

BUDGET AND TREASURY OFFICE: 2013/2014 TO 2015/16 MTREF REPORT FOR MAY 2013

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PURPOSE

To advise Council about the budget process for 2013/2014 to 2015/2016 MTREF (Medium Term Revenue and Expenditure Framework).

To submit the 2013/2014 Final Capital and Operating budget; proposed tariff increases and budget related policies for tabling by Council.

To advise council about items affecting budget and service delivery.

To provide budget information to council for more discussions to achieve approved budget within the legislative required time.

LEGAL / STATUTORY REQUIREMENTS

Municipal Finance Management Act 56 of 2003, Chapter 4.

Local Government Municipal System Act 32 of 2000.

National Treasury Regulations, MFMA Circulars and other relevant Guidelines.

MFMA Municipal Budget and Reporting Regulation.

BACKGROUND AND REASONING

The preparation process of the Medium Term Expenditure Revenue Forecast for 2013/2014 and Two Outer years 2014/2016 has commenced as required by Municipal Finance Management Act by submitting the Budget and IDP Review process plan to Council for approval before 31 August 2012.

During these Budget and IDP Reviews the communities and other stakeholders have submitted their needs to be included in the IDP and their priorities to be budgeted for of which the Management have consolidated those budget proposals with alignment with the IDP to advise Council on Budget product.

BUDGET PREPERATION ASSUMPTIONS

The following assumptions have been used to prepare the proposed final budget,

Headline inflation forecasts

On setting up increases on tariffs and increasing of budget expenditures, the National Treasury issued inflation forecast through MFMA circular No 66 for 2013/14 of 6.5% has been well considered and this resulted to all tariffs except electricity to be increased below 5.4%.

Revision of rates, tariffs, and other charges

As detailed on paragraph 1 above, when revising tariffs, rates and other charges, inflation forecast has been considered to ensure that all are proposed to increase not above 6.4%.

Further to the above, the labour and other input costs of services have been taken into account to ensure financial sustainability, local economic conditions and the affordability of services and also taken into consideration the municipality's indigent policy.

The proposed rates, tariffs and other charges have been tried to be kept as as low as practically possible.

Eskom bulk tariff increases

On announcement of Eskom bulk increases by NERSA, the municipality proposed increases on electricity tariffs is 14% as guided by NERSA and MFMA circular No 66 and final approved tariffs will be subject to NERSA. These will be only tariffs to increase above 5.4% and this is beyond municipality as electricity is purchased in bulk from Eskom.

Funding choices and management matters

Tough decisions on the expenditure side have been made by giving priority to ensure that service delivery is improved in all aspects as follows,

Supports of meaningful local economic development initiatives that foster micro and small business opportunities and job creation.

Day to day operations for provision of service delivery.

That there is expediting spending on capital projects that are funded by conditional grant and council revenue.

Supports of meaningful special programs for community groups.

The Municipal Budget and reporting Regulations

Since 1 July 2009, the budgets have been prepared as per requirements of the regulations. The municipality have complied with the formats set out in schedule A, B and C and the relevant attachments to each of the schedules.

MFMA Circular No. 66 and 67

Circular No. 66 has provided guidance on budget preparations on many aspects on this current budget preparations, the inflation forecast for increases have been considered.

Circular No. 67 provides further guidance to municipalities for the preparation of 2013/14 Budgets and Medium Term Revenue and Expenditure Framework.

Main guidance provided is on need to ensure that the inputs into 2013/14 budget and MTREF safeguard the financial sustainability of the municipality. More specifically, the council is advised against unrealistically low tariff increases and over-ambitious capital expenditure programmes.

FINAL INCOME AND EXPENDITURE BUDGET

Final revenue operating, grants and subsidies, external loan and capital replacement reserve is budgeted to be R 361, 4 million as tabulated below:

Table 1: Revenue Budget

<i>DESCRIPTION</i>	<i>ADJUSTMENT BUDGET 2012/2013</i>	<i>FINAL BUDGET 2013/2014</i>	<i>NET-CHANGES</i>	<i>%</i>	<i>BUDGET 2014/2015</i>	<i>BUDGET 2015/2016</i>
Property Rates	R 25 900 000	R 27 040 000	R 1 140 000	4	28 392 000	29 812 000
Service Charges	R 43 624 028	R 49 813 718	R 6 189 690	14	52 304 000	54 920 000
Rentals of Facilities & Equipment	R 555 570	R 570 633	R 15 063	3	599 000	629 000
Interest Earned - External Investments	R 5 800 000	R 5 500 000	-R 300 000	-5	5 775 000	6 064 000
Interest Earned - Outstanding Debtors	R 2 095 000	R 1 850 800	-R 244 200	-12		
Fines	R 483 000	R 450 000	-R 33 000	-7	473 000	496 000
Licenses & Permits	R 3 150 000	R 2 704 000	-R 446 000	-14	2 839 000	2 981 000
Government Grants & Subsidies	R 127 240 780	R 128 173 301	R 932 521	1	78 738 000	61 893 000
Capital Grants	R 43 390 026	R 85 432 500	R 42 042 474	97	136 052 000	163 636 000
Other Income	R 1 731 296	R 59 955 144	R 58 223 848	3363	1 692 000	1 776 000
TOTAL REVENUE	R 253 969 700	R 361 490 096	R 107 520 396	42	R 306 864 000	R 322 207 000

Final operating expenditure exclusive of capital grants, rollovers, capital replacement reserve and external loans is budgeted to be R217, 5 million and is as tabled below.

Table 2: Final Operating Expenditure Budget Summary

DESCRIPTION	ADJUSTMENT BUDGET 2012/2013	FINAL BUDGET 2013/2014	NET-CHANGE	%	BUDGET 2014/2015	BUDGET 2015/2016
Employee Related Costs	R 63 037 806	R 76 333 355	R 13 295 549	21	80 148 000	84 157 000
Remuneration of Councillors	R 15 344 136	R 16 778 550	R 1 434 414	9	15 958 000	16 596 000
Provision	R 2 000 000	R 3 000 000	R 1 000 000	50	3 150 000	3 308 000
Depriciation	R 13 892 626	R 9 831 085	-R 4 061 541	-29	10 323 000	10 839 000
Repairs & Maintanance	R 12 933 500	R 11 250 000	-R 1 683 500	-13	11 812 000	12 403 000
Interest - External	R 3 000 000	R 2 000 000	-R 1 000 000	-33	2 100 000	2 205 000
Bulk Purchases - Electricity	R 28 300 000	R 28 000 000	-R 300 000	-1	29 400 000	30 870 000
Contracted Services	R 11 351 438	R 14 932 984	R 3 581 546	32	15 680 000	16 464 000
Grants & Subsidies Paid	R 24 860 370	R 19 850 851	-R 5 009 519	-20	22 503 000	23 788 000
General	R 35 739 550	R 35 561 921	-R 177 629	0	37 053 000	59 685 000
Internal Charges	R 28 000	R 0	-R 28 000	-100		
Total	R 210 487 426	R 217 538 746	R 7 051 320	3	R 228 127 000	R 260 315 000

FUNDING FOR FINAL CAPITAL BUDGET

Final capital budget is amounting to R143,7 million and this is inclusive of council revenue allocated for capital projects from operating budget as tabulated below:

Table 3: Summary of Final Capital Budget

DESCRIPTION	ADJUSTMENT BUDGET 2012/2013	FINAL BUDGET 2013/2014	NET-CHANGE	%
Grants Rolled Over	R 31 282 370	R 3 000 000	-R 28 282 370	-90
Electrification - DoE	R 4 000 000	R 35 000 000	R 31 000 000	775
Municipal Infrastructural Grant - MIG	R 38 107 656	R 47 432 500	R 9 324 844	24
Sub-Total	R 73 390 026	R 85 432 500	R 12 042 474	16
Capital Replacement Reserve	R 54 406 509	R 46 860 000	-R 7 546 509	-14
External Loans	R 30 000 000	R 11 500 000	-R 18 500 000	-62
Total	R 157 796 535	R 143 792 500	-R 14 004 035	-9

The above capital budget is detailed as follows,

DEPARTMENT/PROJECT DESCRIPTION	WARD	BUDGET	FUNDING
MUNICIPAL GOVERNANCE & ADMIN		14 255 000	
Furniture & Office Equipment	admin	2 055 000	CRR
Plant	All	6 000 000	CRR
BTO offices	admin	5 000 000	CRR
Vehicles	admin	1 200 000	CRR
COMMUNITY & PUBLIC SAFETY		6 645 000	
Public Toilets	All	600 000	CRR
Tennis Court	19	150 000	CRR
Indoor Sport Centre	19	1 000 000	CRR
Swimming Pool - Maluti	1	1 000 000	MIG
Swimming Pool - Cedarville	26	1 000 000	MIG
Mountain Lake Chalets	19	200 000	CRR
Environmental (water connection & trees)	15-26	70 000	CRR
Testing Ground Surface	admin	1 500 000	CRR
Fire Engine	admin	1 000 000	CRR
Rescue Equipment	admin	100 000	CRR
Office Equipment (laptops)	admin	25 000	CRR
ECONOMIC & ENVIRONMENTAL SERVICES		23 010 000	
ECONOMIC DEVELOPMENT & PLANNING		20 230 000	
Area M - Services	19	11 500 000	LOAN
Fresh Produce Market	19	2 000 000	MIG
Hawker Stalls	19	400 000	CRR
Co-operative Training Centre	26	3 000 000	CRR
LED Support Centre & EDP Offices	admin	3 000 000	CRR
Intangible Assets (MS-Projects-Licensing-Application System)	admin	330 000	CRR
OPERATIONS & MAINTANANCE		2 780 000	
Kerbing & Chanelling	1,19,20,26	1 600 000	CRR
Stormwater Pipe Installation	1,19,20,26	600 000	CRR
Petrol Braker	1,19,20,26	65 000	CRR
Portal Calvets	1,19,20,26	400 000	CRR
Concrete Pipe Cutter	1,19,20,26	55 000	CRR
Tar Cutter	1,19,20,26	60 000	CRR

PROJECT MANAGEMENT UNIT		59 932 500	
Matatiele Internal Roads - Surfacing-phase 1	19	3 000 000	MIG
Maluti Internal Roads - Surfacing-phase 3	1	9 000 000	MIG
Matatiele Internal Roads - Surfacing-phase 2 (Harry Gwala)	20	3 400 000	MIG
Cedarville Internal Roads - Surfacing-phase 3	26	5 000 000	MIG
Khaue Community facility	25	1 500 000	MIG
Bethel Community facility	4	1 500 000	MIG
Moriting Community facility	24	320 000	MIG
Siyabonga Novuka Community facility	9	320 000	MIG
Moaneng Community facility	16	320 000	MIG
Dalibhunga Community facility	5	320 000	MIG
Pamlaville Community facility	7	320 000	MIG
Manzi Access Road	7	1 500 000	MIG
Mnqayi Access Road	5	1 500 000	MIG
Pabalong Access Road	15	4 500 000	MIG
Masopa Access Road	13	2 932 500	MIG
Sport Fields & Access Roads (to be allocated)		6 000 000	MIG
Consolidated Infrastructure Plan	All	2 000 000	MIG
Mahasheng Bridge	14	1 500 000	CRR
New Office Complex	admin	15 000 000	CRR

TRADING SERVICES		39 950 000	
ELECTRICITY PROJECTS		39 150 000	
Replace Town 2 Cables	19	1 000 000	CRR
Repalce LV Distribution	19	500 000	CRR
Tools & Equipment	admin	200 000	CRR
Pick-Up Truck	admin	600 000	CRR
Repalce RMU Green Street	19	250 000	CRR
Rural Electrification		35 000 000	DOE
Mountain View Ringfeed	19	750 000	CRR
Itsokolele Ringfeed	20	850 000	CRR
WASTE MANAGEMENT		800 000	
Weigh Bridge	admin	800 000	CRR

SALARIES BUDGET

Salaries, wages and allowances are budget at an increase determined as per South African Bargaining Council multi-year agreement for all employees excluding Senior Management and other contracted employees of which 10% provision is made for such increases. The overall salaries budget is to increase from R63, 0 million (2012/2013) to R76, 1 million (2013/2014) which will be 21% increase on employee costs.

Councillor's allowances are budgeted at an increase of 10% which will be subject to the approval of upper limits as per requirements of Remuneration Public Office Bearers Act.

Table 4: Salaries, Wages and Allowances Final Budget Summery

DESCRIPTION	ADJUSTMENT BUDGET 2012/2013	FINAL BUDGET 2013/2014	NET-CHANGE	%
Employee Costs	R 63 037 806	R 76 164 570	R 13 126 764	21
Councillors Remuneration	R 15 344 136	R 16 947 335	R 1 603 199	10
Total	R 78 381 942	R 93 111 905	R 14 729 963	19

FINAL OPERATING AND CAPITAL BUDGET SUMMARY BY MAIN VOTES

Final operating and capital budget is tabled as follows:

Table 5: Total Final Budget Summary

DEPARTMENT	EXPENDITURE	INCOME	CAPITAL
Executive & Council	R 32 688 638	R 370 501	R 1 555 000
Budget & Treasury	R 40 587 632	R 146 401 500	R 11 300 000
Corporate Services	R 23 922 386	R 200 000	R 1 400 000
Community Services	R 35 327 725	R 15 448 978	R 7 420 000
Economic Development & Planning	R 15 453 430	R 6 993 404	R 20 230 000
Infrastructure & Housing Development	R 69 558 940	R 133 715 713	R 101 887 500
Other		R 58 360 000	R 0
Total	R 217 538 751	R 361 490 096	R 143 792 500
Surplus/(Deficit)		R 143 951 345	

GRANTS AND SUBSIDIES

The municipal allocations from grants and subsidies for conditional purposes and operational purposes are tabled as follows for the medium term expenditure revenue forecast,

Table 6: Grants and Subsidies for MTERF

GRANT DESCRIPTION	DORA 2013/2014	DORA 2014/2015	DORA 2015/2016
Equitable Share	R 118 249 000	R 139 223 000	R 177 399 000
MSIG	R 890 000	R 934 000	R 967 000
FMG	R 1 550 000	R 1 600 000	R 1 650 000
MIG	R 40 457 000	R 45 792 000	R 49 174 000
EPWP	R 3 946 000	R 0	R 0
DOE	R 35 000 000	R 30 000 000	R 25 000 000
Total	R 200 092 000	R 217 549 000	R 254 190 000

FINAL TOTAL CAPITAL AND OPERATING BUDGET

Total final capital and operating budget for 2013/2014 is R446, 9 million and reflects as increase of R35 million which is 6% from the 2012/2013 adjustment budget.

Table 7: Total Final Budget

DESCRIPTION	2012/2013 ADJUSTMENT BUDGET	2013/2014 FINAL BUDGET	NET-CHANGE	%
Operating Budget	R 253 969 699	R 217 538 746	-R 36 430 953	-14
Capital Budget	R 157 796 535	R 143 792 500	-R 14 004 035	-9
Total Budget	R 411 766 234	R 361 331 246	-R 50 434 988	-12

PROPOSED TARIFFS OF CHARGES

Municipal tariffs are proposed to increase as follows:

Property Rates

Table 8: Summary of Proposed Tariffs

Categories	Rate Randages/Rand Value – c/R	Ratio in relation to residential property
Residential property	0.015045	1:1
Farm property as defined in Section 8(2) (d)(i) and 8 (2) (f) (i) of the Act (being Farm property used for agricultural purposes and smallholdings used for agricultural purposes)	0.003761	1: 0.25
Agricultural property used predominantly for commercial and / or industrial purposes	0.003761	1:1.2
Smallholdings used predominantly for commercial and / or industrial purposes	0.003761	1: 1.2
Commercial / Business properties	0.018054	1: 1.2
Industrial properties	0.018054	1:1.2
Public Service Infrastructure properties	0.003761	1:0.25

Municipal properties	0.00000	1:0
Mining properties	0.02256	1:1.5

As a way of providing relief of property tax due to changes on the valuation roll, property rates rebates are to increase for residential properties by 10% from 35% to 45%, for business and industrial by 5% from 10% to 15% and property rates exemptions for residential properties will increase by R25, 000 from first R30, 000(Thirty Thousand Rand) to first R55, 000 of the property value as determined in the rolls.

The rate Randages charged in the prior year will not change and the only effect on changes will be the increased property values as per new valuation roll to be implemented.

The tariff increases for 2013/2014 budget year is detailed as follows,

Details	2013/2014
Revenue	R27 040 000

Electricity Tariffs

Electricity is estimated to increase by 14% as per MFMA circular 66 and this will be subject to NERSA approval as will be determined on consideration of the municipal application and Eskom bulk electricity increase.

The electricity tariff increase for 2013/2014 budget year are detailed as follows,

Details	2012/2013
Percentage	14%
Revenue	R42 965 713

Refuse Removal and Fire Levy

On consideration of inflation forecast and the provisioning of the cleansing and safety services in ensuring that the municipal citizens are leaving in a clean and healthy environment also are safe from fire damages, the charges on refuse removals, general cleaning and fire of the municipal area are proposed to increase by 4%.

The refuse removal tariff increase for 2013/2014 budget year are detailed as follows,

Details	2013/2014
Percentage	5%

Revenue

R6 848 005

Other Municipal Charges

All other municipal charges will remain unchanged from previous year, with an exception of the following:

EXTERNAL LOANS

The loan of R11, 5 million is budget to be raised for the servicing of land identified for development of residential purposes known as Area M.

Description	Amount
Servicing of Sites in Area M (217)	R11 500 000
Total	R11 500 000

PUBLIC CONSULTATION

The public consultative outreach has been done in all wards and comments have been received are as per the attached annexure.

The inputs from Provincial Treasury assessment have been considered and budget has been rectified as per their recommendations.

STAFF IMPLICATIONS

Budget preparations have been done by the municipal management with Budget and Treasury Staff and there was no external support provided by any organ of state.

FINANCIAL IMPLICATIONS

No additional funding has been utilised in preparation of the budget, since all budget processes were done internally by council management with Budget and Treasury Staff.

SERVICE DELIVERY IMPLICATIONS

The approval and implementation of the final budget will ensure that the service delivery in respect of roads infrastructure, housing development, electricity supply, municipal area cleansing and other services facilities are improved.

ANNEXURES

- “A” MFMA Circulars (no 66 & 67)
- “B” Budget Report
- “C” National Treasury A1 Schedules
- “D” Tariffs Schedules
- “E” Listing of All Budget Policies
- “F” Public Participation Comments

AUTHORITY

- MFMA – Municipal Finance Management Act
- MSA – Municipal Systems Act
- Council
- Republic of South Africa Constitution Act
- Municipal Property Rates Act

RECOMMENDATIONS

The Council resolves that:

1. The final annual Budget of the Municipality for the financial year 2013/2014; and indicative for the two projected outer years 2014/2015 and 2015/2016 as outlined on budget report be approved as set out in the following:
 - *Revenue by Source 1.4 of R361, 490, 096.*
 - *Operating Expenditure by Source 1.5 of R217, 538, 746.*
 - *Capital Funding by Source 1.3 of R143, 792, 500.*
 - *Capital Expenditure by Vote 1.6 of R143, 792, 500.*
2. That the council approves the property rates charges as reflected in item number 2.5 and any other municipal taxes reflected in item number 2.5 as proposed for the budget year 2013/2014;
3. Council approves that the Tariffs of Changes reflected in item number 2.5 as proposed for the budget year 2013/2014;
4. Council approves that the proposed amendments on policies for Credit Control and Debt Collection Policy, Banking and Investment Guide, Fixed Asset Management Policy and Implementation Guide, Budget Policy and Implementation Guide,

Property Rates Policy, Transport Policy, Tariff Policy, Supply Chain Management Policy and Code of Conduct, Indigent Policy, GRAP Framework Policy, Risk Management Policy, Data Backup Policy, Cash Management Policy, Special Service Tariff Policy, Grant and Donation Policy, Donor Finance Policy, Procurement Policy, Payment Policy, Virement Policy, Cash-up Policy, Cash Shortage Policy, Electricity Policy, Credit Card Policy, Entertainment / Refreshment Policy, Customer Incentive Scheme Policy, Strategy to Improve Debtor Payment Policy, Customer Care Policy, fraud Prevention and Response Plan Policy, Debt Capacity Policy, Borrowing Policy, Funding and Reserves Policy, and All Promulgated By-Laws as reflected in item 2.4 are approved.

5. Council approves the total budget of both operating and capital for the amount of R361, 331, 246.
6. Council notes the comments and suggestions received during budget public consultative meetings.
7. Council notes that, there were no written submission received for budget by stakeholders and individuals.