

**REPLACEMENT ITEM 31/2020**  
**MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK FOR 2020/2021**  
**TO 2022/2023**

VIRTUAL SPECIAL COUNCIL MEETING: 30 JUNE 2020

**PURPOSE**

To submit the Medium Term Revenue and Expenditure Framework for the 2020/2021 to 2022/2023 financial period in terms of section 24 of the Municipal Finance Management Act.

**BACKGROUND**

The municipal Finance management Act (MFMA) aims to modernize budget and financial management practices by placing local government on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all its residents, customers, users and investors.

The draft budget of the municipality was tabled to council on 26 March 2020 in accordance with the provisions of section 16 of MFMA.

The draft IDP, Budget and Service Delivery Implementation Plans were tabled before council on 26 March 2020, 2020 in accordance with the provisions of section 16 of MFMA, where after the documents were published for public input and comment before being submitted for consideration by council for approval.

The President announced the Level 5 Lock down with effect from 27 March 2020, impacting on the normal public participation process. Several Government Gazettes were subsequently published to direct municipalities on the process to consult communities and to convene council meetings to approve the IDP and Budget. In line with the said directives, the municipality extended the period for public input to ensure that communities are consulted using media platforms and alternative methods of consultation, instead of contact meetings, to provide comments on the draft IDP and Budget. In this regard public notices were distributed to various shops to be displayed on their notice boards. Notices were also issued on the Merafong Facebook page and at least 25 community and stakeholder WhatsApp groups.

Several inputs have been received from the general public and businesses which have been taken into account in the final Budget submission. The Budget was also considered by the Budget Steering Committee and Finance Section 80 Committee which supported the Budget. By guidance of Provincial Treasury, municipalities were further advised to ensure that budgets are considered by councils before the beginning of the new financial year, being 1 July 2020.

**DISCUSSIONS**

The Budget has been compiled within the framework of the MFMA, MFMA Circulars No 98 and 99 of the Municipal Finance Management Act No. 56 of 2003, and the National Treasury and Budget Regulations.

Circulars No 98 and 99 guides municipalities with the compilation of the 2020/21 Medium Term Revenue and Expenditure Framework (MTREF). These circulars are linked to the Municipal Budget and Reporting Regulations (MBRR) and strives to support the budget preparation processes of municipalities so that the minimum requirements of the MBRR promulgated in 2009 are achieved.

Amongst the objectives of this budget circular is to demonstrate how municipalities should undertake the annual budget preparation on crucial issues. These issues include the local response to the global economic crisis, headline inflation forecasts, revision of rates, tariffs and other charges, transfers to municipalities, budget process and submissions, and the Municipal Budget and Reporting Regulations.

The following macro-economic forecast was considered when preparing the 2020/21 MTREF municipal budget.

**Macroeconomic performance and projections. 2018-2023**

Fiscal Year	2018/19 Actuals	2019/20 Estimate	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast
CPI Inflation	4.7%	4.3%	4.9%	4.8%	4.8%

The application of sound financial management principles in the compilation of the Municipal Financial Plan over the Medium Term Revenue and Expenditure Framework (MTREF) is essential to ensure that the Municipality remains financially viable and that municipal services are provided in a sustainably, economically and equitably manner to all communities.

The municipal services delivery priorities were reviewed as part of the planning and budget process. A review was also undertaken of expenditure on non-core items to ensure continued cost containment.

The following are the key focus areas taken into consideration with the compilation of the budget.

**Key Focus areas for the 2020/21 budget process:**

- Division of Revenue outlook
- Local government conditional grants and municipal revenue strength
- Municipal Standard Chart of Accounts (mSCOA)
- Changes to the structure of local government allocations
- Addressing unfunded budgets in local government

- The impact of the Covid 19 pandemic

A major risk remains Revenue Collection and the recovery of cost for services rendered. The municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the municipality has undertaken various community outreach initiatives to ensure that communities are involved in the process. The National Disaster declaration due to the COVID-19 pandemic also had a serious impact on the budget process and assumptions. The directives by government not to implement credit control during the lock down period has impacted negatively on the collection rate of the municipality since April 2020. In this regard the municipality approved a special adjustment budget, factoring in the loss of revenue and reduction of expenditure accordingly.

The proposed division of revenue in terms of the Division of Revenue Act (DoRA) is still biased towards prioritising the funding of services for poor communities. Allocations to local government subsidised the cost of delivering free basic services to the poorest of the poor households. Provision has been made for operating grants and transfers to the amount of R278 742 700 for the 2020/21 financial year which includes an additional amount of R32.439 million as published in the Division of Revenue Amendment Bill of 18 June 2020. The outer year allocations are increased to R268.6 in 2021/22 and to R289.2 Million in 2022/2023 in accordance with the Division of Revenue Act.

The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the MTREF period.

On an annual basis, the mSCOA is reviewed to address implementation challenges and correct chart related errors. Version 6.4 has been implemented for the 2020/21 MTREF.

The main challenges experienced during the compilation of the 2020/21 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Poor collection rate and inability to pay creditors within 30 days
- Poor cash coverage ratio and insufficient provision for maintenance
- Ageing and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource available;
- The increased cost of bulk water and electricity (due to tariff increases from Rand Water and Eskom), which is placing upward pressure on service tariffs to residents.
- The increase of other services, refuse and sanitation to remain cost effective whilst cost reflective;

- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year’s capital investments needed to be factored into the budget as part of the 2020/21 MTREF process;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The uncertainty of the long term impact of COVID-19 on the financial position of the municipality

The following budget principles and guidelines directly informed the compilation of the 2020/21 MTREF:

- Producing a Funded Budget – ensuring that the expenditure is aligned to the revenue and that the Council has sufficient cash to meet its debt obligations.
- Sustainability – ensure that the capital investment is within the financial capacity of Merafong and ensure that there is continuous investment on the infrastructure maintenance and replacement in a medium to long term period.
- Budget needs to respond to basic service delivery.
- Stabilisation and protection of the revenue base.
- Need to produce savings to facilitate the implementation of new programmes.
- On-going costs should be funded with on-going revenues – aligning continuing expenditures with continuing revenues, on a level that can be reasonably sustained and reduce reliance on onetime funding.
- Review all Council services and programs for operational efficiencies to improve service levels and delivery / managing the cost.
- The 2019/20 Adjustments Budget priorities and targets, as well as the base line allocations contained in the Adjustments Budget were adopted as the upper limits for the new baselines for the 2020/21 annual budget;
- Affordable Tariff and property rate increases generally not to exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- No funds are available for Capital projects funded from Revenue.
- Cost containment pertaining to the following:
  - Contracted services
  - Telephones costs.
  - The management of the fleet and usage of vehicles.
  - Attendance of conferences
  - Travel and subsistence
  - Overtime
- The municipality implemented a new valuation roll for the period 2019-2024 with effect from 1 July 2019, but the outcome of the Valuation Appeal Board may impact on the provision for property rates.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2020/21 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2020/2021 MTREF**

R thousand	COVID-19 Adjustment Budget 2019/20	Budget Year 2020/21	Budget Year 2021/22	Budget Year 2022/23
<b>Total Operating Revenue</b>	1 656 228 737	1 818 169 000	1 893 670 316	2 003 788 475
<b>Total Operating Expenditure</b>	1 727 118 751	1 815 650 495	1 890 061 376	1 994 182 886
<b>Surplus / (Deficit) for the Year</b>	(70 890 014)	2 518 505	3 608 939	9 605 588
<b>Total Capital Expenditure</b>	266 043 220	157 525 300	129 506 800	135 395 456

### **Budget Summary:**

#### **Operating Revenue**

The operating revenue for 2020/2021 is budgeted at R1 818 169 000, which is an increase of 9.78% from the 2019/2020 adjusted budget. The increase in operating revenue is mainly due to the additional equitable share of R32.439million allocated in terms of the Special Adjustment Budget by the Minister of Finance on 24 June 2020 as per the Division of Revenue Amendment Bill. Revenue from re claimable VAT on grant funded projects amounts to R23.5million. For the two outer years, operational revenue is anticipated to increase by 4.16% and 5.82% respectively. This is informed by the prospects of a positive outcome of the Supplementary Valuation roll 6 by the Valuation Appeal Board.

The Revenue Budget has been compiled based on projected billing, however provision has been made for a 60.00% collection rate, based on collection history and the provision for the impairment of debtors.

The budgeted revenue is derived from revised rates, tariffs and charges and operating transfers and grants. The increase of rates, tariffs and charges were kept to the minimum and is on average between 3.6% and 6.5%. Increases on bulk purchases on water and electricity were kept at 6.6% and 6.2% respectively in line with the increases of Rand Water and ESKOM. The final electricity tariffs is still depending on NERSA approval and will be implemented in accordance with the approved NERSA tariffs.

The tariffs are discussed in detail in the tariff policy attached as **Annexure BP2**.

## **Operating Expenditure**

The operating expenditure for 2020/2021 is budgeted at R1 815 650 495, and is an increase of 5.13% on the 2019/2020 adjusted budget.

This includes a provision for employee related cost increases of 6.25% in accordance with the 3 year Collective Agreement, contracted services of 6% and Bulk purchases of 6.22%.

***Attached as Annexure A is a detailed discussion on the 2020/2021 MTREF and supporting documentation.***

The municipality experienced serious financial constraints during the past five years as a result of the following main contributors:

Blyvooruitzicht mine under liquidation is owing the municipality in excess of R693 million of which the recovery of the debt is uncertain.

Furthermore the mines dispute pertaining to the Valuation Roll has a serious impact and the outcome of Supplementary Valuation 6 which is still subject to the Valuation Appeal Board process.

The prevailing culture of non-payment for municipal services in the municipal township areas is a significant cause for concern. This culture has spread to newly developed townships and this placed the financial wellbeing, viability and sustainability of the municipality at a huge risk. This also impacts negatively on the ability of the municipality to service its creditors within the legislated 30 days.

The current outstanding creditors amounts to R587 877 031 of which R467 578 046 is due to Eskom and R100 164 800 is due to Rand Water. It is envisaged that the financial turn-around plan as well as the outcome of the mines valuation appeal process will yield a positive outcome, improving the financial position of the Municipality.

A serious challenge is also the impact of electricity theft and the by-passed pre-paid electricity meters which is currently in excess of 13900 meters.

The average loss on electricity for the six months ended December 2019 is 46.38% compared to 44.46% for the 2018/2019 financial year. The total loss can be estimated to be R14.2 million per month based on the assumption of 600 units or R171 million for the financial year. Arrear recovery as stipulated in the approved credit control policy cannot be fully effected due to the increased number of tampered prepaid electricity meters.

The municipality is exploring alternative options to address the above mentioned situation and provision of R1 530 000 has been made in the operational budget to address this matter.

With regards to water losses, good progress has been made during the current financial year with reduction of water losses. The average loss of water for the six months ended December 2019 was 28.02%, compared to 46.41% for the financial year 2018/19. It is anticipated that the trend will continue during the new financial year due to the implementation of the Water Turnaround Strategy and provision has been made for water losses of 28% in the operating budget.

### **Capital budget**

Provision has been made for a total capital budget of R157.5m for the 2020/21 Financial Year funded from approved grants as detailed in **Annexure A**.

### **Budget Policies**

The following Budget Policies have been reviewed in line with the proposed budget. Attached as annexures:

- BP1: Property rates Policy.
- BP2: Tariff Policy – Trade Services.
- BP3: Sundry Tariff Policy.
- BP4: Credit Control and Debt collection Policy.
- BP5: Cash management Policy.
- BP6: Investment Policy.
- BP7: Borrowing Policy.
- BP8: Budget Funding and Reserves Policy
- BP9: Municipal Supply Chain and Management Policy and Procedures.
- BP10: Asset Management Policy.
- BP11: Indigent Policy.
- BP12: Long Term Financial Planning Policy.
- BP13: Unauthorised, Irregular, Fruitless and Wasteful Expenditure Policy.
- BP14: Cost Containment Policy.
- BP15: Debt Write off Policy.
- BP16: Virement Policy

### **ORGANISATIONAL AND PERSONNEL IMPLICATIONS**

None

### **FINANCIAL IMPLICATIONS**

The proposed budget reflects the Medium Term Revenue and Expenditure Framework for the municipality.

### **COMMUNICATIONS IMPLICATIONS**

In terms of section 75 of the MFMA, the municipality is required to publish its annual budget on the Website read with section 21A of the Municipal Systems Act pertaining to documents to be made public.

Section 24(3) of the MFMA, read together with regulation 20(1), requires that the annual budget must be submitted to both National Treasury and the relevant provincial treasury ***within ten working days*** after the council has approved the annual budget.

The resolution on the approval of fees charges or tariffs will be displayed in accordance with the provisions of section 75A of the Municipal Systems Act, 32 of 2000.

### **CONSTITUTIONAL AND LEGAL IMPLICATIONS**

The budget is prepared and submitted in accordance with the provisions of Section 16, 17, 18 and 19 of the MFMA in terms of the approved budget process plan and MFMA Circulars 98 and 99.

### **OTHER DEPARTMENTS / BODIES CONSULTED**

All departments were consulted in the compilation of the budget

### **RECOMMENDED**

That the Council of Merafong City Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) **Approves and Adopt:**

- 1.1 The budget of the municipality for the financial year 2020/21 – 2023/24 MTREF and the multi-year and single-year capital appropriations as set out in the following tables:
  - 1.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification)
  - 1.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote)
  - 1.1.3 Budgeted Financial Performance (revenue by source and expenditure by type)
  - 1.1.4 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source
- 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
  - 1.2.1 Budgeted Financial Position

- 1.2.2 Budgeted Cash Flows
  - 1.2.3 Cash backed reserves and accumulated surplus reconciliation
  - 1.2.4 Asset management
  - 1.2.5 Basic Service Delivery measurements
2. That the Council of Merafong City Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) **approves and Adopts** with effect from 01 July 2020 the tariffs as contained in **Annexure "A"**.
- 2.1 The tariffs, Rebates and exemptions for property rates.
  - 2.2 The tariffs for electricity.
  - 2.3 The tariffs for the supply of water.
  - 2.4 The tariffs for sanitation services.
  - 2.5 The tariffs for solid waste services.
3. That Council of Merafong City Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) **approves and adopts** with effect from 01 July 2020 the sundry tariffs as contained in the Sundry Tariff Policy.
4. That Council approves:
- 4.1 The annual Operating Revenue budget of R1,818 169 000 and Operating Expenditure budget of R1,815 650 000 including Operational Transfers and excluding capital transfers for the 2020/2021 Financial Year be approved, which will result in a budgeted surplus of R 2 518 505.
  - 4.2 That the impact of the non-cash items on the expenditure budget of R640 507 000 or 35.28% of the expenditure budget, be noted and it be noted that the provision for depreciation of assets to the amount of R106 226 000 is not cash backed.
  - 4.3 The annual Capital Budget of R157.525 Million, Including capital transfers for the 2020/2021 Financial Year.
- 5 That the Council of Merafong City Local Municipality, acting in terms of section 17 of the Municipal Finance Management Act, (Act 56 of 2003) **Approves and Adopts** with effect from 1 July 2020 the following budget related policies for the 2020/2021 financial year attached as Annexure.
- BP1: Property rates Policy.
  - BP2: Tariff Policy – Trade Services.
  - BP3: Sundry Tariff Policy.
  - BP4: Credit Control and Debt collection Policy.
  - BP5: Cash management Policy.
  - BP6: Investment Policy.

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- BP12: Long Term Financial Planning Policy.
- BP13: Unauthorised, Irregular, Fruitless and Wasteful Expenditure Policy.
- BP14: Cost Containment Policy.
- BP15: Debt Write off Policy.
- BP16: Virement Policy

That policies be reviewed as and when required.

6. That council approves the miscellaneous tariffs as included in the tariff policy and that the tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000) and that the current Property Rates By-law be replaced with the attached Property Rates By-law as recommended by CoGTA and promulgated as such.
- 7 That Council approves the amendments to the Tariff Policy, subject to the approval of the electricity tariffs by NERSA. The NERSA approved tariffs will be applicable.
- 8 That Council approves the amendments to the Rating Policy.
- 9 That Council approves the amendments to the budget related policies of Council.
- 10 That council takes cognizance that the draft 2020/2021 MTREF and IDP was tabled before Council on 31 March 2020 for community consultation and was published on the municipality's website, and hard copies were made available at municipal notice boards and various libraries.
11. That council takes cognizance that the consultation with the residents and Stakeholders of Merafong on the IDP & Budget for the Medium Term Revenue Expenditure framework 2020/2021 to 2022/2023 were held in accordance with the directives issued by COGTA and National Treasury pertaining to the impact of the National State of Disaster and Lockdown Regulations.