

1. EXECUTIVE SUMMARY

Section 16(1) of the MFMA states that the municipal council must for each financial year, approve an annual budget for the municipality before the start of the financial year. Section 16(2) states that in order for a municipality 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. Immediately after the tabling of draft budget, the accounting officer must make the approved draft budget to local communities and other relevant stakeholder for comments and representations.

Section 24 of the MFMA states that 30 days before the start of the financial year, the Council must then approve the annual budget, having considered the comments and suggestions of local communities, relevant stakeholders as well as Provincial and National Treasuries, failing which, the Council is required by section 25 of MFMA to convene meetings within every seven days until the budget is approved. Should Council fail to approve its annual budget before the commencement of the financial year, the mayor is required to submit reasons in terms of section 55 of MFMA. In terms of section 139(4) of the Constitution, the Provincial Executive of the relevant province may intervene where Council has failed to approve its annual budget prior to commencement of the financial year.

RECOMMENDATIONS

- (a) That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the annual budget of the municipality for the financial year 2018/19; and indicative allocations for the two projected outer years 2019/20 and 2020/21; and the multi-year and single year capital appropriations be approved;
- (a) That the sources to fund both operating and capital budgets be noted and approved;
- (b) That the Municipality's annual allocation of R82 934 172 to uThukela Water for the provision of bulk water be approved;
- (c) That in terms of section 24(2)(c)(i) of the Municipal Finance Management Act, 56 of 2003, and sections 74 and 75A of the Local Government Municipal Systems Act, 32 of 2000 as amended, the tariffs for the supply of water, electricity, waste services, sanitation services and property rates as set out in the Tariff of Charges that were used to prepare the estimates of revenue by source, be approved with effect from 1 July 2018 for all services except for water and electricity consumption, which be levied on the new tariff with effect from 01 August 2018;
- (d) That the Tariff of Charges be approved and be applicable with effect from 01 July 2018 as attached in Annexure E;

- (e) That Property Rates, Water, Refuse and Sanitations tariffs be increased by 7.2% and other tariffs be increased by 10%.
- (f) That Electricity Tariff increase of 8% increase be provisionally approved, it be recorded that the application currently being processed by NERSA. Any changes to NERSA's proposed tariff to be communicated to Council before implementation.
- (g) That in terms of the Indigent Policy, the monthly household earnings of an indigent application be capped at R3 500 per month.
- (h) That bulk electricity purchases be increased by 7.32% as per NERSA and the National Treasury guidelines.
- (i) That indigent benefits be capped and approved as follows:
- | | |
|--------------------------|-----------|
| Electricity consumption | : 50 kW/h |
| Water consumption | : 6 KI |
| Electricity availability | : 100% |
| Water availability | : 100% |
| Sewer | : 100% |
| Refuse | : 100% |
| Property rates | : 100% |
- (j) That the rate rebates be capped and approved as follows:
- | | |
|------------------------------------|-------|
| Pensioners | : 25% |
| Flood victims | : 50% |
| Bread and breakfasts businesses | : 10% |
| Business development with | |
| Property greater than R50 million: | |
| from 0-4 years | : 40% |
| from 5-6 years | : 25% |
| from 7-8 years | : 10% |
| from 9 years onwards | : 0% |
- (k) That the Provincial Treasury's assessment of the draft budget be noted as attached on Annexure F
- (l) That the Budget Policy be noted and approved as attached in Annexure G;
- (m) That the Tariff Policy and by-laws be noted and approved as attached Annexure G;

- (n) That the Rates Policy and by-laws be noted and approved as attached Annexure G;
- (o) That the Indigent Policy be noted and approved as attached in Annexure G ;
- (p) That the Customer Care, Credit Control and Debt Collection Policy be noted and approved as attached in Annexure G;
- (q) That the Provision for Doubtful Debt and Debtors Write-Off Policy be noted and approved as attached in Annexure G;
- (r) That the Supply Chain Management Policy be noted and approved as attached in Annexure G;
- (s) That the Cash and Investment Management Policy be noted and approved as attached in Annexure G;
- (t) That the Asset Management Policy be noted and approved as attached in Annexure G;
- (u) That the Petty Cash Policy be noted and approved as attached in Annexure G;
- (v) That the Virement Policy be noted and approved as attached in Annexure G;
- (w) That the Funding and Reserves Policy be noted and approved as attached in Annexure G;
- (x) That the Borrowing Policy be noted and approved as attached in Annexure G;
- (y) That the Loss control Policy be noted and approved as attached in Annexure G;
- (z) That the Short-term Insurance Policy be noted and approved as attached in Annexure G;

2. BUDGET REPORT

The high level summary of the draft operating budget is attached as Annexure B. Departmental operational budgets are also attached in Annexure B. Capital budget per project, per department, per funding source and per asset class are all attached in Annexure C hereto. Both operational and capital budget are available on A Schedule budget tables with a view to comply with the Municipal Budget and Reporting Regulations.

3. AMENDMENTS FROM THE DRAFT BUDGET

The summary of amendments made between the draft and final operating budget are as follows:

ITEM LISTING	ITEM LISTING	ITEM LISTING	ITEM LISTING	ITEM LISTING
FINES	(8,079,561)	(8,710,041)	(630,480)	Establishment of the parking meter system will impact in additional revenue for fines, as anticipated by the user department
INTEREST: EXTERNAL INVESTME	(4,835,206)	(4,040,870)	794,336	Due to a reduction in the investments with the planned withdrawal of the Housing Development Fund currently Invested, will result in lower interest to be generated
INTEREST: OUTSTANDING DEBT	(13,217,750)	(13,217,750)	-	
LICENCES	(12,907)	(12,907)	-	
OTHER REVENUE	(34,188,368)	(45,028,710)	(10,840,342)	The recalculation of the anticipated revenue from sale of land and sale of municipa houses as revised by the user department
PROPERTY RATES	(311,922,928)	(310,713,682)	1,209,246	Review of expected revenue which resulted in a reduction of property rates budget based Treasury engagement
RENTAL	(8,641,892)	(8,641,892)	-	
SERVICE CHARGES: WATER	(178,809,278)	(177,145,516)	1,663,762	Review of expected revenue which resulted in a reduction of water budget based Treasury engagement
SERVICE CHARGES: ELECTRICIT	(692,886,000)	(690,348,743)	2,537,257	Review of expected revenue which resulted in a reduction of electricity budget based Treasury engagement
SERVICE CHARGES: REFUSE	(95,508,714)	(94,794,630)	714,084	Review of expected revenue which resulted in a reduction of refuse budget based Treasury engagement
SERVICE CHARGES: SANITATION	(118,218,764)	(117,115,977)	1,102,787	Review of expected revenue which resulted in a reduction of sanitation budget based Treasury engagement.
TRANSFERS RECOGNISED	(368,841,000)	(373,534,000)	(4,693,000)	Transfers of grant allocation from Capex to Opex have increased this item (INEP R3,8m and Provincialisation R898 000). The portion of electricitation is brought to Opex since it will not result to the municipal asset. The balance is the rectification of the omission on provincial allocations as it was received after the draft budget was approved.
TOTAL REVENUE	(1,835,162,369)	(1,843,304,719)	(8,142,350)	
BULK PURCHASES	618,730,314	618,730,314	-	
CONTRACTED SERVICES	33,845,338	35,645,338	1,800,000	Appropriation of Level 2 accreditation (grant) which will be received in 2018/19.
COUNCILLORS REMUNERATION	24,158,882	24,158,882	-	
DEBT IMPAIRMENT	163,945,904	163,945,904	-	
DEPRECIATION	525,578,232	525,578,232	-	
EMPLOYEE RELATED COSTS	537,170,661	537,170,661	-	
FINANCE CHARGES	43,979,395	43,979,395	-	
MATERIAL	3,757,661	3,762,661	5,000	Appropriation of Level 2 accreditation (grant) which will be received in 2018/19.
OTHER EXPENDITURE	166,733,224	202,213,902	35,480,678	Additional budget for Housing projects to be funded from Housing Development Grant (R22.3m), Addition to fleet maintenance (R2,2m), Addition to fuel costs (R2m). Appropriation of Level 2 accreditation grant (R2,6m), Skills Development (R2m), movement of Siyahlala Electrification project for Siyahlala project (R3.8m), Ward Committee (R500 000)
REPAIRS AND MAINTENANCE	70,623,030	68,123,030	(2,500,000)	Removal of R2,5 m for VIP toilets, as source of funding (MWIG allocation) has exceed the gazetted allocation. This has been confirmed with the user department, however another allocation for VIP toilets is available and funded from MIG.
INDIGENT BENEFIT	85,783,196	85,783,196	-	
TOTAL EXPENDITURE	2,274,305,838	2,309,091,516	34,785,678	

The summary of amendments made between the draft capital and the final budgets are as follows:

DEPARTMENT	PROJECT DESCRIPTION	DRAFT BUDGET 2018/19	FINAL BUDGET 2018/19	CHANGES	COMMENTS
TECHNICAL SERVICES	INKWELO ELECTRIFICATION	-	1,200,000	1,200,000	Re-alignment of INEP revised by the user department
TECHNICAL SERVICES	NORMANDIEN ELECTRIFICATION	-	700,000	700,000	Re-alignment of INEP revised by the user department
TECHNICAL SERVICES	SIYAMLALA LA ELECTRIFICATION	10,000,000	-	(10,000,000)	Project transferred to OPEX due to its nature, not the municipality's asset (Once project is complete it will be handed over to Eskom and won't be council's responsibility). The amount transferred was reduced to R3.8m
TECHNICAL SERVICES	KWAMLIMI ELECTRIFICATION	3,000,000	3,200,000	200,000	Re-alignment of INEP revised by the user department
TECHNICAL SERVICES	EMANZANA ELECTRIFICATION	2,000,000	2,200,000	200,000	Re-alignment of INEP revised by the user department
TECHNICAL SERVICES	BOSWORTH ELECTRIFICATION	-	3,900,000	3,900,000	Re-alignment of INEP revised by the user department
	TOTAL CHANGES	15,000,000	11,200,000	(3,800,000)	

4. ASSESSMENT OF THE DRAFT BUDGET BY PROVINCIAL TREASURY

A copy of the assessment of the draft budget performed by Provincial Treasury is attached as Annexure F hereto. According to the assessment report, the municipality's draft budget appeared to be unfunded by about R54 million. Before engagements with Provincial Treasury, an amount of R110 million was reported to be unfunded. After thorough and constructive engagements, this amount was reduced to R54 million. The unfunded amount relates to provisions which Treasury expects to be cash-backed. Such provisions include but not limited to, landfill site, leave provision, defined benefit and consumer deposits.

During engagements, the municipality acknowledged that these provisions cannot be budgeted at this stage since the municipality is still experiencing cash flow challenges. It was further acknowledged that these provisions will form part of the long turnaround strategy and be budgeted for as cash once the financial state of the municipality has improved.

5. FINANCIAL IMPLICATIONS

5.1. OPERATIONAL BUDGET

The total estimated operational revenue for the 2018/19 financial year is R1.843 billion while total estimated operational expenditure is R2.309 billion yielding to a deficit of R465.7 million. The analysis of cash items indicates the operating cash surplus of R32.3 million. This cash surplus will be utilised for the repayment of the capital redemption of the long-term loan. The narrative of operating revenue and operating expenditure can be found on the budget document attached as Annexure A hereto.

5.2. CAPITAL BUDGET

The proposed capital budget is projected at R216.7 million to be funded as follows.

- Grants : R 173.6 million
- Internal Funding : R 43.1 million

The list of capital projects to be implemented are contained in the draft budget document and Annexure B attached hereto. The narrative of the capital budget as well as its funding sources can also be found on the budget document attached Annexure A hereto.

6. BUDGET DOCUMENTS

The related budget documents are attached as follows:

Budget document	: Annexure A
High Level Operating Budget	: Annexure B
Capital Budget per project	: Annexure C
A Schedule Tables	: Annexure D
Tariff of Charges	: Annexure E
KZN Provincial Treasury Assessment Report	: Annexure F
Budget Related Policies	: Annexure G

Report seen by:



BE HLONGWE
STRATEGIC EXECUTIVE DIRECTOR
BUDGET AND TREASURY OFFICE
OFFICE

EM NKOSI
PORTFOLIO COUNCILLOR
BUDGET AND TREASURY