

**STRICTLY CONFIDENTIAL**

**EXECUTIVE SUMMARY**

**SUBMISSION TO** : Council

**DIVISION REQUESTING THE SUBMISSION** : Finance

**TITLE OF THE SUBMISSION**

**MFMA Section 16(1)&(2) – Draft annual budget 2016/17**

**The Executive Mayor, Cllr L F Maloka will table the recommendation of the Mayoral Committee at the meeting.**

**1. SOLUTION REQUIRED**

<b>Strategy Endorsement</b>	
<b>Commercial Options</b>	
<b>Approval</b>	
<b>Information</b>	<b>X</b>

**2. PURPOSE**

To table the draft annual budget for the 2016/17 Multi Term Revenue and Expenditure Framework (MTREF).

**3. LEGISLATIVE BACKGROUND**

In terms of section 16 (1) and (2) of the MFMA, the council of municipality must for each financial year approve an annual budget for the municipality before the start of that financial year and 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.

**4. DISCUSSION**

**Overview of the Budget Process**

As required by section 21 (1) of the MFMA Council approved an IDP/ Budget Process Plan for the 2016/17 Financial Year in August 2014. The plan outlined schedule of key deadlines for the review of the IDP and adoption of the budget.

Various consultation processes were held with stakeholders in terms of the process plan, at public participation engagements. Furthermore, engagements were held to discuss the IDP priorities and budget formulation and implementation. Inter-alia, the municipality considered National Treasury's budget circulars, which provided guidance and assumptions.

**Budget assumptions**

National Treasury issued MFMA/Budget Circular 79 indicating information relevant in the compilation of the 2016/17 budget. The following CPI's were used to project expenditure for the 2016/17 financial year as well as the two subsequent years:

<b>Item</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/17</b>
Salaries	6.4%	7.6%	7.2%
General expenditure	5.4%	6.6%	6.2%

There has been an increment of 7.86% on electricity bulk purchases and 12.9% on water bulk purchases. The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2016/17 financial year. Tariff increments are discussed below.

The said circular advises municipalities to give attention to several areas of concern, among others:

- Revenue management
- Collection of outstanding debt
- Pricing services correctly
- Under-spending on repairs and maintenance
- Spending on non-priorities

Division of Revenue Act 2014 has been issued, advising on the allocation of revenue raised nationally to other government spheres. It is outlined in the said Act, that the Lesedi's allocation for equitable share is estimated at R92 million, indicated in Division of Revenue Act, 2014 (DoRA, 2014), while Municipal Infrastructure Grant is estimated at R25.2 million. The proposed allocation has a significant impact on the municipality's fiscal position and its commitment to meeting its set objectives.

**Cost containment measures**

In MFMA Circular No. 70 municipalities were strongly advised to take note of the Cabinet resolution of 23 October 2013 by which all national and provincial departments, constitutional institutions and all public entities are required to implement cost containment measures with effect of January 2014. **The cost containment measures must be implemented to eliminate waste, reprioritize spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and event costs as well as costs for accommodation.** Municipalities were subsequently strongly urged to take note of the cost containment measures as approved by Cabinet and align their budgeting policies to these guidelines to the maximum extent possible.

Although it's acknowledged that local government is autonomous in its strategy formulation (IDP) and setting of budget appropriations, local government remains a sphere of government and must therefore align itself to the maximum extent possible to that of national and provincial government. In this regard in terms of section 62(1) of the MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- That the resources of the municipality are used effectively, efficiently and economically;
- That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards; and
- That unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.

**It's within the spirit of cooperative governance and intergovernmental relations that all accounting officers take note of the cost containment measures and adopt similar measures as part of their municipal budgeting processes.** In this regard, previous MFMA Circulars provide guidance as to what is considered as non-priority spending.

### **Overview of alignment of the Budget with the IDP**

The strategic objectives as per the draft IDP would be addressed by the budget. A reconciliation of the IDP strategic objectives and the budget are being populated in the budget supporting tables SA4 (revenue), SA5 (operational expenditure) and SA6 (capital expenditure).

### **Measurable Performance Objectives and Indicators**

MFMA Circular 13, advises municipality to formulate the Service Delivery and Budget Implementation Plans (SDBIP), after adoption of the budget. The draft SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

## **5. FUNDING OF THE BUDGET**

In terms of section 18(1)(a)(b)(c) of the MFMA, an annual budget may only be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and borrowed funds, but only for the capital budget referred to in section 17(2).

### **Tariff increases**

It is well understandable that the municipality's ability to fund its operations is also based on its own generated revenue. MFMA circular 58 advises municipalities to apply cost-reflective tariffs. The following tariff increments are proposed to be effected in the 2016/17 financial year.

Assessment Rates	-	7%.
Electricity	-	7.64%
Water	-	12.9%
Sanitation	-	12.9%
Refuse	-	7%
Other income	-	7%

The electricity tariff application is in line with NERSA's guidelines and as a result should be approved by them. The number of households receiving services has been populated in Table A10.

A Tariff Policy and Property Rates Policy indicating the basis for the determination of tariffs will be presented and adopted for approval by the Section 80 finance committee and other finance policies.

The following are budget related policies presented and adopted for approval by the Section 80 finance committee:

- ❖ Budget policy
- ❖ Asset management policy
- ❖ Virement policy
- ❖ Loan policy
- ❖ Grants policy

❖ Funds reserves policy

**Revenue**

Proposed revenue for the 2016/17 financial year is as follows:

Description	Draft Budget 2016/17 R'000	Draft Budget 2017/18 R'000	Draft Budget 2018/19 R'000	Weighting
Property rates	98 170	105 041	112 393	13.5%
Service charges- electricity revenue	288 970	311 047	334 251	39.7%
Service charges – Water revenue	110 253	124 475	140 532	15.1%
Service charges – sanitation revenue	25 317	28 582	32 269	3.5%
Service Charges refuse revenue	30 193	32 306	34 567	4.1%
Rental of facilities and equipment	4 331	4 634	4 958	0.6%
Interest earned outstanding debtors	13 700	14 659	15 685	1.9%
Fines	46 516	49 772	52 758	6.4%
Transfers recognized	104 030	113 202	125 183	14.3%
Other revenue	6 584	7 045	7 468	0.9%
<b>Total</b>	<b>728 064</b>	<b>790 763</b>	<b>860 064</b>	<b>100%</b>

The largest revenue items are electricity at 39.7%, water sales at 15.1% and grant income at 14.3% respectively. The three items generate 69.1% of the revenue of the municipality.

**Expenditure**

Proposed expenditure for the financial year is as follows:

Description	Draft Budget 2016/17 R'000	Draft Budget 2017/18 R'000	Draft Budget 2018/19 R'000	Weighting
Employee costs	146 986	158 157	169 544	20.7%
Councilors remuneration	9 819	10 565	11 326	1.4%
Debt Impairment	119 789	121 455	131 072	16.9%
Depreciation	41 808	42 726	42 915	5.9%
Finance charges	10 368	10 031	9 711	1.5%
Bulk purchases: Electricity & Water	263 235	287 189	313 432	37%
Repairs and maintenance	26 847	28 726	30 737	3.8%
Contracted services	787	834	892	0.1%
Other expenditure	90 996	96 455	102 242	12.7%
<b>Total Expenditure</b>	<b>710 635</b>	<b>727 412</b>	<b>811 871</b>	<b>100%</b>

The largest expenditure items are bulk purchases at 37%, employee related costs at 20.7% and debt impairment at 16.9%. The three items make up 74.6% of the expenditure of the municipality.

**Capital Budget**

The Capital Budget amounts to R55,711,000 and is funded as follows:

<b>Description</b>	<b>Draft Budget 2016/17 R'000</b>	<b>Weighting</b>
National Government funded	R34,611	62%
<i>Lesedi L.M. (own funded)</i>	<i>R21,100</i>	<i>38%</i>
<b>TOTAL</b>	<b>R55,711</b>	<b>100%</b>

**5. LEGISLATIVE PROVISION**

Section 16 (1) and (2) of the MFMA.

**6. LC.CM-51/03/2016 RECOMMENDATION**

**6.1 THAT** Council notes the draft annual budget with operational revenue of R728,064,000, operational expenditure of R710,635,000 and Capital Expenditure of R55,711,000 for the 2016/17 financial year as contained in the following tables:

- a) Table A1 - Budget Summary;
- b) Table A2 - Budgeted Financial Performance (Revenue and expenditure by standard classification);
- c) Table A3 - Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
- d) Table A4 - Budgeted Financial Performance (Revenue and Expenditure);
- e) Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding;
- f) Table A6 - Budgeted Financial Position;
- g) Table A7- Budgeted Cash Flows;
- h) Table A8 - Cash backed reserves / accumulated surplus reconciliation; and
- i) Table A9 - Asset management; and
- j) Table A10 – Basic Service Delivery Measurement
- k) Capital projects

**6.2 THAT** council notes the reviewed budget related policies for 2016/2017 by finance section 80:

- a) Asset management policy
- b) Grant policy
- c) Virement policy
- d) Budget policy
- e) Loan policy
- f) Funding and reserves policy

**6.3 THAT** Council take note that the electricity tariffs are subject to approval by the electricity regulatory body (NERSA)

**ANNEXURE 51/2016** is the copy of Municipal Budget Circular 79 for the 2016/17 MTREF and NERSA guideline.