

**MATJHABENG MUNICIPALITY**

**ADDENDUM**

**OF**

**SECTION 80: FINANCE COMMITTEE  
MEETING**

**FOR THE**

**THURSDAY, 14 MARCH 2019**

**AT**

**10:00**

**IN**

**ROOM 105, 1<sup>ST</sup> FLOOR, MAIN BUILDING,  
WELKOM**

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## **THE 2019-2020 MTREF BUDGET FOR THE MATJHABENG MUNICIPALITY (CFO)**

### **PURPOSE**

To table the Annual Budget for the 2019/2020 medium term revenue and expenditure framework (MTREF) financial year.

### **BACKGROUND**

The Matjhabeng Local Municipality Annual Budget for the 2019/20 MTREF is compiled in accordance with the prescripts of the Municipal Finance Management Act 56 of 2003, Municipal Budget and Reporting Regulations and National Treasury's MFMA Circulars.

Section 16 (2) of the Municipal Finance Management Act states that the Municipal Council must at least 90 days before the start of the budget year consider approval of the annual budget to be able to adhere to subsection 1 of section 16, which stipulates "The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Section 24(1) of the same act further stipulates that a municipal council must at least 30 days before the start of the new financial year, consider approval of the annual budget.

### **DISCUSSIONS**

The Matjhabeng Municipality's Annual Budget includes an Operational Budget that provides for the annual expenditure and revenue estimates for 2019/20 MTREF, as well as a Capital Budget that provides for the on-going investment in infrastructure necessary to provide services to the community.

The consolidated Revenue Budget for the 2019/20 financial year is R 2 821 699 868, inclusive of operating and capital transfers and R 2 651 084 868 excluding capital transfers and contributions. The Expenditure Budget for the 2019/20 MTREF is R 3 216 848 138. The Annual Budget for 2019/2020 MTREF financial year is attached under **SEPARATE COVER**

The Annual Budget for the 2019/20 MTREF is based on the following assumptions:

Budget Assumptions: -

- CPIX of approximately 5.6% (*Source: Reserve Bank and National Treasury*)
- Increase in Sedibeng Water tariffs by 8%
- Eskom Tariff increase of 9.41%. (*The Nersa approved tariff for municipalities is still outstanding*).
- Salary increases of approximately 7.1% (*Collective Agreement: CPIX + 1.5%*)
- National Treasury MFMA Budget Circular No. 93 (*Guideline from NT*)

The average pay rate of **60%** has been informed by the following factors: -

- Historic collection trends.

### **Proposed Tariff increases for 2019/20 MTREF**

- The water tariff is increasing with 5.6% as a result of the unit price of water and the present difficult economic situation. The bulk service provider, Sedibeng Water is increasing its tariffs with 8% for the 2019/20 financial year.
- The overall electricity tariff is increasing with 5.6% and Eskom, the bulk electricity supplier is increasing with 9.41%.
- The refuse tariff is increasing with 5.6%, this increase will assist with the repair and maintenance of the municipality's infrastructure.
- The sewerage tariff is increasing with 5.6%.
- Tariff for other revenue to increase with 5.6%

The Tariff list for 2019/2020 MTREF financial year is attached under **SEPARATE COVER**

## **A - Revenue**

### **Property Rates**

Property Rates increases to R310 519 477 in the 2019/20 financial year and represents 11% of the revenue budget. The property rates tariffs will increase with 5.6% in the 2019/20 financial year, this increase is guided by MFMA Circular 93 and is in line with the CPIX. The collection rate on property rates is set at 60%.

### **Service charges**

The service charges for the 2019/20 budget is R1 350 353 535, 49% of the revenue is from service charges. Service charges consist of revenue derived from electricity, water, sanitation and refuse. Electricity revenue increases with an overall average of 5.6% which is in line with the CPIX, cognizances should be taken of the fact that the NERSA guideline has not been issued yet. The budgeted amount for electricity is R711 190 717. Water revenue increases to R 381 490 031 in the 2019/20 financial year, this increase results in an average increase of 5.6%. Sanitation and Refuse service charges increase with 5.6%, this increase is in line with the CPIX as prescribed in MFMA Circular 93. The budgeted amount for Sanitation services is R 164 290 628 and R 93 382 159 for Refuse.

### **Operational Transfers and Grant receipts**

Transfers recognized as operational receipts is the second largest revenue source totaling which is 18% of the revenue and amount to R508 333 000 for the 2019/20 financial year as per the draft

Division of Revenue (DoRA) Bill 2019. The Equitable share allocation is a grant which supplement the municipality's own revenue for the provision of the necessary basic level of services to each poor household within their jurisdiction.

### **Other Revenue Sources**

Other revenue sources consist of rental of facilities and equipment, interest earned, fines, gains on disposal of assets and other revenue.

- Gains on disposal of PPE  
The municipality intends to dispose of assets during the 2019/20 financial year and has already started with the process. The projected revenue from the disposal of assets is R52 800 000. This projected revenue will be utilized as a source of funding for capital projects.
- Other Revenue  
The budgeted amount for other revenue is R237 293 949.

## **B – Expenditure**

### **Employee Related Cost & Councillor Remuneration**

The salary figure is 25%, R791 582 177 of the total expenditure. However not all vacancies have been filled. This has an adverse impact on service delivery. Councillor Remuneration represents 8%, R26 087 961 of the total expenditure budget. Provision is made for a 7,1% increase in salaries as informed by the Collective Agreement.

### **Bulk Service**

Supply of bulk services making up 31%, R1 001 136 570 of total expenditure budget. The total budget for electricity and water is R483 845 215 and R517 291 355. Eskom is increasing it electricity with 9.41% and Sedibeng is increasing with 8%.

### **Other Materials**

Other Materials which relates to inventory used for repaired and maintenance is R133 183 576, this is 4% of the total expenditure budget.

### **Contracted Services**

Contracted services consist out of outsourced services, consultants and professions; and contractors. The line item for contractors represents the repair and maintenance. The total budget for contracted services is R 211 988 881 which is 7% of total expenditure budget.

### **Other Expenditure**

Other General Expenditure relate to operational costs and are therefore inevitable. This makes up 4.3%, R 139 215 860 of total expenditure.

### **Depreciation and Debt Impairment**

The total amount budgeted for debt impairment and depreciation amounts to R711 291 882 which is 24% of the total expenditure budget. These items represent non-cash items however they have formed the biggest portion of the unauthorized expenditure in prior financial year. To ensure a decrease in the unauthorized expenditure it is imperative that we have a realistic budget for the non-cash items.

The Municipality therefore has a great challenge of providing basic services to its population with limited resources.

### **Capital Budget**

The Capital Budget for the 2019/20 financial year is R 170 615 000 and is entirely funded by grants. The sources of funds for the capital budget are as follow:

Municipal Infrastructure Grant	R 119 070 000
Water Services Infrastructure Grant	R 36 000 000
Integrated National Electrification Programme	R 15 545 000

The importance of tabling funded budgets is highlighted in previous circulars however there are cases that may warrant a plan a this is not achievable over one year. As a result, the municipality must, together with their 2019/20 MTREF budget, table a plan in council to show they will move from an unfunded position to a funded position.

### **Revenue Raising Strategy**

Implementation of the Revenue Enhancement Strategy by increasing the revenue base of the municipality.

Rejuvenate disconnection project (Operation Patala) with a revenue protection unit in place to monitor reconnections and disconnections.

Installation of new meters in unmetered areas and replacement of faulty meters.

Implementation and installation of Automated meter reading (AMR) meters.

Review budget related policies

Implementation of the Supplementary Valuation Roll

Review the tariffs for services rendered to ensure that tariffs are cost reflective.

### **Budget Related Policies**

Supply Chain Management Policy

Municipal Property Rates Policy

Credit Control Policy

Indigent Policy

Petty Cash Policy  
Subsistence and Travelling Policy  
Tariff Policy  
Unallocated Deposits Policy  
Budget Policy  
Deposits Policy  
Liability, Investment and Cash Management policy  
Asset Management policy

**POLICY POSITION**

Municipal Finance Management Act  
Municipal Systems Act  
Municipal Budget Regulations

**RECOMMENDATION**

It is therefore recommended that the Annual Budget 2019/20 MTREF be tabled in Council.