



Budget Medium Term Revenue and Expenditure Forecasts

MFMA Section 16 Report

2019/2020

Govan Mbeki Municipality

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1. OVERVIEW

1.1 Purpose

The purpose of the report is to table the annual budget of 2019/2020 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) for approval before the start of the financial year.

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 Annual Budget and IDP approval is considered taking into considerations the inputs received after thorough engagements were done with the public and various stakeholders.

The 2019/2020 MTREF will be considered for approval by Council on the 29 May 2019 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 2019/2020 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 2019/2020 MTREF reflects the reality of the current budgetary pressures. The following budget guidelines directly informed the compilation of the budget;

- All allocations included in their budgets must correspond to the allocations listed in the Division of Revenue Bill.
- macro-economic forecasts must be considered when preparing the 2019/20 MTREF municipal budgets, i.e inflation of 5.2%
- Municipalities are urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving fully cost-reflective tariffs that will help them achieve financial sustainability.
- Adopting a funded budget has become more critical now than before as it has direct bearing on the financial sustainability of the institution. It has been agreed that no municipality will adopt an unfunded budget in the future. There are cases that may warrant a plan as this may not be achievable over one year. As a result, such municipalities must, together with their 2019/20 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
- 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 6.75% per Collective agreement from SALGA and the National Treasury circular 94
- 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.
- Justification of all increases in excess of the projected inflation target for 2019/20

2. EXECUTIVE SUMMARY

2.1 Executive Summary

The preparation of the 2019/2020 Annual Budget and Medium Term Revenue and Expenditure Framework (MTREF) is based on the guidelines contained in the MFMA Circular No.93 & 94 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 annual budget 2019/20 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

The following principles and guidelines will directly inform the annual budget 2019/2020 MTREF:

- 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

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	7.9%
- Electricity	13.9%
- Rates	5.2%
- Waste management	
o Refuse removal	5.2%
- Sewer	7.9%
- Miscellaneous	5.2%

The indigent subsidy is proposed as follows:

DESCRIPTION	2017/2018 VAT Inclusive	2018/2019 VAT Inclusive	2019/2020 VAT Inclusive
Free Electricity	52.18	52.66	58.12
Free Water	192.33	211.93	224.91
Equitable Share	226.84	239.00	253.63
TOTAL	471.35	503.59	536.66

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 93 & 94 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 2019/2020 final budget comprises of **R 2 415 billion** for operating expenditure and **R142 million** for capital investment programs. The total operating income budget is **R2 001 billion** resulting in an operating deficit of R 414 million before taking into account the capital revenue of R104 million. The Overall deficit for the year is **R309 million**.

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

Table 1: Consolidated overview of the 2019/2020 budget

Description	Audited Outcome 2017/2018	Original Budget 2018/2019	Adjusted Budget 2018/2019	Budget 2019/2020	Budget 2020/2021	Budget 2021/2022
	R'000	R'000	R'000	R'000	R'000	R'000
Total Operating Revenue	1 477 257	1 469 515	1 469 515	1 686 620	1 881 893	1 983 825
Total Operating Grant	247 990	289 452	289 452	314 373	334 983	348 328
Total Revenue	1 725 247	1 758 967	1 758 967	2 000 993	2 216 876	2 332 153
Total Operating Expenditure	1 876 641	1 700 171	1 736 664	2 415 718	2 541 335	2 673 484
Surplus /(Deficit) for the year before grant capital revenue	(151 394)	58 796	22 303	(414 725)	(324 459)	(341 331)
Capital grant revenue	45 397	74 651	74 651	104 803	105 990	115 575
Surplus /(Deficit) for the year	(105 997)	133 447	96 954	(309 922)	(218 469)	(225 756)
Total Capital Expenditure	53 146	133 447	124 232	142 187	123 455	153 325

Capital budget

An amount of R142 million has been allocated for the capital investment program for 2019/2020 financial year. This is an increase from the R124 million adjustment budget for 2018/2019. Included in the R142million total capital is R101 million to be funded from capital grants and R41 million to be funded from own funding.

Operating budget

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

The annual operating budget has increased to R2.41 billion compared to the current adjusted budget of R1.73 billion.

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

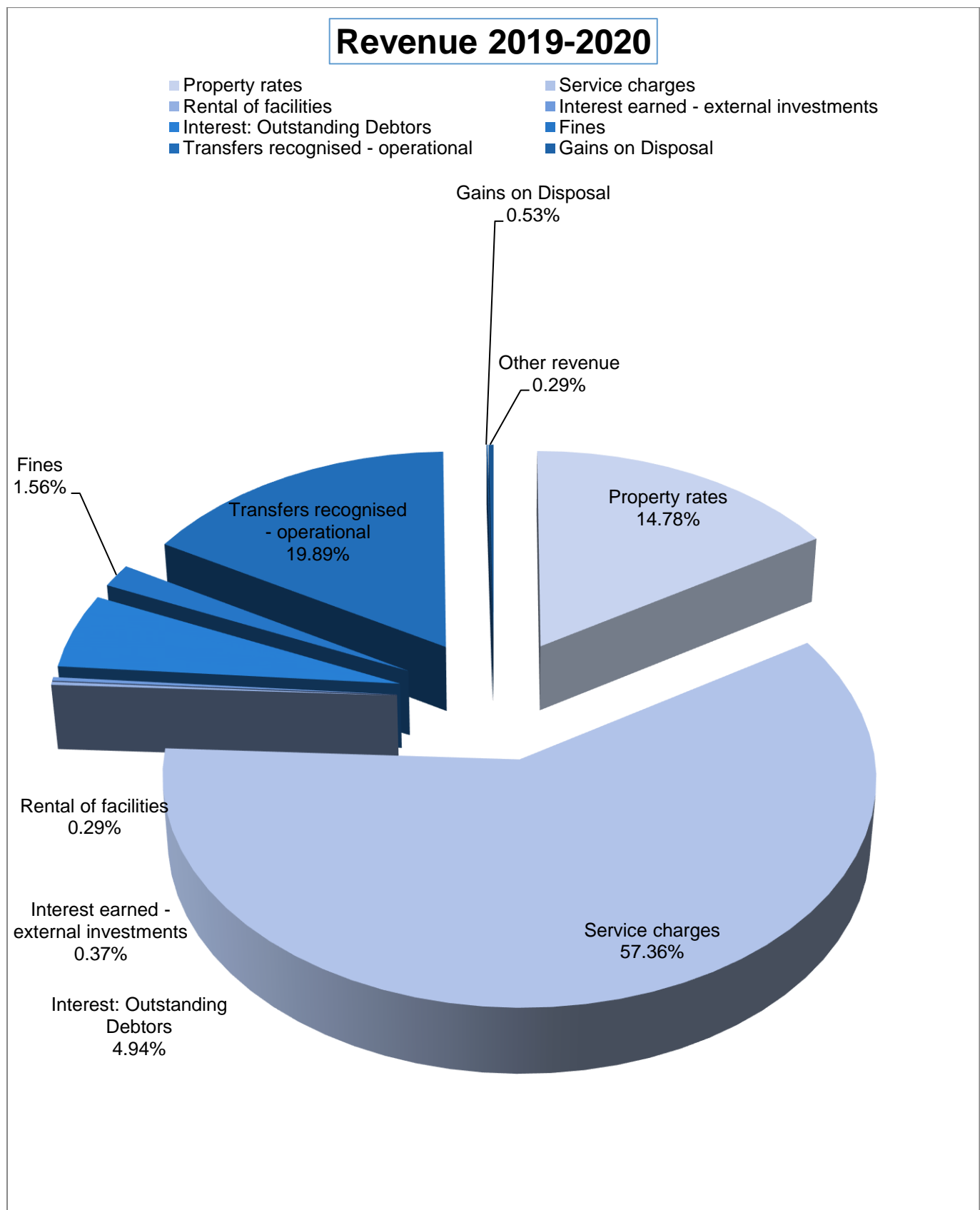
- salary increments
- the need to repair infrastructure
- the need to adequately budget for debt impairment and depreciation,
- the increase on bulk purchases due to rate increases and projected usage
- Inflation rate

Below is the summarised change between the tabled budget and the final budget

Description	Total tabled budget	Final Budget	Changes
Expenditure			
Bad Debts Written Off	514 630 380	233 922 900	(280 707 480)
Bulk Purchases	806 803 417	914 662 987	107 859 570
Contracted Services	279 691 586	271 691 586	(8 000 000)
Depreciation and Amortisation	141 920 730	141 920 730	-
Employee Related Cost	593 917 356	593 917 356	-
Interest Dividends and Rent on Land	3 274 061	80 965 887	77 691 826
Inventory Consumed	31 856 066	31 856 066	-
Operating Leases	4 761 546	4 761 546	-
Operational Cost	76 488 613	76 488 613	-
Remuneration of Councillors	25 947 377	25 947 377	-
Transfers and Subsidies	39 583 045	39 583 045	-
Total Expenditure	2 518 874 177	2 415 718 094	(103 156 083)
Revenue			
Interest on outstanding debtors	104 012 202	104 012 202	-
Operational Revenue	2 469 852	2 469 852	-
Rental from Fixed Assets	4 507 358	4 507 358	-
Sales of Goods and Rendering of Services	3 547 193	3 547 193	-
Electricity	488 472 635	527 439 074	38 966 439
Waste Management	123 791 392	123 791 392	-
Waste Water Management	111 359 035	113 908 266	2 549 231
Water	433 706 962	443 635 382	9 928 420
Disposal of Fixed and Intangible Assets	1 037 483	11 037 483	10 000 000
Inventory gains/losses	67 789	67 789	-
Fines Penalties and Forfeits	32 975 937	32 975 937	-
Interest receivable	7 808 941	7 808 941	-
Property Rates	311 419 665	311 419 665	-
Transfers and Subsidies - operational	314 373 000	314 373 000	-
Total revenue	1 939 549 444	2 000 993 534	61 444 090
Total deficit before capital grants	(579 324 733)	(414 724 560)	- (41 711 993)
Transfers and Subsidies - capital	104 803 000	104 803 000	-
Total deficit	(474 521 733)	(309 921 560)	(41 711 993)

3. DETAILED OVERVIEW OF BUDGET

3.1 Revenue



Comments on Operating Revenue

The property rates

The property rates amounts to R 311.4 million for the 2019/2020 financial year. This revenue stream has been increased by 5.2%. An amount of R 39 million 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 14.78% of the total revenue. The property rates has decreased from R350 million in the 2018/2019 budget to R311 million as a result of the objections on the valuation roll received through the outcome of the appeal board.

Service charges

Service charges include electricity, refuse, sewer and water. The service charges for 2019/2020 amount to R 1 208 billion, the service charges are comprised of water R 444 million, Refuse R 124 million, Sewerage R 113 million and electricity R527 million. The service charges contribute 57.36% of the operating revenue.

Rental income

The rental income amounts to R6 million. The stream contributes 0.29% of the total revenue.

Fines

The revenue estimates for the fines amounts to R 32 million, this was done to make a provision as required by iGRAP1 and constitute 1, 56% of the revenue.

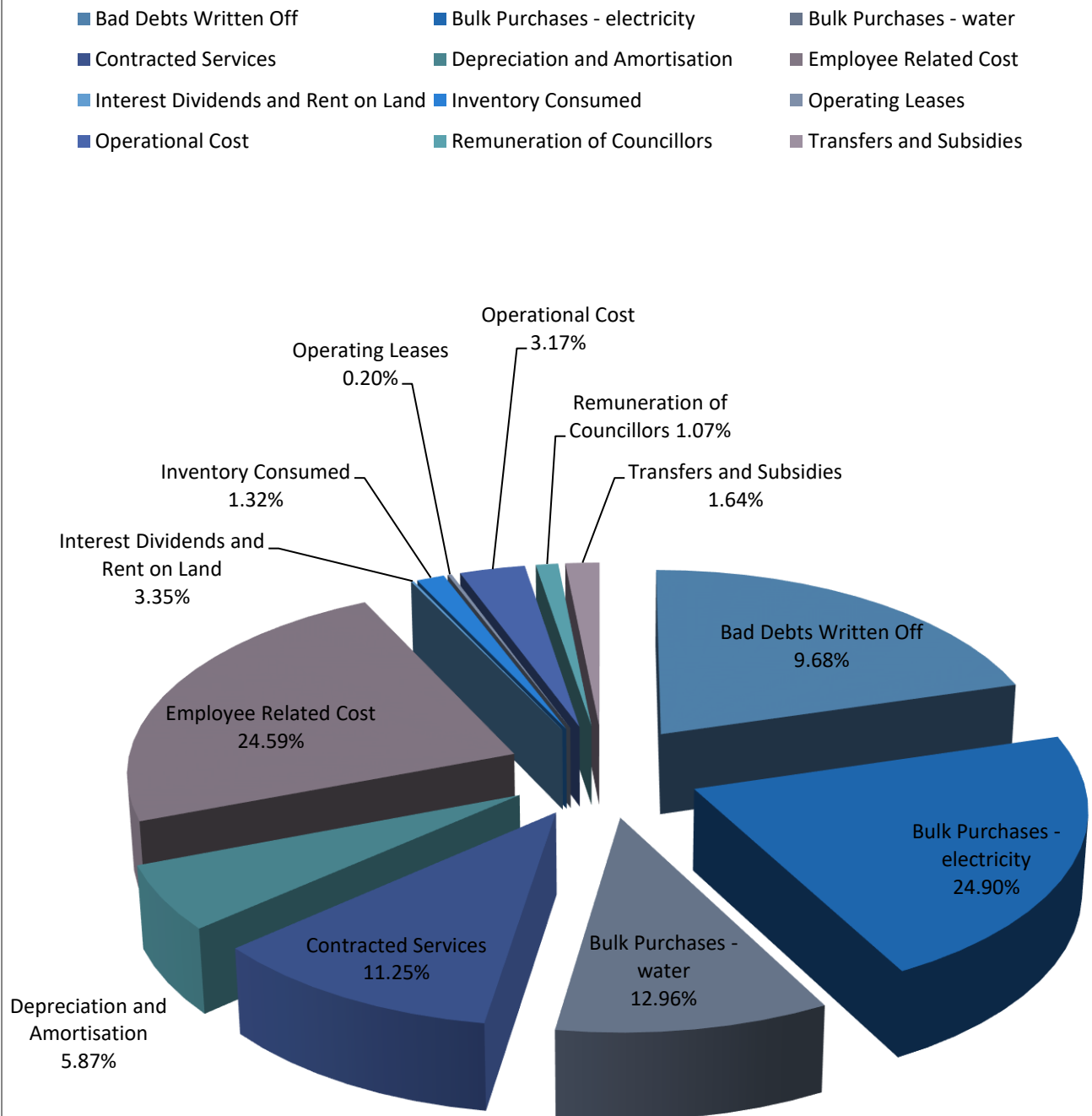
Grants and Subsidies – operating

The grants subsidies refer to the Division of Revenue Act allocations in the 2019/2020 financial year, the operational grants allocations amounts to 19.89% of the total revenue and they are detailed as follows:

DESCRIPTION	2019/2020	2020/2021	2012/2022
Infrastructure Skills Development Grant	20 500	21 000	22 000
Local Government Financial Management Grant	1 770	2 202	2 202
Expanded Public Works Programme Integrated Grant for Municipalities	1 599		
Energy Efficiency and Demand Side Management Grant	6 000	6 000	4 000
Equitable share	284 504	314 264	347 754
	314 373	343 466	375 956

3.2 Operating Expenditure

EXPENDITURE 2019-2020



Comments on Operating Expenditure:

Bulk purchases

The bulk purchases for electricity and water amounts to R 914 million, which contributes 37,86% of the operating budget. The Eskom will increase the bulk purchases to the municipality by 15% and Rand Water is confirmed to be 7.9%.

Transfers and grants

Transfers and grants (Indigent support) constitutes 1.64% of total operating budget. The budget was based on current year forecast increased with inflation and expected increase in the indigent register.

Depreciation

Depreciation constitutes 5.87% of the budget. The budget increase was informed by historical trends as well as budgeted and forecasted additions.

Employee related costs

The employee related costs and remuneration of councillors indicate a percentage of 24.59% of the total operating budget. The average salary increase 6.75%. The overtime will have to be controlled and filling of vacant positions will have to be fast tracked according to priority.

General expenditure

In a bid to cut cost and ensure the funding of the overall budget was increased to R76 million. The transport cost still needs to be controlled. General expenditure takes 3.17% 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 slightly from to the current adjusted budget. Contracted services constitute 11.25% 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.

Below are the details of contracted services amounting to 271 million.

Function	Item description	2020	2021	2022
Fire Fighting and Protection	Contractors:Distater relief material	210 804.00	221 765.81	233 297.63
Solid Waste Disposal (Landfill Sites)	Maintenance of Operating Landfill Site	16 000 000.00	16 832 000.00	17 707 264.00
Police Forces Traffic and Street Parking Control: Police Forces Traffic and Street Parking Control	Maintenance of Traffic Management System	1 800 000.00	1 893 600.00	1 992 067.20
Electricity: ADMIN (380)	Electrical - Distribution network	40 000 000.00	42 080 000.00	44 268 160.00
Security Services	Security Services	26 000 000.00	27 352 000.00	28 774 304.00
Development Facilitation	Business and Advisory - Human Resources	23 715 000.00	24 948 180.00	26 245 485.36
Finance	Meter Management (Reading of meters)	20 236 800.00	21 289 113.60	22 396 147.51
Waste Water Treatment	Sewerage Services	15 810 004.00	16 632 124.21	17 496 994.67
Electricity	Prepaid Electricity Vendors	14 000 000.00	14 728 000.00	15 493 856.00
Legal Services	Consultants: Legal Cost - Legal Advice and Litigation	5 270 004.00	5 544 044.21	5 832 334.51
Property Services	Administrative and Support Staff - Valuation Roll Services	5 000 000.00	5 260 000.00	5 533 520.00
Finance	Security Services - Cash in transit	5 000 000.00	5 260 000.00	5 533 520.00
Finance	Outsourced Services: Business and Advisory: Accounting and Auditing - Asset Management and Audit support	4 000 000.00	4 208 000.00	4 426 816.00
Electricity: ADMIN (380)	Contractors: Electrical	2 772 024.00	2 916 169.25	3 067 810.05
Fleet Management	Business and Advisory	2 529 600.00	2 661 139.20	2 799 518.44
Town Planning Building Regulations and Enforcement and City Engineer	Infrastructure and Planning - Town Plann/ Township establishment	2 500 000.00	2 630 000.00	2 766 760.00
Finance	Legal Cost - Issue of Summons	2 217 612.00	2 332 927.82	2 454 240.07
Electricity: ADMIN (380)	Contractors: Electrical	2 217 612.00	2 332 927.82	2 454 240.07
Finance	ConnectionDis-connection - Electricity	2 200 000.00	2 314 400.00	2 434 748.80
Finance	Legal Cost - Collection	1 108 812.00	1 166 470.22	1 227 126.68
Water Treatment	Expenditure:Contracted Services:Outsourced Services:Cleaning Services -Cleaning of Reservoirs	737 796.00	776 161.39	816 521.78
Finance	Outsourced Services:Administrative and Support Staff	421 596.00	443 518.99	466 581.98
Security Services	Professional Staff	284 580.00	299 378.16	314 945.82
Fire Fighting and Protection	PreservationRestorationDismantlingCleani	277 206.00	291 620.71	306 784.99
Waste Water Treatment	Infrastructure and Planning:Town Planner	263 496.00	277 197.79	291 612.08
Town Planning Building Regulations and Enforcement and City Engineer	Infrastructure and Planning - Town Plann/SPLUMA compliance	263 496.00	277 197.79	291 612.08
Town Planning Building Regulations and Enforcement and City Engineer	Infrastructure and Planning - Town Plann/Surveying	221 757.00	233 288.36	245 419.36
Electricity: ADMIN (380)	Contractors: Electrical	221 757.00	233 288.36	245 419.36
Storm Water Management: Storm Water Management	Engineering: Civil Stormwater Maintanance	221 340.00	232 849.68	244 957.86
Biodiversity and Landscape	Alien Vegetation Control	210 804.00	221 765.81	233 297.63
Town Planning Building Regulations and Enforcement and City Engineer	Business and Advisory - Business and Fin	110 885.00	116 651.02	122 716.87
Finance	Business and Advisory - Business and Fin	105 396.00	110 876.59	116 642.17

Solid Waste Disposal (Landfill Sites): LANDFILL SITES (366)	Business and Advisory: Business and Financial Management	86 424.00	90 918.05	95 645.79
Biodiversity and Landscape	Clearing and Grass Cutting Services	84 324.00	88 708.85	93 321.71
Administrative and Corporate Support/OHS&IR	Business and Advisory - Medical Examinations	83 161.00	87 485.37	92 034.61
Security Services	Safeguard and Security/purchases of bullets	68 514.00	72 076.73	75 824.72
Corporate Wide Strategic Planning (IDPs LEDs)	Catering Services	55 436.00	58 318.67	61 351.24
Biodiversity and Landscape	Pest Control and Fumigation	26 346.00	27 715.99	29 157.22
Water Treatment	Sewerage Services	22 172.00	23 324.94	24 537.84
Solid Waste Disposal (Landfill Sites)	Removal of Hazardous Waste	11 092.00	11 668.78	12 275.56
	Total contracted services	196 365 850.00	206 576 874.20	217 318 871.66

Included in the 271million of contracted services is repairs and maintenance, below is details of repairs and maintenance amounting to 75million

Function	Item description	2020	2021	2022
Waste Water Treatment: SEWER PURIFICATION (376)	Contractors: Maintanance: Sewer purification	4 216 004	4 435 236	4 665 868
Waste Water Treatment	Contractors: Maintenance : Distribution Network for Waste Water	4 216 000	4 435 232	4 665 864
Administrative and Corporate Support: COMMUNITY SERVICES (200)	Contractors: Maintenance of Buildings and Facilities	3 162 000	3 326 424	3 499 398
Sewerage	Contractors: Maintenance of Buildings and Facilities	210 804	221 766	233 298
Biodiversity and Landscape: HORTICULTURAL (260)	Contractors: Maintenance of Buildings and Facilities	158 100	166 321	174 970
Sewerage	Contractors: Maintenance of Distribution Network	5 270 004	5 544 044	5 832 335
Electricity: ADMIN (380)	Contractors: Maintenance of Distribution Network	5 270 004	5 544 044	5 832 335
Electricity	Contractors: Maintenance of Distribution Network	5 270 004	5 544 044	5 832 335
Water Treatment	Contractors: Maintenance of Mechanical Pumps	1 581 000	1 663 212	1 749 699
Water Treatment	Contractors:Maintenance of Unspecified Assets	110 885	116 651	122 717
Sewerage	Expenditure: Contracted Services: Contractors: Implements & Equipment	263 496	277 198	291 612
Community Halls and Facilities	Expenditure: Contracted Services: Contractors: Implements & Equipment	263 496	277 198	291 612
Information Technology	Expenditure: Contracted Services: Contractors: Implements and equipment	294 496	309 810	325 920
Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance - Distribution Network	609 212	640 891	674 217
Storm Water Management: Storm Water Management	Expenditure: Contracted Services: Contractors: Maintenance - Distribution Network	316 200	332 642	349 940
Sewerage: SEWER LBN/HOPE (271)	Expenditure: Contracted Services: Contractors: Maintenance - Rentals: Machinery & Equipment	1 053 996	1 108 804	1 166 462
Sewerage: SEWER LBN/HOPE (271)	Expenditure: Contracted Services: Contractors: Maintenance -Distribution Network	1 108 812	1 166 470	1 227 127
Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance of Buildings and Facilities	2 108 004	2 217 620	2 332 936
Information Technology	Expenditure: Contracted Services: Contractors: Maintenance of Computer equipment	474 300	498 964	524 910
Waste Water Treatment: SEWER PURIFICATION (376)	Expenditure: Contracted Services: Contractors: Maintenance of Distribution Network	2 424 200	2 550 258	2 682 872
Sewerage: SEWER LBN/HOPE (271)	Expenditure: Contracted Services: Contractors: Maintenance of Distribution Network	2 217 612	2 332 928	2 454 240
Biodiversity and Landscape	Expenditure: Contracted Services: Contractors: Maintenance of Equipment - Playgrounds and Equipment	9 208	9 687	10 191
Electricity	Expenditure:Contracted Services:Contractors:Maintenance - Implements & Equipment	552 186	580 900	611 106
Electricity	Expenditure:Contracted Services:Contractors:Maintenance - Traffic Lights & Signs	527 004	554 408	583 237
Water Treatment	Expenditure:Contracted Services:Contractors:Maintenance of Buildings and Facilities	421 596	443 519	466 582
Information Technology	Expenditure:Contracted Services:Contractors:Maintenance of Computer equipment	299 100	314 653	331 015
Roads: ROADS LBN/HOPEF (251)	Expenditure:Contracted Services:Contractors:Maintenance of Distribution Network	421 596	443 519	466 582
Road and Traffic Regulation: LICENCING (446)	Expenditure:Contracted Services:Contractors:Maintenance of Distribution Network	421 596	443 519	466 582
Storm Water Management: Storm Water Management	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets - Structures & Fencing	210 804	221 766	233 298

Storm Water Management: Storm Water Management	Maintenance - Resealing of roads	421 596	443 519	466 582
Community Halls and Facilities	Maintenance of Buildings and Facilities	2 108 004	2 217 620	2 332 936
Water Treatment	Maintenance of Buildings and Facilities	421 596	443 519	466 582
Waste Water Treatment	Maintenance of Buildings and Facilities	316 200	332 642	349 940
Biodiversity and Landscape	Maintenance of Cemeteries	316 200	332 642	349 940
Biodiversity and Landscape	Maintenance of developed parks and stadiums	434 193	456 771	480 523
Community Halls and Facilities	Maintenance of Equipment	263 496	277 198	291 612
Fire Fighting and Protection	Maintenance of equipment	52 704	55 445	58 328
Biodiversity and Landscape	Maintenance of Equipment mowing and tree prunig	15 810	16 632	17 497
Fire Fighting and Protection	Maintenance of Fire estingusher	263 496	277 198	291 612
Fire Fighting and Protection	Maintenance of Generators	17 505	18 415	19 373
Biodiversity and Landscape	Maintenance of playpark equipment and fences	46 013	48 406	50 923
Administrative and Corporate Support/OHS&IR	Maintenance of Lifting equipment inspection	55 221	58 092	61 113
Water Treatment	Maintenance of Mechanical Pumps	6 324 000	6 652 848	6 998 796
Administrative and Corporate Support/Administrative Services	Maintenance of Office machine & equipment	92 027	96 812	101 847
Storm Water Management: Storm Water Management	Maintenance of Speed humps	210 804	221 766	233 298
Biodiversity and Landscape	Maintenance of sports field	231 876	243 934	256 618
Waste Water Treatment	Maintenance of Unspecified Assets	105 396	110 877	116 642
Electricity: ADMIN (380)	Maintenance of Unspecified Assets	55 436	58 319	61 351
Water Treatment	Maintenance of Water Distribution Network	7 377 996	7 761 652	8 165 258
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical - Distribution network	1 108 812	1 166 470	1 227 127
Administrative and Corporate Support	Outsourced Services:Administrative and Support Staff/Electronic document management system	895 896	942 483	991 492
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical - Distribution network	887 042	933 168	981 693
Solid Waste Disposal (Landfill Sites)	Maintenance of Landfill site facilities	6 000 000	6 312 000	6 640 224
Water Treatment	Expenditure:Contracted Services:Contractors:Maintenance of Water Meters	3 000 000	3 156 000	3 320 112
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical - Distribution network	831 606	874 850	920 342
Solid Waste Disposal (Landfill Sites)	Alien Vegetation Control/Bacterial	11 092	11 669	12 276
Repairs and maintenance		75 325 736	79 242 674	83 363 293

3.3 Capital Requirement

The following table reflect all capital requirements per department.

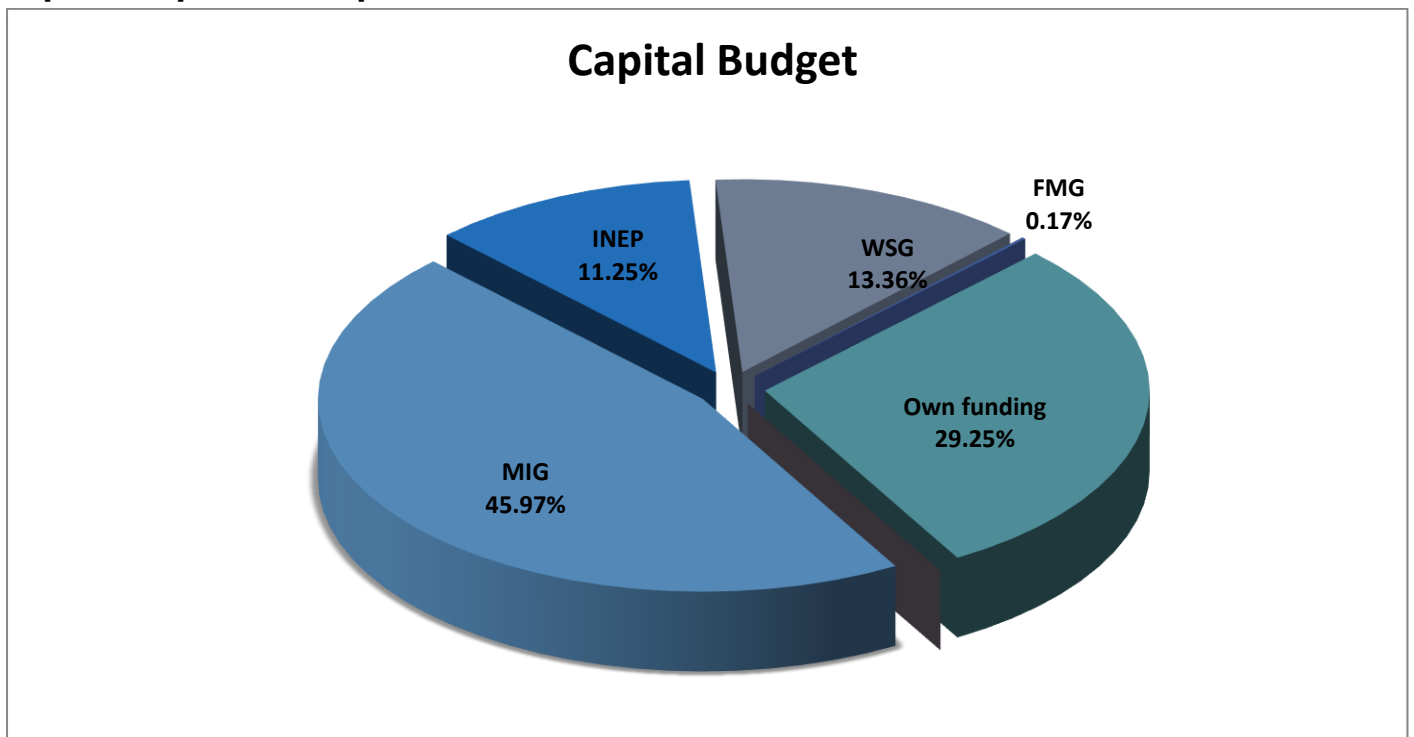
Sub -department	Description	Funded by	Tabled budget - March 2019	Final Capital budget 2020 on 24.05.2019	Final Budget 2021	Final Budget 2022
Office of the Mayor	Mayor 's car	Revenue	700 000	-		
Office of the speaker	Hailing system	Revenue		120 000		
Office of the speaker	Renovation of Chamber(Ramp,Audio systems and Aircon)	Revenue	200 000	500 000		
Office of the speaker	Colour Printer for the speaker	Revenue		35 000		
Fire & Disaster Management	Breathing equipments	Revenue	300 000	-	-	-
Fire & Disaster Management	Fire Engine x2	Revenue		5 000 000	5 000 000	
Fire & Disaster Management	Procument of two-way Radios	Revenue	200 000	-	2 200 000	213 400
Security and compliance	Bullet proof	Revenue	200 000	-		213 400
Security and compliance	Biometric system	Revenue		1 000 000	1 000 000	
Enviroment (Biodeversity)	Grass cutting machines	Revenue	480 000	200 000		512 160
Enviroment (Biodeversity)	tractor drawn poison spray tank	Revenue		40 000		
Enviroment (Biodeversity)	watercart machine	Revenue		50 000		
Enviroment (Biodeversity)	Ablushion facilities cemeteries (kinross, evander, secunda & new bethal)	Revenue		1 500 000	4 000 000	
Enviroment (Biodeversity)	Upgradinng of ablushion facilities emba Ext 14 cemetry	Revenue		400 000		
Enviroment (Biodeversity)	Depo (changing rooms and ablushion for workers x4	Revenue		-	4 000 000	
Enviroment (Biodeversity)	tractors x4	Revenue	-	400 000	1 200 000	
Community halls and facilities	4x long base Bakkies	Revenue		700 000		
Community halls and facilities	100xSteel Trestle tables- 1mm thick steal (heavy duty)	Revenue		190 000		
Recreational facilities	Instalation of sound systems in Johannes Stegman Theatre and Lillian Ngoyi stadium	Revenue		250 000		
Recreational facilities	Installation of electric Heaters in all facilities(Halls, Theatre, Museum, & Libraries	Revenue		-	65 000	
Facilities	Upgrade of sewer and ablushions Lebohang (Difa Nkosi & Library)	Revenue		1 000 000		
Waste management	Compactor Trucks *3	Revenue	7 000 000	7 000 000		7 469 000
	Replacement of eendracht water line	Revenue	5 000 000	5 000 000		5 335 000
By-Law	Van X2	Revenue	700 000	700 000		746 900
Information Technology	Computer equipment	Revenue	1 000 000	1 000 000		1 067 000
Asset section	Insurance claim assets	Revenue	1 500 000	4 500 000		1 600 500

Asset section	Combi for assets verification	Revenue	400 000	-		426 800
Fleet management	Cherry pickers, Graders, TLB's , Tractors & TIPPER Trucks	Revenue	4 500 000	4 500 000		4 801 500
Waste water treatment works	Installation of chlorine and pherric system	Revenue	3 500 000	3 500 000		3 734 500
	Fencing of the buildings (Clear View)	Revenue	4 900 000	-		5 228 300
Energy	Tamper proof enclosures	Revenue	5 000 000	-		5 335 000
fleet	New generator for Stegman Theatre	Revenue		100 000		
All departments	Furniture and equipment	Revenue	1 000 000	1 000 000		1 067 000
Town Planning	Bethal Urban Design plans	Revenue		100 000		
Town Planning	GIS Server	Revenue		500 000		
Town Planning	Surveying equipment	Revenue		300 000		
IDP	PMS system	Revenue		2 000 000		
PMU	INEP	INEP	16 000 000	16 000 000	15 000 000	20 000 000
PMU	Capital projects	MIG	-	-	60 990 000	65 575 000
PMU	Installation of High Mast and Street Lights	MIG	7 000 000	7 000 000		
PMU	Replacement Of AC pipes Emzinoni	MIG	5 362 850	5 362 850		
PMU	Upgrading Lebohang stadium	MIG	11 000 000	11 000 000		
PMU	Refurbishment and Upgrading Emzinoni WWTW and sewer pump stations	MIG	15 000 000	15 000 000		
PMU	Rehabilitation of tarred roads in Embalenhle (Mphafa Roads and Kenneth Kaunda)	MIG	10 000 000	10 000 000		
PMU	Construction of WWTW in Charl Cilliers	MIG	17 000 000	17 000 000		
Water	Water service grant Upgrade of Kinross WWTW Phase 2	WSOG	19 000 000	19 000 000	30 000 000	30 000 000
Internal audit	Procurement of audit system	FMG Grant		240 000		
			136 942 850	142 187 850	123 455 000	153 325 460

Capital Expenditure is sourced from the following

Description	2019/20 Budget	2020/21 Budget	2020/22 Budget
Integrated National Electrification Grant	16 000 000	15 000 000	20 000 000
Municipal Infrastructure Grants	65 362 850	60 990 000	65 575 000
Revenue	41 585 000	17 465 000	37 750 460
Water Service Infrastructure Grant	19 000 000	30 000 000	30 000 000
Financial Management Grant	240 000		
Grand Total	142 187 850	123 455 000	153 325 460

Capital Expenditure per source



4. CONSULTATION PROCESS

Section 22 of the Municipal Finance Management Act requires that after tabling of the annual budget, the municipality must make the budget available to the public and conduct community participation.

The following are the key deadlines achieved since the budget was tabled to council:

Detail	Date
Approval of the tabled budget	28 March 2019
Budget Workshop with councillors	10 May 2019
Public Consultation	14 May 2019 – 23 May 2019
Review of the tabled budget by Provincial Treasury	22 May 2019
Budget Steering Committee Meeting	24 May 2019

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 Virement Policy

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.

5.2 Accounting policy

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.

5.3 Supply Chain Management Policy

The supply chain management policy was adopted and amendments are as result of council resolution.

5.4 Credit control and Debt collection policy

The council adopted a policy a few amendments have been made to give clear indication in terms indigents, s 118 on the issuing of rates clearance and the outstanding debt.

5.5 Investment policy

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.

5.6 Property Rates policy

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.

5.7 Tariff policy

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.

5.8 Asset Management Policy

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.

5.9 Short Term Risk and Liabilities Policy

5.10 Funding and Reserves Policy

5.11 Budget Policy

5.12 Borrowing Policy

5.13 Blacklisting Policy

5.14 Indigent Management Policy

5.15 Travelling and Subsistence Policy

5.16 Provision for Doubtful Debt and Debt Write-Off Policy

5.17 Unclaimed Deposit Policy

5.18 Retention Policy

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 2019/2020 has been developed guided by the following inflation forecast:

Fiscal Year	2019 Estimate	2020 Forecast	2021 Forecast	2022 Forecast
Real GDP Growth	0.7%	1.5%	1.7%	2.1%
CPI Inflation	4.7%	5.2%	5.4%	5.4%

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

6.2 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 2.6 million external loans.

The investments amount to R39.8 million, R11,2 million of these investments are securities for the DBSA loans and due to negative cash flow the municipality is unable to build more reserves.

6.3 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.

6.4 Collection rates for each revenue source

The collection rate for all the services is estimated to 85% 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. The collection rate will not be achieved should austerity measures to collect outstanding debts are not taken. As a result the municipality will not be able to execute the plans as per budget. The municipality Financial Recovery Plan to be implemented drastically to ensure that all the budgeted items are achieved, as a result service delivery will be easier to be implemented by the municipality.

6.5 Price movements on specifics

The cost of bulk purchases amounts to R914 million for both electricity and water. The projections are informed by the increases from the Rand water and Eskom. Eskom has advised of a 15% on the bulk purchases of electricity.

6.6 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%

6.7 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.

6.8 Ability to the municipality to spend and deliver on programs

The 2018/2019 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 the municipality's ability to fund the budget. The municipality has a deficit of R213million which is already a factor in delivering on certain programs.

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 2019/20. 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

RECOMMENDATIONS OF THE EXECUTIVE MAYOR

1. That the 2019/20 budget, comprising of an Operating Revenue of **R 2 000 993 534 exclusive of capital grant revenue**, an Operating Expenditure of **R 2 415 718 094** and capital budget of **R 142 187 850** with the indicative allocation for the two outer years, as set out in the following tables BE **ADOPTED** in terms of Section 16 (2) of the Municipal Finance Management Act (No 56 of 2003):
2. That the budget related policies of Council be **APPROVED**.
3. That the budget be approved noting that it is **UNFUNDED** however the funding status will improve with the interventions from the National Treasury by the implementation of the Financial Recovery plan.
4. That proposed tariff increases **BE ADOPTED** as follows:

6.1 *ASSESSMENT RATES*

All property taxes as per the 2018/2019 tariff book increased by 5.2%.

6.2 *SEWERAGE*

All sewerage charges as per the 2018/2019 tariff book increased by 7.9%.

6.3 *REFUSE*

All refuse charges as per the 2018/2019 tariff book increased by 5.2%.

6.4 *WATER*

All basic water charges as per the 2018/2019 tariff book increased by 7.9%

6.5 *ELECTRICITY*

All basic electricity charges increase with 13.9% in line with NERSA

6.6 *DEPOSITS*

Increase with 5.2%

6.7 MISCELLANEOUS TARIFFS

- As per the 2018/19 tariff book increased by 5.2%.
- These are tariffs that are used on a need's basis.
- All tariffs exclude VAT except in the case of assessment rates that are zero-rate.

6.8 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.

5. That a copy of the approved budget **BE SUBMITTED** in print form and electronically to Provincial and National Treasury.
6. That the Final Approved Budget be published on the municipal website
7. That Council **TAKE NOTE** that the inputs received from the public consultations are incorporated in the IDP