

SUNDAYS RIVER VALLEY MUNICIPALITY



**DRAFT MTREF BUDGET FOR 2018/19
FINANCIAL YEAR**

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SUNDAY'S RIVER VALLEY LOCAL MAYORS BUDGET SPEECH

Honourable Speaker

Executive members

Councillors

Officials

I greet you all in the name of service delivery.

The 2016 Budget Policy Statement emphasised that the global recovery from the 2008 economic crisis remains precarious; therefore South Africa remains vulnerable to global financial volatility and rapid capital outflows.

Sundays River Valley municipality is not immune to the realities of continued recession. Higher inflation and weaker employment growth will impact on the ability of the municipality to generate and collect revenue on services, to keep expenditures within budgeted allocations, and to borrow to fund capital expenditure programmes at affordable rates. The municipality will have to improve their efforts to limit non-priority spending and to implement stringent cost containment measures

Therefore it is critical for municipality to review how they conduct their business to ensure value for money is obtained in all expenditures as a conservative approach is applied for projecting revenue, that revenue administration systems are operating effectively and, that borrowing programmes are realistic, and that creditors (including bulk service providers) continue to be paid timeously and in full.

As we strive towards impacting rural livelihood for the better in local Municipality of Sunday's River Valley, amongst the compliance issues is the submission of the MTREF budget as prescribed in section 126 of the Local Government: Municipal Finance Management Act 56 of 2003.

I therefore submit 2018/19 Draft Budget. The Council remains committed in improving its service delivery even though our budget is limited as the municipality is grant dependant and hoping to meet the challenges it faces and hopefully in future years, I will be able to report positively on the progress we have made in this regard.

In conclusion I would like to ensure our community that though the budget is limited but Sunday's River Valley municipality will remain committed in improving its service delivery and will ensure that the financial management of the institution is improved .I also would like to express my appreciation to my fellow Council members, the Acting Municipal Manager, The Chief Financial Officer and all other staff for their support, cooperation and hard work during the preparation of the budget as well as IDP.

I Thank You

COUNCIL RESOLUTION

1. That in terms of the section 24 of the Municipal Finance Management Act, 56 of 2003, the draft budget of the Sundays River Valley Municipality for the financial year 2018/19; and indicative allocations for the two projected outer years 2019/20; and 2020/21; and the multi-year and single-year capital appropriations are approved as set-out in the following tables:
 - 1.1. Budgeted Financial performance (revenue and expenditure by municipal vote and standard classification);
 - 1.2. Budgeted Financial performance (revenue and expenditure by municipal vote);
 - 1.3. Budgeted Financial performance (revenue by source and expenditure by type); and
 - 1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.
2. That the financial position, cash flow, cash backed reserve/ accumulated surplus, asset management and basic service delivery targets are adopted as set out in the following tables:
 - 2.1. Budgeted Financial position;
 - 2.2. Budgeted Cash Flows;
 - 2.3. Cash backed reserves and accumulated surplus reconciliation;
 - 2.4. Asset management; and
 - 2.5. Basic service delivery measurement.
3. That in terms of Section 42(2)(c)(i) and (ii) of the Municipal Finance Management Act 56 of 2003 and section 74 and 75A of the Local Government: Municipal Systems Act 32 of 2000 as amended, the tariffs for the supply of water, electricity, waste services, sanitation services and property rates as set out in annexure A, that were used to prepare the estimates of revenue by sources, are approved with effect from 1 July 2018.
4. That the draft budget be approved subject to the proposals made by the Mayor to be considered in the final budget.

1.3 THE BUDGET OVERVIEW

This section contains an Executive Summary of the Sunday's River Valley Local Municipality's Budget followed by a more detailed explanation of its Operating and Capital components over the next three years.

1.4 EXECUTIVE SUMMARY

In compiling the draft budget for 2018/19, the application of sound financial management principles for the compilation of the SRVM financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities consideration was given to the national priorities as communicated through National Treasury circulars.

National Treasury's MFMA Circular No. 89 review of the tariffs was used to guide the compilation of the 2019/18MTREF.

The main challenges experienced during the compilation of the draft 2019 MTREF budget can be summarised as follows:

- On-going national and local economy difficulties
- Collection rate not being at the desired levels to ensure cash backed budget is approved
- The need to prioritise projects and expenditure within the existing resources given the continued cash flow challenges within the municipality
- The increased cost (above consumer inflation) of bulk electricity water, is placing upwards pressure on the municipal service tariffs which is unfavourable for residents
- Implementation of SCOA overwhelmed the budgeting process as the Scoa versions keeps on changing and the budget has to be compliant with the 6.2 mSCOA classification framework

The following budget principles and guidelines directly influenced the compilation of the draft annual budget of 2018/19:

- The 2017/18 Adjustment budget priorities
- The base line allocations contained in the Adjustment budget were adopted as upper limits for the new base line for the 2018/19 draft annual budget
- Tariff and property rates increase should be affordable, cover the cost of bulk services and not exceed consumer inflation except where there are price increase in inputs beyond the municipality's control
- There will be no budget allocated to national or provincial funded projects unless the grants to the

municipality are gazetted in the Division of Revenue Act

- The funding constraints with regards to the low available funding for the Capital Budget through the Cash backed Reserve

In view of the aforementioned, the following table is a consolidated overview of the proposed 2018/19 draft budget:

R thousand	Adjustment Budget Year 2017/18	Draft Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Expenditure By Type				
Total Operating Revenue	R 184,094,637	R 175,783,000	R 186,884,572	R 202,452,809
Total Operating Expenditure	R 198,938,968	R 221,272,450	R 236,038,582	R 254,200,848
Surplus / Deficit	-R 14,844,330	-R 45,489,450	-R 49,154,011	-R 51,748,039
Capital Expenditure	69,500,000.08	78,893,000.00	38,412,000.00	42,856,000.00

Total operating revenue has decreased by 5 per cent or R 8,3 million for the 2018/19 financial year when compared to the 2017/18 Adjustments Budget. For the two outer years, operational revenue will increase on average by 9 per cent respectively, equating to a total revenue growth of R12 million over the MTREF when compared to the 2017/18 financial year.

Total operating expenditure for the 2018/19 financial year has been appropriated at R 221, 272 million and translates into a budgeted surplus of R22.3 million. When compared to the 2017/18 Adjustments Budget, operational expenditure has decreased by 8 per cent in the 2018/19 budget and gradually increases by 3. and 4. per cent for each of the respective outer years of the MTREF.

The capital budget of the municipality has increased by R9.3 million or by 12 per cent for the 2018/19 financial year when compared to the 2017/18 Adjustment Budget. A substantial portion of the capital budget will be funded from government grant transfers. The balance will be funded from internally generated funds provided all anticipated revenues are received.

1.5 OPERATING REVENUE FRAMEWORK

For the municipality to achieve its set targets in terms of service delivery it needs to generate sufficient revenue. Financial state of affairs of the municipality need difficult decisions to be made in terms of tariff increases and balancing expenditure against planned realistic anticipated revenues. Efficient and effective revenue management is thus critical.

The Municipality's revenue management strategy includes the following key components:

- National Treasury's guidelines in this regard;
- Growth in the revenue base;
- Efficient revenue management, aiming to improve annual collection rate for property rates and service charges, after discounting the Free Basic Services (FBS) subsidies;
- Electricity bulk tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Water bulk tariff increases as approved by the Department of Water Affairs (DWA);
- Ensuring fully cost reflective tariffs for trading services;
- The Property Rates Policy;
- The municipality's Indigent Policy and the rendering of Free Basic Services;
- The level of property rates and tariff increases must ensure financially sustainable service delivery.

The table below is a summary of the 2018/19 MTREF (classified by main revenue source):

R thousand	2016/17	AFS 2016/17	Original Budget Year 2017/18	Adjustment Budget Year 2017/18	Budget Adjustment	Original Budget Year 2018/19	Original Budget Year 2019/20	Original Budget Year 2020/21
Revenue By Source								
Property rates		43,690	35,771	46,486	(10,716)	37,917	40,192	42,604
Service charges - electricity revenue		23,034	15,237	21,213	(5,976)	16,152	17,121	18,148
Service charges - water revenue		16,067	10,653	13,359	(2,706)	11,292	11,969	12,687
Service charges - sanitation revenue		4,411	2,644	5,519	(2,875)	2,803	2,971	3,149
Service charges - refuse revenue		8,180	5,367	8,573	(3,206)	5,689	6,030	6,392
Service charges - other					-	-	-	-
Rental of facilities and equipment		28	36	63	(26)	63	66	70
Interest earned - external investments		1,616	1,653	1,750	(97)	1,739	1,834	1,935
Interest earned - outstanding debtors		10,341	11,090	6,673	4,417	11,644	12,284	12,960
Dividends received					-			
Fines, penalties and forfeits		1,816	3,172	3,166	5	3,172	3,346	3,530
Licences and permits		2,125	2,680	1,801	879	2,680	2,827	2,983
Agency services		2,653	2,715	2,715	(0)	2,715	2,864	3,022
Transfers and subsidies		66,524	71,843	71,843	-	77,890	84,412	92,714
Other revenue		2,030	556	748	(192)	2,030	2,142	2,259
Gains on disposal of PPE							-	-
Total Revenue (excluding capital transfers and contributions)		182,513,755	163,416	183,909	(20,493)	175,783	188,059	202,453

Explanatory Notes

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the municipality. In the 2017/18 financial year, revenue from rates and services charges totalled R95,1 million. This decreases to R21.3 million in 2018/19, and will grow at an average annual rate of 6 per cent in the respective outer financial years of the MTREF. This growth can be mainly attributed to the increased share that the sale of electricity and water contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. National treasury has insisted that the municipalities must budget for the collection rate and not on accruals so as to ensure that the budget is cash backed.

Transfers recognised as operational receipts is the second largest revenue source totalling 41 per cent or R77 million rand and increases to 84 million by 2019/20. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Interest earned for outstanding debtors has been budgeted using the original 2017/18 budget baseline. Furthermore it is envisaged and it would be best practice for Council to write off outstanding debt where the likelihood of generating this income is low i.e. indigent households. These foreseen write off, will affect the final interest earned amount in the final budget and become more realistic at the end.

Tariff setting is a pivotal part of budget compilation. National treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Sundays River Valley has maintained an increase of 6.% in line with the CPI but this is not a good measure for the municipality as the gap between cost drivers and tariff levies steadily widens.

The percentage increases of both Eskom and Water bulk tariffs are relatively beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the municipality.

Annexure is attached for the proposed tariff increase.

Table 4 Operating Transfers and Grant Receipts

Description	Current Year 2018/19			Draft Budget 2018/19	2019/20 Budget	2020/21 Budget
	Original Budget 2017/18	Adjustments 2018	Actual Receipt 2018			
R thousand	R'000	R'000	R'000	R'000	R'000	R'000
RECEIPTS:						
Transfers and Grants						
National Government:	107,712	9,000	116,712	117,279	120,320	133,066
Local Government Equitable Share	65,367	-	65,367	71,971	79,108	86,898
EPWP Incentive	1,000	-	1,000	1,000	-	-
Integrated National Electrification Programme	13,000	5,000	18,000	16,731	12,800	16,000
Finance Management	2,345	-	2,345	2,415	2,800	3,312
Municipal Infrastructure	26,000	4,000	30,000	25,162	25,612	26,856
Provincial Government:	31,854	-	31,854	38,200	1,200	1,200
Audit Improvement	1,154	-	1,154	-		
Library Funding	1,200	-	1,200	1,200	1,200	1,200
Small Town Revitalization	29,500	-	29,500	37,000	-	-
District Municipality:	1,872	-	-	1,304	1,304	1,304
<i>Environmental Health</i>	1,304		-	1,304	1,304	1,304
<i>Fire</i>	568		-	-		
Other grant providers:	53	-	-	-	-	-
			-			
<i>Other grant providers:</i>	53		-	-		
Total Transfers and Grants	141,491	9,000	148,566	156.783	122.824	135.570

The total Amount receive for Grants is R 158, 783 million, this amount is inclusive of both capital and Operational expenditure . Only the amounts that have been gazetted have been budgeted for.

1.6 OPERATING EXPENDITURE FRAMEWORK

The municipality's expenditure framework for the 2018/19 budget and MTREF is informed by the following:

- Funding of the budget over the medium-term is informed by the requirements of Section 18 and 19 of the MFMA;
- The balanced budget approach by limiting operating expenditure to the operating revenue;
- Strict adherence to the principle of "no budget allocations without a project implementation plan"; and
- Operational gains and efficiencies will be directed to funding the capital budget and other core services

The following table is a high level summary of the 2018/19 draft budget and MTREF (classified by main type of operating expenditure)

Table 5 Summary of Operating Expenditure by standard classification framework

Description	2018/19 Medium Term Revenue & Expenditure Framework					Budget Year 2020/21
	R thousand	AFS 2016/17	Original Budget Year 2017/18	Adjustment Budget Year 2017/18	Draft Budget Year 2018/19	
Expenditure By Type						
Employee related costs	55,909	54,367	58,968	68,589	75,305	84,986
Remuneration of councillors	6,275	5,875	6,891	7,207	7,581	7,975
Debt impairment	22,258	13,517	13,517	14,219	14,874	15,563
Depreciation & asset impairment	32,009	26,686	26,686	33,674	35,526	37,480
Finance charges	1,079	3,859	3,243	3,243	3,421	3,609
Bulk purchases	17,221	20,999	26,999	28,403	29,965	31,613
Contracted services	6,111	27,503	27,503	28,934	30,438	32,021
Other expenditure	64,449	35,175	35,175	37,004	38,928	40,952
Loss on disposal of PPE	487	–	–	–	–	0
Total Expenditure	203,388	205,798	198,983	221,272	236,039	254,201

Employee Costs

The budgeted allocation for employee related costs for the 2018/19 financial year totals R68, 5 million, which equals 39 per cent of the total operating expenditure. The salary increase for this financial year has been increased by 5, 2 % which is the approved CPI as per the budget regulations. This will change subject to the approval of the three year collective SALGBC agreement. The provision of the new positions based on the Municipal priorities has an impact on the increase.

Remuneration of Councillors

The cost associated with the remuneration of councillors is determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipal budget.

Debt Impairment

The provision of debt impairment for the 2018/19 financial year equates to R14.2 million based previous budget assumptions as the annual collection rate has not been calculated appropriately. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Depreciation and Impairment

Provision for depreciation and asset impairment has been informed by the Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R33, 6 million for the 2018/19 financial year based on 2017/18 final budget.

Bulk Purchases

Bulk purchases are directly informed by the purchase of electricity from Eskom and Water Affairs. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions.

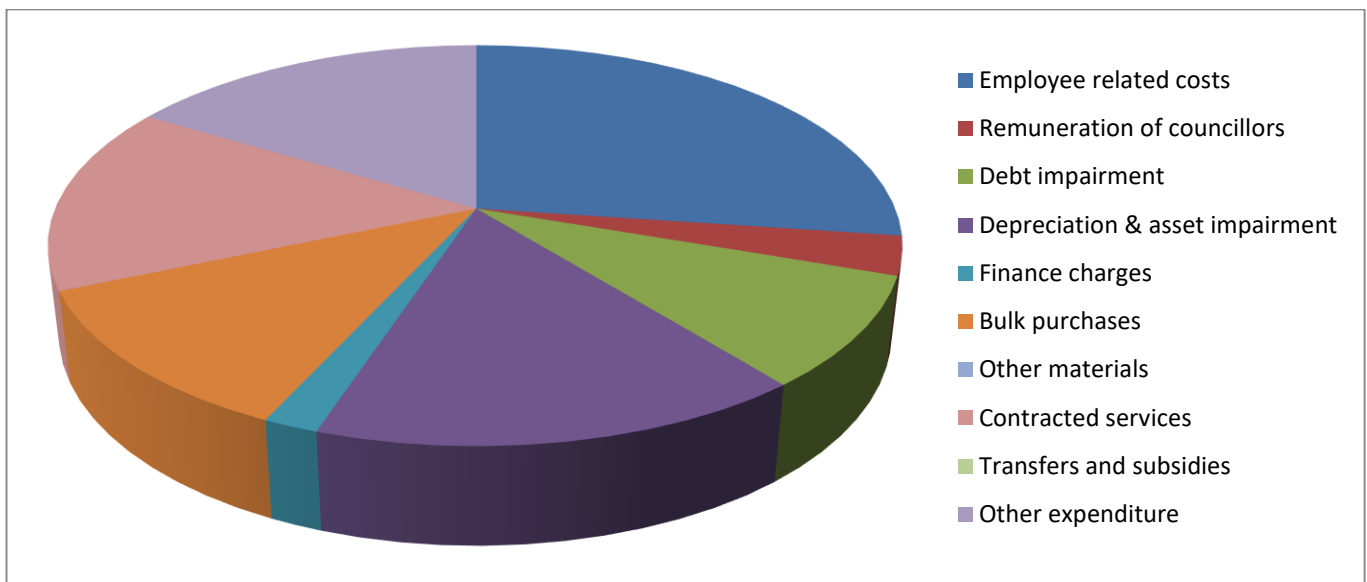
Finance Charges

Finance charges consist primarily of the repayment of interest on outstanding creditors. Finance charges amount to R3.2 million for the 2018/19 financial year. It should be noted that municipalities are encourage to maintain and meet their obligations to creditors within the prescribed timeframes. This area of expenditure should be monitored and avoided at all costs.

Other Expenditure

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. This results from budgeting for all repayments thus decreasing our creditor thus ensuring sound financial management in the future.

The graph below reflects the expenditure components of the budgeted statement of financial performance



1.6 CAPITAL EXPENDITURE

The Municipal Capital Budget is R78,893 million. Some of the salient projects to be undertaken over the medium-term includes, amongst others:

Rehabilitation of Bulk Pipeline in Kirkwood, Enon Bersheba, Addo & Paterson (Feasibility Study)	R 274 800,00	0
Replacement And Augmentation of Sewer Pipelines in The Paterson Region	R 4 614 039,39	R 4 108 550,00
Replacement And Augmentation of Sewer Pipelines In The Addo Region	R 4 614 039,39	R 3 804 550,00
Augmentation Of Bulk And Distribution Water Infrastructure To The Villages Of Enon And Bersheba	R 3 000 000.00	R 5 997 219,91
Upgrading Of Roads And Stormwater In Enon And Bersheba – Phase 1	R 4 000 000.00	R 4 000 000,00

Upgrading of Kirkwood Taxi Rank	2 000 000,00	R 2 000 000,00
Licensing of Land Fill Sites	R 800 000.00	0
Bersheba Sportsfield	R 0,00	R 1 000 000,00
Valencia Multi Purpose Sportsfield	R 0,00	R1 000 000,00
Upgrading of Valencia Bulk Water Supply	R 5 829 121,23	R 2 800 000,00

- Small town Revitalisation _ R37 ,000
- Electricity project (INEP) - R 16,7000
- Fencing of Community halls Valencia and Nomathamsanqa
- Renovations of Moses Mabida Community Hall
- Fencing of 3 Landfill sites
- Fencing of Cemeteries.

Total value of new assets to be acquired represent R3,8 million of the total capital budget.

Annexure 1- Budgeted Financial Performance

EC106 Sundays River Valley - Table A4 Budgeted Financial Performance (revenue and expenditure)					
Description	2017/18 Medium Term Revenue & Expenditure Framework				
	Budget Year 2017/18	Adjustment Budget Year +1 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20	Budget Year +2 2020/21
Revenue By Source					
Property rates	35,771	46,486	37,917	40,192	42,604
Service charges - electricity revenue	15,237	21,213	16,152	17,121	18,148
Service charges - water revenue	10,653	13,359	11,292	11,969	12,687
Service charges - sanitation revenue	2,644	5,519	2,803	2,971	3,149
Service charges - refuse revenue	5,367	8,573	5,689	6,030	6,392
Service charges - other					
Rental of facilities and equipment	36	63	63	66	70
Interest earned - external investments	1,653	1,750	1,747	1,845	1,935
Interest earned - outstanding debtors	11,090	6,673	11,739	12,415	12,960
Dividends received					-
Fines, penalties and forfeits	3,172	3,166	3,267	3,431	3,530
Licences and permits	2,680	1,801	2,954	2,989	2,983
Agency services	2,715	2,715	2,986	3,344	3,022
Transfers and subsidies	71,843	72,029	77,551	83,895	92,714
Other revenue	556	748	590	617	2,259
Gains on disposal of PPE					-
Total Revenue (excluding capital transfers and contributions)	163,416	184,095	175,783	186,885	202,453
Expenditure By Type					
Employee related costs	54,367	58,966	68,589	75,305	84,986
Remuneration of councillors	5,875	6,850	7,207	7,581	7,975
Debt impairment	13,517	13,517	14,219	14,874	15,563
Depreciation & asset impairment	26,686	26,686	33,674	35,526	37,480
Finance charges	3,859	3,243	3,243	3,421	3,609
Bulk purchases	20,999	26,999	28,403	29,965	31,613
Other materials					
Contracted services	27,503	27,503	28,934	30,438	32,021
Transfers and subsidies	-				
Other expenditure	35,175	35,175	37,004	38,928	40,952
Loss on disposal of PPE			-	-	-
Total Expenditure	187,981	198,939	221,272	236,039	254,201
Surplus/(Deficit)	(24,565)	(14,844)	(45,489)	(49,154)	(51,748)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	69,406	69,500	78,893	38,412	42,856
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	-	-	-	-	
Transfers and subsidies - capital (in-kind - all)					
Surplus/(Deficit) after capital transfers & contributions	44,841	54,656	(45,411)	(49,116)	
Taxation					
Surplus/(Deficit) after taxation	44,841	54,656	(45,411)	(49,116)	
Attributable to minorities					
Surplus/(Deficit) attributable to municipality	44,841	54,656	(45,411)	(49,116)	
Share of surplus/ (deficit) of associate					
Surplus/(Deficit) for the year	44,841	54,656	(45,411)	(49,116)	

2.1 OVERVIEW OF THE ANNUAL BUDGET PROCESS

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 that sets out the process to revise the IDP and prepare the budget

The 2018/19 MTREF Budget preparation commenced in August 2017 after Council approved a timetable for the IDP and Budget preparation process.

The Budget comprises both Operating and Capital Budgets, which is a requirement of the Constitution and the Municipal Finance Management Act (MFMA). Sections 1.8 and 1.9, present an overview of the Operating and Capital Budgets respectively, with high level tables, which provide an overall picture of the Municipality's finances.

One of the objectives of the budget timetable is to ensure integration between the development of the Integrated Development Plan (IDP) and the Budget. The IDP is the strategic plan of the Municipality and it is critical that the Budget enables the achievement of the IDP objectives. Table 1 illustrates the link between the IDP and Budget.

2.2 FINANCIAL MODELLING

As part of the compilation of the 2018/19 MTREF extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2018/19 MTREF:

- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt)
- Performance trends
- The approved 2017/8 adjustments budget and performance against the SDBIP
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 89 has been taken into consideration in the planning and prioritisation process

2.3 FREE BASIC SERVICE

The municipality is currently working with ward committees, in terms of improving its Indigent register updates and Management of Indigent. Currently the municipality provides and has budgeted for the following benefits to registered indigent households:

- Electricity: A subsidy of fifty (50) Kilowatts of electricity per property per month to registered households will apply.
- Refuse Removal: A subsidy, not more than the applicable tariff for the 2018/19 financial year, will be applied for the duration of the financial year.
- Sanitation: A subsidy, not more than the applicable tariff for the 2018/19 financial year, will be applied for the duration of the financial year.
- Water: A subsidy of 6 Kilolitres of water per property per month to registered households will apply.

2.4 OVERVIEW OF BUDGET RELATED POLICIES

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

Review of credit control and debt collection procedures/policies

The credit control and debt collection policies as approved by Council in 2017 have been reviewed. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt, applying fixed interest instead of prime plus one for outstanding debt of customers.

In addition emphasis has to be placed on speeding up the indigent registration approval by Council prior to the final 2017/18 Annual Budget and MTREF process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

This policy is being reviewed and an amended policy will be given for extensive consultation by Council

Asset Management Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. The Asset Management Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

This policy is being reviewed and an amended policy will be given for extensive consultation by Council

Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 2017 has been reviewed.

Changes proposed : None

All budget or financial policies for finance which will be presented to Council for consultative purposes prior to approval of the final budget.

Tariff Policy

The Municipal Systems Act requires a municipality to have a tariff policy. One of the challenges in setting tariffs is ensuring affordable tariffs whilst maintaining financial stability.

The tariff policy tries to address this issue and creates a foundation for the principles that address social, economic and financial imperatives that the process of tariff setting should take into account.

Changes proposed: None

Rates policy

Sundays River Valley has adopted a rates policy which is line with legislative requirements. The policy became effective 01 July 2017.

The policy provides that properties be rated based on their market value. The valuation roll is still valid for one year.

Changes proposed: None

Indigent Policy

This policy was reviewed and approved during the 2017 financial year.

Sundays River Valley municipality is committed to ensure that all households have access to its services. Due to the fact that Sundays River Valley Municipality has a high level of unemployment and seasonal workers, the municipality decided to adopt an indigent policy. This policy will ensure that poor households have at least access to basic services.

Changes proposed: None

Banking and Investment policy

As custodians of public funds, the Council has an obligation to see to it that cash resources are managed as effectively as possible. Council has a responsibility to invest public funds with great care and are liable to the community in that regard.

The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when funds are not needed. To bring this about, it is essential to have an effective cashflow management program.

Changes proposed: None

Policy on the writing off of irrecoverable debt

Despite strict enforcement of the credit control and indigent policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this the Credit Control Policy, inter alia, stipulated that:-

The Municipal Manager must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality.

In addition, the policy further stipulates that:-

The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalized.

Changes proposed: None

Financial management policy

This policy incorporates amongst others regulations relating to:

- General budgeting principles and processes
- Levying of tariffs, fees and charges
- Collection and control of income
- Operating expenditure
- Capital expenditure
- Creditors and payments
- Salaries & Wages
- Petty Cash
- Asset management
- Investments
- Risk management and Insurance
- Loans

Changes proposed: None

It should be noted that these policies have been reviewed but have not been work shopped to Councillors accordingly.

The HR policies have been reviewed and there changes that also have an impact on the budget preparations. These policies will be submitted separately with the changes effected.

2.5 BUDGET STRATEGY & ASSUMPTIONS

Budget Strategy

The following guidelines were used to compile the 2018/19 to 2020/21 Operating and Capital budgets:

- (a) That the annual increases for the 2018/189to 2020 /21 draft Operating Budget be limited to the following and be reviewed during the process, if considered necessary:
- The overall increase in operating expenditure is based on the projected CPIX of 5.2 %.
 - The overall increase in employee related costs be aligned to finalized agreement by the SALGBC of which the municipality has no provided as per the CPI .
 - Bulk purchases increase as per ESKOM and NERSA guidelines of 27.9 %
 - Rates and tariff escalations be limited to 6.%

Budget assumptions

Budget assumptions/parameters are determined in advance of the budget process to allow budgets to be constructed to support the achievement of the longer-term financial and strategic targets.

The following principles and guidelines directly informed the compilation of the Budget:

- The priorities and targets in relation to the key strategic focus areas as determined in the IDP.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs, including the expansion of services.
- An assessment of the relative capacity to implement the Budget.
- No budget allocation has been made to programmes and projects, unless the respective programme and project plans have been submitted by the relevant Directors.
- The need to enhance the municipality's revenue base.

2.6 FUNDING OF THE BUDGET

The budget is funded from two major sources:

- Realistic expected revenue from operations (Property rates and service charges)
- Grants and subsidies (cash backed allocations from government)

On-going issues requiring monitoring and evaluation

The municipality is closely monitoring certain issues that could have a significant financial impact on future budgets. If one or more of them require substantial resources beyond what is included in the mid-term budget, the municipality will have to adjust its spending plans to maintain its financial position. Many of the items listed below could have major and permanent impacts on the operating budget, and would therefore require permanent increases in revenue, or reductions in other services. Consequently, they should be carefully monitored and evaluated:

- Maintenance backlogs in roads, electricity and municipal properties
- Staffing requirements and the impact on the personnel expenditure target;
- Acceptance and implementation of funded mandates; e.g. Disaster management and Library Services;
- Improving on current collection rates especially household debt

QUALITY CERTIFICATE

I, Sydney Fadi ,the Municipal Manager of Sundays River Valley municipality, hereby certify that the draft annual budget 2018/19 and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the draft annual budget and supporting documentation are consistent with the draft Integrated Development Plan of the municipality.

S.FADI

MUNICIPAL MANAGER OF SUNDAYS RIVER VALLEY MUNICIPALITY – EC106

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SIGNATURE

DATE: 28 March 2018