

ANNUAL BUDGET OF

MOQHAKA LOCAL

MUNICIPALITY

2017/18 TO 2019/20

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 2017/18 MTREF.

1.2 Executive Summary

National Treasury's MFMA Circular No.85 and 86 were used to guide the compilation of the 2017/18 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 2017/18 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 2017/18 MTREF:

- The 2016/17 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 2017/18 annual budget;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2017/18 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2016/17 MTREF

R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Total Operating Revenue	738 804	785 432	832 908	882 318
Total Operating Expenditure	714 889	775 018	821 864	870 619
(Surplus)/Deficit for the year	23 915	10 414	11 044	11 699
Total Capital Expenditure	72 094	76 153	58 061	69 406

Total operating revenue has grown by 6% for the 2017/18 financial year when compared to the 2016/17 Adjustments Budget. This is mainly due to the increase in the municipal equitable share, the increase in the refuse removal revenue which is aimed at improving for the service to be cost reflective as well as the increase in water revenue under which the municipality is currently stable in terms of supplying this service. For the two outer years, operational revenue will increase by 5.7% and 5.6% respectively.

Total operating expenditure for the 2017/18 financial year has been appropriated at R 775 million. When compared to the 2016/17 Adjustments Budget, operational expenditure has grown by 8% in the 2017/18 budget and by 5.7% and 5.6% for each of the respective outer years of the MTREF. The raised surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget amounts to R76 million for 2017/18 which results in a R4 million increase from 2016/17 Adjustment Budget. The capital budget will be funded from grant funding over MTREF with gazetted grants of R66 million as per the Division of Revenue bill 2017/18 and R 9 million from the municipal own funding.

NB: THE 2017/18 DORA WAS NOT PUBLISHED DURING THE PREPARATION OF THE 2017/18 DRAFT BUDGET. THE 2017/18 REVENUE BILL WAS USED IN THIS REGARD. THE DRAFT 2017/18 BUDGET WILL BE UPDATED WITH THE FINAL FIGURES AS SOON AS THE 2017/18 DORA IS UPDATED.

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 2017/18 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 2017/18 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Revenue types			
R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	%
Property rates	67,069	71,161	6%
Service Charges:Electricity	305,759	311,517	2%
Service Charges: Water	96,247	105,872	10%
Service Charges: Sanitation	44,028	47,411	8%
Service Charges: Refuse	28,988	39,873	38%
Rental of Facilities	5,467	7,895	44%
Interest : External Investments	872	1,250	43%
Interest: Outstanding Debtors	16,112	17,079	6%
Fines	2,792	2,960	6%
Transfers Recognised operational	160,968	166,741	4%
Other Revenue	10,502	13,673	30%
Total Revenue (Excluding capital grants)	738,804	785,432	6%

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 2017/18 financial year, revenue from rates and services charges totalled R576 million. Tariffs, rates and surcharges Increase for Municipal Services and other;

- Assessment Rates: 6%
- Electricity: 1.88%
- Water : 10%
- Sewer: 8%
- Refuse: 38%
- Other: 30%

REMARKS

WATER

The municipality is currently stable in terms of supply of water services to the community as opposed to the difficulties the municipality experienced during the 2015/16 financial year when there was a drought, therefore the water service revenue has increased by 10%.

REFUSE

Revenues for waste Management increase by 38% (Residential: 30%- based on stand size and Business: 8%- based on stand value). 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. Also taking into account the basic charge for the rehabilitation of the municipal landfill sites at the end of its useful lives.

SANITATION

For a cost reflective tariff, revenue for sewer has increased by 8% from the 2016/17 adjustment budget: the service is currently operating on a loss.

RENTAL OF FACILITIES

The revenue from rental of facilities increases are informed by the performance in revenue growth in the 2016/17 year which had averaged at 189% as at the preparation of the 2017/18 annual budget. The main contributors to these increases are as the results of rental on buildings, the rental on chalets and rental on grazing camps.

INTEREST ON INVESTMENTS

The revues are mainly based on the interest earned by the municipality from the call account where it keeps the excess funds from conditional grants.

OTHER INCOME

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. The main contributor to the increases in this tariff is the sale of erven.

OPERATING GRANTS

Operating grants and transfers totals R160 million in the 2016/17 financial year and the grants increase to R167 million by 2017/18. This is mainly because of the increase in the municipal equitable share that has increased by R6 million.

Table 3 Summary of revenue classified by municipal votes

Revenue by Municipal Vote				
0		2017/18 MTREF		
R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget year 2018/19	Budget Year 2019/20
Revenue by Vote				
Vote 1 - Councillors	84,376	122,173	129,137	136,369
Vote 2 - Office of the municipal manager	–	–	–	–
Vote 3 - Corporate Services	901	766	810	855
Vote 4 - Finance	74,152	79,617	84,155	88,867
Vote 5 - Technical Services	529,478	569,741	589,664	630,815
Vote 6 - Community and Emergency Services	42,290	53,637	56,694	59,869
Vote 7 - Local Economic Development and Planning	7,607	12,943	13,681	14,447
Total Revenue by Vote	738,804	838,877	874,141	931,223

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

Description	2017/18 MTREF			
	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
R thousand				
RECEIPTS:				
<u>Operating Transfers and Grants</u>				
National Government:	160,968	166,741	187,411	202,651
Local Government Equitable Share	158,519	164,092	185,011	200,251
Finance Management	1,810	2,145	2,400	2,400
LG Seta	639	504	–	–
		–	–	–
		–	–	–
Provincial Government:	–	–	–	–
District Municipality:	–	–	–	–
<i>Fezile Dabi District Municipality</i>				
Other grant providers:	–		–	–
<i>[insert description]</i>				
Total Operating Transfers and Grants	160,968	166,741	187,411	202,651

Table 5: Capital Grants
Capital expenditure of Transfers and Grants

Description R thousand	2017/18 MTREF			
	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Municipal Infrastructure Grant (MIG)	38,349	40,840	43,061	45,406
Regional Bulk Infrastructure	2,000	–	–	–
EPWP	1,000	1,000	–	–
DOE	7,000	5,000	5,000	9,000
Water Services Infrastructure Grant	–	20,000	10,000	15,000
Total Capital Grants	48,349	66,840	58,061	69,406

The Capital grants for the 2017/18 financial year have increased from R48 million in the adjustment budget to R 66 million, this is mainly because the MIG has increased by R 2 million and the introduction of the Water Services Infrastructure Grant of R 20 million.

Capital Projects	Town	Ward	Cost	Grant	Own Funding	Borrowings
MATLWANGTLWANG INTERNAL ROAD	Matlwangtlwang	1	328,280,00	MIG		
STILLFONTEIN: PALLISADE FENCING, ACCESS ROADS/STORMWATER	Maokeng	10	2,124,673,00	MIG		
RAMMULOTSI DEVELOPMENT AND FENCING LANFILL SITE	Rammulotsi	21	7,995,885,00	MIG		
FENCING OF WATER PUMPSTATIONS, RESERVOIRS, BOREHOLE AND TREATMENT WORKS	Whole Municipality	1 to 23	340,488,00	MIG		
FENCING OF WASTE WATER PUMPSTATIONS AND TREATMENT WORKS	Whole Municipality	1 to 23	164,222,00	MIG		
UPGRADING OF STORMWATER SYSTEM AND CHANNELING OF VLEI AREAS	Maokeng	13	1,427,256,00	MIG		
UPGRADING OF LOUBSHERPARK PHASE 2	Maokeng	16	5,982,225,00	MIG		
WATER CONSERVATION	Whole Municipality	1 to 23	12,000,000,00	WIG		
REFURBISHMENT OF VILJOENSKROON WASTE WATER TREATMENT PLANT	Whole Municipality	18 to 23	8,000,000,00	WIG		
UPGRADE OF ELECTRICAL NETWORK: SEEISOVILLE AND PHOMOLONG	Maokeng	8	5,000,000,00	INEP		
INSTALLATION OF SEWER FOR 4000 NEW ERVEN	Rammulotsi	21	4,012,131,00	MIG		
UPGRADING SEWER PUMPSTATIONS	Whole Municipality	1 to 23	7,290,773,00	MIG		
UPGRADING OF 7 WATER PUMPSTATIONS	Whole Municipality	1 to 23	6,991,593,00	MIG		
INSTALLATION OF WATER METERS	Maokeng	3 to 11	2,140,475,00	MIG		
SUBSTATION UPGRADE	Kroonstad	13	300,000,00		Own Funding	
UPGRADING NETTBALL COURT	Kroonstad	13	200,000,00		Own Funding	
SOCCER POLES	Kroonstad	13	200,000,00		Own Funding	

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2017/18 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.

Table 6 Summary of operating expenditure by municipal votes

Expenditure by Municipal Vote				
0		2017/18 MTREF		
R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget year 2018/19	Budget Year 2019/20
Expenditure by Vote to be appropriated				
Vote 1 - Councillors	72,216	61,779	65,301	68,958
Vote 2 - Office of the municipal manager	12,884	12,343	13,046	13,777
Vote 3 - Corporate Services	26,623	36,422	38,498	40,654
Vote 4 - Finance	33,906	33,909	35,841	37,849
Vote 5 - Technical Services	420,305	441,417	466,578	492,706
Vote 6 - Community and Emergency Services	124,736	144,017	152,226	160,751
Vote 7 - Local Economic Development and Planning	24,219	31,736	33,545	35,423
Total Expenditure by Vote	714,889	761,623	805,036	850,118

The following table is a high level summary of the 2017/18 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 2016/17	Budget Year 2017/18	%
Employee Related Cost	209,811	238,672	14%
Remuneration of Councillors	17,195	18,831	10%
Bulk Purchases	228,540	233,732	2%
Contracted Services	28,623	29,727	4%
Repairs and Maintenance	67,334	77,303	15%
Depreciation	8,712	9,473	9%
Finance charges	2,354	2,498	6%
Contribution to bad debts	5,898	6,258	6%
General Expenses	146,422	158,524	8%
Total Expenditure	714,889	775,018	8%

REMARKS

The budgeted allocation for employee related costs for the 2017/18 financial year totals R238 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 6.4% (Average CPI) plus 1% for the 2016/17 financial year and an additional 6.6% to cover the salary notches increases as well as the critical vacancies to be filled by the municipality in the 2017/18 financial year.

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 has increased the depreciation amount **mainly** in terms of the inflation rates guided by the National Treasury budget circulars, 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 2017/18 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:

FS201 Moqhaka - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding				
Vote Description	2015/16 MTREF			
R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
<u>Capital expenditure - Vote</u>				
Vote 1 - Councillors	1,458	335	–	–
Vote 2 - Office of the Municipal Manager	1,556	50	–	–
Vote 3 - Corporate Services	2,042	1,315	–	–
Vote 4 - Finance	303	470	–	–
Vote 5 - Technical Services	60,460	68,688	58,061	69,406
Vote 6 - Community and Emergency Services	6,267	4,658	–	–
Vote 7 -LED	7	638		
	72,094	76,153	58,061	69,406
<u>Capital Expenditure - Standard</u>				
<i>Governance and administration</i>	3,902	2,170	–	–
Executive and council	1,556	385	–	–
Budget and treasury office	303	470	–	–
Corporate services	2,042	1,315	–	–
<i>Community and public safety</i>	6,251	4,545	–	–
Community and social services	6,251	4,545	–	–
Sport and recreation	–	–	–	–
<i>Economic and environmental services</i>	36,249	19,074	43,061	45,406
Planning and development	–	–	–	–
Road transport	36,249	19,074	43,061	45,406
Environmental protection				
<i>Trading services</i>	24,474	48,322	15,000	24,000
Electricity	7,877	5,661	5,000	9,000
Water	10,109	22,787	10,000	15,000
Waste water management	6,473	19,762	–	
Waste management	16	112	–	–
<i>Other</i>				–
<i>PMU Administration</i>	1,218	2,042	–	–
Total Capital Expenditure - Standard	72,094	76,153	58,061	69,406

Funded by:				
National Government	48,349	66,840	58,061	69,406
Internally generated funds	23,745	9,313	—	—
Total Capital Funding	72,094	76,153	58,061	69,406

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, Heavy Machinery, Office Furniture and Equipment	334 500	50 000	170 000	65 000	1 188 005	2 697 735	698 000	5 203 240
NETWORKING				750 000				750 000
HARDWARE				500 000				500 000
UNFORSEEN CAPIT			300 000					300 000
GUARD HOUSES					300 000			300 000
SUBSTATIOJ UPGR					300 000			300 000
2 ROADMARKING MACHINE						240 000		240 000
HI-PRESSURE LIF						220 000		220 000
FIRE ENGINE						1 500 000		1 500 000
	334 500	50 000	470 000	1 315 000	1 788 005	4 657 735	698 000	9 313 240

For 2017/18 an amount of R76 million has been appropriated for the development of infrastructure. In the outer years this amount totals R58 million and R 69 million respectively for each of the financial years. Highest allocation is towards water infrastructure at R22 million followed by roads at R19 million and then waste water at R19 million.

1.7 Cash flow Statement

FS201 Moghaka - Table A7 Budget Cash Flows				
Description		2017/18 MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK		
R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year +18/19	Budget Year +19/20
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates, penalties & collection charges	67,069	60,487	63,935	67,515
Service charges	403,769	428,972	453,423	478,815
Other revenue	15,947	21,911	23,160	24,457
Government - operating	160,968	166,741	176,245	186,115
Government - capital	48,349	66,840	58,061	69,406
Interest	14,567	14,517	15,344	16,234
Dividends	–			
Payments				
Suppliers and employees	(633,440)	(683,358)	(722,309)	(762,759)
Finance charges	(2,354)	(2,498)	(2,640)	(2,788)
Transfers and Grants	–			
NET CASH FROM/(USED) OPERATING ACTIVITIES	74,875	73,612	65,219	76,996
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	0			
Decrease (Increase) in non-current debtors	0			
Decrease (increase) other non-current receivables	0			
Decrease (increase) in non-current investments	0			
Payments				
Capital assets	(72,094)	(76,153)	(58,061)	(69,406)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(72,094)	(76,153)	(58,061)	(69,406)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans	–			
Borrowing long term/refinancing	–			
Increase (decrease) in consumer deposits	–			
Payments				
Repayment of borrowing	(3,200)	(3,200)	(3,382)	(3,572)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(3,200)	(3,200)	(3,382)	(3,572)
NET INCREASE/ (DECREASE) IN CASH HELD	(419)	(5,741)	3,776	4,018
Cash/cash equivalents at the year begin:	11,846	11,427	5,686	9,461
Cash/cash equivalents at the year end:	11,427	5,686	9,461	13,479

REMARKS ON THE CASHFLOW

The cash flow has been projected on the collection rate of 85% on revenues from property rates, 85% of other service charges and 85% of all other revenues. The operating and capital grants have projected at a 100% cash inflows. The municipality has also made provision to meet 90% of its overall Operational obligations and 100% of the Capital commitments.