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ECONOMIC DEVELOPMENT AGENCY

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**REPORT TO:** ILEMBE DISTRICT MUNICIPALITY - MUNICIPAL MANAGER

**CC:** MANAGER BUDGETS AND COMPLIANCE

**AUTHOR:** CHIEF EXECUTIVE OFFICER

**DATE:** 28 JANUARY 2022

**SUBJECT:** DRAFT MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)  
2022/2023 - 2024/2025

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ANNEXURE A – Draft Budget 2022/2023 – 2024/2025

## **1 Purpose of the Report**

To submit for approval the First Draft Medium Term Revenue and Expenditure Framework for 2022/2023 financial year as well as 2023/2024 and 2024/2025 indicative years in terms of section 87 of the Municipal Finance Management Act of 2003.

## **2 Executive Summary**

In terms of Section 87 of the Municipal Finance Management Act,

(1) The Board of directors of a municipal entity must for each financial year submit a proposed budget for the entity to its parent municipality not later than 150 days before the start of the entity's financial year or earlier if requested by the parent municipality,

(2) The parent municipality must consider the proposed budget of the entity and assess the entity's priorities and objectives. If the parent municipality makes any recommendations on the proposed budget, the Board of directors of the entity must consider those recommendations and, if necessary, submit a revised budget to the parent municipality not later than 100 days before the start of the financial year.

(3) The mayor of the parent municipality must table the proposed budget of the municipal entity in the council when the annual budget of the municipality for the relevant year is tabled.

The Mid Term Budget and Performance Assessment was conducted and the report was presented by the Chief Executive Officer to the Accounting Officer of the District on 20 January 2022 in terms of section 88 of the MFMA. The mid-year report was also submitted to the Entity Board of directors via round robin and was ratified on the Board meeting held on 27 January 2022. An adjustments budget was proposed in accordance with section 87(6) of the MFMA of which the Entity has tabled to the Board for consideration and will subsequently submit for approval by the parent municipality by 28 February 2022.

The draft budget was tabled to the Board on the meeting held on 27 January 2022 and is being submitted to the district in compliance with section 87 of the MFMA.

Challenges that stand out as the proposed 2022/2023 budget is presented are as follows:

- Over reliance on IDM for funding operations, which is negatively impacted by the financial constraints currently faced by the district; which calls for budget cuts at every budget period.

- The implementation of Change Management as an outcome of the Vuthela project due to financial constraints; as minimal budget can be accommodated in the budget.
- The financial constraints also hinder the Entity from focusing on the core mandate, i.e. to drive/promote investment.

## 2.1 Operating Budget Summary

The operational budget contains detailed information for the 2022/2023 budget year as well as the 2023/2024 and 2024/2025 indicative financial years and is summarised and compared with the adjustments budget figures as follows:

Description	Adjusted Budget 2021/2022	Draft Budget 2022/2023	% Increase / Decrease	Indicative Budget 2023/2024	Indicative Budget 2024/2025
	R	R		R	R
<b>Operating Revenue</b>					
IDM Grants	38,172,714	39,699,623	3.85%	41,446,406	43,311,494
Interest Received	360,410	374,826	3.85%	391,319	408,928
Other Income	798,096	225,904	-253.29%	235,844	246,457
Grant Income	8,995,034	-	-100%	-	-
<b>Total Revenue</b>	<b>48,326,254</b>	<b>40,300,354</b>	<b>-346%</b>	<b>42,073,569</b>	<b>43,966,880</b>
<b>Operating Expenditure</b>					
Employee Related Costs	19,092,014	19,855,694	4%	20,729,345	21,662,165
Board Fees	962,500	1,001,000	4%	1,045,044	1,092,071
Depreciation & Impairment	2,400,000	2,496,000	4%	2,605,824	2,723,086
Other Materials	232,870	242,185	4%	252,841	264,219
Contracted Services	7,184,830	7,472,223	4%	7,801,001	8,152,046
Other Expenditure	15,128,813	8,951,357	-41%	9,345,217	9,765,751
<b>Total Expenditure</b>	<b>45,001,026</b>	<b>40,018,459</b>	<b>-21%</b>	<b>41,779,271</b>	<b>43,659,338</b>
<b>Surplus/(Deficit)</b>	<b>3,325,227</b>	<b>281,895</b>		<b>294,298</b>	<b>307,542</b>

Whilst the MFMA Budget Circular no. 112 (Dated 6 December 2021) stipulates an inflation rate at 4% for the 2022/2023 financial period, it must be noted that the budget can be both incremental and zero-based. It can also be needs based in terms of new items that need to be considered on the budget. The table above reflects an overall decrease of 21% on the proposed budget, which is summarily as a result of the following items:

- An overall increase of 4% for all expenditure categories;

- A decrease of 41% in respect of grant funded projects allocated for in the previous financial year.
- The overall operational revenue in the 2022/2023 amounts to R40, 3 million and the operational expenditure amounting to R40 million, with a surplus of R0, 3 million.

The following budget principles and guidelines directly informed the compilation of the 2022/2023 MTREF:

- The 2021/2022 mid-term budget and performance review that was done to assess performance of the agency for the first half of the financial year;
- Adjustment Budget priorities and targets, as well as the base line allocations contained in that adjustment budget were adopted as the upper limits for the new baseline for the 2022/2023 proposed budget;
- MFMA Budget Circular no. 112 which stipulates the inflation rates as 4% for 2022/2023 as well as 4, 4% for 2023/2024 and 4, 5% for 2024/2025.

## 2.2 Capital Expenditure

The proposed capital budget is an amount of R250, 000 which includes the following:

- Office Furniture – R100, 000
- Computers (replacement in terms of the policy) – R150, 000

The capital budget will be funded from the operational surplus reconciled as follows:

Description	Adjusted Budget 2021/2022	Draft Budget 2022/2023	Indicative Budget 2023/2024	Indicative Budget 2024/2025
	R	R	R	R
<b>Capital Expenditure</b>				
Containers - YEP Project	1,465,962	-	-	-
Office Renovations	3,600,000	-	-	-
Generator	300,000	-	-	-
Office Furniture	600,000	100,000	104,400	109,098
Vehicles	1,500,000	-	-	-
Computers	300,000	150,000	156,600	163,647
Server Room	600,000			
<b>Total Capital Expenditure</b>	<b>8,365,962</b>	<b>250,000</b>	<b>261,000</b>	<b>272,745</b>

### **2.3 Budget Related Policies**

The following policies have been customized and adopted by the Entity and are currently under review and will be finalized before the final budget is adopted in May 2022:

- Budget Policy
- Petty Cash Policy
- Banking, Cash management and Investment Policy
- Virement Policy
- Supply Chain Management Policy
- Asset Management Policy

### **2.4 Service Delivery and Budget Implementation Plan (SDBIP)**

The Service Delivery and Budget Implementation Plan for the 2022/2023 financial year will tabled at Council in March 2022 when the district tables its first draft budget. The agency is currently reviewing the SDBIP in line with the preparation of the adjustments budget for the 2021/2022 financial year.

### **2.6 Strategic and Legal Implications**

This draft budget is presented in terms of section 87 of the MFMA and other applicable guidelines as promulgated by National Treasury and applicable local government best practices.

## **3 Budget Assumptions**

In the compilation of the budget, the following influencing factors were considered:

- Normal inflationary increases and pressures;
- That the budget is zero based, incremental and programme based;
- Inflation is 4% for 2022/2023, 4,4% for 2023/2024 and 4,4% for 2024/2025;
- A 4% salary increase as per the circular 112 in terms of inflation rates;
- That there will be no changes to the powers and functions of the District during 2022/2023 financial year and therefore no changes to the mandate of the Entity;
- That the total amount in respect of the allocation from the district will be received during the 2022/2023 budget year.

#### 4 Recommendations:

It is recommended THAT

- The budget submitted in terms of Section 87 of the Municipal Finance Act, 56 of 2003, for the financial year 2022/2023; and indicative allocations for the two projected outer years 2023/2024 and 2024/2025, set out in Annexure A, be considered for adoption,
- It being noted that the 2022/2023 Service Delivery and Budget Implementation Plan will only be tabled at council in March 2022 when the district tables the consolidated first draft budget for the 2022/2023.

Submitted by



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