

11495

TABLED 2017/18 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

*This report served before the Financial Services Portfolio Committee on 30 March 2017.
The recommendations were supported.*

PURPOSE

To submit to Council for approval, the Tabled 2017/18 Budget and Medium Term Revenue and Expenditure Framework (MTREF).

IDP STRATEGY AND OBJECTIVES

NATIONAL KPA 5 : MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT		
GOALS	OBJECTIVES	STRATEGIES
5.1 Sound Financial And Supply Chain Management	5.1.1 Compliance with financial legislation and policies	5.1.1.1 Ensure GRAP compliance 5.1.1.2 SCOA compliant (new reform) 5.1.1.3 Review of all budget related policies 5.1.1.4 Adherence to all MFMA and budget and reporting 5.1.1.5 Compliance with the Supply Chain Management regulation and PPPFA
	5.1.2 Sustainable Financial and supply chain Management	5.1.2.1 Improve internal communication on budget matters 5.1.2.2 Maintenance of fixed asset register 5.1.2.3 Credit control and debt collection 5.1.2.4 Compliant internal controls 5.1.2.5 Compliant grant reporting 5.1.2.6 Obtain targeted cash-backed statutory reserves 5.1.2.7 Development and appropriate training and assistance to employees 5.1.2.8 Identify and redress water and electricity tampering 5.1.2.9 Demand and acquisition management 5.1.2.10 Warehouse management 5.1.2.11 Contract administration

BACKGROUND

The Municipal Finance Management Act (MFMA), 2003 (No 56 of 2003) issues clear guidelines on the contents of the Budget Framework Plan. The Budget Framework Plan for the City of uMhlathuze has been adapted to incorporate these guidelines.

Section 17 of the Act highlights the following issues relating to the contents of the annual budget.

- "1) *The annual budget must be a schedule in the **prescribed format** which should include the following:*
- a) *realistically anticipated revenue for the budget year from each revenue source;*
 - b) *appropriating expenditure for the budget year under the different votes of the municipality;*
 - c) *setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;*
 - d) *setting out-*
 - (i) *both estimated revenue and expenditure by vote for the current year; and*

- (ii) *actual revenue and expenditure by vote for the financial year preceding the current year.*
- e) *A statement containing any other information required by Section 215(3) of the Constitution or as may be prescribed.*
- 2) *The annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed;*
- 3) *When an annual budget is tabled in terms of Section 16(2), it must be accompanied by the following documents:*
 - a) *Draft resolutions-*
 - (i) *Approving the budget of the municipality;*
 - (ii) *Imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and*
 - (iii) *Approving any other matter that may be prescribed;*
 - b) *measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;*
 - c) *a projection of cash flow for the budget year by revenue source, broken down per month;*
 - d) *any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of Section 34 of the Municipal Systems Act;*
 - e) *any proposed amendments to the budget-related policies of the municipality;*
 - f) *particulars of the municipality's investments;*
 - g) *any prescribed budget information on municipal entities under the sole or shared control of the municipality;*
 - h) *particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;*
 - i) *particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;*
 - j) *particulars of any proposed allocations or grants by the municipality to-*
 - (i) *other municipalities;*
 - (ii) *any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;*
 - (iii) *any other organs of state; and*
 - (iv) *any organisations or bodies referred to in section 67(1);*
 - k) *the proposed cost to the municipality for the budget year of the salary, allowances and benefits of-*

- (i) *Each political office-bearer of the municipality;*
- (ii) *councillors of the municipality; and*
- (iii) *the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;*
- l) *the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of-*
 - (i) *each member of the entity's board of directors; and*
 - (ii) *the chief executive officer and each senior manager of the entity; and*
- m) *any other supporting documentation as may be prescribed."*

National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009.

The objectives of the budget formats reforms in terms of these regulations are:

- ❖ To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Municipal Finance Management Act (MFMA).
- ❖ To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.
- ❖ To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability.
- ❖ To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

Specifically for the 2017/18 Budget, Circulars No 85 (**DMS 1176558**) **Annexure L1** issued on 9 December 2016 and 86 (**DMS 1192320**) issued on 8 March 2017 **Annexure L2** are included as part of this report. **These circulars need to be read thoroughly by both the Council and the Administration.**

DISCUSSION

This report and the supporting schedules will be forwarded to National and Provincial Treasury as required in terms of Section 22 (b) (i) of the MFMA in both printed and electronic formats.

National Treasury endeavours to ensure that municipalities prepare a budget document that provides concise and understandable financial and non-financial information which will ensure that informed decisions are made to promote effective financial management and service delivery. By ensuring that the allocation of financial resources is aligned to service delivery targets it will be clear what services are being promised when budgets are approved.

National Treasury decided to create a template called "Batho Pele City" as a guide for municipal officials responsible to produce their real municipal budget documents.

The aim of the Dummy Budget Guide is to provide more detailed guidance on the format and content of a municipal budget so as to ensure full compliance with both the letter and the spirit of Schedule A of the Municipal Budget and Reporting Regulations. The Dummy Budget is

intended to be a template that municipal officials can use as a basis and guide for producing their own municipality's budget documents. Therefore National Treasury fully intends that officials copy the format and be guided by the explanations, the tables, graphs and figures of the Dummy Budget.

CONSOLIDATED OVERVIEW:

Table 1 Consolidated Overview of the 2017/18 MTREF:

Description R thousands	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Total Operating Revenue	2 822 497	2 895 441	3 042 996	3 261 361
Total Operating Expenditure	2 842 746	2 882 744	3 026 497	3 242 848
Surplus/ (Deficit) for the year	(20 249)	12 697	16 499	18 513
Total Capital Expenditure	548 524	521 255	566 774	548 154

The following tables represent the 2017/18 Tabled Capital Budget:

Table 2 Proposed Capital Funding:

Vote Description R thousand	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Funded by:			
National Government	147 305	165 414	195 862
Provincial Government	-	-	-
Transfers recognised - capital	147 305	165 414	195 862
Public contributions & donations	-	-	-
Borrowing	100 000	100 000	-
Internally generated funds	273 950	301 360	352 292
Total Capital Funding	521 255	566 774	548 154

Table 3 2017/18 Medium-term capital budget per Vote:

Vote Description R thousand	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Capital Expenditure - Functional			
<i>Governance and administration</i>	100 299	126 907	58 125
Executive and council	119	220	182
Finance and administration	100 180	126 687	57 943
Internal audit	–	–	–
<i>Community and public safety</i>	66 037	51 822	45 993
Community and social services	48 774	24 280	17 208
Sport and recreation	16 248	27 342	28 575
Public safety	275	–	–
Housing	–	–	–
Health	740	200	210
<i>Economic and environmental services</i>	95 607	110 404	131 147
Planning and development	4 797	9 702	17 842
Road transport	90 810	100 702	113 305
Environmental protection			
<i>Trading services</i>	259 313	277 642	312 889
Energy sources	82 142	89 488	123 483
Water management	88 133	112 917	113 112
Waste water management	86 538	73 737	75 214
Waste management	2 500	1 500	1 080
<i>Other</i>	–	–	–
Total Capital Expenditure - Functional	521 255	566 774	548 154

The following Annexures are included under separate cover and form part of this report:

- **Annexure A (DMS 1192585)** - Budget report that has been prepared using the “Batho Pele City” template;
- **Annexure B1 - B56 (DMS 1190886 and DMS 1192722)** - Municipal Annual Budget and MTREF Supporting Tables;
- **Annexure C (DMS 1191115)** - Tariffs of Charges;
- **Annexure D1 (DMS 1185179)** - Rates Policy;
- **Annexure D2 (DMS 1192558)** - Tariff Policy;
- **Annexure D3 (DMS 1175314)** - Virement (Transfer of funds) Policy;
- **Annexure D4 (DMS 1194879)** - Trade Effluent Management Policy;
- **Annexure E (DMS 1192885)** - 2017/18 Adopted Capital Budget;
- **Annexure F (DMS 1192885)** Component 1: Monthly projections of revenue to be collected for each source;

- **Annexure G (DMS 1192885)** Component 2: Monthly projections of expenditure (operating and capital) and revenue for each Vote;
- **Annexure H1 - H6 (DMS 1192885)** Component 3: Draft annual projections of service delivery targets and performance indicators for each Vote;
- **Annexure I (DMS 1192885)** Component 4: Ward information for Capital expenditure;
- **Annexure J (DMS 1192885)** Component 4: Ward information for operating expenditure;
- **Annexure K (DMS 1192885)** Component 5: Detailed capital works plan broken down by ward over three years;
- **Annexure L1 (DMS 1176558)** - MFMA Budget circular number 74 dated 9 December 2016; and
- **Annexure L2 (DMS 1192320)** - MFMA Budget circular number 75 dated 8 March 2017.

ENVIRONMENTAL IMPLICATIONS

No environmental implications.

FINANCIAL IMPLICATIONS

This is dealt with in detail throughout the Budget Report.

LEGAL IMPLICATIONS

This is dealt throughout the report with references to various Acts and Regulations.

COMMENTS OF THE CHIEF FINANCIAL OFFICER

The Chief Financial Officer has been provided under the Executive Summary contained in **Annexure “A” (DMS 1192585)**.

DISCUSSION BY THE FINANCIAL SERVICES PORFOLIO COMMITTEE ON 30 MARCH 2017

The Chief Financial Officer presented the Tabled 2017/2018 Medium Term Revenue and Expenditure Framework, **DMS 1194372**.

He reported that the Municipal Standard Chart of Accounts will be lodged on 1 July 2017. It bears noting that there is a significant achievement by the Municipality in terms of awarding the minimum of 40% on its procurement budget to the Historically Disadvantaged Individuals in particular Women, Youth and Disabled people. As at 31 December 2016, the Municipality has awarded 20% of tenders to women and 7.8 to Youth owned businesses. In response regarding whether this initiative provides some training to women and youth, it was explained that the Local Economic Development is attending to that aspect.

It was indicated that although the Municipality has received Level 2 Accreditation for housing, the majority of the housing beneficiaries do not pay Property Rates which has a negative impact on the Municipality. The Property rates generate insufficient funding to cover all the costs and thus, the requirement to fund the deficit of R19 million. A mention was made of the Ntambanana households that, as with the rest of Ingonyama Trust Wards there are no rates collected and very little service income. The Chief Financial Officer emphasized the fact that Housing is the competency of the Provincial Government.

Although there was a need for water restriction due to drought the Service Revenue from Water has dropped significantly due to reduction in consumer behaviour/usage. The electricity is the main contributor of income. In the service revenues collected, 53% is from electricity. It bears noting that there was an increase in Solid Waste revenue collection.

In relation to the basic services for indigents, the municipality receives R292 million Equitable Share whereas the actual social package is R316 million which entails that the Municipality utilises some of its own generated funds to bridge the shortfall. All properties had increased and yet the property threshold for the indigent remained at R120 000 which necessitates the receipt for the insufficient funding from the Provincial Government. The Chief Financial Officer assured the Committee that a letter will be forwarded to Province in this regard.

It was noted with concern that in the budget there was no mention of the important infrastructure such as the Sportsfield Flood Lights as well as the budget for the execution of the Security Strategy. The Chief Financial Officer assured the Committee that he would look into the matter and stated that some components of the Security Strategy have been implemented i.e. the Bicycle Patrol project.

Initially in the report, the roll-over funds received referred to 2018/2019 financial year which was dully corrected to reflect **2016/2017** as reflected in recommendation 22 below.

The bone of contention is that the Municipality generates 85% of its budget and that external funding/grants only contributes 15%.

RESOLVED TO RECOMMEND THAT:

1. the Tabled Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the municipality for the Financial Year 2017/18 and indicative for the projected outer years 2018/19 and 2019/20 be approved as set out in the Budget Report **(DMS 1192585)** and in the Budget tables A1 - A10 **(Annexure B1 - B13) (DMS 1190886 and DMS 1192722)**;
2. the 2012-2017 Integrated Development Plan (IDP) (Final) **(DMS 1134690)** be incorporated into the Tabled 2017/18 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
3. the Tabled 2017/18 Medium Term Revenue and Expenditure Framework aligned with the IDP's Developmental Objectives and Goals and the Municipal Regulation on Standard Chart of Accounts (mSCOA) (Government Gazette 37577 dated 22 April 2014) for the City of uMhlathuze be approved as follows:

Description R thousands	Current Year 2016/17	2017/18 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Total Operating Revenue	2 822 497	2 895 441	3 042 996	3 261 361
Total Operating Expenditure	2 842 746	2 882 744	3 026 497	3 242 848
Surplus/ (Deficit) for the year	(20 249)	12 697	16 499	18 513
Total Capital Expenditure	548 524	521 255	566 774	548 154

It be further noted that this Budget in as far as the Municipal's administration ability and financial system capability allowed, is Project based.

4. the following table setting out the surplus/(deficit) across the services be approved:

Description R thousand	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Electricity			
Surplus/(Deficit) for the year	250 753	272 871	277 306
Water			
Surplus/(Deficit) for the year	(27 275)	(23 516)	(15 322)
Waste water management			
Surplus/(Deficit) for the year	(28 930)	(22 444)	(20 507)
Waste management			
Surplus/(Deficit) for the year	7 898	9 200	11 213
Other Services			
Surplus/(Deficit) for the year	(189 749)	(219 613)	(234 176)
Total			
Surplus/(Deficit) for the year	12 697	16 499	18 513

5. in terms of Section 2(3) of the Local Government: Municipal Property Rates Act the following property rates for the 2017/18 financial year is approved:

Category	Proposed tariff (from 1 July 2017)	Ratio to Residential Tariff
	c	
Residential Properties	0,0091	1 : 1,00
Business / Commercial	0,0191	1 : 2,10
Industrial	0,0199	1 : 2,20
Agricultural Properties	0,0022	1 : 0,25
Public Service Purposes (State Owned)	0,0105	1 : 1,10
Public Service Infrastructure	0,0022	1 : 0,25
Public Benefit Organisation Properties	0,0022	1 : 0,25
Mining Properties	0,0209	1 : 2,30
Vacant Land	0,0160	1 : 1,75

6. on application by the relevant rate payers the following rebates be applied subject to the provisions contained in the Rates Policy:
- Agricultural properties - 5%
 - Non Profit Organisations - 20%
7. The following in terms of the 2017/18 Property Rates Ratio be approved:
- Vacant Land Category - New ratio 1:1,75;
8. the Rates Policy as contained in **Annexure D1 (DMS 1185179)** be approved;
9. in addition to the statutory R15 000 reduction in the valuation on residential properties a further reduction of R105 000 of the valuation on all developed residential properties valued at R400 000 and below be made;
10. in addition to the reductions in recommendation (8) above and subject to the criteria set out in the Property Rates Policy an additional R150 000 reduction in the value of the primary residential property belonging to a pensioner or a social grantee be made;

11. in accordance with the implementation of the universal approach of the indigent policy improved residential property valued at R120 000 or less will be exempted from refuse and sewer charges. The following sliding scale will be applied for charges on improved residential properties higher than R120 000 on the following basis:
 - a) Properties valued between R120 001 and R170 000 will receive a rebate of 25% in respect of the sewer and refuse charges.
 - b) Properties valued at R170 001 and higher will pay the normal tariff.
12. the amendment of the Tariff of Charges as per Annexure C (DMS 1191115) be approved;
13. the Tariff Policy as per Annexure D2 (DMS 1192558) be approved;
14. it be noted that the average increase in tariffs for a house hold that pays for the full basket of municipal services is below 6%;
15. the revised Virement Policy (Transfer of funds) as per Annexure D3 (DMS 1175314) be approved;
16. the prepaid electricity tariffs for excess purchases over the individual consumer's average monthly electricity prepaid purchases for the 2017/18 financial year be increased by 10%;
17. any work function or tariff not accommodated in the Tariff of Charges be dealt with as cost plus 20%;
18. the property rates and tariff adjustments as set out above be dealt in terms of Section 14 of the Local Government: Property Rates Act and Section 24 of the Municipal Finance Management Act 2003;
19. the contribution of 10,5% from Electricity Trading Service to Rates and General Service be calculated on total electricity operating expenditure and will be appropriated at the end of the financial year. It be noted that electricity tariffs on average include a Local Government Levy of 10,5%, revenue of which is used to finance the Rates and General services i.e. all municipal services other than trading services;
20. the profit on sale of all erven be allocated 100% to the Rates and General Capital Replacement Reserve account as applicable from 1 July 2013;

21. in terms of various policies the following increases in allowances are submitted to Council for approval:

	Approved 2016/17 Tariffs	Proposed Tariffs - 2017/18
	R	R
Standby - Travel allowance (no increase)	91	96
Standby - Subsistence allowance (no increase)	59	63
Subsistence allowances (no increase)		
Daily allowance	128	136
Overnight allowance	171	181
Own accommodation	235	249
Accommodation (no increase)		
All employees	1 070	1 134
All councillors and Section 56 employees	1 792	1 900
Municipal Manager, Mayor/ Deputy Mayor, Speaker and Municipal Chief Whip	2 991	3 170
Ward committee members	1 202	1 274
Indigent Burial Assistance		
Adult	2 310	2 449
Child (1 day to 15 years)	1 732	1 836
Stillborn / fetus	1 155	1 224

22. in terms of various unspent conditional grants received from the National Fiscus Council hereby requests that the Municipal Manager via letters to the respective transferring officers apply for a roll-over of funds received in **2016/17** financial year to the next financial year, namely the 2017/18 financial year;
23. Council approve the two cents per kilowatt hour tariff on **all business** consumers for the purposes of an Energy Saving Reserve;
24. Council approves the borrowing of R100 million for the 2017/18 budget year and a further R100 million for 2018/19 for capital expenditure, however requirements of MFMA Section 46 will still be followed; and

25. the following meetings are proposed that have been prepared by the Community Facilitation Section for the 2017/18 Budget Public Participation meetings:

CLUSTER	WARDS	AREA	VENUE	PROPOSED DATES	TIME
12	Stakeholders	Stakeholders	R/Bay Civic Centre (Council Chambers)	04 April 2017 (Tuesday)	17:00
1	Ward Committees	Ward Committees	eMpangeni Civic Centre (Hall)	06 April 2017 (Thursday)	17:00
	Amakhosi	Amakhosi	R/Bay Civic Centre (Council Chambers)	07 April 2017 (Friday)	11:00
6, 10 & 11	9, 23, 24, 25, 27, 28, 29, 31, 32, 33	Empangeni, Ngwelezane and Ntambanana	Ngwelezane New Sportsfield	09 April 2017 (Sunday)	13:00
2, 3 & 5	1, 2, 3, 4, 5, 6, 7, 8 & 26	Richards Bay and Nseleni	Mzuvukile Sportsfield	23 April 2017 (Sunday)	13:00
4, 7, 8 & 9	10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 30 & 34	eSikhaleni and Vulindela	eSikhaleni TVET (College)	30 April 2017 (Sunday)	13:00