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PART 1 – ANNUAL BUDGET

1.1 MAYOR'S REPORT

1.2 COUNCIL RECOMMENDATIONS

CITY OF MATLOSANA, MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) 2016 - 2019

RECOMMENDATION

a) That Council approves the Budget as set-out in the Budget document for the financial year 2016/17 and indicative allocations for the two outer years 2017/18 and 2018/19 as tabled in accordance with section 24 of the Municipal Finance Management Act 56 of 2003**:**

   National Treasury tables, schedule A indicating operating revenue by source and operating expenditure by vote and capital funding by source document for the 2016/17 and two outer years 2017/18 and 2018/19.

b) That Council approves the tariffs and charges for the 2016/17 year, reflected in the budget tariffs 2016/17 document.
   - Electricity tariffs is subject to NERSA approval and is expected to be in line with the proposed increases set out in the budget tariff document.

c) That Council approves the budget related policies that form part of the 2016/17 budget documents.

d) That budget table SA 7 been populated from the approved Draft 2016/17 SDBIP and been submitted to NT & PT, 10 days after approval of the 2016/17 MTREF as per the MFMA.

e) That Council takes cognizance and adopt MFMA Circulars 79 & 82 that form part of the budget document.

Submitted for Approval

1.3 EXECUTIVE SUMMARY

The application of sound financial management principles for the compilation of the City of Matlosana's 2016/17 MTREF budget is essential and critical to ensure that the City remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities within Matlosana.

The City's service delivery priorities were reviewed as part of 2016/17 year's planning and budget process. Once again a critical review was undertaken of expenditure on noncore and 'nice to have' items as prescribed in MFMA circular 82. The current financial challenges that the municipality is facing necessitated a critical review and analysis of the tariffs charged for services as well as expenditure. The municipality implemented a zero based budget approach, resulting in the cutting of unnecessary expenditure.

The City is currently under section 139(1) (b) administration and the Administrator has embarked on implementing a range of strategies to improve service delivery and efficiency of the municipality.

National Treasury's MFMA circular No. 78 & 79 as well as budget regulations were used to guide the compilation of the 2016 – 2019 MTREF.

The challenges experienced during the compilation of the 2016 - 2019 MTREF can be summarized as follows:

- The ongoing difficulties in the international, national and most importantly the local economy.
- Ageing and poorly maintained water, sewer, roads and electricity infrastructure.
- The need to prioritize projects and expenditure within the existing resource envelope given the cash flow realities and difficult cash position of the municipality.
- The increased cost of bulk water and electricity (due to tariff increases from Midvaal and Eskom), which is placing upward pressure on service tariffs to residents.
- A growing debtor's book and the outstanding creditors especially for bulk services.
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies.
- A non cash budget deficit as a result of the provision for depreciation & asset impairment and the provision for debtor's impairment.

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

- The 2015/16 adjustment budget.
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI currently forecast at above 6%. Except where there are price increases in the inputs of services that are beyond the control of Council. For

instance the cost of bulk water and electricity. Furthermore tariffs need to remain or move towards being cost reflective and should take into account the need to address infrastructure backlogs.

Grants allocated to the municipality are reflected in the national and provincial budgets and have been gazette as required by the Division of Revenue Act.

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 ,000	**Adjustment Budget 2015/16**	**Budget Year 2016/17**	**Budget Year +1 2017/18**	**Budget Year +2 2018/19**
Total Operating Revenue Total Operating Expenditure	(2 363 448) 2 714 778	(2 514 173) 2 818 956	(2 719 615) 2 952 884	(2 904 218) 3 086 133
Total Capital	132 360	134 616	128 141	130 148
Surplus/(Deficit) for the year after Capital contribution	(218 970)	(170 167)	(105 128)	(51 766)

Total operating revenue will increase by R 150.7 million for the 2016/17 financial year when compared to 2015/16financial year.

Total operating expenditure for the 2016/17 financial year has been appropriated at R 2. 818 million and translates into a non-cash budgeted deficit after capital transfers of R 170. 1 million. When compared to the 2015/16 Budget, operational expenditure has grown by R 104.1 million. The operating deficit for the two outer years steadily decrease to R 1105.1 million in 2017/18 and R 51.7 million in 2018/19.

The capital budget of R 134.6 million for 2016/17 is slightly more than the R 128.9 million for 2015/16. The bulk of the capital programs will be funded from Government grants and transfers. The municipality does not intend to source more borrowing for capital expenditure in the coming financial year and provision was made for R 10 million Council funded capital in the coming financial year.

1.4 OPERATING REVENUE FRAMEWORK

For the City of Matlosana to maintain the quality of services to its citizens it needs to generate the required revenue. In these tough economic conditions, strong revenue management is fundamental to the financial sustainability of any 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 expenditure against realistically anticipated revenue

The municipality’s revenue strategy is built around the following key components:

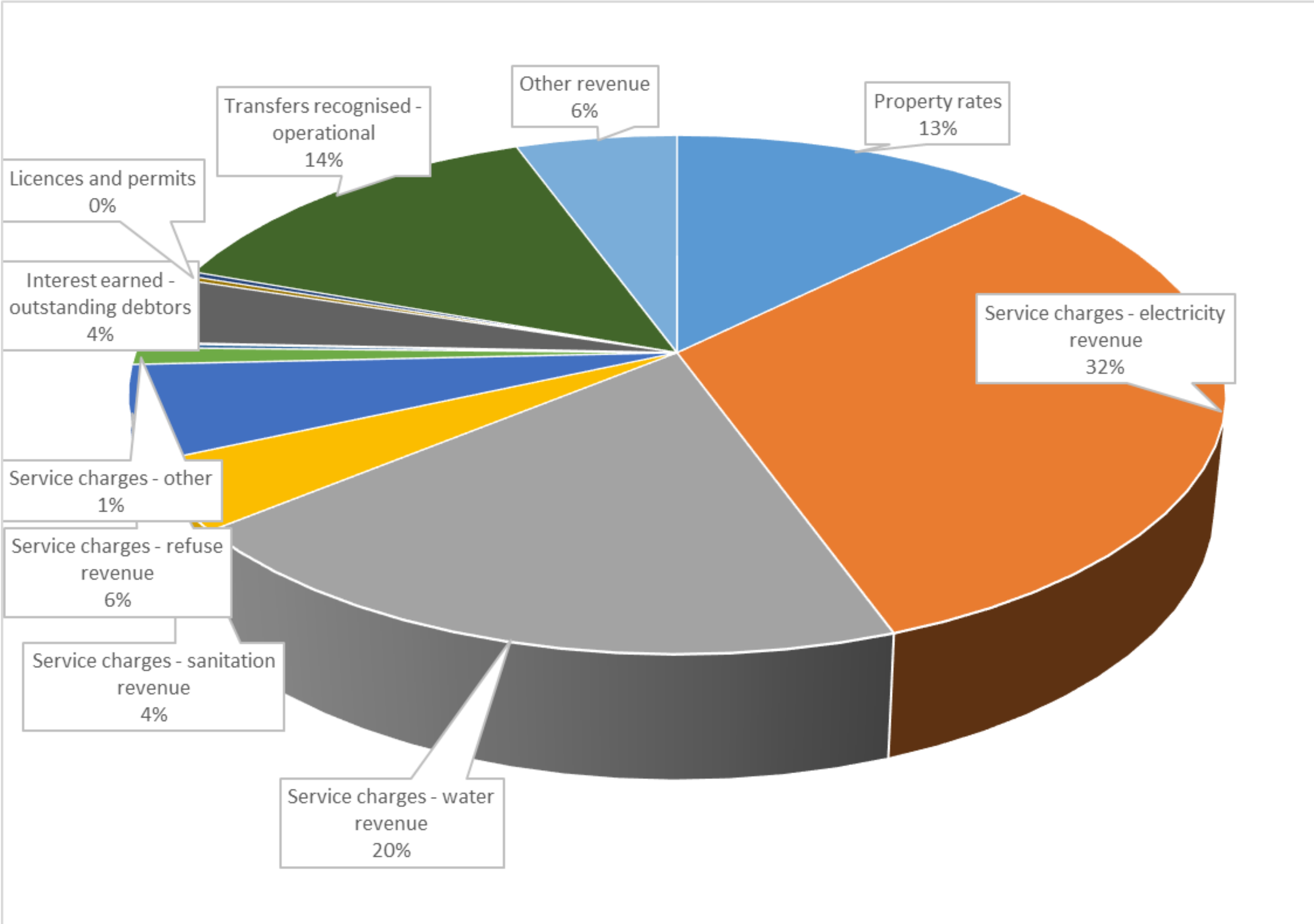
- National Treasury's guidelines and macroeconomic policy.
- Growth in the City and continued economic development.
- Efficient revenue management which aims to ensure maximum annual collection rate for property rates and other key service charges.
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa.
- Achievement of full cost recovery of specific user charges especially in relation to trading services water, electricity, sewer, refuse and the Fresh Produce Market.
- 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) as amended.
- Increased ability to extend new services and recover costs.
- The municipality's Indigent Policy and rendering of free basic services.
- Enforcement of the credit control and debt collection policy

The following is a summary of the 2016 - 2019 MTREF (Classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source.

NW403 City Of Matlosana - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Revenue By Source											
Property rates	2	189,017	190,357	247,297	270,068	279,632	279,632	–	317,223	336,891	356,767
Property rates - penalties & collection charges											
Service charges - electricity revenue	2	448,985	576,582	594,194	753,499	748,037	748,037	–	801,493	873,583	935,580
Service charges - water revenue	2	203,165	283,923	309,364	468,234	440,888	440,888	–	492,182	534,087	570,453
Service charges - sanitation revenue	2	57,306	60,810	68,005	129,136	116,180	116,180	–	106,575	120,962	134,888
Service charges - refuse revenue	2	45,991	67,588	89,596	159,486	160,000	160,000	–	149,572	166,843	178,733
Service charges - other		–	–	–	17,500	5,000	5,000	–	26,600	28,249	29,916
Rental of facilities and equipment		19,130	4,905	5,233	5,593	5,578	5,578	–	6,615	7,025	7,440
Interest earned - external investments		4,524	57,068	91,202	2,108	2,108	2,108	–	2,108	2,239	2,371
Interest earned - outstanding debtors		40,552	–	–	79,385	119,385	119,385	–	106,208	112,793	119,447
Dividends received		–	–	–	–	–	–	–	–	–	–
Fines		12,943	9,306	5,387	3,031	2,516	2,516	–	7,102	7,542	7,987
Licences and permits		6,649	7,013	6,773	7,271	7,552	7,552	–	7,708	8,185	8,668
Agency services		–	–	–	–	–	–	–	–	–	–
Transfers recognised - operational		436,515	434,752	433,652	350,595	350,995	350,995	–	351,271	359,848	388,892
Other revenue	2	74,104	87,580	53,015	134,322	125,576	125,576	–	139,516	161,368	163,076
Gains on disposal of PPE											
Total Revenue (excluding capital transfers and contributions)		1,538,881	1,779,884	1,903,718	2,380,228	2,363,448	2,363,448	–	2,514,173	2,719,615	2,904,218



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 service charges forms a significant percentage of the revenue basket for the City. Revenue from rates and service charges will total R 1.893 billion or 76 % in 2016/17. The above table includes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Property rates are the third largest revenue source totaling 12 % or R 317.2 million and increases to R 356.7 million by 2018/19.

User / Levied Charges
User and levied charges increase by 8% because of the increase by NERSA of electricity by 8% and the increase in water tariffs by 10%.

Tariff charges
Tariff charges increased because of the increase of Pre-Paid electricity that increase by 8%.

Fines

Fines amount to R 7.1 million and will increase due to the expected increase in traffic fines and other fines.

Licenses and Permits

Will increase by 2% for 2016/17, province have outsource some of the services to the Post Office.

Other Revenue

Will increase with 12% and the main contributors is the increase in the provision for the income from Provincial Licenses and Seta Training.

Operating grants and transfers

Totals R 351.2 million in 2016/17 financial year and increases to R 388.8 million by 2018/19.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts.

NW403 City Of Matlosana - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		334,099	340,890	269,902	349,595	349,595	349,595	350,491	358,848	387,892
Local Government Equitable Share		331,799	337,085	262,255	339,737	339,737	339,737	342,855	352,222	380,749
		800	890	934	930	930	930	–	–	–
		1,500	1,550	1,600	1,675	1,675	1,675	1,810	2,145	2,400
EPWP Incentive			1,000	1,913	3,028	3,028	3,028	1,658	–	–
						–				
						–				
Other transfers/grants [insert description]			365	3,200	4,225	4,225	4,225	4,168	4,481	4,743
Provincial Government:		2,900	400	500	1,000	1,000	1,000	1,350	1,000	1,000
Sport and Recreation		400	400	500	1,000	1,000	1,000	1,100	1,000	1,000
Sport and Recreation				–		–		250		
						–				
						–				
Other transfers/grants [insert description]		2,500				–				
District Municipality:		3,000	–	–	–	–	–	–	–	–
[insert description]		3,000								
Other grant providers:		–	–	–	–	–	–	–	–	–
[insert description]										
Total Operating Transfers and Grants	5	339,999	341,290	270,402	350,595	350,595	350,595	351,841	359,848	388,892
Capital Transfers and Grants										
National Government:		123,886	75,870	102,231	110,268	110,268	110,268	122,046	128,141	130,148
		122,046	75,870	82,131	80,268	80,268	80,268	79,194	85,141	90,124
				19,000	25,000	25,000	25,000	26,052	28,000	30,024
						–				
						–				
						–				
Other capital transfers/grants [insert desc]		1,840		1,100	5,000	5,000	5,000	16,800	15,000	10,000
Provincial Government:		–	–	–	–	–	–	12,000	–	–
Provincial Infrastructure Grant								12,000	–	–
District Municipality:		–	15,588	–	–	–	–	–	–	–
[insert description]			15,588							
Other grant providers:		–	–	–	–	–	–	–	–	–
[insert description]										
Total Capital Transfers and Grants	5	123,886	91,458	102,231	110,268	110,268	110,268	134,046	128,141	130,148
TOTAL RECEIPTS OF TRANSFERS & GRANTS		463,885	432,747	372,633	460,863	460,863	460,863	485,887	487,989	519,040

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges below the 6% inflation forecast for 2016/2017. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment. Municipalities are required to justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target.

The percentage increases of both Eskom and Midvaal bulk tariffs are far beyond the mentioned inflation target. These tariffs are determined by external agencies such as the National Electricity Regulator of South Africa. The impact it has on the municipality's electricity tariffs are largely outside the control of the City. Discounting the impact of these price increases in lower consumer tariffs will erode the City's future financial position and viability.

It must be emphasised that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items like food, petrol and medical services. Whereas items such as the cost of remuneration, bulk purchases of electricity and water, and fuel inform the cost drivers of municipalities. The current challenge facing the City is managing the gap between cost drivers and tariffs levied, as any shortfall increases pressure on either operational gains or service level reductions. Within this framework, the City has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

The municipality may award a 100 per cent grant-in-aid on the assessment rates of rateable properties of certain classes such as registered welfare organisations, institutions or organisations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer in the prescribed form for such a grant.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations were implemented in the 2010/11 budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

• The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R35 000 reduction on the market value of a property will be granted in terms of the City's own Rates Policy;

• 100% rebate will be granted to registered indigents in terms of the Indigent Policy;

• For pensioners, physically and mentally disabled persons, the rebate is granted on a sliding scale basis depending the income category of the registered owners/owner.

➢ The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;

➢ The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension; and

➢ The property must be categorized as a residential property.

New valuation roll

Council implemented a new valuation roll on 1 August 2014 that informed the budgeted property rates in 2015/16.

1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth out strips supply. Therefore, National Treasury urges municipalities to review the level and structure of their water tariffs carefully, with a view to ensure:

- That water tariffs are fully cost-effective – including the cost of maintenance and renewal of purification plants and water networks; and the cost of new infrastructure.

- That water tariffs are structured to protect basic levels of service.

- That water tariffs are designed to encourage efficient and sustainable consumption (e.g. through increasing block tariffs).

Midvaal Water Company will increase its bulk tariffs by 10 percent.

The tariff structure is design to charge higher levels of consumption at a higher rate.

All registered indigents will again be granted 6 kl water free of charge. The 3 kl free water for domestic consumers will fall away in the 2016/2017 budget year.

1.4.3 Sale of Electricity and Impact of Tariff Increases

MFMA Circular 78 indicate an 8% increase in electricity tariffs. This increase still awaits NERSA approval. Therefore, a projected 8% increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2016. Consumers will also pay for an extra 3 kl of water as the current first 3 kl of water falls away.

Considering the Eskom increases, the consumer tariff had to be increased by an average 8% to offset the additional bulk purchase cost from 1 July 2016. The increase for basic charges on electricity will be 6% in line with the 6% inflation forecast from National Treasury.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the City.

The approved budget for the Electricity Division can only be utilised for certain committed maintenance projects on substations and transmission lines.

All registered indigents will received 50 Kwh electricity per month free of charge.

1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of 6 per cent for sanitation from 1 July 2016 is proposed.
The increase in sanitation tariffs is capped at 6% for 2016/2017 financial year as per guideline from National Treasury.

1.4.5 Waste Removal and Impact of Tariff Increase

A 6% increase in the waste removal tariffs will be implemented from 1 July 2016 to keep the service sustainable. The unit is currently experiencing serious service delivery challenges due to and old over utilised fleet. Ten new fleet refuse trucks were acquired that will help with better service delivery.

1.4.6 Overall impact of tariff increases on households.

The SA14 table shows the overall expected impact of the tariff increases on a large and small household, as well as indigent household receiving free basic services.

Choose name from list - Supporting Table SA14 Household bills

Description	Current Year 2015/16	2016/17 Medium Term Revenue & Expenditure Framework	
	Original Budget	Budget Year 2016/17	Budget Year 2016/17
Rand/cent		% incr.	
Monthly Account for Household - 'Middle Income Range'			
Rates and services charges:			
Property rates	673.11	6.0%	713.49
Electricity: Basic levy	112.20	6.0%	118.93
Electricity: Consumption	1,290.99	8.0%	1,394.26
Water: Basic levy	115.00	6.0%	121.90
Water: Consumption	471.88	10.0%	519.06
Sanitation	65.05	6.0%	68.95
Refuse removal	115.79	6.0%	122.73
Other	63.35	6.0%	67.15
sub-total	2,907.37	7.5%	3,126.47
VAT on Services	312.79		337.81
Total large household bill:	3,220.16	7.6%	3,464.28
Monthly Account for Household - 'Affordable Range'			
Rates and services charges:			
Property rates	402.12	6.0%	426.24
Electricity: Basic levy	112.20	6.0%	118.93
Electricity: Consumption	1,000.00	8.0%	1,080.00
Water: Basic levy	115.00	6.0%	121.90
Water: Consumption	701.89	10.0%	772.07
Sanitation	54.60	6.0%	57.87
Refuse removal	115.79	6.0%	122.73
Other	–		–
sub-total	2,501.60	7.9%	2,699.74
VAT on Services	293.92		318.29
Total small household bill:	2,795.52	8.0%	3,018.03
Monthly Account for Household - 'Indigent' Household receiving free basic services			
Rates and services charges:			
Property rates	–	6.0%	–
Electricity: Basic levy	–	6.0%	–
Electricity: Consumption	499.59	8.0%	539.55
Water: Basic levy	–	6.0%	–
Water: Consumption	128.12	10.0%	140.93
Sanitation	–	6.0%	–
Refuse removal	–	6.0%	–
Other			
sub-total	627.71	8.4%	680.48
VAT on Services	87.87	–	95.27
Total small household bill:	715.58	8.4%	775.75

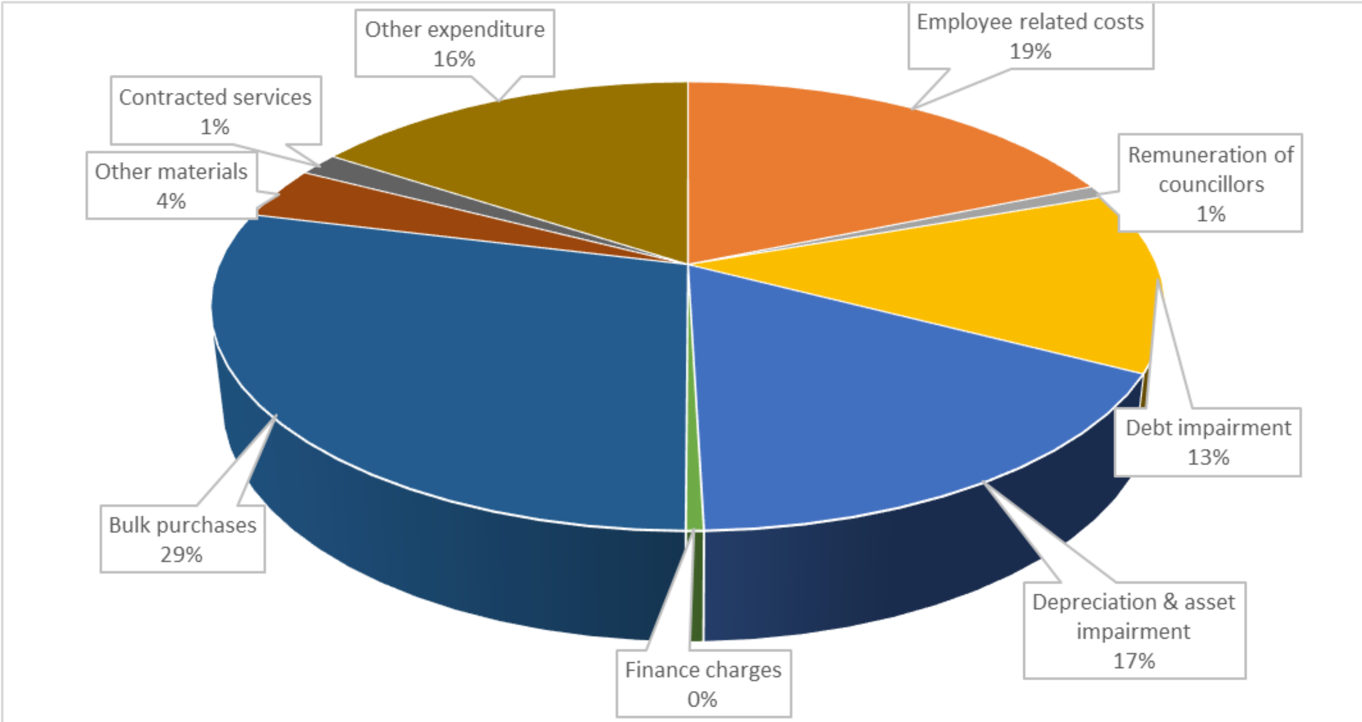
1.5 Operating Expenditure Framework

The City's expenditure framework for the 2016/17 draft budget and MTREF was informed by the following:

- The approval of a non-cash deficit adjustment budget (operating expenditure exceed operating revenue) due to the high provision for non-cash items like provision for Bad Debt and Depreciation.
- The repairs and maintenance backlogs.
- Funding of the budget over the medium-term as informed by section 18 and 19 of MFMA.
- Operational gains and efficiencies will be directed to reduce the deficit.
- 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 is a summary of the 2016 - 2019 MTREF (Classified by main expenditure source):

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Expenditure By Type											
Employee related costs	2	438,707	458,412	478,441	499,105	497,434	497,434	–	527,466	552,270	584,854
Remuneration of councillors		19,427	20,850	20,458	21,421	21,421	21,421		25,138	26,697	28,272
Debt impairment	3	151,789	199,453	298,583	373,523	407,523	407,523		367,523	365,309	363,337
Depreciation & asset impairment	2	427,623	439,757	439,622	463,944	450,000	450,000	–	476,888	506,455	536,336
Finance charges		29,322	34,449	43,779	11,099	11,099	11,099		14,181	15,060	15,949
Bulk purchases	2	608,611	646,684	657,629	747,357	747,357	747,357	–	811,802	862,134	913,000
Other materials	8	45,841	41,004	56,473	78,081	78,730	78,730		105,958	110,587	117,112
Contracted services		59,516	98,655	28,705	31,500	31,500	31,500	–	46,448	49,328	52,238
Transfers and grants		–	–	–	–	–	–	–	–	–	–
Other expenditure	4, 5	163,425	200,572	219,845	517,345	469,714	469,714	–	443,553	465,044	475,036
Loss on disposal of PPE											
Total Expenditure		1,944,261	2,139,836	2,243,535	2,743,375	2,714,778	2,714,778	–	2,818,956	2,952,884	3,086,133



The budget allocation for employee related costs (including remuneration of councillors) for the 2016/17 financial year totals R 552.6 million, which is 19 % of the total operating expenditure. Based on NT circular 78 guideline salaries will increase by 7% in the 2016/17 year. The current collective agreement with SALGBC will expire on 30 June 2017.

The provision for debt impairment was determined based on an expected collection rate of 85% and the writing off interest on Outstanding Debtors. The debt collection policy is monitored continuously through the year.

The municipality's Asset Management Policy has informed provision for depreciation and asset impairment. Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. Budget appropriations in this regard total R 476.8 million for the 2016/17 financial year and equates to 17 % of the total operating expenditure. The Municipality has fully implemented GRAP 17.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). It also includes provision of R 5 million over the next three years for the possible lease of an mSCOA compliant financial system. Finance charges amounts to R 14.1 million of operating expenditure. The budget provision in this regard is steadily decreasing as the outstanding loans decreases.

The bulk purchases for electricity and water are directly informed by the purchases from Eskom and water from Midvaal Water Company. The cost incurred to provide those services directly inform the revenue provisions.

General consumables comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the City's repairs and maintenance plan, this group of expenditure has been prioritised and will increase to R 105.9 million rand to ensure sustainability of the City's infrastructure.

Professional and special services have been identified as a cost saving area for the City. As part of the compilation of the 2016/17 MTREF, this group of expenditure was critically evaluated and operational efficiencies were enforced. The increase in this group of expenditure relates to the increase in security costs to safeguard council's assets against an increase in theft and vandalism in the current financial year.

Employee Salaries and Allowances

Overall increase of 6.0%, compared to NT guideline of 7%.
This includes a provision for the filling of 30% of the vacant positions on the organogram and the inclusion of Traveling Allowance under Salaries. In the past it was wrongly allocated under General Expenditure. Note that R 15 million provision was made for critical vacancies instead of budgeting for a percentage of the unfilled vacancies on the organogram

Employee Social Contributions

This includes a provision for Insurance: U.I.F under Employee Social Contributions. In the past it was allocated under General Expenditure. Group Insurance and Medical Aid increase annually with more than inflation, depending on the various schemes.

General Expenditure

General expenditure will decrease overall, with the biggest contribution the reduction in the expenditure on Free Basic Services.

Several of the other expenditure votes have not been increased as per decision of Top Management not to increase the whole budget with the 6% inflation increase to curb cost on expenditure. Departments were requested to submit zero based budgets with the necessary proof of evidence. Increases that were not supported by the necessary proof of evidence were also limited. Find below explanations for amounts in excess of R 1 million increasing with more than the 10%.

- Commission on Pre-Paid Sales - Is an income generating expenditure that will increase and there is already a significant increase in the income from pre-paid sales.
- Free Basic Service – Is the biggest contributor to the reduction in expenditure. Free Basic Services is subsidies by the equitable share grant. The reduction is as a result of the Free Basic Services for water, electricity, sewer and refuse removal that is show under Revenue Foregone on table SA 1.
- Clean Audit Project – Will increase as a result of the provision made for the implementation of mScoa that is legislated.
- SETA Training – Will increase from R 1 million to R 4 million, the money will be claimed back from LG Seta.
- Vehicle Charges – Will increase with R 15 million to make provision for the hire of fleet that consist of the ten refuse trucks and the provision for the leasing of new fleet vehicles

The overall increase for general expenditure will be 7%

Legal Cost

Will have a 5.4% increase based on current year projections and inflation.

Bulk purchases

Bulk Purchases increase with more than 6% due to the increase of 8% by Eskom to the municipality for electricity and by 10% for Midvaal Water.

General Expenditure – Contracted Services
Contracted Services have increased with 48% due to the increase in security costs and the provision made for debt collectors and disconnection/reconnections.

Repair & Maintenance
Will increase to make provision for the urgent challenges that the water and sewer sections face with maintenance of the infrastructure. Also to bring it closer to the NT benchmark of 8% of the expenditure budget.

Contributions
Provision for Bad Debt decrease due to Top Management's decision to enhance debt collection of which the current data cleansing project forms part of. The data cleansing project is already bearing very positive results.

Priority given to Repairs and Maintenance.
Aligned to the priority given to preserving and maintaining the City's current infrastructure, the 2016/17 budget and MTREF provided for a significant increase in the area of asset maintenance. This is because of the urgent maintenance needed for some of the sewerage plants and a deteriorating water and sewer network that have resulted in the municipality losing it blue and green drop status. According to the Budget and Reporting Regulations, operational repairs and maintenance are not considered a direct expenditure driver but an outcome of certain other expenditures. Such as remuneration, purchases of materials and contracted services.

Free Basic Services: Basic Social Services Package.
The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive the free services the households are required to register in terms of the City's Indigent Policy.

National government through the Local Government Equitable Share Grant received in terms of the annual Division of Revenue Act finances the cost of the social package for registered indigent households.

Capital

For 2016/17, an amount of R 134.6 million rand is appropriated for the development of infrastructure. R 10 million is funded from council funding for critical operational capital needs. The balance will be grant funded.

1.6 Annual Budget Tables.

PART 2 – SUPPORTING DOCUMENTATION

2.1 Overview of the Annual Budget Process

Section 53 of the MFMA requires the Executive Mayor to provide general political guidance in the budget process and setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee of the City of Matlosana consists of the Executive Mayor, MMC's, Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Executive Mayor.

The primary aim of the Budget Steering Committee is to ensure:

- That the process followed to compile the budget complies with legislation and good budget practices.
- That there is proper alignment between the policy and service delivery priorities set out in the City's IDP and the budget; taking into account the need to protect the financial sustainability of the municipality.
- That the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available.
- That the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Review

In terms of section, 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year, August 2015, a time schedule that sets out the process to revise the Integrated Development Plan (IDP) and prepare the budget.

The administrator signed off the required IDP and budget time schedule on 29 August 2015.

Key dates applicable to the process were:

- 1 -2 March 2016 - Consultation with departments.
- 29 March 2016 – Tabling of Draft Budget to Council.
- 4 April – 11 April 2016 – Public Participation.
  14, 20 & 21 April 2016 – Policy/Tariff Workshop.
- 31 May 2016 – Council Approves the Final Budget.
- 14 June 2016 – Submit Budget to National Treasury and Provincial Treasury.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

The City's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework rolled out into objectives, key performance indicators and targets for implementation, which directly inform the Service Delivery and Budget Implementation Plan.
The process plan included the following key IDP processes and deliverables:

- Registration of community needs.
- Compilation of departmental business plans including key performance indicators and targets.

- Financial planning and budgeting process.
- Public participation process.
- Compilation of the SDBIP.
- The review of the performance management and monitoring processes.

2.1.3 Financial Modelling and Key Planning Drivers

The following key factors and planning strategies have informed the compilation of the 2016/19 MTREF:

- Growth of the City.
- Policy priorities and strategic objectives.
- Asset maintenance.
- Economic climate and trends.
- Performance trends.
- Cash Flow Management Strategy.
- Debtor Payment Levels.
- Loan and Investment possibilities.
- The need for tariff increases versus the ability of the community to pay for services.
- Improved and sustainable service delivery.
- National & Provincial Government priorities

Furthermore, the strategic guidance given in National Treasury's MFMA Circulars 78 and 79 have been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation.

Council had an extensive public participation process immediately after the tabling of 2016 – 2019 MTREF by Council on 29 March 2016. The process commenced in Klerksdorp on 4 April 2016 and ended on 11 April 2016 in Alabama and Hartbeesfontein, covering the KOSH area.
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2.2 Overview of Alignment of Annual Budget with IDP

The Constitution mandates local government with the responsibility to exercise local development and cooperative governance. The eradication of imbalances in South African society can only be realised through a credible integrated development planning process.

The IDP provides a five-year strategic programme of action aimed at setting short; medium and long term strategic priorities to create a development platform; which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which Council use to provide vision, leadership and direction to stakeholders in the development of a municipal area. The IDP enables the municipality to make the best use of scarce resources and speed up service delivery.

IDP is an approach to planning aimed at involving the municipality and the community to find the best solutions towards sustainable development.

The IDP developed by Council must correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life of all the people living in the area. Applied to the City, issues of national and provincial importance should be reflected in the IDP of the City. A clear understanding of such intent is therefore imperative to ensure that the City strategically complies with the key national and provincial priorities.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009.
- Government Programme of Action.
- Development Facilitation Act of 1995.
- Provincial Growth and Development Strategy (GGDS).
- National and Provincial spatial development perspectives.
- Relevant sector plans such as transportation; legislation and policy.
- National Key Performance Indicators (NKPIs)
- Accelerated and Shared Growth Initiative (ASGISA)
- National 2015 Vision.
- National Spatial Development Perspective (NSDP).
- The National Priority Outcome.

2.3 Measurable Performance Objectives and Indicators

Performance Management is a system intended to manage and monitor service delivery progress against identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by National Framework for Managing Programme Performance Information, the City has developed and implemented a performance management system, which is constantly refined as the integrated planning process unfolds. The municipality targets, monitors, assesses and reviews organisational performance, which is currently not directly linked to individual employees' performance.

2.4 Overview of Budget related-policies.

The City's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.4.1 Review of Customer Care; Credit Control and Debt Collection Policies.

This policy has been reviewed to, amongst others, achieve a higher collection rate.

2.4.2 Review of Indigent Relief Policy.

The indigent relief policy has been reviewed.

2.4.3 Review of Rates Policy

The Rates policy has been reviewed to bring it in line with amendments in the Property Rates act.

2.4.4 Supply Chain Management Policy

The Tariff policy has been reviewed to make it more effective.

2.4.5 Irrecoverable Bad Debt Policy

The Irrecoverable Bad Debt Policy has been be reviewed.

2.4.6 Tariff Policy

The Tariff Policy has been reviewed.

2.4.7 Investment & Cash Management Policy

The policy has been reviewed.

All the above policies are available on the City's website, www.matlosana.gov.za, as well as the following approved budget related policies.

- Budget Policy
- Asset Management Policy
- Borrowing Management Policy
- Transfer of Funds Policy
- Grants and Funding Policy

2.5 Overview of Budget Assumptions.

2.5.1 External Factors.

Owing to the economic slowdown impact by the closure of mines in the region due to the low gold price, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the City's finances.

2.5.2 General Inflation Outlook and its impact on the municipal activities.

Five key factors have been taken into consideration in the compilation of the 2016 /19 MTREF.

- National Government macro-economic targets.
- National & Provincial government priorities
- The general inflationary outlook and the impact on City's residents and businesses.
- The impact of municipal cost drivers.
- The increase in prices for bulk electricity and water.

2.5.3 Interest Rates for Borrowing and Investment of Funds.

MFMA specifies that borrowing can only be utilized to fund capital or refinancing borrowing under certain conditions. For simplicity, the 2016/17 MTREF is based on the assumption that all borrowings are undertaken using fixed interest rates for amortisation-style loans requiring both regular principal and interest payments.

2.5.4 Collection Rate for Revenue Services.

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPI over long term. It is assumed that current economic conditions and relatively controlled inflationary conditions will continue for the forecasted term. For the medium term, inflation expects to exceed the 6% band set by the Reserve Bank. In the longer term, it will be within the 6% band set by the Reserve Bank.

2.5.5 Growth or Decline in Tax Base of the Municipality.

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth of the City, household formation growth rate and the poor household change rate.

2.5.6 Salary Increases

The current collective agreement expire at 30 June 2018. National Treasury in circular 78 prescribes a salary increase of 7%.

2.5.7 Impact of National, Provincial and Local Policies.

Integration of service delivery between national; provincial and local government is critical to ensure focused service delivery and in this regard various measures were implemented to align IDPs; provincial and national strategies around priority spatial interventions.

In this regard, the following national priorities form the basis of all integration initiatives:

- Creating Jobs.
- Enhancing Education and Skills Development.
- Improving Health Services.
- Rural Development and Agriculture.
- Fighting Crime and Corruption.
- Infrastructure development.

The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

2.5.8 Ability of the Municipality to Spend and Deliver on Programmes

Due to cash flow constrains it is estimated that the spending rate will be lower on operational expenditure.

2.6 Overview of Budget Funding

Tariff settings play a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The City derives most of its operational revenue from the provision of goods and services such as water, electricity, sanitation and solid waste removal, property rates, operating and capital grants from organs of state and other minor charges like building plan fees, licenses and permits.

The revenue strategy is a function of key components such as:

- Growth in the City and economic development.
- Revenue Management and Enhancement.
- Achievement of a higher annual collection rate for consumer revenue.
- National Treasury guidelines;
- Electricity tariff increases within the NERSA approval.
- Achievement of full cost recovery of specific user charges.
- Determining tariff escalation rate by establishing/calculating revenue requirements.

- The Property Rates Policy in terms of the MPRA.
- Ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers, aligned to the economic forecasts.

2.6.1 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The municipality's cash flow is strictly monitored on a daily basis.

2.6.2 Annual Budgets and SDBIPs – Internal Departments

Water Service Department

The department is primarily responsible for the distribution of potable water within the municipal boundary, which include maintenance of the reticulation network and implementation of the departmental capital programs.

Electricity Service Department

The department is primarily responsible for the distribution for electricity within the municipal boundary; which include maintenance of the distribution network and implementation of the departmental capital programs.

2.7 Legislation Compliance Status

Compliance with the MFMA implementation requirements has been substantially adhered to through the following activities:

2.7.1 In Year Reporting

Reporting to National Treasury in electronic format was complied with on a monthly basis. Section 71 reporting to the Executive Mayor has been complied with. Section 52 reports have been submitted to the Administrator for approval.

2.7.2 Internship Programme

The City of Matlosana is participating in the Municipal Financial Management Internship programme, and has currently employed five interns undergoing training in various divisions of the Finance Directorate.
Nine of the previous interns engaged since the inception of the programme have been permanently employed by the City of Matlosana.

2.7.3 Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

2.7.4 Audit Committee

An Audit Committee has been established and is fully functional.

2.7.5 Municipal Public Accounts Committee

The Municipal Public Accounts Committee has been established and is fully functional.

2.7.6 Service Delivery and Implementation Plan

The detail SDBIP document is at a draft stage and will be finalised and approved with the 2016/17 MTREF in May 2016.

2.7.7 Annual Report

The 2015/16 Annual Report has been compiled in terms of the MFMA and National Treasury requirements and the MFMA circulars. The 2015/16 Annual Report was tabled before the municipal council.

2.8 Municipal Manager's Quality Certificate

I Elie Motsemme, Municipal Manager of City of Matlosana Municipality, hereby certify that the draft budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the Draft Budget and supporting documents are consistent with the Draft Integrated Development Plan of the municipality.

XXXXXXXXXXX

Acting Municipal Manager of City of Matlosana - NW403

Signature ________________________________

Date __________________