

REPORT TO THE COUNCIL MEETING: PROPOSED FINAL BUDGET FOR 2018 / 2019 to 2020 / 2021 MTREF

PURPOSE:

To request **Council approval** of the proposed final Operating and Capital budget for 2018/2019 to 2020/2021.

AUTHORITY:

Chris Hani District Municipality Council

LEGISLATIVE FRAMEWORK:

Municipal Finance Management Act (MFMA) 56 of 2003;

Municipal Budget and Reporting Regulations (MBRR); and

National Treasury MFMA Budget Circulars.

BACKGROUND:

In terms of section 24(1) of the MFMA read together with regulation 14(1), a municipality must approve the annual budget tabled by the Mayor before Council at least 30 days before the start of the budget year and such budget must be in the prescribed format.

The prescribed format is outlined in regulation 9 of the MBRR, which states that “the annual budget and supporting documentation of a municipality must be in a format specified in Schedule A and include all the required tables, charts and explanatory information”.

The later paragraph is also supported by regulation 14(1) of the MBRR to ensure that municipalities table in Council a budget in a prescribed format, that is credible and realistic.

The final budget brought to the attention of Council, recognises the funding streams of Council that have remained the same as in the previous budget years being mainly service charges for water and sanitation services and grant funding from both National Treasury and Provincial State Departments. Other revenue in addition to above is interest on investment and outstanding debtor's revenue, and sundry revenue that also includes the output VAT on conditional grants.

The expenditure of the municipality is as a result of employee related costs, councillors allowances, expenditure on operating and capital grants, transfers and grants to the municipal entity, funding for SMME's, Contracted Services, Debt Impairment, Depreciation on Property Plant and Equipment and other expenditure that includes general expenses and repairs and maintenance.

EXPOSITION OF FACTS:

The final budget for the 2018 / 2019 MTREF period, started with a process of considering the issues that were raised in the strategic session that influenced the current IDP, taking into account allowable increases (parameters) of 5,3%, 5,4% and 5,5% for the two outer years as determined by National Treasury in MFMA Circular 91 dated 07 March 2018.

The salaries budget recognises current salary levels and potential increases for cost of living and general annual increase that will be effected in July 2018. The collective agreement is however coming to an end on 30 June 2018 and in the absence of such no guidance was given by National Treasury in this area.

All Directorates were requested to provide further input to the operational budget based on their needs and also taking into account the constraints presented by the limited revenue sources.

Provincial allocations (including agency functions) made/expected to the district were confirmed for current and outer budget years.

No budget provision has been made in instances where current/outer year allocations were not confirmed by the provincial government departments. In the final budget no additional allocations have been received from provincial and

national departments and therefore the allocations are still the same as in the draft budget.

The budget of the Chris Hani Development Agency for the current financial year will be presented to Council separately but has been included in the budget of the municipality for the transfers that will be coming from the district, like bursary fund and the operating transfer.

The final budget, proposes a tariff increase by 6% in all revenue streams and is working on a new tariff for water clearances. The tariff study is currently underway and its outcome will be communicated to Council before implementation. The proposed tariff increases are attached as an annexure in the executive summary.

The outcome of the draft budget process was a deficit of R348,8 million, when taking into account both capital and operating expenditure, an increase compared to the current year deficit. The deficit was influenced by non cash items that are depreciation on assets at R140 million and debt impairment or provision for bad debts at R200 million, Indigent Subsidy at R13 million and assets procured from internal reserves. When compared to the second adjustment budget the deficit has decreased by R18,1 million or 4,9%.

The capital programmes funded from capital grants were budgeted to the extent of funds allocated by national government and R80 million from municipal reserves.

The deficit budget should be closely monitored by the municipality to ensure decrease in the budget and ultimately a fully funded budget, as a deficit budget might have a negative impact on infrastructure improvements, as depreciation that is not supported by funded reserves might negatively affect infrastructure replacements.

TABLE 1: PROPOSED FINAL BUDGET SUMMARY 2018/19 TO 2020/21 MTREF

Chris Hani District Municipality Consolidated Final Budget Summary: 2018/19 MTREF								
Description	Previous Year 2016/17		Current Year 2017/18 Medium Term Revenue & Expenditure Framework			2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Figures 2015/16 R000	Audited Figures 2016/17 R000	Budget Year 2017/18 R000	1st Adjusted Budget 2017/18 R000	2nd Adjusted Budget 2017/18 R000	Budget Year 2018/19 R000	Budget Year + 2019/2020 R000	Budget Year + 2020/2021 R000
Total Revenue	1 655 149	1 592 945	1 553 647	1 604 040	1 529 468	1 409 416	1 324 289	1 385 075
Operating Revenue	1 041 698	930 101	1 039 393	1 041 625	989 208	937 496	1 005 607	1 076 255
Capital Revenue	613 451	662 844	514 254	562 415	540 260	471 919	318 682	308 820
Total Expenditure	2 043 977	1 689 284	1 897 135	1 958 962	1 896 369	1 758 177	1 689 547	1 622 370
Operating Expenditure	1 421 858	991 410	1 285 881	1 297 440	1 277 002	1 206 257	1 254 365	1 285 460
Capital Expenditure	622 119	697 874	611 254	661 522	619 367	551 919	435 182	336 910
Surplus/(Deficit)	(388 828)	(96 339)	(343 488)	(354 922)	(366 902)	(348 761)	(365 258)	(237 295)

The table above reflects a budgeted deficit of R348,8 million, a decrease of R18,1 million or 4,9% when compared to the final adjustment budget and an decrease of R5,3 million or 1,5% when compared to the final approved budget for 2017/18 financial year. The deficit is however increasing in 2019/20 to R365,3 million and decreasing in 2020/21 to R237,3 million.

The municipality is however banking on the outcome of the tariff study for the review of tariffs to address the deficit and the completeness of billing upon finalisation of the data cleansing and meter audit programmes that are yet to proceed.

PROPOSED FINAL BUDGET 2018/2019 MTREF:

The following tables (table 2 to 7) illustrate the anticipated proposed revenue and expenditure streams for the MTREF:

Grants and Subsidies represent the combination of all grants and subsidies utilised to fund the operating budget including provincial agency grants. This also includes the Equitable Share, Finance Management Grant (FMG), and allowable portion of the MIG to fund the Project Management Unit (PMU), etc.

Investment revenue comprises anticipated interest on surplus funds invested that are not immediately required for service delivery. Service charges is estimated water and sanitation revenue from the WSA/WSP function undertaken by the District municipality.

Other revenue comprises the anticipated sundry income such as administration fees on salary deductions, sale of tender documents etc. and includes the input VAT realised on spending of conditional grants.

Table 2: Final Operating Revenue 2018/19 MTREF: Table A4: R937,5 million.

Chris Hani District Municipality Operating Revenue by Source Final Budget 2018/19							
Description	2015/16	2016/17	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year + 2019/20	Budget Year + 2020/21
R thousand							
Revenue By Source							
Service charges - water revenue	293 631	128 569	151 560	168 466	178 574	189 288	200 646
Service charges - sanitation revenue	42 129	43 006	35 940	51 176	54 246	57 501	60 951
Rental of facilities and equipment	-	-	-	-	-	-	-
Interest earned - external investments	38 464	37 255	33 154	33 154	32 480	34 429	36 495
Interest earned - outstanding debtors	-	-	103 234	6 471	6 730	7 133	7 561
Transfers recognised - operational	590 775	626 609	629 804	644 557	600 325	648 217	697 434
Other revenue	76 700	93 758	85 502	85 184	64 942	68 838	72 969
Gains on disposal of PPE	-	904	200	200	200	200	200
Total Revenue (excluding capital transfers and contributions)	1 041 699	930 101	1 039 393	989 208	937 496	1 005 607	1 076 255

The above table reflects an overall decrease of **R51,7 million or 5,2%** in operating revenue when comparing the final budget with the adjustment budget and a decrease of R101,9 million or 9,8% when compared with the approved budget for 2017/18 financial year. The decrease was mainly influenced by the decrease in interest on outstanding debtors, decrease in sundry revenue that was influenced by a decrease in infrastructure grants and a decrease in revenue for VIP toilets as the current contracts are coming to an end.

The following revenue sources had increased when compared to the final adjustment budget:

Service Charges Water – (R10,1 million) or 6%;

Service Charges Sanitation – (R3 million) or 6%; and

Interest on outstanding debtors – (R259 thousand) or 4%

The following revenue sources had decreased when compared to the final adjustment budget:

Interest on investments – (R674 thousand) or 2%;

Transfers and Subsidies – (R44,2 million) or 6,9%; and

Sundry Revenue – (R 20,2 million) or 23,8%.

The increases above are in line with CPI as suggested in MFMA Circular 91 of increases between 5.3 and 5.5 percent and the huge decrease in sundry revenue was influenced by the decrease in infrastructure grants. Sundry revenue is mainly supported by VAT from conditional grants and the decrease in grant funding for infrastructure projects had a negative impact on this revenue stream.

Chris Hani District Municipality Perc Growth in Operating Revenue by Source Final Budget 2018/19							
Description	Adjusted Budget	%	2018/19 Medium Term Revenue & Expenditure Framework				
			Budget Year 2018/19	%	Budget Year + 2019/20	%	Budget Year + 2020/21
R thousand							
Revenue By Source							
Service charges - water revenue	168 466	6	178 574	6	189 288	6	200 646
Service charges - sanitation revenue	51 176	6	54 246	6	57 501	6	60 951
Rental of facilities and equipment	-	0	-	-	-	-	-
Interest earned - external investments	33 154	(2)	32 480	6	34 429	6	36 495
Interest earned - outstanding debtors	6 471		6 730		7 133		7 561
Transfers recognised - operational	644 557	(7)	600 325	8	648 217	8	697 434
Other revenue	85 184	(24)	64 942	6	68 838	6	72 969
Gains on disposal of PPE	200	-	200	-	200	-	200
Total Revenue (excluding capital transfers and contributions)	989 208	(5)	937 496	7	1 005 607	7	1 076 255

The above table presents revenue growth over the MTREF period and in the budget year and both outer years to 2020/21 the percentage growth is fairly consistent to enable the municipality to address the budget deficit.

Table 3: Final Operating Expenditure 2018/2019 MTREF: Table A4 - R 1,237,3 billion

Chris Hani District Municipality Operating Expenditure by Standard classification Final Budget 2018/19 MTREF							
Description	2015/16	2016/17	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year + 2019/20	Budget Year + 2020/21
Expenditure By Type							
Employee related costs	246 191	245 075	349 187	325 660	308 843	327 374	347 016
Remuneration of councillors	9 631	9 577	12 578	10 544	11 071	11 736	12 440
Debt impairment	522 558	44 876	200 000	200 000	200 000	200 000	200 000
Depreciation & asset impairment	158 329	119 620	180 000	180 000	140 000	140 000	140 000
Finance charges	629	271	1 200	1 200	1 260	1 336	1 416
Bulk purchases	22 585	21 589	24 894	24 894	26 139	27 707	29 369
Contracted services	62 482	78 783	32 956	106 836	124 153	118 882	126 015
Transfers and grants	213 186	246 619	20 198	179 165	175 942	215 816	226 692
Other expenditure	184 705	224 998	464 868	248 702	218 850	211 515	202 512
Loss on disposal of PPE	1 561	-	-	-	-	-	-
Total Expenditure	1 421 858	991 410	1 285 881	1 277 002	1 206 257	1 254 365	1 285 460

The table above reflects an overall decrease of R70,7 million or 5,5% when comparing the proposed budget with the final adjustment budget and a decrease of R79,6 million or 6,2% when comparing the proposed budget with the approved budget for 2017/18 financial year. The decrease was mainly influenced by the decrease in employee related cost, depreciation and general expenses.

The following expenditure types had increased when compared to the final adjustment budget:

Councillors Allowances - (R527 thousand) or 5%;

Bulk Purchases – (R1,2 million) or 5%; and

Contracted Services – (R17,3 million) or 16,2%.

The following expenditure types had decreased when compared to the final adjustment budget:

Employee related costs – (R16,8 million) or 5%;

Depreciation and Asset Impairment – (R40 million) or 2 %;

Transfers and Grants – (R3,2 million) or 1,8%; and

Other Expenditure – (R29,9 million) or 12%.

All the increases made in expenditure were within the CPI of 5.3 to 5.5 percent and the decreases were mainly influenced by current year and previous years performance

which was also affected by available funds and cost containment measures that have been put in place.

The final budget has considered an increase in CHDA and CDC budgets and has made a provision for Dry Land Crop Production that was not catered for in the draft budget. The increase in CDC and additional Production budget have therefore increased the budget for equitable share programmes. Roads section as an agency function has been budgeted for as a separate programme / project in the operating budget in terms of the existing relationship between Council and the provincial department of Transport.

Table 4: EPWP Funding 2018/19 MTREF

Chris Hani District Municipality EPWP Funding Final Budget 2018/19 MTREF				
Description	Adjusted Budget	Budget Year 2018/19	Decrease	% Decrease
Municipal manager	-	500	(500)	-100%
Corporate Services	3 280	1 900	1 380	42%
Integrated Planning & Development	3 620	2 500	1 120	31%
Health and Community Services	3 137	1 258	1 879	60%
Total	10 037	6 158	3 879	39%

The table above reflects 39% decrease in EPWP funding for 2018/19 budget year when compared with 2017/18 budget year. The decrease was influenced by the national decrease in all grants as a result of a decrease in the national fiscus. There is no reflection of allocations in the two outer years as this grants is not guaranteed in the outer years.

Table 5: Equitable Share Funded Programmes 2018/19 MTREF

Chris Hani District Municipality Equitable share Funding Final Budget 2018/19 MTREF				
Description	Adjusted Budget	Budget Year 2018/19	Decrease	% Decrease
Municipal manager	10 313	9 513	800	8%
Corporate Services	13 870	13 320	550	4%
Integrated Planning & Development	46 867	46 422	445	1%
Health and Community Services	14 261	13 602	659	5%
Budget and Treasury Office	2 100	2 100	-	0%
Technical Services	2 200	2 200	-	0%
Total	89 611	87 157	2 454	-3%

The above table reflects a decrease in equitable share funded programmes by 3%, when comparing the proposed budget with the final adjustment budget. The decrease

was influenced by the decrease in grants and revenue collection of the municipality that has not improved, thus justifying a need to decrease on some expenditure items.

Table 6: Final Capital Revenue 2018/2019 MTREF: Table SA18 R471.9 million

Chris Hani District Municipality Capital Revenue 2018/19 MTREF Final Budget					
Description	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
Capital Transfers and Grants					
National Government:	504 254	524 122	471 919	318 682	308 820
Municipal Infrastructure Grant (MIG)	220 754	220 754	254 919	192 682	203 853
Regional Bulk Infrastructure (RBIG)	208 500	208 500	172 000	25 000	26
Water Services Infrastructure Grant (WSIG)	75 000	94 868	45 000	101 000	104 940
Municipal Water Infrastructure Grant (MWIG)	-	-	-	-	-
Provincial Government:	10 000	16 138	-	-	-
Provincial Treasury	10 000	10 000	-	-	-
DHS Unblocking	-	6 138	-	-	-
Total Capital Transfers and Grants	514 254	540 260	471 919	318 682	308 820

MIG, RBIG, WSIG are conditional grants allocated per the DORA to specified approved projects. Provincial treasury/COGTA and DHS unblocking are also conditional grants received from the provincial state departments for specified projects.

The 12,6% overall decreases and increases in capital grant funding is a result of decreases in the following grants:

MIG increased by (R34,2 million) or 15,5%;

RBIG decreased by (R36,5 million) or 17,5%; and

WSIG decreased by (R30 million) or 40%, and R49 million when taking into account the rollover.

There was no allocation from Provincial Treasury/COGTA and DHS unblocking as these were intervention grants that were meant for a specific period and were not bound to continue. The decreases in infrastructure grants will however have a negative impact on running projects.

CAPITAL PROJECTS / PROGRAMMES: Table SA 18 in R 551.9 million,

The capital programmes funded from capital grants were budgeted to the extent of funds allocated.

Table 7: Final Budget 2018/2019 MTREF - Capital Expenditure: R551,9 million

Chris Hani District Municipality Capital Expenditure by vote Final Budget 2018/19 MTREF					
Description	Current Year 2017/18		2018/19 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2018/19	Budget Year 2019/20	Budget Year 2020/21
R thousand					
Capital expenditure -vote					
Multi-year expenditure to be appropriated					
Vote 7 - Technical Services	514 254	540 260	471 919	318 682	308 820
Capital multi-year expenditure sub-total	514 254	540 260	471 919	318 682	308 820
Single-year expenditure to be appropriated					
Vote 1 - Council					
Vote 2 - Municipal manager					
Vote 3 - Budget & Treasury	42 000	42 000	25 000	26 500	28 090
Vote 4 - Community Services					
Vote 5 - Corporate Services	55 000	37 107	55 000	90 000	-
Vote 6 - Planning & Development					
Capital single-year expenditure sub-total	97 000	79 107	80 000	116 500	28 090
Total Capital expenditure-vote	611 254	619 367	551 919	435 182	336 910

The table above reflects the total capital expenditure for 2018/19 MTREF, which represent a decline in capital expenditure influenced by the decline in conditional grants for infrastructure projects. The internal reserves are however reflecting an increase in 2018/19 budget year and 2019/20, then there is a decline in the last outer year as it is anticipated that the municipality would have completed the two first phases of CHDM Village.

Proposed tariffs for 2018/19 Budget Year:

Water Related Tariffs:

Domestic/Household Consumptive Tariffs:

TARIFFS	CHDM Current Tariff 2017/2018	CPIX Increase (6 %)	CHDM Proposed Tariff after CPIX (6 %) Increase for 2018/2019	14% VAT on proposed tariff	Tarif less 14% VAT	New 15% VAT	Proposed new tariff
WATER							
Water Consumption (Domestic use)							
0-6	9.19	0.55	9.74	1.20	8.55	1.28	9.83
7-15	10.63	0.64	11.27	1.38	9.88	1.48	11.37
16-30	13.03	0.78	13.81	1.70	12.12	1.82	13.93
31-45	16.22	0.97	17.19	2.11	15.08	2.26	17.34
46-60	17.72	1.06	18.78	2.31	16.48	2.47	18.95
61 or more	20.00	1.20	21.20	2.60	18.60	2.79	21.39
Water Consumption (Institutional, etc)							
0-200kls per month	10.86	0.65	11.51	1.41	10.10	1.51	11.61
201-2500 kl per month	12.01	0.72	12.73	1.56	11.17	1.68	12.84
2501 or more kl per month	13.15	0.79	13.94	1.71	12.23	1.83	14.06
Water Consumption (Business & other use)							
0 – 5 000 kl / month	13.94	0.84	14.78	1.81	12.96	1.94	14.91
5001 -25000 kl / month	14.17	0.85	15.02	1.84	13.18	1.98	15.15
25 001- 50000 kl/month	14.40	0.86	15.26	1.87	13.39	2.01	15.40
50 001- or more kl / month	14.40	0.86	15.26	1.87	13.39	2.01	15.40

Basic Water Tariffs:

Water Basic (Availability)							
Domestic	96.55	5.79	102.34	12.57	89.77	13.47	103.24
Institutional	255.70	15.34	271.04	33.29	237.76	35.66	273.42
Business	501.85	30.11	531.96	65.33	466.63	69.99	536.63

Sanitation Tariffs:

TARIFFS	CHDM Current Tariff 2017/2018	CPIX Increase (6 %)	CHDM Proposed Tariff after CPIX (6 %) Increase for 2018/2019	14% VAT on proposed tariff	Tarif less 14% VAT	New 15% VAT	Proposed new tariff
SANITATION							
<i>Basic Charge per Month (Flat Rate)</i>							
Domestic / Households	R 63.62	R 3.82	R 67.44	8.28	59.16	8.87	68.03
Business	R 104.87	R 6.29	R 111.16	13.65	97.51	14.63	112.14
Government	R 105.86	R 6.35	R 112.21	13.78	98.43	14.76	113.20
Churches, Hotels, Schools & Hospitals	R 99.87	R 5.99	R 105.86	13.00	92.86	13.93	106.79
TARIFFS	CHDM Current Tariff 2017/2018	CPIX Increase (6 %)	CHDM Proposed Tariff after CPIX (6 %) Increase for 2018/2019				
SANITATION							
<i>Honey Sucker / Sewerage Removal</i>							
Labour - Charged per person	47.64	R 2.86	50.50	6.20	44.30	6.64	50.94
Travel Expenses - Charged per kilometer	8.49	R 0.51	9.00	1.11	7.89	1.18	9.08
Charge per Load	R 456.00	R 27.36	483.36	59.36	424.00	63.60	487.60

Other parties consulted:

All departments within Chris Hani District Municipality.

CHDM Management

LM's IDP/Strategic Managers

COGTA-EC

Eastern Cape Department of Treasury and National Treasury

Mayoral Committee

Financial implications:

Increase in uncollectable consumer service debtors, thus increasing the provision for debt impairment

Decrease in grant funding, thus decreasing projects funded from conditional grants and internal programmes;

The budget deficit that is limited to non-cash items and assets that are funded from municipal reserves.

Other Implications:

The funding and balancing of the budget to ensure decrease in the budgeted deficit.

Recommendation(s):

It is recommended that:

- 1) Council **note** and **adopt** the CHDM 2018-2019 Final IDP Review
- 2) Council **approve** the final budget for 2018/2019 MTREF.
- 3) Council **consider** the final operating and capital budget for 2018/2019 to 2020/2021 MTREF for **approval** as reflected in table A1;
- 4) The operating expenditure of R1,206,3 billion and operating revenue of R937,5 million be **approved** by Council as reflected in Table A4;

- 5) The capital expenditure of R551,9 million and capital revenue of R471,9 million be **approved** by Council as reflected in Table A5;
- 6) Council **approve** the municipality's annual budget appropriated by municipal votes for single and multi-year as reflected in Table A2, A3 and A5A;
- 7) Council **approve** the 6% tariff increase for water, sanitation and municipal health tariffs; and
- 8) Council **approve** the **reviewed** the following budget related policies:
 - a. Indigent Policy with amendments;
 - b. Debt and Credit Control Policy with amendments;
 - c. Tariff Policy with amendments;
 - d. Cash and Bank Policy with amendments;
 - e. Asset Management Policy with amendments;
 - f. Inventory Management Policy with no amendments;
 - g. Budget Policy with amendments;
 - h. Supply Chain Management Policy with amendments; and
 - i. Infrastructure Supply Chain Management Policy with amendments.