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PART 1 – ANNUAL BUDGET

1.1 MAYOR’S REPORT

1.2 COUNCIL RECOMMENDATIONS

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

RECOMMENDATION

1. That Council approves the Draft Budget as set-out in the Draft 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 16(1)(2) 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 draft tariffs and charges for the 2015/16 year, reflected in the Draft Budget Tariffs 2015/16 document.

3. That Council approves the draft budget related policies that form part of the 2015/16 Budget documents.

4. That the Budget and IDP consultation process with stakeholders will be held with Ward Councilors as indicated in the Executive Summary.

5. That Council approves the Draft IDP for the budget years 2015-2018 as reflected in the budget document.

6. That Council adopt of MFMA Circular 75 that forms part of the 2015/16 MTREF document.

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 draft 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 draft budget. It must be noted that National Treasury was involved in the compilation of the 2014/15 adjustment budget as the municipality is currently not able to compile a surplus budget but a non-cash deficit budget.

- 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 gazetted 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	Original Budget 2014/15	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year+2 2017/18
Total Operating Revenue	-2 015 105	-2 409 399	-2 583 111	-2 832 076
Total Operating Expenditure	2 119 885	2 773 329	2 919 645	3 075 265
Total Capital	114 856	111 052	127 528	133 413
Surplus/(Deficit) for the year after Capital contribution	10 076	(252 878)	(209 005)	(109 775)

Total operating revenue will increase by R 394.2 million for the 2015/16 financial year when compared to 2014/15.

Total operating expenditure for the 2015/16 financial year has been appropriated at R 2 773 million and translates into a non-cash budgeted deficit after capital transfers of R -252.87 million. When compared to the 2014/15 Budget; operational expenditure has grown by R 653.44 million. The operating deficit for the two outer years steadily decrease to R -209 million and then to R -109,7 million.

The capital budget of R 111 million for 2015/16 is slightly less than the R 114,8 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

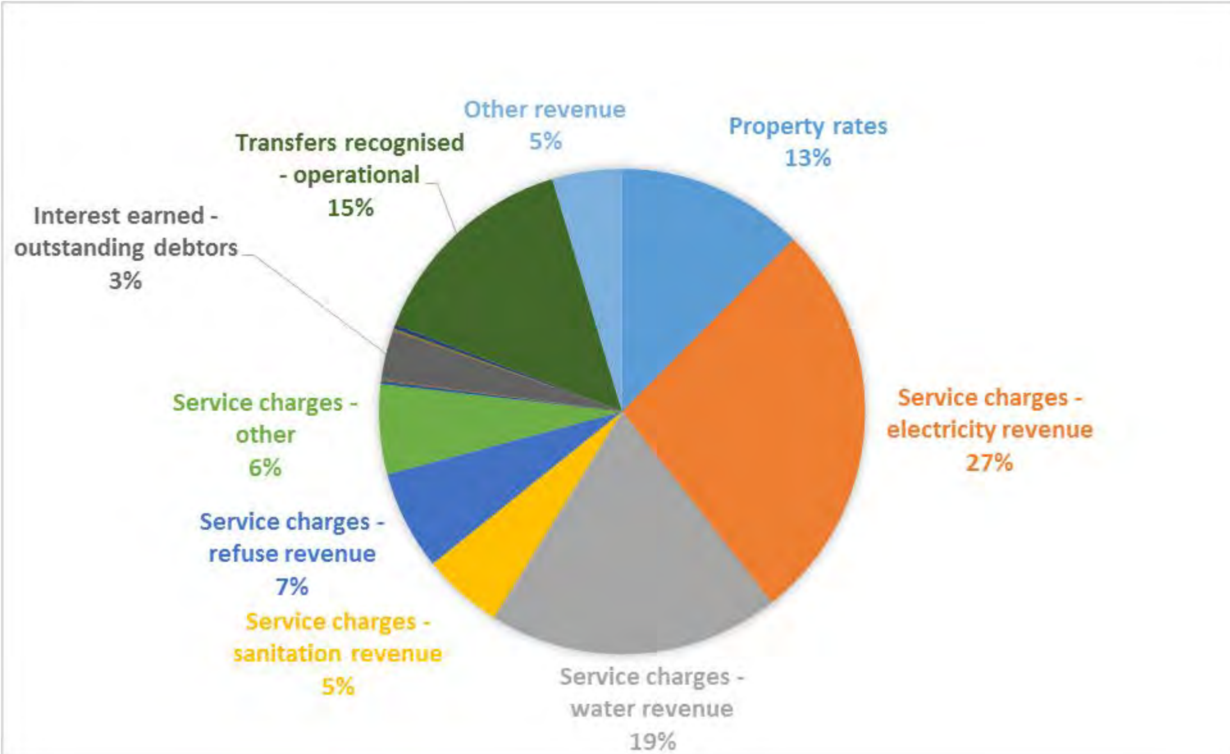
The municipality's revenue strategy is built around the following key components:

- 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.
- 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).
- Increased ability to extend new services and recover costs.
- The municipality's Indigent Policy and rendering of free basic services.
- Tariff Policies of the City.
- 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.

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	–	300 023	317 725	335 517
Property rates - penalties & collection charges				–					–	–	–
Service charges - electricity revenue	2	438 709	448 985	576 582	584 282	536 932	536 932	–	649 791	727 766	829 653
Service charges - water revenue	2	160 918	203 165	283 923	388 195	434 929	434 929	–	468 234	515 057	600 920
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		143 827	152 313	160 842
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		349 811	343 172	348 549
Other revenue	2	99 009	74 104	70 554	109 696	105 209	105 209	–	111 703	118 294	124 918
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	–	2 409 399	2 583 111	2 832 076



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 are the third largest revenue source totaling 13 % or R 300.02 million rand and increases to R 335.51 million by 2017/18.

User / Levied Charges
User and levied charges increase by 13% because of the increase by NERSA of electricity by 12, 69% and the increase in water tariffs by 10%.

Tariff charges
Tariff charges increased because of the increase of Power Cards and Pre-Paid electricity that increase by 12.69%.

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 due to the expected increase in driver's licenses.

Other Income
Will increase with only 1% and the budget is expected to be more realistic.

Operating grants and transfers totals R 349.81 million in 2015/16 financial year and decreases to
R 340 million by 2016/17.

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.

Choose name from list - 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		
R thousand		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	348 811	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	3 441	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	349 811	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 R5 000 reduction on the market value of a property will be granted in terms of the City's own Property Rates Policy;

• 50% 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 July 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 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 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.

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 2014 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.
The following table shows the impact of the proposed increases in sanitation tariffs on the sanitation charges for a single dwelling house:

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.

Choose name from list - Supporting Table SA14 Household bills			
Description	Current Year 2014/15	2015/16 Medium Term Revenue & Expenditure Framework	
	Original Budget	Budget Year 2015/16	Budget Year 2015/16
Rand/cent		% incr.	
Monthly Account for Household - 'Middle Income Range'			
Rates and services charges:			
Property rates	538.58	105.6%	568.74
Electricity: Basic levy	100.00	111.4%	111.41
Electricity: Consumption	1 170.50	112.2%	1 313.30
Water: Basic levy	100.00	115.0%	115.00
Water: Consumption	403.90	110.0%	444.29
Sanitation	59.99	105.6%	63.36
Refuse removal	109.66	105.6%	115.80
Other			
sub-total	2 482.62	10.0%	2 731.90
VAT on Services	258.17		302.84
Total large household bill:	2 740.79	10.7%	3 034.74
% increase/-decrease	–		10.7%

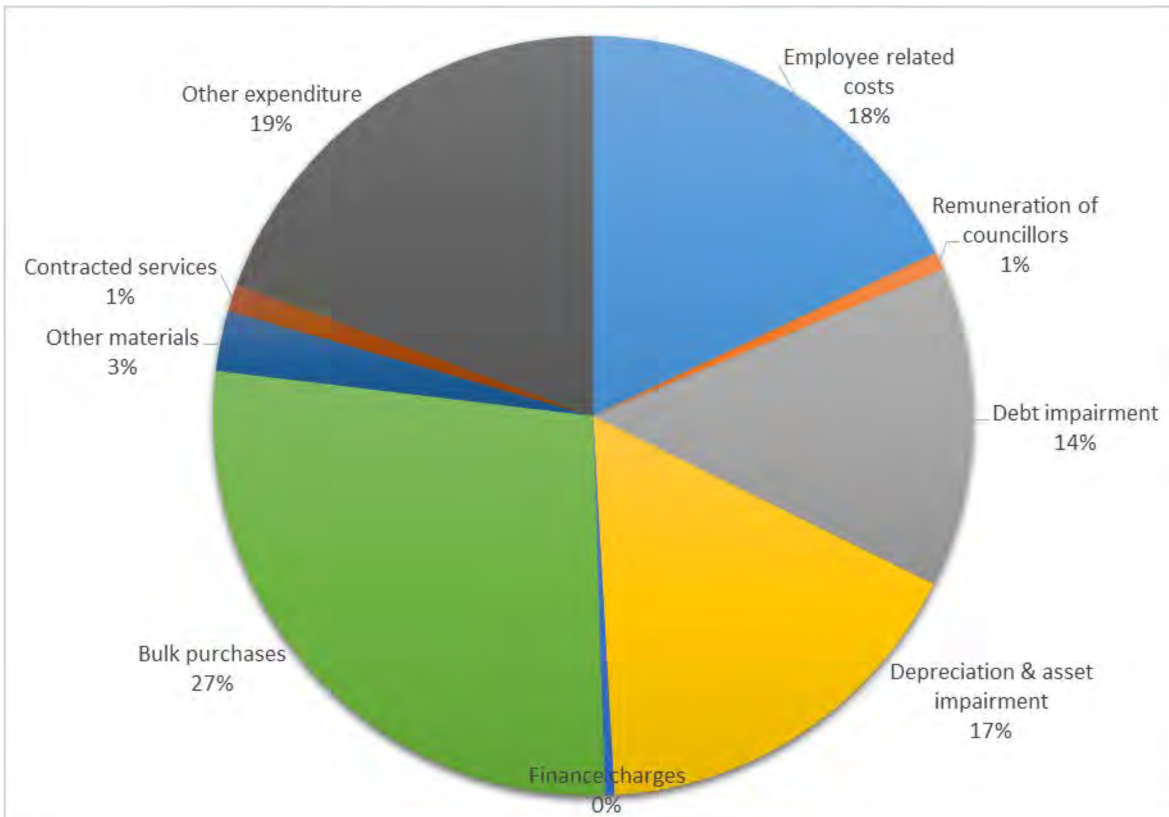
1.5 Operating Expenditure Framework

The City's expenditure framework for the 2015/16 draft budget and MTREF were 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		
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
Expenditure By Type											
Employee related costs	2	409 054	438 707	456 008	468 822	461 871	461 871	–	496 989	521 838	547 930
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		377 376	399 641	422 021
Depreciation & asset impairment	2	377 260	427 623	436 672	439 207	458 490	458 490	–	465 944	470 603	475 309
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	–	759 857	835 843	919 427
Other materials	8		45 841	39 498	98 919	90 000	90 000		70 979	75 167	79 376
Contracted services		54 627	59 516	98 655	87 798	48 450	48 450	–	32 000	33 888	35 786
Transfers and grants		–	–	–	4 847	4 847	–	–	–	–	–
Other expenditure	4, 5	216 611	163 425	208 688	257 065	531 938	531 938	–	537 665	548 418	559 386
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	–	2 773 329	2 919 644	3 075 265



The budget allocation for employee related costs (including remuneration of councillors) for the 2015/16 financial year totals R 518 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 in the final budget.

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 465. 94 million for the 2015/16 financial year and equates to 16.8 % 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 30% of the positions on the organogram and the inclusion of Traveling Allowance under Salaries. In the past it was wrongly allocated under General Expenditure.

Employee Social Contributions
Overall increase of18%, compared to NT guideline of 4.4%.
This includes a provision for the filling of 30% of the 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.

General Expenditure
Will be reduced by 2% 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
Have a 5% increase based on 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 10% 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.

Contributions
Provision for Bad Debt increase due to the increase in revenue especially water and electricity.

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.

For 2015/16, an amount of R 111 million is being appropriated for the development of infrastructure.

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.
- 13 April – 30 April 2015 – Public Participation.
- 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. The City is in the process of linking performance to individual employees.

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 is under review; among others; in order to achieve a higher collection rate.

2.4.2 Review of Indigent Relief Policy.
The indigent relief policy will be reviewed.

2.4.3 Review of Rates Policy
The Rates policy will be reviewed to bring it in line with new legislation.

2.4.4 Supply Chain Management Policy
The Tariff policy will be reviewed to make it more effective.

2.4.5 Transfer of Funds Policy
Transfer of Funds policy will be reviewed to adjust the delegation of transfers.

2.4.6 Grants and Funding Policy
The Grant and Funding policy is up for review.

2**.4.7 Irrecoverable Bad Debt Policy**
The Irrecoverable Bad Debt Policy will be reviewed.

2.4.8 Tariff Policy
The Tariff Policy will be reviewed.

2.4.8 Cashier Control Policy
This is a new policy**.**

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

- Budget Policy
- Investment & Cash Management Policy
- Asset Management Policy
- Borrowing Management Policy
- Provision for Bad Debt Policy
- Irrecoverable Bad Debt 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 2014 /15 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 75 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 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 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.
8 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 SDBIP document is at a draft stage and will be finalised and 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.

XXXXXXXXXXX

Acting Municipal Manager of City of Matlosana - NW403

Signature ________________________________

Date ___________________