

DR NKOSAZANA DLAMINI ZUMA MUNICIPALITY

PRESENTS

**2019/20 TO 2021/22**

**FINAL MEDIUM-TERM REVENUE AND EXPENDITURE FORECASTS**

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**PART ONE – ANNUAL BUDGET**

1. **MAYORS REPORT**

**Introduction**

Speaker, Deputy Mayor, Members of Executive, Chief Whip, Honourable Councillors ONdabezitha, Municipal Management and municipal officials, Greetings.

It is a pleasure, in my capacity as Mayor of Dr Nkosazana Dlamini Zuma Municipality, to present the Draft medium-term revenue and expenditure framework (MTREF) for 2019/2020 financial year and ensuing two years. In terms of section 21(2) (a)-(c) of the MFMA – ‘when preparing the annual budget, the mayor of a municipality must:

*(a)* Take into account the municipality’s integrated development plan (IDP);

*(b)* take all reasonable steps to ensure that the municipality revises the IDP in terms of section 34 of the Municipal Systems Act, taking into account realistic revenue and expenditure projections for future years;

*(c)* take into account the national budget, the relevant provincial budget, the national government’s fiscal and macro-economic policy, the annual Division of Revenue Act (DoRA) and any agreements reached in the Budget Forum’.

The Council of Dr Nkosazana Dlamini Zuma Municipality, in terms of section 75A of the Local Government Municipal Systems Act (Act 32 of 2000), must also approve and adopt with effect from 1 July 2019, the tariffs for property rates, the tariffs for solid waste services and the tariffs for other services.

* 1. **Budget Overview**

**Total Revenue and Tariffs**

Revenue has increased by 4% for the 2019/20 financial year when compared to the 2018/19 Adjusted Budget. For the two outer years, total revenue will increase by 2,3% and 6% respectively.

* Total Grants increased by 2%
* Property rates increased by 4%

**Operating Expenditure Budget**

Total operational expenditure has increased by 7.27% in 2019/20 budget when compared with the 2018/19 Adjustment budget and in the two outer years it has increased by 5% and 3.13% in the third years of the MTREF

**Capital Expenditure Budget**

Total capital expenditure has decrease by 5.3% in 2019/20 when compared to the 2018/19 Adjustment budget. The contributing factor to this is that the municipality had to fund MIG projects with its own accumulated surplus in the adjustment budget because the allocation was very low to fund all the MIG project as a result the 2018/19 Adjustment capital budget was increased, that is why its look like there is decrease in the 2019/20 draft budget. For the two outer years the capital budget will decrease by 3.8% in the first year and it will increase by 5.6% in the second year. Electrification projects expenditure is not included in the capital expenditure as the municipality is acting as an agent when it comes to electrification projects.

**Cost Containment Measures**

The municipality has reviewed the cost containment policy in order to cut costs on the following proposed:

* Vehicles used for political office-bearers
* Vehicles used by officials
* Use of accommodation and training
* Travel & subsistence
* Domestic accommodation
* Telephone, cell phone and computer usage
* Sponsorships, events & catering
* Catering
* Printing and stationery
* Employee costs
* Mobilisation of resources for the municipality
* Refuse/waste transportation
* Construction of projects internally
* Application of premium on goods and services
* Communication and advertising
* Conferences, meetings & study tours
* Other related expenditure items

**Capacity to execute projects internally**

The municipality will procure additional Plants and Machinery. R 3 Million has been set aside for the second Grader and other Machineries. Labour intensive program will be phased in on small to medium renovation projects.

**Electricity**

95% of Dr NDZ households have access to electricity. R8 million has been set aside for infills and few farm communities.

**Roads**

The municipality currently have more than 131 roads on the PPE Register which varies in sizes of kilometres. There are approximately 181 roads requests by communities on the IDP. As new roads are constructed, plans to maintain the existing roads must be implemented, hence cutting unnecessary costs and on building internal capacity is needed.

**Community Halls**

The municipality currently have more than 55 registered and 19 unregistered community halls in 15 wards. Affordable maintenance and safeguarding of these assets is vital, while re-prioritisation and reconsideration of building community need to be explored.

**Repairs and Maintenance**

The municipality has budget 2% on repairs and maintenance which is far below the norm of 8% of the net value of R550 Million assets. EPWP, Labour intensive approach and additional plants will complement the budget.

**Waste Management and Cleanliness of our Towns**

The municipality is currently removing waste twice a week to all Dr NDZ households and four times a week in businesses.

The municipality will be opening a new waste transfer station at Bulwer and close the one at Himeville while minimising the illegal dumping to its community to keep our town clean.

**Employee related costs and Councillors remuneration**

The municipality is currently sitting at 40% in salaries on 2019/20 Draft budget.

* 1. **Background**

The application of sound financial management principles for the compilation of Dr Nkosazana Dlamini Zuma Municipality’s budget is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality’s business and service delivery priorities were reviewed as part of this year’s planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and ‘nice to have’ items.

Dr Nkosazana Dlamini-Zuma Municipality is in the process of implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality will undertake various customer care initiatives to ensure that the municipality truly involves all citizens in the process of ensuring a people lead government. The municipality has a Revenue Enhancement Strategy that needs to be approved by the council.

The main challenges experienced during the compilation of the 2019/20 MTREF can be summarised as follows:

* The on-going difficulties in the national and local economy;
* The rate of unemployment in the community that we are serving, having a negative impact on the collection over revenue, and increasing number of indigents.
* Aging and poorly maintained infrastructure;
* The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
* Decreased of Grant funding of capital projects resulting in cutting of some of the projects that were supposed to be done in this financial year, thus delaying the service delivery; and
* Unavailability of affordable funding
  1. **Budget legislations and processes**

This Budget has been prepared in terms of section 21 of the MFMA No. 56 of 2003. The municipality has taken the following macro-economic forecasts into consideration when preparing the 2019/2020 Municipal budget and MTREF as stipulated in MFMA circular No. 94.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fiscal year** | **2018/19 Estimates** | **2019/20** | **2020/21 Forecast** | **2021/22** |
| Consumer Price Inflation (CPI) | 4.7% | 5.2% | 5.4% | 5.4% |
| Real GBD Growth | 0.7% | 1.5% | 1.7% | 2.1% |

* 1. **Government allocations**

Allocations published in the 2019 Division of Revenue Act and provincial gazette indicates the following:

|  |  |  |
| --- | --- | --- |
| **Sources** | **2018/2019 Allocations** | **2019/2020 Allocations** |
| Equitable Share | R 111 162 000.00 | R 125 869 000.00 |
| Electrification | R 13 540 000.00 | R 8 000 000.00 |
| MIG | R 26 666 000. 00 | R 27 149 000.00 |
| FMG | R 3 870 000.00 | R 3 000 000.00 |
| EPWP | R 1 596 000.00 | R 2 381 000.00 |
| Provincialisation of Libraries | R 2 514 000.00 | R 2 640 000.00 |
| Community Library Service Grant | R 950 000.00 | R 1 017 000.00 |
| Maintenance of Sport and facilities | R 50 0000.00 | R 00.00 |
| Thusong Service Centre Grant | R 500 000.00 | R 00.00 |
| Building plan information Management System | R 00.00 | R 500 000.00 |
| Municipal Demarcation Transitional Grant (Roll over) | R 5 900 000 |  |
| Work Study Grant (Roll over) | R 244 500 |  |
| GIS (Roll over) | R 92 621 |  |
|  |  |  |
| **TOTAL** | **R 167 085 121.00** | **R 170 556 000.00** |

* 1. **Consolidated Overview of the 2019/20 MTERF**

The Draft budget presentation reflects the following consolidated (summary) estimates:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Description** | **Adjustment Budget 2018-2019** | **Draft Budget 2019-2020** | **Budget Estimate 2020-2021** | **Budget Estimate 2021-2022** |
| Total Revenue | R 210 482 000 | R 219 336 000 | R 224 534 000 | R 238 867 000 |
| Total Operating Expenditure | -R 168 317 000 | -R 181 508 000 | -R 191 094 000 | -R 197 260 000 |
| **Surplus/(Deficit) Before Capital Expenditure** | **R 42 166 000** | **R 37 828 000** | **R 33 441 000** | **R 41 607 000** |
| Capital Expenditure | -R 72 287 000 | -R 68 451 360 | -R 65 846 463 | -R 69 786 928 |
| Surplus/(Deficit) for the year | -R 30 121 000 | -R 30 623 360 | -R 32 405 463 | -R 28 179 928 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **Adjustment Budget 2018-2019** | **Draft Budget 2019-2020** | **Budget Estimate 2020-2021** | **Budget Estimate 2021-2022** |
| Electrification Projects | R 13 540 000 | R 8 000 000 | R 9 204 000 | R 15 000 000 |

* 1. **Cash flow management**

Table below indicate the actual cash that the municipality is anticipating to collect. The municipality has budgeted to collect 75% of the total revenue billed in the 2019/20 financial year taking into account the municipality’s collection trend of the previous financial years.



* 1. **Operating Revenue framework**

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

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

* National Treasury’s guidelines and macroeconomic policy;
* Growth in the Municipality and continued economic development;
* Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
* Achievement of full cost recovery of specific user charges especially in relation to trading services;
* Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
* The municipality’s Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
* Increase ability to extend new services and recover costs;
* The municipality’s Indigent Policy and rendering of free basic services; and
* Tariff policies of the Municipality.

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

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

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, petrol, diesel, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. The Municipality will have to implement a refuse removal strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term.

* 1. **Expenditure**

The Municipality’s expenditure framework for the 2019/20 budget and MTREF is informed by the following:

* Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
* Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
* 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 plan, no budget’. If there is no business plan no funding allocation can be made.
  1. **Capital Expenditure and Service Delivery Budget**

Dr Nkosazana Dlamini Zuma Municipality has budgeted an amount of R 68 451 360.00 to fund it capital expenditure in 2019/2020 financial year for the municipality to deliver adequate services to it community.

1. National Treasury has allocated an amount R 27 149 000.00 to Dr Nkosazana Dlamini Zuma Municipality for Municipal Infrastructure Grant (MIG), and the Municipality will use the above grant to successfully Construct the following projects to it community.

|  |  |
| --- | --- |
| Ward | 2019/2020 |
| 1 | Solokohlo Community Hall | 2 000 000 |
| 2 | Himeville Business Hives | 2 000 000 |
| 3 | Underberg Community Town Hall Phase 1 | 3 000 000 |
| 4 | Sdangeni Bridge Road | 2 199 000 |
| 5 | Mampondweni Access Road | 1 250 000 |
| 6 | Lookout Access road | 1 200 000 |
| 7 | Gqumeni Creche | 1 275 000 |
| 8 | Magoso Access road Phase 2 | 1 800 000 |
| 9 | Khumalo Access Road | 1 200 000 |
| 10 | Dazela Access road | 1 350 000 |
| 11 | Bhidla Creche | 1 275 000 |
| 12 | Mqulelwa Sportfield | 2 500 000 |
| 13 | Dumabezwe Sportfield | 2 500 000 |
| 14 | Mshushwana Access Rroad | 1 100 000 |
| 15 | Msameni Sportfield | 2 500 000 |

**Integrated National Electrification Programme (INEP) funded projects is R 8 Million**

Dr Nkosazana Dlamini Zuma Municipality is acting as an agent in the capacity of Eskom as per Service Level Agreement between the Municipality and Eskom.

* Greater Ward 1 Infills R 533 333
* Greater Ward 2 Infills R 533 333
* Greater Ward 3 Infills R 533 333
* Greater Ward 4 Infills R 533 333
* Greater Ward 5 Infills R 533 333
* Greater Ward 6 Infills R 533 333
* Greater Ward 7 Infills R 533 333
* Greater Ward 8 Infills R 533 333
* Greater Ward 9 Infills R 533 333
* Greater Ward 10 Infills R 533 333
* Greater Ward 11 Infills R 533 333
* Greater Ward 12 Infills R 533 333
* Greater Ward 13 Infills R 533 333
* Greater Wards 14 Infills R 533 333
* Greater Wards15 Infills R 533 333

**Plant & Equipment to assist with Maintenance of infrastructure is allocated a budget of R 3 000 000 to procure:**

* Grader
* Diesel tank trailer

**Other Internally Funded projects is R 41 302 360.00 Million**

|  |
| --- |
| * Procurement of Transport assets * Procurement of Computer Equipment * Centocow shelter and Toilets * Procurement of Plant and Equipment * Bulwer Asphalt Roads phase 6 * Upgrade of Underberg road * Donnybrook Asphalt Surfacing Phase 3 * Himeville Asphalt Surfacing Phase 1 * Creighton Asphalt Road Phase 5 * Bulwer Asphalt Roads Phase 7 * Creighton Asphalt Road Phase 6 * Donnybrook Asphalt Surfacing Phase 4 * Himeville Asphalt Surfacing Phase 2 * backup generator * streetlight/high mast light * new installation electrical * water retention * storage container * Mayoral Chain * Procurement of Car Wash Equipment * Procurement of GPS Equipment * Construction of Fire Station * Building of Industrial Business Park/ Hub * Creighton Library * Self-Contained Breathing Apparatus * Heavy duty Chain Saw * Jaws of Life * Traffic Camera * Traffic Road Block Trailer * Camera for Library Section * Mobile Tourism Information Vehicle |

**Repairs and maintenance budget is R 9 354 015.00**

* Transport Assets
* Roads
* Community assets
* Office Buildings
* Office Buildings (Electricity)
* Plant and Equipment

**Fire/Disaster Management Center Establishment R 3 992 200.00**

There are a number of disasters that likely to occur within the jurisdiction of Dr. Nkosazana Dlamini Zuma Municipality: Road Accidents, Wild Fires, Flooding, Snow, Windstorms, Lightning Strikes and Drought. The following will be undertaken in 2019/2020.

* Construction/Establishment of Fire/Disaster Emergency Management Center (Phase 1 for 3-year period). The consulted for the designs would be appointed in 2018/2019.
* Ensuring sustainability of the Disaster Management Advisory Forum (DMAF)
* Procurement and installation of Lightning Conductors in Municipal Facilities and in Community high risk areas
* Procurement of Jaws of life and Heavy-Duty Chainsaw
* Procurement and delivery of 100 fire beaters and 20 knapsack tanks
* Appointment of Fire Fighters and
* Procurement of sets of Self-Contained Breathing Apparatus
* Conducting Integrated Community Safety Awareness Campaign
* Procurement of three Disaster Vehicles and Disaster Relief Materials

**Youth Development programs and activities and Bursaries R 2 200 000.00**

* Bursaries to best performing students
* 1 Back to School campaign
* 1 Education Summit coordinated
* Matric Award
* Career Exhibitions coordinated
* Training of 10 youth co-operatives involved in farming
* Training 10 youth co-operatives/ Businesses with Business Management Skills
* Conducting 08 computer trainings
* Coordinating opening of one FET for skills programs/trainings
* Assisting youth in blocks making with accreditation by SABS
* Assisting of youth in tyre industry
* Assisting youth cooperatives

**Small Micro Business Development and LED Initiatives R 2 999 326.00**

* Strengthening of LED and SMME Support Centre/Unit
* Construction of Small-Scale industrial park in Creighton, plans and designs to be done in 2018/2019
* Promoting and marketing of SMME products in 5 external trade exhibitions and shows
* Materials & Equipment’s support to SMMEs/Co-ops
* 15 Emerging Farmers projects supported with materials
* 60 Emerging Farmers trained and empowered with skills
* 60 SMME’s Trained
* 2 Fashion Design Talent Search coordinated
* Coordinating LED & Business Forums
* SMME & Co-op Projects supported with non-agricultural material

**Safety and Enforcement of Municipal Bylaws Operational**

* Conduct 4 Multistakeholder road blocks
* Conduct more than 20 local road blocks
* Conduct 12 school road safety school awareness campaigns
* Enforcement of all Municipal bylaws
* Procurement of Traffic Road Block Trailer R 155 000

**Pound Management Operational**

* Conducting pound awareness campaigns

**Libraries R 2 709 240**

* Construction of Creighton Library, designs and plans to be done in 2018/2019
* Community trainings - Conduct 12 computer trainings
* Conduct 16 library community outreach programmes

**Arts and Culture programs R 945 316**

* Train Arts and Culture Forum
* Trainings for Crafters
* 15 crafters supported with material
* Training of Artists
* Umkhosi Womhlanga,
* Umkhosi Wezintombi Zase Harry Gwala
* Royal Show Exhibition supporting local crafters
* Isicathamiya
* Local Cultural Competitions

**Sports Development programs R 600 921.00**

* Train 10 Sports coaches
* Development of Soccer, Athletics, Chess, Cricket, Boxing and Swimming
* Rural Horse-Riding Competitions coordinated
* Harry Gwala Summer Cup held
* Sani Stagger Marathon held
* Coordination of SALGA selections & preparations games
* Coordination of Salga Athletics Preparation of Salga Athletics Team through School Sport
* Coordinating Bongumusa Training Marathon
* Festive Sport Tournaments - Ward based festive tournaments held as per war room need.
* 10 Jockeys trained

**Senior Citizens, HIV/AIDS, Disability, Gender R 916 058.00**

* Golden Games held at Local, District and Provincial Level
* 1 Senior Citizens event held
* 1 Disability Summit held
* 1 TB Campaign Held
* 1 International World Aids Day Held
* Coordination of LTT & Gender Forums
* Coordination of Senior Citizens and Disability Forums
* Commemoration of Nelson Mandela Day
* Celebration of Men's Day
* Commemoration of Women's Day
* 16 Days of Activism Against Child and Women Abuse Campaign
* Commemoration of Human Rights Day
* 1 Children's Week held

**Tourism Programs R 2 950 704.00**

* 2 Community Tourism & Hospitality Skills training conducted
* External Marketing of Southern Drakensburg on tourism shows and exhibitions
* Cultural food tasting expo and Duzi to Sani 4x4 expeditions
* Wards Based Community Tourism Development Structure formed and trained
* Servicing of Trains and transportation of coaches
* 7 500 developed and printed Destination marketing/ Promotional Material.
* Establishment of rail and bike tourism in Underberg
* Coordinating Tourism Forums
* Coordinating Aloe Festival

**Township Establishment R1 200 000.00**

To improve and optimize land usage and curb unsustainable development practices

The following project will be implemented

* Reviewing the SDF
* Adopting Land Use Scheme
* Approved Bulwer General Plan by Surveyor General
* Business and Advisory: Project Management
* Business and Advisory: Research and Advisory
* Business and Advisory: Commissions and Committees
* Infrastructure and Planning: Geoinformatics Services
* Infrastructure and Planning: Land and Quantity Surveyor
* Infrastructure and Planning: Town Planner (Wall to Wall Scheme)

**Free Basic Services R1 911 904.00**

* Free Basic electricity
* Refuse
* Rates

**Public Participation and Ward committees R 1 785 900.00**

In order to encourage participation of the local community in the affairs of the municipality by June 2022.

* Review public participation strategy and ward committee policy
* Coordinate public participation meetings
* Conduct community satisfaction surveys
* Establish a functional Rapid Response Team
* Co-ordinate training of Ward Committees
  1. **General Expenditure and Employee Costs**

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditures has also been identified as an area in which cost savings and efficiencies can be achieved.

* 1. **Policies and by-laws**

There were no major changes on finance and budget related policies and by-laws. There were also no major changes on other policies. By-laws would have reviewed as the service provider was appointed to assist with the review of by-laws for Dr Nkosazana Dlamini Zuma Municipality.

Ladies and gentlemen, may I take this opportunity to thank you for your attentiveness and your contribution in the on-going development of Dr Nkosazana Dlamini Zuma Municipality.

Thank you

**Councillor P.N Mncwabe**

**Mayor of Dr Nkosazana Dlamini Zuma Municipality**

1. **RESOLUTION**
   1. Dr NDZ Draft Budget was adopted by Municipal Council on the 28 March 2019 and the Council resolution is attached.
2. **EXECUTIVE SUMMARY**
   1. **Introduction**

This 2019/20 – 2021/22 Tabled Medium -Term Revenue and Expenditure Framework (MTREF) budget report deals with the operating budget and tariff proposals as well as the capital budget and funding sources proposal to ensure that Dr Nkosazana Dlamini Zuma Municipality renders services to their local communities in a financial and sustainable manner.

* 1. **Financial Sustainability**

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

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

The following budget principles and guidelines directly informed the compilation of the 2019/20 MTREF:

* The 2019/20 Budget priorities and targets, as well as the base line allocations contained in the Adjustments Budget were adopted as the upper limits for the new baselines for the 2019/20 final budget;
* Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality.
* There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazette as required by the annual Division of Revenue Act.
  1. **Repairs and maintenance**

The municipality has less than 8% percentage on repairs and maintenance that is recommended by MFMA Circular No. 55 because the municipality has a strategy to maintain its assets through EPWP and use of the municipality’s plant and Machineries. The municipality has procured the TLB, Grader and tipper trucks, and will be procuring another grade and diesel tank trailer in the 2019/20 financial year. The budget amount is adequate to secure the ongoing health of the municipality’s infrastructure.

* 1. **Property Rates**

The rates revenue collection is currently expressed as a percentage (75%) of annual billings based on the previous year’s actual collections. The performance of arrear collection will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

2019/2020 tariffs has increased by 5.4% when compare with the 2018/2019 tariffs.

The following stipulations in the property rates are highlighted:

* The first R 50 000.00 of the market value of property used for residential purposes and First R 15,000 of the Municipal Value of a multiple use property is excluded from the ratable values (Section 17 (h) of the MPRA).
* 30% rebate will be granted for developed properties
* 30% rebate will be granted to agriculture
* 20% rebate is granted for Tourism and Hospitality
* 100% rebate will be granted to registered indigents in terms of the indigent policy.
* For pensioners, physically and mentally disabled persons, a maximum/ total rebate 75% to owners of ratable properties if the total gross income of the applicant and his/her spouse, if any, does not exceed the amount of equal to twice the annual state pension as approved by government for a financial year.
  1. **Provisions**
* **Provision for debt impairment**

The provision of debt impairment was determined based on an annual collection rate for 2018/2019. For 2019/20, financial year this item is allocated an amount of R1 467 840. 00 and escalates to R 1 547 104. 00 in the following year. While this expenditure is considered to be a non-cash item, it informed the cost associate with rendering the service of the municipality, as well as the municipality’s realistically anticipated revenue.

* **Provision for depreciation and asset impairment**

Provision for depreciation and asset impairment has been informed by the municipality’s Assets Management policy. Depreciation is widely considered a proxy for the rate assets consumption. Budget appropriation in this regard totals to R 28 421 376 for 2019/20 financial year escalating to R 28 823 586 by 2021 financial year.

1. **ANNUAL BUDGET TABLES**

Dr Nkosazana Dlamini Zuma Municipality has prepared its Draft budget using the prescribed A1 Schedule version 6.3 as indicated in the MFMA budget circular No.94.

**Part 2– Supporting Documentation**

* 1. **Overview of the annual budget process**

In terms of section 21 of the MFMA the Mayor is required to table in Municipal Council at least ten months before the start of the new financial year a time schedule that sets out the process to revise the IDP and prepare the budget.

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

The Budget Steering Committee consists of the Mayor, Municipal Manager and senior officials of the municipality.

The primary aims of the Budget Steering Committee are to ensure:

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

Community consultation started in October 2018 which informed the Final Budget. The final Budget was discussed with HODs, presented to Management on a Strategic Planning, Budget Steering Committee before being tabled to the Council.

* 1. **Overview of alignment of annual budget with IDP**

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

* 1. **Measurable performance objectives and indicators**

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

* 1. **Overview of budget related-policies**

The Dr NDZ Municipality budgeting process is guided and governed by relevant legislation, frameworks, strategies and the following related policies:

* Budget process policy
* Tariff policy
* Cash, banking and Investment Policy
* Fleet management policy
* Funding compliance policy
* Indigent policy
* Rates policy
* Petty cash policy
* Revenue enhancement strategy policy
* Stores management policy
* Virement policy
* Rates-by law policy
* SCM policy
* Assets management and disposal policy
* Cost containment measures policy
* Borrowing policy

All the above policies have been reviewed, the tariff policy, virement policy credit Control and debt collection policy, Assets management and disposals policy and SCM Policy have been amended.

* 1. **Overview of Budget Assumptions**

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

* Protecting the poor from the worst impacts of the economic downturn
* Expediting spending on capital projects that are funded by conditional grants.
* Freezing many vacant positions
* Supporting viable Small and Micro businesses
* Cutting cost from the operating expenditure

**General inflation outlook and its impact on the municipal activities**

There are five key factors that have been taken into consideration in the compilation of the 2019/2020 MTREF:

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

**Medium-term outlook: operating revenue**

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. Dr NDZ Municipality derives most of its operational revenue from property rates, operational grants and capital grants from organs of state and other minor charges (such as building plan fees, rent and traffic fines etc.)

Based on the information provided on annexures (A1) above, its indicate that the municipality’s operational and capital expenditure is funded. The future fiscal sustainability of the municipality is not very positive. The following are contributing factors for this situation:

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

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

• Growth in the local and economic development;

• Revenue management and enhancement;

• To achieve at least 95 per cent annual collection rate for consumer revenue

* 1. **Expenditure on allocations and grant programmes**

It is estimated that a spending rate of at least 95 per cent is achieved on operating expenditure and 96 per cent on the capital projects for the 2019/2020 MTREF of which performance has been factored into the cash flow budget.

* 1. **Allocations or grants made by the municipality**

The municipality does not have any allocations or grants made by the municipality.

* 1. **Councilors Allowances and Employee benefits**

The following table is a breakdown of Councilors Remuneration and Employee salaries and benefits for the year 2019/2020.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2019/20 | 2020/21 | 2021/22 |
| EMPLOYEE RELATED COSTS | 60 484 112 | 63 592 145 | 67 026 128 |
| COUNCILLORS REMUNERATION | 12 715 317 | 13 401 945 | 14 125 650 |

The MFMA threshold is between 25-40% on salaries over Operating budget. The municipality is currently sitting at 40%. To reduce the current rates, the municipality will have to explore and implement various strategies, for example, to:

1. Outsource some municipal services

2. Politicians to lobby for more resources from National and Provincial government

3. Freeze many vacant positions and so on

The cost associated with the remuneration of councilors 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 considered in compiling the remuneration for councilors for Dr Nkosazana Dlamini Zuma municipality’s budget. The councilors remunerations have been increased by 5.6% as an assumed provisional.

* 1. **IDP and Service Delivery and Budget Implementation Plan**

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

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

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

* 1. **Legislation compliance status**

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

1. **In year reporting**

Reporting to National Treasury was fully complied with, on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has Progressively improved and includes monthly published financial performance on the municipality’s website.

1. **Internship programmes**

The Municipality is participating in the Municipal Financial Management Internship programmes and has employed interns that are undergoing training in various divisions of the Financial Services Department.

1. **Budget and Treasury Office**

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

1. **Audit Committee**

An Audit Committee has been established and is fully functional.

* 1. **Municipal regualtion on the Standard Chart of Accounts (mSCOA)**

The municipality is implementing MSCOA.

* 1. **Financial Modeling and Key Planning Drivers**

As part of the compilation of the 2019/2020 MTREF, extensive financial modeling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2019/20 MTREF:

• Local Economic growth

• Policy priorities and strategic objectives

• Asset maintenance

• Economic climate and trends (i.e. inflation, Eskom increases, household debt, migration patterns)

• Performance trends

• The approved 2018/2019 adjustments budget and performance against the SDBIP

• Cash Flow Management Strategy

• Debtor payment levels

• Loan and investment possibilities

• The need for tariff increases versus the ability of the community to pay for services;

• Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury’s MFMA Circulars 88, 89 and 91 and prior circulars has been taken into consideration in the planning and prioritization process.

* 1. **Planning, budgeting and reporting cycle**

The performance of Dr Nkosazana Dlamini Zuma Municipality relates direct to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The NDZ therefore has adopted one integrated performance management system which encompasses.

* **Performance indicators and benchmarks**

***a)******Revenue Management***

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

***b) Creditors Management***

Dr NDZ has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation.

This has had a favorable impact on supplier’s perceptions of risk of doing business with Dr NDZ Municipality, which is expected to benefit the local community in the form of more competitive pricing of tenders, as suppliers compete for the Dr NDZ business

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

The social package assists residents that have difficulties on paying for the basic services and are registered as indigent households in terms of the Indigent Policy of the Dr Nkosazana Dlamini Zuma Municipality. Only registered indigents qualify for the free basic services.

* 1. **Other Supporting Documents**
* Service level standard attached as per MFMA Circular No. 75.
  1. **Municipal Manager quality certificate**

Municipal Manager’s Quality Certificate attached.