

10751

## TABLED 2016/17 BUDGET AND MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

*This report served before the Financial Services Portfolio Committee on 30 March 2016. The recommendations were supported.*

### PURPOSE

To submit to Council for approval, the Tabled 2016/17 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; and*
  - 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 2016/17 Budget, Circulars No 78 (**DMS 1102834**) **Annexure L1** issued on 7 December 2015) and 79 (**DMS 1117323**) issued on 7 March 2016 **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.

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### 1. **MAYOR'S REPORT**

The Mayor's presented the Executive Summary to Council.

### 2. **BUDGET RELATED RESOLUTIONS**

Refer to the recommendations of this report.

### 3. **EXECUTIVE SUMMARY**

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

The City'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.

In the process of compiling the Tabled 2016/17 MTREF the submissions received from the Departments could be broken down into the following categories:

Scenario	Capital (Own funding)		
	Request	Target	Deficit
	R 000	R 000	R 000
First	581 000	188 000	393 000
Second (based on Budget allocation - no projects)	333 650	333 650	0

Scenario	Operating Budget		
	Revenue	Expenditure	Deficit
	R 000	R 000	R 000
First (excl tariff increases)	2 580 037	3 272 424	(692 387)
Second (excl tariff increases)	2 580 037	2 830 014	(249 977)
Third (excl tariff increases)	2 585 028	2 810 073	(225 045)
Fourth (incl tariff increases)	2 595 757	2 776 142	(180 385)
Fifth (incl tariff increases)	2 612 996	2 729 336	(116 340)
<b>DRAFT TABLE BUDGET</b>	2 635 836	2 629 336	6 500

Subsequent to a meeting held with Senior Management on 11 March 2016, the Municipal Manager together with the Deputy Municipal Manager's called an urgent Management Meeting to discuss the R180 m deficit on the operating budget. This meeting was held on 14 March 2016 starting at 08:00 am. After 4 hours of intensive discussion, budget reductions amounting to R3,1 m could only be identified.

The Chief Financial Officer after consultation with the MM and the DMMs' suggested that departments be tasked to reduce the 2015/16 Adjusted Budget figure by a further R50 million. The due date for submission was end of business on the 15 March 2016.

The following table represents the targets set as well as the Budget reductions achieved by each Department:

Department	Budget Reductions Required	Budget Reductions Achieve	Shortfall
	R 000	R 000	R 000
Infrastructure and Technical Services	28 869	18 106	(10 763)
Community Services	17 855	4 471	(13 384)
Corporate Services	3 101	0	(3 101)
City Development	145	145	-
Municipal Manager	29	30	1
Financial Services	145	338	193
<b>TOTAL</b>	50 144	23 090	(27 054)

As can be seen from the above table, only after further reductions by the Chief Financial Officer could a realistic budget be presented to Council.

A critical review was also undertaken of expenditure on non-core and non-priority spending items in line with National Treasury's Cost containment measures outlined in National Treasury's MFMA circular number 70. Emphasis was placed on providing of funds for the repairs and maintenance expenditure line items.

In light of the above cost containment measures the following expenditure line items were identified as non-core and non-priority:

- Subsistence allowances – no increase of tariffs from 2015/16;
- Accommodation allowances – no increase of tariffs from 2015/16;
- All catering costs – reduce to 10% below 2015/16 Adjusted Budget;
- Security costs – a working team established to identify alternative security measures and thus reduce expenditure to below 2015/16 Adjusted Budget;
- Events costs - reduce to 50% below 2015/16 Adjusted Budget; and
- Cleaning costs – to consider insourcing of service.

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

- Impact of Local Government elections and ensuring financial sustainability;
- The need to reprioritise projects and expenditure within the existing resource envelope. By far the greatest concern here lies with all the services financed by Property Tax (Rates). This tabled budget has the Rates Services sitting with a R210 million deficit;
- The majority of households in uMhlathuze do not pay Property Rates. This because the individual properties within the Ingonyama Trust land are not separately valued and not subject to the Municipal Property Rates Act. This despite the same communities enjoying most of the municipal services that are funded by Rates Income;
- There is no Equitable Share allocation for properties that do not pay Property Rates;
- Service Revenue from Water has dropped significantly due to reduction in usage from the effects of the down-turn in the economy and a reduction due to drought restrictions;
- Financial implications of the demarcation process as well as the uncertainty with regards to the date for the local government elections. The newly demarked area that will be absorbed after local government elections are also made up of Ingonyama Trust land for which individual properties will not be rated;
- The dire need for credible business plans and budget working papers from the service delivery Departments remains a difficult hurdle to overcome;

- Although Employee related costs as a percentage of total Expenditure amounts to 25.5% and appears to be below the 30% industry standard, it is not realistic for uMhlathuze Municipality to be comfortable with this figure because of the high electricity purchase cost which distorts Council's budget figures compares to other secondary cities;
- The reduction in Other Revenue sources for example Agencies Services for vehicle licensing, Traffic Fines, Licenses and Permits is placing unsustainable pressure on Rates. This is particularly anomalous in light of the fact that these fees should increase in an area where population and related vehicle numbers are increasing in yet income is reducing;
- Affordability of capital projects – original allocations had to be reduced as well as the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2016/17 MTREF process;
- The dire need for an efficient and effective business ethic to be applied to all the municipalities business processes regardless of whether the intended outcome of such process is of a social, economic or profit making nature;
- Insufficient capital investment for all major infrastructure improvements; and
- The transition to a new financial system and a new chart of accounts (mSCOA) in this financial year has placed the administration under tremendous strain to compile this budget. The future years outcome however, appears very promising in terms of the mSCOA objectives.

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

- Off-set of R120 m depreciation charges has been applied of a total depreciation cost of R372 m to keep tariffs affordable (Capital redemption on external loans amounts to R142 m, therefore R110 left for the Capital Replacement Reserve). This measure is certainly not sustainable in the long run as it directly reduces accumulations in the Capital Replacement Reserve and increases pressure towards borrowing instead;
- An energy savings fund has been set up as from the 2015/16 electricity tariffs. Two cents per Kilowatt hour is levied on all Enerflex tariffs. Funds made available for this initiative amount to R8.9 m in the 2016/17 MTREF;
- The bulk purchases of electricity are above the National Treasury inflationary guidelines. Although the increases by Eskom and approved by the NERSA are beyond Council's control, this budget is structured such to absorb these excessive increases and keep the majority of electricity tariff increases within 7%;
- Provision has been made to increase the free service charges for Rates, Sewer and Refuse for Poor and Indigent households by increasing the property threshold from R110 000 to R120 000;
- Change to the Rates Ratio for properties classified under the Vacant Land category from 1 : 1,5 to 1 : 1,75 in order to encourage development in the Municipal area;

- Repairs and Maintenance provisions reach the best practice parameters of 8% of Asset Cost and 13% of Operating Expenditure target;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act; and
- Road Resealing of urban roads which historically has been treated as an operating expense is from the 2016/17 MTREF treated as a capital expense funded from the Capital Replacement Reserve. It has also been increased by 80%. (Original 2015/16 – R20 m to R 36.75 m for 2016/17).

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

Following the tabling of the MTREF, National Treasury will review and make comments on the Tabled budget. This assists the Municipality in ensuring quality when preparing the budget in terms of the MFMA. As indicated in the MFMA Budget Circular No 79, this review is scheduled for 17 May 2016.

National Treasury will normally, from a quality perspective, assess the budget against the following three criteria:

- Credibility;
- Relevance; and
- Sustainability.

The 2016/17 MTREF has been compiled with the above in mind to ensure that key observations by National Treasury during their previous reviews of Multi-year Budgets have been taken care of.

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

Description R thousands	Current Year 2015/16	2016/17 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Total Operating Revenue	2 462 578	2 635 837	2 802 820	2 950 722
Total Operating Expenditure	2 474 871	2 629 337	2 796 321	2 948 073
<b>Surplus/ (Deficit) for the year</b>	<b>(12 293)</b>	<b>6 500</b>	<b>6 499</b>	<b>2 649</b>
<b>Total Capital Expenditure</b>	<b>501 161</b>	<b>479 397</b>	<b>416 277</b>	<b>447 961</b>



#### 4. **CAPITAL BUDGET SUMMARY**

The 2016/17 Capital Budget amounts to **R479 million** will be financed from the following sources:

Vote Description	Current Year 2015/16	2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>Funded by:</b>				
National Government	159 878	145 747	180 790	210 544
Provincial Government	100 312	–	–	–
<b>Transfers recognised - capital</b>	<b>260 190</b>	<b>145 747</b>	<b>180 790</b>	<b>210 544</b>
<b>Public contributions &amp; donations</b>	<b>1 115</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Borrowing</b>	<b>137 236</b>	<b>200 000</b>	<b>100 000</b>	<b>100 000</b>
<b>Internally generated funds</b>	<b>102 619</b>	<b>133 650</b>	<b>135 488</b>	<b>137 417</b>
<b>Total Capital Funding</b>	<b>501 161</b>	<b>479 397</b>	<b>416 277</b>	<b>447 961</b>

Vote Description	Current Year 2015/16	2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	Adjusted Budget	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>Capital Expenditure - Standard</b>				
<b>Governance and administration</b>	<b>65 674</b>	<b>43 000</b>	<b>25 820</b>	<b>25 820</b>
Executive and council	–	–	100	100
Budget and treasury office	422	–	–	–
Corporate services	65 252	43 000	25 720	25 720
<b>Community and public safety</b>	<b>188 950</b>	<b>39 724</b>	<b>72 018</b>	<b>72 962</b>
Community and social services	25 039	13 000	24 480	24 480
Sport and recreation	38 173	25 724	30 538	31 482
Public safety	18 359	–	16 800	16 800
Housing	104 212	1 000	200	200
Health	3 167	–	–	–
<b>Economic and environmental services</b>	<b>48 762</b>	<b>117 108</b>	<b>78 360</b>	<b>81 519</b>
Planning and development	476	7 000	600	600
Road transport	46 997	110 108	77 660	80 819
Environmental protection	1 290	–	100	100
<b>Trading services</b>	<b>197 774</b>	<b>279 566</b>	<b>240 079</b>	<b>267 660</b>
Electricity	28 465	128 900	43 200	45 200
Water	117 204	103 043	122 308	145 830
Waste water management	50 576	44 122	58 671	60 730
Waste management	1 530	3 500	15 900	15 900
<b>Other</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total Capital Expenditure - Standard</b>	<b>501 161</b>	<b>479 397</b>	<b>416 277</b>	<b>447 961</b>

## 5. OPERATING BUDGET SUMMARY

The following tables summarise the expenditure and revenue budgets by category and source respectively:

Description R thousand	Current Year 2015/16		2016/17 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2016/17	%	Budget Year +1 2017/18	%	Budget Year +2 2018/19	%
<b>Revenue By Source</b>								
Property rates	374 178	15.2%	402 140	15.3%	428 181	15.3%	449 879	15.2%
Service charges - electricity revenue	1 336 170	54.3%	1 424 840	54.1%	1 505 505	53.7%	1 581 210	53.6%
Service charges - water revenue	268 270	10.9%	265 520	10.1%	284 520	10.2%	299 100	10.1%
Service charges - sanitation revenue	81 200	3.3%	86 820	3.3%	95 330	3.4%	98 650	3.3%
Service charges - refuse revenue	67 137	2.7%	71 020	2.7%	78 640	2.8%	81 000	2.7%
Rental of facilities and equipment	11 524	0.5%	12 099	0.5%	12 865	0.5%	13 656	0.5%
Interest earned - external investments	21 982	0.9%	29 000	1.1%	30 740	1.1%	32 584	1.1%
Interest earned - outstanding debtors	90	0.0%	100	0.0%	110	0.0%	120	0.0%
Fines	3 732	0.2%	3 732	0.1%	3 953	0.1%	4 133	0.1%
Licences and permits	3 607	0.1%	3 631	0.1%	3 847	0.1%	3 986	0.1%
Agency services	7 000	0.3%	7 000	0.3%	7 100	0.3%	7 200	0.2%
Transfers recognised - operational	258 723	10.5%	298 237	11.3%	318 355	11.4%	343 274	11.6%
Other revenue	28 965	1.2%	31 698	1.2%	33 672	1.2%	35 928	1.2%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>2 462 577</b>	<b>100.0%</b>	<b>2 635 837</b>	<b>100.0%</b>	<b>2 802 820</b>	<b>100.0%</b>	<b>2 950 721</b>	<b>100.0%</b>

Description R thousand	Current Year 2015/16		2016/17 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	%	Budget Year 2016/17	%	Budget Year +1 2017/18	%	Budget Year +2 2018/19	%
<b>Expenditure By Type</b>								
Employee related costs	629 901	25.5%	670 969	25.5%	725 607	25.9%	787 155	26.7%
Remuneration of councillors	24 729	1.0%	26 462	1.0%	26 584	1.0%	28 711	1.0%
Debt impairment	3 064	0.1%	6 950	0.3%	7 339	0.3%	7 745	0.3%
Depreciation & asset impairment	205 014	8.3%	252 373	9.6%	298 616	10.7%	325 244	11.0%
Finance charges	79 806	3.2%	80 335	3.1%	80 611	2.9%	73 634	2.5%
Bulk purchases	1 063 124	43.0%	1 128 615	42.9%	1 173 760	42.0%	1 220 711	41.4%
Other materials	136 898	5.5%	113 192	4.3%	117 720	4.2%	122 428	4.2%
Contracted services	104 254	4.2%	129 310	4.9%	130 669	4.7%	132 546	4.5%
Transfers and grants	14 018	0.6%	12 681	0.5%	13 188	0.5%	13 716	0.5%
Other expenditure	214 064	8.6%	208 451	7.9%	222 228	7.9%	236 182	8.0%
<b>Total Expenditure</b>	<b>2 474 871</b>	<b>100.0%</b>	<b>2 629 337</b>	<b>100.0%</b>	<b>2 796 321</b>	<b>100.0%</b>	<b>2 948 073</b>	<b>100.0%</b>

The percentage increase of revenue in the 2016/17 Operating budget is as follows:

Service	Percentage
Property rates	7.47
Sanitation	6.92
Solid Waste	5.78
Water	-1.03
Electricity	6.64
General	3.02

After taking into account the tariff increases as mentioned in the table above, the following are the applicable Monthly Accounts for Household accounts:

Description	2016/17 Medium Term Revenue & Expenditure Framework	
	Budget Year 2016/17 % incr.	Budget Year 2016/17
<b>Rand/cent</b>		
<b><u>Monthly Account for Household - 'Middle Income Range'</u></b>		
<b>Rates and services charges:</b>		
Property rates	6.4%	473.79
Electricity: Consumption	7.3%	1 366.70
Water: Basic levy	6.0%	18.60
Water: Consumption	6.0%	232.40
Sanitation	6.0%	154.40
Refuse removal	6.0%	112.87
<b>sub-total</b>	<b>6.8%</b>	<b>2 358.76</b>
VAT on Services		263.90
<b>Total large household bill:</b>	<b>6.8%</b>	<b>2 622.66</b>
<b>% increase/-decrease</b>		<b>6.8%</b>
<b><u>Monthly Account for Household - 'Affordable Range'</u></b>		
<b>Rates and services charges:</b>		
Property rates	6.4%	335.46
Electricity: Consumption	7.2%	739.10
Water: Basic levy	6.0%	18.60
Water: Consumption	6.0%	177.01
Sanitation	6.0%	154.40
Refuse removal	6.0%	112.37
<b>sub-total</b>	<b>6.7%</b>	<b>1 536.94</b>
VAT on Services		168.21
<b>Total small household bill:</b>	<b>6.7%</b>	<b>1 705.15</b>
<b>% increase/-decrease</b>		<b>6.7%</b>
<b><u>Monthly Account for Household - 'Indigent' Household receiving free basic services</u></b>		
<b>Rates and services charges:</b>		
Property rates	6.4%	131.42
Electricity: Consumption	7.3%	10.72
Water: Basic levy	6.0%	18.60
Water: Consumption	6.0%	97.97
Sanitation	6.0%	154.40
Refuse removal	6.0%	111.88
<b>sub-total</b>	<b>6.2%</b>	<b>524.99</b>
VAT on Services		55.10
<b>Total small household bill:</b>	<b>6.2%</b>	<b>580.09</b>
<b>% increase/-decrease</b>		<b>6.1%</b>

The information contained in the table is based on the following:

- Middle income range - Property value of R700 000, 1 000 kWh electricity and 30 kl water
- Affordable range - Property value of R500 000 and R700 000, 500 kWh electricity and 25 kl water

- Indigent and Poor Household - Property value of R 300 000, 350 kWh electricity and 20 kl water (50 kWh electricity and 6 kl water free).

## 6. **MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS**

Section 69(3)(a) of the Municipal Finance Management Act, 2003 (MFMA) requires the Accounting Officer to submit a Draft Service Delivery and Budget Implementation Plan (SDBIP) to the Mayor no later than 14 days after the approval of the budget and drafts of the performance agreement as required in terms of section 57 (1) (b) of the Municipal Systems Act. The Mayor must subsequently approve the SDBIP no later than 28 days after the approval of the budget in accordance with Section 53(1)(c)(ii) of the MFMA.

Section 1 (1) of the MFMA defines the Service Delivery and Budget Implementation Plan (SDBIP) as:

*“a detailed plan approved by the mayor of a municipality in terms of Section 53(1)(c)(ii) for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate-*

- (a) *projections for each month of-*
  - (i) *revenue to be collected, by source;*
  - (ii) *operational and capital expenditure, by vote; and*
- (b) *service delivery targets and performance indicators for each quarter.”*

The SDBIP provides the vital link between the Mayor, Council (executive) and the Administration, and facilitates the process for holding management accountable for its performance. The SDBIP is a management, implementation and monitoring tool that will assist the Mayor, Councillors, Municipal Manager, Senior Managers and community.

A properly formulated SDBIP will ensure that appropriate information is circulated internally and externally for purposes of monitoring the execution of the budget, performance of senior management and achievement of the strategic objectives set by council.

It enables the Municipal Manager to monitor the performance of Senior Managers, the Mayor to monitor the performance of the Municipal Manager, and for the community to monitor the performance of the Municipality.

The SDBIP should therefore determine (and be consistent with) the performance agreements between the Mayor and the Municipal Manager and the Municipal Manager and Senior Managers determined at the start of every financial year and approved by the Mayor.

The SDBIP has been segmented into five components. These are:

- ❑ Component 1: Monthly projections of revenue to be collected for each source; **Annexure F (DMS 1117929)**
- ❑ Component 2: Monthly projections of expenditure (operating and capital) and revenue for each vote; **Annexure G (DMS 1117929)**
- ❑ Component 3: Draft annual projections of service delivery targets and performance indicators for each vote; **Annexure H1 - 7 (DMS 1117929)**
- ❑ Component 4: Ward information for Capital expenditure; **Annexure I (DMS 1117929)**
- ❑ Component 4: Ward information for operating expenditure; **Annexure J (DMS 1117929)** and;

- ❑ **Component 5: Detailed capital works plan broken down by ward over three years.**  
**Annexure I (DMS 1117929)**

It is vitally important for Council to note that these components of the SDBIP are primary indicators of the Municipality's performance on the annual budget. In this regard Councillors are encouraged to scrutinise the various components and pose questions where it is deemed necessary. This form of in-year monitoring should be able to uncover major problems and is aimed at ensuring that the Mayor and Municipal Manager are taking corrective steps when any unanticipated problems arise. The SDBIP thus serves a critical role to focus both the administration and Council on outputs by providing clarity of service delivery expectations, expenditure and revenue requirements, service delivery targets and performance indicators.

## **7. SUPPORTING ANNEXURES**

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

- **Annexure A (DMS 1117322 - outstanding)** - Budget report that has been prepared using the "Batho Pele City" template to be tabled to Council during a Special Council meeting in April 2016;
- **Annexure B1 – B13 (DMS 1117897)** – Municipal Annual Budget and MTREF Supporting Tables;
- **Annexure C (DMS 1119424)** - Tariffs of Charges;
- **Annexure D1 (DMS 1115997)** – Rates Policy;
- **Annexure D2 (DMS 1059179)** – Tariff Policy;
- **Annexure E (DMS 1117929)** – 2016/17 Capital Budget;
- **Annexure F (DMS 1117929)** - Component 1: Monthly projections of revenue to be collected for each source;
- **Annexure G (DMS 1117929)** - Component 2: Monthly projections of expenditure (operating and capital) and revenue for each vote;
- **Annexure H1 - 7 (DMS 1117929)** - Component 3: Draft annual projections of service delivery targets and performance indicators for each vote;
- **Annexure I (DMS 1117929)** - Component 4: Ward information for Capital expenditure;
- **Annexure J (DMS 1117929)** - Component 4: Ward information for operating expenditure;
- **Annexure I (DMS 1117929)** - Component 5: Detailed capital works plan broken down by ward over three years;
- **Annexure L1 (DMS 1102834)** – MFMA Budget circular number 74 dated 7 December 2015; and
- **Annexure L2 (DMS 1117323)** – MFMA Budget circular number 75 dated 7 March 2016.

## **7. MUNICIPAL MANAGER'S QUALITY CERTIFICATION**

Refer to **Annexure M (DMS 1120569)**.

### **ENVIRONMENTAL IMPLICATIONS**

No environmental implications.

### **FINANCIAL IMPLICATIONS**

This is dealt with in detail throughout the detail 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's comments have been provided under the Executive Summary contained in this report.

### **DISCUSSION BY THE FINANCIAL SERVICES PORTFOLIO COMMITTEE ON 30 MARCH 2016**

The Chief Financial Officer presented the 2016/2017 Budget and Medium Term Revenue and Expenditure Framework, **DMS 1120329**.

The Country's current economy climate presents a major challenge. The Chief Financial Officer indicated that the local economy is equally under stress which is exacerbated by the inheritance of 4 Wards from Ntambanana. He further highlighted the fact that these Wards are from the rural area and thus, not much difference will be made in terms of revenue collections. However, for good governance, the Municipality is obliged to honour its service delivery objectives.

The CFO urged all Departments that in an effort to ease the dependence of revenue collection on electricity, other revenue stream initiatives must be embarked on. It was indicated that other successful municipalities invest by purchasing properties and leasing them to generate revenue. The business sector must be encouraged to invest locally in order to increase revenue. Although the current financial situation is challenging, the bone of contention was that the uMhlathuze Municipality is not grant dependant as it generates 85,4% of the budget through rates, electricity, waste collection etc.

The significant capital projects and the allocation of funds therefor were also noted. It was queried whether the inherited 4 Wards were included in the projects highlighted. The CFO indicated that Municipal Finance Management Act Circular 78 provides guidelines in this regard. It was confirmed that the Optic Fibre Link would benefiteNseleni and eSikhaleni.

It was proposed that the tariff for vacant land be increased to 23,93% as at times pockets of land are not developed for long periods of time preventing the appropriate collection of revenue. The CFO reported that in regard to neglected vacant land, the Municipality cleans such land and bills the land owner. It was also clarified that the proposed increase will not affect the moratorium in terms of the Land Sale Policy that is being reviewed as the proposal refers to the current/existing land and those rate payers.

The decrease in Traffic fines collection was noted with concern and reasons for decrease must be attended to as a matter of urgency. It bears noting that this service charge forms part of efficient revenue management component.

Ward numbers for Cluster 2, 3 and 5 were amended as reflected in Recommendation 23 below.

#### RECOMMENDED THAT:

1. the Tabled Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the municipality for the Financial Year 2016/17 and indicative for the projected outer years 2017/18 and 2018/19 be approved and in the Budget tables A1 - A10 (**Annexure B1 - B13**) (**DMS 1117897**);
2. the 2012/17 Integrated Development Plan (IDP) (Final) (**DMS 820202**) be incorporated into the Tabled 2016/17 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
3. the Tabled 2016/17 Medium Term Revenue and Expenditure Framework aligned with the IDP's Developmental Objectives and Goals for the City of uMhlathuze be approved as follows:

Description  R thousands	Current Year 2015/16	2016/17 Medium Term Revenue & Expenditure Framework		
	Adjusted Budget	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Total Operating Revenue	2 462 578	2 635 837	2 802 820	2 950 722
Total Operating Expenditure	2 474 871	2 629 337	2 796 321	2 948 073
<b>Surplus/ (Deficit) for the year</b>	<b>(12 293)</b>	<b>6 500</b>	<b>6 499</b>	<b>2 649</b>
<b>Total Capital Expenditure</b>	<b>501 161</b>	<b>479 397</b>	<b>416 277</b>	<b>447 961</b>

4. it be noted that the detailed Budget Report (**Annexure A**) contained in **DMS 1117322** will be tabled at a Special Council during April 2016 and thereafter submitted to National and Provincial Treasury;
5. in terms of Section 2(3) of the Local Government: Municipal Property Rates Act the following property rates for the 2016/17 financial year be approved:

Category	Proposed tariff (from 1 July 2016)	Ratio to Residential Tariff
	<b>c</b>	
Residential Properties	0,0083	1 : 1,00
Business / Commercial	0,0174	1 : 2,10
Industrial	0,0181	1 : 2,20
Agricultural Properties	0,0021	1 : 0,25
Public Service Purposes (State Owned)	0,0095	1 : 1,10
Public Service Infrastructure	0,0021	1 : 0,25
Public Benefit Organisation Properties	0,0021	1 : 0,25

Mining Properties	0,0190	1 : 2,30
Vacant Land	0,0145	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 2016/17 Property Rates Ratio be approved-
  - Vacant Land Category – New ratio 1:1,75;
8. the Rates Policy as contained in **Annexure D1 (DMS 1119767)** 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 (9) 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 1119424)** be approved;
13. the Tariff policy as per **Annexure D2 (DMS 1059179)**;
14. the prepaid electricity tariffs for excess purchases over the individual consumer's average monthly electricity prepaid purchases for the 2016/17 financial year be increased by 10%;
15. any work function or tariff not accommodated in the Tariff of Charges be dealt with as cost plus 20%;
16. 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;
17. 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 (all municipal services other than trading services);

18. 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;
19. in terms of various policies the following increases in allowances are submitted to Council for approval:

	Approved 2015/16 Tariffs	Proposed Tariffs - 2016/17
	R	R
Standby - Travel allowance (no increase)	91	91
Standby - Subsistence allowance (no increase)	59	59
<b>Subsistence allowances (no increase)</b>		
• Daily allowance	128	128
• Overnight allowance	171	171
• Own accommodation	235	235
<b>Accommodation (no increase)</b>		
• All employees	1 070	1 070
• All councillors and Section 56 employees	1 792	1 792
• Municipal Manager, Mayor/ Deputy Mayor, Speaker and Municipal Chief Whip	2 991	2 991
Ward committee members	1 145	1 202
<b>Indigent Burial Assistance</b>		
Adult	2 200	2 310
Child (1 day to 15 years)	1 650	1 732
Stillborn / foetus	1 100	1 155

20. 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 2015/16 financial year to the next financial year, namely the 2016/17 financial year;
21. Council approves the R120 m offset of depreciation against contributions to Capital Replacement Reserves. The Chief Financial Officer advises that this is sustainable and acceptable only in the short to but not in the medium to long term;
22. Council approve the two cents per kilowatt hour tariff on Enerflex consumers for the purposes of an Energy Saving Reserve;
23. the following meetings are proposed that have been prepared by the Community Facilitation section for the 2016/17 budget public participation meetings:

CLUSTER	WARDS	AREA	VENUE	PROPOSED DATES	TIME
	Amakhosi	Amakhosi	R/Bay Civic Centre (Council Chambers)	06 April 2016 (Wednesday)	14:00
1	Ward Committees	Ward Committees	R/Bay Civic Centre (Auditorium)	7 April 2016 (Thursday)	17:00
10, 11, 5 & 6	24, 25, 27, 28, 29, 9, 23, portion 24	Empangeni and Ngwelezane	Ngwelezane new Sportsfield (Tent)	17 April 2016 (Sunday)	10:00
12	Stakeholders	Stakeholders	Stakeholders	Date to be confirmed	
4, 7, 8 & 9	10, 11, 30, 12,13,14, 15, 16, 17, 18, 19, 20, 21, 22 & 30	eSikhaleni and Vulindela	eSikhaleni College (Tent)	24 April 2016 (Sunday)	10:00
2, 3 & 5	1, 2, 3, 4, 5, 6, 7, 8 & 26	Richards Bay and Nseleni	Mzuvukile Sportsfield (Tent)	8 May 2016 (Sunday)	10:00