



Fezile Dabi

District Municipality

DRAFT ANNUAL BUDGET

2023/24 TO 2025/26

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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PART 1- DRAFT ANNUAL BUDGET

1.1 MAYOR'S REPORT

1.1.1. Mayoral Budget Speech

The budget speech will be submitted with the **Final Budget** after the public participation meetings.

1.2 COUNCIL RESOLUTIONS

On the 29th March 2023 the Council of Fezile Dabi District Municipality scheduled a meeting to table draft annual budget for the year 2023/24.

(a) That the following policies are under-review and will be submitted to Council with the Final Budget on May 2023.

- (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

- Tabling of the annual draft 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)
- Tabling of measurable performance objectives for the draft annual budget for each year of the medium term revenue and expenditure framework

(b) That the annual budget documentation for 2023/24 – 2025/26 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 123,122 & 115 Schedule A1 Version 6.7– mSCOA Implementation March 2023 budget tables, other supporting documents.

1.3 EXECUTIVE SUMMARY AND BUDGET ASSUMPTIONS

MFMA Circulars (Recent circular 123)

Introduction

This budget circular is a follow-up to MFMA Circular No. 122 that was issued on 12 December 2022. It aims to provide further guidance to municipalities with the preparation of their 2023/24 Medium Term Revenue and Expenditure Framework (MTREF) budgets and should be read together with the budget circulars that have been issued previously

The key focus of this Circular is the grant allocations per the 2023 Budget Review and the 20223 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

- GDP is expected to grow by 0.9 per cent in real terms in 2023, compared with an estimate of 1.4 per cent at the time of the medium-term budget policy statement (MTBPS), recovering slowly to 1.8 per cent in 2025.
- The economic outlook faces a range of risks, including weaker-than-expected global growth, further disruptions to global supply chains and renewed inflationary pressures from the war in Ukraine, continued power cuts and a deterioration in port and rail infrastructure, widespread criminal activity, and any deterioration of the fiscal outlook.
- Government is taking urgent measures to reduce load-shedding in the short term and transform the sector through market reforms to achieve long-term energy security. Several reforms are under way to improve the performance of the transport sector, specifically freight rail and to improve the capability of the state.

The following macro-economic forecasts must be considered when preparing the 2023/24 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2021 - 2026 Fiscal year	2021/22	2022/23	2023/24	2024/25	2025/26
Actual		Estimate		Forecast	
CPI Inflation	4.9%	6.9%	5.3%	4.9%	4.7%

Other challenges facing Fezile Dabi District Municipality

- The continued negative effect of the economic downturn;
- The higher dependency on grants available for funding; operating grants and subsidies have marginally increased by **2, 32% from 2022/23 to 2023/24, while expenditure increased by more than 5.3%**.
- Overhead cost growing at a higher rate than income; petrol price is expected to increase by more than R3.00 per liter for the next coming three years.
- Weaker outlook as a result of lower commodity prices, drought and diminished business and consumer confidence;
- Persistent high unemployment 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 FOR 2023/2024 (MTREF).

1.1 Local government conditional grants allocations

Over the 2023 MTEF period, local government allocations will increase by a total of R14.3 billion, made up of R8.1 billion in the local government equitable share and R6.2 billion in direct conditional grants. This takes the total direct allocation to R521.7 billion over the same period. These allocations alleviate some of the financial pressures, particularly in basic services, where the costs of providing services are rising.

1.2 Equitable Share allocation

The local government equitable share and related allocations increases at an annual average rate of 7.8 per cent and municipal conditional grants increase by 3.5 per cent over the 2023 MTEF period.

The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the 2023 MTEF period. It also includes allocations for the operational and maintenance costs associated with the provision of free basic services.

The 2023 Budget has ensured that sufficient provision has been made to ensure that all municipalities are fully subsidised to support indigent households. Following this, R1.35 billion has been left unallocated in the LGES formula for 2023/24 to serve as a precautionary measure should municipal electricity tariffs exceed the 20.7 per cent provided for in the formula (see section 5.7 on why this is above the 18.7 per cent approved by the Energy Regulator). If the actual increase in municipal bulk tariffs exceeds the provision made in the formula, it will be the first call on those unallocated funds. We will consider funding broader cost relief measures for municipalities if funds remain available after that.

The **R6.2 billion** in direct conditional grants is funded from the Budget Facility for Infrastructure (BFI) and is broken down as follows:

□ **R2.2 billion** added to the Urban Settlements Development Grant to fund the implementation of projects in the eThekweni Metropolitan Municipality and the City of Johannesburg;

□ **R461 million** added to the Public Transport Network Grant to align funding with the revised implementation plan and cash flow projections for the City of Cape Town's MyCiTi public transport network project; and

□ **R3.4 billion** added to the Regional Bulk Infrastructure Grant to fund 3 water projects in Sol Plaatje Local Municipality, Drakenstein Local Municipality and Nelson Mandela Bay Metropolitan Municipality.

Notable changes to the conditional grants system

Housing emergency grants

Changes to conditional grants in the 2023 Budget include the discontinuation of the conditional emergency housing grants for provinces and municipalities. The baselines of these two grants are shifted to the Department of Human Settlements. This will allow the department to respond quickly in the event of an emergency housing need.

Changes to the INEP conditional grant frameworks

As part of government's efforts to accelerate access to electricity thereby addressing the energy crisis, Eskom and municipal INEP grants will begin funding alternative energy technologies such as rooftop solar and energy-saving devices. Due process must be followed to access funding for these new technologies. As a result, both Eskom and municipalities will need to conform to the set requirements by submitting business plans by 31 October 2023. These business plans, will need to be approved by the Department of Mineral Resources and Energy (DMRE) before they can be implemented. Priority should be given to new connections, i.e., non-grid technology should be targeted at households that do not have access to electricity.

The annual Division of Revenue Bill was published on **22 February 2023**. The Bill specifies the grant allocations and municipalities must reconcile their budgets to the numbers published therein in compiling their 2023/24 MTREF.

1.3 Conditional grants usage

Conditional grant funds may only be used for the purposes, and subject to the conditions specified in the framework for each conditional grant. These conditions are binding in terms of sections 11 and 12 of the annual Division of Revenue Act. Any instruction by a municipal, provincial, or national official or politician that is inconsistent with the framework of a conditional grant is invalid. Municipalities are reminded that in terms of section 32 of DoRA, spending of a grant that is inconsistent with DoRA is considered irregular or unauthorised expenditure.

TOTAL REVENUE BY SOURCE	Annual Draft Budget 2023/24	Budget Year 2024/25	Budget Year 2025/26
Operating Grants and Subsidies	178 571 000	185 525 000	192 142 000
Exchange Revenue - External investments	6 000 000	6 294 000	6 589 818
Operational Revenue	440 000	461 560	483 253
Sales and Rendering of Services	5 000	5 245	5 492
Transfer from accumulated Surplus (CRR)	1 486 680	3 345 506	2 615 890
TOTAL	<u>186 502 680</u>	<u>195 641 311</u>	<u>204 836 453</u>

Revenue Notes

- **Operating Grants and Subsidies** are as per Division of Revenue Act (Gazetted 23 February 2023).
- **Interest** was calculated based on current interest rates taking into account the projected increases in accordance with the Reserve Bank.
- **Operational revenue** consist of telephone deductions from employees, tender deposit and refund from insurance claims.
- **Sale of rendering** services consist of sale of tender documents.
- A budgeted deficit of **R 1, 4 million** will be taken from the **previous year's accumulated surplus account**.

TOTAL EXPENDITURE BY SOURCE	Annual Draft Budget 2023/24	Budget 2024/25	Budget Year 2025/26
Employees' Related Cost	130 913 680	137 328 450	143 782 887
Remuneration of Councillors	8 252 000	8 656 348	9 063 196
Depreciation and Amortization	4 670 000	4 898 830	5 129 075
Other Materials/ Inventory Consumed	3 007 000	3 154 343	3 302 597
Contracted Services	11 779 500	12 356 696	12 937 460
Transfers and Subsidy	3 690 000	3 870 810	4 052 738
Other Expenditure	24 190 500	25 375 835	26 568 499
Total Operating Expenditure	<u>186 502 680</u>	<u>195 641 311</u>	<u>204 836 453</u>
Income	(185 016 000)	(192 295 805)	(202 220 563)
Operational Deficit	1 486 680	3 345 506	2 615 890
Capital Expenditure	2 600 000	1 450 450	818 621
Assets Finance from Cap Rep Reserve	(2 600 000)	(1 450 450)	(818 621)
DEFICIT FOR THE YEAR	<u>(1 486 680)</u>	<u>(3 345 506)</u>	<u>(2 615 890)</u>

Expenditure Notes

- Employee related cost were increased by 5, 3% as per Bargaining Council. Including (GRAP 25) prescribed benefits of R3.5 million. Included on employee cost is R0, 9 million EPWP Remuneration.
- Remuneration of councillors remained the same. No SALGA increase Regulated for upper limits.
- Depreciation and Amortization is for all assets of the council.
- Other Material increased as a result of increase in price of Fuel (Specialized-Vehicles) on Fire Services and Petrol for general fleet. The higher increased is not yet taken into account.
- Contracted services consist of external audit fees as well as outsourced such as catering for internal meeting and external programmes. The other matters are continuing legal litigations against the Municipality.
- Other expenditure consist of accommodations and travelling of officials and telephones cost, printing and membership fees to SALGA, municipal rates and taxes and stationery for office use.
- Capital expenditure is for addition air-conditioners for offices, IT Equipment and data center equipment, Mayoral vehicle.
- 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 DRAFT BUDGET OVERVIEW OF THE 2023/24 MTREF

This section provides an overview of the Fezile Dabi District Municipality's 2023/24 to 2025/26 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 123, the following headline macro-economic forecast must be taken into consideration when preparing 2023/24 budgets and MTREF:

Fiscal Year	2021/22 Actual	2022/23 Estimate	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
CPI Inflation	4.9%	6.9%	5.3%	4.9%	4.7%
Real GDP growth					

Source: 03 March 2023 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 29th of August 2022.**

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 2023/24 MTREF:
AGGREGATE TOTAL**

DETAILS	ORIGINAL BUDGET 2022/23	REVISED BUDGET 2022/23	ANNUAL BUDGET 2023/24	DIFFERENCE
Total Operating Income	178 849 000	180 799 160	185 016 000	2, 33 %
Total Expenditure	(193 125 240)	(194 375 400)	(186 502 680)	(4.05%)
Surplus/(Deficit)	(14 276 240)	(13 576 240)	(1 486 680)	(89, 05%)
Total Capital Expenditu	1 320 000	2 750 000	2 600 000	(5, 45%)
Capital Replacement R	(1 320 000)	(2 750 000)	(2 600 000)	(5, 45%)

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 123 & 122

**Table 2 Summary of Revenue Classes by Main Revenue Sources
SUMMARY OF INCOME BY SOURCE 2023/24**

DETAILS	ORIGINAL BUDGET 2022/23	REVISED BUDGET 2022/23	ANNUAL DRAFT BUDGET 2023/24	DIFFERENCE
Exchange Revenue	5 000 000	5 000 000	6 000 000	20%
Operational Revenue	350 000	698 000	440 000	(36, 96 %)
Transfers and Subsidies	173 494 000	175 096 160	178 571 000	1, 98%
Sales and Rendering Ser	5 000	5 000	5 000	0%
TOTAL INCOME	178 849 000	180 799 160	185 016 000	2, 35%

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

- Interest earned show significant **increase of 20 %** when compared to the 2022/23 financial year.
- Operational revenue shows a significant **decrease of 36, 96%** when compared to previous years.
- Transfers and subsidies show a **slight increase of 1, 98** or 2 % this is bad because general inflation increased way beyond 5% for goods and services.
- Sales and rendering services shows **0% movement** this is because tenders has decreased as a result of low cash flow the municipality experiencing for the past and present financial year.

Table 3 Grants Allocation

Medium –Term Estimates

DETAILS	ORIGINAL BUDGET 2022/23	REVISED BUDGET 2022/23	ANNUAL DRAFT BUDGET 2023/24
Equitable Share	168 576 000	168 576 000	173 824 000
Local Government Financial Management Grant	1 300 000	1 300 000	1 300 000
Municipal Systems Improvement Grant			
Rural Roads Asset Management Systems Grant	2 341 000	2 341 000	2 350 000
Expanded Public Works Programme Integrated Grant	1 277 000	1 277 000	1 097 000
RSC Levy Replacement Grants			
Energy Efficiency & Demand Side Management Grant	0	1 602 160	0
TOTAL INCOME	173 494 000	175 096 160	178 571 000

1.4 – Operating Expenditure Framework

The expenditure framework for the 2023/24 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 decreased from **R194, 3million (2022/23) to R186, 6 million in 2022/23 shows a decrease of - 4, 12% that's is below the prime lending and inflation.**

The following table is a summary of the 2023/24 MTREF (classified by main expenditure by category

Table 4: Summary of operating expenditure by category

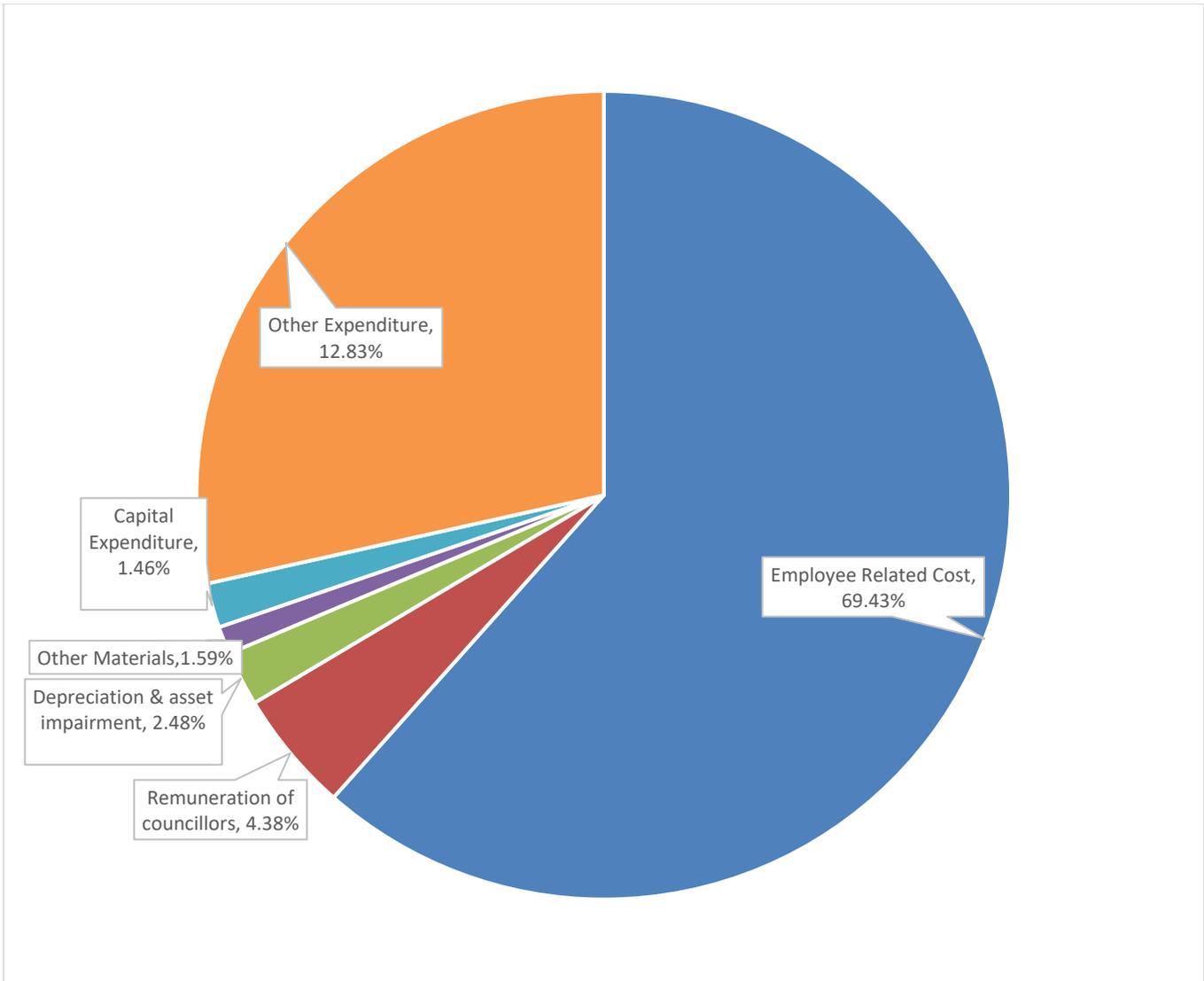
DETAILS	ORIGINAL BUDGET 2022/23	REVISED BUDGET 2022/23	ANNUAL DRAFT BUDGET 2023/24	DIFFERENCE
Employee Related Cost	132 240 660	123 391 000	130 913 680	6 ,10%
Remuneration of councilors	7 515 130	8 243 000	8 252 000	0 ,11%
Depreciation & asset impairment	1 953 000	5 367 440	4 670 000	(12, 99%)
Other Materials Inventories	2 759 900	4 120 700	3 007 000	(27, 01%)
Contracted Services	17 510 500	18 257 660	11 779 500	(35, 37%)
Tranfer and Subdidy	3 830 000	4 584 500	3 690 000	(19, 50%)
General Expenditure	24 896 050	27 661 100	24 190 500	(12, 55%)
TOTAL EXPENDITURE	192 025 240	191 625 400	186 502 680	(2, 67%)

Expenditure Notes

- Employee related cost were increased by 5, 3% as per Bargaining Council. Including (GRAP 25) prescribed benefits of R2, 3 million. Included on employee cost is R897 thousand EPWP Remuneration.
- Remuneration of councilors remained the same. No SALGA increase Regulated for upper limits.
- Depreciation and Amortization is for all assets of the council.
- Other Material increased as a result of increase in price of Fuel (Specialized-Vehicles) on Fire Services and Petrol for general fleet. The higher increased is not yet taken into account.
- Contracted services consist of external audit fees as well as outsourced caterers for both internal & external meetings. The other matters are continuing legal litigations against the Municipality.
- Other expenditure consist of accommodations and travelling of officials and telephones cost, printing and membership fees to SALGA, municipal rates and taxes and stationery for office use.
- Capital expenditure is for addition air-conditioners for offices, IT Equipment and data center equipment.
- 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.

The following table gives a breakdown of the main expenditure categories for the 2023/24 financial year.

Operating Expenditure Chart



Employee Related Cost	130 913 680	69.43%
Remuneration of councillors	8 252 000	4.38%
Depreciation & asset impairment	4 670 000	2.48%
Other Materials	3 007 000	1.59%
Capital Expenditure	2 600 000	1.46%
General Expenditure	24 190 500	12.83%
Transfer and Subsidies	3 690 000	1.96%
Contracted Services	11 779 500	6.25%
TOTAL EXPENDITURE	188 552 680	

1.5 ANNUAL BUDGET TABLES

Version 6.7 of the mSCOA Chart Go Live

Version 6.7 of the mSCOA chart will go live on 13 March 2023, where after tabled budget data strings can be uploaded on the GoMuni portal.

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 R178.8 million in 2022/23 and escalates to R180, 7 million by 2022/23. This represents a year-on-year increase of 1, 09% for the 2023/24 financial year and 2.33% for the 2023/24 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 2.33% (2023/24), 3.90% (2024/25), and 5.18% (2025/26)
- Capital Budget The capital budget decreased from R 2 750 000 (2022/23) to R 2 050 000 in 2023/24. Total capital budget will be spent on furniture; other equipment and for computer software and mayoral vehicle.
- 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 2022/23	REVISED BUDGET 2022/23	ANNUAL BUDGET 2023/24	DIFFERENCE
Council General	9 026 580	12 836 500	12 975 000	1,08%
Executive Mayor	8 851 250	9 090 250	8 585 500	-5,56%
Speaker	8 043 000	7 604 000	6 561 300	-13,72%
Mayoral Committee	3 773 800	2 889 000	4 085 300	41,40%
Municipal Manager	23 988 000	23 235 000	21 831 800	-6,04%
Municipal Manager Dir	3 045 120	2 012 000	1 963 180	-2,44%
Financial Services	20 845 000	24 794 750	21 557 800	-13,06%
Finance Director	2 455 280	875 500	1 882 260	115,09
Information Technology	3 593 000	4 632 440	4 697 200	1,40%
Project Management	7 140 650	6 693 000	6 318 400	-5,60
Local Municipalities Proj	2 341 000	3 943 160	2 341 000	-40,63
Corporate Support Service	31 162 000	31 610 000	29 209 100	-7,60%
Corporate Support Director	2 430 920	1 224 000	1 813 040	48,12%
Fire & Emergency	12 885 600	13 244 600	13 657 600	3,12%
Disaster Management	4 241 000	4 302 000	3 962 400	-7,90%
Local Economic Dev	16 100 000	15 656 000	14 977 700	-4,34%
Local Economic Director	2 322 920	750 000	1 722 760	129,60%
Environmental Health	22 930 200	20 652 200	22 348 000	8,21%
Environmental Health Direct	2 385 920	1 115 000	1 822 040	63,41%
Environmental Management	4 244 000	4 466 000	4 141 600	-7,28%
TOTAL EXPENDITURE BY VOTE	191 805 240	191 625 400	186 502 680	-2,67%

• **Table A4** Total revenue is R178.8 million 2022/23 and escalates to R 180.7 million by 2022/23. This represents a year-on-year increase of 1.09% for the 2023/24 financial year; 2.33% for the 2024/25 financial year and 3.93% to 5.16% 2025/26 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 of 5.3% plus real GDP growth 0.9% on the current agreement total increase is 5.4%.
- 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 2 750 000 (2022/23) to R 2 600 000 in 2023/24. Total capital budget will be spent on furniture; air conditioners and Mayoral vehicle
- 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.

- Capital expenditure is for addition air-conditioners for offices, IT Equipment and data center equipment.
 - IT Equipment – R 1000 000
 - Air conditioner – R 300 000
 - Fleet – R 700 000
 - Fire and emergency Equipment – R 400 000
 - Telephone System phase 2 – R 150 000
 - Furniture replacements – R 50 000
- An amount of R2 341000 for 2022/23, R2 350 000 2023/24 and R2 455 000 2024/25 and R 2 565 000 for 2025/26 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 R55.4 Million for 2023/24 financial year. The negative cash position will decrease to R55.0 Million. In the past performances, the municipality used to have Positive cash flow position.

Decrease /Increase reconciliation

Opening balance R 55, 4. Million
 Less capital expenditure (R 2, 0) Million
 Less transfer to operations (R 1, 4) Million
 = Net cash at end of 2023 fin year 52.0 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 2023/24 budget is showing a positive outcome.
- From the above table it can be seen that the cash and investments available total R55.0million in the 2022/23 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.
- Capital expenditure is for addition air-conditioners for offices, IT Equipment and data center equipment.
 - ✓ IT Equipment – R 1000 000
 - ✓ Air conditioner – R 300 000
 - ✓ Fleet – R 700 000
 - ✓ Fire and emergency Equipment – R 400 000
 - ✓ Telephone System phase 2 – R 150 000
 - ✓ Furniture replacements – R 50 000
- An amount of R2 341 000 for 2022/23, (2023/24) R2 350 000 and for (2024/25) R2 455 000 for 2025/26 R2 565 000 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	29 August 2022
Budget steering committee (S 72 report and working session on the Adjustment budget for 2022/23)	18 February 2023
Approval of the adjustment budget	27 February 2023
Publication of the Adjustment budget 2022/23 (Budget documents distributed in local libraries and local municipalities within the district)	March 2023
IDP & Budget steering committee	14 March 2023
Finance Portfolio committee meeting MPAC meeting (noting the tabling of the draft budget 2023/24)	15 March 2023
Mayoral committee meeting (noting the tabling of the draft budget 2023/24)	24 March 2023

PAST ACTIVITIES	DATE
IDP & Budget steering committee (ensuring a realistically funded Draft budget 2023/24)	14 March 2023.
Council meeting (tabling of the draft budget 2023/24)	29 March 2023
Adherence to the internal MFMA compliance calendar for the Month of April (submission and publication of documents)	01 April 2023
Public Participation meetings (Draft IDP and Draft budget 2023/24)	
Budget steering committee meeting (consideration of the public participation report)	
Finance Portfolio committee meeting	
Mayoral committee meeting (noting the approval of the annual budget 2023/24)	
Council meeting (approval of the annual budget 2023/24)	30 May 2023
Adherence to the internal MFMA compliance calendar for the Month of May	14 June 2023

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	(under Review)
Asset management Policy	(under Review)
Supply Chain Management Policy	(under Review)
Budget Virement Policy	(under Review)
Banking and Investment Policy	(under Review)
Funding and reserves Policy	(under Review)

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

Similar to the rest of government, municipalities face a difficult fiscal environment. The weak economic growth has put pressure on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, Water Boards and other creditors.

There is a need for municipalities to focus on collecting revenues owed to them and eliminate wasteful and non-core spending. It is important to note that the municipal equitable share as a policy instrument is meant to subsidise services to the poorest of the poor and not to pay municipal creditors. This bad practice by municipalities will have to be addressed as a matter of urgency. Municipal creditors should be advised that municipalities cannot use funds allocated for basic service provision to pay creditors.

Municipalities must ensure that they render basic services, maintain their assets and a clean environment. Furthermore, there must be continuous communication with the community and other stakeholders to strengthen awareness and participation and to improve the municipality's reputation. This will assist in attracting investment in the local economy which may result in increased employment.

Some municipalities are experiencing serious liquidity challenges. Therefore, the new leadership is advised to:

- decisively address unfunded budgets by reducing non-priority spending and improving revenue management processes to enable collection; and
- Address service delivery failures by ensuring adequate maintenance, upgrading and renewal of existing assets to enable reliable service delivery.

Funding Depreciation

The information shared in Circular 115 regarding the funding of the depreciation refers. It is important to note that depreciation represents the cost of using assets in service delivery and forms part of the total cost of providing the municipal service. Accordingly, it should be included in the setting of cost reflective tariffs to recover the full cost of rendering the service, failing which the depreciation will not be cash backed on Table A7 and will remain a journal entry with no value as mentioned in MFMA Circular No. 115.

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

R 178,571,000

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

Interest earned on external investments

Investment	R 4 500 000
Interest on Current Account	<u>R 1500 000</u>
Total Interest for the year	<u>R 6 000 000</u>

The interest earned on external investments is based on the assumption that the average interest rate range from 7, 50 % on the investments in the next financial year and these are short term investments.

Other Income (Operational and sales of goods /rendering of services revenue)

R 445 000

Description	Amount (R)
Operational Revenue	
Insurance Claims Received/Refund	10 000.00
Bad debts recovery	
Skills levy- seta	90 000.00
Private Telephone Deductions	340 000.00
Total Operational Revenue	<u>440 000.00</u>
Sales of goods and rendering of services	
Sale of :Tender Documents	5 000.00
Total Sales & Rendering of Services	<u>5 000.00</u>

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:

54 documents @ R50, and 2 documents @ R250 and 12 documents @ R150 which gives a total of R 5 000 (**users of this document should take note of a rounding error amounting to R 0**)

Expenditure assumptions

An increase of 5.4% 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 123 and 122 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 185 016 000

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 1 486 680**, thus there was scheduled meeting from **14 of March 2023 (Budget steering committee)** 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 2023/24.

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
Replacement of Telephone system	R 150 000
Replacement of Executive Mayor Vehicle	R 700 000
Furniture Replacement	R50 000
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	
Vehicles	R 0
Replacement of Executive Mayor Vehicle	R 0
Information Technology	
IT Equipment	R 350 000
Data Centre	R 650 000
Project Management & Public Works	
Provision for Replacement of old Air conditioners	R 300 000
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 (Moqhaka L/M)	R 0
New Satellite Fire Station Building in Villiers (Mafube L/M)	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 400 000
Disaster Management	
Furniture & Equipment	R 0
Vehicles	R 0
Equipment	R 0
Local Economic Development	
Furniture & Equipment	R 0
Environmental Health and Emergency Services	
Sampling Equipment for Environmental Health Practioners	R 0
TOTAL	R 2 600 000

Table SA 15 & 16

Investment particulars by type

The investment that the municipality hold in 2023/24 financial year is estimated to the amount of R55 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.

INVESTMENT BALANCES													
BANK NAME	ACC NUMBER	TYPE	Term (Days)	OPENING DATE	OPENING BALANCE 01/02/2023	RE-INVESTMENT/ DEPOSIT DURING THE MONTH	INTEREST RATE	ACTUAL INTEREST RECEIVED	ESTIMATED INTEREST RECEIVED	CLOSING BALANCE 28/02/2023	REDEMPTION/ WITHDRAWAL	DATE OF WITHDRAWAL	MATURITY DATE
NEDBANK	7288009165/17	Invest	28	01/02/2023	822 279		6.75	4 258		0	826 537	28/02/2023	
NEDBANK	7288009165/17	Invest	30	01/03/2023		826 537				826 537			31/3/2023
ABSA	2067390363	Invest	90	11/01/2023	14 958 174					14 958 174			11/03/2023
ABSA	2067390363	Invest	90	01/02/2023	0					0			
STANDARD	728670534/008	Invest	30	24/01/2023	8 534 386		7.25	53 813		0	8 588 200	23/02/2023	
STANDARD	728670534/008	Invest	30	24/02/2023		8 588 200	7.45			8 588 200			23/03/2023
STANDARD	728670534/006	Invest	30	28/01/2023	14 561 315		7.45	92 135.00		0	14 653 450	28/02/2023	
STANDARD	728670534/006	Invest	30	28/02/2023		14 653 450	7.45			14 653 450			28/03/2023
STANDARD	728670534/010	Invest	30	28/01/2023	16 166 736		7.45	105 505		0	16 272 241		
STANDARD	728670534/010	Invest	30	28/02/2023		16 272 241	7.45			16 272 241			28/03/2023
TOTAL					55 042 890	40 340 428		255 711	0	55 298 601	40 340 428		



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Aiming above the horizon

Municipal Managers Quality Certificate

Enquiries: Mrs. Morongwa Choshane
Telephone: (016) 970 8625
E-mail address: morongwam@feziledabi.gov.za

QUALITY CERTIFICATE

I, Mr. Sipho Thomas, Acting Municipal Manager of Fezile Dabi District Municipality hereby certify that the 2023/2024 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: Thomas Sipho _____
Acting Municipal Manager of Fezile Dabi District Municipality (DC20)

Signature: _____

Date: 17 March 2023 _____

BUDGET POLICIES THAT ARE UNDER REVIEW.

- (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

