



# George Municipality Draft Budget 2023/24 to 2025/26

Medium Term Revenue and  
Expenditure Framework (MTREF)

**30 March 2023**

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## Glossary

<b>Adjustments Budget</b> – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.
<b>Allocations</b> – Money received from Provincial or National Government or other municipalities.
<b>Budget</b> – The financial plan of the Municipality.
<b>Budget Related Policy</b> – Policy of a municipality affecting or affected by the budget, such as the tariffs policy, rates policy and credit control and debt collection policy.
<b>Capital Expenditure</b> - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.
<b>Cash flow statement</b> – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it scores as expenditure in the month it is received, even though it may not be paid in the same period.
<b>DORA</b> – Division of Revenue Act. Annual piece of legislation that shows the amount of allocations from national to local government.
<b>Equitable Share</b> – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.
<b>Fruitless and wasteful expenditure</b> – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.
<b>GFS</b> – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.
<b>GRAP</b> – Generally Recognised Accounting Practice. The new standard for municipal accounting.
<b>IDP</b> – Integrated Development Plan. The main strategic planning document of the Municipality
<b>KPI's</b> – Key Performance Indicators. Measures of service output and/or outcome.
<b>MFMA</b> – The Municipal Finance Management Act – no 53 of 2003. The principle piece of legislation relating to municipal financial management.
<b>MTREF</b> – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years' budget allocations. Also, includes details of the previous and current years' financial position.
<b>Operating Expenditure</b> – Spending on the day to day expenses of the Municipality such as salaries and wages.
<b>Rates</b> – Local Government taxation based on an assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

<b>SDBIP</b> – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.
<b>Strategic Objectives</b> – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.
<b>Unauthorised expenditure</b> – Generally, spending without, or in excess of, an approved budget.
<b>Virement</b> – A transfer of budget.
<b>Virement Policy</b> - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.
<b>Vote</b> – One of the main segments into which a budget is divided, usually at directorate / department level.

## **Part 1 – Annual Budget**

### **1.1 Mayoral Budget Speech**

The budget speech will be made available after the Council meeting.

### **1.2 Council Resolutions**

The Council of George Municipality at a meeting that will take place on 30 March 2023 will table the draft annual budget. The following draft resolutions are contained in the agenda of the Special Council meeting to be held on 30 March 2023:

#### **RECOMMENDATION**

That the following draft resolutions in terms of sections 16(2) and 17(3) of the Municipal Finance Management Act, (Act 56 of 2003) be noted for final approval in May 2023.

#### **DRAFT COUNCIL RESOLUTIONS (To be approved in May 2023)**

- a) that the following draft policies be tabled for public comment:
- i) Tariff Policy and By-laws;
  - ii) Customer Care, Credit Control and Debt Collection Policy and By-laws;
  - iii) Property Rates Policy and By-laws;
  - iv) Indigent Policy;
  - v) Virement Policy;
  - vi) Budget Implementation and Monitoring Policy;
  - vii) Cash Management and Investment Policy;
  - viii) Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy;
  - ix) Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy (UIF & W) Reduction;
  - x) Asset Management Policy;
  - xi) Funding Borrowing & Reserve Policy;
  - xii) Liquidity Policy;
  - xiii) Cost Containment Policy;
  - xiv) Travel & Subsistence Policy;
  - xv) Cell Phone Allowance Policy.
  - xvi) Supply Chain Management Policy;
  - xvii) George Municipality's SCM Policy Framework for Infrastructure Delivery and Procurement Management FIDPM
  - xviii) PPPPFA Policy;
  - xix) Long Term Financial Plan;
  - xx) Information and Communications Technology ICT Policy.

The policies will be reviewed by Council to be approved in May 2023.

- (b) that the draft annual budget for the financial year 2023/24 and indicative outer years 2024/25 and 2025/26 be tabled as set-out:
  - (i) Capital expenditure by project as contained in annexure "A" to the agenda;
  - (ii) Capital funding by source as contained in annexure "A" to the agenda;
  - (iii) Operating revenue by source as contained in Table A4 of the report;
  - (iv) Operating expenditure by type as contained in Table A4 of the report;
- (c) that the draft tariffs for property rates as reflected in the report be tabled for the budget year 2023/24;
- (d) that draft tariffs and services charges as reflected in the formal tariff list be tabled for the budget year 2023/24;
- (e) that the draft annual budget documentation for 2023/2024 – 2025/2026 as outlined in the budget regulations be submitted to National and Provincial Treasury.

### 1.3 Budget 2022/23 Mid-year Review and Adjustments Budget

The following table shows the original and adjustments budget for 2023/24.

	<b>Original Budget 2022/23 R'000</b>	<b>Adjusted Budget 2022/23 R'000</b>	<b>Difference R'000</b>
Capital	787 983	803 260	15 277
Operating Income	3 248 303	3 266 893	18 590
Operating Expenditure	2 868 024	2 892 527	24 503

The 2022/23 adjustments budget approved on 23 February 2023 was considered in the preparation of the 2023/24 MTREF. The capital budget must be set at a level that is realistic in terms of the capacity to deliver and the ability to fund.

### 1.4 Executive Summary

As is annually the case, the Budget Committee was confronted with numerous challenges during the budget process. It remains a complex task balancing the needs of the community with limited resources whilst having to operate within the legislative framework determined by the various spheres of government in ensuring a credible, funded budget is implemented.

Some of the crucial factors taken into account in the Budget Process are listed and discussed below for further clarity.

#### **1.4.1 A Credible Funded Budget**

A budget makes budgetary provision for service delivery to the community of George. The community should realistically expect to receive services that are affordable for which provision is made in a budget.

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and past performance and supported by documented evidence of future assumptions;
- Does not jeopardize the financial viability of the municipality i.e. ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term; and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

Furthermore, draft budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and close to the final approved budget. Three Budget Steering Committee meetings were held and various one-on-one sessions with the different directorates. The Budget Committee was again confronted with various challenges during the budget process. The following factors had an impact:

- 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. (MFMA Circular No.122 & 123);

- Although George Municipality received the budget facility for infrastructure grant (BFI) allocation of R1.1 billion rand for the upgrading of the bulk water services the need for the upgrading and rehabilitation of the other core services infrastructure remains high. This demand is clearly visible in the capital budget;
- A continued risk to the South-African economy remains the ongoing problems with Eskom's operations that continue to disrupt the supply of electricity to households and businesses with the ongoing load shedding;
- George Municipality was forced to invest in purchasing standby generators for various sewer pump stations to mitigate the impact of load shedding;
- The pressures of the slow economy on collection rates and the ability of George Municipality's residents to pay their municipal bill which has since been exacerbated by the COVID19-pandemic's effects as well as the impact that load shedding has on businesses;
- The addressing of service delivery shortcomings as identified in the adjustments budget in February 2023 and its effect on the available funding;
- The continued funding constraints with regards to the low available funding for the Capital Budget through the Capital Replacement Reserve (CRR) and the ability to take up loans to meet the demand for upgrading and replacing of infrastructure.

A strategy guided by council's long-term financial plan (LTFP) was followed with the compilation of the draft budget. The following was applied:

- The municipality needs to focus on its core functions. During the February 2023 adjustments budget the Budget Committee and portfolio councillors in conjunction with the heads of departments, scrutinized



the budget to affect all possible savings and to align the capital budget to achievable goals;

- The February 2022/23 adjustments budget was the base for the 2023/24 MTREF;
- The need to maximize revenue through efficiencies and the way we do business before we decide to increase our rates, service charges and other tariffs was again emphasized;
- A renewed focus on enforcing all the credit control actions to maximize the payment ratio and collections;
- Revenue “enhancement” assessment to ensuring that all consumers are billed correctly and are contributing to the municipality's revenue as set out in our tariff policy;
- The need to return to normal credit control and debt collection processes was also stressed to improve the debt collection ratio. A 96% ratio was assumed for this budget;
- A contribution of R103 918 450 million was made to the provision for debtor's impairment in the operating budget. The writing off, of irrecoverable debt will continue to be scrutinized through the business processes of the internal credit control unit. The unit is guided by an internal credit control committee to ensure that proper credit control measures are performed and to recommend to council the writing off, of debt;
- All attempts need to be made to maximize available National and Provincial Government Grants to service part of our capital program. In this regard George Municipality, has liaised with National Treasury regarding additional grant funding and was successful with the application for a BFI grant. George Municipality has applied for the IUDG grant and the necessary approval was given for the 2023/24 financial year. An amount of R67 450 000 was gazette for George Municipality for the IUDG for 2023/2024.

#### **1.4.2 Legal Directives**

The following legal directives/prescriptions were followed with the compilation of this draft budget:

- National Treasury sent out MFMA Budget Circular No. 122 on 9 December 2022 providing guidance to municipalities on their 2023/24

budget and Medium-Term Revenue and Expenditure Framework (MTREF).

- This was followed by MFMA Budget Circular No. 123 – on 4 March 2023.

#### **1.4.3 Municipal Standard Chart of Accounts (mSCOA)**

The mSCOA Regulations apply to all municipalities from 1 July 2017. George Municipality has early adopted mSCOA in July 2016 and has been transacting across all the segments. Although the municipality is transacting in mSCOA there are areas of improvement needed for example further expanding on the project segment. The further integration of our sub-modules within SAMRAS is also receiving attention for example the SCM and contract management modules are in the implementation phase.

George Municipality implemented mSCOA version 5.4 in 2016. We are currently budgeting on mSCOA version 6.7 for the 2023/24 financial year.

#### **1.4.4 Review of Budget Related Policies**

In terms of section 17 (3) (e) of the Municipal Finance Management Act, No. 56 of 2003 it prescribes that the Municipality must review the budget related policies and by-laws (where applicable) annually.

This administration has reviewed the policies below:

1. Tariff Policy and By-law;
2. Customer Care, Credit Control and Debt Collection Policy and By-law;
3. Property Rates Policy and By-law;
4. Indigent Policy;
5. Virement Policy;
6. Budget Implementation and Monitoring Policy;
7. Cash Management and Investment Policy;
8. Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy;
9. Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy (UIF & W) Reduction Policy;
10. Asset Management Policy;
11. Funding Borrowing & Reserve Policy;
12. Liquidity Policy;
13. Cost Containment Policy;
14. Travel & Subsistence Policy;
15. Cell Phone Allowance Policy.
16. Supply Chain Management Policies;
17. PPPFA Policy;

18. Long Term Financial Plan (LTFP);
19. Information and Communications Technology (ICT) Policy.

The draft policies are contained in the budget documentation and will be placed on the municipal website for public comment. The draft LTFP will be reworked to include the draft 2023/24 MTREF and will be tabled along with the final budget for Council approval.

#### **1.4.5 Municipal Budget and Reporting Regulations**

The Local Government: Municipal Finance Management Act (Act No. 56 of 2003): Municipal Budget and Reporting Regulations regulate the format of the budget documentation as set out in Schedule A (version 6.6) of the Municipal Budget and Reporting Regulations. This includes the main Tables A1 – A10 as well as the supporting tables SA 1 – SA 38.

#### **1.4.6 George Integrated Public Transport Network (GIPTN)**

George Municipality has commenced with the phased roll-out of the GO GEORGE public transport service that aims to provide reliable, affordable, accessible scheduled public transport service to the community of George. The first trial phase commenced on 8 December 2014 and subsequently phases two (2) and three (3) were rolled out in accordance with the schedule agreed to with the Vehicle Operating Company (VOC), George Link (Pty) Ltd, during the 2015/2016 financial year. Phase 4B was successfully rolled-out on 22 March 2020. The roll-out for Phase 4A is scheduled for March 2023 or the soonest possible date thereafter. The remaining phases five (5) and six (6) will follow.

The Automatic Fare Collection System (AFC) was successfully implemented on 14 November 2018. The implementation of the AFC system allowed for the introduction of additional product categories. Passengers are able to purchase any combination of trips suited to their individual travel needs.

The GIPTN has expanded substantially since the implementation of the first phase in 2014. In 2022 alone, the bus service carried more than 4.9m passenger trips and achieved 70% coverage of households in George. The revenue generated from the annual tariffs is a critical source of income to ensure the continued implementation of the GO GEORGE service. The introduction of the GIPTN service required that the fare structure be included in the tariff list and that the approved fare structure be gazetted. The key principles that underpin the GO GEORGE fare tariffs are listed below:

- Affordability
  - Tariffs must be affordable to the poorest households in George.
- Financial Sustainability
  - Tariffs must be structured to facilitate long-term financial sustainability for the project.
- Alignment with municipal services
  - Tariffs should be developed in alignment with other municipal services and within the prescriptions of the supporting regulations under the Municipal Finance Management Act.

There is currently a process underway with Council for the fare tariff to be reviewed and increased by a weighted average of 7.59% for the various product categories. The tariffs need to be increased annually to align with the increased costs of providing the service and to ensure the financial sustainability of GIPTN. The competitiveness of the tariffs is also compared to other Integrated Public Transport Networks (IPTN's) and the current local Taxi fares. The proposed fare increase is in line with the increase for other municipal services.

The GIPTN has also been investigating outdoor advertising revenue as a funding source for the project. There is currently a process underway to include the proposed outdoor advertising tariffs in the Public Transport Bylaw of the Municipality. The intention is to appoint a service provider to manage the outdoor advertising for the GIPTN based on a profit-sharing model between the parties.

The following municipal processes are included within the GIPTN project, and must be managed to meet the project milestones:

- Legislatively required approvals from Council;
- Legislatively required public comment processes;
- Progress updates to the Section 79 Committee; Mayoral Planning, MAYCO and Council;
- Supply chain management processes for contracting (on-going);
- National grant funding requires milestones for coming years;
- Transfer of PTI/PTNO funds contingent on reaching milestones;
- High-level milestones will be submitted to DoT and NT for the payment schedule.
- An Annual Operations Plan is submitted to DoT.

The following key milestones of the GIPTN project have been set for the 2023/24 financial period:

### Capital Budget

The continued construction of Tabata Street (Stage 2), commencing construction of Ngcakani Street and continued maintenance and repair of vandalised shelters. These projects will be funded by the municipal “Skin in the Game” (SiTG) contribution of 2% of the total municipal property rates.

To ensure the ongoing safety and security of the project, budget will be made available toward the procurement of an additional Rapid Response Vehicle, a Breakdown Vehicle, In Vehicle Technology (IVT), and Body Camera’s.

### Operating Budget

The system continues to operate, and the project is in the eighth (8<sup>th</sup>) year of the twelve (12) year contract period. The main operating cost drivers for the project during the period under review is:

- Vehicle maintenance for the 104 municipal owned vehicles. The tender is currently in the first (1<sup>st</sup>) year of a three (3) year contract period.
- Intelligent Transport System (ITS), Automated Fare Collection (AFC) System and implementation support costs which are incurred in terms of the Reimbursement Agreement signed between the Municipality and the Western Cape Department of Transport and Public Works (DTPW). An annual addendum to the main Reimbursement Agreement is signed between the parties to confirm the budget for the relevant period. The required notifications will be submitted to National Treasury, Provincial Treasury and the Transferring Officer in terms of section 16 (3) of the Division of Revenue Bill.
- Field monitoring services to ensure adequate service standards are being maintained. The tender is currently in the first (1<sup>st</sup>) year of a three (3) year contract period.
- Facilities management services to ensure locations are adequately maintained, cleaned and secured. The tender is currently in the first (1<sup>st</sup>) year of a three (3) year contract period.
- Marketing and communications services, we are currently in the third (3<sup>rd</sup>) year of a three (3) year contract with the service provider. A process has commenced to advertise a tender to appoint a new service provider.

In addition to the above there is currently a process underway to transfer the sprinter vehicles to the Vehicle Operating Company (VOC) in line with the requirements of the Operator Contract.

## **GRANT FUNDING**

### **National Grant: Public Transport Network Grant (PTNG)**

An application was submitted to National Treasury via the National Department of Transport for additional funding in the 2022/23 financial year toward the costs of further upgrading of Tabata Street Section 3-5, Ngcakani Street Section 2-4, Golf Street and the construction of the Garden Route Mall Transfer Location. In terms of this application the Municipality will contribute a certain percentage toward the road rehabilitation if funding is made available by the Department of Transport. Infrastructure is a key element, but is dependent on the grant funding received, however, the estimated shortfall in 2023/24 is in the region of R180 million per annum increasing over the outer years.

MFMA Circular 122 of 2023 noted that over the 2023 MTEF period, conditional grant allocations to municipalities will grow below inflation. This is due to a higher 2022/23 baseline (R3.8 billion) added to local government conditional grants in the 2022 Division of Revenue Amendment Act. During 2022 GO GEORGE was awarded a discretionary incentive component of R54 million out of R283 million available. Only three (3) of the ten (10) cities received a portion of the discretionary incentive component. The DORA of 2023 saw the discretionary incentive component being allocated equally between the receiving cities. This resulted in the PTNG allocation to George decreasing from R191.4 million to R144.8 million.

### **Provincial Grant: George Integrated Transport Network Grant - Operations**

The municipality received in-year funding of R60 million during the 2022/23 financial year from their partner the Western Cape Department of Transport and Public Works. The Provincial baseline allocation to GIPTN increased by R74 million for the 2023/24 financial period which further shows the commitment from DTPW for the continued success of the project.

The gazetted national 2023/24 three-year budget for public transport is as follows:

Description	2023/24 (R '000)	2024/25 (R '000)	2025/26 (R '000)
<b>National Grant:</b>			
- Operations	144 823	148 446	145 807
- Infrastructure	-	-	-

Description	2023/24 (R '000)	2024/25 (R '000)	2025/26 (R '000)
<b>Provincial Grant:</b>			
- Operation	228 868	211 822	219 072
<b>Total - Grants</b>	<b>373 691</b>	<b>360 268</b>	<b>364 879</b>

In terms of paragraph 4.2.4.4 of the Financial Agreement the allocation of the Municipal GIPTN Infrastructure financing shortfall after the sixth year of operation shall be as agreed between the parties. At this stage, such an agreement is not in place, but it should be prioritised to ensure the sustainability of the infrastructure program going forward.

#### **1.4.7 Budgeted Surplus versus Depreciation**

The depreciation budget for the MTREF, calculated on the existing assets, is R158 million for 2023/24, R172 million and R160 million respectively for the two outer years.

Depreciation is calculated by using the straight-line method over the life-span of the asset. The assets in the asset register are funded from different funding sources and the depreciation of these assets is also treated differently.

George Municipality has used the “cost model” to implement GRAP 17. The fact that George Municipality has created 75% of its depreciable asset base in the last ten years has increased the depreciation cost beyond normal tariff increases.

As example, a filtration plant was constructed with funds from the emergency drought relief grant. A capital asset of ± R95 million was created with an estimated life span of 20 years. The impact on the depreciation budget was an additional depreciation to the amount of R4.75 million per year.

It is impossible to give this burden through to the inhabitants of George. To soften the impact of this depreciation a “claw back” of depreciation is done during the budget process as part of the tariff setting. This inevitably leads to a budgeted deficit on the Budgeted Statement of Financial Performance.

### **1.5 Budget Overview of the 2023/24 MTREF**

This section provides an overview of the George Municipality’s 2023/24 to 2025/26 MTREF. It includes an assessment of how the budget links with the national and provincial government contexts along with a review of the fiscal position of George Municipality.



The Municipality's budget must be seen within the context of the policies and financial priorities of national, provincial and district government. The spheres of Government are partners in meeting the service delivery challenges faced in George. George alone cannot meet these challenges. It requires support from the other spheres of Government through the direct allocation of resources as well as the achievement of their own policies.

Per MFMA Circular No. 123, the following headline inflation forecasts underpin the national 2023 Budget:

Fiscal Year	2022/23 Estimate	2023/24	2024/25	2025/26
		Forecast		
Headline CPI Inflation	6.9%	5.3%	4.9%	4.7%

*Source: 2023 Budget Review*

The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies, unless it can be shown that external factors impact otherwise.

The budget process in George followed the requirements of the MFMA. A Table of key deadlines was tabled in Council by the Mayor during August 2021.

A Budget Committee was established to examine, review and prioritise budget proposals from departments.

Over the 3-year period, the Municipality is planning to spend R2 503 million on capital investment for the infrastructure needs of the City. In 2023/24 the capital budget is R785 million. Operating expenditure in 2023/24 is budgeted at R2 871 billion and the operating revenue is budgeted at R3 424 billion.

The MFMA requires municipalities to set out measurable performance objectives when tabling their budgets. These "key deliverables" link the financial inputs of the budget to service delivery on the ground.

As a further enhancement to this, quarterly service targets and monthly financial targets are contained in the Draft Service Delivery and Budget Implementation Plan (SDBIP). This must be approved by the Mayor within 28 days after the approval of the final budget and forms the basis for the Municipality's in year monitoring.



The following table is a consolidated overview of the proposed MTREF:

**Table 1 – Consolidated Overview of the 2023/24 MTREF**

	<b>ADJUSTMENTS BUDGET 2022/23 R</b>	<b>BUDGET YEAR 2023/24 R</b>	<b>BUDGET YEAR 2024/25 R</b>	<b>BUDGET YEAR 2025/26 R</b>
Total revenue	3 331 757 992	3 675 049 743	3 866 436 011	3 878 975 366
Total expenditure	3 007 759 663	3 105 332 107	3 401 149 744	3 653 428 719
<b>Total Capital Expenditure</b>	<b>826 137 481</b>	<b>1 022 542 576</b>	<b>884 638 452</b>	<b>453 340 115</b>

## 1.6 Operating Revenue Framework

For George Municipality to continue maintaining / improving the quality of services provided to its citizens it needs to generate the required revenue.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines, MFMA Circular No. 122 & 123;
- The municipality's Property Rates Policy;
- The municipality's Credit Control and Indigent Policy and rendering of free basic services;
- Tariff policy and structure;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Revenue enhancement plan.

The following table is a summary of the 2023/24 MTREF (classified by main revenue source):

**Table 2 – Summary of revenue classified by main revenue sources**

<b>REVENUE BY SOURCE</b>	<b>Amended Budget</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Property Rates	378 642 000	441 577 885	472 488 337	500 837 638
Service Charges - Electricity	861 493 700	1 007 947 629	1 135 956 977	1 337 021 362
Service Charges - Water	202 245 000	227 156 561	249 872 217	274 859 439
Service Charges - Sanitation	152 012 000	165 693 080	178 948 526	191 474 923

REVENUE BY SOURCE	Amended Budget	2023/24	2024/25	2025/26
Service Charges - Refuse	147 194 000	158 969 520	170 097 386	180 303 229
Fines, Penalties and Forfeits	83 896 202	88 929 974	94 265 772	99 921 718
Licences or Permits	3 863 334	4 095 134	4 340 842	4 601 292
Agency Services	18 617 000	19 734 020	20 918 061	22 173 144
Rental from Fixed Assets	4 935 368	5 231 490	5 545 379	5 878 102
Transfers and Subsidies - Capital	433 389 893	478 337 087	349 167 062	77 715 755
Transfers and Subsidies - Operational	635 013 725	631 282 101	710 782 095	682 250 813
Interest Earned - External Investments	43 892 153	42 414 840	43 687 285	44 997 903
Interest Earned - Outstanding Debtors	11 060 560	11 724 193	12 427 645	13 173 303
Operational Revenue	28 503 499	30 212 309	32 025 048	33 946 551
Transport Fees	66 188 363	91 097 474	106 162 456	120 632 556
Sale of Erven	2 100 000	2 226 000	2 359 560	2 501 133
Development Charges	27 827 305	30 610 035	32 446 637	34 393 435
Gain on Disposal of Property, Plant & Equipment	230 883 890	237 810 406	244 944 718	252 293 060
<b>TOTAL REVENUE</b>	<b>3 331 757 992</b>	<b>3 675 049 743</b>	<b>3 866 436 011</b>	<b>3 878 975 366</b>

Revenue generated from property rates and service charges forms a significant percentage of the revenue source of the municipality. The above table considers revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality and capital transfers and contributions.

The table above gives the year-on-year growth / decline in revenue sources.

The operating revenue increases from R3,331 billion in the 2022/2023 February adjustments budget to R3,675 billion in 2023/2024 draft budget.

The following table provides a breakdown of the various grants allocated to George Municipality over the medium term:

**Table 3 – Grants Allocation**

Local Government Allocations 2023/24 - 2025/26			
	Medium Term Estimates		
National Grants	2023/2024	2024/2025	2025/2026
<b>Direct Grant</b>			
Equitable Share	214 691 000	235 747 000	260 334 000
Infrastructure Skills Development Grant	6 500 000	6 000 000	6 500 000
LG Financial Management Grant	1 771 000	1 771 000	1 909 000
Expanded Public Works Programme	4 420 000		
Municipal Infrastructure Grant			
Energy Efficiency and Demand Side Grant			
Integrated National Electrification Grant	6 346 000	5 000 000	5 000 000
Regional Bulk Infrastructure Grant	375 138 000	274 626 000	
Neighbourhood Development Partnership grant	5 000 000	5 000 000	5 000 000
Water Services Infrastructure Grant	3 820 000		
Integrated Urban Development Grant	67 450 000	49 500 000	51 645 000
Public Transport Network Grant	144 823 000	148 446 000	145 807 000
<b>TOTAL: Direct Transfers</b>	<b>829 959 000</b>	<b>726 090 000</b>	<b>476 195 000</b>
<b>In-kind Grant (Not included in budget)</b>			
Integrated National Electrification Programme (ESKOM)			1 546 000
Neighbourhood Development Partnership Grant (Technical Assistance)	1 300 000	500 000	500 000
<b>TOTAL: Indirect Transfers</b>	<b>1 300 000</b>	<b>500 000</b>	<b>2 046 000</b>
<b>Total</b>	<b>831 259 000</b>	<b>726 590 000</b>	<b>478 241 000</b>
Provincial Grants	2022/2023	2023/2024	2025/2026
<b>Direct Grant</b>			
Human Settlements Development Grant (Beneficiaries)	-	46 100 000	15 800 000
Municipal Accreditation and Capacity Building Grant	491 000	497 000	497 000
Title Deeds Restoration Grant	1 708 000		
Informal Settlements Upgrading Partnership Grant : Provinces	12 000 000	39 000 000	10 000 000
Western Cape Financial Management Capability Grant	1 000 000	-	-
Financial Assistance to Municipalities for Maintenance and Construction of Transport Infrastructure	1 245 000	450 000	500 000
George Integrated Public Transport Network - Operations	228 868 000	211 822 000	219 072 000
Integrated Transport Planning	-	628 000	656 000
Community Library Services Grant	11 288 000	11 728 000	12 255 000
Development of Sport and Recreation Facilities	750 000		
Thusong Services Centres Grant	150 000	150 000	104 000
Community Development Workers (CDW) Operational Support Grant	94 000	94 000	94 000
<b>TOTAL: Direct Transfers</b>	<b>257 594 000</b>	<b>310 469 000</b>	<b>258 978 000</b>
<b>Total Allocations Excluding Indirect Grants</b>	<b>1 087 553 000</b>	<b>1 036 559 000</b>	<b>735 173 000</b>

## **SERVICE CHARGES AND MISCELLANEOUS TARIFFS:**

The following tariff increases are proposed:

➤ Electricity	:	17.00%
➤ Water	:	11.00%
➤ Rates	:	12.50% to 15.00%
➤ Refuse	:	7.00%
➤ Sewerage	:	8.00%
➤ Other (miscellaneous)	:	6.00%

## **TARIFF CHANGES SUGGESTED FOR 2023/24**

### **Rates Tariffs**

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

### **Implementation of General valuation roll**

The new General Valuation Roll will be implemented on 1 July 2023 and will be valid to 30 June 2027. The Valuation Roll is based on the current market value of a property. It applies to residential, agricultural, business and commercial properties and is used to calculate the monthly rates that property owners are required to pay for services such as street lighting, parks, libraries, fire services, etc.

The process to compile the General Valuation Roll in the greater George area, indicates a total of 55 230 properties with a combined market value of R73 495 100 925. The General Valuation Roll was published for public inspection from 9 February 2023 until 31 March 2023.

The market value of properties on the new General Valuation roll compared to the previous roll increased by an average of 67.44%. The property rate tariff will not increase by the same percentage, as a new cent in the Rand tariff will be calculated.

### **Rates Charges**

### **Municipal Valuation Threshold**

On qualifying residential properties, up to a maximum valuation of R230 000, up from R150 000, which amount includes the R15 000 as per Section 17(1)(h) of the MPRA and the R215 000 reduction granted as per paragraph E1.1.2 of the approved Rates Policy will be deducted from the total valuation before rates are levied.

This is a 53% increase in the rebate offered residential property taxes and is aimed at providing relief to lower income households and the poor.

### **Rates Revenue**

The public's reaction to the ever-increasing tariff hikes in electricity charges has resulted in a decline in revenue from electricity sales with many customers electing to find alternative renewable energy sources. George Municipality must reduce its reliance on electricity as its main source of revenue and must focus on the rates revenue. Given the afore mentioned it is proposed that overall municipal revenue from property rates increase by between 12.5% to 15% depending on the outcome of the general valuation roll process to be finalised by June 2023.

**Table 4 – Proposed rates to be levied for the 2023/24 financial year**

<b>Rate description</b>	<b>Current Rate</b>	<b>Proposed</b>	<b>Difference</b>
Agricultural properties	R0.002055	R0.001461	-28.89%
Business and Industrial	R0.011596	R0.011691	0.82%
Residential properties	R0.008219	R0.0058455	-28.88%
Residential vacant properties	R0.011757	R0.011691	-0.56%

### **Water Services**

This approach achieves an overall balance of 35% of municipal revenue from water tariffs being derived from fixed / basic charges, thereby contributing to the fixed operating cost needed to service and maintain the water infrastructure network. The cost reflective tariff model indicates that the fixed charge component of the water tariffs should be significantly higher, however increasing the basic charge to the required level will have to be phased in over several years to achieve closer alignment.

Council has embarked on a campaign to minimize water leaks and to curb water losses. The installation of smart water meters in the implementation phase to assist in the process to minimize water leaks. This will bring down the water losses and a decline in the associated cost of purifying water. It will also improve the management of water usage by enabling smarter technologies to be employed in the water purification, storage and distribution cycle.

The overall increase in municipal revenue from water tariffs depends on the various consumption tariff blocks and has been structured to encourage residents to reduce their water use. Domestic customers who can reduce their

water use to below 15 kilolitres per month will benefit from a 1% increase in their consumption tariff.

To encourage economic development and investment by industries in George, the consumption tariff increase for these users are kept to a minimum.

### **Electricity Tariffs**

A tariff increase of 17% is expected for electricity from 1 July 2023 and has been used for the draft budget. NERSA's guidelines have not been issued at this stage. The bulk purchases from ESKOM will increase by 18.49%.

The local authority tariff increase is effective from 1 July 2023 to 30 June 2024. During the April 2023 to June 2023 three-month period, the 2022/23 local authority tariffs are still applicable.

NERSA sets benchmark tariffs as a guideline and it should be noted that the guideline is not an automatic increase in tariffs. This municipality has a distribution license and is still required to apply to NERSA for the approval of our tariffs.

The following table shows the impact of the proposed increases in electricity tariffs on the domestic customers:

### **Sanitation tariffs**

A tariff increase of 9% for sanitation from 1 July 2023 is proposed.

The following table compares the current and proposed tariffs:

**Table 5 – Comparison between current sanitation charges and increases**

<b>CURRENT TARIFF 2022/23 Rand per year</b>	<b>PROPOSED TARIFF 2023/24 Rand per year</b>	<b>DIFFERENCE  R</b>	<b>%  INCREASE</b>
3 262.56	3 523.56	261.00	8%

### **Waste Removal tariff**

An average 8% increase in the waste removal tariff is proposed from 1 July 2023.

**Table 6 – Comparison between current waste fees and increases for a single dwelling-house**

<b>CURRENT TARIFF 2022/23 Rand per year</b>	<b>PROPOSED TARIFF 2023/24 Rand per year</b>	<b>DIFFERENCE</b>	<b>%  INCREASE</b>
3 324.00	3 556.68	R 232.68	7%

### **Overall impact of tariff increases on households**

The following table shows the overall expected impact of tariff increases on a large and small household, as well as an indigent household receiving free basic services.

It needs to be noted that most indigent households in George are situated in the affordable house areas. The valuation of these houses is below R230 000 and due to rebates do not pay property rates.

Indigent households receive a discount on their services equal to the basic charge for water plus 6kl water free, 70kwh electricity units, the monthly levy for refuse and sanitation.

## **1.7 Operating Expenditure Framework**

The expenditure framework for the 2023/24 budget and MTREF is informed by the guidelines of National Treasury.

The following table is a summary of the 2023/24 MTREF (classified by main expenditure types):

**Table 7 – Summary of operating expenditure by type**

<b>EXPENDITURE BY TYPE</b>	<b>Amended Budget</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Employee Related Cost	701 474 924	705 975 482	736 965 624	777 017 320
Remuneration of Councillors	27 930 470	29 606 298	31 678 739	33 896 251
Contracted Services	726 429 733	712 039 855	793 689 275	774 054 659
Bulk Purchases	628 680 564	744 788 700	839 296 015	987 711 392
Operating Leases	3 815 047	4 169 541	4 346 157	4 702 698
Operational Cost	164 829 623	163 974 622	175 759 987	190 201 588
Depreciation and Amortization	182 330 286	187 800 195	206 580 214	227 238 235
Loss on Disposal of Property, Plant & Equipment	46 392 118	47 783 882	51 128 753	55 219 054

Bad Debts Written Off	122 257 000	103 918 450	111 192 742	120 088 161
Transfers and Subsidies	43 097 134	40 657 687	40 329 225	40 355 563
Inventory Consumed	325 402 761	324 229 392	346 773 848	374 461 899
Interest Expense	35 120 003	40 388 003	63 409 165	68 481 899
<b>TOTAL EXPENDITURE</b>	<b>3 007 759 663</b>	<b>3 105 332 107</b>	<b>3 401 149 744</b>	<b>3 653 428 719</b>

The operating expenditure has increased from R 3,007 billion in 2022/23 (February adjustments budget) to R3,105 billion in 2023/24. The 3.24% increase in expenditure as contained in the table above gives the year-on-year growth/decline in expenditure by type.

### **Employee Related Costs**

The following factors were considered during the budget for employee related cost:

- Employee Related Costs –The new wage agreement was received on 9 March 2022 which indicates that the direct salary and wage cost increase will be 5.4%, with effect from 1 July 2023.

### **Electricity Service: Eskom Bulk Tariff Increases**

The National Energy Regulator of South Africa (NERSA), has not yet published their “Municipal Tariff Approval Process for the 2023/24 Financial Year” consultation paper.

The continued increase in bulk purchases above inflation rate targets given through by Eskom is having a huge impact on the municipality to set affordable, cost reflective tariffs throughout the various municipal services.

George Municipality has introduced a fixed charge component in its electricity tariff structure. NERSA has approved the George Municipality electricity tariff structure as it complies with the National Electricity Pricing Strategy that requires all tariffs to be set as close as possible to the cost of supply. Free basic electricity (FBE) should only be offered to the registered indigent customers.

An increasing number of electricity consumers is moving towards cheaper and renewable electricity alternatives, thereby reducing revenue. George Municipality is likewise pursuing opportunities to move to making greater use of renewable energy sources, whilst assessing the possibility to harness or generate revenue from customers willing to sell electricity to the municipality.



## 1.8 Capital Budget

The Budget Committee went through several stages of prioritizing the capital budget to contain the budget within the available funding. This commenced with the preparing of the 2022/23 adjustments budget in February 2023.

The budget committee has prioritized the upgrading of the core services infrastructure. Below are a few of the main focus areas:

- R565 million is allocated from the RBIG grant to finalise the various BFI funded projects.
- R277.5 million is appropriated over the MTREF for the for the installation of solar panels (PV-panels) and battery energy storage systems (BESS) across the municipal infrastructure network. A further R10.48 million is planned to provide directorates with alternative energy solutions, other than backup generators. These capital projects are part of the George Municipality's strategy to find local solutions to the national energy crisis. The various initiatives aim to enable economic stability and growth in George and reduce the levels of loadshedding experienced by all.
- R45 million is allocated to upgrading the York Street Hostel. This will increase the available office space for the Municipality and uplift the surrounding CBD over the MTREF period.
- R60.7 million will be used to procure new fleet vehicles for various directorates to ensure that service delivery is maintained and expanded to meet the growing public demand.
- An overall R243.3 million is allocated to street and storm water projects over the MTREF period.

This draft capital budget has been compiled with due consideration to the direct impact that it would have on the operating budget and our cash position where projects are to be funded from either internal sources or from external borrowings.

The Capital Budget was prioritized within the available funding as indicated in table below. Full provision has been made for the grant funded projects.

### 1.8.1 Capital Budget - 2023/2024 to 2025/2026

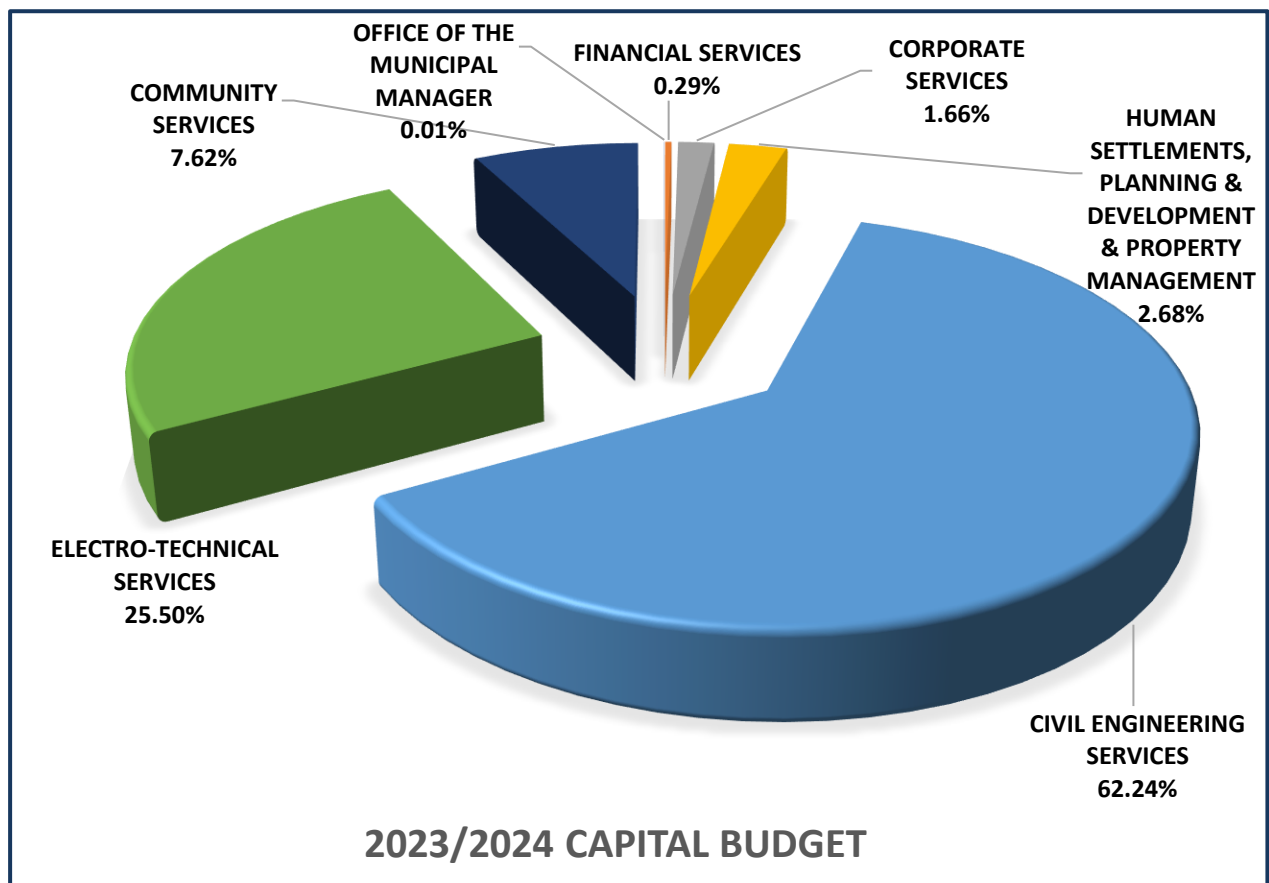
For 2023/24 projects to be funded from the Capital Replacement Reserve (CRR) were capped at R230.3 million and R392,1 million for projects linked to external funding (EFF).

Full provision was made for grant funded projects as contained in the Division of Revenue Act. An amount of R397.6 million is budgeted for grants.

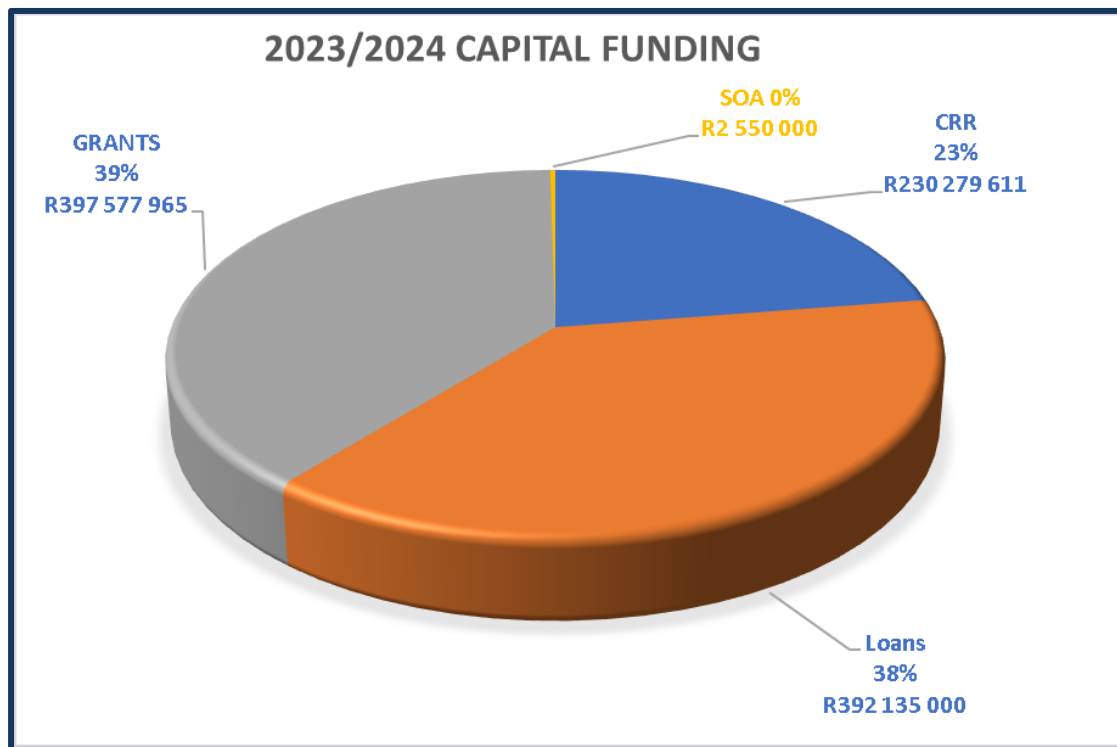
**Table 8 – Capital Budget per department**

DIRECTORATE	2023/24	2024/25	2025/26
Municipal Manager	110 000	140 000	25 000
Financial Services	2 987 000	2 490 500	2 425 000
Corporate Services	16 978 000	6 473 000	3 545 000
Human Settlements, Planning & Development & Property Management	27 390 500	39 984 000	8 845 000
Civil Engineering Services	636 472 033	549 102 816	282 903 289
Electro-Technical Services	260 705 761	225 469 826	115 225 326
Community Services	77 899 282	60 978 310	40 371 500
<b>TOTAL</b>	<b>1 022 542 576</b>	<b>884 638 452</b>	<b>453 340 115</b>

The pie chart below indicates the proposed capital budget per department:



The pie chart below indicates the funding mix of the Capital Budget.



### 1.8.2 Internal Funding

One of the main challenges impacting on the capital budget is the expected contributions to the Capital Replacement Reserve (CRR) for the current year. This situation also emphasizes the need to expand our current additional revenue base (sources) and exploring other revenue sources. The Budget Committee re-affirmed the need to broaden the revenue base.

Various projects have been launched to ensure that all properties are billed for services. Stricter credit control measures are applied and account holders in arrears are flagged for automatic deductions through the electricity pre-paid vending system.

Although the budgeted income and expenditure are realistically anticipated, the situation regarding the available internal funds will be monitored closely and expenditure on capital projects linked to the CRR will be managed per the available cash.

### 1.8.3 External Financing Funding

Although the Long Term Financial Plan indicates that George Municipality's gearing has declined, allowing the municipality to take up external funding, the magnitude of external funding required over the MTREF compelled the Budget Committee to further scrutinize the different planning scenarios before committing to taking up loans of R 941.1 million over the MTREF. The multi-

year planning needs to be spread out over a 5-7-year period to soften the impact of interest and redemption payments on tariffs to the customers.

The Budget Committee considered the requests by the technical departments to take up external loans to fund major upgrading of infrastructure and new infrastructure to provide for the demand created by new developments.

The projects funded from external financed funding (EFF) are indicated as such on the capital schedule in annexure "A".

## **Part 2 – Supporting documentation**

### **2.1 Disclosure on implementation of the MFMA & other applicable legislation**

#### **Municipal Finance Management Act – No 56 of 2003**

The MFMA became effective on 1<sup>st</sup> July 2004. The Act aims to modernise budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The various sections of the Act are phased in according to the designated financial management capacity of municipalities. George has been designated as a high capacity municipality. The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing.

#### **The MFMA and the Budget**

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

### **2.2 The budget preparation process**

#### **2.2.1 Overview**

A central element of the reforms is a change to the way that municipalities prepare their budgets.

The MFMA requires a council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities (as contained in the IDP) and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and particulars on borrowing, investments, municipal entities and service delivery agreements, grant allocations and details of employment costs.

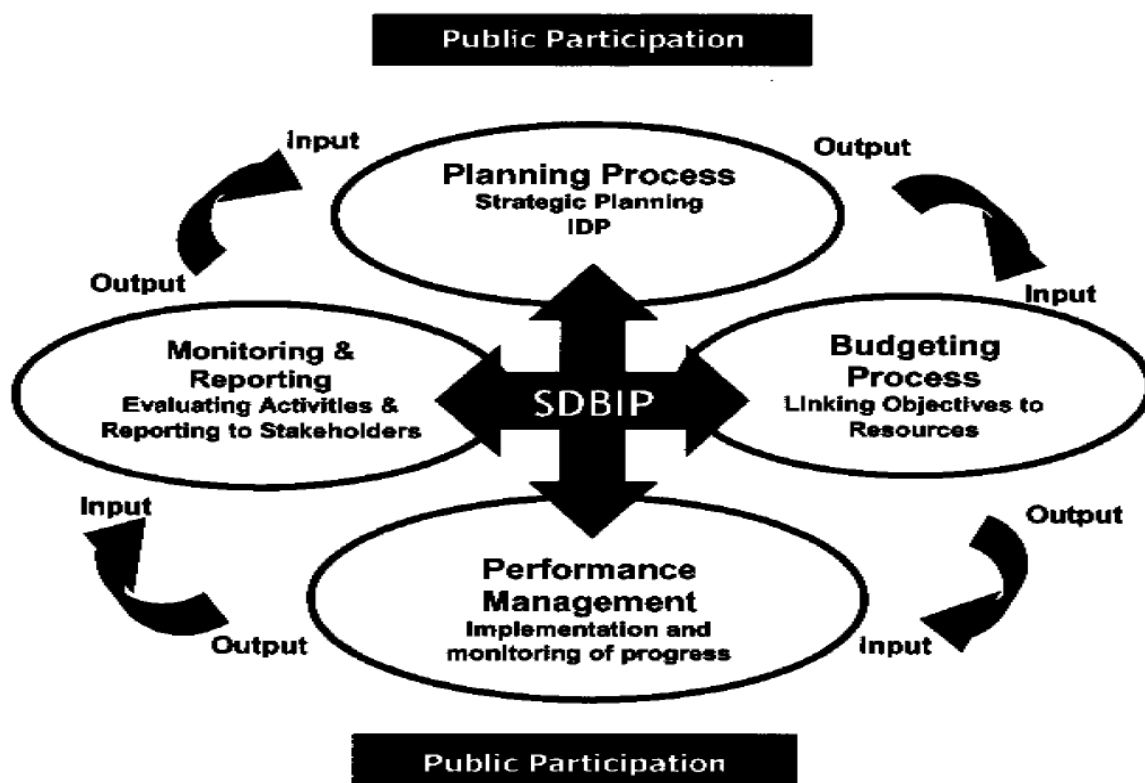
The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

## 2.2.2 Budget preparation timetable

The first step in the budget preparation process is to develop a timetable of all key deadlines relating to the budget and to review the municipality's IDP and budget-related policies.

The budget preparation timetable should be prepared by senior management and tabled by the mayor for council adoption ten months before the commencement of the next budget year.

The next diagram depicts the planning, implementation and monitoring process that is followed in George Municipality.



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 a time schedule of key deadlines that sets out the process to revise the IDP and prepare the budget.

**Table 9 – Schedule of Key Deadlines relating to the budget process**

No	Activity Description	Responsible Person/s	Output	Target Date
2022/2023 IDP PROCESS				
Preparation Phase				
1	Development of a draft IDP & Budget Time schedule	Manager: IDP/PMS & PP	Approved IDP and Budget Time schedule	July 2022
2	District IDP Managers’ Forum: Working Session on uniform guidelines for Time schedules	Manager: IDP/PMS & PP		July 2022
3	Advertise/ make public the draft Time schedule	Manager: IDP/PMS & PP		July/August 2022
4	<b>COUNCIL MEETING:</b> Adoption of the IDP & Budget Time schedule	Council		August 2022
5	Submit the adopted Time schedule to the MEC for Local Government	Manager: IDP/PMS & PP		September 2022
6	District IDP Managers Forum	Manager: IDP/PMS & PP		September 2022
7	Provincial IDP Managers Forum	Manager: IDP/PMS & PP		September 2022
8	GDS/JDMA Garden Route Technical Steering Committee Meeting	Manager: IDP/PMS & PP		September 2022
Analysis Phase				
9	<b>First round of public participation with all the 28 wards</b>  To afford the ALL wards an opportunity to give inputs and to prioritize their inputs from in ranking from 1 to 10  Run a Media & Awareness Campaign to encourage public and sector participation in the IDP/Budget processes.	ALL	Determine and assess the current level of development and the emerging challenges, opportunities, and priority issues	October/ November 2022
10	GDS/JDMA Garden Route Technical Steering Committee Meeting	Manager: IDP/PMS & PP		October 2022
11	Prepare a report on the outcomes of the public participation process and present it to the IDP and Budget Steering Committee and submit the same report to the Provincial Department of Local Government	Manager: IDP/PMS & PP		November 2022
	IDP budget and PMS Representative Forum	Manager: IDP/PMS & PP		November 2022
12	Engagement with Ward Committees to discuss ward priorities and do SWOT analysis	Manager: IDP/PMS & PP		November/ December 2022
13	IDP and Budget Steering Committee Meeting	Executive Mayor		November 2022
14	District IDP Managers Forum / Rep Forum	Manager: IDP/PMS & PP		November 2022
15	Provincial IDP Managers Forum	Manager: IDP/PMS & PP		December 2022
16	Produce a new situational analysis Chapter of the IDP (informed by new trends, sources of information and new information from Directorates)	IDP Office		November 2022 – January 2023
17	Review of the Performance Management System (PMS)	Deputy Director: Strategic Growth		February 2023
18	Review of the Annual Performance against the SDBIP	Deputy Director: Strategic Growth	May 2023	
Strategy Phase				

No	Activity Description	Responsible Person/s	Output	Target Date
19	<b>IDP and Budget Steering Committee:</b> Directors present priority issues/proposed projects	IDP& Budget Steering Committee	Develop objectives for priority issues and determine programmes to achieve strategic intent including the development of the Strategic Scorecard	February 2023
20	Mid-year budget and performance assessment visit	IDP Office, MM and All Directors		February 2023
21	Produce and outline Budget strategy with high level estimates	Budget Office		February 2023
22	Review tariffs and budget policies	CFO		February - May 2023
23	District IDP Managers Forum: Focusing on the finalisation of all the B-municipalities draft IDPs	Manager: IDP/PMS & PP		February 2023
24	Joint District IDP & Public Participation Managers Forum	Manager: IDP/PMS & PP		February 2023
25	Workshop on Municipal Vision, Mission, Strategic Goals and Values	IDP& Budget Steering Committee		February 2023
26	Setting up of Key Performance Indicators and targets linked to the municipal strategic objectives including predetermined objectives	PMS Office		February 2023
27	Convene Quarterly Ward Committee Meetings to discuss IDP and other matters	Ward Committee Office		Sept/ Dec/ March and June 2022 - 2023
Project Phase				
28	IGR Co-ordination Engagements: Technical Integrated Municipal Engagements (TIME)	Sector Departments, IDP Office, MM and All Directors		February- March 2023
29	Finalisation of the draft IDP and Budget	IDP/Budget Office	Approved Draft IDP & Budget	February – March 2023
30	Co-ordinate the development of draft 2023/24 SDBIP  One on one with all Directorates to confirm KPIs and performance targets	PMS/Budget Office		April/May 2023
Integration Phase				
31	Incorporating the outcomes of the TIME in the Draft IDP	Manager: IDP/PMS & PP	Incorporate programmes and projects in the IDP	February - March 2023
32	Provincial IDP Managers Forum	Manager: IDP/PMS & PP		March 2023
33	Integration of sector plans and institutional programmes	IDP Office, MM and All Directors		March 2023
Approval Phase				
34	<b>COUNCIL MEETING:</b> Tabling of the Draft IDP and Budget in Council	Executive Mayor	Approved IDP, budget and Service Delivery and Budget Implementation Plan	March 2023
35	Submission of draft IDP and budget to relevant institutions	IDP/Budget Office/MM		April 2023
36	District IDP Managers Forum / Rep Forum	Manager: IDP/PMS & PP		April 2023
37	Budget and Benchmark Assessments	IDP Office, MM and All Directors		May 2023
38	<b>Second round of public participation:</b> Invite public comments on Draft IDP and Budget including engagements with all the 28 ward committee structures	ALL		April/May2023



No	Activity Description	Responsible Person/s	Output	Target Date
39	SIME LG MTEC: IDP and assessments – Provincial Government and Municipality to discuss findings and recommendations emanating from IDP and Budget assessment. Integrated input into draft IDP and Budget	Manager: IDP/PMS & PP		April 2023
40	<b>COUNCIL MEETING</b> to adopt final IDP, Budget and Budget Related Policies	Council		May 2023
41	District IDP Managers Forum	Manager: IDP/PMS & PP		June 2023
42	Provincial IDP Managers Forum	Manager: IDP/PMS & PP		June 2023
43	Submission of Final IDP and budget to relevant institutions	IDP/Budget Office/MM		June 2023
44	Approved IDP and budget made public	IDP/Budget Office		June 2023
45	Finalisation and submission of draft 2023/24 SDBIP and annual performance agreements by Municipal Manager to the Executive Mayor.	MM	Approved SDBIP and annual performance agreements	June/July 2023
46	Executive Mayor approves the 2023/24 SDBIP and annual performance agreements of the Municipal Manager and Senior Managers within 28 days after the approval of the IDP and budget.	Executive Mayor		June/July 2023
47	Submit the approved SDBIP and performance agreements to MEC Local Government within 14 days after approval	MM/PMS/Budget Office		June/July 2023
48	District IDP Budget & PMS Alignment Working Session (District Working Session)	Manager: IDP/PMS & PP		July 2023
<b>Monitoring and Evaluation Phase</b>				
49	Quarterly SDBIP performance progress report for 1 <sup>st</sup> quarter of 2022/23 to Council	Deputy Director: Strategic Growth/PMS	SDBIP performance report noted	October 2022
50	Section 56/57 Managers' half-yearly evaluations for 2022/2023	MM & Executive Mayor	Performance evaluated	January- March 2023
51	Mid-year budget and performance assessment <b>MFMA Section 72 (1)(2)(3)</b>	MM/ IDP/Budget Office	Mid-Term finance and service delivery performance report compliant to MFMA	January 2023
52	Commence with the compilation of the 2021/2022 Annual Report	Deputy Director: Strategic Growth/PMS	Compile annual report	July 2022 - March 2023
53	Executive Mayor tables the 2021/2022 Annual Report <b>MFMA Section 127 (2)</b>	Executive Mayor	Annual Report 2021/2022 tabled	January 2023
54	Executive Mayor tables adjustments budget for approval by Council <b>MFMA Section 28</b>	Executive Mayor	Approved adjustments budget	February 2023
55	Annual Report made public ( <b>invite public inputs on the Annual Report - MFMA Section 127 &amp; MSA Section 21A</b> )	MM	Annual report and adjustments budget made public	February/March 2023
56	Municipal Public Accounts Committee (MPAC) considers and evaluates the content of the 2021/2022 Annual Report <b>MFMA Section 129</b>	MPAC/PMS	Content of the 2021/2022 Annual Report considered and evaluated	February -March 2023
57	Provincial IDP Managers Forum	Manager: IDP/PMS & PP	Discussion on draft IDPs	March 2023
58	Council adopts Annual & Oversight Report by 31 March <b>MFMA Section 129(1)</b>	MM & Executive Mayor	Oversight report approved	March/ April 2023

No	Activity Description	Responsible Person/s	Output	Target Date
59	Adopted Annual Report including Oversight Report made public within seven days of adoption <b>MFMA Section 129(3) &amp; MSA Section 21A</b>	MM	Approved Annual Report	April 2023
60	Within seven days of adoption of Annual & Oversight Report submit to Provincial Legislature and relevant MECs	MM		April 2023
61	Quarterly SDBIP performance progress report for 3 <sup>rd</sup> quarter of 2022/2023 to Council	PMS/Budget Office		April 2023
62	Quarterly SDBIP performance progress report for 4 <sup>th</sup> quarter of 2022/2023 to Council	PMS/Budget Office		July 2023
63	Section 56/57 Managers' Annual Performance Evaluations for 2022/2023	MM & Executive Mayor		July – September 2023

### 2.2.3 Tabling of the draft budget

The initial draft budget must be tabled by the mayor before council for review by 31 March.

Once tabled at council, the municipal manager must make public the appropriate budget documentation and submit it to both the national and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

The municipal budget will be tabled before Council on 30 March 2023.

### 2.2.4 Consultation with the community and key stakeholders

When the draft budget is tabled, council must consider the views of the local community, the national and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

The consultation with National and Provincial Treasuries regarding the MTREF is set to take place during May 2022.

The first round of public participation with all the 27 ward committees commenced in October/November 2020 in order to provide feedback on progress made on existing projects and share information on future projects and to afford ward committees an opportunity to review ward priorities and make further submissions.

The second round of public participation aims to:

- invite the public comments on the Draft IDP review and Budget including engagements with all the 27 ward committees.
- To provide feedback on current and future IDP projects as proposed by wards; and
- To create an opportunity for further inputs on key highlights & proposals from the Draft Budget

A complete report regarding the feedback on the public participation process will be included in the Final IDP document.

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

The municipal manager must within fourteen days after the approval of the annual budget submit to the mayor for approval a draft service delivery and budget implementation plan and draft annual performance agreements for all pertinent senior staff.

A service delivery and budget implementation plan is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The mayor must approve the draft service delivery and budget implementation plan within 28 days of the approval of the annual budget.

This plan must then be monitored by the mayor and reported on to council on a regular basis. The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Generally, councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if council has approved the project. Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

2.4 Alignment of Annual Budget with IDP

Local priorities were identified as part of the IDP process which is directly aligned to that of national and provincial priorities.

The IDP strategic objectives and goals are set out in the IDP document.

George is a city for all reasons and this along with the strategic vision and mission has led to the conceptualisation of five strategic goals for George. These goals are as follows:



The above strategic goals are set to become the catalysts to ensure that the vision and mission is achieved in the next five years.

The 2023/24 MTREF has therefore been directly informed by the IDP and the following tables provide reconciliation between the IDP strategic objectives and goals.

## **2.5 Overview of budget related policies**

In terms of section 17 (3) (e) of the Municipal Finance Management Act, No. 56 of 2003 it prescribes that the Municipality must review the budget related policies and by-laws (where applicable) annually.

This administration has reviewed the policies and workshops will be held with Council where changes were made. See below the applicable policies and by-laws:

1. Tariff Policy and By-law;
2. Customer Care, Credit Control and Debt Collection Policy and By-law;
3. Property Rates Policy and By-law;
4. Indigent Policy;
5. Virement Policy;
6. Budget Implementation and Monitoring Policy;
7. Cash Management and Investment Policy;
8. Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy;
9. Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy (UIF & W) Reduction Policy;
10. Asset Management Policy;
11. Funding Borrowing & Reserve Policy;
12. Liquidity Policy;
13. Cost Containment Policy;
14. Travel & Subsistence Policy;
15. Cell Phone Allowance Policy.
16. Supply Chain Management Policies;
17. PPPPFA Policy;
18. Long Term Financial Plan (LTFP);
19. Information and Communications Technology (ICT) Policy.

The draft policies are contained in the budget documentation and will be placed on the municipal website for public comment. The draft LTFP will be reworked to include the draft 2023/24 MTREF and will be tabled along with the final budget for Council approval.

## **2.6 Budget Assumptions**

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. Documentation of the assumptions used in preparing the budget assists understanding of the information. This section provides a comprehensive summary of all the assumptions used in preparing the budget.

### 2.6.1 National Treasury MFMA Circular No 122 & 123

These Circulars were issued on 09 December 2022 and 04 March 2023 respectively, and it provides further guidance to municipalities for the preparation of the 2023/24 budget and MTREF. The circulars were used in preparing this budget.

### 2.6.2 Inflation Outlook

In MFMA Circular No 123, inflation forecasts are estimated at 5.3%, 4.9% and 4.7% respectively for the years 2023 to 2025.

### 2.6.3 Rates, tariffs, charges and timing of revenue collection

The Budget Committee made use of tariff modelling to determine realistic tariff increases. The Budget Committee endeavoured to contain the increase within the 3 to 6 % inflation target band forecasted, but due to significant negative impact of loadshedding and the need to fund upgrades to core infrastructure, higher increases had to be used.

Category	Base Budget 2022/23	Budget Year 2023/24	Budget Year 2024/25	Budget Year 2025/26
Property Rates	8.00%	12.50% to 15.00%	7.00%	6.00%
Electricity	7.47%	17.00%	12.70%	17.70%
Water	10.00%	11.00%	10.00%	10.00%
Sanitation	9.00%	8.00%	8.00%	7.00%
Refuse	9.00%	7.00%	7.00%	6.00%
Other	6.00%	6.00%	6.00%	6.00%

The cash flow statement shows when rates and tariffs are expected to be collected over the financial year. In general terms, the timing of rates, tariffs and charges is based on the following;

Rates	Monthly billing. Interim billing throughout the year.
Tariffs	Monthly billing. On-going prepayment meters. Seasonal fluctuations.
Charges	Generally steady state throughout the financial year with seasonal fluctuations.

#### 2.6.4 Collection rates for each revenue source and customer type

The following bad debt provisions and collection rates are assumed in the MTREF for rates and tariffs.

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Provision for bad and doubtful debts	R103.9m	R111.1.9m	R120m
Assumed collection rate	96%	96%	96%

#### 2.6.5 Price movements on specifics e.g. bulk purchases

The following amounts are included in the MTREF for increases in bulk purchases;

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
ESKOM	R744m	R839m	R987m

#### 2.6.6 Average salary increases

The MTREF includes the following average percentage increases for wages and salary and for councillors' allowances;

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Councillors	6%	7%	7%
Staff	5.4%	7%	7%

#### 2.6.7 Industrial relations climate, reorganisation and capacity building

The ability of the Municipality to deliver quality services is virtually entirely dependent on its staff. Failure by the Municipality to invest in its staff to ensure that the capacity and skills exist to meet the challenges being faced by George will ultimately mean a failure to deliver services.

The Municipality has made the following amounts available for training over the MTREF period.

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Training Budget	1 152 880	1 225 100	1 305 130

## 2.6.8 Trends in demand for free or subsidised basic services

George's criteria for supporting free or subsidised basic services are set out in the Indigent Policy. The Government allocates revenue via the Equitable Share grant with the primary aim of assisting municipalities with the costs of providing free or subsidised basic services. Any costs over and above the Equitable Share allocation must be paid by the consumer.

The indigent qualification criteria will be enforced more rigorously to ensure that those who do not qualify are removed from the allocation list. This saving on the equitable share allocation, if any, will allow Council to make an additional contribution from the operating account to fund the provision of free basic services.

It must be remembered that such indigent support is not subsidized from services charges collected from the citizens of George.

The proposed package of free basic services allocated to the indigents consists of the following:

Description	Escalation (%)	2022/23 (R)	2023/24 (R)
Water (Basic)	11%	111.00	123.21
Water 6kl	11%	116.64	129.47
Electricity	17%	126.89	148.46
Refuse	7%	251.95	269.58
Sewer	8%	271.88	293.63
<b>Total</b>		<b>R878.36</b>	<b>R964.35</b>

## 2.6.9 Ability of the municipality to spend and deliver on the programmes

Spending is monitored closely throughout the year and Directors must ensure that capital programmes are supported by robust planning. The Municipality is currently reviewing its capital planning processes and will soon implement the capital rating and ranking programme of Ignite Advisory Service.

The SDBIP includes monthly cash flows of expenditure and is used as the basis for budget monitoring. Monthly Section 71 meetings with portfolio councillor, municipal manager, directors and the budget office also forms part of the monitoring tool and directorates must give reasons for poor performance and over spending and put corrective measures in place.



### **2.6.10 Capital Budget**

The Budget Committee went through several stages of prioritizing the capital budget to contain the budget within the available funding. This commenced with the preparing of the 2022/23 adjustments budget in February 2023.

The budget committee has prioritized the upgrading of the core services infrastructure. Below are a few of the main focus areas:

- R565 million is allocated from the RBIG grant to finalise the various BFI funded projects.
- R277.5 million is appropriated over the MTREF for the for the installation of solar panels (PV-panels) and battery energy storage systems (BESS) across the municipal infrastructure network. A further R10.48 million is planned to provide directorates with alternative energy solutions, other than backup generators. These capital projects are part of the George Municipality's strategy to find local solutions to the national energy crisis. The various initiatives aim to enable economic stability and growth in George and reduce the levels of loadshedding experienced by all.
- R45 million is allocated to upgrading the York Street Hostel. This will increase the available office space for the Municipality and uplift the surrounding CBD over the MTREF period.
- R60.7 million will be used to procure new fleet vehicles for various directorates to ensure that service delivery is maintained and expanded to meet the growing public demand.
- An overall R243.3 million is allocated to street and storm water projects over the MTREF period.

This draft capital budget has been compiled with due consideration to the direct impact that it would have on the operating budget and our cash position where projects are to be funded from either internal sources or from external borrowings.

The Capital Budget was prioritized within the available funding as indicated in table below. Full provision has been made for the grant funded projects.

### **2.6.11 Service level standards**

MFMA circular No. 72 indicated that all municipalities must formulate service level standards which must form part of the tabled MTREF budget documentation.

A broad guideline was provided on the minimum service standards to be incorporated in the budget documentation. In addition to the guideline, a framework was developed as an outline to assist municipalities in finalising their service level standards.

It is accepted that it is not possible to have the same service level standards across all municipalities. Therefore, the outline must be used as a guideline and be amended accordingly to align to the municipality's specific circumstances.

## 2.7 Municipal Manager's Quality Certificate

### Municipal Manager's Quality Certificate

I, Lauren Waring, the Acting Municipal Manager of George Municipality hereby certify that the annual budget and supporting documentation for the 2023/2024 Financial Year, have been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act, and that the budget and supporting documentation are consistent with the Integrated Development Plan.

Print Name Lauren Waring

Acting Municipal Manager of George WC044

Signature 

Date 03 Apr 2023

## **2.8 MTREF Budget Benchmark Assessment Report**

The MTREF Budget benchmark engagement with National Treasury will take place in May 2023.

## **2.9 2022 Mid-year Budget and Performance visit**

Below is a brief report received from National Treasury regarding the 2023 mid-year and performance visit to George Municipality.



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

1 of 6

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**FROM: Mr Jan Hattingh, Tel: 012 315 5009, Email: [jan.hattingh@treasury.gov.za](mailto:jan.hattingh@treasury.gov.za)**

**Ref No: WC044/12**

Dr Michele Gratz  
The Municipal Manager  
George Local Municipality  
P O Box 19  
GEORGE  
6530

Email: [mgratz@george.gov.za](mailto:mgratz@george.gov.za)

Dear Dr Gratz

**OBSERVATIONS AND RECOMMENDATIONS EMANATING FROM THE MID-YEAR BUDGET AND PERFORMANCE ENGAGEMENT HELD ON 16 & 17 MARCH 2023**

The annual mid-year budget and performance assessment engagement focused on the municipality's 2021/22 financial year's performance, the 2022/23 mid-year performance and preparations for the 2023/24 Medium Term Revenue and Expenditure Framework.

The delegation comprised of various units within the National Treasury, the officials from the Provincial Treasury, the officials from Department of Cooperative Governance and the Development Bank of Southern Africa (DBSA).

A summation of the observations, recommendations and resolutions emanating from the discussions is presented below; these should inform the municipality's 2023/24 MTREF where appropriate.

**KEY OBSERVATIONS**

**INSTITUTIONAL ARRANGEMENTS:**

The municipality's institutional arrangements are sound due to the following reasons:

- Over 200 vacancies exist but the municipality's approach is to fill them in order of importance;



- Director Positions for Corporate Services and Civil Engineering were filled towards the end of 2022. However, Director Community Service became vacant due to retirement. The municipality is in the process of filling this post;
- Special attention is given to the critical budgeted positions;
- Most of the vacancies (52 per cent) are in the category of the semi-skilled, no top management post is vacant, except the post of Director Community which has become vacant;
- Top management of the municipality meets all minimum competency levels;
- The municipality has challenges with the following unfunded and underfunded mandates:
  - The municipality is always required to bridge finance for human settlements infrastructure projects funded by the Provincial Government. They are required to keep in their payroll 36 provincial staff which are supposed to be under the province payroll;
  - The municipality has 116 soup kitchens which they are paying for without any funding from the Department of Social Development;
  - The grant for libraries is not sufficient. The municipality is also required to pay for infrastructure and maintenance of those libraries; and
  - Thusong centres are in a state of dilapidation and the municipality is expected to renovate them.

*mSCOA Implementation: (Fragile)*

- The municipality's Financial System has functionality in 10 of the 15 municipal standard chart of accounts (*mSCOA*) business processes;
- The Corporate Governance, Real Estate, Land Use and Customer care do not contain functionality to implement the 15 *mSCOA* business processes. The municipality is still working on addressing the implementation challenges;
- The municipality has challenges to move billing to web base and are currently working to resolve this;
- The municipality indicated that where there are shortcomings in implementing *mSCOA*, skills transfer are done;
- The *mSCOA* Steering Committee meets every month but the minutes were not shared with National Treasury;
- The municipality has also not shared the *mSCOA* roadmap;

- There are transactions that take place where there is no budget; and
- There are figures that differ from the annual financial statements (AFS) and Audited Datastrings (AUDA) submissions.

## **FINANCIAL HEALTH**

The municipality's **financial health is sound** due to the following concerning reasons:

- Operational Revenue for 2022 was R2.417 billion slightly below the expenditure of R2.393 billion, resulting in a small surplus of R24 million. This is a good step towards building the capital replacement reserve;
- The expenditure for 2022 was mainly driven by bulk purchases of electricity followed by employee related costs and contracted services;
- The cash and cash equivalents was R592.5 million or 77 per cent of what was budgeted, slightly below the R669.6 million that was achieved in 2021 but enough to pay creditors of R259.8 million that the municipality owed by end 2022;
- The collection rate for 2022 was reported at 96.7per cent, an improvement from 93.8 per cent achieved in 2021;
- At mid-year collection rate was reported at 91.5 per cent;
- Cost coverage is good at 3 months;
- Net Debtors increased from R186.7 million in 2021 to R221 million in 2022 due to difficulty experienced by some customers to pay;
- Concern is the increase in debt over 120 days by 2 per cent each month;
- Conditional grants expenditure was 89 per cent in 2021/22; and
- The mid-year conditional grant performance against the Division of Revenue Act (DORA) was at 33.9 per cent with poor spending on Energy Efficiency and Demand Side Management reflecting 62.2 per cent.

## **FINANCIAL GOVERNANCE**

The municipality's **financial governance is sound** due to the following reasons:

- The municipality is commended that in 2022 financial year, the municipality received an Unqualified Audit opinion with no findings from the Auditor-General for the second year in a row (also known as a clean audit);



- The municipality is also commended for preparing their AFS in house and that reconciliations are also performed monthly;
- Key Performance Indicators (KPIs) are included in all directorates service delivery budget and implementation plans (SDBIP) to address audit findings;
- Audit Committee reports quarterly to Council;
- An amount of R3.2 million unauthorised expenditure was written off. The reason for the unauthorised expenditure was the landfill provision that exceeded the budget;
- Irregular Expenditure increased from R5.5 million in 2021 to R14.3 million in 2022 and is still awaiting Council condonement. The main contributor for irregular expenditure was the R10.8 million expenditure in excess of original rates based contract value; and
- The Irregular, Fruitless and Wasteful Expenditure will be dealt with and sent to the Municipal Public Accounts Committee (MPAC) meeting in the 4th quarter.

#### **SERVICE DELIVERY**

The municipality's service delivery is sound due to the following reasons:

- Capital expenditure for 2022 was 92 per cent, an improvement from only 68 per cent in 2021, and is currently at 34 per cent by mid-year;
- The municipality adopted LG FIDPM for mega projects, no project was abandoned and all projects are on schedule;
- There was one cancellation on the projects. The reason for the cancellation was because the project was submitted without required specifications;
- Disputes are dealt with through legal team with a target of less than a month to resolve it;
- R152.9 million was spent on repairs and maintenance in 2022, an increase from R91 million in 2021;
- There were elements of intimidation as the municipality tries to roll out the Go-George Bus Service in Thembaletu by the Taxi associations;
- Most variations are within their 15 per cent and 20 per cent thresholds. Reasons for variations in infrastructure projects are factors that were not known at time of scoping work and beyond the scope of contingencies;
- The municipality will cover all variations in one register;
- Electricity losses are at 8.9 per cent and water losses are under 30 per cent;



- There are no issues with construction mafias;
- R250 thousand spent daily to run the diesel due to loadshedding;
- There are no major challenges with 30 per cent local sub-contracting.

## RECOMMENDATIONS

It is recommended that:

- The *m*SCOA Steering Committee Meetings be scheduled on a monthly basis and the minutes and resolutions to be shared with the National/Provincial Treasury;
- The municipality must provide National Treasury with a roadmap on *m*SCOA;
- No transactions must take place where there is no budget, to prevent such unauthorized expenditure the municipality must review the setup of system controls;
- Figures reported to Council on Quarterly basis must be the same as reported to the National Treasury Database;
- All deviations above 10 per cent should be explained on Section 71 reporting;
- The municipality must correct the errors where the AUDA data strings and the annual financial statements differ; and
- Root causes must be investigated for the differences and measures must be put in place to ensure all audit journals are captured in the financial system to ensure the balancing of the AUDA with the AFS.

## RESOLUTIONS

It was resolved at the engagement that:

- National Treasury to find out how can municipalities shorten the Environmental Impact Assessments (EIAs) for renewable energy projects so as to cushion the municipality from losing potential revenue for electricity;
- National Treasury needs to find ways to shorten the supply chain management (SCM) process to procure renewables;
- National Treasury must look into blanket exemption approach for people wanting to sell back into the grid of the municipality so that there is no problem with net producer; and



- The municipality should invite National Treasury in its *m*SCOA steering committee meeting and that minutes emanating from this meeting should also be shared with National Treasury.

Yours faithfully

**MANDLA GILIMANI**  
**DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS**  
**DATE: 22 March 2023**

Cc: CFO, George Municipality – Mr Riaan Du Plessis [Caduplessis@george.gov.za](mailto:Caduplessis@george.gov.za)  
MFMA Coordinator – Mr Steven Kenyon [Steven.Kenyon@westerncape.gov.za](mailto:Steven.Kenyon@westerncape.gov.za)