

ANNUAL BUDGET OF

MOQHAKA LOCAL

MUNICIPALITY

2016/17 TO 2018/19

MEDIUM TERM REVENUE AND

EXPENDITURE FORECASTS

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Part 1 – Annual Budget

1.1 Council Resolutions

1. The Council of Moqhaka Local Municipality, acting in terms of section 16 of the Local Government: Municipal Financial Management Act (Act 56 of 2003) tables the budget for the 2016/17 MTREF.

1.2 Executive Summary

National Treasury's MFMA Circular No.78, 79 and 82 were used to guide the compilation of the 2016/17 MTREF.

The compilation of the MTREF remains a huge challenge to balance the budget between the limited revenue resources available and the immense need to provide quality service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth to ensure financial sustainability

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 water, 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 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 a point where services will no-longer be affordable;
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies;
- Availability of affordable capital/borrowing.

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

- The 2015/16 Adjustment 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;

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 2016/17 MTREF

R thousand	Adjustment Budget 2015/16	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Total Operating Revenue	705 047	736 572	779 293	824 492
Total Operating Expenditure	667 123	720 108	761 874	806 062
(Surplus)/Deficit for the year	37 924	16 464	17 419	18 430
Total Capital Expenditure	130 306	102 688	59 088	86 211

Total operating revenue has grown by 4% for the 2016/17 financial year when compared to the 2015/16 Adjustments Budget. This is mainly due to the reduction of the equitable share and the changes in the MSIG grant conditions from being direct into an indirect grant under the COGTA implementation. For the two outer years, operational revenue will increase by 5.8%.

Total operating expenditure for the 2016/17 financial year has been appropriated at R 720 million. When compared to the 2015/16 Adjustments Budget, operational expenditure has grown by 8% in the 2016/17 budget and by 5.8% for each of the respective outer years of the MTREF. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R102 million for 2016/17 that result in a R27 million decrease from 2015/16 Adjustment Budget. The capital budget will be funded from grant funding over MTREF with gazetted grants of R86 million as per the Division of revenue bill 2016/17.

1.3 Operating Revenue Framework

For Moqhaka Local 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 high poverty/unemployment rate.

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;
- Efficient revenue management, which aims to ensure a 95% 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);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The financial sustainability of the 2016/17 MTREF is largely dependent on the collection level of billed income. Provision is made for a **collection level of 85%**. To achieve this collection, Moqhaka Local Municipality is looking to implement more robust credit control measures.

In terms of Council's social commitment to assist the poorer communities in Moqhaka the supply of free basic services and social contributions to identified structures in Moqhaka remains a priority in order to ensure service delivery.

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

Revenue types			
R thousand	Adjustment Budget 2015/16	Budget Year 2016/17	%
Property rates	62,147	65,709	6%
Service Charges:Electricity	293,412	310,081	6%
Service Charges: Water	97,974	95,884	-2%
Service Charges: Sanitation	27,648	33,710	22%
Service Charges: Refuse	22,142	27,801	26%
Rental of Facilities	8,452	8,337	-1%
Interest : External Investments	751	872	16%
Interest: Outstanding Debtors	15,200	16,112	6%
Fines	967	4,719	388%
Transfers Recognised operational	164,291	160,968	-2%
Other Revenue	12,063	12,379	3%
Total Revenue (Excluding capital grants)	705,047	736,572	4%

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 totalled R533 million. Tariffs, rates and surcharges Increase for Municipal Services and other;

- Assessment Rates: 7%
- Electricity: 8%
- Water : 8%
- Sewer: 8%
- Refuse: Average 26%
- Other: 8%

Due to the current drought conditions at Moqhaka Local Municipality, revenues for water distributions have decreased by 2% for the 2016/17 annual budget.

Revenues for waste Management increase by 26%. Although this is way above the inflation rate, the tariff is based on the costs of delivering the service. This is a progressive increase in ensuring that the tariffs are cost reflective.

For a cost reflective tariff, revenue for sewer has increased by 22% from the 2015/16 adjustment budget: the service is currently operating on a loss.

Other revenue consists of various items such as income received from building plan fees, connection fees, and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totals R164 million in the 2015/16 financial year and the grants decrease to R161 million by 2016/17.

Table 3 Summary of revenue classified by municipal votes

Revenue by Municipal Vote				
Vote Description	Adjustment Budget 2015/16	2016/17 MTREF		
		Budget Year 2016/17	Budget year 2017/18	Budget Year 2018/19
R thousand				
Revenue by Vote				
Vote 1 - Councillors	165,047	132,798	140,500	148,649
Vote 2 - Office of the Municipal Manager	-		-	-
Vote 3 - Corporate Services	4,207	919	972	1,029
Vote 4 - Finance	57,884	73,195	77,441	81,932
Vote 5 - Technical Services	428,967	553,664	585,777	619,752
Vote 6 - Community and Emergency Services	48,942	40,451	42,798	45,280
Vote 7 - Local Economic Development and Planning	-	9,089	9,616	10,174
Total Revenue by Vote	705,047	810,117	857,103	906,815

Table 4 Operating Transfers and Grant Receipts

FS201 Moqhaka - Supporting Table SA18 Transfers and grant receipts				
Description	2016/17 MTREF			
	Adjustment Budget 2015/16	Budget Year 2016/17	Budget Year 2017/18	Budget Year 2018/19
R thousand				
RECEIPTS:				
Operating Transfers and Grants				
National Government:	164,291	160,968	162,164	174,363
Local Government Equitable Share	161,083	158,519	160,019	171,963
Municipal Systems Improvement	930	-	-	-
Finance Management	1,675	1,810	2,145	2,400
EPWP Incentive	-	-	-	-
LG Seta	603	639	-	-
Provincial Government:	-	-	-	-
District Municipality:	-	-	-	-
<i>Fezile Dabi District Municipality</i>				
Other grant providers:	-	-	-	-
<i>[insert description]</i>				
Total Operating Transfers and Grants	164,291	160,968	162,164	174,363

Table 5: Capital Grants

Capital expenditure of Transfers and Grants				
Description	2016/17 MTREF			
	Adjustment Budget 2015/16	Budget Year 2016/17	Budget Year 2017/18	Budget Year 2018/19
R thousand				
MIG	38,800	38,349	41,088	43,324
DWA	52,436	40,000	15,000	33,887
DoE (INEP)	-	7,000	3,000	9,000
EPWP (Incentive)	1,151	1,000	-	-
DoE (Energy Efficiency)	211	-	-	-
Total Capital Grants	92,598	86,349	59,088	86,211

1.5 Operating Expenditure Framework

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

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- 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 plans 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 municipal votes):

Table 6 Summary of operating expenditure by municipal votes

Expenditure by Municipal Vote				
Vote Description		2016/17 MTREF		
R thousand	Adjustment Budget 2015/16	Budget Year 2016/17	Budget year 2017/18	Budget Year 2018/19
<i>Expenditure by Vote to be appropriated</i>				
Vote 1 - Councillors	76,545	57,955	61,317	64,873
Vote 2 - Office of the municipal manager	7,580	12,735	13,474	14,256
Vote 3 - Corporate Services	35,962	33,510	35,453	37,510
Vote 4 - Finance	48,500	34,140	36,121	38,216
Vote 5 - Technical Services	408,110	516,338	546,286	577,971
Vote 6 - Community and Emergency Services	90,426	128,489	135,941	143,826
Vote 7 - Local Economic Development and Planning	–	26,823	28,378	30,024
Total Expenditure by Vote	667,123	809,991	856,970	906,674

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

OPERATING EXPENSES			
Description R thousand	Adjustment Budget 2015/16	Budget Year 2016/17	%
Employee Related Cost	198,576	214,458	8%
Remuneration of Councillors	16,596	18,543	12%
Bulk Purchases	214,107	234,531	10%
Contracted Services	29,221	29,774	2%
Repairs and Maintenance	56,093	69,071	23%
Depreciation	21,190	8,712	-59%
Finance charges	2,522	2,699	7%
Contribution to bad debts	5,564	5,898	6%
General Expenses	123,254	136,422	11%
Total Expenditure	667,123	720,108	8%

Remarks

The budgeted allocation for employee related costs for the 2016/17 financial year totals R215 million, which equates to 31% of the total operating expenditure. Based on the multi-year collective SALGBC agreement for the period 01 July 2015 to 30 June 2018, salary increases have been factored into this budget at a percentage increase of 5.5% (Average CPI) plus 1% for the 2016/17 financial year and an additional 0.5% to cover the salary notches increases.

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.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases as approved by NERSA (National Energy Regulator of South Africa) have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

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. 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. This has resulted in a significant increase in depreciation relative to previous years. Due to organisational constraints and the minimal increases in revenues, the municipality had to reduce the budgeted amount on depreciation by 59% on the basis of the item being a non-cash item.

The provision of debt impairment was determined based on an annual collection rate of 85%. While this expenditure is considered to be a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). The municipality is currently servicing the DBSA loan.

Repairs and Maintenance is attributable to the state of the municipal infrastructure assets. The repairs and maintenance for the 2016/17 Budget amounts to 10% of the overall expenditure budget. Budget circular 55 requires the municipality to budget 8% of its PPE for repairs and maintenance, however, the municipality could not implement the circular as it would be impossible to budget 200 million for this line item with the current status of affairs.

1.6 Capital expenditure

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

Table 5: 2016/17 Medium-term capital budget per vote

Vote Description R thousand	2016/17 MTREF			
	Adjustment Budget 2015/16	Budget Year 2016/17	Budget Year 2017/18	Budget Year 2018/19
<u>Capital expenditure - Vote</u>				
-				
Vote 1 - Councillors	532	-	-	-
Vote 2 - Office of the Municipal Manager	104	145	-	-
Vote 3 - Corporate Services	320	605	-	-
Vote 4 - Finance	426	308	-	-
Vote 5 - Technical Services	110,575	93,407	52,925	79,712
Vote 6 - Community and Emergency Services	18,349	8,103	6,163	6,499
Vote 7- Local Economic Development and Planning	-	119	-	-
	130,306	102,688	59,088	86,211
<u>Capital Expenditure - Standard</u>				
<i>Governance and administration</i>	1,278	1,058	-	-
Executive and council	532	145	-	-
Budget and treasury office	426	308	-	-
Corporate services	320	605	-	-
<i>Community and public safety</i>	13,942	6,487	6,163	6,499
Community and social services	1,306	5,745	-	-
Sport and recreation	12,636	742	6,163	6,499
Public safety				
Housing				
Health				
<i>Economic and environmental services</i>	32,514	29,144	15,982	26,702
Planning and development	8	366	-	-
Road transport	32,506	28,778	15,982	26,702
Environmental protection				
<i>Trading services</i>	80,523	63,926	35,260	51,230
Electricity	10,878	8,084	12,000	9,000
Water	38,252	47,722	15,000	33,887
Waste water management	26,986	8,104	-	-
Waste management	4,407	16	8,260	8,343
<i>Other</i>	2,049	2,073	1,683	1,781
<i>PMU Administration</i>	-	2,018	2,038	2,058
<i>Security</i>	-	-	-	-
<i>Community hall</i>	-	-	-	-
Total Capital Expenditure - Standard	130,306	102,688	59,088	86,211

Funded by:				
National Government	92,598	86,349	59,088	86,211
Provincial Government				
District Municipality				
Internally generated funds	37,708	16,339	-	-
Transfers recognised – capital	92,598	86,349	59,088	86,211
Internally generated funds	37,708	16,339	-	-
Total Capital Funding	130,306	102 688	59,088	86,211

The following table is a summary of the own funding on capital expenditure:

CAPITAL BUDGET (Own Funds)								
R thousand	Political Offices	Municipal Manager	Finance Services	Corporate Services	Technical Services	Community & Social Services	LED	TOTAL
Fleet, Furniture, Heavy Machinery and Equipment	-	145,000	308,000	315,000	2,773,721	4,515,724	119,250	8,176,695
Software				40,000				40,000
Hardware				250,000				250,000
Pump & Panels					750,000			750,000
Plate Compactor					450,000			450,000
Electric Motor					300,000			300,000
Meters					575,000			575,000
Portable Pumps					250,000			250,000
Water Master Plan					2,000,000			2,000,000
Honey Sucker					876,833			876,833
Site Services Infrastructure					500,000			500,000
Fire Engine						1,800,000		1,800,000
Traffic Signs						100,000		100,000
Road Block Trail						140,000		140,000
Number Recognition						130,000		130,000
Total	-	145,000	308,000	605,000	8,475,554	6,685,724	119,250	16,338,528

For 2016/17 an amount of R86 million has been appropriated for the development of infrastructure. In the outer years this amount totals R59 million and R 86 million respectively for each of the financial years. Highest allocation is towards storm water infrastructure at R47 million followed by roads at R28 million and then waste water at R8.1 million.

1.7 Cash flow Statement

FS201 Moqhaka - Table A7 Budgeted Cash Flows				
Description	Ref	2016/17 Medium Term Revenue & Expenditure Framework		
		Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand				
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates, penalties & collection charges		65,709	69,520	73,553
Service charges		397,354	420,401	444,784
Other revenue		19,039	20,143	21,312
Government - operating	1	160,968	170,304	180,182
Government - capital	1	86,349	59,088	86,211
Interest		14,567	15,412	16,306
Dividends		-	-	-
Payments				
Suppliers and employees		(659,541)	(696,794)	(733,208)
Finance charges		(2,699)	(2,856)	(3,021)
Transfers and Grants	1	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		81,747	55,219	86,118
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE		-	-	-
Decrease (Increase) in non-current debtors		-	-	-
Decrease (increase) other non-current receivables		-	-	-
Decrease (increase) in non-current investments		-	-	-
Payments				
Capital assets		(102,688)	(59,088)	(86,211)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(102,688)	(59,088)	(86,211)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans		-	-	-
Borrowing long term/refinancing		-	-	-
Increase (decrease) in consumer deposits		-	-	-
Payments				
Repayment of borrowing		(3,200)	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES		(3,200)	-	-
NET INCREASE/ (DECREASE) IN CASH HELD				
Cash/cash equivalents at the year begin:	2	30,560	6,419	2,551
Cash/cash equivalents at the year end:	2	6,419	2,551	2,457

The cash flow has been projected on the collection rate of 85% on revenues except for the operating and capital grants. The municipality has also made provision to meet 100% of its obligations to the extent where possible however 85% percent for other expenditure has been provisioned.