



Final Budget Medium Term Revenue and Expenditure Framework MFMA Section 16 Report

2018/2019

Govan Mbeki Municipality

Table Of Contents

1. OVERVIEW	3
1.1 Purpose.....	3
1.2 Background	3
1.3 Long Term Financial Sustainability (LTFS)	3
1.4 2018/2019 MTREF Policy statements and guidelines	4
2. EXECUTIVE SUMMARY.....	5
2.1 Executive Summary	5
2.2 Consolidated overview	7
3. DETAILED OVERVIEW OF BUDGET	8
3.1 Revenue.....	8
3.2 Operating Expenditure.....	10
3.3 Capital Requirement	0
4. CONSULTATION PROCESS	1
5 BUDGET RELATED POLICIES AND OVERVIEW OF TARIFF ADJUSTMENTS	4
5.3 Management Plan (Annexure C)	4
5.4 Virement Policy (Annexure D)	4
5.5 Accounting policy (Annexure E)	4
5.6 Supply Chain Management Policy (Annexure F)	4
5.7 Credit control and Debt collection policy (Annexure G).....	4
5.8 Investment policy (Annexure H)	4
5.9 Property Rates policy (Annexure I).....	5
5.10 Tariff policy (Annexure J)	5
5.11 Fixed Asset Management Policy (Annexure K)	5
5.12 Short Term Risk and Liabilities Policy (Annexure L).....	5
5.13 Funding and Reserves Policy (Annexure M)	5
5.14 Budget Policy (Annexure N)	5
5.15 Borrowing Policy (Annexure O).....	5
5.16 Blacklisting Policy (Annexure P)	5
5.17 Indigent Management Policy (Annexure Q)	5
5.18 Travelling and Subsistence Policy (Annexure R)	5
5.19 Provision for Doubtful Debt and Debt Write-Off Policy (Annexure S)	5
5.20 Unclaimed Deposit Policy (Annexure T)	5
5.21 Retention Policy (Annexure U)	5
6 OVERVIEW OF BUDGET ASSUMPTIONS.....	6

6.3	Key Financial indicators	6
6.4	Credit Rating	6
6.5	Borrowing and Investment of funds	6
6.6	Rates, tariffs, charges and timing of revenue collection.....	6
6.7	Collection rates for each revenue source	7
6.8	Price movements on specifics.....	7
6.9	Average salary increases.....	7
6.10	Changing Demand characteristics.....	7
6.11	Ability to the municipality to spend and deliver on programs	7
7	ALIGNMENT OF BUDGET TO THE INTEGRATED DEVELOPMENT PLAN.....	7
7.3	IDP Review and stakeholder participation.....	7
7.4	IDP link to the budget	7
8	BUDGET RECOMMENDATIONS	8

1. OVERVIEW

1.1 Purpose

The purpose of the report is to table the draft 2018/19 Medium-term Revenue and Expenditure Framework (MTREF) before Council in terms of Section 16(2) of the Local Government: Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003) prior to the community consultation process.

1.2 Background

Section 16(1) of the Municipal Finance Management Act (MFMA) stipulates that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Section 16(2) stipulates that in order 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.

Section 22 of the MFMA also stipulates that immediately after an annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents in terms of Section 17 and invite the local community to submit representations in connection with the budget; and submit the annual budget to the National Treasury and the relevant provincial treasury in printed and electronic formats.

Section 23(2) of the MFMA stipulates further that “after considering all budget submissions, the Council must give the Executive Mayor an opportunity –

- a) To respond to the submissions; and
- b) If necessary, to revise the budget and table amendments for consideration by the council”.

The tabling of the Draft Budget and IDP will be followed by public consultation meetings with various stakeholders.

The 2018/19 MTREF will be considered for approval by Council on the 29 June 2018 after taking into account the outcome of public consultation.

1.3 Long Term Financial Sustainability (LTFS)

The purpose of the long-term financial strategy is to ensure that the municipality is financially sustainable and able to respond to the Municipal Growth and Development Strategy, policies, priorities and infrastructure needs.

The objectives of the LTFS are:

- Prudent and sound medium-term to long-term financial framework.
- Resilience and able to absorb future shocks.
- Ensure sustainability of services.
- Investment in infrastructure.
- Adequate maintenance of infrastructure.
- Identify strategies that will ensure long-term financial sustainability:
- Operational efficiency initiatives,
- Sustainable and alternative revenue streams.
- Respond to the long-term strategy of the municipality.
- Improve the municipality’s credit rating.

Owing to the limited revenue base (municipal rates, user charges and grants/subsidies) the Municipality has to be proactive in the minimization of costs and the maximisation of efficiencies in order to respond to increased service delivery requirements.

The strategies and measures already implemented to ensure sustainability are:

- The Budget Policy;
- The Revenue Enhancement Strategy;
- Budget Principles and guidelines; and
- The Cash-Flow Management Intervention Initiatives.

Long-term Financial Model (LTFM)

The long-term Financial Model essentially informs the compilation of the MTREF with the emphasis on affordability and long-term sustainability. Although the LTFM is predominantly a financial planning tool to ensure long-term financial sustainability for the organisation, the financial planning process and LTFM run parallel to ensure the strategies and direction of the Municipality are at all times informed by best practice. The municipality is in a process of reviewing its plans and developing a long-term financial strategy.

1.4 2018/2019 MTREF Policy statements and guidelines

The IDP is the primary point of reference for preparation of the MTREF. Accordingly, the budget addresses the following strategic objectives:

- Provide basic services, roads and storm water.
- Economic growth and development and job creation.
- Sustainable communities with clean, healthy and safe environments and integrated social services.
- Participatory democracy and Batho Pele.
- Promote sound governance.
- Ensure financial sustainability.
- Organisational development and transformation.

The 2018/19 MTREF reflects the reality of the current budgetary pressures. The following budget guidelines directly informed the compilation of the budget;

- Scale down on baseline allocation as indicated by National Government.
- Approve a balanced budget and create cash surplus over the Medium-term.
- The budget must be funded in accordance with the funding compliance procedure set out in MFMA Circular 42 and the Funding Compliance Guideline.
- Reprioritise competing needs within the allocations.
- Ensure the timely delivery of the capital programmes (eliminate under spending of capital budget).
- Tariff and Property Rate increases should take into account the need to address infrastructure backlogs and other strategies and affordability of services.
- The percentage salary increase is 6.5% per circular 89 from National Treasury
- Special attention needs to be given to efficiency gains and the principle of value for money.
- Filling of vacancies should be reviewed within the available budget.

2. EXECUTIVE SUMMARY

2.1 Executive Summary

The preparation of the 2018/2019 Budget and Medium Term Revenue and Expenditure Framework (MTREF) is based on the guidelines contained in the MFMA Circular No.89 issued by National Treasury.

The other fundamental principles underlying the preparation of this draft budget is the application of sound Financial Management to ensure Financial Viability, and that municipal services provide sustainable, economically and equitable to all communities.

The main challenges experienced during compilation of the draft 2018/19 MTREF can be summarized as follows:

- Significant increase in operating expenditure with limited increase in operating revenue resulting in huge deficits.
- Cash flow constraints
- The increased cost of bulk purchases (due to increase from Rand Water and Eskom).
- The need to re-prioritise expenditure within the existing resource envelope given the cash flow realities and declining cash position.
- Unavailability of own-funding for capital budget; and
- Inability to raise capital/borrowing.

The following principles and guidelines will directly inform the draft 2018/2019 MTREF:

- The budget of 2017/2018 budget was used as baseline and was appropriate as upper limits.
- CPI guidelines from National Treasury except where specific sector increases are prescribed.
- Ensuring that drinking water meets the required quality standards at all times
- Identification of inefficiencies and elimination of no-priority spending
- Securing health of the assets by increasing the spending on repairs and maintenance
- Developing strategies in reducing water and electricity losses
- Developing tariffs that are cost reflective
- Maintaining a long financially sustainable environment
- Protect the poor from the worst impacts of the economic downturn at all times
- Job creation and poverty reduction

For the municipality to be able to deliver efficient and effective public services within the existing fiscal purse, tough decisions will have to be taken on the expenditure side. Priority ought to be given to the following areas:

- A performance culture where all the people are held accountable for their actions, accompanied by clear, measurable outcomes related to key developmental priorities.
- Limit outsourcing of work
- Procurement reforms
- Limit wastage and inefficient systems

Achieving the above-mentioned goals will assist in ensuring that the Service Delivery Budget Implementation Plan (SDBIP) key objectives are achieved effortlessly. The non-achievement will lead to revision of the SDBIP which will delay the implementation of the prioritized IDP goals and having a greater on service delivery. Without proper service delivery to the community might lead to political unrest and riots.

The budget has been prepared with a vision of sustaining the financial capability of the municipality in the long term. A special effort was taken to improve the credibility of the budget. The tariffs have been set in line with tariff policy and the following factors were considered:

- The current collection rate
- The affordability of the community
- The social package
- The direct cost drivers

The tariffs for service charges have been increased as follows:

- Water	12.2%
- Electricity	6.84%
- Rates	5.2%
- Waste management	
o Refuse removal	5.2%
- Sewer	12.2%
- Miscellaneous	5.2%

The indigent subsidy is proposed as follows:

DESCRIPTION	2016/2017 VAT Inclusive	2017/2018 VAT Inclusive	2018/2019 VAT Inclusive
Free Electricity	55.04	52.18	52.66
Free Water	164.48	192.33	211.93
Equitable Share	213.20	226.84	239.00
TOTAL	432.72	471.35	503.59

The municipality is implementing the inclining block tariffs on electricity and water. The IBT for the electricity is in-line with the NERSA guidelines. The water tariffs are also designed using the inclining block model to promote conservative approach to the domestic consumers.

The municipality will still ensure that the poor are protected through the indigent support scheme as per the indigent policy and debt collection strategy. The threshold for increasing free basic services for a household will be reviewed. The increase on the package indicates the municipality's commitment to protect the poor and also to ensure that those who cannot afford to pay are not burden with the unpaid accounts.

The council is committed in creating employment and reducing poverty as part of National Initiative, through meaningful local economic developmental initiatives and labour-intensive projects. Furthermore, the municipality will on the continuous basis engage with the service providers to ensure that labour intensive approaches are utilized. The municipality will also ensure that it implements the intern programs to provide the young people with on the job training.

A conservative approach in spending will be adopted to ensure financial sustainability. As a municipality we should also all pay serious attention to managing revenue and any cash streams effectively through revenue management processes and procedures.

2.2 Consolidated overview

The budget has been prepared in terms of guidelines as contained in Circular 89 of the MFMA. The contents and format of the budget are in line with the requirements of the Municipal Budget and Reporting Regulations and any applicable legislation.

The 2018/2019 budget comprises of R 1.74 billion for operating expenditure and R133million for capital investment programs. The total operating income budget is R1.80 billion resulting in an operating surplus of R 58million.

Municipal revenues and cash flows are expected to remain under pressure as we still continue to have low income revenue growth with a continued increase in expenditure.

Table 1: Consolidated overview of the 2018/2019 Budget

Description	Audited Outcome 2016/2017	Original Budget 2017/2018	Adjusted Budget 2017/2018	Budget 2018/2019	Budget 2019/2020	Budget 2020/2021
	R'000	R'000	R'000	R'000	R'000	R'000
Total Operating Revenue	1 678 999	1 760 268	1 760 268	1 800 563	1 917 600	2 042 244
Total Operating Expenditure	2 368 169	1 655 807	1 655 807	1 741 766	1 968 567	1 977 120
Surplus /(Deficit) for the year before grant capital revenue	(689 170)	104 461	104 461	58 797	(50 966)	(196 588)
Grant capital revenue	57 196	72 796	72 796	74 651	90 650	96 542
Surplus /(Deficit) for the year	631 973	31 665	31 665	133 447	39 683	161 666
Total Capital Expenditure	61 207	104 461	104 461	133 447	156 570	165 514

Operating budget

The operating budget deals with day to day operations of the municipality to ensure that service delivery is sustained.

The trend is that the operating expenditure has been increasing over the years driven by:

- salary increments
- the need to repair infrastructure
- the need to adequately budget for debt impairment and depreciation,
- Inflation

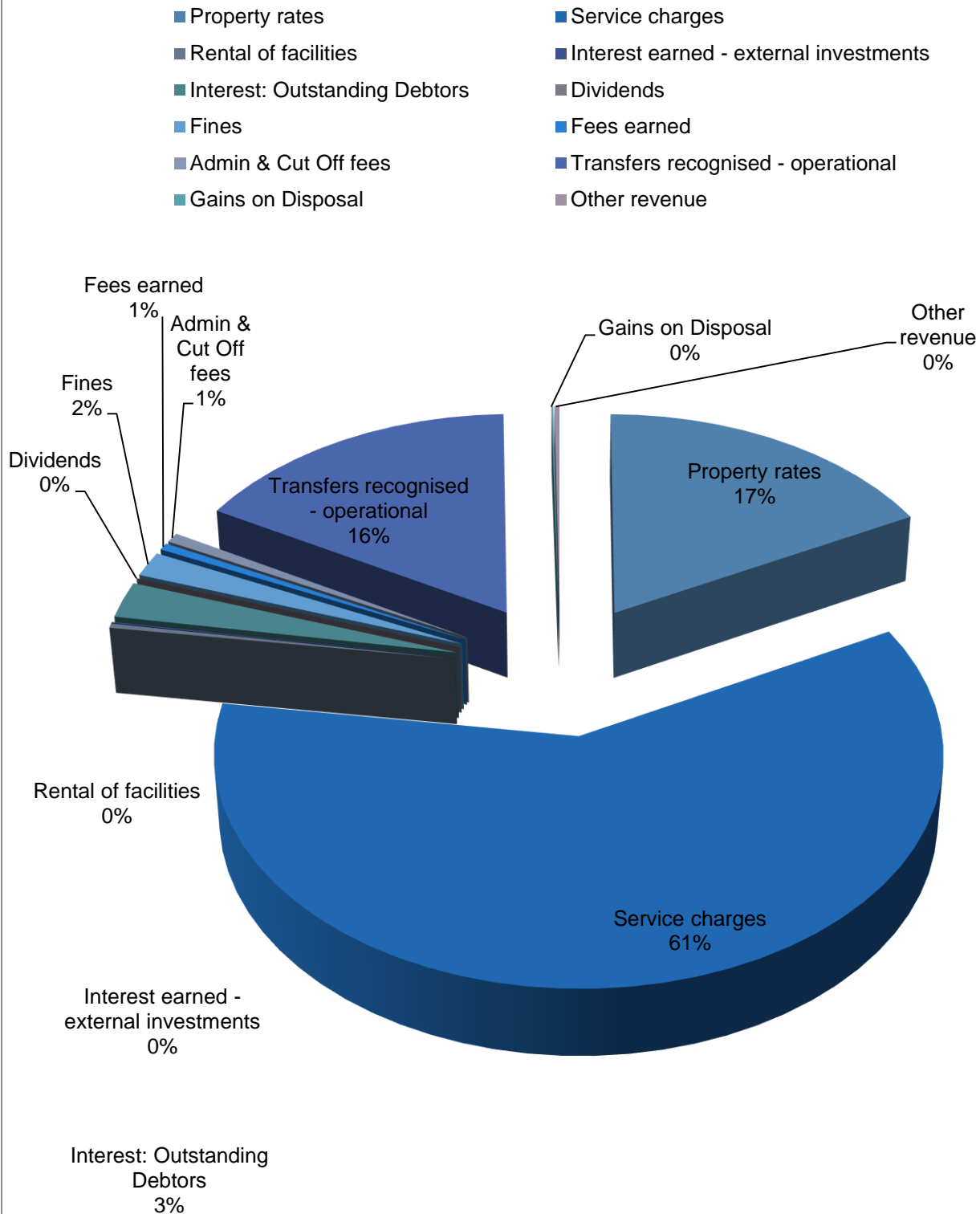
Capital budget

An amount of R133 million has been allocated for the capital investment program for 2018/2019 financial year. This is an increase from the R104 million budget for 2017/18. The main reason for this an allocation of R10 million for Water Service Infrastructure and also an intention to purchase assets that will enhance the delivery of service in Govan Mbeki Municipality.

3. DETAILED OVERVIEW OF BUDGET

3.1 Revenue

Revenue 2018-2019



Comments on Operating Revenue

The property rates

The property rates amount to R 304.9 million for the 2018/2019 financial year. This revenue stream has been increased by 5.2%. An amount of R 28million is budgeted for the income forgone in terms of rebates and discounts that are offered by the municipality for the indigents, pensioners and the areas where the municipality is not providing services. This revenue stream contributes 17% of the total revenue.

Service charges

Service charges include electricity, refuse, sewer and water. The service charges for 2018/2019 amount to R 1 094 billion, 2019/2020 R 1 165 billion and 2020/2021 amounts to R 1 241 billion. The R 1 094 billion is made up of the following, water R 382 million, Refuse R 119 million, Sewerage R 112 million and electricity R479 million. The service charges contribute 61% of the budgeted operating revenue. The service charge increased by 3% from the draft budget, the municipality effected the 12,2% increase on water and 6.84% increase on electricity, during the preparation of the draft budget the two stakeholders had not communicated their increased accordingly, therefore a blank rate was used to calculate increase in revenue

Rental income

The rental income amounts to R5.4 million. The stream contributes 0.3% of the total revenue.

Fines

The revenue estimates for the fines have been increased from R 30 million to R 31.6 million, this was done to make a provision as required by iGRAP1.

Administration and Cut-off fees

The estimates for this revenue stream has been increased from R11.6 million to R12.2 million, it contributes 1% to the total operating revenue streams.

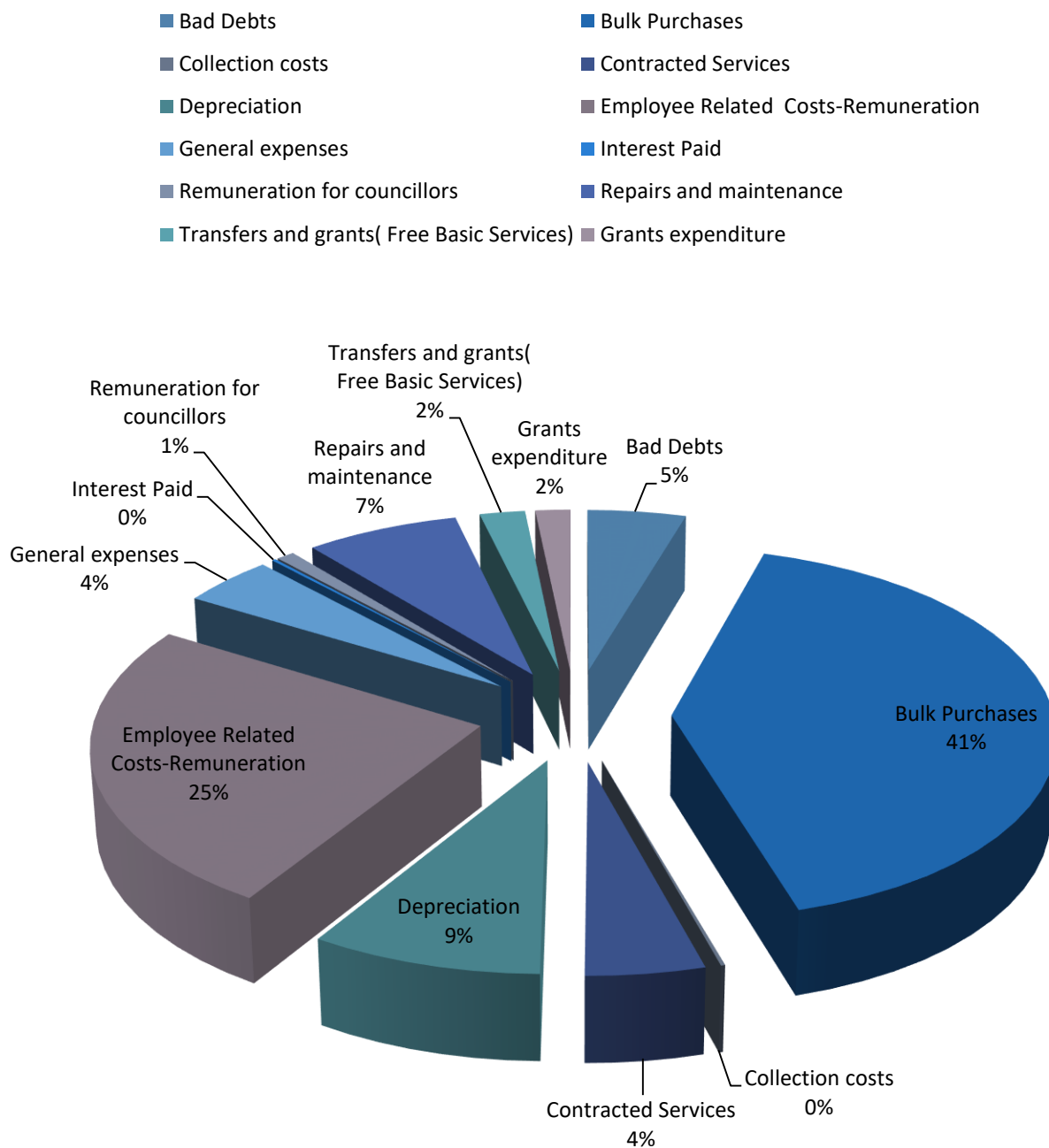
Grants and Subsidies – operating

The grants subsidies refer to the Division of Revenue Act allocations in the 2017/18 financial year, the operational grants allocations are as follows:

DESCRIPTION	2018/19	2019/20	2020/21
Equitable share	257,245,000	284,504,000	315,700,000
Finance Management Grant	1,770,000	1,770,000	2,202,000
Extended Public Works Program	1,937,000		
Infrastructure Development Grant	22,500,000	23,935,000	24,720,000
Energy Efficiency and Demand Management	6,000,000	6,000,000	6,000,000
TOTAL	289,452,000	316,209,000	348,622,000

3.2 Operating Expenditure

EXPENDITURE 2018-2019



Comments on Operating Expenditure:

Employee related costs

The employee related costs and remuneration of councillors indicate a percentage of 25% of the total operating budget. The average salary increases 6.5%. The overtime will have to be controlled and filling of vacant positions will have to be fast tracked. Remuneration for councillors was increased from R16million to R24million, the final calculations for individual budget of councillors was only performed after the tabled budget approved by council.

General expenditure

In a bid to cut cost and ensure the funding of the overall budget was increased to R85.6 million. The transport cost still needs to be controlled. General expenditure takes 4% of the total operating expenditure.

Contracted services

In a bid to cut cost and ensure the funding of the overall budget, contracted services budget have increased from to the current adjusted budget. Contracted services constitute 4% of total operating expenditure.

The contract management and monitoring will have to be improved on the contracted services. The outsourcing of work will need to be controlled to ensure skill transfer.

Bulk purchases

The bulk purchases for electricity and water amounts to R 655million, which contributes 37% of the operating budget. The Eskom will increase the bulk purchases to the municipality by 6.84% and Rand Water is estimated to be 12.2%.

Repairs and maintenance

The repairs and maintenance plan for the departments must be aligned with their budget and monthly reports should indicate how the departments are progressing. The repairs and maintenance contribute 8% of the operating budget. The revenue generating assets should be to an adequate level ensuring that quality services are sustained.

Transfers and grants

Transfers and grants (Indigent support) constitutes 2% of total operating budget. The budget was based on current year forecast increased with inflation.

Depreciation

Depreciation constitutes 6% of the budget. The depreciation is affected by the burned assets during the riots and assets to be auctioned, as a result the assets will be disposed and reduce the assets register.

3.3 Capital Requirement

The following table reflect all capital requirements per department.

Sub -department	Department	Description	Final 2018.2019	Reduction 27 June 2018	Final 2018.2019 27 June 2018
Libraries(Shelves, Books, Tables etc)	COMMUNITY SERVICES	Furniture and equipment	1 000 000	(1 000 000)	-
Fire & Disaster Management	COMMUNITY SERVICES	Procument of two-way Radios	200 000	(200 000)	-
Fire & Disaster Management	COMMUNITY SERVICES	Breathing equipments	300 000		300 000
Waste management	COMMUNITY SERVICES	Compactor Trucksx3	10 500 000		10 500 000
Community Admin	COMMUNITY SERVICES	Furnititure and equipments	100 000	(100 000)	-
Traffic	COMMUNITY SERVICES	Blue lights	400 000	(400 000)	-
Fire & Disaster Management	COMMUNITY SERVICES	Fire engine	3 500 000	(3 500 000)	-
Security and compliance	COMMUNITY SERVICES	Bullet proof	300 000		300 000
Enviroment	COMMUNITY SERVICES	TLB grave digging Machine	1 500 000		1 500 000
Enviroment	COMMUNITY SERVICES	Grass cutting machines	480 000		480 000
Admin Services	Corporate Services	Implementation of records management system	800 000		800 000
Office of the Mayor	Executive and Council	Mayor's car	900 000	(900 000)	-
Office of the speaker	Executive and Council	Speaker"s car	700 000	(700 000)	-
Office of the speaker	Executive and Council	hailing system	100 000		100 000
Office of the speaker	Executive and Council	Furniture and Equipments	100 000	(100 000)	-
Office of the speaker	Executive and Council	Renovation of Chamber(Ramp,Audio systems and Aircon)	2 000 000	(1 800 000)	200 000
Building Control	Planning and development	4 Vehicles	-		-
Risk	Planning and development	furniture and equipment	45 000	(45 000)	-
LED	Planning and development	furniture and equipment(3 Offices)	100 000	(100 000)	-
Human Settlements	Planning and development	furniture and Equipment	90 000	(90 000)	-
Energy	Technical Services	Electrificaf testing machine	800 000		800 000
Energy	Technical Services	Tamper proof enclosures	5 000 000		5 000 000
Waste water treament works	Technical Services	New water network pumps	1 400 000		1 400 000
Waste water treament works	Technical Services	Installation of chlorine and pherric system	3 500 000		3 500 000
Waste water treament works	Technical Services	Upgrade of Eendracht line	3 000 000		3 000 000
Waste water treament works	Technical Services	New sewer pumps	1 200 000		1 200 000
Fleet management	Technical Services	Tipper trucks X2	2 000 000		2 000 000
Fleet management	Technical Services	Cherry picker X3	3 000 000		3 000 000
Fleet management	Technical Services	TLB X2	2 000 000	(666 667)	1 333 333

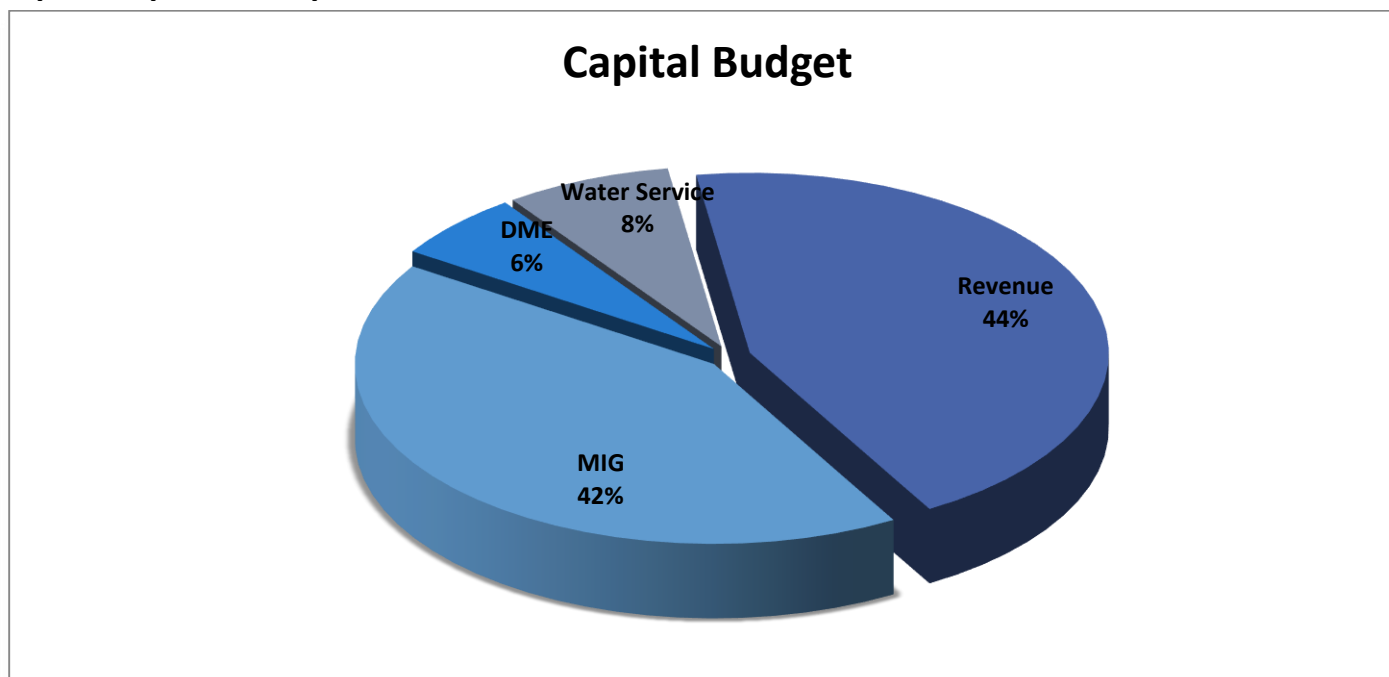
Fleet management	Technical Services	Tractors X2	2 500 000	(1 250 000)	1 250 000
Fleet management	Technical Services	Graders X2	3 500 000	(1 166 666)	2 333 334
Fleet management	Technical Services	3ton d/c van X4	600 000	(600 000)	-
Fleet management	Technical Services	Two-way Radios inclusive of infrastructure	7 000 000	(7 000 000)	-
Facilities	Technical Services	Fencing of the buildings (Clear View)	4 900 000		4 900 000
Asset section	Finance department	Insurance claim assets	1 000 000		1 000 000
Asset section	Finance department	2016/2017 Lost assets Embaleh office	8 400 000		8 400 000
Financial Administration	Finance department	New MSCOA Sytem	5 500 000		5 500 000
PMU	Technical department	MIG Projects	56 651 000	-	56 651 000
Electrical	Technical department	INEP	8 000 000	-	8 000 000
Water	Technical department	Water Service Grant as per DORA	10 000 000	-	10 000 000
			153 066 000	(19 618 333)	133 447 667

Capital Expenditure per source

Capital expenditure will be funded from the following revenue sources

Description	2016/17 Approved Budget	Total Adjusted Budget	Actual Year to Date	2018/19 Budget	2019/20 Budget	2020/21 Budget
INEP – Integrated National Electrification Programme Grant	14,000,000	14,000,000	3,795,867	8,000,000	25,000,000	26,625,000
Municipal Infrastructure Grant	58,796,000	58,796,000	26,407,756	56,651,000	65,650,000	68,971,787
Revenue – Internal Funding	72,230,000	72,230,000	2,302,653	58 796 667	65,920,750	69,917,250
Water Service Infrastructure Grant	-	-	-	10,000,000	-	-
Grand Total	145,026,000	145,026,000	32,506,276	133 447 667	156 570 750	165 514 037

Capital Expenditure per source



4. CONSULTATION PROCESS

Section 22 of the Municipal Finance Management Act requires that after tabling of the Draft Budget, the municipality must make the budget available to the public and conduct community participation. The following are the key deadlines achieved through this process:

Detail	Date
Approval of Draft Budget	28 March 2018
Budget Workshop	05 April 2018
Public Consultation (IDP and Budget)	09 April 2018 – 25 April 2018
Budget Steering Committee Meeting	03 May 2018
Approval of Budget	29 June 2018

Public participation successfully took place on the dates above and the following are comments received and considered from the public

4.1 Written comments received from Community member

WATER LOSS RECOVERY PLAN

The following need to be considered in the development of the plan

- Give notice to community and stake holders of particulars of the process it intends to follow
- Invite the local community and stakeholders to submit written comments in respect of the plan
- Among other things the plan should contain
 - o Strategic objectives of the plan, ways and means of achieving those objectives
 - o Set out a specific strategy for addressing identified problems
 - o Identify human and financial resources needed to assist in resolving the problem
 - o Describe the anticipated time frame for recovery and milestones to be achieved
 - o Identify what actions are necessary for implementation of the plan, distinguishing between actions to be taken by the municipality and actions to be taken by other parties (community, stakeholders, contractors etc.)
 - o Publish a notice in a newspaper, including municipal website stating the place where copies of the plan is available for the public

BUDET FOR CLAIMS AGAINST THE MUNICIPALITY DUE TO POOR INFRASTRUCTURE

Public Liability Insurance /budget against poor roads, no road signs /marking that leads to fatal accidents, motor vehicle damage and regular vehicle maintenance does not appear in the budget

FILLING OF VACANCIES

Based on the Auditor General Report for 2016-17 Financial period and previous financial period clearly stated that the reported achievements against planned targets were not reliable when compared with evidence provided as well as non compliance with key legislation. The material findings included budgets, annual financial statements, expenditure management, procurement and contract management

To put this matter further in perspective the Auditor general Report for period of 2010-2014 produced the following findings against the municipality

- a) 2 = qualified opinions
- b) 3 = unqualified opinions with material findings that included unauthorised, irregular, fruitless and wasteful expenditures

In order to bring trust and confidence to the community that is already extremely angry, we need to start the IDP and Budget implementation on a clean slate. Therefore, no previously appointed Directors should be re-appointed as none could be exonerated from these adverse findings

BUDGET SAVINGS MEASURES

Allow the existing acting Directors to continue for six months as the municipality collect outstanding amounts for services from debtors. These bring relief to the budget deficit because savings from salaries due to fully appointed directors will be realised.

4.2 Comments received from OUTA

- Why is R 900 000.00 and R 700 000.00 being budgeted for the Mayor and Speaker's car. Should the previous cars not be used as they are municipal assets? These funds should be used to reduce debt owed to suppliers such as Eskom and Rand Water.
- There is an amount of R7 000 000.00 budgeted for Two-way radios! Why would you purchase two-way radios to the value of R 7 000 000.00? Where are the old two-way radios? It would be better to repair those instead of purchasing new radios. The new two-way radio amount was also not tendered for.
- The breathing apparatus equipment did not go through the public tender process. Can the old equipment not be refurbished or serviced? The breathing apparatus fall under Fire & Disaster Management and our understanding is that this should fall under the District Municipalities responsibility?
- The fire Engine for R 3 500 000.00 falls under Fire & Disaster Management. This is a District function and not a local function?
- The compactor trucks should be bought from the insurance pay out after the Embalehle fire.
- The public should be invited to justify the office furniture purchase and upgrades. The furniture that is needed should go through the required public tender process. This can wait until all debtors such as Eskom and Rand Water are paid.
- Where are the old blue lights for the traffic department? If damaged can they not be fixed.
- Where are the old grass cutting machines? If damaged can they not be fixed.
- The MSCOA system should be operational as it was requirement for 2016/2017. Why is an astronomical amount being budgeted for now.
- Councilors chambers upgrade can wait until all debtors such as Eskom and Rand Water are paid.
- Sasol sponsored electrical testing equipment. Where is this equipment?
- Was any person held responsible for the theft, fraud, corruption, abuse of municipal equipment and money laundering? If so where are the charges sheets? Who was charged? What disciplinary steps are being taken? If not, Why not?
- There are no quality control documents available for the repair or refurbishment of equipment. This is a legal requirement.
- All log books for the vehicles are not available which a legal requirement is.
- Financial Crisis-there is no indication in the budget of budget of debt collection and repayment of outstanding debt.
- Why does the budget show a deficit which, according to Section 18 (1) (B) of the MFMA, is not allowed?
- When will the Eskom payment arrangement be made public on the municipality's official website? Agreements with service providers are to be made available to the public? Employment contracts and performance agreements must be published on the Municipalities official website, why has this not been done?
- The operating Expenditure Budget and Revenue Budget for 2017/2018 are the same. This means there were absolutely no deviation from the original budget and you collected 100% of the property rates, 100% of electricity charges and all other line items? How is this possible?

4.3 Comments received from the community in public participation meetings

- The municipality does not provide opportunities for Economic and Youth Development
- IEC and Indigent registration taking place at the same time, rendered both projects inefficient, since community could only attend one though they needed both
- Extension of the main road from Embalenhle to Secunda, to reduce the fatalities that are taking place
- Cleaning of grounds for sport activities, which will assist in eradication of crime
- Municipality to finalize the negotiations (signing of the MOU) between the service provider who will assist with the cleaning of the sports ground.
- Provision of RDP houses
- Report back on implementation of previous year budget
- Employ the youth in their respective wards to perform meter readings, instead of using external service providers
- Issue the statements of accounts to the community
- Provision of RDP houses
- Resolving of the Sewer spillages
- Why budget for Mayor and Speaker's car when there is pure maintenance that needs to be done to ensure efficient service delivery
- Installation of electricity and water pipes in the farm areas
- Sucking of the toilets on regular basis, currently
- Building of the school bridge in the farms
- Hazardous stream in Leandra, the municipality needs to communicate with Grobler to fix the issues
- The municipality should implement the by-laws to ensure that the cattle are controlled
- The presentation should be in rand value, especially the increase not in percentages
- The inaugurated mayor not introduced to the people
- National treasury withheld 16million on MIG
- Refuse removal is paid however there is no collection by the municipality, rather do not increase the tariffs
- The customer's billing is too high where as the municipality does not do meter readings
- The main office must relocate to Bethal, since every time you request for service the Bethal office states that we must go to Secunda
- Deficit of 200million, what are the contributing factors to the deficit
- Issues on maintenance, where are the statistics of the past expenditure in the residential area
- Where are plans to expand clinics especially in Kinross
- Pot holes –
- Where does the municipality get the money to pay for Internal funded project
- The budget presentation does not cover how the municipality is going to recover the R1billion debt
- None of the following are reflected on the budget
 - Asset strategies
 - Operational strategies
 - Revenue enhancement strategies
 - Capital management strategies
 - Financial Management Strategies
- Outstanding debt book is the problem of the municipality, not the community since there are officials hired and paid to collect the debt
- What is the plan to repay Eskom debt of 750million
- The infrastructure is ageing since it is years old, it is going to be expensive to repair the infrastructure
- Repairs /installation of high-mast lights or street lights.

5 BUDGET RELATED POLICIES AND OVERVIEW OF TARIFF ADJUSTMENTS

The municipality's budgeting process is guided and governed by the relevant legislation and related policies.

The purpose of the budget related policies is to govern and guide the budget process and inform the projections of the medium term.

Listed below with a brief description are the municipalities budget related policies. The budget and accounting policies were reviewed during the year.

The accounting policy is reviewed on an on-going basis to incorporate changes required by the relevant Accounting Standards, apart from the changes to these policies as part of the budget process.

- Budget related policies are attached for review as follows:

5.1 Management Plan (Annexure C)

The importance of tabling funded budgets is highlighted in MFMA Circular No. 89 which state the following, as an initiative to support municipalities in this regard, the National and Provincial treasuries are assessing tabled budgets and assisting municipalities in effecting the required changes to ensure that they adopt funded budgets. However, some municipalities have challenges in correcting the budgets to ensure that they are funded in one financial year due to financial challenges. As a result, such municipalities must, together with their 2018/19 MTREF budget, table a plan in a municipal council on how and by when the budget will improve from an unfunded to a funded position. The National and Provincial treasuries will assess the budget together with the plans and support the municipality accordingly.

Annexure C is the plan drafted by the municipality, which will assist Govan Mbeki Municipality to improve the unfunded position in the future.

5.2 Virement Policy (Annexure D)

The Virement policy establishes the framework for managers to manage their respective budgets within limitations, and also to ensure good budgeting practice and effective financial management. The Virement policy has been amended to improve budgetary controls.

5.3 Accounting policy (Annexure E)

The accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with Generally Recognized Accounting standards and other guiding principles such as International Financial Reporting.

5.4 Supply Chain Management Policy (Annexure F)

The supply chain management policy the intentions is to ensure that proper processes are followed in acquiring of goods and services and all legislations are adhered to.

5.5 Credit control and Debt collection policy (Annexure G)

The council adopted a policy a few amendments have been made to enhance debt collection which will deduct certain percentage on prepaid purchases to settle the arrears account

5.6 Investment policy (Annexure H)

The intention of the investment policy is to ensure investments are made in an efficient and effective manner which generates the best returns for the municipality while considering preservation and safety of the principal and appropriate liquidity.

5.7 Property Rates policy (Annexure I)

Section 3(1) of the Local Government Property Rates Act, 2004 (Act 6 of 2004) and Section 62 (1) (f) of the Municipal Finance Management Act, determines that a municipality must adopt and implement a rates policy on the levying.

5.8 Tariff policy (Annexure J)

The tariff policy covers levying of tariffs, fees and charges for municipal services. The tariff policy details electricity, water, sewer, refuse removal and miscellaneous tariffs.

5.9 Fixed Asset Management Policy (Annexure K)

The asset policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilization, control maintenance and disposal of assets. The policy guides Directorates in their responsibility and duties for control of their assets.

5.10 Short Term Risk and Liabilities Policy (Annexure L)

5.11 Funding and Reserves Policy (Annexure M)

5.12 Budget Policy (Annexure N)

5.13 Borrowing Policy (Annexure O)

5.14 Blacklisting Policy (Annexure P)

5.15 Indigent Management Policy (Annexure Q)

5.16 Travelling and Subsistence Policy (Annexure R)

5.17 Provision for Doubtful Debt and Debt Write-Off Policy (Annexure S)

5.18 Unclaimed Deposit Policy (Annexure T)

5.19 Retention Policy (Annexure U)

6 OVERVIEW OF BUDGET ASSUMPTIONS

The budget assumptions are determined before the budget process, guided by the economic outlook, movements in terms of the markets and by the national treasury guidelines.

The assumptions are devised in such a way that they support the short and long term finances and strategy of the municipality.

6.1 Key Financial indicators

The growth parameters set by National treasury are set between 3 and 6 percent which are also target range for the inflation rate. All steps have been taken to be in line with these National Treasury guidelines however the following factors affect the municipal operations and the budget accordingly:

- Anticipated high fuel prices
- Higher salaries
- Increase by Eskom and Rand water
- Job creation and protecting the poor

The 2018/2019 has been developed guided by the following inflation forecast:

Fiscal Year	2017 Actual	2018 Estimate	2019 Forecast	2020 Forecast	2021 Forecast
Real GDP Growth	0.5%	1.0%	1.5%	1.8%	2.1%
CPI Inflation	6.3%	5.3%	5.3%	5.5%	5.5%

6.2 Credit Rating

The municipality has not had a credit rating and with National Treasury support, the municipality will have to undertake it.

6.3 Borrowing and Investment of funds

The MFMA permits the borrowing for long term if it is for the acquisition of capital goods such plant and equipment and infrastructure. The municipality will consider the unsecured loan in the medium term, as this is backed up by the acknowledgement from the lender, that the municipality is showing sound financial management and an ability to meet short term obligations.

The municipality has a total amount of R 5.5 million external loans.

The investments amount to R33 million, R10.3 million of these investments are securities for the DBSA loans and due to negative cash flow the municipality is unable to build more reserves.

6.4 Rates, tariffs, charges and timing of revenue collection

Accounts for rates, refuse, electricity, water and sanitation are issued on a monthly basis and are due and payable before the 7th of the month. Recovery procedures for non-payment may be commenced within 7 days of payment default. The electricity supply is cut and water supply is restricted when a client defaults. The municipality is committed in ensuring that collection levels are improved and that credit control will be enforced on those who can afford and not honouring their municipal accounts.

6.5 Collection rates for each revenue source

The collection rate for all the services is expected to be 75% average throughout; this is due to credit control actions that are taken against the defaulters. Where ESKOM is a service delivery agent, consumers who are not paying will be restricted water.

6.6 Price movements on specifics

The cost of bulk purchases amounts to R655million for both electricity and water. The projections are informed by the increases from the Rand water and Eskom.

The increase on both electricity and water tariff has been pegged at 6.84% and 12.2% respectively per NERSA and Rand Water.

6.7 Average salary increases

Circular issued by National Treasury was taken into account in budgeting for employee related costs it recommends an increase of average CPI + 1%

6.8 Changing Demand characteristics

The demand for services is increasing yearly as the municipality is expected to deliver services to the indigent and pressure to reduce poverty.

6.9 Ability to the municipality to spend and deliver on programs

The 2017/2018 operating budget will be spent 100% by year end looking at the projected actual by year end. The challenges are still there in terms of maintaining the infrastructure and managing the breakaways of vehicles especially revenue generating.

7 ALIGNMENT OF BUDGET TO THE INTEGRATED DEVELOPMENT PLAN

7.1 IDP Review and stakeholder participation

The IDP has been prepared for the medium term to 2018/19. In the current financial year the IDP has undergone the review as required by the Municipal Systems Act and MFMA. Community needs and inputs were sought and the stake holders were consulted.

The IDP takes cognizance of the National, provincial and district priorities. The key focus and IDP priorities are:

- To provide , improve and sustain infrastructure
- To promote socio economic development in rural and urban areas
- To enable and speed up institutional transformation
- To strengthen democracy and good governance
- To improve and sustain financial management

7.2 IDP link to the budget

In compliance with Systems Act of 2000 and the Municipal Finance Management Act the budget is informed and aligned to the IDP priorities.

8 BUDGET RECOMMENDATIONS

1. That the report on the Medium Term Revenue and Expenditure Framework for 2018/2019 and two outer years **BE ACKNOWLEDGED**.
2. That the budget comprising of operating Income budget of R 1,800,563,551 operating expenditure budget of R 1,741,766,978 and capital budget of R 133,447,667 as set out in the following tables **BE APPROVED** for the adoption to ensure compliance with section 16 (2) of the Municipal Finance Management Act (No 56 of 2003):
3. That the budget related policies of Council mentioned in the report **BE APPROVED**.
4. That proposed tariff increases **BE APPROVED** as follows:

7.1 ASSESSMENT RATES

All property taxes as per the 2017/2018 tariff book increased by 5.2%.

7.2 SEWERAGE

All sewerage charges as per the 2017/2018 tariff book increased by 12.2%.

7.3 REFUSE

All refuse charges as per the 2017/2018 tariff book increased by 5.2%.

7.4 WATER

All basic water charges as per the 2017/2018 tariff book increased by 12.2%

7.5 ELECTRICITY

All basic electricity charges increase with 6.84% in line with NERSA

7.6 DEPOSITS

Increase with 5.2%

7.7 MISCELLANEOUS TARIFFS

- As per the 2017/18 tariff book increased by 5.2%.
- These are tariffs that are used on a needs basis.
- All tariffs exclude VAT except in the case of assessment rates that are zero-rated.

7.8 INTEREST / CAPITALIZED ARREARS

- No interest will be levied on those arrears for which the consumer made formal arrangements.
- Interest will only be levied on those arrears for which no formal arrangement exist and/or arrear as a result of not complying with the said arrangements.
- Interest rates will be levied at market related rates.

7.9 AMENDMENT OF BUDGET AS PER COUNCIL RESOLUTION A49.05.2018

The budget as per resolution A49.05.2018 was reduced to ensure that the 2018.19 budget reflect a surplus, as a result the expenditure budget was further cut with R 232million from R1,963 billion to R 1,741 billion. The items affected are Bulk purchases, general expenditure, contracted services, depreciation and debt impairment.

Description	Final Budget 2017-2018	Final Tabled Budget	Amendment	Final as 31 May 2018 - A49.05.2018	Reductions on 27 June 2018	Final Budget 2018.19
Expenditure						
Bad Debts	85 871 159	90 336 459		90 336 459	17 200 000	73 136 459
Bulk Purchases	670 000 000	804 960 000		804 960 000	150 000 000	654 960 000
Collection Costs	3 000 000	3 156 000		3 156 000		3 156 000
Contracted Services	44 115 500	87 734 200		87 734 200	5 000 000	82 734 200
Councillor's remuneration	15 659 928	16 677 824	7 940 186	24 618 010		24 618 010
Depreciation expenditure	162 164 991	170 597 571		170 597 571	59 701 884	110 895 687
Employee related Costs	452 116 976	487 966 618		487 966 618		487 966 618
Finance Costs	3 429 562	3 607 900		3 607 900		3 607 900
General Expenditure	41 748 838	85 830 670		85 830 670	218 850	85 611 820
Grants and Transfers - free services	39 609 875	41 669 588		41 669 588		41 669 588
Grants and Transfers - Operational		6 000 000		6 000 000		6 000 000
Grants expenditure	28 944 000	26 207 000		26 207 000		26 207 000
Repairs & Maintenance	75 318 250	141 203 698		141 203 698		141 203 698
Total Operating Expenditure	1 621 979 079	1 965 947 526	7 940 186	1 973 887 712	232 120 734	1 741 766 978
Revenue						
Administration & Cut - Off fees	(11 652 223)	(12 281 443)		(12 281 443)		(12 281 443)
Dividends Received	(55 146)	(58 124)		(58 124)		(58 124)
Fees earned	(8 407 260)	(8 861 252)		(8 861 252)		(8 861 252)
Fines	(30 004 123)	(31 624 345)		(31 624 345)		(31 624 345)
Grants and Transfers - Operational	(247 125 000)	(289 452 000)		(289 452 000)		(289 452 000)
Incidental Income	(1 125 411)	(1 186 183)		(1 186 183)		(1 186 183)
Insurance claims	(1 008 705)	(1 063 175)		(1 063 175)		(1 063 175)
Interest on investment	(3 403 045)	(1 200 000)		(1 200 000)		(1 200 000)
Interest: Outstanding Debtors	(43 519 491)	(45 869 543)		(45 869 543)		(45 869 543)
Other income	(2 126 559)	(2 241 393)		(2 241 393)		(2 241 393)
Profit on Sale of Assets	(30 000 000)	(1 620 000)		(1 620 000)		(1 620 000)
Property Rates	(263 800 962)	(304 920 135)		(304 920 135)		(304 920 135)
Rental of Facilities	(5 164 686)	(5 443 579)		(5 443 579)		(5 443 579)
Service Charges	(1 004 013 389)	(1 058 230 112)	(36 512 266)	(1 094 742 378)		(1 094 742 378)
Total Operating Revenue	(1 651 406 000)	(1 764 051 285)	(36 512 266)	(1 800 563 551)	-	(1 800 563 551)
Total Operating deficit/(surplus)	(29 426 921)	201 896 241	(28 572 080)	173 324 161	232 120 734	(58 796 573)
Grants & transfers - Capital	(72 796 000)	(74 651 000)		(74 651 000)		(74 651 000)
Total Revenue	(1 724 202 000)	(1 838 702 285)	(36 512 266)	(1 875 214 551)	-	(1 875 214 551)
(Surplus)/Deficit	(102 222 921)	127 245 241	(28 572 080)	98 673 161	232 120 734	(133 447 573)

That the budget **BE APPROVED** with the above budget amendments