

# ***MANTSOPA LOCAL MUNICIPALITY***



***Draft Budget 2016/17***

## **Mayor's Report**

Mantsopa Local Municipality is in no way immune to the harsh economic realities associated with the recession. Among the impacts are the serious cash flow challenges currently being experienced by the municipality due to among other things declining collection rates; historic expenditure patterns and a general lack of "doing business smarter".

Management within local government has a significant role to play in strengthening the link between the citizen and governments overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the Mantsopa Local Municipality. The draft budget is as per MFMA 56 of 2003 section 28 necessary to;

- Budget revenue and expenditure downwards if there is a material under collection during the current year,
- appropriate additional revenues that become available over and above those anticipated in the annual budget,
- authorise unforeseeable and unavoidable expenditure,
- authorise the utilisation of projected savings in one vote towards spending under another vote,
- revise or accelerate spending programs already budgeted for,
- authorise the spending of unspent funds at the end of a previous year,
- correct errors in the annual budget and
- provide for other expenditure in a prescribe frame work

The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.

## **Executive Summary**

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

National Treasury's MFMA Circular No. 51, 54, 66 and 67 were used to guide the compilation of the 2015/16 AB.

The main challenges experienced during the compilation of the 2015/16 AB can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Ageing and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2015/16 AB process.

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

- The 2015/16 MTREF priorities and targets, as well as the base line allocations contained in that 2015/16 MTREF were adopted as the upper limits for the new baselines for the 2015/16 AB;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rates stays as in the approved 2015/16 MTREF
- There will be no budget allocated to national and provincial funded projects, unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act.

## **Overview of the annual budget process**

- The process to be followed for the draft budget is in line with the process of the annual budget.

## **IDP and Service Delivery and Budget Implementation Plan**

The IDP has been taken into consideration with the preparation of the draft budget.

With the compilation of the 2016/17 DB, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2015/16 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

In the absence of a petty cash policy and the requirement of the MFMA on proper management of expenditure a policy has been prepared and is attached for adoption.

The following policies were adopted by council on 29 May 2015 together with the original budget:

- Rates Policy
- Tariff Policy
- Indigent Policy
- Credit Control and Debt Collection Policy
- Cash Management and Investment Policy
- Supply Chain Policy
- Budget Policy

In view of the aforementioned, the following table is a consolidated overview of the proposed 2016/17 DB Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2016/17 Draft Budget**

<b>R thousand</b>	<b>Adjustment budget 2015/16</b>	<b>Draft budget 2015/16</b>
Total Operating Revenue	R 275 762 291	R 215 328 371
Total Operating Expenditure	(R 229 356 513)	(R 214 186 015)
Operating surplus / (Deficit)	R 5 949 178	R 1 142 302
Capital grants	R 36 545 100	R 20 089 600
Capital expenditure	(R 42 234 850)	(R 20 089 600)
Surplus / (Deficit)	R 4 170 928	R 1 142 302

Total operating revenue has decreased by R60 433 920 for the 2016/17 DB financial year when compared to the 2015/16 AB.

Total operating expenditure for the 2016/17 DB financial year has been appropriated at R214 186 015, a decline of R 15 170 498 comparing with the 2015/16 Adjustment budget. That results in an operating surplus of R 1 142 302 which must be transfer to finance other operational costs.

The capital grants received decline by R16 455 500 from R36 545 100 to R20 089 600. The expenditure of the capital budget decrease from R42 234 850 to R20 089 600.

The total surplus will therefore be R1 142 302, although we need at least R20 000 000 to service our creditors partly. Therefore, the surplus of R1 142 302 will go straight for paying creditors, especially Eskom.

## **Operating Revenue Framework**

For Mantsopa Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality.

The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

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

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to increase the annual collection rate for property rates and other key service charges;
- 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);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2016/17 DB MTREF (classified by main revenue source and Expenditure):

FS196 Mantsopa - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) – 2015/16					
Description	Budget Year 2015/16			Budget Year +1 2016/17	Budget Year +2 2017/18
	Original Budget	Total Adjusts.	Adjusted Budget		
<b>Revenue By Source</b>					
Property rates	13 849 595	(855 714)	12 993 881	13 903 453	14 876 694
Service charges - electricity revenue	42 409 564	5 390 436	47 800 000	51 146 000	54 726 220
Service charges - water revenue	37 646 736	723 264	38 370 000	41 055 900	43 929 813
Service charges - sanitation revenue	21 441 744	(3 360 456)	18 081 288	19 346 978	20 701 267
Service charges - refuse revenue	12 769 166	(1 963 028)	10 806 138	11 562 568	12 371 947
Rental of facilities and equipment	1 258 522	(3 200)	1 226 522	1 312 379	1 404 245
Interest earned - external investments	571 000	(50 000)	521 000	557 470	596 493
Interest earned - outstanding debtors	25 000 000	0	25 000 000	26 750 000	28 622 500
Dividends received	20 000	–	20 000	21 400	22 898
Fines	574 200	–	574 200	614 394	657 402
Transfers recognised - operating	76 750 400	–	76 750 400	82 122 928	82 122 928
Other revenue	601 226	2 561 036	3 162 262	3 383 620	3 620 474
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>232 892 153</b>	<b>2 413 538</b>	<b>235 305 691</b>	<b>251 777 089</b>	<b>269 401 486</b>
<b>Expenditure By Type</b>					
Employee related costs	72 998 219	2 212 572	75 210 791	80 475 546	86 108 835
Remuneration of councillors	6 290 310	–	6 290 310	6 730 632	7 201 776
Debt impairment	50 819 898	(2 998 071)	47 821 827	51 169 355	54 751 210
Depreciation & asset impairment	4 251 493	84	4 251 577	4 549 187	4 867 631
Finance charges	0	0	0	0	0
Bulk purchases	37 475 600	–	37 475 600	40 098 892	42 905 814
Other materials	8 281 350	556 138	8 837 488	9 456 112	10 118 040
Other expenditure	49 587 396	(118 476)	49 468 920	52 931 744	56 636 967
<b>Total Expenditure</b>	<b>229 704 266</b>	<b>(347 753)</b>	<b>229 356 513</b>	<b>245 411 469</b>	<b>262 590 272</b>
<b>Surplus/(Deficit)</b>	<b>3 187 887</b>	<b>2 761 291</b>	<b>5 949 178</b>	<b>6 365 620</b>	<b>6 811 214</b>
Transfers recognised - capital	43 456 600	(3 000 000)	40 456 600	43 288 562	46 318 761
Contributed assets	(46 579 350)	4 344 500	(42 234 850)	(45 191 290)	(48 354 680)
<b>Surplus/(Deficit) before taxation</b>	<b>65 137</b>	<b>4 105 791</b>	<b>4 170 928</b>	<b>4 462 893</b>	<b>4 775 295</b>

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Electricity is the largest revenue source totalling to R42 409 564 with water being the second largest revenue source totalling R38 370 000. The third largest source is sanitation which also totals to R18 081 288.

Operating grants and transfers totals R76 750 400 in the 2015/16 AB.

### Capital Expenditure

The following table gives a breakdown of the capital expenditure as per department.

FS196 Mantsopa - Table B5 Adjustments Capital Expenditure Budget by vote and funding - B – 2015/16

Vote Description	Current Year 2015/16			Budget Year +1 2016/17	Budget Year +2 2017/18
	Original Budget	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
<b>Capital expenditure - Municipal Vote</b>					
<b>Single-year expenditure appropriation</b>					
<b>Vote 1 - MUNICIPAL MANAGER</b>					
1.1 - Office of the Municipal Manager	44 000	(38 000)	6 000	6 420	6 869
1.2 - Internal Audit	0	0	0	0	0
1.3 - Integrated Development Plan	14 000	(14 000)	0	0	0
1.4 - Performance Management	0	0	0	0	0
1.5 - Local economic development	0	0	0	0	0
<b>Vote 2 - COUNCIL</b>					
2.1 - Mayor's Office	98 000	(78 000)	20 000	21 400	22 898
2.2 - Speaker's Office	0	0	0	0	0
2.3 - Council	0	0	0	0	0
<b>Vote 3 - FINANCIAL SERVICES</b>					
3.1 - Financial Services	0	18 000	18 000	19 260	20 608
3.2 - Rates and Tax	0	0	0	0	0
Vote 4 - Corporate Services					
<b>4.1 - Administration Services</b>	2 036 750	(533 500)	1 503 250	1 608 478	1 721 071
<b>Vote 5 - COMMUNITY SERVICES</b>					
5.1 - Community Services Director's office	0	0	0	0	0
5.2 - Parks and recreation	0	0	0	0	0
5.3 - Libraries	0	0	0	0	0
5.4 - Fire Department	0	0	0	0	0
5.5 - Traffic Department	180 000	(175 000)	5 000	5 350	5 725
5.6 - Housing	0	0	0	0	0
<b>Vote 6 - TECHNICAL SERVICES</b>					
6.1 - Cemeteries	0	0	0	0	0
6.2 - Properties	5 170 884	2 000	5 172 884	5 534 986	5 922 435
6.3 - Project Management Unit	0	0	0	0	0
6.4 - Roads and Streets	13 285 716	0	13 285 716	14 215 716	15 210 816
6.5 - Electricity	3 600 000	(6 000)	3 000 000	3 210 000	3 434 700
6.6 - Water	22 000 000	(2 970 000)	19 030 000	20 362 100	21 787 447
6.7 - Sewerage	150 000	44 000	194 000	207 580	222 111
6.8 - Refuse Removal					
<b>Total Capital Expenditure</b>	46 579 350	(4 344 500)	42 234 850	45 191 290	48 354 680

## 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.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties. The implementation of these regulations was done in the previous 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 R80 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);
- 50% rebate will be granted on all residential properties.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2015/16 AB financial year based on a .005225 cent per Rand.

## **2 Part 2 – Supporting Documentation**

Attached please find the A-schedule containing the total draft budget.