**B1840/19/20 2020/2021 - 2022/2023 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)**

1. **PURPOSE**

To present the 2020/2021 – 2022/2023 Medium Term Revenue and Expenditure Framework to Council for approval.

1. **BACKGROUND**

Section 24 (1) of the Municipal Finance Management Act, Act No 56 of 2003 indicates that the Municipality Council must at least 30 days before the start of the budget year consider approval of the annual budget.

Section 24 (2) further indicates that the annual budget

1. must be approved before the start of the budget year
2. is approved by the adoption by the Council of a resolution referred to in section 17 (3) (a) (i) and
3. must be approved together with adoption of resolutions as may be necessary-
4. imposing any municipal tax for the budget year
5. setting any municipal tariffs for the budget year
6. approving measurable performance objectives for revenue from each source and for each vote in the budget
7. approving any changes of the municipality’s integrated development plan; and
8. approving any changes to the municipality’s budget related policies

Section 24 (3) requires the accounting officer of a municipality to submit the approved annual budget to the National Treasury and the relevant Provincial Treasury

National Treasury circular 98 and 99 seeks to provide guidance to Municipalities with the compilation of 2020/21 Medium Terms and Revenue Expenditure Framework (MTREF) which is linked to the Municipal Budget Reporting Regulation (MBRR).

The circular also wishes to demonstrate how municipalities should undertake the annual budget preparation in accordance with the budget and financial reform agenda and the associated factors.

In his Policy Statement tabled 30 October 2019, Minister Finance stated that the global growth forecast for 2019 is the lowest since the 2008 financial crisis. The economic growth has continued to stagnate and weaknesses in the world economy are likely to amplify the country’s own challenges. Public finances deteriorated over the past decade; a trend that accelerated in recent years as low growth led to large revenue shortfalls.

The circular dictates that the below mentioned macro-economic forecasts be considered when preparing the 2020/21 MTREF for municipal budgets

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

Together with MFMA circular 98, circular 97 was also issued to assist municipalities and municipal entities to implement cost containment measures in an effort to address the impact of the country’s economic challenges and to promote growth, address unemployment and equality, amongst others, consistent with the municipal cost containment regulation.

According to Circular 97, the effective implementation of the municipal cost containment regulation (MCCR) is the responsibility of the municipal council, board of directors of municipal entities, municipal accounting officer and accounting officers of municipal entities. It is also intended to ensure that municipalities and municipal entities achieve value for money in utilising public resources to deliver municipal services. The MCCR applies to all officials and councillors.

Clarification of specific provisions within the MCCR include, but not limited to use of consultants, vehicles used for political office bearers, travel and subsistence, air travel, domestic accommodation, credit cards, sponsorship, events and catering, conference, meetings and study tours. The non-adherence to the provisions of the MCCR will be an act of financial misconduct as defined in section 171 and 172 of the MFMA.

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

1. **REVENUE PER REVENUE SOURCE**

The Municipality is dependent on equitable share which is allocated in terms of the Division of Revenue Act (DORA). According to the Act issued on the 14th of April 2020, the Municipality has been allocated R352 817 000 for the 2020/2021 financial year, which is 4% more than the 2019/2020 allocation.

Transfers recognised includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF for the outer years. The equitable share remains to be the most important part of the municipality’s revenue base as no services are rendered for which revenue can be collected.

Equitable share represents 98% of the Municipality’s total revenue and the remaining 2% is made up of conditional grants of which can only be realised as an incoming after it meets its condition after the expenditure and the other is interest on investment as well as revenue collected in respect of municipal by-laws.



Total revenue has increased by R13 770 000 for the 2020/2021 financial year when compared to the 2019/20 Budget. For the outer year, total revenue will increase by 4%.

For Bojanala Platinum District Municipality to continue improving the quality of services provided to its citizens and local municipalities it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that the municipality is faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in balancing expenditures against realistically anticipated revenues.

The Municipality has been allocated conditional grants to the value of R6 078 000. These grants are made of the Finance Management Grant as well as the Rural Asset Management Grants. Total conditional grants represent 1.7% of total revenue of the Municipality.

With the monthly cash flow projections, the Municipality aims to keep and maintain a healthy investment portfolio which will generate money in terms of interest on investments. An amount of R800 000 has been projected for interest income.

1. **EXPENDITURE PER EXPENDITURE TYPE**

Total operating expenditure for the 2020/21 financial year has been appropriated at R288 237 784 and translates into a budgeted surplus of R69 18 4216. Total expenditure has increased by R9 544 015 in the 2020/21, the primary reasons is due to increases in salaries, councillors remuneration and operational costs. Further on a reclassification between operational costs and contract services occurred as a result implementation of version 6.4 from version 6.3 of mSCOA charts. The line items that were reclassified from contracted services to operational costs were:

* Expenditure: Operational Cost: Communication: Telephone, Fax, Telegraph and Telex;
* Expenditure: Operational Cost: Insurance Underwriting: Premiums;
* Expenditure: Operating Leases: Furniture and Office Equipment and
* Expenditure: Operating Leases: Other Assets.

The aggregate movement in budget classification from contracted services to Operating expenditure amounts to R24 400 000.

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Table A





* 1. **SALARIES**

Circular 02/2020 of the South African Local Bargaining Council (SALGBC) dated 03 March 2020 guides salary budget to be appropriated in accordance with the salary and wage collective agreement for the period 01 July 2020 to 30 June 2021 which requires that salaries be increased by 6.25%. 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. Salaries and allowances has increased by R9 509 993 to R204 094 933 and constitutes 71% of the total expenditure, 36% more than the 35% norm of the salary bill. The basis of the salaries is to un-fund all unoccupied positions except for the position of Senior Manager Corporate Support. This resulted in an effective employee cost increase of R4.89%.

* 1. **COUNCILLORS**

Municipalities are advised to budget for the actual costs approved in accordance with the Gazette No 20 of 1998 on the Remuneration of Public Office Bearers Act, Determination of Upper limits of Salaries, Allowance and Benefits of different members of Municipal Councils published annually between December and January by the Department of Cooperative Governance. Councillor allowances have been increased by R895 580 to R19 557 580 in order to accommodate the upper limits increases that may be approved for the 2020/21 financial. The increase is at 4.8% in-line with forecasted inflationary increase.

* 1. **CONTRACTED SERVICES**

Contracted services has decreased by R22 990 218 to R11 196 211. This is primarily due to the reclassification of the following expenditure items from contracted services to operational costs:



**4.4 OPERATIONAL COSTS**

Operational costs have increased by R 26 599 660 to R46 079 000 as compared to the budget adjustment in June 2020. The operational services mainly are for the day to day activities of the municipality. As well as inflationary increases.

The municipality has budgeted an amount of R1 200 000 for the COVID-19 pandemic.

* Cloth masks for all municipal staff and councillors;
* Deep cleansing and microbial fogging of all buildings occupied by the district municipality;
* FFP2 and Surgical masks for essential municipal employees;
* Latex Gloves;
* Medical hand sanitizers;
* Hazardous Material suits; and
* Digital Thermometers, etc.

1. **CAPITAL EXPENDITURE**

This expenditure increased from R70 000 to R3 003 000 as compared to the adjustment budget in June 2020 and is provided for acquisition of laptops, internal audit application and RRAMS. The Municipality has no infrastructure assets except to service delivery project to be done on behalf and in support of local municipalities. No adequate provision could be made for services done on behalf of the constituent local municipalities because of the payment error suffered during the 2018/2019 financial year.

1. **CREDITORS**

The Municipality’s creditors have been paid sporadically during the 2019/20 financial year. An overall assessment is still being done on creditors taking into consideration invoices that were received late by the Municipality. The non-payment of creditors was as a result of a refund to Cooperative Governance Human Settlement and Traditional Affairs that was paid by error to the Municipality.

The Municipality is to date still not able to service its contractual obligations as well as other creditors and could therefore adjustment in expenditure. The net decrease between the June 2020 adjustment budget excluding Employee cost and Councillors remuneration amounted to R861 558. This was due to renegotiation of fees charged by service providers on office rentals and photo copy machines. The creditors age analysis as at 31 May 2020 amounts to R52 872 693.

The District Municipality, led by the Northwest Provincial Treasury and assisted by SALGA, Northwest Department of Local Government and Traditional Affairs, National Department of Co-operative Governance and National Treasury have endeavoured to formulate a financial recovery plan that will deal primarily with:

* Revenue optimisation
* Prudent budget formulation
* Financial Stability; and
* Internal Controls.

This will assist with improving the funding of budgets and fiscally responsible utilisation of monetary resources.

1. **Budget related policies**

Budget related policies have been included in accordance with section 24 (2) (c) (v) of the MFMA, which requires that the budget should be approved with the related budget policies.

The attached budget related policies are as follows:

Asset Management Policy;

Cost Containment Policy;

Investment Policy;

Supply Chain Management Policy; and

Virement Policy.

**RECOMMENDATIONS BY THE AUDIT COMMITTEE**

1. That cognizance be taken of the following: -
   1. of Section 16 (2) of the MFMA which states that the Mayor of the Municipality must table the annual budget at a Council meeting at least 90 days before the start of the budget year;
   2. The amended directive issued by the Minister of Cooperative Governance to Municipalities under Government Notice R43291 dated 07 May 2020 to, *amongst others*, convene Committee and Council meetings for the adoption of the IDP and Budget and ensure public participation were possible.
   3. That the District Municipality tabled the 2020/21 – 2022/2023 Medium Term Revenue And Expenditure Framework (MTREF) at a visual council meeting sitting held on the 21st May 2020 through Council Resolution number B1824/19/20
   4. That the municipality published the 2020/21 – 2022/2023 Medium Term Revenue and Expenditure Framework (MTREF) on the municipal website
   5. That the District Municipality invited members of the public within the district to submit written comments and representations on the 2020/21 – 2022/2023 Medium Term Revenue And Expenditure Framework (MTREF) by closure of business on the 11th June 2020 **(Annexure A)**
   6. That the 2020/21 – 2022/2023 Medium Term Revenue and Expenditure Framework (MTREF) be approved by Council, as required by the Local Government: Municipal Systems Act, No. 32 of 2000
   7. That Council approves the following Budget related policies as required by Section 24 (2) (v) :
      * Asset Management Policy;
      * Cost Containment Policy;
      * Investment Policy;
      * Supply Chain Management Policy; and
      * Virement Policy.
   8. That copies of the 2020/21 – 2022/2023 Medium Term Revenue and Expenditure Framework (MTREF) and the relevant Council resolution be submitted to the North West Provincial Treasury and the National Treasury within a period of ten (10) days after adoption by Council;
   9. That the 2020/21 – 2022/2023 Medium Term Revenue and Expenditure Framework (MTREF) be placed on the municipal official website within 10 days after adoption by Council.
2. That copies of the 2020/21 – 2022/2023 Medium Term Revenue and Expenditure Framework (MTREF) be availed to the public as and when requested.

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**MS. JANE MASITE**

**AUDIT COMMITTEE MEMBER**

**RECOMMENDATIONS BY THE ACTING CHIEF FINANCIAL OFFICER**

* 1. Cognisance be taken:

7.1.1 Of Section 24 (2) (a) of the MFMA which states that an Annual Budget must be approved before the start of the budget year;

* 1. That Portfolio Committee to note the 2020/21 – 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) in both the National Treasury template as well as in accordance with the mSCOA requirements;
  2. That Portfolio committee recommends the 2020/21 - 2022/23 MTREF to Mayoral Committee and Council for approval.
  3. Approve the following Budget related policies as attached:
     1. Asset Management Policy;
     2. Cost Containment Policy;
     3. Investment Policy;
     4. Supply Chain Management Policy; and
     5. Virement Policy.
  4. That the Acting Municipal Manager must submit the Final Annual Budget to National Treasury and Provincial Treasury after adoption by the Municipal Council.

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**MORENA MOFOKENG**

**ACTING CHIEF FINANCIAL OFFICER**