

MANTSOPA LOCAL MUNICIPALITY (FS196)

FINAL (BUDGET)MTREF
FORECAST 2016/17

BUDGET

2017

38 JOUBERT STREET LADYBRAND

PART 1 – ANNUAL BUDGET

1.1 Council Resolutions

On the Council of Mantsopa Local Municipality met in the Council Chambers of Mantsopa Local Municipality to consider the annual budget of the municipality for the financial year 2016/17. The Council approved and adopted the following resolutions:

1. The Council of Mantsopa Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.1. The annual budget of the municipality for the financial year 2016/17 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification)

1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote)

1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type)

1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.

2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in annexure A

3. The Council of Mantsopa Local Municipality, acting in terms of section 75(a) of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2016:

2.1. the tariffs for property rates

2.2. the tariffs for electricity

2.3. the tariffs for the supply of water

2.4. the tariffs for sanitation services

2.5. the tariffs for solid waste services

4. The Council of Mantsopa Local Municipality, acting in terms of 75(a) of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2016 the tariffs for other services.

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 annual budget is as per MFMA 56 of 2003 section 16 necessary to;

- Setting out realistically anticipated revenue for the budget year from each revenue source;
- Appropriating expenditure for the budget year under different votes of the municipality;
- Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- Setting out estimated revenue and expenditure by vote for the current year, and actual revenue and expenditure for the financial year preceding the current year;
- A statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.

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, 67, 78 and 79 were used to guide the compilation of the 2016/17 annual budget.

The main challenges experienced during the compilation of the 2016/17 annual budget 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 adjustment budget process.

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

- The 2016/17 MTREF priorities and targets, as well as the base line allocations contained in that 2016/17 MTREF were adopted as the upper limits for the new baselines for the 2016/17 annual budget;
 - Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
 - Tariff and property rates have slightly increased from the 6% to the 7% stated in the budget,
 - 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

- Section 21 of the Municipal Finance Management Act No. 56 of 2003, this section outlines the process of the budget, the mayor's responsibility and the timelines that the mayor should follow in preparing the annual budget of the municipality.

IDP and Service Delivery and Budget Implementation Plan

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

With the compilation of the 2016/17 annual budget, 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 budget related 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 annual budget Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2016/17 Annual Budget

R thousand	Adjustment budget 2015/16	Annual budget 2016/17
Total Operating Revenue	R 235 306 000	R 207 999 000
Total Operating Expenditure	(R 232 357 000)	(R 206 240 000)
Operating surplus / (Deficit)	R 2 949 000	R 1 759 000
Capital grants	R 43 457 000	R 56 668 000
Capital expenditure	(R 42 235 000)	(R 58 418 000)
Surplus / (Deficit)	R 4 172 000	R 9 000

Total operating revenue has decreased by R27 307 000 for the 2016/17 annual budget financial year when compared to the 2015/16 adjustment budget.

Total operating expenditure for the 2016/17 annual budget financial year has been appropriated at R206 240 000, a decline of R 26 117 000 comparing with the 2015/16 Adjustment budget. That results in an operating surplus of R 1 759 000 which must be transfer to finance other capital costs.

The capital grants received have increased by R16 181 000 from R40 487 000 to R56 668 000. The expenditure of the capital budget increased from R42 235 000 to R58 418 000.

The total surplus will therefore be R 900 000, although we need at least R50 000 000 to service our creditors partly. Therefore, the surplus of R 900 000 will go straight for financing capital expenditure especially roads within Mantsopa.

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;
-

councillors		4,889	4,909	5,524	6,290	6,290	6,290		6,794	7,201	7,633
Debt impairment	3	95,997	48,773	154,005	50,820	47,822	47,822		28,884	30,617	32,454
Depreciation & asset impairment	2	30,004	23,795	50,587	4,251	4,251	4,251	-	3,939	4,176	4,426
Finance charges		814	888	1,425	-	-	-		-	-	-
Bulk purchases	2	29,954	30,796	34,311	37,476	37,476	37,476	-	39,366	41,728	44,231
Other materials	8	6,410	11,096	4,724	8,281	8,837	8,837		6,358	6,739	7,144
Contracted services		-	1,806	3,132	3,000	3,000	3,000	-	3,000	3,180	3,371
Transfers and grants		12,822	5,662	997	10,020	9,120	9,120	-	1,764	1,870	1,982
Other expenditure	4, 5	44,902	19,827	46,349	36,579	40,349	40,349	-	35,880	38,032	40,314
Loss on disposal of PPE		-	-	11	-	-	-		-	-	-
Total Expenditure		278,332	208,025	368,626	229,745	232,357	232,357	-	206,240	218,614	231,731
Surplus/(Deficit)		(78,428)	(3,305)	(116,729)	3,147	2,949	2,949	-	1,759	1,865	1,977
Transfers recognised - capital		34,244	25,930		43,457	43,457	43,457		56,668	60,068	63,672
Contributions recognised - capital	6	-	-	-	-	-	-	-	-	-	-
Contributed assets		-	-	-	-	-	-		-	-	-
Surplus/(Deficit) after capital transfers & contributions		(44,184)	22,625	(116,729)	46,603	46,406	46,406	-	58,427	61,933	65,649
Taxation		-	-	-	-	-	-		-	-	-
Surplus/(Deficit) after taxation		(44,184)	22,625	(116,729)	46,603	46,406	46,406	-	58,427	61,933	65,649
Attributable to minorities		-	-	2,809	-	-	-		-	-	-
Surplus/(Deficit) attributable to municipality		(44,184)	22,625	(113,920)	46,603	46,406	46,406	-	58,427	61,933	65,649
Share of surplus/ (deficit) of associate	7	-	-	-	-	-	-		-	-	-
Surplus/(Deficit) for the year		(44,184)	22,625	(113,920)	46,603	46,406	46,406	-	58,427	61,933	65,649

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are included in the financial performance, as inclusion of these revenue sources would increase the surplus before the capital expenditure.

- Electricity is the largest revenue source totalling to R45 023 000;
- Water being the second largest revenue source totalling R33 717 000.
- The third largest source is sanitation which also totals to R15 955 000.
- Property rates is the 4th source of revenue totalling R 13 701 000

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 0.005600 cent per Rand.

Operating grants and transfers have decreased from R76 750 000 in the 2015/16 adjustment budget to R71 511 000. This has resulted from the removal of other operational grants by the National Treasury.

Operating Expenditure Framework

The municipality's expenditure framework for the 2016/17 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The budgeted allocation for employee related costs for the 2016/17 financial year totals R80 256 000, which equals 38% of the total operating expenditure. This excludes R6 794 000 allocated for Councillor allowances. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6% for the 2016/17 financial year. An annual increase of 6% has been included in the two outer years of the MTREF.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget and an amount of R6 794 000.

The provision of debt impairment was determined based on an annual collection rate of 69% and the Debt Write-off Policy of the municipality. For the 2015/16 financial year this amount equates to R47 822 000 and reduced to R28 884 000 in 2016/17. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

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 asset consumption. Budget appropriations in this regard total R3 939 000 for the 2016/17.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges for the 2016/17 financial will not be budgeted for as our current borrowings have been frozen until 2017/2018 financial year.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Bloem Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses. Eskom has a debt of over 60million that the municipality need to pay, however due to a lower collection rate it makes it impossible to meet the financial obligations that the municipality has.

Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the 2016/17 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Other materials comprise of amongst others the purchase of materials for maintenance, cleaning materials and chemicals. In line with the municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability

of the municipality's infrastructure. The appropriation against this group of expenditure has been budgeted an amount of R 6 358 000.

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 these free services the households are required to register in terms of the municipality's Indigent Policy. The target is to register **3000**(three thousand) or more indigent households during the 2016/17 financial year, a process reviewed annually.

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

Capital Expenditure

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

FS196 Mantsopa - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description R thousand	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Capital Expenditure - Standard											
<i>Governance and administration</i>		204	591	1,574	2,193	1,547	1,547	-	500	-	-
Executive and council Budget and treasury office		154	441	474	156	26	26		500	-	-
Corporate services		50	138	100	-	18	18		-	-	-
<i>Community and public safety</i>		-	12	1,000	2,037	1,503	1,503		-	-	-
Community and social services		3,913	193	4,408	5,351	5,178	5,178	-	4,897	-	-
Sport and recreation		2,601	12	4,153	5,171	5,173	5,173		909	-	-
Public safety		1,297	88		-	-	-		3,988	-	-
Housing		15	92	255	180	5	5		-	-	-
Health		-	-		-	-	-		-	-	-
<i>Economic and environmental services</i>		3,996	4,875	17,136	13,286	13,286	13,286	-	12,661	20,358	21,310
Planning and development		-	3,703	20	-	-	-		-	-	-
Road transport		3,996	1,172	17,116	13,286	13,286	13,286		12,661	20,358	21,310
Environmental protection		-	-		-	-	-		-	-	-
<i>Trading services</i>		27,891	21,059	14,100	25,750	22,224	22,224	-	40,360	22,835	13,000
Electricity		6,391	14,941	5,500	3,600	3,000	3,000		2,750	4,200	7,000
Water		2,037	217	7,200	22,000	19,030	19,030		34,060	3,635	3,000
Waste water management		19,463	5,379	400	150	194	194		3,550	15,000	3,000
Waste management		-	522	1,000	-	-	-		-	-	-
<i>Other</i>		-	-		-	-	-		-	-	-
Total Capital Expenditure - Standard	3	36,004	26,718	37,218	46,579	42,235	42,235	-	58,418	43,193	34,310
Funded by:											
National Government		34,244	13,930	33,712	18,457	38,487	38,487		56,668	43,193	34,310
Provincial Government		-	4,000		25,000	2,000	2,000		-	-	-
District Municipality		-	-		-	-	-		-	-	-

Other transfers and grants		-	8,000			-	-		-	-	-
Transfers recognised - capital	4	34,244	25,930	33,712	43,457	40,487	40,487	-	56,668	43,193	34,310
Public contributions & donations	5	-	-						-	-	-
Borrowing	6	-	-						-	-	-
Internally generated funds		1,760	788	3,506	3,123	1,748	1,748		1,750	-	-
Total Capital Funding	7	36,004	26,718	37,218	46,579	42,235	42,235	-	58,418	43,193	34,310

The table above illustrate the capital expenditure of the municipality. The expenditure is outlined per vote structure of the municipality. Mantsopa is a grant depended municipality when it comes to financing its own capital expenditure, we only depend on grants and this is due to the poor collection rate that the municipality is facing.

Part 2 – Supporting Documentation

Attached please find the A-schedule containing the total annual budget

2.1. Legislation compliance status

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

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 (within 10 working days) has progressively.
 2. Internship programme
The council is participating in the Municipal Financial Management Internship programme and has employed four interns undergoing training in various divisions of the Financial Services Department. Since the introduction of the Internship programme the municipality has successfully trained and employed 12 interns. Other interns joined other municipalities.

The Budget and Treasury Office has been established in accordance with the MFMA.
 3. Audit Committee
An Audit Committee has been established and is fully functional.
 4. Service Delivery and Implementation Plan
The detail SDBIP document is at final stage and will be finalised after approval of the 2016/17 MTREF directly aligned and informed by the 2016/17 MTREF.
 5. Annual Report
Annual report is compiled in terms of the MFMA and National Treasury requirements.
-

Municipal manager's quality certificate

I, municipal manager of Mantsopa Local Municipality, hereby certify that the annual 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 annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name _____

Municipal manager of Mantsopa Local Municipality (FS 196)

Signature _____

Date _____
