

**ITEM A4872**

**DRAFT BUDGET FOR THE 2023/24 TO 2025/26 MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) PERIOD**

(O / MM NEW / AA6 / FINANCE / REPORTS 2023 / FS 21 - 23)

(EXCO 20-03-2023) (AUDIT COM 29-03-2023) (SECTION 80 FIN 29-03-2023)

(SPEC MC 29-03-2023)

**PURPOSE**

The purpose of this report is to table the draft budget for the 2023/24 to 2025/26 MTREF period to Council for consideration in terms of Section 16 of the Municipal Finance Management Act (MFMA).

--- ***Attachments:***

**Annexure A (pages 46 - 64)** - High-Level Budget for 2023/24 to 2025/26 financial years;

**Annexure B (pages 65 - 68)** - Capital Projects for the 2023/24 to 2025/26 financial years;

**Annexure C (to be distributed on a later stage)** - Schedule-A Tables for the 2023/24 to 2025/26 financial years;

**Annexure D (pages 69 - 70)** - NERSA Communication on ESKOM municipal tariff increase;

**Annexure E (pages 71 - 73)** - Rand Water Communication (Bulk Tariffs);

**Annexure G (See Separate Cover Document - pages 1 - 64)** - Tariffs Booklet;

**Annexure H to CC (See Separate Cover Document - pages 1 - 405)** - Budget Related Policies; and

**Annexure W (pages 74 - 75)** - Service Delivery Level Standards.

**MAYORS FOREWORD**

**BACKGROUND**

**Legislative Background**

Section 16 of the MFMA requires the following regarding the annual budget of a municipality:

***“Annual budgets***

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

*(3) Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.”*

Section 17(1) of the MFMA requires the following regarding the content of the annual budget:

***“Contents of annual budgets and supporting documents***

*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.”*

***Format of the annual budget:***

Regulation 9 of the Municipal Budget and Reporting Regulations, 2009 (MBRR) require that the annual budget be in a prescribed format.

*“9. the format of the annual budget and its supporting documentation of a municipality must be in the format specified in Schedule A and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the minister in terms of section 168(1) of the Act” ---*

The budget is presented in the following tables which is the format as required by the MFMA and the MBRR, also see:

- a) Table A1 - Budget Summary;
- b) Table A2 - Budgeted Financial Performance (Revenue and expenditure by standard classification);
- c) Table A3 - Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
- d) Table A4 - Budgeted Financial Performance (Revenue and Expenditure);
- e) Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding;
- f) Table A6 - Budgeted Financial Position;
- g) Table A7- Budgeted Cash Flows;
- h) Table A8 - Cash backed reserves / accumulated surplus reconciliation;
- i) Table A9 - Asset management; and
- j) Table A10 – Basic Service Delivery Measurement;

**External Audit Results – 2021/2022**

The municipality received a qualified audit opinion for the 2021/2022 financial year which is a regression from the unqualified audit opinion of the previous financial year. The basis for the audit opinion is general expenditure.

## Basis for qualified opinion

### General expenditure

“The municipality did not recognise all general expenditure incurred in the current year financial statements. Consequently, general expenditure was understated by R729 870 648 and the total trade payables was understated by R729 870 648 in the financial statements. Furthermore, the misstatement had an impact on the surplus for the period on the financial statements.”

### Other Matters raised by the audit report

- Material uncertainty relating to going concern;
- Restatement of corresponding figures;
- Material uncertainties from various lawsuits;
- Material Impairments of trade and other receivables from exchange transactions; and
- Material electricity and water distribution losses;

### Mid-term Performance – 2022/2023

**Table 1 - Actual Debtors' Collection Rate as at 31 December 2022**

Month	Billings	Receipts	Collection Rate (%)
<i>Rands</i>			
Jul-22	595 942 728	276 368 421	46%
Aug-22	498 203 168	423 009 606	85%
Sep-22	553 975 204	583 119 978	105%
Oct-22	492 609 655	485 208 121	98%
Nov-22	491 616 873	283 020 450	58%
Dec-22	453 686 515	315 365 462	70%
<b>TOTAL</b>	<b>3 086 034 143</b>	<b>2 366 092 038</b>	<b>77%</b>

The budgeted collection rate for the 2022/23 financial year is 83.56%. A collection rate of 77.47% was achieved as at mid-year. If the under-collection on revenue continues the approved budget for the 2022/23 financial year continues to be unfunded.

An adjustments budget was approved for the 2022/23 financial year which targeted a reduced collection rate of 81.47%.

The water losses per month for the mid-term are:

- July 2022 - 59.10%;
- August - 64.7%;
- September - 64.30%;
- October - 64.6%;
- November - 65.4%; and
- December - 59.0%.

The electricity distribution losses for the mid-year are as follows:

- Quarter 1 - 23.0%; and
- Quarter 2 - 22.2%.

The increasing distribution losses indicate that there might be over-expenditure on the bulk costs and water inventory line items. They also represent an under-performance on the approved Budget Funding Plan which required a decrease on losses for the budget to be funded.

### Exco Lekgotla – March 2023

Senior management held an IDP planning Lekgotla on the 3<sup>rd</sup> and 4<sup>th</sup> of March 2023 in which the municipal strategic objectives which were approved by the Mayoral Committee Lekgotla held in May 2022 were prioritised and programmes were proposed to turn around the situation of the municipality. Please refer to Chapter 4 of the Integrated Development Plan and the Service Delivery and Budget Implementation Plan for more detail. The following prioritisation with priorities for the 2023/2024 financial year was proposed:

- Good Governance (Strategic Objectives);
  - Clean Audit;
  - Cascading of performance management;
  - Risk Management;
  - Public participation;
  - Institutional Capacity;
  - Monitoring and evaluation;
  - Fleet Management;
- Financial Viability and Sustainability (Strategic Objectives);
  - Funded budget;
  - Revenue enhancement and protection;
  - Expenditure Management;
- Service Delivery and Infrastructure Development (Strategic Objectives);
  - Reduction of distribution losses;
  - Environmental Management;
- Spatial Planning and Economic Development (Strategic Objectives);
  - LED Strategy;
  - Spatial transformation;
- Public Safety and Social Transformation (Strategic Objectives).
  - Nation Building and Social Cohesion;
  - Public Safety;
  - Environmental Health Service;

### Affordability – 2023/2024 Financial Year

The audited financial position of the municipality for the 2021/22 financial year reflects that the municipality is in a deficit financial position. The municipality also overspent on the budget and as a result incurred unauthorised expenditure amounting to R2,7 billion.

Further, the municipality's trading services which should generate a surplus to subsidise non-trading services are not profitable.

**Table 2 – Deficit Results**

Year	2019/20	2020/21(re-stated)	2021/22
<b>Total Revenue</b>	R 6 595 617 778	R7 642 831 410	R7 013 690 971
<b>Total Operating Expenditure</b>	R 7 988 936 092	R7 534 776 794	R8 560 085 441
<b>Surplus / (Deficit)</b>	<b>-R1 393 318 314</b>	<b>R108 054 616</b>	<b>-R1 546 394 470</b>

- The municipality had a deficit in the 2021/22 financial year due to:
  - High depreciation charges and impairment of assets due to ageing infrastructure;
  - High bulk charges due to high water and electricity distribution losses;
  - High finance costs due to the Eskom and Rand Water debt;
  - Overspending on the budget.

**Table 3 – Electricity Service**

ELECTRICITY SERVICES						
Description	Historical Data			Current FY		
	2019/20	2020/21	2021/22	Budget	Commitment	YTD Movement December 2022
Billed Revenue	2 384 125 785	2 574 283 952	2 897 113 099	3 277 204 881	-	1 744 314 425
Operational Grants and Subsidies						
<b>Total Revenue</b>	<b>2 384 125 785</b>	<b>2 574 283 952</b>	<b>2 897 113 099</b>	<b>3 277 204 881</b>	<b>-</b>	<b>1 744 314 425</b>
Labour Costs	72 712 830	80 080 773	83 961 692	95 684 837	-	44 381 480
Contracted Services	59 564 430	112 836 283	166 730 796	102 407 200	29 778 815	27 467 309
Operational Costs	9 346 480	10 776 522	11 278 726	14 253 632	198 569	11 459 276
Inventory	329 439	11 239 579	12 001 927	26 442 249	228 567	3 314 202
Bulk Costs	1 955 056 936	2 166 319 521	2 513 979 542	2 070 925 959	-	1 151 317 131
Interest	-	-	-	-	-	-
Operating Leases	-	-	-	-	-	-
Depreciation	81 371 142	96 243 008	78 339 208	91 682 236	-	39 944 393
Provision for Doubtful Debt	390 476 685	124 552 152	404 139 662	269 888 943	-	134 944 471
<b>Total Expenditure</b>	<b>2 568 857 947</b>	<b>2 602 047 842</b>	<b>3 270 431 556</b>	<b>2 671 285 056</b>	<b>30 205 953</b>	<b>1 412 828 267</b>
<b>Surplus / (Deficit) for the Service</b>	<b>- 184 732 161</b>	<b>- 27 763 890</b>	<b>- 373 318 457</b>	<b>605 919 825</b>	<b>- 30 205 953</b>	<b>331 486 158</b>

**Table 4 – Water Service**

<b>METSI WATER SERVICES</b>						
<b>Description</b>	<b>Historical Data</b>			<b>Current FY</b>		
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Budget</b>	<b>Commitment</b>	<b>YTD Movement December 2022</b>
Billed Revenue	1 056 321 615	863 933 587	953 290 953	883 165 614	-	490 377 966
Operational Grants and Subsidies						
<b>Total Revenue</b>	<b>1 056 321 615</b>	<b>863 933 587</b>	<b>953 290 953</b>	<b>883 165 614</b>	<b>-</b>	<b>490 377 966</b>
Labour Costs	43 642 911	43 997 359	44 931 871	54 946 730	-	22 513 357
Contracted Services	29 971 517	5 153 387	24 101 893	28 348 300	230 547	9 627 395
Operational Costs	1 891 944	7 154 725	24 831 651	7 675 228	1 932 000	5 470 547
Inventory	2 263 980	2 001 085	2 966 902	5 412 450	-	1 398 038
Bulk Costs	1 067 529 940	1 056 345 628	1 043 810 712	957 440 000	-	518 989 575
Interest	-	-	-	-	-	-
Operating Leases	-	-	-	-	-	-
Depreciation	1 989 007	2 162 730	5 220 217	61 083 020	-	1 856 208
Provision for Doubtful Debt	759 360 953	428 424 614	462 769 766	300 766 121	-	33 668 040
<b>Total Expenditure</b>	<b>1 906 650 255</b>	<b>1 545 239 529</b>	<b>1 608 633 014</b>	<b>1 415 671 849</b>	<b>2 162 547</b>	<b>593 523 162</b>
<b>Surplus / (Deficit) for the Service</b>	<b>- 850 328 640</b>	<b>- 681 305 942</b>	<b>- 655 342 061</b>	<b>- 532 506 235</b>	<b>- 2 162 547</b>	<b>- 103 145 196</b>

**Table 5 – Waste Water Service**

<b>METSI SEWER SERVICES</b>						
<b>Description</b>	<b>Historical Data</b>			<b>Current FY</b>		
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Budget</b>	<b>Commitment</b>	<b>YTD Movement December 2022</b>
Billed Revenue	304 523 000	412 565 385	307 365 980	317 401 999	-	155 601 671
Operational Grants and Subsidies						
<b>Total Revenue</b>	<b>304 523 000</b>	<b>412 565 385</b>	<b>307 365 980</b>	<b>317 401 999</b>	<b>-</b>	<b>155 601 671</b>
Labour Costs	70 823 167	70 605 416	72 444 765	84 722 359	-	37 252 570
Contracted Services	31 835 142	351 428 274	67 054 061	21 806 400	2 660 627	11 558 269
Operational Costs	20 942 201	1 497 252	604 549	18 765 958	6 110 514	10 630 920
Inventory	80 020	50 231	88 304	140 065	-	31 608
Bulk Costs	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Operating Leases	-	-	-	-	-	-
Depreciation	10 478 942	14 182 063	10 503 360	8 257 884	-	4 732 587
Provision for Doubtful Debt	202 594 706	146 979 081	118 908 051	86 282 533	-	43 141 266
<b>Total Expenditure</b>	<b>336 754 182</b>	<b>584 742 320</b>	<b>269 603 092</b>	<b>219 975 199</b>	<b>8 771 142</b>	<b>107 347 222</b>
<b>Surplus / (Deficit) for the Service</b>	<b>- 32 231 182</b>	<b>- 172 176 934</b>	<b>37 762 888</b>	<b>97 426 800</b>	<b>- 8 771 142</b>	<b>48 254 449</b>

**Table 6 – Refuse Service**

<b>WASTE MANAGEMENT SERVICES</b>						
<b>Description</b>	<b>Historical Data</b>			<b>Current FY</b>		
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Budget</b>	<b>Commitment</b>	<b>YTD Movement December 2022</b>
Billed Revenue	161 367 101	277 383 869	190 491 401	208 849 376	-	98 574 340
Operational Grants and Subsidies						
<b>Total Revenue</b>	<b>161 367 101</b>	<b>277 383 869</b>	<b>190 491 401</b>	<b>208 849 376</b>	<b>-</b>	<b>98 574 340</b>
Labour Costs	80 069 401	80 932 84	83 999 754	97 943 252	-	41 661 448
Contracted Services	193 900	-	-	-	-	-
Contracted Services: Landfill Sites	8 231 233	12 792 997	14 054 338	18 340 000	778 520	3 910 643
Operational Costs	53 682 218	56 799 304	53 509 648	13 477 041	140 313	12 416 875
Inventory	295 846	225 501	133 931	2 396 144	-	357 654
Bulk Costs	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Operating Leases	-	-	-	-	-	-
Depreciation	3 437 382	7 729 578	8 497 508	4 459 288	-	4 283 675
Provision for Doubtful Debt	112 578 437	98 058 446	82 613 807	67 336 080	-	33 668 040
<b>Total Expenditure</b>	<b>258 488 419</b>	<b>256 538 675</b>	<b>242 808 987</b>	<b>203 951 805</b>	<b>918 833</b>	<b>96 298 338</b>
<b>Surplus / (Deficit) for the Service</b>	<b>- 97 121 317</b>	<b>20 845 194</b>	<b>- 52 317 585</b>	<b>4 897 571</b>	<b>- 918 833</b>	<b>2 276 002</b>

**Table 7 – Projected Revenue and Deficit (2023/24 to 2025/26 MTREF Period)**

Projections on revenue and expenditure made from the assumptions as per MFMA Budget Circular 123, the NERSA and Rand Water proposed tariff increases, the government allocations as per the 2023 Division of Revenue Bill, the current trend on expenditure (please refer to table 2 above) and a collection rate of 77.47% indicate that the municipality will incur a deficit even before allocating budget for general expenditure and municipal own-funded CAPEX. Requests made by directorates for general expenditure and CAPEX exceed R8 billion.

	<b>Adjustments Budget - 2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
<b>Revenue By Source</b>				
Property rates	1 148 820 537	1 209 708 026	1 268 983 719	1 328 625 954
Service charges - electricity revenue	3 132 384 591	3 653 926 625	4 046 358 345	4 480 937 231
Service charges - water revenue	907 797 536	991 314 910	1 082 515 881	1 182 107 342
Service charges - sanitation revenue	306 681 293	334 895 972	365 706 401	399 351 390
Service charges - refuse revenue	217 742 334	229 282 678	240 517 529	251 821 853

	<b>Adjustments Budget - 2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Rental of facilities and equipment	35 562 696	37 447 518	39 282 447	41 128 722
Interest earned - external investments	174 498	183 747	192 750	201 809
Interest earned - outstanding debtors	121 595 628	128 040 196	134 314 166	140 626 931
Fines, penalties and forfeits	105 788 807	111 395 614	116 853 999	122 346 137
Licences and permits	149 052	156 952	164 642	172 381
Transfers and subsidies	1 274 537 798	1 291 249 000	1 410 268 000	1 509 095 000
Other revenue	67 789 155	71 381 981	74 879 698	78 399 044
<b>Total Revenue</b>	<b>7 319 023 925</b>	<b>8 058 983 218</b>	<b>8 780 037 577</b>	<b>9 534 813 794</b>

**Average Revenue Growth** **10%** **9%** **9%**

**Table 8 – Projected Expenditure and Deficit (2023/24 to 2025/26 MTREF Period)**

<b>Unavoidable Costs</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Employee Costs	1 415 918 201	1 483 882 274	1 553 624 741
Remuneration of councillors	69 917 300	73 273 330	76 717 177
Bulk Purchases: Eskom	3 269 487 337	3 686 020 024	4 155 618 975
Bulk Purchases: Rand Water	1 215 799 342	1 327 652 881	1 449 796 946
Depreciation	513 349 222	538 503 334	563 812 991
Debt Impairment	1 446 229 586	1 578 019 647	1 721 932 701
Capital Expenditure (equal to capital grants)	221 782 000	248 855 000	247 875 000
<b>General Expenditure</b>	<b>?</b>	<b>?</b>	<b>?</b>
<b>Own funded CAPEX</b>	<b>?</b>	<b>?</b>	<b>?</b>
<b>Total UNAVOIDABLE COSTS</b>	<b>8 152 482 987</b>	<b>8 936 206 490</b>	<b>9 769 378 531</b>
<b>Surplus/(Deficit)</b>	<b>- 93 499 769</b>	<b>- 156 168 913</b>	<b>- 234 564 737</b>

Budget Assumptions for the 2023/24 to 2025/26 MTREF Period

The projections for the 2023/24 financial year as well as its two outer years are based on the assumptions below.

MFMA Budget Circulars 122 and 123 were published by the National Treasury in December 2022 and March 2023 respectively to set perimeters and to guide the budget process for the 2023/24 to 2025/26 MTREF period.

MFMA Budget Circular 123 which was issued by the National Treasury on 03 March 2023, indicates the following regarding the South African economy and inflation targets:

- GDP is expected to grow by 0.9 per cent in real terms in 2023, compared with an estimate of 1.4 per cent at the time of the medium-term budget policy statement (MTBPS), recovering slowly to 1.8 per cent in 2025.
- The economic outlook faces a range of risks, including weaker-than-expected global growth, further disruptions to global supply chains and renewed inflationary pressures from the war in Ukraine, continued power cuts and a deterioration in port and rail infrastructure, widespread criminal activity, and any deterioration of the fiscal outlook.



- The following macro-economic forecasts must be considered when preparing the 2023/24 MTREF municipal budgets:

**Table 9: Macroeconomic performance and projections, 2021 – 2026**

Fiscal year	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Forecast		
CPI Inflation	4.9%	6.9%	5.3%	4.9%	4.7%

Source: Budget Review 2023.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

- The adjustments budget for the 2022/23 financial year is the base for the 2023/24 MTREF (with the exception of electricity and water bulk costs);
- Revenue adjustments:

**Table 10– Revenue adjustments**

Adjusted by:	Rate	Source
Property Rates	5.3%	CPI - MFMA Circular 123
Electricity	16.65%	NERSA approval for ESKOM less 2%.
Water	9.2%	Rand Water Communication - 2023
Waste Water	5.3%	CPI - MFMA Circular 123
Refuse	5.3%	CPI - MFMA Circular 123
Traffic	5.3%	CPI - MFMA Circular 123
Interest Rate	5.3%	CPI - MFMA Circular 123
Government Grants	n/a	Division of Revenue Bill - 2023
Other	5.3%	CPI - MFMA Circular 123

- CPI projections for the MTREF in terms MFMA Circular 123 (refer to Table 1 above) inform the projections for the MTREF period:
- The proposed Collection Rate for Billed Services is 79.47% in 2023/24 and 82.30% and 81.99% in the outer two years. The average collection rate for the year to date (2022/23) as at December 2022 is 77.47%.
- Grants to be spent in full;
- Subsidised Services – Revenue to equal expenditure and all expenditure incurred is claimed on a monthly basis;
- The following tariffs are proposed for the 2023/24 financial year (refer to **Annexure G (See Separate Cover Document (pages 1 - 64))**):
  - Property Rates – 5.3% (CPI);
  - Electricity – 16.65% (NERSA guideline for municipalities, subject to approval by NERSA);
  - Water – 9.2% (Rand Water has announced a bulk tariff increase of 8.8% for the 2023/24 financial year);
  - Sanitation – 5.3% (households are water consumption-based, 70% of water consumed is linked to sewer);
  - Refuse – 5.3% (CPI);
  - Other tariffs – 5.3% (CPI).
- Expenditure adjustments:

**Table 11 – Expenditure adjustments**

<b>Adjusted by:</b>	<b>Rate</b>	<b>Source</b>
Employee Related Costs	5.4%	MFMA Budget Circular 123
Councillors Allowances	5.4%	CPI
Debt Impairment	20.53% of billings	Linked to the proposed collection rate of 79.47%
Bulk Costs - Electricity	18.65%	NERSA approval for ESKOM
Bulk Water (Inventory – Water)	9.2%	Rand Water Letter
Other Costs	5.3%	MFMA Budget Circular 123

**DISCUSSION**

**Executive Summary**

The proposed total revenue budget for the 2023/24 financial year is **R8 242 152 127** which is Municipal Own Revenue of **R6 868 273 642 or 83%** and Government Grants and Subsidies of **R1 373 878 485 000 or 17%** of total revenue.

The proposed total expenditure budget amounts to R8 242 152 127; operational budget R7 702 242 227 or 93% and a capital budget of R539 909 900 or 7% of total expenditure.

This is budget growth of R923 128 202 or 13% on the 2022/23 main adjustment budget. The growth is due to tariff adjustments. The growth for the two outer years is 9% and 8% respectively.

The budget proposes a collection rate of 79,47% in the 2023/24.

Municipal own revenue is disclosed net of amounts of indigents subsidy.

**Table 12 - Budget Summary Table**

<b>Description</b>	<b>2022/23</b>	<b>2023/24 to 2025/26 MTREF</b>		
<i>Rand</i>	<b>Adjustments Budget</b>	<b>Proposed Budget 2023/2024</b>	<b>Proposed Budget 2024/2025</b>	<b>Proposed Budget 2025/2026</b>
Municipal Own Revenue	6 044 486 128	6 868 273 642	7 467 404 907	8 119 010 979
Transfers and contributions (incl. capital transfers)	1 274 537 798	1 373 878 485	1 493 752 485	1 592 579 485
<b>Total Revenue</b>	<b>7 319 023 925</b>	<b>8 242 152 127</b>	<b>8 961 157 392</b>	<b>9 711 590 464</b>
Operational Expenditure	6 881 514 225	7 702 242 227	8 361 471 192	9 164 837 377
Capital Expenditure	437 509 700	539 909 900	599 686 200	546 753 087
<b>Total Expenditure</b>	<b>7 319 023 925</b>	<b>8 242 152 127</b>	<b>8 961 157 392</b>	<b>9 711 590 464</b>
<b>Surplus / (Deficit)</b>	-	-	-	-

Revenue

**Table 13 - Projected Operational Revenue**

Revenue by Source	2022/23 - Adjustment Budget	Proposed Budget 2023/2024	Proposed Budget 2024/2025	Proposed Budget 2025/2026
Property Rates	1148820537	1209708026	1268983719	1328625954
Service charges - Electricity	3132384591	3766426625	4170940845	4618899892
Service charges - Water	907797536	991314910	1082515881	1182107342
Service charges - Sanitation	306681293	322935402	338759236	354680920
Service charges - Refuse	217742334	229282678	240517529	251821853
Rental of Facilities & Equipment	35562696	37447518	39282447	41128722
Interest earned - External Investments	174498	183747	192750	201809
Interest earned - Outstanding debtors	121595628	128040196	134314166	140626931
Fines Penalties and Forfeits	105788807	111395614	116853999	122346137
Licences and permits	149052	156952	164642	172381
Transfers and Subsidies – Operational	1274537798	1162258585	1261540235	1355848235
Other Revenue	67789155	71381981	74879698	78399044
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>7319023925</b>	<b>8030532233</b>	<b>8728945147</b>	<b>9474859220</b>

The proposed operational revenue represents an average increase of **10%** in the 2023/24 financial year; and **9%** and **9%** in the outer two years of the MTREF. This is as a result of the proposed adjustments (tariff adjustments) and an increase in grants.

**Table 14 - Revenue Growth over the MTREF**

Description	MTREF					
	2023/24	%	2024/25	%	2025/26	%
<b>Revenue By Source</b>						
Property rates	1 209 708 026	15%	1 268 983 719	14%	1 328 625 954	14%
Service charges - electricity revenue	3 766 426 625	47%	4 170 940 845	48%	4 618 899 892	49%
Service charges - water revenue	991 314 910	12%	1 082 515 881	12%	1 182 107 342	12%
Service charges - sanitation revenue	322 935 402	4%	338 759 236	4%	354 680 920	4%
Service charges - refuse revenue	229 282 678	3%	240 517 529	3%	251 821 853	3%
Rental of facilities and equipment	37 447 518	0,47%	39 282 447	0%	41 128 722	0%
Interest earned - external investments	183 747	0%	192 750	0%	201 809	0%
Interest earned - outstanding debtors	128 040 196	2%	134 314 166	2%	140 626 931	1%
Fines penalties and forfeits	111 395 614	1%	116 853 999	1%	122 346 137	1%
Licences and permits	156 952	0%	164 642	0%	172 381	0%
Transfers and subsidies - Operational	1 162 258 585	14%	1 261 540 235	14%	1 355 848 235	14%
Other revenue	71 381 981	1%	74 879 698	1%	78 399 044	1%
<b>Total Revenue</b>	<b>8 030 532 233</b>	<b>100%</b>	<b>8 728 945 147</b>	<b>100%</b>	<b>9 474 859 220</b>	<b>100%</b>

The largest operational revenue items (excluding capital transfers) are:

- electricity revenue at 47%;
- property rates at 15%;
- operating government grants at 14%; and
- water revenue at 12%.

Revenue from electricity and water sales government grants and property rates remain the main income items for the MTREF period as can be seen on the table “percentage growth in revenue by main revenue source” below.

Operating grants and transfers amount to R1 162 258 585 in the 2023/24 financial year increase to R1 261 540 235 in the 2024/25 financial year and R1 355 848 235 in the 2025/26 financial year.

Property Rates

- The levying of rates forms part of a municipality's annual budget process as set out in Chapter 4 of the Municipal Finance Management Act. A municipality must annually at the time of its budget process review the amount in the Rand of its current rates in line with its annual budget for the next financial year.
- In terms of Sections 2 7 8 and 14 of the Local Government: Municipal Property Rates Act 6 of 2004 ("the Act") read with Sections 4(1)(c)(ii) and 11(3)(i) and 75A of the Local Government: Municipal Systems Act 32 of 2000 it is proposed that the cent in the Rand to be levied for the financial year 1 July 2022 to 30 June 2023 on the market value of property or on the market value of a right in property within the area of jurisdiction of the Council as appearing in the valuation roll in respect of the various categories of properties increases with 4.8% which is the projected for the year.
- The percentage rebates on the property rates levies be maintained at 30%. It needs to be highlighted that the following factors were taken into consideration in determining the cent in the rand ratio to be levied as well as the amount (market value) in respect of the reduction and the decrease on percentage rates rebate:
  - The unemployment rate in the Emfuleni Local Municipality area the highest unemployment rate in Gauteng;
  - Emfuleni has the lowest per capita income in the Gauteng Province;
  - Current economic climate and CPI;
  - Assistance to the poor and needy as well as lower income groups and pensioners;
  - Influence of the market values as per municipal valuation roll.
- The impact of the increase of the market values on all categories of properties on the municipal valuation roll as well as the rebates on the rates levies in respect of developed residential properties will have an influence the property rates payable by property owners. The increase in the amount payable on the main property categories (Property Rates Levies) are given in Table 8 below.
- A rate adjustment of 5.3% which is the CPI as per MFMA Budget Circular 123. The projected revenue is informed by the CPI increase;

**Table 15 – Impact of CPI increase on Property Rates**

	Category	Rate Ratio	Proposed tariff (From 1 July 2022)		Proposed tariff (From 1 July 2023)	
			c	c (cent in the Rand Inclusive of Rebate)	c	c (cent in the Rand Inclusive of Rebate)
1	Residential properties	01:01	0.03049	0.01067	0.03211	0.01124

	Category	Rate Ratio	Proposed tariff (From 1 July 2022)		Proposed tariff (From 1 July 2023)	
			c	c (cent in the Rand Inclusive of Rebate)	c	c (cent in the Rand Inclusive of Rebate)
2	Undeveloped vacant residential properties	01:02	0.03049		0.03211	
3	Business & commercial properties	01:02	0.03049		0.03211	
4	Undeveloped vacant business and commercial properties	1:2.5	0.03811		0.04013	
5	Industrial properties	1:2.5	0.03811		0.04013	
6	Undeveloped vacant industrial properties	01:03	0.04573		0.04815	
7	Agricultural properties	1:0.25	0.03811		0.04013	
8	Vacant agricultural properties	1:0.25	0.03811		0.04013	
9	State-owned properties	01:02	0.30488		0.32104	
10	Vacant state-owned properties	1:2.5	0.03811		0.04013	
11	Protected areas	01:00	0		0	
12	Municipal properties	01:01	0.01524		0.01605	
13	Public service infrastructure	1:0.25	0		0	
14	Public benefit organizations	1:0.25	0.00381		0.00401	
15	Servitudes	1:0.25	0.00381		0.00401	
16	Public monuments and memorials	01:00	0		0	
17	Township title properties	01:00	0		0	
18	State trust land	01:00	0		0	
19	Communal land	01:00	0		0	
20	Exclusive use areas for business purposes	01:02	0.03049		0.03211	
21	Exclusive use areas for residential purposes	01:01	0.01524		0.01605	
22	Exclusive use areas for industrial purposes	1:2.5	0.03811		0.04013	
23	Properties used for multiple purposes	01:00	0		0	
24	Place of worship and/or vicarage	01:00	0		0	
25	Mining properties	01:02	0.03049		0.03211	
26	Non-permitted use	01:06	0.09147		0.09632	

### Electricity

- NERSA has granted Eskom approval for a bulk tariff increase of 18.65% and the municipality used 16.65% to project revenue. A tariff application for the 2023/24 financial must be made by individual municipalities and this revenue will be adjusted as informed by the approved tariff for Emfuleni L.M;

- A summary of the proposed tariffs for households (residential) and non-residential are as follows. These are guideline tariffs while approval of the tariffs application is pending from the National Electricity Regulator of South Africa (NERSA):

**Table 16 – Impact of increase on electricity tariffs**

**DOMESTIC TARIFFS (FBE (Low))**

Tariff Description	2022/23	Proposed % Increase	2023/24 Indicative
<b>Summer Energy Charges (Sept- May)</b>	<b>c/kWh</b>		<b>c/kWh</b>
Block 1 (0-50) kWh	141.61	16.65%	165.19
Block 2 (51 – 350) kWh	165.59	16.65%	193.16
Block 3 (351 – 600) kWh	221.18	16.65%	258.01
Block 4 (>600) kWh	266.06	16.65%	310.36
<b>Winter Energy Tariff Charges (Jun- Aug)</b>	<b>c/kWh</b>		<b>c/kWh</b>
Block 1 (0-50) kWh	189.39	16.65%	220.92
Block 2 (51 – 350) kWh	213.29	16.65%	248.80
Block 3 (351 – 600) kWh	285.42	16.65%	332.94
Block 4 (>600) kWh	342.49	16.65%	399.51
Basic Charge: R /month	R296.10	16.65%	296.10

**DOMESTIC SINGLE PHASE (High) /Three Phase/ Flat/ Town Houses**

Tariff Description	2022/23	Proposed % Increase	2023/24 Indicative
<b>Summer Energy Charges (Sept- May)</b>	<b>c/kWh</b>		<b>c/kWh</b>
Block 1 (0-50) kWh	130.38	16.65%	152.09
Block 2 (51 – 350) kWh	152.46	16.65%	177.84
Block 3 (351 – 600) kWh	203.65	16.65%	237.56
Block 4 (>600) kWh	244.97	16.65%	285.76
<b>Winter Energy Tariff Charges (Jun- Aug)</b>	<b>c/kWh</b>		<b>c/kWh</b>
Block 1 (0-50) kWh	170.33	16.65%	198.69
Block 2 (51 – 350) kWh	191.86	16.65%	223.80
Block 3 (351 – 600) kWh	256.72	16.65%	299.46
Block 4 (>600) kWh	307.82	16.65%	359.07
Basic Charge: R /month	613.34	16.65%	715.46

**DOMESTIC MULTI-UNIT RESIDENTIAL DEVELOPMENTS**

Tariff Description	2022/23	Proposed % Increase	2023/24 Indicative
	<b>c/kWh</b>		<b>c/kWh</b>
Summer Period Energy Charge	195.88	16.65%	228.49
Winter Period Energy Charge:	265.17	16.65%	309.32
Basic Charge: R /month	R1 150.64	16.65%	1342.22

**Commercial: Prepaid**

Tariff Description	2022/23	Proposed % Increase	2023/24 Indicative
	<b>c/kWh</b>		<b>c/kWh</b>
Summer Period Energy Charge	238.58	16.65%	278.30
Winter Period Energy Charge:	238.58	16.65%	278.30
Basic Charge: R /month			

Commercial: Conventional

Tariff Description	2022/23	Proposed % Increase	2023/24 Indicative
	c/kWh		c/kWh
Summer Period Energy Charge	255.23	16.65%	297.73
Winter Period Energy Charge:	352.94	16.65%	411.70
Basic Charge: R /month	R1 318.51	16.65%	1538.04

Water

- Tariff increases of 9.2% which is the bulk tariff increase announced by Rand Water for the 2023/24 financial is proposed and has been used to project revenue
- This service is currently budgeted for at a loss due to a previous decision to reduce the assumed consumption of metered households from 30kl to 15kl per household per month. The decision was made to encourage the payment of the municipal account by low paying areas as the account would be lower;
- The revenue projections for the water service were adjusted downward by the 2021/22 mid-term adjustments budget;
- The service experiences high distribution losses.
- A summary of the proposed tariffs for households (residential) and non-residential are as follows. Please refer to the attached tariff book for a comprehensive list of all tariffs.:

**Table 17 – Impact of increase on water tariffs**

Tariff Description	2022/23	% Increase	2023/24
Residential (Domestic) Res 1 consumers:	R21.35 <i>per kl</i>	9.2%	R 23.31 per kl
Water consumed per kilolitre or part thereof per month:			
0 - 6 kilolitres			
More than 6 up to 12 kilolitres	R21.35 <i>per kl</i>	9.2%	R 23.31 per kl
More than 12 up to 20 kilolitres	R31.08 <i>per kl</i>	9.2%	R 33.94 per kl
More than 20 up to 30 kilolitres	R40.08 <i>per kl</i>	9.2%	R 43.77 per kl
More than 30 up to 45 Kilolitres	R46.64 <i>per kl</i>	9.2%	R 50.93 per kl
More than 45 Kilolitres	R51.41 <i>per kl</i>	9.2%	R 56.14 per kl
Residential (Domestic) – Authorized Un-metered consumers. The calculation is based on water consumption of 15 Kilolitres (kl) per household per month.			
Flat Rate Charge	R43580 per month	9.2%	R 475.89 per month
Other Residential (Domestic) Res 2 – 4 consumers with bulk water supply			
Water consumed per kilolitre or part thereof per month			
Commercial/Business Industrial & other consumers and Res 1 with consent use as well as combination buildings			
Water consumed per kilolitre or part thereof per month:			
0 - 30 kilolitres	R21.50 per kl	9.2%	R 23.48 per kl
More than 30 up to 60 Kilolitres	R25.03 per kl	9.2%	R 27.33 per kl
More than 60 up to 90 Kilolitres	R29.90 per kl	9.2%	R 32.65 per kl
More than 90 up to 120 Kilolitres	R34.68 per kl	9.2%	R 37.87 per kl
More than 120 up to 180 Kilolitres	R37.07 per kl	9.2%	R 40.48 per kl
More than 180 Kilolitres	R39.45 per kl	9.2%	R 43.08 per kl

Sanitation

- Tariff increases of 5.3% which is the CPI as per MFMA Budget Circular 123. The projected revenue is informed by the CPI increase;
- A summary of the proposed tariffs for households (residential) and non-residential are as follows:

**Table 18 – Impact of increase on sanitation tariffs**

Tariff Description	2022/23	% Increase	2023/24
Residential (Domestic) Flats and church/religious properties	R114.44	5.30%	R120.51
For more than one residence or unit on same stand per residence/unit (Multi units/flats/town houses)	R89.53	5.30%	R94.28
Agriculture Holdings	R639.38	5.30%	R673.27
Communal Sites	R161.92	5.30%	R170.50
Old age homes or Retirement villages used for residential purposes	R114.44	5.30%	R120.51
<b>Business and Restricted Industries (Based on the size of the stand)</b>			
First 1000m2 or part thereof	R147.07	5.30%	R154.86
Next 2000 m2 per 500m2 or part thereof	R33.54	5.30%	R35.32
In excess of 2000 m2 per 500m2 or part thereof	R16.41	5.30%	R17.28
Maximum charges to any piece of land	R3 118.20	5.30%	R3 283.46

**ADDITIONAL SEWER/SANITATION CHARGES (Consumption)**

Tariff Description	2022/23	% Increase	2023/24
Residential (Domestic) Flats Townhouses Old age homes (including Retirement villages and church/religious properties):			
Based on 70% of water consumed per kilolitres or part thereof per month			
0 -6 Kilolitre water	R8.50	5.30%	R8.95
More than 6 up to 12 Kilolitre water	R8.50	5.30%	R8.95
More than 12 up to 20 Kilolitre water	R8.50	5.30%	R8.95
More than 20 up to 30 Kilolitre water	R8.50	5.30%	R8.95
More than 30 up to 45 Kilolitre water	R8.50	5.30%	R8.95
More than 45 Kilolitre water	R8.50	5.30%	R8.95
All other including Commercial/Business & Restricted industries (Based on the size of the building/s)			
Up to 2000m2 per 100m2 or part thereof	R164.80	5.30%	R173.53
More than 2000m2 per 2000m2 or part thereof	R1 646.43	5.30%	1 733.69
Exceeding the above	R24 670.68	5.30%	R25 978.23

**Refuse**

- Tariff increases of 5.3% which is the CPI as per MFMA Budget Circular 123. The projected revenue is informed by the CPI increase;
- A summary of the proposed tariffs for households (residential) and non-residential are as follows. Additional to the tariff booklet please also take note of the attached Service Delivery Level Standards (attached hereby for approval in terms of MFMA Circulars 75 and 89) which are attached as an **Annexure W (pages 74 - 75)** to this report.:

**Table 19 – Impact of increase on refuse tariffs**

Tariff Description	2022/23	% Increase	2023/24
All residential (Domestic) properties including townhouses per property or unit – No Wheely bins.	R161,00	5.30%	R169.53
Government properties per property or unit	R161,00	5.30%	R169.53
Residential (Domestic) properties including townhouses per property or unit - Wheely bins.	R204,83	5.30%	R215.69
Residential flats services per flat	R108,02	5.30%	R113.75
All schools and Churches per school or church	R108,02	5.30%	R113.75
Old Age Homes and Retirement Villages per stand or unit	R108,02	5.30%	R113.75
Commercial/Business and Industrial Properties (Based on individual census):			
Daily removals	R610,09	5.30%	R642.42
Once a week removal	R147,86	5.30%	R155.70
Twice a week removal	R201,58	5.30%	R212.26



### Overall impact of tariff increases on households

- Supporting Table SA14 (**Annexure C**) indicates the overall expected impact of the tariff increases on a large and small household as well as an indigent household receiving free basic services.

### Rental of Facilities & Equipment

- This is revenue derived from the rental and leasing of municipal properties by Emfuleni L.M.;
- The revenue was adjusted upward by the 2022/23 adjustments budget;
- Tariff increases of 5.3% which is the CPI as per MFMA Budget Circular 123. The projected revenue is informed by the CPI increase;

### Interest earned - External Investments

- This revenue is informed by investments the municipality is able to make during the financial year;
- The investments are mainly grant monies paid over to the municipality and held in investment accounts as required by law;
- The revenue becomes low or does not realise when grant monies are not paid over to the municipality due to low spending of grants by the municipality.

### Interest earned - Outstanding debtors

- This line item is informed by the payment or non-payment of services. When the payment rate is low the outstanding accounts are higher as well as the interest thereon.

### Fines Penalties and Forfeits

- This amount is made up of:
  - Building Fines;
  - Fines for illegal connections;
  - Fines for law enforcement;
  - Fines for overdue electricity books; and
  - Traffic Fines.
- The amount for traffic fines is made up of fines written out and not fines collected;
- The projections are informed by the adjustment budget where the revenue was adjusted downward due to non-performance of the revenue line item;
- A back-office service provider was appointed during the 2021/22 financial and the municipality should be able to collect more from the traffic fines which have been issued.

### Licences and Permits

- The municipality issues the following licences:
  - Health Certificates; and
  - Licences for Market Porters.
- Tariff increases of 5.3% which is the CPI as per MFMA Budget Circular 123. The projected revenue is informed by the CPI increase;

### Transfers and Subsidies – Operational and Capital

- The amounts are as per the Division of Revenue Bill 2023 (Government Gazette No. 48017 of 10 February 2022) which was tabled by the Minister of Finance in Parliament 02 22 February 2023;

- Subsidies revenue is informed by the expenditure of the subsidised departments (Health and Social Development). The revenue of the departments equals the expenditure.

**Table 20 – Operational Grants**

<b>NATIONAL ALLOCATIONS</b>				
<b>Direct Allocations</b>				
	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>TOTAL</b>
Equitable Share	1 066 025 000	1 159 213 000	1 258 882 000	<b>3 484 120 000</b>
Local Government Financial Management Grant	2 200 000	2 200 000	2 338 000	<b>6 738 000</b>
Expanded Public Works Programme Integrated Grant for Municipalities	1 242 000	-	-	<b>1 242 000</b>
Municipal Infrastructure Grant	10 162 100	10 642 750	222 875 000	<b>243 679 850</b>
	<b>1 079 629 100</b>	<b>1 172 055 750</b>	<b>1 484 095 000</b>	<b>3 735 779 850</b>

Other Revenue

- Tariff increases of 5.3% which is the CPI as per MFMA Budget Circular 123. The projected revenue is informed by the CPI increase;

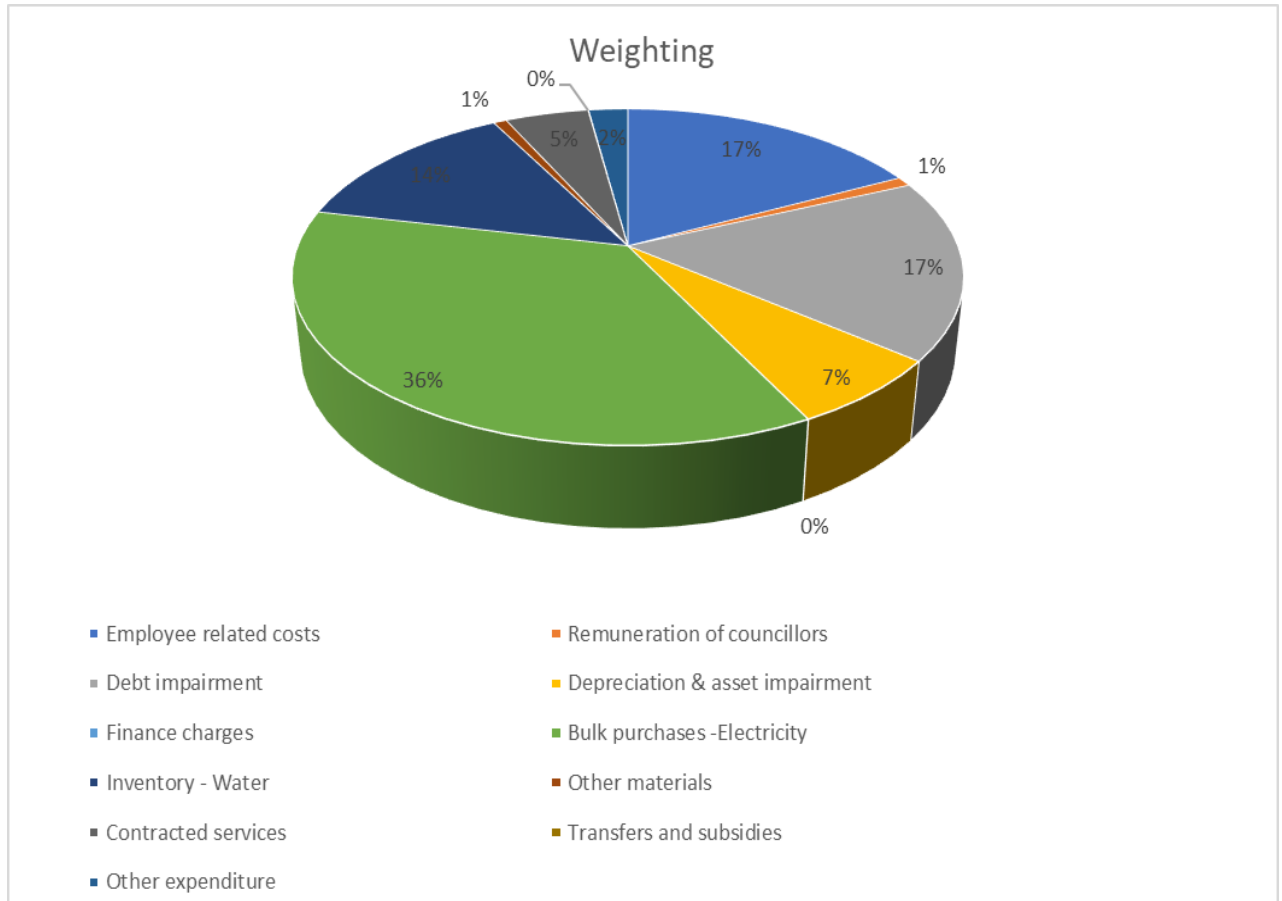
Expenditure

**Table 21–Projected Operational Expenditure**

<b>Expenditure by Type</b>	<b>2022/23 - Adjustment Budget</b>	<b>Proposed Budget 2023/2024</b>	<b>Proposed Budget 2024/2025</b>	<b>Proposed Budget 2025/2026</b>
Employee related costs	1 226 323 567	1 351 369 346	1 417 816 753	1 488 320 198
Remuneration of councillors	66 335 199	70 192 390	73 561 625	77 019 021
Debt impairment	1 145 561 253	1 338 487 766	1 457 982 543	1 588 228 712
Depreciation & asset impairment	487 511 132	513 349 222	538 503 334	563 812 991
Finance charges	95 756 529	-	-	-
Bulk purchases -Electricity	2 070 925 959	2 778 366 911	2 994 653 981	3 444 924 665
Inventory – Water (Bulk)	957 440 000	1 046 294 277	1 240 717 969	1 342 749 484
Other materials	72 034 033	57 812 173	59 626 669	61 164 115
Contracted services	446 500 915	370 129 447	395 013 737	406 763 078
Transfers and subsidies	-	2 200 000	2 200 000	2 200 000
Other expenditure	313 125 638	174 040 696	181 394 582	189 655 114
<b>Total Expenditure</b>	<b>6 881 514 225</b>	<b>7 702 242 227</b>	<b>8 361 471 192</b>	<b>9 164 837 377</b>

The following graph gives a breakdown of the main expenditure categories for the 2023/24 financial year:

**Graph 1 – Main expenditure items**



**Table 22 - Expenditure Growth over the MTREF**

Description	MTREF					
	2023/24	%	2024/25	%	2025/26	%
Employee related costs	1 351 369 346	18%	1 417 816 753	17%	1 488 320 198	16%
Remuneration of councillors	70 192 390	1%	73 561 625	1%	77 019 021	1%
Debt impairment	1 338 487 766	17%	1 457 982 543	17%	1 588 228 712	17%
Depreciation & asset impairment	513 349 222	7%	538 503 334	6%	563 812 991	6%
Finance charges	-	0%	-	0%	-	0%
Bulk purchases -Electricity	2 778 366 911	36%	2 994 653 981	36%	3 444 924 665	37%
Inventory - Water	1 046 294 277	14%	1 240 717 969	15%	1 342 749 484	15%
Other materials	57 812 173	1%	59 626 669	1%	61 164 115	1%
Contracted services	370 129 447	5%	395 013 737	5%	406 763 078	4%
Transfers and subsidies	2 200 000	0%	2 200 000	0%	2 200 000	0%
Other expenditure	174 040 696	2%	181 394 582	2%	189 655 114	2%
<b>Total Expenditure</b>	<b>7 702 242 227</b>	<b>100%</b>	<b>8 361 471 192</b>	<b>100%</b>	<b>9 164 837 377</b>	<b>100%</b>

- The largest expenditure items are Bulk Purchases at 50% (36% + 14% - water expenses are accounted for as Inventory) employee related costs at 18% and debt impairment at 17% of the operational expenditure budget;
- Salary projections were adjusted with an increase of 5.4%;

- Remuneration of Councillors is calculated in terms of the Remuneration of Public Office Bearers Act and an adjustment of 5.4% (CPI) was made on the adjustment budget;

#### Employee related costs

- The proposed salary budget excludes the budget for critical posts but includes attrition posts vacated since October 2022.
- The critical vacancies list submitted by Human Resources was costed at R261 million which the budget cannot afford.

#### Remuneration of councillors

- The remuneration of councillors is provided for in terms of the relevant government gazette. An adjustment of 5.4% (CPI) has been made on the adjustments budget amount.

#### Debt impairment

- The municipality is targeting a collection rate of 79.47% in 2023/24.

#### Depreciation & asset impairment

- The following amounts are estimated for the MTREF:
  - 2023/24– R513 349 222;
  - 2023/24 – R538 503 334; and
  - 2025/26 – R563 812 991.

#### Finance charges

- The municipality incurs high interest charges due to the high outstanding creditors. This amount is classified as Fruitless and Wasteful Expenditure. Provision for the payment of the amount as well as outstanding creditors will be made in the cash flow statement;
- In terms of the Budget Speech 2023 and the MFMA Circular 123 there will be relief for municipalities for Eskom debt provided certain conditions are met.

#### Bulk purchases

- Electricity distribution losses for the year ended 30 June 2022 amount to R598 556 898 and R527 406 154 for the year ended 30 June 2021;
- Bulk electricity costs amounted to R2 513 979 543 in 2021/22 and R2 166 319 522 in 2020/21.

#### Other materials

- Water is budgeted for as Inventory and is therefore included in Other Materials;
- Water distribution losses for the year ended 30 June 2022 amount to R733 720 550 and R592 530 225 for the year ended 30 June 2021;
- Bulk water costs amounted to R1 043 810 712 in 2021/22 and R1 056 345 628 in 2020/21.

#### Contracted services

- These are services which are performed for the municipality by service providers.

Transfers and subsidies

- The amount of R2 200 000 is for the Executive Mayors Bursary Programme.

Other expenditure

- These are operational expenditures and leases that the municipality has.

**Expenditure Budget Per Cluster**

**Table 23 - Expenditure per Cluster in the 2023/24 financial year**

ITEM	P.O.	M.M.	F.S.	S.S.	P.W.	E.D.P.	Community
Employee Costs	80862150	64880722	137499263	134471853	442364106	78744521	412546730
Councillors Allowances	70192390	-	-	-	-	-	-
Debt impairment	-	-	218108198	-	1019095473	-	101284095
Depreciation & asset impairment	2314483	617137	5097461	6034745	442818474	39805259	16661662
Finance charges	-	-	-	-	-	-	-
Bulk purchases - electricity	-	-	-	-	2778366911	-	-
Inventory: Water Bulk	-	-	-	-	1046294277	-	-
Inventory: Other Materials	197063	113452	480086	18140176	33365380	273451	5242565
Contracted services	-	2467476	30600000	32585000	190601822	2181000	111694148
Transfers and subsidies	2200000	-	-	-	-	-	-
Other expenditure	7632491	55287757	19094016	53725830	19831759	578163	17890680
<b>TOTAL BUDGET</b>	<b>163 398 578</b>	<b>123 366 544</b>	<b>410 879 025</b>	<b>244 957 604</b>	<b>5 972 738 202</b>	<b>121 582 394</b>	<b>665 319 881</b>
	<b>2%</b>	<b>2%</b>	<b>5%</b>	<b>3%</b>	<b>78%</b>	<b>2%</b>	<b>9%</b>

Eighty - four percent 87% of the expenditure budget has been allocated to basic services (Public Works Cluster = 78% and Community Services = 9%). The following departments are in the Public Works Cluster:

- Electricity;
- Waste Management;
- Roads;

The following departments are in the Community Services Cluster:

- Parks and Cemeteries;
- Libraries (not a mandate of a local municipality in terms);
- Health and Social Development (not a mandate of a local municipality in terms);
- Arts and Culture;
- Public Safety; and
- By-Law.

**Free Basic Services: Basic Social Services Package**

A consumer qualifying for indigent support must receive the subsidies as determined annually during the preparation of the municipality's budget. The municipality has a challenge of controlling consumption of water services by indigent households and policy amendments may be necessary to ensure controlled consumption and accounting for free basic services.

The following subsidies are applicable in terms of the Policy on Access to Free Basic Services:

**Table 24: Indigent Subsidy Suite**

Service	Subsidy	Applicable Section
Water and Sanitation	6kl including Basic Charge; A subsidy equal to the flat rate for un-metered households.	Section I (2)
Electricity	50kWh of electricity per month.	Section I (1)
Refuse Removal	As provided for in the budget and depending on the tariff for the financial year.	Section I (3)
Property Rates	As provided for in the budget and as determined by Council from time to time.	Section I (5)
Market Related Rental	Subsidy up to the maximum of 60% of the payment of site rental.	Section I (6)

In terms of Section I.2 of the policy:

- In the case of un-metered services, the subsidy will be equal to the flat rate tariff applicable for that financial year. The assumed consumption per household per month is currently 15kl.

In terms of Section K.1 of Policy on Access to Free Basic Services the amount of subsidization will be limited to the amount of the equitable share received on annual basis.

The main criteria for qualification for the receipt of free basic services in terms of Section E of the policy are as follows:

- Relief may within the financial ability of the municipality be allocated to owners or tenants of residential premises and not exceeding the Market Value of R300 000 or amount as from time to time determined by the council (E.1); and
- The total gross income of all occupants been determined by the council from time to time. [Currently this amount is deemed to be equal to the amount received by two state pensioners as annually approved by the South African Government as part of that year budget plus R2 000 (E.2).

Other conditions are set in sub-sections E.2 to E.9 of the Policy.

### **Capital Expenditure**

**Table 25 – Capital Grants over the MTREF**

Name	2023/2024	2024/2025	2025/2026	TOTAL
<b>NATIONAL ALLOCATIONS</b>				
<b>Direct Allocations</b>				
Municipal Infrastructure Grant	193 079 900	202 212 250	211 731 250	<b>607 023 400</b>
Energy Efficiency and Demand-Side Management Grant	-	6 000 000	-	<b>6 000 000</b>
Integrated National Electrification Programme (Municipal) Grant	3 540 000	20 000 000	20 000 000	<b>43 540 000</b>
Neighbourhood Development Partnership Grant (Capital)	15 000 000	10 000 000	5 000 000	<b>30 000 000</b>
	<b>211 619 900</b>	<b>238 212 250</b>	<b>236 731 250</b>	<b>686 563 400</b>

**Table 26 – Capital Budget Funding Over the MTREF**

Funding	2023/24 R	%	2024/25 R	%	2025/26 R	%
<b>Internal</b>	328 110 000	60.77%	367 473 950	61.28%	310 021 837	56.70%
<b>National</b>						
Municipal Infrastructure Grant	193 079 900	35.76%	202 212 250	33.72%	211 731 250	38.73%
Integrated National Electrification Programme	3 540 000	0.66%	20 000 000	3.34%	20 000 000	3.66%
Neighbourhood Development Partnership Grant	15 000 000	2.78%	10 000 000	1.67%	5 000 000	0.91%
Financial Management Grant	180 000	0.03%	-	-	-	-
<b>Provincial Grants</b>						
Functional Fire & rescue Grant	-	-	-	-	-	-
<b>TOTAL CAPITAL BUDGET</b>	<b>539,909,900</b>	<b>100%</b>	<b>599,686,200</b>	<b>100%</b>	<b>546,753,087</b>	<b>100%</b>

**Table 27 – Capital Budget Per Cluster**

Cluster	2023/24	%	2023/24	%	2025/26	%
Municipal Manager	2 500 000	0%	-	0%	-	
Financial Services	2 180 000	0%	-	0%	-	0%
Shared Services	28 310 000	5%	-	0%	10 000	0%
Public Works-Electricity	237 790 000	44%	333 750 000	56%	261 250 000	56%
Public Works-Waste Management & Refuse Removal	2 000 000	0%	-	0%	-	0%
Public Works-Roads & Stormwater	15 000 000	3%	10 000 000	2%	5 000 000	2%
Public Works-Metsi- a-Lekoa	51 500 000	10%	50 000 000	8%	50 000 000	8%
Public Works-Project Management Unit	193 079 900	36%	202 212 250	34%	211 731 250	34%
Public Safety & Community Development- Fire & Rescue Service	7 550 000	1%	3 723 950	1%	18 761 837	1%
<b>TOTAL</b>	<b>539,909,900</b>	<b>100%</b>	<b>599,686,200</b>	<b>100%</b>	<b>546,753,087</b>	<b>100%</b>

**Additional Information on Allocations**

The following indirect capital grants were allocated to Emfuleni but will be implemented on behalf of Emfuleni by other spheres of government. Completed projects / assets will then be handed over to Emfuleni L.M. for capitalisation.

The indirect grants amount to R2 304 484 000 for the MTREF period:

**Table 28 – Indirect Grants**

Name	2023/2024	2024/2025	2025/2026	TOTAL
<b>NATIONAL ALLOCATIONS</b>				
<b>Indirect Allocations</b>				
Integrated National Electrification Programme (Eskom) Grant	115 000	17 433 000	33 014 000	<b>50 562 000</b>
Neighbourhood Development Partnership Grant (Technical Assistance)	-	100 000	100 000	<b>200 000</b>
Regional Bulk Infrastructure Grant	671 944 000	819 665 000	864 338 000	<b>2 355 947 000</b>
	<b>672 059 000</b>	<b>837 198 000</b>	<b>897 452 000</b>	<b>2 406 709 000</b>

### **Section 63 intervention**

A request is hereby made that Council should approve that the Accounting Officer make an application to Rand Water to accommodate the following sewer and water projects in the Sec 63 intervention:

#### **Refurbishment/Repair of Mechanical Equipment to Prevent Downstream Process Blockages: Rietspruit WWTW'S - 100% Out Sourced**

- i. Repair/Refurbishment of Coarse & Fine Screens.
- ii. Repair/Refurbishment of Grit Removal Blowers and its Pipework System.
- iii. Repair/Refurbishment of Primary Settling Tanks Scrapers, Rotating Wheels, Motor & Gearboxes Equipment.
- iv. Repair/Refurbishment of Grit Classifiers and Gear Box & Motors.
- v. Repair/Refurbishment of Aerators Gear Boxes and Motors.
- vi. Repair/Refurbishment or Replacement of Return Activated Sludge Bearings, Pumps and Motors.
- vii. Repair/Refurbishment or Replacement of Waste Activated Sludge Bearings, Pumps and Motors.
- viii. Repair/Refurbishment or Replacement of Secondary Settling Tank Bottom Scrappers, Rotating Bridges, Motors.
- ix. Repair/Refurbishment or Replacement of Chlorine Dosing System Equipment.

#### **Repair/Refurbishment of Electrical Equipments - 100 % Outsourced.**

- i. Services and Replacement of Motor Protection Units. (To Prevent Burning of Motors).
- ii. Replacement/Repair & Repair of all Stolen and Earthing Cables.
- iii. Servicing of 11 - 22 KV Breakers.
- iv. Servicing of 220-350 KV: Diesel Emergency Stand-by Generator
- v. Replacement/Repair & Repair Areal and building Lights
- vi. Maintenance of all Motor Control Centres (MCC'S), Inclusive with its Air Conditioners
- vii. Repairs/Replacement/Refurbishment of all Motor Control Centres (MCC'S) Electrical Panels

#### **Refurbishment/Repairs of Instrumentation Equipment and Components**

- i. Installation and Calibration of In-Flow & Out-Flow Meters to ensure accurate measurement of flows.
- ii. Installation and Calibration of Dissolved Oxygen(DO) Meters.
- iii. Repairs/Replacement /Refurbishment of all PLC System and its Components
- iv. Calibration and Configuration of All PLC, SCADA & UPS System.

### **Budget Related Policies**

In terms of regulation 7 of the Municipal Budget and Reporting Regulations (MBRR) when an annual budget is tabled it must be accompanied by any proposed amendments to policies and by-laws due to annual review process.

Policies which are budget-related have previously been approved by Council during a financial year and without being tabled at the Finance Portfolio Committee. A request is made that henceforth no policy should be approved by Council without the approval of the Finance Portfolio Committee.



The following other proposals are made as enhancements to controls and to currently approved policies:

- A limit should be set for amounts that are transferred by departments. Where the limit needs to be exceeded the limit should be approved by a meeting of the EXCO and the form should be supported by the EXCO minutes;
  - No virements will be made during certain periods or processes;
  - Budget should be verified and approved by the Budget Office before certain expenditures are incurred i.e. overtime work travelling which requires re-imburement including travelling by officials who receive travel allowances and acting where officials will qualify for acting allowance. Templates for this purpose must be approved with the final budget;
  - Limits should be imposed on the capacity of the vehicles to be used for re-imbursive travel and the kilometres to be travelled per month and calculations should support the availability of the budget before approval;
  - All claims for travel, acting and overtime should be submitted for payment to be paid in the month immediately following the month when the expenditure was incurred to ensure the accuracy of reporting (MFMA section 71 reports AFS etc.) and planning. Claims should be forfeited when not made within a reasonable time.
- \* • **This item also seeks approval for pensioners who are seventy years and older and who are owners of residential properties to be exempted from property rates. To qualify for this exemption, the owner of the property should adhere to the following:**
- i. The property should be their primary residence;
  - ii. The account should not be in arrears;
  - iii. No write-offs of any arrears; and
  - iv. The owners must be seventy years and older.
- \* • **Council also approved the Wayleave Policy in the 2022/23 financial year. This report requests that the tariffs and charges in terms of policy be included in the tariffs booklet for implementation starting on 01 July 2023.**

--- The following budget-related policies and by-laws were reviewed and are submitted **with the amendments proposed above (See Separate Cover Document):**

**Table 29 – Draft Policies 2023/24**

Name	Item no.	Date of Approval
Draft Virements Policy; <b>Annexure H (See Separate Cover Document (pages 1 - 6))</b>	A4688	30 June 2022
Draft Budget Policy; <b>Annexure I (See Separate Cover Document (pages 7 - 12))</b>	A4688	30 June 2022
Draft Funding and Reserves Policy; <b>Annexure J (See Separate Cover Document (pages 13 - 18))</b>	A4688	30 June 2022
Draft Credit Control Debt Collection and Customer Care Policy; <b>Annexure K (See Separate Cover Document (pages 19 - 49))</b>	A4688	30 June 2022
Draft Recoverable Debt and Write-off of Irrecoverable Debt Policy; <b>Annexure L (See Separate Cover Document (pages 50 - 58))</b>	A4688	30 June 2022
Draft Credit Control and Debt Collection By-laws 2022/2023 – <b>Annexure M (See Separate Cover Document (pages 59 - 94))</b>	A4688	30 June 2022
Draft Free Basic Services Policy; <b>Annexure N (See Separate Cover Document (pages 95 - 106))</b>	A4688	30 June 2022
Draft Property Rates; <b>Annexure O (See Separate Cover Document (pages 107 - 135))</b>	A4688	30 June 2022
Draft Property Rates By-laws; <b>Annexure P (See Separate Cover Document (pages 136 - 145))</b>	A4688	30 June 2022
Draft Tariff Policy; <b>Annexure Q (See Separate Cover Document (pages 146 - 172))</b>	A4688	30 June 2022
Draft Tariffs By-laws; <b>Annexure R (See Separate Cover Document (pages 173 - 177))</b>	A4688	30 June 2022
Draft Supply Chain Management (SCM) Policy; <b>Annexure S (See Separate Cover Document (pages 178 - 230))</b>	A4845	24 February 2023
Draft Emfuleni Investment and Borrowing of Funds Policy 2022/2023; <b>Annexure T (See Separate Cover Document (pages 231 - 248))</b>	A4688	30 June 2022

\* **INSERTIONS**

Name	Item no.	Date of Approval
Draft Capital Contributions Policy. <b>Annexure U (See Separate Cover Document (pages 249 - 316))</b>	A4688	30 June 2022
Draft Cost Containment Policy; <b>Annexure V (See Separate Cover Document (pages 317 - 327))</b>	A4688	30 June 2022
Overtime Policy; <b>Annexure W (See Separate Cover Document (pages 328 - 335))</b>	A4731	28 September 2022
Recruitment and Selection Policy; <b>Annexure X (See Separate Cover Document (pages 336 - 366))</b>	A4732	28 September 2022
SALGA Task Job Evaluation Policy; <b>Annexure Y (See Separate Cover Document (pages 367 - 381))</b>	A4734	28 September 2022
Mayoral Bursary Policy; <b>Annexure AA (See Separate Cover Document (pages 382 - 392))</b>	A4841	08 December 2022
Relocation Policy; <b>Annexure BB (See Separate Cover Document (pages 393 - 398))</b>	A4729	28 September 2022
Standby Management and Allowance Policy; <b>Annexure CC (See Separate Cover Document (pages 399 - 405))</b>	A4730	28 September 2022

### **Consultation on the budget**

Additional to the EXCO Lekgotla an extended EXCO sat on Monday 13 February 2023 to deliberate and make decisions on allocations to be made for the draft budget.

As indicated in the adjustments budget item on engagement was held with the unions on 10 February 2023 (IMATU made an apology) to appraise them of the ELM financial situation. The following concerns were raised by SAMWU:

- Government departments using our facilities without lease contracts;
- Whether the cemeteries revenue is performing satisfactorily;
- A request was made for a thorough meeting where issues will be split;
- Poor credit control leading to outsourcing;
- Unions to be engaged on restructuring;
- Double counting – e.g. grass cutting;
- The LLF was not engaged on job evaluation;
- The consultation with the unions on the s63 intervention has been minimal;
- There must be agreement with Rand Water to use the ELM internal fleet policy; and
- The hijacking of fleet which endangers the lives of staff.

### **Request for flat rate**

As part of the public participation meetings in previous periods a request was made for a flat rate to be paid by residents for the use of municipal services.

A written request was received from Ward 10 where a flat rate of R500 for the electricity service is requested for the 2023/24 financial year. While note is taken of the request which will be discussed further during the public consultation process.

The following requirements of section 74(2) (a&b) of the Municipal Systems Act must be taken into account:

2. *“A tariff policy must reflect at least the following principles namely that-*
  - (a) users of municipal financial services should be treated equitably in the application of tariffs;*
  - (b) the amount individual users pay for services should generally be in proportion of their use of the service”*

The law requires that each user pay for their use. The application of a flat rate without the measurement and control of consumption by users is not sustainable.

### **Risk Factors of the Annual Budget**

- Fiscal ill-discipline where officials spend budget they do not have or incur expenditures which transgress approved policy or incomplete documents supporting expenditure;
- Funding of the budget. The projected collection rate of 83.56% which informed the budget for the 2022/23 financial did not realise as at mid-year;
- High creditors amount and the attachment of bank accounts by creditors;
- Outstanding labour matters;
- Pending court cases (tariffs and others);
- Material distribution losses;
- Unfunded Mandates;

### **RECOMMENDED THAT**

1. Council should take cognisance of the of the draft budget report for the 2023/24 to 2025/26 MTREF period which is tabled for consideration in terms of section 16 of the Municipal Finance Management Act;
2. the draft budget of R8 242 152 127 comprising of operational expenditure of R7 702 242 227 and capital expenditure of R539 909 900 for the financial year 2023/24 as detailed in the tables below should be considered by Council:
  - i. Table A1 –Budget Summary;
  - ii. Table A2 –Budget Financial Performance (Standard Classification);
  - iii. Table A3 –Budget Financial Performance (Revenue and Expenditure by Municipal Vote);
  - iv. Table A4 –Budget Financial Performance (Revenue and Expenditure);
  - v. Table A5 –Capital Expenditure by vote and funding;
  - vi. Table A6 –Budget Financial Position;
  - vii. Table A7 –Budget Cash Flows;
  - viii. Table A8 – Cash-backed reserves / accumulated surplus reconciliation;
  - ix. Table A9 – Asset Management;
  - x. Table A10 – Basic Service Delivery Measurement; and
  - xi. Supporting Tables SA1 to SA37.
3. Council should consider the following reviewed policies:
  - i. Draft Virements Policy; **Annexure H (Distributed as Separate Cover Document (pages 1 - 6))**;
  - ii. Draft Budget Policy; **Annexure I (Distributed as Separate Cover Document (pages 7 - 12))**;
  - iii. Draft Funding and Reserves Policy; **Annexure J (Distributed as Separate Cover Document (pages 13 - 18))**;
  - iv. Draft Credit Control, Debt Collection and Customer Care Policy; **Annexure K (Distributed as Separate Cover Document (pages 19 - 49))**;
  - v. Draft Recoverable Debt and Write-off of Irrecoverable Debt Policy; **Annexure L (Distributed as Separate Cover Document (pages 50 - 58))**;
  - vi. Draft Credit Control and Debt Collection By-laws 2022/2023; **Annexure M (Distributed as Separate Cover Document (pages 59 - 94))**;
  - vii. Draft Free Basic Services Policy; **Annexure N (Distributed as Separate Cover Document (pages 95 - 106))**;
  - viii. Draft Property Rates Policy; **Annexure O (Distributed as Separate Cover Document (pages 107 - 135))**;

- ix. Draft Property Rates By-laws; **Annexure P (Distributed as Separate Cover Document (pages 136 - 145))**;
  - x. Draft Tariff Policy; **Annexure Q (Distributed as Separate Cover Document (pages 146 - 172))**;
  - xi. Draft Tariffs By-laws; **Annexure R (Distributed as Separate Cover Document (pages 173 - 177))**;
  - xii. Draft Supply Chain Management (SCM) Policy; **Annexure S (Distributed as Separate Cover Document (pages 178 - 230))**;
  - xiii. Draft Emfuleni Investment and Borrowing of Funds Policy 2022/2023; **Annexure T (Distributed as Separate Cover Document (pages 231 - 248))**;
  - xiv. Draft Capital Contributions Policy; **Annexure U (Distributed as Separate Cover Document (pages 249 - 316))**;
  - xv. Draft Cost Containment Policy; **Annexure V (Distributed as Separate Cover Document (pages 317 - 327))**;
  - xvi. Overtime Policy; **Annexure W (Distributed as Separate Cover Document (pages 328 - 335))**;
  - xvii. Recruitment and Selection Policy; **Annexure X (Distributed as Separate Cover Document (pages 336 - 366))**;
  - xviii. SALGA Task Job Evaluation Policy; **Annexure Y (Distributed as Separate Cover Document (pages 36 - 381))**;
  - xix. Mayoral Bursary Policy; **Annexure AA (Distributed as Separate Cover Document (pages 382 - 392))**;
  - xx. Relocation Policy; **Annexure BB (Distributed as Separate Cover Document (pages 393 - 398))**; and
  - xxi. Standby Management and Allowance Policy; **Annexure CC (Distributed as Separate Cover Document (pages 399 - 405))**;
4. the following tariff increments be considered by Council and be taken for public consultation:
- i. Property Rates – 5.3%;
  - ii. Electricity – 16.65% (subject to tariff approval by NERSA);
  - iii. Water – 9.2%;
  - iv. Sanitation – 5.3%;
  - v. Refuse – 5.3%; and
  - vi. Other tariffs – 5.3%.
5. Council should take note of the proposed capital projects attached to the report as **Annexure B (pages 65 - 68)**;
6. Rates, Levies, Taxes and other tariffs for the 2023/24 financial year should be considered by Council and that after approval the Determination of Rates Levies be promulgated as required in terms of Section 14(2) of the Local Government: Municipal Property Rates Act No 6 of 2004;
7. the Service Delivery Level Standards attached to the report as **Annexure W (pages 74 - 75)** for the 2023/24 financial year in terms of MFMA Budget Circular 89 be considered by Council;
8. the Draft Tariff Booklet distributed as a **Separate Cover Document** for the 2023/24 financial year be considered by Council;
9. Council should take note of the under-provision of bulk costs as a result of high distribution losses and the lack of funding source for the costs;

10. the proposals made by the draft should be taken for public participation during the months of April and May 2023 in terms of sections 22 and 23 of the Municipal Finance Management Act; and
11. Council should approve that the Accounting Officer make an application to Rand Water to accommodate the following sewer and water projects in the Sec 63 intervention:

Refurbishment/Repair of Mechanical Equipment to Prevent Downstream Process Blockages: Rietspruit WWTW'S - 100% Out Sourced

- i. Repair/Refurbishment of Coarse & Fine Screens.
- ii. Repair/Refurbishment of Grit Removal Blowers and its Pipework System.
- iii. Repair/Refurbishment of Primary Settling Tanks Scrapers, Rotating Wheels, Motor & Gearboxes Equipment.
- iv. Repair/Refurbishment of Grit Classifiers and Gear Box & Motors.
- v. Repair/Refurbishment of Aerators Gear Boxes and Motors.
- vi. Repair/Refurbishment or Replacement of Return Activated Sludge Bearings, Pumps and Motors.
- vii. Repair/Refurbishment or Replacement of Waste Activated Sludge Bearings, Pumps and Motors.
- viii. Repair/Refurbishment or Replacement of Secondary Settling Tank Bottom Scrapers, Rotating Bridges, Motors.
- ix. Repair/Refurbishment or Replacement of Chlorine Dosing System Equipment.

Repair/Refurbishment of Electrical Equipments - 100 % Outsourced

- i. Services and Replacement of Motor Protection Units. (To Prevent Burning of Motors).
- ii. Replacement/Repair & Repair of all Stolen and Earthing Cables.
- iii. Servicing of 11 - 22 KV Breakers.
- iv. Servicing of 220-350 KV: Diesel Emergency Stand-by Generator
- v. Replacement/Repair & Repair Areal and building Lights
- vi. Maintenance of all Motor Control Centres (MCC'S), Inclusive with its Air Conditioners
- vii. Repairs/Replacement/Refurbishment of all Motor Control Centres (MCC'S) Electrical Panels

Refurbishment/Repairs of Instrumentation Equipment and Components

- i. Installation and Calibration of In-Flow & Out-Flow Meters to ensure accurate measurement of flows.
- ii. Installation and Calibration of Dissolved Oxygen (DO) Meters.
- iii. Repairs/Replacement /Refurbishment of all PLC System and its Components
- iv. Calibration and Configuration of All PLC, SCADA & UPS System.

- \* 12. **pensioners who are seventy years and older be exempt from property rates for their primary residential properties;**
- \* 13. **charges and tariffs in terms of the Wayleave Policy should be implemented starting on 01 July 2023;**
- \* 14. **the Budget Funding Plan which was approved in terms of Item A4688 on 30 June 2022 should be updated with the assumptions and projections which are proposed by the draft budget; and**
- \* 15. **the revised Budget Funding Plan should be tabled for approval with the final budget for the 2023/24 financial year.**

\* INSERTIONS