

MADIBENG LOCAL MUNICIPALITY SUMMARY OF 2022/2023 - 2024/2025 DRAFT BUDGET



1. OVERVIEW OF THE BUDGET

National Treasury has set out the requirements for funding the budget and producing a credible budget. Attention is given to Section 18(1) of the MFMA, which states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;

- Cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17(2).

Achievement of this requirement in totality effectively means that a Council has “balanced” its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

THE 2022/23 MTREF HAS BEEN COMPILED TAKING INTO ACCOUNT THE FOLLOWING:

The South African economy has not been shielded from these global developments. National Treasury has revised South Africa’s economic growth estimate for 2021 to 4.8 per cent, from 5.1 per cent at the time of the MTBPS.

This revision reflects a combination of the impact of changes in the global environment, along with South Africa’s own unique challenges. Commodity prices, which have supported South Africa’s economic recovery, slowed in the second half of 2021.

Also, violent unrest in July, and restrictions imposed to manage the third wave of COVID-19 further eroded the gains South Africa made in the first half of the year. Industrial action in the manufacturing sector, and the re-emergence of load shedding, also slowed the pace of the recovery.

Real Gross Domestic Product (GDP) growth of 2.1 per cent is projected for 2022. Over the next three years, GDP growth is expected to average 1.8 per cent.

Headline inflation is expected to remain between 3 to 6 per cent target range over the 2022/23 MTEF.

In summary, the tax revenue in 2021/22 was higher than projections and this was mainly due to commodity price rally. However, these are projected to be short term, and as such long- term spending commitments should not be made based on short term revenue benefits. There are measures in place to reduce expenditure to narrow the budget deficit.

The following macro-economic forecasts must be considered when preparing the 2022/23 MTREF municipal budgets.

TABLE 1: Macroeconomic performance and projections, 2020 -2025

| Fiscal Year | 2021/22 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|--------------------------------|---------|----------|----------|---------|---------|
| | Actual | Estimate | Forecast | | |
| CONSUMER PRICE INFLATION (CPI) | 2.9% | 4.5% | 4.8% | 4.4% | 4.5% |

Source: Budget Review 2022.

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.

Key focus areas for the 2022/23 budget process

- **Local government conditional grants allocations**

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 2022 MTEF

period. R28.9 billion is added to the LGES over the MTEF to increase coverage of the provision of free basic services; and [REDACTED]

Integrated National Electrification Programme (Eskom) Grant – R50 million is reprioritised from the Integrated National Electrification Programme (Eskom) Grant to finance the operational requirements of the Independent Power Producer Office in 2022/23.

Energy Efficiency and Demand Side Management Grant – R8 million in 2022/23 and 2023/24, respectively is reprioritised from the Energy Efficiency and Demand-Side Management Grant to finance the operational requirements within the vote of the Department of Mineral Resources and Energy.

Infrastructure Skills Development Grant (ISDG) – The grant framework for the infrastructure skills development grant is amended to include a condition that municipalities must have a capacitated Project Management Units with qualified people to act as supervisors in terms of the relevant statutory council requirements.

Municipal Infrastructure Grant (MIG) – Over the 2022 MTEF, the Department of Cooperative Governance (DCoG) will introduce an indirect component to the MIG. This is to improve efficiency in grant expenditure to develop more and better-quality infrastructure. The conversion will be done in-year. The criteria as determined by DCoG includes indicators related to expenditure and reliability of infrastructure.

Municipal Disaster Relief Grant – The name of the Municipal Disaster Relief Grant is changed to the Municipal Disaster Response Grant. The objective of the grant remains the same and the change aligns to existing National Disaster Management Centre (NDMC) processes in responding to disasters that have occurred.

Local Government Financial Management (FMG) Grant – Over the 2022 MTEF, the grant framework for the FMG will make provision for the preparation of asset registers.

Other matters as outlined in MFMA Circulars No. 28, 42, 51, 54, 55, 58, 59, 66, 67, 70, 71, 72, 74, 75, 78, 79, 85, 86, 89, 91,93, 94, 98,107,112,115 and budget related regulation no 32141 of 17 April 2009 and Chapter 4, 7 etc. of the MFMA

2. EXECUTIVE SUMMARY

The proposed budget of Madibeng Local municipality for the 2022/23 financial year totals R 2.8 billion, comprising of R 2.53 billion Operating Expenditure and R 361.9 million for Capital expenditure. The total budget has decreased by 53.4 million or -2% when compared with the 2021/22 Original Budget and has increased by R 20.5 million or 1% compared with the 2021/22 Adjustment Budget. The deficit has decreased by 371.9 million or 78% when compared with the 2021/22 Original Budget and has decreased by 232.7 million or 49% when compared with the 2021/22 Adjustment Budget.

TABLE 2: CONSOLIDATED OVERVIEW OF THE 2022/2023 - 2024/2025 BUDGET

| R thousand | Original Budget | Adjusted Budget | Budget Year 2022/23 | Budget Year +1 2023/24 | Budget Year +2 2024/25 |
|------------|-----------------|-----------------|---------------------|------------------------|------------------------|
| Revenue | 2 155 760 | 2 170 958 | 2 422 623 | 2 671 013 | 2 947 206 |

| | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Expenditure | 2 635 090 | 2 511 104 | 2 530 036 | 2 795 351 | 3 089 869 |
| Surplus/(Deficit) | (479 330) | (340 146) | (107 413) | (124 338) | (142 663) |
| Capital Expenditure | 310 285 | 360 285 | 361 908 | 356 702 | 374 096 |
| TOTAL BUDGET | 2 945 375 | 2 871 389 | 2 891 944 | 3 152 053 | 3 463 965 |

The Municipality has budgeted for a deficit after taking into account the non-cash expenditure items like depreciation and provision for bad debts, if this items are removed the budget is on cash surplus of R314.8 million and it be noted that the deficit will gradually be phased out over a number of years and the Municipality anticipate to budget for surplus within the next five to ten financial years.

IMPACT OF COVID-19 LOCKDOWN

Impact of covid-19 lockdown on revenue was very hard, the municipality is still recovering hence the collection rate of the past 8 months is averaging 78.76%. The average percentage is based on 64 648 consumer accounts which were billed on monthly biases.

Billing VS Collection as at end of February 2022

| Period | Billing | Receipts | Variance | Payment rate | Prepaid Electricity Sales |
|----------------|--------------------|--------------------|--------------------|---------------|---------------------------|
| | R | R | R | % | R |
| July 2021 | 125 509 107 | 122 609 593 | 2 899 514 | 97.69% | 9 122 448 |
| August 2021 | 122 121 103 | 104 032 859 | 18 088 244 | 85.19% | 8 541 691 |
| September 2021 | 125 904 521 | 88 098 369 | 37 806 152 | 69.97% | 7 769 902 |
| October 2021 | 125 578 753 | 92 144 332 | 33 760 189 | 73.19% | 7 768 933 |
| November 2021 | 143 275 110 | 116 495 975 | 26 779 134 | 81.31% | 7 841 928 |
| December 2021 | 120 454 504 | 90 403 593 | 30 050 911 | 75.05% | 8 014 237 |
| January 2022 | 116 432 495 | 85 198 750 | 31 233 745 | 73.17% | 8 023 350 |
| February 2022 | 110 697 939 | 81 010 644 | 29 687 295 | 73.18% | 7 354 235 |
| Total | 990 299 299 | 779 994 116 | 210 305 183 | 78.76% | 64 436 724 |

Cash Flow

| Description | Current Year 2021/22 | | | | 2022/23 Medium Term Revenue & Expenditure Framework | | |
|--|----------------------|------------------|--------------------|-------------------|---|------------------------|------------------------|
| | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2022/23 | Budget Year +1 2023/24 | Budget Year +2 2024/25 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | | | |
| Receipts | 2 152 383 | 2 214 253 | 2 214 253 | 2 463 066 | 2 369 831 | 2 580 160 | 2 837 427 |
| Payments | (1 840 090) | (1 840 090) | (1 840 090) | (1 593 972) | (1 958 510) | (2 154 681) | (2 372 782) |
| NET CASH FROM/(USED) OPERATING ACTIVITIES | 312 292 | 374 163 | 374 163 | 869 094 | 411 320 | 425 478 | 464 645 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | |
| NET CASH FROM/(USED) INVESTING ACTIVITIES | (299 082) | (459 036) | (459 036) | (167 621) | (361 908) | (356 702) | (374 096) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | | |
| NET CASH FROM/(USED) FINANCING ACTIVITIES | 40 298 | - | - | (133) | - | - | - |
| NET INCREASE/ (DECREASE) IN CASH HELD | 53 508 | (84 873) | (84 873) | 701 341 | 49 412 | 68 776 | 90 549 |
| Cash/cash equivalents at the year begin: | 140 000 | 140 000 | 140 000 | - | 3 839 | 53 251 | 122 028 |
| Cash/cash equivalents at the year end: | 193 508 | 55 127 | 55 127 | 701 341 | 53 251 | 122 028 | 212 576 |

The budgeted cash flow statement is the first measurement in determining if the budget is funded. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget. It needs to be noted that covid-19 had a big impact on revenue collection, especially full implementation of credit control policy.

The municipality currently cannot pay its creditors within 30 days. It has entered into payment arrangements with bulk suppliers but does not help cause the municipality keeps defaulting. It is in this regard that the Municipal Council of Madibeng recognise the impact of the past bad financial management practices that are negatively impacting the financial sustainability of the Municipality.

Therefore, Council should ensure that all stakeholders assess the implementation of both financial plan and the revenue enhancement strategy on a monthly basis to ensure that future generations do not become over burdened by unsustainable financial decisions by the current generation.

The municipality is technically bankrupt, it can be seen that the cash levels will not be able to address the creditors balances on the table below. The available cash at the end of 2022/23 is R 53.2 m and R 122m for 2023/24 and R 212.m for 2024/25 financial years.

Creditors age analysis as at February 2022

| Description R thousands | | | | | | | Total |
|-------------------------------------|-------------|-------------|--------------|--------------|-------------------|-------------|---------|
| | 0 - 90 Days | 91-120 Days | 121-150 Days | 151-180 Days | 181 Days - 1 Year | Over 1 Year | |
| Total Creditors as at February 2021 | 169 262 | 63 998 | 26 386 | 16 234 | 46 978 | 157 374 | 480 231 |

Financial management reforms emphasises the importance of municipal budgets being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital budget. For this reason the Madibeng Municipal Council has to review the current financial plan and if it doesn't assist the institution to improve cash flow, the municipality must redraft a new financial plan to ensure that all financial planning is based on a structured and consistent methodology thereby ensuring long-term financial affordability and sustainability.

This will be implemented together with the Revenue Enhancement Strategy, that is not only aimed at growing our revenue base but to unlock all the operational inefficiencies in our revenue streams, by improving relationship between information on the Municipal financial system and data on the ground. This initiative is aimed at ensuring that the Municipality optimise its revenue collection level, without necessarily increasing the tariff that is charged to the current customers.

To ensure that financial plan is based on a structured and consistent methodology thereby ensuring long-term financial affordability and sustainability, these activities are included:

- Speeding the process of registering established townships that are not yet registered.
- Installation of services meters on areas with services but without metering.
- Linking of meters to the billing system.
- Consistence and accurate meter readings.
- Ensuring implementation of credit control.
- Debt collection on existing debts.
- Coordinating taking over of revenue earning infrastructure owned by other state entities (Eskom and City of Tshwane).
- Compilation of business cases for additional grants applications.

Also, part of the financial plan is to implement cost containment. As a result the following activities are included:

- Capping overtime claims to only 40 hours and ensuring that it's only those entitled by law to work overtime
- Introduction of shift system to those employees whom the municipality deems to be working on shift.
- Reduction of consultants costs
- Reduction of Contracted service costs etc.

3. REVENUE SOURCES

Similar to the rest of government, municipalities face a difficult fiscal environment. Even as demand for services rises, weak economic growth has put stress on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, water boards and other creditors. There is a need for municipalities to focus on collecting revenues owed to them and eliminate wasteful and non-core spending.

Municipalities are reminded that the local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise the administrative costs of the smaller and more rural municipalities. The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basic services will likely increase, and it will become even more difficult to collect revenue.

a. Tariffs

Reference is made to MFMA Circular No. 93, paragraph 3.1 and No. 98, paragraph 4.1. The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2022/23 MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this has been identified as a fundamental reason for municipalities not attaining their desired collection rates.

The proposed tariff increases from various sector departments were also considered.

- Consumer Price Index (CPI) of 4.8 per cent;
- Rand-Water tariff increase of 8.8%; and
- City of Tshwane Tariff increase.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the lower limit of the 3 to 6 per cent target band; therefore, municipalities are required to **justify all increases in excess of the projected inflation target for 2022/23** in their budget narratives and pay careful attention to tariff increases across all consumer groups.

The proposed main average tariff increases are as follows:

Table 3: Proposed Tariff Increase Percentage

| Description | Approved | Approved | MTREF |
|-------------|----------|----------|-------|
|-------------|----------|----------|-------|

| | Previous Year 2020/21 | Current Year 2021/22 | Budget Year 2022/23 | Budget Year +1 2023/24 | Budget Year +2 2024/25 |
|----------------|-----------------------|----------------------|---------------------|------------------------|------------------------|
| Property rates | 0% | 0% | 0% | 4.4% | 4.5% |
| Electricity | 8,10% | 5.2% | 9.6% | 4.4% | 4.5% |
| Water | 4,90% | 3.9% | 4.8% | 4.4% | 4.5% |
| Sewerage | 4,90% | 3.9% | 4.8% | 4.4% | 4.5% |
| Refuse Removal | 4,90% | 3.9% | 4.8% | 4.4% | 4.5% |
| Surcharges | 4,90% | 3.9% | 4.8% | 4.4% | 4.5% |
| Other services | 4,90% | 3.9% | 4.8% | 4.4% | 4.5% |

it needs to be noted that the electricity tariff increase percentage is an indicative percentage, we have not received the guideline from Nersa yet. The municipality still must apply for tariff increase at Nersa. Therefore, the electricity tariff increase may change depending on approval by Nersa

b. Transfers and Grants Allocation

Revenue from grant funding is set out in Division of Revenue Act (DORA) and the Provincial Gazette. The total transfers and grants allocation to the municipality is R 1.315 billion in the 2022/23 financial year and the allocation for 2023/24 and 2024/25 amount to R 1.405 billion and R 1.529billion.

The total operating transfers and grants for the 2022/23 financial year amount to R 945.4 million, R1.04 billion and R 1.14 billion for the 2023/24 and 2024/25 financial years.

The infrastructure grant for the 2022/23 financial year is appropriated at R324.4 million. And the allocation for the two outer years is estimated at R 339.7 million and R 355.9 million respectively.

Table 4 below gives a breakdown of the various Grants and subsidies allocated to the municipality over the medium-term period.

Table 4: Transfers and Grant Allocations

| Description | Budget Year 2020/2021 | Budget Year 2021/2022 | Budget Year 2022/2023 | Budget Year +1 2023/2024 | Budget Year +2 2024/2025 |
|--|-----------------------|-----------------------|-----------------------|--------------------------|--------------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Equitable Share | 902 288 | 818 913 | 941 456 | 1 037 558 | 1 144 194 |
| Financial Management Grant | 2 600 | 2 800 | 2 900 | 2 900 | 2 900 |
| Expanded Public Works Programme | 1 150 | 1 175 | 1 094 | | |
| Library Grant | 971 | | | | |
| Municipal Infrastructure Grant | 279 801 | 298 785 | 324 408 | 339 702 | 355 973 |
| Energy Efficiency and Demand Side Management Grant | 0 | 3 500 | | | |
| Integrated National Electrification | 14200 | 15000 | 45500 | 25 000 | 26 123 |
| Total Operating Grants & Subsidies | 1 201 010 | 1 140 173 | 1 315 358 | 1 405 160 | 1 529 190 |

Transfers and Grant Allocations in Kind

The total grant allocation in kind for the 2022/23 amount to R214.4 million. The allocation for the two outer year's amounts to R 246.4.7 million and R 277 million.

Table 5 below provides the details of Transfers and Grant Allocations in Kind for Madibeng Local Municipality over the MTREF period.

Table 5: Transfers and Grant Allocations in Kind

| Description | Budget Year 2020/2021 | Budget Year 2021/2022 | Budget Year 2022/2023 | Budget Year +1 2023/2024 | Budget Year +2 2024/2025 |
|-------------------------------------|-----------------------|-----------------------|-----------------------|--------------------------|--------------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Eskom grant | 21 844 | 51 556 | 61 411 | 41 890 | 59 171 |
| Regional Bulk infrastructure Grant | 120 000 | 155 041 | 105 608 | 134 887 | 145 000 |
| Municipal Systems Improvement Grant | 2 800 | | | | |
| Water Services Infrastructure Grant | 14 008 | 50 000 | 47 400 | 69 705 | 72 835 |
| Total Grants in kind | 158 652 | 256 597 | 214 419 | 246 482 | 277 006 |

Even though the municipality would not be the implementing agent or fully responsible for implementation, it is recommended that the progress should be monitored and be reported accordingly. The Infrastructure and Technical Services Department will liaise with the implementing agents from time to time to monitor the progress and provide feedback thereof. The allocation will be transferred directly to:

- Eskom; and
- Department of Water and Sanitation.

4. Operating revenue

Local government confronts tough fiscal choices in the face of financial and institutional problems that result in service-delivery breakdowns and unpaid bills. Municipalities are encouraged to offset these trends by improving own revenue collection, working more efficiently and implementing cost containment measures.

Reference is made to MFMA Circular No. 93, paragraph 3.1 and No. 98, paragraph 4.1. The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2022/23 MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this has been identified as a fundamental reason for municipalities not attaining their desired collection rates.

Municipalities are reminded that the local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise the administrative costs of the smaller and more rural municipalities

The total operating revenue budget for 2022/23 financial year amount to R 2.4 billion and it has increased by R 266.8 million or 11% compared with the 2021/22 Approved Budget and has increased by R 25.6 million or 10% when compared with the 2021/22 Adjustment Budget.

Table 6: Summary of Operating Revenue by Revenue Source

| Description | 2018/19 | 2019/20 | 2020/21 | Current Year 2021/22 | | | | 2022/23 Medium Term Revenue & Expenditure Framework | | |
|--|------------------|------------------|------------------|----------------------|------------------|------------------|------------------|---|--------------------|-------------------|
| | | | | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome |
| Revenue By Source | | | | | | | | | | |
| Property rates | 250 694 | 338 056 | 336 843 | 265 602 | 276 000 | 276 000 | 226 273 | 372 547 | 411 441 | 454 437 |
| Service charges - electricity revenue | 403 670 | 462 402 | 522 622 | 600 156 | 600 156 | 600 156 | 371 255 | 618 729 | 683 324 | 754 732 |
| Service charges - water revenue | 166 370 | 168 222 | 171 430 | 195 194 | 195 194 | 195 194 | 104 542 | 195 369 | 215 765 | 238 313 |
| Service charges - sanitation revenue | 47 598 | 52 745 | 54 361 | 64 630 | 64 630 | 64 630 | 35 211 | 58 851 | 64 995 | 71 787 |
| Service charges - refuse revenue | 46 120 | 54 906 | 55 580 | 57 878 | 57 878 | 57 878 | 40 197 | 65 757 | 72 621 | 80 210 |
| Rental of facilities and equipment | 1 020 | 1 101 | 4 878 | 7 008 | 2 008 | 2 008 | 1 222 | 1 735 | 1 916 | 2 116 |
| Interest earned - external investments | 5 843 | 3 831 | 5 867 | 4 801 | 5 801 | 5 801 | 3 858 | 6 376 | 7 041 | 7 777 |
| Interest earned - outstanding debtors | 56 828 | 130 798 | 114 823 | 109 425 | 119 425 | 119 425 | 79 369 | 131 166 | 144 860 | 159 998 |
| Fines, penalties and forfeits | 156 | 4 271 | 3 006 | 2 | 2 | 2 | - | 2 | 2 | 2 |
| Licences and permits | 6 724 | 22 460 | 4 868 | 549 | 549 | 549 | 94 | 611 | 675 | 746 |
| Agency services | 13 216 | 11 010 | 12 591 | 12 000 | 12 000 | 12 000 | - | 12 000 | 13 253 | 14 638 |
| Transfers and subsidies | 854 732 | 706 228 | 913 335 | 831 904 | 831 904 | 831 904 | 615 759 | 953 450 | 1 048 458 | 1 155 094 |
| Other revenue | 3 806 | 3 610 | 5 313 | 6 611 | 5 411 | 5 411 | 3 425 | 6 031 | 6 661 | 7 357 |
| Gains | 9 515 | 725 | 116 | - | - | - | 1 | - | - | - |
| Total Revenue | 1 866 291 | 1 960 365 | 2 205 633 | 2 155 760 | 2 170 958 | 2 170 958 | 1 481 203 | 2 422 623 | 2 671 013 | 2 947 206 |

The collection rate for the past eight months billing against the receipts is above 75% and provision for doubtful debts is 25%. The 2022/23 Operating Revenue projections takes into consideration the past eight-month's performance and the audited performance.

KEY REVENUE ENHANCEMENT STRATEGIES

1. The process of indigent registration is ongoing. Currently 16 wards have been visited and over 10 000 documents are still being processed by revenue office.
2. A report on writing off irrecoverable bad debts of the indigent account will be tabled in Council.
3. An investigation will be done on those accounts which are irrecoverable, but they do not fall under the category of indigents, so that they can be written off in terms of the write off policy. This is in line with the guideline on processes to follow before writing off bad debts as irrecoverable, amongst those is deciding whether the consumer is insolvent, untraceable, or sequestrated. Failure to follow the guideline will result in a material irregularity by the municipality.
4. Replacement of meters is in progress and as of 15 March 2022, 211 meters had been replaced. The intention with the meter replacement exercise is to ensure that all faulty bulk meters are replaced by 30 June 2022.
5. In the municipality's endeavour to bring services closer to communities, the municipality will be re-opening satellite offices in Oukasie and Mothotlung. Letlhabile office is partially operational, what is outstanding is for the office to be equipped with the required IT infrastructure and security. We plan to use community halls if possible at Mmakau, Klipgat and Damonsville as pay points. It is envisaged that this process will be completed by end of June 2022 with the implementation date being 1 July 2022.
6. The municipality currently has approximately 16 000 accounts in rural areas, for whom the municipality is planning on implementing a flat rate as previously approved by Council. If

implemented, the implementation of the flat rate has the potential to increase our budgeted revenue by R 13, 824,000.00 per annum assuming that the flat rate is set at R 72 per household. However, prior implementation of the flat rate, a feasibility study needs to be conducted to ensure accuracy of the information we have in the financial system and the cost of implementation thereof.

7. As part of cost containment strategies to be implemented in minimizing the cost of bulk water supply from City of Tshwane and water tankering services, the municipality intends to conduct a feasibility study on the exploration of ground water supply as an alternative source of water. The private sector, in particular the Northam Eland mine has been engaged as a potential source of funding for this exercise considering the poor financial state the municipality finds itself in. Engagements between the municipality's Department: Infrastructure and Technical Services and Northam Eland mine are ongoing to see the project to fruition. The success of the above project will relieve some of the stress on our already over-extended water infrastructure and will ensure consistent water supply to communities.
8. The municipality should embark on a process to take over the provision of services in those areas that are currently serviced by Eskom and City of Tshwane, thereby increasing our revenue base which will ultimately result in an increase in our billing and collection rate.
9. Fast-tracking the process of registering established townships that are not yet registered and the formalization of informal settlements with the aim of increasing our revenue base.
10. In light of the judgement issued in favour of the Public Investment Corporation against Madibeng Local Municipality, the municipality needs to make provision in the current and outer year budgets for the servicing of the PIC loan. The loan should be properly classified and disclosed in the 2021/22 Annual Financial Statements as a long-term liability. Engagements should be initiated with the PIC with a view of entering into a payment arrangement and ensuring that we as the municipality comply to the agreed payment arrangement.
11. Reduction of overtime, contracted services, use of consultants and introduction of shift system for employee related cost.

It should be noted that the abovementioned revenue enhancement and protection strategies are not an exhaustive list of strategies to be implemented. The resuscitation of the Revenue Enhancement and Protection Committee will assist in formulating other strategies and the implementation thereof. The committee will report progress on its strategies to Council on a quarterly basis.

5. OPERATING EXPENDITURE

Our municipality continues to face institutional challenges and mismanagement that result in bad debt accumulation, limited cash flows and consequent non-payment of creditors. Eskom and water boards are owed the greater percentage of the total municipal creditors; and protracted non-payment undermines the financial sustainability of these state-owned entities.

The non-payment of creditors is a symptom of underlying problems which include, among others, weaknesses in revenue collection and underinvestment in asset maintenance and renewal, which compromises the reliability of delivering basic services.

The total operating expenditure budget for 2022/23 financial year amount to R 2.5 billion and has decreased by (R 105.0) million or -4% when compared with the 2021/22 approved Budget and increased by R 18.9 million or 1% compared with the 2021/22 adjustment Budget.

Table 7: Summary of Operating Expenditure by Classification

| Description | 2018/19 | 2019/20 | 2020/21 | Current Year 2021/22 | | | | 2022/23 Medium Term Revenue & Expenditure Framework | | |
|------------------------------|------------------|------------------|------------------|----------------------|------------------|--------------------|-------------------|---|------------------------|------------------------|
| | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2022/23 | Budget Year +1 2023/24 | Budget Year +2 2024/25 |
| Revenue By Source | | | | | | | | | | |
| Expenditure By Type | | | | | | | | | | |
| Employee related costs | 516 496 | 540 461 | 591 539 | 605 234 | 636 627 | 636 627 | 419 386 | 690 491 | 765 533 | 850 502 |
| Remuneration of councillors | 31 050 | 31 862 | 31 660 | 33 425 | 33 425 | 33 425 | 21 148 | 35 362 | 39 054 | 43 135 |
| Debt impairment | 936 713 | 434 170 | 52 802 | 220 000 | 220 000 | | - | 220 000 | 242 968 | 268 358 |
| Depreciation & impairment | 474 165 | 322 614 | 322 897 | 435 000 | 435 000 | | - | 350 000 | 395 414 | 445 617 |
| Finance charges | 4 123 | 20 182 | 21 981 | 150 010 | 54 510 | 54 510 | 8 143 | 66 000 | 72 890 | 80 507 |
| Bulk purchases - electricity | 582 161 | 495 331 | 628 351 | 580 000 | 575 000 | 575 000 | 345 482 | 580 000 | 640 552 | 707 490 |
| Inventory consumed | 13 080 | 19 613 | 22 877 | 159 302 | 159 302 | 159 302 | 12 624 | 166 083 | 173 391 | 180 699 |
| Contracted services | 251 361 | 244 958 | 260 114 | 250 455 | 247 661 | 247 661 | 113 466 | 260 548 | 287 517 | 317 310 |
| Transfers and subsidies | 4 051 | 4 087 | 11 892 | 4 700 | 4 700 | 4 700 | 4 500 | 7 000 | 7 731 | 8 539 |
| Other expenditure | 97 353 | 188 245 | 207 575 | 196 964 | 144 879 | 144 879 | 133 806 | 154 552 | 170 301 | 187 711 |
| Losses | 10 456 | 11 130 | 3 152 | - | - | - | - | - | - | - |
| Total Expenditure | 2 921 009 | 2 312 652 | 2 154 840 | 2 635 090 | 2 511 104 | 1 856 104 | 1 058 554 | 2 530 036 | 2 795 351 | 3 089 869 |

ANALYSIS OF SOME OF THE PROPOSED EXPENDITURE

Employee related cost increased by R 53.8m or (8%) from the adjusted budget and it contribute 27% of the total expenditure budget.

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2022/23 MTREF. In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2022 and 01 July 2023 an increase based on the projected average CPI percentages for 2022 and 2023. The forecasts of the Reserve Bank, in terms of the January 2022 and January 2023, shall be used to determine the projected average CPI. Municipalities are encouraged to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, in order to root out ghost employees.

| Description | 2018/19 | 2019/20 | 2020/21 | Current Year 2021/22 | | | | Budget Year 2022/23 | % |
|-------------------------------------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---------------------|-------------|
| | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome | | |
| Employee related costs | | | | | | | | | |
| Basic Salaries and Wages | 278 517 | 323 499 | 345 973 | 375 961 | 383 350 | 383 350 | 243 410 | 396 168 | 57% |
| Pension and UIF Contributions | 59 770 | 69 368 | 74 312 | 79 508 | 79 437 | 79 437 | 51 261 | 87 117 | 13% |
| Medical Aid Contributions | 30 910 | 37 946 | 36 968 | 42 997 | 42 758 | 42 758 | 28 129 | 47 384 | 7% |
| Overtime | 38 594 | 43 459 | 38 202 | 24 010 | 38 594 | 38 594 | 27 814 | 35 802 | 5% |
| Performance Bonus | 22 593 | 26 413 | 28 086 | 32 916 | 33 774 | 33 774 | 20 982 | 38 789 | 6% |
| Motor Vehicle Allowance | 25 932 | 29 596 | 32 932 | 35 296 | 37 668 | 37 668 | 23 198 | 40 899 | 6% |
| Cellphone Allowance | 343 | 329 | 406 | 542 | 556 | 556 | 241 | 526 | 0% |
| Housing Allowances | 2 325 | 2 675 | 2 991 | 3 169 | 3 357 | 3 357 | 2 105 | 3 615 | 1% |
| Other benefits and allowances | 5 998 | 8 904 | 9 598 | 10 482 | 9 561 | 9 561 | 7 495 | 12 877 | 2% |
| Payments in lieu of leave | 20 825 | 21 943 | 16 528 | 354 | 7 572 | 7 572 | 14 751 | 27 313 | 4% |
| Long service awards | 5 105 | 3 331 | 6 554 | - | - | - | - | - | 0% |
| Post-retirement benefit obligations | 25 584 | -27 002 | -1 013 | - | - | - | - | - | 0% |
| Total Employee related costs | 516 496 | 540 461 | 591 539 | 605 234 | 636 627 | 636 627 | 419 386 | 690 491 | 100% |

Remuneration of councillors increased by 5% from the adjusted budget and it contribute 1% of the total expenditure budget.

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. It is anticipated that this salary determination will also take into account the fiscal constraints. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process. Any overpayment to councillors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of Section 167 of the MFMA and must be recovered from the councillor(s) concerned.

Bulk Purchases – Electricity increased by R 5m or (1%) from the adjusted budget and it contribute 23% of the total expenditure budget.

Inventory consumed increased by 6.7m or (4%) from the adjusted budget and it contribute 7% of the total expenditure budget.

Contracted Services increased by R 12.8m or (7%) from the adjusted budget and it contribute 10% of the total expenditure budget. This expenditure includes amongst others:

| Description | 2018/19 | 2019/20 | 2020/21 | Current Year 2021/22 | | | | 2022/23 Medium Term Revenue & Expenditure Framework | | |
|--|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
| | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2022/23 | Budget Year +1 2023/24 | Budget Year +2 2024/25 |
| R thousand | | | | | | | | | | |
| Contracted services | | | | | | | | | | |
| <i>Outsourced Services</i> | 153 307 | 155 794 | 158 928 | 135 200 | 133 836 | 133 836 | 59 206 | 144 997 | 160 135 | 176 869 |
| <i>Consultants and Professional Services</i> | 75 013 | 60 712 | 75 605 | 68 740 | 74 640 | 74 640 | 42 212 | 76 066 | 83 775 | 92 277 |
| <i>Contractors</i> | 23 042 | 28 452 | 25 581 | 46 515 | 39 185 | 39 185 | 12 048 | 39 485 | 43 607 | 48 164 |
| Total contracted services | 251 361 | 244 958 | 260 114 | 250 455 | 247 661 | 247 661 | 113 466 | 260 548 | 287 517 | 317 310 |

Other Expenditure increased by 9.6m or (6%) from the adjusted budget and it contribute 6% of the total expenditure budget.

6. Capital Budget

Section 18 and 19 of the MFMA were taken into consideration regarding the funding of capital project. That spending on Capital Budget to be financed from grants and other external mechanisms would takes place after the funds have been received.

Table 8 below detailed the funding sources for Capital Budget over the medium-term period.

Table 8 Capital Budget per Funding Sources

| Description | Budget Year 2020/2021 | Budget Year 2021/2022 | Budget Year 2022/2023 | Budget Year +1 2023/2024 | Budget Year +2 2024/2025 |
|--|-----------------------|-----------------------|-----------------------|--------------------------|--------------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Municipal Infrastructure Grant | 279 801 | 298 785 | 324 408 | 339 702 | 355 973 |
| Integrated National Electrification | 14200 | 15000 | 45500 | 25 000 | 26 123 |
| Library Grant | 971 | | | | |
| Energy Efficiency and Demand Side Management Grant | 0 | 3 500 | | | |
| Total Operating Grants & Subsidies | 294 972 | 317 285 | 369 908 | 364 702 | 382 096 |

The Capital Budget for the 2022/2023 financial year has been projected at R 369 908 million. The two outer financial years the Capital Budget is projected at R364 702 million and R 382 096 million.

The table below is the detailed 2022/23 MTREF capital budget per capital project and per ward

PROPOSED DRAFT CAPITAL BUDGET 2022/23 - 2023/24 FINANCIAL YEAR

| DESCRIPTION | WARDS | BUDGET 2022/23 | BUDGET 2023/24 | BUDGET 2024/25 | Funding Source |
|---|---------------|----------------|----------------|----------------|----------------|
| KLIPGAT EXTENTION WATER SUPPLY | 24,8,36,37 | 6 000 000 | 15 000 000 | | MIG |
| HEBRON/ KGABALATSANE/ ROCKVILLE/ITSOSENG/ WATER | 10,15,16,41 | 9 000 000 | 30 000 000 | 55 000 000 | MIG |
| AUGMENTATION OF WATER SUPPLY THROUGH EXPLORATION OF UNDERGROUND WATER | ALL | 15 000 000 | 30 000 000 | 55 000 000 | MIG |
| KLIPGAT SANITATION (RETICULATION AND PACKAGE PLANT) | 24,8,36,37 | 23 500 000 | 20 000 000 | 55 000 000 | MIG |
| WARD 1 VIP TOILETS | 1 | 16 000 000 | 25 000 000 | | MIG |
| VIP TOILETS | 34 | | 8 000 000 | 10 000 000 | MIG |
| VIP TOILETS | 27 | | | 22 000 000 | MIG |
| UPGRADING OF MOTHOTLUNG OUTFALL SEWER | 20 | 30 000 000 | 10 000 000 | | MIG |
| UPGRADING OF OUKASIE OUTFALL SEWER | 13;14;22, | 25 000 000 | 30 300 000 | | MIG |
| HIGH MASS LIGHT ENERGISING | 10,15,16,41 | 1 500 000 | | | MIG |
| HIGH MASS LIGHT (Solar energy) | ALL WARDS | 32 000 000 | 55 000 000 | 38 000 000 | MIG |
| BAPONG CONNECTOR ROAD | 28 | 7 550 000 | | | MIG |
| UPGRADING OF MOTHOTLUNG ROMAN CHURCH SECTION INTERNAL ROAD | 20 | 7 250 000 | | | MIG |
| UPGRADING OF ITSOSENG INTERNAL ROADS: CEMETERY ROAD | 16 | 7 550 000 | | | MIG |
| UPGRADING OF KGABALATSANE INTERNAL ROAD: FREEDOM ROAD | 10 | 14 853 934 | | | MIG |
| UPGRADING OF INTERNAL ROADS OF CLUSTER 5 (MAPANTSOLENG ROAD) | 11 | 11 000 000 | | | MIG |
| UPGRADING OF INTERNAL ROADS OF CLUSTER 4 (Madibeng Hills Ext of Taxi Road) | 3,8,24,36,37 | 8 000 000 | | | MIG |
| UPGRADING OF INTERNAL ROADS OF CLUSTER 6 (Jericho Taxi Road)(Sephai 23/24) | 1,2 | 7 550 000 | 12 000 000 | | MIG |
| LETHABONG INTERNAL TAXI ROUTE | 5 | 10 860 000 | | | MIG |
| MMAKAU WARD 17 POLONIA INTERNAL ROAD | 17 | 12 330 000 | | | MIG |
| REHABILITATION AND RESEALING OF TAXI ROUTE- LETLHABILE | 9,11,12,38,35 | 8 000 000 | 8 000 000 | 8 000 000 | MIG |
| REHABILITATION AND RESEALING OF TAXI ROUTE- MOTHOTLUNG | 20,21 | 8 000 000 | 8 000 000 | 8 000 000 | MIG |
| REHABILITATION AND RESEALING OF TAXI ROUTE- OUKASIE | 13,14,22 | 8 000 000 | 8 000 000 | 8 000 000 | MIG |
| REHABILITATION AND RESEALING OF TAXI ROUTE- DAMONSVILLE | 21 | 1 500 000 | 6 500 000 | | MIG |
| REHABILITATION AND RESEALING OF TAXI ROUTE- BRITS | 23 | 3 500 000 | | | MIG |
| REHABILITATION AND RESEALING OF TAXI ROUTE- HARTEBEEES | 30 | 1 500 000 | | | MIG |
| MMAKAU LIBRARY | 17,18,19 | 2 000 000 | | | MIG |
| OUKASIE TAXI RANK | 13,14,39;22 | 1 500 000 | | | MIG |
| MADIBENG SMME DEVELOPMENT HUB- BRITS | ALL WARDS | 2 500 000 | | | MIG |
| MADIBENG SPECIALIESD VEHICLES FOR WASTE MANAGEMENT | ALL WARDS | 8 500 000 | | | MIG |
| KLIPGAT FIRE STATION | 3,8,24,36 | 10 000 000 | | | MIG |
| OUKASIE CEMETERY | 12,14,22 | 15 000 000 | | | MIG |
| UPGRADING OF VUKA INTERNAL ROADS IN OUKASIE | 39 | | 17 398 957 | | MIG |
| UPGRADING OF KL TO CHECKERS ROAD MABOLOKA | 6 | | 14 113 079 | | MIG |
| MMAKAU WARD 18 CLINIC ROAD | 18 | | 8 180 000 | | MIG |

| | | | | | |
|---|-------------|--------------------|--------------------|--------------------|------|
| MMAKAU WARD 19 ROAD (FROM CHIPPA TO MAUMONG STORE RING ROAD) | 19 | | | 7 720 000 | MIG |
| FORMALISATION OF HEBRON STREAM AND STORMWATER | 15;16 | | 12 000 000 | 20 000 000 | MIG |
| UPGRADING OF MOTHOTLUNG PHASE 2 ROAD (Ext 2 TO THARI) | 20,21 | | | 9 500 000 | MIG |
| OUKASIE PHASE 5 ROAD | 13,14,22 | | | 8 000 000 | MIG |
| LEGONYANE INTERNAL ROAD | 1 | | | 7 550 000 | MIG |
| DLTC UPGRADE | 13,14,39,22 | | | 1 500 000 | MIG |
| UPGRADING OF BRITS FIRE STATION | 3,8,24,36 | | | 10 000 000 | MIG |
| BRITS FRESH PRODUCE MARKET | 17,18,19 | | | 2 000 000 | MIG |
| MABOLOKA SPORTS FACILITY PHASE 2 | 5 | | 1 800 000 | | MIG |
| UPGRADING OF LETHLABILE SPORTS FACILITY | 3;11;12 | | 5 000 000 | 10 000 000 | MIG |
| UPGRADING OF MOTHOTLUNG SPORTS FACILITY | 20;21 | | 5 000 000 | 10 000 000 | MIG |
| PMU OPERATION MANAGEMENT | | 9 464 066 | 10 409 964 | 10 703 000 | MIG |
| TOTAL MIG | | 324 408 000 | 339 702 000 | 355 973 000 | |
| LETHLABILE SUBSTATION | | 45 500 000 | 25 000 000 | 26 123 000 | INEP |
| TOTAL CAPITAL EXPENDITURE | | 369 908 000 | 364 702 000 | 382 096 000 | |