



2020/2021

BUDGET NARRATIVE

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PART I : ANNUAL BUDGET

1.1 FOREWORD BY ACTING BOARD CHAIPERSON MR MADULO MAMPURU 2021/22-2023/2024 MEDIUM TERM REVENUE EXPENDITURE FRAMEWORK (MTREF).

In line with the Medium-Term Revenue and Expenditure Framework (MTREF) and the provision of the Municipal Finance Management Act No. 56 of 2003, Section 87 that states the following:

- (1) That board of directors of a municipality entity must for wach financial year submit a proposed budget for the entity to its parent municipality not later than 150 days before the start of the financial year or earlier if requested by the parent municipality
- (2) The parent municipality must consider the proposed budget of the entity and asses the entity's priorities and objectives;
- (3) The mayor of the parent municipality must table the proposed budget of the municipal entity in the council when the annual budget of the municipality for the relevant year is tabled
- (4) The board of directors of a municipal entity must approve the budget of the municipality 30 days before the start of the financial year, taking into account any hearings or recommendations of the council of the parent municipality.

The SDA board submitted its budget proposal on the 27th January 2021 in line with the provisions of the MFMA sec 87. It suffices to say the initial submission of the board with a budget request of R 8,5 million was not approved by the parent municipality given budget constrains. The SDA board then considered the annual budget for the agency on the 27th May 2021 and a board resolution was taken in a round robin vote. The budget as approved by the board was subsequently submitted to the council of the parent municipality for approval as tabled by the mayor.

SDA budget is inadequate in comparison to its mammoth strategic mandate as reflected in the establishment By-Law. However, the board is aware of the prevailing economic climate both in the country and globally.

Minister of Finance, Honourable Tito Mboweni tabled the national budget on the 3rd of March 2021. Budget tabled at a very difficult time during the Coronavirus pandemic that changed our lives. The economic growth was anticipated to be very low and not carrying any fruit for our people. The key focus of the budget speech was more on the fiscal consolidation that is to be stretched out over the next five years with a strong reliance on spending cuts. This is simply because both Real and Nominal GDP growth in 2021 are expected and revised at lower rates, however CPI inflation is still within inflation targeting of 3% to 6%.

The municipal entity is therefore expected to identify new sources of revenue in addition to the allocation from the parent municipality. This will be done through development of a credible financial sustainability plan which will be anchored on strategic partnerships and building of a social compact with the business community.

The Budget allocation for 2021/2022 for SDA consist of R 4 537 800 from the parent municipality plus previous revenue of R 1 467 857 in the primary SDA Absa Account. The total budget therefore for 2021/2022 financial year is R 6 005 652.

It must noted that due to its small size and severe capacity challenges, the SDA has entered into an Memorandum of Understanding with is parent municipality in terms of using budget related policies as a shared service.

I present the 2021/2022- 2023/2024 MTREF with attached budget related policies for consideration by the parent municipality (council) who is 100% shareholder of SDA.

Mr Madulo Victor Mampuru

Acting Board Chairperson

1.2 Board and Council Resolution

The board approved the 2021/2022 budget for submission to the parent municipality through a round robin, **resolution number 26/05/21**. The parent municipality's Council has in its ordinary meeting of the 27th of May 2021 approved the budget inclusive of allocation for SDA amounting to R 4 537 800.

1.3 Executive Summery

The purpose of the annual budget circular is to guide municipalities and Municipal entities with their compilation of the 2021/22 Medium Term Revenue and Expenditure Framework (MTREF). This circular is linked to the Municipal Budget and Reporting Regulations (MBRR) and the municipal Standard Chart of Accounts (*mSCOA*); and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved.

Among the objectives of this budget circular is to demonstrate how municipalities and municipal entities should undertake annual budget preparation in accordance with the budget and financial reform agenda by focussing on key "game changers". These game-changers include ensuring that municipal budgets are funded, revenue management is optimised, assets are managed efficiently, supply chain management processes are adhered to, *mSCOA* is implemented correctly and that audit findings are addressed

In terms of section 87 of the Municipal Systems Act (2000), a Municipal Council –

- (5) Budget of a municipal entity must be
 - (a) Balanced
 - (b) Be consistent with any service delivery agreement between the entity and its parent municipality.
 - (c) Be within limits determined by its parent municipality.
 - (d) Include multiyear business plan for the entity

The following macro-economic forecasts must be considered when preparing the 2021/22 MTREF municipal and municipal entities budgets.

Table 1: Macroeconomic performance and projections, 2016 - 2020 Fiscal year	2019/20	2020/21	2021/22	2022/23	2023/24
Actual	Estimate		Forecast		
CPI Inflation	4.1%	3.3%	3.9%	4.2%	4.4%

1.4 Budget Assumptions

- Take into consideration annual salary increment for staff
- Budget within the allocated provisions made by the parent municipality.
- Sets reasonable targets for own revenue sources given the economic conditions.

1.5 Key Decisions

- Make provision for depreciation.
- Ensure budget is 100% cash backed
- Make provision for surplus through own revenue money on the Absa account.
- Only fill budgeted vacant posts of finance manager and board secretary

1.6 Budget Estimates

(a) Revenue

Votenummer	Description	PROJECTIONS			
		Original budget 2020/21	budget 2021/22	Budget 2022/2023	Budget 2023/2024
	REVENUE				
	SDM GRANT	5 800 000	4 537 800	4 719 312	4 931 681
	Other Income (ABSA)	1 586 830	1 467 857		
	TOTAL REVENUE	7 386 830	6 005 657	4 719 312	4 931 681

Discussion

- Operating revenue decreases from **R5 800 000** to **R4 537 800** in the 2021/22 financial year and increases to **R14 719 312** in the 2022/23 financial year.
- The decrease from the adjusted budget is due to the once off allocation of addition R 1 500 000 for the 2020/2021 as investment in the electrical manufacturing hub project.
- SDA does not have additional revenue allocation for capital projects.

Legal Implications

The 2021/22 MTREF Budget be implemented in Compliance with the Municipal Finance Management Act of 2003 , MRRR and Companies Act No 73 of 2008.

Financial Implications:

That the budtget for SDA for 2021/2022 consist of operational budget allocation of R 4 573 800 from the parent municipality and previous revenue of R 1 467 857 in the SDA -Absa primary account.

Communication implications:

The following institutions will be informed and furnished with copies once budget have been considered: Parent Municipality (SDM) Department of Cooperative Government Human Settlements and Traditional Affairs; Provincial Treasury and National Treasury.

Recommendations:

1. That the Council of the parent municipality approves the MTREF budget for the financial years 2021/22 – 2023/24 for Sekhukhune Development Agency.