

**EXTRACT FROM THE COUNCIL MINUTES HELD ON 25 MAY 2020**

Item A53 25.05.2020

**2020-21 TO 2022/2023 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS**

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**PURPOSE OF REPORT**

The purpose of the report is to submit the budget for 2020 / 2021 MTREF to Council for consideration of approval.

**BACKGROUND**

In terms of section 16 of the Local Government: Municipal Financial Management Act, 2003 (Act 56 of 2003) council must approve an annual budget before the start of the financial year.

**LEGAL FRAMEWORK**

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:

**Municipal budgets**

16. (1) The Council of a municipality must for each year approve an annual budget for the municipality before the start of the financial year.

(2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

**Contents of annual budgets and supporting documentation**

17. (1) An annual budget of a municipality must be a schedule in the prescribed format—

- (a) setting out realistically anticipated revenue for the budget year from each revenue source;
- (b) appropriating expenditure for the budget year under the different votes of the municipality;
- (c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- (d) setting out—

- (i) estimated revenue and expenditure by vote for the current year; and
- (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and

(e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.

(2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.

(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:

- (a) Draft resolutions—
  - (i) approving the budget of the municipality;
  - (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
  - (iii) approving any other matter that may be prescribed;
- (b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;
- (c) a projection of cash flow for the budget year by revenue source, broken down per month;

- (d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
- (e) any proposed amendments to the budget-related policies of the municipality;
- (f) particulars of the municipality's investments;
- (g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;
- (h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
- (i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
- (j) particulars of any proposed allocations or grants by the municipality to—
  - (i) other municipalities;
  - (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
  - (iii) any other organs of state; (iv) any organisations or bodies referred to in section 67(1);
- (k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—
  - (i) each political office-bearer of the municipality;
  - (ii) councillors of the municipality; and
  - (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;
- (l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of—
  - (i) each member of the entity's board of directors; and
  - (ii) the chief executive officer and each senior manager of the entity; and (m) any other supporting documentation as may be prescribe.

**22. Publication of annual budgets** – (1) Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—

- (a) in accordance with Chapter 4 of the Municipal Systems Act—
  - (i) make public the annual budget and the documents referred to in section 17(3); and
  - (ii) invite the local community to submit representations in connection with the budget; and
- (b) submit the annual budget—
  - (i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and
  - (ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

**23. Consultations on tabled budgets** - (1) When the annual budget has been tabled, the municipal council must consider any views of—

- (a) the local community; and
- (b) the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.

(2) After considering all budget submissions, the council must give the mayor an opportunity—

- (a) to respond to the submissions; and
- (b) if necessary, to revise the budget and table amendments for consideration by the council.

(3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.

(4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

## **COMMENTS**

The draft 2020/21 Medium Term Revenue and Expenditure Framework (MTREF) report inclusive of the budget schedules, which have been compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), have been tabled at the Council meeting of 25 March 2020, where-after (a) a notice has been placed in the local newspapers to invite the public/community to submit comments on the draft/tailed budget and (b) it was forwarded to Provincial – and National Treasury for their input.

### **Input from Provincial Treasury**

Provincial Treasury has submitted their ‘Integrated Planning and Budgeting Assessment: Analyses of Municipal IDP, SDF and Budget’ document LGMTEC Assessment Report on 22 April 2019. The following key findings in the assessment report are highlighted:

## **SECTION 5: KEY FINDINGS, RISKS AND RECOMMENDATIONS**

This section outlines the main points and risks/recommendations based on the SIME Assessment.

### **RESPONSIVENESS OF THE BUDGET:**

- Investing in health infrastructure and health systems not only saves lives but it is a crucial investment in the wider economy given that ill-health hinders productivity and adversely affects human capital development. The role of the District especially the health function and disaster management become critical to deal with environmental health problems and disaster management in the District.

### **FINANCIAL SUSTAINABILITY OF THE BUDGET:**

- With regard to revenue collection and debt management, the Municipality should strictly enforce its approved credit control policy, as the current collection days put too much pressure on the cash flow position of the Municipality.
- The Municipality should further strengthen its expenditure strategies to ensure budget and expenditure alignment.

### **CREDIBILITY OF THE BUDGET:**

- The Municipality considered all policy related factors, external and internal factors pertinent to the current realities facing the Municipality when compiling the draft budget.
- Fire Services remain a key priority for the Municipality and expansion on the service is required to reduce response times. A balance should be struck between need to expand and financial sustainability.
- The need to sell properties to contribute towards capital investment is noted, due to limited capacity to generate sufficient surpluses in the previous years to contribute towards capital needs. This is not a sustainable method to follow and the Municipality should review its capital funding mix strategies over the medium term.
- It is critical that maximum return on investment is explored in order generate sufficient revenue to maintain day to day operations as well as building surpluses for future capital needs. The commitment to work towards financial depreciation over the medium to long term is noted and prudent financial management should be applied in the short term.
- As a result of high reliance on government grants, the Municipality is exposed to vulnerability should continuous pressure on the National and Provincial Fiscus prevail.
- Requirements of any institution will in many cases be more than available resources and service delivery prioritisation is critical in ensuring an adequate response within the available resources and capabilities of the Municipality.
- The liquidity ratios of the Municipality indicate that the Municipality will be in a position to meet its financial commitments.
- The draft budget over the MTREF period indicates that the Municipality is not exposed to a liquidity risk.

A virtual meeting was held on 5 May 2020 with Provincial Government – the outcome of the LG MTEC virtual meeting is attached.

### **Impact of COVID-19**

As the Covid-19 pandemic impact on the 2020/21 budget will/has the following changes be made to the draft 2020/21 MTREF Budget as tabled on 25 March 2020:

a. The resorts have been closed in terms of the Directions as issued by the Minister of Cooperative Governance and Traditional Affairs in terms of section 27(2) of the Disaster Management Act, 2002. The municipality will therefore suffer a loss of income and the projected income have therefore been reduced.

b. The total lockdown of the economy due to the Covid-19 pandemic, will impact negatively on the ability of households to pay their municipal accounts for rental of properties at the resorts. The projected revenue for rental of facilities at the resorts has therefore been reduced.

c. In terms of the Directions as issued by the Minister of Cooperative Governance and Traditional Affairs in terms of section 27(2) of the Disaster Management Act, 2002 **must** municipalities must put precautionary measures in place to mitigate employee and health and safety risks and the following must done like (i) provide frontline staff with materials and equipment to prevent person-to person transmissions (ii) training of staff (iii) cleansing of public spaces etc. Funding has been made available for such expenses.

It should be noted that the corrections/adjustment which relates to Covid-19 pandemic, must still be finalized. At the Council meeting of 25 May 2020 the impact of Covid-19 will be indicated and the final amount of the Operational Budget will be reconciled with the Operational MTREF Budget for 2020/21 as tabled at the Council meeting of 25 March 2020.

### **Adjustment of Policies**

The following policies have been adjusted and the reason for such adjustments is indicated hereunder:

#### **SCM Policy**

As per Government Notice 43281 dated 5 May 2020 the Minister of Finance issued the “Exemption from Regulations (4(3) and 29(2) of the Municipal Supply Chain Management Regulations, 2005”. The exemptions address the compilation of bid adjudication committees and the delegation/sub-delegation of SCM powers or duties to a person who is not an official of the municipality.

#### **Virement Policy**

National Treasury issued Municipal SCOA Circular 8 dated 24 April 2020 in regard to “Guidance on Virement Policies”. The Virement Policy has been adjusted to comply with the guideline as issued by National Treasury.

#### **Cash Management and Investment Policy**

The Cash Management and Investment Policy have been amended to be in line with the Local Government: Municipal Finance Management Act, 2003, MFMA Circular No 61 dated 25 April 2012, and to adhere to a Communication of an Audit Finding by the Auditor-General. The amendments relate to informing National Treasury and the Auditor-General when the primary bank account of the municipality will change and the formats and timelines for reporting to National Treasury.

**UNANIMOUSLY RESOLVED:** (Proposed by Cllr S Fourie and seconded by Cllr N Lamprecht)

That Council approves the following:

1. That the consolidated Operating budget of R 241 413 338, Capital budget of R 8 465 000, and budgeted cash flows, as set out in the Municipal Budget be adopted and approved by Council and that it constitutes the Budget of the Council for 2020/2021 financial year as well as the medium term (indicative) budgets for the 2021/2022 and 2022/2023 financial years.
2. That the Integrated Development Plan and related documents and any amendments thereto, be approved.
3. That the Spatial Development Framework and any amendments thereto, be approved.
4. That the tariffs as per tariff list be approved.
5. That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act are included in or accompany the budget document be approved.
6. That the measurable performance objectives for 2020/2021 for operating revenue by source and by vote be approved.
7. That the following budget related policies be approved:
  - Asset Management Policy
  - Credit Control and Debt Collection Policy
  - Cash Management and Investment Policy (as amended)
  - Tariff Policy
  - Supply Chain Management Policy (as amended)
  - Virement Policy (as amended)
  - Borrowing Policy
  - Funding and Reserves Policy
  - Budget Policy
  - Customer Care Policy
  - Demand Management Policy
  - Infrastructure and delivery Management Policy
  - Infrastructure investment and Capital projects Policy
  - Liquidity Policy
  - Long term Financial Planning Policy
  - Management and Admin of Immovable Assets Policy
  - Payroll Management and Administration Policy
  - Preferential Procurement Policy
  - Travelling and Subsistence Policy
  - Cost Containment Policy