

Draft Annual Budget of the Municipality

Prepared in terms of the Local Government: Municipal Finance Management Act (56/2003):
Municipal Budget and Reporting Regulations, Government Gazette 32141, 17 April 2009.



Msinga Municipality Draft Annual Budget for the period 1 July 2019 to 30 June 2020

2019/2020 DRAFT BUDGET ITEM

BUDGET AND TREASURY DEPARTMENT

ROUTING: COUNCIL MEETING, MARCH 2019

1. PURPOSE

To submit the draft budget for 2019/2020 financial year for consideration before the Council Meeting.

2. BACKGROUND

Section 16 of the MFMA states that:

16 (1) The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.

(2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

(3) Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

3. RECOMMENDATION

RESOLVED:

1. That the annual budget of Msinga Municipality for the financial year 2019/2020; and indicative for the two projected years 2020/21 and 2021/22, as set-out in the schedules contained in Section 4, be approved
2. That the draft annual budget be approved by council for adoption

FOR CONSIDERATION



MR T.M. NENE

27 March 2019

CHIEF FINANCIAL OFFICER

Recommendation supported/ ~~Not supported~~



MR S.L. SOKHELA

27 March 2019

MUNICIPAL MANAGER

Mayor's foreword

Somlomo womkhandlu, Baba Kunene, Sekela Meya Mnumzane Masimula, Ngiyakhuleka kumakhosi asendlunkulu, izinduna kanye nemikhandlu yonke akumasipala wakithi waseMsinga, Somlomo wamasipala wesifunda saseMzinyathi ohloniphekile, uDokotela uSikhakhane. Members of the executive, ozihlalo bama portfolio committees wonke, Municipal Manager and municipal official Kanye nezivakashi zonke ezikhona namuhla ngiyanibingelela ngokukhulu ukuzithoba.

We are gathered here as Msinga Municipal Council for the first time after the sudden passing of the honourable council member, a friend, brother and a colleague, Cllr Mshibe. It is very sad indeed however, siyathemba ukuthi umphefumulo wakhe ulele ngokuthula.

Ngiphakamisa ukubonga okukhulu kumalungu wonke ecouncil Kanye nakubasebenzi ngokubambisana okubekhona selokhu kwabikwa ukuthi umfowethu akaphathekile kahle. Siyathemba futhi ukuthi unkulunkulu uzosipha Amandla siqhubeke nomsenzi wokusebenzela isizwe sakithi nomphathi wonke waseMsinga. Engathi enikwenze emndenini waKwaMshibe ningaqhubeke nikwenze zakwabanye uma bebhekene nobunzima empilweni.

Honourable Speaker, I am here to present the draft budget for the year 2019-2020. The budget for the financial year 2019/20 reflects the strategy and priorities of the Msinga Municipality within those of the Province of Kwa-Zulu Natal as well as the priorities and strategies of the National Development Plan and the strategic thrusts as enunciated by the former Minister Pravin Gordhan in his position paper on local government summarised in the slogan "Back to Basics". Changes in policy and direction cannot simply happen overnight but it is going to take some time to put the municipal finances in the favourable position.

The draft budget for Msinga Municipality amounts to some R256 Million in 2019/20, being R54 million for capital and R202 million for operating. The adjusted budget approved for 2018/19 is R235 million being R174 million and R61 million for operating expenditure and capital expenditure respectively and this new budget represents an increase of 9% from the 2018/19 adjusted budget.

Sibhekene nesikhathi esinzima lapho izidingo zomphathi zingaphezulu kwesabelo sezimali esivela kuhulumeni weSifundazwe Kanye nokazwelonke. Isikhathi lapho singakwazi ukukwenza konke esikufisela isizwe sonke sakithi eMsinga. Njengamalungu omkhandlu sinomsebenzi omkhulu okumele siwenze okuhlanganisa ukuthi siqikelele ukuthi ngalokhu okuncane esinakho sense okukhulu. Kepha into eyosisiza lapho ukuthi sibambisane ekusebenzeleni umphakathi njengalokhu sihlale senza zikhathi zonke.

Somlomo ohloniphekile, udaba lukagesi luyasikhinyabeza kakhulu luphinde lubutisele emumva amabhizinisi kuzwelonke. Kuphinde kube izinga lokunyuka kukagesi okuzoqala ngoJuly 2019 ezinye zezinto ezikhinyabeza umnoti ngoba uhulumeni ulindeleke ukubaazitakule lezinkampani ngakho lokhu okuncane okufanele ukuya kubantu bakithi.

The South African economy and inflation targets

The main risks to the economic outlook are continued policy uncertainty and deterioration in the finances of state-owned entities. These factors, alongside continued high unemployment and slow growth will continue to exert pressure on municipal revenue generation and collection levels hence a conservative approach is advised for municipal revenue projections.

Municipalities affected by the drought should also consider its impact on revenue generation. In this context, municipalities will have to improve their efforts to limit non-priority spending and to implement stringent cost-containment measures.

The following macro-economic forecasts must be considered when preparing the 2019/20 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections 2018 -2021

Fiscal Year	2018/19 Estimates	2020/21		
		2019/20	Forecast	2021/22
Consumer Price Inflation (CPI)	4.7%	5.2%	5.4%	5.4%
Real GDP Growth	0.7%	1.5%	1.7%	2.1%

Source: 2019 Budget Review.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

Key focus areas for the 2019/20 municipal budget process

Somlomo ohloniphekile noMkhandlu wonke, izibalo zikazwelonke ziveza ukuthi ohulumeni basekhaya banikwa isabelomali esinacane kakhulu ngoba kulindeleke ukuthi bazenzele enye imali. Lokho kusikhanyisela ngokusobala ukuthi kuningi okusamele sikwenze ukuze unkandlu wakithi ukwazi ukuzenzela imali ungathembeli kwisibonelelo sikahulumeni kuphela.

These revenue raising powers must be exercised more than ever before in the current dispensation. Local government raises about 70 per cent of its own revenue, but would be able to raise more if municipalities improved municipal revenue policies, billing and collection practices. In 2017/18, almost half of all municipalities collected less than 80 per cent of their billed revenue.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore, municipalities are required to **justify all increases in excess of the projected inflation target for 2019/20** in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. It is even worse for our municipality because, unemployment is increasing daily due to the fact that there are no new employment opportunities created in the area.

KZN244 Msinga - Table A1 Budget Summary

Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Financial Performance										
Property rates	-	16 247	13 085	11 000	17 235	17 235	-	12 000	12 720	13 483
Service charges	78	325	333	(500)	500	500	-	420	530	562
Investment revenue	6 865	2 948	4 007	2 700	2 700	2 700	-	2 700	1 590	1 600
Transfers recognised - operational	100 822	136 434	140 907	151 867	152 928	152 928	-	190 648	178 136	188 824
Other own revenue	615	840	427	(1 641)	1 319	1 319	-	1 260	487	517
Total Revenue (excluding capital transfers and contributions)	108 380	158 795	158 759	163 426	174 682	174 682	-	207 028	193 463	204 986
Employee costs	-	32 958	41 062	56 832	61 381	61 381	-	61 851	66 799	72 142
Remuneration of councillors	9 752	9 973	11 219	9 481	9 381	9 381	-	11 200	11 872	12 584
Depreciation & asset impairment	-	18 891	21 524	2 751	22 014	22 014	-	23 000	25 201	26 713
Finance charges	393	548	560	-	500	500	-	540	530	505
Materials and bulk purchases	-	-	-	11 073	11 701	11 701	-	10 500	10 600	10 650
Transfers and grants	-	12 156	3 001	-	-	-	-	-	-	-
Other expenditure	1 000	114 703	112 861	105 494	121 849	121 849	-	95 340	56 948	54 029
Total Expenditure	11 145	189 227	190 226	185 630	226 825	226 825	-	202 431	171 950	176 624
Surplus/(Deficit)	97 235	(30 432)	(31 467)	(22 204)	(52 143)	(52 143)	-	4 597	21 513	28 361
Transfers and subsidies - capital (monetary allocations)	-	39 300	38 032	54 415	57 415	57 415	-	49 422	52 387	55 531
Contributions recognised - capital & contributed assets	48 128	-	-	41 800	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	145 363	8 868	6 565	74 011	5 272	5 272	-	54 019	73 900	83 892
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	145 363	8 868	6 565	74 011	5 272	5 272	-	54 019	73 900	83 892
Capital expenditure & funds sources										
Capital expenditure	45 818	90 857	39 955	44 581	16 646	61 228	-	54 019	6 463	6 851
Transfers recognised - capital	45 818	90 857	39 955	36 716	9 333	46 048	-	49 422	39 379	42 194
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	-	3 400	11 780	15 180	-	4 597	-	-
Total sources of capital funds	45 818	90 857	39 955	40 116	21 113	61 228	-	54 019	39 379	42 194

There have been serious concerns in regard to the lack of long term planning necessary for Msinga over the next 20 years. Previous plans were essentially short term but lacked the depth necessary to move Msinga forward. A decision has been taken to turnaround the financial and budget management in the municipality. This will ensure the MTREF remains practical and therefore economically and financially sustainable rather than the often theoretical and usually meaningless planning followed by public sector bodies.

Despite the on-going economic concerns, Msinga municipality continues to grow slowly. However the demands of all our residents also grow faster. It is very clear that more and more demands for services are coming from areas where services and service standards were historically poorer in comparison to more advantaged and well established areas in the province.

MUNICIPAL GRANTS FOR 2019/2020

Details	INCOME		
	2019/20 DRAFT	2020/2021 DRAFT	2021/2022 DRAFT
	R	R	R
Equitable Share	163 783 000,00	175 176 000,00	187 748 000,00
Municipal Infrastructure Grant (MIG)	49 422 000,00	39 379 000,00	42 194 000,00
Financial Management Grant (FMG)	1 900 000,00	1 900 000,00	1 900 000,00
Library Grant	1 119 000,00	1 119 000,00	1 119 000,00
Intergrated National Electrification Programme (INEP)	20 000 000,00	20 850 000,00	22 000 000,00
EPWP	3 905 000,00	4 139 300,00	4 387 658,00
TOTALS	240 129 000,00	242 563 300,00	259 348 658,00

Msinga is currently experiencing financial distress with negative ratios. The exception has been that we were one of the most heavily geared local authority's in South Africa let alone the Kwa-Zulu Natal. We did this to maximise service delivery. The current situation needs a lot of cooperation between both administration and council.

Residents and politicians often question as to whether our services are wrong, or that we spend moneys on the wrong things. The growing reality is that under the current national funding regime our demands are probably too many and our resources are limited. However blaming the state for the financial ails of local government is easy. This council must always continually strive to critically examine and eliminate wastage at all times.

National Treasury has increased our Equitable Share in according to DoRA and we welcome its allocation. This Council also showed remarkable foresight by deciding to cut down expenditure through cost containment measures in the 2018/19 financial year. We need to shift our internal expenditure patterns to ensure that national and provincial capital grant funding is aimed at low income and basic service delivery infrastructure and that borrowed moneys are avoided at all costs due to poor economic climate.

The Equitable Share has increased from R145 million in the current year to just under R164 million in the forthcoming financial year and rising to R175 million and R188 million over the outer years of the MTREF period.

Enye yezinkinga esibhekene nayo malungu ahloniphekile udaba lokwehliswa kwesibonelelo esivela kwaPublic Works, EPWP kulonyaka wezimali. Kunyaka ka 2019-2020 silindele imali engango R3.9 milliion encane kunemali engu R4.3 million esiwuthole ngo 2018-2020. Lesisimo siyasikhathaza kakhulu ngoba lokho kusho ukuthi umthwalo wesibonelelo se Equitable Share uya ngokubanzima unyaka nonyaka.

Capital Budget

Capital Expenditure - Functional											
Governance and administration	45 818	90 857	-	3 530	2 333	5 863	-	-	-	-	-
Executive and council	45 818	90 857	-	-	-	-	-	-	-	-	-
Finance and administration	-	-	-	3 530	2 333	5 863	-	-	-	-	-
Internal audit	-	-	-	-	-	-	-	-	-	-	-
Community and public safety	-	-	-	8 840	789	9 629	-	19 597	-	-	-
Community and social services	-	-	-	5 190	-	5 190	-	6 087	-	-	-
Sport and recreation	-	-	-	2 500	789	3 289	-	12 000	-	-	-
Public safety	-	-	-	1 150	-	1 150	-	1 500	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-	-	-
Economic and environmental services	-	-	39 955	31 711	5 494	37 205	-	27 639	39 379	42 194	
Planning and development	-	-	-	-	700	700	-	-	-	-	-
Road transport	-	-	39 955	31 711	4 794	36 505	-	26 539	39 379	42 194	
Environmental protection	-	-	-	-	-	-	-	1 100	-	-	-
Trading services	-	-	-	100	8 000	8 100	-	6 783	-	-	-
Energy sources	-	-	-	-	-	-	-	-	-	-	-
Water management	-	-	-	-	-	-	-	-	-	-	-
Waste water management	-	-	-	-	-	-	-	-	-	-	-
Waste management	-	-	-	100	8 000	8 100	-	6 783	-	-	-
Other	-	-	-	400	30	430	-	-	-	-	-
Total Capital Expenditure - Functional	3	45 818	90 857	39 955	44 581	16 646	61 228	-	54 019	39 379	42 194

The capital budget for 2019/20 will amount to R54 million of which R49 million is funded from National and Provincial grants and R4.5 million from internally generated funds. Council is continuing the process begun two year ago of rebuilding and upgrading municipal buildings and assets including sports fields, libraries and repairs on existing properties.

40% of the capital budget should be for renewal as opposed to new infrastructure. The forthcoming budget indicates that renewal expenditure will amount to 30% (R1.350 million) of total internally funded capital expenditure. This reinforces the fact that the infrastructure

demands being placed upon the municipality are reaching an unhealthy point. We spend simply to stand still and are not growing the municipality. This further reinforces the need to review and reduce expenditure on issues that are not our functions or are not basic services.

Full details for capital projects are attached as Annexure A

Assessment Rates

The proposed increase in the rate in the rand at this stage will be 5% for domestic properties and 5.5% for non-domestic properties.

Assessment Rate Rebates

The rebate currently applied to domestic owners remains the same. This is in line with National Government view that rebates should only apply in particular circumstances. It remains the intention to keep the domestic rebate in future budgets due to affordability levels.

Staff related costs

Msinga municipality spends R73 million a year just to cover staff costs and councillors' allowances. That is 37 percent of the total operational budget and which is above the 23% benchmark.

Direct expenditure versus Investment expenditure

Based on the above budget table, it clearly shows that the municipality has little investments with a lot of direct expenditure. Therefore, we have to be concerned as our assets are depleting at high rate on the other side. Should the current trend continue in the foreseeable future, the municipality will find it hard to cover its operating costs.

Conclusion

The 2019/20 budget for Msinga Municipality is not a pleasant budget. Msinga has maintained a high level of service delivery for a number of years mostly at its own cost and depleted the reserves over the years. I therefore request that we change the way we budget and manage funds.