



NEWCASTLE MUNICIPALITY KZN252

REPORT TO THE NEWCASTLE MUNICIPAL COUNCIL

IMPLEMENTATION OF THE BUDGET FUNDING PLAN 2020/21 (T 6/1/1-2020/2021): BUDGET AND TREASURY OFFICE: JUNE 2021

File Reference: T 6/1/1-2020/2021

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Designation: Budget and Financial Reporting

FOR CONSIDERATION

1 st Level:	PORTFOLIO COMMITTEE
2 nd Level:	EXECUTIVE COMMITTEE
3 rd Level:	COUNCIL
4 th Level:	MPAC

1. EXECUTIVE SUMMARY

At the beginning of the financial year, the municipality had submitted its annual budget to KZN Provincial Treasury, which budget was declared as unfunded upon assessment. The assessment was such that, it will be impractical for the municipality to come up with a funded budget within one financial year. Consequently, the municipality was required to develop and adopt the Budget Funding Plan (BFP), which it will implement until such time that the budget is fully funded. The Council of Newcastle Municipality had since tabled and adopted the Budget Finding Plan as required by Treasury.

2. RECOMMENDATIONS

- 2.1 That the progress report on the implementation of the Budget Funding Plan for the quarter ending 30th of June 2021 be noted;
- 2.2 That it be noted that the financial performance on the Budget Funding Plan is similar to that which is reported through the S71 and S52d reports.;
- 2.3 That the report be submitted to both Provincial Treasury and COGTA.

3. PURPOSE

The purpose for this report is to provide to provide progress reports on the implementation of the approved Budget Funding Plan.

4. BACKGROUND

The report must provide progress on the implementation of the strategies that the municipality included in its plan. It must also be noted that, since the Budget Funding Plan is accurately aligned to the approved budget, the financial performance on plan will be similar with that which is presented in S71 and S52d reports. This report shall therefore focus on the progress with regards to the implementation of strategies as outlined in the plan.

5. REPORT:

The principle objective of the BFP is to ensure financial viability and sustainability of the municipality, a funded budget and to subsequently ensure the ability of the municipality to meet its obligations in terms of the Service Delivery and Budget Implementation Plan (SDBIP) and Integrated Development Plan (IDP). In order to achieve the objectives as stated above, the municipality developed strategies which are aimed at improving its financial status. These strategies have were developed by senior management of the municipality, in consultation will all other staff members and were included in the Budget Funding Plan which was adopted by Council.

The following are the strategies that were included in the Budget Funding Plan, as well and the progress status on the implementation thereof.

5.1 Increase on the collections rates for service charges and property rates

The Newcastle Municipality had planned to steadily increase its tariffs over the next four years by 1% above the consumer price index (CPIX). This will be done in order to steadily achieve cost reflective tariffs over the same period. Furthermore, through an aggressive awareness campaign aimed at instilling a culture of payment within our communities, arresting water losses and the implementation consumer incentive schemes, the collection rate is projected to steadily improve from 78% to 85% over the next four years.

The steady increase in the tariffs will be implemented through the 2021/22 MTREF budget. The municipality has however seen an improvement in its payment factor since the beginning of the financial year, from 78% in July 2020 to 85% in March 2021.

5.2 Full access to conditional grants

The municipality had planned to drive an aggressive strategy to submit business plans to ensure that its capital programme is gradually and eventually fully funded from government grants. The municipality also planned to put measures in place to ensure that all grants are fully spent.

Correspondences have been crafted and directed to various SED's advising that of the need to spend all conditional grants. Various departments have also been advised to ensure that less capital programme is financed from in terms funding. The preliminary status indicates that the municipality had R47 million of unspent grants, which is a huge improvement when compared with May report.

5.3 Disposal of unused land and other properties.

The municipality had already identified and put a plan to service unused land for disposal, especially for commercial purposes. For some of the properties the Municipality has already adjudicated bids from the public and same have since been awarded thorough the supply chain management system, with the transfer processes still underway. The developmental plans include, but not limited, the upgrading of the Human Resources Development unit's building for use by University of South Africa (Unisa), servicing and disposal of land next to the Medical Precinct Centre next to Mediclinic.

The municipality has already awarded a bid to the service provider who will develop the area. The use of the HRD Office has also been granted to Unisa at the rental fee, which will generate more revenue for the municipality. The municipality has also disposed a number of business and residential properties through the auction process.

5.4 Delay recruitment in new positions

The municipality had planned to delay recruitment of some of the positions, which are not considered to be critical. These include positions that will be exited during the next five years, and other new positions currently vacant. The budget for the employee related costs is however expected to increase steadily of the next four years in order to accommodate the expected annual increase on staff salaries.

Based on the mid-year budget performance assessment, the municipality's budget for employee costs was underspent by R27 million. This is particularly due to delays in filling positions which are not considered very critical at this stage. The municipality has also made use of EPWP workers to fill the gap on other areas and to reduce on the overtime expenditure

5.5 No commitment to new loans

One of the challenges of the Newcastle Municipality is faced with is its over-commitment on external long-term loans. In order to deal with the funding position, the municipality is not planning to take any loans until a favourable funding position has been achieved.

The municipality will therefore will not be taking any new loans in the current year and during the next MTREF period. The municipality has also engaged the relevant institutions to restructure repayments in line with affordability levels.

5.6 Limit increase on non-core expenditure

The municipality had planned to enforce its cost containment policy to ensure that non-core expenditure is reduced or eliminated over the next five years. In this case, focus was given to items as indicated in the cost containment regulations and any items as deemed necessary by the municipality.

As per the progress report on the cost containment measures, the municipality is seeing a steady improvement in the containment of costs. This is evidenced both in the current year's budget performance and on the year-on-year performance comparison. To date, council had under-performed by R107 224 million during the fourth quarter budget and over performed by R492 thousand when comparing with the same quarter in 2019/20 financial year.

5.7 Reduce internally funded capital expenditure

The municipality had planned to reduce the internally-funded capital expenditure over the next five years. While it is acknowledged that this cannot be done in the current year due to commitments, internal funding is expected to be fully eliminated over the next five years. To supplement this, the Municipality is planning to improve the submission business plans to donor institutions to ensure that those projects that were funded internally are in future funded from grants instead.

The municipality is planning to ensure that internally funded capital expenditure is reduced drastically during the MTREF budget and in compliance with the Budget Funding Plan projections. Various departments have also been advised to ensure that less capital programme is financed from internal funding. Available internal funding will only be done in line with the approved plan during the MTREF budget.

5.8 Improve payment of creditors

The Municipality had planned to use the Finance Committee to ensure that the payment of key creditors is prioritised. These include the payment of current account and arrear debt to Eskom and uThukela Water, SARS and loan institutions. This will assist to ensure the outstanding debt does not continue to escalate. It will also help to ensure that interest and penalties on late payment are not incurred and thereby curtailing incidences of fruitless and wasteful expenditure.

The municipality has concluded the payment plan with Eskom and is up to date with payments of the arrear debt. To date, the municipality has also managed to pay SARS on time, thereby ensuring that interest and penalties are not incurred. Although the loan payment which was due on the 3rd of June was not made, the municipality had however made necessary arrangements to pay in July 2021.

5.9 Cash-backing of provisions and reserves

One of the key challenges to the funding position of the budget is that provisions of the municipality are not fully cash-backed. These include leave provision and other provisions which are required to be cash-backed in line with the Funding and Reserves Policy of Council. The Municipality had planned to use the opportunity of each budget process to ensure all excess funds are invested to ensure funding of all provisions and reserves.

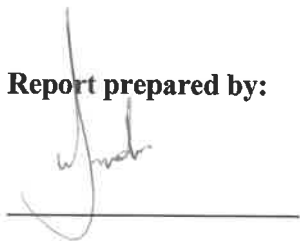
This process will be attended to at each planning and budget phase, until such time that the budget is fully funded.

5.10 Claiming VAT Refunds from SARS

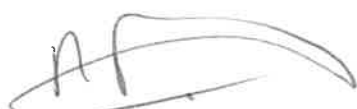
The municipality had already utilised the services of a specialist to maximise VAT refunds that are due to the Municipality.

The municipality is currently contracted with a speciality to assist with the technical aspects of VAT and to ensure maximisation of refunds. During the current year, the municipality has already recovered in excess of R19 million on VAT refunds. This amount is expected to increase as more payment are done during the year.

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