

## Executive Summary

### 1. PURPOSE

The purpose of this report is to present to Council the draft budget for 2018/2019 financial year as compiled with inputs from all departments and Directors.

### 2. BACKGROUND

Chapter 4, Section 28 of the Municipal Finance Management Act No. 56 of 2003, prescribes. The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

### Contents of annual budgets and supporting documents

- (1) An annual budget of a municipality must be a schedule in the prescribed format
  - (a) Setting out realistically anticipated revenue for the budget year from each revenue source;
    - (a) Appropriating expenditure for the budget year under the different votes of the municipality;
    - (b) Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
    - (d) Setting out—
      - (i) Estimated revenue and expenditure by vote for the current year; and
      - (ii) Actual revenue and expenditure by vote for the financial year preceding the current year; and
    - (e) A statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.
  - (b) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.
  - (c) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:
    - (a) Draft resolutions
      - (i) approving the budget of the municipality;
      - (ii) Imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
      - (iii) approving any other matter that may be prescribed;

- (b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;
- (c) a projection of cash flow for the budget year by revenue source, broken down per month;
- (d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
- (e) any proposed amendments to the budget-related policies of the municipality;
- (f) particulars of the municipality's investments;
- (g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;
- (h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
- (i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
- (j) particulars of any proposed allocations or grants by the municipality to—
  - (i) other municipalities;
  - (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
  - (iv) any other organs of state;
  - (v) any organisations or bodies referred to in section 67(1);
- (k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of
  - (i) each political office-bearer of the municipality;
  - (ii) councillors of the municipality; and
  - (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;
- (l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of—
  - (i) each member of the entity's board of directors; and
  - (ii) the chief executive officer and each senior manager of the entity;and
- (m) any other supporting documentation as may be prescribed.

## Summary of Income and Expenditure

FS162 Kopanong - Table A4 Budgeted Financial Performance (revenue and expenditure)							
Description	2015/16	2016/17	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousand							
<b>Revenue By Source</b>							
Property rates	13 952	16 134	18 439	19 263	21 158	23 973	27 093
Service charges - electricity revenue	54 679	58 978	70 236	70 236	-	-	-
Service charges - water revenue	34 480	25 207	33 557	13 200	16 427	18 070	19 877
Service charges - sanitation revenue	11 207	12 287	17 067	13 940	15 347	16 965	18 748
Service charges - refuse revenue	8 031	8 953	12 227	10 167	11 181	12 360	13 659
Rental of facilities and equipment	1 106	1 170	1 244	943	1 037	1 141	1 255
Interest earned - external investments	9 636	12 991	1 369	275	302	333	366
Interest earned - outstanding debtors	4	4	11 827	11 924	13 117	14 428	15 871
Fines, penalties and forfeits	125	34	54		60	66	72
Transfers and subsidies	78 370	68 363	70 030	70 030	82 280	87 841	94 353
Other revenue	1 392	1 474	9 827	887	1 016	1 117	1 229
Gains on disposal of PPE	8 202	93					
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>221 183</b>	<b>205 687</b>	<b>245 877</b>	<b>210 865</b>	<b>161 925</b>	<b>176 294</b>	<b>192 523</b>

### 3. INCOME

#### Rates

Due to the payment rate of rates of 85% we have to budget for 15% debt impairment.

#### Water

Due to the payment rate of water of 35% we have to budget for 65% Debt impairment.

#### Sanitation

Due to the payment rate of sanitation of 45% we have to budget for 55% Debt impairment.

### **Refuse**

Due to the payment rate of sanitation of 45% we have to budget for 55% Debt impairment.

### **Plans that can help with revenue enhancement.**

#### **Short Term**

- If the customer fails to pay any account within a period of fourteen (14) days after the expiry of the due date, then
- Without further notice, the Municipality may limit, disconnect the supply of water to the immovable property in question.
- Repayment plan for all councillors and officials to repay their municipal accounts.
- Clear all Government accounts with the different with National and Provincial Departments.
- Meters in all unmetered areas.
- Replace broken water meters.
- Minimize water losses on Network.
- Give targets of collection to all units starting form 01<sup>st</sup> April 2018.
- Appoint a debt recovery person within the municipality without burdening the municipality.
- Complete household profiling done by Rand water students.

#### **Medium Term**

- Installation of prepaid water meters.
- Take over electricity functions from Centlec Pty Ltd (Magaung Metro entity) to the municipality.
- Pay points during the pension and SASA pay-outs.
- Pay points at Hlasela offices (There is only one operational in the nine towns at the moment.

- Debts which have been outstanding for more than 90 days from due date may be handed over to debt collectors appointed by the Municipality for the purposes of collecting such debt.
- On the purchase of prepaid electricity: 50% will be allocated to the municipal debt; 50% will be allocated to prepaid electricity, to make 100%.
- All customer's debt will be handed over to Centlec for blocking of pre-paid electricity. This is the only best practice to collect revenues of the municipality.

#### Bad Debt Provision

Type	Budget
Rates	15%
Water	65%
Refuse	55%
Sewerage	55%

If all measures is put in places we can turn our payment rate around.

## 4. EXPENDITURE

FS162 Kopanong - Table A4 Budgeted Financial Performance (revenue and expenditure)							
Description	2015/16	2016/17	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
<b>Expenditure By Type</b>							
Employee related costs	96 718	102 741	95 577	105 293	112 523	120 393	128 821
Remuneration of councillors	3 855	3 528	4 583	4 583	5 042	5 395	5 772
Debt impairment	61 582	42 479	28 828	24 280	41 291	43 728	44 672
Depreciation & asset impairment	54 848	42 560	61 000	61 000	65 000	65 000	65 000
Finance charges	19 121	23 152					
Bulk purchases	78 513	86 353	78 260	74 042	34 000	36 142	38 455
Contracted services	649	-	-	-	-	-	-
Other expenditure	26 053	25 524	86 362	85 383	59 334	61 016	64 921
Loss on disposal of PPE	646	2 974					
<b>Total Expenditure</b>	<b>341 982</b>	<b>329 310</b>	<b>354 611</b>	<b>354 582</b>	<b>317 190</b>	<b>331 674</b>	<b>347 641</b>

All budget assumptions is based on National Treasury circulars.

### 4.1 Salaries

Current percentage of the salary budget against the total budget is 34.8%.

### Cost containment measures

#### Short Term

- Only critical post will be filed.
- Consultants will only be use where the municipality don't have the capacity to do it in-house.
- Telephone cost where only certain officials can make calls to cell phones.

- No official have access to internet only where the official can proves and provide reasons will he be granted access to internet for a certain time depending on the work he or she must do.
- Request Financial Recovery plan internally and assistance from Provincial and National Treasury to be tabled to the next ordinary Council.

### **Medium Term**

- Auction off all redundant buildings and land.
- Yield must firstly be used to pay Pension funds to encourage people to go on early retirement and to assist medically unfit personnel.
- Repayment of arrear creditors.
- Land must be sell for both Xhariep grounds
- Memorandum of understanding must be renegotiated with Bloem Water and Centlec.
- All rental agreements must be renegotiated.

### **5. Changes to Policy's**

**There were no changes made to the following:**

Budget Policy  
 SCM Policy  
 Investment Policy  
 Asset Management Policy  
 Debt write of Policy  
 Travel and Subsistence Policy  
 Indigent Policy  
 Tariff Policy  
 Credit control Policy  
 Human Resources Policy

## **Recommendations**

- 1.1 That the Council approves the 2018/2019 draft budget with a cash deficit on the cash flow side off the draft budget.
  
- 1.2 That the Council also needs an update workshop on the short, medium and long term plan to turn around the financial deficit.