



MKHAMBATHINI MUNICIPALITY

DRAFT ANNUAL BUDGET REPORT FOR 2018/2019 TO 2020/21 MTREF FINANCIAL BUDGET

Compiled in terms of Section 16 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) and MFMA Circular

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Executive Summary

Legislative framework

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

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

National Treasury's MFMA Circular No. 89 and 91 were used to guide the compilation of the 2018/19 – 2020/21 MTREF. The mSCOA Regulations was also taken into account when the draft budget was compiled and the budget complies with the mSCOA requirements.

The main challenges experienced during the compilation of the 2017/18 MTREF has not changed from the previous year's challenges which were experienced by the municipality when the budget was previously compiled. The challenges can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Most of the rural settlements are small thus making service delivery costly, this effect is compounded by the aspect that only 20% of the municipality's population lives in an urban area while 80% lives in the rural hinterland of the municipality. The spatial development pattern of the municipality will have to be addressed.
- The municipality has also experience the challenge due to the cutting of the expenditure by National and Provincial government. All grants were affected but cut costing measures implemented by the government.

The 2017/2018 budget is prepared in accordance with the Local Government; Municipal Finance Management Act, 2003 and the Municipal Budget and reporting regulations issued by the Minister in terms of Section 168(1) of the Act. In terms of these regulations a multi-year budget spanning over three (3) years is prepared. It needs to be noted that the figures for 2018/2019 and 2019/2020 are indicative in terms of the medium term expenditure framework.

The budget comprises of two categories:

- (a) Operational Budget
- (b) Capital Budget

The focus area where Mkhambathini Municipality is rendering service to community includes the following:

- Municipal roads
- Solid waste removal

Linkages between the budget, the IDP and political priorities

Firstly, the budget timetable and the IDP process plan are aligned through an integrated time schedule.

Secondly, the IDP is prepared and the projects are included in the budget with each project properly reference per IDP reference number.

Moreover, the financial plan comprising the total budget, among other items, is included in the IDP.

Finally, the implementation of electricity and solid waste projects and other assigned functions through the structures Act constitutes compliance with National, Provincial and Local development goals to eradicate backlogs of the past.

Operating Revenue Framework

The expenditure required to address these challenges will inevitably always exceed available funding hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues. The municipality has a huge task to implement the revenue enhancement strategy due to the fact that the municipality has a huge backlog on infrastructure which must be addressed.

Cash flow has become a huge challenge in a municipality due to the non-payment by customers. One of the challenges which cause the customers not to pay is the current economy status within the area which has affected the market and some businesses are struggling to cope with the situation.

REVENUE MANAGEMENT

The municipality's does not have a revenue enhancement strategy however it will be developed during the financial year and it will be around the following key components:

- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and Tariff policies of the municipality.
- The municipality's Credit and Debt Control Policy approved by Council
- All other relevant revenue generating policies

Summary of revenue classified by main sources

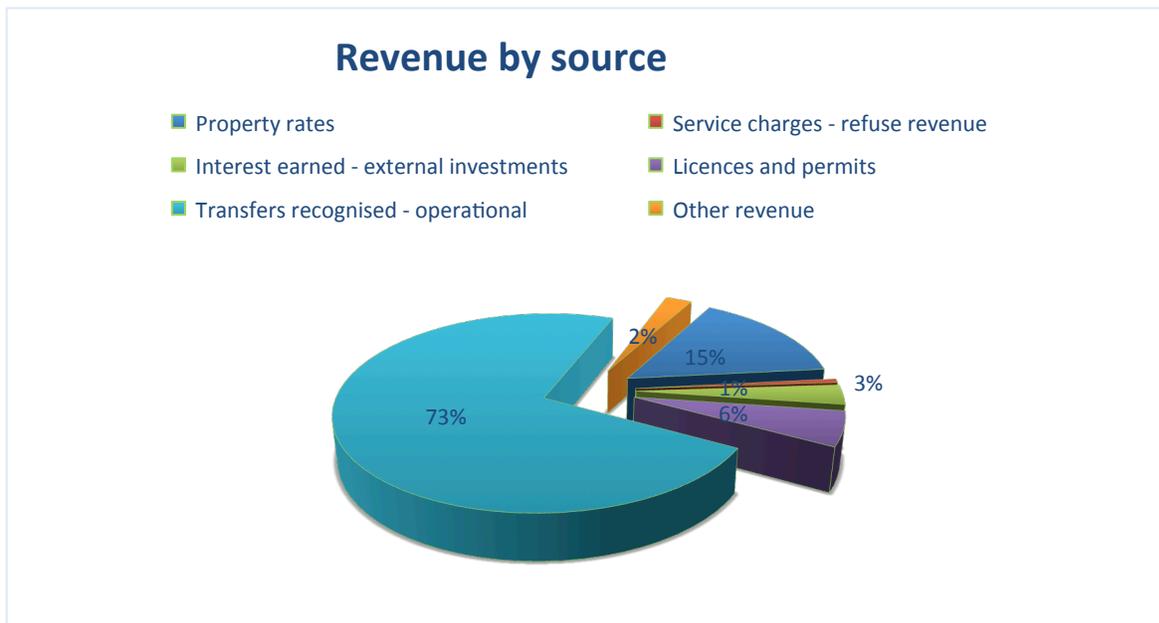
KZN 226 Mkhambathini - Table A4 Budgeted Financial Performance (revenue management)

Description R thousand	2018/19 Medium Term Revenue & Expenditure Framework		
	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Revenue By Type			
Property rates	14 272 413	14,843,310	15,437,042
Service charges - refuse revenue	562 330	596 070	631 834
Interest earned - external investments	3 015 705	3 136 333	3 261 787
Licences and permits	5 331 171	5 544 417	5 766 194
Transfers recognised - operational	67 850 000	68 735 000	77 391 080
Repairs and Maintenance	2 228 436	2 317 573	2 410 276
Total Revenue (excluding capital transfers and contributions)	93 260 055	95 172 704	104 898 213

The format prescribed by National Treasury has been used to prepare the above schedule and the operating statement has excluded the capital transfers to allow the user to see whether the operating activities of municipality results to the deficit or surplus.

The municipality depends on grants mostly. The total projected income of R89 million will be received from grants (73%), Property Rates (15%), licences and permits (6%), interest earned from investment (3%), other revenue (2%) and Service charges – refuse (1%).

The revenue as per chart is as follows:



Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R285 000 reduction on the market value of a property will be granted in terms of Mkhambathini Municipality's proposed draft Property Rates Policy to be implemented in 2018/2019 to address the value of the properties for indigent household taking into account the RDP House value.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance.

The proposed property rates tariff for 2018/2019 financial year has been calculated in compliance with the MPRA regulations which stipulate the ratios of tariffs per category. It must be noted that the previous year's tariffs were not complying with the MPRA regulations when it comes to ratios per category. The revenue forgone has been calculated to **R 1 608 168** based on the R285 000 reduction amount on all residential properties and 20% rebate for all properties owned by pensioners.

The proposed tariffs for the property rates which will be implemented by Mkhambathini Municipality is as follow:

Property Category	Budget 2017/2018		Budget 2018/2019
Agricultural	0.00207		0.00217
Clinic	0.01579		0.01658
Commercial	0.00947		0.00994
Education	0.01579		0.01658
Gres - Wildlife	0.00632		0.00664
Industrial	0.00789		0.00828
Magistrate	0.01579		0.01658
Other	0.00789		0.00828
Public Benefit	0.00160		0.00168
Post Office	0.01579		0.01658
Public Service Infrastructure	0.00207		0.00217
Quarry	0.00789		0.00828
Race Track	0.00789		0.00828
Residential	0.12760		0.13398
Police Station	0.01579		0.01658
Smallholdings	0.00319		0.00335
Sport facility	0.00789		0.00828
Sectional Tittles	0.01429		0.01500
State and Trust Land	0.01148		0.01205
Municipal		Exempted 100%	
Communal Land			
Rural Commercial			
Place of Worship			

The municipality will embark on the exercise of preparing the New General Valuation Roll which will be implemented as from 01 July 2019. The Valuation Roll is a critical document which needs to be prepared with credible information as it contributes towards the amount to be generated

from the property rates. The expenditure for the Municipal Valuer who will prepare the valuation roll has been provided for on the Expenditure votes for the year (2018/19 financial year).

Waste Removal and Impact of Tariff Increases

A 5 per cent increase in the waste removal tariff has been proposed for the implementation as from 1 July 2018. The following table compares current and proposed refuse removal tariffs for 2018/19 financial year.

Waste removal proposed tariffs	2017/2018 Incl. VAT	2018/2019 Incl. VAT
1. Domestic removal - Refuse	R 101.00	R 106.98
2. Industrial removal - Refuse	R 212.00	R 224.55
3. Commercial/ Government removal - Refuse	R 127.00	R 134.52
4. Out of Town Planning - Refuse	R 159.00	R 168.41

GRANTS & SUBSIDIES

Operating Transfers and Grant Receipts

The National Treasury has allocated grants to the municipality through DORA which will assist on the provision of the basic services. The schedule of grants received is as follows:

Details	Adjusted Budget 2017/18	Draft Budget 2018/19	Budget 2019/20	Budget 2020/21
GRANTS & SUBSIDIES				
National Government				
Equitable Share	51,173,000	55,546,000	61,448,000	66,718,000
Finance Management Grant	1,900,000	1,970,000	2,435,000	2,867,000
Integrated National Electrification Progr.	8,000,000	8,000,000	3,500,000	6,400,000
Public Works Integrated Grant	1,089,000	1,034,000	-	-
	62,162,000	66,550,000	67,383,000	75,985,000
Provincial Government				
Provincialisation of Libraries	1,835,126	1,300,000	1,352,000	1,406,080

	1,835,126	1,300,000	1,352,000	1,406,080
Total Grants & Subsidies	63,997,126	67,850,000	68,735,000	77,391,080

EXPENDITURE

Operating Expenditure Framework

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

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital program is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

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

KZN 226 Mkhambathini - Table A4 Budgeted Financial Performance (expenditure management)

Description	2018/19 Medium Term Revenue & Expenditure Framework
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R thousand	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Expenditure By Type			
Employee related costs	31,175,179	33,357,442	35,692,463
Remuneration of councillors	5,863,754	6,274,217	6,713,412
Depreciation & asset impairment	6,466,000	6,724,640	6,993,626
Finance charges	207,260	215,550	224,172
Other expenditure	37,353,793	38,847,945	40,401,863
Repairs and Maintenance	8,500,000	7,276,000	7,785,320
Total Expenditure	89,565,987	92,695,794	97,810,856

Employee cost

The employee related cost comprises of 41% of the operating budget and 34% of the total budget inclusive of Capital budget excluding the councillors remunerations.

The employee costs percentage is above the threshold/ acceptable norm as per National Treasury Circular 71 which indicates that the acceptable norm for the Employee related cost must be 25% to 40%.

Remuneration (Employee Related Costs and Councillors' Remuneration) / Total Operating Expenditure x 100

$$= (R31\,175\,179 + R\,5,863,754) * 100 / R\,89\,565\,987$$

$$= \underline{41\%}$$

The increase on salaries for employees has been projected at 7% even though the circulars issued by National Treasury (circular 89 & 91) did not specify the percentage which the municipalities needs to provide for. The employee cost has a provision of new posts to be filled during the next financial year.

Remuneration for Councillors

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipal budget and 5% projected increment was factored as well. It must also be noted that the position of the Mayor, Deputy Mayor and Speaker are full time which had an impact on the allowances of the councillors.

Repairs and maintenance of assets

This has become a challenge when it comes to the disclosure of the amount to be spent on the repairs and maintenance of the assets. This is because the repairs and maintenance portion include the portion of salaries of employees which are involved on the repairs and maintenance. The repairs and maintenance budgeted for 2016/2017 financial year per item is as follows excluding the salaries portion.

Description R thousand	2018/19 Medium Term Revenue & Expenditure Framework		
	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Operations & Maintenance	6,800,000	7 276 000	7 785 320
Building and Structures	1,000,000		
Fencing of Municipal Building	700,000	-	-
Total	8 500 000	7 276 000	7 785 320

Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services, the households are required to register in terms of the Mkhambathini Municipality's Indigent Policy. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement). The municipality is currently providing the free basic electricity to rural household and the municipality pay Eskom for the provision of the free basic electricity since the license holder is Eskom.

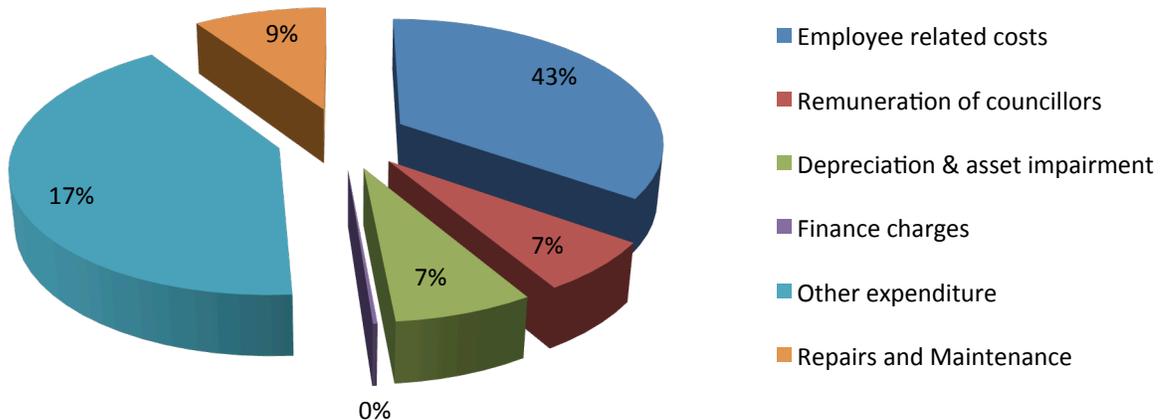
The budgeted amount for FBE has been provided.

Depreciation

This is a non cash item budgeted for as per the stipulation of the new accounting standards and is funded from backlog depreciation. The depreciation and impairment of assets has been budgeted at **R 6 466 000** for 2018/2019 financial year.

The following table/ chart give a breakdown of the main expenditure categories for the 2018/2019 financial year.

Expenditure by source



Capital expenditure

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

R thousand	Program/Project description	Asset Sub-Class 3	Total Project Estimate	Project information	
				Ward location	New or renewal
Transportation and Roads	Nobhala Road	Roads, Pavements & Bridges	2 850 500	3	Renew
Community Facilities	Ezinembeni Crèche	Community facilities	2 700 000	2	New
Transportation and Roads	Mkhishwa Road	Roads, Pavements & Bridges	2 775 660	?	Renew
Transportation and Roads	Mdala Road	Roads, Pavements & Bridges	53 475	4	Renew
Community Facilities	Nkosi Mdluli Hall	Community facilities	4 159 971	5	New
Community Facilities	Camperdown Hall	Community facilities	3 295 394	3	New
Total Capital expenditure funded by MIG			15 835 000		

The capital budget is funded by the grants which will be transferred to the municipality by National Treasury as per DORA allocation gazette for 2018/19 Financial Year. An amount of R15, 835 million will be transferred by Department of COGTA (Municipal Infrastructure Grant).

The municipality has also budgeted for capital expenditure out of the cash generated by the municipality. The projects which are budgeted for under cash generated funding are as follows:

R thousand	Program/Project description	Asset Sub-Class 3	Total Project Estimate	Project information	
				Ward location	New or renewal
Transportation and Roads	Two Bakkie	<i>Vehicle/ Fleet Mgt</i>	1,000,000	All	Renew
Municipal Facilities	Server Room Renovations	<i>Municipal Building</i>	1,200,000	All	New
Municipal Facilities	Shelter for Municipal Vehicles	<i>Municipal Building</i>	150,000	All	Renew
Equipment	New Computers and Printers	<i>Computers Hardware</i>	100,000	All	Renew
Municipal Facilities	Back Up Generator	<i>Municipal Building</i>	600,000	All	New
Equipment	Furniture	<i>Office Equipment</i>	400,000	All	New
Total Capital expenditure funded by own revenue			3,450,000		

The municipality have projected R1 200 000 for the purchase of server room container due to numerous findings by Internal Auditors which showed the vulnerability of our information technology which pose a high risk. The municipality will add two more Bakkie to the Municipal Fleet to ensure that the service delivery is not compromised.

MR S MNGWENGWE
CHIEF FINANCIAL OFFICER

DATE

APPROVED/NOT APPROVED

MRS TC NDLELA
MUNICIPAL MANAGER

DATE