

Draft Budget

1.1 Mayors Report

It gives me great privilege to present the 2019/20 Draft Medium Term Revenue and Expenditure Framework (MTREF) budget to council for its consideration. Budgeting for 2019/20 financial year and the outer two financial years were guided by the Budget Process Plan which was adopted by Council on the 31 August 2018 however due to ongoing unrest in the municipality most of the processes were not implemented. National Treasury's issued MFMA Budget Circular No. 93 and 94 which were used to guide the compilation of the 2019/20 Medium Term Revenue and Expenditure Framework (MTREF) budget. The main objective of a municipal budget is to allocate realistically anticipated resources to the service delivery goals identified as priorities in the Integrated Development Plan. Municipal finances remain under pressure as a result of rising costs to deliver services; declining revenue collection and escalating salary bill. The Municipality is faced with various challenges; which among them include a culture of non-payment for rates and service charges by customers due to unemployment and prolonged community protest which negatively affected municipal revenue collection. Having said this; the Municipality has appointed a service provider to develop a Revenue Enhancement Strategy that will also assist the Municipality in trying to address this challenge.

The detail of the Draft Annual Budget is presented in the schedules attached to this report.

1.2 Draft Budget Related Resolutions

Below are the resolutions that must be approved by council with draft adoption of the 2019/20 budget.

- a. That the draft budget for 2019/2020 and the indicative 2 outer financial years 2020/2021 and 2021/2022 **be approved** as set out in the following budget tables:-
 - 1.1 Table A1 Budget Summary
 - 1.2 Table A2 Budgeted Financial Performance by Standard Classification
 - 1.3 Table A3 Budgeted Financial Performance by Vote
 - 1.4 Table A4 Budgeted Financial Performance – Revenue by Source and Expenditure by type
 - 1.5 Table A5 Budgeted Capital
 - 1.6 Table A6 Budgeted Financial Position
 - 1.7 Table A7 Budgeted Cash Flows
 - 1.8 Table A8 Budgeted Backed Reserves and Accumulated Surplus Reconciliation
 - 1.9 Table A9 Asset management
 - 1.10 Table A10 Basic Service Delivery Measurement
- b. That the Draft Tariffs for Property Rates and other Service Charges **be approved** as attached.
- c. That the Draft Capital Projects **be approved** as indicated below.

- d. That the Draft Budget **be approved.**

1.3 Budget Related Policies

That it be noted that the reviewed budget related policies will be tabled with the final budget where there are changes.

1.4 Executive Summary

Section 16 (1) of the MFMA; Act 56 of 2003 states that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of the financial year. Section 16 (2) of the MFMA; Act 56 of 2003 states that; in order for the municipality to comply with subsection (1); the Mayor of the Municipality must table the annual budget at council meeting at least 90 days before the start of the financial year. Section 17 of the MFMA; Act 56 of 2003 states that an annual budget of the municipality must be a schedule in the prescribed format:-

- a. Setting out realistically anticipated revenue for the budget year from each revenue source.
- b. Appropriating expenditure for the budget year under the different votes of the municipality;
- c. 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
 - (iii) A statement contained any other information required by section 215(3) of the constitution or as may be prescribed
- e. An annual budget must generally be divided into a capital and operating budget in accordance with international best practice, as may be prescribed.

The grants from national and other spheres of government as gazetted in DoRA have increased slightly; however municipal revenue collection has declined drastically and it is imperative that the municipality reprioritise expenditure and implement strict cost containment measures. Measurable performance objectives and indicators are detailed in the Draft IDP. The main challenges that were experienced during compilation of the 2019/20 Budget can be summarised as follows:-

- Declining revenue collections
- The need to reprioritise projects and expenditure within available resources given the cash flow realities and declining cash position of the municipality;
- Escalating salary bill

In view of the aforementioned; the following is the table depicting the overview of the 2019/20 budget.

R thousands	Original Budget 2018/2019	2018/19 1 st Adjusted Budget	2018/19 2 nd Adjusted Budget
Operating Revenue (Excl. capital transfers)	208,324,055	208,324,055	200 669 430
Operating Expenditure	237 318 506	239 409 964	227 514 430
Surplus or (Deficit) before capital transfers	(28,994 452)	(31 085 910)	(26 845 000)
Capital Transfers	31 252 300	31 252 300	22 452 300
Internally generated funds (Own Capital)	1 320 000	1 320 000	4 069 718

R thousands	MTREF 2019/2020	MTREF 2020/2021	MTREF 2021/2022
Operating Revenue (Excl. capital transfers)	197 438 658	205 168 984	216 784 474
Operating Expenditure	225 725 070	237 914 224	250 761 592
Surplus or (Deficit) before capital transfers	(28 286 412)	(32 745 240)	(33 977 118)
Capital Transfers	43 632 050	32 195 200	36 719 750
Internally generated funds (Own Capital)	100 000	105 400	111 092

The total revenue excluding capital transfers has declined to R197m for the 2019/20 budget when compared to 2018/19 adjusted budget of R200m; this is due to declining collection trends. The operating expenditure has declined to R225m for 2019/20 budget when compared to R227m for 2018/19 adjusted budget due to a declining revenue. The municipality needs to further reprioritise the expenditure projects to be in line with available resources.

1.5 Overview of assumptions used

The assumptions used were guided by MFMA Circular 93 and 94 issued by National Treasury for compilation of 2019/20 MTREF Budget. The following assumptions were used:-

- Collection rate for revenue services; taking into consideration the current economic conditions.
- Inflation outlook as indicated in the table below:-

Table 1: Macroeconomic performance and projections, 2017 - 2020 Fiscal year	2018/19 Estimates	2019/20	2020/21	2021/22
Estimate	Forecast			
Consumer Price Inflation (CPI)	4.7%	5.2%	5.4%	5.4%
Real GDP growth	0.7%	1.5%	1.7%	2.1%

- **Bulk electricity** costs have increased in line with Nersa guidelines.
- **Tariffs** for property rates and all other service charges will increase in line with National Treasury guidelines.
- **Employee related costs** The *Salary and Wage Collective Agreement* for the period 01 July 2018 to 30 June 2021 dated 15 August 2018 through the South African Local Government Bargaining Council Circular No. 6 of 2018 has been used when budgeting for employee related costs for the 2019 MTREF.

1.6 Overview of budget funding

In a Circular issued by National Treasury for compilation of the 2019/20 MTREF Budget they highlighted the following:-

- ✓ that no municipality will adopt an unfunded budget (meaning the budget must be balanced with available resources)
- ✓ That municipalities that table an unfunded budget will have to table a plan to council together with the 2019/20 MTREF budget on how and by when the budget will improve from unfunded to funded position.

The funding of the annual budget has been calculated taking into account the following:-

- Rates and Service Charges
- Interest on outstanding debtors
- Interest expected to be received from investments
- Grants as guided by the division of revenue act

1.7 Operating Revenue Framework

Section 18 (1) of the MFMA states that the annual budget may 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. Furthermore section 18 (2) states that revenue projections in the budget must be realistic, taking into account projected revenue for the current year based on collection levels to date; and actual revenue collected in previous financial years. In these tough economic times strong revenue management is fundamental to the financial sustainability of the municipality. Below is the table reflecting the summary of budgeted revenue by source.

Table: 1 (Revenue by source)

EC124 Amahlathi - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Revenue By Source											
Property rates	2	15,841	14,013	16,893	17,659	17,659	17,659	17,659	17,659	18,613	19,618
Service charges - electricity revenue	2	33,561	28,873	25,280	45,161	45,161	45,161	45,161	45,161	47,600	50,170
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	8,589	9,133	10,140	10,718	10,000	10,000	10,000	10,000	10,540	11,109
Rental of facilities and equipment		1,002	827	474	5,057	1,057	1,057	1,057	1,112	1,173	1,236
Interest earned - external investments		9,422	8,442	4,096	6,800	1,800	1,800	1,800	1,894	1,996	2,104
Interest earned - outstanding debtors		2,175	2,302	4,524	2,640	2,640	2,640	2,640	2,777	2,927	3,085
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		239	172	572	506	506	506	506	506	534	562
Licences and permits		-	-	915	2,613	2,613	2,613	2,613	2,749	2,897	3,054
Agency services		3,219	3,052	355	1,668	1,668	1,668	1,668	1,668	1,758	1,853
Transfers and subsidies		131,522	124,982	102,211	102,915	103,271	103,271	103,271	112,541	115,687	122,470
Other revenue	2	1,217	503	1,604	2,494	4,293	4,293	4,293	1,371	1,445	1,523
Gains on disposal of PPE		-	543	2,262	10,092	10,000	10,000	10,000	-	-	-
Total Revenue (excluding capital transfers and contributions)		206,785	192,840	169,325	208,324	200,669	200,669	200,669	197,439	205,169	216,784

Property rates and service charges have been increased in line with National Treasury guidelines. Operational transfers and subsidies have slightly increased from R103m to R112m

due to a slight increase in equitable share and other grants. The table below depicts the grants to be received by the Municipality during 2019/20 financial year. The overall revenue projection have declined when compared to adjusted budget due to declining revenue collection trends.

Table: 2 (Grants and subsidies)

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		129,236	117,974	99,964	101,715	101,715	101,715	111,341	115,687	122,470
Local Government Equitable Share		124,034	113,780	95,446	97,114	97,114	97,114	105,863	111,975	118,658
Finance Management		1,600	1,625	1,700	1,770	1,770	1,770	2,235	2,235	2,235
Municipal Systems Improvement		930	-	-	-	-	-	-	-	-
EPWP Incentive		1,056	1,062	1,389	1,449	1,449	1,449	1,236	-	-
PMU 5%		1,616	1,507	1,429	1,382	1,382	1,382	2,007	1,477	1,577
Other transfers/grants [insert description]										
Provincial Government:		2,286	2,314	2,248	1,200	1,556	1,556	1,200	-	-
Sport and Recreation		1,105	1,200	1,200	1,200	1,200	1,200	1,200	-	-
LED Promotions		350	-	-	-	-	-	-	-	-
Waste Grant 2m		387	647	771	-	-	-	-	-	-
Waste Grant 770k		-	297	240	-	234	234	-	-	-
Capacity		282	-	-	-	-	-	-	-	-
Recycling		-	-	-	-	122	122	-	-	-
Vuna Awards		-	-	-	-	-	-	-	-	-
Seta		161	170	37	-	-	-	-	-	-
Other transfers/grants [insert description]										
District Municipality: [insert description]		-	-	-	-	-	-	-	-	-
Other grant providers: [insert description]		-	-	-	-	-	-	-	-	-
Total Operating Transfers and Grants	5	131,522	120,289	102,211	102,915	103,271	103,271	112,541	115,687	122,470
Capital Transfers and Grants										
National Government:		34,611	26,333	31,600	31,252	22,452	22,452	43,632	32,195	36,720
Municipal Infrastructure Grant (MIG)		34,611	21,640	27,145	26,252	17,452	17,452	38,132	28,059	29,968
INEG Grant		-	4,693	4,455	5,000	5,000	5,000	5,500	4,136	6,752
Other capital transfers/grants [insert desc]										
Provincial Government: Other capital transfers/grants [insert description]		-	-	-	-	-	-	-	-	-
District Municipality: [insert description]		-	-	-	-	-	-	-	-	-
Other grant providers: [insert description]		-	-	-	-	-	-	-	-	-
Total Capital Transfers and Grants	5	34,611	26,333	31,600	31,252	22,452	22,452	43,632	32,195	36,720
TOTAL RECEIPTS OF TRANSFERS & GRANTS		166,133	146,622	133,811	134,167	125,723	125,723	156,173	147,882	159,190

1.8 Operating Expenditure Framework

The table below depicts the high level summary of 2019/20 MTREF Budget classified per main type of operating expenditure.

Table: 4 (Expenditure by Type)

EC124 Amahlathi - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2015/16	2016/17	2017/18	Budget Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2019/20	Budget Year +2 2020/21
Expenditure By Type											
Employee related costs	2	75,493	112,135	120,080	117,083	114,025	114,025	114,025	115,165	121,384	127,939
Remuneration of councillors		13,849	11,561	12,243	13,244	12,244	12,244	12,244	12,244	12,905	13,602
Debt impairment	3	11,739	7,916	10,352	2,500	2,500	2,500	2,500	2,500	2,635	2,777
Depreciation & asset impairment	2	28,845	30,342	29,853	28,000	28,000	28,000	28,000	28,000	29,512	31,106
Finance charges		16,370	2,507	38	50	50	50	50	100	105	111
Bulk purchases	2	24,313	26,165	27,072	30,050	30,050	30,050	30,050	31,612	33,319	35,118
Other materials	8	-	-	-	248	224	224	224	236	248	262
Contracted services		504	-	-	20,076	17,876	17,876	17,876	15,509	16,346	17,229
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	62,244	62,942	62,290	26,068	22,546	22,546	22,546	20,360	21,459	22,618
Loss on disposal of PPE		1,784	47,128	2,339	-	-	-	-	-	-	-
Total Expenditure		235,142	300,697	264,266	237,319	227,514	227,514	227,514	225,725	237,914	250,762

The employee related costs are projected to increase to R115m. This is based on the fact that the municipality will embark on a process of normalising the employment cost. Remuneration of councillors are projected to remain unchanged at R12m. Bulk Purchases have increased from R30m when compared to 2018/19 adjustment budget to R31m in line with Treasury guidelines. Other expenditure have declined to R20m for 2019/20 budget due to municipal revenue that is declining drastically.

1.9 Capital Expenditure

The following table provides a breakdown of budgeted capital expenditure by vote.

Table: 5 (Capital Expenditure by vote)

Vote Description	Ref	2015/16	2016/17	2017/18	Budget Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2019/20	Budget Year +2 2020/21
Single-year expenditure to be appropriated	2										
Vote 1 - EXECUTIVE & COUNCIL		57	932	77	1,000	835	835	-	-	-	-
Vote 2 - BUDGET & TREASURY OFFICE		668	26	74	-	-	-	-	-	-	-
Vote 3 - CORPORATE SERVICES		298	511	150	200	200	200	-	100	105	111
Vote 4 - PLANNING AND DEVELOPMENT		24,248	22,117	24,503	26,252	17,452	17,452	-	38,132	28,059	29,968
Vote 5 - COMMUNITY & SOCIAL SERVICES		351	-	-	-	-	-	-	-	-	-
Vote 6 - HOUSING		68	690	-	-	-	-	-	-	-	-
Vote 7 - PUBLIC SAFETY		26	-	-	-	-	-	-	-	-	-
Vote 8 - SPORT & RECREATION		-	5	-	-	-	-	-	-	-	-
Vote 9 - WASTE MANAGEMENT		1	4,600	-	120	120	120	-	-	-	-
Vote 10 - ROAD TRANSPORT		8,871	1,518	68	-	-	-	-	-	-	-
Vote 11 - ELECTRICITY		2,299	5,477	4,455	5,000	5,000	5,000	-	5,000	4,136	6,752
Vote 12 - ENVIRONMENTAL PROTECTION		50	0	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		36,934	35,875	29,327	32,572	23,607	23,607	-	43,232	32,301	36,831
Total Capital Expenditure - Vote		36,934	35,875	29,327	32,572	23,607	23,607	-	43,232	32,301	36,831

Below is the list of Capital Projects:-

Vote Number	Dept	Project	Draft Budget
C0006-2/IA00092/F0002/X052/R0839/001/COR	IT	Upgrade Network	100,000.00
C0020-1/IA07120/F0786/X032/R2124/001/ENG	Electricity	Upgrade Electricity Infrastructure	5,000,000.00
C0040-17/IA00132/F0791/X099/R2125/001/P&D	PMU	Mlungisi Access Roads	3,500,000.00
C0228-1/IA00032/F0791/X099/R1514/001/P&D	PMU	KKH Firestation	3,000,000.00
C0245-2/IA00032/F0791/X099/R2125/001/P&D	PMU	Mlungisi Sportfield	12,000,000.00
New Vote	PMU	Sophumelela Internal Roads	2,500,000.00
New Vote	PMU	Mzamomhle Community Hall	2,500,000.00
New Vote	PMU	Electrification of Xholorha	2,800,000.00
New Vote	PMU	Fencing of Cemeteries	3,000,000.00
New Vote	PMU	Gubevu Internal Roads	3,000,000.00
New Vote	PMU	KKH Paving	4,000,000.00
New Vote	PMU	Border Post Internal Roads	1,832,050.00
		Total	43,232,050.00

The funding for capital projects have increased from R23m to R43m due to an increase in MIG allocation.

1.10 Annexures

- ✓ Signed Quality Certificate
- ✓ Draft A Schedule
- ✓ Draft Tariffs