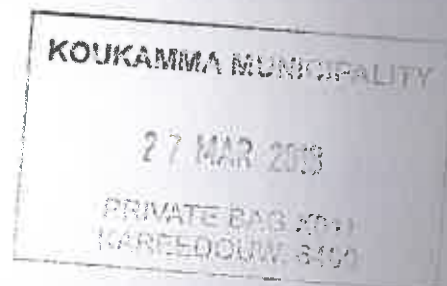




DRAFT BUDGET 2018-2021



**Kou-kamma
Municipality (EC109)**



Copies of this document can be viewed:

- All satellite offices and public libraries with the municipality
 - At www.koukammamunicipality.gov.za

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Part 1- Annual Budget

1.1 Mayor's Report

Mayors report to be inserted after the meeting

THE MAYOR/SPEAKER
COUNCILLOR S VUSO

KOUKAMMA MUNICIPALITY

27 MAR 2013

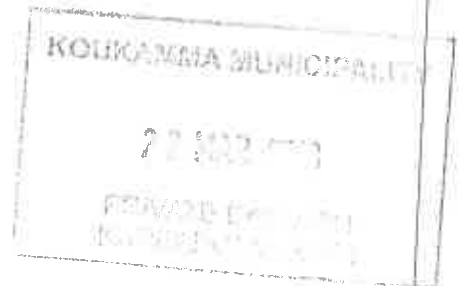
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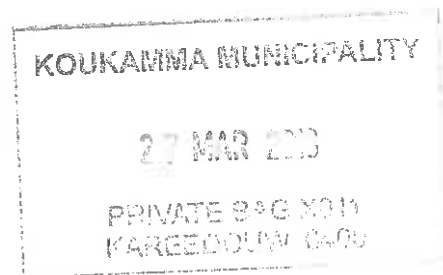
1.2 Council Resolutions

On the 27th May 2018 the Council of Kou-kamma Local Municipality will meet in Kareedouw, to consider the approval of the Draft Annual budget of the municipality for the financial year 2018/19 MTREF. It is recommended that Council approves and adopts the following resolutions:

1. The Council of Kou-kamma Local Municipality, acting in terms of Section 24 of the Municipal Finance Management Act (Act 56 of 2003) approves:
 - 1.1. The Draft Annual Budget of the municipality for the financial year 2018/19 and the multi-year and single-year capital appropriations as set out in the following tables:
 - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification);
 - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote)
 - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
 - 1.1.4. Multi-year and single-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.
 - 1.2. The financial position, cash flow budget, cash-backed reserve/ accumulated surplus, asset management and basic service delivery targets are approved as set out in the following table:
 - 1.2.1. Budgeted Financial Position;
 - 1.2.2. Budgeted Cash Flows
 - 1.2.3. Cash backed reserves and accumulated surplus reconciliation;
 - 1.2.4. Asset management; and
 - 1.2.5. Basic service delivery measurement.
2. The Council of Kou-kamma Local Municipality, acting in terms of Section 75A of the Local Government: Municipal Systems Act, (Act 32 of 2000) approves:
 - 2.1. The property rates tariffs- as set out in Annexure B,
 - 2.2. The tariffs for electricity- as set out in Annexure B
 - 2.3. The tariffs for Sanitation-as set out in Annexure B
 - 2.4. The tariffs for refuse- as set out in Annexure B and
 - 2.5. Any other municipal tariffs as set out in the Tariff book



3. That Council approves the following budget related policies in terms of Section 24 (2)(c)(i)(ii)(iii)(v) of the Municipal Finance Management Act (Act 56 of 2003) as per Annexure C to the document:
- Supply chain management
 - Credit Control and Debt Collection
 - Indigent Support
 - Property Rates
 - Write off
 - Tariff
 - Virement
4. For Council to adopt the Draft Service Level Standards as required by the National Treasury in MFMA Circular 89 and 91, as per annexure D of the document



1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's 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.

Section 21 of the Municipal Finance Management Act deals with Municipal Budgets and describes the entire budgeting process. The Mayor is tasked with the co-ordinating the processes for preparing the budget, reviewing the Integrated Development Plan (IDP) and budget related policies. The Accounting Officer, as per Section 68 of the MFMA, is required to assist the Mayor in developing and implementing the budgetary process.

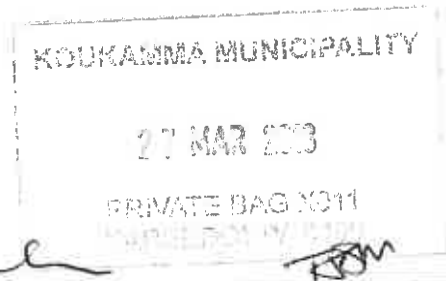
Great emphasis was placed in ensuring that the budget is realistically funded. A complete analysis of the various financial scenarios and outcomes was done and the best viable solution sought.

In addition to the budget, an amendment to the Municipal Systems Act (MSA) and Chapter 4 of the MFMA require that the Integrated Development Plan (IDP) be adopted at the same time of adopting the budget. The IDP informs the budget and their simultaneous adoption will ensure that the budget is properly aligned to the IDP and ensure that planned projects are credible and that the budgets are realistic and implementable. The budget was drafted in conjunction with the IDP.

Furthermore, the National Treasury has regulated a Municipal Standard Chart of Accounts, which was effective from 01 July 2017. This requires all municipalities and municipal entities to transact live on the new chart of accounts. It is therefore a requirement that the Draft budget be Mscoa compliant.

The annual budget was prepared in accordance to the National Treasury's content and format as contained in Circular 85 & 86. The two concepts considered were:

- 1) That the budget must be funded according to Section 18 of the MFMA(as mentioned above), and
- 2) That the budget must be credible.



A credible budget is described as one that:

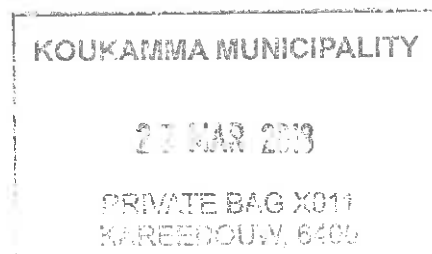
- Funds only activities consistent with the draft IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality.
- Is achievable in terms of agreed service delivery and performance targets.
- Contains revenue and expenditure projections that are consistent with current and past performance and supported by documented evidence of future assumptions.
- Does not jeopardise the financial viability of the municipality(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.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds are transferred from low-to high- priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have items'.

The Municipality has embarked on implementing a range of revenue collection strategies to optimise the collection of debt owed by consumers. The Municipality has also adopted a conservative approach when projecting its expected revenue and cash receipts.

The main challenges experienced during the compilation of the 2018/19 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy
- Aging and poorly maintained roads and electricity and water infrastructure.
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality'
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents,
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Low collection rates
- Poor communities and
- Cash flow challenges



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The following budget principles and guidelines directly informed the compilation of the 2018/19 MTREF:



- The 2017/18 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget adopted as upper limits for new baselines for the 2018/19 draft annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs.
- Increase in VAT as promulgated by the National Treasury,
- There will be no budget allocated to National and Provincial funded projects unless the necessary grants to the municipality are reflected in the National and Provincial budget and have been gazetted as required by the annual Division of Revenue Act (DoRA) or MTBPS.

Table 1 Consolidated Overview of the 2018/19 MTREF

DESCRIPTION	2017/18	2018/19	Budget year +1	Budget year +2
	ADJUSTMENTS BUDGET		2019/20	2020/21
Operational Income (excl allocations in kind)	-121 702 152,00	-120 137 253,87	-132 729 853,58	-137 750 465,53
Operational Expenditure	126 723 679,00	128 381 404,60	137 239 955,81	146 268 464,38
Capital Expenditure	18 532 600,00	16 553 840,00	21 626 980,00	19 056 622,90
(SURPLUS) / DEFICIT	R 23 554 127,00	R 24 797 990,73	R 26 137 082,23	R 27 574 621,75
Depreciation	23 554 127,00	24 797 990,73	26 137 082,23	27 574 621,75
NET (SURPLUS) / DEFICIT	R -	R -	R -	R -

Total operating revenue has decreased by 1.0 per cent or R1 564 million for the 2018/19 financial year compared to the 2017/18 Adjustments Budget. This is mainly due to the decrease in transfers and subsidies. For the two outer years, operational revenue for rates and services will increase by 10.0 % and 4.0 % respectively.

Total operating expenditure for the 2018/19 financial year has decreased by R1 658 million or 1.0 per cent, when compared to the 2017/18 Adjustments Budget. This is mainly due to belt tightening measures being implemented by the municipality to ensure non-service related operational expenditure is kept to a minimum. For the two outer years, operational expenditure will increase by 7.0 per cent respectively.


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1.3.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations (MBRR) states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 of the Act.

1.3.2 Overview of budget related- policies

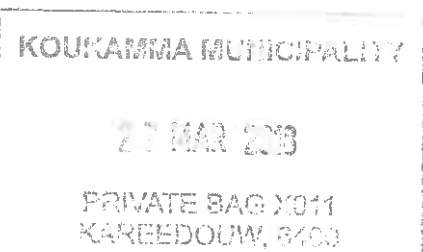
The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies. The following budget policies will be tabled for consideration with the draft budget:

- Supply chain management
- Credit Control and Debt Collection
- Indigent Support
- Rates
- Write off
- Tariff
- Virement

1.3.3 Overview of budget assumptions

1.3.3.1 External factors

Due to the slowdown of the economy, compounded by the geographical area of the municipality; financial resources are limited as a result of slow/no economic growth, this therefore reduces payment levels by consumers. The high levels of unemployment, resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.



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1.3.3.2 General Inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2018/19 MTERF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses.
- Increase in VAT
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity; and
- The increase in the cost of remuneration.

1.3.3.3 Collection rate for revenue services

The current collection rate of the municipality is below 50%, this necessitates aggressive revenue enhancement strategies. Therefore base assumption is that tariff and rating increases will increase at the same rate as CPI.

As part of the revenue enhancement strategies that was implemented and approved by the municipal council to address the low collection rate.

The plan herewith as approved, a separate progress report to this will be tabled to the municipal council:

KOUKAMMA MUNICIPALITY

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1 GOVERNMENT

Item	Activity	Purpose
1,1	Investigate government properties that should be exempted	Write off balances
1,2	Arrange meetings with relevant departments	Engagement with departments to pay accounts

2 BUSSINESSES

Item	Activity	Purpose
2,1	Clearance certificates for all businesses in KKM area	Businesses trading with KKM is paying for services
2,2	Identify businesses with outstanding water accounts	Only water services can be cut
	Inform businesses that services will be cut	Notice need to be given of the municipality's intention
	Issue notice of termination of services	14 working days notice
	Identify other business accounts outstanding	This relates to other debt outstanding excluding water
2,3	Implement R1 for R1 incentive	Implement Incentive rebate Jan - May 2018
	Handing over accounts for collection of debt	Preparation of hand over files for Legal action
	Finalise journals writing off debt	Correction of accounts
	Reporting results from incentive implemented	Monthly reporting on results of incentive drive

3 SCHOOLS

Item	Activity	Purpose
3,1	Identify schools with outstanding water accounts	Only water services can be cut
	Inform schools that services will be cut	Notice need to be given of the municipality's intention
	Issue notice of termination of services	14 working days notice
	Identify other school accounts outstanding	This relates to other debt outstanding excluding water
	Handing over accounts for collection of debt	Preparation of hand over files for Legal action
3,2	Implement R1 for R1 incentive	Implement Incentive rebate Jan - May 2018
	Handing over accounts for collection of debt	Preparation of hand over files for Legal action
	Finalise journals writing off debt	Correction of accounts
	Reporting results from incentive implemented	Monthly reporting on results of incentive drive

4 CHURCES

Item	Activity	Purpose
4,1	Identify church properties with outstanding water account	Churches is exempt from paying rates
	Inform churches that services will be cut	Notice need to be given of the municipality's intention
	Issue notice of termination of services	14 working days notice
	Identify other church accounts outstanding	This relates to other debt outstanding excluding water
	Handing over accounts for collection of debt	Preparation of hand over files for Legal action
4,2	Implement R1 for R1 incentive	Implement incentive rebate Jan - May 2018
	Handing over accounts for collection of debt	Preparation of hand over files for Legal action
	Finalise journals writing off debt	Correction of accounts
	Reporting results from incentive implemented	Monthly reporting on results of Incentive drive

5 HOUSEHOLDS

Item	Activity	Purpose
5,1	Outreach program to all the settlements	Monthly Debt Collection Steering Committee meetings
5,2	Identify households with outstanding water accounts	Households debt > 80% off all debt outstanding
	Issue notice of restriction of water of services	14 working days notice
	Implement water flow control in accordance with a plan	A water flow control instrument to be installed
5,3	Implement R1 for R1 incentive	Implement incentive rebate Jan - May 2018
	Handing over accounts for collection of debt	Preparation of hand over files for Legal action
	Finalise journals writing off debt	Correction of accounts
	Reporting results from incentive implemented	Monthly reporting on results of incentive drive

6 INDIGENT HOUSEHOLDS

Item	Activity	Purpose
6,1	Indigent registration outreach	Indigent awareness program
6,2	Door to door registration campaign	To ensure that all indigent consumers register
6,2	Identify households exceeding 6 kl water p/m	Identify households that abuse water
	Awareness campaign addressing abuse of water	To ensure that all Indigent consumers register
	Issue notice of restriction of water of services	14 working days notice
	Implement water flow control in accordance with a plan	A water flow control instrument to be installed
6,4	Indigent register for council approval	To ensure that all indigent consumers register
6,3	Indigent reporting: Amounts written off	Balances considered to be irrecoverable

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7 TRAFFIC

Item	Activity	Purpose
7,1	SYNTELL	
7.1.1	Keep record of summonses issues versus	How many summonses has not been
7.1.2	Prepare court roll	For warrants to be issued and served
7.1.3	Clearing summonses not valid	To make sure that summons register is up to date
7,2	TMT	
7.2.1	Back office established	For operational traffic department
7.2.2	Operational monthly plan	Operational activities for the month
7.2.3	Report on fines issued	Recovering of outstanding money (1st notice,
7.2.4	E-Natis block	Recovery of fines issued via E-Natis
	<i>Planning of legal processes with regards to TMT - eg</i>	<i>summonses and warrants issued will be included in the next rep</i>

8 FIRE SERVICES

Item	Activity	Purpose
8,1	Design call out form and procedures	Keep records of all fire calls received
8,2	Design incident report form	To complete records of the incidents
8,3	Provide BTO with billing informatrion	To enable BTO to invoice for services
8,4	Billing for services rendered	Invoicing consumer

9 DLTC

Item	Activity	Purpose
9,1	Action plan to enhance revenue	To maximize revenue generated
9,2	Roadworthy action plan	To maximize utelisation of DLTC

10 Water Meters Installation

Item	Activity	Purpose
10,1	Procurement of the installation of smart water meters	For the installation of smart water meters
10,2	Analyse Koukamma Municipality's process and systems	To establish the status quo of KKM's water meter processes
10,3	Prepare a process Plan and establishment a PSC	Road map for the installation of water meters
10,4	Implementation of the Process Plan (Multi year project)	Implementation of project in accordance with set milestones

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1.3.3.4 Salary increases

In accordance with the guidance in the MFMA circular 89 and 91, the Wage collective agreement has not yet been concluded. In the absence of the salaries has been budgeted for as follows:

- Employees: 5.3% - CPI, plus 2.4% notch increase
- Councillors: CPI – 5.3%
- Directors: CPI – 5.3%

It should be noted that in accordance with communication received from SALGA the municipality has also moved to a Grade 2 municipality, this change has been imbedded in the Draft budget.

The salary cost is based on the current approved organogram and will be updated with the newly reviewed organogram during the final budget process; due to this all new vacancies to be filled will be based on the new organogram and budgeted for during the final budget.

1.3.3.5 Impact of national, provincial and local policies

In compilation of the budget for 2018/19, cognisance was taken of Provincial and National strategies.

1.3.3.6 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 75.0 per cent is achieved on Operating expenditure and 85.0 per cent on the Capital Programme for the 2017/18 of which performance has been factored into the cash flow budget. This basis has thus been used as a benchmark for the 2018/19 draft annual budget.



1.3.3.7 Cost containment

Due to cash flow constraints within the municipality, operational costs are kept at a minimum. The following cost containment measures have been implemented and the effects of these have been realised throughout the 2017/18 financial year:

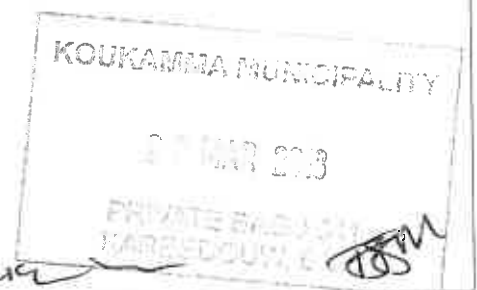
- Officials do not make use of air transport and workshops, trainings and other events are not attended, unless special permission is granted by the Municipal Manager.

KOUCAMMA MUNICIPALITY

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- All Travel and subsistence claims, must be accompanied by a pre-approval (trip authority) as well as a memo directed to the CFO as to why an official attended a specific event.
- A maximum of two officials per departments is allowed to attend meeting/trainings/workshops.
- Accommodation is limited to R1000 per person per night including meals.
- Telephone usage has set limits per employees and no colour printing is made use of.
- No catering is bought for internal meetings
- All meetings and strategic sessions are held at municipal owned venues
- Stationary are being signed for
- No bottled water/refreshments are bought for the MM or mayor's office
- Restrictions are placed on the purchases of laptops.
- Restriction on the use of consultants unless critical.
- Overtime is limited to 40hours and only approved if a pre-approved plan is presented.
- Overtime is limited to essential use staff

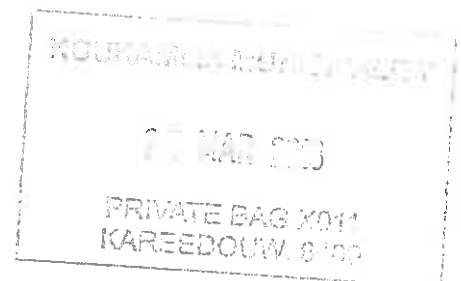


1.4 Operating Revenue Framework

For Kou-kamma to continue improving the quality of services provided to its community it needs to generate the required revenue. The municipality is currently faced with a collection rate of <50%, in these tough economic times strong revenue management is fundamental. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

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

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/ calculating the revenue requirement of each service;
- The municipality's Property Rates Act, 2004 (Act No. 6 of 2004) (MPRA) and amendment of 2014.
- Increase ability to extend new services and recover costs.
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff Policies of the Municipality.



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Table 2 Summary of revenue classified by main revenue source

EC109 Kou-Kamma - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Revenue By Source											
Property rates	2	15 488	15 596	16 256	12 019	13 866	13 866	-	14 600	15 389	16 235
Service charges - electricity revenue	2	2 132	2 205	2 033	1 453	385	385	-	437	461	486
Service charges - water revenue	2	9 736	11 619	11 765	9 533	10 168	10 168	-	10 754	11 335	11 958
Service charges - sanitation revenue	2	7 741	8 041	8 580	5 071	4 112	4 112	-	4 347	4 582	4 834
Service charges - refuse revenue	2	3 560	3 905	4 082	2 980	2 963	2 963	-	3 120	3 288	3 469
Service charges - other											
Rental of facilities and equipment		333	408	380	382	382	382		402	424	447
Interest earned - external investments		297	208	73	35	149	149		157	165	174
Interest earned - outstanding debtors		5 554	7 156	9 188	9 461	11 019	11 019		11 603	12 230	12 902
Dividends received											
Fines, penalties and forfeits		672	1 580	5 123	3 000	3 000	3 000		3 000	3 152	3 336
Licences and permits		9	30	18							
Agency services		1 492	2 841	5 783	2 743	2 743	2 743		2 869	3 045	3 212
Transfers and subsidies		56 428	44 192	48 540	49 450	50 700	50 700		53 808	56 982	61 597
Other revenue	2	1 176	2 444	3 657	6 790	9 350	9 350	-	609	641	677
Gains on disposal of PPE		23	-	334	75	75	75				
Total Revenue (excluding capital transfers and contributions)		104 640	100 223	115 833	102 991	108 911	108 911	-	105 726	111 704	119 328
Surplus/(Deficit)		(22 671)	(26 817)	(46 600)	(20 923)	(17 812)	(17 812)	-	(22 656)	(25 536)	(26 941)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		24 856	22 201	15 951	17 812	17 812	17 812		14 412	21 026	18 423
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher	6	-	-	-	-	-	-		-	-	-
Transfers and subsidies - capital (in-kind - all)					27 694	27 444	27 444		12 794	2 723	16 818
Surplus/(Deficit) after capital transfers & contributions		2 185	(4 616)	(30 649)	24 584	27 444	27 444	-	4 550	(1 787)	8 300

As the municipality is largely grant dependant, most revenue is from the National government, comprising of 51.0 per cent. All income from these grants has been gazetted as part of the Division of revenue act. Secondly revenue generated from rates and services charges also forms a significant percentage of the revenue basket. In the 2018/19 financial year, revenue from services charges is estimated to total R18 654 million and property rates at R14 600 million.

The other item contributing to revenue is "other income" which consists of various items such as income received from permits and licences, building plan fees, connection fees, rental of facilities and other sundry income. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

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Table 3 Operating and Capital Grants Receipts

<u>Grants</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Capital			
Direct			
MIG	15 170 000,00	15 396 000,00	16 024 000,00
INEP	-	6 400 000,00	3 200 000,00
Indirect			
RBIG	10 000 000,00	1 000 000,00	15 000 000,00
INEP	2 794 000,00	1 723 000,00	1 818 000,00
National Treasury (Audit fees)	1 278 434,66	1 347 470,14	1 421 580,99
	29 242 434,66	25 866 470,14	37 463 580,99
Operational			
Equitable share	45 406 000,00	48 983 000,00	53 004 000,00
FMG	1 970 000,00	2 435 000,00	2 867 000,00
DSRAC	932 000,00	932 000,00	932 000,00
Enviromental health	963 000,00	1 015 002,00	1 070 827,11
EPWP	1 000 000,00	-	-
Sarah Baartman	1 500 000,00	1 500 000,00	1 500 000,00
	51 771 000,00	54 865 002,00	59 373 827,11
Total	R 81 013 434,66	R 80 731 472,14	R 96 837 408,10

As indicated in the table above, is a breakdown of both capital and operational grants to be received in the 2018/19 MTREF.

1.4.1 Property Rates

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.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the ratio for the non-residential categories, Public Service Infrastructure and agricultural properties relative to residential properties. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

In terms of the Municipal Property Rates Act, property valuations need to be assessed every four years for inclusion in the General Valuation Roll. The municipality has an updated valuation roll; and is in the process of completing the supplementary valuation roll.

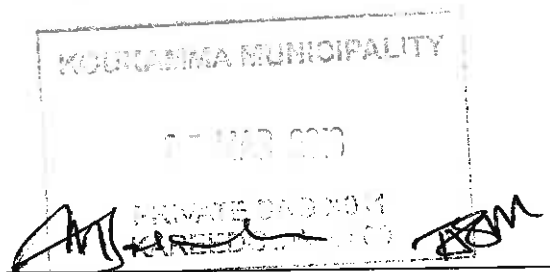


Table 4 Comparison of proposed rates to be levied for the 2017/18 financial year
Tariffs are attached as a separate appendix to the report.

1.4.2 Sale of Electricity and Impact of Tariff Increases

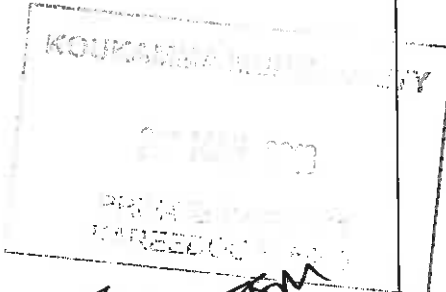
During the 2015/16 budget process, the decision was taken concluded that the step- tariff structure will need to be implemented; an application in this regard was made to NERSA. The decision was kept constant. Registered indigents will again be granted 50 kWh per 30 day period free of charge.

The following tables show the proposed changes to the current tariff structure:

Table 4: Tariff structure (Electricity)

<u>IBT structure</u>	<u>Proposed Tariffs</u>		
	<u>2017/18</u>	<u>2018/19</u>	
	<u>Prices per cent (Excl VAT)</u>		
Block 1(0-50) kwh	0,86	0,91	6.3% increase - Benchmark used
Block 1(51-350) kwh	1,10	1,18	6.8% increase - Benchmark used
Block 1(351-600) kwh	1,55	1,72	6.84% increase
Block 1(>600) kwh	1,82	1,95	no increase benchmark is 194.85

With the above increases the aim is to both increase revenue and encourage consumers to use electricity wisely as our country's national grid is under severe pressure. No basic charge will be levied for electricity. These tariffs are in line with the guidelines as prescribed by NERSA, an application for approval has been submitted to the regulator.


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1.5 Operating Expenditure Framework

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

- Balanced budget constrain (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit.
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the assets renewal and backlogs eradication.
- Operational gains and efficiencies will be directed to funding the capital budget and other core services.

Table 5 Summary of operating expenditure by standard classification item

EC109 Kou-Kamma - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Expenditure By Type											
Employee related costs	2	39 116	39 820	41 856	47 155	46 578	46 578	-	44 600	45 774	48 292
Remuneration of councillors		2 901	3 000	3 123	3 215	3 594	3 594		3 428	3 613	3 812
Debt impairment	3	19 638	19 741	19 605	10 345	10 345	10 345		12 203	16 073	18 488
Depreciation & asset impairment	2	15 340	22 383	23 027	23 554	23 554	23 554	-	24 798	26 137	27 575
Finance charges		650	995	1 961	825	1 075	1 075		1 130	1 191	1 257
Bulk purchases	2	2 674	3 199	3 513	4 803	4 803	4 803	-	5 152	5 430	5 729
Other materials	8				6 935	6 791	6 791		4 842	5 104	5 384
Contracted services		3 351	3 839	2 734	6 402	6 880	6 880	-	12 786	13 476	14 217
Transfers and subsidies		25 094	15 846	16 702	-	-	-		-	-	-
Other expenditure	4, 5	18 547	18 740	16 489	20 679	23 103	23 103	-	19 442	20 442	21 515
Loss on disposal of PPE			325								
Total Expenditure		127 311	127 890	129 012	123 914	126 724	126 724	-	128 381	137 240	146 268

The budgeted allocation for employee related costs for the 2018/19 financial year totals R44 600 million, which equals 35.0 per cent of the total operating expenditure. Circular 70 guidelines have been implemented with regards to the percentage of employee costs to operational expenditure is between 30-40%, the municipality is thus within these limits. Furthermore as per Circular 91, the wage negotiations has not yet been agreed upon, therefore in the absence of this, a guideline increase of CPI was budgeted for. In addition to this a further 2.4% was accounted for the salary notch increases and the municipal taks grading adjustment was taken into account.

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). Amounts paid to councillors are in line with these gazetted amounts.

The provision of debt impairment was determined based on an annual collection rate of 65.0%. The revised collection rate is based on the revenue enhancement plan that was adopted by council.

While the 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. Provision for depreciation and asset impairment has been informed by the Municipality's Asset Values and prior year expenditures incurred.

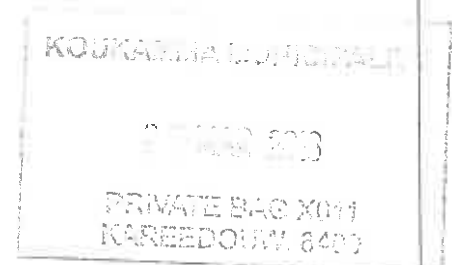
Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R24 798 million for the 2018/19 financial year and equate to 19.0 per cent of the total operational expenditure.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increase of 7.32 per cent has been factored into the budget appropriations and directly informs the revenue provisions. The expenditures include distribution losses. In addition to this the municipality has made an application to Eskom to change tariff structures to cheaper tariffs.

Other materials comprise of amongst others the purchase of materials for maintenance. In line with the Municipality's repairs and maintenance the expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure.

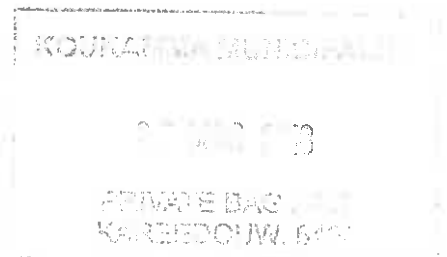
The following are the main expenditure categories for 2018/19 financial year:

- Employee related costs
- Remuneration of Councillors
- Debt impairment
- Depreciation and Asset Impairment
- Bulk Purchases



1.5.1 Free Basic Services: Basic Welfare Package

The welfare package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services that households are required to register in terms of the Municipality's Indigent Policy. An amount of R18 704 million has been allocated from the 2018/19 equitable share to provide relief to the indigent consumers. Taking cognizance of the plight of the poor and affordability of basic services, 6kl of free water and 50kwh of electricity per month, refuse, sanitation; grave site as well as rebates on rates is applicable.



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1.6 Capital Expenditure

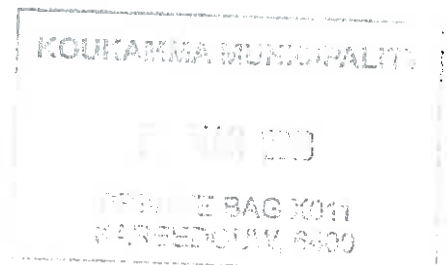
Capital expenditure for the next three years will be funded solely by Grants and other external fund sources. This is due to significant constraints of Council funds as highlighted in the sections above and the significant impact that the increase in the bulk electricity tariffs had on the cash flow of the municipality. The Capital Grants to be received are highlighted in the Executive Summary above.

Table 6 Capital expenditure by standard classification

EC109 Kou-Kamma - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding

Vote Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Capital Expenditure - Functional											
Governance and administration		738	1 089	44	1 372	172	172	-	2 142	601	634
Executive and council			50		8	8	8				
Finance and administration		738	1 038	44	1 364	164	164		2 142	601	634
Internal audit					-	-	-				
Community and public safety		5 242	6 297	3 764	740	775	775	-	6 602	4 182	-
Community and social services		4 290	5 911	3 764	240	273	273		6 602	4 182	
Sport and recreation		952	388		-	-	-				
Public safety					500	500	500				
Housing					-	-	-				
Health					-	3	3				
Economic and environmental services		12 001	262	2 033	5 349	3 624	3 624	-	7 810	465	-
Planning and development					-	-	-				
Road transport		11 654	262	2 033	5 349	3 624	3 624		7 810	465	-
Environmental protection		347			-	-	-				
Trading services		8 051	9 893	9 950	12 483	13 961	13 961	-	-	16 379	18 423
Energy sources		61	1 891	616	3 000	3 000	3 000			6 400	3 200
Water management		6 572	5 310	6 014	9 463	10 941	10 941			9 979	15 223
Waste water management		1 418	2 692	3 320	-	-	-				
Waste management					20	20	20				
Other											
Total Capital Expenditure - Functional	3	26 032	17 541	15 791	19 944	18 533	18 533	-	16 554	21 627	19 057
Funded by:											
National Government		23 985	16 926	13 740	19 161	17 812	17 812		14 412	21 026	18 423
Provincial Government		1 374	386	2 033	240	175	175				
District Municipality		214			500	500	500				
Other transfers and grants					-	-	-				
Transfers recognised - capital	4	25 573	17 312	15 772	19 901	18 487	18 487	-	14 412	21 026	18 423
Public contributions & donations	5	347									
Borrowing	6										
Internally generated funds		113	230	19	43	46	46		2 142	601	634
Total Capital Funding	7	26 032	17 541	15 791	19 944	18 533	18 533	-	16 554	21 627	19 057

Table A5 as per the MBBR excludes all indirect capital expenditures that will be incurred during the 2018/19 financial year.



The table below highlights total service delivery project planned for the next financial year

Table 7 Capital expenditure by project

Project	Cost 2018/19
Stormsriver MPCC	R 6 601 550,00
Upgrading of gravel roads in Stormsriver	R 1 313 299,95
Upgrading of gravel roads in Krakeel	R 3 086 637,00
Completion of Ravinia paving	R 3 410 013,05
Upgrading of library to council chambers	R 1 543 770,00
Furniture and Equipment (IT & Administration)	R 598 570,00
	R 16 553 840,00

In addition to the above the following in-kind transfers has been allocated to the municipality. Projects relating to these allocation still needs to be confirmed:

- RBIG : R10 000 000
- INEP: R2 794 000

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Part 2: Supporting Documentation

Table 12 MBRR Table A7- Budgeted Cash Flow Statement

EC109 Kou-Kamma - Table A7 Budgeted Cash Flows

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		15 488	16 037	10 656	7 812	8 248	8 248		9 490	10 003	10 553
Service charges		23 169	9 970	6 235	12 374	12 374	12 374		12 128	12 783	13 486
Other revenue		3 704	5 724	9 848	15 325	15 325	15 325		5 938	6 259	6 603
Government - operating	1	49 413	42 103	44 436	49 450	50 700	50 700		52 576	55 750	60 365
Government - capital	1	31 871	21 450	17 947	17 812	17 812	17 812		14 412	21 026	18 423
Interest		5 851	206	73	6 184	6 184	6 184		7 699	8 114	8 561
Dividends						-			-	-	-
Payments											
Suppliers and employees		(87 758)	(62 276)	(57 617)	(69 190)	(91 750)	(91 750)		(90 251)	(93 839)	(98 949)
Finance charges		(650)	(995)	(194)	(825)	(1 075)	(1 075)		(1 130)	(1 191)	(1 257)
Transfers and Grants	1	(25 094)	(15 846)	(16 702)		-			-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		15 995	16 371	14 681	18 943	17 619	17 619	-	10 862	18 905	17 785
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		794	106						-	-	-
Decrease (increase) in non-current debtors									4 834	2 722	1 272
Decrease (increase) other non-current receivables									-	-	-
Decrease (increase) in non-current investments		1 121							-	-	-
Payments											
Capital assets		(26 032)	(17 541)	(15 805)	(19 944)	(18 533)	(18 533)		(16 554)	(21 627)	(19 057)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(24 117)	(17 435)	(15 805)	(19 944)	(18 533)	(18 533)	-	(11 720)	(18 905)	(17 785)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans			1 900	836	6 000	6 000	6 000		6 000	6 000	6 000
Borrowing long term/refinancing									-	-	-
Increase (decrease) in consumer deposits									-	-	-
Payments											
Repayment of borrowing					(6 000)	(6 000)	(6 000)		(6 000)	(6 000)	(6 000)
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	1 900	836	-	-	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD		(8 122)	836	(288)	(1 001)	(714)	(714)	-	(858)	(0)	0
Cash/cash equivalents at the year begin:	2	8 288	166	1 002	1 001	714	714		858	(0)	(0)
Cash/cash equivalents at the year end:	2	166	1 002	714	(0)	0	0		(0)	(0)	-

Explanatory notes to Table A7- Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows be expected level of cash inflow versus cash out-flow that is likely to result from the implementation of the budget.

KOUKAMMA MUNICIPALITY

2018/19

2018/19

2018/19

2018/19

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2. Municipal Manager's quality certificate

I, **Pumelelo Kate**, Municipal Manager of Kou-kamma Local Municipality, hereby certify that the 2018/19 Draft Annual Budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the Municipal Budget and Reporting Regulations, and that the Annual Budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

Print Name: PUMELELO KATE

Signature -



Date: 27 MAY 2018

