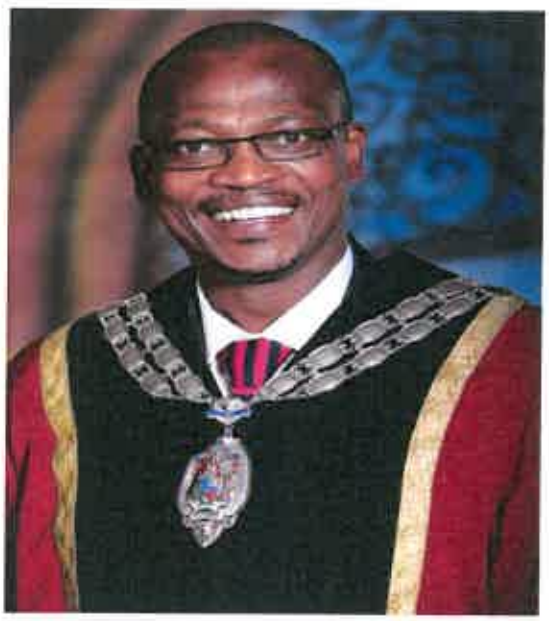


ANNEXURE A

BUDGET DOCUMENT



FINAL MEDIUM TERM BUDGET 2018/19 TO 2020/21

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I. ABBREVIATIONS AND ACRONYMS

CPIX	Consumer Price Index
DoRA	Division of Revenue Act
DOHS	Department of Human Settlements
DPLG	Department of Provincial and Local Government
EXCO	Executive Committee
GDP	Gross Domestic Product
GRAP	Generally Accepted Accounting Practice
IDP	Integrated Development Plan
IT	Information Technology
Kl	Kilolitre
Km	Kilometre
Kh	Kilo watt hours
MFMA	Municipal Finance Management Act
MPRA	Municipal Property Rates Act
MSCOA	Municipal Standard Chart of Accounts
MTREF	Medium Term Revenue and Expenditure Framework
NDP	National Development Plan
NERSA	National Electrification Regulator of South Africa
NT	National Treasury
SALGA	South African Local Government Association
SDBIP	Service Deliver and Budget Implementation Plan

II. ORGANISATIONAL STRUCTURE AND COUNCIL

EXECUTIVE COMMITTEE

DESIGNATION	SURNAME & INITIALS	PORTFOLIO COUNCILLOR	POLITICAL PARTY	WARD
Mayor	NKOSI E M	Budget and Treasury Office	ANC	PR
Deputy Mayor	SIBIYA D P	Community Services	ANC	PR
Executive Committee Member	BAM V V	Corporate Services	IFP	PR
Executive Committee Member	CRONJE E J C	Community Services	DA	2
Executive Committee Member	MDLULI R N	Corporate Services	ANC	13
Executive Committee Member	MOLELEKOA R M	Technical Services	ANC	12
Executive Committee Member	SHUNMUGAM M	Planning, Development and Human Settlements	ANC	3
Executive Committee Member	THWALA S M	Technical Services	EFF	PR
Executive Committee Member	ZWANE N A	Budget and Treasury Office	ANC	PR

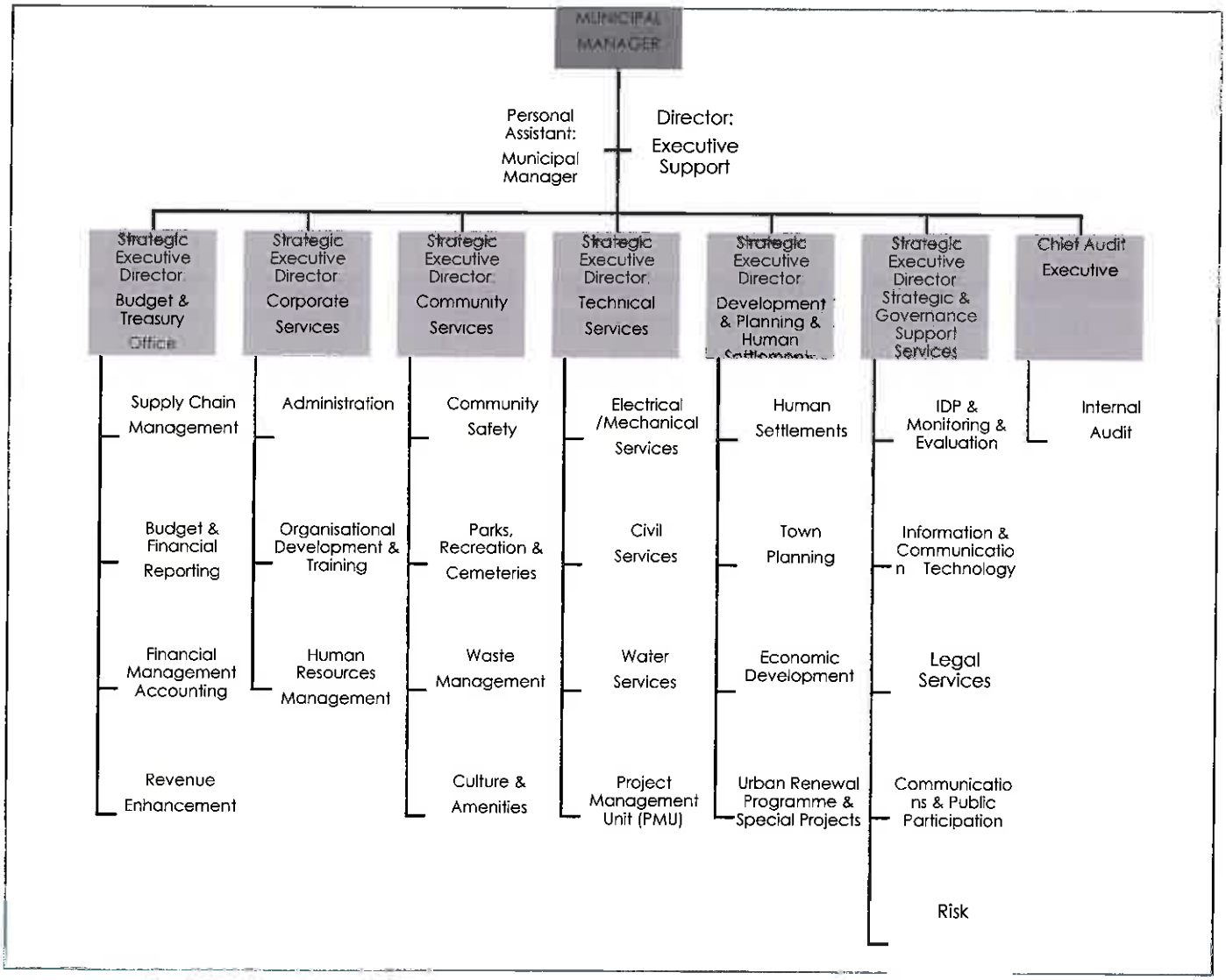
COUNCIL

DESIGNATION	SURNAME & INITIALS	POLITICAL PARTY	WARD
Speaker	KHUMALO J C N	ANC	PR
Councillor	BOSMAN L L	VFP	PR
Councillor	BHULI M V	AZAPO	PR
Councillor	COKA A A	EFF	PR
Councillor	DANISA T J C	ANC	31
Councillor	DLADLA X N M	ANC	1
Councillor	DLAMINI B S	ANC	26
Councillor	DUBE D X	IFP	PR
Councillor	GAMA F P	ANC	32
Councillor	HADEBE V F	EFF	PR
Councillor	HLABISA T S	ANC	22
Councillor	KHOZA A	ANC	28
Councillor	KHUMALO B V	ANC	7
Councillor	KUBEKA V D	ANC	8
Councillor	KUNENE N P	ANC	PR
Councillor	LIU C	IFP	PR
Councillor	MALINGA F A	IFP	PR
Councillor	MAJOZI N K	ANC	11
Councillor	MBATHA N Y	ANC	PR

Councillor	MBULI A M	DA	PR
Councillor	MEIRING A P	DA	4
Councillor	MIYA S G	ANC	19
Councillor	MKHWANAZI H P	ANC	30
Councillor	MKHWANAZI T P	ANC	34
Councillor	MLANGENI M S	IFP	PR
Councillor	MNGUNI N G	ANC	18
Councillor	MOLEFE M V	ANC	21
Councillor	MTHEMBU M V	ANC	29
Councillor	MZIMA V P	ANC	PR
Councillor	NDABA T M	ANC	15
Councillor	NDIMA R B	IFP	PR
Councillor	NDLANGAMANDLA S S	ANC	27
Councillor	NDLOVU M S	DA	PR
Councillor	NDLOVU P F	EFF	PR
Councillor	NGCOBO M E	ANC	25
Councillor	NGCOBO N M	ANC	23
Councillor	NGEMA B C	ANC	9
Councillor	NGEMA D R	ANC	PR
Councillor	NGWENYA D	ANC	16
Councillor	NHLAPHO C L	IFP	PR
Councillor	NHLAPHO S J	ANC	10
Councillor	NKOSI S N	PRM	PR
Councillor	NKWANAZI J B	DA	PR
Councillor	NZUZE T M	IFP	PR
Councillor	SHABANGU S E	ANC	24
Councillor	SIBILWANE D M	ANC	17
Councillor	SIKHOSANE L T	ANC	20
Councillor	STEIN S L	DA	PR
Councillor	THWALA G M B	ANC	29
Councillor	THWALA L G	ANC	5
Councillor	TWALA M W	EFF	PR
Councillor	VORSTER J A	IFP	9
Councillor	YENDE S A	ANC	PR
Councillor	ZIKHALI M F	ANC	14
Councillor	ZULU N S	IFP	PR
Councillor	ZULU S J	RLP	PR
Councillor	ZULU T M	IFP	PR
Councillor	Vacant		
Traditional Leader	KUBHEKA C S		
Traditional Leader	RADEBE B S		

SENIOR MANAGERS

DESIGNATION	SURNAME & INITIALS
Municipal Manager	Mswane B E
Strategic Executive Director: Budget and Treasury Office	Hlongwe BE
Acting Strategic Executive Director: Corporate Services	Vinkhumbo N
Strategic Executive Director: Technical Services	Ncube N
Acting Strategic Executive Director: Community Services	Thabede D
Strategic Executive Director: Development, Planning and Human Settlements	Thusi N
Acting Executive Manager: Legal Services	Zwane Q
Senior Audit Executive	Chenia S



III. NEWCASTLE MUICIPALITY PROFILE

According to the recent Community Survey (2016) conducted by Statistics SA, Newcastle Local Municipality (KZN252) remains the highest contributor in terms of population growth within Amajuba District Municipality. As of 2016, the population of Newcastle is recorded at 389 117 people, thus marking a 7.1 % increase (25 881 people) over a 5-year period from the year 2011 (363 236 people). This means that on average, Newcastle has experienced a 1,42% annual growth rate, which translates to 5 176 people per year. Newcastle has also experienced a significant increase in the total youth proportion of the population. In terms of the wider KwaZulu-Natal Province, Newcastle ranks 2nd as the local municipality with the highest number of people when compared to other local municipalities, with the highest being the Msunduzi Local Municipality. The population of Newcastle is spread unevenly over 34 wards as per the outcomes of the recent delimation process by the Demarcation Board, marking a 3 wards increase.

Furthermore, there has been a 7% increase (6 075) in the number of households within Newcastle from 84 272 in 2011 to 90 347 in 2016, with the average household size remaining constant at 4.3 people per dwelling unit. In relation to other local municipalities within the KwaZulu-Natal Province, in the year 2011, Newcastle Local Municipality was ranked 3rd after the Msunduzi and uMhlathuze Local Municipalities respectively. However, recent statistical figures reveal that Newcasle Local Municipality has dropped to 4th place after the Msunduzi, uMhlathuze, and KwaDukuza Local Municipalities respectively. In terms of the 2nd and 3rd ranked local municipalities, the reason for growth in the number of households without any significant growth in the population thereof may be attributed to a general decrease in the average household size thereof, from 3,9 to 3,6 people, and 3,3 to 3,0 people per household respectively.

Traditionally, the town of Newcastle started off as Post-Halt Number 2 on the journey between Durban (then Port Natal) and the Zuid-Afrikaansche Republiek (Transvaal) and Johannesburg. It was strategically positioned in the year 1854, by the Surveyor General of the Natal Colony, Dr. P. C. Sutherland. The city was later known as the Waterfall River Township because of the Ncandu River and, in 1864, the town of Newcastle was founded on the site becoming the forth settlement to be established in natal after Durban, Weenen and Pietermaritzburg. Newcastle was named after the British Colonial Secretary, the Duke of Newcastle and, in 1873 Newcastle became a separate electoral division. In the year 1876, the Fort Amiel was built as a barrier against the Zulus, Fort Amiel now being embraced as one of the significant national heritage sites.

In 1897, a sandstone construction of the town hall started and it was completed two years later in 1899. The town hall was constructed in commemoration of Queen Victoria's diamond, the '60th Jubilee.' The town was also used as a depot by the British during the First and Second Boer War. It also functioned as a major transport junction and a popular stopover for wagons and post chaises during the late 19th century. Newcastle also served as an arena when the British preparation work for the Pretoria Convention of 1881 was done. In 1890, the first train arrived in Newcaste and in the year 1891, Newcastle was declared a district with its own administrative unit. The discovery of coal reserves brought a new era of prosperity and the planning of several ambitious building projects.

Newcastle Local Municipality is one the three local municipalities that make up Amajuba Districty Municipality, with the others being Dannhauser and eMadlangeni Local Municipalities. It is located on the North-Western of the KwaZulu-Natal Province and borders onto Free State and Mpumalanga Provinces to the West and North respectively. The local municipalities of eMadlangeni and Dannahauser Local Municipalities are located along the Eastern and Southern boundaries of Newcastle. Spatially Newcastle covers an area of approximately 1 854km^2 in extent. A high majority of the people (80%) within Newcastle resides within the Newcastle East area, which is predominantly township and semi-rural areas characterised by a general lack of adequate infrastructure.

The boundaries of Newcastle Local Municipality were delineated in terms of the Municipal Dermarcation Act, 1998 (Act No. 27 of 1998), and takes in account population movement trends, regional economic patterns and the current land use pattern. Currently Newcastle has 34 wards and out of these wards, wards 1, 6, 7, and 30 fall under the custodianship of the Tribal Authorities (Inkosi u-Khathide and Inkosi u-Hadebe) held in trust on behalf of the Ingonyama Trust Board, in terms of the KwaZulu-Natal Ingonyama Trust Act, 1994 (Act No. 3KZ of 1994). As mentioned above, the population is spread unevenly amongst 34 wards with the majority of the population residing in the Newcastle-East area. The boundaries are not just administrative, but are also intended towards the promotions of social cohesion and economic development that's mindful to environmental sustainability, whilst at the same time strengthening the existing regionally significant economic and functional linkages.

Newcastle Local Municipality is well placed to benefit from regional economic growth given its strategic location at the nexus of major tourism, logistics, farming and industrial routes, and as the

seat of government in KwaZulu-Natal Province. It is located halfway between Johannesburg and the harbours of Durban and Richards Bay, hence contributing to the export of manufactured goods and supply to the large Gauteng market. Newcastle is also endowed with good access infrastructure to the areas mentioned above, and such includes quality road and railway networks. The town is situated on the national rail route between the Durban Container Terminal and City Deep in the Gauteng Province, and has within its confines, a major rail exchange terminal, supporting railway stations and extensive goods conversion/warehousing facilities.

The city's local authority has jurisdiction over the surrounding maize, livestock and dairy farms including the industrial areas such as Karbochem, Mittal Steel South Africa (previously ISPAT/ISCOR), and the textile service industry. In addition, the city is also well endowed with coal reserves hence opportunities for coal mining within the area. Arcelor Mittal produces over 105 million tons of steel products annually. Although the Arcellor Mittal steelworks and the Karcbochem synthetic rubber plant dominate the Newcastle industrial portfolio, there is a wide range of manufacturing undertakings sharing in the success of the region. Newcastle has welcomed many Chinese and Taiwanese into the region with the addition of over a hundred textile factories.

During the year 2002, the chrome chemical plant was completed in Newcastle which comes as a clear reflection of the city's industrial future. The joint venture project between Karbochem and the German specialist manufacturing giant LANXESS has made Newcastle the largest producer of chrome chemical in Africa. The company announced an investment of €40 million (almost R600 million) in 2012 towards the construction of a CO2 plant at its site. Mittal Steel also completed a R400 million project to rebuild one of its coke batteries. Other large operations include a diamond cutting works, various heavy engineering companies, steel reinforcement and slagment cement factories.

The Blackrock Casino and Entertainment Hotel provides much entertainment to Newcastle and the surrounding areas. The Newcastle Mall which was constructed by Zen Prop as a R500 million investment, is found adjacent to the Black Rockcasino and Entertainment Hotel, and it serves as a one-stop shopping destination for the wider region of Northern KwaZulu-Natal. Current and planned urban developments within Newcastle entail the new multi-storey Civic Centre, the 80 million expansion of the Victoria Mall, the Meadowlands Estate in Madadeni (residential estate), major extensions and upgrade of the Madadeni Hospital (Northern KwaZulu-Natal Regional Hospital), a R100 million upgrade of the Madadeni Police Station, the Vulintaba Estate, more

development at the corner of Allen street along the Trim Park, the new Audi dealership next to Newcastle Mall (Aquaranf), Spar at corner Allen and Memel Road, planned Mercedes-Benz and dealership next to the Newcastle Mall (Aquarand), the development of the Heartlands Dry Port next to the train station, and the possible extension of the Newcastle Airport (Newcastle Airport Techno-hub). From the 1880s, Newcastle experienced rapid economic growth. Today Newcastle has the largest concentration of industry in the North-Western KwaZulu-Natal region.

There has been a 23.04% decline in the level of unemployment within Newcastle, from 87 619 (60.48%) in 2001 to 37 686 (37.44%) in 2011. In terms of unemployment by gender, the highest concentration is amongst the female population. With regards to formal employment by sector within Newcastle Municipality, trade/retail is the highest employer of the population at 8 888 as of July 2012, followed by Government services at 18 324. Government services as an employment sector is closely followed by manufacturing at 6 419, and subsequently finance at 5 375. As of 2013 the GDP of Newcastle was recorded as occupying 80.20% of the total GDP (0.7%) generated by Amajuba District within the KwaZulu-Natal Province.

In terms of the Human Development Index (HDI – the composite measure of life expectancy, education, and income used to measure human development), Newcastle is currently sitting at 0.57 which is deemed by the United Nations Development Programme as being medium human development index. The Gini Coefficient (the measure of inequalities) in Newcastle assumes a municipality working towards addressing inequalities. In the year 2002 inequality was estimated at 0.65 and in 2012 it was estimated to be 0.62 hence marking a move towards perfect equality. Regarding the levels of poverty, Newcastle has also experienced a decrease from 56.0% in 2002, 51.0% in 2006 and 44,4% in 2012. The annual income per capita of Newcastle Municipality is currently sitting at 29 264 thus meaning that the majority of individuals within Newcastle earn R2 438,66 per month hence falling above the global poverty line of $1,25 per day based on the dollar – rand exchange rate.

STATE OF THE TOWN ADDRESS (SOTA) AND THE DRAFT BUDGET SPEECH

Speaker, members of the Executive Mayoral Committee, councillors, municipal manager and representatives of the public and media. This is my 2nd concept budget as Mayor of Newcastle Municipality and it is again my privilege to present it to you.

Madam Speaker, I am concerned about the trend of shrinking government fiscas against a fast-growing unemployment. The fact that national government is continually reducing its grant allocations to municipalities while poverty escalates, is a setback. This further exacerbated by shrinking own revenue, as a result of down-scaling and financial challenges faced on key industries in Newcastle. This culture of non-payment of services, which continues to cripple our financial health, remains our biggest challenge. South Africa is currently experiencing tough economic challenges which increasingly compel us to be dependent on our own financial sources. Only those municipalities who endeavour to strategically and proactively manage their sustainability will survive. We are in a mission to be one of such municipalities Madam Speaker.

Two years ago this Municipality started developing and implementing strategies for financial sustainability which mainly focused on curtailment and containment of expenditure. In the process, we needed to be mindful of ensuring that this municipality continues to deliver its constitutional mandate of service delivery. I am pleased to inform that house that, such strides have produced fruitful results. While that that has been achieved, my next focus Madam Speaker, is to improve revenue collection with a view to run financial sustainable municipality. This process will in consultation will ward councillors and affected consumers.

Madam Speaker, I must admit that the compilation of this year's budget was a complex assignment, but its final outcome will continue to inspire hope to the people of Newcastle. The budget is in aligned with the first revised fourth generation IDP. It seeks to address the needs of communities as far as possible, despite limited financial resources. It is my pleasure to report that it is inspired by feedback from communities subsequent to the constituency meetings conducted by your own office Madam Speaker. Subsequent to extensive consultation process on the budget with Treasury, community and various stakeholders, we are pleased to come with the final budget which will be implemented to deal with the plight of communities and to address challenges of cash flow.

KEY POINTS OF THE BUDGET

Madam Speaker, it is my pleasure to table a total budget R2.525 billion, comprising of R2.309 billion for operational and R216.7 million for capital projects.

OPERATING EXPENDITURE

Madam Speaker, the operating budget of R2.320 billion will be spent as follows:

- Bulk purchases R 618.7 million
- Employee costs R 537.1 million
- Interest on loans R 43.9 million
- Contracted services R 35.6 million

- Remuneration of councillors R 24.1 million
- General expenses R 202.2 million
- Repairs and maintenance R 68.1 million
- Materials R 3.7 million

The municipality will further incur R775.3 million on the following non-cash items:

- Depreciation R 525.5 million
- Debt impairment R 163.9 million
- Indigent benefit R 85.7 million

CAPITAL EXPENDITURE

Madam Speaker, the capital budget of R216.5 million will be spent as follows:

- Roads infrastructure R 97.7 million
- Water and sanitation R 85.5 million
- Construction of libraries R 19.4 million
- Rural electrification R 11.2 million
- Plant, furniture and equipment R 2.5 million

FUNDING THE BUDGET

In order to fund the operating expenditure, Madam Speaker, the budget appropriates the funding revenue of R1.850 million, which is made up of the following revenue sources:

- Electricity R690.3 million
- Water R177.1 million
- Sanitation R117.1 million
- Refuse R 94.7 million
- Property rates R310.7 million
- Government grants R373.5 million
- Other revenue R 79.6 million

Madam Speaker, in order to generate this revenue, the tariff are proposed to be increased as follows:

- Electricity 8.0%
- Property rates 7.2%
- Water 7.2%
- Sanitation 7.2%
- Refuse 7.2%
- Other 10%

While we acknowledge these tariffs are slightly above the projected inflation rate, the increases are however necessary for the municipality to provide minimum level of service delivery.

Madam Speaker, the capital budget will be funded as follows:

- Government grants R173.6 million
- Internal funding R 43.1 million

In closing, Madam Speaker, I need highlight that drafting this budget was not an easy and required exceptional expertise, hard work and dedication. It required open minds and progressive thinking. It is for that reason Madam Speaker that I wish to thank all the political parties, the Municipal Manager and all his management team for working tirelessly to ensure that this assignment is accomplished. This inputs and comments emanating from the consultation process have been considered in the final budget as far as the budget can accommodate. It must however be highlighted Madam Speaker that majoring of issues and concerns raised by communities with service delivery matters which cut across all public sector departments. Most of such are within normal operations of the municipality, which are already covered in the budget. Issues relating to other sector departments will be forwarded to relevant departments. Since the municipality remains at the centre of service delivery and social wellbeing, feedback on such issues will be communicated via various platforms currently in place.

Madam Speaker, I hereby table the Budget, IDP and PMS for the 2018/2019 financial year.

By: ME Nkosi
Mayor: Newcastle Municipality

1.2 BUDGET RESOLUTIONS

(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;

(b) That the sources to fund both operating and capital budgets be noted and approved;

(c) That the Municipality's annual allocation of R82 934 172 to uThukela Water for the provision of bulk water be approved;

(d) 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 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;

(e) That the Tariff of Charges be approved and be applicable with effect from 01 July 2018;

(f) That Property Rates, Water, Refuse and Sanitations tariffs be increased by 7.2% and other tariffs be increased by 10%.

(g) That Electricity Tariff increase of 8% increase be provisionally approved, it be recorded that NERSA is currently processing the application. Any changes to NERSA's proposed tariff to be communicated before implementation.

(h) That in terms of the Indigent Policy, the monthly household earnings of an indigent application be capped at R3 500 per month.

(i) That bulk electricity purchases be increased by 7.32% as per NERSA and the National Treasury guidelines.

(j) That indigent benefits be capped and approved as follows:

Electricity consumption	: 50 kW/h
Water consumption	: 6 Kl
Electricity availability	: 100%
Water availability	: 100%
Sewer	: 100%
Refuse	: 100%
Property rates	: 100%

(k) That the rate rebates be capped and approved as follows:

Pensioners	: 25%
Flood victims	: 25%
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%

(l) That the Provincial Treasury's assessment of the draft budget be noted

(m) That the Budget Policy be noted and approved;

(n) That the Tariff Policy and by-laws be noted and approved;

(o) That the Rates Policy be noted and approved;

(p) That the Indigent Policy be noted and approved;

(q) That the Customer Care, Credit Control and Debt Collection Policy be noted and approved;

(r) That the Provision for Doubtful Debt and Debtors Write-Off Policy be noted and approved;

(s) That the Supply Chain Management Policy be noted and approved;

(t) That the Cash and Investment Management Policy be noted and approved;

(u) That the Asset Management Policy be noted and approved;

(v) That the Petty Cash Policy be noted and approved;

(w) That the Virement Policy ne noted and approved;

(x) That the Funding and Reserves Policy be noted and approved;

(y) That the Borrowing Policy be noted and approved;

(z) That the Loss control Policy be noted and approved;

(aa) That the Short-term Insurance Policy be noted and approved;

1.3 EXECUTIVE SUMMARY

1.3.1 INTRODUCTION

The 2018/2019 annual budget is a consolidated budget of R2.525 billion which has been developed with an overall planning framework and includes the programmes and projects to achieve the minimum strategic objectives of Newcastle Municipality as per the IDP. This budget has been set against the back and the current slow economic growth, escalating debtors, historical commitments on loans, while at the same time take cognisance in respect of burden to consumers through rate and tariffs. Economic challenges will still continue to put pressure on municipal revenue generation and its ability to collect in the 2018/19, hence a very conservative approach was adopted when projecting expected revenue and receipts based on the current payment factors.

Despite these challenges, its remains the mandate and responsibility of the municipality to sustain service delivery through this budget by reprioritising expenditure to ensure key objectives are achieved. Provision in this budget continue to support government's commitment to broadening service delivery and expanding investment in infrastructure, especially through capital projects, while at the same time taking into account the limited fiscal environment upon which this budget was prepared. The budget has further been structured to contribute to the municipality achieving the minimum strategic objectives of the IDP, taking into account the effect of limited resources. The National Treasury's MFMA circulars were used to guide the compilation of the 2018/19 budget. Furthermore, the budget format and the content incorporates the requirements of the Municipal Budget and Reporting Regulations.

The following principles were applied in formulating the annual budget:

- Affordable, realistic and funded budget
- Realistic and achievable collection rates
- Major tariffs to be realistic and affordable
- Budget to contribute to achieving strategic objectives of the IDP
- Repayment of loans to be properly provided for, with no new loans planned
- Capital expenditure to be mainly funded from grants
- Indigent subsidy for water be maintained to the national guideline of 6kl
- Revenue driven budget with a view to achieve affordability.
- IDP driven budget in order to achieve the requirements of community based planning

This budget was not crafted without challenges. The main challenges experienced can be summarised as follows:

- The on-going difficulties in the national and local economy which necessitated costs containment
- National Treasury austerity measures with minimal growth in grants allocations and tariff increases.
- Reduction in the allocation of repairs and maintenance due to funds available for spending
- Additional capital infrastructure injection with no corresponding provision of near or future maintenance due to limited resources
- Inability to extend capital budget projects in terms of the IDP, other than those funded by grants and already on the business plans.
- The use of income-based budgeting, which has proven that previous budgets had been overstated in expenditure.
- Inability to provide for adequate vacant and critical positions due to limited funding.
- Cutting down on sum of the key functions due to limited funds, however prioritising the service delivery.
- Bulk electricity tariff increase above the increase in revenue tariff increase, which implies burden for the municipality.

1.3.2 OVERVIEW OF THE 2017/2018 BUDGET

OPERATING BUDGET

The operating budget, which funds the continued provision of services provided by the municipality, is projected to increase from R2.209 billion in 2017/18 to R2.309 billion in 2018/19, representing an increase of R100 million. The increase is mainly due to the increase in bulk purchases, depreciation, employee cost, general expenses and debt impairment. There has been a relative reduction in contracted services, repairs and maintenance, finance charges as well as expenditure on indigent benefit. The increase in the overall operating budget is mainly due to the provision of the following:

- Costs of bulk purchases of electricity and water due to tariff increase
- Increased costs of employee related costs due projected salary increase
- Increased depreciation due to due capital projects appropriated in the budget

- Increase debt impairment due to high consumer debtors not collectable

OPERATING REVENUE

Total operating revenue is projected at R1.839 billion in the 2018/18 financial, representing an increase of R42.3 million (2.2%) from the current year's adjustment budget of R1.796 billion.

The major items of the operating revenue for the 2018/19 financial year are as follows:

Details	2018/2019 R'000	% of Total Budget
Electricity	690 3491	37.5%
Water	177 146	9.6%
Sanitation / sewer	117 116	6,4%
Refuse	94 795	5,1%
Property rates	310 714	16.9%
Grants and subsidies	373 534	20.3%
Other revenue	42 828	2.3%
Interest on outstanding debtors	13 218	0.7%
Rental of facilities	8 642	0,5%

The following is the analysis of the revenue sources which have had the main impact in the increase of revenue:

- **Electricity services: R690.3 million, decrease of R8.6 million (-1.2%)**

Electricity tariffs are expected to increase by 8%. Despite the increase in tariffs, electricity revenue is expected to decrease by R8.6 million in the 2018/19 financial year. The decrease is due to the expected down-scaling in one of the major chemical industries (SACC) as a result of the business rescue. Cognisance should also be taken that this percentage increase of 8% is slightly above the projected inflation rate of 5.3% in order to cover the increase of 7.32% for electricity bulk purchases from Eskom.

- **Water services: R177.1 million, increase of R6.2 million (3.7%)**

Water tariffs are expected to increase by 7.2% in the 2018/19 financial year. While it noted that such increase in above the projected CPIX of 5.3%, the tariff increase is however based on the costs of maintaining aging water infrastructure in Newcastle, which will far exceed the 5.3%. The increase of 7.2% in tariffs is expected to generate additional revenue of R6.2 million, from R170.8 million in the current year to R177.1 million in the 2018/19 financial year.

- **Refuse removal: R94.7 million, increase of R5.3 million (6.0%)**

Refuse removal tariffs are expected to increase by 7.2% in the 2018/19 financial year. While it noted that such increase in above the projected CPIX of 5.3%, the tariff increase is however based on the costs of providing refuse removal services, especially in the east. The municipality has extended the provision of refuse removal to all the areas in Newcastle, including those where no revenue will be generated from such services. This has therefore rendered the costs of providing refuse removal far above the expected CPIX rate of 5.3%. The increase of 7.2% in tariffs is expected to generate additional revenue of R5.3 million, from R89.4 million in the current year to R94.7 million in the 2018/19 financial year.

- **Sanitation: R117.1 million, increase of R6.5 million (5.9%)**

Sanitation tariffs are expected to increase by 7.2% in the 2018/19 financial year. While it noted that such increase in above the projected CPIX of 5.3%, the tariff increase is however based on the costs of maintaining aging sanitation infrastructure in Newcastle, which will far exceed the 5.3%. The increase of 7.2% in tariffs is expected to generate additional revenue of R6.5 million, from R110.5 million in the current year to R117.1 million in the 2018/19 financial year.

- **Property rates: R310.7 million, increase of R23.6 million (8.2%)**

Property rates are expected to increase by 7.2% in the 2018/19 financial year. While the municipality notes that a tariff increase of 7.2% is higher than that an inflation forecast of 5.3%, the increase less that 7.2% will however not be adequate to compensate the costs non-trading services. The municipality is incurring a lot of costs in other departments where no revenue is generated. This increase will assist the municipality to cover such costs which it has inherited over a period of time. The increase of 7.2% tariffs, coupled with expected growth in properties is

expected to generate additional revenue of R23.6 million, from R287.1 million in the current year to R310.7 million in the 2018/19 financial year.

- **Transfers recognised: R373.5 million, decrease of R5.4 million (-1.4%)**

Revenue from grants is expected to decrease by R5.4 million to R368.8 million in the 2018/19 financial year. These operating grants are the equitable share, the Finance Management Grant (FMG), Expanded Public Works Programme and various other provincial grants from department of Arts and Culture and the Department of Human Settlements. A portion of the Municipal Infrastructure Grant has also been included in the operating budget in order to deal with capacity issues of the department of Technical Services.

- **Fines: R8.7 million, increase of R3.1 million (56%)**

Revenue for fines is expected to increase by R2.5 million to R8.0 million. The huge increase is due to the expected revenue from parking meters projects, which is expected to the implemented before the end of the current financial year. It is expected to year a cash revenue of at least R2.5 million will be generated in 2018/19 financial year.

- **Interest on investments: R4.0 million, a decrease of R354 773 (8.1%)**

Interest on investment is expected to generate R4.0 million to the operating revenue, from R4.3 million in the current year. The provision is based on the municipality's current investments and additional investments expected to be made in the 2018/19 financial year. The decrease is attributable to the expected withdrawals of the Housing Development Grant for which the MEC for Human Settlement has granted permission to be utilised in 2018/19.

- **Interest on outstanding debtors: R13.2 million, increase of R771 658 (6.2%)**

Interest on outstanding debtors is expected to generate R13.2 million to the operating revenue, representing an increase of R771 658 from the current year based on rate at which other billable revenue sources has been increased. As per the approved Council policy, interest on outstanding debtors only applies to business or commercial consumers, as evidence has shown that domestic consumers do not afford to pay additional interest and are accordingly exempted in term of the policy.

- **Rental of facilities: R8.6 million, increase of R785 627 (10%)**

Revenue from rental of municipal facilities is expected to generate R8.6 million to the operating revenue, representing an increase of R785 627 (10%) from the current financial year. While it is noted that such tariff increase is higher than inflation forecast of 5.3% reflected in MFMA Circular No. 91, however the operating and maintenance costs of municipal buildings and flats is higher than the revenue generated. The municipality is currently performing an analysis to see if disposing these facilities will not be in the best interest of Council. An investigation is also underway to assess the market value of the rentals currently levied on the municipal facilities.

- **Licences: R12 210, no increase expected**

Revenue from licences is expected to generate only R12 907 to the operating revenue, representing an increase of only R1 173 from the current financial year.

- **Other revenue: R42.8 million, increase of R12.1 million (39%)**

Revenue from sundry revenue is expected to generate R42.8 million to the operating revenue, representing the increase of R12.1 million (39%) from the current financial year. While it is noted that such tariff increase is higher than inflation forecast of 5.3% reflected in MFMA Circular No. 91, however the costs of providing such services is expected to be above the projected inflation rate of 5.3%. Items included under this revenue source include revenue from cemeteries, advertising, reconnections fees, tender fees, pounding fees, rates clearance fees, etc.

- **Profit on sale of asset: R2.2 million**

The municipality is expected to generate R2.2 from the sale of land and other assets during the 2018/19 financial year. The processes for such sale are underway from which the municipality is expected to raise proceeds of R21.2 million from such sale. Taking into account the carrying value of assets, the municipality is expected to make the net profit of R2.2 million.

OPERATIONAL EXPENDITURE

Total operating expenditure is projected at R2.309 billion in the 2018/19 financial, representing an increase of R100 million (4.7%) million from the current financial year's adjustment budget of R2.209 billion. The municipality's expenditure for the 2018/19 budget is informed by:

- Relevant legislative imperatives,
- Expenditure limits set by realistic and realisable revenue levels,
- Modelling of feasible and sustainable budgets over the medium term,
- National and local economic and fiscal conditions,
- Legacy of carrying excessive expenditure, which was not ideally afforded by the municipality.

The major items of the operating expenditure for the 2018/19 financial year are as follows:

Details	2018/2019 R'000	% of Total Budget
Bulk purchases	618 730	26.8%
Employee related costs	537 171	23.3%
Depreciation	525 578	22.8%
Debt impairment	163 946	7.1%
Other expenses	202 214	8.8%
Interest of loans	43 979	1.9%
Repairs and maintenance	68 123	3.0%
Remuneration of councillors.	24 159	1,0%
Contracted services	35 654	1,5%

The following are expenditure items included in the budget:

- **Employee Related Costs: R537.1 million, increase of R20.7 million (4%)**

Employee related costs have increased from R516.4 million to R537.1 million, representing an increase of R20.7 million (4%). An annual salary increase of 7% has been projected for all employees, pending finalisation of SALGBC multi-year collective agreement on wage and salaries. In line with the National Treasury guideline, employee costs represent 23.3% of the total budget, which is still within the acceptable threshold.

Included in the employee related costs is an amount of R20 million for overtime. This constitute 3.7% of the employee related costs. The bulk of this provision relates to overtime for essential services which the municipality cannot avoid. These services include waste management, electricity maintenance, water maintenance and other essential services which the municipality is required to provide to communities. It will be noted that this provision has been reduced substantially from the previous financial years due to measures implemented to monitor and curb overtime.

- **Remuneration of Councillors: R24.1 million, an increase of R939 596 million (4%)**

Remuneration of councillors is projected to be R24.1 million, representing an increase of R939 596 (4%) from the current financial year. The projection is based on the 2017/18 notice of the upper limits issued by the MEC for Local government in December 2017, and an increase of 5% has been estimated in respect for 2018/19, which will be determined by the MEC for CoGTA at the beginning of 2019. This provision also is based on the expectation that EXCO councillors, Chief Chip and the chairperson of the section 79 committee may be approved as full time councillors in the 2017/18 financial year.

- **Repairs and maintenance: R68.1 million, a decrease of R10.4 million (-13.3%)**

Expenditure on Repairs and Maintenance is projected at R68.1 million, representing a decrease of R10.4 million (-13.3%) from the current financial year. It must further be noted that a municipality has budgeted R28 million for the roads resealing under capital budget, which was previously under operating budget. This amount also represents the rehabilitation of roads infrastructure. While is noted that this provision for repairs and maintenance is far below the norm of 8% of the property plant and equipment, the municipality will however ensure that the available infrastructure is maintained within available budget. Strides will also be made to ensure that this provision is gradually increased other the MTREF period.

- **Bulk Purchases: R618.7, increase of R42.3 million (7.3%)**

Expenditure on bulk purchases is projected at R618.7 million, representing an increase of R42.3 million (7.37%) from the current financial year. This provision includes R520.7 million for the purchase of electricity from Eskom, R82.9 million for the purchase of bulk water from Uthukela

Water, R12 million for raw water from the Department of Water Affairs, and R3 million for provision of water to Charlestown. Expenditure on Bulk Purchases of Electricity has been increased from R494.5 million to R520.7 million. While the NERSA guideline tariff increase is 7.32%, there has however been a reduction on expected bulk purchases due to the scaling down of SACC. A provision of R12 million has been appropriated in respect of Bulk Water for the settlement of outstanding debt to Department of Water Affairs. An agreement has been reached that the amount will be settled over a period of three years.

- **UThukela Water Entity: R82.9 million, increase of R16.1 million (24.2%)**

The municipality's contribution to uThukela water increased from R66.7 million to R82.9 million which is an increase of R16.1 million (24.2%) from the current financial year. Engagements have been held with the entity to encourage it to and it was agreed that additional provision is required to provide additional volumes of water in the Eastern region.

Debt impairment: R163.9 million, an increase of R9.2 million (6.0%)

The municipal has projected to incur R163.9 million on debt impairment, representing an increase of R9.2 million from the current financial year budget of R154.6 million. The provision and the increase is based on the council's debtors' book, and the rate at which doubtful debt is expected to escalate. It must however be mentioned that the recent campaign to collect outstanding debtors and build the culture of payment of services in the townships might yield positive results, however its full impact is not yet quantifiable.

- **Depreciation: R525.5 million, an increase of R30.6 million (6.2%)**

Provision for depreciation has been projected to be R525.5 million, representing an increase of R30.6 million (6.2%) from the current financial year. The provision is based on the municipality's asset register. The municipality performed revaluations of assets taken from Uthukela Water and all its infrastructure assets during the 2014/15 and 2015/16 financial years respectively, which escalated the provision for depreciation over the past few years.

- **Finance Charges: R43.9 million, a decrease of R3.3 million (7.1%)**

Expenditure on interest on loans is projected to be R43.9 million, representing a decrease of R3.3 million (7.1%) from the current financial year. The finance charges of R43.9 million is based on the amortisation schedules of the loans portfolio of the municipality, which is expected to last for at least next nine years. It must however be noted no new loans will be taken by the municipality in the 2018/19 financial year.

- **Indigent benefit: R85.7 million, a decrease of R13.3 million (-13.5%)**

Indigent benefit expenditure refers to the subsidy provided by the municipality to indigents. Provision for expenditure on indigent benefits is projected to be R85.7 million, representing a decrease of R13.3 million (-13.5%) from the current financial year. The municipality utilises its equitable share allocation to provide for such social benefit to consumers who cannot afford to pay for municipal services, and whose household earnings is below R3,500 per month. The decrease in the budget provision is mainly due the campaign embarked on in the current year to clean up the indigent register.

- **Contracted services: R35.6 million, a decrease of R5.3 million (-13.1%)**

Expenditure on contracted services is projected to be R35.6 million, representing a decrease of R5.3 million (-13.1%) from the current financial year. The provision includes R23 million for the provision of security, and R12.6 for consultant fees. Given limited resources and strategies to build internal capacity, strides have been made to reduce these costs as far as possible when compared to previous years. The amount provided for security is to prevent damage and loss in some of the key and major council facilities. The provision of consultant fees relate to those services for which independent technical expertise is required in order to comply with some of the legislation.

- **Materials: R3.7 million, an increase of R527 314 (16.5%)**

Expenditure on materials is projected at R3.7 million, representing an increase of R527 314 (16.5%) from the current financial year. Included under this items are materials for the cleaning of municipal buildings, halls, vegetation chemicals, cleansing material, pest control, etc.

- **`Other expenditure: R202.2 million, an increase of R28.1 million (16.2%)**

Other expenditure is projected to be R202.2 million, representing an increase of R28.1 million (16.2%) from the current financial year. The increase is informed mainly by the appropriation of the expenditure for the Housing Development Fund (R22.3 million), the appropriation of grants received in previous years (Skills Development and L2 accreditation), as well as the increase in the expenditure for fleet maintenance and fuel costs in order to keep operations afloat.

Other major items included under general expenses comprise of SALGA membership fees, departmental charges, telephone, insurance expense, printing and stationery, transport and machinery costs, plant hire, purchase of plastic bags, protective clothing, rental of municipal facilities, gravelling of roads, interns and skills development, training, valuation expenses, ward committee fees, audit fees, bank charges, EPWP programme and legal fees.

OPERATING SURPLUS/DEFICIT

The operational budget therefore yields an operating deficit of R469.1 million. It remains the commitment of the municipality to comply with MFMA Circular No.72, which encourages municipalities to adopt a surplus position over the MTREF with a view to achieve and maintain financial stability of the municipality. Having analysed this deficit position against the fundability of the operating budget, the municipality concludes that the deficit is mainly due to the provision for Debt Impairment, deprecation. In eliminating this expenditure items and applying reliable revenue collection rates, the operating budget is said to be fully funded when analysed in terms of the NT MFMA Circular No.52.

CAPITAL BUDGET

The municipality's capital budget is projected to be R216.7 million, consisting of R173.6 million to be funded from government grants, and R43.1 million to be funded from internally generated funds.

The summary of the capital budget over the medium terms is depicted as follows:

Details	2018/2019 R'000	2019/2020 R'000	2020/2021 R'000
Total Capital Budget	216 776	233 568	56 000
Funded as follows:			
Grant funding	173 626	189 568	0
Internal funding	43 150	44 000	56 000
	216 776	**233 568**	**56 000**

Government grants are budgeted to continue to fund the bulk of capital budget over the next three financial years, covering 80% in the 2018/19 financial year. Due to the current cash flow position, the municipality has no plans to take new loans.

The capital budget summarised by asset class is tabulated as follows:

ASSET CLASS	2018/2019 R'000	2019/2020 R'000	2020/2021 R'000
Libraries & Archives	19 494	-	-
Fencing	150	-	-
Electricity Distribution	11 200	14 000	-
Furniture and Equipment	1 050	-	-
Plant & Equipment	1 650	-	-
Roads	97 732	86 500	56 000
Water Distribution	85 500	133 068	-
TOTAL CAPITAL BUDGET	**216 776**	**233 568**	**56 000**

The municipality will be spend bulk of its capital programme towards basic infrastructure, with R97.7 million towards roads, R85.5 million towards water and R11.2 million towards electrification. An amount of R19.4 million will be directed towards the construction of libraries, with Charlestown library earmarked for expenditure of R18.7 million. About R2.7 million will be spent towards furniture and equipment, plant and equipment, as well as fencing.

Renewal of existing assets

The municipality will spend less than 40% of the capital budget towards the renewal of existing assets. This is done with a view to ensure that existing assets and infrastructure are refurbished and upgraded to the right level to maintain delivery of acceptable minimum services to communities. While the municipality is aware that this provision is still below 40% recommended by MFMA Circular No.70, the municipality is however committed to keep increasing this provision in the near future in order to achieve a 40% as recommended by the National Treasury.

The following the list of capital projects which will be implemented over the medium term:

PROJECT DESCRIPTION	WARD NO.	2018/2019 R'000	2019/2020 R'000	2020/2021 R'000
Furniture and Equipment: Libraries	4,11,24	50		
Charlestown Library	1	18 703		
Generators: Liabraries	11,24	600		
Airconditioning Units and Humidifier: Art Gallery	4	190		
Fencing	4	150		
Skips x 10	ALL WARDS	150		
Skip Truck	ALL WARDS	1 500		
MF55	19	8 523		
MD35	24	6 916		
MD30	26	3 299		
ME11 (A)	28	1 855		
ME11 (B)	28	5 559		
OE41	9	3 038		
OA85 (A)	8	4 888		
OA85 (B)	8	7 875		
OC20	10	5 544		
OA103	30	5 786		
MB7	22	450		
MD5	24	300	6 500	
MF 18 & MF19	29	550	3 000	
MB23	22	550	8 500	
MG3 & MG4	22	500	8 500	
OA36	10	350	7 000	
OB11,6	18	500	4 000	
OC25, OC53	8	750	5 000	

Pipe Replacement and Upgrade	2,3,4,5	8 500	15 000	
Madadeni WWTP	ALL MAD WARDS	15 000	25 000	
Blaauwbosch Bulk Water	16,18,19,21	9 000	16 068	
Ngagane Bulk Water Supply	ALL WARDS	4 000	17 000	
Upgrade of Ngagane WWTW Phase1	ALL WARDS	9 000	-	
Newcastle None-Water Reduction	8,9,10,11,12,13,17.18,32	10 000	-	
Newcastle East Water Supply Extension	ALL WARD IN NN EAST	30 000	60 000	
Inkwelo Electrification	1	1 200		
Normandien Electrification	21	700		
KwaMlimi Electrification	7	3 200	-	
Manzana Electrification	30	2 200	-	
Bosworth Electrification	12	3900000	12 000	
JBC Electrification	16,18,19,21		2 000	
Resealing of roads – Newcastle West	2,3,4,5	13 000	16 000	18 000
Resealing of roads - Madadeni	19,22,23,24	6 000	8 000	10 000
Resealing of roads - Osizweni	8,9,10,11,12,17,18,30	6 000	8 000	10 000
Resealing of roads - Kilbarchan	21	2 000	4 000	6 000
Resealing of roads – Charlestown	1	1 000	4 000	6 000
Land Development – Water and & Electricity		6 000	-	-
Land Development – Engineering		4 500	-	-
STORMWATER MANAGEMENT (NN,MAD and OSIZ)	ALL WARDS	2 000	4 000	6 000
FURNITURE & EQUIPMENT		1 000		
TOTAL CAPITAL BUDGET		**216 776**	**233 568**	**56 000**

CASH FLOW BUDGET

The municipality is required to ensure that its budget will be able to fund both the operating and capital budget by ensuring that it has adequate funds. The cash flow budget assesses the cash flows of the municipality and whether these will be adequate to fund both operating and capital budgets in the ensuing financial year and medium term. Based on the projected collection rates, the municipality is confident that it will generate receipts of R1.741 billion form operating revenue, government grants, proceeds from sale of assets. Expenditure is expected to results in cash payments of R1.773 billion. With the anticipated opening cash balance of R33.2 million particularly from investments, the municipality is expected to remain with a cash surplus of R1.2 million to be used for provisions and other reserves to be cash-backed. The municipality is further expected to remain with R12.9 million from investments and to realise R27.8 million from net working capital. This is expected to be adequate to cover for the unspent grants, provisions and other reserves to be cash-backed.

COST CONTAINMENT MEASURE

The municipality adopted the Circular No.82 with regards to the implementation of the cost containment measure. The municipality has also put measure through the curbing of unnecessary expenditure and reduction of other expenditure from the budget. This is however done without compromising service delivery and with the available cash resources.

DRINKING WATER QUALITY

The municipality complies within the required Blue Drop status in terms of the quality of water being provided to the citizens of Newcastle. Water test samples are being provided in all water storages to ensure that necessary standards is being met before water is distributed to communities.

WASTE WATER MENEGEMENT QUALITY

The municipality complies within the required Green Drop status in terms of the quality of waste water management being provided to the citizens of Newcastle. While it is acknowledged that the is a challenge of sewer infrastructure in areas currently not zoned under Newcastle Municipality, the municipality doe reach out to such areas using the VIP dislughing system. The municipality

further distributes VIP toilets in areas where water-bone sewer is not yet available. The larger part of Newcastle Municipality does have the necessary sewer system.

1.4 BUDGET TABLES AND RELATED CHARTS

As attached in Annexure D - Schedule A tables

PART 2 – SUPPORTING DOCUMENTATION

2.1 OVERVIEW OF BUDGET PROCESS

2.1.1 OVERVIEW

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The budget process is an effective process that every local government must undertake to ensure good governance and accountability. The process outlines the current and future direction that the municipality would follow in order to meet legislative stipulations. The budget process enables the municipality to optimally involve residents and other stakeholders in the budgeting process.

The budget preparation process is guided by the following legislative requirements:

- Municipal Finance Management Act;
- Municipal Budget and Reporting Regulations;
- Municipal Systems Act; and
- Municipal Structures Act.

Section 21 of the MFMA requires that a time schedule setting out the process to draft the IDP and prepare the budget be tabled ten months before the financial year. In compliance with this requirement the IDP and budget time schedule was tabled before council in September due to the new council inauguration. The main aim of the timetable is to ensure integration between the Integrated Development Plan, the budget and allied process towards tabling a balanced budget. The adoption of the 2017/18 Medium Term Budget for the Newcastle Municipality on May 2017 laid the foundation by which strategic functions within the municipality could apply sound financial planning and management over the medium to long term. It facilitated the critical alignment of planning, budgeting and sustainable service delivery in line with Newcastle's vision.

The purpose of the 2018/19 budget is to comply with the Municipal Finance Management Act (No. 56 of 2003) and is a financial plan to enable the municipality to achieve its vision and mission through the IDP which is informed by our five year programme and community/stakeholder inputs. The tabled budget is the start of a journey towards the final budget for approval. It will include many processes both politically and administratively, amongst others, consultations with communities in the municipal area. In February 2018 budget instructions were

issued to departments by the Budget and Treasury Office. Staff budget requirements were also reviewed for budgetary purposes with an intense scrutiny of human resources needs and assessment of all vacancies.

A budget workshop was held during March 2018 which focused on the state of financial affairs, limited resources and how the budget will be allocated to departments. The workshop further dealt with past performance trends of operating budget and capital budget, identified budget realities going forward and set the criteria and basis to be used in the appropriation of financial resources amongst municipality's functions during the budget process. Budget meetings were also held with various departments. At these meetings, budget strategy, budget policies and the alignment of the operating budget with the IDP were discussed. The IDP's strategic focus areas informed the development of the budget, in addition to assessing the relative capacity to implement the budget, taking affordability considerations into account.

Further deliberations were held on the budget with a view to assessing the budget and reducing the deficit in order to ensure that the increases in rates and tariffs to balance the budget were restricted to an acceptable level. In order to address the initial budget deficit and ensure reasonable levels of tariffs and also to conform to National Treasury cost containment guidelines, austerity measures have been applied to the 2018/19 medium term budget. In March 2018 budget presentations were held with the Municipal Manager and Executive committee. The mechanism through which the needs of the municipality are identified and priorities set is the Integrated Development Plan (IDP). The capital budget is then accordingly allocated to cover the higher priority projects in the IDP. A series of meetings were held to ensure that the budget is prioritized, balanced and aligned to Council's IDP.

2.1.2 POLITICAL OVERSIGHT OF THE BUDGET PROCESS

The key to strengthening the link between priorities and spending plans lies in enhancing political oversight of the budget process. Strengthening the link between Government's priorities and spending plans is not an end in itself, but the goal should be enhanced service delivery aimed at improving the quality of life for all people within the municipality. Section 53(1) (a) of the MFMA, states that, the mayor of a municipality must provide political guidance over the budget process and the priorities that must guide the preparation of the budget. The Management Committee and the Executive Committee advise Council accordingly. Political oversight of the

budget process allows government, and in particular, the municipality to manage the tension between competing policy priorities and fiscal realities.

2.1.3 PROCESS FOR CONSULTATIONS WITH EACH GROUP OF STAKEHOLDERS AND OUTCOMES

Local government policy and legislation put great emphasis on municipalities developing a culture of community participation and the creation of appropriate and relevant community participation mechanisms, processes and procedures. The municipality prides itself of enjoying the reputation of actively engaging many of its citizens as possible in its planning, budgeting, implementation and monitoring processes. In order to strengthen public participation, the municipality has been rolling out its outreach programme to all wards in the municipal area, during the year.

Accordingly, the tabling of the draft Budget in council was followed by extensive publication of the budget documentation in the local newspapers, libraries, and all municipal public areas. Copies of the tabled budget in both electronic and printed formats were submitted to National Treasury as well as the Kwazulu-Natal Provincial Treasury and the Provincial Department of Co-operative Governance and Traditional Affairs. The tabled budget was also published on the council's website. In terms of the Municipal Systems Act and in conjunction with the Municipal Finance Management Act. Hearings on the budgets took place on 29 May 2018, where the Mayor officially responded to budget submission made by various stakeholders. The key target groups for the budget hearings include:

- Newcastle Business Chamber;
- Farmers Association; and
- KZN Provincial Treasury

Schedules indicating dates and venues was publicized in the local Newcastle papers and municipal notice board during the first week of April 2018 to allow proper consultation.

2.1.4 SCHEDULE OF KEY DEADLINES RELATING TO THE BUDGET PROCESS

The budget time schedule for the compilation of the 2018/19 budget cycle was tabled in August 2017, well before the start of the budget year and in compliance with the MFMA. The plan was accordingly implemented and reviewed where considered necessary to do so.

The following table reflect the activities and key deadlines that were included in the schedule.

DATE	ACTIVITY	RESPONSIBILITY
August 2017	• 10 months before start of the budget year: Tabling of time schedule outlining key deadlines to the municipal Council as per MFMA S21(b). • Advertising of budget and IDP time schedule.	Mayor/MM
September 2017	Conclude initial consultation and review policies, confirm priorities, identify other financial and non-financial parameters including government allocations, and the financial outlook in order to needs and to review fiscal strategies.	MM/CFO
October 2017	Meeting with Mayor, Exco and Manco to discuss the strategic direction and objectives for the 2017/18 fiscal strategies.	MM/BTO
October 2017	**Budget Framework.** Meeting the SED's to discuss the budget preparation process of the budget framework to provide parameters and request budget inputs for 2017/2018.	BTO
November 2017	**Completion of Salary Budget and assess impact on tariffs and charges.**	BTO/HR
December 2017	• Finalize inputs from bulk resource providers (NERSA, uThukela) and agree on proposed price increase. • Submit all Budget related policies for review. • Prepare guidelines and template for compilation of draft budget three year operational and capital budget.	BTO
January 2018	• Finalize detailed operational and capital budget, finalize all budget related policies. • Review the proposed National and Provincial allocations for incorporation into the draft budget. • Report back on progress with Budget inputs.	BTO/MANCO
February 2018	• **Submission of Budget Inputs:** Final date for SED's to submit departmental budget inputs. • Proposed Capital Projects from IDP. • Accounting Officer finalises and submits to the Mayor the proposed budgets and plans for the next three-year budgets taking into account the recent mid-year review and any corrective measures proposed as part of the oversight report for the previous years audited financial statements and annual report. • Compile a discussion document from inputs and submit to EXCO and MANCO.	MM/BTO/SED'S
February 2018	**Budget/IDP Strategic Workshop**	Extended MANCO and EXCO
March 2018	**Budget Workshop:** Discussion of budget inputs, link capital and operational plans to IDP and determine proposed tariffs.	EXCO MANCO
March 2018	**Draft Budget:** • 90 days before the start of the budget year, Council must consider approval of the draft budget. • Submit the draft multi-term operational and capital budget and all budget related policies for approval.	MAYOR, MM, CFO

DATE	ACTIVITY	RESPONSIBILITY
	• Submission of approved budget both printed and electronically to COGTA, National and Provincial Treasury. • Make public notice in terms of S22, 75 of the MFMA and 21A of the Municipal Systems Act.	
April 2018	**Public Consultation Process:** Public Consultation on draft budget throughout the municipality in terms of Chapter 4 of the Municipal Systems Act.	MAYOR EXCO MM CFO
May 2018	**Respond to Public Comments in terms of S23 of the MFMA.** • Response to public comments and sector comments. Incorporate recommendations into draft budget. • Bilateral engagement with Provincial Treasury.	MAYOR BTO MM
May 2018	**Approval of Final Budget – MFMA S24.** • Approve the final multi-term operational and capital budget together with the adoption of resolutions that may be necessary.	COUNCIL
June 2018	**Publication of Annual Budget.** • Submission of the approved budget printed and electronically to COGTA, National and Provincial Treasury, S22(b). • Make public notice in terms of S22(a), 75 of the MFMA and 21A of the Municipal Systems Act. • Capture the approved budget on to the financial system. • Submission of locking certificate in terms of S74(1) of the MFMA.	MM BTO
June 2018	**Compile SDBIP** Compilation of the service delivery and budget implementation plan (SDBIP) 28 days after the approval of the budget and submit to Council for approval.	PMS MAYOR MM

2.2. OVERVIEW ALIGNEMENT OFANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

The municipality's Integrated Development Plan (IDP) is its principal strategic planning instrument, which guides and informs its on-going planning, management and development actions. The IDP represents the municipality's administration's commitment to exercise its executive authority (except in cases where it is in conflict with national or provincial legislation, in which case such legislation prevails), and is effectively the local government's blueprint by which it strives to realise its vision for Newcastle in the short, medium and long term. However, while the IDP represents the strategic intent of the municipality, it is also compiled with the understanding that a number of challenges will need to be overcome in order to achieve the strategic objectives it sets out. Some of these challenges are known, while others are as yet unknown and may arise at any time due to any number of local, national and international economic, political or social events.

2.2.1 KEY NATIONAL AND PROVINCIAL GUIDING DOCUMENTS

To ensure that the municipality is a more responsive, efficient, effective and accountable local government, we will outline, precisely how we intend to translate our long term 2035 Municipality Vision into an effective plan that aligns the municipal budgets, monitoring and evaluating mechanisms as well as timeframes for delivery. The municipality has taken the strategic direction to achieve closer alignment between the Long Term Development objectives and its IDP. The development of the strategic approach for the municipality is guided by – but not limited to – the following;

National Development Plan (Vision 2030)

The intention of this plan is to improve service delivery for citizens of South Africa, whilst integrating national, provincial and local policies and programmes into a single, target orientated and long term based plan. In this plan a collective approach of improving the lives of the citizens is applied, and communities themselves have a role to play in this regard. The Spatial component of the NDP which is the Integrated Urban Development Framework provides a macro spatial context for urban development at a national level.

Delivery Agreement Outcome 9

The aim of Delivery Agreement: Outcome 9 is to ensure a responsive, accountable, effective and efficient local government system so as to restore the confidence of citizens in the local government sphere. As such municipalities need to ensure that the basic needs of communities are met; build clean, effective, efficient, responsive and accountable local government; improve performance and professionalism and strengthen partnerships between local government, communities and civil society. Whilst primarily there is a reporting line to Outcome 9, the municipality also reports on Outcome 8 which concentrates on human settlements.

National Priorities: SONA (State of the Nations Address 2018)

The State of the Nation address for the 2018 confirmed the President Cyril Ramaphosa's commitment to the Nine Point plan to ignite radical economic transformation, growth and create jobs, these plans. It becomes imperative that the IDP and the Budget of the municipality are aligned to the national vision and plans of both national and provincial governments in order to achieve the objectives of the NDP. These plans as highlighted in the SONA 2018 are as follows:

- Support black industrialists in order to build a new generation of black and women producers that are able to build enterprises of significant scale and capacity.
- Assemble a team to speed up implementation of new projects, particularly water projects, health facilities and road maintenance.
- Intensify engagements with all stakeholders on the Mining Charter.
- Honour 30% of procurement allocation, invest in incubation and welcome Fund initiatives of the small business, co-operatives and township enterprises.
- Accelerate land expropriation without compensation and redistribution programme and more land available for agriculture, while ensure food security and economic growth.
- Establish digital industrial revolution commission, and reduce barriers to entry.
- Introduce National Minimum Wage by May 01, benefiting more than six million South Africans.
- Scale up the testing and treating campaign by initiating and additional two million people on anti-retroviral treatment by 2010, while also fast fracking the processing of the National Health Insurance.
- Implement free higher education and training to first year students from households with a gross combined annual income of up to R350 000.

- Urgently take decisive steps to comply with all directives of the Constitutional Court on social grants payments and take action to ensure that no person in government undermines implementation deadlines set by the court.
- Convene a Social Sector Summit during the course of the year to recognise the critical role Civil Society play in the society.
- Review the funding models of the State Owned Enterprises and other measures, change the way boards are appointed, and to remove board members from any role in procurement.
- Allow the commission of enquiry into state capture to comment its work, law enforcement agencies to allowed space to investigate corruption.
- Urge professional bodies and regulatory authorities to take action against members who are found to have acted improperly and unethically.
- Urgently attend to leadership issues at the National Prosecuting Authority to ensure that this critical institution is stabilised and able to perform its mandate unhindered.
- Appoint a Commission of Inquiry into Tax Administration and Government as SARS.
- Visit every national department to engage with senior leadership and ensure that the work of government is effectively aligned.

Towards an Integrated Urban Development Framework

A key objective of government is to facilitate economic growth, job creation and reduce poverty and income inequality. The framework for integrated urban development is a key governmental initiative to realise this objective because it leverages the potential of our cities and towns, which are South Africa's engines of growth and job creation. Urban areas offer the advantages of economic concentration, connectivity to global markets, the availability of new technologies and the reality of knowledge economies. Given the challenges that urban areas face, there is a need to forge a sustainable growth vision for our urban and rural spaces that will guide our development priorities and choices. As such the framework begins to identify key levers.

Provincial Priorities (State of the Province Address)

The Premier highlighted Key intervention areas for the province that would influence the IDP for municipalities. In the SOPA the alignment of the IDP, PGDS and the NDP were stressed. In the speech the Premier listed the priority Interventions which remain the foundation of the Provincial Growth and Development Plan. The Interventions are:

- Growing a more inclusive economy
- Human resource development

- Human and community development
- Development of strategic infrastructure
- Ensuring environmental stability
- Providing good governance with clear and relevant policies
- Managing works place conflict
-

The Premier also stressed on the development and protection of human capital and the need to further develop skills and improve education in the province. The alignment of the provincial action plan with the President's State of the Nation Address remain the priority of the provincial government of KwaZulu Natal.

Provincial Growth and Development Strategy

In line with the National vision 2030, the Provincial Growth and developmental Strategy will ensure economic growth and improved quality of life in KwaZulu-Natal. An integrated service delivery mechanism will be applied by various stakeholders in an effort to create employment opportunities, skills enhancement, effective and efficient governance, human and community development, improved infrastructure and adequate utilization of spatial form. The PGDS is currently under review to ensure that the plan meets the objectives of the National Planning Commission as well as the SDG's.

Long Term Development Framework

Many town and cities around the world are competing with one another on the local global open market to become economically competitive and in doing so, are inadvertently creating unsustainable environments. Against this background then, it is clear that the municipality has indeed a direct role to play in the facilitation and management of long-term planning and development processes that consider the issue of sustainability.

2.2.2 DEVELOPMENT CHALLENGES

Significant strides have been made to address the key development challenges in the municipality. While significant progress has been made in all areas, there is still some distance to go towards addressing the following challenges:

- High rates of unemployment and low economic growth;

- High levels of poverty;
- Low levels of skills development and literacy;
- Limited access to basic household and community services;
- Increased incidents of HIV/AIDS and communicable diseases;
- Unsustainable developmental practises;
- Ensuring adequate energy and water supply;
- Infrastructure degradation;
- Ensuring financial sustainability;
- Ineffectiveness and inefficiency of inward-looking local government still prevalent in the municipality.

The essence of the Newcastle Municipality's IDP is to achieve a balance between meeting basic needs, strengthening the economy and developing people skills and a technology base for the future.

2.2.3 MUNICIPAL STRATEGIC PRIORITY AREAS

In order to achieve our vision and to address the development challenges, there are a number of key strategic priority areas which need to be taken into consideration. These priorities lead to the creation of structures which support, house and associate other actions and activities – the building blocks around which actions and prioritisation take place. It also acts as a point of leverage for creating a sustainable municipality that is caring and liveable.

2.2.4 POLITICAL PRIORITIES AND LINKAGES TO THE IDP

The IDP is an all-encompassing plan which provides the framework for development within a municipality. It aims to co-ordinate the work of local and other spheres of government in coherent plans to improve the quality of life for all the people living in the area. All operating and capital programs in the 2018/19 medium-term budget have been assessed through a prioritisation mechanism that was developed to ensure that there is alignment to the development strategy of the municipality. The IDP formed the basis of the priorities identified in the strategic plan and all resources are focused on the achievement of the priorities. The Mayor, Ward councillors, ward committees, and the full council full an active part in the community based planning and ensuring that budget takes to the priorities of the IDP.

2.2.5 IDP OVERVIEW

The Municipal Systems Act requires that each Municipality prepare an Integrated Development Plan to serve as a tool for transforming local governments towards facilitation and management of development within their areas of jurisdiction. The IDP is a five year plan whose principal purpose is to ensure the development of the local community in an integrated manner which involves strategic business units within the municipality, relevant strategic stakeholders and the community. This draft IDP marks the new 4th generation of the five years period of the new Council which occupied office in August 2016.

2.2.6 IDP PROCESS AND STAKEHOLDER PARTICPATION

The IDP is prepared every five years and reviewed yearly to inculcate a democratic approach to local governance by ensuring all stakeholders get an opportunity to voice their opinions in influencing the shape, form, direction and pace of development in their localities. The municipality is committed to addressing the needs of the people and values the inputs from communities and stakeholders. The IDP draft process plan for 2018/2019 was presented to the Executive Committee and its included in the draft IDP for consideration. The plan specified timeframes, actions and procedures and appropriate mechanisms for public participation and alignment.

The fourth generation of Newcastle's Integrated Development Plan (IDP) has been initiated and seeks to address community needs and how the municipality will achieve same over the next five years. As set out in the Municipal Systems Act (2000), a stakeholder consultation process is necessary. Of critical importance is for the municipality to ensure that there is thorough consultation with the community and strategic stakeholders. The development of the new five year plan in 2018/19 has provided further opportunity for the citizens to actively participate in the development of the IDP.

2.2.7 LINK BETWEEN THE IDP AND THE BUDGET

In compliance with the Municipal Structures Act (1998) and Municipal Financial Management Act (2003), our municipal budget is informed and aligned to the IDP objectives. The IDP determines and prioritises the needs of the community. The budgetary allocations for both the capital and operating expenditure are undertaken in a manner that will not only ensure that our

IDP outcomes are achieved but also to ensure that our municipality's 2035 vision is realised. ***The 2018/19 Annual Budget has therefore, been directly informed by the new 4th generation IDP process.***

We have come a long way in capital budgeting – away from departmental budgeting. Based on such nationally developed models, the municipality is able to link its budget with its programmes, and is able to adequately spread its capital budget geographically as well in accordance with the IDP. In terms of the operating budget we have made excellent progress but are now more committed than ever to ensure that critical operating budget resources are prioritised in terms of stated IDP outcomes. More importantly, the Performance Management System (PMS) allows the municipality an opportunity to monitor and evaluate organisational performance in meeting our IDP outcomes and vision. As with previous year's, our IDP remains the strategic driver of both our budget and performance management system.

2.3. MEASURABLE PERFORMANCE OBJECTIVES

2.3.1 KEY FINANCIAL RATIOS / INDICATORS

The benchmarks reflected in the table below are based on the actual audited results of the municipality for the 2016/17 financial year:

Financial Benchmark	Basis of calculation	2016/2017
Debt to Asset Ratio	Total debt / Total Assets	0,14 : 1
Debt to Revenue	Total debt / Total Income	0.66 : 1
Average Interest Paid on Debt	Interest Paid / Total Interest Bearing Debt	0,11 : 1
Capital Charges to Operating Expenditure	Interest and Principal Paid / Operating Expenditure	0,03 : 1
Interest as a % of Operating Expenditure	Interest Paid / Operating Expenditure	3.1%
Current Ratio	Current Assets / Current Liabilities	1,04 : 1
Creditors System Efficiency	% of Creditors paid within terms	74,0%
Electricity Distribution Losses	Total units purchased less units sold / Total units purchased	3.51%
Water Distribution Losses	Total units purchased less units sold / Total units purchased	44.2%

The financial benchmarks reflected in the table indicate a favourable financial state, however, one needs to indicate that the bulk of assets of the municipality include Property Plant and Equipment, as well as consumer debtors, which the municipality is struggling to convert into liquid cash.

Debt to Asset Ratio:

The ratio indicate the leverage ratio that defines the total amount of debt to assets.

Debt to Revenue:

The ratio indicate the extent of total borrowings in relation to total operating revenue. The purpose of to provide assurance that sufficient revenue will be generated to repay liabilities.

Capital charges to Operating Expenditure:

Capital charges to operating expenditure (the measure of cost of borrowing in relation to the operating expenditure) compares favourably to the acceptable norm of around 100%.

Current ratio:

This ratio measures the short-term liquidity, that is, the extent to which the current liabilities can be paid from the current assets. The higher the ratio, the healthier is the situation. Whilst the ration of 1.04 : 1 is below the norm of 1.5 : 1 to 2.1 normally set for municipalities, the municipality faced cash-flow challenges due to its inability to collect its consumer debtors, which in the main contributor of current assets.

2.3.2 FREE AND SUBSIDISED BASIC SERVICES

Municipalities play central role in supporting economic development and alleviating poverty. The provision of basic services is a critical input to social well-being and economic activity. Newcastle Municipality comprises both rural and urban areas as well as wide spread of income groups. Due to variation in living environment, the municipal area has a number of households who currently do not have access to all services.

The basic social package is an affirmation of the municipality's commitment to push back the frontiers of poverty by providing a social welfare to those residents who cannot afford to pay, because of adverse social and economic realities. The social package will also assist the municipality in meeting its constitutional obligations. The estimated cost of social package amounts to R85.7 million for the 2018/19 budget year.

Details of initiatives carried out by Newcastle Council in this regard are detailed below:

Service	Social Package	Million (R)
Assessment Rates	All residential property owners are exempt from paying rates on the first R15,000 of the property value. Indigent residents will receive 100% rebates on rates.	14.9
Water	The first 6kl of water is free to all residents qualified as indigents in terms of the policy	15.2
Electricity	The first 50kwh of electricity is free to all residents qualified as indigents in terms of the policy	3.5
Refuse	Refuse is free to all residents qualified as indigents in terms of the policy	30.4
Sewer	**Sewer is free to all residents qualified as indigents in terms of the** policy	21.5
Indigent Support		**85.7**

The cost of indigent benefit to the tune of R85.7 million is funded from the equitable share provided by the National Government, which amount is based on the estimated ±18000 number of indigents currently in the Indigent Register. The assistance to the qualifying households is regulated by Council budget related policies which are reviewed annually based on modelling the impacts of the tariffs on all residential properties.

2.4 OVERVIEW OF BUDGET RELATED POLICIES

The MFMA and the Municipal Budget and Reporting Regulations require budget related policies to be reviewed, and where applicable, to be updated on an annual basis. The main purpose of budget related policies is to govern and guide the budget process and inform the projections of the medium term budget.

2.4.1 APPROVED POLICIES

The following budget-related policies have been approved by Council and no amendments have been done:

- Budget Policy
- Petty Cash Policy
- Borrowing Policy
- Cash and Investment Management Policy
- Virement Policy
- Funding and Reserves Policy
- Asset Management Policy
- Loss Control Policy
- Short-term Insurance Policy

2.4.2 DRAFT POLICY AND POLICIES REVIEWD

The following policies have been amended and/or reviewed and attached with the budget for consideration.

- Supply Chain Management Policy

2.4.3 RATES POLICY

As required in terms of section 5 of the MPRA, the Rates Policy has been reviewed for the 2018/19 financial year. The policy is to be amended with the current budget prior to implementation.

2.4.4 CREDIT CONTROL AND DEBT COLLECTION POLICY

The primary objective of the policy is to ensure that all monies due and payable to the municipality in respect of services are collected efficiently and promptly. As required in terms of sections 97 of the Municipal Systems Act, the credit control and debt collection policy for the 2018/19 financial year has been reviewed and is to be adopted with the current budget.

2.4.5 TARIFF POLICY

The Municipal Systems Act requires a municipality to have a Tariff Policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery, and which complies with the provisions of that Act, the MFMA and other legislation. Accordingly, a Tariff Policy which is attached with the budget for Council adoption.

2.5 OVERVIEW OF BUDGET ASSUMPTIONS

Budget assumptions and parameters are determined in advance of the budget process to allow budgets to be constructed to support achievement of the long-term financial and strategic targets. The assumptions and principles applied in the development of this budget are mainly based upon the guidelines from National Treasury and other external bodies such as NERSA, SALGA and the major service providers. A number of assumptions that guide growth parameters have been built around the projected increase in the inflation (CPI), being 5.3% for the 2018/19 financial year.

The municipal fiscal environment is influenced by a variety of macroeconomic control measures. National Treasury determine the ceiling of year-on-year increases in the total operating budget, whilst NERSA regulates electricity tariff increases. Various government departments also effect municipal service delivery through the level of grants and subsidies.

The following key assumptions underpinned the preparation of the medium term budget. Revenue are projected to increase by the following percentages:

Revenue source	2018/2019	2019/2020	2020/2021
Property rates	7.2%	7.2%	7.2%
Electricity	8.0%	8.0%	8.0%
Water	7.2%	7.2%	7.2%
Sanitation	7.2%	7.2%	7.2%
Waste/Refuse	7.2%	7.2%	7.2%
General Sources of Revenue	10%	10%	10%

The projected increases in the expenditure items are as follows:

Revenue source	2018/2019	2019/2020	2020/2021
Employee related costs	7%	7%	7%
Remuneration of councillors	6%	6%	6%
Electricity budget purchases	7.32%	8%	8%

The increase in employee related costs will be confirmed by the South African Local Government Bargaining Council in due course pending finalisation of multi-year wage agreement. The increases in the upper limits of councillors will be confirmed by the MEC for Local Government probably during December 2018. The final electricity tariff and bulk purchases will be confirmed by NERSA in April 2018. Where there are significant changes from what is been projected, the municipality may consider tabling an adjustment budget or accordingly correct in the final budget.

Expenditure in respect of repairs and maintenance, contracted services and general expenses has been zero-based but limited to the available funding. While it is acknowledged that the costs of providing such goods and services may be more or less that what is projected, the municipality will however employ stringent budget monitoring and control measures to ensure that the municipality operates with the approved budget on these items.

CAPITAL EXPENDITURE

The municipality's capital expenditure has been funded from a mix of government transfers and internally generated funds. About R173.6 million is funded from government grants and the balance of R43.1million from internally generated funds. Based on the previous information and analysis, it is assumed that all grants appropriated in the medium term budget will made available by the National and Provincial governments. Where any grants are withheld or additional grants made available during the budget year, such will be addressed by way of an adjustment budget.

2.6 OVERVIEW OF FUNDING THE BUDGET

FISCAL OVERVIEW

Although the financial profile of the municipality is not healthy and liquid due to commitments from the previous financial years, the municipality has ensure that realistic revenues and affordable expenditure is projected in the medium term budget. This has been achieved through the following measures:

- Funded budget to be generated during the budget and the MTREF period. Currently no reserves are available to supplement funding of both operating and capital budgets.
- Measures will be ensured that the municipality operates within the budget as approved by Council. There is no intention to incur unauthorised expenditure.
- The municipal will ensure that it strives to develop and maintain a positive cash and investment position (cash and cash equivalents).

FUNDING OF CAPITAL BUDGET

The capital budget is funded mainly by allocations made to the municipality by National and Provincial government in the form of grants, as well a minor portion of internally funded funds. No external loans will be taken by the municipality to fund its capital programme. Furthermore, no reserves are available or earmarked for the purpose of funding the capital budget.

The municipality has provided R173.6 million from grant receipts to fund the capital budget, both from National and Provincial Governments. This amount is made up of MIG, MWIG, NDPG, Electrification Grant as well as provincial allocation from the Departments of Arts and Culture and Treasury. R43.1 million worth of projects will be funded from internal funds to be generated through Vat refunded on conditional grants as per Circular 58 of the MFMA, and a balance from sale of municipal properties.

FUNDING OF OPERATING BUDGET

Funding of operating budget is obtained through various sources, the major ones being service charges of electricity, water, sanitation, refuse, property rates as well as grants and subsidies from National and Provincial governments.

The municipality is expecting to generate R690.3 million, R177.1 million, R117.1 million, R94.7 million and R310.7 million from the sale of electricity, water, sanitation, refuse removal and property rates respectively. These revenue sources are regarded as primary sources of revenue of the municipality and contribute about R1.398 billion to the projected revenue of the municipality, which represents 76% of the total revenue. Grants and subsidies will contribute R373.5 million to the operating revenue, which is 20.1% of the total revenue. It can therefore be concluded that the operating budget of the municipality will be funded mainly by property rates, services charges and grant allocations.

Fines will generate R8.7 million to the total revenue of the municipality. This is based on the previous trends of fines that the municipality has been able to issue in the past three years. Interest on external investment is expected to generate R3.8 million based on the current investment portfolio, as well as the new investment the municipality is expecting to make during the MTREF period. About R13.2 million will be generated from interest on outstanding debtors, based on the current rate at which debtors are escalating. The municipality will generate R8.6 million from rental its facilities, mainly municipal flats and houses to its employees. About R45.0 million will be generated from sundry revenue of the municipality. This include revenue from all other services of the municipality which are not billed. The fines, interest on investments, interest on outstanding debtors, rental and sundry revenue contribute R79.6 million, representing about 4% of the total revenue.

COLLECTION RATES FOR EACH REVENUE SOURCE

In accordance with the relevant legislation and national directives, the municipality's projected revenue collection rates as based on realistic and sustainable trends. The rate of revenue collection is the cash collected from consumers expressed as the percentage of the amount billed.

The average monthly collection rate and projections for the year are as follows:

Revenue Source	Average 2017/2018	Average 2018/2019
Property rates	75%	75%
Electricity	85%	96%
Water	51%	55%
Sewer	51%	37%
Refuse	69%	59%

The total average collection rate is projected at an average of at least 83% and is based on the combination of actual collection rates achieved to date, and is the estimated outcome for the current financial period. The intervention of council to collection arrear debtors and to build a culture of payments in all municipal wards is expected to improve the payment factor by even a larger margin than currently projected.

The credit control measure of service disconnection is being applied on consumers whose electricity is supplied by the municipality. A programme of water restrictors has been initiated in the current year for consumers in areas where the municipality does not supply electricity. By and large, these are areas from which a substantial and long overdue debtors of the municipality is being owed. The water restrictor programme is expected to improve the collection of outstanding debtors, and to build a culture of payment. It will also assist the municipality to clean-up its indigent register by identifying those consumers who can and those who cannot afford to pay.

2.7 GRANT ALLOCATIONS AND PROGRAMMES

Municipalities play a critical role in furthering government's objective of providing services to all, while facilitating local economic development. Local government conditional grants are being reformed to provide targeted support to different types of municipalities.

The following projected grants allocations to the municipality in terms of the 2018 Division of Revenue Act have been included in the medium term budget.

National allocations

Grant Description	2018/2019 R'000	2019/2020 R'000	2020/2021 R'000
Equitable Share	341 408	370 044	402 930
Finance Management Grant	1 700	1 700	1 700
Neighbourhood Development Partnership	0	2 450	14 500
Municipal Infrastructure Grant	110 232	112 580	119 073
Integrated National Electrification	15 000	9 600	12 800
Municipal Water Infrastructure Grant	40 000	60 000	63 300
Expanded Public Works Programme Incentive	3 199	0	0
Total National Allocations	**511 539**	**566 3740**	**614 303**

Provincial allocations

Grant Description	2018/2019 R'000	2019/2020 R'000	2020/2021 R'000
Recapitalisation of Community Libraries	5 234	6 546	6 873
Accredited Municipalities	7 437	7 620	8 761
Museums Services	368	386	407
Community Library Services Grant	12 147	1 228	2 312
Total Provincial Allocations	**25 186**	**15 780**	**18 353**

2.8 ALLOCATIONS AND GRANTS MADE BY NEWCASTLE MUNICIPALITY

No grants will be paid by the municipality to other organs during the medium-term budget.

Please refer to SA 21 of Schedule A.

2.9 COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Please refer to SA22 and SA24 of Schedule A

2.10 MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOWS (Table 15a)

Please refer to SA25 to SA30 of Schedule A

2.11 ANNUAL BUDGET AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN – INTERNAL DEPARTMENTS

The SDBIP will be submitted separately.

2.12 ANNUAL BUDGET AND SERVICE DELIVERY AGREEMENTS – MUNICIPAL ENTITIES AND OTHER EXTERNAL MECHANISMS

Municipal Entities

The agreement in currently in force in the following brief details:

(a) Name of Entity : Uthukela Water (Pty) Ltd
(b) Period of agreement : 30 years
(c) Service provided : Water and sanitation
(d) Expiry date : 24 May 2034

The Entity is currently under Provincial Administration and being investigated in terms of section 78 of the Municipal Systems Management Act, 32 of 2000.

2.13 CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

In terms of the municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework unless section 33 of the MFMA has been complied with.

In ensuring adherence to this time frame limitations, all reports submitted to either Bid Evaluation or Bid Adjudication Committees must obtain financial comments from the Budget and Treasury Office.

2.14 CAPITAL EXPENDITURE DETAILS

Please refer to A5 of Schedule A

2.15 LEGISLATION COMPLIANCE STATUS

DISCLOSURE ON IMPLEMENTATION OF MFMA AND OTHER LEGISLATION

Compliance with the MFMA implementation requirements has been substantially adhered to through the following activities:

BUDGET AND TREASURY OFFICE

The Budget and Treasury Office has been established in accordance with the MFMA.

BUDGET

This draft annual budget has been crafted taking into account MFMA, Municipal Budget and Reporting Regulations, and National Treasury circulars into account. Budgets are being tabled, adopted and submitted to National and Provincial Treasuries within the required legislative frameworks.

IN-YEAR MONITORING

100% compliance with regards to monthly, quarterly, mid-year and annual reports to Council, Provincial and National Treasuries.

IDP

The 2018/18 to 2022/23 Budget Process for the new term of council has been done and aligned with the Budget in accordance with the MFMA and the Municipal Systems Act requirements.

ANNUAL REPORT

The 2016/17 Annual Report has been developed taking into account the MFMA and National Treasury requirements. The report was noted by Council at its meeting held on 25 January 2018 and entered the public participation phase for comments immediately thereafter.

AUDIT COMMITTEE

The audit Committee, an independent external committee, provides an oversight function over the financial management and performance of the municipality.

MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

The committee ensures that the administration and municipal entity are held accountable for their management of municipal funds and assets, and to ensure the efficient and effective utilisation of council resources.

MUNICIPAL STANDARD CHART OF ACCOUNTS

As all municipalities are required by National Treasury to be fully mSCOA compliant as of 01 July 2017, the municipality 90% ready to comply with this requirement. The following is the progress on the implementation of mSCOA thus far:

- The mSCOA champion has been appointed
- Steering committee has been established
- Implementation Plan developed
- Proof of concept has been presented to NT
- Data clean-up issues has been identified and resolved
- Changes to chart are attended to on an on-going basis
- System are currently in the process of being integrated
- The municipality went live on 01 July 2017, but still cleaning up as per developments
- Projects has been identified and linked in terms of the IDP and the budget.
- The municipality is addressing issues integration of systems
- The municipality is addressing challenges on alignment between budget schedules and data strings

2.16. ANNUAL BUDGET OF MUNICIPAL ENTITY ATTACHED TO THE MUNICIPALITY'S ANNUAL BUDGET

The budget of the Entity Uthukela Water has not yet been received for Council consideration. A provision of R82.9 million has however been made in the annual budget.

21. DETAILED OPERATING AND CAPITAL BUDGET

22. MUNICIPAL MANAGER'S QUALITY CERTFICATE

I, BE Mswane, Municipal Manager of **Newcastle Municipality**, hereby certify that the annual budget and supporting documentation of the 2018/19 Operating and Capital Budget have been prepared in accordance with the Municipal Finance Management Act, 56 of 2003, and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name : MSWANE B.E

Municipal Manager of : NEWCASTLE MUNICIPALITY

Signature : .....

Date : .....