

13123

TABLED 2019/2020 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

This report served before the Financial Services Portfolio Committee on 26 March 2019. The recommendations were supported.

PURPOSE

To submit to Council for approval, the Tabled 2019/20 Budget and Medium Term Revenue and Expenditure Framework (MTREF).

IDP STRATEGY AND OBJECTIVES

NATIONAL KPA 5 : MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT		
GOALS	OBJECTIVES	STRATEGIES
5.1 Sound Financial And Supply Chain Management	5.1.1 Compliance with financial legislation and policies	5.1.1.1 GRAP compliance
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all financial related policies
		5.1.1.4 Compliance with all MFMA and related local government financial legislation
	5.2.1 Sustainable Financial and supply chain Management	5.2.1.1 Provide continuous Internal Communication on Budget and Financial Management matters
		5.2.1.2 Asset Accounting Management
		5.2.1.3 Accurate and timeous billing and receipting of revenue
		5.2.1.4 Apply Adequate Internal controls
		5.2.1.5 Demand and acquisition management
		5.2.1.6 Contracts and Logistics management
		5.2.1.7 Apply adequate financial management methodologies

BACKGROUND

The Municipal Finance Management Act (MFMA), 2003 (No 56 of 2003) issues clear guidelines on the contents of the Budget Framework Plan. The Budget Framework Plan for the City of uMhlathuze has been adapted to incorporate these guidelines.

Section 17 of the Act highlights the following issues relating to the contents of the annual budget.

- “1) The annual budget must be a schedule in the **prescribed format** which should include the following:
- a) realistically anticipated revenue for the budget year from each revenue source;
 - b) appropriating expenditure for the budget year under the different votes of the municipality;
 - c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
 - d) setting out-
 - (i) both estimated revenue and expenditure by vote for the current year; and

- (ii) *actual revenue and expenditure by vote for the financial year preceding the current year.*
 - e) *A statement containing any other information required by Section 215(3) of the Constitution or as may be prescribed.*
- 2) *The annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed;*
- 3) *When an annual budget is tabled in terms of Section 16(2), it must be accompanied by the following documents:*
 - a) *Draft resolutions-*
 - (i) *Approving the budget of the municipality;*
 - (ii) *Imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and*
 - (iii) *Approving any other matter that may be prescribed;*
 - b) *measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;*
 - c) *a projection of cash flow for the budget year by revenue source, broken down per month;*
 - d) *any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of Section 34 of the Municipal Systems Act;*
 - e) *any proposed amendments to the budget-related policies of the municipality;*
 - f) *particulars of the municipality's investments;*
 - g) *any prescribed budget information on municipal entities under the sole or shared control of the municipality;*
 - h) *particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;*
 - i) *particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;*
 - j) *particulars of any proposed allocations or grants by the municipality to-*
 - (i) *other municipalities;*
 - (ii) *any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;*
 - (iii) *any other organs of state; and*
 - (iv) *any organisations or bodies referred to in section 67(1);*
 - k) *the proposed cost to the municipality for the budget year of the salary, allowances and benefits of-*

- (i) *Each political office-bearer of the municipality;*
- (ii) *councillors of the municipality; and*
- (iii) *the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;*
- l) *the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of-*
 - (i) *each member of the entity's board of directors;*
 - (ii) *the chief executive officer and each senior manager of the entity; and*
- m) *any other supporting documentation as may be prescribed."*

National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009.

The objectives of the budget formats reforms in terms of these regulations are:

- ❖ To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Municipal Finance Management Act (MFMA).
- ❖ To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.
- ❖ To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability.
- ❖ To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

Specifically, for the 2019/20 Budget, Circulars No 93 (**DMS 1319826**) **Annexure L1** issued on 7 December 2018 and 94 (**DMS 1332895**) issued on 8 March 2019 **Annexure L2** are included as part of this report. **These circulars need to be read thoroughly by both the Council and the Administration.**

DISCUSSION

This report and the supporting schedules will be forwarded to National and Provincial Treasury as required in terms of Section 22 (b)(i) of the MFMA in both printed and electronic formats.

The National Treasury endeavours to ensure that municipalities prepare a budget document that provides concise and understandable financial and non-financial information which will ensure that informed decisions are made to promote effective financial management and service delivery. By ensuring that the allocation of financial resources is aligned to service delivery targets it will be clear what services are being promised when budgets are approved.

The National Treasury created a template called "Batho Pele City" as a guide for municipal officials responsible to produce their real municipal budget documents.

The aim of the “Batho Pele” Budget Guide is to provide more detailed guidance on the format and content of a municipal budget so as to ensure full compliance with both the letter and the spirit of Schedule A of the Municipal Budget and Reporting Regulations. The “Batho Pele” Budget is intended to be a template that municipal officials can use as a basis and guide for producing their own municipality’s budget documents. The Chief Financial Officer has found this template to be very comprehensive and useful for many aspects of assessing financial performance and service delivery monitoring, hence subscribes to the guide fully.

CONSOLIDATED OVERVIEW:

Table 1 Consolidated Overview of the 2019/20 MTREF:

Description R thousands	Current Year 2018/19	2019/20 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Total Operating Revenue	2 990 431	3 208 768	3 442 773	3 654 227
Total Operating Expenditure	3 049 313	3 234 247	3 426 024	3 625 932
Surplus/ (Deficit) for the year	(58 882)	(25 479)	16 749	28 294
Total Capital Expenditure	586 328	597 533	597 872	604 957
TOTAL OPERATING & CAPITAL BUDGET	3 635 642	3 831 780	4 023 895	4 259 183

Table 2 - 2019/20 Proposed Tariff increases

Categories	Percentage increase (%) (Average) 2019/20	Percentage increase (%) (Average) 2020/21	Percentage increase (%) (Average) 2021/22
Property rates	6.5%	5%	5%
Electricity	9.41%	8%	7%
Water	7%	7%	7%
Refuse	12%	6%	5%
Sewer	5%	5%	5%

The following tables summarise the expenditure and revenue budgets by category and source respectively:

Table 3 Percentage proportion in revenue by main revenue source

Description R thousand	Current Year 2018/19		2019/20 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2019/20	%	Budget Year +1 2020/21	%	Budget Year +2 2021/22	%
Revenue By Source								
Property rates	495 732	16.6%	520 380	16.2%	556 806	16.2%	584 647	16.0%
Service charges - electricity revenue	1 443 739	48.3%	1 573 324	49.0%	1 696 060	49.3%	1 800 796	49.3%
Service charges - water revenue	366 612	12.3%	388 299	12.1%	415 408	12.1%	436 157	11.9%
Service charges - sanitation revenue	123 455	4.1%	101 068	3.1%	108 092	3.1%	113 481	3.1%
Service charges - refuse revenue	84 372	2.8%	113 268	3.5%	121 189	3.5%	127 249	3.5%
Rental of facilities and equipment	8 599	0.3%	10 802	0.3%	11 212	0.3%	11 682	0.3%
Interest earned - external investments	55 000	1.8%	58 000	1.8%	60 000	1.7%	65 000	1.8%
Interest earned - outstanding debtors	86	0.0%	109	0.0%	113	0.0%	117	0.0%
Fines, penalties and forfeits	7 698	0.3%	7 981	0.2%	8 260	0.2%	8 590	0.2%
Licences and permits	3 308	0.1%	3 407	0.1%	3 526	0.1%	3 667	0.1%
Agency services	5 797	0.2%	5 970	0.2%	6 179	0.2%	6 427	0.2%
Transfers and subsidies	354 985	11.9%	390 676	12.2%	419 116	12.2%	458 058	12.5%
Other revenue	40 291	1.3%	35 484	1.1%	36 812	1.1%	38 357	1.0%
Total Revenue (excluding capital transfers and contributions)	2 990 431	100%	3 208 768	100%	3 442 773	100%	3 654 227	100%
Total revenue from rates and service charges	2 513 909	84.1%	2 696 339	84.0%	2 897 555	84.2%	3 062 329	83.8%

Table 4 Percentage proportion in revenue by main expenditure type

Description R thousand	Current Year 2018/19		2019/20 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2019/20	%	Budget Year +1 2020/21	%	Budget Year +2 2021/22	%
Expenditure By Type								
Employee related costs	810 018	26.6%	859 550	26.6%	921 962	26.9%	994 157	27.4%
Remuneration of councillors	31 488	1.0%	32 404	1.0%	34 033	1.0%	35 744	1.0%
Debt impairment	29 730	1.0%	31 454	1.0%	33 027	1.0%	34 678	1.0%
Depreciation & asset impairment	376 066	12.3%	408 532	12.6%	446 488	13.0%	484 885	13.4%
Finance charges	59 359	1.9%	70 846	2.2%	79 421	2.3%	86 950	2.4%
Bulk purchases	974 726	32.0%	1 096 949	33.9%	1 153 378	33.7%	1 201 977	33.1%
Other materials	126 546	4.1%	121 110	3.7%	124 675	3.6%	129 661	3.6%
Contracted services	366 946	12.0%	323 135	10.0%	333 509	9.7%	346 849	9.6%
Transfers and subsidies	15 179	0.5%	12 087	0.4%	12 511	0.4%	13 011	0.4%
Other expenditure	259 257	8.5%	278 181	8.6%	287 022	8.4%	298 022	8.2%
Total Expenditure	3 049 313	100%	3 234 247	100%	3 426 024	100%	3 625 932	100%

The following tables represent the 2019/20 Tabled Capital Budget:

Table 5 Proposed Capital Funding:

Vote Description R thousand	Current Year 2018/19	2019/20 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Funded by:				
National Government	121 374	182 989	161 078	172 723
Provincial Government	7 850	8 243	8 655	8 750
Transfers recognised - capital	129 224	191 232	169 733	181 473
Borrowing	310 000	–	310 000	–
Internally generated funds	147 105	406 301	118 139	423 484
Total Capital Funding	586 328	597 533	597 872	604 957

Table 6 - 2019/20 Medium-term capital budget per Vote:

Vote Description R thousand	Current Year 2018/19	2019/20 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Capital Expenditure - Functional				
<i>Governance and administration</i>	131 256	49 524	46 914	44 636
Executive and council	–	120	126	134
Finance and administration	131 256	49 404	46 788	44 502
<i>Community and public safety</i>	89 431	43 477	43 564	48 810
Community and social services	62 072	23 362	22 738	25 586
Sport and recreation	26 860	19 975	19 926	22 874
Public safety	499	140	900	350
<i>Economic and environmental services</i>	146 929	144 989	116 584	123 531
Planning and development	4 838	33 452	682	727
Road transport	141 852	110 408	115 644	122 569
Environmental protection	239	1 129	258	235
<i>Trading services</i>	218 713	359 544	390 809	387 980
Energy sources	95 773	97 587	107 210	122 124
Water management	70 710	180 040	170 727	185 027
Waste water management	49 215	77 717	105 642	76 230
Waste management	3 015	4 200	7 231	4 600
<i>Other</i>	–	–	–	–
Total Capital Expenditure - Functional	586 328	597 533	597 872	604 957

The following Annexures are included under separate cover and form part of this report:

- **Annexure A (DMS 1331829)** - Budget report that has been prepared using the “Batho Pele City” template;
- **Annexure B1 - B56 (DMS 1332015)** - Municipal Annual Budget and MTREF Supporting Tables;
- **Annexure C (DMS 1324415)** - Tariffs of Charges;
- **Annexure D1 (DMS 1323922)** - Rates Policy;
- **Annexure D2 (DMS 1329870)** - Tariff Policy;
- **Annexure E (DMS 1329433)** - 2019/20 Tabled Capital Budget;
- **Annexure F (DMS 1329433)** Component 1: Monthly projections of revenue to be collected for each source;
- **Annexure G (DMS 1329433)** Component 2: Monthly projections of expenditure (operating and capital) and revenue for each Vote;
- **Annexure H1 - H6 (DMS 1329433)** Component 3: Draft annual projections of service delivery targets and performance indicators for each Vote;
- **Annexure I (DMS 1329433)** Component 4: Ward information for Capital expenditure;
- **Annexure J (DMS 1329433)** Component 4: Ward information for operating expenditure;
- **Annexure K (DMS 1329433)** Component 5: Detailed capital works plan broken down by ward over three years;
- **Annexure L1 (DMS 1319826)** - MFMA Budget Circular number 89 dated 7 December 2018; and
- **Annexure L2 (DMS 1332895)** - MFMA Budget Circular number 91 dated 8 March 2019.

ENVIRONMENTAL IMPLICATIONS

No environmental implications.

FINANCIAL IMPLICATIONS

This is dealt with in detail throughout the Budget Report.

LEGAL IMPLICATIONS

This is dealt throughout the report with references to various Acts and Regulations.

COMMENTS OF THE CHIEF FINANCIAL OFFICER

The recommendations are supported.

The Chief Financial Officer’s comments have been provided under the Executive Summary contained in **Annexure “A” (DMS 1331829)**.

RECOMMENDED THAT:

1. the Tabled Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the Municipality for the Financial Year 2019/20 and indicative for the projected outer years 2020/21 and 2021/22 be approved as set out in the Budget Report **(DMS 1331829)** and in the Budget tables A1 - A10 **(Annexure B1 - B13) (DMS 1332015)**;
2. the Final Integrated Development Plan (IDP) Review for 2018/2019 **(DMS 1277053)** be incorporated into the Tabled 2019/20 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
3. the Tabled 2019/20 Medium Term Revenue and Expenditure Framework aligned with the IDP's Developmental Objectives and Goals and the Municipal Regulation on Standard Chart of Accounts (mSCOA) (Government Gazette 37577 dated 22 April 2014) for the City of uMhlathuze be approved as follows:

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TOTAL OPERATING & CAPITAL BUDGET	3 635 642	3 831 780	4 023 895	4 259 183

It be further noted that this Budget in as far as the Municipal's administration ability and financial system capability allowed, is Project based.

4. the following table setting out the surplus/(deficit) across the services be approved:

Description R thousand	Current Year 2018/19	2019/20 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Electricity and Energy Sources				
Surplus/(Deficit) for the year	185 458	218 168	263 134	301 540
Water Management				
Surplus/(Deficit) for the year	(2 224)	5 831	19 454	19 690
Waste water management				
Surplus/(Deficit) for the year	9 074	(11 866)	(9 213)	(5 023)
Waste management				
Surplus/(Deficit) for the year	(16 608)	(2 732)	1 443	3 718
Other Services				
Surplus/(Deficit) for the year	(234 583)	(234 879)	(258 070)	(291 629)
Total				
Surplus/(Deficit) for the year	(58 882)	(25 479)	16 749	28 294

5. the Tabled Service Delivery and Budget Implementation Plan (SDBIP) 2019/20 **(DMS 1329433)** as submitted be approved;

6. in terms of Section 2(3) of the Local Government: Municipal Property Rates Act the following property rates for the 2018/2019 financial year be approved:

Category	Proposed tariff (from 1 July 2019)	Ratio to Residential Tariff
	C	
Residential Properties	0,0103	1:1
Business / Commercial	0,0217	1:2,10
Industrial	0,0227	1:2,20
Agricultural Properties	0,0026	1:0,25
Public Service Purposes (State Owned)	0,0114	1:1,10
Public Service Infrastructure	0,0026	1:0,25
Public Benefit Organisation Properties	0,0026	1:0,25
Mining Properties	0,0239	1:2,30
Vacant Land	0,0217	1:2,10

7. on application by the relevant rate payers the following rebates be applied subject to the provisions contained in the Rates Policy:

- Agricultural properties - 5%
- Non Profit Organisations - 20%

8. The following in terms of the 2019/20 Property Rates Ratios be approved:

Vacant Land Category – Revised ratio 1: 2,10.

9. the Rates Policy as contained in **Annexure D1 (DMS 1323922)** be approved;
10. in addition to the statutory R15 000 reduction in the valuation on residential properties a further reduction of R115 000 of the valuation on all developed residential properties valued at R400 000 and below be made;
11. in addition to the reductions in recommendation (9) above and subject to the criteria set out in the Property Rates Policy an additional R200 000 reduction in the value of the primary residential property belonging to a pensioner or a social grantee be made;
12. in accordance with the implementation of the universal approach of the indigent policy improved residential property valued at R130 000 or less will be exempted from refuse and sewer charges. The following sliding scale will be applied for charges on improved residential properties higher than R130 000 on the following basis:
- a) Properties valued between R130 001 and R170 000 will receive a rebate of 25% in respect of the sewer and refuse charges;
 - b) Properties valued at R170 001 and higher will pay the normal tariff;
13. the amendment of the Tariff of Charges as per Annexure C (**DMS 1324415**) be approved;

14. the Tariff Policy as per Annexure D2 (**DMS 1329870**) be approved;
15. any work function or tariff not accommodated in the Tariff of Charges be dealt with as cost plus 20%;
16. in addition to the free 50 units, the indigent customers to be granted additional 300 units that can be bought per month but be capped at 350 units each month;
17. the property rates and tariff adjustments as set out above be dealt in terms of Section 14 of the Local Government: Property Rates Act and Section 24 of the Municipal Finance Management Act 2003;
18. the contribution of R 218 million from Electricity Trading Service to Rates and General and other Trading Services referred to in the Electricity Tariff of Charges, as per Annexure C (**DMS 1324415**) as the Local Government Levy, **be noted**;
19. the profit on sale of all erven be allocated 100% to the Rates and General Capital Replacement Reserve account;
20. in terms of various policies the following increases in allowances are submitted to Council for approval:

	Approved 2018/19 Tariffs	Proposed Tariffs - 2019/20
	R	R
Standby - Travel allowance	101	104
Standby - Subsistence allowance	66	68
Subsistence allowances		
Daily allowance	143	147
Overnight allowance	191	197
Own accommodation	263	271
Interview candidates	69	71
Accommodation		
All employees	1 196	1 232
All councillors and Section 56 employees	2 005	2 065
Municipal Manager, Mayor/ Deputy Mayor, Speaker and Municipal Chief Whip	3 344	3 444
Ward committee members	1 344	1 384
Indigent Burial Assistance		
Adult	2 638	2 717
Child (1 day to 15 years)	2 005	2 065
Stillborn / foetus	1 372	1 413

21. should there be any unspent conditional grants received from the National Fiscus at year end, Council hereby requests that the Municipal Manager via letters to the respective transferring officers apply for a roll-over of funds received in **2018/19** financial year to the next financial year, namely the 2019/20 financial year;
22. Council approve the two cents per kilowatt hour tariff on **all business** consumers for the purposes of an Energy Saving Reserve. These reserves ***shall*** only be used strictly for energy saving initiatives as per Council Resolution number 10872 dated 25 May 2016 (**RPT 160350**), that are included in the approved Budget;

23. although Council has an approved Virement Policy, in terms of this 2019/20 MTREF Budget appropriation, no virements (transfers) will be allowed out of:
- All Repairs and Maintenance Projects unless approval has been sort jointly between the Municipal Manager and the Chief Financial Officer;
 - Purchase of Bulk Electricity and Bulk Water Projects;
 - Operations and Maintenance Contracts provisions for Water and Sanitation services;
 - Other virements (transfers) from line items indicated as impermissible in terms of the approved virement policy;
24. Council resolution 12892 dated 5 December 2018, resolved that funding for the SEDA Construction Incubator Partnership be considered during the budget process, although the request for this programme amounted to R5.7 million, an amount of R1.5 million could only be provided; and
25. the following meetings are proposed that have been prepared by the Community Facilitation Section for the 2019/20 Budget Public Participation meetings:

CLUSTER	WARDS	AREA	VENUE	PROPOSED DATES	TIME
	Amakhosi	Amakhosi	R/Bay Civic Centre (Council Chambers)	04 April 2019 (Thursday)	11:00
1	Ward Committees	Ward Committees	Veldenvlei Community Hall	04 April 2019 (Thursday)	17:00
2, 3 & 5	1, 2, 3, 4, 5, 6, 7, 8 & 26	Richards Bay and Nseleni	Mzuvukile Sportsfield	7 April 2019 (Sunday)	13:00
12	Stakeholders	Stakeholders	R/Bay Civic Centre (Council Chambers)	11 April 2019 (Thursday)	17:00
4, 7, 8 & 9	10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 30 & 34	eSikhaleni and Vulindela	eSikhaleni TVET (College)	14 April 2019 (Sunday)	13:00
6, 10 & 11	9, 23, 24, 25, 27, 28, 29, 31, 32, 33	Empangeni, Ngwelezane and Ntambanana	Macekane Sportsfield	17 April 2019 (Wednesday)	10:00