**COUNCIL MEETING**

**REPORT TO COUNCIL ON FINAL ANNUAL BUDGET**

 **Date** : 28 May 2020

 **Levels** : 1st Level: Council

**1. Author :** ACFO /MP

**2. PURPOSE**

The purpose of this report is to seek approval from Council for the final budget for 2020/21 financial year.

**3. LEGAL / STATUTORY REQUIREMENTS**

* Municipal Finance Management Act

**4. AUTHORITY**

* Council

**5. BACKGROUND AND REASONING**

The Municipal Finance Management Act states that the mayor of the municipality must table final budget to council 30 days before the start of the financial year.

The budget has been prepared and is funded appropriately.

Furthermore, the municipality has prepared A Schedule (Version 6.4) which is an MSCOA compliant budget.

The budget document is attached.

**6. STAFF IMPLICATIONS**

The document was prepared by the staff in the BTO.

**7. FINANCIAL IMPLICATIONS**

* Budget will be implemented in the 2020/21 financial year

**8. OTHER PARTIES CONSULTED**

* Exco / Office of the Municipal Manager
* All relevant departments.

**9. RECOMMENDATIONS**

* That Council approves the final budget for 2020/21 financial year for onward submission to National and Provincial Treasury as well as communities for comments.

**SCHEDULE OF FINAL ANNUAL BUDGET AND SUPPORTING DOCUMENTATION OF**

**UBUHLEBEZWE MUNICIPALITY**

**2020/2021 MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS**

**Copies of this document can be viewed:**

**In the municipal buildings**

**Municipal library and the website**

**www.Ubuhlebezwe.gov.za**

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**2020/21 BUDGET SPEECH FOR UBUHLEBEZWE LOCAL MUNICIPALITY**

***SPEAKER***

***DEPUTY MAYOR***

***COUNCILLORS***

***AMAKHOSI***

***MUNICIPAL MANAGER***

***SENIOR OFFICIALS***

***ALL PROTOCOLS OBSERVED***

I greet you all in the name of freedom and service delivery!

IT is a huge challenge that I present this budget when our municipality, our province, our country, our continent and the indeed the world are all in the midst of an unprecedented threat in form of the COVID-19 pandemic.

This epidemic has killed thousands of people across the globe, led to lockdowns and closing of factories and other production centres, leading to the loss of millions of jobs across the world.

Our region has not been immune of this pandemic and we have had to take measures to protect not only our residents and ratepayers, but also our valuable staff and the people they serve or come across on a regular basis.

However, we have headed call by our government to continue providing services. KZN MEC for Cooperative Governance and Traditional Affairs, the Honorable Mr. Sipho Hlomuka said we must strive to deliver services even during these dark days of COVID-19.

He said and I quote: “During this difficult time we are faced with as a province, it is crucial that the sphere of local government plays its part as it is at the coalface of service delivery which is essential to the wellbeing of communities. In the engagements we have had with municipalities, we have emphasized the importance of implementing work from home measures where possible,” said Hlomuka.

“The success of the lockdown as announced by the President of the Country his Excellency Cyril Ramaphosa depends on all of us playing our part as the sphere of local government and the institution of traditional leadership,” added Hlomuka, I close quote.

Ubuhlebezwe Local Municipality has thus headed this call and has continued offering essential services to our people despite the COVID-19 lockdown-related constraints.

The municipality has taken all precautionary measures with regards to the safety of officials such as fumigation of offices, screening of employees, wearing of masks has been made compulsory, usage of hand sanitizers and also practicing of social distancing.

I want to take this opportunity to urge all residents and ratepayers under Ubuhlebezwe Local Municipality to play their part in ensuring that this pandemic is not spread to many people. They have to do this by adhering to all the safety standard announced by government officials. They have to upgrade their hygienic standards, wash their hands regularly and avoid big crowds. Where possible, let us stay at home and keep social distance to protect ourselves, our families, the sick and the elderly.

If anything, this pandemic has also reminded us about the urgency of having a regional hospital that will cater for the health needs of the people of Ubuhlebezwe Local Municipality.

We are holding progressive engagements and discussions with the Department of Health officials about the need of building a regional hospital as this is the only region that does not have a kind of hospital that will deal with the health issues of our people, including infant mortality rate, diabetes, TB and HIV and Aids and all other chronic disease that require a specialized services.

***Mister Speaker***

The administration that I lead is working very hard to change the trajectory of this municipality. We are doing so while we are delivery more services to more people than ever before.

It is true that in the past financial year this municipality obtained qualified audit opinion. But in this financial year we are working hard to progress to unqualified audit opinion.

Our team in the finance department are working very hard to find the loopholes in the system and plug these holes so that our municipality does not get the ire of the auditor general.

We hope that these efforts would help this municipality to find a solid ground to get successive clean audits in the next few years.

**Service delivery**

***Ladies and Gentlemen***

Let us not forget that the year 2020 marks the celebration of Harry Gwala. Ubuhlebezwe Municipality is located in the district region that was named after him.

Harry Gwala was the true servant of the people, a leader ready to defend them against the brutality of the apartheid regime and their surrogates.

I am certain that that if he was still alive today, his primary focus would have been to speed up delivery of basic services to the people.

Now that he is gone we have to pick the baton and continue where he left of. It is our duty to ensure that the ideals that Harry Gwala stood for are achieved in our lifetime.

To this end we are making progress.

Ubuhlebezwe Local Municipality will have its own Plant and equipment, all of which will greatly assist in terms of service delivery of roads, in particular. 80 km gravel roads will be maintained.

Other items, such as compactor truck and other equipment will be procured in 2020/2021 to bolster our service delivery programmes and projects.

*Electrification*

The municipality is embarking on a massive electrification project throughout our ward.

Street light will be implemented across all wards.

As we speak electrification of houses is sitting at 94.85%. By 2020/2021 financial year projections we will reach 100% of all household requiring electricity.

It would be remembered that only a few household, especially black households, that had electricity before 1994. So these are some of the achievements made by this municipality working together with our social partners over the years.

*Support for indigent households*

Ubuhlebezwe Local Municipality is a caring municipality, the one that caters for all its citizens, including the most vulnerable.

This municipality will continue its programme of deferring or reducing the payment for municipal services to the indigent members of society, provided that they have all the necessary documents to prove it.

Our municipal offices are open to those who wish to apply for indigent services to those who qualify.

The advent of corona virus has exposed more people to the elements of poverty and degradation. Our municipality has joined hands with our social partners, including both the provincial and national government, to help families who are adversely affected by the COVID-19 lockdown.

*Support for local economic development*

**Mister Speaker**

Ubuhlebezwe Local Municipality has a number of projects aimed at propping up, supporting and sustaining local businesses.

We do this in the belief that it is better to teach a man how to fish rather than offer him a fish from time to whenever he is hungry.

As part of the local economic development programmes, this municipality has approved an amount of over R1 097 250 million for various projects during this financial budget.

The project to receive funding include crop and livestock farming (including poultry, piggeries, cattle, sheep and goat farming), brickmaking, sewing, manufacturing and other activities.

The municipality is proud that most of these cooperatives and individual projects are owned or run by women.

**Youth advancement and empowerment**

Ladies and gentlemen

Youth form majority of people in South Africa and. It is often said that the youth are the future of any country, of any municipality.

It is imperative that youth should be empowered in every way possible and they must be skilled sufficiently so that they are able to pick up the baton and continue the task of developing this country.

We as Ubuhlebezwe Local Municipality are doing something to enrich and empower our young people so that they do not find themselves in hopeless situation which will lead them to drug and alcohol abuse or in situations where they will contract HIV and Aids or end up in prison.

Processes are underway to establish a fully-fledged youth council with its own budget specifically this financial year we embark in training 28 youth in welding through our well innovated WSP programme.

But over and above that, this municipality has set aside budgets for skills developments targeted at young people.

There are many other youth sporting and other social activities that are fully or partly sponsored this municipality.

These include the Mayoral Excellence Awards, Marathon – Promotional Material, Miss Ubuhlebezwe & Fashion Show, Community Bursaries, Back to School Campaign, Career Exhibition, Career Guidance & Apply Now Campaign, Youth Day Commemoration and Mayoral Cup.

We hope that our youth will use the opportunities offered by these and other municipal programmes to empower themselves.

Let me again revive the spirit of our late leader Harry Gwala and urge us all to unite in serving our people.

We have been encouraged by the generosity shown by South Africans of all walks of life, across racial and ethnic divide, by donating food parcels and/or feeding the needy during this COVID-19 crisis.

We hope that this spirit will continue beyond the COVID-19 crisis and will fuel us to forge a united and prosperous society.

We at Ubuhlebezwe Local Municipality, we remain steadfast in our mission of “delivering an appropriate level of service to all of our citizens by the year 2025 and alleviate poverty by promoting sustainable development through good governance and accountability.

**I THANK YOU**

**MISTER SPEAKER**

Let me now take this opportunity to present the 2020/21 in its entirety

**SUMMARY OF THE BUDGET**

Operational Budget R 174 083 000

Capital Budget R 59 179 000

Total Budget **R 233 262 000**

Funding the budget – Conditional and Unconditional grants

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **Allocation 2020** | **Allocation 2021** | **Variance** | **Increase/****Decrease** |
| Equitable Share | R110 309 000 | R117 008 000 | R 6 699 000 | **↑** |
| Electrification | R13 000 000 | R15 000 000 | (R2 000 000) | **↑** |
| Finance Management Grant | R 1 970 000 | R1 900 000 | R 70 000 | **↓** |
| Business Plans Information System | R0.00 | R | R | **New** |
| EPWP | R 1 793 000 | R 1 903 000 | R 110 000 | **↑** |
| Library Grant | R 838 000 | R 905 000 | R 67 000 | **↑** |
| Library Cyber | R 197 000 | R 226 000 | R 29 000 | **↑** |
| MIG | R26 917 000 | R26 759 000 | R 158 000 |  |

* 1. **Council Resolutions**

*The Council of UBuhlebezwe Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:*

* *That the annual budget of the municipality for the financial year 2020/21 ; and indicative allocations for the two projected outer years 2021/22 and 2022/23 and related policies be approved, as set out in the following schedules and annexure:*

|  |  |  |  |
| --- | --- | --- | --- |
| 6.1 | Budget summary | A1 Sum |  |
| 6.2 | Budgeted financial performance (revenue and expenditure by standard classification) | A2 FinPerf |  |
| 6.3 | Budgeted financial performance (revenue and expenditure by municipal vote) | A3 FinPerf |  |
| 6.4 | Budgeted financial performance (revenue and expenditure) | A4 FinPerf |  |
| 6.5 | Budgeted capital expenditure by vote, standard classification and funding | A5 CapEx |  |
| 6.6 | Budgeted financial position | A6 FinPos |  |
| 6.7 | Budgeted cash flows | A7 CFlow |  |
| 6.8 | Cash backed reserves/accumulated surplus reconciliation | A8 ResRecon |  |
| 6.9 | Asset management | A9 Asset |  |
| 6.10 | Basic service delivery measurement | A10 SerDel |  |

**1.3 EXECUTIVE SUMMARY**

**1.3.1 Introduction**

This 2020 to 2023 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 UBuhlebezwe Municipality renders services to their local community in a financially sustainable manner.

**1.3.2 Past performance**

Ubuhlebezwe Municipality has now regressed in terms of the audit opinion. This is something we are not proud of and we shall continue to strive for a clean audit as we have done in the past years. A good audit outcome is directly aligned to performance and service delivery. The good results positively reflect service delivery improvements as well as good financial management. Good performance reflects a positive image of Ubuhlebezwe leadership in rendering its services, transparency and equally its ability to render services to the community at large.

**1.3.3 Financial Sustainability**

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

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 equitably to all communities.

**1.3.4 Budget Summary**

The following table is a consolidated overview of the proposed 2020/2021 final budget and medium term revenue and expenditure framework:

**Table 1 Consolidated Overview of the 2020/2021**



Total operating revenue has increased by 5% from the adjustments budget of 2019/2020. The equitable share has increased by R6.7 million compared to the previous year. This therefore means that serviced delivery must be prioritised.

Total operating expenditure for the financial year has been appropriated at R171 895 000 including Non-Cash Items of R  25 278 000. This therefore translates into a surplus of R 23 642 611, which effectively finances the capital expenditure.When compared to the 2019/2020 Adjustments Budget, operational expenditure has decreased by R 1 891 000 which is 1% of the adjustments budget. This is a result of applying cost containment measures by the municipality.

The capital budget of R 59 178 000 for 2020/2021 which is R17 276 000 less than the adjustment budget. The reason for a 23% decrease is because of the completion of fire station and successful purchase of other plant and equipment which will not be needed under 2020/21 giving the municipality the capacity for service delivery.

**1.4 Operating Revenue Framework**

For UBuhlebezwe 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 being reviewed for relevance and effectiveness. The municipality has also embarked on a stringent data cleansing to ensure that revenues due to the municipality are received and timeously. Efficient revenue management, which aims to ensure an 80 per cent annual collection rate for property rates and other key service charges,

* 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.

The following table is a summary of the 2020/2021 MTREF (classified by main revenue source):



The total operating revenue for 2020/2021 is R 168 068 000.

* **Government Subsidies/ Grants**

In line with the formats prescribed by Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus or deficit.

The table below reflects all government grants categorised per function.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **Allocation 2020** | **Allocation 2021** | **Variance** | **Increase/****Decrease** |
|  ***GRANTS*** |
| MIG | R26 917 000 | R26 759 000 | R 158 000 | **↑** |
| ***TOTAL*** | **R26 917 000** | **R26 759 000** | **R 158 000** | **↑** |
| ***OPERATIONAL GRANTS*** |
| Equitable Share | R110 309 000 | R117 008 000 | R 6 741 000 | **↑** |
| Finance Management Grant | R 1 970 000 | R 1 900 000 | R 70 000 | **↓** |
| EPWP | R 1 793 000 | R 1 903 000 | R 110 000 | **↑** |
| Library Grant | R 838 000 | R 905 000 | R 67 000 | **↑** |
| Title deeds  | R 0.00 | R 121 0000 | R 121 000 | **New** |
| Library Cyber | R 206 000 | R 226 000 | R 20 000 | **↑** |
| Electrification | R13 000 000 | R15 000 000 | R2 000 000 | **↑** |
| ***TOTAL*** | ***R 128 209 000*** | ***R  137 105 000*** | ***R 8 896 000*** | **↑** |

**The Current years Operational Electrification projects are as follows Per DORA:**

|  |  |
| --- | --- |
| Fair view Electrification  | R9 366 000 |
| Dayimane Electrification  | R 360 000 |
| Maweni Electrification  | R 720 000 |
| Mgodi skeyi Electrification  | R 3 600 000 |
| Kwabhaki Electrification  | R 954 000 |
| **Total Allocation Per DORA** | **R15 000 000.00** |

Grants remain the largest revenue source.

**HOUSING PROJECTS**

We have received the agreement from Human settlement to fund the following projects.

|  |  |
| --- | --- |
| Housing Allocation new Projects | R50 962 241 |
| Community Residential Units | R31 000 000 |
| Ufafa Housing Projects | R4 241 350  |
| **Total Allocation Per DORA** | **R86 203 591**  |

* **Property Rates**

The municipality has implemented the new valuation roll in the current year and also resolved to increase the rates and service charges by 5%. This led to the budget for rates to be R 23 573 000 for the 2020/2021 financial year. The municipality has affected this increase notwithstanding the fact that the budget for rates was adjusted downwards during the adjustment budget financial year. The revenue collection strategies and data cleansing is reflecting a positive feedback, and the debt collector was appointed during the month of January 2019 to fast track the collection which habitual so, means more revenue collection.

Comparison of proposed rates to levied for the 2020 financial year



 The amounts reflected above are after considering revenue forgone and rebates.

### Refuse / Service Charges

This refers to refuse removal income that the municipality bills as budgeted. The proposed budget for services amounted to R 3 300 000 for 2020/2021.

**Below is a revenue collection chart, which reflects billed amounts versus cash collected:**



The municipality’s tariff of refuse collection is not cost reflective, due to affordability of the community as well as unemployment rate within the municipal area. The section is therefore run at a loss and funded by the municipal funds.

An increase of **5%** on tariffs has been used across the board.

* **Rental**

This refers to rental for municipal facilities, the municipality budgeted the amount of R1 200 000.

* **Traffic Fines**

Traffic Fines budget remains at R 1000 000.

* **Interest on Investments**

This refers to funds invested by the municipality on various institutions, for less than one year, we have budgeted an amount of R 12 000 000, increased from R 13 000 000.

* **Licence and Permit**

The Municipality has budgeted to receive R 4 086 000 from Licence and Permit.

* **Agency Services**

The Municipality has budgeted to collect R 28 900 from Agency Services.

**1.5 Operating Expenditure Framework**

The total operating expenditure for 2020/2021 financial year has been appropriated at R 173 933 000. The Municipality’s expenditure framework for the 2020/2021 budget 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 over the medium-term as informed by Section 18 and 19 of the MFMA,
* Strict adherence to the principle of no project plans no budget. If there is no business plan, no funding allocation can be made.

**Expenditure by Source Table**



* **Employee Related Costs**

This refers to the salaries and benefits paid to employees, currently the municipality has tentatively budgeted **6.25%** for salary increases. The proposed total cost to employer amount to R 84 542 000. This amount excludes the Councilors Remuneration which is R11 097 000. The amount of employee related costs also includes new position that were previously not funded in the budget but approved in the Municipality’s organogram.

* **Provision for doubtful debts.**

The provision of debt impairment was determined based on an annual collection rate. For the 2020/2021 financial year this amount equates to R2 090 000. While this expenditure is considered as non-cash item, it informed the cost associated with rendering the services of the municipality, as well as the municipality’s realistically anticipated revenues.

* **Depreciation**

Provision for depreciation and asset impairment has been informed by the Municipality’s Asset Management Policy. Depreciation is widely considered a proxy for the rate asset consumption. Budget appropriations in this regard total R23 188 000 for the 2020/2021 financial year.

* **Repairs and Maintenance**

In line with repairs and maintenance plan, this group of expenditure has been prioritised to ensure sustainability of the Municipality’s infrastructure assets. The amount of R 5 326 081 has been budgeted for 2020/2021 which equals to 9 % of the total Capital Budget.

* **Contracted Services**

The budget of R 21 361 000 has been set aside for contracted services.

* **Transfers and Grants/ Free Basic Services**

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive free service, the households are required to register in terms of the Municipality’s Indigent Policy. The budget of R 2 589 340 has been set aside.

* **Other Expenditure**

Other expenditure is the general expenditure incurred by the municipality for its operations, the amount of R26 828 000 is projected.

**Community Development Programmes/Projects**

|  |  |  |
| --- | --- | --- |
| **PROGRAMMES** | **2019/20** | **2020/21** |
| Bursary Youth | 650 000 | 679 250 |
| Disaster Management | 254 840 | 308 107 |
| Back to School | 10 560 | 15 675 |
| Marketing and Tourism | 370 827 | 288 838 |
| Moral Generation | 70 000  | 73 150  |
| Performing Arts ( Art and Culture) | 373 200 | 110 025 |
| Community Upliftment | 244 000 | 459 480 |
| Youth Programs | 350 000 | 309 230 |
| HIV/AIDS Awareness | 151 120 | 300 750  |
| Ward Committee | 1 637 200 | 1 782 875 |
| Public Participation | 360 000 | 88 825 |
| LED Projects | 1 050 000 | 1 097 250 |
| LED /Tourism Forum | 5 500 | 11 495 |
| Community Development | 1 535 000 | 1 837 000 |

The above “soft projects” are budgeted for under operational budget.

**1.6 Capital expenditure**

Capital expenditure funding is funded by grants which is an amount of R26 759 000 from MIG and Other expenditure of R 32 550 356 is funded from internally generated funds.

**Summary of Capital Expenditure**

|  |  |
| --- | --- |
| MIG | R 26 759 000 |
| Internal Funded | R 32 550 356 |
| **Total** | **R 59 176 356**  |
|  |  |

**Reconciliation Extract for Capital Projects Per Asset Class:**

|  |  |
| --- | --- |
| Land | 1 000 000 |
| Intangible  | 3 153 200 |
| Office Furniture |  907 000 |
| Computer and IT Equipment  |  5 909 638 |
| Plant/machimery & Equipment |  1 365 978 |
| Buildings  | 10 790 000 |
| Community Assets  |  8 817 845 |
| Infrastructure | 22 695 020 |
| Motor vehicles  |  540 000 |
| Total Assets | **59 178 683** |

**NB: Breakdown of these projects are in the IDP.**

**1.7 Annual Budget Tables:**

**1.7.1 Explanatory notes to MBRR Table A1-Budget Summary for 2018/2019Financial year.**

* Table A1 is a budget summary and provides a concise overview of UBuhlebezwe Local Municipality’s budget from all the major financial perspectives (operating, capital expenditure, financial position, cash flow and MFMA funding compliance.
* The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality’s commitment to eliminating basic service delivery backlogs.
* Financial management reforms emphasise the importance of the municipal budget being funded. The Budget Summary provides the key information in this regard:
* Transfer recognised is reflected on the Financial Performance Budget
* Internally generated funds are financed from a combination of the operating surplus and accumulated cash-backed surplus from previous years. The fact that the municipality’s cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
* Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The municipality is committed to provide free basic services to the needy community. In addition, the municipality continues to make progress in addressing service delivery backlogs.

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

Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into its functional areas. Municipal revenue, operating expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile ‘whole of government’ reports



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

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure. This means it is possible to present the operating surplus or deficit of a vote. The table shows the analysis of the surplus or deficit.



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

Total revenue is projected at R 195 538 000 in 2020/2021. Out of that revenue is an amount of R23 573 000 which is estimated to be collected from property rates.

Transfers recognised-operating includes the local government equitable share and other grants from national and provincial government. It is noted that the grants remain a significant and high funding source for the municipality.



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

* Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote, capital expenditure by standard classification, and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
* The capital programme is funded by grants, donations where necessary and internally generated funds.
* UBuhlebezwe capital budget is mainly funded by grants with MIG and DoE (Electrification) being the highest funders. It must also be noted that the electrification project is budgeted for under capital expenditure simply because whilst the project is still work in progress is becomes capital in nature; however as soon as the project is transferred to the home owners, it then gets transferred to operational expenditure.



**1.7.6 Explanatory notes to Table A6-Budgeted Financial Position**

* Table A6 is consistent with international standards of good financial management practice, and improves understand ability for councillors and management of the impact of the budget on the statement of financial position (balance sheet)
* This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version.
* Any movement on the budgeted financial performance or the capital budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end.
* Table SA3 provides a detailed analysis of the major components of a number of items, including:
* Call investments deposits.
* Consumer debtors.
* Property, plant and equipment.
* Trade and other payables.
* Provisions non-current.
* Change in net assets.
* Reserves.
* The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets on the municipality belong to the community.



**1.7.7 Explanatory notes to Table A7 - Budgeted Cash Flow Statement**

* The budgeted cash flow statement is the first measurement in determining if the budget is funded.
* It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.



The municipality holds short-term investments. The total investments as at 30 April 2020 totaled to R 182 749 732.69 Plus R 5 803 086.84 primary account equals to R 188 552 819.53. Unspent grants as at 30 April 2020 R6 465 797 leaving cash and cash equivalents available at 30 April 2020 at R182 087 022. The fixed cost per month is estimated at R12.7million.

Investment Register:



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

* The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
* In essence, the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
* The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality’s budget must be funded
* As part of the budgeting and planning guidelines that informed the compilation of the 2019/2020 MTREF the end objective of the medium framework was to ensure the budget is funded aligned to section 18 of the MFMA.
* Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2019/2020 MTREF is funded.



**1.7.9 Explanatory notes to Table A9 - Asset Management**

* Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
* National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The Municipality is working towards meeting both of these recommendations but the budget for UBuhlebezwe is adequate to secure the ongoing health of the municipality’s infrastructure.
* UBuhlebezwe municipality has resolved to utilize internal staff when renewing assets where feasible. This has also reduced the cost of renewal of assets whilst assets are still being renewed. This was done in order to ensure that assets are renewed whilst lesser budget is allocated towards renewal. The cost of renewal is therefore embedded in the salaries of staff members.



**1.7.10 Explanatory notes to Table A10 - Basic Service Delivery Measurement**

* Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services. The Municipality continues to make good progress with the eradication of backlogs:
* The number of household registered for indigent in 2018/2019 is expected to increase therefore entitled to receiving Free Basic Services, this is covered by municipality’s equitable share.



**PART 2**

**2.1 OVERVIEW OF ANNUAL BUDGET PROCESS**

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 Executive Committee members, the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Mayor.

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.
* The budget is further interrogated by the Executive Committee, Finance Committee and Management Committee during a strategic planning session.

**2.2 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH INTERGRATED DEVELOPMENT PLAN**

The municipality’s IDP is its 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. The Process Plan applicable to the newly developed IDP includes the following key IDP processes and deliverables:

* Registration of community needs;
* 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.

The details of all revenue, operational expenditure and capital expenditure which are aligned to the goals and action plans in the Integrated Development Plan are outlined in the supporting documentation **S4 to S6.**

**2.3 MEASURABLE PRFORMANCE OBJECTIVES AND INDICATORS**

***Borrowing Management***

The municipality currently does not have external borrowings. The municipality’s credit worthiness has not been assessed; however, there are no plans to utilize this facility in the next two years

***Debtors and Creditor’s Management***

Creditors are paid twice a month in order to cater for SMME’s and in order to avoid late payments thereby incurring interests.

The Credit Control and Debt collection policy was adopted in order to tighten up debt collection. Furthermore, the municipality utilizes services of debt collectors to collect from all defaulting debtors.

**2.4 OVERVIEW OF BUDGET RELATED-POLICIES**

The municipality’s budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

* Credit Control and debts Collection policies
* Asset Management Policy
* Budget Policy
* Supply Chain Management Policy
* Virement Policy
* banking and Investment Policy
* Property Rate Policy
* Indigent Policy
* Bad Debt written off and Provision for bad debts Policy
* Inventory Policy
* Cost Containment Policy
* SCM Policy on Infrastructure Procurement and Delivery Management

All the above policies are available on the municipality’s website.

**2.5. OVERVIEW OF BUDGET ASSUMPTIONS**

The final budget was prepared in accordance with guidelines and assumptions as outlined in Municipal Budget and Reporting Regulations, taking into consideration the following aspects:

* National budget assumptions, guidelines and projections;
* Alignment with national and provincial priorities;
* Headline inflation and gross domestic products forecasts; and
* Revenue assumptions with regard to grants allocation in terms of revised DORA.
* Anticipated own revenue from rates and services charges, sundry charges and other revenues and affordability of ratepayers and consumer services;
* The ability of municipality to collect revenue (payment level);
* Operating expenditure cost drivers and growth thereof;
* Capital budget funding model;
* Protecting the poor by ensuring access to basic services

##  OVERVIEW OF BUDGET FUNDING

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 Municipality derives most of its operational revenue from grant funding. Other funding is derived from Property rates, drivers licences, investments, rentals and operating and capital grants and other minor charges (such as building plan fees, licenses and permits etc).

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

* Growth in the municipal area and economic development;
* Revenue management and enhancement;
* National Treasury guidelines;
* Achievement of full cost recovery of specific user charges;
* The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
* And the ability to extend new services and obtain cost recovery levels such as Town planning.

## 2.7 ANNUAL BUDGETS AND SDBIPs –INTERNAL DEPARTMENT

**2.8 CONTRACTS HAVING BUDGETARY IMPLICATIONS**

The municipality does not have contracts that go beyond the current Final budget year and the two outer years.

In terms of the municipality’s supply chain management policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the bid evaluation and adjustment committees must obtain formal financial comments from the Financial Management Division of the Budget and Treasury Office Department.

## 2.9 LEGISLATION COMPLIANCE STATUS

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

* **Internship programme**

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

* **Budget and Treasury Office**

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

* **Audit Committee**

An Audit Committee has been established and is fully functional.

* **Annual Report**

Annual report is compiled in terms of the MFMA and National Treasury requirements.

**2.10 MUNICIPAL MANAGER’S QUALITY CERTIFICATE**

**Budget and Treasury Department**