



Final Budget Medium Term Revenue and Expenditure Forecasts

MFMA Section 16 Report

2017/2018

Govan Mbeki Local Municipality

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1. OVERVIEW

1.1 Purpose

The purpose of the report is to table the final 2017/18 Medium-term Revenue and Expenditure Framework (MTREF) before Council in terms of Section 16(2) of the Local Government: Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003) prior to the community consultation process.

1.2 Background

Section 16(1) of the Municipal Finance Management Act (MFMA) stipulates that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Section 16(2) stipulates that in order 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.

Section 22 of the MFMA also stipulates that immediately after an annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents in terms of Section 17 and invite the local community to submit representations in connection with the budget; and submit the annual budget to the National Treasury and the relevant provincial treasury in printed and electronic formats.

Section 23(2) of the MFMA stipulates further that “after considering all budget submissions, the Council must give the Executive Mayor an opportunity –

- a) To respond to the submissions; and
- b) If necessary, to revise the budget and table amendments for consideration by the council”.

The tabling of the Final Budget and IDP will be followed by public consultation meetings with various stakeholders.

The 2017/18 MTREF will be considered for approval by Council in 31 May 2017 after taking into account the outcome of public consultation.

1.3 Long Term Financial Sustainability (LTFS)

The purpose of the long-term financial strategy is to ensure that the municipality is financially sustainable and able to respond to the Municipal Growth and Development Strategy, policies, priorities and infrastructure needs.

The objectives of the LTFS are:

- Prudent and sound medium-term to long-term financial framework.
- Resilience and able to absorb future shocks.
- Ensure sustainability of services.
- Investment in infrastructure.
- Adequate maintenance of infrastructure.
- Identify strategies that will ensure long-term financial sustainability:
- Operational efficiency initiatives,
- Sustainable and alternative revenue streams.
- Respond to the long-term strategy of the municipality.
- Improve the municipality’s credit rating.

Owing to the limited revenue base (municipal rates, user charges and grants/subsidies) the Municipality has to be proactive in the minimization of costs and the maximisation of efficiencies in order to respond to increased service delivery requirements.

The strategies and measures already implemented to ensure sustainability are:

- The Budget Policy;
- The Revenue Enhancement Strategy;
- Budget Principles and guidelines; and
- The Cash-Flow Management Intervention Initiatives.

Long-term Financial Model (LTFM)

The long-term Financial Model essentially informs the compilation of the MTREF with the emphasis on affordability and long-term sustainability. Although the LTFM is predominantly a financial planning tool to ensure long-term financial sustainability for the organisation, the financial planning process and LTFM run parallel to ensure the strategies and direction of the Municipality are at all times informed by best practice. The municipality is in a process of reviewing its plans and developing a long-term financial strategy.

1.4 2017/2018 MTREF Policy statements and guidelines

The IDP is the primary point of reference for preparation of the MTREF. Accordingly the budget addresses the following strategic objectives:

- Provide basic services, roads and storm water.
- Economic growth and development and job creation.
- Sustainable communities with clean, healthy and safe environments and integrated social services.
- Participatory democracy and Batho Pele.
- Promote sound governance.
- Ensure financial sustainability.
- Organisational development and transformation.

The 2017/18 MTREF reflects the reality of the current budgetary pressures. The following budget guidelines directly informed the compilation of the budget;

- Scale down on baseline allocation as indicated by National Government.
- Approve a balanced budget and create cash surplus over the Medium-term.
- The budget must be funded in accordance with the funding compliance procedure set out in MFMA Circular 42 and the Funding Compliance Guideline.
- Reprioritise competing needs within the allocations.
- Ensure the timely delivery of the capital programmes (eliminate under spending of capital budget).
- Tariff and Property Rate increases should take into account the need to address infrastructure backlogs and other strategies and affordability of services.
- The percentage salary increase according Main Collective Agreement signed in 2015 are as follows:
 - 2016/17 Financial Year – 6.9%
 - 2017/18 Financial Year – CPI + 1%
 - 2018/19 Financial Year - CPI + 1%
- Special attention needs to be given to efficiency gains and the principle of value for money.
- Filling of vacancies should be reviewed within the available budget.

2. EXECUTIVE SUMMARY

2.1 Executive Summary

The preparation of the 2017/2018 Budget and Medium Term Revenue and Expenditure Framework (MTREF) is based on the guidelines contained in the MFMA Circular No.86 issued by National Treasury.

The other fundamental principles underlying the preparation of this final budget is the application of sound Financial Management to ensure Financial Viability, and that municipal services provide sustainable, economically and equitable to all communities.

The main challenges experienced during compilation of the budget 2017 MTREF can be summarized as follows:

- Significant increase in operating expenditure with limited increase in operating revenue resulting in huge deficits.
- Cash flow constraints
- The increased cost of bulk purchases (due to increase from Rand Water and Eskom).
- The need to re-prioritise expenditure within the existing resource envelope given the cash flow realities and declining cash position.
- Unavailability of own-funding for capital budget; and
- Inability to raise capital/borrowing.

The following principles and guidelines will directly inform the budget 2017/2018 MTREF:

- The budget as well as the performance of 2016/2017 budget was used as baseline and was appropriate as upper limits.
- CPI guidelines from National Treasury except where specific sector increases are prescribed.
- Ensuring that drinking water meets the required quality standards at all times
- Identification of inefficiencies and elimination of no-priority spending
- Securing health of the assets by increasing the spending on repairs and maintenance
- Developing strategies in reducing water and electricity losses
- Developing tariffs that are cost reflective
- Maintaining a long financially sustainable environment
- Protect the poor from the worst impacts of the economic downturn at all times
- Job creation and poverty reduction

For the municipality to be able to deliver efficient and effective public services within the existing fiscal purse, tough decisions will have to be taken on the expenditure side. Priority ought to be given to the following areas:

- A performance culture where all the people are held accountable for their actions, accompanied by clear, measurable outcomes related to key developmental priorities.
- Limit outsourcing of work
- Procurement reforms
- Limit wastage and inefficient systems

The budget has been prepared with a vision of sustaining the financial capability of the municipality in the long term. A special effort was taken to improve the credibility of the budget. The tariffs have been set in line with tariff policy and the following factors were considered:

- The current collection rate
- The affordability of the community
- The social package
- The direct cost drivers

The tariffs for service charges have been increased as follows:

- Water 10.2%
- Electricity 1.88%
- Rates 6.4%
- Waste management
 - o Refuse removal 6.4%
- Sewer 10.2%
- Miscellaneous 6.4%

The social package is proposed as follows:

DESCRIPTION	2015/2016	2016/2017	2017/2018
Free Electricity	43.99	44.77	45.62
Free Water	149.73	174.53	192.33
Equitable Share	200.00	213.20	226.84
TOTAL	393.72	432.72	471.35

The municipality is implementing the inclining block tariffs on electricity and water. The IBT for the electricity is in-line with the NERSA guidelines. The water tariffs are also designed using the inclining block model to promote conservative approach to the domestic consumers.

The municipality will still ensure that the poor are protected through the indigent support scheme as per the indigent policy and debt collection strategy. The threshold for increasing free basic services for a household will be reviewed. The increase on the package indicates the municipality's commitment to protect the poor and also to ensure that those who cannot afford to pay are not burden with the unpaid accounts.

The council is committed in creating employment and reducing poverty as part of National Initiative, through meaningful local economic developmental initiatives and labour intensive projects. Furthermore, the municipality will on the continuous basis engage with the service providers to ensure that labour intensive approaches are utilized. The municipality will also ensure that it implements the intern programs to provide the young people with on the job training.

A conservative approach in spending will be adopted to ensure financial sustainability. As a municipality we should also all pay serious attention to managing revenue and any cash streams effectively through revenue management processes and procedures.

2.2 Consolidated overview

The budget has been prepared in terms of guidelines as contained in Circular 86 of the MFMA. The contents and format of the budget are in line with the requirements of the Municipal Budget and Reporting Regulations and any applicable legislation.

The 2017/2018 final budget comprises of R1.6 billion for operating expenditure and R104 million for capital investment programs. The total operating income budget is R1.7 billion resulting in an operating Surplus of R 104 million.

Municipal revenues and cash flows are expected to remain under pressure as we still continue to have low income revenue growth with a continued increase in expenditure.

Table 1: Consolidated overview of the 2017/2018 Final Budget

Description	Audited Outcome 2015/2016	Original Budget 2016/2017	Adjusted Budget 2016/2017	Budget 2017/2018	Budget 2018/2019	Budget 2019/2020
	R'000	R'000	R'000	R'000	R'000	R'000
Total Operating Revenue	1 516 704	1 732 012	1 743 776	1,687,472	1,817,683	1,945,533
Total Operating Expenditure	1 794 795	1 708 279	1 734 326	1 655 807	1 784 039	1 903 029
Surplus /(Deficit) for the year	(278 091)	23 733	9 450	31,665	33,644	42,504
Total Capital Expenditure	121 743	100 894	87 395	104 396	96 081	91 650

Operating budget

The operating budget deals with day to day operations of the municipality to ensure that service delivery is sustained.

The final operating budget has increased to R1.6 billion compared to the current adjusted budget of R1, 7 billion.

The trend is that the operating expenditure has been increasing over the years driven by:

- salary increments
- the need to repair infrastructure
- the need to adequately budget for debt impairment and depreciation,
- Inflation

Capital budget

An amount of R104 million has been allocated for the capital investment program for 2017/2018 financial year. This is an increase from the R101 million budget for 2016/17. The main reason for this increase is due to the provision to install of 20 000 Vodacom Smart Meters.

3. DETAILED OVERVIEW OF BUDGET

3.1 Financial performance (revenue and expenditure) mSCOA version 6.1

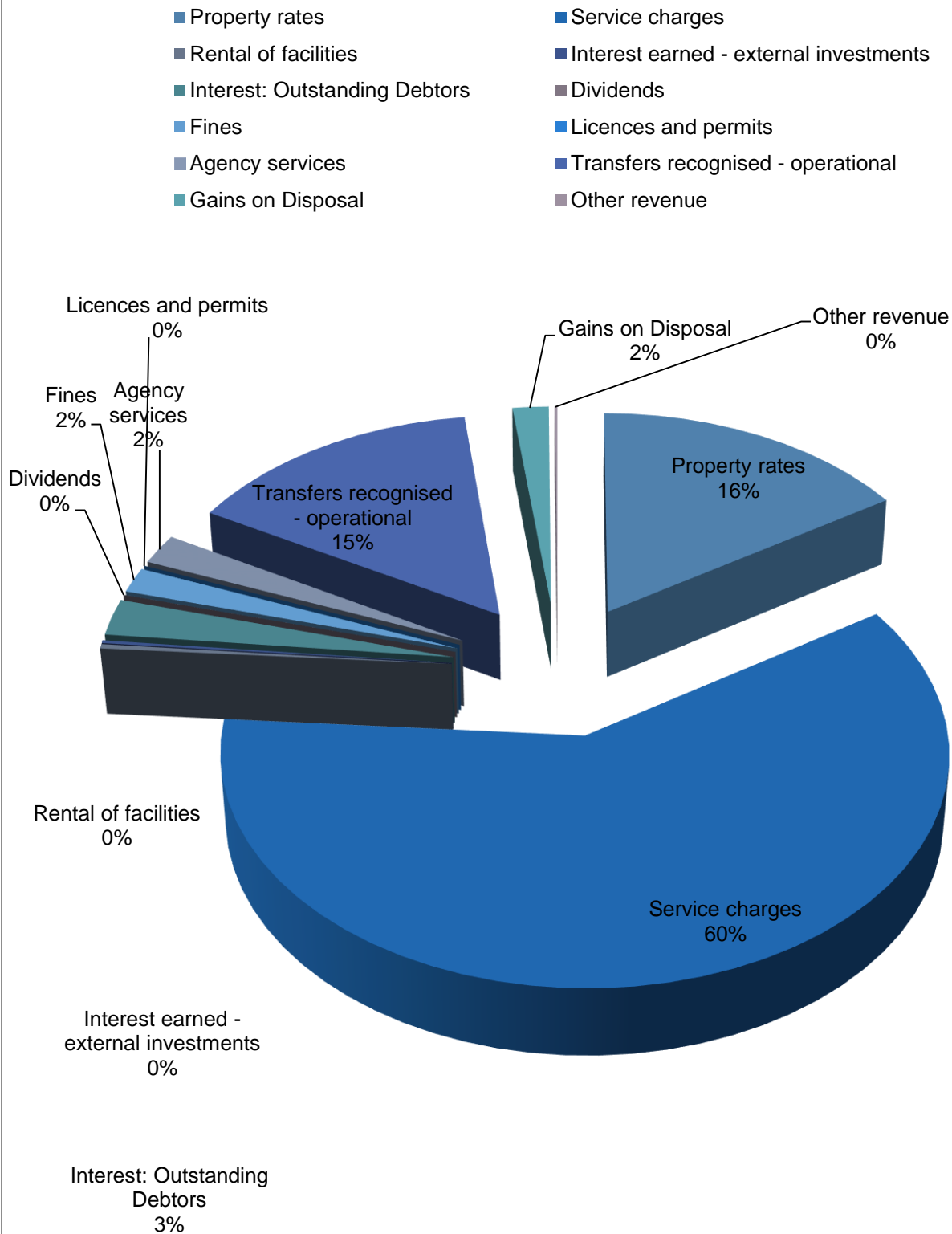
Description	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand			
<u>Revenue By Source</u>			
Property rates	266,066	283,094	301,212
Service charges - electricity revenue	463,901	493,591	525,180
Service charges - water revenue	341,643	363,509	386,773
Service charges - sanitation revenue	98,584	104,893	111,606
Service charges - refuse revenue	112,885	120,110	127,797
Rental of facilities and equipment	5,181	5,513	5,866
Interest earned - external investments	3,403	3,621	3,853
Dividends received	55	59	62
Fines, penalties and forfeits	30,004	31,924	33,968
Agency fees	36,027	38,332	40,785
Transfers and subsidies	247,125	285,154	314,922
Other revenue	52,598	55,964	59,546
Gains on disposal of PPE	30,000	31,920	33,963
Total Revenue (excluding capital transfers and contributions)	1,687,472	1,817,683	1,945,533
<u>Expenditure By Type</u>			
Employee related costs	478,326	513,719	551,731
Remuneration of councillors	22,616	24,064	25,604
Debt impairment	85,871	91,367	97,214
Depreciation & asset impairment	162,165	172,544	183,586
Finance charges	3,430	3,649	3,883
Bulk purchases	670,000	712,880	758,504
Contracted services	44,118	46,941	49,945
Transfers and subsidies	39,610	63,425	67,484
Other expenditure	149,671	155,451	165,077
Total Expenditure	1,655,807	1,784,039	1,903,029
Surplus/(Deficit)	31,665	33,644	42,504
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	72,796	74,131	90,650
Surplus/(Deficit) for the year	104,461	107,775	133,154

3.1 Financial performance (revenue and expenditure) Version 2.8

Description R thousand	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome
Revenue By Source								
Property rates	2	175,658	184,501	190,532	247,933	247,933	256,896	171,264
Service charges - electricity revenue	2	437,089	389,051	445,336	551,005	551,005	452,443	301,628
Service charges - water revenue	2	281,811	260,933	318,194	361,055	361,055	308,123	205,415
Service charges - sanitation revenue	2	65,379	85,719	87,496	101,071	101,071	93,157	62,105
Service charges - refuse revenue	2	83,918	94,974	99,198	108,365	108,365	108,296	72,197
Rental of facilities and equipment		2,504	3,009	3,689	4,854	4,854	3,991	2,660
Interest earned - external investments		36,937	27,125	56,597	44,100	44,100	49,071	32,714
Dividends received		57	42	52	52	52	19	13
Fines		22,738	28,208	23,370	29,199	28,199	6,837	4,558
Agency services		23,751	22,715	22,430	33,854	33,854	32,079	33,587
Transfers recognised - operational		220,634	225,713	230,956	217,623	230,387	225,351	169,513
Other revenue	2	98,942	86,621	43,000	22,900	22,900	46,450	30,963
Gains on disposal of PPE		(43,551)	(13,469)	(5,067)	10,000	10,000	7,679	5,119
Total Revenue (excluding capital transfers and contributions)		1,405,866	1,395,143	1,515,784	1,732,012	1,743,776	1,590,392	1,091,737
Expenditure By Type	-							
Employee related costs	2	342,659	382,907	406,248	448,356	456,739	433,759	289,173
Remuneration of councillors		16,293	17,352	18,413	21,038	21,038	19,012	12,675
Debt impairment	3	142,149	159,816	140,890	137,081	137,081	124,236	82,324
Depreciation & asset impairment	2	188,841	152,986	163,619	162,165	162,165	142,622	95,081
Finance charges		20,941	38,322	40,426	3,058	5,358	34,527	23,018
Bulk purchases	2	556,919	620,631	725,551	638,908	646,547	640,000	539,024
Contracted services		73,947	70,266	78,175	58,205	81,746	75,669	50,446
Transfers and grants		77,664	53,220	25,376	51,621	27,826	11,647	7,765
Other expenditure	4, 5	238,886	175,883	196,097	187,847	195,825	169,871	118,511
Total Expenditure		1,658,297	1,671,382	1,794,795	1,708,279	1,734,326	1,651,343	1,218,017
Surplus/(Deficit)		(252,431)	(276,239)	(279,011)	23,733	9,450	(60,952)	(126,280)
Transfers recognised - capital		116,487	74,317	79,803	60,161	62,261	63,521	51,573
Contributions recognised - capital	6	63,143	77,666	11,743	17,000	0	-	-
Contributed assets		12,566	1,238	4,132	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		(60,234)	(123,019)	(183,332)	100,894	71,711	2,569	(74,707)
Surplus/(Deficit) after taxation		(60,234)	(123,019)	(183,332)	100,894	71,711	2,569	(74,707)
Surplus/(Deficit) attributable to municipality		(60,234)	(123,019)	(183,332)	100,894	71,711	2,569	(74,707)
Surplus/(Deficit) for the year		(60,234)	(123,019)	(183,332)	100,894	71,711	2,569	(74,707)

3.2 Revenue

Revenue 2017-2018



Comments on Operating Revenue

The property rates

The property rates amounts to R 263 million for the 2017/2018 financial year. This revenue stream has been increased by 6%. An amount of R 29 million is budgeted for the income forgone in terms of rebates and discounts that are offered by the municipality for the indigents, pensioners and the areas where the municipality is not providing services. This revenue stream contributes 16% of the total revenue.

Service charges

Service charges include electricity, refuse, sewer and water. The service charges for 2017/2018 amount to R 1,004 billion, 2018/2019 R 1,068 billion and 2019/2020 amount to R 1,136 billion. The R 1,004 billion is made up of the following, water R 341million, Refuse R 113 million, Sewerage R 100 million and electricity R449 million. The service charges contribute 60% of the operating revenue.

Rental income

The rental income amounts to R5.1 million. The stream contributes 0.2% of the total revenue.

Fines

The revenue estimates for the fines have been increased from R 29.2 million to R 30 million.

Agency fees

The estimates for this revenue stream has been increased from R33.5 million to R36 million, this is based on current performance in 2016/17. This revenue stream needs to be properly monitored. It contributes 2% to the total operating revenue streams.

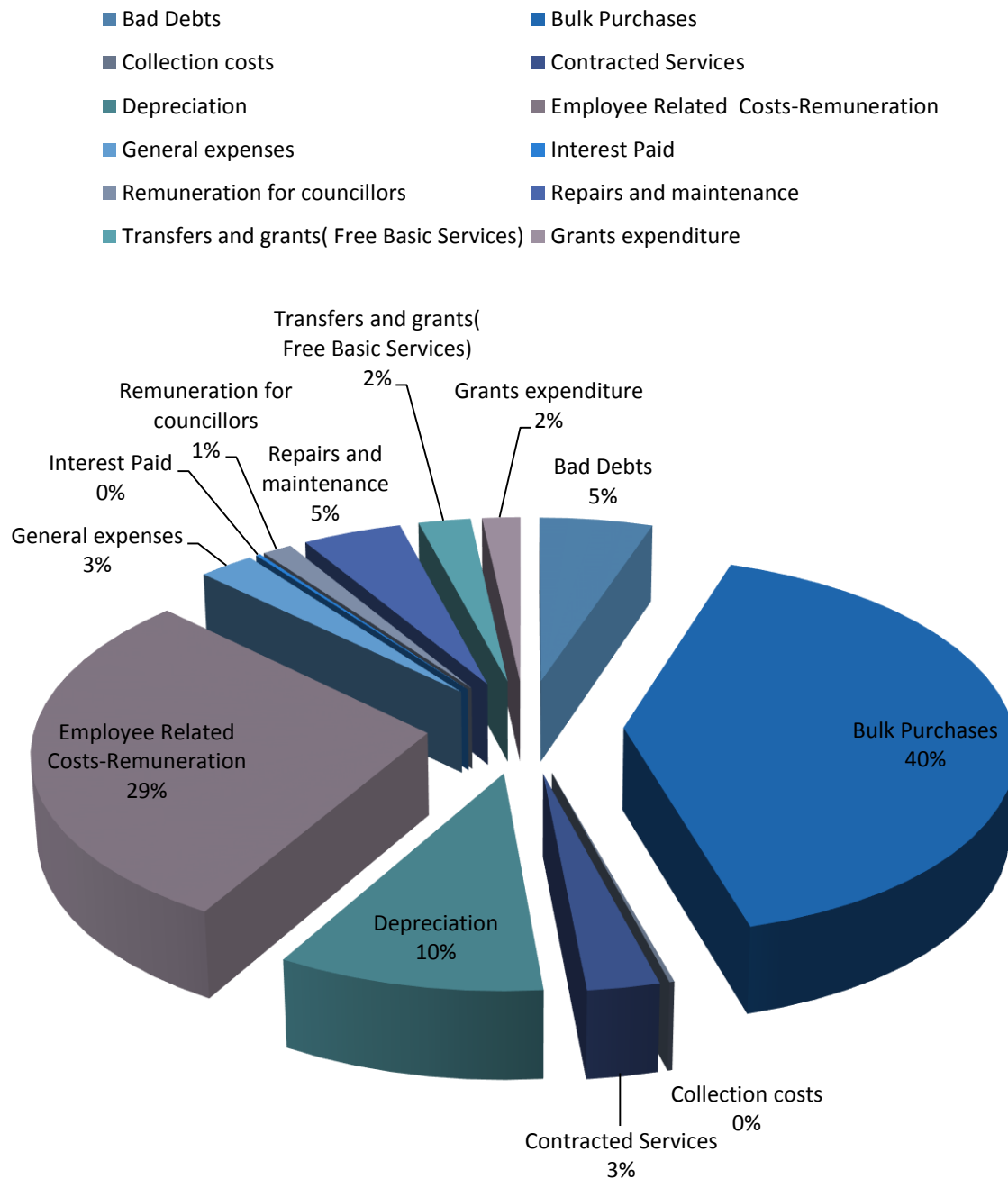
Grants and Subsidies – operating

The grants subsidies refer to the Division of Revenue Act allocations in the 2017/18 financial year, the operational grants allocations are as follows:

DESCRIPTION	2017/18	2018/19	2019/20
Equitable share	218,181,000	258,160,000	286,526,000
Finance Management Grant	1,700,000	1,955,000	1,955,000
Extended Public Works Program	4,244,000	-	-
Infrastructure Development Grant	23,000,000	25,039,000	26,441,000
TOTAL	247,125,000	285,154,000	314,922,000

3.3 Operating Expenditure

EXPENDITURE 2017-2018



Comments on Operating Expenditure:

Employee related costs

The employee related costs and remuneration of councillors indicate a percentage of 29% of the total operating budget. The average salary increase 7.4%. The overtime will have to be controlled and filling of vacant positions will have to be fast tracked.

General expenditure

In a bid to cut cost and ensure the funding of the overall budget, general expenditure budget was not changed from to the current adjusted budget. The transport cost still needs to be controlled. General expenditure takes 3% of the total operating expenditure.

Contracted services

In a bid to cut cost and ensure the funding of the overall budget, contracted services budget have increased from to the current adjusted budget. Contracted services constitute 3% of total operating expenditure.

The contract management will have to be improved for the contracted services. The outsourcing of work will need to be controlled to ensure skill transfer.

Bulk purchases

The bulk purchases for electricity and water amounts to R 670 million, which contributes 40% of the operating budget. The Eskom will increase the bulk purchases to the municipality by 1.88% and Rand Water will be 10.2%.

Repairs and maintenance

The repairs and maintenance plan for the departments must be aligned with their budget and monthly reports should indicate how the departments are progressing. The repairs and maintenance contributes 5% of the operating budget. The revenue generating assets should be to an adequate level ensuring that quality services are sustained.

Transfers and grants

Transfers and grants (Indigent support) constitutes 2% of total operating budget. The budget was based on current year forecast increased with inflation.

Depreciation

Depreciation constitutes 10% of the budget. The budget increase was informed by historical trends as well as budgeted and forecasted additions.

3.4 Capital Budget

Capital Expenditure by vote, functional classification and funding. mSCOA version 6.1

Vote Description R thousand	Ref	2017/18 Medium Term Revenue & Expenditure Framework		
		Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Single-year expenditure to be appropriated	2			
Vote 1 - Community and Social Services		–	700	–
Vote 2 - Energy Sources		44,000	32,000	25,000
Vote 5 - Finance and Administration		1,600	1,000	1,000
Vote 8 - Planning and Development		58,796	62,131	65,650
Vote 11 - Sport and Recreation		–	250	–
Capital single-year expenditure sub-total		104,396	96,081	91,650
Total Capital Expenditure - Vote		104,396	96,081	91,650
Capital Expenditure - Functional				
Governance and administration		1,600	1,000	1,000
Executive and council		–	–	–
Finance and administration		1,600	1,000	1,000
Internal audit		–	–	–
Community and public safety		–	950	–
Community and social services		–	700	–
Sport and recreation		–	250	–
Economic and environmental services		58,796	62,131	65,650
Planning and development		58,796	62,131	65,650
Road transport		–	–	–
Environmental protection		–	–	–
Trading services		44,000	32,000	25,000
Energy sources		44,000	32,000	25,000
Total Capital Expenditure - Functional	3	104,396	96,081	91,650
Funded by:				
National Government		72,796	74,131	90,650
Transfers recognised - capital	4	72,796	74,131	90,650
Public contributions & donations	5			
Borrowing	6			
Internally generated funds		31,600	21,950	1,000
Total Capital Funding	7	104,396	96,081	91,650

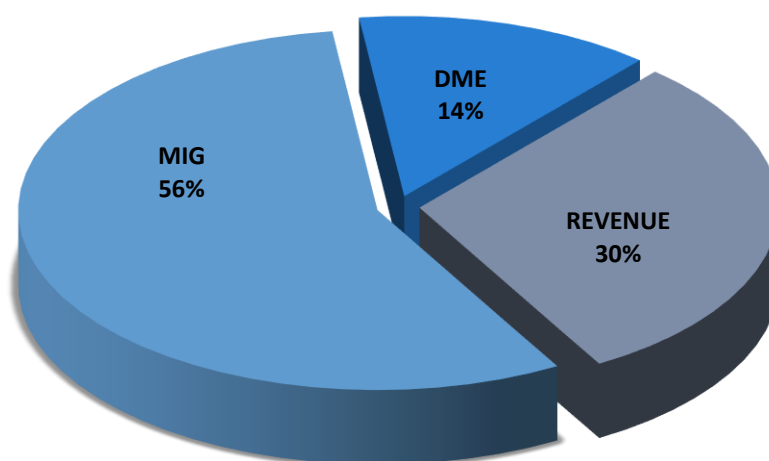
Capital Expenditure by vote, standard classification and funding. Version 2.8

Vote Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome
<u>Single-year expenditure to be appropriated</u>	2							
Vote 1 - Executive & Council		189	107	–	–	–	–	–
Vote 2 - Corporate Services		310	980	–	–	–	–	–
Vote 3 - Planning & Development		28,633	394	–	–	–	–	–
Vote 4 - Community Services		21,423	30,916	–	–	–	–	–
Vote 5 - Financial Services		301	1,648	–	–	–	–	–
Vote 6 - Technical services		87,615	121,245	–	–	–	–	–
Capital single-year expenditure sub-total		138,470	155,289	–	–	–	–	–
Total Capital Expenditure - Vote		138,470	155,289	–	–	–	–	–
<u>Capital Expenditure - Standard</u>								
<i>Governance and administration</i>		799	2,735	3,975	9,941	11,590	3,622	2,414
Executive and council		189	107	490	–	–	–	–
Budget and treasury office		301	1,648	2,030	5,021	10,039	599	399
Corporate services		310	980	1,455	4,920	1,552	3,023	2,015
<i>Community and public safety</i>		49,337	21,489	5,179	21	21	2,715	1,810
Community and social services		13,972	5,806	366	21	21	11	7
Sport and recreation		7,435	15,683	4,814	–	–	2,704	1,803
Housing		27,931	–	–	–	–	–	–
<i>Economic and environmental services</i>		40,957	394	39,599	3,771	2,671	3	2
Planning and development		702	394	2,988	–	–	–	–
Road transport		40,255	–	36,611	3,600	2,650	3	2
Environmental protection		–	–	–	171	21	–	–
<i>Trading services</i>		47,376	130,671	72,989	87,161	73,113	51,389	34,260
Electricity		4,565	6,945	13,500	15,000	15,000	4,439	2,959
Water		3,516	72,894	5,461	–	–	6,288	4,192
Waste water management		39,279	41,405	54,029	72,161	58,113	40,663	27,109
Waste management		16	9,427	–	–	–	–	–
Total Capital Expenditure - Standard	3	138,470	155,289	121,743	100,894	87,395	57,729	38,486
<u>Funded by:</u>								
National Government		107,340	72,817	59,424	60,161	63,113	52,903	35,269
Provincial Government			47,513	3,307	17,000	–	–	–
District Municipality		5,628	1,238	–	–	–	–	–
Other transfers and grants		2,030	–	8,543	10,000	10,000	1,182	788
Transfers recognised - capital	4	114,998	121,568	71,274	87,161	73,113	54,085	36,057
Public contributions & donations	5		1,500			–		
Borrowing	6					–		
Internally generated funds		23,471	32,221	50,468	13,733	14,282	3,644	2,429
Total Capital Funding	7	138,470	155,289	121,743	100,894	87,395	57,729	38,486

Capital Expenditure per source

Description	2016/17 Approved Budget	Total Adjusted Budget	Actual Year to Date	2017/18 Budget	2018/19 Budget	2019/20 Budget
Department of Human settlement	17,000,000	-	-	-	-	-
DME	5,000,000	5,000,000	3,795,867	14,000,000	12,000,000	25,000,000
MIG	55,161,000	56,161,000	26,407,756	58,796,000	62,131,000	65,650,000
Revenue	11,733,000	14,582,443	2,302,653	31,600,000	21,950,000	1,000,000
Grand Total	88,894,000	75,743,443	32,506,276	104,396,000	96,081,000	91,650,000

Capital Budget



The capital budget amount to R104 million and a detailed MIG capital investment program is attached. The capital program is funded mainly through Municipal Infrastructure Grant.

GOVAN MBEKI MUNICIPALITY: PROPOSED MIG PROJECTS (MTEF)

Project Description	Proposed Budget 2017/2018
Refurbishment of Leandra WWTW	10 000 000
Construction of Sanitation Infrastructure in Kinross Ext 25	10 000 000
Eradication of gravel roads in Emzinoni	10 000 000
Eradication of gravel roads in Embalenhle	8 796 000
Upgrading of sewer reticulation network in Embalenhle Ext 18	5 000 000
Emzinoni Bulk Water Supply	15 000 000
Total	58 796 000

SOCIAL LABOUR PROJECTS

SLP 2017-2022	Financial Year	Status	Area	Source	Amount
Phase 2 construction of storm water channel in Leandra.	2017	Approved	3 -Ext. 10-12	Sasol	R 1 200 000
Construction of a multi-purpose centre	2017	Approved	10 –Charl- Cilliers	Sasol	R 4 000 000
Sakhisizwe bridge	2017	Approved	17- Sakhisizwe Farm	Sasol	R 4 000 000
Houses EXT.13 Emzinoni	2017	Approved	26- Ext 13	Sudor Coal	R 4 400 000
Construction of a Community Hall Emzinoni	2017	Approved	Ward 26 Ext23	Shanduka Coal	R1 500 000
Boreholes	2017	Agreed	1Springboklaagete farms	Shanduka Coal	R 4 032 579
Upgrade Thistle Groove Dam and recreation facility around it.	2018-2019	Agreed	16- Ext 15	Sasol	R 4 500 000
Upgrade Library at Kinross	2019	Agreed	16- Ext 00	Sasol	R3 000 000
Storm water channel and roads /electricity upgrade embalenhle	2018	Agreed	31-Ext 17	Anglo Coal	R11 000 000
Upgrade Bethal Dam	2017	Agreed	28- Ext 5	Anglo Coal	R 3 500 000
Leandra Sewer Network	2019	Agreed	1 -Ext 1	Anglo Coal	R 5 000 000
Maths and Science project	2016-2019	Agreed	All wards	Anglo Coal	R 5 000 000
Paving internal roads Bethal Cemetery	2016-2019	Agreed	26- Ext. 24	Overlook Colliery	R 2 700 000
Emzinoni pump-station refurbishment.	2016-2019	Agreed	27- Ext.2,3,9	Sasol	R 6 000 000

4. CONSULTATION PROCESS

Section 22 of the Municipal Finance Management Act requires that after tabling of the Final Budget, the municipality must make the budget available to the public and conduct community participation.

The consultation process took place during from the 5th to the 23rd April as planned, the inputs received from the community are included in the draft IDP.

5. BUDGET RELATED POLICIES AND OVERVIEW OF TARIFF ADJUSTMENTS

The municipality's budgeting process is guided and governed by the relevant legislation and related policies.

The purpose of the budget related policies is to govern and guide the budget process and inform the projections of the medium term.

Listed below with a brief description are the municipalities budget related policies. The budget and accounting policies were reviewed during the year.

The accounting policy is reviewed on an on-going basis to incorporate changes required by the relevant Accounting Standards, apart from the changes to these policies as part of the budget process.

- Budget related policies are attached for review as follows:

5.1 Virement Policy (Annexure D)

The Virement policy establishes the framework for managers to manage their respective budgets within limitations, and also to ensure good budgeting practice and effective financial management. The Virement policy has been amended to improve budgetary controls.

5.2 Accounting policy (Annexure E)

The accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with Generally Recognized Accounting standards and other guiding principles such as International Financial Reporting.

5.3 Supply Chain Management Policy (Annexure F)

The supply chain management policy was adopted and amendments are as result of council resolution.

5.4 Credit control and Debt collection policy (Annexure G)

The council adopted a policy a few amendments have been made to give clear indication in terms indigents, s 118 on the issuing of rates clearance and the outstanding debt.

5.5 Investment policy (Annexure H)

The intention of the investment policy is to ensure investments are made in an efficient and effective manner which generates the best returns for the municipality while considering preservation and safety of the principal and appropriate liquidity.

5.6 Property Rates policy (Annexure I)

Section 3(1) of the Local Government Property Rates Act, 2004 (Act 6 of 2004) and Section 62 (1) (f) of the Municipal Finance Management Act, determines that a municipality must adopt and implement a rates policy on the levying.

5.7 Tariff policy (Annexure J)

The tariff policy covers levying of tariffs, fees and charges for municipal services. The tariff policy details electricity, water, sewer, refuse removal and miscellaneous tariffs.

5.8 Fixed Asset Management Policy (Annexure K)

The asset policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilization, control maintenance and disposal of assets. The policy guides Directorates in their responsibility and duties for control of their assets.

5.9 Short Term Risk and Liabilities Policy (Annexure L)

5.10 Funding and Reserves Policy (Annexure M)

5.11 Budget Policy (Annexure N)

5.12 Borrowing Policy (Annexure O)

5.13 Blacklisting Policy (Annexure P)

5.14 Indigent Management Policy (Annexure Q)

5.15 Travelling and Subsistence Policy (Annexure R)

5.16 Provision for Doubtful Debt and Debt Write-Off Policy (Annexure S)

5.17 Unclaimed Deposit Policy (Annexure T)

5.18 Retention Policy (Annexure U)

6. OVERVIEW OF BUDGET ASSUMPTIONS

The budget assumptions are determined before the budget process, guided by the economic outlook, movements in terms of the markets and by the national treasury guidelines.

The assumptions are devised in such a way that they support the short and long term finances and strategy of the municipality.

6.1 Key Financial indicators

The growth parameters set by National treasury are set between 3 and 6 percent which are also target range for the inflation rate. All steps have been taken to be in line with these National Treasury guidelines however the following factors affect the municipal operations and the budget accordingly:

- Anticipated high fuel prices
- Higher salaries
- Increase by Eskom and Rand water
- Job creation and protecting the poor

The 2017/2018 has been developed guided by the following inflation forecast:

Fiscal Year	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast
Real GDP Growth	0.5%	1.3%	2.0%	2.2%
CPI Inflation	6.4%	6.4%	5.7%	5.6%

6.2 Credit Rating

The municipality has not had a credit rating and with National Treasury support, the municipality will have to undertake it.

6.3 Borrowing and Investment of funds

The MFMA permits the borrowing for long term if it is for the acquisition of capital goods such plant and equipment and infrastructure. The municipality will consider the unsecured loan in the medium term, as this is backed up by the acknowledgement from the lender, that the municipality is showing sound financial management and an ability to meet short term obligations.

The municipality has a total amount of R 6 million external loans.

The investments amount to R24 million, R9.4 million of these investments are securities for the DBSA loans and due to negative cash flow the municipality is unable to build more reserves.

6.4 Rates, tariffs, charges and timing of revenue collection

Accounts for rates, refuse, electricity, water and sanitation are issued on a monthly basis and are due and payable before the 7th of the month. Recovery procedures for non-payment may be commenced within 7 days of payment default. The electricity supply is cut and water supply is restricted when a client defaults. The municipality is committed in ensuring that collection levels are improved and that credit control will be enforced on those who can afford and not honouring their municipal accounts.

6.5 Collection rates for each revenue source

The collection rate for all the services is expected to be 87% average throughout; this is due to credit control actions that are taken against the defaulters. Where ESKOM is a service delivery agent, consumers who are not paying will be restricted water.

6.6 Price movements on specifics

The cost of bulk purchases amounts to R670 million for both electricity and water. The projections are informed by the increases from the Rand water and Eskom. Eskom has advised there will be an increase across the board of 1.88% on the bulk purchases of electricity.

The increase on both electricity and water tariff has been pegged at 1.88% and 10.2% respectively per NERSA and Rand Water.

6.7 Average salary increases

Main Collective Agreement signed 2015 was taken into account in budgeting for employee related costs it recommends an increase of average CPI + 1% applicable for 2015/16 to 2017/18

6.8 Changing Demand characteristics

The demand for services is increasing yearly as the municipality is expected to deliver services to the indigent and pressure to reduce poverty.

6.9 Ability to the municipality to spend and deliver on programs

The 2017/2018 operating budget will be spent 100% by year end looking at the projected actual by year end. The challenges are still there in terms of maintaining the infrastructure and managing the breakaways of vehicles especially revenue generating.

7. ALIGNMENT OF BUDGET TO THE INTEGRATED DEVELOPMENT PLAN

7.1 IDP Review and stakeholder participation

The IDP has been prepared for the medium term to 2017/18. In the current financial year the IDP has undergone the review as required by the Municipal Systems Act and MFMA. Community needs and inputs were sought and the stake holders were consulted.

The IDP takes cognizance of the National, provincial and district priorities. The key focus and IDP priorities are:

- To provide , improve and sustain infrastructure
- To promote socio economic development in rural and urban areas
- To enable and speed up institutional transformation
- To strengthen democracy and good governance
- To improve and sustain financial management

7.2 IDP link to the budget

In compliance with Systems Act of 2000 and the Municipal Finance Management Act the budget is informed and aligned to the IDP priorities.

The budget will be fully aligned to the IDP.

8. BUDGET SCHEDULES

Final Budget schedules in terms of National Treasury requirements are attached as an “**Annexure B**”.

9. BUDGET RECOMMENDATIONS

1. That the report on the Final Medium Term Revenue and Expenditure Framework for 2017/2018 and two outer years **BE ACKNOWLEDGED**.
2. That the budget comprising of operating Income budget of **R 1,687,472,256** ,operating expenditure budget of **R 1,655,806,978** and capital budget of **R 104,396,000** as set out in the following tables **BE CONSIDERED** for the adoption to ensure compliance with section 16 (2) of the Municipal Finance Management Act (No 56 of 2003): The budget table are submitted in duplicate, the old version and new version 6.1 which is MSCOA compliant.

- 2.1 *Table A1: Budget Summary*
- 2.2 *Table A2: Budget Financial Performance*
- 2.3 *Table A3: Budgeted Financial Performance (Municipal Votes)*
- 2.4 *Table A4: Budgeted Financial Performance (Revenue and Expenditure)*
- 2.5 *Table A5: Budgeted Capital Expenditure by Vote*
- 2.6 *Table A6: Budgeted Financial Position*
- 2.7 *Table A7: Budgeted Cash Flows*
- 2.8 *Table A8: Cash Backed Reserves / Accumulated Surplus Reconciliation*
- 2.9 *Table A9: Asset Management*
- 2.10 *Table A10: Basic Service Delivery Measurement*

3. That the budget related policies of Council mentioned in the report **BE REVIEWED**.

4. That proposed tariff increases **BE ADOPTED** as follows:

4.1 ASSESSMENT RATES

All property taxes as per the 2016/2017 tariff book increased by 6.4%.

4.2 SEWERAGE

All sewerage charges as per the 2016/2017 tariff book increased by 10.2%.

4.3 REFUSE

All refuse charges as per the 2016/2017 tariff book increased by 6.4%.

4.4 WATER

All basic water charges as per the 2016/2017 tariff book increased by 10.2%

4.5 ELECTRICITY

All basic electricity charges Increase with 1.88 % in line with NERSA

4.6 DEPOSITS

Increase with 6.4%

4.7 COMMUNITY SERVICES TARRIFS

Tariff booklet has been attached as Appendix A

4.8 MISCELLANEOUS TARIFFS

- As per the 2016/17 tariff book increased by 6.4%.
- These are tariffs that are used on a needs basis.
- All tariffs exclude VAT except in the case of assessment rates that are zero-rate.

4.9 INTEREST / CAPITALIZED ARREARS

- No interest will be levied on those arrears for which the consumer made formal arrangements.
- Interest will only be levied on those arrears for which no formal arrangement exist and/or arrear as a result of not complying with the said arrangements.
- Interest rates will be levied at market related rates.