

JOE GQABI DISTRICT MUNICIPALITY

2015/16 MTREF BUDGET

PURPOSE

- (a) To present and for Council to approve the Final MTREF Budget for the 2015/16 Financial Year.

BACKGROUND

The 2015/16 MTREF Budget has been drafted with requirements of the MFMA, which are set out below. More importantly, the District Municipality is cognisant of the financial environment in the National sphere. Crafting the budget has taken into account imminent exorbitant Eskom Tariff increases, the volatile Rand, sluggish economic growth, high rates of unemployment and uncertainty of fuel prices.

The draft budget has also noted the Hon. Minister of Finance's speech in February 2015. The budget also attempts to squeeze and cut costs and set revenue targets that need to be achieved to ensure a financially sustainable institution.

The draft budget also endeavours to encapsulate deliberations at various Strategic Planning sessions held in March 2015. These include installation of meters, credit control and limiting the use of external service providers.

The Municipal Finance Management Act No. 56 of 2003 Section 16, read with Section 16(2) of the same act, requires a Municipality to draft the Municipal budgets under the following stipulated conditions

16. (1) the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.
- (2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.
- (3) Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

Acronyms in this report:

- MIG – Municipal Infrastructure Grant.
- MWIG – Municipal Water Infrastructure Grant.
- WSOG – Water Service Operating Subsidy Grant.
- DORA – Division of Revenue Act.
- LED – Local Economic Development.
- RHIP – Rural Household Infrastructure Grant.
- RBIG – Regional Bulk Infrastructure Grant.
- EPWP – Expanded Public Works Program.

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FINANCIAL IMPLICATIONS

There were no known financial implications in the respect of the contents of this report during its development.

DISCUSSIONS

The cash deficit of the Draft Budget is calculated as follows:

SUMMARY OF THE INCOME AND EXPENDITURE				
	<u>Adjustment budget 2014/15</u>	<u>Budget - 2015/2016</u>	<u>Budget - 2016/2017</u>	<u>Budget - 2017/2018</u>
Total Revenue (excluding capital transfers and contributions)	325 719 002.00	415 815 276.00	415 183 959.00	421 794 262.00
Total Expenditure	509 602 709.00	461 654 410.61	470 952 025.34	482 836 409.96
Surplus/(Deficit) - Operational	(183 883 707.00)	(45 839 134.61)	(55 768 066.34)	(61 042 147.96)
Total Capital Expenditure	190 255 395.00	234 660 931.42	182 146 579.30	187 171 930.18
Total Capital Funding	273 115 976.00	238 814 000.00	188 327 000.00	185 598 000.00
	82 860 581.00	4 153 068.58	6 180 420.70	(1 573 930.18)
Surplus/(Deficit) - Total	(101 023 126.00)	(41 686 066.03)	(49 587 645.64)	(62 616 078.13)
Adding back non-Cash items:				
Accumulated depreciation	46 857 456.00	47 648 764.00	48 353 966.00	51 206 851.00
Surplus/(Deficit) - Total Cash	(54 165 670.00)	5 962 697.97	(1 233 679.64)	(11 409 227.13)

It is a concern that the depreciation is not cash backed. The implication thereof is that we will not be able to replace assets with own monies in the future.

The table below highlights the differences in Revenue between the tabled 1ST Adjustment Budget and Budget:

DETAIL OF INCOME				
Description	<u>Adjustment budget 2014/15</u>	<u>Budget - 2015/2016</u>	<u>Budget - 2016/2017</u>	<u>Budget - 2017/2018</u>
Grants & Subsidies Received - Capital	273 115 976	238 814 000	188 327 000	185 598 000
Grants & Subsidies Received - Operational	245 989 459	345 410 400	344 412 664	347 873 004
Income For Agency Services	1 072 209	112 000	-	-
Interest Earned - Extrnal Inve	4 353 041	3 368 000	3 704 800	4 075 280
Interest Earned - Outstanding	4 214 236	2 704 072	2 974 478	3 271 927
Other Revenue	2 976 669	1 940 220	2 134 242	2 347 666
Nett Service charges	67 113 388	62 280 584	61 957 775	64 226 385
Service Charges	84 178 283	120 693 767	127 935 392	135 611 517
Less Revenue Foregone	(17 064 895)	(58 413 183)	(65 977 617)	(71 385 132)
Grand Total	598 834 978	654 629 276	603 510 959	607 392 262

The Revenue of R 654 million includes:

- Grants and subsidies received are as per the Government Gazette, DoRA and service level agreements signed with various departments:

LOCAL GOVERNMENT MTEF ALLOCATIONS: 2015/16 - 2017/18			
	2015/16	2016/17	2017/18
	R thousands	R thousands	R thousands
C DC14 Joe Gqabi			
Total MIG	154 270	160 712	170 367
Municipal infrastructure grant - Capital	99 770	110 999	135 867
Municipal infrastructure grant - Operational PMU	4 500	4 713	4 500
Municipal infrastructure grant - Operational VIP toilets	50 000	45 000	30 000
Rural roads assets management systems grant	2 080	2 136	2 277
Municipal water infrastructure grant	25 011	7 328	7 731
Rural households infrastructure grant	-	4 500	4 745
Local government financial management grant	1 250	1 250	1 250
Municipal systems improvements grant	940	960	1 033
Expanded public works programme integrated grant for municipalities	1 379	-	-
Equitable share	209 607	224 702	240 509
Water services operating subsidy grant	5 000	10 000	12 000
Sub total direct transfers	399 537	411 588	439 912
HEALTH	112	-	-
ECONOMIC DEVELOPMENT AND ENVIRONMENTAL AFFAIRS	800	-	-
PROVINCIAL TREASURY	100 000	80 000	50 000
Drought relief - Capital	70 000	60 000	30 000
Drought relief - Grants and subsidies paid	30 000	20 000	20 000
Human Settlement - SLA	19 033	-	-
Working for Water/ Wetlands - SLA	10 854	11 506	12 196
DRAT(Department of Roads and Transport) - SLA	34 000	34 146	36 108
Sub total indirect transfers	164 799	125 651	98 304
TOTAL	564 336	537 239	538 216

It should be noted that the allocation included for Human Settlement, Working for water and wetlands and Department of Roads and Transport are based on service level agreements signed with the respective departments.

The Equitable share allocation has been increased with R14.7 million

There is no RBIG allocation for the 2015-2016 financial year.

The province has allocated a total amount of R230 million of the MTREF period, R100 million for 2015-2016, R80 million for 2016-2017 and R50 million for 2017-2018

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- A rollover amount on MIG of R20 million additionally allocated during the 2014/2015 financial year
- Service Charges have been calculated based on the current financial years' actual performance with an estimate increase of 6% for water and 7% for sanitation. The revenue foregone is based on an estimate of 45% for water and 59% for sanitation. The current collection rate is 20% of the average monthly billing. The institution is expecting to increase collection to at least 35% of the annual billing as the appointment of a credit controller has been approved for implementation during 2015-2016. In addition to the above a provision of R19.5 million for Debt Impairment has been budgeted for in order to provide for bad debts. The provision is substantially lower than the previous year due to the expected higher collection rate as well as the taking over of billing and collection of the Elundini and Gariep local areas.

The table below highlights the differences in Expenditure between the approved Adjustment Budget and Draft Budget:

DETAIL OF EXPENDITURE				
Description	<u>Adjustment budget 2014/15</u>	<u>Budget - 2015/2016</u>	<u>Budget - 2016/2017</u>	<u>Budget - 2017/2018</u>
Bulk Purchases	11 768 800.00	10 479 853.00	11 038 755.00	11 777 041.00
Contracted Services	31 880 624.00	11 476 397.00	11 851 359.00	12 432 588.00
Debt Impairment	37 602 861.00	19 582 685.00	22 520 087.00	25 898 101.00
Depreciation and Amortisation	46 857 456.00	47 648 764.00	48 353 966.00	51 206 851.00
Emergency Drought Relief	6 830 000.00	1 280 000.00	1 341 440.00	1 420 585.00
Employee related costs	155 602 561.00	176 370 580.36	185 184 975.88	194 442 997.02
Finance Charges	2 751 787.00	2 293 887.00	2 403 993.00	2 545 829.00
General expenses	90 687 682.00	84 240 862.00	88 662 934.00	94 230 128.00
Grants and subsidies paid	4 174 579.00	28 131 326.80	19 812 006.04	20 009 421.09
Inventory adjustments	60 960.00	54 000.00	56 592.00	59 931.00
Loss on disposal of Property, Plant and Equipment	328 052.00	-	-	-
Operating Grant Expenditure	95 566 694.00	62 550 951.00	61 435 385.00	49 512 836.00
Remuneration of Councillors	5 746 613.00	6 033 786.45	6 335 475.42	6 652 249.84
Repairs and maintenance	19 744 040.00	11 511 318.00	11 955 057.00	12 647 852.00
Grand Total	509 602 709.00	461 654 410.61	470 952 025.34	482 836 409.96

- The MFMA circular no 74 and 75, issued by National Treasury, was applied in budgeting for operating expenditure, however strict measures were implemented toward non essential expenditures due to the current economical situation and the municipalities cash flow challenges. The circular advised that municipalities take into consideration 4.8% CPI inflation and 2% for Real GDP growth for 2015-2016.
- The actual Employee cost to date has been increased by the 4.4% as per the circular plus an additional 2.5% for notch increases adding to a total of 6.9%. Limited provision has been made to fill vacant positions and only key positions were identified to be filled in the next financial year adding another 5% to the total employee cost increase.
- A reclassification from contracted services to general expenditure was made due to the definition of contracted services.

- Operating grant expenditure relates to the expenditure directly linked to operational grants allocated to the municipality.
- Grants and subsidies paid relates to the allocation from the Provincial allocation for Drought to the local municipalities and the contribution made towards JoGeda to an amount of R28 million.
- Operational Repairs and Maintenance have been decreased as repair and maintenance of assets is to be done in-house. Bulk of the cost is therefore allocated toward Employee cost.
- Depreciation is increased as the municipality has budgeted for purchase of new assets.
- Debt impairment is significantly decreased due to the higher anticipated collection with the assistance of a debt collector and taking over of Elundini and Gariep billing and collections.
- Included in general expenditure is the following items which are included in the Municipality's IDP :

<u>Programmes:</u>	R
	2015/2016
Traditional leaders	180 000.00
<u>Mayoral Projects:</u>	
- Priority programmes	25 000.00
- State events	15 000.00
- Donations	25 000.00
- Youth	10 000.00
- Mayoral cup	120 000.00
Community Radio Station	
Development	80 000.00
Public Participation	190 000.00
Moral Regeneration: Awareness	40 000.00
Special Projects	50 000.00
Community Works Programme	15 000.00
Media relations	150 000.00
Aids implementation Program	50 000.00
Childrens day Event	20 000.00
Disable Support and Awareness	120 000.00
Eldery Programme	20 000.00
<u>Women programmes:</u>	
- 16 Days	50 000.00
- Gender issues	50 000.00
-Support organisation	25 000.00
Youth programmes	80 000.00

The next table is a summary per Directorate of all operating expenditures:

Description	<u>Adjustment budget 2014/15</u>	<u>Budget - 2015/2016</u>	<u>Budget - 2016/2017</u>	<u>Budget - 2017/2018</u>
Community Services	52 110 276	52 403 018	55 333 689	58 769 115
Corporate Services	48 571 410	47 137 366	49 814 243	52 414 081
Financial Services	83 119 090	66 297 279	71 462 008	77 546 019
Management Services	34 960 616	31 830 698	33 773 178	35 616 811
Technical Services	290 841 317	263 986 049	260 568 907	258 490 384
Grand Total	509 602 709	461 654 411	470 952 025	482 836 410

CAPITAL PROJECTS:

<u>Description of Asset</u>	<u>FINAL BUDGET 2015- 2016</u>	<u>FINAL BUDGET 2016- 2017</u>	<u>FINAL BUDGET 2017- 2018</u>	<u>Funding source</u>
INSURANCE PAYOUTS CAPITAL EXPE	200 000.00	200 000.00	200 000.00	Own
FURNITURE & EQUIPMENT(NEW POST	1 000 000.00	1 000 000.00	1 000 000.00	Own
IT Equipment	475 200.00	500 000.00	500 000.00	Own
Vehicles - Community	1 000 000.00	1 000 000.00	1 000 000.00	Own
Emergency Equipment	5 000 000.00	-	-	Own
Steynsburg Waterborne Sanitati	12 517 544.00	-	-	MIG
Jamestown Sanitation Phase 2	8 771 930.00	8 771 929.82	13 157 894.74	MIG
UGIE SANITATION INFRASTRUCTURE	6 140 351.00	4 385 964.91	4 385 964.91	MIG
Sterkspruit 73 Sites Sanitation	6 140 350.88	474 649.12		MIG
Maclear Upgrade of Bulk San	13 157 895.00	8 771 929.82	8 771 929.82	MIG
Sterkspruit Upgrade of Bulk San	-	13 157 894.74	21 052 631.58	RBIG
Planning Studies	526 315.79	877 192.98	877 192.98	MIG
Mt. Fletcher Town Sanitation I	175 439.00	4 385 964.91	8 771 929.82	MIG
Water & Sanitation Bakkies	10 000 000.00	-	-	Own
MIG-Mt Fletcher Villages - Bul	6 578 947.00	4 385 964.91	4 385 964.91	MIG
MIG-Sterkspruit Upgrading of W	10 526 316.00	8 771 929.82	8 771 929.82	MIG
Senqu Rural Water Programme	16 666 667.00	17 543 859.65	21 929 824.56	MIG
Elundini Rural Water Programme	17 543 860.00	17 543 860.00	17 543 860.00	MIG
Maclear Upgrade of Bulk Water	4 385 965.00	8 771 929.82	8 771 929.82	MIG
Water Meters	7 500 000.00	5 000 000.00	5 000 000.00	Own
STERKSPRUIT WTW REFURBISHMENT	4 385 965.00	8 771 929.82	10 526 315.79	WSOS
DROUGHT RELIEF	61 403 509.00	52 631 578.95	26 315 789.47	Drought relief
Ugie Bulk Water Infrastructure	1 754 386.00	4 385 964.91	7 017 543.86	MIG
Ditricth WCDM Projects	21 939 473.68	6 428 070.18	6 781 578.95	MWIG
Barkly East Upgrade	16 695 378.07	-	-	Human settlement
Mt. Fletcher Town Water Infr U	175 439.00	4 385 964.91	10 409 649.12	MIG
	<u>234 660 931.42</u>	<u>182 146 579.30</u>	<u>187 171 930.18</u>	

- The funding sources of all the capital projects are included above. It should be noted that no loans are anticipated for the next three financial periods.
- The own funded assets are depended on the cash collection as indicated above.
- The capital projects are nett of VAT

Tariffs

The report on proposed tariffs is included under separate cover.

National Treasury Schedules

The National Treasury schedules are attached to this report. Foot notes are made, where necessary, to explain items

LEGAL IMPLICATIONS

Section 18 (1) of the MFMA states that the funding of expenditure of an annual budget may only be funded from:

- (a) Realistically anticipated revenues to be collected
- (b) Cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- (c) Borrowed funds, but only for the capital budget referred to in section 17(2).

Attached as Annexure "1" –is the institutional Budget Report.

CREDIBILITY

This report was prepared by the Budget and Treasury Office and reviewed by the Chief Financial Officer.

RECOMMENDATIONS:

- (a) That the Budget of Joe Gqabi District Municipality for the financial year 2015/2016 as set out in the schedules contained in section 4 be tabled:
 - (i) Table A2 Draft Budget Financial Performance (by standard classification);
 - (ii) Table A3 Draft Budget Financial Performance (by municipal vote);
 - (iii) Table A4 Draft Budget Financial Performance (revenue by source); and
 - (iv) Table A5 Draft Budget Capital Expenditure (by municipal vote and funding source)
- (b) That the council approves any administrative corrections to the report and schedules that the National or Provincial Treasury may identify.