



Dr. Beyers Naudé

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DRAFT ANNUAL BUDGET 2022/23 – 2024/25

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PART 1 – ANNUAL BUDGET

1.1 MAYOR'S REPORT

To be included in final budget.

1.2 **COUNCIL RESOLUTIONS**

The Mayor recommends that the Council resolves that:

1. The draft annual budget of the Dr Beyers Naude Municipality for the financial year 2022/23 and the indicative allocations for the projected outer years 2023/24 and 2024/25; and the multi-year and single year capital appropriations be approved for the purpose of complying with section 24 of the Municipal Finance Management Act (MFMA), Act No. 56 of 2003, as set-out in the following tables:
 - 1.1 Consolidated Budget Summary – Schedule A1
 - 1.2 Budgeted Financial Performance (revenue and expenditure by standard classification) – Schedule A2
 - 1.3 Budgeted Financial Performance (revenue and expenditure by municipal vote) – Schedule A3
 - 1.4 Budgeted Financial Performance (revenue by source and expenditure by type) – Schedule A4
 - 1.5 and Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source – Schedule A5
2. The draft budgeted financial position, budgeted cash flows, cash-backed reserves/accumulated surplus, asset management and basic service delivery targets be noted as set-out in the following tables:
 - 2.1 Budgeted Financial Position – Schedule A6
 - 2.2 Budgeted Cash Flows – Schedule A7
 - 2.3 Cash backed reserves and accumulated surplus reconciliation – Schedule A8
 - 2.4 Asset management – Schedule A9
 - 2.5 Basic service delivery measurement – Schedule A10
(These schedules will be included as Annexures to the budget document)
3. The service tariffs and property rates be increased as per the tariffs schedule with effect from 1 July 2022
4. The indicative tariffs for 2022/2023 to 2024/2025 be increased as follows:

	2022/2023	2023/2024	2024/2025
Property rates	6%	5%	5%
Water	6%	5%	5%
Sanitation	6%	5%	5%
Refuse	6%	5%	5%
Electricity	10%	9%	9%
5. That the detailed capital budget as be approved
6. That the tariffs, fees and charges as reflected on the tariff list, in terms of Section 30 (2) and 93 4) of the Local Government: Municipal Structures Act, Act No: 117 of 1998 (as amended), read with Chapter 4 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, be approved with effect 1 July 2022

7. That the following draft reviewed budget related policies be approved:

- (a) Credit control and debt collection
- (b) Tariff policy
- (c) Supply Chain Management Policy
- (d) Asset management policy
- (e) Cash management, banking & investment policy
- (f) Budget policy
- (g) Virement policy
- (h) Funding and reserve policy
- (i) Borrowing policy
- (j) Indigent support policy
- (k) Rates Policy
- (l) Contract Management Policy
- (m) Unauthorised, Fruitless & Wasteful and Irregular Expenditure policy
- (n) Rewards, gifts and favours policy
- (o) Inventory management policy
- (p) Transport and fleet management policy
- (q) Cost containment policy
- (r) Long term financial planning policy

8. That the following draft by-laws be approved and be published for public comments

- (a) Tariff by-law
- (b) Credit control and debt collection by-law
- (c) Rates by-law

1.3 EXECUTIVE SUMMARY

The key service delivery priorities, as outlined in the IDP, informed the development of the Budget, including the need to maintain and improve the Municipality's financial sustainability. Furthermore, cost containment measures are being implemented to curb costs and to improve operational efficiency.

National Treasury's MFMA Circulars No. 48, 51, 54, 55, 58, 59, 66, 67, 70, 72, 74, 75, 78, 79, 85, 86, 89, 91, 93, 94, 98, 99, 107, 108 and 115 were used to guide the compilation of the 2022/23 Medium Term Revenue and Expenditure Framework (MTREF).

The Municipality faced the following significant challenges during the compilation of the 2022/23 MTREF:

- Maintaining revenue collection rates at the targeted levels;
- Maintaining electricity and water losses at acceptable levels;
- Fully implementing cost containment measures;
- Allocation of the required budget provision for the rehabilitation and maintenance of infrastructure; and
- Maintaining an acceptable cost coverage ratio;
- Drought conditions currently faced by the municipality and surrounding areas;
- The impact of Covid-19 regulations, circulars and guidelines issued by government.

The following budgeting principles and guidelines directly informed the compilation of the 2022/23 MTREF:

- The priorities and targets, relating to the key strategic focus areas, as outlined in the IDP.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs.
- The level of property rates and tariff increases to ensure the delivery of municipal services on a financially sustainable basis.
- The need to enhance the municipality's revenue base.
- Implementation of the cost containment regulations.
- No loan funding is available to support the Capital Budget, in view of financial affordability considerations.

In view of the aforementioned, the following table represents an overview of the 2022/23 Medium-term Revenue and Expenditure Framework:

Table 1 (Overview of the 2022/23 MTREF)

	Current Year	2022/23 Medium Term Revenue and Expenditure		
	Adjusted Budget 2021/22 R	Budget Year 2022/23 R	Budget Year +1 2023/24 R	Budget Year +2 2024/25 R
Total Revenue	617 361 919	641 309 336	688 339 351	693 680 573
Total Expenditure	532 866 976	553 979 764	578 908 853	603 864 966
Surplus/(Deficit)	84 494 943	87 329 571	109 430 497	89 815 606
Capital Expenditure	69 255 300	70 698 500	121 680 300	26 207 817

The municipality is showing an operational surplus, however the budget remains unfunded, when we consider the current outstanding debtors' and creditors' balances. As it stands, agreements have been entered into with some creditors, but the full Eskom balance remains payable immediately, until such a time as an agreement is signed.

There is a general increase in revenue, as result of tariff increases and continued implementation of cost reflective tariffs. This however is set-off by the anticipated decrease in the proceeds from the sale of land.

Total operating revenue has increased by 3.88% or R23.95million for the 2022/23 financial year, compared to the 2021/22 Adjustments Budget.

The municipality completed investigations into cost of supply and a baseline tariff was established for each service in 2019. Thorough investigations were also concluded on electricity tariffs, the effect of the wheeling agreement with Eskom and management has completed physical verification of bulk consumer meters. The intention of the physical verification was to ensure that all possible tampering is identified for these users, correct meters are installed and are functional and to ensure that each user is linked to the correct tariff. A lot of work has been performed and the project is expected to continue into the 2022/23 financial year.

For the two outer years, operational revenue increases by 7.33% and 0.78% respectively.

Total operating expenditure for the 2022/23 financial year amounts to R553.9 million, resulting in a budgeted surplus of R87.3 million. Compared to the 2021/22 Adjustments Budget, operational expenditure increased by 3.96. The municipality is currently struggling financially, and cost containment measures are implemented. Cost containment measures include a monthly curb on overtime, acting allowances and travel expenses. It also includes the stopping of non-essential procurement.

For the two outer years, operational expenditure increases by 4.5% and 4.3% respectively. The 2022/23 and 2023/24 budgets reflect operating surpluses of R109 million and R89 million respectively.

The major operating expenditure items for 2022/23 are remuneration (council and employees) (34.7%), bulk electricity purchases (22.95%), depreciation (11.61%), Repairs and Maintenance (4.94%) and other expenditure (25.7%).

Funding for the 2022/23 Operating Budget is funded from various sources, the major sources being service charges such as electricity, water, sanitation and refuse collection (49.96%), property rates (8.33%), grants and subsidies received from National and Provincial Governments (31.22%).

In order to fund the 2022/23 Operating Budget, the following increases in property rates and service charges will be effected with effect from 1 July 2022:

Property rates:	Increase with 6%
Water:	Increase with 6%
Refuse:	Increase with 6%
Sewerage:	Increase with 6%
Sanitation:	Increase with 6%
Electricity:	Electricity tariff will increase with 10%. Please note that the increase is subject to approval by NERSA and this percentage may vary towards the final adopted budget.

The municipality has conducted a cost of supply study on all tariffs in 2019. The study revealed that almost all the services are currently being rendered at below cost which puts enormous strain on the cash flow of the municipality. It was therefore imperative that these tariffs be changed to include

baseline tariffs. Due to the poor economic conditions and covid-19 revenue and tariffs could not be increased with more than the proposed 3.9% by National Treasury.

The original capital budget of R70.7 million for 2022/23 is R1.44 million or 2.08% higher than the 2021/22 Adjustments Budget, this is due to more capital allocations from national government for 2022/23. The Capital Budget over the MTREF will be mainly funded from government grants and subsidies, as limited internal funding is available. Capital expenditure for 2023/24 will amount to R121.6 million.

The budget provides for assistance to the poor and includes the following social package:

- Water – 6 kl free
- Electricity – 50 kwh free
- Refuse – 100% of monthly cost free
- Sanitation – 100% of monthly cost free
- Property Rates- 100% of assessed rates

All budget related policies have been reviewed and will be workshopped with Councillors and top management. The policies will also be subjected to public participation.

1.4 OPERATING REVENUE FRAMEWORK

The continued provision and expansion of municipal services, is largely dependent on the Municipality generating sufficient revenues. Efficient and effective revenue management is thus of vital importance in ensuring the ongoing financial sustainability of the Municipality. Furthermore, in accordance with the MFMA, expenditure has to be limited to the realistically anticipated revenues.

The Municipality's revenue management strategy includes the following key components:

- National Treasury's guidelines in this regard;
- Tariff Policies;
- Property Rates Policy;
- Indigent Policy and provision of free basic services;
- The level of property rates and tariff increases must ensure financially sustainable service delivery.
- The level of property rates and tariff increases to take into account the maintenance and replacement of infrastructure, including the expansion of services;
- Determining fully cost reflective tariffs for trading services;
- Electricity bulk tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Efficient revenue management, targeting a 95% annual collection rate for property rates and service charges.

The following table is a summary of the 2022/23 MTREF (classified by main revenue source):

Table 2 (Summary of main revenue sources)

Table to be provided

Row Labels		Adjustment Budget 2021/22	Budget year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
56 - PROPERTY RATES	-	50 290 992.34	- 53 426 502.49	- 56 138 830.53	- 58 945 772.05
62 - SERVICE CHARGES	-	267 489 582.97	- 320 388 845.83	- 343 021 482.10	- 378 087 060.07
66 - RENT OF FACILITIES & EQUIPMENT	-	1 049 390.00	- 1 111 675.79	- 1 167 023.71	- 1 225 189.70
68 - INTEREST EARNED - EXTNL INVEST	-	1 500 000.00	- 1 590 000.00	- 1 669 500.00	- 1 752 975.00
70 - INTEREST EARNED - O/S DEBTORS	-	4 990 640.13	- 5 290 078.54	- 5 554 582.46	- 5 832 311.59
74 - FINES	-	35 178.46	- 37 289.17	- 39 153.63	- 41 111.31
76 - LICENCES & PERMITS	-	1 853 953.16	- 1 965 190.35	- 2 063 449.86	- 2 166 622.36
78 - INCOME FROM AGENCY SERVICES	-	4 082 019.04	- 6 134 010.05	- 6 440 710.55	- 6 762 746.08
80 - GRANTS & SUBS REC'D - OPERATING	-	110 830 120.00	- 118 665 107.20	- 123 402 762.56	- 123 489 300.69
82 - GRANTS & SUBS REC'D - CAPITAL	-	79 869 000.00	- 81 534 000.00	- 119 634 000.00	- 108 107 000.00
84 - OTHER REVENUE	-	95 338 647.13	- 51 132 296.85	- 29 171 798.98	- 7 232 624.66
94 - INTERNAL RECOVERIES	-	32 396.02	- 34 339.78	- 36 056.77	- 37 859.61
Grand Total	-	617 361 919.24	- 641 309 336.05	- 688 339 351.15	- 693 680 573.11

In the 2021/22 financial year, rates and service charges amounted to R317.7 million. This increases to R373.8 million in 2022/23 and increases to R399.1 million and R437 million in the 2023/24 and 2024/25 financial years, respectively.

The following continued efforts to increase the revenue base were introduced in 2019:

- Implementation of a new valuation roll with increased market values
- Implementation of cost reflective tariffs after a cost of supply study was conducted
- Implementation of drought tariff
- Introduction of environmental levy

The service charges as stated above are main source of funding for the municipality with a contribution of R320.3 million or 49.96% of the total budget. The individual service contribution to service charges is as follows:

- Electricity 53%
- Water 18%
- Refuse 10%
- Sanitation 19%

The following table provides a breakdown of the various operating grants and subsidies allocated to the Municipality over the medium term:

Row Labels		Adjustment Budget		Budget year		Budget Year +1	Budget Year +2
		2021/22		2022/23		2023/24	2024/25
80 - GRANTS & SUBS REC'D - OPERATING	-	110 830 120.00	-	118 665 107.20	-	123 402 762.56	- 123 489 300.69
Grand Total		-110830120		-118665107.2		-123402762.6	-123489300.7

1.4.1 Property Rates

The following provisions in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rateable value (Section 17(h) of the MPRA).
- If the usage of a property changes during a financial year, the rebate applicable will be reduced *pro rata* for the balance of the financial year.
- Indigents receives 100% subsidy on the rates levied for the year.

The property rates tariff is standardised to ensure all owners in a category pays the same rate in all the towns in the municipality's jurisdiction. The prescribed ratio is applied.

The property rates increase is mainly influenced by the following:

- Employee related costs increased by 4.5%.
- Providing for debt impairment.
- Increasing the revenue to ensure non-profit divisions are properly subsidised,

The new valuation roll has been implemented from 1 July 2019.

1.4.2 Sale of Water and Impact of Tariff Increases

In accordance with National Treasury's MFMA Circulars, no. 51, 55, 58, 66, 70, 74, 85, 89, 91, 93, 94, 98, 99, 107, 108 and 115:

Municipalities are encouraged to review the level and structure of their water tariffs to ensure:

- Fully cost reflective water tariffs – tariffs should include the costs associated with bulk water purchases, the maintenance and renewal of purification plants, water networks and water reticulation expansion;
- Water tariffs are structured to protect basic levels of service; and
- Water tariffs are designed to encourage efficient and sustainable consumption.

National Treasury has urged municipalities to ensure that water tariffs are fully cost reflective by 2014/15. In this regard a cost of supply study was conducted and the new baseline tariff will be introduced as the first step tariff. Dr Beyers Naude is a municipality which was formed through the amalgamation of 3 former municipalities. As a result of the amalgamation the municipality is also faced with trying to standardise tariffs within the different towns. A further cost of supply study has been done and is being introduced in the 2022/23 financial year and will be gradually phased-in over the 2022/23 MTREF.

The prevailing drought makes it difficult to improve revenue generation from this service. It is now more important to improve demand management, infrastructure maintenance, loss management, meter reading and tariff setting in respect of water services.

Ongoing accurate monitoring and reporting of municipal Non-Revenue Water (NRW) and water loss performance against set targets and baselines has become more critical. The municipality is currently monitoring water losses on a monthly basis, but are faced with a huge number of metres that are faulty. This contributes to the inaccurate billing and collection of water tariffs. Grant funding has been received to conduct a study on all faulty metres and areas of water losses. The project started during the 2017/18 financial year and was completed in the 2019/20 financial year.

The tariff will be increased with 6% from 1 July 2022. The proposed tariff increase is mainly influenced by the following:

- Employee related costs
- Repairs and maintenance of water infrastructure
- Providing for debt impairment.
- Implementation of cost reflective tariffs
- The prevailing drought

The water tariff structure is designed in such a manner that higher levels of water consumption are progressively charged at a higher rate. The drought tariff will also be implemented during the time of drought as currently experienced.

1.4.3 Sale of Electricity and Impact of Tariff Increases

On 24 February 2022, the National Energy Regulator of South Africa (Nersa) approved Eskom's 9.6% (17.8% from 1 April to 30 June 2022) increase for municipalities which will be implemented on 1 July 2022. The calculated guideline has not yet been published by Nersa. Considering the Eskom tariff increase, the Municipality's consumer tariffs will provisionally be increased by 10% on average to offset the additional electricity bulk purchase costs as from 1 July 2022.

The difference between Eskom's increase is due to the MFMA time lag (the municipalities' implementation date is 1 July, whereas Eskom's financial year starts on 1 April). Due to the requirements of the MFMA, Eskom can only increase its prices to municipalities from 1 July 2022 and not 1 April 2022. This time lag leads to an under-recovery by Eskom from sales to municipalities, which requires a higher price increase to municipalities. The higher price increase results from the fact that the outstanding revenue has to be recovered within a nine-month period instead of twelve months.

The tariff increases are mainly influenced by the following:

- Employee related costs
- The cost of bulk electricity purchases
- Repairs and maintenance of electricity infrastructure
- Providing for debt impairment
- Implementing cost reflective tariffs

The population of the municipality is relatively stagnant and minimal growth is expected over the MTREF. It is thus estimated that the revenue will only grow with percentage of price increases.

The proposed electricity tariff increases, still require approval by NERSA.

1.4.4 Sanitation and Impact of Tariff Increases

In accordance with National Treasury's MFMA Circulars, no. 51, 55, 58, 66, 70, 74, 85, 89, 91, 93, 94, 98, 99, 107, 108 and 115: municipalities are encouraged to review the level and structure of their sanitation tariffs to ensure:

- Fully cost reflective sanitation tariffs – tariffs should include the costs associated with maintenance and renewal of treatment plants, sanitation networks and sanitation infrastructure expansion;

- Sanitation tariffs are structured to protect basic levels of service; and
- Sanitation tariffs are designed to encourage efficient and sustainable consumption.

National Treasury has urged municipalities to ensure that sanitation tariffs are fully cost reflective by 2014/15. In this regard the municipality conducted a cost of supply study to determine a new baseline tariff that was introduced in 2019/20. Dr Beyers Naude is a municipality which was formed through the amalgamation of 3 former municipalities. As a result of the amalgamation the municipality is also faced with trying to standardise tariffs within the different towns. The tariff policy of the municipality makes provision to phase in the standardised tariffs over a period of 3 years

As a result, the tariff will increase of 6% as from 1 July 2022. The tariff increase is mainly influenced by the following:

- Employee related costs
- Repairs and maintenance of sanitation infrastructure
- Providing for debt impairment
- Implementing cost reflective tariffs

1.4.5 Refuse Collection and Impact of Tariff Increases

National Treasury has urged municipalities to ensure that refuse tariffs are fully cost reflective by 2014/15. The tariffs should take into account the need to maintain a cash-backed reserve to cover the future costs of the rehabilitation of landfill sites.

The revenue generated from refuse collection is not sufficient to ensure proper service delivery. The municipality is facing challenges with regards to infrastructure, fleet and tools.

A tariff increase of 6% for refuse collection will thus be implemented as described above.

The proposed tariff increase is mainly influenced by the following:

- Employee related costs
- Implementation of environmental levy
- Providing for debt impairment
- Provision for landfill sites
- Tariff not cost reflective

1.5 OPERATING EXPENDITURE FRAMEWORK

The Municipality's expenditure framework for the 2022/23 budget and MTREF is informed by the following:

- The funding of the budget over the medium-term is informed by the requirements of Section 18 and 19 of the MFMA;
- A balanced budget approach by limiting operating expenditure to the operating revenue.

The following table is a high-level summary of the 2022/23 budget and MTREF (classified per main type of operating expenditure):

Table 4 (Summary of operating expenditure by standard classification item)

Schedule to be provided with item

Expense Types	Adjustment	Budget Year	Budget Year +1	Budget Year +2
	Budget 2021/22	2022/23	2023/24	2024/25
2 - EMPLOYEE RELATED COSTS	175 314 825.84	183 693 482.62	191 959 689.34	200 597 875.36
8 - REMUNERATION OF COUNCILLORS	9 987 337.00	9 036 847.00	9 443 505.12	9 868 462.85
10 - Impairment of assets	10 146 111.00	4 599 217.43	4 806 182.21	5 022 460.41
14 - DEPRECIATION: MUN PROP,PLT &EQ	61 572 428.70	64 343 187.96	67 238 631.42	70 264 369.83
18 - REPAIRS AND MAINTENANCE	25 880 559.04	27 382 278.75	28 614 481.29	29 902 132.95
20 - INTEREST PAID	16 609 490.76	17 356 917.84	18 137 979.15	18 954 188.21
22 - BULK PURCHASES	115 999 787.00	127 135 766.55	132 856 876.05	138 835 435.47
24 - CONTRACTED SERVICES	15 745 399.78	15 040 912.96	15 717 754.04	16 425 052.97
26 - GRANTS & SUBS PD - UNCONDITION	30 000.00	30 000.00	31 350.00	30 000.00
28 - GENERAL EXPENSES - OTHER	91 252 180.74	93 962 458.90	98 190 769.55	101 517 329.18
40 - VEHICLE EXPENSES	10 328 856.22	11 398 694.53	11 911 635.79	12 447 659.40
Grand Total	532 866 976.08	553 979 764.54	578 908 853.95	603 864 966.63

The total operating expenditure increased by R21.1million (3.96%) from R532.8 million in 2021/22 to R553.9 million in 2022/23. Below is a discussion of the main expenditure components.

Employee related costs

The 2022/23 budget has general increase of 4.5%. This is based on the average CPI for the MTREF as per MFMA budget circular no 115. The total budget provision of R183.7 million has been allocated for the 2022/23 financial year.

Employee related costs in the 2022/23 Budget, represent 33.16% of the total operating expenditure

Remuneration of Councillors

The remuneration of Councillors is determined by the Minister of Co-operative Governance and Traditional Affairs, in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been considered in preparing the budget.

Debt Impairment

The provision for debt impairment was determined based on a targeted annual collection rate of 95%.

While this expenditure represents a non-cash flow item, it is taken into account in determining the total costs associated with the rendering of municipal services and the realistically anticipated revenues.

Depreciation and Asset Impairment

It is anticipated that depreciation will increase over the MTREF, as it was found to be under-provided for in the previous financial year. The total cost of R69.9million is allocated to the 2022/23 financial year.

Finance Charges

Finance charges consist primarily of the repayment of interest on outstanding trade creditors. The municipality is currently facing severe cash flow problems and is unable to pay creditors within the 30 days as required by legislation.

Bulk Electricity Purchases

The bulk purchases of electricity increased by R11.1 million (9.6%), from R115.9 million in 2021/22 to R127.1 million in 2022/23.

NERSA has approved a 9.6% increase in the Eskom bulk tariff for the 2022/23 financial year. The municipality is yet to engage in negotiations with Eskom to review the tariffs used for bulk charges as it was discovered that the municipality could move to a more economical tariff.

Repairs and Maintenance

Repairs and maintenance for 2022/23 amounts to R27.3 million and equates to 4.94% of the total operating expenditure. The municipality anticipates increasing this amount over the MTREF as an improvement in revenue is noted.

Per National Treasury circular number 71 of 2014 on uniform Financial Ratios and Norms, Repairs and Maintenance as a % of Property, Plants and Equipment and Investment Property (Carrying Value) for the 2022/23 budget is 3%.

The Ratio measures the level of repairs and maintenance to ensure adequate maintenance to prevent breakdowns and interruptions to service delivery. Repairs and maintenance of municipal assets is required to ensure the continued provision of services. The norm is 8%.

A ratio below the norm is a reflection that insufficient monies are being spent on repairs and maintenance to the extent that it could increase impairment of useful assets. An increasing expenditure trend may be indicative of high asset-usage levels, which can prematurely require advanced levels of Repairs and Maintenance or a need for Asset Renewal / Replacements. Also, should an increasing expenditure trend suddenly drop to lower levels without an increase in the fixed asset value, this may be indicative of challenges in spending patterns. This may also indicate that the Municipality is experiencing cash flow problems and therefore unable to spend at appropriate levels on its repairs to existing assets or purchase of new assets thus impacting negatively on service delivery.

Contracted Services

In the 2022/23 financial year, the budget provision amounts to R15 million and equates to 2.7% of the total operating expenditure.

Transfers and Subsidies

In the 2022/23 financial year, the budget provision amounts to R30 thousand and includes transfers to the local SPCA.

Other Expenditure

Other expenditure comprises of various line items relating to the daily operations of the municipality.

The expenditure increased by R6.5 million or 6.48% for 2022/23 and equates to 19.52% of the total operating expenditure.

Other expenditure is made up of general expenses – other and vehicle expenses.

1.5.1 Priority relating to repairs and maintenance

The repairs and maintenance expenditure in the 2022/23 financial year is R27.4 million, compared to 2021/22 (R25.8 million) an increase of R1.5 million as a result of the maintaining of Repairs and maintenance plans.

In relation to the total operating expenditure, repairs and maintenance constitutes 4.9% for the 2022/23 financial year and 4.9% for the 2023/24 and 4.9% for the 2024/25 financial years, respectively.

1.5.2 Free Basic Services: Indigent Support

The indigent support assists indigent households that have limited financial ability to pay for municipal services. In order to qualify for free services, the households are required to register in terms of the Municipality's Indigent Policy, whilst the monthly household income may not exceed two state pensions. Detail relating to free services, cost of free basic services, as well as basic service delivery measurement is contained in Table A10 (Basic Service Delivery Measurement).

The cost of the indigent support of the registered indigent households is largely financed by national government through the local government equitable share allocation, received in terms of the annual Division of Revenue Act.

1.6 CAPITAL EXPENDITURE

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

Table 6 (2021/22 Medium-term capital budget per vote)

Table to be provided

Of the total amount of R70.7 million for 2022/23, an amount of R63.6 million has been budgeted for the development of infrastructure, which represents 89.9% of the total capital budget.

CAPITAL PROJECTS

IDP	PROJECT NAME	PROJECT DESCRIPTION	QUANTITY	AREA DESCRIPTION	BRANCH DESCRIPTION	SOURCE OF FUNDING	WARD	2022/23
201	Upgrading of Collie Koeberg Sport Centre	Upgrading of security fence, lighting		COMMUNITY SERVICES	PARKS RECREATION & GOLF	MIG	2 - 7 & 14	6 000 000.00
112	Graaff Reinet - Upgrading and refurbishment	Graaff Reinet - Upgrading and re		TECHNICAL SERVICES: ENGINEERING	WATER SERVICE	MIG		5 014 454.11
116	Willowmore Bulk Water Supply: Steel Pipelines from Wanhooop: Replacement			TECHNICAL SERVICES: ENGINEERING	WATER SERVICE	MIG		5 845 045.89
131	Dr. Beyers Naude - Upgrading of Steytleville Solid Waste Disposal Site			TECHNICAL SERVICES: ENGINEERING	WATER SERVICE	MIG		4 000 000.00
143	Installation of New High Mast Lights			TECHNICAL SERVICES: ENGINEERING	WATER SERVICE	MIG		-
163	Upgrading of Streets and Storm Water in Dr. Beyers Naude			TECHNICAL SERVICES: ENGINEERING	WATER SERVICE	MIG		-
141	Upgrading of Electrical Infrastructure			TECHNICAL SERVICES: ENGINEERING	WATER SERVICE	INEP		5 800 000.00
114	Ikwezi Bulk Water Supply			TECHNICAL SERVICES: ENGINEERING	WATER SERVICE	RBIG		25 000 000.00
117	Graaff-Reinet Emergency Water Supply Scheme Phase 3			TECHNICAL SERVICES: ENGINEERING	WATER SERVICE	RBIG		7 000 000.00
116	Graaff-Reinet: Bulk Water Supply Phase 2			TECHNICAL SERVICES: ENGINEERING	WATER SERVICE	WSIG		10 939 000.00
???	Communication and network strengthening	Communication and network str		CORPORATE SERVICES: ADMINISTRATION	INFORMATION TECHNOLOGY	FMG		800 000.00
	IT equipment	IT equipment		CORPORATE SERVICES: ADMINISTRATION	INFORMATION TECHNOLOGY	FMG		200 000.00
	Security risk address in BTO	Security risk address in BTO		CORPORATE SERVICES: ADMINISTRATION	INFORMATION TECHNOLOGY	FMG		60 000.00
	Office equipment	Office equipment		FINANCIAL SERVICES	DIRECTOR : FINANCIAL	FMG		40 000.00
								70 698 500.00

1.7 ANNUAL BUDGET TABLES

The ten main budget tables, as required in terms of the Municipal Budget and Reporting Regulations, are included in this section. These tables set out the Municipality's 2022/23 Budget and MTREF to be considered for approval by Council.

To be provided

PART 2 – SUPPORTING DOCUMENTATION

2.1 OVERVIEW OF ANNUAL BUDGET PROCESS

The Budget process usually starts in September after the approval of a timetable to guide the preparation of the 2022/23 to 2024/25 Operating and Capital Budgets.

The timetable provides broad timeframes for the IDP and Budget preparation process. It allows for consultation with stakeholders, such as the elected public representatives, employees of the Municipality, Civil Society, State departments, business and labour, during April/May 2022. The main aim of the timetable was to ensure that an IDP and a balanced Budget are tabled in May 2022.

The Service Delivery and Budget Implementation Plan is the mechanism that ensures that the IDP and the Budget is aligned.

The draft budget is to be considered by the Budget Steering Committee under the direction of the Mayor. The Budget Steering Committee consist of the Mayor, the Chairperson of the Budget and Treasury Standing Committee, the Municipal Manager and senior officials. The primary aims of the Committee are to ensure that:

- The budget compilation process complies with legislation;
- There is proper alignment between the service delivery priorities as set out in the Municipality's IDP and the Budget, taking into account the need to maintain the financial sustainability of the Municipality;
- The Municipality's revenue and tariff determination strategies generate sufficient cash resources to deliver services; and
- The various spending priorities of the different municipal directorates are properly evaluated and prioritised in the allocation of resources.

IDP & Budget Timetable 2022/23

The preparation of the 2022/23 IDP and Budget were guided by the following schedule of key deadlines as approved by to be approved by Council.

Activity	Date
IDP/Budget Schedule approved by Council	August 2021
Tabling of draft IDP and Budget in Council	March 2022
Public Participation	April to May 2022
Final adoption of IDP and Budget by Council	May 2022

2.2 ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

The Integrated Development Plan (IDP) determines and prioritises the needs of the community.

The review of the IDP, in accordance with the Municipal Systems Act, was guided and informed by the following principles:

- Achievement of the five strategic priorities of the municipality.
- Focusing on service delivery backlogs and the maintenance of infrastructure.
- Addressing community priorities (needs) as identified in the IDP.

The review of the IDP focused on establishing measurable performance indicators and targets. These targets informed the preparation of the multi-year budget, as well as the Service Delivery and Budget Implementation Plan (SDBIP).

The 2022/23 Operating and Capital Budgets were prepared in accordance with the IDP. The key strategic focus areas of the IDP are as follows:

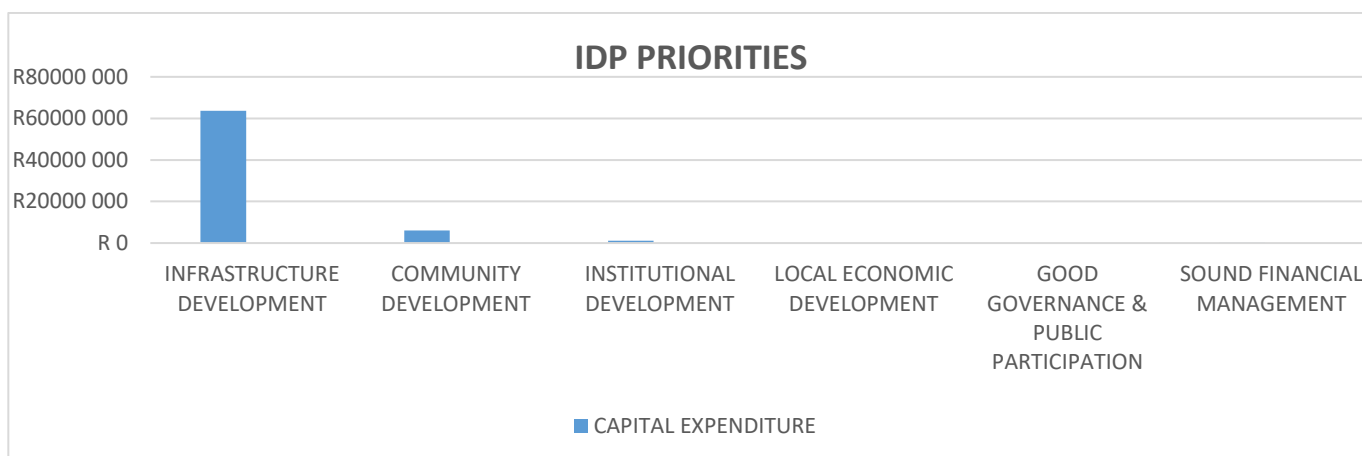
- Municipal transformation and development
- Service delivery and infrastructure development
- Local economic development
- Financial sustainability and viability
- Good governance and public participation

The budget consultation process will take the form of a series of meetings to be held throughout the municipal area with the elected public representatives, employees of the Municipality, Civil Society, business, labour, National and Provincial Governments on how the budget addresses the IDP priorities and objectives. The feedback flowing from these meetings will be referred to the relevant Directorates for their attention.

Below is a table, which illustrates the link between the Budget and the IDP.

BUDGET ALLOCATION ACCORDING TO IDP PRIORITIES

					BACK TO BASICS		
	INFRASTRUCTURE DEVELOPMENT	COMMUNITY DEVELOPMENT	INSTITUTIONAL DEVELOPMENT	LOCAL ECONOMIC DEVELOPMENT	GOOD GOVERNANCE & PUBLIC PARTICIPATION	SOUND FINANCIAL MANAGEMENT	TOTAL
CAPITAL EXPENDITURE	R63 598 500	R6 000 000	R1 060 000	R0	R0	R40 000	R70 698 500



2.3 OVERVIEW OF BUDGET RELATED POLICIES

The MFMA and the Budget and Reporting Regulations require budget related policies to be reviewed, and where applicable, be updated on an annual basis.

All budget related policies have been reviewed and/or developed. Policies will be workshopped extensively with Council and Top Management and will further be workshopped with all relevant stakeholders.

The following policies are now in place:

• Credit control and debt collection	-	reviewed
• Tariff policy	-	reviewed
• Supply Chain policy	-	reviewed
• SCM Infrastructure Procurement	-	reviewed
• Asset management policy	-	reviewed
• Subsistence and Travel policy	-	reviewed
• Cash management, banking & investment policy	-	reviewed
• Budget policy	-	reviewed
• Virement policy	-	reviewed
• Funding and reserve policy	-	reviewed
• Borrowing policy	-	reviewed
• Rates policy	-	reviewed
• Indigent support policy	-	reviewed
• Cost containment policy	-	developed
• Long term financial planning policy	-	developed

The following by-laws were developed and will be promulgated once all legislative processes have been concluded:

- Tariff by-law
- Credit control and debt collection by-law
- Rates by-law

2.4 OVERVIEW OF BUDGET ASSUMPTIONS

The municipal fiscal environment is influenced by a variety of macro-economic control measures. National Treasury provides guidelines on the ceiling of year-on-year increases in the total Operating Budget, whilst the National Electricity Regulator of South Africa (NERSA) regulates bulk electricity tariff increases. The Municipality's employee related costs are also influenced by collective agreements concluded in the South African Local Government Bargaining Council. Various government departments also affect municipal service delivery through the level of grants and subsidies.

The following principles and guidelines directly informed the compilation of the Budget:

- The priorities and targets, relating to the key strategic focus areas, as outlined in the IDP.
- The need to enhance the municipality's revenue base.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs, including the expansion of services.
- The level of property rates and tariff increases to ensure the delivery of services on a financially sustainable basis.
- Raising of loan funding should be considered to address critical needs.
- No growth in revenue sources has been provided for in view of current consumption trends in municipal services.

- Restructuring of major trade creditors over long term periods to ensure financial sustainability and a funded budget
- Restructuring of tariffs to uniform tariffs and ensuring baseline tariff as per cost of supply study

The Municipality faced the following significant challenges in preparing the 2022/23 – 2024/25 Budget:

- Fully implementing cost containment measures;
- Maintaining revenue collection rates at the targeted levels;
- Maintaining electricity and water losses at acceptable levels;
- Dealing with an unfunded budget of the past and measures to address this in the future
- Different tariff structures in the different towns and converting this to uniform tariffs
- Creditors inherited from former municipalities which is still placing financial strain on the cash flow and hence the restructuring of creditors over long term period
- Introducing cost reflective tariffs
- Allocation of the required budget provision for the rehabilitation and maintenance of infrastructure;
- Maintaining an acceptable cost coverage ratio;
- Covid-19

The multi-year budget is therefore underpinned by the following assumptions:

	2022/23	2023/24	2024/25
Income	%	%	%
Tariff Increases for water	6	5	5
Tariff Increases for sanitation	6	5	5
Tariff Increases for refuse	6	5	5
Property rates increase	6	5	5
Electricity tariff increase (on average)	10	9	9
Revenue collection rates	95	95	95
Expenditure increases allowed			
Salary increase	4.5	4.5	4.5
Increase in bulk purchase of electricity costs	9.6		

2.5 OVERVIEW OF BUDGET FUNDING

2.5.1 Medium-term outlook: operating revenue

The following table provides a breakdown of operating revenue over the medium-term:

Table 7 (Breakdown of the operating revenue over the medium-term)
Table to be provided

Row Labels		Adjustment Budget	Budget year	Budget Year +1	Budget Year +2
		2021/22	2022/23	2023/24	2024/25
56 - PROPERTY RATES	-	50 290 992.34	- 53 426 502.49	- 56 138 830.53	- 58 945 772.05
62 - SERVICE CHARGES	-	267 489 582.97	- 320 388 845.83	- 343 021 482.10	- 378 087 060.07
66 - RENT OF FACILITIES & EQUIPMENT	-	1 049 390.00	- 1 111 675.79	- 1 167 023.71	- 1 225 189.70
68 - INTEREST EARNED - EXTNL INVEST	-	1 500 000.00	- 1 590 000.00	- 1 669 500.00	- 1 752 975.00
70 - INTEREST EARNED - O/S DEBTORS	-	4 990 640.13	- 5 290 078.54	- 5 554 582.46	- 5 832 311.59
74 - FINES	-	35 178.46	- 37 289.17	- 39 153.63	- 41 111.31
76 - LICENCES & PERMITS	-	1 853 953.16	- 1 965 190.35	- 2 063 449.86	- 2 166 622.36
78 - INCOME FROM AGENCY SERVICES	-	4 082 019.04	- 6 134 010.05	- 6 440 710.55	- 6 762 746.08
80 - GRANTS & SUBS REC'D - OPERATING	-	110 830 120.00	- 118 665 107.20	- 123 402 762.56	- 123 489 300.69
82 - GRANTS & SUBS REC'D - CAPITAL	-	79 869 000.00	- 81 534 000.00	- 119 634 000.00	- 108 107 000.00
84 - OTHER REVENUE	-	95 338 647.13	- 51 132 296.85	- 29 171 798.98	- 7 232 624.66
94 - INTERNAL RECOVERIES	-	32 396.02	- 34 339.78	- 36 056.77	- 37 859.61
Grand Total	-	617 361 919.24	- 641 309 336.05	- 688 339 351.15	- 693 680 573.11

2.5.2 Medium-term outlook: capital revenue

The following table provides a breakdown of the funding components of the 2022/23 medium-term capital programme:

Table 8 (Sources of capital revenue over the MTREF)

Table to be provided

Row Labels	Sum of Adj Budget 2021/22	Sum of 2022/23	Sum of 2023/24	Sum of 2024/25
82 - GRANTS & SUBS REC'D - CAPITAL	-79869000	-81534000	-119634000	-108107000
Grand Total	-79869000	-81534000	-119634000	-108107000

2.5.3 Medium-term outlook: Borrowing

The municipality should consider raising loans for capital items required from own funds as well as buying vehicles instead of leasing.

2.5.4 Medium-term outlook: Working towards a funded budget

The municipality managed to table a funded budget. The funded budget is based on the following:

- Restructuring of debt owed to major creditors over long term period
- Implementing cost reflective tariffs – phase 2&3 – Introduction and implementation of secondary tariffs

The municipality has addressed the following issues to ensure a positive move towards becoming financially sustainable:

- Replacing the faulty meters within all areas thus limiting losses and increasing revenue
- Standardising tariffs in all areas
- Calculating cost reflective tariffs and implementation thereof over 3 years
- Implementing a new valuation roll for Dr Beyers Naude with effect 1 July 2019
- Continuing to implement cost containment measures

2.6 ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

The municipality will be making the following allocations:

- SPCA - R20 000
- Pauper burials - R10 000

2.7 COUNCILLORS AND EMPLOYEE BENEFITS

DISCLOSURE OF SALARIES, ALLOWANCES & BENEFITS

The following tables set out the allowances and employee benefits budgeted for the 2020/2120 budget year:

The municipality has twenty ++four (24) councillors, consisting of one fulltime Mayor, four EXCO Members also chairpersons of sec. 79 committees and one MPAC chairperson of which the allowances are set out in table below.

Grade	Councillor(s)	Number	Salary p/p	Salary	Allowance	Total remuneration
3	Mayor (full-time)	1	860 859	860 859	44 400	905 259
	Speaker (Full-time)	1	688 688	688 688	44 400	733 088
	Exco Members (part time)	4	360 193	1 440 772	177 600	1 618 372
	S79 Committee Chairperson (part-time)	1	349 618	349 618	44 400	394 018
	Part-time Councillors	17	272 430	4 631 310	754 800	5 386 110
	TOTAL	24		8 788 537	1 198 800	9 036 847

Disclosure of Salaries, Allowances & Benefits	Salary	Allowances	Performance Bonuses	Total Package (Rand per Annum)
Senior Managers of the Municipality				
Municipal Manager (MM)	1436545	40800		1477345
Chief Financial Officer	1174258	40800		1215058
Director Corporate Services	1174258	40800		1215058
Director Community Services	1174258	40800		1215058
Director Engineering and Planning	1174258	40800		1215058

2.8 ANNUAL BUDGETS AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLANS –DIRECTORATES

In terms of section 53 (1)(c)(ii) of the MFMA, the Service Delivery and Budget Implementation Plan (SDBIP) constitutes a detailed plan for implementing the Municipality's delivery of services and its annual budget, which must include the following:

- (a) Monthly projections of
 - Revenue to be collected, by source; and
 - Operational and capital expenditure, by vote.
- (b) Service delivery targets and performance indicators for each quarter.

In accordance with Section 53 of the MFMA, the Mayor is required to approve the SDBIP within 28 days after the approval of the budget. Furthermore, the Mayor must ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators, as set out in the SDBIP, are made public within 14 days after the approval of the SDBIP.

The SDBIP gives effect to the IDP and Budget of the Municipality. It includes the service delivery targets and performance indicators for each quarter, which forms the basis for the performance agreements of the Directors. It therefore facilitates oversight over the financial and non-financial performance of the Municipality and allows the Municipal Manager to monitor the performance of the Directors, the Executive Mayor/Council to monitor the performance of the Municipal Manager, and the Community to monitor the performance of the Municipality.

The SDBIP relating to the 2022/23 financial year will be approved by the Mayor during June 2022, following the approval of the Budget.

2.9 LEGISLATION COMPLIANCE STATUS

The following reflects the status of implementation of some of the key MFMA areas:

IDP

A draft revised 2022/23 IDP has been developed, which will be considered at a Council meeting to be held in May 2022. The IDP includes specific deliverables that forms the basis for the Budget and SDBIP.

Budget

The draft annual budget document has been developed taking the MFMA and National Treasury (NT) requirements into account. Budgets are being tabled and approved within the required legislated timeframes.

Annual Report

The Annual Report could not be developed taking into account the MFMA and NT extension of submission of annual financial statements. The annual report will be completed as soon as the audit is completed.

Oversight Report

The Municipal Public Accounts Committee has not considered the Annual report due the reasons mentioned above.

In-Year Reporting

The municipality submits the various reports required to the Mayor, Council, and NT on an ongoing basis, in accordance with the MFMA.

Supply Chain Management Policy (SCM)

A Supply Chain Management Policy has been adopted and implemented in accordance with the MFMA and NT requirements.

All the required committee structures are in place. Whilst the municipality is working at making these new processes operate more efficiently and effectively, it is considered that the municipality is currently complying with the MFMA and NT guidelines.

Budget and Treasury

A Budget and Treasury Office has been established in accordance with the MFMA and NT requirements, consisting of a CFO and municipal officials reporting to the CFO.

Audit Committee

An Audit Committee has been established and meets on a quarterly basis.

Internal Audit Function

The Municipality's Internal Audit Function is performed in-house and reports to the Municipal Manager and is operating in accordance with an audit plan.

In relation to the 2022/23 financial year and beyond, the municipality plans to focus on the following high priority areas:

- Working towards an unqualified audit status.

Internship Programme

The municipality has appointed five new interns in June 2019. One subsequently resigned in December 2019. Another intern was appointed in his place during 2021.

Municipal Standard Chart of Accounts (mSCOA)

The municipality has made significant progress on compliance. Data strings are uploaded monthly, and a "green" status has been maintained for several months now. All legislative required information has been submitted. The municipality is continuously working on reaching full compliance. The budget schedules are generated from the financial system.

2.10 **MUNICIPAL MANAGER'S QUALITY CERTIFICATION**

Quality Certificate

I, EDWARD MARTIN RANKWANA, Municipal Manager of Dr Beyers Naude 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 the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

Print Name : EDWARD MARTIN RANKWANA

MUNICIPAL MANAGER OF DR BEYERS NAUDE MUNICIPALITY (EC101)

Signature :



Date :
