AMATHOLE DISTRICT MUNICIPALITY'S APPROVAL 2024/25–2028/2029 INTEGRATED DEVELOPMENT PLAN (IDP) AND FINAL ANNUAL MTREF 2024/25-2026/27 BUDGET INCLUDING ASPIRE'S MTREF 2024/25-2026/27 BUDGET

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1. PURPOSE

The purpose of the report is for Council in terms of Section 24 of the Municipal Finance Management Act, (Act No. 56 of 2003), to consider the draft following documents by the end of March of every year being:

- The Final 2024/25 – 2028/29 Integrated Development plan
- The Final Annual MTREF 2024/25-2026/27 Budget
- Financial Policies and Sector Plans for the financial year 2024/25
- Good Governance, Municipal Transformation, Local Economic Development, Service Delivery Policies
- The Final Annual MTREF 2024/25-2026/27 budget of the Municipal Entity, ASPIRE
- Note the Final 2024/2025 Service Delivery and Budget Implementation Plan

2. BACKGROUND

In August 2021, Amathole District Municipality adopted an IDP Framework Plan together with the IDP/Budget Process Plan which was later amended and adopted in December 2021. These plans were adopted in accordance with the relevant legal prescripts and have dictated the process to be followed for the development of the IDP and the Budget.

Organizational arrangements were put in place as per the IDP/Budget Process Plan and all legislative prescripts were adhered to in terms of the effective operations of structures, such as IDP/PMS/Budget Representative Forum.

After the delivery of the State of the Nation Address by the President of the Republic of South Africa, the tabling of the Budget by the Minister of Finance and the tabling of the State of the Province Address, the District Municipality also held its strategic planning session from 27 to 29 February 2024. The session was intended to review and facilitate the development of a framework that will guide the municipality's strategic direction for the next five years. The strategic framework encompasses the strategic objectives and strategies aimed at realising the mandate of ADM.

The IDP has been developed in consideration of the alignment of the Sustainable Development Goals (SDG's), National Development Plan (NDP), Provincial Development Plan (PDP) and the District Vision 2030. Further to note that the IDP development is also guided by the development priorities of other spheres of government and strategic partners that will be implemented in the district space.

Consultations on the setting of cost reflective tariffs were held with internal stakeholders, utilising the National Treasury tariff setting tool. The Treasury emphasized that decisions made on setting tariffs must be aligned with the municipality's policy and the need for cohesion between the political leadership and administration on the matter. Other areas highlighted in the engagements were the generation of revenue by the Municipality through community awareness campaigns sensitizing customers to the importance of paying for municipal services.

The district municipality continues using the General Valuation Roll (GVR) to ensure that the service charges billed are linked to the correct usage of the properties, particularly the re-zoning of properties as it is understood that some residents convert their residential properties into commercial properties which has potential of increasing the revenue stream.

In a bid to generate revenue, the Municipality should also consider building better relations with customers who own and run businesses within the Amathole District jurisdiction. Local municipalities are to be consulted about their spatial development frameworks to identify any future areas where meters can be installed to increase the billing base. The Municipality must ensure the strict monitoring and rectification of all illegal connections as this is an area that leads to the loss of revenue.

The District Municipality intends to strengthen working relations with local municipalities within its jurisdiction to improve services and collection of debt.

The revaluation of ADM owned properties should be conducted and the rental rates be adjusted to ensure that ADM maximises its rental income with rentals at the correct market related rates.

3. DISCUSSIONS

<u>IDP OUTLINE</u>

The 2024/25 - 2028/29 Final IDP is structured as follows:

- The Mayor's Foreword, Municipal Manager's Message and the Executive Summary provide an overview of the planning and budgeting process, the year challenges and improvements made towards achieving a credible and realistic IDP and Budget
- Chapter one (1) of the IDP provides a concise summary of the municipal vision, mission, and values
- Chapter two (2) provides a detailed profile of the district
- Chapter three (3) provides the situational analysis of the district, together with the district-wide community priorities and needs
- Chapter four (4) provides a detailed breakdown of objectives that indicate what the district municipality can reasonably achieve within the 3-year MTREF period and within the available resources, as well as strategies and programmes that provide the concrete interventions that the district municipality will implement to attain its objectives
- Chapter five (5) provides a list of all ADM sector plans and their status. The sector plans contain strategic interventions that respond to the status quo assessment

- Chapter six (6) provides the District Municipality's financial strategies, medium term expenditure, and proposed budget for the MTREF 2025-2027 financial year as well as the three-year Capital Plan

- Chapter seven (7) provides an overview of the monitoring and evaluation process, a background to the ADM Performance Management Framework as adopted by the District Municipality, as well as the Municipal Service Delivery and Budget Implementation Plan.

Consultation process

The Executive Mayor will present the final IDP and Budget to the Council meeting on the 24 May 2024, in accordance with the IDP/Budget Framework adopted by Council in August 2023. The final IDP is an outcome of the public participation process that took place in the month of April 2024 through the Roadshows and consultation with the relevant Departments and stakeholders.

In seeking comments and inputs on the IDP and Budget various mechanism were employed including though not limited to:

• Placement of the IDP and Budget in ADM satellite Office for members of the public to take note and provide comments.

• Notification in local newspapers and invitation for communities and community organizations to provide inputs to the IDP office.

• Presentation of the documents to communities and community organization through public hearings using electronic media platforms

Annexure:

The Final 2024/25-2026/27 Integrated Development Plan

<u>IDP SECTOR PLANS</u>

In view of the fact that the development and review of ADM sector plans formed part of the IDP Review process, it is necessary to consider them for approval with the IDP and Budget, so that they are ready for implementation as they will be reflected in the 2024/25 Service Delivery and Budget Implementation Plan.

A list containing IDP sector plans is reflected in Chapter 5 of the 2024/25 - 2028/29 Final IDP.

<u>Final 2024/25 Service Delivery & Budget Implementation Plan (SDBIP)</u>

The SDBIP serves as a “contract” between the administration, council, and community, expressing the goals and objectives set by the council as quantifiable outcomes that can be implemented by the administration over the next twelve months. This provides the basis for measuring performance in service delivery against end of-year targets and implementing the budget.

The SDBIP forms part of the performance management system, which is contained in Chapter 7 of the draft IDP. Being a management and implementation plan, the SDBIP is not required to be approved by the council – it is however tabled before council for noting.

The 2024/2025 draft SDBIP is attached as "**Annexure B".**

2024-2027 MTREF ASPIRE

FINAL BUDGET

ASPIRE's draft budget is attached as "**Annexure T",** reflecting a balanced budget of R16 848 857. An amount of R 909 322 has been budgeted for capital for the year. ASPIRE funding submitted consists of R13,6 million transfer from ADM and the balance from reserves and interest income from investments. The parent municipality has allocated an indicative amount of R13 million (excluding VAT) from its National Treasury Equitable Share. ASPIRE is however submitting a budget of R13,6 million to the parent municipality as this is the budget that will be adequate to ensure that ASPIRE continues to exist and fulfil its mandate. The R13,6 million equates to 81% of the entity's revenue for the 2024/25 financial year. Over the years, the entity has felt the impact of the reduction of grant funding from the original R15 million to R10 million against the rising cost of goods and services. This led to the entity dipping into its low reserves to balance the budget. The reserves are very low, and they are not adequate to balance the budget. Hence the entity has approved a final budget exceeding the ADM approved allocation, the entity will adjust the transfer through adjustment process for the 2024/25 financial year.

The final ASPIRE budget is attached as approved by the Board of Directors on the 17th of May 2024.

2024/25 - 2026/27 ADM BUDGET

Executive Summary

In view of the aforementioned, the table below is a consolidated overview of the proposed 2024/2025 Medium-term Revenue and Expenditure Framework:

DESCRIPTION	**2024/2025**	**2025/2026**	**2026/2027**
Total Operating Revenue	2,066,247,908	2,128,731,210	2,287,177,632
Total Capital Revenue	489,091,355	613,847,911	589,578,023
Total Revenue	**2,555,339,263**	**2,742,579,121**	**2,876,755,655**
Total Expenditure	**2,555,339,263**	**2,725,700,335**	**2,800,978,652**
Surplus / (Deficit)	**-**	**16,878,786**	**75,777,003**

The total operating revenue for the 2024/25 financial year has been budgeted at R2,066 billion, the capital grant revenue at R489 million with total the revenue budget proposed amounting to R2,555 billion. The total expenditure budgeted proposed for 2024/25 amounts to R2,555 billion with a break-even situation.

The Amathole District Municipality (ADM) continues to face the challenge of achieving a funded budget for 2024/25 financial year. Budget cuts were implemented in an effort to achieve the balanced budget in line with cost containment measures and alignment with the financial recovery plan. The final budget reflects a breakeven. This also includes non-cash flow items totalling R549 million as reflected below:

Non- Cash Items			
Description	**2024/25**	**2025/26**	**2026/27**
Provision for Bad Debts	423,155,833.00	442,621,001.00	462,981,567.00
Depreciation	126,237,903.00	132,044,846.00	167,776,863.00
Total Non-Cash Items	**549,393,736.00**	**574,665,847.00**	**630,758,430.00**

The development of the budget is informed by the key service delivery priorities as reflected in the IDP to ensure that services are provided sustainably, economically, and equitably to all communities without compromising financial sustainability.

The Municipality has jurisdiction over a rural and poverty-stricken district, evidenced by the challenge of low payment patterns from its consumers. This coupled with the requirement for the Municipality to pay its creditors within 30 days of receipt of invoice adds further strain to the cash-flow of the Municipality.

The Municipality continues to provide relief to indigent consumers by providing 6kl free basic water monthly. The next challenge being to limit the consumption by this class of consumers to the 6kl level. The process to acquire smart meters will take into consideration the guiding Treasury Circular 128, where National Treasury indicated the finalising of the RT-29 transversal tender for a smart metering solution, where the appointed panel will be available to all municipalities from March 2024. The transversal tender is targeting smart meter solutions for the water functions. It will also enable municipalities to implement bi-directional smart metering systems. The Treasury is cautioning Municipalities not to contract any smart metering systems or solutions without considering the RT-29 transversal tender which provides a competitive pricing comparison and cost saving on procurement.

The ownership challenge surrounding the RDP houses in the local municipalities is also a contributing factor to the low collection rate and the municipality is exploring alternative solutions to resolve this issue. This will also assist the local municipalities in reducing their obligations. Meetings with Public Works are underway to resolve the transfer issues and some of the RDP being approved to be written off.

Challenges relating to community unrest resulting from service delivery challenges are still experienced within the district coupled with no go areas and the current economic conditions which have also contributed to the inability to collect debt. Consumers are not motivated to pay for the water that they have consumed in the past when they do not get water during times of drought. Campaigns and communication are underway. Restrictions and disconnections are being done, but not at the anticipated rate.

This budget document's preparation involved making critical policy decisions mentioned above (SONA, Budget speech, SOPA and MFMA circulars 126 and 128) and the Institutional Strategic Planning sessions held during February 2024.

Budget Assumptions in preparation for MTREF Budget 2024-2027

- A 5% increase for directors and Councillor's salaries was budgeted for
- Salary figures based on warm bodies paid in January 2024 with no budget allocated for vacant positions.
- A provisional increment based on the Reserve Bank January 2024 CPI Forecast of 4.9% plus 2.5% of notch has been considered for the staff increase, as stipulated in the Bargaining Council Wage agreement and MFMA circular 128
- Electricity budgeted for at a 12.74% increase on the 2024/25 allocation level, in line with the increases for bulk electricity approved by NERSA
- Bulk Water budgeted costs to increase by 9% in line with Amatola Water Board's proposed increase. Over and above the 2024/2025 budget, ADM has an obligation to pay an amount of R3 553 783 per month in terms of old outstanding debt, which will have a huge impact on the cash flow for the year and affect the funding of the budget
- Qualifying level of income for indigent registration is two times the old age pension grant amount
- A differentiated approach in applying parameters in the operating budget based on trends of previous expenditure, cost containment considerations and strategic needs will be applied. This will vary from an increase of 4.9 % in 2024/25 financial year and 4.6% and 4.6% for the outer two years. This is based on CPI inflation rate estimated in MFMA Circular 128 published on 8 March 2024
- The water tariffs for 2024/25 will be increase between 7% to 20%, varying per consumer categories. The sanitation and other services tariff to be implemented varies per consumer category being between 6% to 15%. This is higher than the 3-6% target range of the inflation band, as specified in MFMA Circular No 123, but with the major cost drivers of water provision, bulk water purchases, electricity and salaries going up by 9%, 12.74% and 4.9% and 2.5% notch respectively the cost of producing water has increased. ADM, as informed by circular 98 and enforced by circular 123, has utilised the National Treasury tariff tool in calculating a cost reflective tariff for 2024/25 MTREF to start bridging the gap between affordable and sustainable tariffs
- National allocations as per the B4-2024 Division of Revenue Bill (DoRB)
- Due to limited revenue sources, ADM can only afford to subsidize R13 000 000 towards the operations of ASPIRE
- ADM has budgeted for service charges based on billing in 2023/24 financial year and an estimated collection rate of 40%
- ADM needs to adopt a double-sword approach to improve financial sustainability – it is not enough to only focus on reducing expenditure, but need to focus on enhancing revenue as well
- Credit control policy and restrictions needed to be strictly implemented to improve the collection rate. The National Treasury norm specifies a 95% collection rate would be needed for financial sustainability. ADM is not even achieving a third of this

The various strategies developed to address the situation include:

- Placement process
- Review of the Water and Sanitation Service Delivery Model
- Implementation of cost reduction measures and strict belt tightening
- Implementation of the Financial Recovery Plan
- Review of the Revenue Enhancement Strategy
- Implementation of a cost reduction plan
- Tighten controls over contract management
- Review of policies with financial implication

The budget below is the proposed budget for the Amathole District Municipality.

The Amathole District Municipality Budget for 2024/2025 reflects a breakeven with a total income of R2 555 339 263 and expenditure of R2 555 339 263 as reflected in the tables below.

BUDGETED FINANCIAL PERFORMANCE REVENUE BY SOURCE 2024/25 TO 2026/27							
DETAILS	**2024/2025 R**	**% INCOME**	**2025/2026 R**	**% INCOME**	**2026/2027 R**	**% INCOME**	**% INCREASE/ (DECREASE) FROM 2023/2024**
SERVICES CHARGES - SANITATION	151,672,243	5.94%	160,772,576	5.86%	168,007,342	5.84%	**13.52%▲**
SERVICES CHARGES - WATER	451,877,703	17.68%	477,252,327	17.40%	498,728,682	17.34%	**8.07%▲**
INTEREST EARNED - OUTSTANDING DEBTORS	96,000,000	3.76%	108,000,000	3.94%	112,860,000	3.92%	**64.30%▲**
RENT OF FACILITIES AND EQUIPMENT	350,977	0.01%	385,111	0.01%	402,441	0.01%	**6.45%▲**
INTEREST EARNED - EXT. INVESTMENTS	32,099,307	1.26%	26,150,000	0.95%	27,326,750	0.95%	**84.47%▲**
OTHER REVENUE (FIRE)	7,349,428	0.29%	7,687,502	0.28%	8,033,440	0.28%	**(19.32%)▼**
OPERATING TRANSFERS AND SUBSIDIES:							
MIG PMU OPERATIONAL INCOME	24,675,550	0.97%	25,953,100	0.95%	28,330,750	0.98%	**(4.54%)▼**
MUNICIPAL SYSTEMS IMPROVEMENT GRANT	1,175,000	0.05%	1,457,000	0.05%	2,406,000	0.08%	**(60.83%)▼**
EQUITABLE SHARE	633,427,000	24.79%	678,099,000	24.72%	726,070,000	25.24%	**7.04%▲**
LEVY REPLACEMENT GRANT	506,890,000	19.84%	526,883,000	19.21%	549,602,000	19.10%	**1.88%▲**
FMG FUNDING	2,600,000	0.10%	2,600,000	0.09%	2,700,000	0.09%	**108.00%▲**
EXPANDED PUBLIC WORKS PROGRAMME	1,878,000	0.07%	-	0.00%	-	0.00%	**(66.34%)▼**
MIG OPERATIONAL PROJECTS	131,617,067	5.15%	93,472,939	3.41%	142,504,733	4.95%	**0.00%▲**
CETA GRANT IN KIND	6,003,605	0.23%	5,683,605	0.21%	-	0.00%	**0.00%▲**
RURAL ROADS ASSET MANAGEMENT SYSTEMS GRANT	2,867,826	0.11%	2,995,652	0.11%	3,133,043	0.11%	**5.84%▲**
OWN REVENUE MIG OPEX	15,334,028	0.60%	10,890,050	0.40%	16,602,494	0.58%	**(70.08%)▼**
OWN REVENUE RRAMS OPEX	430,174	0.02%	449,348	0.02%	469,957	0.02%	**5.84%▲**
TOTAL OPERATING INCOME	**2,066,247,908**	**80.86%**	**2,128,731,210**	**77.62%**	**2,287,177,632**	**79.51%**	**13.76%▲**
TRANSFERS AND SUBSIDIES CAPITAL	**489,091,355**	**19.14%**	**613,847,911**	**22.38%**	**589,578,023**	**20.49%**	**(20.58%)▼**
MUNICIPAL INFRASTRUCTURE GRANT	288,296,423	11.28%	348,181,119	12.70%	339,610,726	11.81%	**(34.46%)▼**
OWN REVENUE MIG CAPEX	33,587,932	1.31%	40,564,792	1.48%	39,566,297	1.38%	**0.00%▲**
WATER SERVICES INFRASTRUCTURE GRANT	68,424,239	2.68%	88,204,383	3.22%	97,086,957	3.37%	**27.30%▲**
OWN REVENUE WSIG CAPEX	9,100,761	0.36%	11,731,617	0.43%	12,913,043	0.45%	**27.30%▲**
OWN REVENUE RBIG CAPEX	10,527,887	0.41%	14,693,400	0.54%	11,786,204	0.41%	**(22.02%)▼**
REGIONAL BULK INFRASTRUCTURE GRANT IN KIND	79,154,113	3.10%	110,472,600	4.03%	88,614,796	3.08%	**(22.02%)▼**
TOTAL INCOME	**2,555,339,263**	**100.00%**	**2,742,579,121**	**100.00%**	**2,876,755,655**	**100.00%**	**5.06%▲**

- **Service charge** revenue is shown on a ‘billed’ (or accrual) basis where applicable. In many instances revenue billed is much higher than cash collected on that billing. Internal revenue collection remains at low levels. The collection rate is anticipated to be at a 40% level to be more realistic and in line with historical trends

- **Tariffs** for the MTREF have increased between 7% and 20% on water tariffs for different categories of consumer. The other services, including sanitation, also have varying increases between 6% to 15% for different consumer categories. The sanitation tariff with ADM is at flat rate as more than 70% of ADM water clients do not have a system that retains the wastewater. The National Treasury (NT) tariff tool was used for calculating a cost-reflective tariff. The NT tariff tool clearly indicated that the ADM water tariff is not cost-reflective.

- The step tariff principle has been applied as detailed in the Proposed Water Consumption Tariff. This is applicable to all categories of consumers. The tariffs are still not cost reflective as affordability has been a deciding factor in the tariff increments over the years. A detailed listing of the tariffs and charges is included in this document refer to "**Annexures N to S".**

- The budget provides free basic service relief that will subsidize the indigent customers at a rate of 6kl per month.

- **Interest Earned Outstanding Debt** is interest on outstanding debt is raised at the prime lending rate, which has been at lower levels linked to the decline in the overall economy.

- The budget for **Rental of facilities and equipment** includes rental income anticipated from the lease of ADM property situated across the district.

- **Interest earned** is based on the interest earned on grant funding which has not yet been spent. Grant money is invested in separate call accounts and only transferred to the primary bank account when payments are about to be made. These call accounts attract a better interest rate than the prime bank account.

- **Other income** consists of Fire Services Income billed.

- **Transfers and Subsidies** this includes:

    - the operational portion of **MIG** is utilised for PMU operating costs and MIG operating costs, such as protective clothing.
    - **WSIG** operational cost includes water carting to mitigate against drought
    - **MSIG** is an in-kind allocation
    - **Equitable share** and **levy replacement grant** which are the non-conditional grants
    - **FMG** funding for interns
    - **EPWP** to support labour intensive initiatives
    - **RAMS** which is an allocation for local municipalities roads management system
    - **Own Revenue** operating on MIG RAMS and WSIG
    - **CETA grant in kind** which is an allocation for skills development for the unemployed.

EXPENDITURE BY TYPE 2024/25 TO 2026/27							
DETAILS	2024/25 R	% EXPENDITURE	2025/26 R	% EXPENDITURE	2026/27 R	% EXPENDITURE	% INCREASE/(DECREASE) FROM 2023/2024
SALARIES & CONTRIBUTIONS	758,836,119	29.70%	791,997,263	29.06%	830,839,111	29.66%	(2.51%)▼
REMUNERATION OF COUNCILLORS	17,614,063	0.69%	18,424,310	0.68%	19,271,828	0.69%	23.25%▲
PROVSION FOR BAD DEBTS	423,155,833	16.56%	442,621,001	16.24%	462,981,567	16.53%	10.25%▲
TRANSFER AND SUBSIDIES PAID:ASPIRE	13,000,000	0.51%	14,223,508	0.52%	14,400,000	0.51%	30.00%▲
TRANSFER AND SUBSIDIES PAID: OTHERS	3,916,000	0.15%	3,594,056	0.13%	3,759,383	0.13%	0.00%▲
DEPRECIATION	126,237,903	4.94%	132,044,847	4.84%	167,776,863	5.99%	19.72%▲
FINANCE CHARGES	3,866,904	0.15%	4,044,781	0.15%	4,230,841	0.15%	3488.17%▲
OTHER EXPENDITURE	228,941,639	8.96%	238,688,349	8.76%	237,385,993	8.48%	(1.45%)▼
BULK PURCHASES WATER	136,553,909	5.34%	148,843,760	5.46%	156,278,483	5.58%	(8.81%)▼
CONTRACTED SERVICES: RME	97,027,123	3.80%	59,733,952	2.19%	96,275,168	3.44%	0.00%▲
CONTRACTED SERVICES: OTHERS	135,286,083	5.29%	146,918,001	5.39%	120,379,750	4.30%	40.31%▲
INVENTORY CONSUMED: OTHERS	117,155,912	4.58%	111,943,247	4.11%	125,149,334	4.47%	141.06%▲
TOTAL OPERATING EXPENDITURE	**2,061,591,488**	**80.68%**	**2,113,077,074**	**77.52%**	**2,238,728,321**	**79.93%**	**13.33%▲**
TOTAL INTERNALLY FUNDED NEW CAPITAL	49,080,000	1.92%	56,617,680	2.08%	29,260,358	1.04%	18.75%▲
TOTAL INTERNALLY FUNDED CAPITAL	**49,080,000**	**1.92%**	**56,617,680**	**2.08%**	**29,260,358**	**1.04%**	**18.75%▲**
CAPITAL FROM OPERATING GRANTS	**8,793,000**	0.34%	**9,147,478**	0.34%	**7,677,494**	0.27%	(99.73%)▼
CAPITAL GRANTS AND SUBSIDIES	**435,874,775**	**17.06%**	**546,858,102**	**20.06%**	**525,312,479**	**19.27%**	**(23.69%)▼**
MUNICIPAL INFRASTRUCTURE GRANT	288,296,423	11.28%	348,181,119	12.77%	339,610,726	12.12%	(31.84%)▼
REGIONAL BULK INFRASTRUCTURE GRANT IN K	79,154,113	3.10%	110,472,600	4.05%	88,614,796	3.16%	(22.02%)▼
WATER SERVICES INFRASTRUCTURE GRANT	68,424,239	2.68%	88,204,383	3.24%	97,086,957	3.47%	46.55%▲
TOTAL CAPITAL EXPENDITURE	**493,747,775**	**19.32%**	**612,623,260**	**22.48%**	**562,250,331**	**20.63%**	**(19.39%)▼**
TOTAL EXPENDITURE	**2,555,339,263**	**100.00%**	**2,725,700,334**	**100.00%**	**2,800,978,652**	**100.00%**	**5.09%▲**
SURPLUS / (DEFICIT)	**(0)**	**0%**	**16,878,787**	**1%**	**75,777,003**	**3%**	**(100.00%)▼**

- **Employee related costs** - The institution has undergone a process of reviewing its organogram to bring the staff costs in greater alignment with the recommended norm by National Treasury. A placement process is now underway. Policies are reviewed to assist in the reduction of the staff costs. These policies will be thoroughly work shopped and tabled to Council for approval before being implemented.
  As this process is not yet complete, and the budgeting process needs to continue, the current, approved and filled organogram has been used as the basis to develop the 2024/25 salary budget as well as for the two outer years.
  It must be noted that the 29.7% is the employee costs as a percentage of **total expenditure and is not to be confused with the employee efficiency ratio.** The employee efficiency ratio is calculated as a percentage of **operating expenditure.** The norm recommended by National Treasury is based on the employee efficiency ratio.

  The Wage agreement expired, and a new agreement has not been published as yet. The salary increases are based on the Reserve Banks forecast inflation for January 2024, this is currently at 4,9%. The 2.5% notch increment has also been budgeted for in terms of the separate bargaining council agreement.

- **Provision for doubtful debts** budget is derived from the anticipated collection rate of 40% resulting in a provision being 60% of the services charges anticipated not to be collectable in 2024/25.

- **Depreciation and amortization** budget for 2024/25 comprises the depreciation on all the ADM's assets including infrastructure and software as per the Fixed asset registers and was increased by 10% on previous year's level. In the MTREF, the depreciation is no longer cashed back due to the depleted reserves.

- **Finance charges** budget is comprised of interest on finance lease agreements for the hire of photocopy machines and no longer includes the interest portion of the post-retirement benefit costs as they are included under salary related costs.

- The 2024/25 budget for **Other Expenditure** includes items such as third-party vendor commissions, telephone, audit fees, software licenses, water carting, insurance etc. The 4.6 % inflation forecast level has been used to grow the respective two outer years where no other specific growth parameters exist

- **Software Licenses** - software licences for the 2024/2025 financial year, which includes the Microsoft license fees which are paid in dollars and subject to foreign exchange fluctuations, have been budgeted according to the existing contractual arrangements.

- **Repairs and Maintenance** includes repairs of R52.8 million (3% of the operating expenditure) to the following classes of ADM property plant and equipment: - Buildings, Equipment, Vehicles and Water and Waste-water Treatment Plants. The budget has been based on the requirements anticipated for actual costs for repairs and maintenance incurred for the 2024/2025 financial year.

- **Bulk water purchases** are anticipated to increase by 9% from Amatola Water for next year. These costs are one of the most significant expenditure items for the municipality and thus contributing to the costs of providing water which is not being recovered. The payment arrangements overflowing into 2024/25 must also be considered, as per the court order arrangement where the municipality must pay an amount of R3 553 782.91 monthly in equal instalments over four years.

- **Contracted services** include the leasing of properties such as satellite offices, equipment leases for the rental of photocopiers, security services and hygiene services and a portion of the head office. An average of 10% escalation will be applied to all rental accommodation based on respective contracts.

Grants and subsidies including conditional grants and equitable share have increased from R1 706 804 000 to R1 809 986 000 when compared to the 2023/24 budget year**.** The overall increase for grants is 6.05%. The increase is mainly derived from the significant increases in the Equitable Share and WSIG grants. The unconditional grants of equitable share and levy replacement grants have increased by 6.2% when combined. This increase is not enough to cover the operational costs; therefore, the Municipality will have to increase its own revenue base to continue funding the budget in future.

DORB 2024 - DIVISION OF REVENUE BILL B4-2024 GOVERNMENT GAZETTE

	2024/2025	2025/2026	2026/2027	GROWTH / (REDUCTION) ON	% INCREAS

GRANT	MUNICIPAL	MUNICIPAL	MUNICIPAL	2022/23 ALLOCATION	E ▲/ DECREA SE ▼
Municipal Infrastructure Grant	493,511,000	519,062,000	566,615,000	11,096,000	2.30%
*Municipal Systems Improvement Grant**	*1,175,000*	*1,457,000*	*2,406,000*	(1,825,000)	(60.83%)
Rural Roads Assets Management Sytstems Grant	3,298,000	3,445,000	3,603,000	3,298,000	0.00%
Water Services Infrastructure Grant	77,525,000	99,936,000	110,000,000	25,125,000	47.95%
Local Government Financial Management Grant	2,600,000	2,600,000	2,700,000	1,350,000	108.00%
Equitable Share Formula	633,427,000	678,099,000	726,070,000	41,635,000	7.04%
RSC Levies Replacement	506,890,000	526,883,000	549,602,000	9,347,000	1.88%
Expanded Public Works Programme Incentive Grant for Municipalities	1,878,000	-	-	(3,389,000)	(64.34%)
*Regional Bulk Infrastructure Grant**	*89,682,000*	*125,166,000*	*100,401,000*	16,545,000	22.62%
TOTALS:	**1,809,986,000**	**1,956,648,000**	**2,061,397,000**	**103,182,000**	**6.05%**

The Municipal Infrastructure Grant (MIG) funds the provision and upgrade of infrastructure for basic services. An 2.3% increase has been gazetted for the MIG Grant in 2024/25 amounting to R493 511 000.

The Municipal Systems Improvement Grant (MSIG) is a specific purpose allocation grant whose objective is to assist municipalities to perform their functions and stabilize institutional and governance systems as required in the Municipal Systems Act and related local government legislation. A 60.83% decrease has been gazetted for MSIG in 2024/25 amounting to R1 175 000.

Rural Roads Assets Management Systems Grant (RRAMS)'s purpose is to assist rural district municipalities to set up rural Roads Asset Management Systems, and collect road, bridges, and traffic data on municipal road networks in line with the Road Infrastructure Strategic Framework for South Africa as set out in the DoRB 2024. An amount of R3 298 000 has been gazetted for the RRAMS Grant in 2024/25 equating to the amount gazetted in 2023/24.

The Water Services Infrastructure Grant (WSIG) grant is aimed at facilitating the planning and implementation of various water and sanitation projects to accelerate backlog reduction and provide interim, intermediate water and sanitation supply that ensures provision of services to identified and prioritised. It aims to also support the existing bucket eradication programme intervention in formal residential areas and support drought relief projects in affected municipalities. This allocation has increased by 47.95% amounting to R77 525 000.

The Local Government Financial Management Grant (FMG) aimed at promoting and supporting reforms in financial management by building capacity in Municipalities to implement the MFMA. There has been a notable increase in the allocation by 108% for 2024/25 with a budget of R2 600 000.

The Equitable Share and the Levy Replacement Grants are provided to enable the municipalities to provide basic services as well as perform their functions. This allocation has increased by 7.04% with a total budgeted amount of R1 140 317 000 for both allocations.

Expanded Public Works Programme (EPWP), which is aimed at providing funding for job creation efforts in specific focus areas where labour intensive delivery methods can be maximised. This allocation has decreased by 64.34% amounting to R1 878 000. There is no allocation for this grant in the outer two years.

The Regional Bulk Infrastructure Grant (RBIG) is deemed an "allocation – in – kind" this implies that the funds received from these grants will not necessarily be transferred directly to ADM instead RBIG programme targets projects that cut across several municipalities for large bulk projects and in ADM this will be implemented to fund bulk infrastructure needed to provide reticulated water and sanitation to individual households in Mbhashe and Mnquma local municipalities. This allocation has increased by 22.62% amounting to R89 682 000.

The municipality has been awarded with the skills development program for ADM youth by **Construction Education and Training Authority (CETA)**. The funding will be transferred to the municipality in re-imbursement basis wherein ADM has utilised their own funds and thus re-imbursed on invoice claimed. The total budget projected for 2024/25 amounts to R6 003 605 and R5 683 605 for the outer year 2025/26.

MTREF 2025-2027 BUDGET

The DoRB budget allocations have been split accordingly:

BUDGET PER LOCAL MUNICIPALITY

MIG CAPITAL BUDGET PER LOCAL MUNICIPALITY (VAT INCLUSIVE)

Description	2024/25 DoRB Amount	2025/26 DoRB Amount	2026/27 DoRB Amount
ADM: HEAD OFFICE	24,675,550.00	25,953,100.00	28,330,750.00
ADM: WHOLE DISTRICT	53,551,095.00	15,000,000.00	56,807,226.00
EC121 MBHASHE	132,043,120.00	156,825,651.00	166,360,339.00
EC122 MNQUMA	110,103,002.00	144,410,394.00	140,253,369.00
EC123 GREAT KEI	53,987,002.00	46,204,147.00	28,122,743.00
EC124 AMAHLATI	34,576,995.00	18,511,547.00	15,033,478.00
EC126 NGQUSHWA	38,000,000.00	39,300,000.00	49,300,000.00
EC129 RAYMOND MHLABA	46,574,236.00	72,857,161.00	82,407,095.00
Grand Total	**493,511,000.00**	**519,062,000.00**	**566,615,000.00**

RBIG CAPITAL BUDGET PER LOCAL MUNICIPALITY (VAT INCLUSIVE)

Description	2024/2025 DoRB AMOUNT	2025/26 DoRB AMOUNT	2026/2027 DoRB AMOUNT
EC121 MBHASHE	5,000,000	14,000,000	10,000,000
EC122 MNQUMA	84,862,000	111,166,000	90,401,000
Grand Total	**89,862,000**	**125,166,000**	**100,401,000**

WSIG CAPITAL BUDGET PER LOCAL MUNICIPALITY (VAT INCLUSIVE)

Description	2024/25 DoRB Amount	2025/26 DoRB Amount	2026/27 DoRB Amount
ADM: WHOLE DISTRICT	10,000,000	12,000,000	15,000,000
EC121 MBHASHE	13,041,000	23,000,000	25,000,000
EC122 MNQUMA	5,000,000	5, 000,000	8,000,000
EC123 GREAT KEI	14,484,000	9,000,000	5,000,000
EC124 AMAHLATI	15,000,000	17,000,000	22,000,000
EC126 NGQUSHWA	3,000,000	5,000,000	5,000,000
EC129 RAYMOND MHLABA	17,000,000	16,616,000	35,000,000
Grand Total	**77,525,000**	**87,616,000**	**115,000,000**

BUDGET PER DEPARTMENT

EXPENDITURE CATEGORY	52 - STRATEGIC DEPART	53 - CORPORATE SERVICE	54 - BUDGET AND TREASURY	55 - ENGINEERING SERVICES	56 - COMMUNITY SERVICES	57 - SPATIAL PLANNING	58 - MUNICIPAL MANAGEMENT	GRAND TOTAL
COUNCILLOR SALARIES		17,614,063						17,614,063
HOD's SALARIES	1,455,348	1,802,410	2,298,309	1,873,365	1,598,313	1,601,253	1,970,988	12,599,986
OTHER STAFF SALARIES	39,207,582	97,792,940	110,813,914	334,723,096	99,345,367	32,441,014	31,912,220	746,236,133
DEPRECIATION	1,653,832	1,871,136	429,279	121,033,519	867,675	80,164	302,298	126,237,903
BAD DEBTS				423,155,833				423,155,833
INVENTORY CONSUMED: BULK PURCHASE				136,553,909				136,553,909
INVENTORY CONSUMED: OTHER	88,000	23,000		115,371,912	1,598,000	75,000		117,155,912
CONTRACTED SERVICES	3,602,452	16,749,516	7,566,714	70,107,759	12,204,336	2,951,436	22,103,870	135,286,083
CONTRACTED SERVICES: RME	55,000	13,574,000		81,534,826	1,863,297			97,027,123
INTEREST PAID	174,963	362,666	487,840	2,017,675	514,105	146,327	163,328	3,866,904
TRANSFERS AND SUBSIDIES PAID		1,256,000				15,660,000		16,916,000
OPERATIONAL COSTS	31,653,560	35,201,454	34,625,220	108,780,888	8,000,636	8,220,363	2,459,519	228,941,639
ASSETS	37,845,000	645,000	950,000	444,132,775	9,630,000	350,000	195,000	493,747,775
TOTAL	**115,735,737**	**186,892,186**	**157,171,276**	**1,839,285,556**	**135,621,729**	**61,525,557**	**59,107,222**	**2,555,339,263**

The 2024/2025 budget has been assessed by Provincial Treasury and a working session was held. Provincial Treasury (PT) highlighted the following matters;

- The municipality has an unfunded amount of R202 million, this is mainly because of the arrear creditors.
- The assumption of the collection rate used by the municipality of 40% is deemed to be unrealistic considering the past collection trends. PT has therefore used a collection rate of 30% in their assessment of the budget.
- The cash balances of the municipality are less than the trade payables (creditors) of the municipality, this results in the municipality having an unfunded budget. The municipality 's current and liquidity ratios are below the norm, being 2:1 as guided by MFMA circular 71. The municipality liquidity ratio is currently at 1:1.
- The recalculated cash flow reflects that the municipality should realize a surplus over the MTREF without the inclusion of the arrear creditors balances, which when considered reflect that the budget is unfunded.
- Repairs and maintenance budget falls short of the required 8% of the total value of PPE and budgeted for at less than 4 per cent, at R52.8 million. The repairs are reactive and not preventative.
- The municipality is highly grant dependent for the funding of the operating and capital budgets.
- The trading service (water and sanitation) are operating at a loss.
- Key cost drivers such as fleet, security, water carting and electricity are considered high, and the cost containment regulations must be considered.

The municipality has considered the assessment and recommendations by Provincial Treasury and as such have the following activities as part of the budget funding plan;

- Revising the debt arrangements with the Amatola Water Board and Department of Water and Sanitation. These two creditors are the largest creditors comprising 88% of the creditors balance due. Once concluded the interest incurred on these debts will be waivered, thereby reducing the total debt due.

- Utilisation of the 10% MIG allocation towards maintenance, which will increase the funds allocated towards repairs and maintenance and can assist Engineering Services to improve on planned maintenance.
- Cost analysis on the option of leasing versus hire purchase of fleet.
- Improve internal controls over the usage of fleet.
- Improve controls over the delivery of water to communities.
- Improve the monitoring of electricity usage.

BUDGET RELATED POLICIES

The following budget related policies shall form the basis for the implementation of the MTREF budget focusing on the implementation of 2024/25. These policies have been attached as Annexure W:

1. Budget Policy
2. Tariff Policy
3. Indigent Policy
4. Credit control and Debt Collection Policy
5. Unallocated Deposits Policy
6. Investment Policy
7. Banking and Cash Management Policy
8. Asset Management Policy
9. Supply Chain Management Policy
10. Cost Containment Policy

CONCLUSION

The budget as presented in this document meets the requirements of the Municipal Budgeting Reporting and Regulations and the Municipal Finance Management Act 56 of 2003 and is presented to Council for consideration and revision. The Draft Assessment report from Provincial Treasury has been considered to eliminate discrepancies identified.

The IDP presented in the report provides a 5-year plan guided by the strategic objectives, an outcome of several consultation processes and stakeholders.

4. IMPLICATIONS

4.1 FINANCIAL

The full financial effect of the 2024/25 annual budget is summarized in the above reflecting an overall breakeven, with income of **R2 555 339 263** and expenditure of **R2 555 339 263.**

4.2 HUMAN RESOURCES

No staff implications associated with the drafting of this item.

4.3 LEGAL

Section 25 of the Municipal Systems Act 32 of 2000 requires each municipal council to adopt a single, inclusive, and strategic plan for the development of the municipality which links, integrates and co-ordinates plans and considers proposals for the development of the municipality. Implementation of the plan must align the resources and capacity of the municipality and will form the policy framework and general basis on which the annual budget must be based.

Section 34 of the Municipal Systems Act 32 of 2000 further states that:

"A municipal council must review its integrated development plan annually in accordance with an assessment of its performance measurements and to the extent that changing circumstances so demand."

Section 40 of the Municipal Systems Act 32 of 2000 further requires that a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed, measure and review performance at least once per year.

Section 16(2) of the Municipal Finance Management Act No.56 of 2003 indicates that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. The mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

The Act does not prevent the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

Section 14 of the Municipal Budget Reporting Regulations requires the annual budget to be credible and realistic such that it is capable of being approved and implemented as tabled. For effective planning and implementation of the annual budget, the service delivery and budget implementation plan may form part of the budget documentation tabled to council

5. CONSULTATIONS

ADM Departments
Provincial Treasury
Local Municipalities
Government Departments

6. **ANNEXURES**

Annexure "A"	2024/25 to 2028/29 Integrated Development Plan
Annexure "B"	2024/25 Service Delivery and Budget Implementation Plan
Annexure "C"	Budgeted Financial Performance (Revenue by Source and Expenditure by Type)

Annexure "D1-D3"	Graphical Representation of Budgeted Financial Performance – Revenue by Source
Annexure "E1- E3"	Graphical Representation of Budgeted Financial Performance – Expenditure by Class
Annexure "F"	Capital Budget Source of Funding Summary 3 Years
Annexure "G1-G3"	Graphical Representation of Capital budget Source of Funding
Annexure "H1-H3"	Internally Funded Capital per Department
Annexure "I1-I3"	Graphical Representation of Capital per Department
Annexure "J"	External Funds Grants and Subsidies 2024/25 to 2026/27
Annexure "K1"	MIG Three Year Capital Plan 2024/25 to 2026/27
Annexure "K2"	RBIG Three Year Capital Plan 2024/25 to 2026/27
Annexure "K3"	WSIG Three Year Capital Plan 2024/25 to 2026/27
Annexure "L"	Division of Revenue Bill B6 2024
Annexure "M"	2024/25 and 2025/26 Budget versus Prior Year Comparison
Annexure "N1"	Proposed Sundry Water Charges 2024/25
Annexure "N2-N4"	Proposed Water Consumption Tariffs 2024/25
Annexure "O"	Proposed Sanitation Tariffs 2024/25
Annexure "P"	Proposed Building Plan Fees 2024/25
Annexure "Q"	Proposed Calgary Museum & Conference Facility Tariffs 2024/25 and SCM Tariffs for Documents
Annexure "R1-R3"	Proposed Fire Services Tariffs 2024/25
Annexure "S1-S8"	Proposed Offences & Fines Air Pollution, Disaster Management, Water Supply and Sanitation Services, Municipal Health, Passenger Transport, Revenue Management, Fire Safety, Municipal Health Services 2023/24
Annexure "T"	ASPIRE Final annual budget 2024/25
Annexure "U"	A1 Schedule
Annexure "V"	Procurement Plan

Annexure “W” Budget Related Policies

Annexure “X” Municipal Manager’s Quality Certificate

Annexure “Y” Provincial Treasury 2024||2027 Draft Budget Assessment Report

Annexure “Z” Funding Plan for 2024||2027
Annexure “AA” Internally Funded Projects

7. RECOMMENDATIONS

[i] That the Council adopts the 2024/25 – 2028/29 Integrated Development Plan “**Annexure A”**

[ii] That the Sector Plans as reflected in Chapter 5 of the IDP, be noted

[iii] That the 2024/25 Service Delivery and Budget Implementation Plan (SDBIP) noted as contained in “**Annexure B”**

[iv] That the MTREF Annual Budget of the Amathole District Municipality for the financial year 2024||2027 and the multi and single year capital appropriations as set out in the annexures be approved:

- Budgeted Financial Performance (revenue and expenditure by standard classification)
- Budgeted Financial Performance (revenue and expenditure by municipal vote)
- Budgeted Financial Performance (revenue by source and expenditure by type)
- Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source

[v] That the Council of Amathole District Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2024:

- The tariffs for the supply of water – as set out in “**Annexure N1 to N4”**
- The tariffs for sanitation services – as set out in “**Annexure O”**
- The tariffs for Building Plan Fees – as set out in “**Annexure P”**
- The tariffs for Calgary Museum & Conference Facility and SCM Tariffs for Documents - as set out in “**Annexure Q”**
- The tariffs for ADM Fire Services – as set out in “**Annexure R1 to R3”**
- The tariffs for Fines & Offences: Air Pollution Control, Waste Management & Municipal Health, Transport - as set out in “**Annexure S1 to S8”**

[vi] That ASPIRE’s Final annual MTREF 2025-2027 annual budget as contained in “**Annexure T”** be approved subject to amendments

[vii] That the A1 Schedule as contained in “**Annexure U”** be approved

[viii] That the Procurement Plan as contained in "**Annexure V**" be approved

[ix] That the Budget Related Policies as contained in "**Annexure W"** be approved

[x] That the Provincial Treasury Draft Budget Assessment report as contained in "**Annexure Y"** be noted

[xi] That the Funding Plan for 2024||2027 budget as contained in "**Annexure Z"** be approved

[xii] That the Internally Funded Projects budget as contained in "**Annexure AA**" be approved

[xiii] The full financial effect of the 2024/25 annual budget is summarized in the above reflecting an overall breakeven, with income of **R2 555 339 263** and expenditure of **R2 555 339 263.**