

ITEM :

REPORT BY THE EXECUTIVE MAYOR

DRAFT BUDGET 2019/20

PURPOSE OF THE REPORT

The purpose of the report is to submit the multi-year draft 2019/20 draft budget of the Waterberg District Municipality to Council for approval.

STATUTORY/LEGAL REQUIREMENT

Section 24(1) of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.”

Section 24(2)(c) of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“An annual budget must be approved together with the adoption of resolutions ... approving any changes to the municipality’s integrated development plan”

Section 17 of the MFMA states that an annual budget must be in a schedule in the “prescribed format”.

Paragraph 9 of the Municipal Budget & Reporting regulations (MBRR) indicates that:

“The annual budget and supporting documentation must be in the format specified in Schedule A and include all the required tables, charts and explanatory information.”

Paragraph 14 of the MBRR indicates that:

“An annual budget and supporting documentation tabled in a municipal council must be in the format in which it will eventually be approved by Council and be credible and realistic such that it is capable of being approved and implemented as tabled.”

Section 22 of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“(a) in accordance with Chapter 4 of the Municipal Systems Act—

(i) make public the annual budget and the documents referred to in section 17(3); and

(ii) invite the local community to submit representations in connection with the budget; and

(b) submit the annual budget—

(i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

(ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget”

Section 87(1) of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“The board of directors of a municipal entity must for each financial year submit a proposed budget to its parent municipality not later than 150 days before the start of the entity’s financial year.”

Section 87(3) of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“The mayor of the parent municipality must table the proposed budget of the municipal entity in the council when the annual budget of the municipality for the relevant year is tabled.”

MFMA Circulars 89 & 91 has been attached.

STATUTORY/LEGAL REQUIREMENT (continued)

National Treasury Circular 66 dated 11 December 2012 requires that the Auditor General must from 2012/2013 express an opinion in relation to non-cash items as it relates to unauthorised expenditure resulting from overspending.

Section 160(2) of the Constitution provides that a council may not delegate the approval of budgets or the imposition of rates, taxes, levies and duties. In other words, *only the council may make decisions related to the raising of municipal revenues and approving (or authorising) the spending of those revenues through the budget or an adjustments budget.*

MFMA section 22. Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must

(b) submit the annual budget—

(i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury;

BACKGROUND, EXPOSITION, FACTS AND PROPOSALS

According to the original Budget Process Plan the annual 2019/20 budget has to be tabled to Council 90 days before the start of the new budget year, and it is tabled to Council on 28 March 2019.

After the approval by Council of the tabled 2019/20 budget, the budget will be made public and submitted to National and Provincial Treasury. The municipality must embark on public participation for the Budget & IDP between March and April 2019 in terms of the 2019/20 IDP/Budget Process Plan approved by Council in August 2018.

The budget related policies are being reviewed and where any adjustments are required, the revised policies will be attached to the final item for approval.

The budget is divided into a capital and operating budget. The IDP projects are divided into projects of a capital and operating nature.

The 2019/20 municipal tariffs for the Abattoir and Fire Fighting have been reviewed and are attached to this budget item, no changes are proposed for Fire Fighting tariffs and Abattoir tariffs from the approved 2018/19 tariffs.

All current investments have been committed in terms of the 2017/18 IDP & Budget and the 2018/19 IDP and Budget to such an extent that we are experiencing an operating shortfall in the medium term due to lack of accumulated surplus to fund the current operating losses, therefore the significantly reduced IDP budget.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore municipalities are required to ***justify all increases in excess of the projected inflation target for 2019/20*** in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups.

BACKGROUND, EXPOSITION, FACTS AND PROPOSALS *(continued)*

The Salary and Wage Collective Agreement for the period 01 July 2018 to 30 June 2021 has come into effect. The preparation of the 2019/20 is based on the concluded 3 year Salary and Wage Collective Agreement dated 15 August 2018 and linked to inflation rate as per **MFMA Budget Circular No. 94**.

- 2019/20 Financial Year – average CPI 5.2% + 1%
- 2020/21 Financial Year - average CPI 5.4% + 1%
- 2021/22 Financial Year - average CPI 5.4% + 1%

Municipalities are advised to use this Salary and Wage Agreement when preparing their 2019/20 MTREF budgets. The National Treasury's recommended CPI rate for 2019/20 is 5.2%, therefore salary increase is calculated at 6.7% for the next financial period. In terms of remuneration of councillors, Municipalities are further advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. ***Any overpayment to councillors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councillor(s) concerned.***

The shortfall in the 2018/19 operating budget of **R 22 081 453** is unfunded as such spending should be kept at a minimum level in order to reduce this projected deficit. The current IDP operating projects, unfunded health and fire-fighting services, as well as the Abattoir operations has a huge impact on this deficit, since some projects or services which are not funded by grants have been included in this tabled budget. The full amount of the shortfall relates to an actual operating shortfall in the 2019/20 year whereby the revenue received during the 2019/20 year will not be enough to fund the budgeted 2019/20 operating expenditure. This is a major cause for concern as indication is that the Municipality will continuously be short on the budget in future as revenue is fixed per grants and majority of operating expenditure is salary related which often increases by more than the CPI or relevant equitable share percentage increase.

The accumulated deficit from previous years is, as per the current state of affairs worsening the position. This now has a detrimental effect on the IDP as surpluses which were previously allocated to the IDP will now have to be used to fund operating shortfalls, thereby decreasing the IDP amount for projects significantly. Attached as Budget Table SA10 and Annexure 7 is the funding measurement test which indicates that currently all years of the budget are still funded.

The only changes still to be affected on the budget tabled on 28 March 2019 are as follows:

- The revised policies has to be attached, if applicable;
- Identification and inclusion of detailed projects funded from own revenue & EPWP;
- Submission of Procurement Plan based on projects to be identified;
- Addressing shortfalls identified in the National Treasury review checklist of the March 2019 Tabled Budget, if applicable.
- Addressing shortfalls identified in the National Treasury review checklist of the March 2018 Tabled Budget, if applicable.

BACKGROUND, EXPOSITION, FACTS AND PROPOSALS *(continued)*

STAFF IMPLICATIONS

New positions in the Social Development and Community Services have been included in the 2019/20 budget.

FINANCIAL IMPLICATIONS

See attached Schedules.

The Budget/IDP Road Shows will be held in March to May 2019 by the Offices of the Municipal Manager and Executive Mayor. The costs will be defrayed from the IDP votes Corporate - IDP CO 011 and MM - Strategic planning CO 012.

OTHER PARTIES CONSULTED

WDM Municipal Manager	Bela Bela Local Municipality
WDM Section 57 managers	LIM 368 Local Municipality
WDM Divisional managers	Thabazimbi Local Municipality
WDM IDP Forums	Lephalale Local Municipality
Limpopo Provincial Treasury	Mogalakwena Local Municipality
National Treasury	Waterberg Community

(2019/20 budget proposals for Contracted Services Firefighting was received from Mogalakwena Local Municipality)

ANNEXURES

Budget:

Table A1	-	Budget Summary
Table A2	-	Budgeted Financial Performance (by standard classification - GFS)
Table A3	-	Budgeted Financial Performance (by municipal vote)
Table A4	-	Budget Financial Performance (by revenue source & expenditure type)
Table A5	-	Budgeted Capital Expenditure by vote, standard classification and funding
Table A6	-	Budgeted Financial Position
Table A7	-	Budgeted Cash Flows
Table A8	-	Cash backed reserves / accumulated surplus reconciliation
Table A9	-	Asset Management
Table A10	-	Basic Service Delivery Measurement

Supporting documents:

Table SA1	-	Supporting detail to "Budgeted Financial Performance"
Table SA2	-	Matrix Financial Performance Budget (revenue source/expenditure per type)
Table SA3	-	Supporting detail to "Budgeted Financial Position"
Table SA4	-	Reconciliation of IDP strategic objectives and budget (revenue)
Table SA5	-	Reconciliation of IDP strategic objectives and budget (operating expenditure)
Table SA6	-	Reconciliation of IDP strategic objectives (capital expenditure) (No Capex)
Table SA7	-	Measurable performance objectives
Table SA8	-	Performance indicators and benchmarks
Table SA9	-	Social, economic and demographic statistics and assumptions

ANNEXURES (continued)

Supporting documents: (continued)

Table SA10 -	Funding measurement
Table SA11 -	Property rates summary (N/A)
Table SA12a-	Property rates by category (current year) (N/A)
Table SA12b-	Property rates by category (budget year) (N/A)
Table SA13a-	Service Tariffs by category (N/A)
Table SA13b-	Service Tariffs by category (explanatory) (N/A)
Table SA14 -	Household bills (N/A)
Table SA15 -	Investment particulars by type
Table SA16 -	Investment particulars by maturity
Table SA17 -	Borrowing (there is none)
Table SA18 -	Transfers and grant receipts
Table SA19 -	Expenditure on transfers and grant programme
Table SA20 -	Reconciliation of transfers, grant receipts and unspent funds
Table SA21 -	Transfers and grant made by the municipality
Table SA22 -	Summary councillor and staff benefits
Table SA23 -	Salaries, allowances and benefits (political office bearers/cllrs/senior managers)
Table SA24 -	Summary of personnel numbers
Table SA25 -	Budgeted monthly revenue and expenditure (source & type)
Table SA26 -	Budgeted monthly revenue and expenditure (municipal vote)
Table SA27 -	Budgeted monthly revenue and expenditure (standard classification)
Table SA28 -	Budgeted monthly capital expenditure (municipal vote) (there is none)
Table SA29 -	Budgeted monthly capital expenditure (standard classification) (there is none)
Table SA30 -	Budgeted monthly cash flow
Table SA31 -	Not required – municipality does not have active entities (N/A)
Table SA32 -	List of external mechanisms (there is none)
Table SA33 -	Contracts having future budgetary implications
Table SA34a	Capital expenditure on new assets by asset class
Table SA34b	Capital expenditure on the renewal of existing assets by asset class (there is none)
Table SA34c	Repairs and maintenance by asset class
Table SA34d	Depreciation by asset class
Table SA35 -	Future financial implications of the capital budget (there is none)
Table SA36 -	Detailed capital budget (there is none)
Table SA37 -	Projects delayed from previous financial analysis (to be determined in July 2018)
Annexure 1 -	Abattoir Tariffs
Annexure 2 -	Fire Fighting Tariffs
Annexure 3 -	IDP project summary
Annexure 4 -	Employees Salary Summary
Annexure 5 -	Organogram 2019/20 implementation status
Annexure 6 -	Circulars 94 of March 2019
Annexure 7 -	Cash available for 2019/20 IDP projects
Annexure 8 -	Quality Certificate for 2019/20 Budget
Annexure 9 -	A-schedule explanations
Annexure 10 -	Reconciliation of A1 grants to DORA
Annexure 11 -	Graphs (to be submitted in final budget)
Annexure 12 -	2019/20 operating budget changes from tabled to final budget (not applicable)
Annexure 13 -	Asset Management Policy (to be submitted in final budget)
Annexure 14 -	Catering Policy (to be submitted in final budget)
Annexure 15 -	Debt Collection and Credit Control Policy (to be submitted in final budget)
Annexure 16 -	Investment Policy (to be submitted in final budget)

ANNEXURES (continued)

Supporting documents: (continued)

- Annexure 17 - Petty Cash Policy (to be submitted in final budget)
- Annexure 18 - Supply Chain Management Policy (to be submitted in final budget)
- Annexure 19 - Virement Policy (to be submitted in final budget)
- Annexure 20 - Breakdown of Councillors' 2019/20 salaries as per the Upper Limit Gazette
- Annexure 21 - Procurement Plan for 2019/20 IDP projects (to be submitted in final budget)
- Annexure 22 - SALGA Circular No.6/2018 - Salary and Wage Collective Agreement

AUTHORITY

- Municipal Finance Management Act, No 56 of 2003
- Municipal Systems Act, No 32 of 2000
- Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009
- The Division Of Revenue Bill 2019/20
- MFMA Budget Circulars, most recently is 94 for the 2019/20 Budget Year

RECOMMENDATIONS

That:

1. The report by the Executive Mayor regarding the 2019/20 Annual Budget of the Waterberg District Municipality contained in the agenda, be approved.
2. Council approve the Annual Operating Budget for the financial year 2019/20 and indicative for the two projected outer years 2020/21 and 2021/22.
3. Council approve the multi-year operating and capital projects appropriations for the financial year 2019/20 and indicative for the two projected outer years 2020/21 and 2021/22.
4. Council approve the Tariffs reflected in Annexure 1 for Abattoir for the Budget year 2019/20.
5. Council approve the Tariffs reflected in Annexure 2 for Fire Fighting for the Budget year 2019/20.
6. The operating budget allocation per local municipality within the Waterberg District Municipality for Fire-Fighting Services be approved for the budget year 2019/20.

Mogalakwena Municipality	R6 163 290
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7. Note that a salary increase for councillors of 6.7 % has been budgeted in the 2019/20 budget year.
8. Note that a salary increase for officials and managers of 6.7 % has been budgeted in the 2019/20 budget year.
9. The Abattoir vacant positions filled once Council has approved the successful implementation of the turn-around strategy.
10. The tabled 2019/20 Budget and IDP be submitted to National and Provincial Treasury within 10 working days from approval.

2018/2019 BUDGET – EXECUTIVE SUMMARY

The Annual Budget was prepared in terms of National Treasury MFMA Municipal Budget and Reporting Regulations. The growth parameters were calculated based on the average CPI and guidance of Circular 94, being 5.2% in 2019/20, 5.4% in 2020/21 and 5.4% in 2021/22.

The multi-year draft budget is presented to Council for approval.

REVENUE

Council's main source of income is Government Grants.

GRANT ALLOCATIONS – DIVISION OF REVENUE ACT (DORA)

In terms of the 2018/19 Division of Revenue Act, the following allocations are made to Waterberg District Municipality Council:

Description	2019/20	2020/21	2021/22
Equitable Share	37 229 000	39 889 000	42 821 000
RSC Levies Replacement	86 343 000	88 678 000	91 165 000
Councillor Remuneration and Ward Committees	6 418 000	6 771 000	7 143 000
Financial Management Grant	1 000 000	1 000 000	1 000 000
Rural Roads Asset Management Systems Grant	2 259 000	2 300 000	2 521 000
Expanded Public Works Programme Integrated Grant	-	-	-
Municipal Systems Improvement Grant	-	-	-
Total Grants - Per DORA 2019/20	133 249 000	138 638 000	144 650 000
Investment Income	8 420 800	8 875 523	9 354 801
Service Charges - Abattoir Income	2 147 859	2 263 843	2 386 091
Other Income	35 401	37 313	39 328
Total Operating Revenue	143 853 060	149 814 679	156 430 220

INTEREST RECEIVED

Interest received is income from external investments and interest on the current account. Based on the current reserves and prevailing investment rates, a provision of R 8 420 800 is made in this regard.

ABATTOIR

Council operates an Abattoir, which is a trading service. The trading service is supposed to break even, but is currently operating at a loss. The Abattoir has a budgeted operating loss of **R 7 432 227** for 2019/20 (R 8 288 528 for 2017/18).

No tariff increase is proposed at the abattoir. The current tariffs are attached per **Annexure 1**.

An amount of R 2 147 859 is provided for income from the abattoir disclosed as service charges on the A1 schedule.

OTHER INCOME

Other income refers to sundry income and recovery of tender document costs to a total budgeted amount of R 35 401.

REVENUE *(continued)*

No changes to Fire Fighting tariffs is proposed for 2019/20 (See attached **Annexure 2**). All local municipalities providing the service must be encouraged to implement these particular Tariffs for the purposes of cost recovery.

No fire-fighting income has been budgeted for due to the trend of the past years where very little to no fire-fighting income was transferred to WDM, thus leading to the conclusion that any income budget for this purpose will be unrealistic.

The total budgeted revenue amounts to R 143 853 060 (2018/19 - R 138 400 800). This is an increase of 4% as compared to the 2018/19 original budget, primarily due to an increase in equitable share grant allocation for the 2019/20 financial period.

Attached per **Tables A2, A3 and A4** are details on the revenue by GFS, vote and source.

EXPENDITURE

EMPLOYEE RELATED COSTS

Personnel expenditure increases in 2019/20 to R 105 474 702 for officials (2018/19 adjusted – R 103 269 070), including contributions to long service awards and post-retirement medical aid actuarial valuations.

Provision is made for a general increase of 6.7% for all employees. The Salary and Wage Collective Agreement for the period 01 July 2018 to 30 June 2021 has come into effect. The preparation of the 2019/20 is based on the concluded 3 year SALGA Circular No.6/2018 - Salary and Wage Collective Agreement dated 15 August 2018 and linked to inflation rate as per **MFMA Budget Circular No. 94**.

- 2019/20 Financial Year – average CPI 5.2% + 1%
- 2020/21 Financial Year - average CPI 5.4% + 1%
- 2021/22 Financial Year - average CPI 5.4% + 1%

The Environmental Health Services salaries amounts to R 20 131 386 (2018/19 - R 20 222 177) which makes up 19% (20% in 2018/19) of the total salaries.

The Fire Fighting Services salaries amounts to R 20 172 710 (2018/19 - R 20 547 726) which contributes 20% (20% in 2018/19) of the total salaries – minimal year on year increase due to relocation of 2 fire-fighters from Thabazimbi local municipality to the district. This excludes the salaries budgeted in Mogalakwena local municipality for fire-fighting staff appointed by the local municipality. The District Municipality is currently in the process of relocating staff allocated to Thabazimbi and Mogalakwena local municipalities to the head office. The process is planned to be finalised by the end of 2019/20 financial period. The year on year increase is due to an amount of provision for leave for the relocation of the said staff which was not catered for in the last financial period, and cost of an additional fire-fighter.

The Abattoir salaries amounts to R 5 322 043 (2018/19 - R 5 818 940) which makes up 5% (6% in 2018/19) of the total salaries – 9% year on year increase. The year on year decrease is due to the exclusion of five slaughters which are not budgeted for in the 2019/20 financial period.

Travel allowances were budgeted for all Divisional Managers as well as other extensive travellers in terms of the WDM approved Travel Allowance Policy. There are 66 travel allowances budgeted for in comparison to a total staff complement of 162 permanent employees (41%). No new travel allowances has been added for the 2019/20 financial year.

Wages decreased by 1% to R 124 850 (2018/19 - R 125 850). This is due to the fact that increased days has been requested for contract workers at the abattoir due to increased throughput.

Performance bonuses for S57 managers is not budgeted for all managers due to the financial challenges being experienced by the municipality.

Budget is still provided for Provision for Leave and Provision for Officials' Bonuses due to the GRAP disclosure requirements for annual leave and officials' bonuses.

The total employee related costs amounts to R 105 474 702 (R 103 269 070) when including long term provisions for 2019/20) which is a 2% increase on 2019/20 personnel budget.

EXPENDITURE (continued)

EMPLOYEE RELATED COSTS (continued)

The total amount contributes 64% (18/19 – 58%; 17/18 – 55%; 16/17 – 59%; 15/16 – 61%; 14/15 - 52%; 13/14 – 48%) of the total operating expenditure (including operating expenditure projects on the IDP, excluding roll overs).

REMUNERATION OF COUNCILLORS

Councillors' salaries and allowances are based on the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. Any overpayment to councilors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councilor(s) concerned. The budget is now compiled on a Grade 4. Provision is made for six full time councillors.

The total salaries and allowances for councillors amounts to R 8 898 155 (18/19 – R 8 996 192) and makes up 5% (19/19 – 5%; 17/18 – 5%; 16/17 – 5%; 15/16 – 5%; 14/15 – 5%) of the total operating expenditure, however this expenditure is subsidised by an equitable share allocation specifically for this purpose of R 6 418 000, resulting in under-funding of R2 480 155 for the 2019/20 financial period .

GENERAL EXPENSES

General expenditure has been increased by an inflation rate of 5.3% with the exception of operating project expenditure. However, to support austerity measures as well as considering financial constraints faced by the municipality, no budget increases has been granted for catering and some expenditure votes have not been increased while other have been reduced.

The major general expenses are audit fees, subsistence & travel, depreciation, municipal services, annual insurance and security for WDM premises, Abattoir, Modimolle, Mogalakwena and Lephalale disaster centres. General expenditure also includes allocations to all the Waterberg Local Municipalities' Disaster Centres for the operation thereof.

REPAIRS AND MAINTENANCE

An amount of R 5 310 097 (2018/19 – R 6 473 476) is budgeted and constitutes 3% (2018/19 - 3%) of the total operating budget. The provision is low due to the fact that we do not have infrastructure assets. This provision is mainly for buildings, vehicles and equipment.

CONTRACTED SERVICES

Contracted services refer to the fire-fighting service which is rendered on behalf of Council by the Mogalakwena and Thabazimbi Local Municipalities. Claims are submitted by the local municipalities on a regular basis. Provision of R 6 163 290 (2018/19 – R 7 664 724) is made for the Mogalakwena local municipality in total and this represents 4% (2018/19 – 4%) of the operating budget.

EXPENDITURE (continued)

CONTRACTED SERVICES (continued)

The reason for the lower year-on-year increase is due to a detailed inspection of local municipal payslips resulting in a more accurate projection of salaries per local municipality. The provision for firefighting per municipality is as follows:

Mogalakwena Municipality	R 6 163 290
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The budget for the whole Disaster Department (including contract services for fire-fighting) is R 38 861 444 (2018/19 - R 40 585 447) which is a year-on-year decrease of 4%. The total fire-fighting/disaster function thus constitutes 23% (2018/19 - 21%) of the total operating budget. This is excluding the IDP capital expenditure portion, if any.

MUNICIPAL HEALTH

Budget of R 22 444 194 (2018/19 - R 23 773 477) is made for Municipal Health, which is a year-on-year decrease of 0.5%. This includes personnel costs for 31 officials, which consist of a divisional manager, 6 environmental health heads and 24 environmental health practitioners, however it excludes IDP projects if any.

National and Provincial Government has stopped the funding of health services, nonetheless it was indicated that they will partly fund the service by providing an equitable share. As per the 2019/20 DORA, the equitable share does not include a portion specifically allocated to this service. Previously and for three years during 2013 to 2015, this service was funded with an average amount of R11 million per annum.

The total operating expenditure amounts to:

Including the IDP operating expenditure portion: R 165 934 514 (2018/19 - R 173 065 052)

Excluding the IDP operating expenditure portion : R 162 934 514 (2018/19 - R 169 421 962)

Excluding IDP project expenditure, this is a decrease of 2% (2018/19 – 5%; 2017/18 – 5%; 2016/17 - 3%; 2015/16 – 7%) as compared to the previous financial year’s budgets. The MFMA Circular 94 allows an increase of 5.2% and therefore municipality is thus within the prescribed parameters.

Attached per **Tables A2, A3 and A4** are details on the operating expenditure by GFS, vote and source.

EXPENDITURE *(continued)*

EXPENDITURE PER VOTE

A department constitutes a vote as per the MFMA definition. The following provisions were made per department:

	Operating	Capital	Total
Budget & Treasury	R 21 163 924	R -	R 21 163 924 (5)
Municipal Manager	R 10 925 436	R -	R 10 925 436 (6)
Corporate Services	R 21 734 426	R -	R 21 734 426 (4)
Planning & Econ Development	R 6 635 044	R -	R 6 635 044 (9)
Infrastructure Development	R 7 857 698	R -	R 7 857 698 (8)
Office of Executive Mayor	R 26 732 381	R -	R 26 732 381 (2)
Social Dev & Community Serv	R 3 334 168	R -	R 3 334 168 (10)
Disaster (Fire Fighting)	R 35 527 276	R -	R 35 527 276 (1)
Municipal Environmental Health	R 22 444 194	R -	R 22 444 194 (3)
Abattoir	R 9 579 968	R -	R 9 579 968 (7)
Total	R 165 934 513	R -	R 165 934 513

In 2018/19 the top 3 expenditure budget departments were Fire Fighting (#1), Executive Support (#2) and Municipal Environmental Health (#3). This has remained the same in 2019/20 to Fire Fighting (#1), Executive Support (#2) and Municipal Environmental Health (#3).

IDP

Projects are being identified in terms of Council's priorities and will be subjected to community participation processes.

The total budget allocation for projects is as follows:

2019/20	R 5 195 640
2020/21	R 3 300 000
2021/22	R 3 521 000

The IDP MTEF totals **R 5 195 640** of which the funding sources can be summarized as follows:

WDM Accumulated Surplus	R 0
RRAMS Grant	R 2 259 000
EPWP Incentive Grant	R 0
FMG & MSIG	R 1 000 000
Investment Income	R 8 420 800

The projects on the IDP are divided into operating and capital projects for the 2019/20 budget year, and are as follows:

IDP Capital	R -
IDP Operating	R 5 195 640

IDP (continued)

The R 1 600 000 currently included in CO011 District Public Participation EM is what is available for project prioritisation.

Attached per **Schedule A5** are the details of the IDP by **GFS, vote and source**.

Attached per **Annexure 3** is a detailed breakdown of projects included in the IDP. The Budget is compiled on the projects and budget amounts recommended by the IDP Steering Committee.

OVERVIEW OF THE BUDGET PROCESS

The 2019/20 IDP/Budget Process Plan was adopted by Council in August 2018.

The 2018/19 mid-year performance assessment was conducted in February 2019 which determined the 2018/19 Adjustment Budget and formed the baseline of drafting the 2019/20 Operating Expenditure budget (considering the mSCOA fundamentals, both zero-based and incremental budgeting was used to arrive at the budgeted operating expenditure).

Income amounts are based on the 2019/20 DORA issued in March 2019.

The projects prioritisation phase will be finalised in April 2019 and the complete wish list of projects together with the proposed budgeted projects will be submitted to Council in the May 2019 final budget and will be subjected to the public participation process during March to May 2019.

Feedback from the WDM website, newspaper adverts and public road shows will be considered during April and May 2019, and where possible, adjustments to the Tabled Budget will be made, where necessary.

The draft 2019/20 budget & IDP is therefore tabled for approval on 28 March 2019, within the deadlines as stipulated by legislation.

For further information on the IDP process, including IDP/Budget steering committee and IDP rep forum, please refer to the 2019/20 IDP item tabled separately to this report.

There were no deviations from the key dates set out in the 2019/20 IDP/Budget Time Schedule tabled in Council.

OVERVIEW OF THE ALIGNMENT OF BUDGET WITH IDP

The budget and IDP preparation process ran consecutively and joint IDP/Budget Steering Committee meetings and Representative Forum hearings was held during the year.

The main priorities of the IDP projects are listed below and was considered during the project prioritisation phase for inclusions of projects into the budget:

1. Fire Fighting Services
2. Municipal Environmental Health & Environmental Management
3. Disaster Management
4. Abattoir
5. Local Economic Development & Tourism
6. Roads & Storm Water
7. Municipal Support & Institutional Development
8. Community Participation & Good Governance
9. Land
10. Sports, Arts & Culture
11. Water & Sanitation
12. Electricity

OVERVIEW OF THE ALIGNMENT OF BUDGET WITH IDP (continued)

13. Transport

Due to budget constraints all priority areas could not be accommodated in the 2019/20 budget.

MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

The measurable performance objectives and indicators as per IDP priority areas are as follows:

Municipal Environmental Health:

- To provide municipal health and environmental services to the communities

Disaster Management:

- To coordinate and support disaster management and firefighting services.

Local Economic Development & Tourism & Land & Transport:

- To unlock and stimulate the mining, tourism and agriculture potential.
- Development and implementation of the Spatial Development Framework.

Municipal Roads & Stormwater & Basic Service Delivery:

- To strengthen district capacity to provide services

Municipal Support & Institutional Development:

- To develop and build skilled and productive workforce

Abattoir:

- To strengthen district capacity to provide services

Community Participation & Good Government & Sports, Arts & Culture:

- To promote effective communication and be responsive to the needs of the community.

Social Development & Community Services:

- To provide environmental services to the community

The detailed objectives and indicators per KPA and IDP priority areas can be found in the SDBIP attached as item 9 on the index.

FINANCIAL MODELLING & KEY PLANNING DRIVERS

The following key factors and planning strategies have informed the compilation of the 2019/20 MTREF:

- Policy priorities and strategic objectives
- 2018/19 Adjustment Budget and Performance against SDBIP
- 2017/18 audit outcome
- DORA
- Cash Flow Management Forecast for the next 3 years
- Improved and sustainable service delivery
- Sustaining the going concern of the municipality

FINANCIAL MODELLING & KEY PLANNING DRIVERS (continued)

In addition to the above, the strategic guidance given in National Treasury's MFMA Circular 94 have been taken into consideration in the planning and prioritisation process.

OVERVIEW OF BUDGET RELATED POLICIES

The following budget policies are being reviewed and the revised versions, if applicable, will be approved with the final budget:

- Asset Management Policy
- Catering Policy
- Debt Collection and Credit Control Policy
- Investment Policy
- Petty Cash Policy
- Supply Chain Management Policy
- Virement Policy
- S&T Policy
- Inventory Policy

OVERVIEW OF BUDGET ASSUMPTIONS

The equitable share formula was reviewed in the prior years to also include an allocation to WDM for councillors' salaries and this has assisted in alleviating some of the cash flow constraints of WDM, however fire-fighting, environmental health, and disaster management services remains unfunded. The additional allocation received for Councillor Remuneration amount to R 6 418 000 in 2019/20 versus the budgeted 2019/20 Councillor Salaries of R 8 799 267. The municipality's cash inflows are though still increasing by less than the fixed operating expenditure, mostly due to personnel related expenditure increasing by more than inflation and this constitutes 64% of the operating budget (excluding operating IDP project expenditure) if all salary related benefits are included for officials and councillors. This has necessitated restrained expenditure, especially on the IDP, to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

There are five key factors that have been taken into consideration in the compilation of the 2019/20 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook in terms of MFMA Circular 94;
- The impact of municipal cost drivers;
- The grants allocated in DORA; and
- The increase in the cost of remuneration.

Inflation has been assumed at 5.2% in 2019/20, 5.4% in 2020/21 and 5.4% in 2021/22.

Salary increases has been assumed at 6.7% in 2019/20, 6.9% in 2020/21 and 6.9% in 2021/22.

For simplicity, the 2019/20 MTREF is based on the assumption that all investments are undertaken using fixed interest rates.

The rate of abattoir revenue collection is currently expressed as a 100% of annual billings. Cash flow is assumed to be 100% of billings, due to the majority of clients being cash clients, plus no provision

OVERVIEW OF BUDGET ASSUMPTIONS (continued)

for doubtful debt as old disputes have been written off and there are currently no new disputes or long outstanding debts.

It is estimated that a spending rate of 100% is achieved on operating expenditure and 100% on the capital programme for the 2019/20 MTREF of which performance has been factored into the cash flow budget.

It is assumed that all conditional grants will be fully spent by 30 June 2020 and all future years of the current MTREF and no roll overs have been budgeted for.

Interest on investments has been assumed at an average annual rate of 5.5 % on the basis that the total amount to be invested will reduce as the year progresses. Interest on current account has been assumed at 5.75%, which is the current prime interest rate of 10.25% minus 4.5% as agreed with our banking service provider.

LEGISLATIVE COMPLIANCE STATUS

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting

Reporting to National Treasury in electronic formats was complied with on a monthly basis within average of 10 working days. This also includes reporting to Provincial Treasury and transferring departments for conditional grants. Section 71 reporting to the Executive Mayor (within average of 10 working days) was also complied with and includes supporting documentation pertaining to material month end procedures.

2. Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the BTO and Internal Audit. Although there have not been 5 at all times during the year, we endeavoured to have vacancies filled in internships as soon as possible. The majority of interns have been permanently absorbed in either Waterberg District Municipality or our local municipalities.

3. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee

An Audit Committee has been established and is fully functional.

5. Service Delivery and Implementation Plan

The detail SDBIP document will be finalised for council approval in May 2019 and will be aligned and informed by the 2019/20 MTREF Budget and IDP.

LEGISLATIVE COMPLIANCE STATUS (continued)

6. Annual Report

The Annual report is compiled in terms of the MFMA and National Treasury requirements and approved within the required timeframes.

7. MFMA Competency

Skills assessments have been conducted in terms of the Minimum Competency Gazette and special merit cases have been registered with and approved by National Treasury for which the officials are currently in the progress of obtaining those unit standards outstanding.

8. Policies

All MFMA Circulars and Regulations have been considered in the review of policies to be approved with the final budget.