

DRAFT BUDGET 2018/19



STRICTLY CONFIDENTIAL

EXECUTIVE SUMMARY

SUBMISSION TO : Council

DIVISION REQUESTING THE SUBMISSION : Finance

TITLE OF THE SUBMISSION

MFMA Section 16(1)&(2) – Draft annual budget 2018/19

1. SOLUTION REQUIRED

Strategy Endorsement	
Commercial Options	
Approval	
Information	X

2. PURPOSE

To table the draft annual budget for the 2018/19 Multi Term Revenue and Expenditure Framework (MTREF).

3. LEGISLATIVE BACKGROUND

In terms of section 16 (1) and (2) of the MFMA, the council of municipality must for each financial year approve an annual budget for the municipality before the start of that financial year and in order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

4. DISCUSSION

Overview of the Budget Process

As required by section 21 (1) of the MFMA Council approved an IDP/ Budget Process Plan for the 2018/19 Financial Year in August 2017. The plan outlined schedule of key deadlines for the review of the IDP and adoption of the budget.

Various consultation processes were held with stakeholders in terms of the process plan, at public participation engagements. Furthermore, engagements were held to discuss the IDP priorities and budget formulation and implementation. Inter-alia, the municipality considered National Treasury's budget circulars, which provided guidance and assumptions.

Budget assumptions

National Treasury issued MFMA/Budget Circular 89 indicating information relevant in the compilation of the 2018/19 budget. The following CPI's were used to project expenditure for the 2018/19 financial year as well as the two subsequent years:

Item	2018/19	2019/20	1920/21
Salaries	6.2%	5.5%	5.5%
General expenditure	5.2%	5.5%	5.5%

There has been an increment of 12.92% on Bulk services (electricity, water and ERWAT). The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2018/19 financial year. Tariff increments are discussed below.

The said circular advises municipalities to give attention to several areas of concern, among others:

- Revenue management
- Collection of outstanding debt
- Pricing services correctly
- Under-spending on repairs and maintenance
- Spending on non-priorities

Division of Revenue Act 2018 has been issued, advising on the allocation of revenue raised nationally to other government spheres. It is outlined in the said Act, that the Lesedi's allocation for equitable share is estimated at R119 million, indicated in Division of Revenue Act, 2018 (DoRA, 2018), while Municipal Infrastructure Grant is estimated at R25.9 million. The proposed allocation has a significant impact on the municipality's fiscal position and its commitment to meeting its set objectives.

Cost containment measures

In MFMA Circular No. 70 municipalities were strongly advised to take note of the Cabinet resolution of 23 October 2013 by which all national and provincial departments, constitutional institutions and all public entities are required to implement cost containment measures with effect of January 2014. **The cost containment measures must be implemented to eliminate waste, reprioritize spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and event costs as well as costs for accommodation.** Municipalities were subsequently strongly urged to take note of the cost containment measures as approved by Cabinet and align their budgeting policies to these guidelines to the maximum extent possible.

Although it's acknowledged that local government is autonomous in its strategy formulation (IDP) and setting of budget appropriations, local government remains a sphere of government and must therefore align itself to the maximum extent possible to that of national and provincial government. In this regard in terms of section 62(1) of the MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- That the resources of the municipality are used effectively, efficiently and economically;
- That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards; and

- That unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.

It's within the spirit of cooperative governance and intergovernmental relations that all accounting officers take note of the cost containment measures and adopt similar measures as part of their municipal budgeting processes. In this regard, previous MFMA Circulars provide guidance as to what is considered as non-priority spending.

Overview of alignment of the Budget with the IDP

The strategic objectives as per the draft IDP would be addressed by the budget. A reconciliation of the IDP strategic objectives and the budget are being populated in the budget supporting tables SA4 (revenue), SA5 (operational expenditure) and SA6 (capital expenditure).

Measurable Performance Objectives and Indicators

MFMA Circular 13, advises municipality to formulate the Service Delivery and Budget Implementation Plans (SDBIP), after adoption of the budget. The draft SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

5. FUNDING OF THE BUDGET

In terms of section 18(1)(a)(b)(c) of the MFMA, an annual budget may only be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes.

Tariff increases

It is well understandable that the municipality's ability to fund its operations is also based on its own generated revenue. MFMA circular 89 advises municipalities to apply cost-reflective tariffs. The following tariff increments are proposed to be effected in the 2018/19 financial year.

Assessment Rates	-	5.2%.
Electricity	-	6.84%
Water	-	12.2%
Sanitation	-	12.2%
Refuse	-	5.2%.
Other income	-	5.2%.

The electricity tariff application is in line with NERSA's guidelines and as a result should be approved by them. The number of households receiving services has been populated in Table A10.

Draft Tariff Policy and draft Property Rates Policy indicating the basis for the determination of tariffs has been presented to the joint Section 80 committees and other finance policies.

The following are budget related policies presented and adopted for approval by the joint Section 80 committees:

- ❖ Credit Control and Debt Collection Policy
- ❖ Indigent Management Policy
- ❖ Tariff Policy
- ❖ Property Rates Policy
- ❖ Supply Chain Management Policy

- ❖ Asset Management Policy
- ❖ Inventory Management Policy
- ❖ Budget Policy
- ❖ Virement Policy
- ❖ Loan Policy
- ❖ Grants Policy
- ❖ Funds reserves Policy
- ❖ Bursary Policy
- ❖ Relocation Policy
- ❖ Overtime Policy
- ❖ Cash Management and Payments of Creditors Policy
- ❖ Unauthorised, irregular fruitless and wasteful expenditure Policy
- ❖ Insurance management Policy
- ❖ Subsistence and travel allowance Policy
- ❖ Acting allowance Policy
- ❖ Uniform Policy
- ❖ Leave Policy

Revenue

Proposed revenue for the 2018/19 financial year is as follows:

Description	Draft Budget 2018/19 R	Draft Budget (outer year) 2019/20 R	Draft Budget (outer year) 2020/21 R	Weighting
Property rates	110,157,707	115,885,907	121,911,975	13.9
Service charges- electricity revenue	306,050,089	326,936,528	349,249,145	38.5
Service charges – Water revenue	113,659,055	127,509,709	143,049,325	14.3
Service charges – sanitation revenue	29,038,135	32,690,801	36,794,812	3.7
Service Charges refuse revenue	31,655,265	35,517,207	39,850,307	4.0
Fines	45,920,000	48,307,840	50,819,848	5.8
Interest earned outstanding debtors	19,733,864	20,760,024	21,839,547	2.5
Transfers recognized – operational	131,329,920	144,216,081	160,018,416	16.5
Rental of facilities and equipment	4,798,788	5,048,325	5,310,835	0.6
Other revenue	2,824,200	2,944,758	3,097,885	0.2
Total	795,167,023	859,843,480	931,969,753	100.0

The largest revenue items are electricity at 38.5%, grant income at 16.5%, water sales at 14.3% and property rates at 13.9%. The three items generate 83.2% of the revenue of the municipality.

Expenditure

Proposed expenditure for the financial year is as follows:

Description	Draft Budget 2018/19 R	Draft Budget (outer year) 2019/20 R	Draft Budget (outer year) 2020/21 R	Weighting
Employee costs	190,724,925	201,214,792	212,281,614	23.3
Councillors remuneration	12,091,333	12,756,356	13,457,958	1.5
Debt Impairment	137,910,270	147,710,522	158,301,142	16.8
Depreciation	37,068,274	38,094,318	39,845,811	4.5
Finance charges	9,711,200	9,607,693	9,547,828	1.2
Bulk purchases: Electricity and Water	296,075,022	321,007,340	348,162,378	36.1
Other Materials	18,477,750	20,402,316	21,841,844	2.3
Contracted services	82,924,098	83,592,931	88,984,934	10.1
Other expenditure	34,569,609	38,804,769	41,399,665	4.2
Total Expenditure	819,552,481	873,191,037	933,823,174	100.0

The largest expenditure items are bulk purchases at 36.1%, employee related costs and Councillors remuneration at 31.5% (excluding non-cash items) and debt impairment at 16.8%. The three items make up 84.4.4% of the expenditure of the municipality.

Capital Budget

The Capital Budget amounts to R83, 196,200 and is funded as follows:

Description	Draft Budget 2018/19 R	Weighting
National Government funded	66,991,200	80.5%
<i>Lesedi L.M. (own funded)</i>	16,205,000	19.5%
TOTAL	83,196,200	100%

5. LEGISLATIVE PROVISION

Section 16 (1) and (2) of the MFMA.

6. LC.CM -28/03/2018 RECOMMENDATION

6.1 THAT Council notes the draft annual budget with operational revenue of R795, 167,023, operational expenditure of R819, 552, 481 and Capital Expenditure of R83, 196,200 for the 2018/19 financial year as contained in the following tables:

- Table A1 - Budget Summary;
- Table A2 - Budgeted Financial Performance (Revenue and expenditure by standard classification);
- Table A3 - Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
- Table A4 - Budgeted Financial Performance (Revenue and Expenditure);
- Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding;
- Table A6 - Budgeted Financial Position;

- g) Table A7- Budgeted Cash Flows;
- h) Table A8 - Cash backed reserves / accumulated surplus reconciliation; and
- i) Table A9 - Asset management; and
- j) Table A10 – Basic Service Delivery Measurement
- k) Capital projects

6.2 THAT council notes the reviewed budget related policies for 2018/2019 by joint section 80:

- a) Credit Control and Debt Collection Policy
- b) Indigent Management Policy
- c) Tariff Policy
- d) Property Rates Policy
- e) Supply Chain Management Policy
- f) Asset Management Policy
- g) Inventory Management Policy
- h) Budget Policy
- i) Virement Policy
- j) Loan Policy
- k) Grants Policy
- l) Funds reserves Policy
- m) Bursary Policy
- n) Relocation Policy
- o) Overtime Policy
- p) Cash Management and Payments of Creditors Policy
- q) Unauthorised, irregular fruitless and wasteful expenditure Policy
- r) Insurance management Policy
- s) Subsistence and travel allowance Policy
- t) Acting allowance Policy
- u) Uniform Policy
- v) Leave Policy

6.3 THAT Council take note that the electricity tariffs are subject to approval by the electricity regulatory body (NERSA)

ANNEXURE 28/03/2018 is the copy of Municipal Budget Circular 89 for the 2018/19 MTREF, Rand Water and NERSA guideline.

**QUALITY CERTIFICATE
DRAFT BUDGET 2018/2019**

I, **TSHOTLEGO PAUL MPELE**, Municipal Manager of **LESEDILOCAL MUNICIPALITY**, hereby certify that the draft budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the draft budget and supporting documents are consistent with the integrated development plan of the municipality.

T. P MPELE
MUNICIPAL MANAGER of LESEDI LOCAL MUNICIPALITY
GT403


SIGNATURE

DATE 26 March 2018