESCRIPTIONS	BUDGETED AMOUNT
Council General	
Furniture & Equipment	R 0
Executive Mayor	
Furniture & Equipment	R 0
Vehicles	R 0
Office of the Speaker	
Furniture & Equipment	R 0
Mayoral Committee	
Furniture & Equipment	R 0
Municipal Manager	
Furniture & Equipment	R 0
Financial Services	R 150 000
Vehicles	R 0
Replacement of Executive Mayor Vehicle	R 0
Information Technology	
IT Equipment	R 350 000

Project Management & Public Works	
Provision for Replacement of old Plant Property and Equipment	R 100 000
Reception waiting area at Mayor's office	R 0
Convert own building to be energy efficient Phase 1	R 0
Make provision to convert garage at Main Building into new records area	R 0
New Satellite Fire Station Building in Viljoenskroon	R 0
New Satellite Fire Station Building in Villiers	R 0
Corporate Support Services	
Furniture & Equipment	R 0
Fire Services	
Furniture & Equipment	R 0
Vehicles (grass fire unit for the District unimoq)	R 0
Fire Engine for the District and rescue equipment for local municipalities	R 0
Hazzmat Unit	R 0
Disaster Management	
Furniture & Equipment	R 100 000
Vehicles	R 0
Equipment	R 0
Local Economic Development	
Furniture & Equipment	R 10 000
Environmental Health and Emergency Services	
Sampling Equipment for Environmental Health Practioners	R 20 000
TOTAL	R 630 000

Table SA 15 & 16

Investment particulars by type

The investment that the municipality hold in 2021/22 financial year is estimated to the amount of R100 million which is re-invested to back up the following commitments.

- (i) Postretirement benefits obligation.
- (ii) Long service awards.
- (iii) Provision for Leave Sold.
- (iv) Retention creditors.
- (v) Unspent conditional grants.
- (vi) Trade payables.
- (vii) Accruals.
- (viii) Provision for VAT.

PART 2.1

Municipal Managers Quality Certificate

Enquiries: Mrs. Mdaka
Telephone: (016) 970 8625
E-mail address: nozukom@feziledabi.gov.za

QUALITY CERTIFICATE

I, Ms. Molibeli Lindi, Municipal Manager of Fezile Dabi District Municipality hereby certify that the 2021/2022 Annual Budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under that Act, and that the Annual Budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.

Print Name: _____
Municipal Manager of Fezile Dabi District Municipality (DC20)

Signature: _____

Date: _____

BUDGET POLICIES THAT ARE REVIEWED.

- (i) BUDGET REPORTING POLICY
- (ii) BUDGET VIREMENT POLICY
- (iii) SUPPLY CHAIN MANAGEMENT POLICY
- (iv) FUNDING & RESERVES POLICY
- (v) BANKING & INVESTMENT POLICY
- (vi) ASSETS MANAGEMENT & INFRASTRUCTURE POLICY

