

ANNUAL BUDGET OF

MOQHAKA LOCAL

MUNICIPALITY

2015/16 TO 2017/18

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 2015/16 MTREF.

1.2 Executive Summary

National Treasury's MFMA Circular No.70, 72, 74, and 75 were used to guide the compilation of the 2015/16 MTREF.

The main challenges experienced during the compilation of the 2015/16 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 2015/16 MTREF:

- The 2014/15 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 2015/16 annual budget;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/16 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2015/16 MTREF

R thousand	Adjustments Budget 2014/15	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Total Operating Revenue	628 699	675 251	715 091	755 136
Total Operating Expenditure	615 013	670 056	709 589	749 326
<i>(Surplus)/Deficit for the year</i>	(13 686)	(5 194)	(5 502)	(5 810)
Total Capital Expenditure	112 250	53 250	52 903	-

Total operating revenue has grown by 7% for the 2015/16 financial year when compared to the 2014/15 Adjustments Budget. For the two outer years, operational revenue will increase by 5.9% and 5.6%.

Total operating expenditure for the 2015/16 financial year has been appropriated at R670 million and translates into a budgeted surplus of R5 million. When compared to the 2014/15 Adjustments Budget, operational expenditure has grown by 9% in the 2015/16 budget and by 5.9% and 5.6% 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 R53 million for 2015/16 that result in a R59 million decrease from 2014/15 Adjustment Budget. The capital budget will be funded from grant funding over MTREF with gazetted grants of R53 million as per the DORA allocation for 2015/16.

NB: THE 2015/16 DORA WAS NOT YET REALESE DURING THE PREPARATION OF THE DRAFT 2015/16 ANNUAL BUDGET. THE 2014/15 DORA WAS USED IN THIS REGARD. THE DRAFT 2015/16 BUDGET WILL BE UPDATED WITH THE FINAL FIGURES OF THE DORA AS SOON AS IT IS PUBLISHED.

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 following table is a summary of the 2015/16 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Revenue types			
R thousand	Adjustment Budget 2014/15	Budget Year 2015/16	%
Property rates	58,150	61,895	6%
Service Charges: Electricity	250,253	279,032	11%
Service Charges: Water	87,317	93,086	7%
Service Charges: Sanitation	24,481	25,950	6%
Service Charges: Refuse	17,139	21,968	28%
Rental of Facilities	4,963	4,822	-3%
Interest : External Investments	1,001	1,059	6%
Interest: Outstanding Debtors	4,323	4,323	0%
Fines	792	860	9%
Transfers Recognised operational	171,728	172,436	0%
Other Revenue	8,552	9,820	15%
Total Revenue (Excluding capital grants)	628,699	675,251	7%

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 2015/16 financial year, revenue from rates and services charges totalled R420 million. This increases to R445 million, and R470 million in the respective financial years of the MTREF.

Tariffs, rates and surcharges Increase for Municipal Services and other;

- Assessment Rates: 6%
- Electricity: 12%
- Water : 6%
- Sewer: 6%
- Refuse: Average 28%
- Other: 8%

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 R173 million in the 2015/16 financial year and the grants decrease to R168 million by 2016/17.

Table 3 Summary of revenue classified by municipal votes

Revenue by Municipal Vote				
Vote Description	2015/16 MTREF			
R thousand	Adjustment Budget 2014/15	Budget Year 2015/16	Budget year 2016/17	Budget Year 2017/18
Revenue by Vote				
Vote 1 - Councillors	151,998	151,001	159,910	168,865
Vote 2 - Office of the Municipal Manager	-	-	-	-
Vote 3 - Corporate Services	4,488	4,207	4,455	4,705
Vote 4 - Finance	55,085	57,884	61,299	64,732
Vote 5 - Technical Services	380,953	428,967	454,276	479,716
Vote 6 - Community and Emergency Services	36,175	33,192	35,150	37,119
Total Revenue by Vote	628,699	675,251	715,091	755,136

Table 4 Operating Transfers and Grant Receipts**FS201 Moqhaka - Supporting Table SA18 Transfers and grant receipts**

Description R thousand	2015/16 MTREF			
	Adjustment Budget 2014/15	Budget Year 2015/16	Budget Year 2016/17	Budget Year 2017/18
RECEIPTS:				
<u>Operating Transfers and Grants</u>				
National Government:	171,728	172,436	168,362	-
Local Government Equitable Share	167,294	169,819	165,644	-
Municipal Systems Improvement	934	967	1,018	-
Finance Management	1,600	1,650	1,700	-
EPWP Incentive	1,195	-	-	-
LG Seta	705	-	-	-
Provincial Government:	-	-	-	-
District Municipality:	-	-	-	-
<i>Fezile Dabi District Municipality</i>				
Other grant providers:	-	-	-	-
<i>[insert description]</i>				
Total Operating Transfers and Grants	171,728	172,436	168,362	-

Table 5: Capital Grants**Capital expenditure of Transfers and Grants**

Description R thousand	2015/16 MTREF			
	Adjustment Budget 2014/15	Budget Year 2015/16	Budget Year 2016/17	Budget Year 2017/18
MIG	38,123	39,250	40,903	-
DWA	39,000	-	-	-
DoE (INEP)	5,000	9,000	7,000	-
EPWP (Incentive)	1,195	-	-	-
DoE (Energy Efficiency)	4,000	5,000	5,000	-
Total Capital Grants	87,318	53,250	52,903	-

1.5 Operating Expenditure Framework

The Municipality’s expenditure framework for the 2015/16 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 2015/16 budget and MTREF (classified per municipal votes):

Table 6 Summary of operating expenditure by municipal votes

Expenditure by Municipal Vote				
Vote Description		2015/16 MTREF		
R thousand	Adjustment Budget 2014/15	Budget Year 2015/16	Budget year 2016/17	Budget Year 2017/18
Expenditure by Vote to be appropriated				
Vote 1 - Councillors	58,154	58,166	61,598	65,047
Vote 2 - Office of the municipal manager	4,164	5,677	6,012	6,349
Vote 3 - Corporate Services	35,520	33,120	35,074	37,038
Vote 4 - Finance	41,011	42,714	45,234	47,767
Vote 5 - Technical Services	364,509	404,404	428,264	452,247
Vote 6 - Community and Emergency Services	111,655	125,975	133,408	140,878
Total Expenditure by Vote	615,013	670,056	709,589	749,326

The following table is a high level summary of the 2015/16 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 2014/15	Budget Year 2014/15	%
Employee Related Cost	181,548	193,144	6%
Remuneration of Councillors	17,201	17,341	1%
Bulk Purchases	188,636	215,268	14%
Contracted Services	21,397	22,890	7%
Repairs and Maintenance	45,091	52,756	17%
Depreciation	24,000	25,344	6%
Finance charges	3,400	3,590	6%
Contribution to bad debts	13,000	14,300	10%
General Expenses	120,740	125,423	4%
Total Expenditure	615,013	670,056	9%

Remarks

The budgeted allocation for employee related costs for the 2015/16 financial year totals R193 million, which equates to 28% of the total operating expenditure. Based on the multi-year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 5.6% for the 2015/16 financial year and an additional 0.4% 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. The revaluation of infrastructure assets which is currently underway will result in a higher depreciation as a result of an expected increase in asset values.

The provision of debt impairment was determined based on an annual collection rate of 80%. 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 2015/16 Budget amounts to 7% of the overall expenditure budget. This is slightly 1% lower than as required rate of 8% that should be set aside for repairs and maintenance.

The departmental breakdown of repairs and maintenance is as follows:

REPAIRS AND MAINTENANCE	
TECHNICAL SERVICES	
Technical Services Admin	4,486
Building Survey	185,445
Roads and Streets	10,634,482
Electricity	9,415,103
Water	16,085,617
Sanitation	7,661,255
TOTAL	43,986,388
COMMUNITY SERVICES	
Refuse	2,155,938
Community Services Admin	5,683
Emergency & Administration	2,065,212
Parks Administration	1,199,676
Mowing Section	40,000
Libraries	217,670
Recreation	1,183,840
	6,868,019
POLITICAL OFFICES	224,416
FINANCE SERVICES	124,975
MUNICIPAL MANAGER	5,000
CORPORATE SERVICES	1,546,927
TOTAL REPAIRS AND MAINTENANCE	52,755,725

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved.

They include amongst others the following with budget amount above R500 000:

GENERAL EXPENDITURE	
Description	Amount
AUDIT FEES (EXT	6,565,870
BANK CHARGES	2,247,844
CHEMICALS	6,762,855
COMMISSION PAID	4,734,691
COMMITTEES WARD	1,471,008
CONFERENCES/SEM	1,649,840
FUEL & LUBRICAN	7,872,904
GRANT EXP - FMG	1,650,000
GRANT EXP - MSI	967,000
INCOME FOREGONE	11,730,518
INDIGENT - CONT	22,147,027
INSURANCE GENER	3,150,500
INSURANCE GENER-EXCESS	578,007
INTERDEPARTMENTAL CHARGES	18,914,178
LABORATORY FEES	2,387,783
LEGAL FEES	1,423,212
LICENSES OTHER	1,802,789
LICENSES VEHICL	521,721
POSTAL SERVICES	1,640,962
PRE-PAID METERS	1,590,000
PRINTING & STAT	2,274,914
PROFESSIONAL FE	3,696,000
PROTECTIVE CLOT	2,220,865
RENT - OFFICE E	1,438,346
RENT - VEHICLES	4,946,800
SALGA MEMBERSHI	1,973,791
SKILLS DEVELOPM	1,299,540
STOCK AND MATER	555,646
TELEPHONE & FAX	961,000
WORKMENS COMPEN	1,170,829

1.6 Capital expenditure

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

Table 5: 2015/16 Medium-term capital budget per vote

FS201 Moqhaka - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding					
Vote Description	2014/15 MTREF				
	R thousand	Adjustment Budget 2014/15	Budget Year 2015/16	Budget Year 2016/17	Budget Year 2017/18
Capital expenditure - Vote					
Vote 1 - Councillors	998	-	-	-	-
Vote 2 - Office of the Municipal Manager	35	-	-	-	-
Vote 3 - Corporate Services	1,633	-	-	-	-
Vote 4 - Finance	874	767	-	-	-
Vote 5 - Technical Services	96,115	53,294	95,159	-	-
Vote 6 - Community and Emergency Services	12,595	-	-	-	-
	112,250	54,061	95,159		
Capital Expenditure - Standard					
<i>Governance and administration</i>	3,540	767	-	-	-
Executive and council	1,033	-	-	-	-
Budget and treasury office	874	767	-	-	-
Corporate services	1,633	-	-	-	-
<i>Community and public safety</i>	4,671	-	9,637	-	-
Community and social services	769	-	-	-	-
Sport and recreation	3,902	-	9,637	-	-
<i>Economic and environmental services</i>	24,483	25,125	28,000	-	-
Planning and development	-	-	-	-	-
Road transport	24,483	25,125	28,000	-	-
Environmental protection					
<i>Trading services</i>	77,526	26,206	56,089	-	-
Electricity	20,477	14,044	24,456	-	-
Water	7,000	4,312	30,000	-	-
Waste water management	42,249	-	-	-	-
Waste management	7,800	7,850	1,633	-	-
<i>Other</i>	2,030	1,963	1,683	-	-
<i>PMU Administration</i>	1,906	1,963	1,633	-	-
<i>Security</i>	50	-	-	-	-
<i>Community hall</i>	74	-	-	-	-
Total Capital Expenditure - Standard	112,250	54,061	95,409		

Vote Description	2014/15 MTREF			
	Adjustment Budget 2014/15	Budget Year 2015/16	Budget Year 2016/17	Budget Year 2017/18
R thousand				
Funded by:				
National Government	47,123	53,250	52,903	–
Internally generated funds	10,001	811		
Total Capital Funding	57,124	54,061	52,903	–

For 2015/16 an amount of R54 million has been appropriated for the development of infrastructure. In the outer years this amount totals R53 million and respectively for each of the financial years. Highest allocation is towards roads and storm water infrastructure at R29 followed by electricity at R14 million and then waste management R8 million.