

**EMAKHAZENI LOCAL
MUNICIPALITY**

***PROPOSED
ANNUAL BUDGET***

2017/2018

TABLE OF CONTENTS

- 1) PROPOSED ANNUAL BUDGET REPORT 2017/2018**
- 2) SUPPORTING DOCUMENTS: A-SCHEDULE 2017/2018**
- 3) PROPOSED TARIFFS FOR FINANCIAL YEAR 2017/2018**
- 4) DETAILED mSCOA ANNUAL BUDGET 2017/2018**
- 5) COUNCIL RESOLUTION: PROPOSED (DRAFT) ANNUAL BUDGET
2017/2018**
- 6) QUALITY CERTIFICATE: PROPOSED BUDGET 2017/2018**
- 7) BUDGET RELATED POLICIES**

DRAFT BUDGET: MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK FOR 2017/2018, 2018/2019 AND 2019/2020

REPORT OF THE CHIEF FINANCIAL OFFICER

BACKGROUND

Section 16 of the Municipal Finance Management Act (MFMA) requires that the municipality must for each financial year approve an annual budget before the start of the financial year.

The format and contents of the budget are prescribed by section 16 to 27 of the MFMA as well the new budget and reporting regulation issued by National Treasury.

The MFMA refers to funding of expenditure and states:

- a)** An annual budget may only be funded from:
 - realistically anticipated revenues to be collected
 - cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
 - borrowed funds; but only for the capital budget referred to in section 17(2).
- b)** Revenue projections in the budget must be realistic, taking into account:
 - projected revenue for the current year based on collection levels to date; and
 - actual revenue collected in previous financial years
- c)** Circular 85 & 86 issued by National Treasury provide further guidance for the preparation of 2016/2017 MTREF

National Treasury – Key Focus Areas for budget process

The 2017/2018 Budget review notes the unfavorable global and domestic growth which result in high unemployment which impact our communities and businesses. Inflation and a nominal spending ceiling will put real budgets under pressure over the medium term, requiring all spheres of government to work more efficiently.

Consequently, municipal revenue and cash flows are expected to remain under pressure in 2017/2018 and municipalities must adopt a conservative approach when projecting their expected revenues and cash receipts. Municipalities will also have to revise their spending plans and reprioritize funds to ensure key objectives are achieved and well-performing programmes are supported.

A. mSCOA compliancy

The municipal Regulations on a Standard Chart of Accounts (mSCOA) was gazetted by the Minister of Finance on 22 April 2017. The mSCOA regulation is applicable to all municipalities with effect from 1 July 2017.

In order for the municipality to be regarded as mSCOA compliant on 1 July 2017 it must be able to transact across all the mSCOA segments and its core system and all sub-systems.

Furthermore, all municipalities must accommodate seamless integration of the integrated Development Plan (IDP).

Service Delivery and Budget implementation Plan (SDBIP) and Budget facilities into the core financial system as these documents create a point of departure for the transactional environment come 1 July 2017.

B. Revising rates, tariffs and other charges

National Treasury guides that when municipalities revise their rates, tariffs and other charges for their 2017/18 budgets and MTREF, taking into account the overall economic pressures such as inflation and economic growth and conclude on a justifiable tariff in line with the CPI.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality.

Hence the municipality is in a process of restructuring the tariffs to ensure that they are cost reflective and this will be finalised and included in the final budget after it is communicated to the community through public participation. It must also be noted that tariffs may only be implemented from the start of the financial year.

C. Funding choices and management issues

The funding for the budget 2017/2018 has not changed. The major funding will still consist of Property Rates and Grants received from National Treasury.

The municipality is also once again reminded that given on-going economic pressures, the revenue side of municipal budgets will continue to be constrained, so it will again need to make some very tough decisions on the expenditure side this year. Priority still needs to be given to:

- Ensuring that drinking water and waste water management meets the required quality standards at all times;
- Strengthen local economic development (LED) by supporting initiatives that foster micro and small business opportunities and job creation;
- Strengthen financial management by enhance revenue management, include appropriate tariffs, regular billing and effective collection systems while strengthening asset management by spending 8% of the operational budget on repairs and maintenance; and

The Mayors of municipalities are still advised to eliminating wasteful expenditure in government by implementing cost containing measures, reprioritise spending to ensure savings on these six focus areas namely;

- consultancy fees
- no credit cards
- travel and related costs
- advertising
- catering and event costs
- accommodation

D. Headline inflation forecasts.

Fiscal year	2016/17 Estimate	2017/18	2017/18 Forecast	2019/20 Forecast
Real GDP growth	0.5%	1.3%	2.0%	2.2%
CPI Inflation	6.4 %	6.4%	5.7%	5.6%

Source: MFMA Circular 86

E. Employee related costs

The municipality is taking into account the multi-year salary and Wage Collective Agreement, for the period 1 July 2015 to 30 June 2018. The preparation of the 2017/18 MTREF Budget constitutes implementation of the last year of the agreement which provides for a wage increase based on the average CPI for the period 1 February 2016 until 31 January 2017, plus 1 per cen. (with effect 1 July 2017)

Therefore the salary increase anticipation, in terms of the collective agreement shall be six comma five percent (6.5%) with effect from the 1 July 2017.

The organograms for 2017/18 are effective as from 1 July 2017 whereby some vacant posts have been provided for in the 2017/18 budget and appointment should be made in accordance to the provided budget.

F. Remuneration of councillors

Municipalities are advised to budget for the actual costs approved in accordance with the gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published by the Department of Cooperative Governance.

Therefore the salary increase budgeted for the 2017/18 shall be six percent (6.5%) with effect once the Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils are published for the year 2017/18.

G. Ward Committee Stipends

Equitable Share Grant as per the Division of Revenue allocates a portion of the allocation for Councillors and Ward committee members remuneration.

Therefore in the draft budget a R500.00 stipend is provided to be paid to Ward committee members, per member per month to be funded from Equitable Share Grant.

Once the stipend is paid to a member the municipality shall then **not pay any expenses** for Ward committee members such as out of pocket, catering, transport and/or any other cost incurred from own funds or any other Grants received.

National Treasury emphasized that a strong control should be placed on the attendance and participation of these member. After reviewing various municipalities it was found that the attendance of members is very poor. Therefore strict control procedures for attendance should be put in place by the municipality.

H. Budget related Policies 2017/18

For all the policies referred to above as budget related policies are hereto attached.

a) The following budget related policies were reviewed:

Policy Name	Reviewed: No changes	Reviewed: With changes
Cellphone Allowance		Yes
Standby Allowance		Yes
Subsistence and Travelling Allowance		Yes
Leave management		Yes
Overtime	Yes	
Asset Management		Yes
Petty Cash		Yes
Supply Chain Management - Goods and Services		Yes
Banking and Investment		Yes
Receipt		Yes
Free basic and Indigent		Yes
Budget		Yes
Tariff		Yes
Property Rates		Yes
Credit control and Debt Management		Yes
Debt Impairment		Yes
Traffic Fines		Yes
Inventory Management		Yes

Herewith at summary of the changes made to the policies mentioned above:

➤ Cellphone Allowance Policy

Old Policy	Reviewed Policy
None	<p>6.2 Allocation of cell phone and data card allowances shall be as follows:</p> <p>6.2.3 The above amount shall increase by the same percentage as determined by the Bargaining Council.</p>

➤ Standby Allowance Policy

Old Policy	Reviewed Policy
None	6.3.6 The Municipal Manager should review

	allocation of travelling allowances to any other posts on a quarterly basis.
--	--

➤ Subsistence and Travelling Allowance Policy

Old Policy	Reviewed Policy
None	6.1.1.5 Should there be any changes made to the calculation of the standby allowance as agreed upon at the South African Local Bargaining Council, such changes will be implemented and Council notified until such time that the policy is reviewed.

➤ Leave Management Policy

Old Policy	Reviewed Policy
<p>6.4.3 Family responsibility leave will be granted in the following circumstances:</p> <p>When the employee's child is born; When the employee's child is sick; When the employee's spouse or life partner is sick; In the event of death of the employee's spouse or life partner; In the event of death of the employee's parent, adoptive parent, grandparent, child, adopted child, grandchild or sibling.</p> <p>6.2.1.3 If an employee is unable to report for duty due to sudden illness, they must immediately notify their immediate Supervisor of their inability to report for duty. Employees are required to submit medical certificates if more than two (2) consecutive days are taken as sick leave.</p>	<p>6.1.2.6 An employee must take annual leave not later than six (6) months after the end of the annual leave cycle. Within six months of the end of a leave cycle, an employee may not have more than 48 days annual leave to his credit.</p> <p>6.4.3 Family responsibility leave will be granted in the following circumstances:</p> <p>When the employee's child is born; When the employee's child is sick; When the employee's spouse or life partner is sick; In the event of death of the employee's spouse or life partner; In the event of death of the employee's parent, adoptive parent, parents in law, grandparent, child, adopted child, grandchild or sibling.</p> <p>6.2.1.3 If an employee is unable to report for duty due to sudden illness, they must immediately notify their Supervisor of their inability to report for duty. The employee shall be required to submit a medical certificate from a registered Medical Practitioner or any other person who is certified to diagnose and treat patients and who is registered with a professions Council established by an Act of Parliament, if more than two (2) days are taken as sick leave, provided that an employer may request a sick leave for everyday of sick leave where there is evidence of abuse of sick leave</p>

➤ Budget Policy

Old Policy	Reviewed Policy
<p>9. Budget Virement 9.2 GFS Function The GFS functions is used to divide the budget into segments and the council then approves the budget according to these functions via a resolution.</p> <p>The GFS functions is to facilitate greater accountability for senior managers and in turn having a positive change on the level of service</p>	<p>9. Budget Virement 9.2 Mscoa Function The Mscoa functions is used to divide the budget into segments and the council then approves the budget according to these functions via a resolution.</p> <p>The Mscoa functions is to facilitate greater accountability for senior managers and in turn having a positive change on the level of service</p>

<p>delivery.</p> <p>Each and every cost centre of the municipality is linked to a function and sub-function depending on the definition.</p> <p>Virements can be done within a function (between the various cost centres that are linked to the function regardless of the department).</p> <p>Virement between functions need a council decision which approves the requested virement</p>	<p>delivery.</p> <p>Each and every cost centre of the municipality is linked to a function and sub-function depending on the definition.</p> <p>Virements can be done within or between functions.</p>
--	--

➤ Asset management

Old Policy	Reviewed Policy
5.3 Community assets on table content, Pg5, Pg14 and Pg32	-

➤ Supply Chain Management

Old information on the policy	New information on the policy
<p>The values of Council:</p> <p>Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism</p>	<p>Core Values</p> <p>Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness</p>

➤ Inventory management

Old Policy	Reviewed Policy
5.3.6 A copy of the purchase order form will then be forwarded by the Store Controller to the Senior clerk risk and assets to match the goods received against the order once goods are delivered at the stores	5.3.6 A copy of the purchase order form will then be forwarded by the Senior clerk risk and assets to the Store Controller to match the goods received against the order once goods are delivered at the stores
5.4.4 The Senior Clerk: risk and assets must create an electronic Goods Received Note on the system to record all the inventory items delivered in good condition.	5.4.4 The Senior Clerk: Creditors must create an electronic Goods Received Note on the system to record all the inventory items delivered in good condition.
5.4.8 The inventory record on the system must be updated on the day the goods are received, by the Senior clerk risk and	5.4.8 The inventory record on the system must be updated on the day the goods are received, by the Store Controller and authorized on the

assets and authorized on the system by the Store Controller	system by the Senior clerk risk and assets
5.6.7 The Stock controllers capture the requisition on the system and then it must be authorized by the Stock controllers	5.6.7 The Senior Clerk: Risk and Assets capture the requisition on the system and then it must be authorized by the Senior Acquisition Clerk
Annexure A 1.4 A copy of the purchase order form will then be forwarded by the Store Controller to the Senior Clerk Risk and Assets.	Annexure A 1.4 A copy of the purchase order form will then be forwarded by the Senior Clerk Risk and Assets to the Store Controller.
2.2 The Senior clerk risk and assets must match the delivery note to the purchase order, an electronic GRN will be created on the system and authorized by the Store Controller	2.2 The Store Controller must match the delivery note to the purchase order, an electronic GRN will be created on the system and authorized by the Senior clerk risk and assets

➤ Petty Cash

Old information on the policy	New information on the policy
The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism	Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness
7.1 (e) The petty cash register shall be balanced on a monthly basis, then checked and signed by the Deputy Manager Supply Chain or an official nominated in writing, and verified by means of a cash count in the presence of two independent officials.	The petty cash register shall be balanced on a monthly basis, then checked and signed by the Deputy Manager Expenditure or an official nominated in writing, and verified by means of a cash count in the presence of two independent officials.
7.2 (c)Where petty cash float is stolen the incident shall be reported promptly to the Deputy Manager: Finance and a case shall be logged at the South African Police Services;	Where petty cash float is stolen the incident shall be reported promptly to the Chief Financial Officer and a case shall be logged at the South African Police Services;
7.6 When the petty cash float reaches the minimum amount determined by the Chief Financial Officer from time to time, the Petty Cash Officer shall prepare and submit the voucher and the petty cash register to the Deputy Manager Supply Chain for approval	When the petty cash float reaches the minimum amount determined by the Chief Financial Officer from time to time, the Petty Cash Officer shall prepare and submit the voucher and the petty cash register to the Deputy Manager

of replenishment.	Expenditure for approval of replenishment
8.1 Deputy Manager Supply Chain The roles and responsibilities of the Deputy Manager Supply Chain shall be to ensure that:	Deputy Manager Expenditure The roles and responsibilities of the Deputy Manager Expenditure shall be to ensure that:

➤ Impairment policy

Old information on the policy	New information on the policy
The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism	Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness

➤ Rates policy

Old information on the policy	New information on the policy
The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism	Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness
	New issues - that residence should submit their building plans -Communication between planning development and finance unit -Identify all source of revenue -The municipal General Valuation Roll has a four year lifespan; it is a legal requirement in terms of the Local Government Municipal Property Rates, 2004 (Act No. 6 of 2004). -Supplementary property valuations are required annually. -The municipality must do its own rezoning , consolidations, resubmissions. The municipality's current valuation roll lapses on the 31 June 2019. The processes to compile the 2019-2014 Valuation Roll must commences a year before 01 July 2018, draw a plan.

➤ Banking and Investment

Old information on the policy	New information on the policy
-------------------------------	-------------------------------

The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism	Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness
---	--

➤ Assets Management

Old information on the policy	New information on the policy
The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism	Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness

➤ Credit control and debt management

Old information on the policy	New information on the policy
The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism	Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness
	New issues <ul style="list-style-type: none"> - To improve municipal internal control e.g. update the arrangement form, request consumer to provide us with a pay slip as proof - 6.4 Debt arrangement to repay debts must be treated holistically, but the different repayment period or method must be determined on the account holders income - -The implementation of the policy should be based on sound business practice, This include debt collection through sanction of warnings, disconnection, litigations and other legal process - The fine will be linked to your municipal account - Municipality must link the electricity basic to prepaid system

➤ Inventory Management

Old information on the policy	New information on the policy
-------------------------------	-------------------------------

<p>The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism</p>	<p>Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness</p>
--	---

➤ Receipt policy

Old information on the policy	New information on the policy
<p>The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with integrity Efficiency Professionalism</p>	<p>Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness</p>
<p>“MFMA” Municipal Finance Management Act</p>	<p>MFMA” Municipal Finance Management Act no 56 of 2003</p>
<p>Scope This policy shall apply to all employees</p>	<p>Scope This policy shall apply to all employees responsible for accepting payment on behalf of the municipality</p>
<p>7.2 Receipt The receipt of all monies must be immediately be recorded by means of a numbers official receipt or ticket or any other way approved by the Chief Financial Officer</p> <p>No alteration shall be made to a receipt , ticket or any other form of acknowledgement of payment</p> <p>Any error that appears on a receipt, tickets or other form of acknowledgement of payment shall be corrected by a new receipt and cancellation of the erroneous one</p>	<p>The receipt of all monies must be immediately be recorded by means of a numbers official receipt or any other way approved by the Chief Financial Officer</p> <p>No alteration shall be made to a receipt , or any other form of acknowledgement of payment</p> <p>Any error that appears on a receipt, or other form of acknowledgement of payment shall be corrected by a new receipt and cancellation of the erroneous one</p>
<p>7.3.2 Instructions in respect of the issue of machine receipts</p>	<p>Instructions in respect of the issue of machine / manual receipts</p>
<p>7.3.6 The Deputy Manager: Revenue or a responsible official, designated in writing, shall daily reconcile receipts with the daily</p>	<p>The Deputy Manager: Revenue or a responsible official, designated in writing, shall daily reconcile receipts with the daily deposit to</p>

deposit to ensure that the correct amount is deposited and documented, no money have been withheld and that the instructions regarding the receipt, custody and disposal have been carried out. The last receipt included in a daily deposit must be signed as proof of verification.	ensure that the correct amount is deposited and documented, no money have been withheld and that the instructions regarding the receipt, custody and disposal have been carried out. All receipt included in a daily deposit must be signed as proof of verification.
---	---

➤ Unclaimed Money policy

Old information on the policy	New information on the policy
The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism	Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness
7.1 Any monies that remain unclaimed after a period of five (5) years from the date of receipt shall be nominated for unclaimed money to be recognised as revenue	Any monies that remain unclaimed after a period of two (2) years from the date of receipt shall be nominated for unclaimed money to be recognised as revenue

➤ Indigent policy

Old information on the policy	New information on the policy
The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with intergrity Efficiency Professionalism	Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness
The combined or joint gross income of all occupants or dependants in a single household which receives services from the municipality does not exceed two times the government pension grant	The threshold for indigents should be kept at R3500 combined income per household taking into consideration the national minimum wage.
Validity period Validity period of assistance will be for a maximum period of 12 month - municipality's financial year - 1 July to 30 June. Applications received prior to 1 July each year, will be approved as from 1 July for the full 12 months and the applications received after 1 July each year will only be approved in January that financial year and will therefore only benefit as from council	Validity period Validity period of assistance will be for a maximum period of 12 month - municipality's financial year - 1 July to 30 June. Only applications that have been received during the registration process as determined by Council will be considered.

approval until 30 June that financial year. Households must re-apply annually	Household must re-apply annually except for pensioners who are already receiving the indigence relief. Only verification on pensioners will be conducted by the municipality through the available mechanism to confirm their status.
Termination of indigent support When circumstances in the indigent household have improved in terms of a gross income exceeding two times the government pension grant;	Termination of indigent support When circumstances in the indigent household have improved in terms of a gross income exceeding R3500
Monitoring and Reporting The Chief Financial Officer shall report quarterly to the Municipal Manager in a suitable format to enable the Municipal Manager to report to Council and other interested parties.	Monitoring and Reporting The Chief Financial Officer shall report annually to the Municipal Manager in a suitable format to enable the Municipal Manager to report to Council and other interested parties.
	New issue Approval of the indigent list Final approval of the indigent list will be in terms of a Council resolution.

➤ Traffic fines

Old information on the policy	New information on the policy
The values of Council: Transparency High quality Services Delivery Accountability Serving Communities with integrity Efficiency Professionalism	Core Values Consultation Service Standards Access Courtesy Information Transparency Redress Value for money Responsiveness

b) following budget related policies are requested to be nulled:

Internal Bursary

I. Proposed Tariff increases 2017/18

The recommended tariffs for approval and community participation:

Assessment Rates:

After a re-assessment of the tariff was done by based on cost reflective tariffs, it resulted in an increase of 6.4% for assessment rates in line with Circular 86.

Below are the tariffs on Assessment rates showing categories and increase:

CATEGORY	Tariff Code	2016/2017	2017/2018	Tariff Increase/ Decrease 2016/17	% Increase 2016/17
Residential ** / *** (For properties above R100,000 with exemption of first R15 000 of assessed market value)	1001	0.0077	0.0082	0.0005	6.40%
Residential ** / *** (For properties less than R 100,000.00 market value a flat rate will be charged)	1016	Flat rate per Year R654.50	R 696.39	R 41.89	6.40%
		Flat rate per Month R54.50	R 57.99		
Informal Settlement (Rebate of 100% as per Property Rates policy will granted)	11663	0.0077	0.0082	0.0005	6.40%
Commercial ***	200124	0.0246	0.0261	0.0016	6.40%
Industrial	200125	0.0253	0.0269	0.0016	6.40%
Public service infrastructure	1006	0.0019	0.0019	0.0000	0.00%
Agriculture ***	1008	0.0019	0.0020	0.0001	6.40%
Agri Residential: (Farms including agricultural small holdings used for agricultural/residential purposes) (For properties above R100,000 with exemption of first R15 000 of assessed market value)	1026	0.0077	0.0082	0.0005	6.40%
Agri Business: (Farms including agricultural small holdings used for business/commercial/ industrial purposes)		0.0091	0.0096	0.0006	6.40%
Vacant property	1025	0.0230	0.0245	0.0015	6.40%
Privately Open Space	1013	0.0077	0.0082	0.0005	6.40%
Municipal property (Rebate of 100% as per Property Rates policy)	200129	0.0019	0.0020	0.0001	6.40%
Public Open Space (Rebate of 100% as per Property Rates policy will be granted)		0.0019	0.0020	0.0001	6.40%
Mining	1014	0.1965	0.2091	0.0126	6.40%
Public benefits organisations*	1012	0.0019	0.0020	0.0001	6.40%
Place of worship (Rebate of 100% as per Property Rates policy will be granted)	200122	0.0019	0.0020	0.0001	6.40%
Privately owned towns	1020	0.0059	0.0063	0.0004	6.40%
State owned/Institutional	11662	0.0246	0.0261	0.0016	6.40%

* Rebate may be granted on application as per Property Rates policy

** On registration as an indigent or retired people a rebate will granted as per Property Rates policy

*** Sectional Titles properties are categorised according to MPRA Section 8(1)(a)-(c): Residential, Business or Agricultural

Electricity Basic & Consumption:

Annually NERSA issue a local authority guideline consultation document which indicates a percentage increase on electricity sales for municipalities. As at the second week of March 2017, NERSA has not yet issued this guideline to assist municipalities to calculate the proposed increase on electricity charges for 2017/18.

It therefore that the municipality is using Circular 86 issued by National Treasury as a guideline for the proposed tariff increase and considering the breakeven point of electricity sales which resulted the municipality to propose a 8.6% electricity increase. NERSA has not yet approved the tariff increase.

Electricity Basic Charge (Conventional):

After a re-assessment of the tariff was done by based on cost reflective tariffs, it resulted in an increase of 6.4% for electricity charges in line with Circular 86.

Sewerage services:

After a re-assessment of the tariff was done by based on cost reflective tariffs, it resulted in an increase of 6.4% for sewerage charges in line with Circular 86.

Water (Basic Charge & Consumption):

After a re-assessment of the tariff was done by based on cost reflective tariffs, it resulted in an increase of 6.4% for water charges in line with Circular 86.

Cleansing(Refuse):

After a re-assessment of the tariff was done by based on cost reflective tariffs, it resulted in an increase of 6.4% for refuse charges in line with Circular 86.

Other/sundry income:

After a re-assessment of the tariff were done by the help of the National Treasury cost reflective tariff tool, it required the municipality to adjusted tariff based on each sundry tariff. These adjustments resulted in some categories increasing and other decreasing. It resulted in the average increase for Sewerage charges to be 6% at this point.

For all tariff and detail of tariffs, please refer to the Proposed Tariff list for 2017/18 hereto attached.

J. Debt Impairment

A provision for debt impairment is made for 2017/18 to the amount of R 32,421,960. This forms one of the non-cash items and was informed by outstanding debtors amounting R 186 million as per the mid year performance for 2016/2017.

K. Capital Budget Summary

A summary of the proposed capital budget is set as follows:

	Cost 2017/2018	Cost 2018/2019	Cost 2019/2020
Internal Capital	3 076 000.00	1 470 600.00	1 095 000.00
Nkangala District Municipality	To be confirmed	To be confirmed	To be confirmed
	3 076 000.00	1 470 600.00	1 095 000.00

A summary of the proposed capital conditional grants as per DORA IS as follows:

	Cost 2017/2018	Cost 2018/2019	Cost 2019/2020
Municipal Infrastructure Grant	18 484 000.00	19 320 000.00	20 202 000.00
Integrated National Electrification Programme	7 000 000.00	6 989 000.00	8 000 000.00
Water Services Infrastructure Grant	30 000 000.00	15 000 000.00	20 000 000.00
	55 484 000.00	41 309 000.00	48 202 000.00

Due to the detailed project lists for MIG, INEP & WSIG (Capital Conditional Grants) not being

finalized by the time of the compilation of the Draft Budget 2017/18. These capital expenditure related to the Capital Conditional Grants were not captured to the financial system(Munsoft) by the custodian department which resulted in these expenditure not being included under capital expenditure.

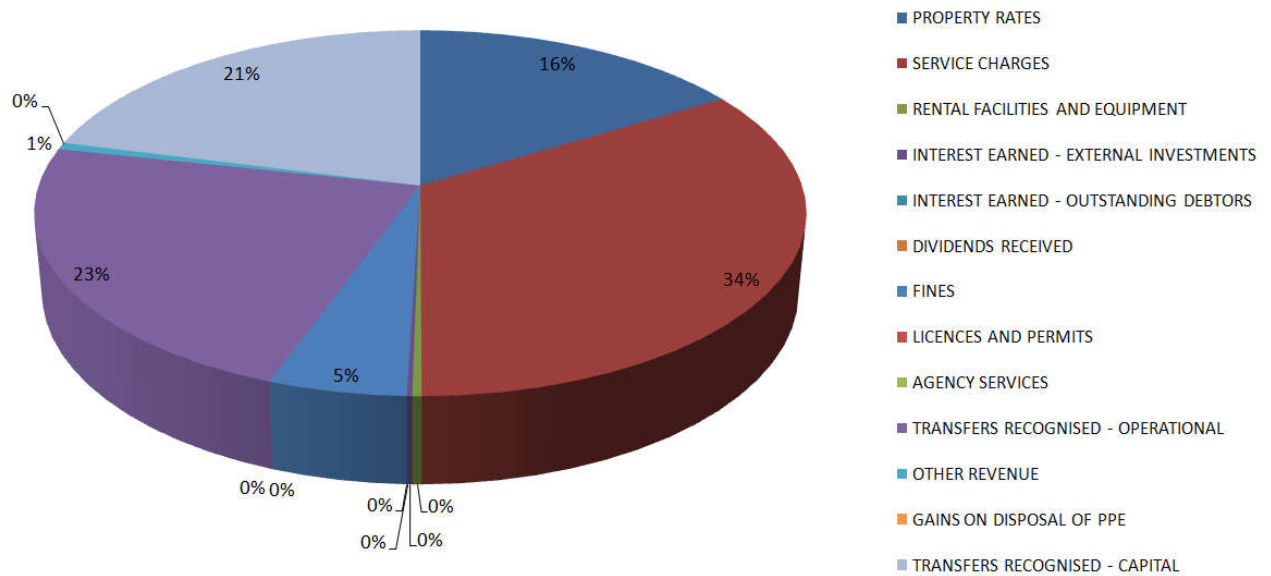
L. Operating Revenue & Expenditure Framework

Revenue by source

The following graph represents the percentage of the proposed budget of revenue as per source:

DESCRIPTION	AUDIT OUTCOME 2013/2014	AUDIT OUTCOME 2014/2015	AUDIT OUTCOME 2015/2016	ANNUAL BUDGET 2016/2017	ADJUSTMENT BUDGET 2016/2017	DRAFT BUDGET 2017/2018	BUDGET FORECAST 2018/2019	BUDGET FORECAST 2019/2020
REVENUE BY SOURCE								
PROPERTY RATES	-54 522 901.15	-17 797 978.82	-29 410 062.66	-40 071 122.00	-40 071 122.00	-42 635 674.00	-45 364 356.00	-48 267 675.00
ASSESSMENT RATES	-54 522 901.15	-17 797 978.82	-29 410 062.66	-40 071 122.00	-40 071 122.00	-42 635 674.00	-45 364 356.00	-48 267 675.00
PROPERTY RATES - PENALTIES & COLLECTION CHARGES	-	-	-	-	-	-	-	-
SERVICE CHARGES	-64 938 341.50	-63 276 917.92	-74 237 964.58	-81 520 865.00	-81 520 865.00	-87 476 168.00	-87 348 961.00	-92 739 518.00
REFUSE REMOVAL SERVICES	-7 806 108.97	-8 662 391.79	-8 650 590.98	-8 806 635.00	-8 806 635.00	-10 108 228.00	-10 110 000.00	-10 110 000.00
SEWERAGE SERVICES	-7 702 383.16	-8 136 023.53	-8 062 881.89	-13 264 200.00	-13 264 200.00	-14 113 108.00	-14 060 052.00	-14 903 655.00
PREPAID ELECTRICITY	-18 280 603.45	-15 449 043.54	-23 935 175.20	-25 196 440.00	-25 196 440.00	-26 809 012.00	-27 121 448.00	-29 193 527.00
SALE OF ELECTRICITY	-12 096 987.29	-12 823 321.94	-11 571 039.60	-9 152 041.00	-9 152 041.00	-9 737 772.00	-9 851 257.00	-10 603 894.00
BASIC ELECTRICITY	-5 060 012.48	-4 901 029.31	-8 867 565.99	-8 489 555.00	-8 489 555.00	-9 032 887.00	-9 138 157.00	-9 836 312.00
FREE BASIC SERVICES 2	-	-	-	-	-	-	-	-
SALE OF WATER	-8 367 039.38	-6 962 112.85	-7 761 983.68	-6 885 849.00	-6 885 849.00	-7 326 543.00	-6 758 333.00	-7 163 833.00
BASIC WATER	-5 625 206.77	-6 342 994.96	-5 388 727.24	-9 726 145.00	-9 726 145.00	-10 348 618.00	-10 309 714.00	-10 928 297.00
RENTAL FACILITIES AND EQUIPMENT	-435 339.68	-805 947.91	-952 706.46	-1 077 516.00	-1 077 516.00	-864 416.00	-862 875.00	-912 049.00
INTEREST EARNED - EXTERNAL INVESTMENTS	-218 287.19	-380 058.20	-546 059.61	-351 000.00	-501 000.00	-514 000.00	-386 000.00	-402 589.00
INTEREST EARNED - OUTSTANDING DEBTORS	-	-	-	-3 907 058.00	-	-	-	-
DIVIDENDS RECEIVED	-	-	-	-	-	-	-	-
FINES	-9 206 920.58	-8 873 780.53	-16 608 549.98	-13 068 540.00	-10 068 540.00	-13 068 112.00	-13 068 120.00	-13 068 120.00
LICENCES AND PERMITS	-23 172.39	-6 095.93	-6 950.07	-7 992.00	-5 724.00	-7 510.00	-7 624.00	-7 724.00
AGENCY SERVICES	-2 794 432.55	-3 171 904.15	-2 119 545.59	-	-	-	-	-
TRANSFERS RECOGNISED - OPERATIONAL	-41 975 000.00	-44 855 063.00	-51 409 860.44	-56 899 200.00	-58 182 200.00	-59 336 200.00	-61 936 000.00	-64 985 100.00
GRANT: DCSR LIBRARIES	-	-	-	-	-	-	-	-
EPWP INCENTIVE GRANT	-	-	-	-	-	-	-	-
EPWP INCENTIVE GRANT	-1 000 000.00	-1 108 582.55	-1 011 262.13	-1 217 000.00	-1 217 000.00	-1 290 000.00	-	-
EQUIT SHARE (COUNCIL SALARY)	-2 384 000.00	-2 285 000.00	-2 417 000.00	-2 567 000.00	-2 567 001.00	-	-	-
EQUITABLE SHARE (WARD COMMITTEE)	-	-480 000.00	-480 000.00	-480 000.00	-479 999.00	-3 150 000.00	-3 307 000.00	-3 466 000.00
LGSETA INTERNSHIP SUBSIDY	-	-69 000.00	-70 990.84	-	-1 283 000.00	-	-	-
EQUITABLE SHARE	-36 151 000.00	-39 515 000.00	-45 588 937.00	-48 790 000.00	-48 790 000.00	-52 072 000.00	-55 508 000.00	-58 094 000.00
GRANT: MSG (INCOME)	-890 000.00	-852 544.01	-495 810.86	-750 000.00	-750 000.00	-	-	-
GRANT: FINANCIAL MANAGEMENT	-1 550 000.00	-544 936.44	-1 345 859.61	-1 825 000.00	-1 825 000.00	-1 900 000.00	-2 155 000.00	-2 415 000.00
GRANT: INEP (MUNICIPAL)	-	-	-	-	-	-	-	-
GRANT: MIG OPERATIONAL	-	-	-	-1 270 200.00	-1 270 200.00	-924 200.00	-966 000.00	-1 010 100.00
OTHER REVENUE	-14 978 913.26	-10 995 000.64	-2 358 805.20	-30 475 438.00	-33 485 324.00	-1 592 835.00	-1 724 196.00	-1 870 102.00
GAINS ON DISPOSAL OF PPE	-14 166.67	-	-13 980 977.46	-	-	-	-	-
TOTAL REVENUE (EXCLUDING CAPITAL SOURCE AND REVENUE FORGONE)	-189 107 474.97	-150 162 747.10	-191 631 482.05	-227 378 731.00	-224 912 291.00	-205 494 915.00	-210 698 132.00	-222 252 877.00
REVENUE FORGONE	36 257.56	869 722.48	345 005.94	424 000.00	424 000.00	424 000.00	449 440.00	476 407.00
REBATES ON ASSESSMENT RATES	36 257.56	869 722.48	345 005.94	424 000.00	424 000.00	424 000.00	449 440.00	476 407.00
TOTAL OPERATING REVENUE (EXCLUDING CAPITAL SOURCE)	-189 071 217.41	-149 293 024.62	-191 286 476.11	-226 954 731.00	-224 488 291.00	-205 070 915.00	-210 248 692.00	-221 776 470.00
TRANSFERS RECOGNISED - CAPITAL	-13 322 000.00	-17 232 000.00	-58 747 148.92	-45 133 800.00	-45 133 800.00	-54 559 800.00	-40 343 000.00	-47 191 900.00
GRANT: MIG	-13 322 000.00	-17 232 000.00	-20 755 000.00	-24 133 800.00	-24 133 800.00	-17 559 800.00	-18 354 000.00	-19 191 900.00
WATER SERVICES GRANT	-	-	-	-	-	-30 000 000.00	-15 000 000.00	-20 000 000.00
DONATION: IN KIND	-	-	-37 992 148.92	-13 000 000.00	-13 000 000.00	-	-	-
GRANT INEP (MUNICIPAL)	-	-	-	-8 000 000.00	-8 000 000.00	-7 000 000.00	-6 989 000.00	-8 000 000.00
TOTAL REVENUE	-202 393 217.41	-166 525 024.62	-250 033 625.03	-272 088 531.00	-269 622 091.00	-259 630 715.00	-250 591 692.00	-268 968 370.00

REVENUE BY SOURCE - DRAFT BUDGET 2017/2018

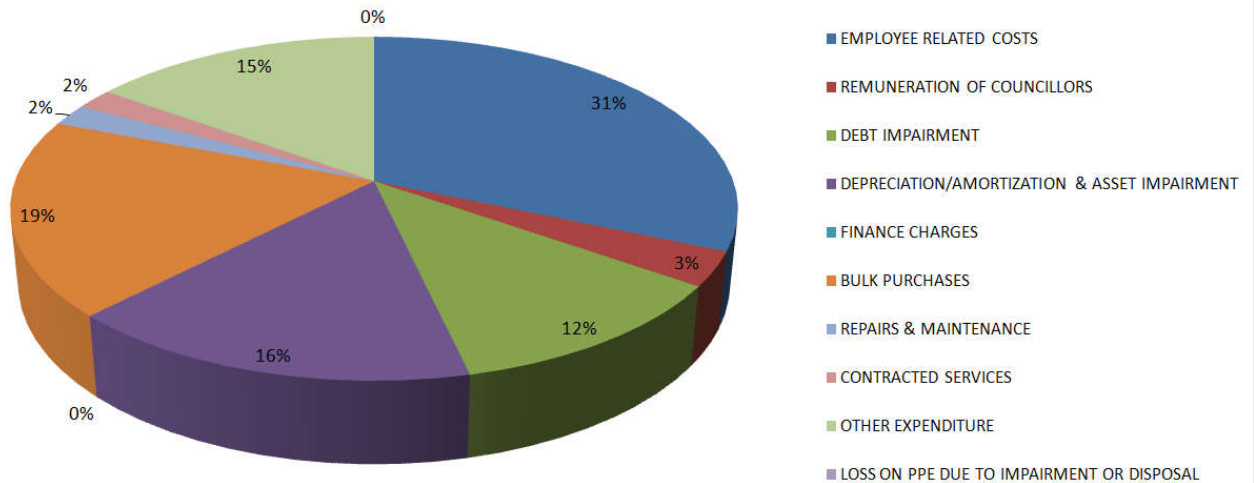


Expenditure per category

The following graph represents the percentage of the proposed budget of expenditure as per category:

DESCRIPTION	AUDIT OUTCOME 2013/2014	AUDIT OUTCOME 2014/2015	AUDIT OUTCOME 2015/2016	ANNUAL BUDGET 2016/2017	ADJUSTMENT BUDGET 2016/2017	DRAFT BUDGET 2017/2018	BUDGET FORECAST 2018/2019	BUDGET FORECAST 2019/2020
EXPENDITURE BY TYPE								
EMPLOYEE RELATED COSTS	59,445,374.96	61,517,257.13	69,180,060.32	85,181,539.00	86,554,539.00	86,691,736.00	90,834,949.00	96,676,400.00
REMUNERATION OF COUNCILLORS	4,787,535.96	5,069,866.70	5,387,520.08	5,743,220.00	5,743,220.00	8,947,124.00	9,528,674.00	10,148,039.00
DEBT IMPAIRMENT	31,225,458.50	-32,363,924.23	72,197,474.48	10,000,000.00	10,000,000.00	32,421,960.00	33,065,969.00	35,132,696.00
DEPRECIATION/AMORTIZATION & ASSET IMPAIRMENT	49,319,511.19	41,288,586.44	45,679,588.00	44,243,000.00	44,243,000.00	44,243,000.00	44,004,625.00	44,797,258.00
FINANCE CHARGES	2,161,754.42	4,080,324.32	4,881,687.30	3,700,000.00	3,700,000.00	-	-	-
BULK PURCHASES	34,256,229.16	39,403,834.49	38,577,142.34	49,696,819.00	49,696,819.00	51,414,505.00	52,442,796.00	53,491,651.00
REPAIRS & MAINTENANCE	5,372,458.60	12,300,524.01	4,752,098.28	6,588,295.00	6,596,907.00	5,632,188.00	6,131,335.00	6,297,582.00
CONTRACTED SERVICES	3,548,460.09	3,272,475.65	4,180,355.87	5,285,160.00	5,225,160.00	5,390,700.00	5,596,514.00	5,696,514.00
OTHER EXPENDITURE	33,211,179.96	30,580,549.88	32,421,854.19	50,443,310.00	52,541,298.00	42,282,690.00	40,740,688.00	41,611,613.00
LOSS ON PPE DUE TO IMPAIRMENT OR DISPOSAL	20,756.23	-	-	-	-	-	-	-
TOTAL EXPENDITURE (EXCLUDING CAPITAL)	223,348,719.07	165,149,494.39	277,257,780.86	260,881,343.00	264,300,943.00	277,023,903.00	282,345,550.00	293,851,753.00
DEFICIT / (SURPLUS) OPERATING	20,955,501.66	-1,375,530.23	27,224,155.83	-11,207,188.00	-5,321,148.00	71,952,988.00	25,089,934.00	32,774,490.00

EXPENDITURE BY TYPE - DRAFT BUDGET 2017/2018



For detail on the Revenue and Expenditure per department, please refer to the detailed Budget hereto attached.

Conclusion

Summary of the Draft Budget 2017/18 inclusive of Non-cash item:

DESCRIPTION	DRAFT BUDGET 2017/2018	BUDGET FORECAST 2018/2019	BUDGET FORECAST 2019/2020
TOTAL OPERATING REVENUE (EXCLUDING CAPITAL SOURCE)	-205 070 915.00	-210 248 692.00	-221 776 470.00
TOTAL EXPENDITURE (EXCLUDING CAPITAL)	277 023 903.37	282 345 550.00	293 851 753.00
DEFICIT / (SURPLUS) OPERATING	71 952 988.37	25 089 934.00	32 774 490.00

Summary of the Draft Budget 2017/18 excluding Non-cash item:

DESCRIPTION	DRAFT BUDGET 2017/2018	BUDGET FORECAST 2018/2019	BUDGET FORECAST 2019/2020
TOTAL OPERATING REVENUE (EXCLUDING CAPITAL SOURCE)	-205 070 915.00	-210 248 692.00	-221 776 470.00
TOTAL EXPENDITURE (EXCLUDING CAPITAL)	277 023 903.00	282 345 550.00	293 851 753.00
DEFICIT / (SURPLUS) OPERATING	71 952 988.00	25 089 934.00	32 774 490.00
LESS: NON CASH ITEMS			
DEPRECIATION/AMORTIZATION & ASSET IMPAIRMENT	44 243 000.00	44 004 625.00	44 797 258.00
DEFICIT / (SURPLUS) OPERATING (IF NON CASH ITEM IS EXCL)	27 709 988.00	-18 914 691.00	-12 022 768.00

DESCRIPTION	DRAFT BUDGET 2017/2018	BUDGET FORECAST 2018/2019	BUDGET FORECAST 2019/2020
EXPENDITURE BY TYPE			
TOTAL OPERATING REVENUE (EXCLUDING CAPITAL SOURCE)	-205 070 915.00	-210 248 692.00	-221 776 470.00
TOTAL EXPENDITURE (EXCLUDING CAPITAL)	277 023 903.00	282 345 550.00	293 851 753.00
DEFICIT / (SURPLUS) OPERATING	71 952 988.00	25 089 934.00	32 774 490.00
INTERNAL CAPITAL	3 076 000.00	1 470 600.00	1 095 000.00
DEFICIT / (SURPLUS) OVERALL	75 028 988.00	26 560 534.00	33 869 490.00

The MTREF for 2017/2018 – 2019/2020 has an overall deficit amounting to 75 028 988 of which is inclusive of non-cash item (depreciation & amortization), amounting to R 44 243 000. Therefore should the non-cash item be taken out of the equation then the deficit will be R30 785 988.

The deficit should be reduced by increasing the Revenue Enhancement as the Draft Budget 2017/18 is calculated on a 75% collection rate which therefore yield a provision for Debt Impairment of R32 421 960. Should the collection rate increase to 100%, it will mean that the municipality will no longer have a deficit (excluding non cash item).

From prior National Treasury assessment it has been confirmed that the municipal has minimized its expenditure to such a stage that there is no extensive expenditure which is not service delivery and therefore to minimize it more will effect service delivery and instead Revenue enhancement must be enforced.

With reference to mSCOA the draft budget has been prepared accordingly to the mSCOA segments requirement, but it is acknowledge that the compilation of the draft budget has not been done without its challenge and take note of some enhancement that will be required to be done before the final approval of the annual budget.

RECOMMENDATIONS BY THE CHIEF FINANCIAL OFFICER

1. **That;** the Proposed Annual Budget Medium Term Revenue and Expenditure Framework for 2017/18 – 2019/20 be approved with all budget tables; A1 to A10 Framework for 2017/18 – 2019/20
2. **That** the proposed electricity consumption tariff of 8.6% be considered and discussed.
3. **That** the new and reviewed budget related policies be approved as draft policies;

Cellphone Allowance
Standby Allowance
Subsistence and Travelling Allowance
Leave management
Supply Chain Management - Goods and Services
Asset Management
Budget
Property Rates
Credit control and Debt Management
Inventory Management

4. **That** the following proposed tariffs as per the tariff list be approved together with the complete proposed tariff list;

Assessment Rates:	6.4 %
Electricity (Consumption & Basic Charge):	8.6 %
Sewerage:	6.4 %
Water (Consumption & Basic Charge):	6.4 %
Cleansing:	6.4 %
Other income:	6.4 %
5. **That** the 6.5% salary increase be approved as a draft.
6. **That** the 6.5% council remuneration increase be approved.
7. **That** the payment of Ward committee members stipends of R500.00 per member per month be paid as from 1 July 2016 and procedures to control attendance of the members be put in place.
8. **That** the proposed budget deficit with regards to non-cash items be considered be discussed and approved.
9. **That** all issues raised have been considered the Medium Term Revenue and Expenditure Framework for 2017/2018 – 2019/2020 be approved before the start of the financial year.
10. **That** The Accounting Officer must submit the SDBIP's for the 2017/2018 financial year which is linked to the proposed budget 2017/2018 and approve it.
11. **That** The Executive Mayor ensures that the submitted performance agreements complies with the MFMA to ensure sound financial management, are linked to the operational plans and SDBIP's and concluded in accordance with section 57(2) of the Municipal Systems Act, as amended.
12. **That** The Accounting Officer must publish the approved proposed "draft" budget on the municipal website.
13. **That** The Accounting Officer must publish the approved proposed "draft" budget for community participation meetings.

RECOMMENDATIONS BY THE EXECUTIVE MAYOR

1. **That;** the Report on the Draft Budget: Medium Term Revenue And Expenditure Framework For 2017/2018, 2018/2019 And 2019/2020 Financial Years be noted.
2. **That;** the Proposed Draft Annual Budget: Medium Term Revenue and Expenditure Framework for 2017/18 – 2019/20 be approved with all budget tables; A1 to A10 Framework for 2017/18 – 2019/20.
3. **That;** the proposed electricity consumption tariff of 8.6% be considered.
4. **That** the new and reviewed budget related policies be approved as draft policies;

Cellphone Allowance
Standby Allowance
Subsistence and Travelling Allowance
Leave management
Supply Chain Management - Goods and Services
Asset Management
Budget
Property Rates
Credit control and Debt Management
Inventory Management

5. **That** the following proposed tariffs as per the tariff list be approved together with the complete proposed tariff list;

Assessment Rates:	6.4 %
Electricity (Consumption & Basic Charge):	8.6 %
Sewerage:	6.4 %
Water (Consumption & Basic Charge):	6.4 %
Cleansing:	6.4 %
Other income:	6.4 %
6. **That;** the 6.5% salary increase for employees be approved as a draft.
7. **That;** the 6.5% increase for council remuneration be approved as a draft.
8. **That;** the payment of Ward committee members stipends of R500.00 per member per month be paid as from 1 July 2017 and procedures to control attendance of the members be put in place.
9. **That;** the proposed budget deficit with regards to non-cash items be considered.
10. **That;** all issues raised that have been considered for the Medium Term Revenue and Expenditure Framework for 2017/2018 – 2019/2020 be approved before the start of the financial year.
11. **That;** The Accounting Officer must publish the approved proposed "draft" budget on the municipal website.
12. **That;** The Accounting Officer must publish the approved proposed "draft" budget for community participation meetings.
13. **That;** an IDP/Budget Indaba be convened as per budget timetable.

FOR CONSIDERATION