

DR NKOSAZANA DLAMINI ZUMA MUNICIPALITY

PRESENTS

**2018/19 TO 2020/21**

**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 Final medium-term revenue and expenditure framework (MTREF) for 2018/2019 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’.

Thus, considering the provision of the MFMA as stated above, I present to you all the Final MTREF for 2018/2019 to 2020/2021. It is our intention as the Dr Nkosazana Dlamini Zuma Local Municipality that the Final budget in each financial year be tabled for approval to council by end of May each year. It should be a product of vigorous review and extensive consultation such that the limited resources available are allocated towards satisfying the community’s priorities and that the budget preparation process itself complies with the relevant legislation.

Therefore taking into account the legislation that regulates the entire budget preparation and approval processes, Council must, by the end of these proceedings approve and adopt resolutions in terms of section 24 of the MFMA, on the annual budget of the municipality for the financial year 2018/19 and the multi-year and single-year capital appropriations and also the financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets as detailed in the municipality’s MTREF document. 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 2018, the tariffs for property rates, the tariffs for solid waste services and the tariffs for other services.

* 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 2018/19 MTREF can be summarised as follows:

* The on-going difficulties in the national and local economy;
* The 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 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
* Availability 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 2018/2019 budget and MTREF as stipulated MFMA circular No. 91.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fiscal year** | **2017/18** | **2018/19** | **2019/20** | **2020/21** |
| Consumer Price Inflation (CPI) | 5.3% | 5.3% | 5.4% | 5.5% |
| Real GBD Growth | 1.% | 1.5% | 1.8% | 2.1% |

* 1. **Government allocations**

Allocations published in the 2018 Division of Revenue Act and provincial gazette indicates the following:

|  |  |  |
| --- | --- | --- |
| **Sources** | **2017/2018 Allocations** | **2018/2019 Allocations** |
| Equitable Share | R 101 241 000.00 | R 111 162 000.00 |
| Electrification | R 14 000 000.00 | R 13 540 000.00 |
| MIG | R 40 066 000.00 | R 26 666 000. 00 |
| FMG | R 3 800 000.00 | R 3 870 000.00 |
| Municipal Demarcation Grant | R 4 566 000.00 | R 0.00 |
| EPWP | R 1 877 000.00 | R1 596 000.00 |
| Provincialisation of Libraries | R 1 503 000.00 | R2 514 000.00 |
| Community Library Service Grant | R 906 000.00 | R 950 000.00 |
| Maintenance of Sport and facilities |  | R 85 000.00 |
| **TOTAL** | **R 167 959 000.00** | **R 160 356 000.00** |

* 1. **Consolidated Overview of the 2018/19 MTERF**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  | Adjustment Budget 2017-2018 | Final Budget 2018-2019 | Budget Estimate 2019-2020 | Budget Estimate 2020-2021 |
| Total Revenue | R 259 084 427 | R 245 848 706 | R 253 928 313 | R 269 598 475 |
| Total Operating Expenditure | -R 156 341 789 | -R167 723 454 | -R 175 935 596 | -R185 612 128 |
| Capital Expenditure | -R 102 694 755 | -R 78 122 240 | -R 69 691 850 | -R 72 529 956 |
| Surplus/(Deficit) for the year | R 47 883 | R 3 012 | R 8 300 866 | R 11 456 390 |

I would like to bring forth some of the highlights contained within the budget:

* 1. **Overview:**

Total revenue has decreased by 5% for the 2018/19 financial year when compared to the 2017/18 Adjusted Budget. For the two outer years, total revenue will increase by 3% respectively. Total operational expenditure has increased by 7% in 2018/19 budget and by 5% for each of the respective outer years of the MTREF. Total capital expenditure has decrease by 23% in 2018/19 when compared to the 2017/18 Adjustment budget and the contributing factor to this is that the municipality received an additional allocation of R 12.5 M for MIG in March, as a result that increased the capital budget.

* 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 largest source interest on investment and the fourth one is other revenue. Municipality have been urged to review the tariff s 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 2018/19 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 77 332 240.00 in 2018/19 to fund it capital expenditure in 2018/2019 financial year for the municipality to deliver adequate services to it community.

1. National Treasury has allocated an amount R 26 666 000.00 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 | 2018/2019 |
| 1 | Zwelisha Access Road | 1 100 000 |
| 2 | Mahwaqa access road | 1 200 000 |
| 3 | Underberg taxi rank upgrade | 1 000 000 |
| 4 | Godweni Access Road | 1 100 000 |
| 5 | Hadebe to Lanaga Access Road | 1 200 000 |
| 6 | Scedeni Hall | 3 300 000 |
| 7 | Mnqundekweni Sport field | 3 300 000 |
| 8 | Sonyongwane to mashayunina access road | 1 200 000 |
| 9 | Sporini Hall | 3 300 000 |
| 10 | Gobhogobho Hall | 3 300 000 |
| 11 | Nkelabantwana access road | 1 000 000 |
| 12 | D1213 to Plazini access road | 1 100 000 |
| 13 | Diphini Access Road | 1 150 000 |
| 14 | Florence and Dladla Access Road | 900 000 |
| 15 | Khuphuka access road | 900 000 |

* Other projects related to Municipal Infrastructure Grant equals to R 1 616 000.00

**Integrated National Electrification Programme (INEP) funded projects is R13,5 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 775 000
* Greater Ward 2 Infills R 775 000
* Greater Ward 3 Infills R 775 000
* Greater Ward 4 Infills R 775 000
* Greater Ward 5 Infills R 775 000
* Greater Ward 6 Infills R 775 000
* Greater Ward 7 Infills R 775 000
* Greater Ward 8 Infills R 775 000
* Greater Ward 9 Infills R 775 000
* Greater Ward 10 Infills R 775 000
* Greater Ward 11 Infills R 775 000
* Greater Ward 12 Infills R 775 000
* Greater Ward 13 Infills R 775 000
* Greater Wards 14 Infills R 775 000
* Greater Wards15 Infills R 775 000
* Goxhill R 1 915 000

**Plant & Equipment to assist with Maintenance of infrastructure is R 3000 000.00 Million**

* Excavator
* Roller/Tractor

**Other Internally Funded projects is R 37 126 240.00 Million**

|  |
| --- |
| * Procurement of Computer Equipment |
| * Procurement of Furniture and Equipment |
| * Procurement of Transport assets |
| * Municipal Offices (park home) |
| * Procurement of Plant and Equipment |
| * Creighton Asphalt Road |
| * Procurement of Plant and Equipment |
| * Municipal Offices |
| * Bulwer Alsphalt Roads |
| * (Municipal Offices) Municipal building electricity |
| * Zinkwana Bridge |
| * Underberg asphalt Surfacing |
| * Donnybrook Asphalt surfacing |
| * Himeville Asphalt surfacing |
| * Centocow Taxi Rank |
| * Chairs and Tables Community Halls |
| * Extending Fence for Grazing land at Himeville Pound |
| * Procurement of water throughs on Creighton Pound grazing land |
| * Procurement of GPS Equipment |
| * Procurement of new fire/ upgrade skid unit |
| * Construction of fire station |
| * 4 Caretakers Storage/Rooms |
| * 2 Grass cutting machines |
| * VIP Toilets for cemeteries 2 per site (4 sites) |
| * Fencing of Step more Cemetery |
| * Creighton Library – Building |
| * Bulwer Cold Storage |
| * Building of Industrial Business Park/Hub |
| * Procurement of water troughs for Himeville and Creighton Pound |
| * Extension of grazing land at Himeville Pound |

**Repairs and maintenance budget is R 10 350 201.85**

* Buildings & halls
* Roads and drains
* Plant & equipment
* Railway line maintenance
* Road signs
* Public toilets
* Fencing
* Municipal building electricity
* Vehicles

**Fire/Disaster Management Center Establishment R 3 302 600.00**

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 2018/2019.

* Procurement of fully equipped Fire Truck
* Construction/Establishment of Fire/Disaster Management Center (Phase 1 for 3-year period)
* Ensuring sustainability of the Disaster Management Advisory Forum (DMAF)
* Procurement and installation of a Disaster Management Information
* Conducting more than 60 fire safety inspections
* Procurement of 7 disaster management, fire banners and 20 000 brochures, 100 fire beaters and 20 knapsacks
* Procurement of 100 fire beaters and 20 knapsack tanks

**Youth Development programs and activities and Bursaries R2 100 000.00**

* Bursaries to best performing students
* 1 Back to School campaign
* 1 Education Summit coordinated
* Supporting of 2 workshops for educators teaching Physical Science and Accounting
* Career Exhibitions coordinated
* Training of 10 youth co-operatives involved in farming
* Training 10 youth co-operatives/ Businesses with Business Management Skills
* Conduct 12 computer trainings

**Small Micro Business Development and LED Initiatives R6 780 000.00**

* Establishment of LED and SMME Support Centre/Unit
* Construction of Fresh Produce Market in Bulwer over a 3-year period.
* Construction of Small Scale industrial park in Creighton
* 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
* SMME & Co-op Projects supported with non-agricultural material
* 40 individuals trained on skills empowerment

**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

**Pound Management R200 000.00**

* 4-pound awareness campaigns conducted
* Fencing of open municipal space adjacent to the pound
* Procure 5 water troughs for Himeville and Creighton pounds

**Libraries R2 500 000.00**

* Construction / Extending Creighton Library
* Community trainings - Conduct 12 computer trainings
* Conduct 16 library community outreach programmes

**Arts and Culture programs R795 000.00**

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

**Sports Development programs R810 000.00**

* 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
* Salga Games preparations activities
* Salga Athletics Preparation of Salga Athletics Team through School Sport
* Bongumusa Training Marathon
* Festive Sport Tournaments - Ward based festive tournaments held as per war room need.
* 10 Jockeys trained

**Senior Citizens, HIV/AIDS, Disability R530 000.00**

* 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

**Tourism Programs R 760 000.00**

* 2 Community Tourism & Hospitality Skills training conducted
* External Marketing of Southern Drakensburg on tourism shows and exhibitions
* 7 external tourism shows, and exhibitions conducted to market South Drakensberg
* 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.
* 10 campaigns, events and competitions
* 3 Tourism Awareness programs conducted

**Environmental Management R 495 000.00**

To reduce the degradation of natural environment including high potential agricultural land. Projects re as follows:

* Develop a Strategic Environmental Assessment (SEA)
* Finalize Wall-to Wall Scheme that includes agricultural clauses

**Township Establishment R1 000 000.00**

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

**Free Basic Services R1 578 000.00**

* Free Basic electricity
* Refuse
* Rates

**Public Participation and Ward committee R 2 737 040.00**

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

**Plant and machinery R3 000 000.00**

* Procurement of excavator and Tractor
  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. Council resolution is attached
2. **EXECUTIVE SUMMARY**
   1. **Introduction**

This 2018/19 – 2020/21 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 2018/19 MTREF:

* The 2018/19 Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2018/19 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 using its plant and Machineries. The municipality has procured the TLB and Grader and will be procuring tipper truck in the 2017/18 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 (76%) 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.

2018/2019 tariffs has increased by 5.2% when compare with the 2017/2018 tariffs.

The following stipulations in the property rates are highlighted:

* The first R 15 000.00 of the market value of property used for residential purposes is excluded from the ratable values (Section 17 (h) of the MPRA).
* 30% rebate will be granted for developed properties
* 35% rebate will be granted to agriculture
* 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 2017/2018. For 2018/19, financial year this item was allocated an amount of R4 340 042. 00 and escalates to R 4 574 404. 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 21 402 125.75 for 2018/19 financial year escalating to R 22 557 840. 00 by 2020 financial year.

1. **ANNUAL BUDGET TABLES**

Dr Nkosazana Dlamini Zuma Municipality has prepared Final budget using the prescribed A1 Schedule as indicated in the MFMA budget circular No.91.

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

* Borrowing policy
* Budget process policy
* Cash, banking and Investment Policy
* Fleet management policy
* Funding compliance policy
* Indigent policy
* Rates policy
* Petty cash policy
* Revenue enhancement strategy policy
* SCM policy for infrastructure procurement and delivery management
* Stores management policy
* Virement policy
* Rates-by law policy
* Tariff policy
* SCM policy

All the above policies have been reviewed, only the tariff policy and virement 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

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

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

* National Government macro-economic targets;
* The general inflationary outlook and the impact on 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. The NDZ derives most of its operational revenue from property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees 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 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 Programme for the 2018/2019 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 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 2018/2019.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2018/19 | 2019/20 | 2020/21 |
| EMPLOYEE RELATED COSTS | 55 356 399 | 58 348 176 | 61 491 173 |
| COUNCILLORS REMUNERATION | 11 991 369 | 12 638 903 | 13 334 043 |

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 11.8% as an assumed provisional as the salary negotiations have not yet need finalized, this was considered to cover back pays should their ones when the negotiations are finalized.

The total of amount of R 66 390 616.10 in the personnel budget working paper file exclude the skills levy of R 956 528.86.

* 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 implemented MSCOA in July 2017.

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

As part of the compilation of the 2018/2019 MTREF, extensive financial modeling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2018/19 MTREF:

• Local growth

• Policy priorities and strategic objectives

• Asset maintenance

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

• Performance trends

• The approved 2017/2018 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**
* Cost contatinment measures attached as per MFMA Circular No. 82.
* Service level standard attached as per MFMA Circular No. 75.
* Provincial treasury comments on 2018-19 draft budget attached.
  1. **Municipal Manager quality certificate**

Municipal Manager’s Quality Certificate attached.