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ECONOMIC DEVELOPMENT AGENCY

REPORT TO: THE MUNICIPAL MANAGER - ILEMBE DISTRICT MUNICIPALITY

CC: MANAGER – BUDGETS & COMPLIANCE

AUTHOR: CHIEF EXECUTIVE OFFICER

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SUBJECT: DRAFT MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)
2023/2024 - 2025/2026

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ANNEXURE A – Draft Budget 2023/2024 – 2025/2026

1 Purpose of the Report

To submit for approval the First Draft Medium Term Revenue and Expenditure Framework for 2023/2024 financial year as well as 2024/2025 and 2025/2026 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 2023 in terms of section 88 of the MFMA. The mid-year report was also submitted to the Board via round robin and will be ratified at the Board meeting scheduled for 28 February. Stemming from the mid-term budget review, an adjustments budget was proposed in accordance with section 87(6) of the MFMA of which the Entity will table to the Board for consideration and subsequent submission and approval by the parent municipality by 28 February 2023.

The draft budget was also circulated to the Board via round robin and is now submitted to the district in compliance with section 87 of the MFMA.

Challenges that stand out as the proposed 2023/2024 budget is presented are as follows:

- Over reliance on IDM for funding operations remains a concern as has been noted over the years. This impacts programs aimed at assisting local communities especially where commitments are made, and budget cuts come in. This has been a trend at every budget period.

- The financial constraints also hinder the Entity from focusing on the core mandate, i.e., to drive/promote investment.
- Legacy/historical projects aimed at uplifting communities which have become dilapidated over the years. The transfer of these assets has been delayed due different dynamics.
- The Entity has submitted business plans to various government departments, however, at the time of preparing this draft budget, formal commitments have yet to be received.

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 2022/2023	Draft Budget 2023/2024	% Increase / Decrease	Indicative Budget 2024/2025	Indicative Budget 2025/2026
	R	R		R	R
Operating Revenue					
IDM Grants	38 637 828	40 453 806	4.49%	42 314 681	44 261 156
Interest Received	980 000	1 026 060	4.49%	1 073 259	1 122 629
Other Income	629 878	261 790	-140.60%	273 832	286 429
Reserves	8 677 098	1 150 000	0%	150 000	150 000
Grant Income	12 286 735	-	-100%	-	-
Total Revenue	61 211 539	42 891 656	-232%	43 811 772	45 820 213
Operating Expenditure					
Employee Related Costs	21 145 526	22 139 366	5%	23 157 776	24 223 034
Board Fees	803 900	841 683	5%	880 401	920 899
Depreciation & Impairment	1 906 884	2 982 410	56%	3 119 425	3 262 734
Other Materials	201 600	211 075	5%	220 785	230 941
Contracted Services	12 144 021	6 390 231	-47%	6 684 182	6 991 654
Other Expenditure	17 061 274	9 009 273	-47%	9 423 699	9 857 189
Total Expenditure	53 263 205	41 574 038	-24%	43 486 267	45 486 451
Surplus/(Deficit)	7 948 335	1 317 618		325 505	333 762

Whilst the MFMA Budget Circular No. 122 (9 December 2022) stipulates an inflation rate at 4, 7% for the 2023/2024 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 30% 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 2023/2024 amounts to R42, 1 million and the operational expenditure amounting to R40, 9 million, with a surplus of R1, 2 million.

The following budget principles and guidelines directly informed the compilation of the 2023/2024 MTREF:

- The 2022/2023 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 2023/2024 proposed budget;
- MFMA Budget Circular No. 122 which stipulates the inflation rates as 4, 7% for 2023/2024 as well as 4, 6% for both 2024/2025 and 2025/2026.

2.2 Capital Expenditure

The proposed capital budget is an amount of R1 150 000 which includes the following:

- Office Furniture – an amount of R100 000 allocated for the replacement of furniture
- Purchase of a new vehicle – R800 000
- Computers (replacement in terms of the policy) – R250 000

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

Description	Adjusted Budget 2022/2023	Proposed Budget 2023/2024	Difference
	R	R	R
Capital Expenditure			
Office Renovations	3 200 000	-	3 200 000
Office Furniture	550 000	100 000	450 000
Vehicles	2 063 272	800 000	1 263 272
Computers	305 000	250 000	55 000
Server Room	1 500 000	-	1 500 000
Total Capital Expenditure	7 618 272	1 150 000	6 468 272

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 2023:

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

2.4 Service Delivery and Budget Implementation Plan (SDBIP)

The Service Delivery and Budget Implementation Plan for the 2023/2024 financial year will be tabled at Council in March 2023 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 2022/2023 financial year.

2.6 Strategic and Legal Implications

This draft budget is presented in terms of section 87 (1) 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, 7% for 2023/2024, 4,6% for 2024/2025 and 4,6% for 2025/2026;
- A 4% salary increase as per the circular 122 in terms of inflation rates;
- That there will be no changes to the powers and functions of the District during 2023/2024 financial year and therefore no changes to the mandate of the Entity;
- No unfunded mandates;

- That the total amount in respect of the allocation from the district will be received during the 2023/2024 budget year.

4 Recommendations:

It is recommended THAT:

1. The budget submitted in terms of Section 87 of the Municipal Finance Act, 56 of 2003, for the financial year 2023/2024; and indicative allocations for the two projected outer years 2024/2025 and 2025/2026, set out in Annexure A, be considered for adoption.
2. It being noted that MFMA Circular No.122 has been taken into consideration.
3. Further updates on the budget may still be done should there be new factors that need to be considered before the final approval in March 2023.

Submitted by



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