



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) 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 Annual Budget and IDP will be followed by public consultation meetings with various stakeholders.

The 2019/2020 MTREF will be considered for approval by Council on the 31 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	5.2% (pending confirmation of the increase from Rand water)
- Electricity	9.4%
- Rates	5.2%
- Waste management	
o Refuse removal	5.2%
- Sewer	5.2% (pending confirmation of the increase from Rand water)
- 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 draft budget comprises of R 2.51 billion for operating expenditure and R136million for capital investment programs. The total operating income budget is R1.93 billion resulting in an operating deficit of R 580.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	1 625 176	1 712 935	1 805 434
Total Operating Expenditure	1 876 641	1 700 171	1 736 664	2 519 612	2 662 389	2 812 875
Surplus /(Deficit) for the year before grant capital revenue	(399 384)	(230 656)	(267 149)	(894 436)	- 949 454	-1 007 441
Grant revenue	293 387	364,103	364 103	419 176	499 997	515 910
Surplus /(Deficit) for the year	(105 997)	(133 447)	96 954	(475 260)	(449 457)	(491 531)
Total Capital Expenditure	53 146	133 447	124 232	136 943	145 020	157 220

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 R2.51 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:

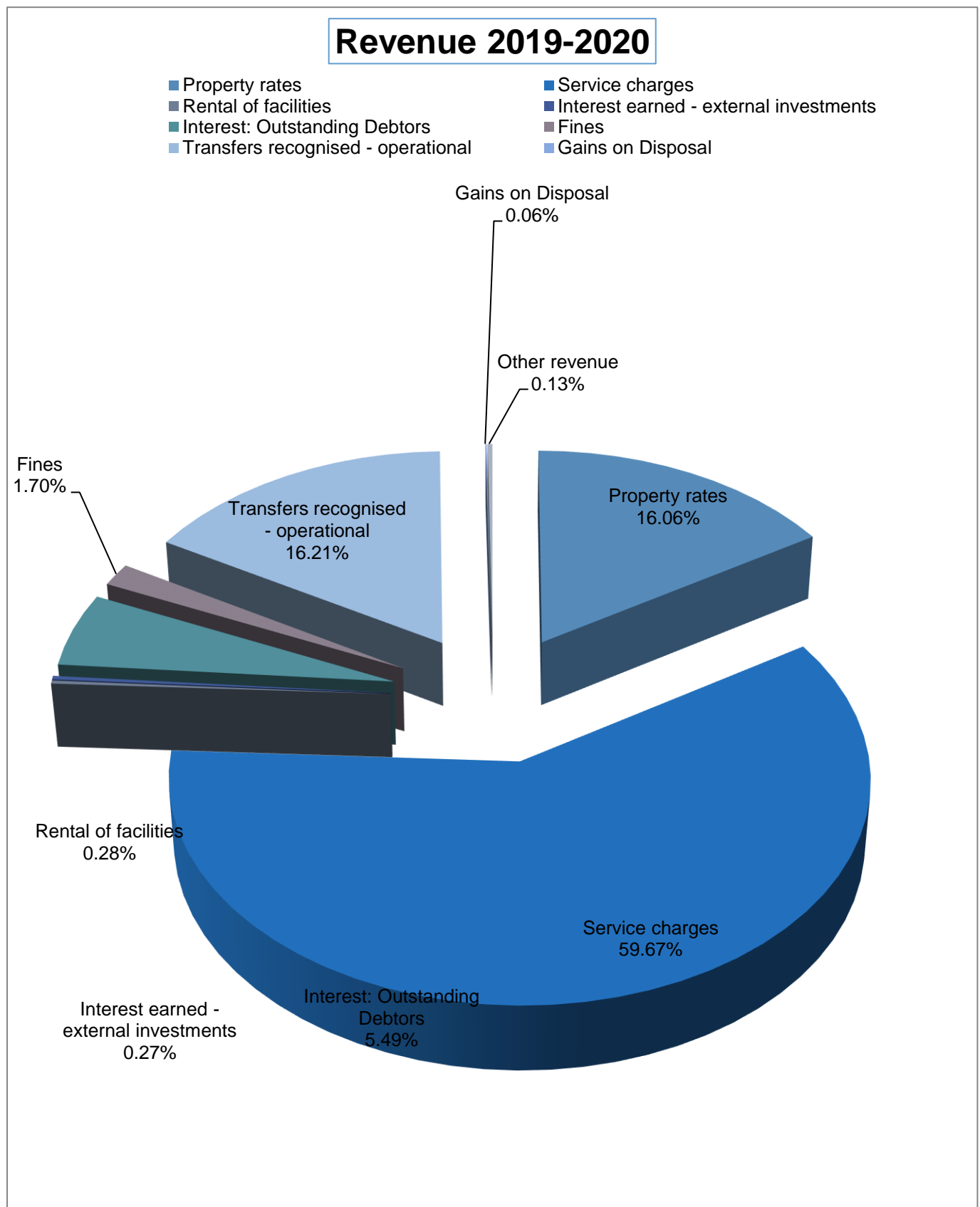
- salary increments
- the need to repair infrastructure
- the need to adequately budget for debt impairment and depreciation,
- the increase on bulk purchases due to rate increases and projected usage
- Inflation rate

Capital budget

An amount of R136, 9million 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. R104,8 million is capital from capital grants. The main reason for this increase is also increase in allocation as per Division Of Revenue Act 2020.

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 16.06% of the total revenue.

Service charges

Service charges include electricity, refuse, sewer and water. The service charges for 2019/2020 amount to R 1 158 billion, 2020/2021 R 1 219 billion and 2020/2022 amounts to R 1 285 billion. The R 1 158 billion is made up of the following, water R 433 million, Refuse R 123 million, Sewerage R 111 million and electricity R488 million. The service charges contribute 59.67% of the operating revenue.

Rental income

The rental income amounts to R4.5 million. The stream contributes 0.23% 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, 7% of the revenue.

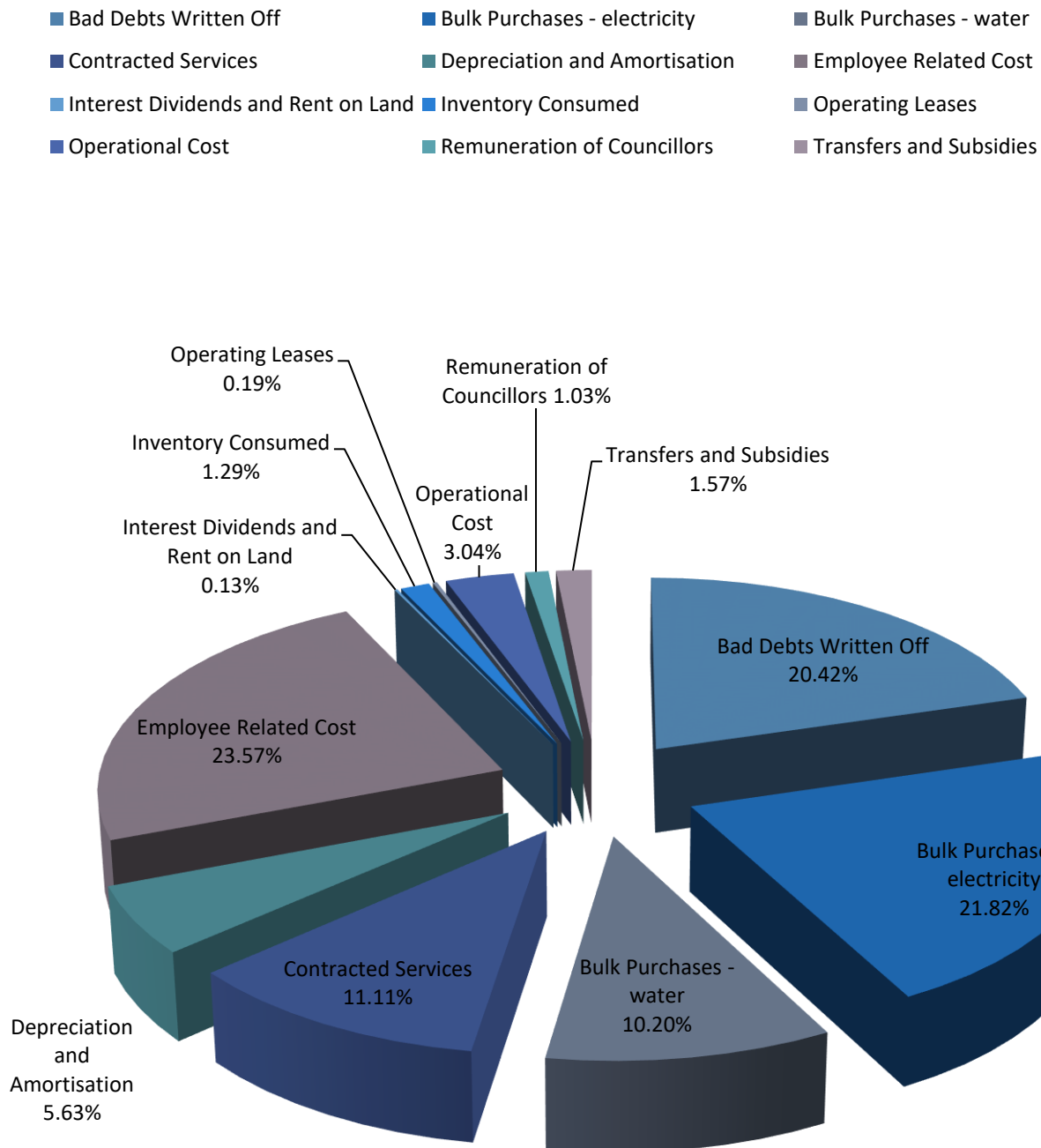
Grants and Subsidies – operating

The grants subsidies refer to the Division of Revenue Act allocations in the 2019/2020 financial year, the operational grants allocations amounts to 16% 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:

Employee related costs

The employee related costs and remuneration of councillors indicate a percentage of 23.57% 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 3.04% 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% 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 158 million.

Function	Description	Final Budget 2019	2020	2021	2022
Core Function:Security Services	Expenditure: Contracted Services: Outsourced Services: Security Services	24 000 000	26 000 000	27 404 000	28 883 816
Core Function:Development Facilitation	Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Human Resources - Skills development	22 500 000	23 715 000	24 995 610	26 345 373
Core Function:Finance	Expenditure: Contracted Services: Outsourced Services: Meter Management (Reading of meters)	8 000 000	20 236 800	21 329 587	22 481 385
Core Function:Solid Waste Disposal (Landfill Sites)	Expenditure: Contracted Services: Contractors: Maintenance of Operating Landfill Site	18 000 000	16 000 000	16 864 000	17 774 656
Core Function:Waste Water Treatment	Expenditure: Contracted Services: Outsourced Services: Sewerage Services	15 000 004	15 810 004	16 663 744	17 563 587
Core Function:Electricity	Expenditure: Contracted Services: Contractors: Prepaid Electricity Vendors	12 000 000	14 000 000	14 756 000	15 552 824
Core Function:Solid Waste Disposal (Landfill Sites)	Expenditure: Contracted Services: Contractors: Maintenance of Landfill site facilities	8 600 004	6 000 000	6 324 000	6 665 496
Core Function:Legal Services	Expenditure: Contracted Services: Consultants and Professional Services: Legal Cost: Legal Advice and Litigation	5 000 004	5 270 004	5 554 584	5 854 532
Core Function:Finance	Expenditure: Contracted Services: Outsourced Services: Security Services: Cash in transit	2 600 004	5 000 000	5 270 000	5 554 580
Core Function:Property Services	Expenditure: Contracted Services: Outsourced Services: Valuation of properties & Supplementary assessment Services	2 499 996	5 000 000	5 270 000	5 554 580
Core Function:Finance	Expenditure: Contracted Services: Outsourced Services: Business and Advisory: Accounting and Auditing - Asset Management and Audit support	1 500 000	4 000 000	4 216 000	4 443 664
Core Function:Fleet Management	Expenditure: Contracted Services: Outsourced Services: Business and Advisory: Fleet Management Services	2 400 000	2 529 600	2 666 198	2 810 173
Core Function:Town Planning Building Regulations and Enforcement and City Engineer	Expenditure: Contracted Services: Consultants and Professional Services: Land survey fees and Industrial park development	2 250 000	2 500 000	2 635 000	2 777 290
Core Function:Finance	Expenditure: Contracted Services: Consultants and Professional Services: Legal Cost: Issue of Summons	2 103 996	2 217 612	2 337 363	2 463 580
Core Function:Finance	Expenditure: Contracted Services: Outsourced Services: Connection/Dis-connection: Electricity Meters	631 200	2 200 000	2 318 800	2 444 015
Core Function:Water Treatment	Expenditure:Contracted Services:Contractors:Maintenance :Water conservation and Demand management	2 000 004	2 108 004	2 221 836	2 341 816
Core Function:Finance	Expenditure: Contracted Services: Consultants and Professional Services: Legal Cost: Collection	1 052 004	1 108 812	1 168 688	1 231 797
Sewerage: SEWER LBN/HOPE (271)	Expenditure: Contracted Services: Contractors: Maintenance - Rentals: Machinery & Equipment	999 996	1 053 996	1 110 912	1 170 901
Core Function:Administrative and Corporate Support	Expenditure:Contracted Services:Outsourced Services:Administrative and Support Staff - (Eletronic Document Management System)	849 996	895 896	944 274	995 265
Core Function:Water Treatment	Expenditure:Contracted Services:Outsourced Services:Cleaning Services -Cleaning of Reservoirs	699 996	737 796	777 637	819 629
Core Function:Finance	Expenditure:Contracted Services:Outsourced Services:Administrative and Support Staff	399 996	421 596	444 362	468 358

Core Function:Security Services	Expenditure: Contracted Services: Outsourced Services: Crime and Investigations	270 000	284 580	299 947	316 144
Core Function:Town Planning Building Regulations and Enforcement and City Engineer	Expenditure: Contracted Services: Consultants and Professional Services: Infrastructure and Planning: Town Planner -Intergrated transport plan	249 996	263 496	277 725	292 722
Core Function:Town Planning Building Regulations and Enforcement and City Engineer	Expenditure: Contracted Services: Consultants and Professional Services: Infrastructure and Planning: Town Planner	210 396	221 757	233 732	246 354
Storm Water Management: Storm Water Management	Expenditure:Contracted Services:Consultants and Professional Services:Infrastructure and Planning:Engineering:Civil - BETHAL URBAN DESIGN	210 000	221 340	233 292	245 890
Core Function:Town Planning Building Regulations and Enforcement and City Engineer	Expenditure: Contracted Services: Outsourced Services: Business and Advisory: Business and Financial Management	105 204	110 885	116 873	123 184
Core Function:Finance	Expenditure: Contracted Services: Outsourced Services: Business and Advisory: Business and Financial Management - Acturial Valuations	99 996	105 396	111 087	117 086
Solid Waste Disposal (Landfill Sites): LANDFILL SITES (366)	Expenditure: Contracted Services: Consultants and Professional Services: Business and Advisory: Business and Financial Management - Landfill site - Provision Valuation Report	81 996	86 424	91 091	96 010
Core Function:Administrative and Corporate Support	Expenditure: Contracted Services: Consultants and Professional Services: Business and Advisory: Medical Examinations	78 900	83 161	87 651	92 384
Animal Care and Diseases: Animal Care	Expenditure:Contracted Services:Outsourced Services:Animal Care	50 004	52 704	55 550	58 550
Core Function:Security Services	Expenditure:Contracted Services:Outsourced Services:Security Services	2 000 004	-	-	-
		158 234 862	166 779 545	175 785 640	

Included in the 279million of contracted services is repairs and maintenance, below is details of repairs and maintenance amounting to 75million

Function	FullDesc	Final Budget 2019	2020	2021	2022
Core Function:Water Treatment	Expenditure: Contracted Services: Contractors: Implements and equipments	399 996	421 596	444 362	468 358
Core Function:Corporate Wide Strategic Planning (IDPs LEDs)	Expenditure: Contracted Services: Contractors: Catering Services	52 596	55 436	58 430	61 585
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical - Distribution network	24 999 996	40 000 000	42 160 000	44 436 640
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical - Distribution network	2 630 004	2 772 024	2 921 714	3 079 486
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical - Distribution network	1 052 004	1 108 812	1 168 688	1 231 797
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical - Distribution network	841 596	887 042	934 942	985 429
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical - Distribution network	789 000	831 606	876 513	923 844
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical : Distribution Network	2 103 996	2 217 612	2 337 363	2 463 580
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Electrical - Distribution Network	210 396	221 757	233 732	246 354
Core Function:Sewerage	Expenditure: Contracted Services: Contractors: Implements & Equipment	249 996	263 496	277 725	292 722
Core Function:Fire Fighting and Protection	Expenditure: Contracted Services: Contractors: Implements & Equipment	249 996	263 496	277 725	292 722
Core Function:Information Technology	Expenditure: Contracted Services: Contractors: Implements and equipment	279 408	294 496	310 399	327 160
Waste Water Treatment: SEWER PURIFICATION (376)	Expenditure: Contracted Services: Contractors: Maintenance: Sewer purification	4 000 004	4 216 004	4 443 668	4 683 627
Core Function:Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance - Distribution Network	578 000	609 212	642 109	676 783
Core Function:Sewerage	Expenditure: Contracted Services: Contractors: Maintenance - Bacteriological Samples	200 004	210 804	222 188	234 186
Core Function:Waste Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance - Distribution Network	300 000	316 200	333 275	351 272
Core Function:Waste Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance : Distribution Network for Waste Water	4 000 000	4 216 000	4 443 664	4 683 622
Sewerage: SEWER LBN/HOPE (271)	Expenditure: Contracted Services: Contractors: Maintenance - Distribution Network	1 052 004	1 108 812	1 168 688	1 231 797
Core Function:Community Halls and Facilities	Expenditure: Contracted Services: Contractors: Maintenance of Buildings and Facilities	2 000 004	2 108 004	2 221 836	2 341 816

Core Function:Information Technology	Expenditure: Contracted Services: Contractors: Maintenance of Computer equipment	450 000	474 300	499 912	526 907
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Maintenance of Distribution Network	5 000 004	5 270 004	5 554 584	5 854 532
Waste Water Treatment: SEWER PURIFICATION (376)	Expenditure: Contracted Services: Contractors: Maintenance of Distribution Network	2 300 000	2 424 200	2 555 107	2 693 083
Sewerage: SEWER LBN/HOPE (271)	Expenditure: Contracted Services: Contractors: Maintenance of Distribution Network	2 103 996	2 217 612	2 337 363	2 463 580
Core Function:Community Halls and Facilities	Expenditure: Contracted Services: Contractors: Maintenance of Equipment	249 996	263 496	277 725	292 722
Core Function:Biodiversity and Landscape	Expenditure: Contracted Services: Contractors: Maintenance of Equipment - Playgrounds and Equipment	15 000	15 810	16 664	17 564
Core Function:Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance of Mechanical Pumps	1 500 000	1 581 000	1 666 374	1 756 358
Core Function:Police Forces Traffic and Street Parking Control	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	69 996			
Core Function:Police Forces Traffic and Street Parking Control	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	1 700 004	1 800 000	1 897 200	1 999 649
Core Function:Fire Fighting and Protection	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	2 496	-	-	-
Libraries and Archives: Libraries	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	5 256	-	-	-
Core Function:Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	78 000	-	-	-
Core Function:Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	105 204	110 885	116 873	123 184
Core Function:Waste Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	99 996	105 396	111 087	117 086
Electricity: ADMIN (380)	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	52 596	55 436	58 430	61 585
Core Function:Fire Fighting and Protection	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	50 004	52 704	55 550	58 550
Core Function:Fire Fighting and Protection	Expenditure: Contracted Services: Contractors: Maintenance of Unspecified Assets	16 608	17 505	18 450	19 446
Core Function:Water Treatment	Expenditure: Contracted Services: Contractors: Maintenance of Water Distribution Network	6 999 996	7 377 996	7 776 408	8 196 334
Core Function:Sewerage	Expenditure: Contracted Services: Contractors: Maintenance of Distribution Network	5 000 004	5 270 004	5 554 584	5 854 532
Core Function:Fire Fighting and Protection	Expenditure: Contracted Services: Contractors: Preservation/Restoration/Dismantling/Cleaning Services - Disaster Management	263 004	277 206	292 175	307 953
Core Function:Solid Waste Disposal (Landfill Sites)	Expenditure: Contracted Services: Contractors: Removal of Hazardous Waste	10 524	11 092	11 691	12 323
Core Function:Waste Water Treatment	Expenditure:Contracted Services: Implements and Equipments	249 996	263 496	277 725	292 722
Core Function:Community Halls and Facilities	Expenditure:Contracted Services:Contractors:Maintanance of Buildings	249 996	263 496	277 725	292 722

Core Function:Biodiversity and Landscape	Expenditure:Contracted Services:Contractors:Maintenance - Implements & Equipment	300 000	316 200	333 275	351 272
Core Function:Electricity	Expenditure:Contracted Services:Contractors:Maintenance - Implements & Equipment	523 896	552 186	582 004	613 433
Core Function:Community Halls and Facilities	Expenditure:Contracted Services:Contractors:Maintenance - Implements & Equipments	150 000	158 100	166 637	175 636
Core Function:Fire Fighting and Protection	Expenditure:Contracted Services:Contractors:Maintenance - Radios	200 004	210 804	222 188	234 186
Biodiversity and Landscape: HORTICULTURAL (260)	Expenditure:Contracted Services:Contractors:Maintenance - Implements & Equipments	150 000	158 100	166 637	175 636
Storm Water Management: Storm Water Management	Expenditure:Contracted Services:Contractors:Maintenance - Implements & Equipments	200 004	210 804	222 188	234 186
Core Function:Electricity	Expenditure:Contracted Services:Contractors:Maintenance - Traffic Lights & Signs	500 004	527 004	555 462	585 457
Roads: ROADS LBN/HOPEF (251)	Expenditure:Contracted Services:Contractors:Maintenance of Assets - Resealing of roads	399 996	421 596	444 362	468 358
Administrative and Corporate Support: COMMUNITY SERVICES (200)	Expenditure:Contracted Services:Contractors:Maintenance of Buildings and Facilities	3 000 000	3 162 000	3 332 748	3 512 716
Core Function:Water Treatment	Expenditure:Contracted Services:Contractors:Maintenance of Buildings and Facilities	399 996	421 596	444 362	468 358
Core Function:Information Technology	Expenditure:Contracted Services:Contractors:Maintenance of Computer equipment	283 776	299 100	315 251	332 275
Core Function:Electricity	Expenditure:Contracted Services:Contractors:Maintenance of Distribution Network	5 000 004	5 270 004	5 554 584	5 854 532
Road and Traffic Regulation: LICENCING (446)	Expenditure:Contracted Services:Contractors:Maintenance of Distribution Network	399 996	421 596	444 362	468 358
Storm Water Management: Storm Water Management	Expenditure:Contracted Services:Contractors:Maintenance of Distribution Network	399 996	421 596	444 362	468 358
Core Function:Biodiversity and Landscape	Expenditure:Contracted Services:Contractors:Maintenance of Gardens & Grounds	219 996	231 876	244 397	257 595
Core Function:Water Treatment	Expenditure:Contracted Services:Contractors:Maintenance of Mechanical Pumps	6 000 000	6 324 000	6 665 496	7 025 433
Core Function:Administrative and Corporate Support	Expenditure:Contracted Services:Contractors:Maintenance of Office Machines & Equipment	87 312	92 027	96 996	102 234
Core Function:Biodiversity and Landscape	Expenditure:Contracted Services:Contractors:Maintenance of Stadiums	411 948	434 193	457 640	482 352
Storm Water Management: Storm Water Management	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	1 752	-	-	-
Town Planning Building Regulations and Enforcement and City Engineer: ENG ADMIN LBN/HOPEF (201)	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	3 156	-	-	-
Town Planning Building Regulations and Enforcement and City Engineer: ENG ADMIN LBN/HOPEF (201)	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	13 152	-	-	-
Core Function:Water Treatment	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	2 199 996	-	-	-

Storm Water Management: Storm Water Management	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	2 956 116	-	-	-
Core Function:Biodiversity and Landscape	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	8 736	9 208	9 705	10 229
Core Function:Biodiversity and Landscape	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	43 656	46 013	48 498	51 117
Core Function:Administrative and Corporate Support	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	52 392	55 221	58 203	61 346
Storm Water Management: Storm Water Management	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	300 000	316 200	333 275	351 272
Storm Water Management: Storm Water Management	Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets - Structures & Fencing	200 004	210 804	222 188	234 186
Core Function:Water Treatment	Expenditure:Contracted Services:Contractors:Maintenance of Water Meters	2 499 996	3 000 000	3 162 000	3 332 748
Storm Water Management: Storm Water Management	Expenditure:Contracted Services:Contractors:Resealing of Streets	5 000 004	8 000 000	8 432 000	8 887 328
Libraries and Archives: Libraries	Expenditure: Contracted Services: Consultants and Professional Services: Infrastructure and Planning: Engineering: Mechanical	9 996	-	-	-
Core Function:Biodiversity and Landscape	Expenditure: Contracted Services: Outsourced Services: Clearing and Grass Cutting Services	80 004	84 324	88 878	93 677
Core Function:Biodiversity and Landscape	Expenditure: Contracted Services: Contractors: Pest Control and Fumigation	24 996	26 346	27 768	29 268
Core Function:Biodiversity and Landscape	Expenditure: Contracted Services: Outsourced Services: Alien Vegetation Control	200 004	210 804	222 188	234 186
Core Function:Solid Waste Disposal (Landfill Sites)	Expenditure: Contracted Services: Outsourced Services: Alien Vegetation Control - Pest control	10 524	11 092	11 691	12 323
Core Function:Security Services	Expenditure:Contracted Services:Contractors:Safeguard and Security	65 004	68 514	72 214	76 114
Core Function:Water Treatment	Expenditure:Contracted Services:Contractors:Sewerage Services	21 036	22 172	23 369	24 631
		74 113 936	75 591 013	79 672 928	83 975 266

Bulk purchases

The bulk purchases for electricity and water amounts to R 806,8 million, which contributes 32.02% of the operating budget. The Eskom will increase the bulk purchases to the municipality by 9.41% and Rand Water is estimated to be 12.2% pending confirmation from Rand water , CPI of 5.2% was therefore used to increase the budget for Water.

Transfers and grants

Transfers and grants (Indigent support) constitutes 1.57% 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 5.63% of the budget. The budget increase was informed by historical trends as well as budgeted and forecasted additions.

3.3 Capital Requirement

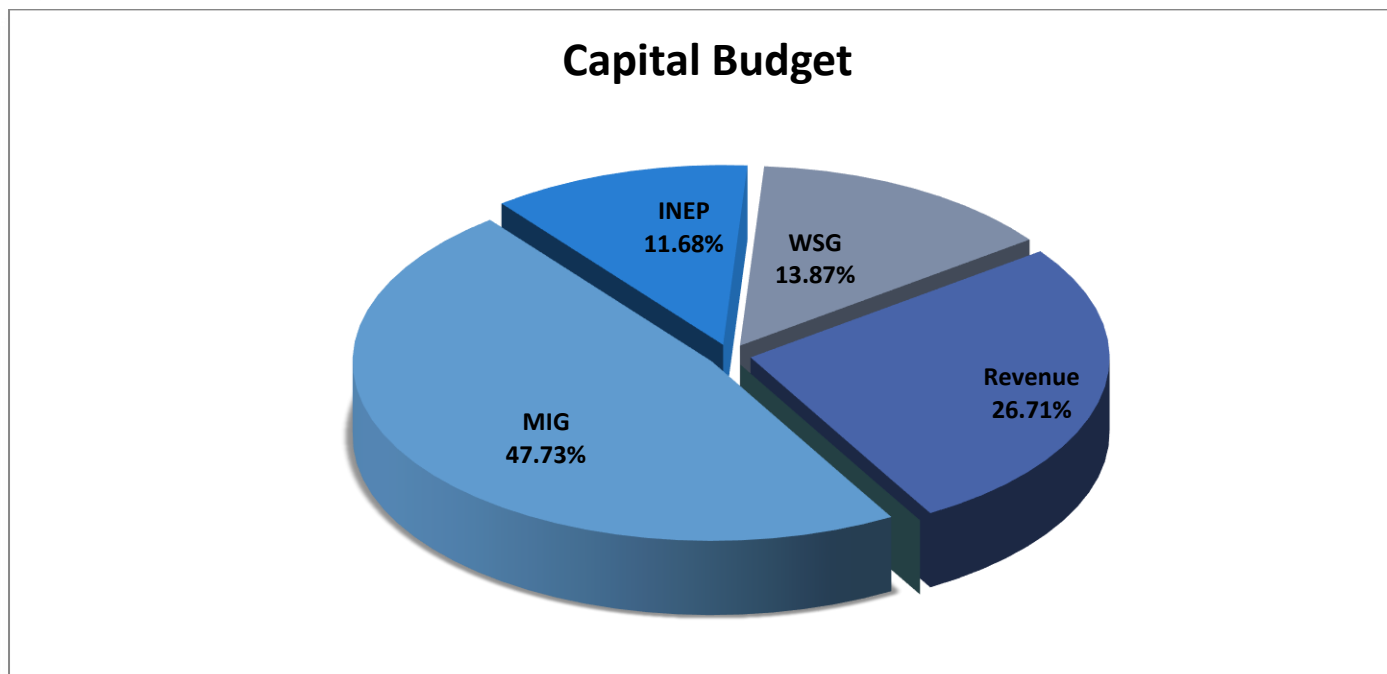
The following table reflect all capital requirements per department.

Funding	Sub -department	Department	Description	2020	2021	2022
Internal	Fire & Disaster Management	Community services	Procurement of two-way Radios	200 000	213 400	227 698
Internal	Office of the Mayor	Executive and Council	Mayor's car	700 000	746 900	796 942
Internal	Office of the speaker	Executive and Council	Renovation of Chamber(Ramp,Audio systems and Aircon)	200 000	213 400	227 698
Internal	Fire & Disaster Management	Community services	Breathing equipment's	300 000	320 100	341 547
Internal	Security and compliance	Community services	Bullet proof	200 000	213 400	227 698
Internal	Enviroment	Community services	Grass cutting machines	480 000	512 160	546 475
Internal	Asset section	Finance department	Insurance claim assets	1 500 000	1 600 500	1 707 734
Internal	Asset section	Finance department	Combi for assets verification	400 000	426 800	455 396
Internal	Fleet management	Technical Services	Cherry pickers, Gaders, TLB's , Tractors & TIPPER Trucks	4 500 000	4 801 500	5 123 201
Internal	Waste water treament works	Technical Services	Installation of chlorine and pherric system	3 500 000	3 734 500	3 984 712
Internal		Technical Services	Fencing of the buildings (Clear View)	4 900 000	5 228 300	5 578 596
Internal	Energy	Technical Services	Tamper proof enclosures	5 000 000	5 335 000	5 692 445
Internal	Waste management	Community services	Compactor Trucks *3	7 000 000	7 469 000	7 969 423
Internal	Information Technology	Corporate Services	Computer equipment	1 000 000	1 067 000	1 138 489
Internal	All departments	Govan Mbeki	Furniture and equipment	1 000 000	1 067 000	1 138 489
Internal		Community services	Pressure JET	5 000 000	5 335 000	5 692 445
Internal	By-Law	Community services	Van X2	700 000	746 900	796 942
INEP	PMU	Electrical	INEP	16 000 000	15 000 000	20 000 000
MIG	PMU		Capital projects	-	60 990 000	65 575 000
MIG	PMU	Electrical	Installation of High Mast and Street Lights	7 000 000		
MIG	PMU	Water	Replacement Of AC pipes Emzinoni	5 362 850		
MIG	PMU	Sports and Recreation	Upgrading Lebohang stadium	11 000 000		
MIG	PMU	Sanitation	Refurbishment and Upgrading Emzinoni WWTW and sewer pump stations	15 000 000		
MIG	PMU	Roads	Rehabilitation of tarred roads in Embalenhle (Mphafa Roads and Kenneth Kaunda)	10 000 000		
MIG	PMU	Sanitation	Construction of WWTW in Charl Cilliers	17 000 000		
WSOG	Water	Technical department	Water service grant Upgrade of Kinross WWTW Phase 2	19 000 000	30 000 000	30 000 000
				136 942 850	145 020 860	157 220 928

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 Infrastructre Grants	65 362 850	60 990 000	65 575 000
Revenue	36 580 000	39 030 860	41 645 928
Water Service Infrastructure Grant	19 000 000	30 000 000	30 000 000
Grand Total	136 942 850	145 020 860	157 220 928

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 to be achieved through this process:

Detail	Date
Approval of the annual budget	28 March 2019
Budget Workshop	4 April 2019
Public Consultation	10 April 2019 – 29 April 2019
Budget Steering Committee Meeting	8 May 2019
Approval of Budget	31 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 Fixed 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 3.7 million external loans.

The investments amount to R12 million, R11 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 67% 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 reduce 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.

6.5 Price movements on specifics

The cost of bulk purchases amounts to R806 million for both electricity and water. The projections are informed by the increases from the Rand water and Eskom. Eskom has advised there will be an increase across the board of 9.41% on the bulk purchases of electricity. The increase applied on the bulk purchases are not yet confirmed by the two stakeholders, which Randwater and Eskom as a result 5.2% and 9.41% increase was applied respectively.

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 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 the municipality's ability to fund the budget. The municipality has a deficit of R475million 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 2018/2019 draft budget, comprising of an Operating Revenue of **R 1 625 176 448 exclusive of grant revenue**, an Operating Expenditure of **R 2 519 612 026** and capital budget of **R 136 942 850** 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:

6.1ASSESSMENT RATES

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

6.2SEWERAGE

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

Pending confirmation of the increase from Rand water

6.3REFUSE

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

6.4WATER

All basic water charges as per the 2018/2019 tariff book increased by 5.2%

Pending confirmation of the increase from Rand water

6.5ELECTRICITY

All basic electricity charges increase with 9.4% in line with NERSA

6.6DEPOSITS

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 budget workshop **BE HELD** on the 4th April 2019 for all Councillors and senior staff from various departments **TO DISCUSS** the budget in details.
7. That the Council **TAKE NOTE** of the budget consultation proposed dates incorporated in the Annual budget and that the Office of the Speaker **TO CO-ORDINATE** budget consultation with communities as of the **10th to the 29th of April 2019**.