



MAKANA
MUNICIPALITY | EASTERN CAPE



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Part 1 – Annual Budget

1.1 Mayor's Report

The Mayor's Report will be included in the item to Council.

1.2 Council Resolutions

On 31 March 2015 the Makana Council will meet at the Council Chambers to consider the draft annual budget for the 2015/16 financial year. The Council will consider the following resolutions:

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

1.1 The annual budget of the municipality for the financial year 2015/16 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 22;

1.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 23;

1.1.3 Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 25; and

1.1.4 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 26

1.2 The financial position, cash flow budget, cash backed reserve / accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

1.2.1 Budgeted Financial Position;

1.2.2 Budgeted Cash Flows;

1.2.3 Cash backed reserves and accumulated surplus reconciliation;

1.2.4 Asset management; and

1.2.5 Basic service delivery measurement.

2. The Council of the Makana Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2015:

2.1 Schedule 1 - Tariffs for property rates.

2.2 Schedule 2 – Tariffs for electricity.

2.3 Schedule 3 - Tariffs for the supply of water.

2.4 Schedule 4 - Tariffs for the supply of sewer.

2.5 Schedule 5 – Tariffs for waste management services.

3 .To give proper effect to the municipality's annual budget, the Council approves:

3.1 That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates and user charges for services 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 as prescribed by Section 8 of the Municipal Budget and Reporting Regulations

4. To guide the implementation of the municipality's annual budget, the Council approves the policies as set out in the Annexures of this document.

- Annexure Budget Policy Statement (remain unchanged)
- Annexure Property Rates Policy (reviewed)
- Annexure Waste Management Services Tariff Policy (reviewed)
- Annexure Indigent Policy (reviewed)
- Annexure Credit Control & Debt Collection Policy (reviewed)
- Annexure Funding and Reserves Policy (remains unchanged)
- Annexure Borrowing Policy (remains unchanged)
- Annexure Cash Management Policy (remains unchanged)

5. **That**, in order to facilitate multi-year budgeting, departments **BE AUTHORISED** to commit projects on the 2016/17 and 2017/18 budgets, on both internal and confirmed external funding sources

6. That the Standard Charts of Accounts (SCOA) funded by Financial Management Grant (FMG) and Municipal System Improvement Grant (MSIG) and that system configuration will not proceed until further notice from National Treasury

.....
MR M. PLANGA
ACTING MUNICIPAL MANAGER

DATE:

1.3 Executive Summary

Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. This includes the compilation of the Medium-term Revenue and Expenditure Framework.

The compilation of the MTREF remains a huge challenge to balance the budget between the limited revenue resources available and the immense need to provide quality service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth to ensure financial sustainability. Council on the other hand must address the huge demand to improve the standard of service delivery and to “do more with less” funds available.

One of the key elements of the budget process is ensuring that the budget is appropriately funded. To do this, various MFMA requirements must be understood and complied with, including section 18 (Funding of expenditure), section 19 (Capital projects) and section 21 (Budget preparation process).

The Financial Recovery Plan as well as the Intervention Plan clearly articulate the challenges of Makana Municipality, such as the continued poor budgeting, where unachievable revenue and expenditure budgets have been set and not achieved, weak expenditure controls and poor management of assets has had an impact on the current financial status of the municipality.

There is a clear indication of Council's commitment to improve the level of core municipal services to the community. This is indicated in the work streams that regularly take place as recommended in the Intervention Plan. The municipality's Financial Recovery Plan further promulgated the need for maintenance plan to ensure sustainability and viability of Makana, thus more funds are allocated for maintenance and repairs and adhere to the Minister of Finance's speech of building capacity of local government through the “*back to basics*” approach.

Areas that need to be addressed include setting of cost reflective tariffs, unrealistic revenue collection levels, with general expenses and contracted services that appear to be excessive so that the municipality is able to move from the financial crisis.

The MTREF used the guidelines set by the Minister of Finance in his Medium-term Budget Policy Statement Speech as well as the guidelines in terms of Circular 74 and 75 issued by National Treasury.

The Minister of Finance, Mr Nhlanhla Nene, mentioned in his Medium Term Budget Policy Statement Speech on 22 October 2014 that the current economic growth rate of 2.0% is much lower than the estimated 2.4%. The Minister is expecting that the growth rate will increase to 3.0% by 2017. The state of the economy consequently has an adverse effect on the consumers. As a result municipalities' revenues and cash flows are expected to continue remaining under pressure. Furthermore municipalities should carefully consider affordability of tariff increases, especially as it relates to domestic consumers while considering the level of services versus the associated cost.

Accordingly, municipalities must renew their focus on core service delivery functions and reduce costs without adversely affecting basic services.

The inflation outlook as set out in Circular No 75 is set at 4.8%.

As announced by NERSA in Circular 75, the bulk purchases from Eskom will increase by 14.24%, whilst the municipality will pass on an electricity tariff increase of 12.20% to its consumers. The tariffs for the different users will vary with increases between 12.65% and 12.69%.

It is proposed that the property rate tariff be increased by 9% for 2015/16, which is still in line with the tariff increase set in the current MTREF approved by Council.

The budget is based on a water tariff increase of 8.5% which is the same as the bulk water purchases tariff. The meter readers replacements and correct placements projects implemented by ECDC/ Amatola Waters and

Department of Waters Affairs (DWA) are expected to significantly have a positive effect on the collection rate as this will mean that all consumers are accurately billed and should minimise the frequency of disputes by consumers.

Sanitation tariffs will increase by 8.5%. This is based on the cost of sewer purification rendered. Refuse removal tariff increase is set at 8.5% for all users. This is largely based on the increase of the main cost drivers of the service.

Sundry tariff increases will be limited, in most instances, to be within the CPI inflation rate.

One of the pertaining challenges affecting cost-reflective tariff is that the municipality continues to implement a tariff structure which is not updated with recent developments and growth taking place. It is of note that a clear plan exists to review the existing structure.

The financial sustainability and viability of the 2015/16 MTREF is largely dependent on the collection level of billed revenue for services delivered. A debt collection company has been appointed and a provision is made for a collection level of 85%. To achieve this collection, the municipality have implemented more robust credit control measures through reviewing of its relevant policies and by-laws and ensuring implementation thereof.

In order to improve the services rendered to our community the repair and maintenance budget has been increased by 8% in 2015/16, which is in line with CPI rate or the average tariff increases. The increase in the repair and maintenance budget has already been factored in the 2014/15 Adjustment Budget to address challenges identified. This allocation will also be used to respond to the Makana Index from the local paper.

In terms of Council's social commitment to assist the poorer communities in Makana, a provision has been made for the supply of free basic services. Council will continue with the supply of free basic water and sanitation to residents. All residents receive 6Kl water and 6Kl sanitation free per month.

Long-outstanding debt, particularly ESKOM, continues to be a challenge. It is of note that engagements with Creditors to resolve these issues continue to be discussed and provisions to be factored in the budget as it will impact on the allocation of Equitable Shares as stipulated in Circular 75.

Employee-related costs budget has been base on the personnel verification process was conducted as recommended in the Financial Recovery Plan.

The implementation of the Municipal Standard Chart of Accounts (mSCOA) is funded by the local government Financial Management Grant (FMG) and the Municipal Systems Improvement Grant (MSIG), as recommended by National Treasury. Currently no system vendor can demonstrate SCOA compliance and as such municipalities are advised by National Treasury not to proceed with any configuration until further notice.

The externally funded Capital Budget of R180, 200 million for 2015/16 is 16% more when compared to the 2014/15 Original Budget. The Capital Budget is largely driven by projects emanating from the IDP and projects identified by the community as well as incomplete projects. A backlog study was conducted and various components of backlog on infrastructure were analysed, including access backlogs, technical backlogs, and growth and renewal backlogs.

A committee has been established to evaluate a status quo of current capital projects and prioritisation and monitoring of such projects to ensure quality service delivery and responding to issues raised by the community. Furthermore, priotization of capital projects for the 15/16 MTREF is determined by the performance of current projects to ensure completion thereon.

The MTREF for the 2015/16 Multi-year budget summary is as follows:

Operating Framework:

Total Operational Revenue R427, 637 million

Total Operating Expenditure R427, 637 million

Surplus/Deficit R0

Capital Framework:

Externally-funded Capital expenditure R180, 389 million

1.4 OPERATING BUDGET FRAMEWORK

1.4.1 Operating Revenue

In these current economic times and the municipality being under administration, Revenue management is critical for economic sustainability and viability. The reality is that the budget collection rate of 85 per cent is below the acceptable level of at least 95 per cent to warrant effective administration and service delivery, however the municipality anticipates the collection rate to increase to 95 per cent by 2017/18.

We are faced with development backlogs and poverty, and consumers who are increasingly frustrated with lack of quality services.

Table 1 Summary of revenue classified by main revenue source

EC104 Makana - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue By Source	1										
Property rates	2	38 133	38 084	46 135	45 925	45 925	45 925	45 925	52 695	55 816	58 950
Property rates - penalties & collection charges		-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	97 459	106 423	95 766	144 242	144 242	144 242	144 242	168 727	178 682	188 688
Service charges - water revenue	2	39 415	34 413	39 594	50 837	50 837	50 837	50 837	54 900	58 139	61 395
Service charges - sanitation revenue	2	17 306	16 844	19 752	24 217	24 217	24 217	24 217	26 016	27 551	29 094
Service charges - refuse revenue	2	7 762	8 445	6 363	10 908	10 908	10 908	10 908	11 707	12 397	13 092
Service charges - other		84	129	90	-	-	-	-	-	-	-
Rental of facilities and equipment		1 205	1 059	789	4 323	4 323	4 323	4 323	1 181	1 283	1 355
Interest earned - external investments		3 971	9 711	10 836	100	100	100	100	500	112	118
Interest earned - outstanding debtors		9 228	1 325	385	9 500	9 500	9 500	9 500	11 393	10 614	11 208
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines		621	996	656	1 041	1 041	1 041	1 041	1 087	1 150	1 213
Licences and permits		2 099	2 411	2 597	3 372	3 372	3 372	3 372	3 448	3 642	3 838
Agency services		1 139	1 006	877	-	-	-	-	-	-	-
Transfers recognised - operational		58 871	74 354	61 794	78 153	78 043	78 043	78 043	84 920	86 032	87 870
Other revenue	2	2 583	1 717	2 063	9 391	991	991	991	11 063	11 674	12 314
Gains on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		279 877	296 915	287 696	382 010	373 500	373 500	373 500	427 637	447 091	469 134

Revenue generated from rates and services charges form a significant percentage of the revenue basket for the municipality. In the 2015/16 financial year, revenue from rates and services charges have been budgeted at R314, 045 million or 73.4 per cent of the total operating budget. This increases to R332, 585 million and R351, 218 million in the respective outer years of the MTREF. This growth can be mainly attributed to the yearly tariff increases in service charges and the anticipated increase collection rate.

Electricity is the largest revenue source, excluding grants and transfers, totalling 39.5 per cent or R168, 727 million; followed by Water and Property rates at R54, 900 million or 12.8 per cent and R52, 695 million or 12.3 per cent respectively. With water being one of the significant contributors of revenue, the priority of water projects being currently undertaken are expected to not only materially improve the municipality's service delivery but also increase our revenue as a result of improved meter reading and billing so that the municipality can successfully transition from administration.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the municipality. It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities as it does not necessarily take into account cost drivers particular to municipalities, such as cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc.

One of the ever-present challenges facing all spheres all government is managing the gap between cost drivers and tariffs levied. With this in mind, Makana municipality has undertaken to set the tariff increase relating to service charges above 8.5 per cent and rates at 9 per cent.

1.4.2 Operating Expenditure

Makana's Operating expenditure is informed by the following:

- The municipality's collection rate of 85 per cent
- Balanced budget constraint (operating expenditure should not exceed operating revenue) as the budget is budgeted at break-even.
- Cost-containment measures instructed by National Treasury
- 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.

Table 2 Summary of operating expenditure by standard classification item

EC104 Makana - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Expenditure By Type											
Employee related costs	2	111 439	113 294	124 836	135 188	135 188	135 188	135 188	122 494	129 370	138 749
Remuneration of councillors		7 704	7 782	8 337	9 313	9 313	9 313	9 313	9 721	10 295	10 871
Debt impairment	3	20 844	23 522	22 510					-	-	-
Depreciation & asset impairment	2	45 661	46 625	36 729	27 081	23 081	23 081	23 081	10 890	9 716	10 107
Finance charges		343	215	6 337	-				1 713	1 812	1 913
Bulk purchases	2	74 280	69 229	67 096	79 624	79 624	79 624	79 624	87 574	92 740	97 934
Other materials	8	-	-	-	-				-	-	-
Contracted services		2 706	4 332	6 469	6 341	6 841	6 841	6 841	4 569	4 839	5 109
Transfers and grants		21 218	17 187	22 093	41 863	41 243	41 243	-	1 640	1 737	1 835
Other expenditure	4, 5	64 055	65 723	56 871	82 601	72 112	72 112	72 112	189 036	192 674	196 385
Loss on disposal of PPE		-	148		-				-	-	-
Total Expenditure		348 251	348 057	351 279	382 010	367 401	367 401	326 159	427 637	443 183	462 903

The total operating expenditure is budgeted at R427, 637 million, equaling the Operating revenue.

Employee-related costs are budgeted for at R122, 494 million, which is 28.6 per cent of the total operating expenditure. The amount is based on the recent institutional personnel verification exercise.

The cost associated with the remuneration of councillors of R9, 721 million is budgeted in line with the latest Public Officer Bearers act latest issue.

Bulk purchases of R87, 574 million are directly informed by the purchase of electricity from Eskom and water. The Bulk purchases increase of Electricity at 14.24 per cent have been factored into the budget appropriations and directly inform the revenue provisions. It should be noted that the operating expenditure do not include distribution losses.

It is of note that the line item 'Other Expenditure' of R189, 036 million also includes operational grants expenditure which are yet to be fully located departmentally as business plans are in the final stages. The expenditures will be allocated in the final budget

1.5 CAPITAL BUDGET FRAMEWORK

1.5.1 Capital Revenue and Expenditure

Only externally funded projects have been considered in the budget. The conditional grants are gazetted in the Division of Revenue Bill (DoRA). The municipality continues to lack funds to internally fund projects, (see *attachment E*), the support of Provincial and National departments should be used to source assistance funding assistance.

The prioritisation of projects is still under way, which aims to prioritise mostly incomplete projects. These projects will be reflected in the final budget.

Table 3: 2015/16 Medium-term capital grants and transfers receipts

EC104 Makana - Supporting Table SA18 Transfers and grant receipts										
Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
RECEIPTS:	1, 2									
Capital Transfers and Grants										
National Government:		-	51 699	-	36 211	48 778	48 778	169 204	68 970	29 354
Municipal Infrastructure Grant (MIG)			30 098		23 298	35 865	35 865	22 510	23 276	24 425
Regional Bulk Infrastructure			-		10 000	10 000	10 000	15 000	41 000	-
Neighbourhood Development Partnership			21 601		893	893	893	-	-	-
			-					-	-	-
			-					-	-	-
INEP & Bucket Eradication			-		2 020	2 020	2 020	131 694	4 694	4 929
Provincial Government:		-	-	-	1 550	1 550	1 550	996	-	-
Sports and Recreation					1 550	1 550	1 550	996		
District Municipality:		-	-	-	1 409	-	-	-	-	-
Health					1 409					
Other grant providers:		-	-	-	27 535	131 624	131 624	10 000	20 000	70 000
External Funding					27 535	126 224	126 224	10 000	20 000	70 000
INNOWIND						5 400	5 400			
Total Capital Transfers and Grants	5	-	51 699	-	66 706	181 952	181 952	180 200	88 970	99 354
TOTAL RECEIPTS OF TRANSFERS & GRANTS		58 871	51 699	-	146 274	262 687	262 687	264 840	174 394	186 654

Table 4: 2015/16 Medium-term capital grants and transfers expenditure

EC104 Makana - Supporting Table SA19 Expenditure on transfers and grant programme										
Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand										
Capital expenditure of Transfers and Grants										
National Government:		-	-	-	36 211	48 778	48 778	169 204	68 970	29 354
Municipal Infrastructure Grant (MIG)		-	-	-	23 298	35 865	35 865	22 510	23 276	24 425
Regional Bulk Infrastructure		-	-	-	10 000	10 000	10 000	15 000	41 000	-
Neighbourhood Development Partnership		-	-	-	893	893	893	-	-	-
		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
INEP & Bucket Eradication		-	-	-	2 020	2 020	2 020	131 694	4 694	4 929
Provincial Government:		-	-	-	1 550	1 550	1 550	996	-	-
		-	-	-	-	-	-	-	-	-
Sports and Recreation		-	-	-	1 550	1 550	1 550	996	-	-
District Municipality:		-	-	-	1 409	-	-	-	-	-
Health		-	-	-	1 409	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
Other grant providers:		-	-	-	27 535	131 624	131 624	10 000	20 000	70 000
External Funding		-	-	-	27 535	126 224	126 224	10 000	20 000	70 000
		-	-	-	-	5 400	5 400	-	-	-
Total capital expenditure of Transfers and Grants		-	-	-	66 706	181 952	181 952	180 200	88 970	99 354
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS		-	-	-	146 274	262 687	262 687	264 840	174 394	186 654

Acting Municipal Manager Quality Certificate

I,, Acting Municipal Manager of Makana Municipality, hereby certify that the Annual Budget and supporting documentation have been prepared in accordance with the Municipal Finance Act and the regulations made under that Act, and that the annual budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.

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Mandisi Planga

ACTING MUNICIPAL OF MAKANA MUNICIPALITY (EC104)

DATE: