

12308

TABLED 2018/19 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

This report is submitted directly to the Executive Committee and Council.

PURPOSE

To submit to Council for approval, the Tabled 2018/19 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 2018/19 Budget, Circulars No 89 (**DMS 1246242**) **Annexure L1** issued on 8 December 2017 and 91 (**DMS 1263389**) issued on 7 March 2018 **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.

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.

National Treasury decided to create 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 2018/19 MTREF:

Description R thousands	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Total Operating Revenue	2 773 940	3 035 560	3 219 818	3 450 169
Total Operating Expenditure	2 832 926	2 997 183	3 187 174	3 418 838
Surplus/ (Deficit) for the year	(58 985)	38 377	32 644	31 331
Total Capital Expenditure	570 505	517 311	523 756	542 057
TOTAL OPERATING & CAPITAL BUDGET	3 403 430	3 514 493	3 710 930	3 992 226

Table 2 - 2018/19 Proposed Tariff increases

Categories	Percentage increase (%)
Property rates	7%
Electricity	5.09%
Water	7%
Refuse	8%
Sewer	7%

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 2017/18		2018/19 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2018/19	%	Budget Year +1 2019/20	%	Budget Year +2 2020/21	%
Revenue By Source								
Property rates	445 589	16.1%	474 453	15.6%	501 849	15.6%	531 960	15.4%
Service charges - electricity revenue	1 378 874	49.7%	1 579 530	52.0%	1 671 088	51.9%	1 787 953	51.8%
Service charges - water revenue	310 516	11.2%	337 842	11.1%	357 411	11.1%	386 049	11.2%
Service charges - sanitation revenue	93 197	3.4%	99 625	3.3%	105 398	3.3%	111 722	3.2%
Service charges - refuse revenue	94 737	3.4%	80 372	2.6%	85 029	2.6%	89 955	2.6%
Rental of facilities and equipment	8 008	0.3%	8 449	0.3%	8 871	0.3%	9 347	0.3%
Interest earned - external investments	50 059	1.8%	55 000	1.8%	58 000	1.8%	60 000	1.7%
Interest earned - outstanding debtors	3 221	0.1%	3 398	0.1%	3 568	0.1%	3 782	0.1%
Fines, penalties and forfeits	3 542	0.1%	4 087	0.1%	4 292	0.1%	4 506	0.1%
Licences and permits	3 609	0.1%	3 808	0.1%	3 998	0.1%	4 198	0.1%
Agency services	7 390	0.3%	7 797	0.3%	8 186	0.3%	8 677	0.3%
Transfers and subsidies	328 710	11.8%	344 324	11.3%	373 410	11.6%	411 236	11.9%
Other revenue	46 486	1.7%	36 875	1.2%	38 718	1.2%	40 785	1.2%
Total Revenue (excluding capital transfers and contributions)	2 773 940	100%	3 035 560	100%	3 219 818	100%	3 450 169	100%
Total revenue from rates and service charges	2 322 915	83.7%	2 571 823	84.7%	2 720 775	84.5%	2 907 638	84.3%

Table 4 Percentage proportion in revenue by main expenditure type

Description R thousand	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2018/19	%	Budget Year +1 2019/20	%	Budget Year +2 2020/21	%
Expenditure By Type								
Employee related costs	716 066	25.3%	811 954	27.1%	882 363	27.7%	965 381	28.2%
Remuneration of councillors	29 533	1.0%	31 881	1.1%	34 273	1.1%	36 845	1.1%
Debt impairment	26 388	0.9%	26 513	0.9%	28 103	0.9%	29 790	0.9%
Depreciation & asset impairment	376 848	13.3%	376 066	12.5%	408 532	12.8%	446 488	13.1%
Finance charges	73 401	2.6%	67 884	2.3%	70 846	2.2%	79 421	2.3%
Bulk purchases	933 178	32.9%	988 582	33.0%	1 027 896	32.3%	1 085 531	31.8%
Other materials	103 521	3.7%	114 233	3.8%	121 087	3.8%	127 746	3.7%
Contracted services	295 182	10.4%	306 274	10.2%	324 650	10.2%	342 506	10.0%
Transfers and subsidies	12 161	0.4%	12 534	0.4%	13 286	0.4%	14 016	0.4%
Other expenditure	266 647	9.4%	261 263	8.7%	276 140	8.7%	291 116	8.5%
Total Expenditure	2 832 926	100%	2 997 183	100%	3 187 174	100%	3 418 838	100%

The following tables represent the 2018/19 Tabled Capital Budget:

Table 5 Proposed Capital Funding:

Vote Description R thousand	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Funded by:				
National Government	147 739	121 374	157 485	168 078
Provincial Government	–	–	–	–
Transfers recognised - capital	147 739	121 374	157 485	168 078
Public contributions & donations	–	–	–	–
Borrowing	109 969	310 000	–	310 000
Internally generated funds	312 798	85 937	366 271	63 979
Total Capital Funding	570 505	517 311	523 756	542 057

Table 6 - 2018/19 Medium-term capital budget per Vote:

Vote Description R thousand	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
<u>Capital Expenditure - Functional</u>				
<i>Governance and administration</i>	126 644	102 236	75 552	71 736
Executive and council	119	–	–	–
Finance and administration	126 525	102 236	75 552	71 736
<i>Community and public safety</i>	70 964	73 131	46 468	57 671
Community and social services	45 551	55 463	19 013	28 957
Sport and recreation	18 770	17 108	26 806	28 133
Public safety	6 642	559	650	581
<i>Economic and environmental services</i>	117 493	137 876	122 733	119 275
Planning and development	13 558	3 953	3 622	2 696
Road transport	103 195	133 723	118 901	116 176
Environmental protection	740	200	210	403
<i>Trading services</i>	255 404	204 068	279 003	293 374
Energy sources	91 917	85 472	99 273	105 014
Water management	82 506	68 773	111 169	118 326
Waste water management	78 490	48 123	66 061	67 527
Waste management	2 492	1 700	2 500	2 507
Total Capital Expenditure - Functional	570 505	517 311	523 756	542 057

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

- **Annexure A (DMS 1263937)** - Budget report that has been prepared using the “Batho Pele City” template. Due to time constraints this report has not been circulated prior to the meeting, but will be provided at the Executive Committee Meeting and Council meeting;
- **Annexure B1 - B56 (DMS 1247906)** - Municipal Annual Budget and MTREF Supporting Tables. Due to time constraints this report has not been circulated prior to the meeting, but will be provided at the Executive Committee Meeting and Council meeting;
- **Annexure C (DMS 1260126)** - Tariffs of Charges;
- **Annexure D1 (DMS 1253740)** - Rates Policy;
- **Annexure D2 (DMS 1258628)** - Tariff Policy;
- **Annexure E (DMS 1262556)** - 2018/19 Adopted Capital Budget;
- **Annexure F (DMS 1262556)** Component 1: Monthly projections of revenue to be collected for each source. Due to time constraints this annexure has not been circulated prior to the meeting, but will be provided at the Executive Committee Meeting and Council meeting;

- **Annexure G (DMS 1262556)** Component 2: Monthly projections of expenditure (operating and capital) and revenue for each Vote. Due to time constraints this annexure has not been circulated prior to the meeting, but will be provided at the Executive Committee Meeting and Council meeting;
- **Annexure H1 - H6 (DMS 1262556)** Component 3: Draft annual projections of service delivery targets and performance indicators for each Vote. Due to time constraints this annexure has not been circulated prior to the meeting, but will be provided at the Executive Committee Meeting and Council meeting;
- **Annexure I (DMS 1262556)** Component 4: Ward information for Capital expenditure. Due to time constraints this annexure has not been circulated prior to the meeting, but will be provided at the Executive Committee Meeting and Council meeting;
- **Annexure J (DMS 1262556)** Component 4: Ward information for operating expenditure. Due to time constraints this annexure has not been circulated prior to the meeting, but will be provided at the Executive Committee Meeting and Council meeting;
- **Annexure K (DMS 1262556)** Component 5: Detailed capital works plan broken down by ward over three years. Due to time constraints this annexure has not been circulated prior to the meeting, but will be provided at the Executive Committee Meeting and Council meeting;
- **Annexure L1 (DMS 1246242)** - MFMA Budget circular number 89 dated 8 December 2017; and
- **Annexure L2 (DMS 1263389)** - MFMA Budget circular number 91 dated 7 March 2018.

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 has been provided under the Executive Summary contained in **Annexure “A” (DMS 1263937)**.

Although the comprehensive “Batho Pele” Budget Report has not been circulated with sufficient time to digest all the comments therein, Council is urged to thoroughly read the comments and detail contained therein before the adoption of this budget in May 2018.

This to ensure that Council is sufficiently informed before the adoption of the resolutions below.

RECOMMENDED THAT:

1. the Tabled Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the municipality for the Financial Year 2018/19 and indicative for the projected outer years 2019/20 and 2020/21 be approved as set out in the Budget Report **(DMS 1263937)** and in the Budget tables A1 - A10 **(Annexure B1 - B13) (DMS 1247906)**;
2. the 2012-2017 Integrated Development Plan (IDP) (Final) **(DMS 1134690)** be incorporated into the Tabled 2018/19 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
3. the Tabled 2018/19 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:

Description R thousands	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Total Operating Revenue	2 773 940	3 035 560	3 219 818	3 450 169
Total Operating Expenditure	2 832 926	2 997 183	3 187 174	3 418 838
Surplus/ (Deficit) for the year	(58 985)	38 377	32 644	31 331
Total Capital Expenditure	570 505	517 311	523 756	542 057
TOTAL OPERATING & CAPITAL BUDGET	3 403 430	3 514 493	3 710 930	3 992 226

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 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Electricity and Energy Sources				
Surplus/(Deficit) for the year	208 207	310 698	337 737	368 245
Water				
Surplus/(Deficit) for the year	(58 126)	(8 512)	(5 447)	4 418
Waste water management				
Surplus/(Deficit) for the year	(502)	(48 256)	(45 769)	(47 256)
Waste management				
Surplus/(Deficit) for the year	8 960	(18 854)	(13 302)	(13 227)
Other Services				
Surplus/(Deficit) for the year	(217 523)	(196 698)	(240 575)	(280 850)
Total				
Surplus/(Deficit) for the year	(58 985)	38 377	32 644	31 330

5. the Tabled Service Delivery and Budget Implementation Plan (SDBIP) 2018/19 **(DMS 1262556)** 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 2018/19 financial year is approved:

Category	Proposed tariff (from 1 July 2018)	Ratio to Residential Tariff
	C	
Residential Properties	0,0097	1 : 1
Business / Commercial	0,0204	1 : 2,10
Industrial	0,0213	1 : 2,20
Agricultural Properties	0,0024	1 : 0,25
Public Service Purposes (State Owned)	0,0107	1 : 1,10
Public Service Infrastructure	0,0024	1 : 0,25
Public Benefit Organisation Properties	0,0024	1 : 0,25
Mining Properties	0,0223	1 : 2,30
Vacant Land	0,0194	1 : 2

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 2018/19 Property Rates Ratios be approved:
- Vacant Land Category – Revised ratio 1:2
9. the Rates Policy as contained in **Annexure D1 (DMS 1253740)** be approved;
10. in addition to the statutory R15 000 reduction in the valuation on residential properties a further reduction of R105 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 R150 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 R120 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 R120 000 on the following basis:
- a) Properties valued between R120 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 1260126**) be approved;
14. the Tariff Policy as per Annexure D2 (**DMS 1258628**) be approved;
15. any work function or tariff not accommodated in the Tariff of Charges be dealt with as cost plus 20%;

16. 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;
17. the contribution of R 311 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 1260126**) as the Local Government Levy, **be noted**;
18. the profit on sale of all erven be allocated 100% to the Rates and General Capital Replacement Reserve account;
19. in terms of various policies the following increases in allowances are submitted to Council for approval:

	Approved 2017/18 Tariffs	Proposed Tariffs - 2018/19
	R	R
Standby - Travel allowance	96	101
Standby - Subsistence allowance	63	66
Subsistence allowances		
Daily allowance	136	143
Overnight allowance	181	191
Own accommodation	249	263
Interview candidates	65	69
Accommodation		
All employees	1 070	1 129
All councillors and Section 56 employees	1 792	1 891
Municipal Manager, Mayor/ Deputy Mayor, Speaker and Municipal Chief Whip	2 991	3 156
Ward committee members	1 202	1 268
Indigent Burial Assistance		
Adult	2 310	2 437
Child (1 day to 15 years)	1 732	1 827
Stillborn / foetus	1 155	1 219

20. 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 **2017/18** financial year to the next financial year, namely the 2018/19 financial year;
21. 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.
22. although Council has an approved Virement Policy, in terms of this 2018/19 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; and
- Other virements (transfers) from line items indicated as impermissible in terms of the approved virement policy.

23. Council approves the borrowing of R310 million for the **2018/19** budget year and a further R310 million for 2020/21 for capital expenditure, however requirements of MFMA Section 46 will still be followed; and
24. the following meetings are proposed that have been prepared by the Community Facilitation Section for the 2018/19 Budget Public Participation meetings:

CLUSTER	WARDS	AREA	VENUE	PROPOSED DATES	TIME
	Amakhosi	Amakhosi	R/Bay Civic Centre (Council Chambers)	05 April 2018 (Thursday)	11:00
1	Ward Committees	Ward Committees	eMpangeni Civic Centre (Hall)	05 April 2018 (Thursday)	17:00
2, 3 & 5	1, 2, 3, 4, 5, 6, 7, 8 & 26	Richards Bay and Nseleni	Mzuvukile Sportsfield	8 April 2018 (Sunday)	13:00
12	Stakeholders	Stakeholders	R/Bay Civic Centre (Council Chambers)	12 April 2018 (Wednesday)	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)	15 April 2018 (Sunday)	13:00
6, 10 & 11	9, 23, 24, 25, 27, 28, 29, 31, 32, 33	Empangeni, Ngwelezane and Ntambanana	Ngwelezane New Sportsfield	22 April 2018 (Sunday)	13:00