



**UMZIMVUBU**  
— LOCAL MUNICIPALITY —

## Annual Final Budget [EC442]

Prepared in terms of the Local Government: Municipal Finance Management Act (56/2003): Municipal Budget and Reporting Regulations, Government Gazette 32141, 17 May 2009.

## Table of Contents

Table of contents.....	2
Glossary.....	3
PART 1 – ANNUAL BUDGET.....	6
Section 1 – Mayor’s Budget Speech .....	6
Section 2 – Budget Related Resolutions .....	9
Section 3 – Executive Summary .....	10
Section 4 – Annual budget tables .....	11
PART 2 – SUPPORTING DOCUMENTATION.....	12
Section 5 – Overview of alignment of annual draft budget with the Integrated Development Plan .....	12
Section 6 - Measurable performance objectives and indicators.....	13
Section 7 – Overview of budget related policies.....	13
Section 9 – Overview of budget assumptions .....	15
Section 8 – Overview of budget funding .....	16
Section 9 – Expenditure on allocations and grant programmes .....	17
Section 10 – Allocations and grants made by the Municipality .....	18
Section 11 – Councillor Allowances and employee benefits .....	18
Section 12 – Municipal targets for revenue and employee benefits .....	19
Section 13 – Annual draft budgets and services delivery and budget Implementation plans – internal departments .....	20
Section 14– Annual draft budgets and service delivery agreements – Municipal entities and other external mechanisms .....	20
Section 15 – Contracts having future budgetary implications .....	20
Section 16 – Capital expenditure details .....	20
Section 17 – Legislation compliance status .....	21
Section 18 – Other supporting documents .....	25

## Glossary

**Annual Budget** – means an approved budget for one year. It does not include published forward estimates or projections for period beyond the budget period.

**Adjustments Budget** – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

**Allocations** – Money received from Provincial or National Government or other municipalities.

**AFS-** Annual Financial Statements

**Assessment Rates** - Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed ratable value is multiplied by the rate in the rand.

**Budget** – The financial plan of the Municipality.

**Budget Related Policy** – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control policy.

**Capital Expenditure** - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Performance.

**CRR** – Capital Replacement Reserve. A cash reserve set aside for future capital expenditure.

**Cash Flow Statement** – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

**CFO** - Chief Financial Officer

**DORA** – Division of Revenue Act. Annual legislation that shows the total allocations made by National to Provincial and local government.

**Equitable Share** – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

**EPWP** – Expanded Public works.

**Fruitless and wasteful expenditure** – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**GIS** – Geographic Information System.

**GFS** – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

**GRAP** – Generally Recognized Accounting Practice. The new standard for municipal accounting and basis upon which AFS are prepared.

**IDP** – Integrated Development Plan. The main strategic planning document of the Municipality

**KPI's** – Key Performance Indicators. Measures of service output and/or outcome.

**MEC** – Minister in Executive Committee (Province).

**MFMA** – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

**MTREF** – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

**MPAC** – Municipal Public Accounts Committee.

**NERSA** – National Electricity Regulator of South Africa.

**NT** – National Treasury.

**PT** – Provincial Treasury

**DM** – District Municipality

**NDPG** – Neighbourhood Development Framework Grant.

**Net Assets** – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

**Operating Expenditure** – Spending on the day to day expenses of the Municipality such as salaries and wages.

**R&M** – Repairs and maintenance on property, plant and equipment.

**SDBIP** – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates

**Strategic Objectives** – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

**SCM** – Supply Chain Management.

**Unauthorised expenditure** – Generally, **is spending** without, or in excess of, an approved budget.

**Virement** – A transfer of budget.

**Virement Policy** - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

**Vote** – One of the main segments into which a budget is divided. In Umzimvubu Municipality this means at department level.

## **PART 1 – MAYORS SPEECH – ANNUAL FINAL BUDGET**

**Mr Speaker  
EXCO Members  
Chief Whip & Whippery  
Fellow Councillors  
Municipal Manager & Senior Managers  
Secretariat  
Members of the Public  
Ladies & Gentlemen**

Revolutionary greetings in the year of OR Tambo, Unity in Action. South Africa is today a constitutional democracy founded on the principles of human dignity and equal rights for everyone because of his leadership. We are building on his legacy to create a society envisaged in the Freedom Charter and Constitution. The world continues to marvel at our transition from pariah state to an admired democracy. The country's national interest is intrinsically linked to continental stability, unity and prosperity of Africa. We must embrace and partner with our fellow Africans residing in South Africa and elsewhere on the continent. A stable continent is the only way to ensure prosperity for our region and the rest of Africa

On a slightly different tone, South Africa is currently faced with recent attacks on women.

The voices of men are crucial in the fight against violence and abuse.

Men have the power to put an end to abuse, assault, rape and domestic violence against women and children. We call on responsible father figures to instill the values of human dignity, quality and respect in young men and boys.

Remember, "The extinction of women on earth could potentially bring an end to our human race". Our 5 year vision "Moving to limitless possibilities" is being realised. We recently convened a strategic planning session in January 2018 where we presented municipal SDBIP's which is scheduled to be adopted today. The attendance was satisfactory which shows that people take interest in municipal programmes. National Treasury has issued circular that requires the municipality to comply with Municipal Regulations on a Standard Chart of Accounts (MSCOA) this means that whatever we are implementing as from 01 July 17 has to be MSCOA compliant

Summarily we have targeted to collect an amount of four hundred and sixteen million (R 416 m), our capital budget is hundred and twenty seven million R127 m) and our operational budget is two hundred and eight nine million (R 289 m).

Fellow Councillors in order for this municipality to remain afloat it is essential that we improve our revenue collection rates, we need to vigilantly ensure that our revenue enhancement strategy is implemented as well as our credit control and bylaws. During the month of March we hosted the Annual Career Expo, a programme that entails bursary opportunities, employment opportunities and skills development opportunities. Much has been achieved in building local government since 1995. We have put in place a decentralized sphere of local government that is enshrined in our Constitution as a 'distinctive, interdependent and interrelated' sphere of government. The Local Government White Paper developed a vision of local government as a key component of the developmental state, and in pursuit of that vision, services have been progressively extended to more citizens than ever before. In light of this statement, Umzimvubu Local Municipality handed over sewing equipment to the Khanya Disability Project from Buffalo Neck (ward 15). The prestigious hand over event included an over locker and sewing machine amongst other things.

Supporting and promoting the efforts of our people especially the disabled is one of our main objectives. I think it's evident that the municipality is not only focusing on developing the town but touching lives where we can enable our businesses to grow as local government.

Ladies and gentlemen; the winter initiation season is upon us and many initiation schools across the country will be opening their doors to welcome young men and women. Initiates will embark on this sacred path towards adulthood with the hope of coming back to their communities transformed into matured men and women. Having said that, Umzimvubu Local Municipality together with the Department of Cooperative Governance and Traditional Affairs hosted a widely known initiation forum workshop at KwaBhaca (Mt Frere). The workshop seeks to find and resort to better initiation conditions for initiates within the area. This rite of passage is critical to initiates developing into responsible, community-oriented adults and has been a central element of many traditional African cultures since time immemorial and a necessary part of many African communities.

Can we in this spirit say we have built a better Umzimvubu for generations to come.

**PERSONNEL** **R94,5 m**

**SP EVENTS AND PROGRAMMES** **R1m**

**EXCO OUTREACH PROGRAMME** **R 1m**

Guided by the principle of the enhancement of community participation we have set aside a sum of R1, 000 000 for purposes of holding community meetings in the form of IDP and Budget Imbizo.

**INDIGENT SUPPORT and FREE BASIC SERVICES** **R4, 958 504**

We have increased the Indigent Support from R1, 700 000 in 2017/2019 to R1 793 504 in the next financial year so that we can subsidise the rate payers and residents who cannot afford to pay for the services rendered by the municipality. A sum of R3.1 million has been set aside for this purpose so that the poorest of the poor can now say “...today is better than yesterday and tomorrow will be better than today.”

**CLEANING SERVICES**

**R500 000. 00**

A sum of R300 000 has been set aside for the purchase of cleaning material and utensils in order to maintain a healthy and inspiring work environment.

**LEGAL FEES**

**R3 800 000. 00**

A sum of R3, 8 million will be utilised for professional costs in respect of legal matters the municipality may itself involved in.

**SMME DEVELOPMENT**

**R2 830 000. 00**

In expanding our economic development initiatives we want to develop the small enterprises and we will do this at a cost of R2 830 000. 00

**FINANCIAL MANAGEMENT GRANT (FMG)**

**R1 770 000. 00**

Mr Speaker and colleagues, I am sure you will agree with me that the Municipal Financial Viability and Management is one of the Key Performance Areas for all municipalities, as provided for by the National Department of Co-operative Governance and Traditional Affairs.

**WASTE MANAGEMENT**

**R3 020 000. 00**

We have budgeted R3 million so that we are able to remain compliant with the imperatives of the National Environmental Management Act.

**EXPANDED PUBLIC WORKS PROGRAMME**

**R6 976 000. 00**

It is through this programme that we continue to create job opportunities for our communities. Accordingly, we have set aside R6, 9 million for this programme.

Mr Speaker, Councillors, Ladies and Gentlemen it is my privilege that I am presenting to Council the 2018/2019 Budget whose major sources can be summarised as follows:

**BUDGETED INCOME FOR 2018/19 FINANCIAL YEAR**

**Grants and Subsidies: Operational**

Equitable Share	193 075 000
Finance Management Grant	1 770 000
EPWP	2 476 000
Other Grants( Dedeia, Small towns, LED etc)	450 000

**Grants and Subsidies: Capital**

MIG	45 507 000
Integrated Electrification	31 200 000

**TOTAL GRANTS AND SUBSIDIES**

**274 478 000**

**OWN REVENUE (PRIMARY INCOME)**

**Primary Income (Own Revenue)**

Property Rates	15 508 500
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Refuse Removal	1 500 000
<b>Secondary (Own Revenue)</b>	
Traffic Fines	2 000 000
Drivers & Learners Licenses	2 500 000
Vehicle Registration	2 000 000
Vehicle testing station	200 000
Interest on Current Account	527 504
Interest on Investments	7 916 017
Operating Investment	25 000 000
Office and Staff Housing Rentals	2 537 284
Other (Pound Fees, Rental of Building and Hall, Building Plans, Trading licences, Proceeds on sale of assets, VAT, Towing Fees, etc.)	21 947 164
<b>Total Own Revenue</b>	<b>81 636 469</b>
Capital Replacement Reserve	51 272 449
<b>TOTAL REVENUE</b>	<b>407 386 918</b>

**BUDGET EXPENDITURE FOR 2018/2019 FINANCIAL YEAR**

Mr Speaker and Colleagues, our Operating and Capital Allocation per Department is as follows:

DEPARTMENT	REVENUE	PERSONNEL EXPENDITURE	OPERATING EXPENDITURE	REPAIRS & MAINTAINANCE	GRANTS & SUBSIDIES PAID	CAPITAL EXPENDITURE	TOTAL
BUDGET & TREASURY	315 630 379	13 006 078	77 543 311	553 363	4 958 504	2 033 185	217 535 938
CORPORATE SERVICES	110 000	8 861 554	16 952 471	300 000	-	2 950 000	-28 954 026
COUNCIL	-	17 908 770	12 680 124	-	-	-	-30 588 894
INFRASTRUCTURE	78 764 005	11 300 626	7 211 189	3 434 081	-	115 800 000	-58 981 891
MUNICIPAL MANAGER	-	4 888 028	12 776 181	-	-	-	-17 664 209
LOCAL ECONOMIC DEV	352 834	4 164 988	12 892 540	52 754	-	1 582 496	-18 339 944
SP& COMMUNICATION	109 996	8 464 708	5 880 834	22 004	-	-	-14 257 550
CIT & COMM SERV	21 104	3 770 417	740 000	-	-	-	-4 489 313
WASTE MANAGEMENT SERV	4 948 600	10 787 458	12 563 300	1 500 000	-	2 800 000	-22 702 158
TRAFFIC MANAGEMENT SERV	7 450 000	11 360 952	15 347 000	70 000	-	2 230 000	-21 557 952
	<b>407 386 918</b>	<b>94 513 580</b>	<b>174 586 950</b>	<b>5 932 202</b>	<b>4 958 504</b>	<b>127 395 681</b>	-

It is important to note that this would not have been achieved without the express approval of the Department of Rural Development and Land Reform, the official custodians of land in the Republic, under the new and current administration. Accordingly, the said department has now assigned all powers and duties to the Department of Public Works for the exchange of Erf 209, Mt Frere for an appropriate portion of Erf 351, Mt Frere. This exchange now enables the relocation of the said property(s) for the sole purpose of constructing the much-needed bus and taxi rank. We, the Umzimvubu Local Municipality, have played our part in full and are now handing over the baton to the Consortium to implement the terms of reference as visualised in their concept document.

I take this opportunity to wish them all of the best.

With those few words I thank you very much.

## Section 2 – Budget Related Resolutions

The Resolutions approved by Council with the final adoption of the annual budget in 27 March 2018 are:-

RESOLVED:-

[a] That the 2018/19 Draft Annual Budget be noted by Council:

[b] That the Draft Annual Budget of Umzimvubu Local Municipality for the financial year 2018/2019; and indicative for the two projected years 2019/20 and 2020/21 be approved by council as follows:

1.1 Table A2: Budgeted Financial Performance (Expenditure by standard classification)

1.2 Table A3: Budgeted Financial Performance (expenditure by municipal vote)

1.3 Table A4: Budgeted Financial Performance (revenue by source)

1.4 Table A5: Budgeted Capital Expenditure for both multi-year and single year by vote, standard classification and funding

1.5 Table A6: Budgeted Financial Position

1.6 Table A7: Budgeted Cash Flows

[b] The budget related policies approved for the budget year 2018/2019

[c] Tariffs and charges reflected in Annexure A are approved for the financial year 2018/2019.

## Section 3 - Executive Summary

The Municipal Finance Management Act (MFMA) require that the council must at least 90 days before the start of the budget year consider the approval of the annual draft budget, but however Circular 91 was issued as advisor to municipalities.

Most of the requirements of the MFMA concerning the budget content and documentation are in place for this budget process and were incorporated into this budget document. Major requirements of the MFMA include:

- 1) the budget must set out 'realistically anticipated revenues' for the year by each revenue source;
- 2) the budget must be generally divided between capital and operating expenditures and each must be set out by 'vote';
- 3) expenditures can only be funded by 'realistic' revenues, surplus cash carried forward and not committed to any other expenditure or borrowed funds (borrowed funds can only be used to fund capital projects).

There are many other format requirements for the budget that are too numerous to mention here, however, a complete listing can be found in section 17 of the MFMA.

The preparation of this budget document evolved the making of critical policy decisions and key strategies and policy directions that were given by the Executive Committee over the past months. A 'baseline' budgets was developed in consultation with the Executive and formed the basis for operating budget discussions. These were given to the Managers to review and revise within given guidelines. These revised baseline budgets returned by the managers then formed the basis for the final budget which is now which will be approved by the end of May 2017

The financial policies used to develop this budget are focused on making Umzimvubu is financially sustainable in the long run. We must not only have sufficient cash available to pay all the creditors that we owe as required by the MFMA but also to allow for a cash reserve to even out sporadic cash flows during the operating year.

Operational Revenues are anticipated to reach R 407 million (including currently known grants received for operational expenditures)

The Capital Budget is funded from a blend of conditional grants, limited own funds and cash carried forward from prior years. Capital expenditures for 2018/19 are estimated to total R127 Million for a variety of projects and purchases.

In preparing the budget many issues emerged that had to be taken into account. Several assumptions were utilized to produce estimates and forecasts. In addition, many policy decisions were incorporated into this budget document. The following list attempts to give the most significant of these.

### Operating Revenues

- Revenues are shown on a 'billed' (or accrual) basis where applicable. In many cases revenue billed is much higher than cash actually collected on that billing. An offsetting bad debt expense is also included to cover other services as a single amount and a separate amount to cover waste or refuse. This expense must be

considered in any revenue discussion. Allocations for bad debt include the following amounts.

- Rates and other services R15,508,500
  
- Rates and tariffs in most cases contain proposed increases.
  - Rates 5.3% increase
  - Refuse Collection 5.3% increase
  
- The Equitable Share Allocation from the National Treasury is R193 million.

### **Operating Expenditures**

- Employee salaries and related expenses are increased by the level indicated by correspondence from SALGA and CPIX. This amount to a 5.5% increase in 2018/19. In addition, all positions are budgeted to be filled for the entire year. Council allowances are also budgeted to increase by 5.5% .The salary bill makes up 28% excluding councilors of the Operating budget. The vacancy rate is low and also turnaround time for filling vacant position is good, and there were four new positions which have been budgeted in this draft which were from the organogram.
- An amount of R 3,000,000 has been allocated in the operating budget for normal street maintenance and repairs.
- Grants and subsidies paid by the municipality in terms of Free Basic Services and Local Economic Development initiatives and other organizations amounts to R 4.9 million

### **Capital Budget**

The capital budget reflected in this document utilizes actually anticipated revenues and cash forward to fund the budgeted expenditures of R127 million. The portion includes the MIG grant (R45 million), INEP grant (R31 million), and the other portion is financed with the equitable share.

### **Other items in the operating budget**

There are various conditional grants/other funded items and programs included within the operating budget. Most of these items (amounting to some R3.2million) are funded by conditional grants that specify exactly what the money can be expended on.

## **Effect of the annual budget**

The annual budget for 2018/19 to 2020/21 is disclosed in 'Section 4: Annual budget tables' and in 'Annexure 2: Supporting budget tables'. Each of the summaries sections below is discussed in more detail later on this document

For easy reference, summary tables and graphs are included here.

## **Financial performance**

### Revenue by source

Trends for the major revenue sources over the MTREF period is shown in the chart below, and it is also an illustration that municipality's budget is mostly funded from grants.

Umzimvubu Municipality does not only maintain but also continue to improve the quality of services provided to its citizens it needs to generate the requisite revenue. Local communities must understand that the continued generation of cash via good prudent budgeting, credible income policies and sound financial management systems is critical to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty.

The municipality has no strategy in place and has appointed a debt collector, however has appointed service provider to map its strategy on the following key components:

- National Treasury's guidelines and macro-economic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which strives to ensure a 65 per cent annual collection rate for property rates and other key service charges;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- 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

## **Tariff implications of the annual budget**

### **Assessment rates**

The municipal property rates are levied in different categories of consumers, and the budget has a slight increase from 2018/19 financial year, this has been informed by our collection trends or actuals for 2017/18 financial year and its midyear budget performance. This will probably increase when we do an adjustment budget as we have appointed a debt collector which is performing very well.

### **Waste Management**

We had a 5.3% increase on the tariffs charged for this financial year, and we also devised other revenue mechanisms in waste management which were not implemented in the previous financial year. Still, as the municipality is upgrading its landfill site this current financial year, we have budgeted a small increase on trading services, this is as a result of the review of the Waste Management Plan as it has to be in operation for two years.

*The budget as presented in this document meets the requirements of the MFMA and is presented to Council for approval.*

## **Section 4 – Overview of alignment of the annual budget with the Integrated Development Plan**

### **Introduction**

Municipalities are required to develop five year Integrated Development Plans which must be reviewed annually. It is also required that such plans must find expression in the budget. The IDP and Budget are inter-related documents. The IDP is the budget in words, just as the budget is IDP in figures. In the past years comprehensive efforts have been made towards ensuring that the two documents are closely link.

Umzimvubu's vision: To be the best run Municipality in South Africa

Umzimvubu's mission: To properly plan and deliver quality and sustainable services to improve the socio-economic status within the broader Umzimvubu community

### **Key challenges facing Umzimvubu**

#### **1. Sustainable Infrastructure**

The rapid growth of the municipality has put a lot of pressure on the areas' infrastructure. Infrastructural needs are growing at an unprecedented rate which the municipality is struggling to match.

#### **2. The challenge of promoting Local Economic Development**

The need for the diversification of local economy through facilitation the emergency of previous underperforming sectors is an important catalyst for economic development. Our Local Economic Development strategy focuses on mainstreaming the previously disadvantage people. Crucial to this will be the need to work in partnership with relevant stakeholders in boosting employment and fostering SMMEs. The municipality hosts number of events which are to enhance tourism and also improve quality of the SMMEs.

#### **3. The challenge of ensuring municipal viability**

The municipality lives and dies by its ability to balance needs with resources. Umzimvubu cannot generate sufficient resources to properly satisfy all needs. Therefore those needs will have to be managed and dealt with in a financially sustainable manner.

#### **4. The challenge of municipal transformation and institutional development**

Staff development is a crucial to meet the challenges of Umzimvubu. The Employment Equity imperatives have to be assessed continual to ensure the Umzimvubu Municipality's transformation agenda of South Africa.

#### **5. Public Participation**

Public Participation is an important feature of any democratic environment. Although the legislative environment provides adequately for public participation, Umzimvubu Municipality is a challenged to ensure that it continues to build on its successes over the last few years

## Section 5 – Measurable performance objectives and indicators

The list below are financial indicators and ratios:

- Borrowing management
- Safety of capital
- Liquidity
- Debtors' and creditors' management
- Mix of expenditure types
- Mix of revenue sources
- Unaccounted for losses in respect of services rendered

It is not the intention to go through each of the various indicators etc., but merely to highlight the fact that National Treasury now has the ability to monitor a budget with a cursory glance. These indicators are taken in conjunction with specifically to afford National Treasury the ability to monitor and take reasoned view on financial position of a municipality and in so doing them can either support the Council's approval of the budget.

### Challenges

The challenges, as mentioned, are for capital funding to provide the additional community facilities and access roads to meet the growth of Umzimvubu and its infrastructure. Grant funding is used and also portion of equitable share, the management is seeking funding in all avenue to have infrastructure as to pave a way for Local Economic Development, as LED is the priority of the municipality



## Section 6 – Overview of budget related policies

The detailed policies themselves are not included in this section of the budget documentation

Policies are also available at the Council offices in 813 Main Street for viewing as well as on the internet at [www.umzimvubu.gov.za](http://www.umzimvubu.gov.za). This section gives a broad overview of the budget policy framework and highlights the amended policies to be approved by Council resolution

## Section 7– Overview of budget assumptions

### Introduction

#### Budget Assumption

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumption need to be made about internal and external factors that influence the budget. The section provides a comprehensive summary of the assumptions used in preparing the budget.

The budget is premised on a 60% payment level. This is in line with all our trends in the last 18 months and reflects similar outcome as at June 2017. This is below as compared to the outcomes of previous years.

#### External factors (population migration, employment, etc)

Over the recent years Umzimvubu has experienced rapid population growth although the census report states that there is a decrease. This must be seen as against the backdrop of developable land, a sensitive environment and a lack of new jobs being created in the local economy. This presents a serious challenge to Council to improve the efficiency of its systems.

The fact is that the population is growing faster and we have limited resources for service delivery and unemployment demands.

#### General inflation outlook and its impact on the municipal activities

The headline CPI forecast for 2018, 2019 and 2020 are 5.3%, 5.4% and 5.5% respectively. The growth parameters apply to tariff increases for property rates, user and charges raised by municipalities; this is to ensure that all spheres of government support the national macroeconomic policies. Any increase that is above the forecast must be fully communicated to the community.

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

	<b>Budget 2018/19 R '000</b>	<b>Indicative 2019/20 R '000</b>	<b>Indicative 2020/21 R '000</b>
Rate	15 508 500	16 361 468	17 244 987
Refuse	1 500 000	1 582 500	1 667 955

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

The Municipality has in place a fair rigorous credit control policy and has not been implement fully. Furthermore, its policy on indigent support and social rebates means that many households who

would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the municipal debt.

It is a fact that there will always be an element of the total amount billed that will remain uncollected. The municipality is the same as any other business in this regard. Provision has to be made in the budget for any bad debts based on assumptions on collection rates

	<b>Budget 2018/19 R '000</b>	<b>Indicative 2019/20 R '000</b>	<b>Indicative 2020/21 R '000</b>
Provision for bad debts	5 000 000	5 275 000	5 559 850
Table A4: Debt impairment			

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

Umzimvubu's criteria for supporting free or subsidised basic services are set out in the indigent support policy. The Government allocates revenue via the Division of Revenue Act (DORA) in the form of Equitable Share Grant with the primary aim of assisting municipalities with the costs of providing free or subsidised basic services. Any costs over and above the equitable share are met by the Municipality.

	<b>Budget 2018/19 R '000</b>	<b>Indicative 2019/20 R '000</b>	<b>Indicative 2020/21 R '000</b>
Cost of free basic services	3 165 000	3 339 075	3 519 385
Revenue cost of free services and all other rebate provided	1 793 504	1 892 147	1 994 323

### Impact of national, provincial and local policies

Umzimvubu sees itself as working in partnership with national, provincial and district municipality spheres of Government in meeting the priority service needs of its people

## **Section 8 – Overview of budget funding**

### **Funding the Budget**

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17

Achievement of this requirement in totality effectively means that a Council has 'balance' its budget by ensuring that budgeted outflows will be offset by a combination of inflows. Refer to 'Supporting Table SA10: Funding measurement'

## Fiscal Overview of Umzimvubu Municipality

There is a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management for the past three years the municipality received an unqualified audit opinion from Auditor General. Umzimvubu municipality cannot afford salaries that are prerequisite to GRAP. There is already a lack of qualified accountants in South Africa and the complexities that are GRAP in local government are such that in rural municipalities it is highly unlikely that qualified accountants are going to work at the salaries on offer internally and Umzimvubu, however with the little we have we striving to achieve the clean administration by COGTA.

### Long term financial planning

The moderate growth of Umzimvubu coupled with the migration of people to the area has increased service delivery challenges for municipality. Financial management and budget planning is sound, but it has to managed within narrow financial parameters given the challenges and limited financial resources. Umzimvubu municipality is funding its capital expenditure by grants and a very small portion internal funding, however the municipality has managed to secure a DBSA loan for electricity generation.

## Section 9 - Expenditure on allocations and grant programmes

Disclosure on expenditure on allocation and grant programmes is done by way of "Supporting Table SA18: Transfers and grants receipts, Supporting Table SA19: Expenditure on transfers and grant programme and Supporting Table SA20: Reconciliation of transfers, grant receipts and unspent funds." Note that the expenditures include the Vat portion that is recognised

## Section 10 - Allocations and grants made by the Municipality

Any allocation made to an outside body must comply with the requirements of section 67 of MFMA. This stipulates that before transferring funds to an outside organisation the Municipal Manager, as Accounting Officer, must be satisfied that the organisation or body has the capacity to comply with the agreement and has adequate financial management and other systems in place

	<b>Budget 2018/19 R '000</b>	<b>Indicative 2019/20 R '000</b>	<b>Indicative 2020/21 R '000</b>
Indigent Subsidy	1 793 504	1 892 147	1 994 323

## Section 11 – Councillor Allowances and employee benefits

'Supporting table SA22: Summary councillor and staff benefits and 'Supporting Table SA23: Salaries, allowances and benefits (political office bearers/ councillors/senior managers).

Umzimvubu municipality's councillors' allowances are paid at a grade 3, and an increment of 5.5% has been effected on this 2016/17 budget. The budget for councillors' allowances has increased as the number of councillors has increased from 54 to 65 because of the incorporation of Traditional leaders.

## **Section 12 – Monthly targets for revenue, expenditure and cash flow**

Disclosure on monthly targets for revenue, expenditure and cash flow in the following Supporting Tables

### **Monthly operating budget revenue and expenditure projections**

'Table SA25: Budgeted monthly revenue and expenditure' reflects consolidated projections of revenue by source and expenditure by type for the budget year broken down for the budget year, and shown in total for the following two years

'Table SA26: Budgeted monthly revenue and expenditure (municipal vote)' and 'Table SA27 Budgeted monthly revenue and expenditure (standard classification)' reflect revenue and expenditure broken down per month for the budget year, and shown in total for the following two years.

### **Monthly capital budget revenue and expenditure projections**

'Table SA28: Budgeted monthly capital expenditure (municipal vote)' and 'Table SA29: Budgeted monthly capital expenditure (standard classification)' shows capital expenditure broken down per month for the budget year, and shown in total for the following two years

### **Monthly cash flow projections**

'Table SA30: Budgeted monthly cash flow' set up receipts by source or payments by type both operating and capital, broken down per month for budget year, and shown in total for the following two years

## **Section 13 – Annual budgets and service delivery and budget implementation plans – internal departments**

### **Adoption of the Service Delivery and Budget Implementation Plan**

In terms of section 53(1)(c)(ii) of the MFMA and the Service Delivery and Budget Implementation Plan must be approved by the Mayor within 28 days after the final approval of the budget.

### **Contents of the SDBIP**

The SDBIP must contain monthly projections of income and expenditure and quarterly projections of measurable performance objectives.

### **SDBIP requirements**

The SDBIP is essentially a business plan and is an integral part of the financial planning process. Although its approval is required after the budget, its preparation occurs in tandem with the budget process. The SDBIP is the connection between strategic planning, IDP, budget and management performance agreements, and includes detailed information on how the budget will be implemented, by means of forecast cash flows and service delivery targets and performance indicators.

National and Provincial Government refer to five national KPAs they regard as essential to Local Authorities meeting their responsibilities these are:

1. Institutional Development and Transformation
2. Municipal Financial Viability and Management
3. Good Governance and Public Participation
4. Basic Service Delivery
5. Local Economic Development

## **Section 14 – Annual budgets and service delivery agreements – municipal entities and other external mechanisms**

'Table SA31 municipal entities' the table shows that the municipality doesn't have entities

Table SA32: List of external mechanism' the municipality doesn't have service delivery contracts.

## **Section 15 - Contracts having future budgetary implications**

'Supporting Table SA: Contract having future budgetary implications' Annexure 2 discloses all contracts which will impose financial obligations on the municipality beyond the three years covered in the annual budget. Since Umzimvubu falls in a category of municipalities with approved revenue of R300million, have no contracts beyond the three years covered in the annual budget.

## **Section 16 – Capital expenditure details**

Capital details are shown in the Annexure....

- 'Supporting Table SA6: Reconciliation of IDP strategic objectives and budget ( capital expenditure)

- 'Supporting Table SA34a: Capital expenditure on new assets by asset class'
- 'Supporting Table SA34b: Capital expenditure on the renewal of existing assets by asset class'
- 'Supporting Table SA34c Repairs and maintenance expenditure by asset class'
- 'Supporting Table SA36: Detailed capital budget'

## Section 17 – Legislation compliance status

The disclosure on legislation compliance must provide a brief summary of the status of the implementation of legislation applicable to municipalities including the progress made or delays experienced in implementation

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

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

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

The various sections of the Act are phased in according designated financial management capacity of municipalities. Umzimvubu has been designated as medium capacity municipality. The MFMA the foundation of municipal financial management reforms which municipalities are implementing.

### **The MFMA and the budget**

The following explains the budgeting process in terms of the requirement in the MFMA. It is based on the National Treasury Budget Regulations.

#### The budget preparation process

*The mayor must lead the budget preparation process through a coordinated cycle of events that commences at least ten months before the start of each financial year.*

#### Overview

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

These budget must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow, particulars of borrowings, investments, municipal entities, services delivery agreements, grants allocations and employment costs.

The budget must be funded only from reasonable estimates of revenue and cash backed surplus funds from previous year and borrowing (the borrowings are only for capital items)

### Budget preparation timetable

The budget preparation time table is prepared by senior management and tabled by Mayor for council adoption on 31 August (ten months before the commencement of the next budget year)

### Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget related policy, with the assistance of the municipal manager.

The Mayor must ensure that the IDP review forms and integral part of the budget process and that any changes to strategic priorities as contained in the IDP have realistic projections of revenue and expenditure. In developing the budget, the management has to take account the National and Provincial, the National fiscal and macro-economic policy. The Mayor must consult with the district Council and all other local municipalities within the district as well as the relevant provincial treasury and other government departments.

### Tabling of the Annual budget

The initial final budget must be tabled by the Mayor before Council for review by 31 May 2017.

### Publication of the Annual budget

One tabled at council, the Municipal Manager must make public the appropriate budget documentation and submit it with National Treasury, the relevant Provincial Treasury. And other departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

### Opportunity to comment on the Annual budget

When the draft is tabled, Council must consider the views of local community, NT, PT other municipalities and government department that may have made submission on the budget.

### Opportunity for the revision to Annual budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council consideration. Following the tabling of Annual budget at the end of May, the months of April and May should be used to accommodate public and government comment and make any revision that may be necessary. This may take form of public hearing, Council debates, formal and informal delegations to the National treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholders priorities

### Adoption of the annual budget

Council must consider the approval of the budget thirty day before the start of the budget year.

## **BUDGET IMPLEMENTATION**

### Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within 14 days of the approval of annual budget submit to the Mayor for approval SDBIP and annual performance agreements for all pertinent senior staff.

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

Mayor must approve the SDBIP within 28 days of the approval of annual budget (by 28 July at the latest)

This plan must then be monitored and reported by the Mayor to council on a regular basis.

### Managing then implementation process

The municipal manager is responsible for the implementation the budget and must take steps to ensure that all spending in accordance with the budget and that revenue and expenditure is properly monitored.

### Variation from budget estimates

Generally, Council may incur expenditure only if it's in terms of the approved budget, within the limits of the amount amounts appropriated against each vote – and in case of capital expenditure, only if council has approved the project.

Expenditure incurred outside of the above parameters may be considered to be unauthorised or, in some cases, irregular or fruitless or wasteful.

Unauthorised expenditure must be reported and may result in criminal proceedings.

### Revision of budget estimates – adjustment budget

It may be necessary on occasion for council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecast thereof for the remainder of the financial year

In such cases the municipality may adopt an adjustment budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at a council for adoption.

The adjustment budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain certain appropriate justifications and supporting material when approved by council.

## **Requirements of MFMA relating to annual budget and supporting documentation**

Section 17 of the MFMA stipulates that annual budget of the municipality must be a schedule in prescribed format and sets out what must be included in that format. The various tables detailed in Section 4 and those additionally attached comply with the requirements

## **Other Legislation**

In addition to the MFMA, the following legislation also influences Municipality's budgeting;



### The Division of Revenue Bill 2018 and Provincial Budget Announcements

Three year national allocation to local government are published per municipality each year in the Division of Revenue Act. The Act place duties on municipalities in additions to requirements of MFMA, specifically with regard to reporting obligations.

Allocations to municipality from Provincial Treasury are announced and published in the Provincial budget. Section 18 of the MFMA states that annual budgets may only be funded from reasonable anticipated revenues to be collected. The provision in the budget for allocation from National and Provincial Government should reflect the allocations announced or published in the DORA or in the relevant Provincial Gazette.

### The Municipal Systems Act – No 32 of 2000 and Municipal Systems Amendment Act – No 44 of 2003

One of the key objectives of the MSA is to ensure financially and economically viable communities. The requirement of the Act link closely to those of MFMA. In particular, the following requirements need to be taken to consideration in the budget process;

- Chapter 4 and 5 relating to community participation and the requirements for the Integrated Development Plan process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy

## **Section 18 – Other supporting documents**

Various supporting documents are attached to enable the reader a full understanding of various processes involved. These are the following:

### **Annexure 1 – Main Budget Tables**

*Tables A1 to A10*

### **Annexure 2 – Supporting Budgets Tables**

*Supporting Tables SA1 to SA37*

### **Annexure 3 – Tariffs, Charges and Fees for 2017/18**

### **Annexure 4**

*Municipal Budget Circular for the 2018/19 MTREF – MFMA Circular 91*

### **Annexure 5**

*Process Plan 2019/120*

### **Annexure 6 – Budget Related Policies**