KAI !GARIB MUNICIPALITY

BUDGET REPORT
MTRF 2023-2025

Glossary

Adjustments Budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

Budget – The financial plan of the Municipality.

Budget Related Policy – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

KPI's – Key Performance Indicators. Measures of service output and/or outcome.

MFMA – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

Net Assets – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure – Spending on the day to day expenses of the Municipality such as salaries and wages.

Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – Generally, spending without, or in excess of, an approved budget.

Virement – A transfer of budget.

Vote – One of the main segments of a budget. The structure is for reporting requirements and links the accounting performance both to the IDP and to the responsible officials.

PART 1 – ANNUAL BUDGET

Section 1 – Mayor's Report

Introduction:

It is with great pleasure that I present the 2022/23 MTREF Budget to the Council for consideration.

With the Covid-19 restrictions lifted, careful consideration must be taken to ensure that we as the municipality put all the necessary controls in place to ensure the continuous safety of our staff and especially members of our communities. This pandemic will have long lasting effects on the municipality's economic stability and the ability to render services safely and effectively.

We strive towards a budget that complies with the latest budget regulations as well as the requirements of the National Treasury. The municipality's management continues to refine the budgeting processes, for which I must thank the Chief Financial Officer and her staff for the tremendous effort.

The assumptions the annual budget is based on, are fully disclosed in the executive summary of the budget documentation. Unfortunately, I must report that the municipality is in a dire cash flow position and unless drastic measures, including full cooperation from the Council and the Management team, are being taken, the municipality's sustainability is in serious doubt.

According to Treasury's requirements and previous circulars municipalities must adopt a conservative approach when projecting their expected revenues and cash receipts. Municipalities were also requested to pay particular attention to managing all revenue and cash streams effectively and carefully evaluate all spending decisions.

During the review of the financial status of the municipality in the drafting of the mid-year report and with the compilation of the 2021/22 Adjustment Budget, it became clear that further attention would have to be paid to managing the cash streams of the municipality more effectively and that all spending decisions will have to undergo even stricter evaluations to ensure that funds are spent only on necessities and that the spending is economic, efficient, and effective.

Recommendations

It is recommended:

1) that the Council approves the Draft Annual Budget for the MTREF 2022/23
2) That further investigation should take place about implementing cost reflective tariffs for the services rendered by the municipality.
3) That the Service Delivery Budget and Implementation Plan (SDBIP) be adjusted accordingly and approved in line with the legislative requirements

Section 2 - Budget Related Resolutions

DRAFT ANNUAL BUDGET 2022/23

The resolution tabled at Council for consideration with approval of the adjustments budget is:

RECOMMENDATION:

a) That the Draft Annual Budget of KAI !GARIB Municipality for the MTREF 2022/23 as set out in the summary be approved:

(i)	Total Revenue	R 292,552 m
(ii)	Total Expenditure	R 289,522 m
(iii)	Total Capital budget	R 39,262 m

b) That it will be noted that there are no changes to any budget related policies.

c) That the Directors put control measures in place to prevent any over-expenditure on the Operational and Capital Budget.

d) That the Service Delivery Budget and Implementation Plan (SDBIP) be adjusted accordingly and be approved in line with the legislative requirements.

Section 3 – Executive Summary

INTRODUCTION

Over the next three years, the municipality will have to adjust to significant changes in expenditure plans while improving accountability.

The annual 2021/22 MTREF budget already indicated to management that the 2022/2023 financial year will be a cash flow challenged year. During the midterm assessment the figures for the six months indicated to management that the challenge is going to be more serious than originally anticipated and that immediate remedial actions need to be put into place.

Remedial actions like the following are recommended to Council with the tabling of the 2022/23 MTREF budget:

1. The debt collection unit to be streamlined, with the mandate to concentrate on the collection of debt by means of legal actions and at the same time the cleansing of data to support the debt collection efforts.
2. Stricter control over "out of control expenses" like, overtime and vehicle costs. Overtime is being assessed on a weekly basis to limit it to "emergency overtime" only. This process involves a mind shift from our employees to break the previous culture and to think outside the box to ensure the managing process of overtime become more effective.
3. Management engaged with National- and Provincial Treasury on numerous occasions to ensure the municipality's budgets is funded before adoption by Council. Management compiled a budget funding plan, and this budget funding plan stipulates the changes, challenges, and plans to lead the municipality from an unfunded budget to a funded budget that is favourable to all.

Management will have to face the fact that the health of our dire cash flow situations will take medium to long term to recover considering material factors like the high outstanding creditors together with the current monthly struggle to honour the fixed commitments.

In order for Council to deliver with regard to service delivery serious actions from administration with the necessary support from Council is needed.

OPERATIONAL REVENUE

National Treasury encourages management to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the municipality's financial sustainability. The Consumer Price Index (CPI) is forecasted to be within the lower limit of the 3 to 6 per cent target band; therefore, management will be required to justify all increases in excess of the projected inflation target for 2021/22 MTREF in the budget narratives and pay careful attention to the differential incidence of tariff increases across all consumer groups. It is also noted that the tariff increases by Eskom and Water Boards are above inflation and should be considered as such while determining cost-reflective tariffs.

Kai !Garib Municipality also confronts tough fiscal choices in the face of financial and institutional problems that result in service-delivery breakdowns and unpaid bills. Management can offset these trends by improving its own revenue collection, working more efficiently and implementing effective cost-containment measures.

PAYMENT PECENTAGE

As indicated in the Section 72 report, the payment percentage still not recovered since the National Lockdown was announced at the end of March 2020. This gives direction towards the 2022/23 MTREF tariff increases and considering that the pandemic will have a long-lasting effect on the economy. A payment percentage of 80 % on billed property rates and services charges will be used for the 2022/23 MTREF budget.

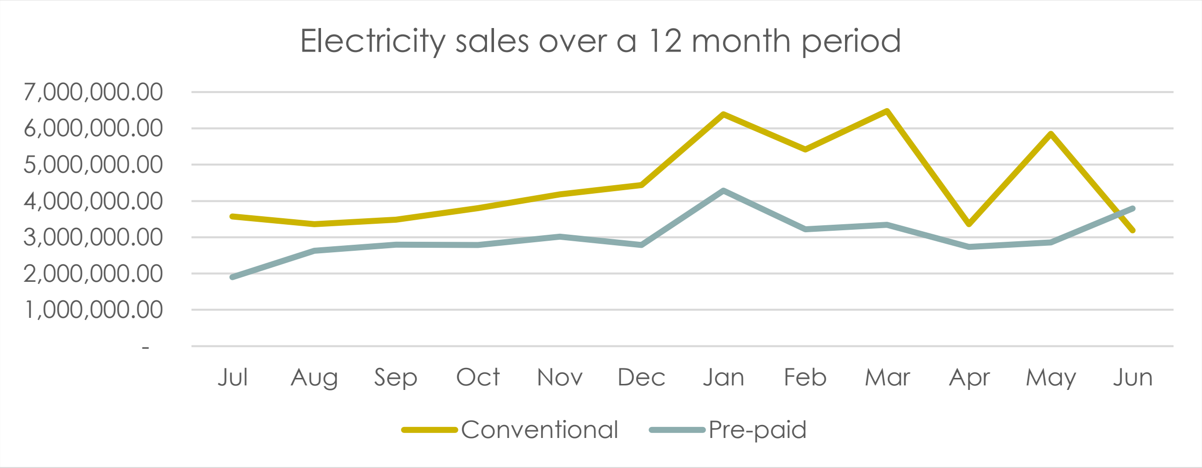
ELECTRICITY SERVICE

Electricity remains a binding constraint on economic recovery, with power interruptions expected to continue into 2022/23. Private generation will only be able to plug the electricity gap to a limited extent over the next year.

As to the Council during the last budget processes explained, the electricity services (commercial services) subsidized the other activities of the Council. The practice came under pressure over the past 10 years with the higher increases granted to Eskom as those given to municipalities. The municipality applied a tariff increase on the sale of electricity of **7.25%**.

Management based their budgeted electricity sales calculations on the total amount of electricity units sold to consumers over the preceding 12 months. This method is taking into account the seasonal usage fluctuations, and the increased farming activities during the harvesting months.

The consumption with regard to indigents were not considered for the income projection. The estimated electricity sales for the 2022/23 financial year, with the 7.25% tariff increase amounts to R 96,323 million billed revenue, whereby 80% is deemed collectable according to the current payment percentage by consumers.



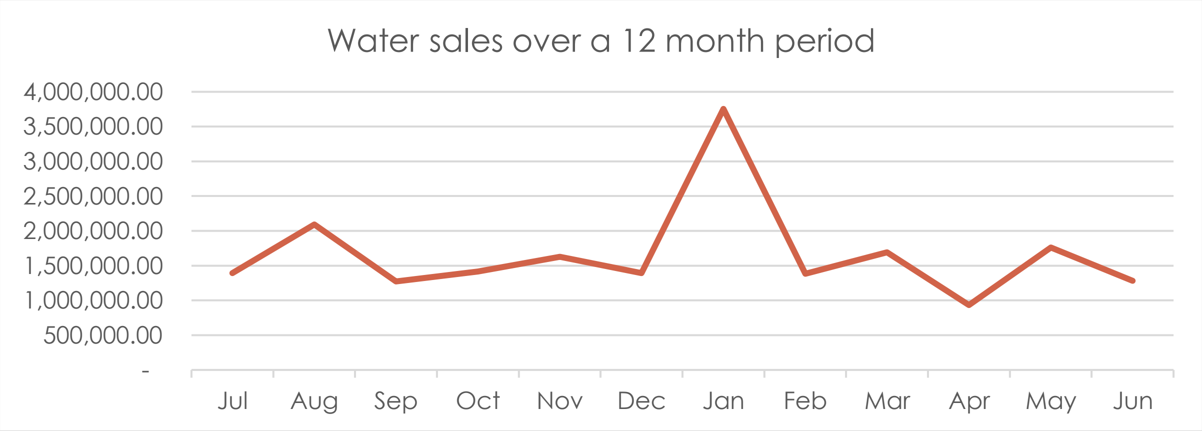
WATER SERVICE

The potential for generating income from water is limited. The municipality have been criticized because of the fact that the water tariffs are not cost reflective. The billed income in the budget is based on **6%** tariff adjustments.

Management based their water sales calculations on the total amount of kiloliters sold to consumers over the preceding 12 months. This method is taking into account the seasonal usage fluctuations, and the increased farming activities during the harvesting months.

The consumption with regard to indigents were not considered for the income projection and an 80% payment percentage is used based on the current payment statistics available.

The estimated water sales for the 2022/23 financial year amounts to R 15,221 million billed revenue.

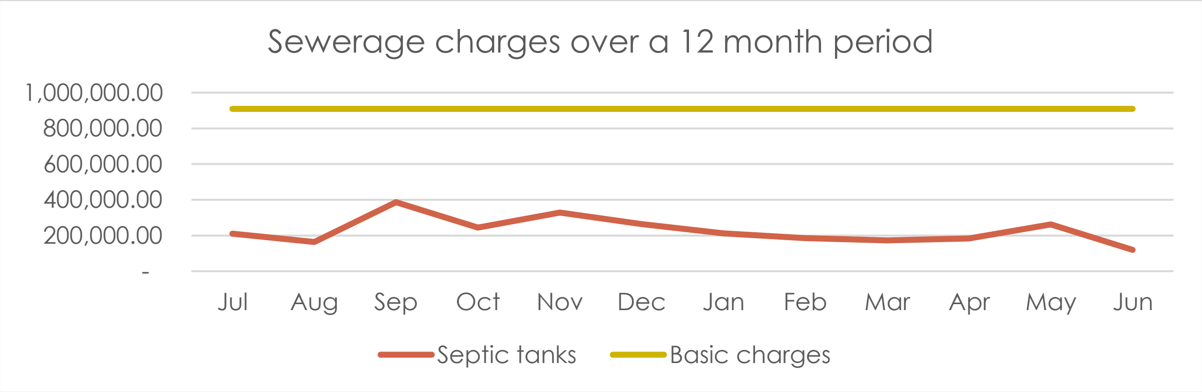


SEWERAGE SERVICE

The municipality has no other choice but to increase the service tariffs with **6%**. The municipality is in the unfortunate situation where many of the older established neighborhoods do not have waterborne sewerage. These neighborhoods also are responsible for the majority of the Residential Rates income. The municipality must start putting itself in a position to replace some of the dilapidated sewerage trucks in order to maintain service delivery in the future.

Management based their budgeted sewerage income from septic tanks on the total amount of kiloliters collected from consumers over the preceding 12 months. This method is taking into account the monthly usage fluctuations over the year. Most of the municipality's sewerage income derives from the monthly basic charges billed to 5,472 consumers over the financial year.

The consumption with regard to indigents were not considered for the income projection. The estimated sewerage income for the 2022/23 financial year amounts to R 14,691 million billed revenue, whereby 80% is deemed collectable according to the current payment percentage by consumers.

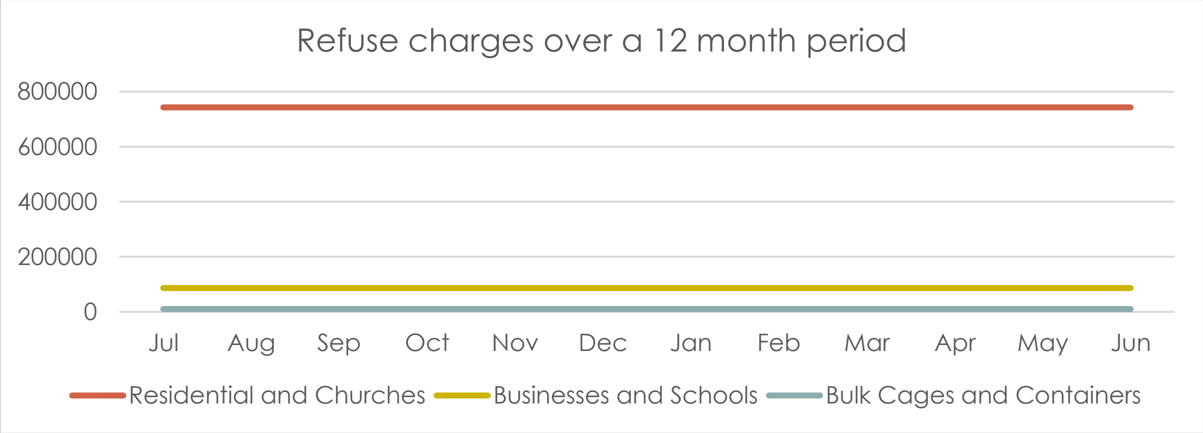


REFUSE SERVICE

The situation in the different neighborhood's is a testimony of the level of the service. The municipality has no other choice but to increase the service tariffs with **6%**. The municipality must start putting itself in a position to replace and maintain some of the dilapidated refuse removal trucks in order to maintain service delivery in the future.

The municipality's refuse income derives from the monthly basic charges billed to 6,516 consumers over the financial year.

The consumption with regard to indigents were not considered for the income projection. The estimated refuse income for the 2022/23 financial year amounts to R 10,619 million billed revenue, whereby 80% is deemed collectable according to the current payment percentage by consumers.



ASSESMENT RATES

The municipality implement a new general valuation roll on 1 July 2022. After careful consideration and discrepancies identified the municipality is busy compiling a supplementary valuation roll with a planned implementation date of 30 September 2022.

It is clear that the property values escalated from the previous valuation roll, therefor the municipality will have to adjust their tariffs so that the amount payable does not increase on average with more than 10%.

The estimated property rate income for the 2022/23 financial year amounts to R 24,873 million billed revenue, whereby 80% is deemed collectable according to the current payment percentage by consumers.

Rebates and discounts are given to households and agricultural properties on the following criteria:

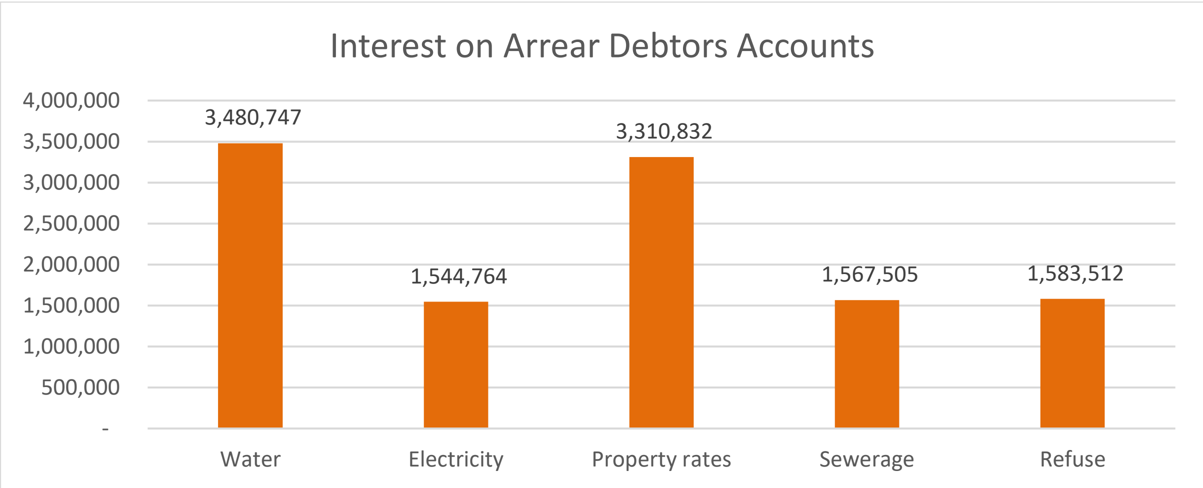
- Households:
    - First R20,000 of the property value is exempted (R15,000 legislated + R5,000 Council policy)
    - Indigent households receive an additional R100,000 exemption on the property value whereon the amount payable for property rates is calculated (Council policy)
- Agricultural properties:
    - 5% discount on the property rates payable, if the property owner provides housing to their employees
    - 5% discount on the property rates payable, if the property owner provides recreational facilities to their employees
    - 5% discount on the property rates payable, if the property owner provides clean drinkable water to their employees
    - 5% discount on the property rates payable, if the property owner provides electricity to their employees

INTEREST ON OUTSTANDING DEBTORS

The finances of the municipality have been unstable for a few years, and this was exacerbated by the financial impact of the COVID-19 pandemic. Therefore, there is severe pressure on the municipality to maintain healthy cash flows and increase cost containment measures while sustaining efficient service delivery levels. It is also therefore imperative that the municipality refrain from suspending credit control and debt collection efforts.

The COVID-19 pandemic, the growing unemployment rate increased the ability of consumers to pay their municipal accounts that at the end negatively impacts the municipality's cash flow. Management therefor has no other option to charge interest on outstanding consumer accounts.

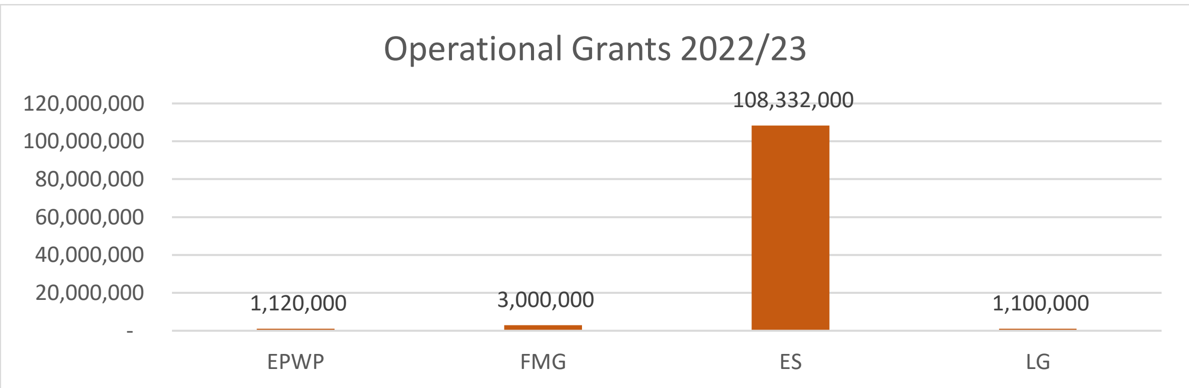
The estimated interest on debtor's accounts for the 2022/23 financial year amounts to R 11,487 million billed revenue, whereby 80% is deemed collectable according to the current payment percentage by consumers.



GRANT ALLOCATIONS

The annual Division of Revenue Bill was published in February 2022 after the Minister of Finance's budget speech. The Bill specify grant allocations and management must reconcile the budgets to the numbers published herein.

The municipality will receive the following operational grants during the 2022/23 MTREF (Total: R 114,806,850):

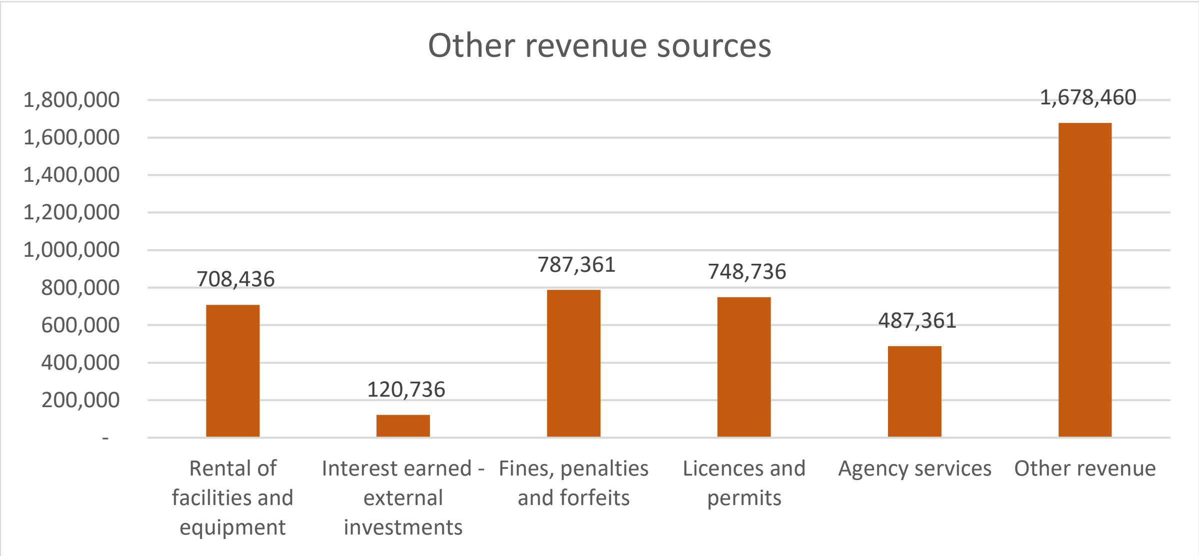


It is of utmost importance that the grant money received is only used for their intended purposes and that all grant conditions are adhered to. The municipality is highly dependent on their grant allocations, therefor these money should be spent to enhance the municipality's ability to render services effectively, assist indigent households and build capacity within the municipality.

OTHER REVENUE SOURCES

Management estimated income from other sources of revenue on a very conservative approach, taking into account the past 4 years audited figures. These revenue sources are deemed as 100% collectable.

With the dire cash flow situation, the municipality finds itself in currently, it is very important that the municipality does not render any services without invoicing the client and receiving payment. Management will also increase other tariffs with 6%, according to the latest Budget Circular published. The municipality's tariffs will be made available to the public for inputs and comments after approval thereof.



OPERATIONAL EXPENDITURE

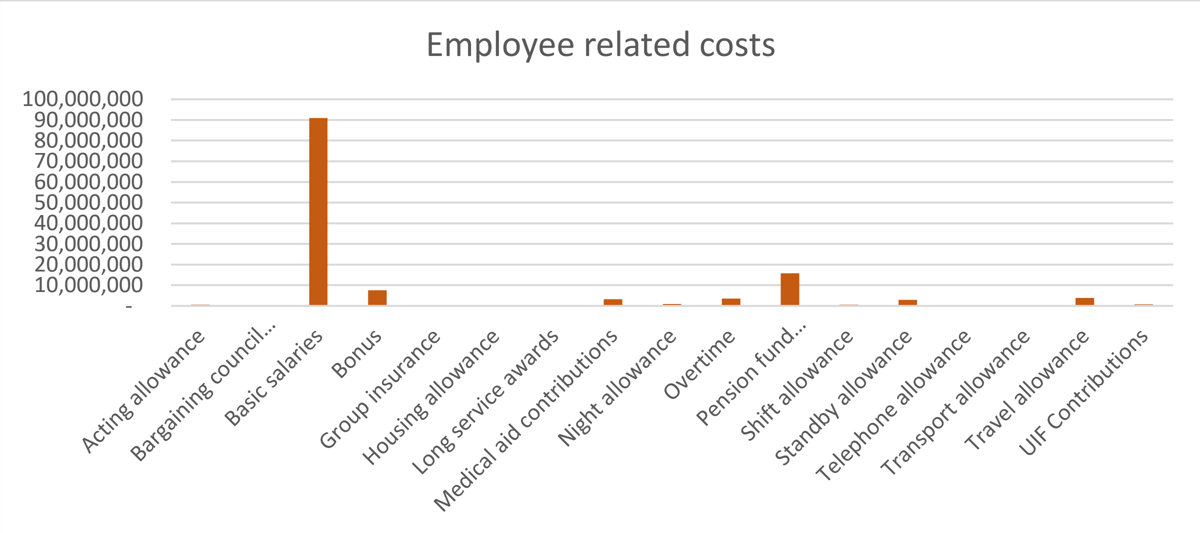
EMPLOYEMENT COST

South African Local Government Bargaining Council (SALGBC) advised management to consider their financial sustainability when considering salary increases.

Management is urged to consider projecting increases to salary and wages that would reflect our affordability. According to Circular 01/2022 issued by South African Local Government Bargaining Council (SALGBC) the municipality must apply a 4.9% increase in salary and relating benefits in the 2022/23 MTREF.

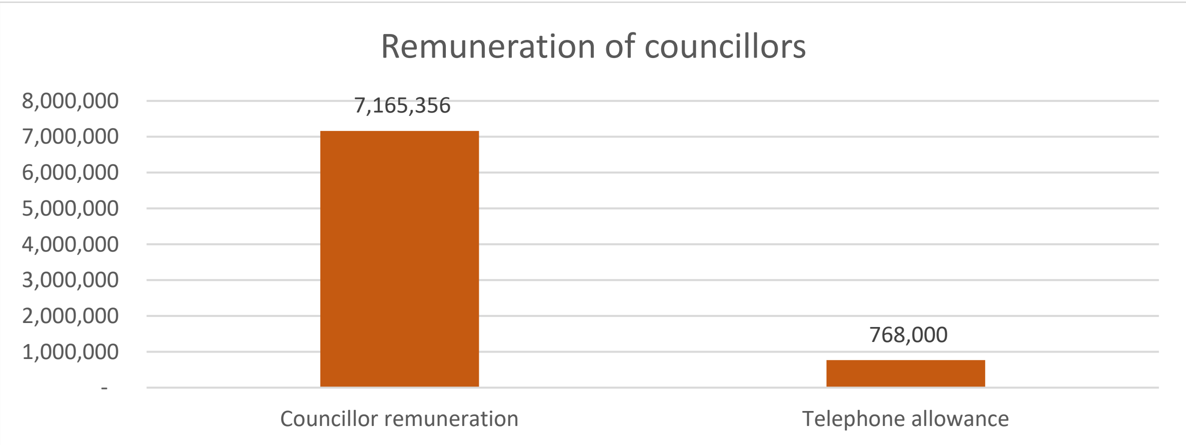
To avoid possible protests by the municipality's employees, management will have to apply the salary increase as published by South African Local Government Bargaining Council (SALGBC).

The salary budget is based on the 420 employees currently employed by the municipality. Employee related costs consumes 49.2% of the budget. It is clear that the municipality can't budget for any vacant posts, as the norm of 35% is already exceeded.



REMUNERATION OF COUNCILLORS

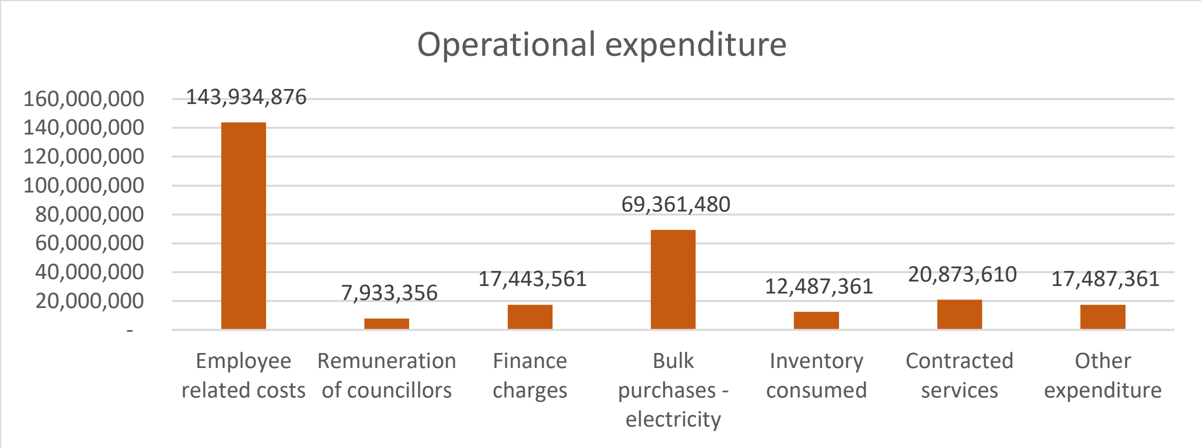
Management is advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. It is anticipated that this salary determination will also take into account the fiscal constraints experienced by municipalities.



OTHER OPERATIONAL EXPENDITURE

Management estimated other operational expenditure on a very conservative approach, taking into account the past 4 years audited figures.

With the dire cash flow situation, the municipality finds itself in currently, it is very important that accounting officer and directors takes ownership of their respective budgets and therefor ensuring that the municipality's cost-containment policy is adhere to on a daily basis.



Management must keep the following in mind during the budgeting process and evermore during the financial year:

- Implementation of effective cost containment measures to, amongst other things, control unnecessary spending on nice-to-have items and non-essential activities as highlighted in the Municipal Cost Containment Regulations read with MFMA Circular No. 115;
- Ensuring value for money through the procurement process;
- The affordability of providing free basic services to all households;
- Not taking on unfunded mandates; and
- Curbing the consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.

It has also been observed by Treasury municipal budgets contain sub-votes or allocations to "Mayoral Discretionary Funds", "Special Projects", "Special Events" or similar discretionary type funds. Management must refer to section 12 of the MFMA in relation to setting up a relief, charitable, trust or other funds.

National Treasury regards these types of allocations as a bad practice because:

- It is not clear how they are aligned to the constitutional requirement that municipalities structure their budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community (see section 153(a) of the Constitution);
- They do not provide for the appropriation of funds for the purposes of a department or functional area of the municipality (see the definition of 'vote' in section 1 of the MFMA);

- They undermine the budget consultation processes since the intended use of the funds is not transparently reflected in the tabled budget; and
- There is a risk that they may be abused for personal gain or to improperly benefit another person or organisation.

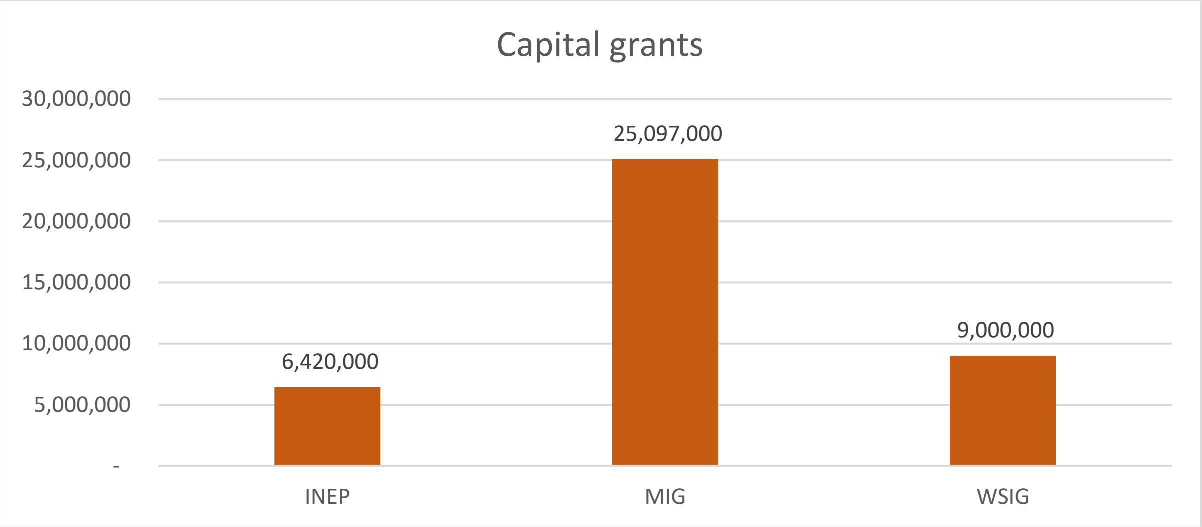
Therefore, National Treasury discourages allocations of this nature. Good budget practice requires that a municipal budget should transparently indicate the purposes and areas where municipal funds (i.e. public funds) are to be allocated. These kinds of discretionary funds immediately raise public suspicions of impropriety and corruption.

National Treasury and Provincial Treasuries will exercise close oversight of all discretionary type allocations in the municipality's budget. If there are any concerns about the use of these funds, section 74 of the MFMA will be used to request information in this regard and analyses it for consistency with the MFMA legal framework.

Accounting officers are reminded of their responsibility in terms of section 62(1)(a) of the MFMA to use the resources of the municipality effectively, efficiently and economically. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA, read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

CAPITAL BUDGET

The capital budget will comprise and funded by the following resources:



Government continues to reform the system of conditional grant transfers to local governments based on the principles set out in the 2019 Budget Review. In 2023, government will expand the scope of the *municipal infrastructure grant* to allow municipalities to use up to 5 per cent of their allocation to develop infrastructure asset management plans. This change will address poor asset management in municipalities.

The planned capital projects are registered with the relative departments and will be started as soon as the grants is received in the new financial year. The capital implementation plans are discussed in the Integrated Development Plan (IDP) in more detail.

Section 3 – TABLES & Supporting Information

Operational revenue by Source

Description	2023	2024	2025
Revenue By Source			
Property rates	24,873,154	25,487,361	26,148,360
Service charges - electricity revenue	96,322,821	102,487,265	111,806,400
Service charges - water revenue	15,221,092	16,897,004	18,476,448
Service charges - sanitation revenue	14,691,011	15,873,600	17,014,980
Service charges - refuse revenue	10,618,739	11,874,904	13,328,479
Rental of facilities and equipment	708,436	751,436	806,701
Interest earned - external investments	120,736	142,873	166,487
Interest earned - outstanding debtors	11,487,360	12,046,700	12,436,106
Dividends received	-	-	-
Fines, penalties and forfeits	787,361	873,614	923,487
Licences and permits	748,736	812,849	884,761
Agency services	487,361	514,873	526,847
Transfers and subsidies	114,806,850	123,044,000	134,605,250
Other revenue	1,678,460	1,847,931	2,048,736
Gains	-	-	-
TOTAL	**292,552,117**	**312,654,410**	**339,173,042**

Operational expenditure by Type

Description	2023	2024	2025
Expenditure By Type			
Employee related costs	143,934,876	153,365,975	164,427,410
Remuneration of councillors	7,933,356	8,397,684	8,838,960
Debt impairment	-	-	-
Depreciation & asset impairment	-	-	-
Finance charges	17,443,561	19,487,361	19,873,558
Bulk purchases - electricity	69,361,480	73,768,977	85,015,629
Inventory consumed	12,487,361	13,948,730	15,049,730
Contracted services	20,873,610	21,487,391	22,187,361
Transfers and subsidies	-	-	-
Other expenditure	17,487,361	18,487,648	20,148,006
Losses	-	-	-
TOTAL	**289,521,605**	**308,943,766**	**335,540,654**

Employee related costs (Municipal staff)

Description	2023	2024	2025
Acting allowance	1,657,524	1,738,932	1,824,480
Bargaining council contributions	60,336	65,364	70,392
Basic salaries	92,983,080	99,816,108	107,388,252
Bonus	7,748,590	8,318,009	8,949,021
Group insurance	2,724	2,868	3,036
Housing allowance	230,964	243,732	258,324
Long service awards	771,867	820,731	874,071
Medical aid contributions	3,190,731	3,190,731	3,190,731
Night allowance	80,400	84,870	89,472
Overtime	2,898,061	3,049,262	3,205,072
Pension fund contributions	15,866,196	17,028,108	18,312,804
Shift allowance	3,165,078	3,348,042	3,580,356
Standby allowance	622,320	659,856	702,648
Telephone allowance	1,524,276	1,632,552	1,731,432
Transport allowance	259,200	316,800	403,200
Travel allowance	5,005,228	5,349,700	5,718,616
UIF Contributions	827,100	842,352	856,704
TOTAL	**136,893,675**	**146,508,017**	**157,158,611**

Employee related costs (Senior Managers)

Description	Municipal Manager	Chief Financial Officer	Corporate Services	Technical & Engineering	Properties, Planning & Development	TOTAL
Basic salaries	1,440,000	878,736	1,003,656	1,171,668	1,003,656	**5,497,716**
Acting allowance	-	-	-	-	127,422	**127,422**
Long service awards	-	-	-	-	-	**-**
Performance bonus	-	103,496	118,208	103,497	118,208	**443,409**
Telephone allowance	-	-	-	-	-	**-**
Travel allowance	-	292,920	334,548	-	334,548	**962,016**
UIF Contributions	2,136	2,125	2,125	2,125	2,125	**10,638**
TOTAL	**1,442,136**	**1,277,277**	**1,458,537**	**1,277,290**	**1,585,959**	**7,041,201**

Councillor remuneration

Description	2023	2024	2025
Councillor remuneration	7,165,356	7,495,284	7,840,560
Telephone allowance	768,000	902,400	998,400
TOTAL	**7,933,356**	**8,397,684**	**8,838,960**

Operational Grants

Description	2023	2024	2025
Operational Grants Grants			
IR|Grants|Operational|EPWP	1,120,000	-	-
IR|Grants|Operational|FMG	3,000,000	3,100,000	4,518,000
IR|Grants|Operational|MIG	1,254,850	1,303,000	1,354,250
IR|Grants|Operational|Equitable share	108,332,000	117,494,000	127,534,000
IR|Grants|Operational|Capacity building|Library grant	1,100,000	1,147,000	1,199,000
TOTAL	**114,806,850**	**123,044,000**	**134,605,250**

Capital Grants

Description	2023	2024	2025
Capital Grants			
IR|Grants|Capital|INEP	6,420,000	6,000,000	6,269,000
IR|Grants|Capital|MIG	23,842,150	24,757,000	25,730,750
IR|Grants|Capital|WSIG	9,000,000	13,975,000	14,603,000
TOTAL	**39,262,150**	**44,732,000**	**46,602,750**

Quality certificate

I, Dr. J. Mac Kay, as acting municipal manager of KAI !GARIB MUNICIPALITY,

hereby certify that the 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.

Dr. J. Mac Kay

Acting Municipal Manager of KAI !GARIB MUNICIPALITY (NC082)

Signature

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Date ______________________