SCHEDULE A

DRAFT ANNUAL BUDGET AND SUPPORTING DOCUMENTATION OF UMZUMBE MUNICIPALITY

FINAL ANNUAL BUDGET OF

Umzumbe Municipality

2023/2024 TO 2025/2026
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

Table of Contents

Part 1 - Annual Budget....1

1.1 Mayor's Report 1

1.2 Council Resolutions.... 2

1.3 Executive Summary 3

1.3 Annual Budget Tables 4

Part 2 – Supporting Documentation 8

2.1 Overview of the annual budget process 8

2.2 Overview of alignment of annual budget with IDP 11

2.3 Measurable performance objectives and indicators 13

2.4 Overview of budget related-policies 15

2.5 Overview of budget assumptions.... 16

2.6 Overview of budget funding 18

2.7 Expenditure on allocations and grant programmes 20

2.8 Allocations and grants made by the municipality

2.9 Councillor and employee benefits.... 20

2.10 Monthly targets for revenue, expenditure and cash flow 20

2.11 Annual budget and service delivery and budget implementation plans - internal depts

2.12 Contracts having future budgetary implications

2.13 Capital expenditure details.... 21

2.14 Legislation compliance status 23

2.15 Other supporting documents ....

2.16 Municipal manager's quality certificate 23

Abbreviations and Acronyms

AMR	Automated Meter Reading
ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CBD	Central Business District
CFO	Chief Financial Officer
CM	City Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
EE	Employment Equity
EEDSM	Energy Efficiency Demand Side Management
EM	Executive Mayor
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GDS	Gauteng Growth and Development Strategy
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
HR	Human Resources
HSRC	Human Science Research Council
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act Programme
MIG	Municipal Infrastructure Grant
MMC	Member of Mayoral Committee
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
OP	Operational Plan
PBO	Public Benefit Organisations
PHC	Provincial Health Care
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
PTIS	Public Transport Infrastructure System
RG	Restructuring Grant
RSC	Regional Services Council
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

Part 1 – Annual Budget

1. Mayor's Report

It gives me great pleasure to table before this council our final annual budget for the financial year 202232024. The tabling of this final budget today is done in compliance with the requirements of the Municipal Finance Management Act no 56 of 2003 section 16, which amongst other things states that:

1) The Council of the municipality must for each financial year approve an annual budget for the municipality before the start of the financial year
2) In order for the 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 financial year.
3) In terms of the Municipal Finance Management Act no. 56 of 2003 section 24(1), the municipal council must at least 30 days before the start of the financial year consider approval of the annual budget.

Honorable, Speaker, the final budget that I am tabling before council today, takes into account, the national priorities, as presented by President, in the State of the Nation Address earlier this year. Furthermore, the Budget Speech, presented to the Nation by the Minister of Finance, has provided a foundation through which our projections are based. In addition, the Premier of KwaZulu Natal, in his State of the Province Address, has clearly articulated our provincial governments priorities for the coming year, and these have been further emphasized in the provincial budget speech, presented by, the MEC for finance in KwaZulu Natal.

In preparing the budget for the financial year 2023/24, we have aligned our priorities to the national and the provincial priorities to ensure that our programmes as Umzumbe are in line with our government's strategic framework on service delivery. This, we are doing to achieve the idea of a 'seamless' government.

In closing, Honorable Speaker, I want to assure all members of council that this budget will be presented to our community, through our public participation mechanisms, to afford our people an opportunity to engage fruitfully with us and provide input to assist us in preparing our final 'peoples' budget.

I thank you

2. Council Resolutions

On 30 May 2022 the Council of Umzumbe Local Municipality will meet in the Council Chambers of Umzumbe Municipality to consider the final annual budget of the municipality for the financial year 2022/23. The Council is to approve and adopt the following resolutions:

The Council of Umzumbe Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) hereby:

1. Approves and adopts the Final Annual Budget of the municipality for the financial year 2023/24 together with tariffs, property rates by-laws, property rates policy, other budget related polices and supporting documentation.

2. Notes Provincial Treasury Adjusted Budget Assessment.

3. Notes National Treasury KZN213_uMzumbe Early warning signals letter Q2_2022-23

3. Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality is grant dependent and it is 100% rural with high poverty and very low employment rates. It has to be noted that our grant allocation has remained stagnant over the years with only **INEP** allocation having a significant increase to **R27.9 million** and an additional provincial grant allocation of **R1 million** for **Municipal Employment Initiative**. This has certainly put pressure on the municipality's budget and calls for the municipality to explore other means to increase its revenue base. However, the municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programs so as to maintain sound financial stewardship. It is further to be noted that Provincial Treasury has advised that costs must be contained and that budget cuts must happen to ensure a funded budget. The municipality therefore had to cut budgets where necessary and should continue to minimize spending on low priority projects. The Provincial Treasury will consider the utilization of the municipality's internal reserves accumulated at the end of this current year towards the adjustment budget.

The total budgeted revenue is R402 million excluding Output VAT. This is funded by government grants and subsidies of R259 million, interest from investments of R11,5 million, tender sales and other income of R1,8 million excluding output VAT, rates income of R8,2 million and own funds of R121.1 million. The total operating expenditure budget is R273.7 million excluding Input VAT, and the total capital expenditure budget is R96 million excluding Input VAT.

National Treasury's MFMA Circular No. 58, 59, 66, 67,85,86,93,94,98, 99,108 were used to guide the compilation of the 2023/24 MTREF.

The main challenges experienced during the compilation of the 2023/24 MTREF can be summarized as follows:

1. The ongoing difficulties in the national and local economy;
2. Lack and poorly maintained roads infrastructure;
3. The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities;
4. Dependency on government grants;
5. Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
6. Affordability of capital projects;

4. Annual Budget Tables

The annual budget tables are contained in ANNEXURE C.

There are ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2023/24 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes*.

Schedule A1- Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.

Schedule A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile 'whole of government' reports.

2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.

Schedule A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote

Schedule A4 - Budgeted Financial Performance (revenue and expenditure)

1. Schedule A4 provides information about the financial performance. It is indicates the revenue and expenditure.

Schedule A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations there is no budget allocated since the municipality does not have multi-year capital projects.

Schedule A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).

2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

3. Table SA3 is supported by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:

- Call investments deposits;
- Consumer debtors;

- Property, plant and equipment;
- Trade and other payables;
- Provisions non-current;
- Changes in net assets; and
- Reserves

4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

Schedule A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The 2023/24 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.

Schedule A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".

4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.

5. As part of the budgeting and planning guidelines that informed the compilation of the 2022/23MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

Schedule A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE.

Schedule A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
2. The municipality does not provide services such as water, sanitation and electricity.
3. Water and sanitation is provided by Ugu District municipality.
4. Currently there is a waste removal program implemented in the municipality as well as the provision of Gel tokens in collaboration with ESKOM.

Part 2 – Supporting Documentation

Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee is to ensure:

1. that the process followed to compile the budget complies with legislation and good budget practices;
2. that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
3. that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
4. that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

Budget Process Overview:

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2022) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule. Key dates applicable to the process were:

1. **July 2022** – Prepare joint process plan for IDP, PMS and Budget and advertise final IDP review;
2. **August 2022**–Submit process plan to IDP forum, portfolio committees and council. Liaise with national and provincial governments for planning and budgeting process;
3. **September 2022**– Assessment of objectives, strategies and projects against cross cutting issues. Assessment of alignment of IDP strategies & projects for medium term in relation to NSDP and PGDF. Determine funding availability & requirements per sector plan and where relevant prepare business plan/ terms of reference and roll out accordingly;
4. **October 2022** – Review and confirm objectives, strategies and projects at IDPRF workshop. Review capital, institutional, operational, maintenance projects. Estimate available resources and provide guidance for way forward for budgeting;
5. **November 2022**–Submit revised projects to Treasury. Submit first Final IDP to IDP steering committee and council for in principle approval

6. **December 2022** – Submit budget instructions and 2023/24 budget framework to all relevant persons. Submit final IDP to COGTA for assessment. Preparation of summary of available funds (internal and external);
7. **January 2023** - Council considers the 2023/24 Mid-year Review and Adjustments Budget;
8. **February 2023**– Assess financial feasibility of proposed new projects based on existing and potential funds. Consideration of final budget;
9. **May 2023** - Tabling in Council of the final 2023/24 IDP and 2023/24 MTREF for public consultation;
10. **April 2023**– Public consultation;
11. **May 2023**–finalisation of the 2023/24 IDP and 2023/24 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and tabling of the 2023/24 MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

IDP and Service Delivery and Budget Implementation Plan:

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fifth revision cycle included the following key IDP processes and deliverables:

12. Registration of community needs;
13. Compilation of departmental business plans including key performance indicators and targets;
14. Financial planning and budgeting process;
15. Public participation process;
16. Compilation of the SDBIP, and
17. The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2023/24 MTREF, based on the approved 2022/2023 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2023/24 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2022/2023 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

Financial Modelling and Key Planning Drivers:

As part of the compilation of the 2023/24MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2023/24 MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation)
- Performance trends
- The approved 2022/2022 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 58, 59, 66, 67, 74,82, 85, 86,93, 94,98,99, 108 has been taken into consideration in the planning and prioritisation process.

Community Consultation:

The final 2023/24 MTREF was tabled and adopted by Council in May. Community consultation process then unfolded and the final 2023/24 MTREF was published on the municipality's website with hard copies being made available at municipal offices and other community centres. In addition budget road shows were held in different municipal clusters. Inputs will also be collected via e-mails.

All documents in the appropriate format (electronic and printed) will be provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees were utilised to facilitate the community consultation process. The applicable dates and venues were published in all the local newspapers. Imbizo's were held to further ensure transparency and interaction. Other stakeholders involved in the consultation included churches, non-governmental institutions and community-based organisations.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2023/24 MTREF.

Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality's strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;

- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's six strategic objectives for the 2022/23MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 11 IDP Strategic Objectives

2023/24 Financial Year
1. Financial Viability
2. Basic Service delivery and infrastructure
3. Good governance and public participation
4. Local economic Development
5. Municipal transformation and institutional development
6. Spatial analysis and environmental management

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the Municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the municipality undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the Municipality so as to promote greater equity and enhanced opportunity. It provides direction to the Municipality's IDP, associated sectorial plans and strategies, and the allocation of resources of the Municipality and other service delivery partners.

The 2023/24 MTREF has therefore been directly informed by the IDP revision process.

Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages.

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the ***Framework of Managing Programme Performance Information*** issued by the National Treasury:

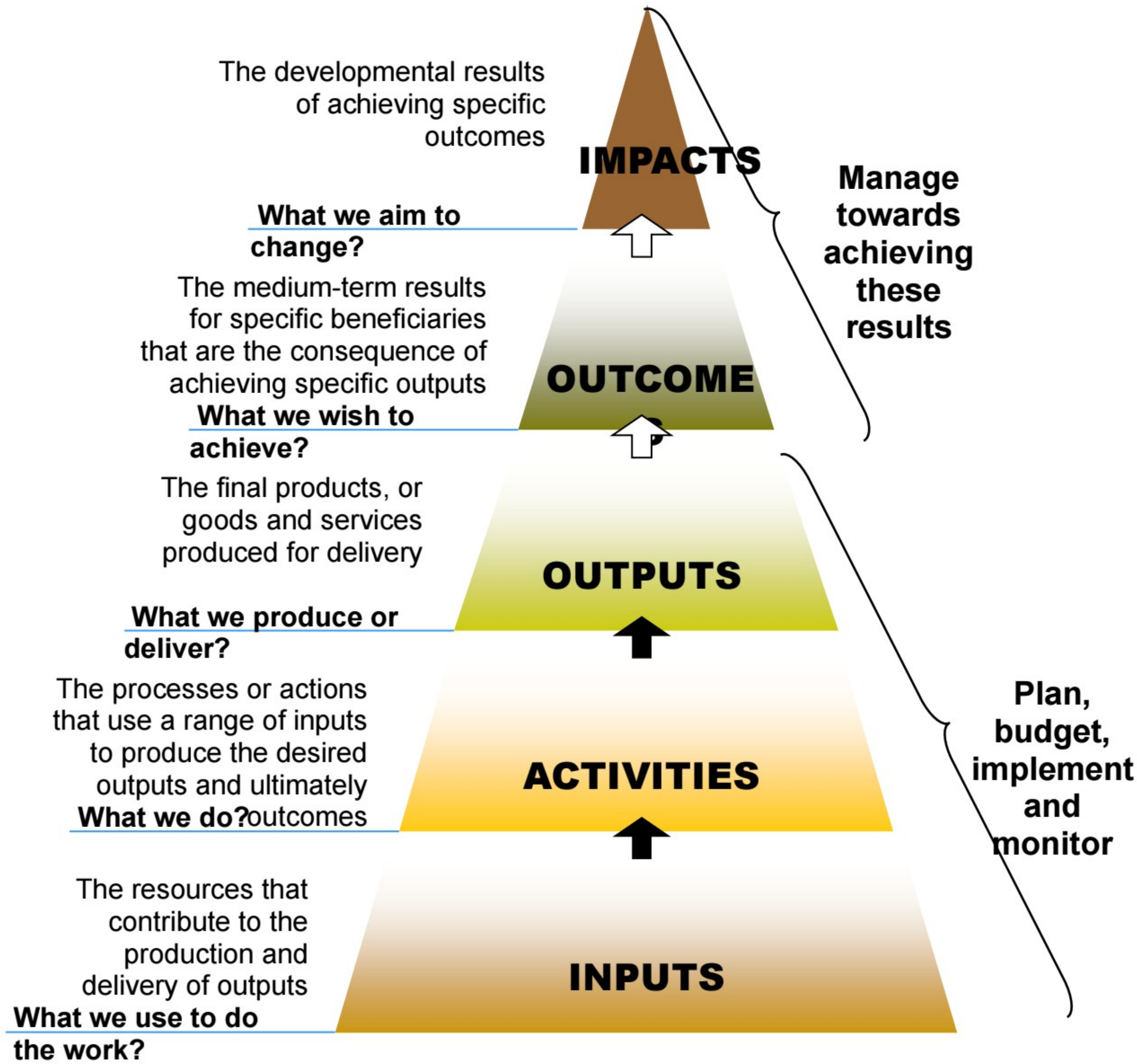

Figure 1 Definition of performance information concepts

The municipality holds its quarterly reviews whereby performance is measured against targets.

Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

Credit control and debt collection procedures/policies:

The municipality has a credit control and debt collection policy in place which is reviewed annually.

Asset Management policy:

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure.

The Asset Management Policy is considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition, the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

Supply Chain Management policy:

The Supply Chain Management Policy was adopted by Council and is reviewed annually. The municipality has also tabled the Standard Infrastructure Procurement and Delivery Management Policy. The Annual Procurement Plan has also been developed and will assist towards implementation of projects.

Budget policy, Borrowing Policy, Long Term Financial Planning Policy& Funding & Reserves Policy:

These policies are tabled together with the budget. The policies aim to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the Municipality's system of delegations. The policies also cover the aspects of funding and reserves utilisation as well as processes associated with long term financial planning and sustainability.

Banking, Investment & Cash Management policy:

The Banking, Investment and Cash Management Policy is tabled together with the budget. The aim of the policy is to ensure that the Municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduces time frames to achieve certain benchmarks. This policy was adopted by council and is reviewed annually.

Tariff policy:

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation. The consolidated tariff listing is included for council adoption and will come into effect on the 1 July 2019.

Municipal Property Rates Policy:

The Municipality's property rates policy falls within the Municipal Property Rates Act and is reviewed to ensure compliance.

Cost containment Policy:

The municipality is trying its best to curb excessive unnecessary expenditure and contain costs. The municipality has a cost containment policy to this effect. The policy is reviewed on an annual basis or when the need arises. Going forward, the municipality will continue to monitor costs on a strict basis to ensure that funds are prioritized for key tangible projects.

Overview of MSCOA processes

The municipality has already started with MSCOA processes such as: training, system vendor engagement, awareness creation, project steering team formulation, project steering committee meetings, development of implementation plans, MSCOA conversions/linking, MSCOA database creation and departmental meetings. The municipality has successfully prepared the 2019/2020 annual and adjustment budget in the MSCOA format and had successfully uploaded it on the National Treasury Local Government Portal. The municipality is in line with its implementation plan to roll out MSCOA from the 1 July 2017.The 2023/24 final annual budget was also successfully prepared on MSCOA and was uploaded onto the LG Portal. The Municipality has further prepared the 2022/23 final annual budget in MSCOA format and anticipates that there will be no challenges.

Overview of budget assumptions

External factors:

Economic outlook:

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.
Government is taking urgent measures to reduce load-shedding in the short term and transform the sector through market reforms to achieve long-term energy security. Several reforms are

under way to improve the performance of the transport sector, specifically freight rail and to improve the capability of the state.
The following macro-economic forecasts must be considered when preparing the 2023/24 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2021 - 2026	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Fiscal year					
Actual		**Estimate**		**Forecast**	
CPI Inflation	4.9%	6.9%	5.3%	4.9%	4.7%

Key focus areas for the 2023/24 budget process

Local government conditional and unconditional grants allocations

Over the 2023 MTEF period, local government allocations will increase by a total of R14.3 billion, made up of R8.1 billion in the local government equitable share and R6.2 billion in direct conditional grants. This takes the total direct allocation to R521.7 billion over the same period. These allocations alleviate some of the financial pressures, particularly in basic services, where the costs of providing services are rising.
The *local government equitable share* and related allocations increases at an annual average rate of 7.8 per cent and municipal conditional grants increase by 3.5 per cent over the 2023 MTEF period.

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 2023 MTEF period. It also includes allocations for the operational and maintenance costs associated with the provision of free basic services. The 2023 Budget has ensured that sufficient provision has been made to ensure that all municipalities are fully subsidised to support indigent households. Following this, R1.35 billion has been left unallocated in the LGES formula for 2023/24 to serve as a precautionary measure should municipal electricity tariffs exceed the 20.7 per cent provided for in the formula (see section 5.7 on why this is above the 18.7 per cent approved by the Energy Regulator). If the actual increase in municipal bulk tariffs exceeds the provision made in the formula, it will be the first call on those unallocated funds. We will consider funding broader cost relief measures for municipalities if funds remain available after that.

Notable changes to the conditional grants system

Housing emergency grants

Changes to conditional grants in the 2023 Budget include the discontinuation of the conditional emergency housing grants for provinces and municipalities. The baselines of these two grants are shifted to the Department of Human Settlements. This will allow the department to respond quickly in the event of an emergency housing need.

Changes to the INEP conditional grant frameworks

As part of government's efforts to accelerate access to electricity thereby addressing the energy crisis, Eskom and municipal INEP grants will begin funding alternative energy technologies such as rooftop solar and energy-saving devices. Due process must be followed to access funding for these new technologies. As a result, both Eskom and municipalities will need to conform to the set requirements by submitting business plans by 31 October 2023. These business plans, will need to be approved by the Department of Mineral Resources and Energy (DMRE) before they can be implemented. Priority should be given to new connections, i.e., non-grid technology should be targeted at households that do not have access to electricity.

The annual Division of Revenue Bill was published on 22 February 2023. The Bill specifies the grant allocations and municipalities must reconcile their budgets to the numbers published therein in compiling their 2023/24 MTREF.

We must encourage collaboration and partnerships between municipal councils, labour, communities and the private sector around the principles of shared risk and shared reward. There needs to be a transition to smart local government and innovation. At the same time, well-functioning municipalities require that residents pay for services rendered.

The municipality views cost containment as a priority with a view to strict monitoring and control over expenditure. In preparation of the budget, cost containment measures have been factored in where possible in terms of circular 82. The municipality budget has also factored in 5.3% towards inflationary projections where appropriate. The municipality applied a 5.3% to employee related costs taking into consideration the Salary and Wage Collective Agreement, the current salary bill stands at 40.42% of operating expenditure and the limit being 40%. The salary bill incudes budgets vacant positions which are yet to be filled.

Overview of budget funding

Medium term revenue:

Umzumbe Municipality relies mainly on government grants and subsidies to sustain its operations.

Operational grants and subsidies amount to R259 million, R229 million and R223,3 million for each of the respective financial years of the MTREF, and accounts for a major source of total revenue budget. It needs to be noted that in real terms the grants receipts from national government are under constraints over the MTREF.

Investment revenue contributes just about 2,88 per cent to the revenue base of the municipality with a budget allocation of R11,5 million for 2023/24 year and projected R12,1 million and R12,7 million for the respective three financial years of the 2023/24 MTREF.

Tender sales, hall hire rental, service charges & other revenue of R1,8 million and rates income of R8,2 million also contribute to funding the budget.

The municipality had to also utilize internal savings of R121,1 million in order to fund the budget and ease the pressure of the decline in grant funding and in order to sustain projects/ programmes. In this light, the municipality's actual performance against budget will be carefully monitored. Any variances in this regard will be addressed as part of the mid-year review and adjustments budget.

Medium-term outlook: capital revenue:

The Municipality's capital budget of R96 million excluding Input VAT, of which R45,7 million will be funded by the Municipal Infrastructure Grant, R15.7 will be funded by the Municipal Infrastructure Recovery Grant while the surplus is funded from internal savings & equitable share.

The total Municipal Infrastructure Grant for the MTREF is R48,1 million, R41,8 million and R43,6 million for respective years.

Cash Flow Management:

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The municipality's cash flow is projected to be positive throughout the 2023/24 year. The municipality will monitor and evaluate the financial stability against strict implementation of the approved 2023/24 budget.

Cash Backed Reserves/Accumulated Surplus Reconciliation:

MFMA Circular 42 deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. It seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used?
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be 'funded'. Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

Funding compliance measurement:

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA.

Expenditure on allocations and grant programs

The municipality's sources of revenue are government grants and subsidies, interest from investments, tender sales, and hall hire and municipal property rates income. With regards to the main government grants, the municipality will receive allocations from equitable share, Local Government Financial Management Grant (FMG), INEP, EPWP and Municipal Infrastructure Grant (MIG), Municipal Disaster Recovery Grant and Municipal Employment Initiative Grant. The municipality plans to spend the full amount for each grant in accordance with their respective business plans. Regular monitoring, evaluation and reporting will be undertaken for each grant in this regard.

Allocations and grants made by the municipality

The municipality has shared service level agreements with Amalgamated Ugu Entities falling under the UGU district municipality for the promotion and development of tourism and local economic development in Umzumbe.

Councilors and employee benefits

The total budgeted amount for employee costs and councilors remuneration is R110,6 million which represents 29.91% of the total budget. This comprises R18,7 million for councilors and R91,8 million for staff. The municipality applied a 5.3% to employee related costs taking into consideration the Salary and Wage Collective Agreement and negotiations with government and also the limits to the norm for salaries, the current salary bill stands at 40.42% of operating expenditure and the limit being 40%. The salary bill incudes budgets vacant positions which are yet to be filled. Therefore, these have been factored into the percentage increase. In addition, there was also a realignment of positions and salaries to the current actual salaries which will affect the overall calculation of the salaries increase. With regard to councillors, the municipality has utilised the remuneration in accordance with the last available Gazette.

Monthly targets for revenue, expenditure and cash flow

The municipality is predominantly funded by grants. The payment schedules for these grants indicate which months these grants will be deposited into the municipality's primary bank account. The municipality has taken this into account in terms of the planning of its cash flow. The revenue earned from interest will be on a monthly basis as investments are planned to be held throughout the year. In addition the municipality receives a competitive rates of interest on its current account which has been factored into the budgeted amount of interest. The sale of tender documents is based on a monthly plan of list of projects. The fees earned from sale of tender documents are anticipated to be collected monthly.

The municipality's debtors relate to municipal property rates owed. The municipality has forecasted a billing of R8,2 million for the 2023/24 MTREF while the debt impairment has been provided at R1,5 million. Accordingly, the municipality is anticipating a collection rate of 45% based on progress made in engagements with current debtors. The R1,5 million is based on calculations involving the rate randages, tariffs, rebates, exemptions and projections that is determined using the latest valuation roll. The municipality believes that it is realistic in its approach towards the anticipated rates revenue budget especially since there is clear indication from majority of the municipal debtors (government institutions) that they will be settling their debts. The municipality has also not increased its rates randages and not charged interest in the essence of incentivising rate payers to settle their accounts. Therefore, the collection of debtors in excess of 90 days has been prioritised as a pertinent strategy in increasing the municipality's cash levels.

The expenditure is projected to be incurred evenly during the financial year taking into account the timing of the revenue. This is to ensure that there is no over expenditure.

The municipality views cost containment as a priority with a view to strict monitoring and control over expenditure. In preparation of the budget, cost containment measures have been factored in where possible in terms of circular 82. Expenditure such as travel and accommodation, promotional items and catering have been reviewed thoroughly to ensure that there is a reduction. Additionally, the municipality has reduced its expenditure with regards to paper and ink and striving towards a paperless environment.

There was no need for an increase from the prior year in terms of depreciation as the depreciation on potential acquisitions of PPE were sufficient to be covered. Therefore, the municipality took the prudent approach as it appears reasonable.

The budget for repairs and maintenance (R 10,6 million) expressed as a percentage of the audited property, plant and equipment carrying value (R 536 404 087) for the 2021/22 financial year is 1.99%. The municipality has taken into consideration its assets management and maintenance plan in budgeting for its repairs and maintenance for the 2022/23 financial year. In light of the dynamics of the municipality, project prioritization and the limited budget resources, the municipality believes that the funding level is adequate to ensure the ongoing health of the municipality's infrastructure. The repairs and maintenance budget will be revised going forward.

With regard to contracted services, the municipality felt there will be increases from the previous year as the economy rebounds from the pandemic with the impact of the easing in lockdown restrictions potentially creating an anticipated increase in operations as it resumes and therefore the anticipated increase in spending.

Annual budget and service delivery and budget implementation plans – internal department

The municipality comprises the following departments: Municipal mangers office, Financial services, Technical services, Corporate services & Community and Social services. Each department in the municipality has conducted strategic review sessions. This formed the basis for the review of the service delivery and budget implementation plans.

Contracts having future budgetary implications.

The municipality will be entering into contracts for Banking Servicers and General Valuation Roll Maintenance in the 2023/24 financial year which will run beyond the medium-term revenue and expenditure framework (three years). The municipality has provided accordingly for these contracts and will review the budgets allocation once appointments have been confirmed.

Capital expenditure details

The capital budget is R96 million which is funded mainly by the Municipal Infrastructure Grant, Municipal Infrastructure Recovery Grant while the surplus is funded from internal savings & equitable share.

The major projects for the year include construction of roads, rehabilitation of community facilities, construction of a sport complex, construction of office buildings, purchase of plant and equipment and purchase of vehicles. The Technical services department has performed an evaluation exercise in terms of its assets management and maintenance plan. As a result, the municipality has allocated 33.32 % or R 31,9.8 million of the total capital expenditure towards renewals and upgrading of existing assets infrastructure. The municipality believes that this budgeted amount is adequate to secure the ongoing health of the municipality's infrastructure.

Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting:
   Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days).

2. Internship programme:
   The Municipality is participating in the Municipal Financial Management Internship programme and has employed four interns undergoing training in various divisions of the Financial Services Department. One more intern is to be employed during the course of the year.

3. Budget and Treasury Office:
   The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee:
   An Audit Committee is shared with other municipalities within the district and is fully functional.

5. Service Delivery and Implementation Plan:
   The detailed 2023/24 SDBIP document will be finalised and tabled before council.

6. Annual Report:
   Annual report is compiled in terms of the MFMA and National Treasury requirements.

Municipal manager's quality certificate

I ……………………………………………………………………………., Municipal Manager of Umzumbe Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name Thembinkosi Patrick Cele

Municipal Manager of Umzumbe Municipality (KZN213)

Signature ______________________

Date 29 March 2023