



Draft Budget 2023/2024

Draft Medium Term Revenue and Expenditure Framework

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1.1 MAYORS REPORT

It gives me great privilege to present the 2023/24 Draft Medium Term Revenue and Expenditure Framework (MTREF) budget to council for its consideration. Budgeting for 2023/24 financial year and the outer two financial years were guided by the Budget Process Plan which was adopted by Council on the 30 August 2022 in line with the Municipal Finance Management Act. National Treasury issued MFMA Budget Circular No. 122 and 123 which were used to guide the compilation of the 2023/24 Medium Term Revenue and Expenditure Framework (MTREF) budget. The main objective of a municipal budget is to allocate realistically anticipated resources to the service delivery goals identified as priorities in the Integrated Development Plan. Municipal finances continue to remain under pressure as a result of rising costs to deliver services; slow revenue collection trends and high salary costs. The Municipality is faced with various challenges; which among them include a culture of non-payment for rates and service charges by debtors which has further been exacerbated by the weak economic growth rate; the effects of Covid-19 pandemic and inflationary pressures. All these factors are negatively affecting municipal revenue collection rate. Having said this, the municipality is implementing various revenue strategies with an objective of improving revenue collection trends. These strategies are reviewed on quarterly basis to assess the impact.

The detail of the Draft Annual Budget is presented in the schedules attached to this report.

1.2 DRAFT BUDGET RELATED RESOLUTIONS

Below are the resolutions that must be approved by council with draft adoption of the 2023/24 budget.

- a. That the Draft Budget for 2023/2024 and the indicative 2 outer financial years 2024/2025 and 2025/2026 **be approved** as set out in the following budget tables:-

- 1.1 Table A1 Budget Summary
- 1.2 Table A2 Budgeted Financial Performance by Standard Classification
- 1.3 Table A3 Budgeted Financial Performance by Vote

1.4 Table A4 Budgeted Financial Performance – Revenue by Source and Expenditure by type

1.5 Table A5 Budgeted Capital

1.6 Table A6 Budgeted Financial Position

1.7 Table A7 Budgeted Cash Flows

1.8 Table A8 Budgeted Backed Reserves and Accumulated Surplus Reconciliation

1.9 Table A9 Asset management

1.10 Table A10 Basic Service Delivery Measurement

b. That the Draft Tariffs for Property Rates and other Service Charges for 2023/2024 **BE APPROVED**

c. That the Draft Tariff tool **BE NOTED.**

d. That the following budget related policies **BE NOTED:-**

- Tariff Policy
- Cash Management and Investment Policy
- Asset Management Policy
- Budget Policy
- Virement Policy
- Investment Policy
- Supply Chain Management Policy
- Credit Control and Debt Collection Policy
- Rates Policy
- Indigent Support Policy
- Systems Administration Policy and Procedure Manual
- Irregular Expenditure and Procedure Manual
- Fruitless Expenditure Policy and Procedure manual
- Cost Containment Policy
- Use of Consultants Policy

e. That the list of capital projects **BE APPROVED.**

f. That the funding plan **BE NOTED.**

g. That the Draft Budget **BE APPROVED.**

1.3 EXECUTIVE SUMMARY

Section 16 (1) of the MFMA; Act 56 of 2003 states that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of the financial year. Section 16 (2) of the MFMA; Act 56 of 2003 states that; in order for the municipality to comply with subsection (1); the Mayor of the Municipality must table the annual budget at council meeting at least 90 days before the start of the financial year. Furthermore; section 24 of the MFMA states that the council must approve the annual budget 30 days before the start of the budget year. Section 17 of the MFMA; Act 56 of 2003 states that an annual budget of the municipality must be a schedule in the prescribed format:-

- a. Setting out realistically anticipated revenue for the budget year from each revenue source.
- b. Appropriating expenditure for the budget year under the different votes of the municipality;
- c. Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- d. Setting out-
 - (i) Estimated revenue and expenditure by vote for the current year; and
 - (ii) Actual revenue and expenditure by vote for the financial year preceding the current year; and
 - (iii) A statement contained any other information required by section 215(3) of the constitution or as may be prescribed
- e. An annual budget must generally be divided into a capital and operating budget in accordance with international best practice, as may be prescribed.

The municipal budget is 57% funded by grants, the remaining funding is 43% which is made up of property rates, service charges and other revenue. Equitable share as a grant gazetted in DORA have increased by R6.5m when compared to current year adjustment budget. It is worth noting that the current years equitable share allocation is not sufficient to cover the budgeted cost of

employees; remuneration of councillors and municipal running costs and as such the municipality will need to co-fund with its own revenue. The Draft Budget that is being presented is unfunded and the municipality need to intensify the implementation of revenue strategies that have been developed. Measurable performance objectives and indicators are detailed in the Draft IDP.

The main challenges that were experienced during compilation of the 2023/24 Budget can be summarised as follows:-

- Limited funding of equitable share
- Poor revenue collection trends
- High employee costs
- Non-funding for Electricity Projects (INEP)
- The need to reprioritise expenditure within available resources

It is worth to note that National Treasury is in a process of introducing a debt relief for municipalities that are struggling to pay Eskom debt. A circular will be issued that will outline the application process and conditions. The following is the table depicting the overview of the 2023/24 budget.

Description	Adjusted 2022/23	2023/24 MTREF	2024/25 MTREF	2025/26 MTREF
Operating Revenue (Excl. capital transfers)	233 123 328	238 272 489	247 948 007	247 074 147
Operating Expenditure	276 081 766	299 672 878	301 302 631	307 026 905
Surplus or (Deficit) before capital transfers	(42 958 438)	(61 400 389)	(53 354 625)	(59 952 757)
Capital Transfers	34 781 171	32 976 000	45 332 000	48 247 000
Surplus/Deficit after capital transfers	(8 177 267)	(28 424 389)	(8 022 625)	(11 705 757)

The total revenue excluding capital transfers has slightly increased to R238m for the 2023/24 budget when compared to 2022/23 adjustment budget of R233m. The operating expenditure has increased to R299m for 2023/24 budget when compared to R276m for 2022/23 adjustment budget.

1.4 OVERVIEW OF ASSUMPTION USED

The assumptions used were guided by MFMA Circular 122 and 123 issued by National Treasury for compilation of 2023/24 MTREF Budget. The following assumptions were used:-

- **Other revenue** have been increased by 5.3% in line with CPI forecast, also taking into account revenue collection trends and considering current economic conditions.
- **Inflation outlook** as indicated below was used:-

Fiscal Year	2023/24	2024/25	2025/26
Consumer Price Inflation (CPI)	5.3%	4.9%	4.7%

- **Bulk electricity costs** have been budgeted to increase taking into consideration the NERSA guidelines. (NERSA approved a 18.7% increment with effect from April 2023).
- **Employee related costs:** The municipality has not budgeted for an increase in employee related costs. The increment will be effected to the final budget after the Draft Budget assessment.
- **Remuneration of Councillors** have been budgeted in line with the Government Gazette on the Remuneration of Public Office Bearers Act.

1.5 OPERATING REVENUE FRAMEWORK

Section 18 (1) of the MFMA states that the annual budget may be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and borrowed funds, but only to fund capital projects. Furthermore section 18 (2) states that revenue projections in the budget must be realistic, taking into account projected revenue for the current year based on collection levels to date; and actual revenue collected in previous financial years. In these tough economic times strong revenue management is fundamental to the financial sustainability of the municipality. Below is the table reflecting the summary of budgeted revenue by source.

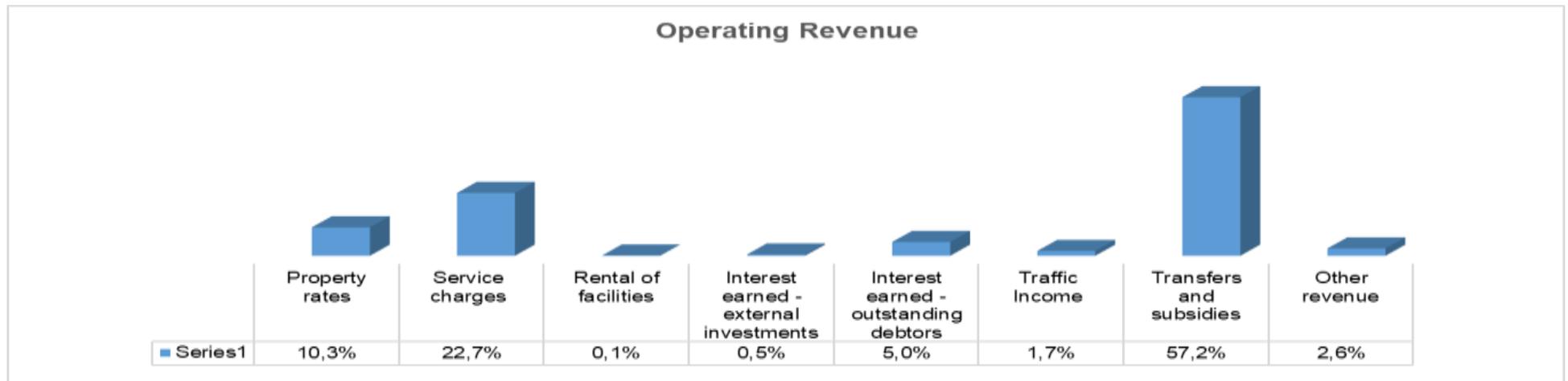
Table: 1 (Revenue by source)

EC124 - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2019/20	2020/21	2021/22	Current Year 2022/23				2023/24 Medium Term Revenue &		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
Revenue											
Exchange Revenue											
Service charges - Electricity	2	29 982	37 467	38 857	41 147	41 547	41 547	-	41 674	43 716	45 770
Service charges - Water	2	-	-	-	-	-	-	-	-	-	-
Service charges - Waste Water Management	2	-	-	-	-	-	-	-	-	-	-
Service charges - Waste Management	2	8 514	12 115	10 856	13 141	13 141	13 141	-	12 320	12 924	13 531
Sale of Goods and Rendering of Services		275	541	5 031	5 435	5 727	5 727	-	5 634	5 910	6 188
Agency services		1 389	1 282	1 059	1 829	1 829	1 829	-	1 829	1 918	2 009
Interest		-	-	-	-	-	-	-	-	-	-
Interest earned from Receivables		7 116	7 057	8 182	8 646	10 294	10 294	-	11 849	12 415	12 993
Interest earned from Current and Non Current Assets		1 434	1 001	366	1 040	1 055	1 055	-	1 158	1 215	1 272
Dividends		-	-	-	-	-	-	-	-	-	-
Rent on Land		-	-	-	-	-	-	-	-	-	-
Rental from Fixed Assets		58	44	171	100	291	291	-	196	205	215
Licence and permits		1 552	2 500	1 780	2 429	2 429	2 429	-	2 252	2 399	2 512
Operational Revenue		35 987	1 637	5	561	2 011	2 011	-	667	699	732
Non-Exchange Revenue											
Property rates	2	-	-	-	-	-	-	-	-	-	-
Surcharges and Taxes		18 993	20 796	22 178	23 785	23 785	23 785	-	24 424	25 621	26 825
Fines, penalties and forfeits		16	6	12	15	26	26	-	27	29	30
Licences or permits		-	-	-	-	-	-	-	-	-	-
Transfer and subsidies - Operational		112 294	144 141	121 995	130 728	130 989	130 989	-	136 243	140 897	134 997
Interest		-	-	-	-	-	-	-	-	-	-
Fuel Levy		-	-	-	-	-	-	-	-	-	-
Operational Revenue		-	-	-	-	-	-	-	-	-	-
Gains on disposal of Assets		-	-	1 005	-	-	-	-	-	-	-
Other Gains		-	-	-	-	-	-	-	-	-	-
Discontinued Operations		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		217 611	228 590	211 499	228 855	233 123	233 123	-	238 272	247 948	247 074

- Service Charges on Electricity have been increased slightly from R41.5m to R41.6m in 2023/24 taking into consideration the revenue strategies being implemented; economic conditions and revenue trends. It is also worth to note that the revenue generated in this stream for the 2022 audit was R38m.
- Service Charges on Refuse have been decreased slightly due to the increasing remissions which have a potential to affect the annual billing. It is also worth to note that this revenue stream generated an amount of R10m in 2022 audit.

- Rental of facilities have been decreased when compared to the adjustment budget due to retrospective billing of new leases for prior years.
- Operational transfers and subsidies have increased from R130m to R136m when compared to 2023 and this is due to slight increase in equitable share. It is worth to note that the projected equitable share to be received by the municipality has declined in the 2025/26 budget year and this decline is across municipalities. The reason for this decline is the decrease in anticipated revenue by national government. This is an indication that the government finances are currently under pressure.
- Operational revenue have been decreased from R2m to R600 thousand; because there are no material anticipated insurance refunds to be received by the municipality.

Operational grants constitutes 57% of operating revenue; property rates and service charges 33% and other revenue 10%. This is an indication that the municipality is still heavily dependent on grants. Below is the graph depicting the split of total operating revenue.



The table below depicts the grants to be received by the Municipality during 2023/24 financial year.

Table: 2 (Grants and subsidies)

EC124 Amahlathi - Supporting Table SA18 Transfers and grant receipts										
Description	Ref	2019/20	2020/21	2021/22	Current Year 2022/23			2023/24 Medium Term Revenue &		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		110 426	136 385	120 478	128 755	128 755	128 755	136 692	142 613	136 784
Local Government Equitable Share		105 863	131 642	115 504	124 987	124 987	124 987	131 533	138 697	132 697
Finance Management		2 235	2 200	2 100	2 200	2 200	2 200	2 200	2 200	2 300
EPWP Incentive		887	1 000	1 263	1 568	1 568	1 568	1 310	-	-
PMU 5%		1 123	1 399	1 478	-	-	-	1 649	1 716	1 787
Disaster Relief Grant		318	145	134	-	-	-	-	-	-
Other transfers/grants [insert description]										
Provincial Government:		1 200	8 189	1 297	1 973	2 234	2 234	1 200	-	-
Sport and Recreation		1 200	1 200	1 200	1 200	1 200	1 200	1 200	-	-
LED Promotions										
Waste Grant 2m										
Waste Grant 770k			234							
Capacity					-	99	99			
Recycling			122							
Vuna Awards										
Seta				97	773	935	935			
Waste Grant 6m			6 633							
Donation										
Other transfers/grants [insert description]										
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total Operating Transfers and Grants	5	111 626	144 574	121 776	130 728	130 989	130 989	137 892	142 613	136 784
Capital Transfers and Grants										
National Government:		12 310	46 299	28 080	31 701	31 701	31 701	31 327	43 616	46 460
Municipal Infrastructure Grant (MIG)		12 310	46 299	28 080	31 701	31 701	31 701	31 327	32 616	33 960
INEP Grant								-	11 000	12 500
Other capital transfers/grants [insert desc]										
Provincial Government:		-	-	220	-	3 080	3 080	-	-	-
Waste Grant R6m				220	-	3 080	3 080			
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total Capital Transfers and Grants	5	12 310	46 299	28 300	31 701	34 781	34 781	31 327	43 616	46 460
TOTAL RECEIPTS OF TRANSFERS & GRANTS		123 936	190 873	150 076	162 429	165 770	165 770	169 219	186 229	183 244

1.6 OPERATING EXPENDITURE FRAMEWORK

The table below depicts the high level summary of 2023/24 MTREF Budget classified per main type of operating expenditure.

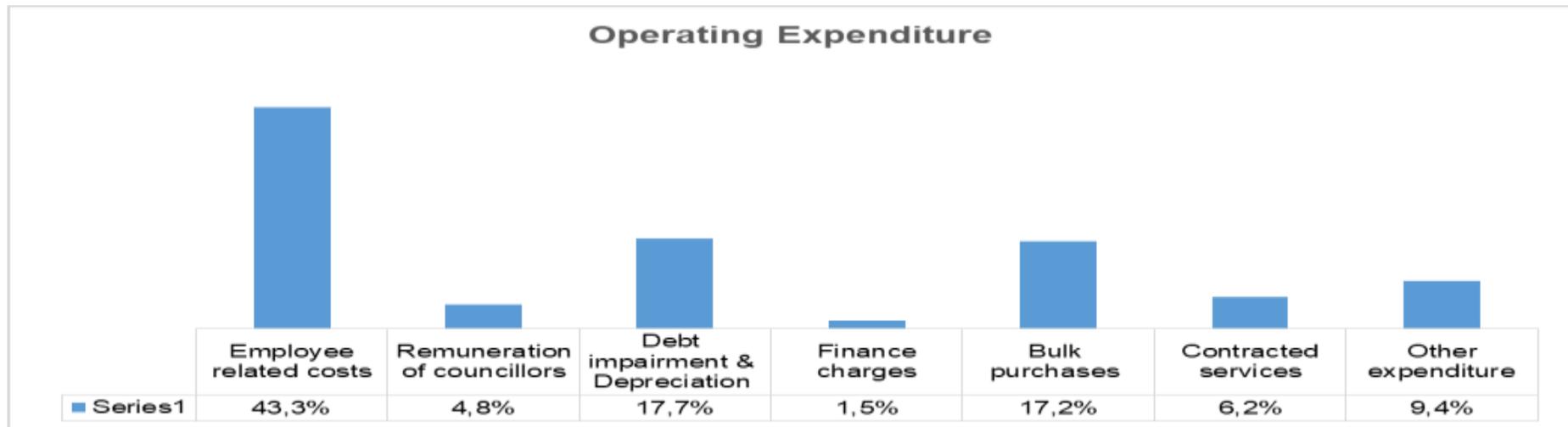
Table: 4 (Expenditure by Type)

EC124 - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2019/20	2020/21	2021/22	Current Year 2022/23				2023/24 Medium Term Revenue &		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
Expenditure											
Employee related costs	2	124 000	132 726	125 340	106 959	110 264	110 264	-	129 720	128 410	128 410
Remuneration of councillors		11 993	11 599	11 533	11 996	13 501	13 501	-	14 329	14 329	14 329
Bulk purchases - electricity	2	33 309	35 884	42 658	38 070	46 923	46 923	-	51 433	53 799	56 273
Inventory consumed	8	445	300	404	267	269	269	-	247	247	247
Debt impairment	3	32 644	26 485	(7 489)	27 000	27 000	27 000	-	27 000	27 000	27 000
Depreciation and amortisation		26 647	25 570	26 055	26 000	26 000	26 000	-	26 000	26 000	26 000
Interest		2 667	3 802	2 536	4 000	4 500	4 500	-	4 500	4 721	4 942
Contracted services		13 771	16 221	10 882	19 154	21 561	21 561	-	18 630	17 832	18 543
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Irrecoverable debts written off		-	-	-	-	-	-	-	-	-	-
Operational costs		16 037	21 717	24 369	21 891	26 064	26 064	-	27 815	28 966	31 283
Losses on disposal of Assets		4 275	1 662	-	-	-	-	-	-	-	-
Other Losses		-	-	-	-	-	-	-	-	-	-
Total Expenditure		265 788	275 965	236 287	255 339	276 082	276 082	-	299 673	301 303	307 027

- The municipality has not effected an increase in employee related costs in the Draft Budget; this will be effected in the final budget when the municipality's budget has been assessed.
- Bulk Purchases have been budgeted to increase to R51m. It is worth to note that Nersa has approved an increase of 18.7% with effect from April 2023.

- Contracted Services have been budgeted to slightly decrease from R21m in 2022/23 adjustment budget to R18m for 2023/24 budget. This is in line with the implementation of the cost containment measures.
- Other expenditure will increase from slightly from R26m in 2022/23 adjustment budget to R27m in 2023/24 due to provision for travel and accommodation.

Employee costs constitute 43.3% of operational expenditure; non-cash items constitute 17.7%; Bulk Purchases 17.2% and these are the expenditure items with bigger percentage share in operating expenditure. Below is the graph depicting the split of total operating expenditure.



1.7 CAPITALEXPENDITURE

The following table provides a breakdown of budgeted capital expenditure by vote.

Table: 5 (Capital Expenditure by vote)

EC124 Amahlathi - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding											
Vote Description	Ref	2019/20	2020/21	2021/22	Current Year 2022/23				2023/24 Medium Term Revenue &		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26
Capital Expenditure - Functional											
Governance and administration		61	205	227	300	2 270	2 270	–	100	–	–
Executive and council				–	–	1 400	1 400				
Finance and administration		61	205	227	300	870	870		100	–	–
Internal audit		–	–	–	–	–	–	–	–	–	–
Community and public safety		–	–	–	1 000	1 500	1 500	–	–	–	–
Community and social services				–	1 000	1 500	1 500				
Sport and recreation											
Public safety											
Housing											
Health											
Economic and environmental services		10 946	41 534	24 772	36 701	32 701	32 701	–	31 327	32 615	33 960
Planning and development		10 774	41 389	24 772	36 701	32 701	32 701		31 327	32 615	33 960
Road transport		172	145								
Environmental protection											
Trading services		865	7 069	2 193	1 790	4 820	4 820	–	–	11 000	12 500
Energy sources		865	576	2 002	1 790	1 740	1 740		–	11 000	12 500
Water management											
Waste water management											
Waste management		–	6 493	191	–	3 080	3 080				
Other											
Total Capital Expenditure - Functional	3	11 871	48 808	27 192	39 791	41 291	41 291	–	31 427	43 615	46 460

Below is the 3 year Capital Plan:-

Project	Funding	2023	2024	2025
Keiskamahoe Recreation Center	MIG	10 351 000	1 649 000	-
Stutterheim Recreation Center	MIG	11 550 000	3 000 000	-
Upper Gxulu Internal Roads	MIG	79 744	-	-
Surfacing of Carthcart Streets	MIG	623 950	-	-
Mthwaku Dontsa Access Roads	MIG	98 532	-	-
Khayelitsha Internal Roads	MIG	73 580	-	-
Paving of Xhologha Internal Roads	MIG	2 000 000	8 592 558	-
Mzamohle Paving	MIG	134 368	-	-
Toise Internal Roads	MIG	96 210	-	-
Mgwali Internal Roads	MIG	74 858	-	-
Mbaxa Community Hall	MIG	2 000 000	1 000 000	-
Frankfort Internal Roads	MIG	2 500 000	-	-
Izidenge Internal Roads	MIG	500 000	4 000 000	-
Pumulani Community Hall	MIG	500 000	3 000 000	-
Nqenge Internal Roads	MIG	244 958	2 255 242	-
Upgrading of the Stutterheim Recreational Park	MIG	-	-	449 650
Langdraai Communit Hall	MIG	500 000	3 000 000	-
Stutterheim Streets Paving	MIG	-	450 000	10 000 000
Keiskammahoe Town Paving	MIG	-	450 000	9 250 000
Mandlakapheli Internal Roads	MIG	-	-	2 500 000
Amabele Paving	MIG	-	-	4 500 000
Keilands Roads	MIG	-	-	2 500 000
Mzamomhle Community Hall	MIG	-	3 500 000	-
Khayelitsha Community Hall	MIG	-	-	2 700 000
Waste Collection Truck	MIG	-	1 718 600	1 760 000
Greenfields Internal Roads	MIG	-	-	300 000
Upgrade Electricity Projects	INEP	-	11 000 000	12 500 000
Computer Equipment	Own Funds	100 000	-	-
Total		31 427 200	43 615 400	46 459 650

1.8 Annexures

- ✓ Signed Quality Certificate
- ✓ Draft A Schedule
- ✓ Draft Tariffs
- ✓ Draft Tariff Tool
- ✓ Financial Recovery Plan
- ✓ Draft Funding Plan