



**2018/19 DRAFT ANNUAL BUDGET OF
UMUZIWABANTU MUNICIPALITY**

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2. MAYOR'S REPORT

SPEECH DELIVERED BY THE HONOURABLE MAYOR, CLLR D NCIKI ON TABLING THE DRAFT BUDGET FOR THE YEAR 2018/2019

Honourable Speaker;

Deputy Mayor;

Members of the Executive Committee;

Councillors; Amakhosi

Municipal Manager; and

Senior Managers

Honourable Speaker, It gives me great pleasure to stand in front of you to present the draft Budget for the year 2018/2019. It is the budget that carries the hopes of the communities that we proudly serve. We are equally able to use the benefit of hindsight to plan and budget for better interventions in the budget year.

Today I am presenting to this council a budget for the year 2018/2019 of the Municipality as prescribed by the MFMA. Speaker this act requires that, in terms of section 16(2) of the MFMA the council must at least 90 days before the start of each year consider approval of the annual budget. In order for a municipality to comply with the subsection (2), the Mayor of the municipality must table the budget at a council meeting at least 31 March each year. It is for this background, I have to table this draft budget today.

An annual budget of the municipality must set out realistically anticipated revenue for the budget year and appropriate expenditure for the budget year under the different votes of the Municipality. Alignment of Integrated Development Plan with the budget is one of the critical undertakings that the current government has put on top of the agenda. The reasoning behind is to ensure that scarce resources are optimally allocated. Speaker it is for this background that I am presenting the budget report.

The Minister of Finance has highlighted the following: The budget we present today is not easy and choices we have had to make are difficult but reminds us that: 'There's no thrill in easy sailing when the skies are clear and blue, there's no joy in merely doing things which anyone can do. But there is more satisfaction that is mighty and sweet to take, when you reach a destination that you thought you'd never make'

Through this budget, we choose ourselves yet again; we do things Madiba dared us to do at the advent of our democracy that would affirm humanity's conviction in the nobility of our course and its pride in our efforts and daily needs. The main core objectives of course are service delivery.

Value for money and efficiency in spending remain critical in our drive to ensure the effective management of public resources. We will also continue in making sure that we pay our suppliers within thirty days as prescribed by the Act and stressed by the Minister of Finance in his budget speech.

Low economic growth that is faced by the Country provides major challenges to us as a Local Government. Our financial situation is difficult, where we need to do more with less, but we have still produced a credible budget.

The tax proposals for the 2018 Budget are designed to generate an additional R36 billion in tax revenue for 2018/19 for the country which led to an increase in the value-added tax rate from 14 per cent (14%) to 15 per cent (15%), applicable from 1 April 2018

We are compelled to prioritise our spending better, implement our plans more effectively and make greater impact.

The Medium Term Expenditure Framework proposes a total budget of **R 260 million** for the 2018/2019 financial year .It appropriates a total operating expenditure of **R 186 million** and capital expenditure of **R 74 million**.

2.1 OPERATING REVENUE FRAMEWORK

Table 1: Overview of major revenue by items

INCOME	ADJUSTED BUDGET 2017/2018	DRAFT BUDGET 2018/2019	VARIANCE
EPWP	1 006 000.00	1 213 000.00	207 000.00
Equitable Share	79 670 000.00	82 521 000.00	2 851 000.00
MIG	23 685 000.00	22 940 000.00	-745 000.00
FMG	1 900 000.00	1 900 000.00	-
Electrification	4 000 000.00	10 000 000.00	6 000 000.00
Provincialisation of Libraries	771 000.00	771 000.00	-
Disaster Management Grant	317 162.50	400 000.00	82 837.50
Interest on Investments	9 416 084.00	9 915 136.45	499 052.45
Property Rates	23 650 986.74	24 904 489.04	1 253 502.30
Electricity	34 153 922.12	36 544 696.67	2 390 774.55
Refuse	2 261 835.14	2 381 712.40	119 877.26
Traffic Licensing	2 650 663.77	2 791 148.95	140 485.18

Honourable Speaker; we can confirm without any ambiguousness that no effort was spared in making sure that compilation of this budget was executed in a manner which complies with the relevant provisions of the MFMA and budget related regulations. On the tariffs increase Honourable Speaker let me indicate that the tariff for the 2018/2019 have been determined at 0% on property rates which is lower than anticipated CPI, meaning that the municipality is actually caring for its community during this tough economic times and refuse removal increased by 5.3%, 7% on electricity and 5.3% on all other services

3. EXECUTIVE SUMMARY

Introduction

The draft budget is prepared to meet the Integrated Development Plan (IDP) priorities as well as the strategic objectives of Umuziwabantu Municipality. The Departments have been consulted to enhance the production of a credible balanced draft budget. The limited available funds require that priorities and strategic objectives should be carefully considered in the preparation and production of realistic credible draft balanced budget that is capable of being approved and implemented as tabled.

This 2019 to 2021 Tabled Medium Term Revenue and Expenditure Framework(MTREF) Budget Report deals with the operating budget and tariff proposals as well as the capital budget and funding sources proposal to ensure that Umuziwabantu Municipality renders services to their local community in a financially sustainable manner.

Past performance

Umuziwabantu Municipality has now attained unqualified audit reports for the past consecutive years. In 2016/2017 financial year the Municipality has done exceptional well, has managed to acquire a clean audit report in three consecutive year. Whilst the clean audit reports is a positive achievement one has to be honest and say that it tells the reader little about whether we have improved service delivery or even delivered on our constitutional mandate. It's actually reflects the good image of Umuziwabantu leadership in rendering its services, transparency and equally to benefits its needy community at large.

Financial Sustainability

Financial sustainability over the long-term has to do with the maintenance of high priority expenditure programs, both operating and capital, to ensure program sustainability and desired quality of services to be rendered. There must also be rates and service charges stability and predictability in the overall rate burden by ensuring reasonable rates and service charges to fund programs.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The following table is a consolidated overview of the proposed 2018/2019 draft budget and medium term revenue and expenditure framework:

Table 1 Consolidated Overview of the 2018/2019

R Thousand	Adjustments Budget 2017/2018	Budget year 2018/2019	Budget year 2019/2020	Budget year 2020/2021
Total Operating Revenue	169 111	186 196	196 251	206 847
Total Operating Expenditure	169 111	186 196	196 251	206 847
Surplus/Deficit for the year				
Total Capital Expenditure	71 492	74 785	78 823	83 158

Total operating revenue has increased by 5.3% for the year 2018/2019 financial year when compared to the adjustments budget. For the two outer years, operational revenue has increased by 5.4 % and 5.5% when compared to 2017/2018 financial year

Total operating expenditure for the 2018/2019 financial year has been appropriated at R196 million and translates into a zero surplus. When compared to the 2017/2018 Adjustments Budget, operational expenditure has increased by 5.3% when compared to the Adjustments budget. For the outer years it has increased by 5.4 % and 5.5% respectively.

The capital budget of R74 million for 2018/2019 is 5% higher when compared to the adjustment budget. This is actually to assist in rendering service delivery to its needy community to fight against poverty that is affecting our community at large. Capital projects are funded by Electrification grants, MIG and internally generated funds, using our cash backed reserves.

Operating Revenue Framework

For Umuziwabantu Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding, hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy
- Efficient revenue management, which aims to ensure a 99 per cent annual collection rate for property rates and other key service charges,
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) MPRA,
- Increase ability to extend new services and recover costs
- The municipality's Indigent Policy and rendering of free basic services and
- Tariff policies of the Municipality

The following table is a summary of the 2018/2019 MTREF (classified by main revenue source):

Income by Source Table

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Revenue By Source											
Property rates	2	13,855	14,529	15,743	15,073	23,642	-	-	24,863	26,206	27,647
Service charges - electricity revenue	2	28,273	27,579	29,183	34,154	33,754	-	-	36,154	38,106	40,202
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	0	1,960	2,117	2,262	2,262	-	-	2,382	2,510	2,648
Service charges - other		559	855	1,158							
Rental of facilities and equipment		45	38	75	81	81			173	182	192
Interest earned - external investments		4,713	7,271	10,006	7,416	9,416			9,915	10,451	11,025
Interest earned - outstanding debtors		-	-	-	-	-			-	-	-
Dividends received		-	-	-	-	-			-	-	-
Fines, penalties and forfeits		468	359	456	825	825			1,301	1,371	1,447
Licences and permits		2,333	2,200	2,078	533	533			561	591	624
Agency services		-	-	-	2,118	2,118			2,230	2,350	2,480
Transfers and subsidies		68,157	82,571	77,431	87,476	87,664			96,805	91,102	91,102
Other revenue	2	10,392	12,379	10,959	1,167	5,241	-	-	24,295	25,607	27,015
Gains on disposal of PPE											
Total Revenue (excluding capital transfers and contributions)		128,796	149,741	149,206	151,105	165,537	-	-	198,679	198,478	204,383

In line with the formats prescribed by Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus or deficit.

Transfer recognised-operational remain the largest revenue source and electricity is the second and property rates is the third largest source and interest on investment is the fourth one. Municipality have been urged to review the tariffs of the items on annual basis to ensure they are cost reflective and market related.

Operating transfers and grants receipts

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipality to keep increases in rates, tariffs and other charges as low as possible. Municipality must justify in their budget documentation all increases in excess of CPI upper boundary of the South African Reserve Bank's inflation rate. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payments.

Property Rates

Property rates cover the costs of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process

National Treasury's MFMA Circular No.51, inter alia with the implementation of the Municipal Property Rates Act, with regulations issued by the Department of Co-operative Governance. These came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0.25:1

The following stipulations in the Property Rates are highlighted:

- The first R 15000 of the market value of property used for residential purposes is excluded from the rate-able value(Section 17(h)of the MPRA.
- 55% rebate will be granted to agriculture
- 100% rebate will be granted to registered indigents in terms of the Indigent Policy
- The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income.
- The applicant must submit proof of his/her age and identity and in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension
- The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place
- The property must be categorized as residential

Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to between 6 per cent as well as the increase in indigent households

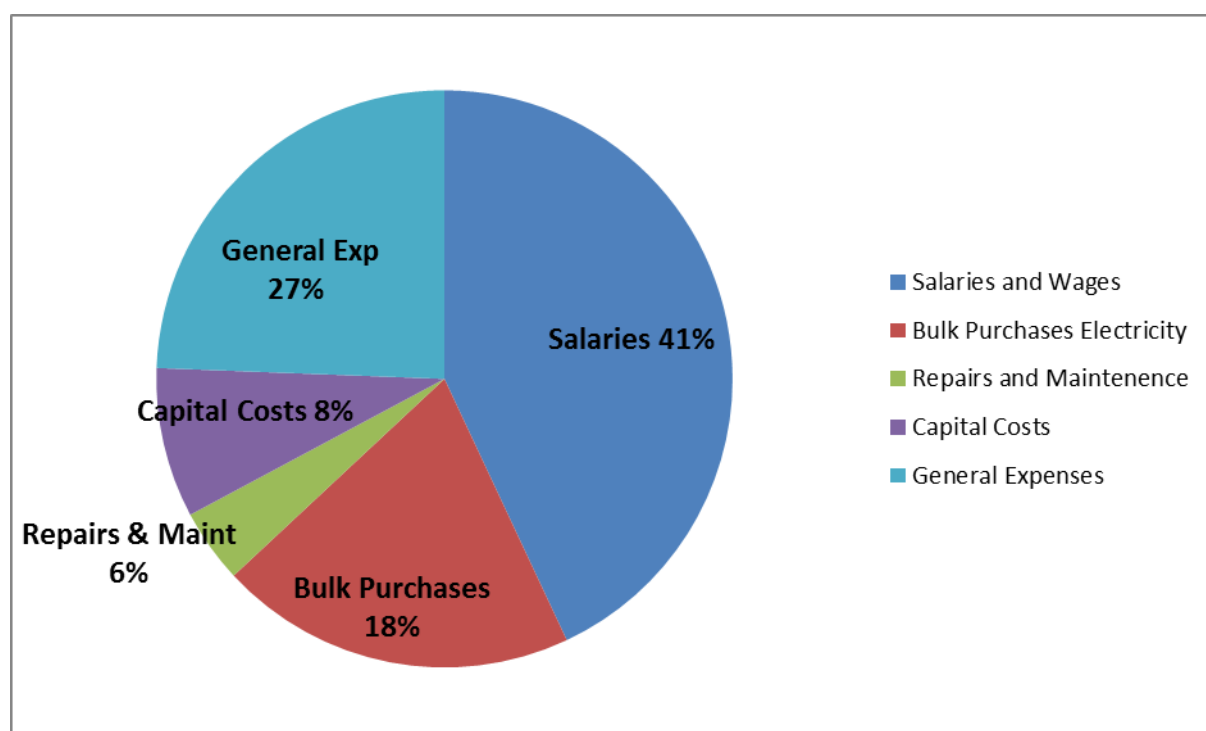
Operating Expenditure Framework

The expenditure framework for the 2018/2019 budget is informed by the following:

- Balanced budget constraint(operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit
- Funding of the over the medium-term as informed by Section 18 and 19 of the MFMA,
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

Expenditure by Source Table

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Expenditure By Type											
Employee related costs	2	33,229	39,757	44,493	60,735	60,735	-	-	67,280	71,989	77,029
Remuneration of councillors		6,135	6,174	6,784	8,646	8,646			9,251	9,750	10,287
Debt impairment	3	249	174	777	186	186			196	206	218
Depreciation & asset impairment	2	8,064	11,430	10,371	10,869	13,869	-	-	14,604	15,393	16,239
Finance charges		864	321	896	897	897			840	885	934
Bulk purchases	2	20,533	22,924	25,048	30,852	30,852	-	-	33,011	34,794	36,708
Other materials	8			678	1,997	1,408			1,000	1,054	1,112
Contracted services		806	2,084	2,500	3,369	3,321	-	-	3,759	3,962	4,180
Transfers and subsidies		215	3,529	1,337	2,655	2,655	-	-	2,796	-	-
Other expenditure	4, 5	41,016	33,699	40,043	41,139	46,162	-	-	53,464	56,351	56,450
Loss on disposal of PPE			339								
Total Expenditure		111,111	120,432	132,925	161,344	168,730	-	-	186,200	194,384	203,155



Employee Related Costs

The budgeted allocation for employee related cost for the 2018/2019 financial year totals 76 million. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7 percent for the 2018/2019 financial year. An annual increase of 5.4 per cent and 5.5 per cent has been included in the two outer years of the MTREF. The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998(Act 20 of 1998).The municipality has applied the required percentage as stated above.

The provision of debt impairment was determined based on an annual collection rate. For the 2018/2019 financial year this amount equates to R 195 thousand and escalates to R 218 thousand by 2020/2021. While this expenditure is considered to be non-cash item, it informed the cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the rate asset consumption. Budget appropriations in this regard total R 14 million for the 2018/2019 financial and equates to 8 per cent of the total operating expenditure.

A finance charge consists of lease payable to the photocopying machine and vehicles as well as bank charges for the Municipality.

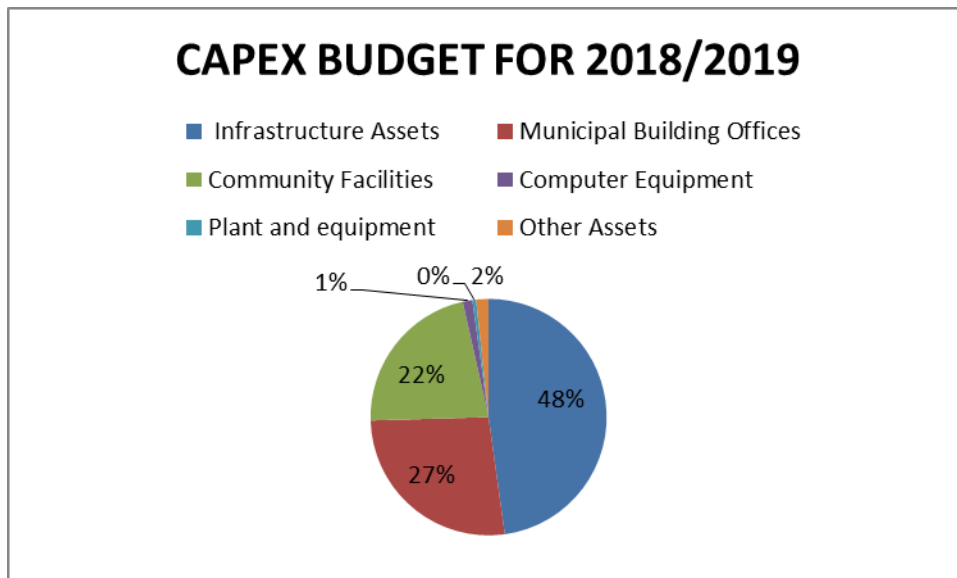
Repairs and Maintenance Asset renewal

In line with repairs and maintenance and asset renewal plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure assets even though it's sitting at a low percentage of 6% for repairs and 0% for asset renewal, this is due to the limited resources that we have. Furthermore the Municipality is looking at their infrastructure assets and Municipality is certain that its assets is in good condition therefore these percentages are not that bad as they might look.

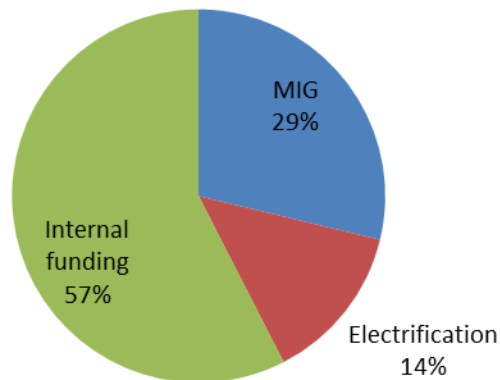
Free Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy.

CAPITAL EXPENDITURE PER CATEGORY/BY ASSET CLASS



CAPITAL FUNDING SOURCES



Capital expenditure funding is funded by MIG grant of R21 mil ,Electrification grants of R 10 mil and internal generated funds of R42 million which is funded internally from our cash backed reserves.

Draft Budget Assumptions

BUDGET ASSUMPTION	
Property rates	88%
Refuse	88%
Electricity	88%
Rentals of facilities	100%
Interest on investment	100%
Fines	100%
Licences&permits	100%
Agency services	100%
Transfer recognised operational	100%
Other revenue	88%
Expenditure	
Employee related costs	100%
Remuneration of councillors	100%
Debt impairment	100%
Depreciation&asset impairment	100%
Finance charges	100%
Bulk purchases	100%
Other material	100%
Other expenditure	100%

Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.
- Expediting spending on service delivery

In preparing the draft budget, the following priorities were taken into account:

- Deliver more and better services in a caring and efficient manner
- Hold political office bearers and public servants accountable

The challenge for the municipality is to do more within its existing resource envelope

Over the next few years, the municipality must deliver more services- and deliver them more efficient-within a tight resources envelope. Achieving this objective requires a new way of working:

- The draft budget has been reprioritized so that money is moved from low-priority programmes to high priority programmes.

Investments

At present the Council does not have long term investments to fund the operating or capital expenditure. The investment portfolio for the Council is short term investments for conditional grants received from National Treasury and other organization of the stat

2.1 Explanatory notes to MBRR Table A1-Budget Summary for 2018/2019 Financial year.

- Table A1 is a budget summary and provides a concise overview of Umuziwabantu Local Municipality's budget from all the major financial perspectives (operating, capital expenditure, financial position, cash flow and MFMA funding compliance).
- The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- Financial management reforms emphasises the importance of the municipal budget being funded. The Budget Summary provides the key information in this regard;
 - Transfer recognised is reflected on the Financial Performance Budget
 - Internally generated funds are financed from a combination of the operating surplus and accumulated cash-backed surplus from previous years. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
- Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The municipality is committed to provide free basic services to the needy community. In addition, the municipality continues to make progress in addressing service delivery backlogs.

2.2 Explanatory notes to MBRR Table A2-Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into its functional areas. Municipal revenue, operating expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports

2.3 Explanatory notes to MBRR Table A3-Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure. This means it is possible to present the operating surplus or deficit of a vote. The table shows the analysis of the surplus or deficit

2.4 Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

Total revenue is R 186 million in 2018/2019 and escalates to R 206 million by 2020/2021. This represents a year-on –year increase.

2. Revenue to be generated from property rates is R 24 million in 2018/2019 financial year and increases to R 27 million 2020/2021 which represents 14 per cent of the operating revenue base of the municipality and therefore remains a significant funding source for the municipality. Property rates have increased as per the CPI rate stipulated in circular 91 which is a guide for this 2018/2019 financial budget.

Transfers recognised-operating includes the local government equitable share and other grants from national and provincial government. It is noted that the equitable shares remains a significant and high funding source for the municipality.

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote, capital expenditure by standard classification, and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
- The capital programme is funded by grants, donations and internally generated funds

Explanatory notes to Table A6-Budgeted Financial Position

- Table A6 is consistent with international standards of good financial management practice, and improves understand ability for councillors and management of the impact of the budget on the statement of financial position(balance sheet)
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version.
- Any movement on the budgeted financial performance or the capital budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end.
- Table SA3 provides a detailed analysis of the major components of a number of items, including
 - Call investments deposits
 - Consumer debtors
 - Property, plant and equipment
 - Trade and other payables
 - Provisions non-current
 - Change in net assets,
 - Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets on the municipality belong to the community.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

- The budgeted cash flow statement is the first measurement in determining if the budget is funded.
- It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
- Cash and cash equivalent totals R 94 million as at the end of the 2018/2019 and escalates to R 95 million by 2020/2021.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
- In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be funded
- As part of the budgeting and planning guidelines that informed the compilation of the 2018/2019 MTREF the end objective of the medium framework was to ensure the budget is funded aligned to section 18 of the MFMA.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2018/2019 MTREF is funded

Explanatory notes to Table A9 - Asset Management

- Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
- National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of Property Plants and Equipment. The Municipality is working towards meeting both of these recommendations but the budget for Umuziwabantu is adequate to secure the ongoing health of the municipality's infrastructure.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

- Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services. The Municipality continues to make good progress with the eradication of backlogs:
- The number of household registered for indigent in 2018/2019 is expected to increase therefore entitled to receiving Free Basic Services, this is covered by municipality's equitable share

Part 2 – Supporting Documentation

1. Draft Budget Assumptions

Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2018/2019 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Umuziwabantu residents and businesses;
- The impact of municipal cost drivers;

2. Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aim of the Budget Steering Committee is to ensure that;

- the process followed to compile the budget complies with legislation and good budget practices;
- there is proper alignment between the policy and service delivery priorities set out in the Umuziwabantu's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

3. Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2015) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule on 25 August 2017
Key dates applicable to the process were:

- **August 2017** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritization criteria for the compilation of the 2016/2017 MTREF;
- **November 2017**– Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2017** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2018** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **28 January 2018** - Council considers the 2017/18 Mid-year Review and Adjustments Budget;
- **February 2018** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The final draft 2017/18 MTREF is revised accordingly;
- **31 March 2018**- final Draft Annual Budget and MTREF 2017/2020 and draft IDP 2017/2018 tabled
- **April 2018**- Public is consulted on the final draft Annual Budget and MTREF 2017/2020
- **6 May 2018** - Closing date for written comments;
- **6 to 21 May 2018** – finalization of the 2019/21 IDP and 2019/21 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **31 May 2018**- Annual Budget and MTREF 2019/2021 is tabled for consideration for adoption

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council

4. IDP and Service Delivery and Budget Implementation Plan

Umuziwabantu's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

- Registration of community needs; e Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and

- The review of the performance management and monitoring processes.

Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

5. Financial Modelling and Key Planning Drivers

As part of the compilation of the 2018/19 MTREF, extensive financial modeling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2018/19 MTREF:

- Local growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2017/18 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 70, 72, 74,75,78,79 and 91 and prior circulars has been taken into consideration in the planning and prioritisation process.

6. Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

7. Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Umuziwabantu has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

8. Planning, budgeting and reporting cycle

The performance of the Umuziwabantu relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. Umuziwabantu municipality therefore has adopted one integrated performance management system which encompasses.

8.1 Performance indicators and benchmarks

a) Revenue Management

• As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, and credit control and debt collection.

b) Creditors Management

• Umuziwabantu has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favorable impact on suppliers' perceptions of risk of doing business with Umuziwabantu, which is expected to benefit the local community in the form of more competitive pricing of tenders, as suppliers compete for the Umuziwabantu business

c) Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of Umuziwabantu. Only registered indigents qualify for the free basic services.

9. Overview of budget related-policies

The Umuziwabantu Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2018/2019 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Umuziwabantu residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration. Employee related costs MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions were taken into account.

10. Overview of budget funding

Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term: Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The Umuziwabantu derives most

of its operational property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees and traffic fines etc.)

Draft budget is funded as follows:

Draft budget is funded, this is a credible budget.

2.2 The future fiscal sustainability of the Council is not very positive. The following are contributing factors for this situation:

- The continued inability of consumers to settle outstanding accounts
- Government departments not paying their rates accounts
- Poor of revenue base on high rate of Indigent people around Umuziwabantu area
- The continued dependency on grant funding from the national government

The revenue strategy is a function of key components such as:

- Growth in the local and economic development;
- Revenue management and enhancement;
- To achieve at least 95 per cent annual collection rate for consumer revenue

11. Expenditure on allocations and grant programmes

Choose name from list - Supporting Table SA19 Expenditure on transfers and grant programme

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
EXPENDITURE:	1									
Operating expenditure of Transfers and Grants										
National Government:		68,430	81,222	77,799	79,825	79,825	-	96,888	91,102	-
Local Government Equitable Share		59,072	76,322	73,739	76,919	76,919		82,521	89,202	
Finance Management		1,749	1,800	1,821	1,900	1,900		1,900	1,900	
EPWP Incentive		900	1,036	1,126	1,006	1,006		1,213		
Integrated National Electrification Programme		5,000						10,000		
Municipal Systems Improvement		934	930							
Other transfers/grants [insert description]		775	1,134	1,114				1,254		
Provincial Government:		1,198	723	738	583	771	-	771	-	-
Community Library Services Grant		58								
Provincialisation of Libraries		535	553	559	583	771		771		
Community Participation - IDP Grant		126	170	179						
Housing		150								
Other transfers/grants [insert description]		330								
District Municipality:		105	184	-	317	317	-	400	-	-
Disaster Management Grant		105	184		317	317		400		
Other grant providers: [insert description]		-	-	-	-	-	-	-	-	-
Total operating expenditure of Transfers and Grants		69,733	82,129	78,537	80,725	80,913	-	98,059	91,102	-
Capital expenditure of Transfers and Grants										
National Government:		-	-	25,160	27,164	27,164	-	21,686	1,167	-
Municipal Infrastructure Grant (MIG)				21,161	22,501	22,501		21,686	1,167	
Other capital transfers/grants [insert desc]				3,998	4,663	4,663				
Provincial Government:		-	-	2,000	-	-	-	-	-	-
Other capital transfers/grants [insert description]				2,000						
District Municipality:		-	-	-	-	-	-	-	-	-
Disaster Management Grant										
Other grant providers: [insert description]		-	-	-	-	-	-	-	-	-
Total capital expenditure of Transfers and Grants		-	-	27,160	27,164	27,164	-	21,686	1,167	-
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS		69,733	82,129	105,697	107,889	108,077	-	119,745	92,269	-

It is estimated that a spending rate of at least 90 per cent is achieved on operating expenditure and 100 per cent on the capital programme for the 2018/19 MTREF of which performance has been factored into the cash flow budget.

The following table is a breakdown of allocations and grant programmes

12. Capital Expenditure Details

The following table is a breakdown of capital expenditure for the year 2018/2019, these capital assets will assist Umuziwabantu Municipality in rendering its services to the community.

EXPENDITURE	DRAFT BUDGET 2018/2019
Infrastructure Assets	35 749 000.00
Municipal Building Offices	20 000 000.00
Community Facilities	16 394 000.00
Computer Equipment	995 050.00
Plant and equipment	380 000.00
Other Assets	1 266 800.00

13. Councilor's Allowances and Employee benefits

The following table is a breakdown of Councilors Allowances and Employee benefits for the year 2018/2019.

Choose name from list - Supporting Table SA22 Summary councillor and staff benefits

Summary of Employee and Councillor remuneration R thousand	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
		A	B	C	D	E	F	G	H	I
Councillors (Political Office Bearers plus Other)	1									
Basic Salaries and Wages		4,513	4,478	6,473	6,755	6,755	6,755	7,228	7,619	8,038
Pension and UIF Contributions										
Medical Aid Contributions										
Motor Vehicle Allowance		1,328	1,199		872	872	872	933	984	1,038
Cellphone Allowance		396	465	311	480	480	480	437	460	485
Housing Allowances										
Other benefits and allowances			470		538	538	538	653	688	726
Sub Total - Councillors		6,238	6,612	6,784	8,645	8,645	8,645	9,251	9,750	10,287
% increase	4		6.0%	2.6%	27.4%	-	-	7.0%	5.4%	5.5%
Senior Managers of the Municipality	2									
Basic Salaries and Wages		3,187	5,315	2,330	5,543	5,543	5,543	5,754	6,064	6,398
Pension and UIF Contributions		8	11	367	11	11	11	35	36	38
Medical Aid Contributions		-	-	-	-	-	-	-	-	-
Overtime		-	-	-	-	-	-	-	-	-
Performance Bonus		-	-	519	-	-	-	-	-	-
Motor Vehicle Allowance		163	-	402	439	439	439	345	364	384
Cellphone Allowance		-	-	-	103	103	103	83	88	93
Housing Allowances		-	-	-	-	-	-	-	-	-
Other benefits and allowances		-	1	-	-	-	-	0	-	-
Payments in lieu of leave		-	-	-	1	1	1	-	-	-
Long service awards		-	-	-	-	-	-	-	-	-
Post-retirement benefit obligations		-	-	-	-	-	-	-	-	-
Sub Total - Senior Managers of Municipality		3,358	5,327	3,618	6,097	6,097	6,097	6,217	6,552	6,913
% increase	4		58.6%	(32.1%)	68.5%	-	-	2.0%	5.4%	5.5%
Other Municipal Staff										
Basic Salaries and Wages		22,786	26,848	25,590	34,163	34,163	34,163	37,043	39,044	41,191
Pension and UIF Contributions		3,847	3,176	4,884	4,125	4,125	4,125	4,427	4,666	4,922
Medical Aid Contributions		3,625	4,617	2,073	5,913	5,913	5,913	6,384	6,729	7,099
Overtime		1,543	2,791	4,971	6,173	6,173	6,173	6,605	6,962	7,344
Performance Bonus		-	-	-	-	-	-	-	-	-
Motor Vehicle Allowance		1,495	1,690	2,031	2,235	2,235	2,235	2,638	2,781	2,933
Cellphone Allowance		-	234	419	329	329	329	2,694	2,839	2,995
Housing Allowances		491	541	506	625	625	625	672	708	747
Other benefits and allowances		1,710	18	16	20	20	20	22	23	24
Payments in lieu of leave		-	473	384	540	540	540	578	609	643
Long service awards		-	-	-	-	-	-	-	-	-
Post-retirement benefit obligations		-	-	-	-	-	-	-	-	-
Sub Total - Other Municipal Staff		35,497	40,388	40,875	54,123	54,123	54,123	61,063	64,360	67,900
% increase	4		13.8%	1.2%	32.4%	-	-	12.8%	5.4%	5.5%
Total Parent Municipality		45,093	52,327	51,277	68,865	68,865	68,865	76,531	80,663	85,099
			16.0%	(2.0%)	34.3%	-	-	11.1%	5.4%	5.5%
Board Members of Entities										
Basic Salaries and Wages										
Pension and UIF Contributions										
Medical Aid Contributions										
Overtime										
Performance Bonus										
Motor Vehicle Allowance										
Cellphone Allowance										
Housing Allowances										
Other benefits and allowances										
Board Fees										
Payments in lieu of leave										
Long service awards										
Post-retirement benefit obligations										
Sub Total - Board Members of Entities		-	-	-	-	-	-	-	-	-
% increase	4		-	-	-	-	-	-	-	-
Senior Managers of Entities										
Basic Salaries and Wages										
Pension and UIF Contributions										
Medical Aid Contributions										
Overtime										
Performance Bonus										
Motor Vehicle Allowance										
Cellphone Allowance										
Housing Allowances										
Other benefits and allowances										
Payments in lieu of leave										
Long service awards										
Post-retirement benefit obligations										
Sub Total - Senior Managers of Entities		-	-	-	-	-	-	-	-	-
% increase	4		-	-	-	-	-	-	-	-
Other Staff of Entities										
Basic Salaries and Wages										
Pension and UIF Contributions										
Medical Aid Contributions										
Overtime										
Performance Bonus										
Motor Vehicle Allowance										
Cellphone Allowance										
Housing Allowances										
Other benefits and allowances										
Payments in lieu of leave										
Long service awards										
Post-retirement benefit obligations										
Sub Total - Other Staff of Entities		-	-	-	-	-	-	-	-	-
% increase	4		-	-	-	-	-	-	-	-
Total Municipal Entities		-	-	-	-	-	-	-	-	-
TOTAL SALARY, ALLOWANCES & BENEFITS		45,093	52,327	51,277	68,865	68,865	68,865	76,531	80,663	85,099
% increase	4		16.0%	(2.0%)	34.3%	-	-	11.1%	5.4%	5.5%
TOTAL MANAGERS AND STAFF	5,7	38,855	45,715	44,493	60,220	60,220	60,220	67,280	70,912	74,813

14. Monthly targets for revenue, expenditure & cash flow

The following table is a breakdown of Monthly targets for revenue, expenditure, cash flow for the year 2018/2019.

KZN214 uMuziwabantu - Supporting Table SA25 Budgeted monthly revenue and expenditure

Description	Ref	Budget Year 2016/17												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Revenue By Source																
Property rates		1 480	1 477	1 391	1 288	1 260	1 564	980	1 282	983	984	990	821	14 500	15 226	15 986
Property rates - penalties & collection charges		24	17	14	18	17	23	21	28	26	21	50	166	425	446	469
Service charges - electricity revenue		2 608	2 607	2 606	2 605	2 504	2 603	2 502	2 601	2 600	2 599	2 598	5 474	33 907	35 603	37 383
Service charges - water revenue																
Service charges - sanitation revenue																
Service charges - refuse revenue		357	156	155	154	153	152	151	150	149	148	147	256	2 126	2 232	2 344
Service charges - other																
Rental of facilities and equipment		13	13	13	13	13	13	13	13	13	13	13	13	154	162	170
Interest earned - external investments		463	443	444	445	523	446	447	448	318	174	27	295	4 470	4 694	4 928
Interest earned - outstanding debtors													420	420	421	422
Dividends received																
Fines		1	2	3	4	5	6						7	28	29	31
Licences and permits		24	25	26	27	28	29	30	31	32	19	20	102	396	416	436
Agency services		300	200	300	500	300	300	100	150	100	111	210	219	2 790	2 930	3 076
Transfers recognised - operational		25 361				19 000				35 000			1 025	80 386	85 584	88 201
Other revenue		67	69	71	343	45	47	50	52	54	56	58	(209)	703	758	816
Gains on disposal of PPE																
Total Revenue (excluding capital transfers and contributions)		30 698	5 009	5 023	5 397	23 848	5 183	4 294	4 755	39 275	4 124	4 113	8 589	140 305	148 500	154 262
Expenditure By Type																
Employee related costs		3 500	3 500	3 500	3 500	3 500	3 500	4 718	4 718	4 718	4 718	4 718	4 516	49 106	51 712	54 297
Remuneration of councillors		650	650	650	650	650	650	696	696	696	696	696	696	8 074	8 478	8 902
Debt impairment													175	175	186	195
Depreciation & asset impairment													8 289	8 289	8 591	9 020
Finance charges													685	685	724	764
Bulk purchases		2 557	2 558	2 559	2 560	2 561	2 562	2 563	2 564	2 565	2 566	2 560	2 452	30 629	32 160	33 768
Other materials													1 328	1 328	1 396	1 466
Contracted services		200	300	400	500	600	700	207					59	2 966	3 144	3 301
Transfers and grants													3 083	3 083	3 241	3 403
Other expenditure		3 152	3 052	2 952	3 152	3 052	2 952	3 152	3 052	2 952	3 252	2 500	765	33 988	38 564	38 753
Loss on disposal of PPE																
Total Expenditure		10 059	10 060	10 061	10 362	10 363	10 364	11 336	11 030	10 931	11 232	10 474	22 046	138 323	148 195	153 870
Surplus/(Deficit)																
Transfers recognised - capital		20 638	(5 052)	(5 039)	(4 966)	13 484	(5 182)	(7 043)	(6 276)	28 343	(7 108)	(6 361)	(13 459)	1 982	304	392
Contributions recognised - capital		13 018				5 000				6 257				24 275	23 814	24 890
Contributed assets																
Surplus/(Deficit) after capital transfers & contributions		33 656	(5 052)	(5 039)	(4 966)	18 484	(5 182)	(7 043)	(6 276)	34 600	(7 108)	(6 361)	(13 459)	26 257	24 118	25 282
Taxation																
Attributable to minorities																
Share of surplus/ (deficit) of associate																
Surplus/(Deficit)	1	33 656	(5 052)	(5 039)	(4 966)	18 484	(5 182)	(7 043)	(6 276)	34 600	(7 108)	(6 361)	(13 459)	26 257	24 118	25 282

15. Legislation compliance status

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

a. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the website.

b. Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed interns undergoing training in various divisions of the Financial Services Department. Some of interns has been appointed permanently.

c. Budget and Treasury Office

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

d. Audit Committee an Audit Committee has been established and is fully functional.

e. Service Delivery and Implementation Plan

16. Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget

How are those funds used?

- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was available