

Draft Budget

1.1 Mayors Report

It gives me great privilege to present the 2020/21 Draft Medium Term Revenue and Expenditure Framework (MTREF) budget to council for its consideration. Budgeting for 2020/21 financial year and the outer two financial years were guided by the Budget Process Plan which was adopted by Council on the 01 September 2019; it is worth noting that the municipality did not comply with the legislated time frame for tabling of the process plan. National Treasury issued MFMA Budget Circular No. 98 and 99 which were used to guide the compilation of the 2020/21 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 continue to remain under pressure as a result of rising costs to deliver services; declining revenue collection and high 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 which negatively affects municipal revenue collection. The municipality is banking on effective implementation of cost containment measures and Revenue enhancement strategy to turn the situation around.

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 2020/21 budget.

- a. That the draft budget for 2020/2021 and the indicative 2 outer financial years 2021/2022 and 2022/2023 **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 Budget **be approved.**

1.3 Budget Related Policies

That it be noted that there is no indication of any changes in budget related policies and the following budget related policies be noted:-

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- Tariff Policy
 - Cash Management and Investment Policy
 - Asset Management Policy
 - Budget Policy
 - Virement Policy
 - Investment Policy
 - Supply Chain Management Policy
 - Credit Control and Debt Collection Policy
 - Rates Policy
 - Indigent Support Policy
 - Systems Administration Policy and Procedure Manual
 - Irregular Expenditure and Procedure Manual
 - Fruitless Expenditure Policy and Procedure manual

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 municipal budget is 64% funded by grants which therefore means it is grant dependant. The remaining funding is 36% which is made up of rates and services. Service charges (Refuse and Electricity) which have a history being uncollectable. The municipality needs to accelerate the implementation of Revenue Enhancement strategy. Equitable share as a grant gazetted in DORA have slightly increased by 5% which is just above the CPI; however, MIG, FMG and EPWP have decrease as well municipal revenue collection has declined drastically and as such it is imperative that the municipality reprioritise expenditure and implement strict cost containment

measures. It is worth noting that current years Equitable share allocation is not sufficient to cover the budgeted Cost of Employees as per current funded positions in the organogram. Measurable performance objectives and indicators are detailed in the Draft IDP. The main challenges that were experienced during compilation of the 2020/21 Budget can be summarised as follows:-

- Declining revenue collections
- Implementation of cost containment measures
- Stopping of some grants such as INEP (Integrated National Electrification program Grant) in relation to DORA section 19.
- The need to reprioritise projects and expenditure within available resources given the cash flow realities and declining cash position of the municipality;

In view of the aforementioned; the following is the table depicting the overview of the 2020/21 budget.

R thousands	Adjusted 2019/20	2020/21	2021/22	2022/23
Operating Revenue (Excl. capital transfers)	225 334 765	196 026 600	204 563 234	214 382 269
Operating Expenditure	226 116 015	222 600 000	234 530 985	245 788 471
Surplus or (Deficit) before capital transfers	(781 250)	(26 573 400)	(29 967 751)	(31 406 202)
Capital Transfers	25 402 050	26 573 400	29 967 750	31 406 202
Internally generated funds (Own Capital)	5 800 000	105 400	111 092	116 424

The total revenue excluding capital transfers has declined to R197m for the 2020/21 budget when compared to 2019/20 adjusted budget of R225m; this is due to declining collection trends. The operating expenditure have declined to R222m for 2020/21 budget when compared to R226m for 2019/20 adjusted budget this is due to a declining revenue and implementation of cost containment measures.

1.5 Overview of assumptions used

The assumptions used were guided by MFMA Circular 98 and 99 issued by National Treasury for compilation of 2020/21 MTREF Budget. The following assumptions were used:-

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

Table 1: Macroeconomic performance and projections, Fiscal year	2019/20	2020/21	2021/22
Real GDP growth	0.9	1.3	1.6
Consumer Price Inflation (CPI)	4.5	4.6	4.6

- **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** in line with South African Local Government Bargaining Council. The projections are based on the fact that the municipality will not be filling any non-critical vacant positions which will become vacant during the 2020/21 financial year.

- **Remuneration of Councillors** An assessment of affordability will be conducted prior to the implementation of upper limits as per the gazette on Remuneration of Office bearers

1.6 Overview of budget funding

National Treasury year in year out consistently issue circulars which provide guidance for compilation of municipal budgets. 2020/21 budget preparation was no exception. They emphasise that municipalities must table funded budgets; and if not funded the municipality must reprioritise and ensure that the budget is fully funded.

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 to fund capital projects. 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	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Revenue By Source											
Property rates	2	14,013	16,893	17,885	17,659	17,659	17,659	-	23,785	24,926	26,123
Service charges - electricity revenue	2	28,873	25,280	26,775	45,161	35,161	35,161	-	34,992	36,672	38,432
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	9,133	10,140	11,433	10,000	10,000	10,000	-	10,000	10,480	10,983
Rental of facilities and equipment		827	474	486	1,112	251	251		251	263	276
Interest earned - external investments		8,442	4,096	965	1,894	1,894	1,894		1,845	1,934	2,026
Interest earned - outstanding debtors		2,302	4,524	5,676	2,777	2,777	2,777		2,500	2,620	2,746
Dividends received		-	-	-	-	-	-		-	-	-
Fines, penalties and forfeits		172	572	13	506	106	106		106	111	116
Licences and permits		-	915	1,170	2,749	2,749	2,749		2,740	2,872	3,009
Agency services		3,052	355	852	1,668	1,000	1,000		1,000	1,048	1,098
Transfers and subsidies		124,982	102,211	102,387	112,541	112,727	112,727		117,694	122,470	128,349
Other revenue	2	503	1,604	7,649	1,371	41,010	41,010	-	1,114	1,168	1,224
Gains		543	2,262								
Total Revenue (excluding capital transfers and contributions)		192,840	169,325	175,290	197,439	225,335	225,335	-	196,027	204,563	214,382

Property rates and service charges have been increased due to the implementation of the new valuation roll. Operational transfers and subsidies have increased slightly from R112m to R117m

due to a slight increase in equitable share. The table below depicts the grants to be received by the Municipality during 2020/21 financial year. The overall revenue projection have declined when compared to adjusted budget due to declining revenue collection trends.

Table: 2 (Grants and subsidies)

EC124 Amahlathi - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20			2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		117,974	99,964	101,187	111,341	110,671	110,671	116,494	122,470	128,349
Local Government Equitable Share		113,780	95,446	97,114	105,863	105,863	105,863	111,895	118,658	124,354
Finance Management		1,625	1,700	1,770	2,235	2,235	2,235	2,200	2,235	2,342
Municipal Systems Improvement		-	-	-	-	-	-	-	-	-
EPWP Incentive		1,062	1,389	921	1,236	1,236	1,236	1,000	-	-
PMU 5%		1,507	1,429	1,382	2,007	1,337	1,337	1,399	1,577	1,653
Other transfers/grants [insert description]										
Provincial Government:		2,314	2,248	1,200	1,200	1,556	1,556	1,200	-	-
Sport and Recreation		1,200	1,200	1,200	1,200	1,200	1,200	1,200	-	-
LED Promotions		-	-	-	-	-	-	-	-	-
Waste Grant 2m		647	771	-	-	234	234	-	-	-
Waste Grant 770k		297	240	-	-	-	-	-	-	-
Capacity Recycling		-	-	-	-	122	122	-	-	-
Vuna Awards		-	-	-	-	-	-	-	-	-
Seta		170	37	-	-	-	-	-	-	-
Other transfers/grants [insert description]										
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	500	500	-	-	-
AGSA Donation						500	500			
Total Operating Transfers and Grants	5	120,289	102,211	102,387	112,541	112,727	112,727	117,694	122,470	128,349
Capital Transfers and Grants										
National Government:		26,333	31,600	19,363	43,632	25,402	25,402	26,573	29,968	31,406
Municipal Infrastructure Grant (MIG)		21,640	27,145	14,363	38,132	25,402	25,402	26,573	29,968	31,406
Other capital transfers/grants [insert desc]		4,693	4,455	5,000	5,500	-	-	-	-	-
Other capital transfers/grants [insert desc]										
Provincial Government:		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]										
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]										
Other grant providers:		-	-	-	-	-	-	-	-	-
AGSA Donation										
Total Capital Transfers and Grants	5	26,333	31,600	19,363	43,632	25,402	25,402	26,573	29,968	31,406
TOTAL RECEIPTS OF TRANSFERS & GRANTS		146,622	133,811	121,749	156,173	138,129	138,129	144,267	152,438	159,755

1.8 Operating Expenditure Framework

The table below depicts the high level summary of 2020/21 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	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Expenditure By Type											
Employee related costs	2	112,135	120,080	126,609	115,165	109,137	109,137	-	109,891	115,165	120,693
Remuneration of councillors		11,561	12,243	11,456	12,244	12,244	12,244		12,200	12,786	13,399
Debt impairment	3	7,916	10,352	9,366	2,500	10,000	10,000		10,000	10,480	10,983
Depreciation & asset impairment	2	30,342	29,853	65,983	28,000	26,000	26,000	-	26,000	27,248	28,556
Finance charges		2,507	38	576	100	1,000	1,000		1,000	1,048	1,098
Bulk purchases	2	26,165	27,072	28,928	31,612	31,612	31,612	-	31,000	32,488	34,047
Other materials	8				236	236	236		229	240	251
Contracted services		-	-	19,394	15,509	16,745	16,745	-	13,315	13,954	14,624
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	62,942	62,290	30,858	20,360	19,142	19,142	-	18,966	21,122	22,136
Losses		47,128	2,339	3,954							
Total Expenditure		300,697	264,266	297,122	225,725	226,116	226,116	-	222,600	234,531	245,788

The employee related costs are projected based on the approved funded in the current organogram which is likely to change as the municipality changes its priorities.

Bulk Purchases have been budgeted at R31m. Other expenditure have been decreased from R19m to R18m for 2020/21 budget due to municipal revenue that is declining drastically and implementation of cost containment measures.

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	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Single-year expenditure to be appropriated	2										
Vote 1 - EXECUTIVE & COUNCIL		889	77	635	-	5,000	5,000	-	-	-	-
Vote 2 - BUDGET & TREASURY OFFICE		26	74	65	-	-	-	-	-	-	-
Vote 3 - CORPORATE SERVICES		511	150	-	100	600	600	-	105	111	116
Vote 4 - PLANNING AND DEVELOPMENT		22,117	24,503	13,006	38,132	25,402	25,402	-	26,573	29,968	31,406
Vote 5 - COMMUNITY & SOCIAL SERVICES		-	-	-	-	-	-	-	-	-	-
Vote 6 - HOUSING		-	-	-	-	-	-	-	-	-	-
Vote 7 - PUBLIC SAFETY		-	-	-	-	-	-	-	-	-	-
Vote 8 - SPORT & RECREATION		-	-	-	-	-	-	-	-	-	-
Vote 9 - WASTE MANAGEMENT		4,600	-	-	-	-	-	-	-	-	-
Vote 10 - ROAD TRANSPORT		1,518	68	-	-	200	200	-	-	-	-
Vote 11 - ELECTRICITY		5,477	4,455	5,000	5,500	-	-	-	-	-	-
Vote 12 - ENVIRONMENTAL PROTECTION		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		35,137	29,327	18,706	43,732	31,202	31,202	-	26,679	30,079	31,523
Total Capital Expenditure - Vote		35,137	29,327	18,706	43,732	31,202	31,202	-	26,679	30,079	31,523

Below is the list of Capital Projects:-

Vote Number	Dept.	Project	Draft Budget
C0040-19/IA00132/F0791/X099/R2127/001/P&D	PMU	Cata Internal Roads	500 000
C0040-20/IA00132/F0791/X099/R2128/001/P&D	PMU	Gxulu Internal Roads	500 000
C0228-1/IA00032/F0791/X099/R1514/001/P&D	PMU	KKH Fire station	1 500 000
C0245-2/IA00032/F0791/X099/R2125/001/P&D	PMU	Mlungisi Sportfield	4 000 000
C0040-4/IA00132/F0791/X099/R2132/001/P&D	PMU	Ethembeni Internal Roads	500 000
C0040-27/IA00132/F0791/X099/R1514/001/P&D	PMU	Sophumelela Internal Roads	150 000
C0224-2/IA00032/F0791/X099/R0840/001/P&D	PMU	Fencing of Cemeteries	1 500 000
C0040-24/IA00132/F0791/X099/R2123/001/P&D	PMU	Gubevu Internal Roads	500 000
C0040-22/IA00132/F0791/X099/R1514/001/P&D	PMU	KKH Paving	1 500 000
C0040-23/IA00132/F0791/X099/R2133/001/P&D	PMU	Border Post Internal Roads	2 573 400
New Vote	PMU	Nothenga Community Hall	150 000
New Vote	PMU	Surfacing of Cathcart Street	3 500 000
New Vote	PMU	Rehabilitation of Landfill Sites	1 200 000
New Vote	PMU	Paving of Matolaville Streets	3 500 000
New Vote	PMU	Ngcamngeni Access Roads	2 500 000
New Vote	PMU	Amabele Internal Roads	2 500 000
C0006-2/IA00092/F0002/X052/R0839/001/COR	IT	Upgrade Network	105 400
		Total	26 678 800

The funding for capital projects have declined drastically due to the INEP allocation that has been stopped as a result of non-reporting and MIG allocation that has been reduced due to underspending in the 2019/20 financial year.

1.10 Annexures

- ✓ Signed Quality Certificate
- ✓ Draft A Schedule