KOUGA LOCAL MUNICIPALITY

KOUGA
local municipality
Good Governance through Service Excellence

2018/19 – 2020/21

ANNUAL BUDGET

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PART 1 – ANNUAL BUDGET

1.1 EXECUTIVE MAYOR'S REPORT

It is a great honour to present the first review (second edition) of Kouga's five-year Integrated Development Plan (IDP) for the period 2017/2022.

The first edition of the IDP was adopted unanimously by the Kouga Council on 31 May 2017 after thorough consultation with communities, stakeholder groups and sector departments. These inputs were invaluable in helping us to identify priority projects for funding in the 2017/2018 financial year.

Highlights during the past year included the practical completion of the R85-million upgrade to the Kruisfontein Waste Water Treatment Works, which will allow for more RDP houses to be built in the area. Construction of the first 391 RDP houses started in August 2017, a triumph for our communities who had not seen any houses being built in Kouga for more than a decade. Work on the top structures at Pellsrus is also expected to start soon.

In order to improve service delivery to informal settlements, almost 250 sites were electrified at Donkerhoek in Humansdorp. A further 270 sites will be electrified in the 2017/2018 financial year while a further R10,2-million has been secured for electrification projects in 2018/2019.

The municipal fleet has further been strengthened to boost the daily operations of our service departments. New vehicle purchases included four refuse trucks to complement the "Keep Kouga Clean" campaign.

Our greatest challenge this past year has been the drought disaster and ensuring water security for all communities. The drought simply refused to break and, with dam levels critically low, Council was forced to reprioritise the budget. Funding had to be taken away from projects which were due for implementation and reallocated for the roll out of drought relief measures, including the drilling of extra boreholes. Unless sufficient rains fall in the catchment area, this trend could continue in the new year, especially as very little funding assistance for drought relief has been received from other spheres of government.

The launch of Kouga's new call centre and the Link app, designed to improve the way the municipality responds to complaints, was another highlight of the past year. More than 10 000 service requests and complaints were received and resolved in the first four months.

Forming partnerships with our citizens, stakeholder groups and sector departments contributed significantly to our successes over the past year. I would like to thank everyone who worked with us. We look forward to building on these relations as we strive to create a Kouga that is caring, safe, inclusive, forward-thinking and well-run, with opportunities for all.

CLR E H HENDRICKS
EXECUTIVE MAYOR

1.2 COUNCIL RESOLUTIONS

(a) The Executive Mayor recommends that the Council resolves that:

1. The annual budget of the Kouga Municipality for the financial year 2018/19 and the indicative allocations for the projected outer years 2019/20 and 2020/21; and the multi-year and single year capital appropriations be approved for the purpose of complying with section 24 of the Municipal Finance Management Act (MFMA), Act No. 56 of 2003, as set-out in the following tables:

   1.1 Consolidated Budget Summary [Page 21];
   1.2 Budgeted Financial Performance (revenue and expenditure by standard classification); [Page 23]
   1.3 Budgeted Financial Performance (revenue and expenditure by municipal vote); [Page 25]
   1.4 Budgeted Financial Performance (revenue by source and expenditure by type); [Page 26]
   1.5 and Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source. [Page 29]

2. The budgeted financial position, budgeted cash flows, cash-backed reserves/accumulated surplus, asset management and basic service delivery targets be noted as set-out in the following tables:

   2.1 Budgeted Financial Position; [Page 31]
   2.2 Budgeted Cash Flows; [Page 33]
   2.3 Cash backed reserves and accumulated surplus reconciliation; [Page 34]
   2.4 Asset management; [Page 35]
   2.5 Basic service delivery measurement. [Page 38]

3. The tariffs be increased as follows, with effect from 1 July 2018:

Property rates	7.5%
Water	11%
Sanitation	9%
Refuse	8%
Electricity (average increase in electricity income)	7.57%
Environmental Management Fee	6%

4. The indicative tariffs for 2019/20 and 2020/21 be increased as follows:

	2019/20	2020/21
Property rates	7.5%	7.5%
Water	11%	11%
Sanitation	9%	9%
Refuse	8%	8%
Electricity (average increase in electricity income)	7.57%	7.57%
Environmental Management Fee	6%	6%

1.3 EXECUTIVE SUMMARY

The key service delivery priorities, as reflected in the IDP, informed the development of the Budget, including the need to maintain and improve the Municipality's financial sustainability.
It is also to be noted, that cost containment measures are being implemented to curb costs and to improve operational efficiency.

National Treasury's MFMA Circulars No. 48, 51, 54, 55, 58, 59, 66, 67, 70, 72, 74, 75,78,79,85,86, 88, 89 and 91 (refer to Annexures "A" and "B") were used to guide the compilation of the 2018/19 Medium Term Revenue and Expenditure Framework (MTREF).

The Municipality faced the following significant challenges during the compilation of the 2018/19 MTREF:

- Maintaining an acceptable employee related costs ratio;
- Increased costs associated with bulk water purchases, placing upward pressure on municipal tariff increases;
- Allocation of the required budget provision for the rehabilitation and maintenance of infrastructure;
- Maintaining electricity and water losses at acceptable levels;
- Maintaining revenue collection rates at the targeted levels; and
- Maintaining an acceptable cost coverage ratio;

The following budgeting principles and guidelines directly informed the compilation of the 2018/19 MTREF:

- The priorities and targets, relating to the key strategic focus areas, as outlined in the IDP.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs.
- The level of property rates and tariff increases to ensure the delivery of municipal services on a financially sustainable basis.
- The need to enhance the municipality's revenue base.
- No loan funding is available to support the Capital Budget, in view of financial affordability considerations.
- In accordance with Section 19 of the Municipal Finance Management Act, the relevant Directors must submit comprehensive reports in relation to new projects, inter alia; dealing with the total project costs, funding sources, future operating budget implications and associated tariff implications, before Council finally approves the implementation of any new projects.

In view of the aforementioned, the following table represents an overview of the proposed 2018/19 Medium-term Revenue and Expenditure Framework:

Table 1 (Overview of the 2018/19 MTREF)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework					
R thousand	Adjusted Budget	Budget Year 2018/19	% Increase	Budget Year 2019/20	% Increase	Budget Year 2020/21	% Increase
Total Operating Revenue	689 026	753 717	9.39%	806 032	6.94%	865 380	7.36%
Total Operating Expenditure	755 421	796 785	5.48%	839 425	5.35%	885 123	5.44%
Surplus/(Deficit)	(66 395)	(43 068)	-35.13%	(33 393)	-22.46%	(19 743)	-40.88%
Capital Expenditure	69 434	67 745	-2.43%	53 910	-20.42%	56 139	4.13%

Total operating revenue has increased by 9.39% or R 64,691 million for the 2018/19 financial year, compared to the 2017/18 Adjustments Budget.

For the two outer years, operational revenue increases by 6.94% and 7.36% respectively, resulting in a total revenue growth of R 176,353 million over the MTREF, when compared to the 2017/18 financial year.

Total operating expenditure for the 2018/19 financial year amounts to R 796,785 million, resulting in a budgeted deficit of R 43,068 million. Compared to the 2017/18 Adjustments Budget, operational expenditure increased by 5.48% in the 2018/19 Budget.

For the two outer years, operational expenditure increases by 5.35% and 5.44% respectively. The 2019/20 and 2020/21 budgets reflect operating deficits of R 33,393 million and R 19,743 million respectively.

The major operating expenditure items for 2018/19 are employee related costs (34.24%), other expenditure (9.58%), bulk electricity purchases (25.22%), and depreciation (9.46%).

Funding for the 2018/19 Operating Budget is obtained from various sources, the major sources being service charges such as electricity, water, sanitation, environmental management fees and refuse collection (53.08%), property rates (23.45%), grants and subsidies received from National and Provincial Governments (16.40%).

In order to fund the 2018/19 Operating Budget, the following increases in property rates and service charges have been proposed, with effect from 1 July 2018:

Property rates	-	7.5%
Water	-	11%
Sanitation	-	9%
Refuse	-	8%
Electricity (average increase in income)	-	7.57%
Environmental Management Fee	-	6%

The capital budget of R 67,745 million for 2018/19 is R 1,689 million or 2.43% less than the 2017/18 Adjustments Budget.

The Capital Budget over the MTREF will be mainly funded from government grants and subsidies, as the municipality has reached its prudential borrowing limits, whilst limited internal funding is available.

1.4 OPERATING REVENUE FRAMEWORK

The continued provision and expansion of municipal services, is largely dependent on the Municipality generating sufficient revenues. Efficient and effective revenue management is thus of vital importance in ensuring the ongoing financial sustainability of the Municipality. Furthermore, in accordance with the MFMA, expenditure has to be limited to the realistically anticipated revenues.

The Municipality's revenue management strategy includes the following key components:

- National Treasury's guidelines in this regard;
- Tariff Policies;
- Property Rates Policy;
- Indigent Policy and provision of free basic services;
- The level of property rates and tariff increases must ensure financially sustainable service delivery.
- The level of property rates and tariff increases to take into account the maintenance and replacement of infrastructure, including the expansion of services;
- Determining fully cost reflective tariffs for trading services;
- Electricity bulk tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Water bulk tariff increases as approved by the Nelson Mandela Bay Metropolitan Municipality;
- Efficient revenue management, targeting a 93% annual collection rate for property rates and service charges.

The following table is a summary of the 2018/19 MTREF (classified by main revenue source):

Table 2 (Summary of main revenue sources)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Revenue By Source				
Property rates	160 565	176 766	190 024	204 275
Service charges - electricity revenue	230 405	247 165	265 875	286 002
Service charges - water revenue	58 871	67 702	68 447	69 200
Service charges - sanitation revenue	40 622	41 658	45 407	49 494
Service charges - refuse revenue	40 195	43 571	46 785	50 241
Service charges - other		–	–	–
Rental of facilities and equipment	1 774	1 881	1 982	2 091
Interest earned - external investments	7 405	7 561	7 969	8 408
Interest earned - outstanding debtors	8 939	14 986	15 795	16 664
Dividends received		–	–	–
Fines, penalties and forfeits	3 962	4 230	4 458	4 704
Licences and permits	12 276	16 661	17 561	18 527
Agency services	–	–	–	–
Transfers and subsidies	113 664	123 618	133 383	146 971
Other revenue	10 347	7 917	8 345	8 804
Gains on disposal of PPE		–	–	–
Total Revenue (excluding capital transfers and contributions)	**689 026**	**753 717**	**806 032**	**865 380**

The following table illustrates the mix of main revenue sources, supporting the 2018/19 MTREF:

Table 3 (Mix of main revenue sources)

Description	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework					
R thousand	Adjusted Budget	%	Budget Year 2018/19	%	Budget Year 2019/20	%	Budget Year 2020/21	%
Revenue By Source								
Property rates	160 565	23.30%	176 766	23.45%	190 024	23.58%	204 275	23.61%
Service charges - electricity revenue	230 405	33.44%	247 165	32.79%	265 875	32.99%	286 002	33.05%
Service charges - water revenue	58 871	8.54%	67 702	8.98%	68 447	8.49%	69 200	8.00%
Service charges - sanitation revenue	40 622	5.90%	41 658	5.53%	45 407	5.63%	49 494	5.72%
Service charges - refuse revenue	40 195	5.83%	43 571	5.78%	46 785	5.80%	50 241	5.81%
Service charges - other								
Rental of facilities and equipment	1 774	0.26%	1 881	0.25%	1 982	0.25%	2 091	0.24%
Interest earned - external investments	7 405	1.07%	7 561	1.00%	7 969	0.99%	8 408	0.97%
Interest earned - outstanding debtors	8 939	1.30%	14 986	1.99%	15 795	1.96%	16 664	1.93%
Dividends received								
Fines, penalties and forfeits	3 962	0.58%	4 230	0.56%	4 458	0.55%	4 704	0.54%
Licences and permits	12 276	1.78%	16 661	2.21%	17 561	2.18%	18 527	2.14%
Agency services								
Transfers and subsidies	113 664	16.50%	123 618	16.40%	133 383	16.55%	146 971	16.98%
Other revenue	10 347	1.50%	7 917	1.05%	8 345	1.04%	8 804	1.02%
Gains on disposal of PPE								
Total Revenue (excluding capital transfers and contributions)	**689 026**	**100.00%**	**753 717**	**100.00%**	**806 032**	**100.00%**	**865 380**	**100.00%**
Total Revenue from Property Rates and Service Charges	**530 659**	**77.02%**	**576 863**	**76.54%**	**616 539**	**76.49%**	**659 212**	**76.18%**

In the 2017/18 financial year, rates and service charges amounted to R 530,659 million. This increases to R 576,863 million, R 616,539 million and R 659,212 million in the 2018/19, 2019/20 and 2020/21 financial years, respectively.

The major operating revenue sources for 2018/19 are electricity (32.79%), property rates (23.45%), operating grants & subsidies (16.40%), water (8.98%) and refuse (5.78%).

The following table provides a breakdown of the various operating grants and subsidies allocated to the Municipality over the medium term:

Table 4 (Operating Transfers and Grant Receipts)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
RECEIPTS:				
Operating Transfers and Grants				
National Government:	**106 951**	**117 493**	**127 703**	**141 291**
Local Government Equitable Share	102 637	113 151	124 344	137 852
Finance Management	1 700	1 770	1 770	1 770
MIG - Administration Fees	1 614	1 559	1 589	1 669
EPWP Incentive	1 000	1 013		
Provincial Government:	**2 050**	**2 050**	**2 050**	**2 050**
Sport and Recreation	2 050	2 050	2 050	2 050
District Municipality:	**2 798**	**2 210**	**1 765**	**1 765**
Local Economic Development	445	445		
Environmental Health Subsidy	2 353	1 765	1 765	1 765
Other grant providers:	**1 865**	**1 865**	**1 865**	**1 865**
Fire Subsidy	1 865	1 865	1 865	1 865
Total Operating Transfers and Grants	**113 664**	**123 618**	**133 383**	**146 971**

The Municipality is faced with the significant challenge of providing services with its limited financial resources. Against this background, the Municipality has undertaken the tariff determination process relating to property rates and service charges as follows:

1.4.1 Property Rates

Property rates fund the costs associated with the provision of general services, such as fire, library and roads and stormwater services.

The following provisions in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rateable value (Section 17(h) of the MPRA).
- An additional R85 000 rebate will be granted to registered indigents in terms of the Indigent Policy.
- If the usage of a property changes during a financial year, the rebate applicable will be reduced *pro rata* for the balance of the financial year.

A property rates increase of 7.5% is proposed as from 1 July 2018.

The proposed property rates increase is mainly influenced by the following:

- Employee related costs increased by 9.54%;
- Providing for debt impairment.

1.4.2 Sale of Water and Impact of Tariff Increases

In accordance with National Treasury's MFMA Circulars, no. 51, 55, 58, 66, 70, 74, 85, 88, 89 and 91, Municipalities are encouraged to review the level and structure of their water tariffs to ensure:

- Fully cost reflective water tariffs – tariffs should include the costs associated with bulk water purchases, the maintenance and renewal of purification plants, water networks and water reticulation expansion;
- Water tariffs are structured to protect basic levels of service; and
- Water tariffs are designed to encourage efficient and sustainable consumption.

National Treasury has urged municipalities to ensure that water tariffs are fully cost reflective by 2014/15. In this regard a phased-in approach will be undertaken to ensure that tariffs are fully cost reflective over the medium term. As the charging of fully cost reflective tariffs would place an undue financial burden on customers, it will not be possible to implement it in the 2018/19 MTREF.

A tariff increase of 11% is proposed as from 1 July 2018. The proposed tariff increase is mainly influenced by the following:

- Employee related costs increased by 9.54%;
- The cost of bulk water purchases increased by 8.5%;
- Providing for debt impairment.

The water tariff structure is designed in such a manner that higher levels of water consumption are progressively charged at a higher rate.

1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has determined that the Eskom bulk electricity tariff to municipalities would increase by 7.32% as from 1 July 2018. Considering the Eskom tariff increase, the Municipality's consumer tariffs will be increased by 7.57% on average to offset the additional electricity bulk purchase costs as from 1 July 2018.

The proposed tariff increases are mainly influenced by the following:

- Employee related costs increased by 9.54%;
- The cost of bulk electricity purchases increased by 7.32%;
- Repairs and maintenance of electricity infrastructure;
- Costs of servicing existing external borrowing to fund electricity infrastructure;
- Providing for debt impairment.

The proposed electricity tariff increases, still require approval by NERSA.

1.4.4 Sanitation and Impact of Tariff Increases

In accordance with National Treasury's MFMA Circulars, no. 51, 55, 58, 66, 70, 74, 85, 88, 89 and 91, Municipalities are encouraged to review the level and structure of their sanitation tariffs to ensure:

- Fully cost reflective sanitation tariffs – tariffs should include the costs associated with maintenance and renewal of treatment plants, sanitation networks and sanitation infrastructure expansion;
- Sanitation tariffs are structured to protect basic levels of service; and

- Sanitation tariffs are designed to encourage efficient and sustainable consumption.

National Treasury has urged municipalities to ensure that sanitation tariffs are fully cost reflective by 2014/15. In this regard a phased-in approach will be undertaken to ensure that tariffs are fully cost reflective over the medium term. As the charging of fully cost reflective tariffs would place an undue financial burden on customers, it will not be possible to implement it in the 2018/19 MTREF.

Sanitation charges are determined based on the volume of water consumed, which is appropriately reduced by the percentage of water discharged into the sewer system.

A tariff increase of 9% is proposed as from 1 July 2018. The proposed tariff increase is mainly influenced by the following:

- Employee related costs increased by 9.54%;
- Providing for debt impairment.

1.4.5 Refuse Collection and Impact of Tariff Increases

National Treasury has urged municipalities to ensure that refuse tariffs are fully cost reflective by 2015. The tariffs should take into account the need to maintain a cash-backed reserve to cover the future costs of the rehabilitation of landfill sites. In this regard a phased-in approach will be undertaken to ensure that tariffs are fully cost reflective over the medium term. As the charging of fully cost reflective tariffs would place an undue financial burden on customers, it will not be possible to implement it in the 2018/19 MTREF.

A tariff increase of 8% is proposed for refuse collection, as from 1 July 2018.

The proposed tariff increase is mainly influenced by the following:

- Employee related costs increased by 9.54%;
- Providing for debt impairment

1.4.6 Environmental Management Fees and Impact of Tariff increases

A tariff increase of 6% is proposed for the environmental management fee, as from 1 July 2018.

- Employee related costs increased by 9.54%;
- Providing for debt impairment.

1.5 OPERATING EXPENDITURE FRAMEWORK

The Municipality's expenditure framework for the 2018/19 budget and MTREF is informed by the following:

- The funding of the budget over the medium-term is informed by the requirements of Section 18 and 19 of the MFMA;
- A balanced budget approach by limiting operating expenditure to the operating revenue;

The following table is a high-level summary of the 2018/19 budget and MTREF (classified per main type of operating expenditure):

Table 5 (Summary of operating expenditure by standard classification item)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Expenditure By Type				
Employee related costs	249 044	272 802	287 534	303 348
Remuneration of councillors	12 111	12 784	13 474	14 215
Debt impairment	49 997	41 429	44 263	47 311
Depreciation & asset impairment	83 730	75 357	79 426	83 795
Finance charges	3 768	3 021	2 201	1 238
Bulk purchases - Elec	187 239	200 945	211 796	223 445
Bulk purchases - Water	38 384	40 530	42 719	45 069
Other materials	27 405	28 458	29 994	31 644
Contracted services	42 971	45 111	47 547	50 162
Transfers and subsidies	30	–	–	–
Other expenditure	60 742	76 346	80 469	84 895
Loss on disposal of PPE		–	–	–
Total Expenditure	**755 421**	**796 785**	**839 425**	**885 123**

The total operating expenditure increased by R 41,364 million (5.48%) from R 755,421 million in 2017/18 to R 796,785 million in 2018/19. Below is a discussion of the main expenditure components.

Employee related costs

The 2018/19 budget provides for a general increase of 7%, in the absence of an approved Salary and Wage Collective Agreement.

The total budget provision of R 272,802 million represents an increase of 9.54% over the 2018/19 budget. Employee related costs in the 2018/19 Budget, represent 34.24% of the total operating expenditure.

Remuneration of Councillors

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 most recent proclamation in this regard has been taken into account in preparing the budget. As the budget provides for a 6% increase, Councillors' remuneration should be limited to the budget allocated for this purpose.

Debt Impairment

The provision for debt impairment was determined based on a targeted annual collection rate of 93%. For the 2018/19 financial year this amounted to R 41,429 million and increases to R 47,311 million in 2020/21. While this expenditure represents a non-cash flow item, it is taken into account in determining the total costs associated with the rendering of municipal services and the realistically anticipated revenues.

Depreciation and Asset Impairment

The provision for depreciation and asset impairment has been informed by the Municipality's Fixed Assets Register. The budget amounts to R 75,357 million for the 2018/19 financial and equates to 9.46% of the total operating expenditure.

Finance Charges

Finance charges consist primarily of the repayment of interest on existing long-term borrowing (cost of capital). Finance charges constitute 0.38% (R 3,021 million) of total operating expenditure for 2018/19.

Bulk Electricity Purchases

The bulk purchases of electricity increased by R 13,706 million (7.32%), from R 187,239 million in 2017/18 to R 200,945 million in 2018/19.

NERSA has approved a 7.32% increase in the Eskom bulk tariff for the 2018/19 financial year. The 2018/19 budget accordingly allows for a 7.32% increase for bulk electricity purchases from Eskom. Bulk electricity purchases constitute 25.22% of total operating expenditure for 2018/19.

Bulk Water Purchases

The bulk purchases of water increased by R 2,146 million (5.59%) from R 38,384 million in 2017/18 to R 40,530 million in 2018/19. Bulk water purchases constitute 5.09% of total operating expenditure for 2018/19.

Other Materials

Other materials relate to the inventory items, such as material and supplies, consumables, printing and stationery, fuel and oil etc., initially budgeted under general expenses, being transferred to other materials. This is in line with the mSCOA requirements. The budget for 2018/19 amounts to R 28,458 million and equates to 3.57% of the total operating expenditure (refer to Table A9 for full disclosure of repairs and maintenance).

Contracted Services

In the 2018/19 financial year, the budget provision amounts to R 45,111 million and equates to 5.66% of the total operating expenditure.

Other Expenditure

Other expenditure comprises of various line items relating to the daily operations of the municipality. In the 2018/19 financial year, the budget provision amounts to R 76,346 million and equates to 9.58% of the total operating expenditure.

The graph below reflects the expenditure components of the budgeted statement of financial performance.

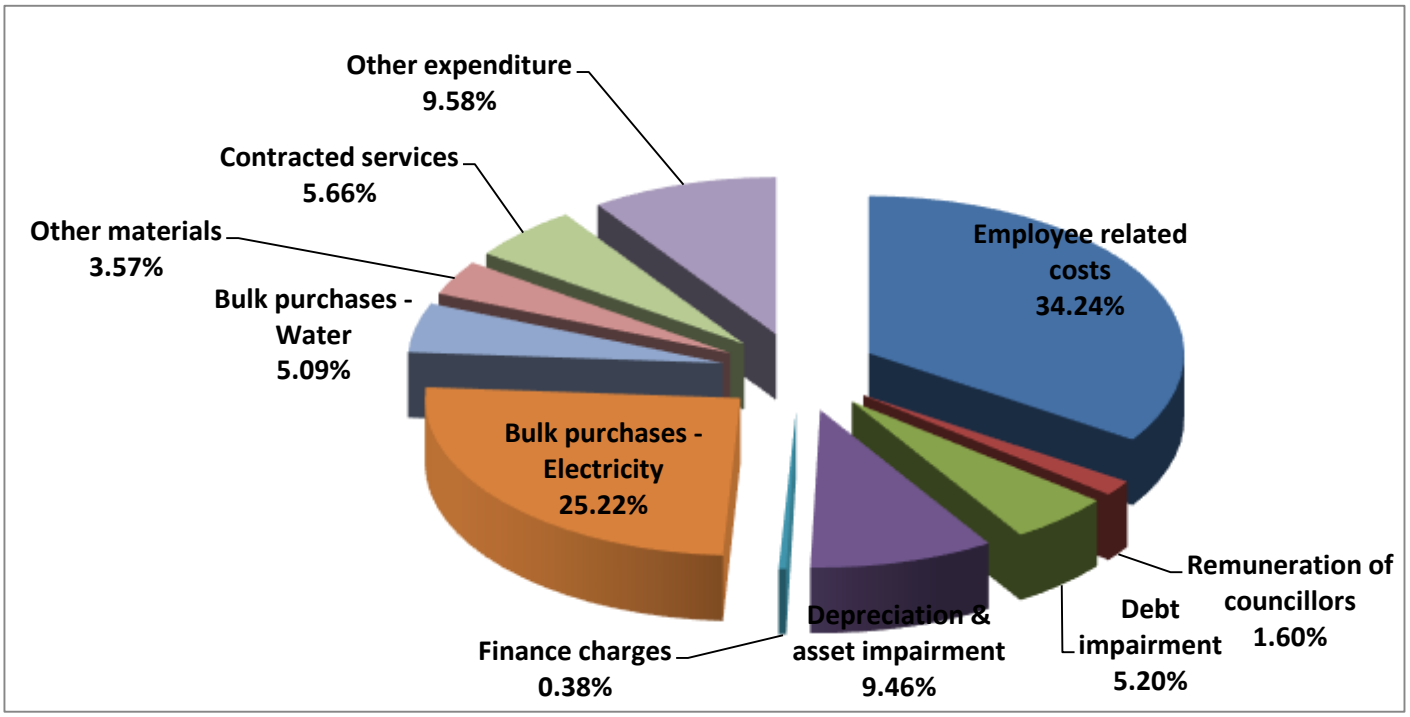


Figure 1 Main operational expenditure categories for the 2018/19 financial year

1.5.1 Priority relating to repairs and maintenance

The repairs and maintenance expenditure in the 2018/19 financial year, increased by R 5,270 million or 16.57%, compared to the 2017/18 Adjustments Budget.

It is to be noted that repairs and maintenance, constitutes 4.65% of the total operating expenditure, for the 2018/19, 2019/20 and 2020/21 financial years, respectively.

The table below provides a breakdown of the repairs and maintenance in relation to asset class:

Table 6 (Repairs and maintenance per asset class)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Repairs and Maintenance by Asset Class	**31 796**	**37 066**	**39 067**	**41 216**
Roads Infrastructure	4 889	9 815	10 345	10 914
Storm water Infrastructure	1 930	830	875	923
Electrical Infrastructure	6 443	5 795	6 108	6 444
Water Supply Infrastructure	4 062	3 714	3 915	4 130
Sanitation Infrastructure	3 117	3 956	4 170	4 399
Solid Waste Infrastructure	–	2 400	2 530	2 669
Infrastructure	***20 441***	***26 510***	***27 942***	***29 479***
Community Facilities	1 378	985	1 038	1 095
Sport and Recreation Facilities	200	200	211	222
Community Assets	***1 578***	***1 185***	***1 249***	***1 317***
Operational Buildings	842	1 834	1 933	2 040
Other Assets	***842***	***1 834***	***1 933***	***2 040***
Biological or Cultivated Assets	**335**	**–**	**–**	**–**
Machinery and Equipment	**–**	**403**	**425**	**448**
Transport Assets	**8 600**	**7 134**	**7 519**	**7 932**
TOTAL EXPENDITURE OTHER ITEMS	**31 796**	**37 066**	**39 067**	**41 216**

For the 2018/19 financial year an amount of R 26,510 million (71.52%) of total repairs and maintenance, will be spent on infrastructure assets.

1.5.1 Free Basic Services: Indigent Support

The indigent support assists indigent households that have limited financial ability to pay for municipal services. In order to qualify for free services, the households are required to register in terms of the Municipality's Indigent Policy, whilst the monthly household income may not exceed two state pensions. Detail relating to free services, cost of free basic services, as well as basic service delivery measurement is contained in Table A10 (Basic Service Delivery Measurement).

The cost of the indigent support of the registered indigent households is largely financed by national government through the local government equitable share allocation, received in terms of the annual Division of Revenue Act.

1.6 CAPITAL EXPENDITURE

The following table provides a breakdown of budgeted capital expenditure by vote:

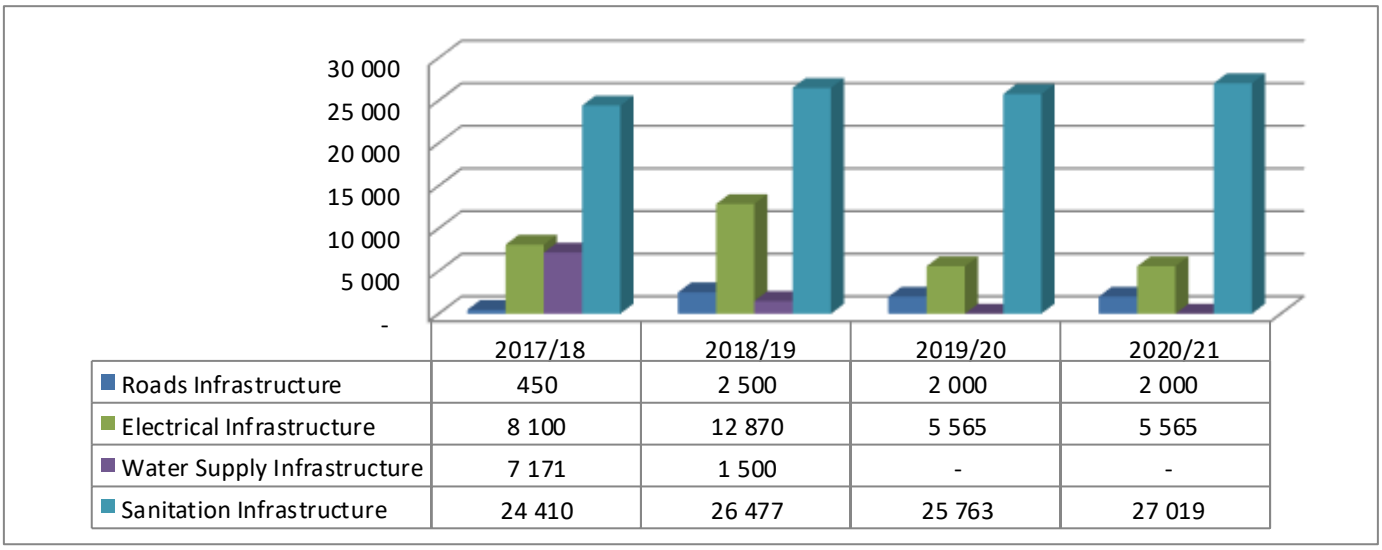
Table 7 (2018/19 Medium-term capital budget per vote)

Vote Description	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework					
R thousand	Adjusted Budget	%	Budget Year 2018/19	%	Budget Year 2019/20	%	Budget Year 2020/21	%
Single-year expenditure *to be appropriated*								
Vote 1 - Executive & Council	2 781	4.01%	860	1.27%	2 120	3.93%	2 247	4.00%
Vote 2 - Financial Services	2 790	4.02%	1 507	2.22%	2 206	4.09%	2 338	4.17%
Vote 3 - Corporate Services	2 384	3.43%	2 309	3.41%	1 014	1.88%	1 075	1.92%
Vote 4 - Planning & Development Tourism	2 027	2.92%	4 211	6.22%	2 360	4.38%	2 587	4.61%
Vote 5 - Infrastructure and Engineering	41 287	59.46%	46 545	68.71%	36 241	67.22%	37 672	67.10%
Vote 6 - Community Services	18 165	26.16%	12 313	18.18%	9 969	18.49%	10 220	18.20%
Total Capital Expenditure - Vote	**69 434**	**100.00%**	**67 745**	**100.00%**	**53 910**	**100.00%**	**56 139**	**100.00%**

Infrastructure and Engineering receives the highest allocation of R 46,545 million in 2018/19, which equates to 68.71%, followed by Community Services at R 12,313 million (18.18%), Planning, Development and Tourism at R 4,211 million (6.22%), Corporate Services at R 2,309 million (3.41%), Financial Services at R 1,507 million (2.22%) and Executive & Council at R 0,860 million (1.27%).

Annexure "C" provides a summary of the capital projects included in the Capital budget.

The following graph provides a breakdown of the capital budget to be spent on infrastructure related projects over the MTREF.



	2017/18	2018/19	2019/20	2020/21
Roads Infrastructure	450	2 500	2 000	2 000
Electrical Infrastructure	8 100	12 870	5 565	5 565
Water Supply Infrastructure	7 171	1 500	-	-
Sanitation Infrastructure	24 410	26 477	25 763	27 019

Figure 2 Capital Infrastructure Programme rounded to the nearest R1000

1.7 ANNUAL BUDGET TABLES

The ten main budget tables, as required in terms of the Municipal Budget and Reporting Regulations, are included in this section. These tables set out the Municipality's 2018/19 Budget and MTREF to be considered for approval by Council. Each table is accompanied by *explanatory notes*.

Table 8 (Table A1 - Budget Summary)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Financial Performance				
Property rates	160 565	176 766	190 024	204 275
Service charges	370 094	400 096	426 515	454 936
Investment revenue	7 405	7 561	7 969	8 408
Transfers recognised - operational	113 664	123 618	133 383	146 971
Other own revenue	37 299	45 675	48 141	50 789
Total Revenue (excluding capital transfers and contributions)	689 026	753 717	806 032	865 380
Employee costs	249 044	272 802	287 534	303 348
Remuneration of councillors	12 111	12 784	13 474	14 215
Depreciation & asset impairment	83 730	75 357	79 426	83 795
Finance charges	3 768	3 021	2 201	1 238
Materials and bulk purchases	253 028	269 933	284 510	300 158
Transfers and grants	30	–	–	–
Other expenditure	153 710	162 887	172 280	182 369
Total Expenditure	755 421	796 785	839 425	885 123
Surplus/(Deficit)	(66 395)	(43 068)	(33 393)	(19 743)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	35 660	39 827	41 977	44 286
Contributions recognised - capital & contributed assets	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	(30 735)	(3 241)	8 584	24 543
Share of surplus/ (deficit) of associate	–	–	–	–
Surplus/(Deficit) for the year	(30 735)	(3 241)	8 584	24 543
Capital expenditure & funds sources				
Capital expenditure	69 434	67 745	53 910	56 139
Transfers recognised - capital	36 456	34 682	31 864	33 201
Public contributions & donations	–	–	–	–
Borrowing	–	–	–	–
Internally generated funds	32 977	33 063	22 047	22 938
Total sources of capital funds	69 434	67 745	53 910	56 139

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousands	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Financial position				
Total current assets	148 539	131 820	164 048	214 349
Total non-current assets	2 656 940	2 442 954	2 450 890	2 459 409
Total current liabilities	163 348	133 877	134 249	139 698
Total non-current liabilities	148 939	183 244	180 445	176 706
Community wealth/Equity	2 493 192	2 257 653	2 300 244	2 357 355
Cash flows				
Net cash from (used) operating	49 752	74 823	90 864	111 348
Net cash from (used) investing	(67 834)	(67 745)	(53 910)	(56 139)
Net cash from (used) financing	(6 443)	(13 247)	(8 952)	(9 444)
Cash/cash equivalents at the year end	59 729	53 561	81 562	127 327
Cash backing/surplus reconciliation				
Cash and investments available	59 729	53 561	81 562	127 327
Application of cash and investments	34 038	22 586	22 349	22 111
Balance - surplus (shortfall)	25 691	30 974	59 213	105 217
Asset management				
Asset register summary (WDV)	2 656 790	2 442 890	2 450 825	2 459 344
Depreciation	83 730	75 357	79 426	83 795
Renewal of Existing Assets	30 446	3 700	3 560	3 424
Repairs and Maintenance	31 796	37 066	39 067	41 216
Free services				
Cost of Free Basic Services provided	–	49 473	52 857	56 472
Revenue cost of free services provided	47 293	66 922	72 859	79 381
Households below minimum service level				
Water:	–	–	–	–
Sanitation/sewerage:	–	–	–	–
Energy:	–	–	–	–
Refuse:	–	–	–	–

Explanatory notes to Table A1 - Budget Summary

The aim of the Budget Summary is to provide a concise overview of the proposed budget from all of the major financial perspectives (operating expenditure, capital expenditure, financial position, cash flow, and MFMA funding compliance). The table provides an overview of the amounts to be approved by Council within the context of operating performance, resources utilised for capital expenditure, financial position, cash and funding compliance, as well as the Municipality's commitment to eliminating basic service delivery backlogs.

Table 9 (Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification))

Functional Classification Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Revenue - Functional				
Governance and administration	**466 104**	**314 268**	**339 937**	**369 006**
Executive and council	15	26	27	29
Finance and administration	466 089	314 242	339 910	368 978
Internal audit	–	–	–	–
Community and public safety	**18 580**	**15 404**	**15 930**	**16 493**
Community and social services	2 515	2 458	2 480	2 503
Sport and recreation	11 638	9 151	9 645	10 175
Public safety	1 875	1 869	1 869	1 869
Housing	–	–	–	–
Health	2 552	1 927	1 936	1 945
Economic and environmental services	**30 077**	**17 367**	**17 182**	**18 120**
Planning and development	8 246	6 312	6 598	6 954
Road transport	7 426	10 005	9 477	9 998
Environmental protection	14 405	1 050	1 107	1 168
Trading services	**209 927**	**446 060**	**474 960**	**506 046**
Energy sources	57 106	258 381	277 697	298 474
Water management	59 871	70 200	71 079	71 977
Waste water management	65 521	72 456	77 868	83 740
Waste management	27 429	45 023	48 316	51 855
Other	**–**	**445**	**–**	**–**
Total Revenue - Functional	**724 687**	**793 544**	**848 009**	**909 666**
Expenditure - Functional				
Governance and administration	**172 034**	**189 348**	**199 832**	**211 089**
Executive and council	47 505	52 250	55 072	58 101
Finance and administration	124 529	137 097	144 760	152 988
Internal audit	–	–	–	–

Functional Classification Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Community and public safety	**85 944**	**86 538**	**90 229**	**94 107**
Community and social services	9 353	9 483	9 995	10 544
Sport and recreation	48 321	46 668	48 206	49 773
Public safety	19 773	21 090	22 229	23 451
Housing	3 812	3 531	3 721	3 926
Health	4 685	5 767	6 078	6 412
Economic and environmental services	**104 133**	**101 757**	**107 251**	**113 150**
Planning and development	30 503	33 954	35 787	37 756
Road transport	67 464	67 770	71 430	75 358
Environmental protection	6 167	33	34	36
Trading services	**390 041**	**415 110**	**437 863**	**462 293**
Energy sources	235 025	248 404	262 193	276 999
Water management	80 726	80 154	84 278	88 703
Waste water management	40 804	41 745	44 104	46 641
Waste management	33 486	44 808	47 288	49 950
Other	**3 268**	**4 032**	**4 250**	**4 484**
Total Expenditure - Functional	**755 421**	**796 785**	**839 425**	**885 123**
Surplus/(Deficit) for the year	**(30 734)**	**(3 241)**	**8 584**	**24 543**

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

The 'standard classification' refers to a modified Government Finance Statistics (GFS) reporting structure. The aim of the standard classification approach is to ensure that all municipalities approve a budget in one common format, to facilitate comparison across all municipalities. It should be noted that the revenue by vote as reflected in this table, includes revenue attributable to capital grants.

Table 10 (Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote))

Vote Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Revenue by Vote				
Vote 1 - Executive & Council	–	–	–	–
Vote 2 - Financial Services	279 731	310 697	336 174	365 036
Vote 3 - Corporate Services	733	26	27	29
Vote 4 - Planning & Development Tourism	4 854	3 316	3 026	3 192
Vote 5 - Infrastructure and Engineering	368 991	405 491	430 217	457 954
Vote 6 - Community Services	70 377	74 014	78 565	83 456
Total Revenue by Vote	**724 687**	**793 544**	**848 009**	**909 666**
Expenditure by Vote *to be appropriated*				
Vote 1 - Executive & Council	35 302	33 404	35 208	37 145
Vote 2 - Financial Services	72 852	79 397	83 945	88 828
Vote 3 - Corporate Services	39 300	49 336	52 000	54 860
Vote 4 - Planning & Development Tourism	22 607	22 307	23 512	24 805
Vote 5 - Infrastructure and Engineering	437 391	455 521	480 395	507 103
Vote 6 - Community Services	147 970	156 819	164 365	172 382
Total Expenditure by Vote	**755 421**	**796 785**	**839 425**	**885 123**
Surplus/(Deficit) for the year	**(30 735)**	**(3 241)**	**8 584**	**24 543**

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

1. The purpose of the format in which the budget is presented, is to enable the Council to enforce a vote in accordance with the municipality's organisational structure, so as to assign responsibility for the revenue and expenditure recorded against these votes to the Municipal Manager and Directors concerned. Operating revenue and expenditure is thus presented by 'vote'. A 'vote' is defined as one of the main segments into which a budget of a municipality is divided into, for the appropriation of funds.

Table 11 (Table A4 - Budgeted Financial Performance (revenue and expenditure))

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Revenue By Source				
Property rates	160 565	176 766	190 024	204 275
Service charges - electricity revenue	230 405	247 165	265 875	286 002
Service charges - water revenue	58 871	67 702	68 447	69 200
Service charges - sanitation revenue	40 622	41 658	45 407	49 494
Service charges - refuse revenue	40 195	43 571	46 785	50 241
Service charges - other		–	–	–
Rental of facilities and equipment	1 774	1 881	1 982	2 091
Interest earned - external investments	7 405	7 561	7 969	8 408
Interest earned - outstanding debtors	8 939	14 986	15 795	16 664
Dividends received		–	–	–
Fines, penalties and forfeits	3 962	4 230	4 458	4 704
Licences and permits	12 276	16 661	17 561	18 527
Agency services	–	–	–	–
Transfers and subsidies	113 664	123 618	133 383	146 971
Other revenue	10 347	7 917	8 345	8 804
Gains on disposal of PPE		–	–	–
Total Revenue (excluding capital transfers and contributions)	**689 026**	**753 717**	**806 032**	**865 380**
Expenditure By Type				
Employee related costs	249 044	272 802	287 534	303 348
Remuneration of councillors	12 111	12 784	13 474	14 215
Debt impairment	49 997	41 429	44 263	47 311
Depreciation & asset impairment	83 730	75 357	79 426	83 795
Finance charges	3 768	3 021	2 201	1 238
Bulk purchases	225 623	241 476	254 515	268 514
Other materials	27 405	28 458	29 994	31 644
Contracted services	42 971	45 111	47 547	50 162
Transfers and subsidies	30	–	–	–
Other expenditure	60 742	76 346	80 469	84 895
Loss on disposal of PPE		–	–	–
Total Expenditure	**755 421**	**796 785**	**839 425**	**885 123**

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Surplus/(Deficit)	**(66 395)**	**(43 068)**	**(33 393)**	**(19 743)**
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	35 660	39 827	41 977	44 286
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	–	–	–	–
Transfers and subsidies - capital (in-kind - all)				
Surplus/(Deficit) after capital transfers & contributions	**(30 735)**	**(3 241)**	**8 584**	**24 543**
Taxation				
Surplus/(Deficit) after taxation	**(30 735)**	**(3 241)**	**8 584**	**24 543**
Attributable to minorities				
Surplus/(Deficit) attributable to municipality	**(30 735)**	**(3 241)**	**8 584**	**24 543**
Share of surplus/ (deficit) of associate				
Surplus/(Deficit) for the year	**(30 735)**	**(3 241)**	**8 584**	**24 543**

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

Revenue

1. The Financial Performance Budget is required to be approved concurrently by revenue source and expenditure type, so as to ensure consistency with annual reporting format requirements. A key aim is to facilitate comparison between the annual results and the original budget, so as to assess performance.

2. Total revenue amounts to R 753,717 million in 2018/19 and increases to R 865,380 million in 2020/21. This represents a year-on-year increase of 9.39% for the 2018/19 financial year and increases of 6.94% for the 2019/20 financial year and 7.36% for the 2020/21 financial year, respectively.

3. Revenue from property rates amounts to R 176,766 million in the 2018/19 financial year and increases to R 204,275 million in 2020/21, which amounts to 23.45% of the total operating revenue base of the Municipality.

4. Services charges relating to electricity, water, sanitation, environmental management and refuse collection constitute the biggest component of the total revenue base, amounting to R 400,096 million for the 2018/19 financial year and increasing to R 454,936 million in 2020/21. For the 2018/19 financial year services charges amount to 53.08% of the total revenue base.

5. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It is to be noted that the grants increased by 8.76% for 2018/19, 7.90% for 2019/20 and increased by 10.19% for 2020/21, compared to the 2017/18 Adjustments Budget.

Below a breakdown of property rates and service charges for 2018/19:

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework	
R thousand	**Adjusted Budget**	**Budget Year 2018/19**	**%**
Revenue By Source			
Property rates	160 565	176 766	10.09%
Service charges - electricity revenue	230 405	247 165	7.27%
Service charges - water revenue	58 871	67 702	15%
Service charges - sanitation revenue	40 622	41 658	3%
Service charges - refuse revenue	27 412	29 996	9%
Service charges - environmental management fees	12 782	13 575	6%

Table 12 (Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source)

Vote Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Single-year expenditure *to be appropriated*				
Vote 1 - Executive & Council	2 781	860	2 120	2 247
Vote 2 - Financial Services	2 790	1 507	2 206	2 338
Vote 3 - Corporate Services	2 384	2 309	1 014	1 075
Vote 4 - Planning & Development Tourism	2 027	4 211	2 360	2 587
Vote 5 - Infrastructure and Engineering	41 287	46 545	36 241	37 672
Vote 6 - Community Services	18 165	12 313	9 969	10 220
Capital single-year expenditure sub-total	**69 434**	**67 745**	**53 910**	**56 139**
Total Capital Expenditure - Vote	**69 434**	**67 745**	**53 910**	**56 139**
Capital Expenditure - Functional				
Governance and administration	**8 231**	**5 346**	**5 746**	**6 073**
Executive and council	2 757	985	2 200	2 331
Finance and administration	5 474	4 361	3 547	3 742
Internal audit	–	–	–	–
Community and public safety	**10 415**	**7 368**	**6 541**	**6 652**
Community and social services	849	679	616	650
Sport and recreation	7 041	5 489	5 425	5 702
Public safety	2 150	200	500	300
Housing	–	1 000	–	–
Health	375	–	–	–
Economic and environmental services	**5 660**	**6 159**	**4 974**	**5 237**
Planning and development	2 672	3 509	2 729	2 977
Road transport	1 688	2 650	2 245	2 260
Environmental protection	1 300	–	–	–

Vote Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Trading services	**45 128**	**48 872**	**36 649**	**38 177**
Energy sources	4 940	12 905	5 602	5 605
Water management	8 013	1 715	228	242
Waste water management	26 538	28 977	27 883	29 266
Waste management	5 636	5 275	2 936	3 064
Other	–	–	–	–
Total Capital Expenditure - Functional	**69 434**	**67 745**	**53 910**	**56 139**
Funded by:				
National Government	35 311	34 682	31 864	33 201
Provincial Government	–	–	–	–
District Municipality	1 145	–	–	–
Other transfers and grants	–	–	–	–
Transfers recognised - capital	**36 456**	**34 682**	**31 864**	**33 201**
Public contributions & donations		–	–	–
Borrowing		–	–	–
Internally generated funds	32 977	33 063	22 047	22 938
Total Capital Funding	**69 434**	**67 745**	**53 910**	**56 139**

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

1. 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.

2. The capital programme is funded from national grants and internally generated funds. For 2018/19, capital transfers totals R 34,682 million (51.19%) and amounts to R 33,201 million for 2020/21 (59.14%). Internally generated funding amounts to R 33,063 million, R 22,047 million and R 22,938 million for each of the respective financial years of the MTREF. These funding sources are further discussed in detail in Section 2.6 (Overview of Budget Funding).

Table 13 (Table A6 - Budgeted Financial Position)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
ASSETS				
Current assets				
Cash	5 973	5 356	8 156	12 733
Call investment deposits	53 757	48 205	73 406	114 595
Consumer debtors	55 213	42 559	44 857	47 324
Other debtors	28 902	31 184	32 868	34 676
Current portion of long-term receivables	3	3	3	3
Inventory	4 691	4 513	4 757	5 019
Total current assets	**148 539**	**131 820**	**164 048**	**214 349**
Non-current assets				
Long-term receivables	150	65	65	65
Investments	–			
Investment property	84 431	285 199	285 199	285 199
Investment in Associate	–			
Property, plant and equipment	2 572 286	2 157 628	2 165 564	2 174 082
Agricultural				
Biological				
Intangible	73	62	62	62
Other non-current assets				
Total non-current assets	**2 656 940**	**2 442 954**	**2 450 890**	**2 459 409**
TOTAL ASSETS	**2 805 479**	**2 574 775**	**2 614 938**	**2 673 758**
LIABILITIES				
Current liabilities				
Bank overdraft				
Borrowing	6 443	13 247	8 952	9 444
Consumer deposits	19 073	10 479	11 044	11 652
Trade and other payables	106 811	87 054	89 908	92 918
Provisions	31 021	23 097	24 344	25 683
Total current liabilities	**163 348**	**133 877**	**134 249**	**139 698**
Non-current liabilities				
Borrowing	30 269	23 112	15 090	6 128
Provisions	118 670	160 132	165 355	170 577
Total non-current liabilities	**148 939**	**183 244**	**180 445**	**176 706**
TOTAL LIABILITIES	**312 287**	**317 122**	**314 694**	**316 403**
NET ASSETS	**2 493 192**	**2 257 653**	**2 300 244**	**2 357 355**
COMMUNITY WEALTH/EQUITY				
Accumulated Surplus/(Deficit)	2 493 192	2 257 653	2 300 244	2 357 355
Reserves	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	**2 493 192**	**2 257 653**	**2 300 244**	**2 357 355**

Explanatory notes to Table A6 - Budgeted Financial Position

1. The table presents Assets less Liabilities as Community Wealth. The order of items within each group is also aligned to the convention of showing items in order of liquidity; i.e. assets readily converted to cash or liabilities immediately required to be met from cash appear first.

2. Any movement on the Budgeted Financial Performance or the Capital Budget will invariably impact on the Budgeted Financial Position. For example, the collection rate assumption will impact on the cash position of the municipality and consequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption informs the budget provision for debt impairment, which in turn impacts on the provision for bad debts. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is directly informed by forecasting the statement of financial position

Table 14 (Table A7 - Budgeted cash flow statement)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates	144 894	164 393	176 722	189 976
Service charges	334 125	372 090	396 659	423 091
Other revenue	26 760	30 689	32 346	34 125
Government - operating	113 664	123 618	133 383	146 971
Government - capital	35 660	39 827	41 977	44 286
Interest	16 344	21 498	22 659	23 905
Dividends		–	–	–
Payments				
Suppliers and employees	(617 897)	(674 270)	(710 681)	(749 768)
Finance charges	(3 768)	(3 021)	(2 201)	(1 238)
Transfers and Grants	(30)	–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES	**49 752**	**74 823**	**90 864**	**111 348**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	1 600	–	–	–
Decrease (Increase) in non-current debtors		–	–	–
Decrease (increase) other non-current receivables		–	–	–
Decrease (increase) in non-current investments		–	–	–
Payments				
Capital assets	(69 434)	(67 745)	(53 910)	(56 139)
NET CASH FROM/(USED) INVESTING ACTIVITIES	**(67 834)**	**(67 745)**	**(53 910)**	**(56 139)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans		–	–	–
Borrowing long term/refinancing		–	–	–
Increase (decrease) in consumer deposits		–	–	–
Payments				
Repayment of borrowing	(6 443)	(13 247)	(8 952)	(9 444)
NET CASH FROM/(USED) FINANCING ACTIVITIES	**(6 443)**	**(13 247)**	**(8 952)**	**(9 444)**
NET INCREASE/ (DECREASE) IN CASH HELD	**(24 524)**	**(6 169)**	**28 002**	**45 765**
Cash/cash equivalents at the year begin:	**84 254**	**59 729**	**53 561**	**81 562**
Cash/cash equivalents at the year-end:	**59 729**	**53 561**	**81 562**	**127 327**

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement represents the first measurement in determining whether the budget is funded.

2. It reflects the expected cash in-flows versus cash outflows that are likely to result from the implementation of the budget.

3. The cash position of the Municipality increases over the 2017/18 to 2020/21 period, from R59,729 million to R 127,327 million.

4. Cash and cash equivalents amounts to R 53,561 million as at the end of the 2018/19 financial year and increases to R 127,327 million in 2020/21.

Table 15 (Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Cash and investments available				
Cash/cash equivalents at the year end	59 729	53 561	81 562	127 327
Other current investments > 90 days	–	–	–	–
Non-current assets - Investments	–	–	–	–
Cash and investments available:	**59 729**	**53 561**	**81 562**	**127 327**
Application of cash and investments				
Unspent conditional transfers	–	–	–	–
Unspent borrowing	–	–	–	–
Statutory requirements				
Other working capital requirements	31 770	19 810	19 018	18 113
Other provisions	2 268	2 776	3 331	3 997
Long term investments committed	–	–	–	–
Reserves to be backed by cash/investments				
Total Application of cash and investments:	**34 038**	**22 586**	**22 349**	**22 111**
Surplus(shortfall)	**25 691**	**30 974**	**59 213**	**105 217**

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

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.

2. The table assesses 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.

3. As part of the budgeting and planning guidelines that informed the compilation of the 2018/19 MTREF, the end objective of the medium-term framework was to ensure the budget is funded as required in accordance with section 18 of the MFMA.

4. It is to be noted that the budget moves from a funding surplus of R 30,974 million in 2018/19 to a funding surplus of R 105,217 million in 2020/21.

5. In relation to 2018/19 other working capital requirements include an amount of R 15 million as a potential liability relating to the Nelson Mandela Metro Bulk Water account. The remaining amount of R 30 million has been treated as a contingent liability.

Table 16 (Table A9 - Asset Management)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
CAPITAL EXPENDITURE				
Total New Assets	**39 096**	**28 898**	**17 909**	**18 951**
Electrical Infrastructure	2 400	4 000	–	–
Water Supply Infrastructure	7 021	1 500	–	–
Sanitation Infrastructure	24 310	1 800	477	506
Infrastructure	***33 731***	***7 300***	***477***	***506***
Community Facilities	1 734	1 300	2 170	2 297
Sport and Recreation Facilities	(1 440)	250	212	225
Community Assets	***293***	***1 550***	***2 382***	***2 522***
Non-revenue Generating	258	1 000	–	–
Investment properties	***258***	***1 000***	**–**	**–**
Operational Buildings	330	314	318	337
Other Assets	***330***	***314***	***318***	***337***
Biological or Cultivated Assets	**1 440**	**1 221**	**1 221**	**1 379**
Licences and Rights	951	1 300	–	–
Intangible Assets	***951***	***1 300***	**–**	**–**
Computer Equipment	**1 310**	**2 063**	**1 847**	**1 958**
Furniture and Office Equipment	**1 920**	**5 375**	**4 936**	**5 197**
Machinery and Equipment	**4 597**	**2 275**	**2 487**	**2 558**
Transport Assets	**(5 735)**	**6 500**	**4 240**	**4 494**
Total Renewal of Existing Assets	**30 446**	**3 700**	**3 560**	**3 424**
Roads Infrastructure	450	2 500	2 000	2 000
Electrical Infrastructure	5 700	–	–	–
Water Supply Infrastructure	150	–	–	–
Sanitation Infrastructure	100	–	–	–
Infrastructure	***6 400***	***2 500***	***2 000***	***2 000***
Community Facilities	200	200	500	300
Sport and Recreation Facilities	5 299	1 000	1 060	1 124
Community Assets	***5 499***	***1 200***	***1 560***	***1 424***
Non-revenue Generating	9 940	–	–	–
Investment properties	***9 940***	**–**	**–**	**–**
Operational Buildings	(70)	–	–	–
Other Assets	***(70)***	**–**	**–**	**–**
Transport Assets	**8 677**	**–**	**–**	**–**

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Total Upgrading of Existing Assets	**–**	**35 147**	**32 441**	**33 764**
Electrical Infrastructure	–	8 870	5 565	5 565
Sanitation Infrastructure	–	24 677	25 286	26 514
Infrastructure	**–**	***33 547***	***30 851***	***32 079***
Community Facilities	–	1 600	1 590	1 685
Community Assets	**–**	***1 600***	***1 590***	***1 685***
Total Capital Expenditure				
Roads Infrastructure	450	2 500	2 000	2 000
Electrical Infrastructure	8 100	12 870	5 565	5 565
Water Supply Infrastructure	7 171	1 500	–	–
Sanitation Infrastructure	24 410	26 477	25 763	27 019
Infrastructure	***40 131***	***43 347***	***33 328***	***34 585***
Community Facilities	1 934	3 100	4 260	4 283
Sport and Recreation Facilities	3 859	1 250	1 272	1 348
Community Assets	***5 792***	***4 350***	***5 532***	***5 631***
Non-revenue Generating	10 198	1 000	–	–
Investment properties	***10 198***	***1 000***	**–**	**–**
Operational Buildings	260	314	318	337
Other Assets	***260***	***314***	***318***	***337***
Biological or Cultivated Assets	**1 440**	**1 221**	**1 221**	**1 379**
Licences and Rights	951	1 300	–	–
Intangible Assets	***951***	***1 300***	**–**	**–**
Computer Equipment	**1 310**	**2 063**	**1 847**	**1 958**
Furniture and Office Equipment	**1 920**	**5 375**	**4 936**	**5 197**
Machinery and Equipment	**4 597**	**2 275**	**2 487**	**2 558**
Transport Assets	**2 942**	**6 500**	**4 240**	**4 494**
TOTAL CAPITAL EXPENDITURE - Asset class	**69 542**	**67 745**	**53 910**	**56 139**
ASSET REGISTER SUMMARY - PPE (WDV)				
Roads Infrastructure	1 142 165	859 170	861 805	864 585
Electrical Infrastructure	158 881	173 081	188 047	203 837
Water Supply Infrastructure	298 542	300 042	301 623	303 291
Sanitation Infrastructure	428 461	456 689	418 917	379 214
Solid Waste Infrastructure	150	1 000	1 896	2 841
Information and Communication Infrastructure	1 000	1 000	1 000	1 000
Infrastructure	***2 029 197***	***1 790 981***	***1 773 288***	***1 754 768***
Community Facilities	64 533	68 383	72 441	76 722
Sport and Recreation Facilities	50	1 250	2 515	3 849
Community Assets	***64 583***	***69 633***	***74 956***	***80 572***
Revenue Generating	84 431	84 431	84 431	84 431
Investment properties	***84 431***	***84 431***	***84 431***	***84 431***
Operational Buildings	453 114	453 638	454 190	454 773
Other Assets	***453 114***	***453 638***	***454 190***	***454 773***
Biological or Cultivated Assets		**2 804**	**5 760**	**8 878**
Licences and Rights	24	1 024	2 078	3 190
Intangible Assets	***24***	***1 024***	***2 078***	***3 190***
Computer Equipment	**716**	**3 300**	**6 022**	**8 895**
Furniture and Office Equipment	**4 952**	**10 807**	**16 978**	**23 488**
Machinery and Equipment	**9 800**	**12 300**	**14 935**	**17 715**
Transport Assets	**9 971**	**13 971**	**18 187**	**22 635**
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	**2 656 790**	**2 442 890**	**2 450 825**	**2 459 344**

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
EXPENDITURE OTHER ITEMS				
Depreciation	83 730	75 357	79 426	83 795
Repairs and Maintenance by Asset Class	**31 796**	**37 066**	**39 067**	**41 216**
Roads Infrastructure	4 889	9 815	10 345	10 914
Storm water Infrastructure	1 930	830	875	923
Electrical Infrastructure	6 443	5 795	6 108	6 444
Water Supply Infrastructure	4 062	3 714	3 915	4 130
Sanitation Infrastructure	3 117	3 956	4 170	4 399
Solid Waste Infrastructure	–	2 400	2 530	2 669
Infrastructure	***20 441***	***26 510***	***27 942***	***29 479***
Community Facilities	1 378	985	1 038	1 095
Sport and Recreation Facilities	200	200	211	222
Community Assets	***1 578***	***1 185***	***1 249***	***1 317***
Operational Buildings	842	1 834	1 933	2 040
Other Assets	***842***	***1 834***	***1 933***	***2 040***
Biological or Cultivated Assets	**335**	**–**	**–**	**–**
Machinery and Equipment	**–**	**403**	**425**	**448**
Transport Assets	**8 600**	**7 134**	**7 519**	**7 932**
TOTAL EXPENDITURE OTHER ITEMS	**115 526**	**112 423**	**118 494**	**125 011**
Renewal and upgrading of Existing Assets as % of total capex	*43.8%*	*57.3%*	*66.8%*	*66.2%*
Renewal and upgrading of Existing Assets as % of deprecn	*36.4%*	*51.6%*	*45.3%*	*44.4%*
R&M as a % of PPE	*1.2%*	*1.7%*	*1.8%*	*1.9%*
Renewal and upgrading and R&M as a % of PPE	*2.0%*	*3.0%*	*3.0%*	*3.0%*

Explanatory notes to Table A9 - Asset Management

1. The table provides a summarised version of the capital programme divided into new assets and renewal of existing assets; and also reflects the relevant asset categories. The associated repairs and maintenance and depreciation are also reflected.

   It also provides an indication of the resources deployed for maintaining and renewing existing assets, as well as the extent of asset expansion.

2. National Treasury has suggested that municipalities should allocate at least 40% of their capital budget to the renewal/rehabilitation of existing assets, and allocations to repairs and maintenance should be 8% of PPE. In this regard the expenditure relating to the renewal/rehabilitation of existing assets amounts to 57.3% of the capital budget, whilst repairs and maintenance constitute 1.7% of PPE.

Table 17 (Table A10 - Basic Service Delivery Measurement)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Household service targets				
Water:				
Piped water inside dwelling	–	–	–	–
Piped water inside yard (but not in dwelling)	–	–	–	–
Using public tap (at least min.service level)	–	–	–	–
Other water supply (at least min.service level)	–	–	–	–
Minimum Service Level and Above sub-total	–	–	–	–
Using public tap (< min.service level)	–	–	–	–
Other water supply (< min.service level)	–	–	–	–
No water supply	–	–	–	–
Below Minimum Service Level sub-total	–	–	–	–
Total number of households	**–**	**–**	**–**	**–**
Sanitation/sewerage:				
Flush toilet (connected to sewerage)	–	–	–	–
Flush toilet (with septic tank)	–	–	–	–
Chemical toilet	–	–	–	–
Pit toilet (ventilated)	–	–	–	–
Other toilet provisions (> min.service level)	–	–	–	–
Minimum Service Level and Above sub-total	–	–	–	–
Bucket toilet	–	–	–	–
Other toilet provisions (< min.service level)	–	–	–	–
No toilet provisions	–	–	–	–
Below Minimum Service Level sub-total	–	–	–	–
Total number of households	**–**	**–**	**–**	**–**
Energy:				
Electricity (at least min.service level)	8 613	9 202	9 832	10 504
Electricity - prepaid (min.service level)	13 169	14 070	15 032	16 060
Minimum Service Level and Above sub-total	21 782	23 272	24 864	26 564
Electricity (< min.service level)	–	–	–	–
Electricity - prepaid (< min. service level)	–	–	–	–
Other energy sources	–	–	–	–
Below Minimum Service Level sub-total	–	–	–	–

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Total number of households	**21 782**	**23 272**	**24 864**	**26 564**
Refuse:				
Removed at least once a week	–	–	–	–
Minimum Service Level and Above sub-total	–	–	–	–
Removed less frequently than once a week	–	–	–	–
Using communal refuse dump	–	–	–	–
Using own refuse dump	–	–	–	–
Other rubbish disposal	–	–	–	–
No rubbish disposal	–	–	–	–
Below Minimum Service Level sub-total	–	–	–	–
Total number of households	**–**	**–**	**–**	**–**
Households receiving Free Basic Service				
Water (6 kilolitres per household per month)	8 000	8 000	8 000	8 000
Sanitation (free minimum level service)	8 000	8 000	8 000	8 000
Electricity/other energy (50kwh per household per month)	8 000	8 000	8 000	8 000
Refuse (removed at least once a week)	8 000	8 000	8 000	8 000
Cost of Free Basic Services provided - Formal Settlements (R'000)				
Water (6 kilolitres per **indigent** household per month)	15 221	17 504	18 701	19 980
Sanitation (free sanitation service to **indigent households**)	8 049	8 773	9 373	10 014
Electricity/other energy (50kwh per **indigent** household per month)	4 585	4 898	5 233	5 591
Refuse (removed once a week **for indigent households**)	17 101	18 298	19 550	20 887
Cost of Free Basic Services provided - Informal Formal Settlements (R'000)		–	–	–
Total cost of FBS provided	44 955	**49 473**	**52 857**	**56 472**
Highest level of free service provided per household				
Property rates (R value threshold)	1 443	1 443	1 443	1 443
Water (kilolitres per household per month)	12	12	12	12
Sanitation (kilolitres per household per month)	12	12	12	12
Sanitation (Rand per household per month)	105	105	105	105
Electricity (kwh per household per month)	50	50	50	50
Refuse (average litres per week)	371	371	371	371

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Revenue cost of subsidised services provided (R'000)				
Property rates **(tariff adjustment)** (**impermissable values per section 17 of MPRA**)	–			
Property rates exemptions, reductions and rebates **and impermissable values in excess of section 17 of MPRA)**	2 339	30 007	32 257	34 676
Water **(in excess of 6 kilolitres per indigent household per month)**	–	12 351	14 204	16 335
Sanitation **(in excess of free sanitation service to indigent households)**	–	6 102	6 651	7 250
Electricity/other energy **(in excess of 50 kwh per indigent household per month)**	–	4 898	5 233	5 591
Refuse **(in excess of one removal a week for indigent households)**	–	13 564	14 513	15 529
Municipal Housing - rental rebates	–			
Housing - top structure subsidies	–			
Other	–			
Total revenue cost of subsidised services provided	**2 339**	**66 922**	**72 859**	**79 381**

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.

PART 2 – SUPPORTING DOCUMENTATION

2.1 OVERVIEW OF ANNUAL BUDGET PROCESS

The Budget process started in September 2017 after the approval of a timetable to guide the preparation of the 2018/19 to 2020/21 Operating and Capital Budgets.

The timetable provides broad timeframes for the IDP and Budget preparation process. It allows for consultation with stakeholders, such as the elected public representatives, employees of the Municipality, Civil Society, State departments, business and labour, during April/May 2018. The main aim of the timetable was to ensure that an IDP and a balanced Budget are tabled in May 2018. The Budget will be tabled by the Executive Mayor at a Council meeting scheduled for 31 May 2018. After this meeting, it will be submitted to National and Provincial Treasury.

The budget consultation process took the form of a series of public meetings in the various wards under the direction and leadership of the Executive Mayor and his Mayoral Committee. The inputs of the aforementioned consultations were taken into account, whilst the Executive Mayor will table the IDP and Budget for consideration and approval at a Council meeting to be held on 31 May 2018.

The Service Delivery and Budget Implementation Plan is the mechanism that ensures that the IDP and the Budget is aligned.

The Budget was considered by the IDP and Budget Steering Committee under the direction of the Executive Mayor. The IDP and Budget Steering Committee consist of the Executive Mayor, the Chairperson of the Finance Standing Committee, Mayoral Committee Members, Finance Committee Members, the Municipal Manager and senior officials. The primary aims of the Committee are to ensure that:

- The budget compilation process complies with legislation;
- There is proper alignment between the service delivery priorities as set out in the Municipality's IDP and the Budget, taking into account the need to maintain the financial sustainability of the Municipality;
- The Municipality's revenue and tariff determination strategies generate sufficient cash resources to deliver services; and
- The various spending priorities of the different municipal directorates are properly evaluated and prioritised in the allocation of resources.

2.1.1 IDP & Budget Timetable 2018/19 to 2020/21

The preparation of the 2018/19 to 2020/21 IDP and Budget were guided by the following schedule of key deadlines as approved by Council on 31 August 2017.

Activity	Date
IDP/Budget Schedule approved by Council	31 August 2017
Tabling of draft IDP and Budget in Council	29 March 2018
Public Participation	16 April to 23 May 2018
Final adoption of IDP and Budget by Council	31 May 2018
Approval of SDBIP by Executive Mayor	28 June 2018

2.2 ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

The Integrated Development Plan (IDP) determines and prioritises the needs of the community.

The review of the IDP, in accordance with the Municipal Systems Act, was guided and informed by the following principles:

- Achievement of the five strategic priorities of the municipality.
- Focusing on service delivery backlogs and the maintenance of infrastructure.
- Addressing community priorities (needs) as identified in the IDP.

The review of the IDP focused on establishing measurable performance indicators and targets. These targets informed the preparation of the multi-year budget, as well as the Service Delivery and Budget Implementation Plan (SDBIP).

The 2018/19 to 2020/21 Operating and Capital Budgets were prepared in accordance with the IDP. The key strategic focus areas of the IDP are as follows:

- Municipal transformation and development
- Service delivery and infrastructure development
- Local economic development
- Financial sustainability and viability

- Good governance and public participation

The budget consultation process took the form of a series of meetings held throughout the municipal area with the elected public representatives, employees of the Municipality, Civil Society, business, labour, National and Provincial Governments on how the budget addresses the IDP priorities and objectives. The feedback flowing from these meetings was referred to the relevant Directorates for their attention.

Below is a table, which illustrates the link between the Budget and the IDP.

BUDGET ALLOCATION ACCORDING TO IDP PRIORITIES

	Municipal Transformation and Development	Service Delivery and Infrastructure Development	Local Economic Development	Financial Sustainability and Viability	Good Governance and Public Participation	Spatial Rationale and Environmental Management	Total
R thousand							
2018/19 Budget							
Capital Expenditure	629	56 845	2 311	1 520	2 540	3 900	**67 745**
Operating Expenditure	8 503	598 791	8 858	83 023	72 680	24 930	**796 785**
Total	**9 132**	**655 636**	**11 169**	**84 543**	**75 220**	**28 830**	**864 529**
2019/20 Budget							
Capital Expenditure	135	45 395	2 360	2 220	3 000	800	**53 910**
Operating Expenditure	8 962	630 480	9 337	87 766	76 605	26 276	**839 425**
Total	**9 097**	**675 875**	**11 697**	**89 986**	**79 605**	**27 076**	**893 335**
2020/21 Budget							
Capital Expenditure	143	47 077	2 587	2 353	3 180	800	**56 139**
Operating Expenditure	9 455	664 419	9 850	92 859	80 818	27 721	**885 123**
Total	**9 598**	**711 496**	**12 437**	**95 212**	**83 998**	**28 521**	**941 262**

BUDGET ALLOCATION ACCORDING TO IDP PRIORITIES

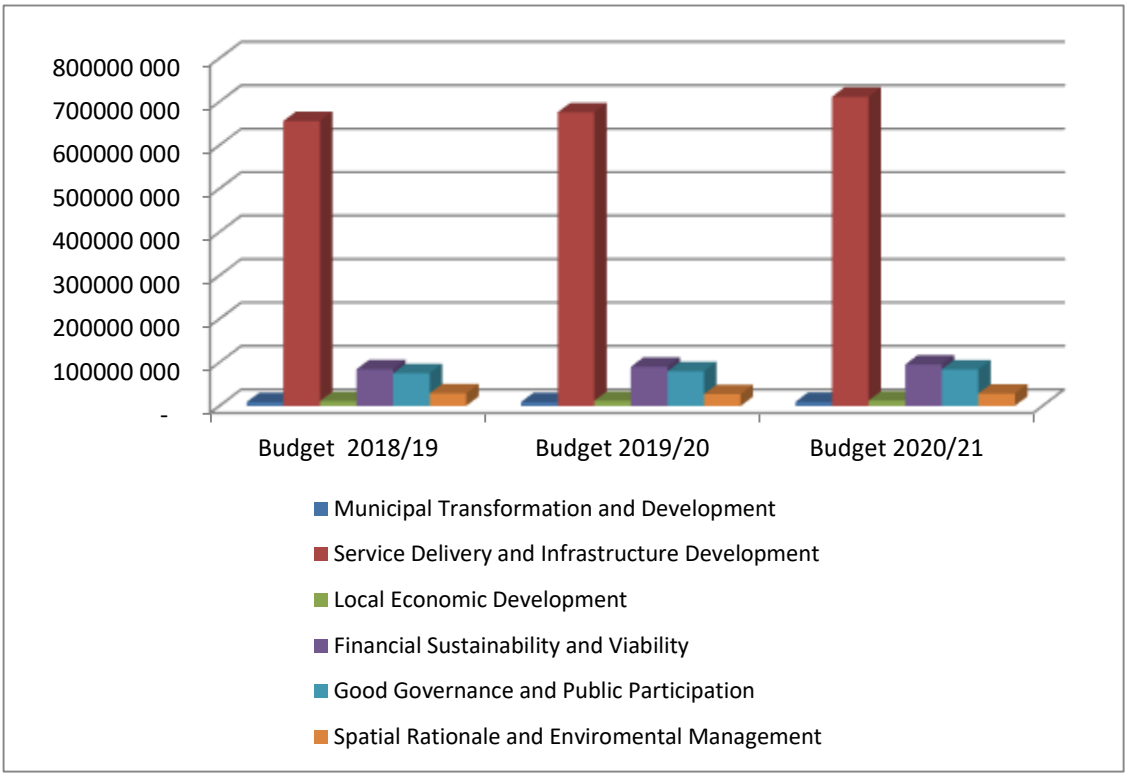


Figure 3 – 2018/19 Expenditure by IDP Priorities

2.3 MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

Description of financial indicator	Basis of calculation	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Borrowing Management					
Credit Rating					
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	1.4%	2.0%	1.3%	1.2%
Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	1.8%	2.6%	1.7%	1.5%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure excl. transfers and grants and contributions	0.0%	0.0%	0.0%	0.0%
Safety of Capital					
Gearing	Long Term Borrowing/ Funds & Reserves	0.0%	0.0%	0.0%	0.0%
Liquidity					
Current Ratio	Current assets/current liabilities	0.9	1.0	1.2	1.5
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	0.9	1.0	1.2	1.5
Liquidity Ratio	Monetary Assets/Current Liabilities	0.4	0.4	0.6	0.9

Description of financial indicator	Basis of calculation	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Revenue Management					
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing	90.0%	93.0%	93.0%	93.0%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		90.0%	93.0%	93.0%	93.0%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	12.2%	9.8%	9.7%	9.5%
Creditors Management					
Creditors to Cash and Investments		178.8%	162.5%	110.2%	73.0%
Other Indicators					
Employee costs	Employee costs/ (Total Revenue - capital revenue)	36.1%	36.2%	35.7%	35.1%
Remuneration	Total remuneration/ (Total Revenue - capital revenue)	37.9%	37.8%	37.3%	36.6%
Repairs & Maintenance	R&M/ (Total Revenue excluding capital revenue)	4.6%	4.9%	4.8%	4.8%
Finance charges & Depreciation	FC&D/ (Total Revenue - capital revenue)	12.7%	10.4%	10.1%	9.8%
IDP regulation financial viability indicators	-				
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	25.0	19.9	20.2	21.5
ii.O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	15.8%	12.7%	12.6%	12.4%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	1.1	0.9	1.3	1.9

2.3.1 Performance indicators and benchmarks

2.3.1.1 Borrowing Management

Capital expenditure may be funded from capital grants, internal sources and long-term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. The following financial performance indicators formed part of the compilation of the 2018/19 MTREF:

- *Capital charges to operating expenditure* is a measure of the cost of borrowing, compared to the total operating expenditure. The cost of borrowing amounts to 2% of total operating expenditure in 2018/19 financial year and reduces to 1.2% in 2020/21.

2.3.1.2 Liquidity

- The c*urrent ratio* is a measure of the current assets divided by the current liabilities. The Municipality has set a benchmark limit of 1. For the 2018/19 MTREF, the current ratio is 1.0 in the 2018/19 financial year and increases to 1.5:1 over the MTREF period.

- *The liquidity ratio* is a measure of the municipality's ability to utilise cash and cash equivalents to meets its current liabilities. A liquidity ratio of 1 should be maintained. For the 2018/19 MTREF, the liquidity ratio increases from 0.4:1 in 2018/19 to 0.9:1 in 2020/21. This represents a significant risk for the Municipality, as any under collection of revenue will result in financial challenges for the Municipality. As part of the medium term financial planning objectives, this ratio must be maintained at a minimum of 1.

2.3.2 Drinking Water Quality

The Municipality achieved a scoring of 51.83% (2014) in relation to its Blue Drop status for the supply of water, compared to the scoring of 60.69% (2012) achieved in the previous assessment. The decline is attributable to a lack of an annual process audit. In order to enhance its Blue Drop status in the next assessment cycle, the Municipality will have to focus specifically on the monitoring and recordkeeping of analyses results and the training and appointment of process controllers.

2.3.3 Basic social services package for indigent households

The Constitution stipulates that a municipality must structure and manage its administration, budgeting and planning so as to give priority to the basic needs of the community and to promote their social and economic development. The basic social package is an affirmation of the Municipality's commitment to push back the frontiers of poverty by providing social welfare to those residents who cannot afford to pay, as a result of adverse social and economic conditions.

The initiatives carried out by the Municipality in this regard are detailed below.

Service	Social Package	Approximate Cost R '000	Est. No. of Households
Assessment Rates	All residential property owners are exempted from paying rates on the first R15 000 of their property values. An additional R85 000 credit on property rates for indigent consumers.	3,015 2,191	28 464 8 000
Water	The first 12kl of water per month provided free to indigent consumers	16,971	8 000
Electricity	The first 50kwh of electricity provided free to indigent consumers	4,899	8 000
Refuse removal	Full credit for the monthly charge.	14,739	8 000
Sewerage	Full credit for monthly charge of sewerage to indigent consumers (For waterborne sewerage removal the maximum credit is based on 12kl per month)	8,773	8 000
EMF	Full credit for the monthly charge.	3,660	8 000
Total Operating Costs		**54,248**	

2.4 OVERVIEW OF BUDGET RELATED POLICIES

The MFMA and the Budget and Reporting Regulations require budget related policies to be reviewed, and where applicable, be updated on an annual basis.

2.4.1 Financial Management Policies

A number of policies have been adopted by the Council. The policies govern the financial management functions of the Municipality, such as supply chain management, budget virements, credit control and debt collection, etc.

2.4.2 Review of credit control and debt collection policies

The Credit Control and Debt Collection Policy was reviewed and approved by Council in May 2014.

The 2018/19 MTREF has been prepared on the basis of achieving an average revenue collection rate of 93% of current billings.

2.4.3 Supply Chain Management Policy

A revised Supply Chain Management Policy was adopted by Council in March 2018.

2.4.4 Property Rates Policy

A revised Property Rates Policy was adopted by Council in February 2018.

2.4.5 Funding and Reserves Policy

The Funding and Reserves Policy was adopted by Council in May 2016.

2.4.6 Cost Containment Policy

The Cost Containment Policy was adopted by Council in May 2016.

2.4.7 Cash Management and Investment Policy

The Cash Management and Investment Policy was adopted by Council in May 2016.

2.4.8 Borrowing Policy

The Borrowing Policy was adopted by Council in May 2016.

All the above policies are available on the Municipality's website, as well as the following budget related policies:

- Indigent Policy;
- Budget virement Policy.

2.5 OVERVIEW OF BUDGET ASSUMPTIONS

The municipal fiscal environment is influenced by a variety of macro-economic control measures. National Treasury provides guidelines on the ceiling of year-on-year increases in the total Operating Budget, whilst the National Electricity Regulator of South Africa (NERSA) regulates bulk electricity tariff increases. The Municipality's employee related costs are also influenced by collective agreements concluded in the South African Local Government Bargaining Council. Various government departments also affect municipal service delivery through the level of grants and subsidies.

The following principles and guidelines directly informed the compilation of the Budget:

- The priorities and targets, relating to the key strategic focus areas, as outlined in the IDP.
- The need to enhance the municipality's revenue base.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs, including the expansion of services.
- The level of property rates and tariff increases to ensure the delivery of services on a financially sustainable basis.
- No loan funding is available to support the Capital Budget, in view of financial affordability considerations.
- No growth in revenue sources has been provided for in view of current consumption trends in municipal services.
- No growth in property rates income has been provided for, in view of the depressed property market.

The Municipality faced the following significant challenges in preparing the 2018/19 – 2020/21 Budget:

- Maintaining an acceptable employee related costs ratio;
- Increased costs associated with bulk water purchases, placing upward pressure on municipal tariff increases;
- Allocation of the required budget provision for the rehabilitation and maintenance of infrastructure;

- Maintaining electricity and water losses at acceptable levels;
- Maintaining revenue collection rates at the targeted levels; and
- Maintaining an acceptable cost coverage ratio;

The multi-year budget is therefore underpinned by the following assumptions:

	2018/19	2019/20	2020/21
Income	%	%	%
Tariff Increases for water	11	11	11
Tariff Increases for sanitation	9	9	9
Tariff Increases for refuse	8	8	8
Property rates increase	7.5	7.5	7.5
Electricity tariff increase (on average)	7.57	7.57	7.57
Environmental Management Fee increase	6	6	6
Revenue collection rates	93	93	93
Expenditure increases allowed	6	6	6
Salary increase	7	7	7
Increase in bulk purchase of electricity costs	7.32	7.32	7.32
Increase in bulk purchase of water costs	8.5	8.5	8.5

2.6 OVERVIEW OF BUDGET FUNDING

2.6.1 Medium-term outlook: operating revenue

The following table provides a breakdown of operating revenue over the medium-term:

Table 18 (Breakdown of the operating revenue over the medium-term)

Description	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework					
R thousand	Adjusted Budget	%	Budget Year 2018/19	%	Budget Year 2019/20	%	Budget Year 2020/21	%
Revenue By Source								
Property rates	160 565	23.30%	176 766	23.45%	190 024	23.58%	204 275	23.61%
Service charges	370 094	53.71%	400 096	53.08%	426 515	52.92%	454 936	52.57%
Transfers and subsidies	113 664	16.50%	123 618	16.40%	133 383	16.55%	146 971	16.98%
Other revenue	44 704	6.49%	53 236	7.06%	56 111	6.96%	59 197	6.84%
Total Revenue (excluding capital transfers and contributions)	**689 026**	**100.00%**	**753 717**	**100.00%**	**806 032**	**100.00%**	**865 380**	**100.00%**

The following graph is a breakdown of the operational revenue per main category for the 2018/19 financial year.

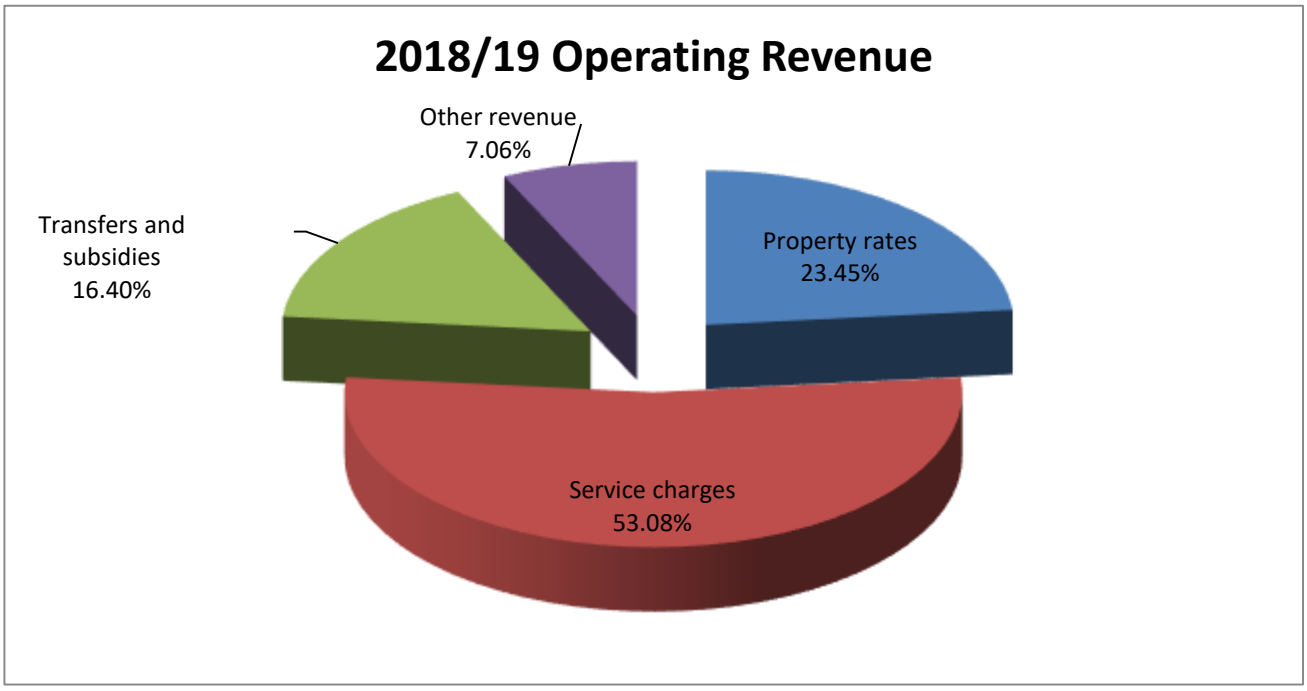


Figure 4 Breakdown of operating revenue over the 2017/18 MTREF

Tariff determination is important in ensuring appropriate levels of revenue, in order to achieve a credible and funded budget. Operating revenue is mainly derived from service charges, such as water, electricity, sanitation and refuse collection and disposal, property rates and operating grants.

The revenue management strategy includes the following key components:

- National Treasury's guidelines in this regard;
- The Property Rates Policy;
- The level of property rates and tariff increases must ensure financially sustainable service delivery.
- The level of property rates and tariff increases to take into account maintenance and replacement of infrastructure, including the expansion of services;
- Determining fully cost reflective tariffs for trading services;
- Electricity bulk tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Water bulk tariff increases as approved by the Nelson Mandela Bay Metropolitan Municipality;
- Efficient revenue management, targeting a 93% annual collection rate for property rates and service charges.
- Growth in the revenue base.

The aforementioned principles guided the annual increases in property rates and tariffs, charged to the consumer.

Property rates amounts to R176,766 million in the 2018/19 financial year and increases to R 204,275 million in 2020/21, representing 23.45% of the total operating revenue for the 2018/19 budget.

Services charges relating to electricity, water, sanitation, environmental management and refuse collection constitute the largest component of the revenue base, amounting to R 400,096 million in the 2018/19 financial year and increasing to R 454,936 million in 2020/21. For the 2018/19 financial year, services charges amount to 53.08% of the total revenue base.

Operational grants and subsidies amount to R 123,618 million, R 133,383 million and R 146,971 million for each of the respective financial years of the MTREF, or 16.40% of total operating revenue for 2018/19.

The table below provides investment particulars by type.

Table 19 (SA15 – Detail Investment Information)

Investment type	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
R thousand				
Parent municipality				
Securities - National Government				
Listed Corporate Bonds				
Deposits - Bank	53 757	48 205	73 406	114 595
Deposits - Public Investment Commissioners				
Deposits - Corporation for Public Deposits				
Bankers Acceptance Certificates				
Negotiable Certificates of Deposit - Banks				
Guaranteed Endowment Policies (sinking)				
Repurchase Agreements - Banks				
Municipal Bonds				
Municipality sub-total	**53 757**	**48 205**	**73 406**	**114 595**
Entities				
Securities - National Government				
Listed Corporate Bonds				
Deposits - Bank				
Deposits - Public Investment Commissioners				
Deposits - Corporation for Public Deposits				
Bankers Acceptance Certificates				
Negotiable Certificates of Deposit - Banks				
Guaranteed Endowment Policies (sinking)				
Repurchase Agreements - Banks				
Entities sub-total	–	–	–	–
Consolidated total:	**53 757**	**48 205**	**73 406**	**114 595**

Investments are anticipated to increase from R 48,205 million in 2018/19 to R 114,595 million in 2020/21.

2.6.2 Medium-term outlook: capital revenue

The following table provides a breakdown of the funding components of the 2018/19 medium-term capital programme:

Table 20 (Sources of capital revenue over the MTREF)

Vote Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Funded by:				
National Government	35 311	34 682	31 864	33 201
Provincial Government	–	–	–	–
District Municipality	1 145	–	–	–
Other transfers and grants	–	–	–	–
Transfers recognised - capital	**36 456**	**34 682**	**31 864**	**33 201**
Public contributions & donations		–	–	–
Borrowing		–	–	–
Internally generated funds	32 977	33 063	22 047	22 938
Total Capital Funding	**69 434**	**67 745**	**53 910**	**56 139**

The above table is graphically represented as follows for the 2018/19 financial year.

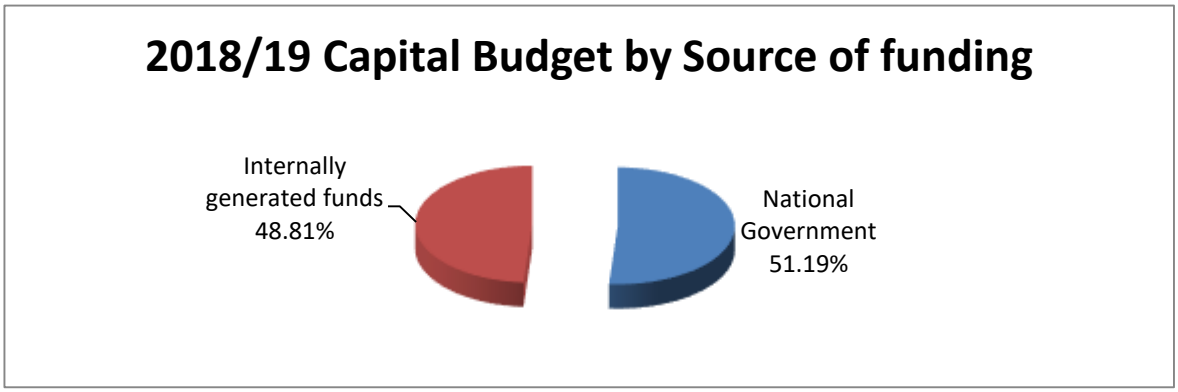


Figure 5 Sources of Capital Revenue for the 2018/19 financial year

Capital Grants constitute 51.19% of the total funding sources, amounting to R 34,682 million for the 2018/19 financial year and amounting to R 33,201 million or 59.14% in the 2020/21 financial year.
It is to be noted that no borrowing is planned for the 2018/19 MTREF, in view of financial affordability considerations.

The following table provides a detailed analysis of the Municipality's borrowings.

Table 21 (Table SA 17 - Detail of borrowings)

Borrowing - Categorised by type	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Parent municipality				
Annuity and Bullet Loans	30 269	23 112	15 090	6 128
Total Borrowing	**30 269**	**23 112**	**15 090**	**6 128**

The following graph illustrates the outstanding borrowing for the 2018/19 to 2020/21 period:

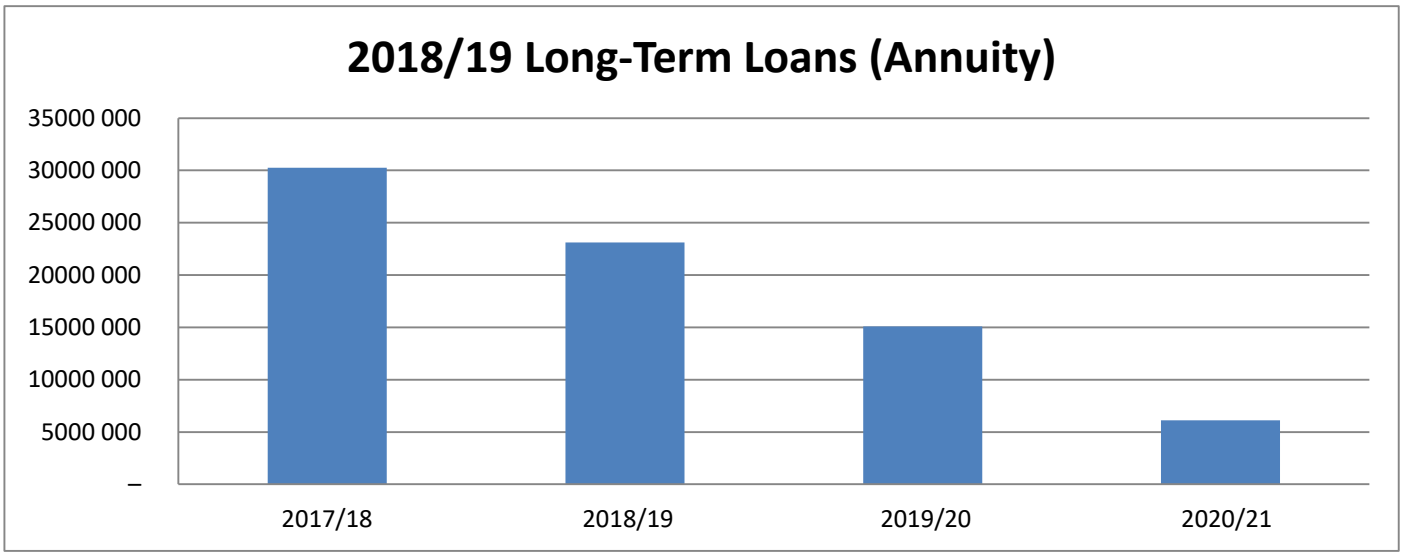


Figure 6 Growth in outstanding borrowing (long-term liabilities)

The following table indicates the capital transfers and grant receipts:

Table 22 (Table SA 18 - Transfers and grant receipts)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
RECEIPTS:				
Operating Transfers and Grants				
National Government:	**106 951**	**117 493**	**127 703**	**141 291**
Local Government Equitable Share	102 637	113 151	124 344	137 852
Finance Management	1 700	1 770	1 770	1 770
MIG - Administration Fees	1 614	1 559	1 589	1 669
EPWP Incentive	1 000	1 013		
Provincial Government:	**2 050**	**2 050**	**2 050**	**2 050**
Sport and Recreation	2 050	2 050	2 050	2 050
District Municipality:	**2 798**	**2 210**	**1 765**	**1 765**
Local Economic Development	445	445		
Environmental Health Subsidy	2 353	1 765	1 765	1 765
Other grant providers:	**1 865**	**1 865**	**1 865**	**1 865**
Fire Subsidy	1 865	1 865	1 865	1 865
Total Operating Transfers and Grants	**113 664**	**123 618**	**133 383**	**146 971**
Capital Transfers and Grants				
National Government:	**34 660**	**39 827**	**36 582**	**38 117**
Municipal Infrastructure Grant (MIG)	30 660	29 627	30 182	31 717
Integrated National Electrification Programme	4 000	10 200	6 400	6 400
District Municipality:	**1 000**	**–**	**–**	**–**
Water Boreholes	1 000			
Total Capital Transfers and Grants	**35 660**	**39 827**	**36 582**	**38 117**
TOTAL RECEIPTS OF TRANSFERS & GRANTS	**149 324**	**163 445**	**169 965**	**185 088**

2.6.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining whether the budget is funded over the medium-term. The table includes some specific features:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government; and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Table 23 (Table A7 - Budgeted cash flow statement)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates	144 894	164 393	176 722	189 976
Service charges	334 125	372 090	396 659	423 091
Other revenue	26 760	30 689	32 346	34 125
Government - operating	113 664	123 618	133 383	146 971
Government - capital	35 660	39 827	41 977	44 286
Interest	16 344	21 498	22 659	23 905
Dividends		–	–	–
Payments				
Suppliers and employees	(617 897)	(674 270)	(710 681)	(749 768)
Finance charges	(3 768)	(3 021)	(2 201)	(1 238)
Transfers and Grants	(30)	–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES	**49 752**	**74 823**	**90 864**	**111 348**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	1 600	–	–	–
Decrease (Increase) in non-current debtors		–	–	–
Decrease (increase) other non-current receivables		–	–	–
Decrease (increase) in non-current investments		–	–	–
Payments				
Capital assets	(69 434)	(67 745)	(53 910)	(56 139)
NET CASH FROM/(USED) INVESTING ACTIVITIES	**(67 834)**	**(67 745)**	**(53 910)**	**(56 139)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans		–	–	–
Borrowing long term/refinancing		–	–	–
Increase (decrease) in consumer deposits		–	–	–
Payments				
Repayment of borrowing	(6 443)	(13 247)	(8 952)	(9 444)
NET CASH FROM/(USED) FINANCING ACTIVITIES	**(6 443)**	**(13 247)**	**(8 952)**	**(9 444)**
NET INCREASE/ (DECREASE) IN CASH HELD	**(24 524)**	**(6 169)**	**28 002**	**45 765**
Cash/cash equivalents at the year begin:	**84 254**	**59 729**	**53 561**	**81 562**
Cash/cash equivalents at the year-end:	**59 729**	**53 561**	**81 562**	**127 327**

For the 2018/19 MTREF, the cash and cash equivalents over the medium-term is anticipated to increase from R 53,561 million in 2018/19 million to R 127,327 million in 2020/21.

Table 24 (Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation)

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Cash and investments available				
Cash/cash equivalents at the year end	59 729	53 561	81 562	127 327
Other current investments > 90 days	–	–	–	–
Non-current assets - Investments	–	–	–	–
Cash and investments available:	**59 729**	**53 561**	**81 562**	**127 327**
Application of cash and investments				
Unspent conditional transfers	–	–	–	–
Unspent borrowing	–	–	–	–
Statutory requirements				
Other working capital requirements	31 770	19 810	19 018	18 113
Other provisions	2 268	2 776	3 331	3 997
Long term investments committed	–	–	–	–
Reserves to be backed by cash/investments				
Total Application of cash and investments:	**34 038**	**22 586**	**22 349**	**22 111**
Surplus(shortfall)	**25 691**	**30 974**	**59 213**	**105 217**

The underlying purpose of Table A8 is to reflect the predicted cash and investments that are available at the end of a particular budget year and how these funds were used. A surplus would indicate that sufficient cash and investments were available to meet commitments, whilst a shortfall would indicate inadequate cash and investments were available to meet commitments.

The available cash and investments amount to R 53,561 million in the 2018/19 financial year and increases to R 127,327 million in 2020/21. The following is a breakdown of the application of this funding:

- Unspent conditional transfers (grants) – no unspent grant funding is anticipated over the 2018/19 MTREF.

- There is no unspent borrowing from previous financial years.

- The main purpose of the other working capital requirements is to ensure that sufficient funds are available to meet commitments as and when they fall due. A key challenge is often the mismatch between the timing of receipts from debtors and payments due to employees and creditors. High levels of non-payment by debtors will result in a greater requirement for working capital, ultimately causing cash flow challenges.

- Current provisions relating to environmental clean-ups and rehabilitation of landfill sites have been provided for.

It is concluded that the Municipality's cash backed, and accumulated surpluses reconciliation reflects surpluses of R 30,974 million, R 59,213 million and R 105,217 million for the 2018/19, 2019/20 and 2020/21 financial years, respectively.

It is to be noted that the 2018/19 MTREF is funded, when considering the funding requirements of section 18 and 19 of the MFMA. The cost coverage ratio is, however, 0.9 months, 1.3 months and 1.9 months for the 2018/19, 2019/20 and 2020/21 financial years, respectively.

2.6.5 Funding Compliance Measurement

National Treasury requires the Municipality to assess its financial sustainability against the different measures outlined below.

Description	MFMA section	Ref	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
			Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Funding measures						
Cash/cash equivalents at the year-end - R'000	18(1)b	1	59 729	53 561	81 562	127 327
Cash + investments at the yr end less applications - R'000	18(1)b	2	25 691	30 974	59 213	105 217
Cash year end/monthly employee/supplier payments	18(1)b	3	1.1	0.9	1.3	1.9
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	(30 735)	(3 241)	8 584	24 543
Service charge rev % change - macro CPIX target exclusive	18(1)a, (2)	5	(6.0%)	2.7%	0.9%	0.9%
Cash receipts % of Ratepayer & Other revenue	18(1)a, (2)	6	89.1%	91.1%	91.1%	91.2%
Debt impairment expense as a % of total billable revenue	18(1)a, (2)	7	9.4%	7.2%	7.2%	7.2%
Capital payments % of capital expenditure	18(1)c;19	8	100.0%	100.0%	100.0%	100.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	9	0.0%	0.0%	0.0%	0.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10		100.3%	103.2%	103.3%
Current consumer debtors % change - incr(decr)	18(1)a	11	4.0%	(12.3%)	5.4%	5.5%
Long term receivables % change - incr(decr)	18(1)a	12	0.0%	(56.9%)	0.0%	0.0%
R&M % of Property Plant & Equipment	20(1)(vi)	13	1.2%	1.7%	1.8%	1.9%
Asset renewal % of capital budget	20(1)(vi)	14	43.8%	5.5%	6.6%	6.1%

Below is a discussion of the different measures.

2.6.5.1 Cash/cash equivalent position

The forecasted cash and cash equivalents for the 2018/19 MTREF amounts to R 53,561 million, R 81,562 million and R 127,327 million for the respective financial years.

2.6.5.2 Cash plus investments less application of funds

For the 2018/19, 2019/20 and 2020/21 budgets, the available cash and investments exceed the application of funds by an amount of R 30,974 million, R 59,213 million and R 105,217 million respectively.

2.6.5.3 Monthly average payments covered by cash or cash equivalents

As part of the 2018/19 MTREF, the projected cash position causes the ratio to increase from 0.9 months to 1.9 months.

2.6.5.4 Surplus/deficit excluding depreciation offsets

For the 2018/19 MTREF the indicative outcome is a deficit of R 3,241 million, surplus of R 8,584 million and R 24,543 million. This is made up as follows:

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Operating Budget Deficit	**(66 395)**	**(43 068)**	**(33 393)**	**(19 743)**
Transfers and subsidies - capital	35 660	39 827	41 977	44 286
Total	**(30 735)**	**(3 241)**	**8 584**	**24 543**

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective, and therefore the first two measures in the table are critical.

2.6.5.5 Property Rates/service charge revenue as a percentage increase less macro inflation target

This is calculated by deducting the maximum macro-economic inflation target (which is currently 3 - 5.3 %), so as to determine the real increase in revenue. The percentage growth totals 2.7%, 0.9% and 0.9% for the respective financial years of the 2018/19 MTREF. The real increases in revenue are below the inflation target figures.

2.6.5.6 Cash receipts as a percentage of ratepayer and other revenue

The outcome is approximately 91.1% for each of the respective financial years of the 2018/19 MTREF.

2.6.5.7 Debt impairment expense as a percentage of billable revenue

The provision has been set at 7% over the MTREF, in line with the revenue collection trends.

2.6.5.8 Capital payments percentage of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into account in forecasting the cash position.

2.6.5.9 Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

No borrowing has been planned for the 2018/19 MTREF.

2.6.5.10 Transfers/grants revenue as a percentage of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. All transfers are included in the budget.

2.6.5.11 Repairs and maintenance expenditure level

The expenditure constitutes 1.7%, 1.8% and 1.9% of Property, Plant and Equipment respectively, over the 2018/19 MTREF, whilst National Treasury has suggested an 8% level.

2.7 EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

GRANTS RECEIVED

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
RECEIPTS:				
Operating Transfers and Grants				
National Government:	**106 951**	**117 493**	**127 703**	**141 291**
Local Government Equitable Share	102 637	113 151	124 344	137 852
Finance Management	1 700	1 770	1 770	1 770
MIG - Administration Fees	1 614	1 559	1 589	1 669
EPWP Incentive	1 000	1 013		
Provincial Government:	**2 050**	**2 050**	**2 050**	**2 050**
Sport and Recreation	2 050	2 050	2 050	2 050
District Municipality:	**2 798**	**2 210**	**1 765**	**1 765**
Local Economic Development	445	445		
Environmental Health Subsidy	2 353	1 765	1 765	1 765
Other grant providers:	**1 865**	**1 865**	**1 865**	**1 865**
Fire Subsidy	1 865	1 865	1 865	1 865
Total Operating Transfers and Grants	**113 664**	**123 618**	**133 383**	**146 971**
Capital Transfers and Grants				
National Government:	**34 660**	**39 827**	**36 582**	**38 117**
Municipal Infrastructure Grant (MIG)	30 660	29 627	30 182	31 717
Integrated National Electrification Programme	4 000	10 200	6 400	6 400
District Municipality:	**1 000**	**–**	**–**	**–**
Water Boreholes	1 000			
Total Capital Transfers and Grants	**35 660**	**39 827**	**36 582**	**38 117**
TOTAL RECEIPTS OF TRANSFERS & GRANTS	**149 324**	**163 445**	**169 965**	**185 088**

GRANTS EXPENDITURE

GRANTS RECONCILIATION

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
EXPENDITURE:				
Operating expenditure of Transfers and Grants				
National Government:	**106 951**	**117 493**	**127 703**	**141 291**
Local Government Equitable Share	102 637	113 151	124 344	137 852
Finance Management	1 700	1 770	1 770	1 770
MIG - Administration Fees	1 614	1 559	1 589	1 669
EPWP Incentive	1 000	1 013		
Provincial Government:	**2 050**	**2 050**	**2 050**	**2 050**
Sport and Recreation	2 050	2 050	2 050	2 050
District Municipality:	**2 798**	**2 210**	**1 765**	**1 765**
Local Economic Development	445	445		
Environmental Health Subsidy	2 353	1 765	1 765	1 765
Other grant providers:	**1 865**	**1 865**	**1 865**	**1 865**
Fire Subsidy	1 865	1 865	1 865	1 865
Total operating expenditure of Transfers and Grants:	**113 664**	**123 618**	**133 383**	**146 971**
Capital expenditure of Transfers and Grants				
National Government:	**34 660**	**39 827**	**36 582**	**38 117**
Municipal Infrastructure Grant (MIG)	30 660	29 627	30 182	31 717
Integrated National Electrification Programme	4 000	10 200	6 400	6 400
District Municipality:	**1 000**	**–**	**–**	**–**
Water Boreholes	1 000			
Total capital expenditure of Transfers and Grants	**35 660**	**39 827**	**36 582**	**38 117**
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS	**149 324**	**163 445**	**169 965**	**185 088**

2.8 ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

The table below reflects the grants and allocations made by the Municipality. It includes grants-in-aid made in accordance with the Municipality's grants-in-aid policy and transfers to entities and other organisations to primarily support their operational expenditure.

ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Description	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Cash Transfers to Entities/Other External Mechanisms				
MOA with Arts Council	155	55	58	61
MOA with Sports Council	-	85	90	95
MOA KLTO	2,210	3,300	3 478	3 669
Total Cash Transfers To Entities/Ems'	**2,365**	**3 440**	**3 626**	**3 825**
TOTAL CASH TRANSFERS AND GRANTS	**2,365**	**3 440**	**3 626**	**3 825**
TOTAL TRANSFERS AND GRANTS	**2,365**	**3 440**	**3 626**	**3 825**

2.9 COUNCILLORS AND EMPLOYEE BENEFITS

DISCLOSURE OF SALARIES, ALLOWANCES & BENEFITS

Summary of Employee and Councillor remuneration	Current Year 2017/18	2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Councillors (Political Office Bearers plus Other)				
Basic Salaries and Wages	8 097	8 545	9 007	9 502
Medical Aid Contributions	650	686	724	763
Motor Vehicle Allowance	2 602	2 747	2 896	3 055
Cell phone Allowance	762	805	848	895
Sub Total - Councillors	**12 111**	**12 784**	**13 474**	**14 215**
% increase	**–**	**–**	**5.4%**	**5.5%**
Senior Managers of the Municipality				
Basic Salaries and Wages		4 640	4 890	5 159
Other benefits and allowances		3 093	3 260	3 439
Sub Total - Senior Managers of Municipality	**–**	**7 733**	**8 150**	**8 599**
% increase	**–**	**–**	**5.4%**	**5.5%**
Other Municipal Staff				
Basic Salaries and Wages	153 915	161 046	169 742	179 078
Pension and UIF Contributions	24 723	27 035	28 495	30 062
Medical Aid Contributions	15 143	16 559	17 453	18 413
Overtime	10 375	11 345	11 958	12 615
Performance Bonus	14 739	16 117	16 987	17 921
Motor Vehicle Allowance	7 957	8 701	9 170	9 675
Housing Allowances	2 301	2 516	2 652	2 797
Other benefits and allowances	19 080	20 864	21 991	23 200
Long service awards	812	888	935	987
Sub Total - Other Municipal Staff	**249 044**	**265 070**	**279 383**	**294 750**
% increase	**–**	**–**	**5.4%**	**5.5%**
Total Parent Municipality	**261 155**	**285 586**	**301 008**	**317 563**
	–	**–**	**5.4%**	**5.5%**
TOTAL SALARY, ALLOWANCES & BENEFITS	**261 155**	**285 586**	**301 008**	**317 563**
% increase	**–**	**–**	**5.4%**	**5.5%**
TOTAL MANAGERS AND STAFF	**249 044**	**272 802**	**287 534**	**303 348**

DISCLOSURE OF SALARIES, ALLOWANCES & BENEFITS

Disclosure of Salaries, Allowances & Benefits	Salary	Allowances	Total Package
Rand per annum			
Councillors			
Speaker	501 067	246 794	747 861
Chief Whip			–
Executive Mayor	618 452	304 611	923 063
Deputy Executive Mayor	–	–	–
Executive Committee	2 830 336	1 394 046	4 224 382
Total for all other councillors	4 615 313	2 273 214	6 888 527
Total Councillors	**8 565 168**	**4 218 665**	**12 783 832**
Senior Managers of the Municipality			
Municipal Manager (MM)	887 398	591 599	1 478 997
Chief Finance Officer	837 890	558 593	1 396 483
Director Infrastructure and Engineering	728 600	485 734	1 214 334
Director Corporate Services	728 600	485 734	1 214 334
Director Community Services	728 600	485 734	1 214 334
Director Planning, Development and Tourism	728 600	485 734	1 214 334
Total Senior Managers of the Municipality	**4 639 689**	**3 093 126**	**7 732 816**
TOTAL COST OF COUNCILLOR, DIRECTOR and EXECUTIVE REMUNERATION	**13 204 857**	**7 311 791**	**20 516 648**

2.10 MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

MONTHLY CASH FLOWS	Budget Year 2018/19												
R thousand	**July**	**August**	**Sept.**	**October**	**November**	**December**	**January**	**February**	**March**	**April**	**May**	**June**	**Budget Year 2018/19**
Cash Receipts By Source													
Property rates	11 639	19 114	17 010	14 639	13 085	13 731	12 895	12 658	13 918	10 714	12 599	12 391	164 393
Service charges - electricity revenue	16 274	26 726	23 784	20 470	18 296	19 200	18 030	17 699	19 460	14 980	17 617	17 325	229 863
Service charges - water revenue	4 458	7 321	6 515	5 607	5 012	5 259	4 939	4 848	5 330	4 103	4 826	4 746	62 963
Service charges - sanitation revenue	2 743	4 505	4 009	3 450	3 084	3 236	3 039	2 983	3 280	2 525	2 969	2 920	38 742
Service charges - refuse revenue	2 869	4 711	4 193	3 608	3 225	3 385	3 178	3 120	3 431	2 641	3 106	3 054	40 521
Service charges - other												–	
Rental of facilities and equipment	133	219	195	167	150	157	148	145	159	123	144	142	1 881
Interest earned - external investments	535	879	782	673	602	632	593	582	640	493	579	570	7 561
Interest earned - outstanding debtors	987	1 620	1 442	1 241	1 109	1 164	1 093	1 073	1 180	908	1 068	1 050	13 937
Dividends received												–	
Fines, penalties and forfeits	299	492	438	377	337	353	332	326	358	276	324	319	4 230
Licences and permits	1 180	1 937	1 724	1 484	1 326	1 392	1 307	1 283	1 411	1 086	1 277	1 256	16 661
Agency services												–	
Transfer receipts - operational	38 039	2 913	130	5 810	37 594	130	130	130	38 039	130	130	445	123 618
Other revenue	561	921	819	705	630	661	621	610	670	516	607	597	7 917
Cash Receipts by Source	**79 716**	**71 358**	**61 039**	**58 232**	**84 450**	**49 300**	**46 304**	**45 457**	**87 876**	**38 494**	**45 246**	**44 815**	**712 287**
Other Cash Flows by Source													
Transfer receipts - capital		9 876			10 200	9 876			9 876			–	39 827
Total Cash Receipts by Source	**79 716**	**81 234**	**61 039**	**58 232**	**94 650**	**59 176**	**46 304**	**45 457**	**97 751**	**38 494**	**45 246**	**44 815**	**752 114**

MONTHLY CASH FLOWS	Budget Year 2018/19												
R thousand	**July**	**August**	**Sept.**	**October**	**November**	**December**	**January**	**February**	**March**	**April**	**May**	**June**	**Budget Year 2018/19**
Cash Payments by Type													
Employee related costs	22 734	22 695	22 695	22 695	22 695	22 695	22 695	22 695	22 695	22 695	22 695	23 117	272 802
Remuneration of councillors	1 065	1 065	1 065	1 065	1 065	1 065	1 065	1 065	1 065	1 065	1 065	1 065	12 784
Finance charges	252	252	252	252	252	252	252	252	252	252	252	252	3 021
Bulk purchases - Electricity	20 242	20 775	27 268	13 362	14 509	14 416	15 345	16 466	14 798	13 485	14 776	15 502	200 945
Bulk purchases - Water & Sewer	5 368	3 164	3 663	2 716	2 979	2 987	3 652	3 843	3 860	2 843	2 340	3 116	40 530
Other materials	1 819	2 520	2 837	212	4 572	2 094	1 322	3 195	2 120	955	2 053	4 758	28 458
Contracted services	2 883	3 995	4 498	335	7 248	3 319	2 096	5 065	3 361	1 514	3 254	7 543	45 111
Other expenditure	4 707	6 522	7 342	548	11 831	5 418	3 421	8 268	5 487	2 472	5 312	12 313	73 639
Cash Payments by Type	**59 070**	**60 989**	**69 620**	**41 186**	**65 150**	**52 246**	**49 848**	**60 848**	**53 639**	**45 283**	**51 747**	**67 665**	**677 291**
Other Cash Flows/Payments by Type													
Capital assets	5 319	2 082	4 255	6 416	2 057	3 316	587	3 663	4 162	2 731	5 075	28 082	67 745
Repayment of borrowing	1 104	598	598	598	598	598	598	598	598	598	598	6 160	13 247
Total Cash Payments by Type	**65 493**	**63 669**	**74 473**	**48 201**	**67 806**	**56 159**	**51 034**	**65 110**	**58 400**	**48 612**	**57 420**	**101 907**	**758 283**
NET INCREASE/(DECREASE) IN CASH HELD	**14 223**	**17 565**	**(13 434)**	**10 031**	**26 844**	**3 016**	**(4 729)**	**(19 652)**	**39 352**	**(10 118)**	**(12 174)**	**(57 092)**	**(6 169)**
Cash/cash equivalents at the month/year begin:	59 729	73 952	91 517	78 083	88 114	114 958	117 974	113 245	93 593	132 945	122 827	110 653	59 729
Cash/cash equivalents at the month/year end:	73 952	91 517	78 083	88 114	114 958	117 974	113 245	93 593	132 945	122 827	110 653	53 561	53 561

MONTHLY CASH FLOWS	Medium Term Revenue and Expenditure Framework		
R thousand	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Cash Receipts By Source			
Property rates	164 393	176 722	189 976
Service charges - electricity revenue	229 863	247 264	265 982
Service charges - water revenue	62 963	63 656	64 356
Service charges - sanitation revenue	38 742	42 229	46 029
Service charges - refuse revenue	40 521	43 510	46 724
Service charges - other			
Rental of facilities and equipment	1 881	1 982	2 091
Interest earned - external investments	7 561	7 969	8 408
Interest earned - outstanding debtors	13 937	14 689	15 497
Dividends received			
Fines, penalties and forfeits	4 230	4 458	4 704
Licences and permits	16 661	17 561	18 527
Agency services			
Transfer receipts - operational	123 618	133 383	146 971
Other revenue	7 917	8 345	8 804
Cash Receipts by Source	**712 287**	**761 768**	**818 069**

MONTHLY CASH FLOWS	Medium Term Revenue and Expenditure Framework		
R thousand	**Budget Year 2018/19**	**Budget Year 2019/20**	**Budget Year 2020/21**
Other Cash Flows by Source			
Transfer receipts - capital	39 827	41 977	44 286
Total Cash Receipts by Source	**752 114**	**803 746**	**862 355**
Cash Payments by Type			
Employee related costs	272 802	287 534	303 348
Remuneration of councillors	12 784	13 474	14 215
Finance charges	3 021	2 201	1 238
Bulk purchases - Electricity	200 945	211 796	223 445
Bulk purchases - Water & Sewer	40 530	42 719	45 069
Other materials	28 458	29 994	31 644
Contracted services	45 111	47 547	50 162
Transfers and grants - other municipalities			
Transfers and grants - other			
Other expenditure	73 639	77 616	81 885
Cash Payments by Type	**677 291**	**712 882**	**751 006**
Other Cash Flows/Payments by Type			
Capital assets	67 745	53 910	56 139
Repayment of borrowing	13 247	8 952	9 444
Other Cash Flows/Payments			
Total Cash Payments by Type	**758 283**	**775 744**	**816 590**
NET INCREASE/(DECREASE) IN CASH HELD	**(6 169)**	**28 002**	**45 765**
Cash/cash equivalents at the month/year begin:	59 729	53 561	81 562
Cash/cash equivalents at the month/year end:	53 561	81 562	127 327

2.11 ANNUAL BUDGETS AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLANS –DIRECTORATES

In terms of section 53 (1)(c)(ii) of the MFMA, the Service Delivery and Budget Implementation Plan (SDBIP) constitutes a detailed plan for implementing the Municipality's delivery of services and its annual budget, which must include the following:

(a) Monthly projections of

- Revenue to be collected, by source; and
- Operational and capital expenditure, by vote.

(b) Service delivery targets and performance indicators for each quarter.

In accordance with Section 53 of the MFMA, the Executive Mayor is required to approve the SDBIP within 28 days after the approval of the budget. Furthermore, the Executive Mayor must ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators, as set out in the SDBIP, are made public within 14 days after the approval of the SDBIP.

The SDBIP gives effect to the IDP and Budget of the Municipality. It includes the service delivery targets and performance indicators for each quarter, which forms the basis for the performance agreements of the Directors. It therefore facilitates oversight over the financial and non-financial performance of the Municipality and allows the Municipal Manager to monitor the performance of the Directors, the Executive Mayor/Council to monitor the performance of the Municipal Manager, and the Community to monitor the performance of the Municipality.

The SDBIP relating to the 2018/19 financial year will be approved by the Executive Mayor during June 2018, following the approval of the Budget.

2.12 LEGISLATION COMPLIANCE STATUS

The following reflects the status of implementation of some of the key MFMA areas:

IDP

A revised 2018/19 IDP was approved at a Council meeting held on 29 March 2018. The IDP includes specific deliverables that forms the basis for the Budget and SDBIP. The final version of the revised 2018/19 IDP will be considered at a Council meeting scheduled for 31 May 2018.

Budget

The draft annual budget document has been developed taking the MFMA and National Treasury (NT) requirements into account. Budgets are being tabled and approved within the required legislated timeframes.

Annual Report

The Annual Report has been developed taking the MFMA and NT requirements into account. The 2016/17 Annual Report was tabled in January 2018.

Oversight Report

The Municipal Public Accounts Committee has considered the 2016/17 Annual report. Its Oversight Report was approved at a Council meeting held on 23 March 2018.

In-Year Reporting

The municipality submits the various reports required to the Executive Mayor, Council, and NT on an ongoing basis, in accordance with the MFMA.

Supply Chain Management Policy (SCM)

A Supply Chain Management Policy has been adopted and implemented in accordance with the MFMA and NT requirements.

All the required committee structures are in place. Whilst the municipality is working at making these new processes operate more efficiently and effectively, it is considered that the municipality is currently complying with the MFMA and NT guidelines.

Budget and Treasury

A Budget and Treasury Office has been established in accordance with the MFMA and NT requirements, consisting of a CFO and municipal officials reporting to the CFO.

Audit Committee

An Audit Committee has been established and meets on a quarterly basis.

Internal Audit Function

The Municipality's Internal Audit Function is performed by KMPG and reports to the Municipal Manager and is operating in accordance with an audit plan.

In relation to the 2018/19 financial year and beyond, the municipality plans to focus on the following high priority areas:

- Maintaining its unqualified audit status.
- The Municipality is considering the establishment of an internal audit section and phasing out the outsourcing of this service.
- Further strengthening of the integration and linkages between the IDP, Budget, SDBIP and Annual Report.

Internship Programme

The municipality has a total of seven Interns on the Municipal Financial Management Internship programme, as approved by National Treasury. The municipality is in the process of recruiting another four Interns.

Municipal Standard Chart of Accounts (mSCOA)

The Municipality has approved a Project Plan for the implementation of mSCOA. The governance structures are in place in terms of a Project Steering Committee and a Project Implementation Team. A term of reference has been developed, outlining the roles and responsibilities of each committee, in order to hold the members accountable for the implementation thereof.

2.13 CAPITAL EXPENDITURE DETAILS

A summary of the budgeted capital expenditure is reflected in **Annexure "C".**

2.14 MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Quality Certificate

I, Mr. C DU PLESSIS, Municipal Manager of Kouga Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

Print Name : **CHARL DU PLESSIS**

MUNICIPAL MANAGER OF KOUGA MUNICIPALITY (EC108)

Signature : _____

Date : 25/05/2018

NATIONAL TREASURY

MFMA Circular No. 89

Municipal Finance Management Act No. 56 of 2003

Municipal Budget Circular for the 2018/19 MTREF

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Introduction

The purpose of the annual budget circular is to guide municipalities with their compilation of the 2018/19 Medium Term Revenue and Expenditure Framework (MTREF). This circular is linked to the Municipal Budget and Reporting Regulations (MBRR); and strives to support municipalities' budget preparation processes so that the minimum requirements of the MBRR are achieved.

In 2010 National Treasury introduced the local government budget and financial reform agenda and since then several projects to further this agenda have been introduced. The recent implementation of the municipal Standard Chart of Accounts *(m*SCOA*)* and the accompanying "game changers" signals a smarter way forward to strengthening local government finances.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial reform agenda and associated "game changers".

Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance on budget preparation that is not covered in this circular.

1. The South African economy and inflation targets

In the 2017 Medium Term Budget Policy Statement the Minister of Finance stated that, improving the country's economic growth in the period ahead remains the biggest challenge. This undoubtedly echoes the sentiments expressed in the previous year's annual budget circular, that the South African economic outlook is bleak.

The National Treasury's macroeconomic projections show that per capita income will continue to stagnate unless appropriate financial decisions are taken. This implies that a new course of action is required to break the cycle of weak growth, escalating government debt, increasing unemployment and declining investment and business confidence.

It is important to note that the 2017 projected Gross Domestic Product (GDP) growth forecast of 1.3 per cent in the 2017/18 budget was revised down to 0.7 per cent. The rate of recovery will be slow and at this time, it is anticipated that growth of 1.9 per cent may be reached by 2020.

Notably, the anticipated economic improvements, employment opportunities and business recovery have not materialised hence the economy remains unstable. The impact of the decline in mining growth and the struggle in the agriculture sector because of the persistent drought influence the low economic growth.

The mining outlook remains subdued due to continued domestic policy uncertainty and rising production costs. Fixed-capital stock in manufacturing has declined every year since 2009, indicating a gradual erosion of capacity. Formal non-agricultural employment declined by 0.2 per cent in the first half of 2017 compared to the same period last year. Employment prospects in manufacturing remain constrained. Similarly, employment growth in the trade sector is likely to remain under pressure given low consumer confidence and weak credit growth.

In summary, the country's tax collection targets have not been met and this means that the fiscus has less funds available to allocate across the various spheres of government. Unfortunately, a similar decline cannot be measured in expenditure and this means that deficits are growing.

The following macro-economic forecasts must be considered when preparing the 2018/19 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2016 - 2020

Fiscal year	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate		Forecast	
CPI Inflation	6.3%	5.4%	5.2%	5.5%	5.5%

Source: Medium Term Budget Policy Statement 2017.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

2. Key focus areas for the 2018/19 budget process

2.1 Local government conditional grants and additional allocations

The proposed division of revenue continues to prioritise funding services for poor communities. Allocations to local government subsidise the delivery of free basic services to low-income households, and the infrastructure needed to deliver those services.

The 2017 Medium Term Budget Policy Statement (MTBPS) indicates transfers to local government for the 2018 MTREF are R397 billion, of which 62.2 per cent comprise unconditional allocations while the remainder is conditional grant funding. The allocations for local government over the medium term represent 9.2 per cent of non-interest expenditure and an increase of 8.3 per cent.

The equitable share and the allocation of the general fuel levy to local government constitute unconditional funding. Municipalities are reminded that this funding allocation is formula driven and designed to fund the provision of free basic services to disadvantaged communities. Conditional grant funding must be utilised for the intended purpose within the timeframes, as specified in the annual Division of Revenue Bill. Monies not spent must be returned to the fiscus and requests for roll-overs will only be considered in extenuating circumstances.

The annual Division of Revenue Bill will be published in February 2018 after the Minister of Finance's budget speech. The grant allocations will be specified in this Bill and municipalities must reconcile their budgets to the numbers published herein.

Municipalities are advised to use the indicative numbers presented in the 2017 Division of Revenue Act to compile their 2018/19 MTREF. In terms of the outer year allocations (2020/21 financial year), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as proposed in the 2017 Division of Revenue Act for 2018/19. The DoRA is available at http://www.treasury.gov.za/documents/national%20budget/2017/default.aspx

Changes to local government allocations

- The Equitable Share formula takes into account the rising bulk costs of electricity and water, as well as household growth. This is confirmed by the additional R1.5 billion in 2019/20 that was part of the 2017 budget for the *local government equitable share.*

- In line with government's Integrated Urban Development Framework (IUDF), a new approach to funding intermediate cities will be piloted as part of the *municipal infrastructure grant* in 2018/19. It will emphasise a programme of capital investment that

combines grant and non-grant funding. This approach may take the form of a separate grant for qualifying cities over the medium term, with strong performance incentives.

- The allocation mechanism of the *public transport network grant*, which funds the improvement of urban public transport systems, will be amended. The changes will provide more stability in allocations for smaller cities. Performance incentives will be introduced and stricter conditions applied. Where cities fail to demonstrate that they have financially sustainable plans for public transport networks, allocations will be cut. Performance incentives will also be considered for other conditional grants, including for improved spending on infrastructure maintenance.

- The National Treasury and the Department of Human Settlements will review spending on urban informal settlement upgrading, with a view to changing the grant system to enable increased investment in in-situ upgrading. This work will be aligned to the review of the provincial *human settlements development grant*.

The Presidency announced in a press statement on 27 November 2017 that, "President Jacob Zuma has directed the Minister of Finance, Mr Malusi Gigaba, assisted by the Presidential Fiscal Committee, to identify concrete measures to urgently address the challenges identified in the Medium Term Budget Policy Statement." These measures should focus on four areas, one of which is, "To identify and finalise proposals for cuts in expenditure amounting to about R25 billion. Such proposed cuts should not be in areas that will negatively affect economic growth prospects and job creation." National Treasury is currently working to implement this directive from the President. If the proposed cuts in expenditure are adopted by Cabinet, they could result in substantial changes to the division of revenue that was tabled in the 2017 MTBPS. Municipalities should be aware in their planning that these changes could include substantial reductions to grants to local government. The details of any cuts to expenditure will be announced when the 2018 Budget is tabled on 21 February 2018.

Reforms to local government fiscal framework

Reforms over the medium term will enhance the ability of municipalities to raise revenue to invest in their own development.

Government will:

- Table amendments to the Municipal Fiscal Powers and Functions Act (2007) to better regulate the levying of municipal development charges; and

- Update the policy framework for municipal borrowing and financial emergencies. The purpose is to establish a system which does not only guarantee stability and certainty in local government finances, but also seeks to implicitly create incentives and attract more players in the municipal debt market space, i.e. insurers, pension funds, fund managers and DFIs.

Municipal revenue-raising capacities vary widely. The National Treasury will consider applications to waive co-funding requirements for infrastructure projects in municipalities with little or no ability to raise finance for such projects. Reprioritisations within the *regional bulk infrastructure grant*, *water services infrastructure grant* and *municipal infrastructure grant* will be made to fund the Bucket Eradication Programme.

2.2 Municipal Standard Chart of Accounts (*m*SCOA)[1]

The implementation of *m*SCOA Regulations from 01 July 2017 revealed some of the challenges with version 6.1 of the chart that must be addressed. As a result of this, the chart was updated and version 6.2 is released with this circular (see Annexure A). Version 6.2 of the chart will be effective from 2018/19 and must be used to compile the 2018/19 MTREF. In addition, there were classification differences between the original budgets that were adopted by municipal council and the data strings that were submitted to National Treasury. Furthermore, the budget related policies were not updated to align to *m*SCOA (e.g. Virement policy).

Version 6.2 of the *m*SCOA chart to be used for the 2018/19 MTREF is available on the link below:
http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx

Amendments of mSCOA implementation errors during the adjustments budget

During the budget verification process it was evident that municipalities had challenges aligning the *m*SCOA original budget data string to the original budget adopted by municipal council. The challenges differed per municipality and include differences on classification. Most municipalities were granted permission to correct the alignment during the 2017/18 adjustments budget process. The adjusted budget data strings should align to Schedule B adopted by municipal council. National and Provincial treasuries will undertake the verification process on the adjusted budgets in relation to the data strings. Therefore, municipalities are advised to submit the draft data strings and B-schedules in advance for testing purposes to ensure that aligned documents are adopted by municipal council by 28 February 2018.

The impact of mSCOA on the virement policy

MFMA Circular No. 51 highlighted the principles that must be incorporated into municipal virement policies. It also emphasised that the policy must indicate how the virement process must be managed within the municipality to enable the tracking and reporting of funding shifts.

The principles are still applicable and relevant. The only difference is that a transaction in *m*SCOA relates to six regulated segments, therefore all segments must be considered when making a virement. Municipalities are urged to review the policy and update reference to "Vote" to align to the function segment and indicate the funding applicable to the item being transferred in relation to the funding segment. Therefore, with the implementation of *m*SCOA, virements can only take place within a function or sub-function and the same source of funding. The creation of new projects or savings across functions can only take place through an adjustment budget. The policy must clearly articulate that virements should not be allowed from the repairs and maintenance project in the project segment.

Clarification of core and non-core functions

There are municipalities that experienced challenges with the implementation of the function segment due to the interpretation of what is core and non-core. Core functions provides for the matters in terms of section 156 (1) of the Constitution. These are functions performed by local government and constitutionally assigned to local government in terms of Part B of Schedule 4 and Part B of Schedule 5. Non-core function refers to the functions performed by

[1] The Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in government gazette Notice No. 37577 on 22 April 2014.

local government that are constitutionally assigned to provincial government in terms of section 156(4) of the Constitution. Local Government are compensated for delivering these functions on behalf of provincial government and typically receive a management fee from the provincial department.

For example, with the water function, if a municipality is an approved Water Service Authority (WSA), the provision of water will be a core function of that municipality. However, where a municipality is providing the service on an agency basis and is not an approved WSA, this will be a non-core function.

2018/19 mSCOA Audit process

When the *m*SCOA Regulation was promulgated in 2014, it provided for a three-year preparation and readiness window. All municipalities had to be compliant with the *m*SCOA classification framework by 1 July 2017. In order to ensure that municipalities meet the compliance deadline, National Treasury provided technical guidance on the processes required through MFMA Circulars No. 57, 80, 85 and *m*SCOA Circulars 1, 2, 3, 4, 5, and 6. Furthermore, a transversal tender (RT25-2016) was issued to reduce the time spent by municipalities on onerous tender processes and price negotiations when changing its current financial system to comply with *m*SCOA. These circulars read together with the *m*SCOA regulations should be the first point of departure when municipalities prepare their *m*SCOA audit files and the following key documents should typically be included in the audit files:

- Governance: Council resolutions pertaining to *m*SCOA implementation, including the resolutions to establishment a *m*SCOA steering committee and project implementation team; all documents of the Project Steering Committee and Project Implementation Committee such as agendas, attendance registers, signed minutes of all meetings, correspondence with National and Provincial Treasuries and the *m*SCOA project plan and reports/evidence of monitoring thereof;
- Change management and training: Records as evidence that change management were implemented and that all officials were trained on *m*SCOA and the use of the *m*SCOA enabling financial system;
- Procurement of Systems: Evidence that the processes set out in Annexure B of *m*SCOA Circular No. 6 was followed, including conducting an ITC due diligence process, obtaining a recommendation from the *m*SCOA project steering committee and the views of the National/Provincial Treasury and correspondence with the Office of the Procurement Officer (OCPO) of National Treasury where the transversal tender RT25-2016 was used; and
- Data migration/conversion: As part of the audit process, the Auditor-General will review the conversion/migration/cleansing processes used by the municipality to assess the completeness, accuracy and validity of data.

Municipalities are advised to use their internal audit function to ensure that the correct process was followed. Internal audit must ensure that the municipality has complied with the requirements of *m*SCOA and the reports of internal audit must be tabled at audit committee and at municipal council for their consideration.

2.3 Reporting indicators

The National Treasury has finalised the process of rationalising the built environment reporting for the eight metropolitan municipalities with an aim to reduce the reporting burden, which included the development of a set of indicators that will enable government to monitor progress on the integrated and functional outcomes.

There has been some confusion as to the level that indicators in the Service Delivery Budget Implementation Plan (SDBIP) occupy, particularly in relation to quarterly projections of service delivery targets and performance indicators for each vote (as per MFMA Circular No. 13).

Municipalities are urged to refer to MFMA Circular No.87 on rationalisation of planning and reporting requirements for the 2018/19 MTREF issued on 30 November 2017. The circular contains municipal performance indicators for metropolitan municipalities. In providing guidance, conceptual clarity and alignment between the Integrated Development Plan (IDP), Built Environment Performance Plan (BEPP), SDBIP and the performance part of the Annual Report, the MFMA Circular has conceptual application of benefit to all municipalities.

The performance indicators will be applicable to metropolitan municipalities from the 2018/19 financial year, and incrementally introduced to other categories of municipalities from 2019/20 onwards, although earlier compliance is encouraged.

2.4 Borrowing for capital infrastructure

In terms of Section 46 of the MFMA, a municipality may incur long-term debt only for the purpose of current or future capital expenditure on property, plant or equipment, and in specified circumstances for refinancing existing long-term debt. A municipality cannot borrow to replenish capital, nor can borrowing be attributed to previous years' investment projects.

It has come to National Treasury's attention that some municipalities budget for long-term borrowing in a specific financial year to finance capital projects; however, the expenditure is financed from internally generated funds and not with the planned/ budgeted long-term borrowing as was approved by council. The municipalities will then obtain the long-term debt in future years to refinance the internally generated funds which were used to finance the capital projects in the previous financial years. This practice is not supported as it is not consistent with section 15 of the MFMA that provides that a municipality can only incur expenditure in terms of an approved budget and within the amounts appropriated for the different votes. The incurring of the expenditure against a different source of finance than what was approved will be regarded as unauthorised expenditure.

3. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. Even as demand for services rises, weak economic growth has put stress on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, water boards and other creditors. There is a need for municipalities to focus on collecting revenues owed to them, and eliminate wasteful and non-core spending. Municipal budgets will be scrutinised to ensure that municipalities adequately provide to service their debt obligations. Municipalities must ensure that expenditure is limited to the maximum revenue collected and not spend on money that they do not have.

Municipalities are reminded that, the local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise the administrative costs of the smaller and more rural municipalities. The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basic services will likely increase and it will become even more difficult to collect revenue. The household budget will be under pressure and trade-offs will be applied as it may be unaffordable to pay all household expenses with regularity.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore municipalities are required to ***justify all increases in excess of the*** **projected inflation target for 2018/19** in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative.

3.1 Maximising the revenue generation of the municipal revenue base

The implementation of *m*SCOA requires systems integration of several sub-systems such as that which contains the municipal valuation roll. Among the internal controls, the system must have the capability to compare the valuation roll data to that of the billing system; the list of exceptions derived from this reconciliation provides an indication of where the municipality may be compromising its revenue generation in respect of property rates. Municipalities must reconcile valuation roll data, billing system and the deeds office. This may become a formal disclosure item in the near future.

Municipal own revenue sources are shrinking due to widespread drought and households opting for alternative sources of energy. This means that more effort is required to maximise revenue derived from property rates.

3.2 Eskom bulk tariff increases

2017/18 was the last year of the third Multi-Year Price Determination (MYPD) for Eskom's tariffs approved by the National Energy Regulator of South Africa (NERSA). Eskom has applied for a one year average tariff increase of 19.9 per cent for 2018/19. For municipalities, the different timing of the municipal financial year means that the increase Eskom has applied for would mean a 27.29 per cent average tariff increase in the 2018/19 municipal financial year. The National Energy Regulator of South Africa recently concluded a process of public hearings on this application, but has yet to publish a decision on the application. Municipalities can monitor www.nersa.org.za for news on the outcome of this process.

Municipalities should note that the average electricity tariff increase for municipalities in the 2017/18 municipal financial year was only 0.31 per cent. MFMA Circular No. 86 noted that by the time that tariff announcement was made, the local government equitable share allocations for 2017/18 had already been calculated with a higher electricity tariff increase. That circular said that "municipalities will have to budget to retain any surplus funds from the higher free basic services subsidy paid [through the local government equitable share] in 2017/18 in order to offset the cost of providing free basic electricity in 2018/19."

Municipalities are also urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving fully cost-reflective tariffs that will help them achieve financial sustainability. Municipalities in arrears with Eskom should ensure that their payment arrangements are effected in their 2018/19 MTREF budget.

3.3 Water tariff increases

The prevailing drought makes it difficult for some municipalities to improve revenue generation from this service. It is now more important to improve demand management, infrastructure maintenance, loss management, meter reading and tariff setting in respect of water services.

Municipalities must ensure that the tariffs charged are able to cover for the cost of bulk purchases, ongoing operations as well as provision for future infrastructure. There are

municipalities that are struggling to pay water boards due to a number of issues, one of which is poor financial sustainability and cost recovery. All municipalities in arrears with bulk suppliers must ensure that their payment arrangements are effected in their 2018/19 MTREF budget.

Accounting officers should take note that failure to undertake proper due diligence in terms of the affordability of payment arrangements and making the necessary provision in the municipality's budget will be considered as an act of financial misconduct and the necessary action in terms of chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings will have to be taken.

Municipalities that may have benefited from having introduced penalty tariffs for non-compliant consumers will have to adjust their budgets accordingly.

3.4 Water Conservation and Water Demand Management (WCWDM)

Water Conservation and Water Demand Management has been identified as a key intervention to balance available municipal supply against projected future needs. In this regard municipalities must actively implement WCWDM. Ongoing accurate monitoring and reporting of municipal Non-Revenue Water (NRW) and water loss performance against set targets and baselines is critical. The reporting must take place via the International Water Association (IWA) water balance methodology. No new funding towards future water infrastructure projects will be considered unless municipalities can provide actual consumption figures and prove that their water losses are under control. Municipalities should increase their efforts to reduce NRW and the negative impact it has on their ability to generate their own income and run a viable water business.

4. Funding choices and management issues

The Circular clearly outlines that, as a result of the economic landscape and weak tariff setting, municipalities are under pressure to generate revenue. The ability of customers to pay for services is declining and this means that less revenue will be collected. Therefore, municipalities must consider the following when compiling their 2018/19 MTREF budgets:

- improving the effectiveness of revenue management processes and procedures;
- paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as was highlighted in MFMA Circular No. 82;
- ensuring value for money through the procurement process;
- the affordability of providing free basic services to all households; and
- curbing consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.

Accounting officers are reminded of their responsibility in terms of section 62(1)(a) of the MFMA to use the resources of the municipality effectively, efficiently and economically. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

4.1 Employee related costs

The *Salary and Wage Collective Agreement* for the period 01 July 2015 to 31 June 2018 has come to an end. The process is under consultation; therefore, in the absence of other information from the South African Local Government Bargaining Council communication will be provided at a later stage.

4.2 Remuneration of councilors

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. Any overpayment to councilors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councilor(s) concerned.

5. Conditional Grant Transfers to Municipalities

5.1 Non-compliance of in year monitoring

In terms of Section 74(1) of the Municipal Finance Management Act (No 56. of 2003) (MFMA), municipalities must submit to the National and Provincial treasuries documents and monthly grant return forms as may be prescribed or required. Furthermore, section 12(2) of the Division of Revenue Act (Act No. 3 of 2017) (DoRA) states that the municipality, as part of the report required in terms of section 71 of the MFMA, report on the matters referred to in subsection (4) and submit a copy of that report to the relevant provincial treasury, the National Treasury and the relevant Transferring Officer.

There are municipalities that have not been complying with the reporting requirements as stipulated above. Municipalities are reminded that non-submission of monthly reports translates to non-compliance with the MFMA and DoRA. The National Treasury and Transferring Officer will be implementing stringent measures to municipalities that do not comply with the prescripts. This includes, but is, not limited to the stopping and reallocation of conditional grants funding away from municipalities that are non-compliant. Municipalities are encouraged to comply with the reporting requirements in order to avoid withholding or stopping of an allocation.

6. The Municipal Budget and Reporting Regulations

6.1 Tabling of funded budgets

The importance of tabling funded budgets is highlighted in MFMA Circular No. 74. This is one of the game changers in local government to ensure financial sustainability. As an initiative to support municipalities in this regard, the National and Provincial treasuries are assessing tabled budgets and assisting municipalities in effecting the required changes to ensure that they adopt funded budgets. However, some municipalities have challenges in correcting the budgets to ensure that they are funded in one financial year due to financial challenges. As a result, such municipalities must, together with their 2018/19 MTREF budget, table a plan in a municipal council on how and by when the budget will improve from an unfunded to a funded position. The National and Provincial treasuries will assess the budget together with the plans and support the municipality accordingly.

6.2 Budgeting for collections from arrear debtors

Most municipalities do not split collections between current and arrear debtors when reporting on table A7, this results in the collection rate being overstated. Municipalities are required to only disclose receipts from current accounts under cash flow from operating activities and the receipts from arrear accounts should be disclosed under cash flow from investing activities (Decrease in non-current debtors).

6.3 VAT implications (Budgeting on capital (A5) vs reporting)

MFMA Circular No. 58 indicated that municipalities must disclose total capital conditional grant allocations reflected in the DoRA under 'transfers and grants – capital' on Tables A2, A3, A4 and A5. However, there are municipalities that are experiencing challenges when reporting capital expenditure performance against the budget. The expenditure at year end appears to be understated when compared to the budget.

In terms of paragraph 4.5 of the VAT 419 Value-Added Tax – Guide for Municipalities, section 8(5A) was introduced to create a deemed supply where a person receives a grant from a public authority, constitutional institution or municipality. In light of the above it is clear that transfers to municipalities are deemed to be a zero-rated supply which includes VAT at 0 per cent. Grants are therefore VAT inclusive as per MFMA Circular No. 58 but at 0 per cent. ***Therefore, municipalities must budget for VAT at 0 per cent and not 14 per cent on tables A4 and A5.*** The approach also applies to the adjustments budget process (tables B4 and B5).

The fact that grants are a zero-rated supply enables municipalities to claim the input VAT on expenditure incurred. In line with MFMA Circular No. 58 a municipality must report the VAT inclusive expenditure against all conditional grants for purposes of DoRA, failing which the reclaimed input VAT will reflect as 'unspent' and revert to the National Revenue Fund (NRF). In practice the amount of expenditure (VAT exclusive) in the grant register will be expensed/ capitalised and the VAT portion reflected in the grant register may be utilised by the municipality as own revenue in terms of MFMA Circular No. 58. This also removes any doubt about the misalignment of Tables SA18, SA19, SA20, A4 and A5 due to VAT.

6.4 Budgeting for projections on tables SA25 to SA30

Over the years municipalities in general have not adequately completed the supporting tables SA25 to SA30, where projections were equally divided over twelve months. In addition, the quarterly projections reported on the C schedules differ with the projections that were set in the adopted budgets. This has defeated the purpose of monthly projections which seeks to improve cash flow and performance management. The implementation of *m*SCOA requires municipalities to undertake monthly projections, which must align to the supporting tables of the A schedule. Municipalities must reflect realistic projections when they adopt the budget and not to change the projections during in-year reporting.

6.5 Service level standards

A broad guideline was provided on the minimum service standards to be incorporated in the budget documentation. In addition, MFMA Circular No.74 included a framework that was developed as an outline to assist municipalities in finalising their service level standards.

Municipalities are advised to update the service level standards to align to the new IDPs that were compiled after the 2016 Local Government Elections. As indicated in MFMA Circular No.74 it is not possible to have the same service level standards across all municipalities. Therefore, the outline must be used as a guideline and be amended accordingly to align to the municipality's specific circumstances.

6.6 Schedule A - version to be used for the 2018/19 MTREF

National Treasury has released Version 6.2 of Schedule A1 (the Excel Formats) which is aligned to version 6.2 of the *m*SCOA classification framework which must be used when compiling the 2018/19 MTREF budget. **ALL** municipalities **MUST** use this version for the preparation of their 2018/19 MTREF budget.

It is imperative that all municipalities prepare their 2018/19 MTREF budgets in their financial systems and that the A1 schedule be produced directly from their financial system. All financial systems must have this functionality to assist and prepare budgets.

Special attention must be given to the supporting schedules in the prescribed A1 schedule. Where detailed data is lying in a sub-system e.g. human resource data for SA22 to SA24, this data must be pulled from the sub-system into the applicable supporting sheet.

Download Version 6.2 of Schedule A1 by clicking HERE

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:
http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx

6.7 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape	Bernard Mokgabodi Matjatji Mashoeshoe	012-315 5936 012-315 5553	Bernard.Mokgabodi@treasury.gov.za Matjatji.Mashoeshoe@treasury.gov.za
Free State	Jordan Maja Cethekile Moshane	012-315 5663 012-315 5079	Jordan.Maja@treasury.gov.za Cethekile.moshane@treasury.gov.za
Gauteng	Kgomotso Baloyi Nomxolisi Mawulana	012-315 5866 012-315 5460	Kgomotso.Baloyi@treasury.gov.za Nomxolisi.Mawulana@treasury.gov.za
KwaZulu-Natal	Bernard Mokgabodi Johan Botha	012-315 5936 012-315 5171	Bernard.Mokgabodi@treasury.gov.za Johan.Botha@treasury.gov.za
Limpopo	Una Rautenbach Sifiso Mabaso	012-315 5700 012-315 5952	Una.Rautenbach@treasury.gov.za Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Willem Voigt Mandla Gilimani	012-315 5830 012-315 5807	Willem.Voigt@treasury.gov.za Mandla.Gilimani@treasury.gov.za
Northern Cape	Jordan Maja Anthony Moseki	012-315 5663 012-315 5174	Jordan.Maja@treasury.gov.za Anthony.Moseki@treasury.gov.za
North West	Sadesh Ramjathan Makgabo Mabotja	012-315 5101 012-315 5156	Sadesh.Ramjathan@treasury.gov.za Makgabo.Mabotja@treasury.gov.za
Western Cape	Vuyo Mbunge Kevin Bell Sibusiso Mahlangu	012-315 5661 012-315 5725 012-395 6737	Vuyo.Mbunge@treasury.gov.za Kevin.Bell@treasury.gov.za Sibusiso.Mahlangu@treasury.gov.za
Technical issues with Excel formats	Elsabe Rossouw	012-315 5534	lgdataqueries@treasury.gov.za

National Treasury, together with the provincial treasuries, will undertake a compliance check and, where municipalities have not provided complete budget information, the municipal budgets will be returned to the mayors and municipal managers of the affected municipalities for the necessary corrections. Municipal managers are reminded that the annual budget must be accompanied by a quality certificate and council resolution in accordance with the format specified in item 31 of Schedule A of the Municipal Budget and Reporting Regulations.

The National Treasury would like to emphasise that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, ***they will be required to go back to the municipal council and table a complete budget document aligned to the requirement of the Municipal Budget and Reporting Regulations. In addition, where municipalities have adopted an unfunded budget, they will be required to correct the budget to ensure it adopt and implement a funded budget. However, where there are challenges the process indicated in paragraph 6.1 above will be applied.***

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year monitoring reports for both the parent municipality and its entity or entities. The following must be compiled:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats;
- An annual budget, adjustments budget and monthly financial reports for the entity in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

The A Schedule that the municipality submits to National Treasury must be a consolidated budget for the municipality (plus entities) and the budget of the parent municipality. D schedules must be submitted for each entity.

7. Budget process and submissions for the 2018/19 MTREF

7.1 Submitting budget documentation and schedules for 2018/19 MTREF

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. If the annual budget is tabled to council on 29 March 2018, the final date of submission of the electronic budget documents and corresponding electronic returns is **Tuesday, 03 April 2018**. The deadline for submission of hard copies including council resolution is **Friday, 06 April 2018**.
- Section 24(3) of the MFMA, read together with regulation 20(1), requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury ***within ten working days*** after the council has approved the annual budget. If the council only approves the annual budget on 30 June 2018, the final date for such a submission is **Friday, 13 July 2018**, otherwise an earlier date applies.

The municipal manager must submit:

- the budget documentation as set out in Schedule A (version 6.2) of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and ALL the supporting tables (SA1 – SA38) in both printed and electronic formats;
- the draft service delivery and budget implementation plan in both printed and electronic format;
- the draft integrated development plan;
- the council resolution;
- signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations; and

- schedules D specific for the entities.

Municipalities are required to send electronic versions of documents and the A1 schedule to lgdocuments@treasury.gov.za. Any problems experienced in this regard can be addressed with Elsabe Rossouw at Elsabe.Rossouw@treasury.gov.za. Budget related documents and schedules may also be uploaded using the LG Upload Portal at

https://portals.treasury.gov.za/sites/LGUploadPortal/SitePages/Home.aspx

Municipalities are required to send printed submissions of their budget documents and council resolution to:

For couriered documents	***For posted documents***
Ms Linda Kruger	Ms Linda Kruger
National Treasury	National Treasury
40 Church Square	Private Bag X115
Pretoria, 0002	Pretoria, 0001

In addition to the above-mentioned budget documentation, metropolitan municipalities must submit the draft Built Environment Performance Plan (BEPP) tabled in council by 31 March 2018 to Yasmin.coovadia@treasury.gov.za. If the BEPP documents are too large to be sent via email (exceeds 4MB) please submit to yasmin.coovadia@gmail.com or send to Yasmin Coovadia via Dropbox; any problems experienced in this regard can be addressed with Yasmin.Coovadia@treasury.gov.za. Hard copies of the BEPP may be sent to Yasmin Coovadia, National Treasury, 3rd floor 40 Church Square, Pretoria, 0002 or Private Bag X115, Pretoria, 0001.

7.2 Budget reform returns to the Local Government Database for publication

Municipalities are required to continue to use the Budget Reform Returns to upload budget and monthly expenditure to the National Treasury Local Government Database for publication purposes. All returns are to be sent to lgdatabase@treasury.gov.za. Municipalities must submit returns for both the draft budget and the final adopted budget as this will assist the National and provincial treasuries with the annual benchmark process. The current electronic returns may be downloaded from National Treasury's website at the following link: http://mfma.treasury.gov.za/Return_Forms/Pages/default.aspx.

The tabled and adopted budget data strings submitted to the Local Government Database and Reporting system should also be consolidated figures.

7.3 In-year reporting

The impact of mSCOA on in-year reporting

Municipalities must submit the *m*SCOA compliant data strings to the LG Upload Portal. National Treasury will continue with parallel reporting using the old format (return forms) and the *m*SCOA data strings until it is satisfied that all municipalities are *m*SCOA compliant and reporting adequately to support all publications. Therefore, the data submitted using both reporting methods must reconcile. National and Provincial treasuries together with the municipalities will conduct monthly verification of the data strings, Schedules C and the return forms to ensure that corrections are effected. All corrections must be done by **28 February 2017** in line the amendments to the adjustments.

Supporting documents to be submitted with Section 71 monthly reports

Municipalities were advised in MFMA Circular No. 67 that they must provide the following additional information and supporting documentation to the National Treasury as part of the submission of the Section 71 input forms:

- An extract of the trial balances from the general ledger;
- Copies of the actual monthly bank statements (reflecting the opening and closing bank balances) for the primary bank account;
- Bank reconciliation for the reporting period in the primary bank account; and
- Copies of the quarterly tabled section 71 documents in the prescribed Schedule C format including the applicable council resolution.

Most municipalities have not followed the guideline; therefore, municipalities are reminded that this request is still applicable and that the information must be submitted with the monthly Section 71 reports. The information is meant to assist in improving the quality of the quarterly published local government performance information.

Monthly reporting of debtors and creditors

National Treasury has observed through in-year monitoring that most municipalities are overstating debtors as they report on gross debtors instead of net. The format of the monthly debtors return form (Age Analysis of Debtors) provides for a column to disclose provision for impairment as per council policy. Therefore municipalities are urged to always reflect the provision for impairment in the column as indicated above for National Treasury to be able to reconcile the net debtors.

It was also observed that most municipalities are understating outstanding creditors. There is a major difference in the amounts reported through in-year reporting and those disclosed in the annual financial statements. It is assumed that amounts are not disclosed for all sundry payments and contractual commitments. Municipalities are urged to reconcile creditors on a monthly basis to increase the quality of reporting and for effective cash flow management.

7.4 Budget verification process

Annually during the budget verification process it is noted that municipalities have challenges to align the audited years, which results in amendments to the Schedule A. Municipalities must ensure that the audited figures and adjusted budget figures captured on the Schedule A aligns to the annual financial statements and Schedule B respectively.

7.5 Publication of budgets on municipal websites

In terms of section 75 of the MFMA, all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (containing audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting public accountability and good governance.

All relevant documents mentioned in this circular are available on the National Treasury website, http://mfma.treasury.gov.za/Pages/Default.aspx. Municipalities are encouraged to visit it regularly as documents are regularly added / updated on the website.

Contact

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post	Private Bag X115, Pretoria 0001
Phone	012 315 5009
Fax	012 395 6553
Website	http://www.treasury.gov.za/default.aspx

JH Hattingh
Chief Director: Local Government Budget Analysis
08 December 2017

Annexure A – Changes to *m*SCOA version 6.2

No.	Segment	Amendment
1	Region	Include ward / township breakdown as requested by municipalities
2	Region	Retired decommissioned municipalities due to demarcation
3	Region	Updated name changes due to demarcation and gazette notifications received
4	Item Revenue: Licences or permits	Added item for revenue from Atmospheric Emission Licence Fees
5	Item Expenditure: Depreciation	Added breakdown of asset classification to align to the CIDMS classification and SA34d
6	Item Expenditure: Remuneration of councillors	Added remuneration of Section 79 chairperson as this needs to be reported separately
7	Item Expenditure: Contracted services	Added line item for outsourced printing services
8	Item Expenditure: Operational cost: Licences	Added line item for liquor licence (entities)
9	Item Expenditure	Added “Transfer to Accumulated Surplus” account
10	Item Expenditure	Added “Capitalisation” accounts to capitalise materials, plant and vehicle costs
11	Item Assets: Investments	Report at institution level and breakdown detail for own purposes.
12	Item Assets: Current Accounts: Control, Clearing and Interface Accounts	Added line item for mistakes made by bank (over/ under banking, unidentified deductions from bank account)
13	Item: Assets, Liabilities and Net Assets	Removed all “Closing Balance” accounts
14	Item Assets and Liabilities	Added “Opening Balance” accounts, detail to be carried in the sub-system
15	Function	Expanded definition descriptions to guide municipalities on the difference between core and non-core functions
16	Fund	Added breakdown of grants, transfers and subsidies as requested by municipalities
17	Fund	Aligned Fund, Item Liabilities, Item Expenditure and Item Revenue segments
18	Project	Changed breakdown allowed to “Yes” for 8 items that indicated “breakdown required but principle N/A”.

NATIONAL TREASURY

MFMA Circular No. 91

Municipal Finance Management Act No. 56 of 2003

Municipal Budget Circular for the 2018/19 MTREF

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Introduction

This budget circular is a follow-up to the one issued in December 2017. It guides municipalities with their preparation of the 2018/19 Medium Term Revenue and Expenditure Framework (MTREF) and, as with previous annual budget circulars it should be read within this context. Among the objectives of this Circular, is to support municipalities with giving effect to National Treasury's Municipal Budget and Reporting Regulations (MBRR) within the current economic climate. The key focus of this Circular is the grant allocations per the 2018 Budget Review and the 2018 Division of Revenue Bill.

1. The South African economy and inflation targets

The 2018 Budget Review emphasised that, although global risk factors remain elevated, the world economy continues to provide a supportive platform for South Africa to expand trade and investment. The world economic growth is at its highest since 2014 and continues to gather pace with Gross Domestic Product (GDP) growth increasing across all major economies.

South Africa has experienced a period of protracted economic weakness which diminishes private investment. This may be attributed to domestic constraints, associated to political uncertainty, and declining business and consumer confidence. The local economy is beginning to recover after a short recession in early 2017 however the improvement is insufficient. Growth has remained stagnant at less than 2 per cent and unemployment remains high at 26.7 per cent. The prerequisites for increased revenue and expanded service delivery are more rapid growth, investment and job creation.

The GDP growth rate is forecasted at 1.5 per cent in 2018, 1.8 per cent in 2019 and 2.1 per cent in 2020. Statistics South Africa's December 2017 economic statistics showed an unexpected improvement in the economic outlook, largely as a result of growth in agriculture and mining.

The main risks to the economic outlook are continued policy uncertainty and deterioration in the finances of state-owned entities. The drought experienced in several provinces poses significant risks to agriculture and tourism for the period ahead, and this may threaten jobs in these sectors. The current water crisis in the Western Cape and other provinces will affect economic growth. While the drought's impact is uncertain much depends on how long it will prevail; the extent to which specific catchment areas are affected; and the success of mitigation measures.

These economic challenges will continue to exert pressure on municipal revenue generation and collection levels hence a conservative approach is advised for revenue projections. Municipalities affected by the drought should also consider its impact on revenue generation. In addition, municipalities will have to improve their efforts to limit non-priority spending and to implement stringent cost-containment measures.

The following macro-economic forecasts must be considered when preparing the 2018/19 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2017 - 2020

Fiscal year	2017/18	2018/19	2019/20	2020/21
	Estimate	Forecast		
Consumer Price Inflation (CPI)	5.3%	5.3%	5.4%	5.5%
Real GDP growth	1.0%	1.5%	1.8%	2.1%

Source: 2018 Budget Review.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

2. Key focus areas for the 2018/19 budget process

2.1 Local government grants and additional allocations

Since the 2017 Medium Term Budget Policy Statement (MTBPS) reprioritisation and reductions undertaken have affected planned spending for 2018/19. Local government direct and indirect transfers absorb 18.8 per cent of the reductions. A total of R13.9 billion has been cut from direct local government conditional grant allocations for the Medium Term Expenditure Framework (MTEF) period ahead since the 2017 MTBPS was tabled. Indirect grants to local government have been reduced by an additional R2.2 billion.

The reductions did not affect all conditional grants, and not all grants were reduced by the same percentage. The infrastructure conditional grants, particularly the larger ones, were mainly affected as this was considered the most practical approach. The overall impact of reducing this funding affects capital programmes; therefore local government's share of the reductions is higher than their share of the division of revenue, given that municipalities receive a number of infrastructure grants. The average reductions over the medium term are 3.5 per cent of local government allocations.

Conditional grant funding targets delivery of national government's service delivery priorities. It is imperative that municipalities understand and comply with the conditions stipulated in the Division of Revenue Act (DoRA) in order to access this funding. The equitable share and the sharing of the general fuel levy constitute additional unconditional funding, of which the equitable share is designed to fund the provision of free basic services to disadvantaged communities.

Allocations to the local government equitable share will continue to grow over the next three years, alongside a significant reduction in conditional grants. The total value of conditional grants directly transferred to local government increases from R43.3 billion in 2018/19 to R44.8 billion in 2019/20 and R47.8 billion in 2020/21.

Large municipalities are expected to invest more of their own resources, offsetting some of the impact of reductions to infrastructure grants, while building partnerships with the private sector for infrastructure delivery over the period ahead.

The 2018 Budget provides for R382.8 billion to be transferred directly to local government and a further R21.8 billion allocated to indirect grants for the 2018 MTREF. Direct transfers to local government over the medium term account for 9 per cent of national government's non-interest expenditure. Total direct allocations to local government grow at an annual average rate of 7.5 per cent over the MTEF period. The total spending on local government increases to 9.5 per cent of national non-interest expenditure when adding indirect transfers.

Municipalities are reminded that all allocations included in their budgets must correspond to the allocations listed in the Division of Revenue Bill. All the budget documentation can be accessed from the National Treasury website by clicking on the link below:
http://www.treasury.gov.za/documents/national%20budget/2018/

Changes to local government allocations

Unconditional grants

An amount of R3.4 billion is added to the *local government equitable share* over the medium term to compensate for the rising costs of providing free basic services to the growing number of indigent households. This covers the likely above-inflation increases in the costs of bulk water and electricity. This also allows for faster increases in the allocations to poorer and rural municipalities through the redistributive components of the equitable share formula. This allocation is in addition to the previous increases and an above inflation growth rate for the baseline in 2020/21. This means that the local government equitable share grows at an annual average rate of 10.4 per cent over the MTEF.

Conditional grants

The most substantial reduction has been applied to the largest grant – the *municipal infrastructure grant*. However, the structure of the formula used to allocate this grant reduces the impact of reductions on smaller municipalities. Project-based grants, such as those in the electricity and water sectors, have identified projects that will be postponed as a result of the adjustments. These changes do not affect any water augmentation projects in drought-affected areas.

Reductions to the *public transport network grant* are much larger in the outer years of the MTEF. This allows for the Department of Transport and the National Treasury to review the sustainability of public transport plans and to assess whether some cities should put projects on hold while they revisit system design.

The 2017 MTBPS announced a new funding mechanism to support recovery plans for municipalities that face a financial crisis, as provided for in section 139(5) of the Constitution. A *new municipal restructuring grant* will be introduced to help municipalities in financial crisis to implement reforms to turn themselves around. The National Treasury will consult with national departments, provinces and South African Local Government Association (SALGA) on the design of the grant and its coordination with other capacity-building programmes during 2018. The grant is intended to be a short-term intervention that will fund the turnaround of struggling municipalities. It will help identified municipalities that are in financial distress, but have demonstrated a commitment to implementing the necessary reforms. If needed, the intervention powers outlined in section 139 of the Constitution may also be used as part of the broader approach to turning around these municipalities.

The municipal restructuring grant will be made available within the parameters of the existing legal framework and will not provide bailouts to municipalities. It will fund the implementation of specific outputs in support of a financial recovery plan approved by a municipal council. The council must demonstrate political buy-in by adopting such a plan, and the municipality must also commit its own resources to implementing parts of the plan.

Smaller cities face some of the same urban development challenges as major metropolitan areas. These cities will be eligible for a *new integrated urban development grant* from 2019/20. Cities will have to meet planning and performance criteria to receive the grant, which will be funded through a shift of funds from the municipal infrastructure grant. The new grant will require cities to plan for a programme of infrastructure investment, funded from grants and own revenues, rather than just standalone projects. This aligns with the policy set out in the Integrated Urban Development Framework (IUDF) approved by Cabinet in April 2016. This approach will be piloted in uMhlathuze and Polokwane local municipalities in 2018/19. Eligible municipalities will be invited to apply for the grant during 2018. The application process is set out in clause 27(5) of the 2018 Division of Revenue Bill.

2.2 Drought disaster relief

Severe drought conditions are affecting large parts of the country, and placing extreme strain on the supply of water to the nearly 4 million people in the City of Cape Town. Some smaller towns in the Northern Cape, Eastern Cape and Western Cape, as well as Nelson Mandela Bay Metro, are also facing severe water shortages. The drought has been classified as a national disaster by the National Disaster Management Centre. Government is committed to managing available supply to ensure basic needs are met, while implementing plans to improve long-term sustainability in a water stressed country.

Government is prepared to provide financial assistance as deemed necessary:

- A provisional allocation of R6 billion has been set aside in 2018/19 for drought relief in several provinces, to assist the water sector and to augment public investment projects supported by improved infrastructure planning. Some of these funds may be allocated to support water augmentation projects in an Adjustments Budget, however, the full costs of new schemes will eventually have to be recovered from water users through tariffs.

- The Division of Revenue Act allows for conditional grant funds to be reallocated for disaster relief. Such additional funding may be used in 2017/18 for immediate interventions such as accelerating groundwater development.

- Disaster relief grants for provinces and municipalities are R423.7 million in 2017/18 and R472.9 million in 2018/19. This may be quickly released to assist in the event of an emergency.

- If agricultural employment is seriously destabilised, government can temporarily increase the intake on the Working for Water Programme. These short-term jobs will provide a substitute employment option, while helping to improve runoff in catchment areas by removing alien vegetation.

2.3 Participation in RT15-2016 Vodacom transversal contract- for the supply and delivery of mobile communication services to the state

When municipalities make an application to the Office of the Chief Procurement Officer (OCPO) to participate in the RT15-2016 transversal contract's account management service offering in respect of smart meters, they must comply with the process that will be communicated in an MFMA Circular that will soon be issued. In terms of the application process municipalities are expected to provide evidence of adequate operating budget provision over the MTREF. The Circular will include pre-conditions for eligibility to participate, such as adequate resourcing and technology platform to fulfil their obligation as envisaged by the Smart Utility Management Solution; and capability to sustain the implementation effort in the longer term.

3. The revenue budget

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore municipalities are required to ***justify all increases in excess of the*** **projected inflation target for 2018/19** in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition municipalities should

include a detail of their revenue growth assumptions for the different service charges in the budget narrative.

Local government also confronts tough fiscal choices in the face of financial and institutional problems that result in service-delivery breakdowns and unpaid bills. Municipalities can offset these trends by improving own revenue collection, working more efficiently and implementing cost containment measures.

3.1 Eskom bulk tariff increases

The National Energy Regulator of South Africa (NERSA) published their "Municipal Tariff Guideline Increase, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2018/19 Financial Year" on 28 February 2018. Municipalities are encouraged to download the full guideline document (available at www.nersa.org.za) and study it carefully. The guideline includes an update to the average cost structure used to determine the municipal tariff increase. It also sets out proposed timeframes for the approval of municipal tariffs. NERSA invites comments on the guideline to be submitted by 20 March 2018.

The NERSA document proposes a 6.84 per cent guideline increase for municipal electricity tariffs for 2018/19. This is based on a bulk tariff increase for municipalities of 7.32 per cent.

Municipalities are urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving fully cost-reflective tariffs that will help them achieve financial sustainability. Municipalities in arrears with Eskom should ensure that their payment arrangements are effected in their 2018/19 MTREF budget.

It should be noted that the guideline increase for municipal tariffs and the bulk tariff increase that Eskom will charge municipalities are both lower than the 8 per cent used to calculate the free basic electricity subsidies provided through the local government equitable share formula.

4. Funding choices and management issues

4.1 Management issues

Many municipalities continue to face institutional challenges and mismanagement that result in service delivery failures, bad debt accumulation, limited cash flows and consequent non-payment of creditors. Eskom and water boards are owed the greater percentage of the total municipal creditors; and protracted non-payment undermines the financial sustainability of these state-owned entities.

The non-payment of creditors is a symptom of underlying problems which include, among others, weaknesses in revenue collection and underinvestment in asset maintenance and renewal, which compromises the reliability of delivering basic services. There are too many municipalities that fail to adopt credible budgets and this means that even if they adhere to their budgeted plans, they will not be financially sustainable.

The national and provincial departments collectively owe municipalities and while much of the historic debt has been verified by the Department of Public Works there are departments that do not have sufficient funds to settle these debts. The Department of Public Works continues to facilitate the ongoing government debt verification and settlement process.

In order to achieve financial sustainability, municipalities must demonstrate the political will to implement the changes required to improve their performance. Where municipalities

consistently fail to deliver their mandates, the Constitution provides for provincial and/or national government to intervene.

Government will introduce a conditional grant in the outer years of the 2018 MTEF to provide support to municipalities facing financial crises. This grant funding will only be accessible to municipalities that have demonstrated the political will to implement reforms necessary to turn themselves around. The grant will be designed and consulted during 2018.

4.2 Employee related costs

The *Salary and Wage Collective Agreement* for the period 01 July 2015 to 31 June 2018 has come to an end. The process is under consultation; therefore, in the absence of other information from the South African Local Government Bargaining Council communication will be provided at a later stage.

4.3 Remuneration of councilors

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. Any overpayment to councilors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councilor(s) concerned.

5. Conditional Grant Transfers to Municipalities

This section provides guidance to municipalities with regard to the preparation for the 2017/18 unspent conditional grant and roll-over process and should be referenced to previous annual budget circulars.

5.1 Criteria for the rollover of conditional grant funds

Section 22 of the 2017 Division of Revenue Act (DoRA) requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund, unless the receiving officer, provincial treasury and transferring national officer proves to the satisfaction of National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When applying to retain unspent conditional allocations committed to identifiable projects or requesting a rollover in terms of section 22(2) of the DoRA, municipalities must include the following information with their submission to National Treasury:

1. A formal letter, signed by the accounting officer must be addressed to the **National Treasury** requesting the rollover of unspent conditional grants in terms of section 22(2) of the 2017 DoRA;
2. A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated and spent per project;
3. The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):

    a) Proof that the project tender was published and the period for tender submissions closed before 31 March;
    b) Proof that a contractor or service provider was appointed for delivery of the project before 31 March; or

c) Proof of a project tender, appointment of contractor or service provider for delivery of service before 30 June in cases where additional funding was allocated during the course of the final year of the project; and
d) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2019 (attach cash flow projection for the applicable grant).

4. A progress report (also in percentages) on the status of each project's implementation (**attach a visible implementation plan**);
5. The value of the committed project funding, and the conditional allocation from the funding source;
6. Reasons why the grants were not fully spent during the year of original allocation per the DoRA;
7. Municipalities must not include previous year's unspent conditional grants as a rollover request. Rollover of rollovers will not be considered;
8. An indication of the time-period within which the funds are to be spent if the roll over is approved; and
9. Proof that the Chief Financial Officer and Municipal Manager are permanently appointed.

No rollover requests will be considered for municipalities with vacant or acting Chief Financial Officers and Municipal Managers for a period exceeding 6 months from the date of vacancy.

If any of the above information is not provided or the application is received by National Treasury (Intergovernmental Relations Division) after 31 August 2018, the application will be declined.

In addition, National Treasury will also consider the following information when assessing rollover applications; and reserves the right to decline an application should there be non-performance by the municipality in any of these areas:

1. Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2017 DoRA, including the municipal manager and chief financial officer signing-off on the information sent to National Treasury;
2. Submission of the pre-audited Annual Financial Statements information to National Treasury by 31 August 2018;
3. Accurate disclosure of grant performance in the 2017/18 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS);
4. The National Treasury will not consider requests to approve the entire allocation to the municipality as there should be a minimum spend of 50 per cent of the allocation per programme;
5. Cash available in the bank (net position including short term investments) as at 30 June 2018 and in line with the cash flow statements to finance the roll-over request;
6. No approval will be granted to municipalities requesting a roll-over of the same grant for the third consecutive time;
7. Incorporation of the Appropriation Statement;
8. No roll over application project constituted through Regulation 32 of the Municipal Supply Chain Management Regulations (Gazette No.27636) will be approved. Projects linked to additional funding and disasters are exempted;
9. If the full amount that is requested for roll over is not entirely cash backed, such a roll over will not be approved. National Treasury will not approve portions of roll over requests; and
10. Evidence that the roll over application is linked to invoices that were issued within the last 30 days of the municipal financial year end.

5.2 Unspent conditional grant funds for 2017/18

The process to ensure the return of unspent conditional grants for the 2017/18 financial year will be managed in accordance with section 22 of the DoRA. In addition to the previous MFMA circulars, the following practical arrangements will apply:

Step 1: Municipalities must submit their June 2018 conditional grant expenditure reports according to section 71 of the MFMA reflecting all accrued expenditure on conditional grants and further ensure that expenditure reported to both National Treasury and national transferring officers reconcile.

Step 2: When preparing the Annual Financial Statements a municipality must determine the portion of each national conditional grant allocation that remained unspent as at 30 June 2018. These amounts MUST exclude all interest earned on conditional grants, retentions and VAT related to conditional grant spending that has been reclaimed from SARS, which must be disclosed separately.

Step 3: If the receiving officer wants to motivate in terms of section 22(2) of the 2017 DoRA that the unspent funds are committed to identifiable projects, the roll over application pack must be submitted to National Treasury by 31 August 2018.

National Treasury will not consider any rollover requests that are incomplete or received after this deadline.

Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on criteria outlined above by 22 October 2018 or whether it will agree to any alternative payment arrangement or schedules.

Step 5: National Treasury will communicate the unspent conditional grants amount by 05 November 2018. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund by 19 November 2018.

Step 6: Any unspent conditional grant funds that should have, but has not been repaid to the National Revenue Fund by 19 November 2018, and for which a municipality has not requested a repayment arrangement, will be offset against the municipality's 03 December 2018 equitable share allocation.

All other issues pertaining to Appropriation Statement and reporting on approved roll overs are addressed in the Annexure to MFMA Circular No. 86.

6. The Municipal Budget and Reporting Regulations

6.1 The impact of VAT increase on tariffs

VAT will increase from 14 per cent to 15 per cent from April 2018. In terms of Section 7(4) of Value-Added Tax Act (No. 89 of 1991), the VAT increase takes effect on 1 April. It is a tax increase as result of tax legislation that municipalities must implement and not an increase of tariffs by the municipalities. Therefore Section 28(6) of the Municipal Finance Management Act, 2003 (No. 56 of 2003) (MFMA), is not applicable in this regard.

Whether the additional amount is recoverable from the customer or not, the supplier must account for VAT on any supplies made on or after 1 April 2018 at the increased VAT rate.

The South African Revenue Service issued a guideline on how the increase in VAT must be implemented. The guideline is available on the link below:

http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-VAT-G13%20-%20VAT%20Pocket%20Guide%20on%20the%20VAT%20rate%20increase%20on%201%20April%202018%20-%20External%20Guide.pdf

6.2 Schedule A - version to be used for the 2018/19 MTREF

National Treasury has released Version 6.2 of Schedule A1 (the Excel Formats) which is aligned to version 6.2 of the *m*SCOA classification framework which must be used when compiling the 2018/19 MTREF budget. **ALL** municipalities **MUST** use this version for the preparation of their 2018/19 MTREF budget.

It is imperative that all municipalities prepare their 2018/19 MTREF budgets in their mSCOA financial systems and that the A1 schedule be produced directly from their financial system. All financial systems must have this functionality to assist and prepare budgets.

Special attention must be given to the supporting schedules in the prescribed A1 Schedule. Where detailed data is housed in a sub-system e.g. human resource data for SA22 to SA24, this data must be extracted from the sub-system into the applicable supporting sheet.

The following supporting tables will be included for perusal and sign-off during the verification process of the 2018 MTREF: SA11, SA12a, SA13a, SA14, SA22, SA23, SA24, SA25, SA27, SA36, SA37 and SA38.

It is therefore important to focus on the additional supporting data as well as the financial data submitted on A1 to A10 during the verification process undertaken with National Treasury, the provincial treasuries and all municipalities.

Download Version 6.2 of Schedule A1 by clicking HERE

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:
http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx

6.3 Assistance with the compilation of budgets

In cases where the municipality requires advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury official:

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape	Bernard Mokgabodi Matjatji Mashoeshoe	012-315 5936 012-315 5553	Bernard.Mokgabodi@treasury.gov.za Matjatji.Mashoeshoe@treasury.gov.za
Free State	Jordan Maja Cethekile Moshane	012-315 5663 012-315 5079	Jordan.Maja@treasury.gov.za Cethekile.moshane@treasury.gov.za
Gauteng	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za

	Nomxolisi Mawulana	012-315 5460	Nomxolisi.Mawulana@treasury.gov.za
KwaZulu-Natal	Bernard Mokgabodi Johan Botha	012-315 5936 012-315 5171	Bernard.Mokgabodi@treasury.gov.za Johan.Botha@treasury.gov.za
Limpopo	Una Rautenbach Sifiso Mabaso	012-315 5700 012-315 5952	Una.Rautenbach@treasury.gov.za Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Willem Voigt Mandla Gilimani	012-315 5830 012-315 5807	Willem.Voigt@treasury.gov.za Mandla.Gilimani@treasury.gov.za
Northern Cape	Jordan Maja Anthony Moseki	012-315 5663 012-315 5174	Jordan.Maja@treasury.gov.za Anthony.Moseki@treasury.gov.za
North West	Sadesh Ramjathan Makgabo Mabotja	012-315 5101 012-315 5156	Sadesh.Ramjathan@treasury.gov.za Makgabo.Mabotja@treasury.gov.za
Western Cape	Vuyo Mbunge Kevin Bell	012-315 5661 012-315 5725	Vuyo.Mbunge@treasury.gov.za Kevin.Bell@treasury.gov.za
Technical issues with Excel formats	Elsabe Rossouw	012-315 5534	lgdataqueries@treasury.gov.za

National Treasury, together with the provincial treasuries, will undertake a compliance check and, where municipalities have not provided complete budget information, the municipal budgets will be returned to the mayors and municipal managers of the affected municipalities for the necessary corrections. Municipal managers are reminded that the annual budget must be accompanied by a quality certificate and council resolution in accordance with the format specified in item 31 of Schedule A of the Municipal Budget and Reporting Regulations. In addition to the above compliance check, the *m*SCOA data strings will be assessed to determine whether the municipalities are compliant.

The National Treasury herewith emphasises that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, ***they will be required to return to the municipal council and table a complete budget document aligned to the requirement of the Municipal Budget and Reporting Regulations***.

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year monitoring reports for both the parent municipality and its entity or entities. The following must be compiled:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats;
- An annual budget, adjustments budget and monthly financial reports for the entity in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

The Schedule A that the municipality submits to National Treasury must be a consolidated budget for the municipality (plus entities) and the budget of the parent municipality. Schedules D must be submitted for each entity.

7. Budget process and submissions for the 2018/19 MTREF

7.1 Budgeting for the audited years on Schedule A (*m*SCOA)

According to international learning practices, it is appropriate to reclassify historical information in accordance with the changes that occur in the Standard Chart of Accounts. Municipalities must capture the reclassified audit outcomes for 2014/15 to 2016/17 in version 6.2 of the Schedule A when compiling 2018/19 MTREF budgets.

The amalgamated municipalities must complete the 2016/17 audited years, current year (2017/18) and the 2018/19 MTREF budgets.

7.2 Submitting budget documentation and schedules for 2018/19 MTREF

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual budget is tabled in the municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. If the annual budget is tabled to council on 29 March 2018, the final date of submission of the electronic budget documents and corresponding electronic returns is **Tuesday, 03 April 2018**. The deadline for submission of hard copies including council resolution is **Friday, 06 April 2018**.
- Section 24(3) of the MFMA, read together with regulation 20(1), requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury ***within ten working days*** after the council has approved the annual budget. If the council only approves the annual budget on 30 June 2018, the final date for such a submission is **Friday, 13 July 2018**, otherwise an earlier date applies.

The municipal manager must submit:

- the budget documentation as set out in Schedule A (version 6.2) of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and ALL the supporting tables (SA1 – SA38) in both printed and electronic formats;
- the draft service delivery and budget implementation plan in both printed and electronic format;
- the draft integrated development plan;
- the council resolution;
- signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations;
- the budget locking certificate; and
- schedules D specific for the entities.

Municipalities are required to send electronic versions of documents and the A1 schedule to lgdocuments@treasury.gov.za. Any problems experienced in this regard can be addressed with Elsabe Rossouw at Elsabe.Rossouw@treasury.gov.za. Budget related documents and schedules may also be uploaded using the LG Upload Portal at

https://portals.treasury.gov.za/sites/LGUploadPortal/SitePages/Home.aspx

Municipalities are required to send printed submissions of their budget documents and council resolution to:

For couriered documents

Ms Linda Kruger
National Treasury
40 Church Square
Pretoria, 0002

For posted documents

Ms Linda Kruger
National Treasury
Private Bag X115
Pretoria, 0001

In addition to the above-mentioned budget documentation, metropolitan municipalities must submit the draft Built Environment Performance Plan (BEPP) tabled in council by 31 March 2018 to Yasmin.coovadia@treasury.gov.za. If the BEPP documents are too large to be sent via email (exceeds 4MB) please submit to yasmin.coovadia@gmail.com or send to Yasmin Coovadia via Dropbox; any problems experienced in this regard can be addressed with Yasmin.Coovadia@treasury.gov.za. Hard copies of the BEPP may be sent to Yasmin Coovadia, National Treasury, 3rd floor 40 Church Square, Pretoria, 0002 or Private Bag X115, Pretoria, 0001.

7.3 Budget reform returns to the Local Government Database for publication

Municipalities are required to continue to use the Budget Reform Returns to upload budget and monthly expenditure to the National Treasury Local Government Database for publication purposes. All returns are to be sent to lgdatabase@treasury.gov.za. Although there is some mis-alignment between the *m*SCOA classification and the budget return forms, municipalities must find the best fit to represent their 2018 MTREF budget figures as the publications will still be based on the budget returns for 2018/19.

Municipalities must submit returns for both the **tabled** budget and the final **adopted** budget as this will assist the National and provincial treasuries with the annual benchmark process. The current electronic returns may be downloaded from National Treasury's website at the following link: http://mfma.treasury.gov.za/Return_Forms/Pages/default.aspx.

The tabled and adopted budget data strings submitted to the Local Government Database and Reporting system should also be consolidated figures.

7.4 Upload of the *m*SCOA budget data strings to the LG upload portal

Municipalities must upload the *m*SCOA data strings for the tabled (**TABB**) and adopted (**ORGB**) budget to the upload portal. The budget data strings must be accompanied by the IDP project details data strings (**PRTA** and **PROR**). The deadlines for submission of the MBRR documents are also applicable to the *m*SCOA data strings. Refer to paragraph 7.2 above.

7.5 Publication of budgets on municipal websites

In terms of section 75 of the MFMA, all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (including the audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting transparency and good governance.

All relevant documents mentioned in this circular are available on the National Treasury website, http://mfma.treasury.gov.za/Pages/Default.aspx. Municipalities are encouraged to visit it regularly as documents are regularly added / updated on the website.

Contact

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post	Private Bag X115, Pretoria 0001
Phone	012 315 5009
Fax	012 395 6553
Website	http://www.treasury.gov.za/default.aspx

JH Hattingh
Chief Director: Local Government Budget Analysis
07 March 2018

Summary - Capital Budget 2018/19	ANNUAL BUDGET 2018/19	ANNUAL BUDGET 2019/20	ANNUAL BUDGET 2020/21	Funding
Executive and Council				
Computer Equipment (ward ass)	110 000	-	-	Internal
Furniture and Office Equipment	-	530 000	561 800	Internal
Wards Capital Programmes	750 000	1 590 000	1 685 400	Internal
	860 000	**2 120 000**	**2 247 200**	
Corporate Services				
Furniture and Office Equipment	752 000	-	-	Internal
Computer Equipment	157 000	166 420	176 405	Internal
Library upgrade (phase 2)	500 000	530 000	561 800	Internal
Main Office Building Upgrade	300 000	318 000	337 080	Internal
Computer Software (Legal Services)	100 000	-	-	Internal
HR System	500 000	-	-	Internal
	2 309 000	**1 014 420**	**1 075 285**	
Finance				
Furniture and Office Equipment	115 700	-	-	Internal
Computer Equipment	1 391 200	1 474 672	1 563 152	Internal
Machinery and Equipment	-	731 400	775 284	Internal
	1 506 900	**2 206 072**	**2 338 436**	
Infrastructure and Engineering				
Computer Equipment	35 000	90 100	95 506	Internal
Computer Equipment	50 000	52 700	55 599	MIG
Water infrastructure boreholes	1 500 000	-	-	Internal
Furniture and Office Equipment	198 000	209 880	222 473	Internal
Bucket Eradication Programme	2 300 000	3 668 000	3 888 080	Internal
Illegal electricity connections (LV Network)	1 000 000			Internal
Machinery and Equipment	415 000	439 900	466 294	Internal
MV Networks	8 869 565	5 565 217	5 565 217	INEP
New overheadlines 66kv overheadlines(Jbay to Melkhout)	3 000 000	-	-	Internal
Jeffreys Bay- Northern Bulk main outfall sewer -area north of R102	1 200 000	-	-	Internal
Fencing: New x Loerie Sewer pump station	900 000	477 000	505 620	Internal
Fencing of Jeffreys Bay and Kruisfontein Reservoir	900 000	-	-	Internal
Roads upgrade	2 500 000	2 000 000	2 000 000	Internal
upgrading of infrastructure for new township establishment	500 000	530 000	561 800	Internal
Vehicles	2 500 000	2 120 000	2 247 200	Internal
Upgrading of the Ses Vista Wastewater Treatment Works	18 503 132	15 859 937	-	MIG
Upgrade gravel roads in Jeffreys Bay	-	363 655	9 982 258	MIG
Patensie Sewerage Package Plant		4 429 441	2 173 913	MIG
Upgrade of Sanitation System Old Hankey		434 783	9 907 620	MIG
Humansdorp - Upgrade Kruisfontein Waste Water Treatment Works	2 173 913	-	-	MIG
	46 544 610	**36 240 614**	**37 671 580**	
Planning, Development and Tourism				
Machinery and Equipment	30 000	15 900	16 854	Internal
Informal Traders - building	1 220 951	1 220 951	1 378 987	MIG
Furniture and Office Equipment	200 000	-	-	Internal
Computer Software	700 000	-	-	Internal
Computer Equipment	60 000	63 600	67 416	Internal
Land acquisition housing projects	1 000 000			Internal
Upgrading Kouga Cultural Centre	1 000 000	1 060 000	1 123 600	Internal
	4 210 951	**2 360 451**	**2 586 857**	
Community Services				
Fencing of existing cemeteries	500 000	530 000	561 800	Internal
Computer Equipment	160 000	50 000	50 000	Internal
Fencing - Fire Station	200 000	500 000	300 000	Internal
Furniture and Office Equipment	145 000	259 700	275 282	Internal
Upgrading of Sports Facilities	3 864 352	3 936 841	4 136 961	MIG
Machinery and Equipment	844 010	500 000	500 000	Internal
Life Guards Beach shelter	250 000	212 000	224 720	Internal
Fencing of caravan parks & camping sites	500 000	530 000	561 800	Internal
Security Cameras	150 000			Internal
Table and Chairs Community Facilities	100 000	-	-	Internal
Weston Library Upgrade	100 000	-	-	Internal
Wheelie bins	1 000 000	800 000	800 000	Internal
Vehicles	4 000 000	2 120 000	2 247 200	Internal
Fencing of Sport and Recreational Facilities	500 000	530 000	561 800	Internal
	12 313 362	**9 968 541**	**10 219 563**	
Total	**67 744 823**	**53 910 098**	**56 138 921**	
Internally generated funds	33 062 910	22 046 572	22 938 366	
Transfers recognised - capital	34 681 913	31 863 526	33 200 555	
Total	**67 744 823**	**53 910 098**	**56 138 921**	