CHAPTER 06: FINANCIAL PLAN

INTRODUCTION

National Treasury prescribes the guidelines of the MTREF period through a sustained and viable process as taken from the priorities of the countries National Development Plan. This is confined to our Growth and Development Strategy (as revised) and Council's 5-Year IDP. In addition the Gauteng Province has pronounced on plans to Transform, Modernise and Re-Industrialise (TMR) the beauty and resiliency of the province. This plans are confined in a ten pillar vision by the Premier which states the following:

- *Radical economic transformation;*
- *Decisive spatial transformation;*
- *Accelerating social transformation;*
- *Transformation of the state and governance;*
- *Modernisation of the economy;*
- *Modernisation of the public service and the state;*
- *Modernisation of human settlements and urban development;*
- *Modernisation of the public transport and other infrastructure;*
- *Re-industrialising Gauteng as the country's economic hub; and*
- *Taking the lead in Africa's new industrial revolution.*

However, as economic uncertainty continues throughout the country, it is imperative that we take a conservative approach to the budget in order to give financial stability and start building financial reserves for the municipality. Controlling municipal spending by spending less than the municipality takes in, demonstrates a commitment to common-sense budgeting and economic health that Sedibeng District Municipality deserve. In addition the District has been able to sustain our cost containment or austerity measuresprogram during our budgeting process which is still ongoing.

The reporting requirements of this draft budget are disclosed in terms of the MFMA circulars 48, 51, 54, 55, 58, 66,67, 70, 74,78, 79, 85, 86and 91as well as the Municipal Budget and Reporting Regulations (MBRR GN 393 of 2009).

The municipality has had to adopt a very conservative approach to budgeting for 2018/2019 MTREF as the municipality's revenue base (primarily composed of grants & subsidies) has begun to shrink, while operational expenditure continues to grow at a rate of CPI with salaries & employee-related costs growing at above CPI (due to the collective bargaining agreement).

The implementation of the Municipal Standard Chart of Accounts (MSCOA), has also assisted the municipality in moving away from cost line budgeting towards project-based budgeting.

1. <u>BUDGET DISCUSSION</u>

The Draft Annual Budget is strategically aligned to the IDP 2018/2019and provides the financial framework to the strategic objectives and targets. Our budget conforms to the key objectives and strategies of the District Municipality. In this process the Budget Steering Committee met with the MMCs, EDs and HODs (or their duly delegated representatives) of all Clusters. As a result of the limited resources as determined by National Treasury by means of the equitable share allocation the budget had to be drawn up within those tight constraints based on the decline of this major revenue source over the last seven years.

During the 2018/2019 budget process, Clusters were tasked to provide their budgetary requests as per their needs analysis, using the MSCOA project-based approach, and in alignment to IDP key performance areas. Incremental based budgeting was only used for expenses which have existing obligations, such as employee-related costs.

The budget was compiled based on a trend analysis taking into consideration the anticipated revenue realisable in the 2018/19 financial year. Contractual obligations such as salaries and contracted services were first determined whereby general expenses were reduced in an effort to obtain a balanced budget.Minimal allocations have beenmade for capital purposes due to these restricted revenue streams and lack of internal reserves.

1.1. FINANCING OF OPERATING ACTIVITIES

The budget on financial performance (previously income and expenditure statement) has been drawn up on the GRAP (Generally Recognised Accounting Practices) principles of accounting where provision for depreciation has been taken into account.

The following should be noted:

1.1.1. Indicative Macroeconomic Forecasts

Municipalities are expected to levy their tariffs taking into account their local economic conditions, affordability levels and remain broadly in line with macro-economic policy. Municipalities must also take account the policy and recent developments in government sectors relevant to their local communities. Tariff increases must be thoroughly substantiated in the municipal budget documentation for consultation with the community.

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Source: MFMA Circular 89

NB: The reclining growth of the equitable share from National Treasury coupled with the increase towards personnel costs over the last 7 years has had a negative impact on the Municipality meeting its short-term obligations towards the operations and programmes of the District.

National Treasury has further introduced a new funding model for district municipalities which has further reduced the municipality's equitable share allocation for 2018/2019. Effectively, there has only been a R4,112,000or 1,6% growth from 2017/2018 to 2018/2019.

1.1.2. Transfers to Municipalities

Section 214 of the Constitution provides for national government to transfer resources to municipalities in terms of the Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions. Transfers to municipalities from national government are supplemented with transfers from provincial government. The two spheres of government must gazette these allocations as part of the budget implementation process. The DoRA and Section 37 of the MFMA further requires transfers between district and local municipalities to be made transparent and reflected in the budgets of both transferring and receiving municipalities.

National Allocation as per DORA Bill, *Government Gazette No. 41432 of 9 February 2018*	**2018/2019 Allocation R'000**	**2019/2020 Forwar Estimate R'000**	**2020/2021 Forward Estimate R'000**
EQUITABLE SHARE	258 891	268 120	276 650
Local Government Financial Management Grant	1,250	1,000	1,000
Municipal Systems Improvement Grant	0	0	0
Extended Public Works Program Integrated Grant	1,000	0	0
Rural Roads Asset Management Systems Grant	2,436	2,580	2,729
TOTAL ALLOCATION GAZETTED	263,577	271,700	280,379

1.1.3. Key Legal Provisions to be Strictly Enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2018/19 financial year in accordance with the Municipal Budget and Reporting ***AND*** Municipal Standard Chart of Accounts Regulations. In this regard, municipalities must comply with both:

All municipalities must do a funding compliance assessment of their 2018/19 budgets in accordance with the guidance given in MFMA Circular 80 and the Municipal Standard Chart of Accounts Regulations, GN 312 of 2014, before tabling their budget, and where necessary revise their budget submissions to comply with a properly funded budget.

- The formats set out in Schedules A, B and C of the regulations; and
- The relevant attachments to each of the Schedules (the Excel Formats).

The deadline for tablinga draft budget before Council is 31 March 2018 as per Section (16)2 of the MFMA.

1.1.4. Operating Income

The service charges and rental income have been increased by5.3%in accordance with the guidelines as prescribed by National Treasury.

DESCRIPTION **A. OPERATING REVENUE BY SOURCE**	Budget by Source R	BUDGET 18/19 R
Service Charges Fresh Produce Market	 7,145,863	7,145,863.
Maintenance & Cleaning Theatre	587,551 132,991	720,542
Interest Earned - External Investments Finance Cluster - Financial Management	 -1,680,000.0	1,680,000
Licenses And Permits License Services Centre - Support License Services Centre - Vereeniging License Services Centre - Vanderbijlpark License Services Centre - Meyerton License Services Centre - Heidelberg	 0 14,468,852 29,326,102 19,968,401 8,268,726	72,032,081
Government Grants And Subsidies Finance Cluster - Financial Management (Equitable Share, FMG, EPWP, Transformation) TIE – Infrastructure rural roads Community Services Cluster - HIV & AIDS	 261,141,000 2,436,000 8,288,000	271,865,000
Revenue From Agency Services Corporate Services Cluster - IT Emfuleni	 11,166,631	11,166,631
Other Revenue (Minor Tariffs) Finance Cluster - Financial Management& Tender IncomHealth Certificates Other Agri Reaserch and Technology Corporate Services Cluster - Human Resources (SDL) Vereeniging Airport (Airfield Fuel and Usage Fees)	 319,579 1 500 0000 3,000,000 420,614 3,600,000.	8,840,193
Total Operating Revenue by Source		**373,450,310**

DESCRIPTION	%	BUDGET 17/18 R
B. OPERATING EXPENDITURE BY CATEGORY		
Employee/Councilor Related Cost	69.05%	266,694,386
Bad Or Doubtful Debts		0
Depreciation	3.13%	12,099,180
Repair And Maintenance	1.45%	5,588,528
Contracted Services	9.75%	37,659,773
Grants And Subsidies		0
General Expenses	16.62%	64,169,170
Provisions		0
Total Operating Expenditure		**386,211,037**
Operating Surplus / (Deficit) A - B		**-12,660,727**

1.1.5. Employee and Councillor Related Costs (69.05%)

Salaries are projected at R266millionfor the 2018/2019 financial year. There is nocollectivelabour salary agreement (SALGA & SALGBC) currently in place and therefore a 6% increase projection is used for the calculation of salaries.

Council must note that although employee related costs have grown by 6%, the provisional equitable share allocation has only grown by 1,6% leaving Council to fund a deficit of 4.4%. This deficit has had to be filled by reducing other operational expenditure, potentially reducing Council's ability to render services but still able to fulfil our coordinating role based on our current human capital on powers and functions for the District.

Attention is drawn to the current trend of the steep growth in employee-related expenditure for the total organisation.

1.1.6. Depreciation (3.13%)

In accordance with the GRAP principles and standards and the prescription of the approved asset management policy, depreciation on all assets needs to be provided for within the statement of financial performance. This will allow Council to charge consumers during the useful life of the asset on a proportionate basis and not at the date of acquiring the asset. The amount provided for the 2018/2019financial year amounts to R12million, which is meant to be cash generated in order toserve as capital replacement reserves to maintain the assets for the outer years of 2018/19 and 2019/20.

1.1.7. Repair and maintenance (1.45%)

Repairs and maintenance will be for current buildings occupied by Sedibeng District Council as well as the movable assets on the asset register. An amount of R7.5millionhas been provided, which equates to 1.45% of the total budget of Council. This is a decreaseon the 2017/2018budget which amounts of 6,003million.

Repairs and maintenance of Council's assets are allocated as follows:-

REPAIR AND MAINTENANCE	R'000
Maint - buildings fences & sites	2,129
Maint - plant equipment & furniture	3.460

1.1.8. Contracted services (9.75%)

Contracted services have been determined by the need for services to be rendered by service providers and taking the current obligations into account.

The top contractual services are stated below:-

CONTRACTED SERVICES		R'000
Security Services		11,701
Municipal Health Services		19,928
Internal Audit		1,580
Rental of facilities		5,484

1.1.9. General Expenses (16.62%)

The general expenditure budget has been drawn up in order to assist the employees of Council to provide them with the necessary tools and consumables to achieve the deliverables as set in the NDP, TMR, GDS and IDP, while remaining within the constraints of the municipality's limited revenue sources. The budget has also been drawn up taking into consideration that the main purpose of the District is to plan and co-ordinate, whereas the service delivery execution process will be performed at a Local Municipality level. Note should be taken that strict austerity measures has been applied on general expenses during the budget process and only essential items will be approved during the procurement processes.

3.1.11 Implementation of MSCOA

The SCOA (Standard Chart of Accounts) must also be implemented in full before the and therefor an amount of R1.5 million was provided for in the capital budget for final implementation of SOLAR. The draft 2018/2019 MTREF has been drafted in MSCOA format, and the municipality is awaiting feedback from National Treasury on the technical soundness of the MTREF.

3.2 INVESTMENT INTO CAPITAL

The total Capital investment for 2018/2019 will be R3,6million whereby the full amount will be funded from our internal provisions. Clusters are encouraged to source grant funding for futurecapital projects. Donor and Grant Funding must also be considered for planned projects as outlined in the IDP to ensure that it is properly funded before the final 2018/19 budget is approved by Council.

3.3 BUDGET STEERING COMMITTEE

In terms of the Municipal Budget and Reporting Regulations no. 4, the Executive Mayor must establish a *budget steering committee* (Budget Panel) to provide technical assistance to the Executive Mayor in discharging her responsibilities as per section 53 MFMA. TheMMC: Finance together with the Finance Cluster consulted extensively internally during the drafting of this annual budget and as a result, present to the Executive Mayor with a budget that is aligned to the strategic objectives of Council's IDP as well as conformed to MFMA requirements. The Committee must take note that as tabled, the 2018/2019 MTREF is not yet balanced, and the municipality will strive to balance expenditure to revenue during the public participation process, prior to tabling the final budget to Council for approval.

The budget preparation process, and arising from discussions at the Budget Panel,highlighted several operational issues for future evaluation and assessment. These included:-

- Further inter-governmental engagements on the future long-term funding of the Sharpeville Heritage Precinct now that has been recognised as a National heritage site, as well as on the Boipatong Memorial;
- Further inter-governmental discussion over the provision of funding for the Disaster Management function with specific reference to Schedule 4 – Part A of the Constitution (108/1996);
- The short to medium term revenue model for the funding of the Regional Tourism Organisation (RTO);
    - The medium term outlook for the NDPG unit in SPED now that the funding has been relocated to the local municipalities;

2. ALIGNMENT WITH COUNCIL STRATEGIES

This report is aligned to the Reviewed IDP for 2017/2021, the district's GDS-3, Municipal Budget and Reporting regulations GN 393 of 2009, Municipal Standard Chart of Accounts Regulations, GN 312 of 2014 as well as circulars 48, 51, 54, 55, 58, 66, 67, 70, 74, 78, 79, 85, 86 and 91 of National Treasury.

3. FINANCIAL IMPLICATIONS

The total estimated operating revenue of 373,450,310;	R
The total estimated operating expenditure of 386,211,037;	R
Resulting in an **operational deficit** of and	R 12,660,727
The total estimated Capital Budget of	R 3,600,000
Resulting in a total deficit of	**R 16,660,727**

Section 18 of the MFMA act needs to be adhered to when looking at the budget funding requirements. This section indicates the following:

"18.*(1) An annual budget may only be funded from—*

(a) realistically anticipated revenues to be collected;

(b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and

(c) borrowed funds, but only for the capital budget referred to in section 17(2).

(2) Revenue projections in the budget must be realistic, taking into account—

(a) *projected revenue for the current year based on collection levels to date; and*

(b) *actual revenue collected in previous financial years*."

The Committee must take note that as tabled, the 2018/2019 MTREF is not yet balanced, and the municipality will strive to balance expenditure to revenue during the public participation process, prior to tabling the final budget to Council for approval.

The following Annexures are attached:

Annexure "A" Budget Summary & A Schedule

Annexure "B"Budgeted Financial Performance by Classification (NT)

Annexure "C"Tariff of Charges