

FINAL BUDGET 2022/23 FY



DANNHUASER MUNICIPALITY

KZ254

1.EXECUTIVE SUMMARY

1.1 The Annual 2022/2023 Medium Term Revenue and Expenditure Framework (MTREF) Budget addresses the operating budget and tariffs, as well as the capital budget and funding sources.

1.2 The municipality needs to apply sound financial management principles and ensure that the municipality remains financially viable and ensures that the municipal services are provided sustainably, economically, and equitable to all wards.

1.3 The process of developing this budget is mainly guided by Integrated Development Plan (IDP), which also necessitates reprioritisation of expenditure and containing costs in non-essential services.

1.4 This budget is also guided by MFMA Circular No.115, Municipal Finance Management Act No. 56 of 2003.

1.5 The municipality's books do not reflect the best position in terms of cash flow, which requires reprioritization of expenditure projects.

1.6 In consideration of draft budget analysis by Provincial Treasury, which reflected the municipality's budget as unfunded, it was important to apply a conservative and cautionary budget approach when projecting the Revenue and Expenditure for the Annual 2022/ 2023 MTREF budget.

1.8 The municipality should seriously consider budgeting projects for multi years, for cash flow management to ensure that approved budget that is fully funded.

1.9 The municipality need to relook at revenue streams and funding sources, to ensure the affordability and sustainability of its budget.

1.10 Several budget – related engagements and workshops were held with councillors, primarily to enhance consultation and credibility of the budget.

1.11 The municipality need to look at the issue of the district(municipality) in terms water supply because it poses a big challenge for Municipality, now the municipality need to redirect funds to water related projects which is the function of the district, but because of crisis that communities in area of Dannhauser are facing, the municipality needed to intervene.

1.12 The main challenges experienced during the compilation of the 2022/2023 MTREF budget are summarised as follows.

- a) Impact of external economic factors i.e petrol hike resulting in increase in prices)
- b) Equitable share allocation which not significantly increasing
- c) Limited revenue sources (the municipality only has two main revenue sources)
- d) Unfunded Budget
- e) Absence of a cash- backed CRR (Investments accounts are decreasing significantly)
- f) Issue of water supply in communities (District function which poses challenges for the local municipality)
- g) Prioritisation of Capital and Operating Projects
- h) Tariffs that are not cost cost-effective
- i) Under-funded mandates
- j) Being a grant reliance municipality.
- k) Not effectively applying Cost Containment measures

2. LEGISLATION

2.1 The Annual 2022/2023 MTREF Budget was compiled in accordance with the requirements of applicable legislation, of which the following are most important.

- a) Constitution of the Republic of South Africa, No 108 of 1996
- b) Municipal Structures Act, No 117 of 1998
- c) Municipal Systems Act, No 32 of 2000
- d) Municipal Property Rates Act, No 6 of 2004
- e) Municipal Finance Management Act, No 56 of 2003
- f) Municipal Budget and Reporting Regulations, promulgated on 17 April 2009
- g) Division of Revenue Act

3. BUDGET STRATEGIES AND BUDGET ASSUMPTIONS

3.1 The following budget principles and guidelines directly informed the compilation of the Annual 2022/2023 MTREF Budget.

- a) National Treasury and the KwaZulu-Natal Provincial Treasury Budget Circulars

- b) National, Provincial and District Priorities
- c) Integrated Development Plan (IDP)
- d) Budget Related Policies
- e) Inflation Rates
- f) National Treasury and Provincial Treasury Grants
- g) Affordability Assessment
- h) Revenue Enhancement / Realisation Strategies
- i) Cost Containment Strategies
- j) Human Resources Capacity
- k) Service level Standards

3.2 The municipality's revenue strategy for the annual 2022/2023 MTREF Budget is developed in consideration of the following key components:

- a) National Treasury guidelines and macro- economic policy
- b) Projected local economic growth and development
- c) Effective revenue management systems and improvement of debt collection rates
- d) Rendering of free basic services, and
- e) Budget Related Policies

3.3 As per MFMA Municipal Budget Circular No. 115 , the actual headline inflation rate (consumer price index or CPI) for the 2022/23 financial year:

CPI Inflation	2022/23	2023/24	2024/25
	4.8 %	4.4%	4.5%

OPERATION REVENUE FRAMEWORK

The total projected budget for 2022/2023 financial year amounts to R 220 million, detailed as follows:

National Grants & Subsidies	R 141 222 000.00
Provincial Grants & Subsidies	R 2 353 000.00
Rates General	R 30 285 000.00
Other Income	R 44 125 468.00
Refuse Removal	R 2 117 798.00
Interest	R 387 739.00

Property Rates

Tariffs for Property Rates have increased as per the CPI of 4.8%. Property Rates proposed amount is R 30 million. Property rates are the largest part of municipal own revenue as it contributes 13% in the total own revenue. The municipality need to ensure that it collects more than 85%. This ensure improve the revenue for the municipality. The projected Property Rates did not change from the Draft budget.

Services Charges

Service Charges relating refuse removal proposed amount is R 2 million. The municipality should relook at this function and ensures it is cost-effective. No change from Draft budget to Final Budget. The tariffs are as follow:

	CURRENT 2021/2022	TARIFF 4.6%	PROPOSED TARIFFS 2022/2023 4.8%
Refuse Removal			
Domestic Bind removal INC VAT	64.75		67.86
Business bins 0-4 INC VAT	157.29		164.84
Business bins 5 or more INC VAT	426.52		446.99
Garden refuse (office hours)	257.55		269.91
Garden refuse (after hours)	777.12		814.42
Grass cutting per square meter	4.37		4.58

Licencing Fees (Driver's licence, Leaners Licence)

Traffic department projected to collect an amount of R 960 128.00; the opening of new testing ground will improve the revenue collection for licencing fees. The municipality need expedite the completion of projects in order to collecting revenue.

Fines (Traffic Fines)

Ticket fines are estimated to be R 403 002.00, this is on accrual bases. The municipality need to strengthen collection on issued tickets going forward to assist with revenue collection.

Vat Return

The municipality estimate vat return to be R 20 million, this is informed by capital projects that the municipality would undertake in 2022/23 financial year. This is an increase because of the number projects budgeted for the period.

Interest on Investment

The municipality used to keep monies in different financial institutions to accumulate interest and use it at the later stage but because of cash flow challenges, these investment options have drastically decreased. The projected budget is R 387 739.00.

Donation (ZinoJu Mining)

Zinoju mining pledged to contribute R 5.5 million for infrastructure development in certain areas in Dannhauser, the municipality will also add R 1.5 million. Due to their Mining obligation

Other Revenue

Other revenue will come from different services that the municipality offers i.e. tender fees, cemetery fees, library fines and other services. Other revenue budget is R 1.2 million.

DTI

There's funding that the municipality will receive from DTI, for infrastructure development over the MTREF period for Industrial area development.

OPERATING EXPENDITURE FRAMEWORK

The total budgeted expenditure for Annual 2022/2023 MTREF Budget R 222 million. Expenditure detailed as follows:

Salaries	R 39 730 335.00
Councillor's Allowance	R 10 725 759.00
General Expenditure	R 42 826 814.00
Repairs and Maintenance	R 13 427 119.00
Capital Projects	R 87 539 425.00
Expenditure & Provisions	R 27 753 000.00

Depreciation and Impairment

Depreciation is a good barometer of future or current capital financing costs to expand and manage infrastructure. Budget appropriations in this regard total R 22 million for 2022/23 financial year.

Contracted Services

This item is budgeted an amount to R 25,7 million which is a decrease compared to the adjustment budget. This is the work outsourced to service providers, which is under operational budget. The main items are:

- Professional Services
- Outsourced Services

Other Expenditure

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which savings could be made. The budgeted amount for other operational costs is R 26 million. These include insurance, fuel(oil) and bank charges.

Repairs and Maintenance

Municipalities are encouraged to make sufficient budget for infrastructure maintenance, 8% of budget shall be allocated to the maintenance of infrastructure which is a norm. The municipality has budgeted R 13 million for maintenance of infrastructure.

Employees Cost

The budgeted allocation for employee related costs for the 2022/23 financial year totals R 39 million, this is an increase of 4%, which is slightly under CPI of 4.8 %. The provision has been made for certain critical posts on the organogram which are advertised.

Remuneration of Councillors

Councillors' allowances are determined by the Minister of Cooperative Government and Traditional Affairs. The projected budget for Councillors allowances is R 10 million.

Capital Expenditure

The Municipal Capital Budget is R 87 million. This is an increase of R 7.7 million or 8 %. Capital Expenditure will be funded by grants and internal funding. The municipality is constrained in its finances, the council needs to look at other avenues to fund the capital projects e.g., like doing business plans so that investment can recover satisfactorily.

