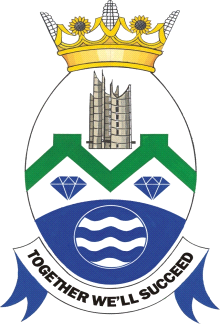
**MASILONYANA LOCAL MUNICIPALITY**

**(FS 181)**



**2016/17 TO 2018/19**

**MEDIUM TERM REVENUE AND**

**EXPENDITURE/ FORECASTS**

**(DRAFT)**

**Table of Contents**

[Annexure](#_Toc287342520)

[1.1 Mayor’s Report](#_Toc287342522) 3

[1.2 Council Resolutions](#_Toc287342523) 3

[1.3 Executive Summary 4](#_Toc287342524)

[1.4 Operating Revenue Framework](#_Toc287342525) 5

[1.5 Operating Expenditure Framework](#_Toc287342526) 14

[1.6 Capital expenditure](#_Toc287342527) 21

1.7 ANNUAL BUDGET TABLES -PARENT MUNICIPALITY………………………………………………………........... 21

[Part 2 – Supporting Documentation](#_Toc287342529)

[2.1 Overview of THE ANNUAL BUDGET PROCESS](#_Toc287342531) 30

[2.2 Overview of alignment of annual budget with IDP](#_Toc287342531) 38

[2.3 Measurable performance objectives and indicators](#_Toc287342532) 39

[2.4 Overview of budget related policies](#_Toc287342533) 40

[2.5 Overview of budget assumptions](#_Toc287342534) 41

[2.6 Overview of budget funding](#_Toc287342535) 43

[2.7 expenditure on grants and reconciliation of unspent funds](#_Toc287342537) 45

[2.8 councillor and employee benefits](#_Toc287342540) 46

[2.9 month](#_Toc287342541)ly target for revenue , expenditure and cash flow……………………..………………………..47

[2.10 contract having future budgetary implications](#_Toc287342542) 51

[2.11 capital expenditure details](#_Toc287342544) 51

[2.12. legislation compliance status](#_Toc287342540) 57

[2.13 other supporting documents](#_Toc287342540) 58

[2.14. municipal manager’s quality certificate](#_Toc287342540) 59

**Part 1 – Annual Budget**

* 1. **Mayor’s Report**

As attached

* 1. **Council Resolutions**
* The Council of Masilonyana Local Municipality, acting in terms of section 24 of the Local Government: Municipal Finance Management Act (MFMA), (Act 56 of 2003) approves and adopts the following resolutions:
* The annual budget of the municipality for the financial year 2015/16 and indicative allocations for the two projected outer years 2016/17 and 2017/18; and the multi-year and single-year capital appropriations as set out in the following tables:
* Budgeted Financial Performance (revenue and expenditure by standard classification)
* Budgeted Financial Performance (revenue and expenditure by municipal vote)
* Budgeted Financial Performance (revenue by source and expenditure by type)
* Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source
* The financial position, cash flow budget and cash-backed reserve/accumulated surplus as set out in the following tables:
* Budgeted Financial Position
* Budgeted Cash Flows
* Cash backed reserves and accumulated surplus reconciliation
* The tariffs for the supply of electricity, water, sanitation, refuse removal and property rates as set out in Section 2, that were used to prepare the estimates of revenue by source with effect from 1 July 2015
* The revised Integrated Development Plan (IDP) and related amendments..
* The measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out in Supporting Table SA6.

`

* The Budget related policies including any amendments set out in the report.
* Cash backing be implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality’s funding and reserves policy.
* Find the attached signed Council Resolution.
  1. **Executive summary**

This section contains an Executive Summary of the Masilonyana Municipality’s Budget followed by a more detailed explanation of its Operating and Capital components over the next three years.

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.

The Municipality’s business and service delivery priorities were reviewed as part of this year’s strategic planning and budget process. Where appropriate, funds were transferred from low- to high-priority programs so as to maintain sound financial stewardship and to improve service delivery. In this regard, road maintenance, pothole repairs, and replacement of electrical and water infrastructure network has been identified as priority areas.

The drive by the Municipality is to achieve the targets of Operation Clean Audit 2014. Significant progress has been made with the implementation of the financial turnaround plan; including the clean-up of the billing system, the compilation of a GRAP compliant asset register and the implementation of internal controls.

National Treasury’s MFMA Circulars No. 78, and other related circulars were used to guide the compilation of the 2016/17 MTREF.

The main challenges experienced during the compilation of the 2016/2017 MTREF can be summarised as follows:

* The ongoing difficulties in the local economy which has a negative impact on the municipality
* The need to reprioritise projects and expenditure within the existing resource envelope given the backlog in infrastructure maintenance;
* The increased cost of bulk electricity due to tariff increases from Eskom which is placing upward pressure on service tariffs to residents. This is further resulting in refuse removal, sewerage and property rates tariffs increasing sufficiently in order to “balance the basket of tariffs”.
* Low collection rate
* Provision for bad debts

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

* Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
* Service tariffs and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity. In addition, tariffs need to remain or move towards being cost reflective

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/2016 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2016/17 MTREF**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Final Budget**  **2015/16** | **Budget Year**  **2016/17**  **‘000** | **Budget Year +1**  **2017/18**  **‘000** | **Budget Year +2**  **2018/19**  **‘000** |
| Total Operating Revenue  Total Operating Expenditure | 230 363  247 138 | 226 811  249 692 | 228 485  266 776 | 248 600  289 519 |
| Surplus (Deficit)for the year | (16 775) | (22 881) | (38 292) | (40 920) |
| Total Capital Expenditure | 48 479 000 | 24 060 | 24 195 | 25 383 |

Total budgeted operating revenue has decreased by R3 million for the 2016/17 financial year when compared to the 2015/16 Adjustments Budget, and this is due to the decrease of operational grants due to the Municipality. For the two outer years, operational revenue has slightly increased by R1.5 million in the 2017/2018, and R10 million in 2018/19 due increased services charged respectively.

Total budgeted operating expenditure for the 2016/17 financial year has been appropriated at R 249 million. When compared to the 2015/16 Adjustments Budget, operational expenditure has increased by R 2 million in the 2016/17 budget as a result of non-cash items and Creditors arrears accrued from the 2015/16 financial year, and will increase by R17 million and increase by R23 million for the 2017/18 and 2018/19 respectively.

The capital budget is projected to be R23.6, Capital budget is constituted of MIG of R22.5 million, and R1.5 of own fund capital expenditure.

There’s also an in-kind allocation for RBIG and Electrification for 43.8 and R 6 million respectively, however these grants should not be included in the budget as they are controlled by relevant departments

* 1. **Operating Revenue Framework**

For municipalities to continue improving the quality of services provided to its residence it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of the 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 expenditure against realistically anticipated revenues.

The municipality has anticipated that services charges revenue will increase by 6% in the 2016/17 financial year, which is equivalent to the 6% CPI on other services and 8% on electricity. The reason for the increase anticipated is that more revenue strategies will be put in place to enable to municipality to collect both the current and overdue service charges.

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

* National Treasury’s guidelines
* Growth in the municipal area and continued economic development especially the SMME;
* Efficient revenue management, which aims to ensure at least a 70% annual collection rate for property rates and other key service charges;
* Electricity tariff increases of 8% in terms of MFMA circular 78 as proposed by Eskom
* Achievement of at least 75% cost recovery of specific user charges in relation to trading services;
* Increase ability to extend new services and recover costs; and
* The municipality’s Indigent Policy and rendering of free basic services.

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

**Table 2 Summary of revenue classified by main revenue source**



**Table 3 Operating Transfers and Grant Receipts**

In terms of circular 79, National Treasury advices that municipalities should adopt a conservative approach when projecting their expected revenues and cash receipts due revenues and cash flows that are expected to remain under pressure in 2016/17 due to the state of the economy. Another challenge identified was that municipalities are not able to set cost-reflective tariffs as advised in previous circulars because the cost drivers are not known] level of commitment from other departments in determining cost reflective tariffs is questioned which poses a challenge and would result in Municipalities are advised to determine the costs per service in determining tariffs.



The above table is the operating transfer and grants received, in terms of the DORA allocation for 2016/2017, the following were allocated to the municipality

**Municipality allocation**

MIG R22 500 000 conditional grant

FMG R 1 900 000 conditional grant

Equitable share R79 723 000 unconditional grant

EPWP R 1 147 000 conditional gtant

**In-Kind Allocation**

EEMDS R 6 000 00 conditional

RBIG R 43 883 000 conditional

MSIG R 1 300 000 conditional

Electrification Grant R 81 000 in-kind

The above grants in terms of the DORA has different conditions except the equitable share. We keep on including the equitable share in our operational budget since it is not described as in kind allocation.

**Table 4 Comparison of proposed rates to be levied for the 2015/16 and 2016/2017 financial year**

Council has took a decision not to increase the tariff on property rates tariffs due to the implementation of new valuation roll from the 1 July 2015. The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2015/16 financial from 1 July 2015 is contained below



Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

* **Property Rates**

Property rates partially cover the cost of the provision of general services.

The municipality implemented the valuation roll 2015/2016 which was a year later due to the challenges that were reported during the year to CoGTA Provincial. The municipality sent an application to the MEC for COGTA to extend implementation of old valuation roll by another year in 2013/2014 financial year, which was granted. The valuation roll was extended to the 5th year.

The valuation process was still in process, the objections period was extended to the 19 June 2015. The municipality initially projected for a 33% increase on property rates revenue due to the new implementation of valuation roll.

The property rates tariff by the CPI of 6%. We will assess performance mid- year to determine whether revenue projected was under or over. We will then adjust upon the outcome of the assessment made.

The municipal Property Rates Policy stipulates that Public Services Infrastructure tariff is equals to 25% household tariff, and has been calculated according.

The following stipulations in the Property Rates Policy are highlighted:

* The first R15 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). In addition to this rebate, a further R15 000 reduction on the market value of a property will be granted in terms of the Municipality’s own Property Rates Policy;
* 30 % rebate will be granted on state owned residential properties
* 100 percent rebate will be granted to registered indigents in terms of the Indigent Policy;
* Properties owned and used for public service purposes rendering the following services directly to the public: hospitals and public clinics; schools including pre-schools, early childhood development centres and further education and training colleges; libraries; police stations ;prisons; and courts of law will receive a 25% rebate on assessed rates.
* **Sale of Electricity and Impact of Tariff Increases**

NERSA has announced the revised bulk electricity pricing structure of 8% increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2016

Considering the Eskom *increases*, the consumer tariff had to be increased by 8% ( as per NERSA approval) to offset the additional bulk purchase cost from 1 April 2015

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

The municipality has applied for electricity increases that will be cost reflective and at the same try to discourage community to save by implementing the Inclining Block Tariff

The following table shows the impact of the proposed increases in electricity tariffs on the electricity charges for domestic customers:

**Table 5 Comparison between current electricity charges and increases (Domestic)**



It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2011. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor). However the is in a process of benchmarking with other Municipality to ensure that correct step tariffs are charged in the near future.

The municipality further request that council should take note of the additional percentage that has been requested by ESKOM. Subject to the additional percentage increase granted to Eskom, Council should increase its tariffs in line with Eskom tariffs

* **Refuse Removal and Impact of Tariff Increases**

A 6% increase in the waste removal tariff is proposed from 1 July 2016. The following table compares current and proposed amounts payable from 1 July 2016:



**Table 6 Comparison between current waste removal charges and increases**

* **Sale of Water and Impact of Tariff Increases**

A 6 percent increase in the water tariff is proposed from 1 July 2016. The following table compares current and proposed amounts payable from 1 July 2016:

**Table 7 Comparison between current water charges and increases**



A flat rate for water was introduced for all sites within Masilonyana Municipality that are unmetered. The municipality has increased a tariff to ensure that we can afford to replace the old water meter and install the new ones where there aren’t any

* **Sewerage and Impact of Tariff Increases**

A 6% increase in the sewerage tariff is proposed from 1 July 2016.

**Table 8 Comparison between current sewerage charges and increases**



* 1. **Operating Expenditure Framework**

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

* Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit; and in these case the expenditure exceeds the revenue due to non-cash items which must be budgeted for.
* Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
* 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 plan no budget”*. If there is no business plan no funding allocation can be made.

**Tariffs to implement the SPLUMA**



The following table is a high level summary of the 2016/17 budget and MTREF (classified per main type of operating expenditure):

**Table 9 Summary of operating expenditure by standard classification item**





The budgeted allocation for employee related costs (Inclusive of Councillors Remuneration and vacancies) for the 2016/17 financial year totals R74.6 million (increased slightly as a result of CPI estimates) for, which equals 40% of the total operating expenditure (non-cash items excluded).

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). Gazette 35700 has also been used to determine the budget for senior management salaries effectively from 01 July 2014..

We are currently collecting on average 45% of revenue billed, The provision for debt impairment was budgeted for as it is a non-cash item and have been increased by R2 million.

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 R32 million for the 2016/17 financial year and equates to 13% of the total operating expenditure.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital), interest on outstanding creditors such as Eskom, Bulk Water, chemicals and bank charges Finance charges makes up R1.6 million for 2016/17.

Bulk purchases are directly informed by the purchase of electricity from Eskom and bulk purchases from Department of Water and Sanitation and Sand-Vet. The annual price increases have been factored into the budget appropriations and directly inform the revenue provision. These includes the outstanding amounts owed as per the recent agreement that were entered into between these creditors and the municipality

**Main operating expenditure for the 2016/2017 financial year**

**Priority given to repairs and maintenance**

For the 2016/2017 financial year, the major portion of total repairs and maintenance will be spent on infrastructure assets. As follows:



**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 Masilonyana Municipality’s Indigent Policy.

A summary of the free basic services package is set out below:

* All registered indigents will receive 50 kWh of electricity per month fully subsidised.
* All registered indigents will receive 6 kl of water per month fully subsidised.
* All registered indigents shall be fully subsidised for refuse removal.
* All registered indigents shall be fully subsidised for sewerage.
* All registered indigents shall be fully subsidised for the payment of property rates.
* In the event of the death of a member of an indigent household, the municipality may exempt the household from the cost of digging and preparation of a grave, provided that the burial takes place in a municipal cemetery

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

* 1. **Capital expenditure**

The following table provides a breakdown of budgeted capital expenditure by vote:





**Table 10 2016/17 Medium-term capital budget per vote**

For 2016/17 an amount of 24 060 000 million has been appropriated for the development of infrastructure assets which represents 86%of the total capital budget. Roads and Storm water receives the highest allocation with R13 Mil.

* 1. **Annual Budget Tables**

The following pages present the main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality’s 2015/16 budget and MTREF as tabled by the Council. Each table is accompanied by explanatory notes on the facing page.

**Table A1 - Budget Summary**



**Explanatory notes to Table A1 - Budget Summary**

* Table A1 is a budget summary and provides a concise overview of the Municipality’s budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
* The table provides an overview of the amounts tabled by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality’s commitment to eliminating basic service delivery backlogs.
* It must be noted that although the budget of the municipality reflects a deficit budget, this is as a result of the non-cash items which is debts impairment and depreciation on assets as a compliance to implement the GRAP 17.
* For a municipality to gradually reflect a surplus budget we need to reduce the expenditure and increase revenue which in this case will have an impact on the tariffs in the future budgets
* Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget.

**Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)**



**Explanatory notes to Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)**

* Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification.
* Note the Total Revenue on this table excludes capital revenues (Transfers recognised – capital) and balance to the operating revenue shown on Table A4.
* Note that as a general principle the revenues for the Trading Services should exceed their expenditures.
* Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under Finance and Admin.

**Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)**



**Explanatory notes to Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)**

* Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote.

**Table A4 - Budgeted Financial Performance (revenue and expenditure)**



**Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)**

* Total revenue is R226 million in 2016/17.
* Revenue to be generated from property rates is R35.5 million in the 2016/17 financial year and remains a significant funding source for the municipality, which is determined refer to sheet SA12b:
* Total rates revenue projection on State owned, Public Service Infrastructure no significant increase
* Services charges relating to electricity, water, sewerage and refuse removal constitutes the biggest component of the revenue of the municipality amounting to R97.4 million for the 2016/17 financial year.
* Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government amounting to R 87 Million
* Bulk purchases has decreased since from R66 million to R43 million due to the payment arrangement made between the Municipality and ESKOM. These bulk purchases, and other expenditure are the main cost drivers within the municipality. Alternative operational gains and efficiencies will have to be identified to lessen the impact of these expenditure in future
* We have budgeted for the following head of department as the structure makes provision for these vacancy and are very key. Director Corporate Services, Director Infrastructure and Director Urban and Planning and Housing.





**Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source**



**Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source**

* Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
* The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.
* Single-year capital expenditure has been appropriated at R26 million for the 2016/17 financial year.
* This expenditure / appropriations relate to expenditure that will be incurred in the specific budget year.
* The capital programme is funded from National Treasury and internally generated funds from current year surpluses. For 2016/17, capital transfers totals R 22 500 000 with internally generated funding amounts to R1 560 000
* The in-Kind allocation comprises of DWA R43 883 000, INEP R6 000 000, Eskom R81 000, MSIG R1 300 000.

**Table A6 - Budgeted Financial Position**



**Table A7 - Budgeted Cash Flow Statement**



**Explanatory notes to Table A7 - Budgeted Cash Flow Statement**

* The budgeted cash flow statement is the first measurement in determining if the budget is funded.
* The municipality’s cash is projected to be positive at year and we also have already started with the implementation of the credit control which will yield positive result
* Inability of the municipality to collect what is owed versus the normal operations of the municipality which are cost

**Table SA8 – Performance indicators and benchmarks**



**Part 2 – Supporting Documentation**

* 1. **Overview of the annual budget process**

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year which the municipality approved in September 2015.

The following table is the BPP for 2016/2017 tabled in September 2015:

**IDP PROCESS PLAN & BUDGET TIMETABLE (2015/2016)**

**IDP PROCESS PLAN 2016/ 2017 & BUDGET TIMETABLE (2016/2017)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Activity** | **Responsibility** | **Deliverables** | **Phases** |
| 22-July-2015 to 14-August 2015 | Development of the process plan | MM and IDP Manager | Preparation for IDP Review 2015/2016 |  |
| 20-30 August 2015 | Tabling of the Process Plan to Council | Mayor & MM | Preparation for IDP 2015/2016 | **Planning Phase** |
| 18 August 2015 – 09 September 2015 | * Compilation of a proposed budget timeline **(20-08-2015)** * Approval of proposed budget timeline by Executive Committee **(04 to 14-08-2015)** * Approval of proposed budget timeline by Council **(18 Aug- to 09-Sept-2015)** | Mayor tables the proposed plan to Council  (MM/CFO) | Compilation and approval of a proposed budget timeline in line with the budget reforms from National Treasury |  |
| 12-26 August 2015 | Submission of IDP Process Plan to the Mayor’s, Speaker’s offices and Exco members | MM, Speaker and IDP Manager | Community participation (ward based) preparation and submission of inputs from political office bearers |  |
| 26-August-2015 to 9-September-2015 | Notice to the Municipal Manager, Mayor/Exco, Section 57 and Middle Managers | MM and IDP Manager | Presentations of Projects and Plans by the Heads of Departments (Masilonyana) Steering Session |  |
| 11-25 September 2015 | SDF Community participation meeting | MM and IDP Manager, Cogta & Dept of Rural Development | Community participation |  |
| 23-30 September 2015 | Newspaper Advertisement for IDP Rep Forum (City Press, Sowetan, Masilonyana News) | MM, Mayor, Speaker and IDP Manager | Community participation (Community Organisations representatives) |  |
| 2-9 October 2015 | Steering committee session | Mayor / Exco, MM, Senior & Middle Management | i)Revision of vision & mission  ii)Presentation of progress on IDP projects for 2014/2015 by section 57 Directors  iii)Agenda setting for Community Participation | **Strategic Planning** |
| 7-31 October 2015 | Strategic Alignment Workshop | Municipal Manager/CFO and IDP Manager | Completion of a Strategic Alignment workshop to determine objectives for the 2015/2016 Budget process |  |
| 4th-5th November-2015 | Compilation and approval of Operational Plans, a Budget Policy/Guidelines and Tarrif Policy in line with the IDP | MM, Senior Management / HOD’s | * Reconsider strategies and objectives * Analyze Integrated Sector Programs * Submission of Project List to Lejweleputswa District Municipality for possible funding |  |
| 4-November 2015 to 5 December 2015 | Draft operating and capital budgets in line with approved operational plans, budget guidelines and secured financing sources | Municipal Manager, Senior Management & IDP Manager | * Amend existing project design * Presentation of projects by various HOD’s of MLM |  |
| 18-25 November 2015 | IDP Rep Forum | Municipal Manager, Senior Management & IDP Manager | Consolidation of all information gathered during various processes and addressing concerns, comments and incorporating inputs from stakeholders |  |
| 25-November-2015 to 12 December 2015 | Ward based IDP Community Consultations | Councillors, MM, Snr Management, IDP Manager & Coordinator: Public Participation | Ward based community participation |  |
| 9-12 December 2015 | Mayoral Imbizo & IDP Community Participation | Mayor, Councillors, Municipal Manager, Snr Management, IDP Manager & Coordinator: Public Participation | Ward based community participation |  |
| 9-12 December 2015 | Revision of and approval by Council on the 2015/2016 adjustments budget | MM, CFO and Heads of Departments | * Revision of the 2015/2016 operational and capital budget * Compilation of the MFMA sec 72 report & submission to the Mayor * Approval of 2015/2016 adjustments budget by Exco & Council |  |
| 21 January to 31st January 2016 | Distribution of the 2015/2016 adjustment budget | IDP Manager | Distributed Draft IDP |  |
| 2-12 February 2016 | Steering Committee Session | Mayor/Exco, MM, Snr & Middle Management | i)Presentation of progress on IDP projects for 2014/2015 by HOD’s  ii)Agenda setting for Community Participation |  |
| 12-19 February 2016 | Preparation of progress on IDP projects and new projects | MM, HOD’s & IDP Manager | New projects and other developmental issues as discussed during Steering Committee meetings |  |
| 14-27 February 2016 | Community participation meeting | Mayor, Speaker, Councillors, Municipal Manager, IDP Manager & Coordinator: Public Participation | Mayor, Speaker (Ward & PR) Councilors outlines progress on 2015/2016 IDP projects |  |
| 2-6 March 2016 | Consolidation of the Community needs | IDP Manager | Report on the needs identified | **Inputs, Consolidation Phase** |
| 2-12 March 2016 | 2nd Steering Committee session | Mayor/Exco, MM, Snr & Middle Management | i) Reporting on progress made during community participation.  ii)Development of new objectives and strategies  iii)Alignment exercise (costing of projects by the CFO) |  |
| 11 March to 20 March 2016 | * Interaction with sector departments to integrate funding * CFO/Finance Department to consolidate and prepare the third draft capital and operating budget | MM, CFO & HOD’s | Third draft of the operational and capital budget for the 2014/2015, 2015/2016 to 2016/2017 financial years consolidated and tabled to Council |  |
| 16-23 March 2016 | IDP Planning Forum (NAFCOC/Business Forum & Mines) | Municipal Manager/Manager: Mayor’s Office, IDP Manager & LED Officer | i)Presentation of IDP/Community needs to the forum  ii)Presentation of the new strategies, objectives and the budget  iii)Presentation by Mining houses & Business forum(s) on their plans/commitments |  |
| 18 March to 30 March 2016 | Final draft of the operational and capital budgets for the 2014/2015 to 2015/2016 financial years consolidated and submitted to the Exec Committee for discussion | MM, CFO & HOD’s | * Finance Department to consolidate and prepare the final draft capital and operating budget * Evaluation of and discussion on draft capital and operating budget by Council |  |
| 19-31 March 2016 | IDP Rep Forum | MM, Snr Management & IDP Manager | Consolidation of all information gathered during various processes and addressing concerns, comments and incorporating inputs from stakeholders |  |
| 26 March 2016 to 16 April 2016 | Consultation on final draft budget through formal meetings with all possible stakeholders | Mayor, MM and CFO | Draft budget to be consulted with the Community, stakeholders, District Municipality, Provincial and National Government |  |
| **26 March 2016 to 02 April 2016** | Tabling of the draft IDP / Budget | Mayor / Municipal Manager | Tabled IDP and Budget | **Tabling of the draft and final approval phases** |
| 03 April 2016 | Attending a working session on compiling the simplified IDP document | IDP Manager | Benchmarking IDP progress with other Municipalies |  |
| 10 April 2016 | Submission of the draft IDP and Budget to FS-Cogta & FS-Treasury | MM / CFO & IDP Manager | Submitted Draft IDP and Budget |  |
| 10 - 14 April 2016 | Preparations for IDP Provincial Assessments of 15 – 19 April 2015 | Mayor / Exco / MM, HOD’s & IDP Manager | Consolidation of the overall and information for final adoption by Council |  |
| 08 – 15 April 201 | Working on comments from the advertised IDP draft & Budget | MM, Corporate Director & IDP Manager |  |  |
| 13 – 17 April 2016 | IDP Provincial Assessments 2015-2016 | Free State Province, Sector Departments | Production of Credible and Simplified IDP documents |  |
| 20 – 24 April 201 | Advertising for inputs and comments by stakeholders and community members on the Drafts IDP & Budget | IDP Manager | Maximizing community participation on planning |  |
| 27 April 2016 to 11 May 2016 | Working on comments from the advertised IDP draft & Budget | MM, Corporate Director & IDP Manager |  |  |
| 12 May 2016 to 19 May 2016 | IDP Rep Forum | Municipal Manager, Senior Management & IDP Manager | Consolidation of all information gathered during various processes and addressing concerns, comments and incorporating inputs from stakeholders |  |
| 26 May 2016 to 29 May 2016 | Submission of approved operational and capital budget to National Treasury | CFO | Finance Department to submit approved budget to Provincial Treasury and National Treasury |  |
| 31 May 2016 | Final Approval of the IDP and the Budget | Mayor/Exco, MM, HOD’s & IDP Manager | * Final Approval by the Council |  |
| 28 May 2016 | Preparations for implementation of the approved Budget. | Mayor/Exco, MM, HOD’s, Middle Management & IDP Manager | * Finance Department to finalise all preparations and ensure proper and timeous implementation of budget, including promulgation of tariffs * MM to submit draft SDBIP’s and draft Performance Agreements of section 57 personnel to Mayor |  |

National Treasury, in MFMA Circular No 74, provided specific guidelines to municipalities on options available to ensure that the budget process for the 2016/17 MTREF period is completed on time and within the legislative requirements.

A revised budget time schedule was tabled to Council. In accordance with the revised budget time schedule the IDP and annual budget for 2016/17 was tabled before Council and was approve in September 2015.

The Municipality’s IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions.

This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

With the compilation of the 2016/17 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year 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.

* **Financial Modelling and Key Planning Drivers**

As part of the compilation of the 2016/17 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2016/17 MTREF:

* Municipality growth.
* Policy priorities and strategic objectives.
* Asset maintenance.
* Economic climate and trends (i.e. inflation, Eskom increases, household debt).
* Cash Flow Management Strategy.
* Revenue enhancement strategy
* Revenue collection
* Debtor payment levels..
* The need for tariff increases versus the ability of the community to pay for services.
* Improved and sustainable service delivery.

In addition to the above, the strategic guidance given in National Treasury’s MFMA Circulars 78 & 79 has been taken into consideration in the planning and prioritisation process.

* **Community Consultation**

The meetings are to resume on the 13 April 2016 to ensure that public inputs will be incorporated.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **WARD** | **DATE** | **TIME** | **VENUE** | **RESPONSIBLE** |
| **Ward 4 & 5** | **13/04/2016**  **Wednesday** | **17h00** | **Winburg Townhall** | **Mayor, Ward Cllr. & other Councillors** |
| **Ward 3** | **14/04/2016**  **Thursday** | **17h00** | **Verkeerdevlei Townhall** | **Mayor, Ward Cllr. & other Councillors** |
| **Ward 1,2,10** | **20/04/2016**  **Wednesday** | **17h00** | **Brandfort Townhall** | **Mayor, Ward Cllr. & other Councillors** |
| **Ward 6** | **21/04/2016**  **Thursday** | **17h00** | **Theunissen Townhall** | **Mayor, Ward Cllr. & other Councillors** |
| **Ward 3,7,8&9** | **28/04/2015**  **Wednesday** | **17h00** | **Theunissen Townhall** | **Mayor, Ward Cllr. & other Councillors** |
| **Ward 2** | **04/05/2016**  **Wednesday** | **17h00** | **Kagisanong**  **Combined School** | **Mayor, Ward Cllr. & other Councillors** |
| **Businesses**  **(All towns)** | **05/05/2016**  **Thursday** | **17h00** | **Theunissen Townhall** | **Mayor, Ward Cllr. & other Councillors** |

**BUDGET CONSULTATION SCHEDULE FOR 2016/2017 DRAFT BUDGET**

A copy of the draft budget and tariffs will be available on the Municipal website ([www.masilonyana.fs.gov.za](http://www.masilonyana.fs.gov.za)). And Inputs on the draft budget can be submitted from 14 April to 13 May 2016 at all Municipal offices, there will an inputs box at the front of each office, during working hours.

* 1. **Overview of alignment of annual budget with IDP**
* In order to ensure integrated and focused service delivery between all spheres of government it was important for the Masilonyana Municipality to align its budget priorities with that of national and
* provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building
* clean, healthy, safe, and sustainable communities, financial viability, and sound institutional governance.
* Local priorities were identified as part of the IDP review process, which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:
* Provision of quality basic services and infrastructure which includes, amongst others:
* Provide electricity;
* Provide water;
* Provide sanitation;
* Provide waste removal;
* Provide roads and storm water;
* Provide stands;
* Maintaining the infrastructure of the Municipality.
* Economic growth and development that leads to sustainable job creation by:
* Ensuring the is a clear structural plan for the Municipality;
* Ensuring planning processes function in accordance with set timeframes;
* Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
* Fight poverty and build clean, healthy, safe and sustainable communities:
* Effective implementation of the Indigent Policy;
* Extending waste removal services and ensuring effective city cleansing;
* Ensuring all waste water treatment works are operating optimally;
* Working with Police to address crime;
* Ensuring safe working environments by effective enforcement of building and health regulations;
* Promote viable, sustainable communities through proper zoning.
* Good governance, financial viability and institutional governance:
* Reviewing the use of contracted services;
* Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan;
* Publishing the outcomes of all tender processes on the municipal website;

To create financially sustainable and accountable municipality

The Masilonyana Municipality’s IDP strategic objectives for the next financial year are as follows:



* 1. **Measurable performance objectives and indicators**

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee’s performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:



**2.4 Overview of Budget related policies**

The policies that were reviewed in relation to budget are as follows:

* Credit Control Policy
* Debt Write Off Policy
* Indigent Policy
* Tariff Policy
* Property Rates Policy
* Travelling and Subsistence Policy
* Fixed Asset Management Policy
* Supply Chain Management Policy
* UIFW policy
* Budget Policy

**2.5 Overview of budget assumptions**

* **External factors**
* The municipality is expected to budget based on its strength to collect revenue
* Decrease budget for Repairs and Maintenance due to financial constraints
* Enforce cost containment measures
* Refrain from budgeting for luxury and non-priorities such as excessive catering
* Increase the labour force by way of implementing EPWP grant
* Budget in line with IDP especially programmes/activities/ projects that are not yet achieved
* Nersa tariff increase 8% (not approved yet)
* **Collection rate for revenue services**

The base assumption is that tariff and rating increases will increase at a rate slightly higher that CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

Cash flow is assumed to be 45 percent of billings, including an increased collection of arrear debt from the revised debt and credit control policy and the OPERATION PATATLA that was launched on the 05 May 2015.

* **Ability of the municipality to spend and deliver on the programmes**

It is estimated that a spending rate of 100 percent is achieved on operating expenditure and on the capital programme for the 2016/17 MTREF of which performance has been factored into the cash flow budget.

**Table 21 SA30 - Budget cash flow statement**



**Limitation in revenue growth/generation**

The following factors, weaknesses and root causes with regard to revenue

growth and/or generation have been identified:

* The decline in the industry had a direct and significant impact on the incoming revenue streams of the Municipality. For example, a decrease in production of some mines that has closed down, have resulted in a decrease in service charges billed to the mines
* Employed communities members hiding behind indigents
* No integrated data base exists across the Municipality to allow for a comprehensive view of effective revenue generation.
* Inadequate billing system.
* Meters are bridged.
* Low tariff structures
* Abuse of the indigent subsidy scheme.
* High water and electricity losses
* **Cash Backed Reserves/Accumulated Surplus Reconciliation**

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

* What are the predicted cash and investments that are available at the end of the budget year?
* How are those funds used?
* What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality’s budget must be ‘funded’.

Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

**2.6 Overview of budget Funding**

**Table 22 A8 - Cash backed reserves/accumulated surplus reconciliation**



**2.7. Expenditure on grants and reconciliation**



**2.8 Councillor and employee benefits**



**2.9 Monthly targets for revenue, expenditure and cash flow**



**Funding compliance measurement**

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA. Each of the measures is discussed below.

* *Cash/cash equivalent position*

The Municipality’s forecast cash position was discussed as part of the budgeted cash flow statement. A ‘positive’ cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

If the municipality’s forecast cash position is negative, for any year of the medium term budget, the budget is very unlikely to meet MFMA requirements or be sustainable and could indicate a risk of non-compliance with section 45 of the MFMA which deals with the repayment of short term debt at the end of the financial year.

* *Cash plus investments less application of funds*

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

* *Monthly average payments covered by cash or cash equivalents*

The purpose of this measure is to understand the level of financial risk should the municipality be under stress from a collection and cash in-flow perspective. Regardless of the annual cash position an evaluation should be made of the ability of the Municipality to meet monthly payments as and when they fall due. It is especially important to consider the position should the municipality be faced with an unexpected disaster that threatens revenue collection such as rate boycotts. As indicated above the Municipality aims to achieve at least one month’s cash coverage in the medium term, and then gradually move towards two months coverage. This measure will have to be carefully monitored going forward.

* *Surplus/deficit excluding depreciation offsets*

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An ‘adjusted’ surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs.

If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming over the medium term which in the municipality’s case it the current situation. However we will gradually increase the tariffs to ensure that community is contributing towards sustainable and quality services.

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective and the first two measures in the table are therefore critical.

**Table 23 SA10 - Funding compliance measurement**



* *Property Rates/service charge revenue as a percentage increase less macro inflation target*

The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets. This measure is based on the increase in ‘revenue’, which will include both the change in the tariff as well as any assumption about real growth such as new property development, services consumption growth etc.

The factor is calculated by deducting the maximum macro-economic inflation target increase. The result is intended to be an approximation of the real increase in revenue. Considering the lowest percentage tariff increase in relation to revenue generated from rates and services charges is 6percent, with the increase in electricity at 8.0percent it is to be expected that the increase in revenue will exceed the inflation target figures. However, the outcome is lower than it might be due the correction of the billing system and accurately accounting for indigent subsidies as income foregone.

* *Cash receipts as a percentage of ratepayer and other revenue*

This factor is a macro measure of the rate at which funds are ‘collected’. This measure is intended to analyse the underlying assumed collection rate for the MTREF to determine the relevance and credibility of the budget assumptions contained in the budget.

* *Debt impairment expense as a percentage of billable revenue*

This factor measures whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection of billed revenues. Considering the debt incentive scheme and the municipality’s revenue management strategy’s objective to collect outstanding debtors of 90 days, the provision is well within the accepted leading practice.

* *Capital payments percentage of capital expenditure*

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position. The municipality aims to keep this as low as possible through strict compliance with the legislative requirement that creditors be paid within 30 days.

* *Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)*

The purpose of this measurement is to determine the proportion of a municipality’s ‘own-funded’ capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance.

* *Transfers/grants revenue as a percentage of Government transfers/grants available*

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 percent could indicate that not all grants as contained in the Division of Revenue Act (DoRA) have been budgeted for. The Municipality has budgeted for all transfers.

* *Consumer debtors change (Current and Non-current)*

The purpose of these measures are to ascertain whether budgeted reductions in outstanding debtors are realistic. Here are 2 measures shown for this factor; the change in current debtors and the change in long term receivables, both from the Budgeted Financial Position. Both measures show a relatively stable trend.

* *Repairs and maintenance expenditure level*

This measure must be considered important within the context of the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected. The actual repairs and maintenance R9 341 000 of operating expenditure is 3.7% for 2016/2017.

* *Asset renewal/rehabilitation expenditure level0*

This measure has a similar objective to aforementioned objective relating to repairs and maintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project. The objective is to summarise and understand the proportion of budgets being provided for new assets and also asset sustainability. A declining or low level of renewal funding may indicate that a budget is not credible and/or sustainable and future revenue is not being protected, similar to the justification for ‘repairs and maintenance’ budgets.

**2.10 Contracts having future budgetary implications**

In terms of the Municipality’s Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the Financial Management Division of the Treasury Department.



**2.11 Capital expenditure details**

The following table present details of the Municipality’s capital expenditure programmes.

**Table SA34(a)–Capital expenditure on new assets by asset class**



**Table 34(b) Capital Infrastructure Program new & existing assets**





**The municipality’s own capital funding is appropriated as follows:**

Procurement of IT Networks R 1 000 000

Furniture & Equipment R 560 000

**Total R 1 560 000**

**Depreciation in relation to repairs and maintenance over the MTREF**

There are no planned loans for the MTREF as Capital expenditure will be funded through Government grants and internally generated funds. The downward movement over the MTREF indicates the annual repayment of the outstanding liabilities.



**Table SA17 Movement in outstanding Borrowing (Long Term Liabilities)**



**2.12 Legislation compliance status**

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

* In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality’s website.

* Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has appointed five interns as from 1 August 2015.

* Budget and Treasury Office

The Budget and Treasury Office has been established and is fully functional in accordance with the MFMA.

* Audit Committee

The Audit Committee has been established and is functional

* Service Delivery and Implementation Plan

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2016/17 MTREF in June 2015 directly aligned and informed by the 2014/15 MTREF.

* Annual Report

The 2014/15 Annual report has been compiled and tabled in terms of the MFMA and National Treasury requirements.

* Policies

All amendments to the budget related policies as outlined above on 2.5 are reviewed and tabled to Council.

**2.13. Other supporting Documents**

Policies to be attached.

**2.14. Municipal Manager’s quality certificate**

I Maputsoe David Nthau, the municipal manager of Masilonyana Local Municipality, hereby certify that the 2016/2017 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 2016/2017 Budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

**Print Name : Maputsoe David Nthau**

**Municipal Manager of Masilonyana Local Municipality (FS181)**

**Signature :\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Date :\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**