UMTSHEZI

MUNICIPALITY

KZN234



DRAFT ANNUAL BUDGET

2016/17

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**Abbreviations and Acronyms**

AMR Automated Meter Reading

ASGISA Accelerated and Shared Growth Initiative

BPC Budget Planning Committee

CBD Central Business District

CFO Chief Financial Officer

CM City Manager

CPI Consumer Price Index

CRRF Capital Replacement Reserve Fund

DBSA Development Bank of South Africa

DoRA Division of Revenue Act

DWA Department of Water Affairs

EE Employment Equity

EEDSM Energy Efficiency Demand Side Management

EM Executive Mayor

FBS Free basic services

GAMAP Generally Accepted Municipal Accounting Practice

GDP Gross domestic product

GDS Gauteng Growth and Development Strategy

GFS Government Financial Statistics

GRAP General Recognised Accounting Practice

HR Human Resources

HSRC Human Science Research Council

IDP Integrated Development Strategy

IT Information Technology

kℓ kilolitre

km kilometre

KPA Key Performance Area

KPI Key Performance Indicator

kWh kilowatt

ℓ litre

LED Local Economic Development

MEC Member of the Executive Committee

MFMA Municipal Financial Management Act

Programme

MIG Municipal Infrastructure Grant

MMC Member of Mayoral Committee

MPRA Municipal Properties Rates Act

MSA Municipal Systems Act

MTEF Medium-term Expenditure Framework

MTREF Medium-term Revenue and Expenditure Framework

NERSA National Electricity Regulator South Africa

NGO Non-Governmental organisations

NKPIs National Key Performance Indicators

OHS Occupational Health and Safety

OP Operational Plan

PBO Public Benefit Organisations

PHC Provincial Health Care

PMS Performance Management System

PPE Property Plant and Equipment

PPP Public Private Partnership

PTIS Public Transport Infrastructure System

RG Restructuring Grant

RSC Regional Services Council

SALGA South African Local Government Association

SAPS South African Police Service

SDBIP Service Delivery Budget Implementation Plan

SMME Small Micro and Medium Enterprises

# Part 1 – Annual Budget

## Mayor’s Report

The Minister of Finance had stated in his budget speech in February 2016 that although the world economy remained troubled, there were signs of improvement in that economy and in line with this improvement, that South Africa’s economy had continued to grow, albeit at a slower pace than what was expected in the previous year. It was also stated that although South Africa’s economic outlook was improving, we “require to actively pursue a different trajectory if we are to address the challenges ahead.” This would mean that all sectors of society would have to work together to achieve this.

Management within local government has a significant role to play in strengthening the link between the citizen and government’s overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the uMtshezi Municipality. Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound financial management principles for the compilation of the Municipality’s financial plan is essential and critical to ensure that the Municipality remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.

The 2016/17 Medium Term Revenue and Expenditure Framework and its related policies has been compiled in compliance with the Municipal Finance Management Act No. 56 of 2003 and the Municipal Budget and Reporting Regulations which are aimed at improving credibility, sustainability, transparency, accuracy and reliability of municipal budgets.

The objective of the budget formats reform is to:

1. Ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the MFMA;
2. Improve the local governments spheres’ ability to deliver basic services to all by-
   * addressing issues of financial sustainability, and
   * facilitating informed policy choices and medium term planning of service delivery by requiring targets to be aligned to achieve backlog elimination.

The draft 2016/17 MTREF has been prepared using realistically anticipated estimates and are guided by the guidelines as per the National Treasury budget circulars. The main aim of the budget is SERVICE DELIVERY. It is also aimed at ensuring that services are effectively and efficiently rendered in the most economical way.

A brief overview of the draft budget is as follows:

Total operating income – R368 176 000

Total Operating expenditure – R397 803 000

Operating Deficit – R29 628 000

Capital Transfers –R 37 214 000

Surplus- 7 586 000

Capital Budget – R37 424 000

The capital budget would be financed from capital grants received from the Municipal Infrastructure Grant, INEP,Small Town rehabilitation and a small portion from council funding.

The operating budget is extremely constrained and focuses on service delivery. The reason for this, is the limiting income realistically anticipated.

Ngokubambisana singakha imiphakathi engcono. Let us work together to build a better community of Umtshezi thus achieving a better life for all.

**HIS WORSHIP THE MAYOR**

**COUNCILLOR B.D DLAMINI**

## Council Resolutions

On 30 March 2016 the Council of Umtshezi Local Municipality met in the Council Chambers of Umtshezi Municipality to consider the draft annual budget of the municipality for the financial year 2016/17. The Council approved and adopted the following resolutions:

1. The Council of Umtshezi Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
   1. The draft annual budget of the municipality for the financial year 2016/17 and the multi-year and single-year capital appropriations as set out in the following tables:
      1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18;
      2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19;
      3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 21; and
      4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 22.
   2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
      1. Budgeted Financial Position as contained in Table 23;
      2. Budgeted Cash Flows as contained in Table 24;
      3. Cash backed reserves and accumulated surplus reconciliation as contained in Table 25;
      4. Asset management as contained in Table 26; and
      5. Basic service delivery measurement as contained in Table 27.
2. The Council of Umtshezi Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2016:
   1. the tariffs for property rates;
   2. the tariffs for electricity; and
   3. the tariffs for solid waste services.
3. To give proper effect to the municipality’s annual budget, the Council of Umtshezi Local Municipality approves:
   1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality’s funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.
   2. That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above lending programme.

## Executive Summary

The application of sound financial management principles for the compilation of the Municipality’s financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality’s business and service delivery priorities were reviewed as part of this year’s planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and ‘nice to have’ items.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury’s MFMA Circular No 78and 79 were used to guide the compilation of the 2016/17 MTREF.

The main challenges experienced during the compilation of the 2016/17 MTREF can be summarised as follows:

* The ongoing difficulties in the national and local economy;
* Aging and poorly maintained roads and electricity infrastructure;
* The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
* The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable; and

The following budget principles and guidelines directly informed the compilation of the 2016/17 MTREF:

* The 2015/16 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2016/17 annual budget;
* Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
* Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2016/17 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2014/15 MTREF



Total operating revenue has grown by 6 per cent or R21.9 million for the 2016/17 financial year when compared to the 2015/16 Adjustments Budget. For the two outer years, operational revenue will increase by 4.5 and 6 per cent respectively, equating to a total revenue growth of R39.5 million over the MTREF when compared to the 2015/16 financial year.

Total operating expenditure for the 2016/17 financial year has been appropriated at R397 803 million and translates into a budgeted deficit of R29 628 million. When compared to the 2015/16 Adjustments Budget, operational expenditure has decreased by 0.8 percent in the 2016/17 budget and by 6 per cent for each of the respective outer years of the MTREF. The operating deficit for the two outer years steadily increases to R37 million and then at R39 million.

The capital budget of R37.4 million for 2016/17 is 25 per cent less when compared to the 2015/16 Adjustment Budget. The increase is mainly due to the increase in grants allocations.

## Operating Revenue Framework

For Umtshezi Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality’s revenue strategy is built around the following key components:

* National Treasury’s guidelines and macroeconomic policy;
* Growth in the City and continued economic development;
* Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
* Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
* Achievement of full cost recovery of specific user charges especially in relation to trading services;
* Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
* The municipality’s Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
* Increase ability to extend new services and recover costs;
* The municipality’s Indigent Policy and rendering of free basic services; and
* Tariff policies of the Municipality.

The following table is a summary of the 2016/17 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source



Table 3 Percentage growth in revenue by main revenue source



In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2016/17 financial year, revenue from rates and services charges totaled R288 498 million or 74 per cent. This increases to R306 million and R324 million in the respective financial years of the MTREF. A notable trend is the increase in the total percentage revenue generated from rates and services charges which increases from 79per cent in 2017/18 to80 per cent in 2018/19. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality. Details in this regard are contained in Table 64 MBRR SA1.

Property rates is the third largest revenue source totaling 18 per cent or R66 million rands and increases to R74 million by 2018/19.

Operating grants and transfers totals R58.5 million in the 2016/17 financial year and steadily decreased to R59.8 million by 2018/19.The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 4 Operating Transfers and Grant Receipts



Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank’s inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of Eskom and bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality’s electricity and in these tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality’s future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

### Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality’s budgeting process.

National Treasury’s MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance.  These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1.  The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

* The first R30 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
* 43 per cent rebate will be granted on all residential properties (including residential hospitality properties);
* 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
* On Commercial properties, an average of 21% rebate;
* Industrial properties, an average of 27% rebate;
* Agriculture properties, 20% rebate;
* Public Service Infrastructure, 30% rebate; and
* And 5% rebate is given to the State Owned Properties.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2016/17 financial year based on a 5 per cent decrease on rebates from 1 July 2016 is contained below:

Table 5 Comparison of proposed rates to levied for the 2016/17 financial year

**RATES RANDAGE**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Category** | **Impermissible** | **Rebate** | **Current Year Randage**  **2014/15** | **Proposed Randage 2016/17** |
| Residential | 30 000 | 43% | 0.018895 | 0.018895 |
| Residential - Hospitality | 30 000 | 43% | 0.018895 | 0.018895 |
| Commercial | - | As Per Table | 0.03726 | 0.03726 |
| Agriculture | - | 14% | 0.0025 | 0.0025 |
| Public Service Infrastructure | - | First 30% non rated | 0.002086 | 0.002086 |
| State Owned | - | - | 0.03119 | 0.03119 |
| Industrial | - | As Per Table | 0.03637 | 0.03726 |
| Public Benefit Organisation Property | - | None | 0.002068 | 0.002068 |
| Recreational Clubs | - | 30% | 0.0018895 | 0.018895 |

**REBATES FOR COMMERCIAL PROPERTIES**

|  |  |
| --- | --- |
| **Value of Property** | **Rebate** |
| 0-1.5 million | 25.660% |
| >1.5 million – 2.5 million | 15.685% |
| >2.5 million – 7.5 million | 19.635% |
| >7. 5 million -10 million | 13.650% |
| >10 million | 34.121% |

**REBATES FOR INDUSTRIAL PROPERTIES**

|  |  |
| --- | --- |
| **VALUE OF PROPERTY** | **REBATE** |
| 0-1 Million | 03.286% |
| >1-2 million | 07.234% |
| >2-5 million | 34.405% |
| >5-36 million | 30.470% |
| >36 million | 57.692% |

**ADDITIONAL RELIEF**

|  |  |
| --- | --- |
| **USAGE/OWNER** | **ADDITIONAL REBATE** |
| BED & BREAKFAST | 25% |
| BED& BREAKFAST(NON RESIDENT) | 20% |
| PENSIONER | +12.50% |

### Sale of Electricity and Impact of Tariff Increases

Considering the Eskom increases, the consumer tariff had to be increased by 9.4 per cent to offset the additional bulk purchase cost from 1 July 2016. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality’s revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2011. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor). The Municipality has entered into discussions with NERSA regarding the suitability of the NERSA proposed stepped tariffs compared to those already being implemented by the Municipality already. Until the discussions are concluded, the Municipality will maintain the current stepped structure of its electricity tariffs.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply).

### Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

A 6 per cent increase in the waste removal tariff is proposed from 1 July 2016. Higher increases will not be viable in 2016/17 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services. Any increase higher than 6 per cent would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

### Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Table MBRR Table SA14 – Household bills



## Operating Expenditure Framework

The Municipality’s expenditure framework for the 2016/17 budget and MTREF is informed by the following:

* The asset repairs and maintainance strategy and the repairs and maintenance plan;
* Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
* The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
* Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
* Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2016/17 budget and MTREF (classified per main type of operating expenditure):

Table 7 Summary of operating expenditure by standard classification item



The budgeted allocation for employee related costs for the 2016/17 financial year totals R85 million, which equals 21.4 per cent of the total operating expenditure. An annual increase of 6 and 5.9 per cent has been included in the two outer years of the MTREF. As part of the planning assumptions and interventions all vacancies might be filled with placement method due to the merger that will take place in 2016/17 financial year with Imbabazane Local Municipality.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality’s budget.

Provision for depreciation and asset impairment has been informed by the Municipality’s Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R54.6million for the 2016/17 financials and equates to 13.7 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital) and lease. Finance charges make up 1.2 per cent (R4.7 million) of operating expenditure. As previously noted, the Municipality has reached its prudential limits for borrowing because of poor cash flow position.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other materials comprises of amongst others, materials for maintenance, and chemicals. In line with the Municipality repairs and maintenance plan this group of expenditure has been prioritized to ensure sustainability of the Municipality’s infrastructure. For 2016/17 the appropriation against this group of expenditure has decreased by 31 per cent (R2 150 000). Other materials will then increase by 6 % in the two outer years.

Contracted services comprises of Security Services. As part of the compilation of the 2016/17 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2016/17 financial year, this group of expenditure totals R11.5million and has decreased by 3.6 per cent, clearly demonstrating the application of cost efficiencies. For the two outer years growth has been limited to 6 per cent.

Other expenditure comprises of various line items relating to the daily operations of the municipality. Due to the cash flows problems that the municipality is facing, general expenditure items have been decreased significantly for the 2016/17 financial year.

The following table gives a breakdown of the main expenditure categories for the 2016/17 financial year.

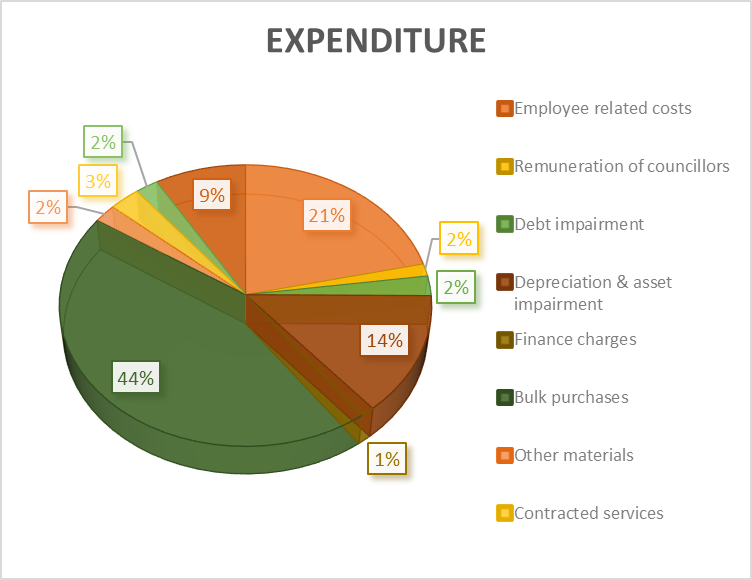


Figure 1 Main operational expenditure categories for the 2016/17 financial year

### Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality’s current infrastructure, the 2016/17 budget and MTREF provide for growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the Municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Table 8 Operational repairs and maintenance



During the compilation of the 2015/16 Adjustments Budget repairs and maintenance was decreased from 14 million to 11 million. The municipality has recently purchases new fleet and plant. This has resulted in less repairs and maintenance of vehicles due the fact that the old vehicles were auctioned and the new fleet does not need a lot of repairs. To this end, repairs and maintenance was substantially decreased by 27 per cent in the 2016/17 financial year, from R11.5 million to R9.2 million. Notwithstanding the decrease, Repairs and maintenance still remains a priority as can be seen by the budget appropriations over the MTREF other materials will increase by 6 per cent in the two outer years. Other materials will increase to 9.4 million by the 2018/19 financial year.

### Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality’s Indigent Policy. The target is to register 7 000 or more indigent households during the 2016/17 financial year, a process reviewed annually. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement).

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

## Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 10 2016/17 Medium-term capital budget per vote



For 2016/17 an amount of R37.4 million has been appropriated for the development of infrastructure, however due to lack of project information from the relevant departments within the municipality, capital projects could not be detailed. The programs shall be detailed adequately in the final annual budget.

The following graph provides a breakdown of the capital budget to be spent on infrastructure related projects over the MTREF.

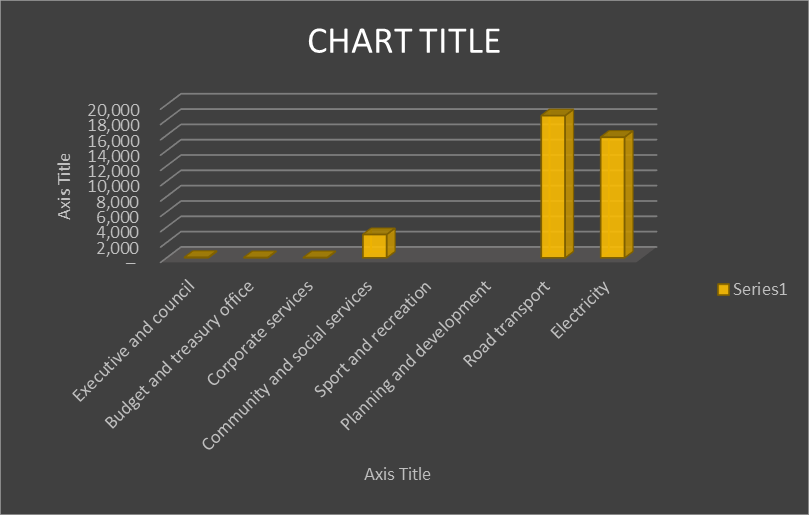


Figure 2 Capital Infrastructure Programme

### Future operational cost of new infrastructure

The future operational costs and revenues associated with the capital programmes cannot be stated at the moments due to lack of the information thereof.

## Annual Budget Tables - Parent Municipality

The following pages present the ten main budget tables as required in terms of regulations 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality’s 2016/17 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.

Table 11 MBRR Table A1 - Budget Summary

**Explanatory notes to MBRR Table A1 - Budget Summary**

1. Table A1 is a budget summary and provides a concise overview of the Municipality’s budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality’s commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasizes the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
   1. The operating surplus/deficit (after Total Expenditure) is negative over the MTREF
   2. Capital expenditure is balanced by capital funding sources, of which
      1. Transfers recognised is reflected on the Financial Performance Budget;
      2. Internally generated funds is financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. Although the Cash flow has a positive balance, the municipality’s cash flow position is steal weak. Hence the municipality has decided to keep its internally generated capital funding low.
4. The Municipality plans to work hard on collecting its old debt. The revenue section has put a plan in action in this regard, as the municipality is putting great emphasis on regaining its financial stability.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Table 12 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)



**Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)**

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 06 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile ‘whole of government’ reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity, but not the Waste management function. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function’s tariff structure.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the other departments.

Table 13 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)



**Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)**

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote. The following table is an analysis of the surplus or deficit for the electricity services.

Table 14 Surplus/(Deficit) calculations for the trading services



Explanatory notes to surplus and deficit calculation for Trading Services

The municipality is currently making a loss in the collecting of refuse. A loss of 101 million will be made in 2016/17. However the loss has decreased compared to the 2014/14 and 2014/15 financial years. The electrical department makes an average of 11 percent profit. It is expected to perform the same in the two outer years.

Table 15 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)



**Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)**

1. Total revenue is R368 million in 2016/17 and escalates to R407.6 million by 2018/19. This represents a year-on-year increase of 4.5 per cent for the 2017/18 financial year and 6 per cent for the 2018/19 financial year.
2. Revenue to be generated from property rates is R66 million in the 2016/17 financial year and increases to R74 million by 2018/19 which represents 18 per cent of the operating revenue base of the Municipality and therefore remains a significant funding source for the municipality. It remains relatively constant over the medium-term and tariff increases have been factored in at 6 per cent, 6 per cent and 6 per cent for each of the respective financial years of the MTREF.
3. Services charges relating to electricity and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R222.5 million for the 2016/17 financial year and increasing to R250 million by 2018/19. For the 2016/17 financial year services charges amount to 60 per cent of the total revenue base and grows by 6 per cent per annum over the medium-term. This growth can mainly be attributed to the increase in the bulk prices of electricity.
4. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing over the MTREF by 3.5per cent. The percentage increase in based on the allocations set out for the municipality.
5. The following graph illustrates the major expenditure items per type.

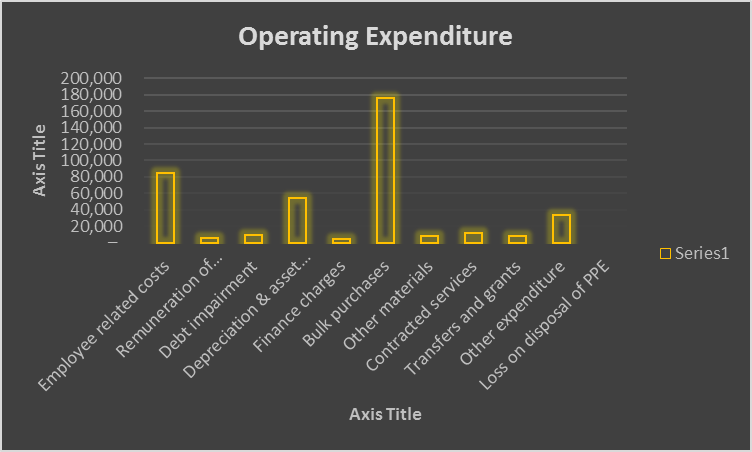


Figure 3 Expenditure by major type

1. Bulk purchases have significantly increased over the 2012/13 to 2016/17 period escalating from R129 million to R176 million. These increases can be attributed to the substantial increase in the cost of bulk electricity from Eskom.
2. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

Table 16 MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source



**Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source**

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to single-year appropriations, for 2016/17 R37.2million has been allocated of the total R37.4 capital budget, which totals 99 per cent. This allocation decreases to R34.4 million in 2017/18.
3. The capital programmes are funded from capital and provincial grants and transfers, borrowing and internally generated funds from current year surpluses. For 2016/17, capital transfers totals R34.2 million and 210 thousand is internally generated funds. There will be no borrowings in the 2016/17 financial year.

Table 17 MBRR Table A6 - Budgeted Financial Position



**Explanatory notes to Table A6 - Budgeted Financial Position**

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table 66 is supported by an extensive table of notes (SA3) providing a detailed analysis of the major components of a number of items, including:

* Call investments deposits;
* Consumer debtors;
* Property, plant and equipment;
* Trade and other payables;
* Provisions non current;
* Changes in net assets; and
* Reserves

1. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
2. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 18 MBRR Table A7 - Budgeted Cash Flow Statement



**Explanatory notes to Table A7 - Budgeted Cash Flow Statement**

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. It can be seen that the cash levels of the Municipality fell significantly over the 2014/15 to 2015/16 period owing directly to a net decrease in cash for the 2014/15 financial year of R5million.
4. As part of the 2015/16 mid-year review and Adjustments Budget this unsustainable cash position had to be addressed as a matter of urgency and various interventions were implemented such as the reduction of expenditure allocations and rationalization of spending priorities.
5. In addition the Municipality undertook an extensive debt collection drive resulting in cash receipts on arrear debtors.
6. The 2016/17 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.
7. Cash and cash equivalents totals R19.7 million as at the end of the 2016/17 financial year and escalates to R54.2 by 2018/19.

Table MBRR Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation



**Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation**

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality’s budget must be “funded”.
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2016/17 MTREF was funded owing to the significant surplus.
6. As part of the budgeting and planning guidelines that informed the compilation of the 2016/17 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

# Part 2 – Supporting Documentation

## Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee is to ensure:

* that the process followed to compile the budget complies with legislation and good budget practices;
* that there is proper alignment between the policy and service delivery priorities set out in the Municipality’s IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
* that the municipality’s revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
* that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

### Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2014) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on August 2015. Key dates applicable to the process were:

* **August 2015** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2016/17 MTREF;
* **November 2016** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
* **3 to 7 January 2016**- Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
* **January 2016** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
* **28 January 2016** - Council considers the 2014/15 Mid-year Review and Adjustments Budget;
* **February 2016** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The draft 2016/17 MTREF is revised accordingly;
* **25 March 20**16 - Tabling in Council of the draft 2016/17 IDP and 2016/17 MTREF for public consultation;
* **April 2016**– Public consultation;
* **May 2015**6- Closing date for written comments;
* **6 to 21 May** **2016** – finalisation of the 2016/17 IDP and 2016/17 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
* **28 May 2016** - Tabling of the 2016/17 MTREF before Council for consideration and approval.

### IDP and Service Delivery and Budget Implementation Plan

This is the fourth review of the IDP as adopted by Council in May 2016. It started in September 2015 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2016/17 MTREF in August.

The Municipality IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

* Registration of community needs;
* Compilation of departmental business plans including key performance indicators and targets;
* Financial planning and budgeting process;
* Public participation process;
* Compilation of the SDBIP, and
* The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2016/17 MTREF, based on the approved 2015/16 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2016/17 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2015/16 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

### Financial Modelling and Key Planning Drivers

As part of the compilation of the 2016/17 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2016/17 MTREF:

* Town growth
* Policy priorities and strategic objectives
* Asset maintenance
* Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
* Performance trends
* The approved 2016/17 adjustments budget and performance against the SDBIP
* Cash Flow Management Strategy
* Debtor payment levels
* Loan and investment possibilities
* The need for tariff increases versus the ability of the community to pay for services;
* Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury’s MFMA Circulars 74 and 75 has been taken into consideration in the planning and prioritisation process.

### Community Consultation

The draft 2016/17 MTREF will be tabled before Council on 30 March 2015 for community consultation will be published on the municipality’s website, and hard copies were made available at customer care offices, municipal notice boards and various libraries. In addition a further development of this year’s consultation process will include the launch of E-based consultation. E-mail notifications will be sent to all organisations on the municipality’s database, including ratepayer associations, community-based organisations and organised business. The opportunity to give electronic feedback was also communicated on the Municipality’s website.

Ward Committees will be utilised to facilitate the community consultation process in April 2016. The applicable dates and venues will be published in all the local newspapers. Additional initiatives will be launched during the consultation process, including the specific targeting of ratepayer associations. Individual sessions will be scheduled with organised business and imbizo’s will be held to further ensure transparency and interaction. Other stakeholders involved in the consultation included churches, non-governmental institutions and community-based organisations.

## Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality’s response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

* Green Paper on National Strategic Planning of 2009;
* Government Programme of Action;
* Development Facilitation Act of 1995;
* Provincial Growth and Development Strategy (GGDS);
* National and Provincial spatial development perspectives;
* Relevant sector plans such as transportation, legislation and policy;
* National Key Performance Indicators (NKPIs);
* Accelerated and Shared Growth Initiative (ASGISA);
* National 2014 Vision;
* National Spatial Development Perspective (NSDP) and
* The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP’s five strategic objectives for the 2016/17 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 22 IDP Strategic Objectives

|  |  |  |  |
| --- | --- | --- | --- |
| **2015/16 Financial Year** | | **2017/18 MTREF** | |
| 1. | The provision of quality basic services and infrastructure | 1. | Provision of quality basic services and infrastructure |
| 2. | Acceleration of higher and shared economic growth and development | 2. | Economic growth and development that leads to sustainable job creation |
| 3. | Fighting of poverty, building clean, healthy, safe and sustainable communities | 3.1 | Fight poverty and build clean, healthy, safe and sustainable communities |
| 3.2 | Integrated Social Services for empowered and sustainable communities |
| 4. | Fostering participatory democracy and adherence to Batho Pele principles through a caring, accessible and accountable service | 4. | Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service |
| 5. | Good governance, Financial viability and institutional governance | 5.1 | Promote sound governance |
| 5.2 | Ensure financial sustainability |
| 5.3 | Optimal institutional transformation to ensure capacity to achieve set objectives |

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
   * Provide electricity;
   * Provide water;
   * Provide sanitation;
   * Provide waste removal;
   * Provide housing;
   * Provide roads and storm water;
   * Provide public transport;
   * Provide city planning services; and
   * Maintaining the infrastructure of the City.
2. Economic growth and development that leads to sustainable job creation by:
   * Ensuring the is a clear structural plan for the City;
   * Ensuring planning processes function in accordance with set timeframes;
   * Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.

3.1 Fight poverty and build clean, healthy, safe and sustainable communities:

* + Effective implementation of the Indigent Policy;
  + Working with the provincial department of health to provide primary health care services;
  + Extending waste removal services and ensuring effective city cleansing;
  + Ensuring all waste water treatment works are operating optimally;
  + Working with strategic partners such as SAPS to address crime;
  + Ensuring save working environments by effective enforcement of building and health regulations;
  + Promote viable, sustainable communities through proper zoning; and
  + Promote environmental sustainability by protecting wetlands and key open spaces.

3.2 Integrated Social Services for empowered and sustainable communities

* + Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme

4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:

* + Optimising effective community participation in the ward committee system; and
  + Implementing Batho Pele in the revenue management strategy.

5.1 Promote sound governance through:

* + Publishing the outcomes of all tender processes on the municipal website

5.2 Ensure financial sustainability through:

* + Reviewing the use of contracted services
  + Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan

5.3 Optimal institutional transformation to ensure capacity to achieve set objectives

* + Review of the organizational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the municipality. The five-year programme responds to the development challenges and opportunities faced by the municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the municipality undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the municipality so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional dormitory settlements. It provides direction to the municipality’s IDP, associated sectoral plans and strategies, and the allocation of resources of the municipality and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

* Developing dormant areas;
* Enforcing hard development lines – so as to direct private investment;
* Maintaining existing urban areas;
* Strengthening key economic clusters;
* Building social cohesion;
* Strong developmental initiatives in relation to the municipal institution as a whole; and
* Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the fourth revised IDP, including:

* Strengthening the analysis and strategic planning processes of the municipality;
* Initiating zonal planning processes that involve the communities in the analysis and planning processes. More emphasis was placed on area based interventions, within the overall holistic framework;
* Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
* Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2016/17 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

## Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee’s performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

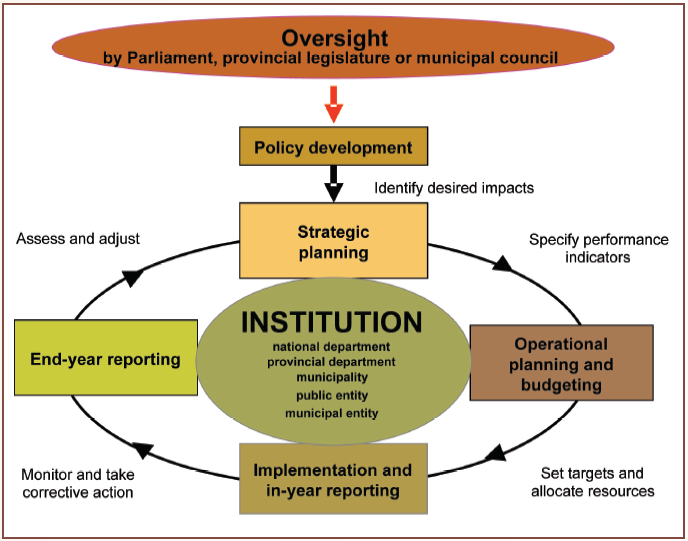


Figure 4 Planning, budgeting and reporting cycle

The performance of the municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The municipality therefore has adopted one integrated performance management system which encompasses:

* Planning (setting goals, objectives, targets and benchmarks);
* Monitoring (regular monitoring and checking on the progress against plan);
* Measurement (indicators of success);
* Review (identifying areas requiring change and improvement);
* Reporting (what information, to whom, from whom, how often and for what purpose); and
* Improvement (making changes where necessary).

The performance information concepts used by the municipality in its integrated performance management system are aligned to the ***Framework of Managing Programme Performance Information*** issued by the National Treasury:

IMPACTS

OUTCOMES

OUTPUTS

INPUTS

ACTIVITIES

The developmental results of achieving specific outcomes

The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs

The final products, or goods and services produced for delivery

The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes

The resources that contribute to the production and delivery of outputs

**What we use to do the work?**

**What we do?**

**What we produce or deliver?**

**What we wish to achieve?**

**What we aim to change?**

**Plan, budget, implement and monitor**

**Manage towards achieving these results**

### Performance indicators and benchmarks

#### Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, uMtshezi Municipality’s borrowing strategy is primarily informed by the affordability of debt repayments. The structure of the municipality’s debt portfolio is dominated by annuity loans. The following financial performance indicators have formed part of the compilation of the 2016/17 MTREF:

* *Capital charges to operating expenditure* is a measure of the cost of borrowing in relation to the operating expenditure. It can be seen that the cost of borrowing has steadily decreased from 1.56 per cent in 2015/16 to 1.1per cent in 2016/17. It is estimated that the cost of borrowing as a percentage of the operating expenditure will reach 1.2 per cent in 2018/19 While borrowing is considered a prudent financial instrument in financing capital infrastructure development, this indicator will have to be carefully monitored going forward as the municipality has reached its prudential borrowing limits.

The municipality’s debt profile provides some interesting insights on the municipality’s future borrowing capacity. Firstly, the use of amortising loans leads to high debt service costs at the beginning of the loan, which declines steadily towards the end of the loan’s term.

In summary, various financial risks could have a negative impact on the future borrowing capacity of the municipality. In particular, the continued ability of the municipality to meet its revenue targets and ensure its forecasted cash flow targets are achieved will be critical in meeting the repayments of the debt service costs. As part of the compilation of the 2016/17 MTREF the potential of smoothing out the debt profile over the longer term will be investigated.

#### Revenue Management

* As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

#### Creditors Management

* The municipality has not managed to ensure that creditors are settled within the legislated 30 days of invoice. While this raises a concern in terms of the liquidity. Notpaying creditors within 30 days and have creditor’s outstanding over 90 days is a sign of weakness in cash flow. However the municipality has daily cash flow management plan which should get the municipality to comply with the 30 days legislation.

### Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the Municipality.

For the 2015/16 financial year 5000 registered indigents have been provided for in the budget with this figured increasing to 7000 by 2017/18. In terms of the Municipality’s indigent policy registered households are entitled to 50 kwh of electricity and free waste removal equivalent to 85ℓ once a week, as well as a discount on their property rates.

Further detail relating to the number of households receiving free basic services, the cost of free basic services, highest level of free basic services as well as the revenue cost associated with the free basic services is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement)

Note that the number of households in informal areas that receive free services and the cost of these services (e.g. the provision of water through stand pipes, water tankers, etc) are not taken into account in the table noted above.

## Overview of budget related-policies

The municipality’s budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

### Review of credit control and debt collection procedures/policies

The Collection Policy as approved by Council in 2015/16 is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the Integrated Indigent Exit Programme aims to link the registered indigent households to development, skills and job opportunities. The programme also seeks to ensure that all departments as well as external role players are actively involved in the reduction of the number of registered indigent households.

The 2016/17 MTREF has been prepared on the basis of achieving an average debtors’ collection rate of 80 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the municipality’s cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy.

### Asset Management Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the municipality’s revenue base. Within the framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.

Further, continued improvements in technology generally allows many assets to be renewed at a lesser ‘real’ cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation. The Asset Management, Infrastructure and Funding Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

### Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 2015/16. An amended policy will be considered by Council in due course of which the amendments will be extensively consulted on.

### Budget and Virement Policy

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the municipality’s system of delegations. The Budget and Virement Policy was approved by Council in 2015/16.

### Cash Management and Investment Policy

The Municipality’s Cash Management and Investment Policy was amended by Council in January 2011. The aim of the policy is to ensure that the Municipality’s surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduces time frames to achieve certain benchmarks.

### Tariff Policies

The Municipality’s tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next two years.

### Financial Modelling and Scenario Planning Policy

The Financial Modelling and Scenario Planning Policy has directly informed the compilation of the 2016/17 MTREF with the emphasis on affordability and long-term sustainability. The policy dictates the approach to longer term financial modelling. The outcomes are then filtered into the budget process. The model and scenario planning outcomes are taken to Council every November and then translate into recommendations for the budget guidelines that inform the compilation of the next MTREF. One of the salient features of the policy is the emphasis on financial sustainability. Amongst others, the following has been modelled as part of the financial modelling and scenario planning process:

* Approved 2015/16 Adjustments Budget;
* Cash Flow Management Interventions, Initiatives and Strategies (including the cash backing of reserves);
* Economic climate and trends (i.e Inflation, household debt levels, indigent factors, growth, recessionary implications);
* Loan and investment possibilities;
* Performance trends;
* Tariff Increases;
* The ability of the community to pay for services (affordability);
* Policy priorities;
* Improved and sustainable service delivery; and
* Debtor payment levels.

All the above policies are available on the uMtshezi municipality’s website, as well as the following budget related policies:

* Property Rates Policy;
* Funding and Reserves Policy;
* Borrowing Policy;
* Budget Policy; and
* Basic Social Services Package (Indigent Policy).

## Overview of budget assumptions

### General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2016/17 MTREF:

* National Government macro economic targets;
* The general inflationary outlook and the impact on municipality’s residents and businesses;
* The impact of municipal cost drivers;
* The increase in prices for bulk electricity; and
* The increase in the cost of remuneration. Employee related costs has been increased by 4.4% as per Circular 75, however, we have seen that in the previous financial and current financial year actual employee related costs exceeds the budgeted amount. We therefore, decided to forecast on actual expenditure trend of this line item. The 4.4% increase is based on the forecasted figures and not on the adjustments budget figure.

### Interest rates for borrowing and investment of funds

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions. The municipality engages in a number of financing arrangements to minimise its interest rate costs and risk. Amortisation schedule were obtained from the financial institutions and used to calculate the finance charges the municipality will incur in the 2016/17.

### Collection rate for revenue services

With the help from Ernst & Young, we have calculated the municipality’s collection rate on Rates, Electricity and Refuse. Both the Debtors and Revenue collection rate were calculated. For cash flow purposes, the Revenue collection rate was used because we felt its more accurate reflection of the income that is collected. The Revenue collection rates were as follows:

* Electricity: 100%
* Refuse: 100%
* Property Rates: 79%

### Salary increases

* The increase in the cost of remuneration. Employee related costs has been increased by prime plus 1% as per Circular 78.

### Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

* Creating jobs;
* Enhancing education and skill development;
* Improving Health services;
* Rural development and agriculture; and
* Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

### Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 97 per cent is achieved on operating expenditure and 98 per cent on the capital programme for the 2016/17 MTREF of which performance has been factored into the cash flow budget.

## Overview of budget funding

### Medium-term outlook: operating revenue

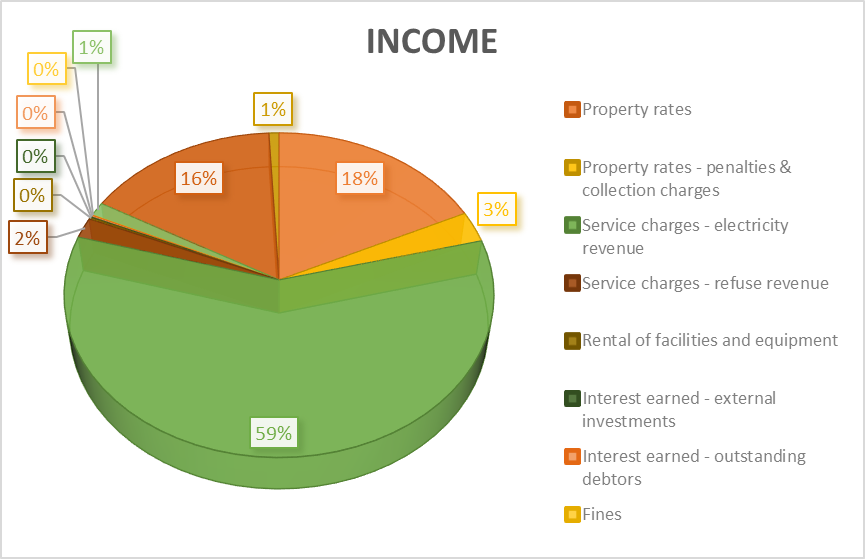
The following table is a breakdown of the operating revenue over the medium-term:

Table 28 Breakdown of the operating revenue over the medium-term



The following graph is a breakdown of the operational revenue per main category for the 2016/17 financial year.

Figure 6 Breakdown of operating revenue over the 2016/17 MTREF



Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The municipality derives most of its operational revenue from the provision of goods and services such as water, electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, licenses and permits etc).

The revenue strategy is a function of key components such as:

* Growth in the city and economic development;
* Revenue management and enhancement;
* Achievement of average 80 per cent annual collection rate for consumer revenue;
* National Treasury guidelines;
* Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
* Achievement of full cost recovery of specific user charges;
* Determining tariff escalation rate by establishing/calculating revenue requirements;
* The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
* And the ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

Table 29 MBRR SA15 – Detail Investment Information



Table 30 MBRR SA16 – Investment particulars by maturity



### Medium-term outlook: capital revenue

The following table is a breakdown of the funding composition of the 2016/17 medium-term capital programme:

Table 31 Sources of capital revenue over the MTREF



The above table is graphically represented as follows for the 2016/17 financial year.

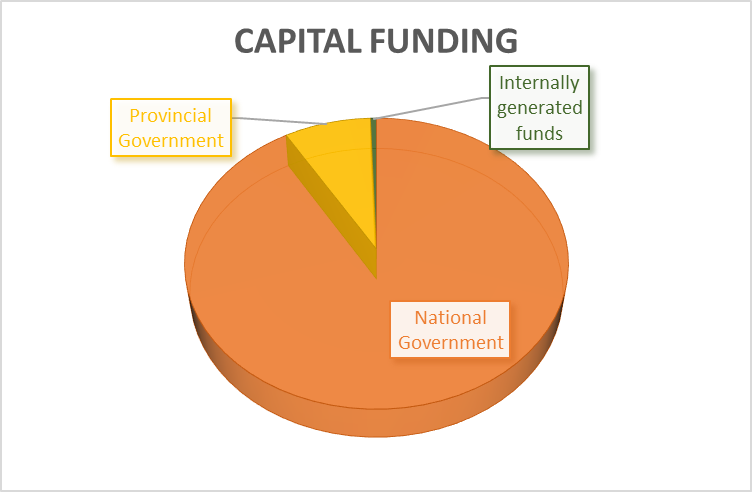


Figure 7 Sources of capital revenue for the 2016/17 financial year

Capital grants and receipts equates to 99 per cent of the total funding source which represents R37.2 million for the 2016/17 financial year.

Table 32 MBRR Table SA 17 - Detail of borrowings



The following graph illustrates the growth in outstanding borrowing for the 2011/13 to 2015/17period.

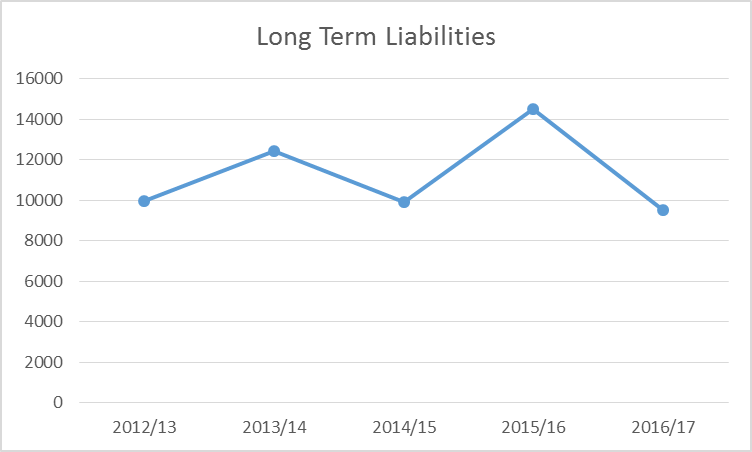


Figure 8 Growth in outstanding borrowing (long-term liabilities)

Long term liabilities increased significantly in the 2015/16 financial year. However the municipality will not be acquiring any liabilities in the near future and the Long Term liability is expected to decrease by the end of the 2016/17 Financial year

Table 33 MBRR Table SA 18 - Capital transfers and grant receipts

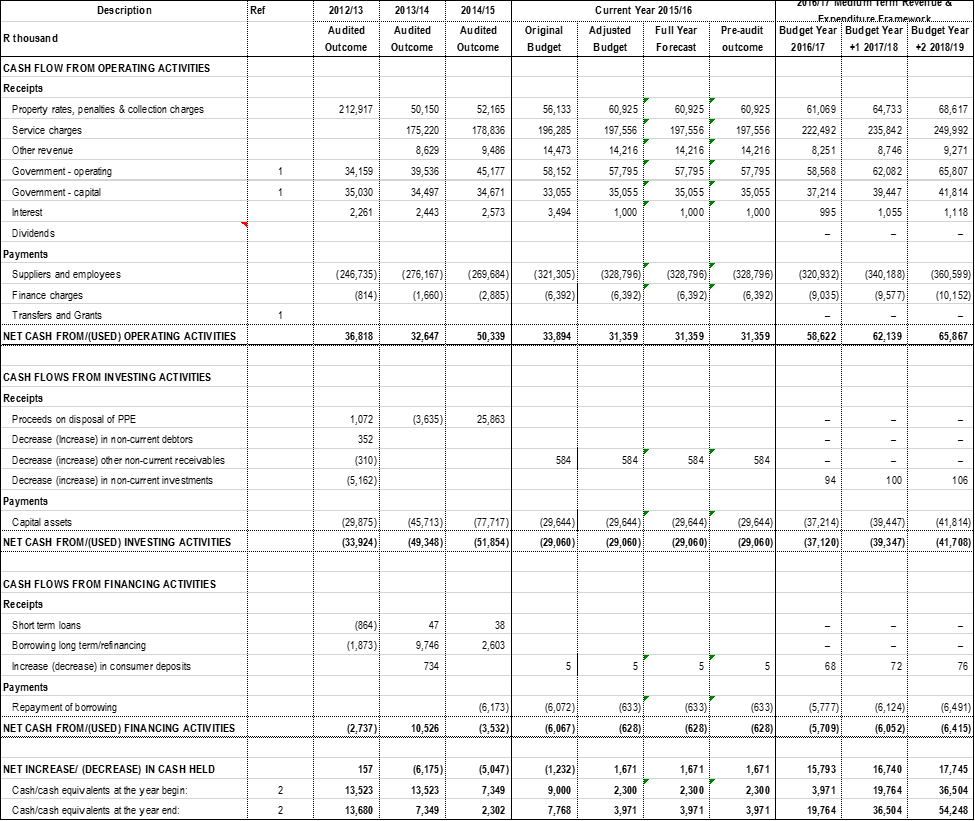


### Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understandability for councilors and management. Some specific features include:

* Clear separation of receipts and payments within each cash flow category;
* Clear separation of capital and operating receipts from government, which also enables cash from ‘Ratepayers and other’ to be provide for as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue., and
* Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Table 34 MBRR Table A7 - Budget cash flow statement



The above table shows that cash and cash equivalents of the municipality have steadily decreased overtime.

Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

* What are the predicted cash and investments that are available at the end of the budget year?
* How are those funds used?
* What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality’s budget must be ‘funded’. Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

### Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA. Each of the measures is discussed below.

Table 36 MBRR SA10 – Funding compliance measurement



#### Cash/cash equivalent position

The municipality’s forecast cash position was discussed as part of the budgeted cash flow statement. A ‘positive’ cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

If the municipality’s forecast cash position is negative, for any year of the medium term budget, the budget is very unlikely to meet MFMA requirements or be sustainable and could indicate a risk of non-compliance with section 45 of the MFMA which deals with the repayment of short term debt at the end of the financial year. The forecasted cash and cash equivalents for the 2016/17 MTREF shows R19.7 million, R36 million and R54 million for each respective financial year.

#### Cash plus investments less application of funds

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The detail reconciliation of the cash backed reserves/surpluses is contained in Table 25. The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

#### Cash receipts as a percentage of ratepayer and other revenue

This factor is a macro measure of the rate at which funds are ‘collected’. This measure is intended to analyse the underlying assumed collection rate for the MTREF to determine the relevance and credibility of the budget assumptions contained in the budget. It can be seen that the outcome is at 79 percent for each of the respective financial years. Given that the assumed collection rate was based on a 97 per cent performance target, the cash flow statement has been conservatively determined. In addition the risks associated with objections to the valuation roll need to be clarified and hence the conservative approach, also taking into consideration the cash flow challenges experienced in the current financial year. This measure and performance objective will have to be meticulously managed. Should performance with the mid-year review and adjustments be positive in relation to actual collections of billed revenue, the adjustments budget will be amended accordingly.

#### Capital payments percentage of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position. It can be seen that a 2 per cent timing discount has been factored into the cash position forecasted over the entire financial year. The municipality aims to keep this as low as possible through strict compliance with the legislative requirement that debtors be paid within 30 days.

#### Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

The municipality is not planning to obtain any borrowing to finance capital in 2016/17.

#### Transfers/grants revenue as a percentage of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 per cent could indicate that not all grants as contained in the Division of Revenue Act (DoRA) have been budgeted for. The City has budgeted for all transfers.

#### Consumer debtors change (Current and Non-current)

The purpose of these measures are to ascertain whether budgeted reductions in outstanding debtors are realistic. There are 2 measures shown for this factor; the change in current debtors and the change in long term receivables, both from the Budgeted Financial Position. Both measures show a relatively stable trend in line with the municipality’s policy of settling debtors accounts within 30 days.

#### Repairs and maintenance expenditure level

In terms of National Treasury’s requirements, the renewal expenditure must be 40% and repairs and maintenance expenditure must be at least 8%. Due to cash flow problems, the municipality cannot afford to meet the standard required by National Treasury at the moment.

#### Asset renewal/rehabilitation expenditure level

This measure has a similar objective to aforementioned objective relating to repairs and maintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project. The objective is to summarise and understand the proportion of budgets being provided for new assets and also asset sustainability. A declining or low level of renewal funding may indicate that a budget is not credible and/or sustainable and future revenue is not being protected, similar to the justification for ‘repairs and maintenance’ budgets. Further details in this regard are contained in Table 59 MBRR SA34b.

## Expenditure on grants and reconciliations of unspent funds

Table 37 MBRR SA19 - Expenditure on transfers and grant programmes



Table 38 MBRR SA 20 - Reconciliation between of transfers, grant receipts and unspent funds



## Councillor and employee benefit

Table 39 MBRR SA22 - Summary of councillor and staff benefits



Table 40 MBRR SA23 - Salaries, allowances and benefits (political office bearers/councillors/ senior managers)

Table 41 MBRR SA24 – Summary of personnel numbers



## Monthly targets for revenue, expenditure and cash flow

Table 42 MBRR SA25 - Budgeted monthly revenue and expenditure



Table 43 MBRR SA26 - Budgeted monthly revenue and expenditure (municipal vote)



Table 44 MBRR SA27 - Budgeted monthly revenue and expenditure (standard classification)



Table 45 MBRR SA28 - Budgeted monthly capital expenditure (municipal vote)



Table 46 MBRR SA29 - Budgeted monthly capital expenditure (standard classification)



Table 47 MBRR SA30 - Budgeted monthly cash flow



## Contracts having future budgetary implications

There is no information on contracts that have future budgetary implications.

## Capital expenditure details

The information pertaining the detailed capital expenditure will be provided in the final annual budget, hence departments didn’t submit in time and the CFO couldn’t meet with those who submitted their capital expenditure.

Table 48 MBRR SA 34a - Capital expenditure on new assets by asset class



Table 49 MBRR SA34b - Capital expenditure on the renewal of existing assets by asset class



**Table 50 MBRR SA34c - Repairs and maintenance expenditure by asset class**



Table 51 MBRR SA35 - Future financial implications of the capital budget



Table 52 MBRR SA36 - Detailed capital budget per municipal vote

Information will be available in final budget 2016/17.

## Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

* + - 1. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the City’s website.

* + - 1. Internship programme

The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department.

* + - 1. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

* + - 1. Audit Committee

An Audit Committee has been established but outsourced.

* + - 1. Service Delivery and Implementation Plan

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2016/17 MTREF in May 2016 directly aligned and informed by the 2016/17 MTREF.

* + - 1. Annual Report

Annual report is compiled in terms of the MFMA and National Treasury requirements.

1. MFMP Training

The MFMP training is currently underway and most senior management are partaking in this training.

1. Policies

An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

## Other supporting documents

Table 53 MBRR Table SA1 - Supporting detail to budgeted financial performance

**Table 64 MBRR Table SA1 - Supporting detail to budgeted financial performance (Continued)**



Table 54 MBRR Table SA2 – Matrix financial performance budget (revenue source/expenditure type and department)



Table 55 MBRR Table SA3 – Supporting detail to Statement of Financial Position



**Other Expenditure Breakdown**



## Municipal manager’s quality certificate

I **E.H Dladla**, municipal manager of **uMtshezi Municipality**, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Acting Municipal manager of **uMtshezi Municipality (KZN234)**

Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_