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PART 1 – ANNUAL BUDGET

1.1 MAYOR’S REPORT

STATE OF THE CITY ADDRESS DELIVERED BY HIS WORSHIP, EXECUTIVE MAYOR OF THE CITY OF MATLOSANA, CLLR M K KHAUOE AT THE TABLING OF THE 2015/2016 MTEF BUDGET HELD IN THE COUNCIL CHAMBER ON 30 MAY 2014

**Madam Speaker
MMC’s
Single Whip
MPAC chairperson
Fellow councillors
The Municipal Manager
The Chief Financial Officer
Directors
Officials
Sector Departments
Leaders of political parties
Business Sector
Religious leaders
NGO’s & CBO’s
Community
Media
Distinguished guests
Ladies and Gentlemen**

INTRODUCTIONS

I thank God for giving me the strength to continue discharging my responsibility as the leader of the people of Matlosana.

We are gathered here today 6 days after the burial of our mother who hails from Ganyesa, who led at all levels of our glorious movement the ANC and government.

Madam speaker & fellow Councillors

I hope we have drawn lessons from Mama Ruta as she was affectionately known. Two things I learned from her are to be selfless as a leader of the people and to always remember that the people shall govern.

I will be failing in my duties not to appreciate work done by the ANC led government under the leadership of president Zuma for bringing back the ancestors of the ANC and alliance back home to their roots to be buried amongst their communities Uncle JB Marks & Malome Kotane. We thank God for their visionary leadership that brought about change and democracy that we are enjoying today.

Today we are in our 21 years of democracy the year of freedom charter as declared by the state president Zuma.

Madam speaker I am humbled and greatly honoured to once again reflect on the state of affairs of the city of people on the move. This year’s review take place as we move towards the end of the term of the current council.

Fellow councillors as I deliver this state of the city address, I am mindful of the fact that our people are looking forward on getting a status update following the mandate to better the lives of all our people which they gave us in May 2011.

Despite our success so far, it is important that we do not lose sight of why we remain the people’s choice; we must thank the provincial Exco for intervening timorously to assist the

municipality to go back to basics when the Titanic was sinking. The intervention team and forensic auditors are doing a great job and we can notice the progress made.

Madam speaker when we took office in 2011, we did so on the back of priorities and commitments contained in the election manifesto of the ANC which commanded us to:

- Improve local public services and broaden access to them
- Build united, non-racial and integrated safer communities
- build local economics to create more employment and sustain noble livelihoods.
- promote community participation in local government and build more effective accountable and clean local government that work closely with provincial and national government.

In responding to the above mentioned points President Zuma pronounced before the South African local government association that , going back to basics means recommitment to provide municipal services in a professional and caring memoir , end our daily conduct recognize each resident as a valuable client.

The City of Matlosana without and fear or contradiction supports the back to basics approach for local government adopted by National government and the “saam werk , saam trek” philosophy of the Premier Supra Mahupelo.

We are pleased to report that we have managed to push basic service delivery to higher standards over a period of years. However I must mention that the payment of services is not on point; we are in the process of renewing the performance of the current debt collector.

Despite being under administration we still have a good story to tell. We have over the course of this year delivered **3641** housing units for the under privileged.

Completed projects for the current financial year:

- Construction of houses for the Military veterans in Tigane.
- We have reduces water shortage / interruption in Khuma by constructing the new water reservoir
- We have accelerated the construction of Matlosana Mall and Tower Mall.
- Awarded academically performing students
- Employment of 110 beneficiaries in the EPWP
- Vukuphile emerging contractors Project
- Upgrading of water mains in Kanana R15m
- Upgrading of sewer outfall line in Jouberton 7, 19 & 24 R11m
- Upgrading of sewer outfall line in Alabama / Jouberton R531
- Kanana paving of taxi routes (Phase 7) R2.4m
- Alabama paving of taxi routes (Phase 6) R967
- Tigane paving of taxi routes (Phase 7) R3.1m
- Paving of entrance road to Tigane cemetery R 2.9m
- Upgrading mechanical, electrical equipment and pump station R994.

The city received qualified audit opinion this is a step towards the right direction, we have a fully functional Audit Committee.

We should further note that we have succeeded in establishing functioning ward committees in all the wards.

Our Councillors are holding regular meetings with the community as required by law. We have held Mayoral Imbizo's, Budget Consultations and IDP meetings to ensure that the people govern and their need is our priority.

Madam speaker as part of good governance several employees are on suspension pending their disciplinary hearing relating to fraud and corruption.

1.2 COUNCIL RECOMMENDATIONS

CITY OF MATLOSANA MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) 2015 - 2018

RECOMMENDATION

1. That Council approves the Budget as set-out in the Budget document for the financial year 2015/16; and indicative allocations for the two outer years 2016/17 and 2017/18 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 2015/16 and two outer years 2016/17 and 2017/18.

2. That Council approves tariffs and charges for the 2015/16 year, reflected in the budget tariffs 2015/16 document.
 - Electricity tariffs is subjected to NERSA approval and may increase further than the proposed increases set out in the budget tariff document, pending the NERSA approval of Eskom application for an additional increase as outlined in MFMA circular No. 75, Annexure C.(Attached)
3. That Council approves the budget related policies that form part of the 2015/16 Budget documents.

Submitted for consideration/Approval

1.3 EXECUTIVE SUMMARY

The application of sound financial management principles for the compilation of the City of Matlosana's financial plan 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 business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low to high priority programs so as to maintain sound financial stewardship. A critical review was also undertaken of expenditure on noncore and 'nice to have' items. 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(b) administration and the administrator has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. The City also did away with external contractors for disconnection and is currently doing the function internally for better control.

National Treasury's MFMA circular No. 58, 59, 66, 70, 72, 74 and 75 as well as budget regulations were used to guide the compilation of the 2015 – 2018 MTREF.

The challenges experienced during the compilation of the 2015 - 2018 MTREF can be summarized as follows:

- The ongoing difficulties in the international; national and most importantly in 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 declining 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.

The following budget principles and guidelines directly informed the compilation of the 2015/16 MTREF:

- The 2014/15 adjustment budget informed the preparation of the 2015/16 budget. It must be noted that National Treasury was involved in the compilation of the 2014/15 adjustment budget as the municipality is currently budgeting for none cash deficit.

- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI currently forecast at 5.6%. 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.

There will be no additional budget allocated by national and provincial government for funds unless the necessary grants to the municipality are reflected in the national and provincial budget 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 2015/16 Draft Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2015/16 MTREF

R '000	Adjustment Budget 2014/15	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year+2 2017/18
Total Operating Revenue	-2 118 521	-2 380 228	-2 557 715	-2 780 658
Total Operating Expenditure	2 582 084	2 743 421	2 888 233	3 042 417
Total Capital	115 596	128 927	127 528	133 413
Surplus/(Deficit) for the year after Capital contribution	(347 968)	(234 220)	(202 991)	(128 346)

Total operating revenue will increase by R 261.7 million for the 2015/16 financial year when compared to 2014/15 adjustment budget figures.

Total operating expenditure for the 2015/16 financial year has been appropriated at R 2 743.4 million and translates into a non-cash budgeted deficit after capital transfers of R -234.2 million. When compared to the 2014/15 Budget; operational expenditure has grown by R 161.3 million. The operating deficit for the two outer years steadily decrease to R -203 million and then to R -128.3 million.

The capital budget of R 128.9 million for 2015/16 is slightly more than the R 115.5 million for 2014/15. 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 continue improving 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 expenditures against realistically anticipated revenues

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

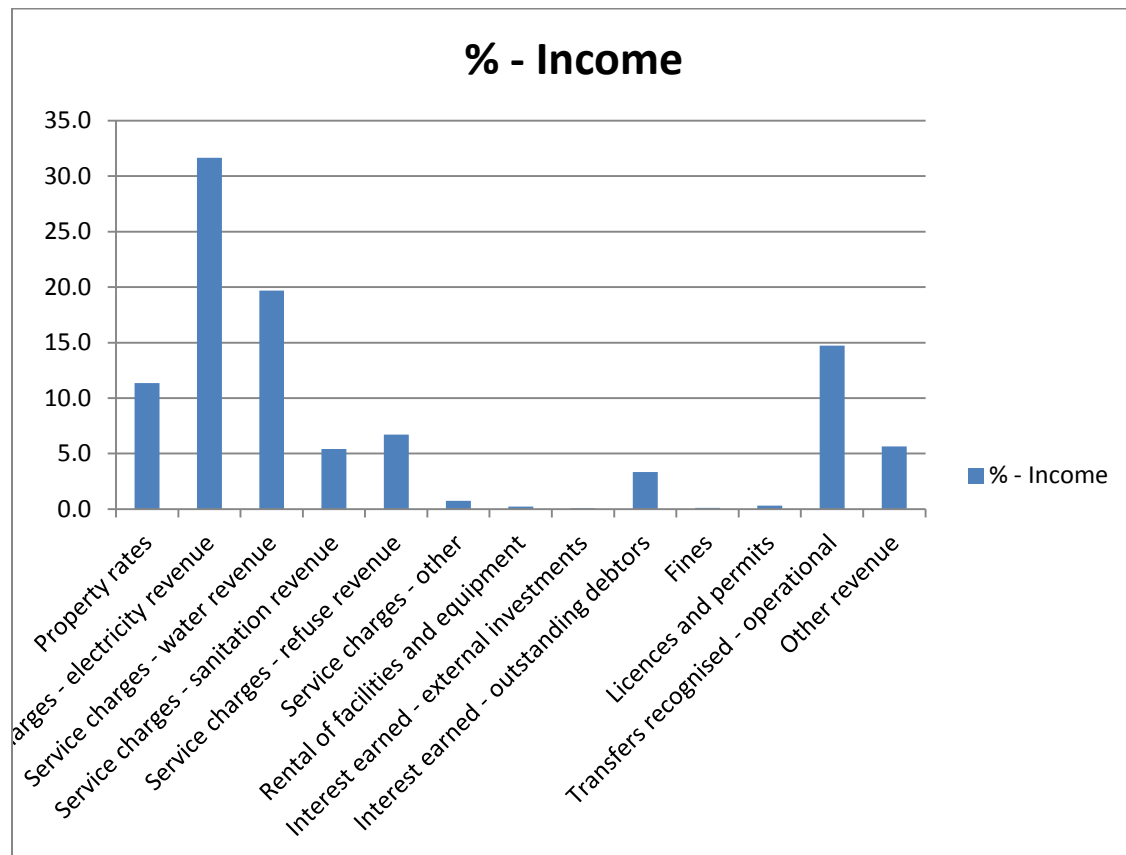
- National Treasury's guidelines and macroeconomic policy.
- Growth in the City and continued economic development.
- Efficient revenue management which aims to ensure maximum annual collection rate for property rates and other key service charges.
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa.
- Achievement of full cost recovery of specific user charges especially in relation to trading services including 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 amendit).
- 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 2015 - 2018 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)

Table A: Budgetary information (Revenue and expenditure)											
Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 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 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue By Source											
Property rates	2	183 252	189 017	190 357	230 478	217 644	217 644	–	270 068	286 002	302 019
Property rates - penalties & collection charges				–					–	–	–
Service charges - electricity revenue	2	438 709	448 985	576 582	584 282	536 932	536 932	–	753 499	843 919	962 067
Service charges - water revenue	2	160 918	203 165	283 923	388 195	434 929	434 929	–	468 234	515 057	566 563
Service charges - sanitation revenue	2	1 677	57 306	60 810	46 508	103 162	103 162	–	129 136	136 755	144 414
Service charges - refuse revenue	2	43 992	45 991	67 588	70 563	152 764	152 764	–	159 486	168 896	178 354
Service charges - other		–	–	–	158 477	119 203	119 203		17 500	18 533	19 570
Rental of facilities and equipment		8 537	19 130	4 909	6 425	5 273	5 273		5 593	5 923	6 255
Interest earned - external investments		5 193	4 524	57 068	5 348	2 500	2 500		2 108	2 232	2 357
Interest earned - outstanding debtors		37 656	40 552	–	38 650	76 322	76 322		79 385	84 068	88 776
Dividends received		–	–	–	–	–	–		–	–	–
Fines		6 557	12 943	26 333	7 500	2 150	2 150		3 031	3 210	3 390
Licences and permits		4 496	6 649	7 013	7 000	5 757	5 757		7 271	7 700	8 132
Agency services		–	–	–	14 378	6 928	6 928		–	–	–
Transfers recognised - operational		301 631	436 515	355 935	347 183	348 750	348 750		350 595	343 172	348 549
Other revenue	2	99 009	74 104	70 554	109 696	105 209	105 209	–	134 322	142 247	150 213
Gains on disposal of PPE					422	1 000	1 000				
Total Revenue (excluding capital transfers and contributions)		1 291 626	1 538 881	1 701 073	2 015 105	2 118 521	2 118 521	–	2 380 228	2 557 715	2 780 658



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 1 850.49 million or 76 % in 2015/16. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Property rates

Is the third largest revenue source totaling 11.3 % or R 270 million rand and increases to R 302 million by 2017/18.

Service charges – electricity revenue

Electricity revenue forms the big portion of the municipality's revenue at 31.7% and will increase by 40% because of the increase by NERSA of electricity by 12,2% and the inclusion of Power cards and Pre – Paid electricity under electricity revenue.

Service charges – water revenue

Water revenue accounts for 19.7% of the total revenue and increase because of the increase in water tariffs of 15%.

Service charges – sanitation revenue

Sanitation revenue increase make up 5.4% of the income pool and consist of basic and additional sewer charges that will increase by 5.6%

Service charges – refuse

Service charges refuse removal accounts for 6.7% of the municipalities income and tariffs will increase by 5.6% for the 2015/16 financial year.

Service charges – other

Service charges other will decrease as pre – paid electricity was added to electricity revenue.

Rental of facilities

Rental of facilities form 0.2% and will increase from R5.2 million for 2014/2015 to R 5.5 million in the 2015/16 financial year.

Interest earned – external investments

Interest on investment will decrease because of a expected decrease in investment income.

Interest earned – outstanding debtors

Interest on outstanding debtors is expected to increase with the growing debtors book of the municipality.

Fines

Fines only amount to R 3 million and will increase due to the expected increase in traffic and spot fines.

Licenses and Permits

Will increase with inflation an increase in business licenses and permits.

Other revenue

Other revenue consists of Market Dues, Provincial Licenses, Revenue Enhancement, Seta Training, Bulk Connections Fees Burial, Inter departmental Charges and SBP Income.

Operating grants and transfers

Amount to R 350.6 million in 2015/16 financial year and decreases to R 343 million in 2016/17 as proclaimed in the National Division for Revenue Act.

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	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		301 000	334 099	340 890	346 783	-	346 783	349 595	342 172	347 549
Local Government Equitable Share		298 960	331 799	337 085	339 136		339 136	339 737	335 009	339 718
Municipal Systems Improvement		790	800	890	934		934	930	957	1 033
Finance Management		1 250	1 500	1 550	1 600		1 600	1 675	1 810	2 145
EPWP Incentive				1 000	1 913		1 913	3 028	-	-
Other transfers/grants [insert description]				365	3 200		3 200	4 225	4 396	4 653
Provincial Government:		9 119	2 900	400	400	-	400	1 000	1 000	1 000
Sport and Recreation		400	400	400	400		400	1 000	1 000	1 000
NERSA		8 719	2 500							
District Municipality:		-	3 000	-	-	-	-	-	-	-
[insert description]			3 000							
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total Operating Transfers and Grants	5	310 119	339 999	341 290	347 183	-	347 183	350 595	343 172	348 549

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 City.

National Treasury continues to encourage municipalities to keep increases in rates; tariffs and other charges as low as possible. 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 must be made up by 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. The implementation of these regulations was done 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 Property 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 residential.

New valuation roll

It must be noted that Council have implemented a new valuation roll on 1 August 2014 that influenced the budgeted outcome for the provision for property rates in 2014/15.

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 outstrips 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 designed to charge higher levels of consumption at a higher rate.

All registered indigents will again be granted 6 kl water free of charge and domestic users 3 kl in the 2015/2016 budget year.

1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 14.24 % increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2015. **The increase in electricity tariffs is subjected to NERSA and can increase with more than the proposed 12.2% pending the outcome of the application from Eskom to NERSA for a further 12% increase** as outlined in MFMA Circular No. 75, Annexure C.

Considering the Eskom increases, the consumer tariff had to be increased by an average 12.2% to offset the additional bulk purchase cost from 1 July 2015. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

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 again be granted 50 Kwh per month free of charge.

1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of 5.6 per cent for sanitation from 1 July 2015 is proposed. This is based on CPI inflation target and on the input cost assumptions related to water.

The increase in sanitation tariffs is capped below 6% for 2015/2016 financial year.

1.4.5 Waste Removal and Impact of Tariff Increase

A increase in the waste removal tariffs is propose from 1 July 2015 to keep the service sustainable. The unit is currently experiencing serious service delivery challenges due to and old over utilised fleet. A request has been made to the Dr Kenneth Kaunda District municipality to provide IDP funding for two new refuse compaction units.

Any increase higher than 8% would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

1.4.6 Overall impact of tariff increases on households.

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

NW403 City Of Matlosana - Supporting Table SA14 Household bills

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework			
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16 % incr.	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Rand/cent											
Monthly Account for Household - 'Middle Income Range'	1										
Rates and services charges:											
Property rates			599.91	633.50	538.58	538.58	538.58	5.6%	611.92	642.51	674.64
Electricity: Basic levy			36.26	100.00	100.00	100.00	100.00	12.2%	112.20	117.81	123.70
Electricity: Consumption			1 152.85	1 075.69	1 170.50	1 170.50	1 170.50	12.2%	1 296.50	1 361.33	1 429.39
Water: Basic levy				100.00	100.00	100.00	100.00	15.0%	115.00	120.75	126.79
Water: Consumption			704.92	782.46	403.90	403.90	403.90	10.0%	511.32	536.89	563.73
Sanitation			103.65	114.70	59.99	59.99	59.99	5.6%	128.40	134.82	141.56
Refuse removal			68.08	103.45	109.66	109.66	109.66	5.6%	115.79	121.58	127.66
Other											
sub-total		-	2 665.66	2 909.80	2 482.62	2 482.62	2 482.62	16.5%	2 891.13	3 035.68	3 187.47
VAT on Services			289.21	318.68	258.17	258.17	258.17		319.09	335.04	351.80
Total large household bill:		-	2 954.87	3 228.48	2 740.79	2 740.79	2 740.79	17.1%	3 210.22	3 370.73	3 539.26
% increase/-decrease			-	9.3%	(15.1%)	-	-		17.1%	5.0%	5.0%
Monthly Account for Household - 'Affordable Range'	2										
Rates and services charges:											
Property rates			-	333.63	372.86	372.86	372.86	5.6%	611.92	642.51	674.64
Electricity: Basic levy			38.00	100.00	100.00	100.00	100.00	12.2%	112.20	117.81	123.70
Electricity: Consumption			359.17	388.56	502.50	502.50	502.50	12.2%	545.50	572.78	601.41
Water: Basic levy				100.00	100.00	100.00	100.00	15.0%	115.00	120.75	126.79
Water: Consumption			36.69	283.15	318.15	318.15	318.15	10.0%	412.72	433.36	455.02
Sanitation			108.63	51.70	59.99	59.99	59.99	5.6%	128.40	134.82	141.56
Refuse removal			71.35	103.45	109.66	109.66	109.66	5.6%	115.79	121.58	127.66
Other											
sub-total		-	613.83	1 360.49	1 563.15	1 563.15	1 563.15	30.6%	2 041.53	2 143.60	2 250.78
VAT on Services			85.94	143.76	152.64	166.64	166.64		200.15	210.15	220.66
Total small household bill:		-	699.76	1 504.25	1 715.79	1 729.79	1 729.79	30.6%	2 241.67	2 353.76	2 471.44
% increase/-decrease			-	115.0%	14.1%	0.8%	-		29.6%	5.0%	5.0%
Monthly Account for Household - 'Indigent'	3										
Household receiving free basic services											
Rates and services charges:											
Property rates			38.00	97.78	103.58	103.58	103.58	5.6%	206.88	217.22	228.08
Electricity: Basic levy			359.17	100.00	100.00	100.00	100.00	11.4%	-	-	-
Electricity: Consumption			-	260.40	285.00	285.00	285.00	12.2%	298.80	313.74	329.43
Water: Basic levy			36.69	-	100.00	100.00	100.00	15.0%	-	-	-
Water: Consumption			-	210.98	232.40	232.40	232.40	10.0%	242.30	254.42	267.14
Sanitation			-	-	-	-	-				
Refuse removal			-	-	-	-	-				
Other			-	-	-	-	-				
sub-total		-	433.86	669.16	820.98	820.98	820.98	(8.9%)	747.98	785.37	824.64
VAT on Services			60.74	-	86.44	86.44	86.44		75.75	79.54	83.52
Total small household bill:		-	494.60	669.16	907.41	907.41	907.41	(9.2%)	823.73	864.92	908.16
% increase/-decrease			-	35.3%	35.6%	-	-		(9.2%)	5.0%	5.0%

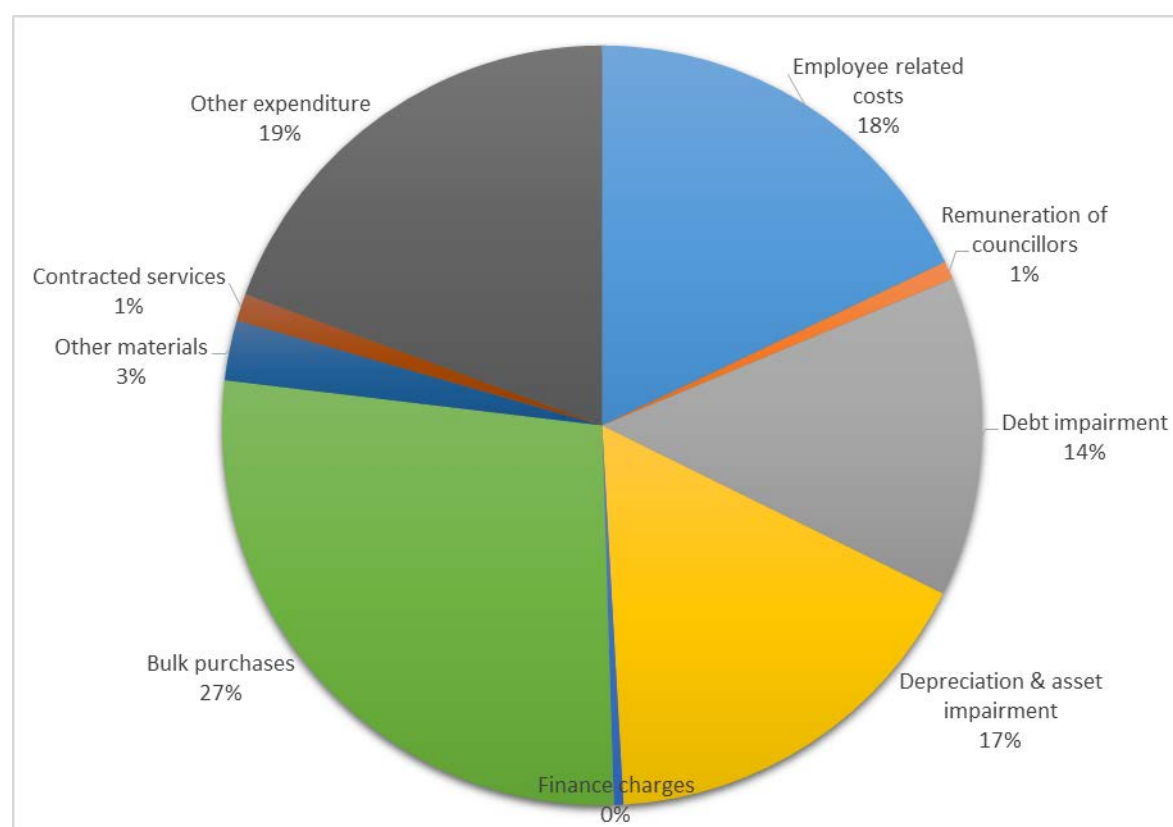
1.5 Operating Expenditure Framework

The City's expenditure framework for the 2015/16 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 2015 - 2018 MTREF (Classified by main expenditure source):

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand	1										
Expenditure By Type											
Employee related costs	2	409 054	438 707	456 008	468 822	461 871	461 871	–	499 152	524 110	550 315
Remuneration of councillors		18 523	19 427	20 850	21 314	20 401	20 401		21 421	22 492	23 617
Debt impairment	3	117 403	151 789	221 979	123 779	299 900	299 900		373 523	395 560	417 712
Depreciation & asset impairment	2	377 260	427 623	436 672	439 207	458 490	458 490	–	463 944	468 583	473 269
Finance charges		19 402	29 322	34 224	12 534	12 927	12 927		11 099	11 754	12 412
Bulk purchases	2	476 254	608 611	646 684	605 600	653 260	653 260	–	747 356	822 091	904 301
Other materials	8		45 841	39 498	98 919	90 000	90 000		78 081	82 688	87 318
Contracted services		54 627	59 516	98 655	87 798	48 450	48 450	–	31 500	33 359	35 227
Transfers and grants		–	–	–	4 847	4 847	–	–	–	–	–
Other expenditure	4, 5	216 611	163 425	208 688	257 065	531 938	531 938	–	517 345	527 692	538 246
Loss on disposal of PPE											
Total Expenditure		1 689 134	1 944 261	2 163 259	2 119 885	2 582 084	2 577 237	–	2 743 421	2 888 330	3 042 417



The budget allocation for employee related costs (including remuneration of councillors) for the 2015/16 financial year totals R 520 million which is 18.69 % of the total operating expenditure. Based on NT circular 75 guideline salaries will increase by 4.4% in the 2015/16 year. The current collective agreement with SALGBC will expire on 30 June 2015. Negotiation on a new agreement will affect the provision for Employee costs..

The provision of debt impairment was determined based on an expected collection rate of 82% and the writing off interest on Outstanding Debtors. The debt collection policy is monitored continuously through the year.

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 of asset consumption. Budget appropriations in this regard total R 463. 9 million for the 2015/16 financial year and equates to 16.9 % 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). Finance charges amounts to R 11 million of operating expenditure. The budget provision in this regard is steadily decreasing as the outstanding loans decreases.

Bulk purchases are directly informed by the purchases of electricity from Eskom and water from Midvaal. The cost incurred to provide those services have been factored into the budget appropriations and 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 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 2015/16 MTREF, this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2015/16 financial year, this group of expenditure will total R 32 million.

Employee Salaries and Allowances

Overall increase of 8%, compared to NT guideline of 4.4%.

This includes a provision for the filling of vacant positions on the organogram and the inclusion of Traveling Allowance under Salaries. In the past it was incorrectly allocated under General Expenditure.

Employee Social Contributions

Overall increase of 18%, compared to NT guideline of 4.4%.

This includes a provision for the filling of vacant positions on the organogram and the allocation of Insurance: U.I.F under Employee Social Contributions. In the past it was allocated under General Expenditure. Group Insurance and Medical Aid increase yearly with more than inflation, depending on the difference schemes and the increase in this regard was estimated at 10% per annum.

General Expenditure

Will be reduced by 3% overall with the biggest reduction in Free Basic Services by 17%.

Several of the other expenditure votes have been reduced in line with the recommendations of NT in the adjustment budget. 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 6% for inflation.

- Bank Charges – Increase based on current projections for the year.
- Bank Charges Easy Pay – Increase based on current projections for the year.
- Consumables – Was reduce during 2014/15 adjustment, based on original budget 2014/2015 budget as per POE's submitted by departments.

- Community Based Planning – Current year projection plus 5%.
- EPWP Grant – As per Division of Revenue Act.
- Hire Computer Equipment – Based on new SLA with new service providers for specialized computer services.
- Improvement Library Services – Grant as per DORA.
- License's Radios – Current year projection plus inflation.
- Landfill Site – Amount were reduce in adjustment budget.
- Matlosana Bursaries – Additional request office of the Executive Mayor.
- Master plan for water and drainage – All master plan votes combined in one vote.
- Revision IT Strategy plan – Request from ICT as per request submitted.
- Valuation rebate – Previously budgeted under revenue foregone.

Legal Cost

Legal costs have a 5% increase based on the current year projections and inflation increase.

Bulk purchases

Bulk Purchases increase with more than 6% due to the increase of 14.4% by Eskom to the municipality for electricity and a 10% increase by Midvaal water.

General Expenditure – Contracted Services

Contracted Services were reduced as the municipality is currently doing disconnections internally.

Repair & Maintenance

Were reduced based on current expenditure trends and the lack of departments to provide maintenance plans to quantify their budget submissions. It must be noted that the provision for repair and maintenance is below the national norm and may impact on future service delivery.

Contributions

Provision for Debt Impairment increase due to the increase in the revenue budget, especially water and electricity and debt collection challenges.

1.5.1 Priority given to Repairs and Maintenance.

Aligned to the priority given to preserving and maintaining the City's current infrastructure, the 2015/16 draft budget and MTREF provided for a decrease in the area of asset maintenance, this is due to a lack of user departments to provide maintenance plans to inform their budget submissions in this regard. 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.

1.5.2 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.

The cost of the social package of the registered indigent households is financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.5.3 Capital

For 2015/16, an amount of R 128.927 million is being appropriated for the development of infrastructure. R10 million will be funded from council funding for critical operational capital needs. The balance will be grant funded.

1.6 Draft 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 2014, a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule on 31 August 2015.

Key dates applicable to the process were:

- 16 March 2015 - Consultation with departments.
- 31 March 2015 – Tabling of Draft Budget to Council.
- 23 April – 7 May 2015 – Public Participation.
- 6 May – 7 May 2015 – Policy/Tariff Workshop.
- 29 May 2015 – Council Approves the Final Budget.
- 12 June 2015 – 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 draft 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 2014/17 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.

Furthermore, the strategic guidance given in National Treasury's MFMA Circular 70, 72, 74 & 75 have been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation.

Council will have an extensive public participation process immediately after the tabling of draft 2015 – 2018 draft MTREF by Council on 31 March 2015

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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 all those that have a role to play 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 for 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 was reviewed, among others in order to achieve a higher collection rate.

2.4.2 Review of Indigent Relief Policy.

The indigent relief policy was reviewed.

2.4.3 Review of Rates Policy

The Rates policy was reviewed to bring it in line with amendments with the property rates act..

2.4.4 Transfer of Funds Policy

Transfer of Funds policy was reviewed to adjust the delegation of transfers.

2.4.5 Grants Policy

The Grant and Funding policy is up for review.

2.4.6 Irrecoverable Bad Debt Policy

The Irrecoverable Bad Debt Policy was reviewed with Councillors.

2.4.7 Tariff Policy

The Tariff Policy will be reviewed.

2.4.8 Investment & Cash Management Policy

The Cashier Control Policy was workshop with councillors and is incorporated in to the Investment & Cash Management Policy.

All the above policies are available on the City's website as well as the following approved budget related policies.

- Budget Policy
- Asset Management Policy
- Borrowing Management Policy
- Debt Impairment Policy
- Supply chain Management policy
- Funding and Reserve Policy

The above-mentioned policies can be find on Councils website. www.matlosana.gov.za

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 2015 /16 MTREF.

- National Government macro-economic targets.
- 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 in certain conditions. For simplicity the 2015/16 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 is expected to stay 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 2015. Negotiations are currently in progress to reach an agreement. National Treasury in circular 74 prescribe a salary increase of 4.4%.

2.5.7 Impact of National, Provincial and Local Policies.

Integration of service delivery between national; provincial and local government is critical to ensure focussed 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 constraints 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 have been substantially adhered to through the following activities:

2.7.1 In Year Reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor has been complied with.

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.

Eight 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 have been established in accordance with the MFMA.

2.7.4 Audit Committee

An Audit Committee have been established and is fully functional.

2.7.5 Municipal Public Accounts Committee

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

2.7.6 Service Delivery and Implementation Plan

The detail draft SDBIP will be approved with the 2015/16 MTREF in May 2015.

2.8.7 Annual Report

Annual Report have been compiled in terms of the MFMA and National Treasury requirements.

2.14 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.

XXXXXXXXXXXX

Acting Municipal Manager of City of Matlosana - NW403

Signature _____

Date _____