

**ANNUAL BUDGET OF**

**MOQHAKA LOCAL**

**MUNICIPALITY**

**2014/15 TO 2016/17**

**MEDIUM TERM REVENUE AND**

**EXPENDITURE FORECASTS**

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## Part 1 – Annual Budget

### 1.1 Council Resolutions

On 31 March 2014 the Council of Moqhaka Local Municipality met in the Council Chambers of Moqhaka Local Municipality for the council to approve the draft annual budget of the municipality for the financial year 2014/15. The Council adopted the following resolutions:

1. The Council of Moqhaka Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
  - 1.1 The annual budget of the municipality for the financial year 2014/15 and the multi-year and single-year capital appropriations as set out in the following tables:
    - 1.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification)
    - 1.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote);
    - 1.1.3 Budgeted Financial Performance (revenue by source and expenditure by type); and
    - 1.1.4 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.
  - 1.2 The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
    - 1.2.1. Budgeted Financial Position;
    - 1.2.2. Budgeted Cash Flows as contained;
2. 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 2014/15 MTREF.

### 1.2 Executive Summary

National Treasury's MFMA Circular No.70 and 72 were used to guide the compilation of the 2014/15 MTREF.

The main challenges experienced during the compilation of the 2014/15 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 2014/15 MTREF:

- The 2013/14 Adjustments 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 2014/15 annual budget;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2014/15 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2014/15 MTREF**

<b>R thousand</b>	<b>Adjustments Budget 2013/14</b>	<b>Budget Year 2014/15</b>	<b>Budget Year +1 2015/16</b>	<b>Budget Year +2 2016/17</b>
Total Operating Revenue	590 462	618 592	656 311	692 408
Total Operating Expenditure	580 276	597 392	641 855	679 724
(Surplus)/Deficit for the year	(10 186)	(21 200)	(14 456)	(12 684)
<b>Total Capital Expenditure</b>	<b>112 954</b>	<b>57 214</b>	<b>83 706</b>	<b>95 159</b>

Total operating revenue has grown by 4.7% for the 2014/15 financial year when compared to the 2013/14 Adjustments Budget. For the two outer years, operational revenue will increase by 5.9% and 5.5%.

Total operating expenditure for the 2014/15 financial year has been appropriated at R597 million and translates into a budgeted surplus of R21 million. When compared to the 2013/14 Adjustments Budget, operational expenditure has grown by 3% in the 2014/15 budget and by 8% and 5.9% 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 R57 million for 2014/15 is a R56 million decrease from 2013/14 Adjustment Budget. A substantial portion of the capital budget will be funded from grant funding over MTREF with gazetted grants of R47 million as per the DORA allocation for 2014/15.

### 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 poverty. 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 80% 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 2014/15 MTREF (classified by main revenue source):

**Table 2 Summary of revenue classified by main revenue source**

<b>Revenue types</b>			
<b>R thousand</b>	<b>Adjustment Budget 2013/14</b>	<b>Budget Year 2014/15</b>	<b>%</b>
Property rates	48 524	51 193	5.5%
Service Charges:Electricity	233 226	250 253	7.3%
Service Charges: Water	82 219	87 317	6.2%
Service Charges: Sanitation	23 052	24 481	6.2%
Service Charges: Refuse	13 061	16 878	29.2%
Rental of Facilities	5 277	3 300	-37.5%
Interest : External Investments	500	530	6.0%
Interest: Outstanding Debtors	5 000	4 000	-20.0%
Fines	854	907	6.2%
Transfers Recognised operational	170 462	171 728	0.7%
Other Revenue	8 287	8 005	-3.4%
<b>Total Revenue (Excluding capital grants)</b>	<b>590 462</b>	<b>618 592</b>	<b>4.8%</b>

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 2013/14 financial year, revenue from rates and services charges totalled R400 million. This increases to R430 million, R456 million and R481 million in the respective financial years of the MTREF.

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

- Assessment Rates: 8%
- Electricity: 7.39%
- Water : 8%
- Sewer: 6%
- Refuse: Average 29.2%
- 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 R170 million in the 2013/14 financial year and steadily increases to R171.7 million by 2014/15.

**Table 3 Summary of revenue classified by municipal votes**

Revenue by Municipal Vote				
Vote Description	Current Year 2013/14	2014/15 MTREF		
R thousand	Adjusted Budget	Budget Year 2014/15	Budget year 2015/16	Budget Year 2016/17
<b>Revenue by Vote</b>				
Vote 1 - Councillors	–	169 828	179 848	189 739
Vote 2 - Office of the Municipal Manager	–	–	–	–
Vote 3 - Corporate Services	5 544	4 932	5 160	5 444
Vote 4 - Finance	227 327	55 860	59 428	62 756
Vote 5 - Technical Services	338 436	365 920	388 432	409 714
Vote 6 - Community and Emergency Services	19 155	22 052	23 442	24 755
<b>Total Revenue by Vote</b>	<b>590 462</b>	<b>618 592</b>	<b>656 311</b>	<b>692 408</b>

**Table 4 Operating Transfers and Grant Receipts**

Description	2010/11	2011/12	2012/13	Current Year 2013/14		2014/15 MTREF		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year 2015/16	Budget Year 2016/17
RECEIPTS:								
-								
<u>Operating Transfers and Grants</u>								
<b>National Government:</b>	<b>137 739</b>	<b>145 647</b>	<b>165 544</b>	<b>170 462</b>	<b>170 462</b>	<b>171 728</b>	<b>172 436</b>	<b>168 362</b>
Local Government Equitable Share	135 789	142 173	163 244	164 486	164 486	167 294	169 819	165 644
Municipal Systems Improvement	750	790	800	890	890	934	967	1 018
Finance Management	1 200	1 450	1 500	1 550	1 550	1 600	1 650	1 700
EPWP Incentive		1 234		1 000	1 000	1 195		
LG Seta				2 536	2 536	705		
<b>Provincial Government:</b>	<b>15 564</b>	–	–	–	–	–	–	–
	15 564							
<b>District Municipality:</b>	<b>12 003</b>	–	–	–	–	–	–	–
<i>Fezile Dabi District Municipality</i>	12 003							
<b>Total Operating Transfers and Grants</b>	<b>165 306</b>	<b>145 647</b>	<b>165 544</b>	<b>170 462</b>	<b>170 462</b>	<b>171 728</b>	<b>172 436</b>	<b>168 362</b>

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

Description R thousand	2012/13	Current Year 2013/14		2014/15 MTREF		
	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year 2015/16	Budget Year 2016/17
MIG	46 896	44 524		38 123	39 250	40 903
RBIG	8 000	15 000		-	-	-
DoE (INEP)	2 000	36 000		5 000	9 000	7 000
DoE (Energy Efficiency)				4 000	5 000	5 000
<b>Total Capital Grants</b>	<b>56 896</b>	<b>95 524</b>	<b>-</b>	<b>47 123</b>	<b>53 250</b>	<b>52 903</b>

**1.5 Operating Expenditure Framework**

The Municipality's expenditure framework for the 2014/15 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 2014/15 budget and MTREF (classified per municipal votes):

**Table 6 Summary of operating expenditure by municipal votes**

<b>Expenditure by Municipal Vote</b>				
<b>Vote Description</b>	<b>Current Year 2013/14</b>	<b>2014/15 MTREF</b>		
<b>R thousand</b>	<b>Adjusted Budget</b>	<b>Budget Year 2014/15</b>	<b>Budget year 2015/16</b>	<b>Budget Year 2016/17</b>
<b>Expenditure by Vote to be appropriated</b>				
Vote 1 - Councillors	52 384	64 981	74 749	78 934
Vote 2 - Office of the municipal manager	4 288	4 239	4 471	4 721
Vote 3 - Corporate Services	32 552	35 374	56 006	59 143
Vote 4 - Finance	93 958	54 046	72 600	78 591
Vote 5 - Technical Services	301 212	336 468	330 477	348 984
Vote 6 - Community and Emergency Services	95 882	102 284	103 552	109 351
<b>Total Expenditure by Vote</b>	<b>580 276</b>	<b>597 392</b>	<b>641 855</b>	<b>679 724</b>

The following table is a high level summary of the 2014/15 budget and MTREF (classified per main type of operating expenditure):

**Table 7: Summary of operating expenditure by standard classification item**

<b>OPERATING EXPENSES</b>			
<b>Description</b> <b>R thousand</b>	<b>Adjustment</b> <b>Budget</b> <b>2013/14</b>	<b>Budget Year</b> <b>2014/15</b>	<b>%</b> <b>Increase/</b> <b>decrease</b>
Employee Related Cost	169 516	191 721	13%
Remuneration of Councillors	16 036	17 412	9%
Bulk Purchases	176 610	191 137	8%
Contracted Services	11 733	12 188	4%
Repairs and Maintenance	33 887	47 733	41%
Depreciation	28 893	24 000	-17%
Finance charges	5 275	3 400	-36%
Contribution to bad debts	41 000	13 000	-68%
General Expenses	97 326	96 802	-1%
<b>Total Expenditure</b>	<b>580 276</b>	<b>597 392</b>	<b>3%</b>

The budgeted allocation for employee related costs for the 2014/15 financial year totals R191.7 million, which equals 32% 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 7.2% for the 2014/15 financial year and an additional 0.8% to cover the salary notches increases. An annual increase of 6.9% and 6.5% has been included in the two outer years of the MTREF.



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.

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 informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

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.

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

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Repairs and Maintenance is attributable to the state of infrastructure. The departmental breakdown of repairs and maintenance is as follows:

<b>Technical Services</b>	
<b>Technical Administration</b>	R 180 227
<b>Roads and Street</b>	R 6 839 810
<b>Electricity</b>	R 6 932 178
<b>Water</b>	R 20 513 389
<b>Sanitation</b>	R 4 593 998
<b>Total</b>	<b>R 39 059 602</b>

<b>Community Services</b>	
Refuse	R 2 171 622
Kroonpark	R 1 052 000
Cemetery	R 440 592
Traffic	R 313 715
Community Services Administration	R 5 300
Emergency and Disaster Admin	R 39 214
Security Services	R 159 050
Fire fighting	R 69 440
Parks Administration	R 1 120
Public Gardens	R 134 693
Pavements and Open Spaces	R 95 851
Mowing Section	R 128 716
Brentpark Swimming Bath	R 2 000
Libraries	R 245 800
Civic Centre	R 56 020
Recreation	R 47 042
Nyakallong Recreation	R 105 039
Loubserpark	R 7 883
Landfill Site	R 1 124 119
Street Cleaning	R 3 186
<b>Total</b>	<b>R 6 202 402</b>

Finance Services	R 300 435
Political Offices	R 48 562
Municipal Manager	R 2 655
Corporate Services	R 2 118 944

**Total Repairs and Maintenance** **R 47 332 600**

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:

INTER-DEPARTMENTAL CHARGES	15 223 579
INDIGENT - CONTRIBUTIONS	10 669 971
FUEL & LUBRICANTS	7 266 451
INSURANCE GENERAL	7 216 738
AUDIT FEES (EXTERNAL)	4 430 745
COMMISSION PAID	4 246 360
RENT - VEHICLES	3 855 507
PROFESSIONAL FEES	3 500 000
CHEMICALS	3 478 238
PRE-PAID METERS	2 500 000
LABORATORY FEES	2 252 626
LEGAL FEES	2 142 653
PROTECTIVE CLOTHING	2 036 205
BANK CHARGES	1 900 000
SALGA MEMBERSHIP FEES	1 716 340
GRANT EXP - FINANCIAL MANAGEMENT GRAN	1 600 000
COMMITTEES WARDS	1 593 000
PRINTING & STATIONERY	1 573 937
GRANT EXP - LG SETA DISCRETIONAL	1 546 000
SOFTWARE LICENSES	1 486 800
RENT - OFFICE EQUIPMENT & OT	1 307 648
POSTAL SERVICES(POSTAGE & TE	1 292 622
SKILLS DEVELOPMENT LEVY	1 230 625
TELEPHONE & FAX	1 209 774
CONFERENCES/SEMINARS/MEETING	1 192 655
WORKMENS COMPENSATION	1 064 390
TOURISM/SMME's	1 000 000
GRANT EXP - MUNICIPAL SYSTEMS IMPROVEM	934 000
LATE PAYMENT - CREDITORS	792 350
INSURANCE GENERAL EXCESS	547 355

## 1.6 Capital expenditure

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

**Table 5: 2014/15 Medium-term capital budget per vote**

FS201 Moqhaka - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding							
Vote Description	2011/12	2012/13	Current Year 2013/14		2014/15 MTREF		
R thousand	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget year 2014/15	Budget Year 2015/16	Budget Year 2016/17
<b>Capital expenditure - Vote</b>							
Vote 1 - Councillors	55	-	-	200	150	-	-
Vote 2 - Office of the Municipal Manager	602	-	-	-	122	-	-
Vote 3 - Corporate Services	8 259	-	600	600	3 812	-	-
Vote 4 - Finance	525	-	640	440	818	-	-
Vote 5 - Technical Services	37 735	61 297	94 786	102 186	40 803	83 706	95 159
Vote 6 - Community and Emergency Services	4 433	-	9 528	9 528	11 419	-	-
	<b>51 609</b>	<b>61 297</b>	<b>105 554</b>	<b>112 954</b>	<b>57 124</b>	<b>83 706</b>	<b>95 159</b>
<b>Capital Expenditure - Standard</b>							
<b>Governance and administration</b>	-	-	1 240	6 640	4 752	-	-
Executive and council				200	122		
Budget and treasury office			640	440	818		
Corporate services			600	6 000	3 812		
<b>Community and public safety</b>	-	-	8 148	8 148	3 620	-	9 637
Community and social services			2 000	2 000	620		
Sport and recreation			6 148	6 148	3 000		9 637
<b>Economic and environmental services</b>	-	-	40 079	34 679	29 800	27 638	28 000
Planning and development							
Road transport			40 079	34 679	29 800	27 638	28 000
Environmental protection							
<b>Trading services</b>	-	-	51 087	58 487	16 800	52 885	55 889
Electricity			34 131	34 131	9 000	24 456	24 256
Water			15 366	15 366		20 000	30 000
Waste water management				7 400			
Waste management			1 590	1 590	7 800	8 429	1 633
<b>Other</b>			5 000	5 000	2 152	3 183	1 633
<b>Total Capital Expenditure - Standard</b>	-	-	105 554	112 954	57 124	83 706	95 159
<b>Funded by:</b>							
National Government	51 609	61 297	95 554	102 924	47 123	83 706	95 159
Internally generated funds			10 000	10 000	10 001		
<b>Total Capital Funding</b>	<b>51 609</b>	<b>61 297</b>	<b>105 554</b>	<b>112 924</b>	<b>57 124</b>	<b>83 706</b>	<b>95 159</b>

For 2014/15 an amount of R57.1 million has been appropriated for the development of infrastructure. In the outer years this amount totals R83.7 million and R95.2 million respectively for each of the financial years. Highest allocation is towards roads and storm water infrastructure at R29.8 followed by electricity at R9 million and then waste management R8 million.

The Municipality will also have indirect transfers for Regional Bulk Infrastructure Grant (R15 Million) for bulk water infrastructure in Steynsrus which will be administered by Department of Water Affairs and Electrification grant (Eskom) (R22.8 Million) to electrify Northleigh in Rammulotsi which will be administered by Department of Energy .

Some of the salient projects to be undertaken over the medium-term includes, amongst others:

Moqhaka: Construction of Vehicular Crossings in Maokeng	1,582,064.33
Moqhaka: Lebina Street - Upgrading of gravel road and provision of proper stormwater drainage in Phomolong	970,186.70
Gelukwaarts 2578 - 2163 Upgrading of connector road	4,712,000.00
Gelukwaarts 2897 - 1495 - Connector Road and Provision of Proper Storm Water (1.05km)	1,856,764.14
Moqhaka: Phomolong: Upgrading of Parking Area and Construction of Palisade Fence at Central Sports Terrain	1,321,807.14
Upgrading of Loubserpark Sports Facility	6,109,528.95
Rammulotsi: Upgrading of Sports Centre	1,787,339.00
Steynsrus: Upgrade Sewer Treatment works, Ponds and Filters - Phase 3	7,760,250.27
Maokeng: Upgrading of Sewer Pump stations	1,000,194.00
Rammulotsi - Rehabilitation of existing landfill site and Construction and Fencing of New Landfill Site - Phase 2 (ID: 215370)	839,727.15

CAPITAL BUDGET (Own Funds)							
	Political Offices	Municipal Manager	Finance Services	Technical Services	Community & Emergency Services	Corporate Services	TOTAL
Fleet, Furniture, Heavy Machinery and Equipment	150 000	122 000	939 500	4 500 000	3 100 000	1 189 500	10 001 000