

# Fezile Dabi

District Municipality

## **ANNUAL BUDGET**

2022/23 TO 2024/25

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 as a separate report from the Executive Mayors Office.

### **1.2 COUNCIL RESOLUTIONS**

On the 30 May 2022 the Council of Fezile Dabi District Municipality scheduled a meeting to approve the annual budget for the year 2022/23.

#### **(a) That the following policies have been 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

- 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 2022/23 – 2024/25 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 115,111 & 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 115)**

#### **Introduction**

This budget circular is a follow-up to MFMA Circular No. 112 that was issued on 06 December 2021. It aims to provide further guidance to municipalities with the preparation of their 2022/23 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 2022 Budget Review and the 2022 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 world economy is expected to grow by 4.4 per cent this year. This is lower than the 4.9 per cent that was anticipated when tabling the medium-term budget policy statement (MTBPS). The Omicron variant of the coronavirus caused many countries to impose restrictions to manage its spread. In addition, continued imbalances in global value chains have limited the pace of the world's economic recovery.

The South African economy has not been shielded from these global developments. National Treasury has revised South Africa's economic growth estimate for 2021 to 4.8 per cent, from 5.1 per cent at the time of the MTBPS.

This revision reflects a combination of the impact of changes in the global environment, along with South Africa's own unique challenges. Commodity prices, which have supported South Africa's economic recovery, slowed in the second half of 2021. Also, violent unrest in July, and restrictions imposed to manage the third wave of COVID-19 further eroded the gains South Africa made in the first half of the year. Industrial action in the manufacturing sector, and the re-emergence of loadshedding, also slowed the pace of the recovery.

Real Gross Domestic Product (GDP) growth of 2.1 per cent is projected for 2022. Over the next three years, GDP growth is expected to average 1.8 per cent. Headline inflation is expected to remain between 3 to 6 per cent target range over the 2022/23 MTEF.

In summary, the tax revenue in 2022/22 was higher than projections and this was mainly due to commodity price rally. However, these are projected to be short term, and as such long-term spending commitments should not be made based on short term revenue benefits. There are measures in place to reduce expenditure to narrow the budget deficit.

***The following macro-economic forecasts must be considered when preparing the 2022/23 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 1, 10% from 2021/22 to 2022/23, while expenditure increased by more than 4.8%.
- 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 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 FOR 2022/2023 (MTREF).

### **1.1 Local government conditional grants allocations**

Over the 2022 MTEF period, direct transfers to municipalities will grow above inflation, at an annual average rate of 7.9 per cent. Direct conditional grants grow at an annual average rate of 5.3 per cent over the MTEF, while the Local Government Equitable Share (LGES) grows faster, at an annual average rate of 10.3 per cent over the same period.

#### **1.1.1 Equitable Share allocation**

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

<b>TOTAL REVENUE BY SOURCE</b>	<b>Annual Budget 2022/23</b>	<b>Budget Year 2023/24</b>	<b>Budget Year 2024/25</b>
Operating Grants and Subsidies	171 153 000	176 479 000	180 862 000
Capital Grants	2 341 000	2 350 000	2 435 000
Exchange Revenue - External investments	5 000 000	5 220 000	5 454 900
Operational Revenue	350 000	365 400	381 843
Sales and Rendering of Services	5 000	5 220	5 455
Transfer from accumulated Surplus (CRR)	14 276 240	18 054 731	20 356 498
<b>TOTAL</b>	<b><u>193 125 240</u></b>	<b><u>202 474 351</u></b>	<b><u>209 495 696</u></b>

### Revenue Notes

- Operating Grants and Subsidies are as per Division of Revenue Act (Gazetted 23 February 2022).
- Capital grant is for Rural Roads Maintenance and Municipal Infrastructure Grant.

- 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 14, 2 million will be taken from the previous year's accumulated surplus account. The breakdown of the 14,2 million are as follows:
  - 1) R1,9 million is for Depreciation
  - 2) R1, 3 million is for newly acquired asset.
  - 3) R11, 0 million is for operational expenditure.

<b>TOTAL EXPENDITURE BY SOURCE</b>	<b>Annual Draft Budget 2022/23</b>	<b>Budget 2022/23</b>	<b>Budget Year 2023/24</b>
Employees' Related Cost	132 240 660	138 059 249	144 271 915
Remuneration of Councillors	7 515 130	7 845 796	8 198 857
Depreciation and Amortization	1 953 000	2 038 932	2 130 684
Other Materials/ Inventory Consumed	3 259 900	2 881 336	3 010 996
Contracted Services	17 430 500	18 280 962	19 103 605
Transfers and Subsidy	4 200 000	3 998 520	4 178 453
Other Expenditure	25 206 050	25 991 476	27 161 093
Capital Expenditure	1 320 000	1 378 080	1 440 094
<b>TOTALS</b>	<b>193 125 240</b>	<b>200 474 351</b>	<b>209 495 696</b>

### Expenditure Notes

- Employee related cost were increased by 4.9% as per Bargaining Council. Including (GRAP 25) prescribed benefits of R3, 5 million. Included on employee cost is R1, 02 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 VAT consultants assisting the municipality on (VAT reconciliation) with SARS. 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.

## **1.4 ANNUAL BUDGET OVERVIEW OF THE 2022/23 MTREF**

This section provides an overview of the Fezile Dabi District Municipality’s 2022/22 to 2024/25 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 115, the following headline macro-economic forecast must be taken into consideration when preparing 2022/23 budgets and MTREF:**

<b>Fiscal Year</b>	<b>2020/21 Actual</b>	<b>2021/22 Estimate</b>	<b>2022/23 Forecast</b>	<b>2022/23 Forecast</b>	<b>2023/24 Forecast</b>
CPI Inflation	2.9%	4.5%	4.8%	4.4%	4.5%
Real GDP growth					

Source: 04 March 2022 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 2021.

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 2022/23 MTREF:  
AGGREGATE TOTAL**

<b>DETAILS</b>	<b>ORIGINAL BUDGET 2021/22</b>	<b>REVISED BUDGET 2021/22</b>	<b>ANNUAL BUDGET 2022/23</b>	<b>DIFFERENCE</b>
Total Operating Income	180 001 000	180 758 401	178 849 000	(1.06 %)
Total Expenditure	196 006 099	196 763 500	193 125 240	(1,85% )
Surplus/(Deficit)	(15 375 099)	(10 878 698)	(12 956 240)	19,09%
Total Capital Expenditure	630 000	5 126 401	1 320 000	(74.25%)
Capital Replacement R	(630 000)	(5 126 401)	(1 320 000)	(74.25%)

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 115 & 111

**Table 2 Summary of Revenue Classes by Main Revenue Sources  
SUMMARY OF INCOME BY SOURCE 2022/23**

<b>DETAILS</b>	<b>ORIGINAL BUDGET 2021/22</b>	<b>REVISED BUDGET 2021/22</b>	<b>ANNUAL BUDGET 2022/23</b>	<b>DIFFERENCE</b>
Exchange Revenue	5 000 000	5 000 000	5 000 000	0%
Operational Revenue	210 000	456 000	350 000	(23.25 %)
Transfers and Subsidies	172 525 000	173 061 401	171 153 000	(1.10%)
Capital Grants	2 236 000	2 236 000	2 341 000	4.70%
Sales and Rendering Service	30 000	5 000	5 000	0%
<b>TOTAL INCOME</b>	<b>180 001 000</b>	<b>180 758 401</b>	<b>178 849 000</b>	<b>(1.69%)</b>

**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**

<b>DETAILS</b>	<b>ORIGINAL BUDGET 2021/22</b>	<b>REVISED BUDGET 2021/22</b>	<b>ANNUAL DRAFT BUDGET 2022/23</b>
<b>Equitable Share</b>	164 035 000	164 035 000	168 576 000
<b>Local Government Financial Management Grant</b>	1 200 000	1 200 000	1 300 000

<b>Municipal Systems Improvement Grant</b>			
<b>Rural Roads Asset Management Systems Grant</b>	2 236 000	2 236 000	2 236 000
<b>Expanded Public Works Programme Integrated Grant</b>			<b>1 277 000</b>
<b>RSC Levy Replacement Grants</b>			
<b>Energy Efficiency &amp; Demand Side Management Grant</b>	4 000 000	4 000 000	0
<b>TOTAL INCOME</b>	<b>174 761 000</b>	<b>175 297 401</b>	<b>173 494 000</b>

#### **1.4 – Operating Expenditure Framework**

The expenditure framework for the 2022/23 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 **R195, 3million (2021/22) to R191, 8 million in 2022/23 shows a decrease of -1, 79% that’s is below the prime lending and inflation rate while expenses such as employee related cost increased about 5% including benefits.**

The following table is a summary of the 2022/23 MTREF (classified by main expenditure by category)

**Table 4: Summary of operating expenditure by category**

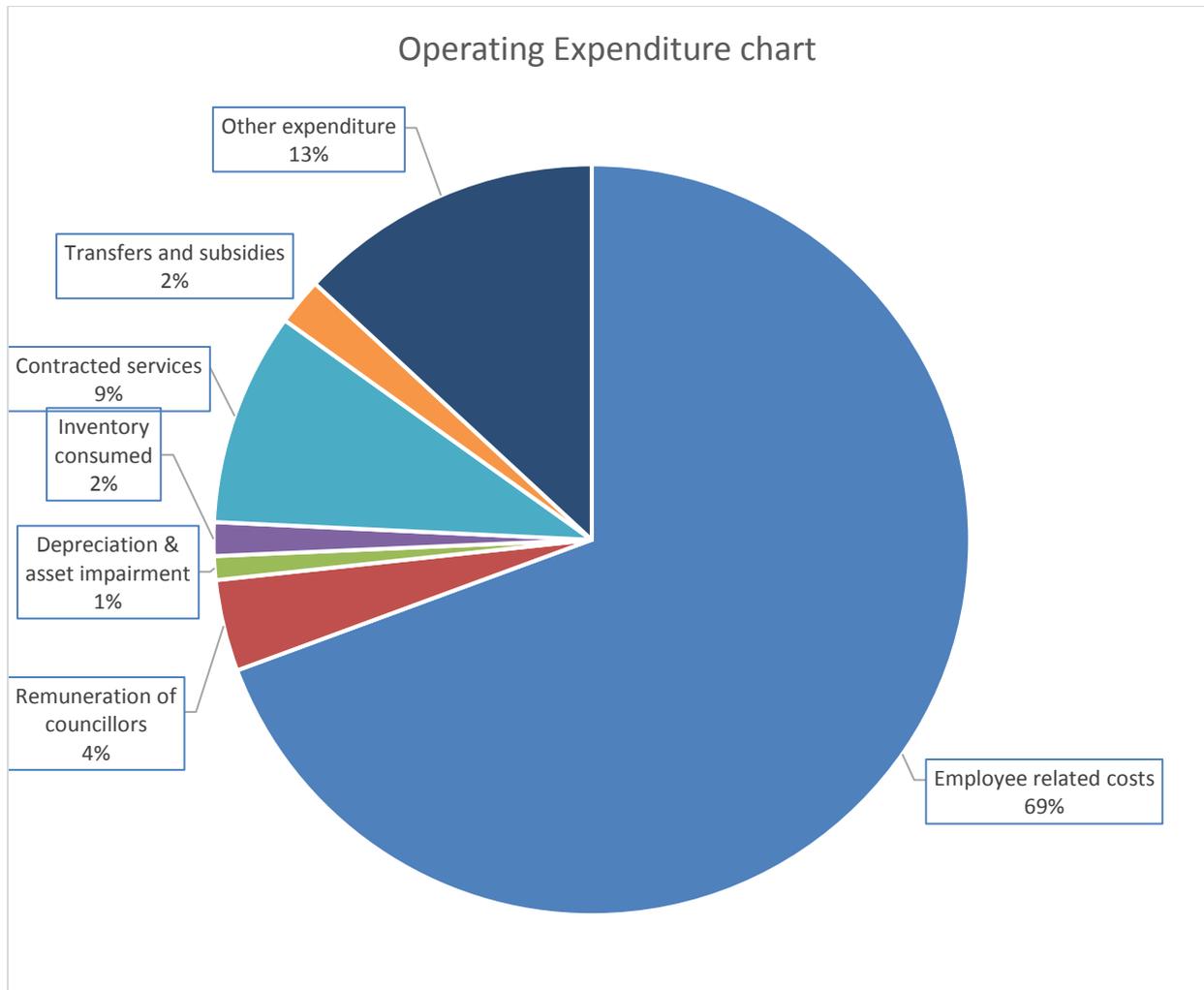
<b>DETAILS</b>	<b>ORIGINAL BUDGET 2021/22</b>	<b>REVISED BUDGET 2021/22</b>	<b>ANNUAL BUDGET 2022/23</b>	<b>DIFFERENCE</b>
Employee Related Cost	130 691 000	125 306 380	132 240 660	(5.53%)
Remuneration of councilors	8 688 000	8 593 000	7 515 130	(12.54%)
Depreciation & asset impairment	2 250 000	3 433 000	1 953 000	(43.11%)
Other Materials Inventories	3 100 900	2 803 400	3 259 900	17.35 %
Contracted Services	22 357 000	23 240 620	17 430 500	(24.99%)
Transfer and Subsidy	4 030 000	4 080 000	4 200 000	2,94%
General Expenditure	24 259 199	24 180 699	25 206 050	4.24%
<b>TOTAL EXPENDITURE</b>	<b>195 376 099</b>	<b>191 637 099</b>	<b>191 805 240</b>	<b>0.09%</b>

### Expenditure Notes

- Employee related cost were increased by 4.9% as per Bargaining Council. Including (GRAP 25) prescribed benefits of R3.5 million. Included on employee cost is R1, 02 million 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 VAT consultants assisting the municipality on (VAT reconciliation) with SARS. 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 2022/23 financial year.

### Operating Expenditure Chart



Employee related costs	132 240 660	68,94%
Remuneration of councillors	7 515 130	3,92%
Depreciation & asset impairment	1 953 000	1,02%
Inventory consumed	3 259 900	1,70%
Contracted services	17 430 500	9,09%
Transfers and subsidies	4 200 000	2,19%
Other expenditure	25 206 050	13,14%
<b>Total Expenditure</b>	<b>191 805 240</b>	

## **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, 0 million in 2021/22 and decreased to R178, 8 million by 2022/23. This represents a year-on-year decrease of 0.64% for the 2022/23 financial year and 3.12% increase 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 3.03% (2018/19), 3.33% (2019/20), and 3% (2020/21)
- Capital Budget The capital budget increased from R 630 000 (2021/22) to R 1 320 000 in 2022/23. Total capital budget will be spent on furniture; other equipment, infrastructure 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**

<b>DETAILS</b>	<b>ORIGINAL BUDGET 2021/222</b>	<b>REVISED BUDGET 2021/22</b>	<b>ANNUAL BUDGET 2022/23</b>	<b>DIFFERENCE</b>
Council General	11 418 000	10 784 000	9 026 580	(16.30%)
Executive Mayor	12 088 350	10 278 350	8 851 250	(10.19%)
Speaker	8 509 000	6 896 000	8 043 000	17.65%
Mayoral Committee	3 983 000	3 983 000	3 773 800	5.25%
Municipal Manager	31 333 000	27 390 180	27 033 120	1.30%
Finance	19 391 850	24 949 970	23 300 280	(6.61%)
Information Technology	3 340 000	3 845 000	3 593 000	(6.55%)
Project Management	13 096 800	12 332 800	9 481 650	23.12%
Corporate Support Service	27 069 899	29 202 499	33 592 920	14.73%
Fire & Emergency	12 661 000	12 426 000	12 885 600	4.48%
Disaster Management	5 396 000	4 199 000	4 241 000	1.0%
Local Economic Dev	15 930 500	16 006 620	18 422 920	15.09%
Environmental Health	26 889 700	24 934 680	25 316 120	1.53%
Environmental Management	4 269 000	4 409 000	4 244 000	(3.74%)
<b>TOTAL EXPENDITURE BY VOTE</b>	<b>195 376 099</b>	<b>191 637 099</b>	<b>191 805 240</b>	<b>0.04%</b>

- **Table A4** Total revenue is R180.0 million 2021/22 and escalates to R 178.8 million by 2022/23. This represents a year-on-year decrease of 0.64% for the 2022/23 financial

year; an increase of 3.11% for the 2023/24 financial year and 2.56% 2024/25 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 4.9% 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 program 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 increased from R 630 000 (2021/22) to R 1 320 000 in 2022/23. 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 program is funded from the Capital Replacement Reserve.

**Table A5 & A5A** is a breakdown of the capital program 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 236 000 2021/22, R2 341 000 2022/23 and R2 350 000 2023/24 and R 2 435 000 for 2024/25 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 councilors 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 R97 million for 2022/23 financial year. The negative cash position will decrease to R65 million. In the past performances, the municipality used to have Positive cash flow position.

**Decrease /Increase reconciliation**

Opening balance                    R 79 Million  
 Less capital expenditure (R1.32) Thousand  
 Less transfer to operations (R 1.8) Million  
 = Net cash at end of 2021 fin year 65 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 2021/22 budget is showing a positive outcome.
- From the above table it can be seen that the cash and investments available total R97 million 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.
- An amount of R2 236 000 2021/22, R2 341 000 2022/23 and R2 350 000 2023/24 and R 2 435 000 for 2024/25 financial year 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**

<b>PAST ACTIVITIES</b>	<b>DATE</b>
Approval of the consolidated IDP and Budget process plan by council	30 August 2021
Budget steering committee (S 72 report and working session on the Adjustment budget for 2020/21)	17 February 2022
Approval of the adjustment budget	25 February 2022
Publication of the Adjustment budget 2022/23 (Budget documents distributed in local libraries and local municipalities within the district)	24 March 2022
IDP steering committee	18 March 2022
Finance Portfolio committee meeting MPAC meeting ( noting the tabling of the draft budget 2022/23)	24 March 2022
Mayoral committee meeting ( noting the tabling of the draft budget 2022/23)	25 March 2022

<b>PAST ACTIVITIES</b>	<b>DATE</b>
IDP & Budget steering committee (ensuring a realistically funded Draft budget 2022/23)	18 March 2022 & 22 March 2022.
Council meeting (tabling of the draft budget 2022/23)	29 March 2022
Adherence to the internal MFMA compliance calendar for the Month of April (submission and publication of documents)	08 April 2022
Public Participation meetings (Draft IDP and Draft budget 2022/23)(Proposed dates)	07 April 2022 11 April 2022 12 April 2022 13 April 2022
Budget steering committee meeting (consideration of the public participation report)	13 May 2022
Finance Portfolio committee meeting	16 May 2022
Mayoral committee meeting (noting the approval of the annual budget 2022/23)	18 May 2022
Council meeting (approval of the annual budget 2022/23)	30 May 2022
Adherence to the internal MFMA compliance calendar for the Month of May 2022(submission and publication of documents)	14 June 2022

## **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; integrated 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, and 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 no changes made)
Budget Virement Policy	(Reviewed no changes made)
Banking and Investment Policy	(Reviewed no changes made)
Funding and reserves Policy	(Reviewed no changes made)
Debtors Policy;	(Reviewed no changes made)
Infrastructure Policy;	(Reviewed no changes made)
Banking and Investment policy;	(Reviewed no changes made)
Assets Management Policy;	(Reviewed no changes made)
Commitments Policy;	(Reviewed no changes made)
Bad Debts Policy;	(Reviewed no changes made)
Provisions, Contingencies and Accrual Policy;	(Reviewed no changes made)
Subsequent Events Policy;	(Reviewed no changes made)
Unauthorized, Irregular and Fruitless and Wasteful Expenditure Policy	(Reviewed no changes made)

**The above policies can also be accessed from [www.feziledabi.gov.za](http://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 are as per the Division of Revenue Act**

### **Interest earned on external investments**

Investment	R 3500 000
Interest on Current Account	R 1500 000
Total Interest for the year	<b>R 5 000 000</b>

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 355 000**

<b>Description</b>	<b>Amount (R)</b>
Insurance Claims Received	10 000.00
Skills levy- seta	0.00
Private Telephone Deductions	340 000.00
Tender deposits	5000.00
Entrance Fees	0.00
<b>TOTAL</b>	<b>355 000.00</b>

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 **4.9% 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 115 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 178 849 000**

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 14 276 240**, thus there was scheduled meeting from **22 of March 2022 (Budget steering committee) and for the final budget after public participation meetings/ the Budget Steering Committee held other meetings on 12 May 2022** 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 programs

**(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 115 issued recently)

**Table S A24**

This table gives a summary of personnel numbers (was updated in line with circular 115 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 2022/23.

**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 20 000
Safety practitioning EHS & ES building parking area	R150 000
Drainage system main building	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	R 150 000
Vehicles	R 0
Replacement of Executive Mayor Vehicle	R 0
Information Technology	

Replacement of IT equipment	R 350 000
DATA CENTRE ASSETS	R650 000
Project Management & Public Works	
Replacement of air conditioners	R100 00
Provision for Replacement of old Plant Property and Equipment	R 0
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 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
<b>TOTAL</b>	<b>R 1 320 000</b>

**Table SA 15 & 16**

**Investment particulars by type**

The investment that the municipality hold in 202223 financial year is estimated to the amount of R84 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.

**THE FOLLOWING BUDGET POLICIES ARE REVIEWED AND NO CHANGES MADE.**

- (i) BUDGET VIREMENT POLICY
- (ii) SUPPLY CHAIN MANAGEMENT POLICY
- (iii) FUNDING & RESERVES POLICY
- (iv) BANKING & INVESTMENT POLICY
- (v) ASSETS MANAGEMENT & INFRASTRUCTURE POLICY
- (vi) ASSETS MANAGEMENT POLICY
- (vii) BAD DEBTS POLICY
- (viii) BANKING & INVESTMENT POLICY
- (ix) COMMITMENT POLICY
- (x) DEBTORS POLICY
- (xi) FUNDING RESERVE POLICY
- (xii) PROVISIONS,CONTIGENCIES & ACCRUAL POLICY
- (xiii) SUBSEQUENT EVENTS POLICY
- (xiv) UNATHORISED , IRREGULAR & FRUITLESS AND WASTEFUL EXPENDITURE