

10872

ADOPTED 2016/2017 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

This report is submitted simultaneously to the Financial Services Portfolio Committee, the Executive Committee and Council.

The amendments, if any will be tabled at Council.

PURPOSE

To submit for approval the Adopted 2016/2017 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 2016/2017 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.

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.

Council approved the 2016/2017 Tabled Medium Term Revenue Expenditure Framework (MTREF) on 31 March 2016 in accordance with Resolution 10751.

No changes made to the Operating Tabled Medium Term Revenue Expenditure Framework (MTREF).

CONSOLIDATED OVERVIEW:

Table 1 Consolidated Overview of the 2016/17 MTREF:

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
Surplus/ (Deficit) for the year	(12 293)	6 500	6 499	2 649
Total Capital Expenditure	501 161	479 397	416 277	447 961

It is anticipated that the 2015/16 Capital Budget will be fully spent by the 30 June 2016, as a result of this, no roll-over of capital projects from the 2015/16 to the 2016/17 is necessary.

The following tables represent the 2016/17 Adopted Capital Budget:

Table 2 Proposed Capital Funding:

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
Funded by:				
National Government	159 878	145 747	180 790	210 544
Provincial Government	100 312	–	–	–
Transfers recognised - capital	260 190	145 747	180 790	210 544
Public contributions & donations	1 115	–	–	–
Borrowing	137 236	200 000	100 000	100 000
Internally generated funds	102 619	133 650	135 488	137 417
Total Capital Funding	501 161	479 397	416 277	447 961

Table 3 2016/17 Medium-term capital budget per Vote:

Vote 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
Capital Expenditure - Standard				
<i>Governance and administration</i>	65 674	43 000	25 820	25 820
Executive and council	–	–	100	100
Budget and treasury office	422	–	–	–
Corporate services	65 252	43 000	25 720	25 720
<i>Community and public safety</i>	188 950	39 724	72 018	72 962
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	–	–	–
<i>Economic and environmental services</i>	48 762	117 108	78 360	81 519
Planning and development	476	7 000	600	600
Road transport	46 997	110 108	77 660	80 819
Environmental protection	1 290	–	100	100
<i>Trading services</i>	197 774	279 566	240 079	267 660
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
Total Capital Expenditure - Standard	501 161	479 397	416 277	447 961

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

- **Annexure A (DMS 1129243)** - Budget report that has been prepared using the “Batho Pele City” template;
- **Annexure B1 - B54 (DMS 1128690)** - Municipal Annual Budget and MTREF Supporting Tables;

- **Annexure C (DMS 1129206)** - Tariffs of Charges;
- **Annexure D1 (DMS 1129088)** - Rates Policy;
- **Annexure D2 (DMS 1059179)** - Tariff Policy;
- **Annexure E (DMS 1125593)** - 2016/17 Adopted Capital Budget;
- **Annexure F (DMS 1125593)** Component 1: Monthly projections of revenue to be collected for each source;
- **Annexure G (DMS 1125593)** Component 2: Monthly projections of expenditure (operating and capital) and revenue for each Vote;
- **Annexure H1 - H6 (DMS 1125593)** Component 3: Draft annual projections of service delivery targets and performance indicators for each Vote;
- **Annexure I (DMS 1125593)** Component 4: Ward information for Capital expenditure;
- **Annexure J (DMS 1125593)** Component 4: Ward information for operating expenditure;
- **Annexure K (DMS 1125593)** 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;
- **Annexure L2 (DMS 1117323)** – MFMA Budget circular number 75 dated 7 March 2016; and
- **Annexure M (DMS 1130170)** - Minutes of Public Participation meetings.

The following pertinent issues were raised during the community consultation process. Minutes of the various meetings have been prepared and have been included as **Annexure M (DMS 1130170)**:

- Maintenance of Mandlazini Road;
- Pedestrian bridges;
- Water losses – community reporting issues- delays in resolving issues;
- Rural sports facilities;
- Provision of community sportfields;
- Streetlights in high crime areas;
- Improved communication with regards to water interruption, etc.;
- Sponsorship for agricultural projects;
- Multi-purpose centres to be fully utilised;
- Electricity supply in Eskom supply areas;
- Provision of halls clinics and libraries;
- Introduction of Drought water tariffs;
- Improvements to Richards Bay Fire Station;
- RDP Housing;
- Shopping facilities in eNseleni;
- Water storage tanks (Jo-Jo tanks); and
- Community Waste Skips.

NATIONAL TREASURY BENCHMARK ENGAGEMENT

In terms of the requirements of the Municipal Finance Management Act and as part of its oversight role over Local Government finances, the National Treasury is responsible for reviewing and commenting on the tabled budgets of all non-delegated municipalities prior to their adoption by the respective Municipal Councils.

The tabled budgets of these municipalities are rigorously assessed in terms of quality and compliance with the prescriptions of the MFMA and the Municipal Budget and Reporting Regulations.

From a quality perspective, the budget is assessed in accordance with three criteria, namely:

- **Credibility:** to determine if the budget is funded in terms of Section 18 of the MFMA and whether the municipality adopted a budget process with evidence of sufficient political oversight and public participation. Political oversight and guidance is crucial for the budget process as the approval of the budget is the responsibility of Council and not that of the Budget and Treasury Office. The budget brings effect to Council priorities and hence these priorities should be financially sustainable and Council must ensure that its priorities are affordable from a budgeting perspective. In assessing the credibility of the budget, the revenue planning framework and associated assumptions are interrogated to determine if they are realistic and indicative of multi-year budgeting.
- **Relevance:** to test if the budget is aligned to the reviewed Integrated Development Plan (IDP) of the municipality and the extent to which national and provincial priorities, including MFMA Circulars 78 and 79, were considered.
- **Sustainability:** to determine whether the budget gives effect to the long-term financial and operational sustainability of the municipality. This is crucial as the budget is analysed over the MTREF.

The 2016/2017 Budget Engagement and Municipal Benchmark exercise was held at the National Treasury's Budget Council Room in Pretoria on 17 May 2016.

The following are the **draft key observations** and conclusions extracted from National Treasury's presentation:

1. Municipality must consider borrowing only when it is ready to spend the funding.
2. Municipality must review how it accounted for the loan draw down on Table A7.
3. Municipality must ensure periodic planning on Tables SA 25 to SA 30.

Draft Conclusions:

- *Credibility:*
 - Budget assumptions are realistic.
 - Capital Budget is not multi-year:
 - The Chief Financial Officer provided explanations regarding the Capital Budget and inclusion of the 132kV Oil filled cables in the South Dunes between Hydra and Capella Substations on the 2016/2017 MTREF. National Treasury noted the explanation and their draft conclusions will be revised.
 - Budget funded as per Section 18 of MFMA

- *Relevance:*
 - Budget is aligned to IDP:
 - Alignment of the NDP, provincial and municipality's objectives e.g. efficient and integrated infrastructure and services.
 - Evidence of alignment of the capital budget.
- *Sustainability:*
 - Cash flow sustainable over MTREF
 - Adequate cash coverage

Apart from Key Observation mentioned above, which will be corrected for the Adopted Budget Tables, the Municipality was complimented on its performance.

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 1129243)**.

The recent demarcation of municipal boundaries has increased uMhlathuze's wards from 30 to 34. The increase in wards for the municipality means that services provided by the municipality will have to now include the new wards. The inclusion of the four Wards has a number of implications on the finances of the municipality which both Council and the people of Ntambanana would need to be aware of. Council on 21 April 2016 considered the budget document following a meeting with the MEC for Co-operative Governance and Traditional Affairs held in Richards Bay on 19 April 2016 where it became apparent that the Equitable Share allocated in terms of Division of Revenue Act, 2016 included the three wards from Ntambanana Municipality. This information was verified with National Treasury on the 17 May 2016 during the bench mark exercise.

Furthermore, it was noted that from the 2015/16 DORA allocation there has been no additional allocation in the 2016/2017 MTREF for MIG projects in the three additional wards added to uMhlathuze Municipality. During a Council meeting on 21 April 2016, the following resolution was taken:

- "1. *the detailed Budget Report (**Annexure "A"**) contained in **DMS 1117322**, be approved and submitted to National and Provincial Treasury.*
2. *it be noted that included in the 2016/17 MTREF the following provisions have been included for Ntambanana Municipality:*
 - *R17 863 000 included in the Equitable Share allocation of R263 487 000; and*
 - *R7 286 000 included as a Demarcation Grant.*

3. *it be noted that the population figures based on the Census 2011, relating to the demarcated Wards are as follows:*

- *Ward 5 - 10 710*
- *Ward 7 - 9 819*
- *Ward 8 - 9 474*

Total = 30 003

4. *it be noted that Municipal Infrastructure Grant allocation for Ntambanana Municipality will be finalised with the 2016/17 Adopted MTREF once the projects have been finalised."*

Subsequent to the above a budget roadshow was conducted in Ntambanana Municipality with a view of ensuring that after the elections, the affected wards would be aware of the uMhlathuze Municipality's 2016/2017 MTREF with its budget related policies. During this roadshow Ntambanana Municipality also presented its Draft 2016/17 budget overview. Of note was the fact the Ntambanana had included MIG funds of R15 million which will be followed up to ensure that projects already being implemented are not impeded especially in those wards coming over to uMhlathuze.

Council to note that 17 staff members from Ntambanana Municipality will be joining uMhlathuze Municipality after the elections. The salaries for these staff members coming over to uMhlathuze will be funded the demarcation grant of R7 286 000.

Having said all, Council to note that the final split of revenue, expenditure, assets and liabilities will be concluded during the 2016/2017 financial year, wherein take-on figures will be included into uMhlathuze's financial statements. While calculating the final split Council will be kept up to-date with the information.

National Treasury has issued MFMA Circular No 82 with regards to cost containment measures that Municipalities need implement.

Administration is in the process of finalising a Cost Containment Implementation Plan which will be workshopped with Council before the beginning of the 2016/2017 financial year.

RECOMMENDED THAT:

1. the Adopted 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 2017/2018 and 2018/2019 be approved as set out in the Budget Report **(DMS 1129243)** and in the Budget tables A1 - A10 **(Annexure B1 - B13)** **(DMS 1128690)**;
2. the 2012 - 2017 Integrated Development Plan (IDP) (Final) **(DMS 820202)** be incorporated into the Adopted 2016/2017 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
3. the Adopted 2016/2017 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		
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Total Operating Expenditure	2 474 871	2 629 337	2 796 321	2 948 073
Surplus/ (Deficit) for the year	(12 293)	6 500	6 499	2 649
Total Capital Expenditure	501 161	479 397	416 277	447 961

4. in terms of Section 2(3) of the Local Government: Municipal Property Rates Act the following property rates for the 2016/2017 financial year is approved:

Category	Proposed tariff (from 1 July 2016)	Ratio to Residential Tariff
	c	
Residential Properties	0,0083	1 : 1,00
Business / Commercial	0,0173	1 : 2,10
Industrial	0,0181	1 : 2,20
Agricultural Properties	0,0020	1 : 0,25
Public Service Purposes (State Owned)	0,0095	1 : 1,10
Public Service Infrastructure	0,0020	1 : 0,25
Public Benefit Organisation Properties	0,0020	1 : 0,25
Mining Properties	0,0190	1 : 2,30
Vacant Land	0,0124	1 : 1,75

5. on application by the relevant ratepayers the following rebates be applied subject to the provisions contained in the Rates Policy:
- Agricultural properties - 5%
 - Non Profit Organisations - 20%
6. The following in terms of the 2016/2017 Property Rates Ratio be approved:
- Vacant Land Category – New ratio 1:1,75;
7. the Rates Policy as contained in **Annexure D1 (DMS 1129088)** be approved;
8. 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;
9. 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;

10. 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.
11. the amendment of the Tariff of Charges as per **Annexure C (DMS 1129206)** be approved;
12. the Tariff policy as per **Annexure D2 (DMS 1059179)** be approved;
13. the prepaid electricity tariffs for excess purchases over the individual consumer's average monthly electricity prepaid purchases for the 2016/2017 financial year be increased by 10%;
14. any work function or tariff not accommodated in the Tariff of Charges be dealt with as cost plus 20%;
15. 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;
16. 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);
17. 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;
18. 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
Subsistence allowances (no increase)		
• Daily allowance	128	128
• Overnight allowance	171	171
• Own accommodation	235	235
Accommodation (no increase)		
• 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
Indigent Burial Assistance		
Adult	2 200	2 310
Child (1 day to 15 years)	1 650	1 732
Stillborn / foetus	1 100	1 155

19. 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 2016/2017 financial year;
20. Council approves the R120 million offset of depreciation against contributions to Capital Replacement Reserves. The Chief Financial Officer advises that this is sustainable and acceptable only in the short term but not in the medium to long term; and
21. Council approve the two cents per kilowatt hour tariff on Enerflex consumers for the purposes of an Energy Saving Reserve.