

SCHEDULE A

ANNUAL BUDGET AND

SUPPORTING DOCUMENTATION

OF ALFRED NZO DISTRICT

MUNICIPALITY

ANNUAL BUDGET OF
ALFRED NZO DISTRICT
MUNICIPALITY

2015/16 TO 2017/18
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

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Abbreviations and Acronyms

AMR	Automated Meter Reading	ℓ	litre
ASGISA	Accelerated and Shared Growth Initiative	LED	Local Economic Development
BPC	Budget Planning Committee	MEC	Member of the Executive Committee
CBD	Central Business District	MFMA	Municipal Financial Management Act Programme
CFO	Chief Financial Officer	MIG	Municipal Infrastructure Grant
CM	City Manager	MMC	Member of Mayoral Committee
CPI	Consumer Price Index	MPRA	Municipal Properties Rates Act
CRRF	Capital Replacement Reserve Fund	MSA	Municipal Systems Act
DBSA	Development Bank of South Africa	MTEF	Medium-term Expenditure Framework
DoRA	Division of Revenue Act	MTREF	Medium-term Revenue and Expenditure Framework
DWA	Department of Water Affairs	NERSA	National Electricity Regulator South Africa
EE	Employment Equity	NGO	Non-Governmental organisations
EEDSM	Energy Efficiency Demand Side Management	NKPIs	National Key Performance Indicators
EM	Executive Mayor	OHS	Occupational Health and Safety
FBS	Free basic services	OP	Operational Plan
GAMAP	Generally Accepted Municipal Accounting Practice	PBO	Public Benefit Organisations
GDP	Gross domestic product	PHC	Provincial Health Care
GDS	Gauteng Growth and Development Strategy	PMS	Performance Management System
GFS	Government Financial Statistics	PPE	Property Plant and Equipment
GRAP	General Recognised Accounting Practice	PPP	Public Private Partnership
HR	Human Resources	PTIS	Public Transport Infrastructure System
HSRC	Human Science Research Council	RG	Restructuring Grant
IDP	Integrated Development Strategy	RSC	Regional Services Council
IT	Information Technology	SALGA	South African Local Government Association
kl	kilolitre	SAPS	South African Police Service
km	kilometre	SDBIP	Service Delivery Budget Implementation Plan
KPA	Key Performance Area	SMME	Small Micro and Medium Enterprises
KPI	Key Performance Indicator		
kWh	kilowatt		

Part 1 – Annual Budget

2 Mayor's Report

EXECUTIVE MAYOR, CLLR. E.N. DIKO'S POLICY SPEECH DURING TABLING OF THE DRAFT 2015/16 IDP/BUDGET OF THE ALFRED NZO DISTRICT MUNICIPALITY TO THE SITTING OF ORDINARY COUNCIL MEETING AT ALFRED NZO COUNCIL CHAMBERS ON THE 31^s MARCH 2015

Honourable Speaker of the Council

Chief Whip of the Council

Deputy Executive Mayor

Members of the Mayoral Committee

Councillors

linkosi zomthonyama

Acting Municipal Manager

Senior Managers

Board Members and Acting CEO of ANDA

Officials

Distinguished guests in the gallery

Members of the media present

Friends and Comrades

Mr Speaker and the Council, President Jacob Zuma has officially announced 2015, as the Year of the Freedom Charter and Unity in Action to Advance Economic Freedom and a year of going the extra mile in building a united, democratic, non-racial, non-sexist and prosperous South Africa.

Significant strides have been made to respond to the issues stated in the Freedom Charter but more is still to be done to realise the content of the people's document that was crafted in Kliptown, Soweto in 1955.

The Freedom Charter is where South African from all walks of life declared amongst other things, that South Africa belongs to all who live in it, black and white, and that no government can justly claim authority unless it is based on the will of all the people.

In our quest to realise the objectives of the Freedom Charter, Honourable Speaker and Councillors, sihlangana apha emva kwe Ntetho yoBume beSizwe (State of the Nation Address) SONA, which was delivered by President Jacob Zuma on the 12 February 2015, as well as the address by Premier Phumulo Masualle in his State of the Province Address (SOPA) on the 20th February 2015.

Honourable Councillors and Traditional Leaders, President Zuma and Premier Masualle outlined a clear programme of action, which will be instrumental in driving the developmental agenda of our country and the province in our quest to move South Africa forward.

The year 2015 is one of the milestone years in South Africa's history, as on the 27 April 2015, we will be reaching 21 years of people's government since the dawn of democratic dispensation in 1994.

Let me take this opportunity as we close the month of March which is also known as the Human Rights month and also tomorrow we are stepping into the freedom month which is April and I invite members of this Council to participate in a series of activities that are scheduled to celebrate the Freedom month.

The month of April should be a time for us as the people to reflect on the progress that has been made since 1994 and as we forge ahead in our resolve to address many social ills, many of our people are still trapped in poverty, with income disparities still remaining high, unemployment is still high and many more people still lack basic necessities.

Honourable members of this august house, we have made significant progress in the district towards provision of water and sanitation, but more is still to be done, as many of our communities are still in need of these essential life changing services.

The host of these above mentioned urgent socio-economic issues in our district and the broader society requires that in certain respects, the composition of our expenditure and strategies need to be urgently and drastically restructured to effect greater changes in our developmental agenda and bring changes to the living conditions of our people.

As part of the Freedom Month activities, the Imbizo Focus Week will also be in full swing on the 07-12 April and this platform will further accelerate direct interaction between communities and government and in the process provides an opportunity for immediate solutions to be found in many of challenges that are faced by our people.

We will be officially handing over a multi-million rand project to the community of Ward 12 in Umzimvubu Local Municipality and we will be joined by the Deputy Minister of Communication, Stella Ndabeni-Abrahams at Siqhingeni village and also conducting door to door campaign in other communities.

In Mbizana on the 10th of April the Minister of Social Development, Bathabile Dlamini will be visiting various communities.

Fellow councillors and communities, Freedom month is an opportunity to celebrate our democratic values, system of governance and also acknowledge significant progress that as the government of the ANC and our people we have done over two decades in government.

Honourable members of the Council and fellow community members as government steps into the third decade of people's government will continue to push ahead with the implementation of the National Development Plan (NDP), which is the country's roadmap to promote inclusive economic growth, job creation and social transformation.

As this Council, we are expected to continue to implement policies and programmes that will further improve the quality of life of our people, more especially the poor and in the period we will see the acceleration of delivering Water, Sanitation and driving Local Economic Development.

Honourable members, this is the time for all of us to unite regardless of political affiliations, race or religious beliefs and work together to move our district and the country forward.

Honourable Chief Whip and the Whippery, the draft municipal programme of action that we are presenting today to this Council has taken into consideration a number of issues raised by communities.

The 2015/16 programme of action has been produced after a series of engagement with communities and stakeholders reflecting on the performance in terms of service delivery and challenges that are encountered by many of our communities and this will in turn assist the current and the new upcoming Council in formulating concrete strategies in ensuring improved approaches to address socio-economic ills in our quest to move the Alfred Nzo district forward.

Members of the Council, let's be mindful of the fact that we need to go to all our communities as part of our public interactions with various sectors of our society to solicit partnership towards the adoption and implementation of this programme of action.

Honourable Councillors, we need to work together to speed up the implementation of this programme of action to address backlogs on water, sanitation and also improve our

economic development initiatives to fight widespread poverty, income disparities and unemployment which remains high in the district.

We have tasked the Local Economic Development Unit and the Alfred Nzo Development Agency to move with speed in the implementation of life changing programmes to address triple social ills of inequalities, poverty and unemployment in the district.

Honourable Chief Whip and the Whippery, undoing the damage of the evil apartheid system in a short space of time was never going to be easy, however government continues to deliver faster and smarter.

Mr Speaker, it is with great pleasure for me to address this important sitting of the Council to table the Draft Integrated Development Plan (IDP) and Budget for the 2015/16 financial year of the adopted ANDM IDP 5 Year Strategic document 2012-17, to respond to our people's needs and the development of our district and these documents are tabled to this Council for noting as we will be going on the last round of IDP/Budget outreaches soon.

Honourable Councillors, as the executive we are pleased with audit outcome and the progress that has been made so far and we are appreciating the support that we have received from the Council and its structures, without this support we would have not achieved these outcomes.

More is still to be done to achieve better outcomes and as we intensify this process, let me also call upon all relevant structures of the Council to play their oversight role in this regard and indeed working together we can achieve better audit outcomes.

Honourable Councillors, significant progress has been made with respect to the implementation of district priorities that are primarily focused on the powers and functions of the municipality.

Alfred Nzo District Municipality is both a Water Service Authority and Water Services Provider; hence the key priority is to provide these essential services to every household.

Honourable Members, let me indicate that MEC for Finance in the Eastern Cape, Honourable Sakhumzi Somyo in his budget speech said given the narrowing fiscal envelope and the continued increasing demand for service delivery, it is imperative that fiscal sustainability is achieved.

He further said the province will ensure that funds are allocated efficiently to where they are most needed by pursuing reprioritization, program reviews, and budget reviews.

All government institutions are expected to review programmes through four lenses – relevance, effectiveness, efficiency and sustainability.

The objective of this undertaking is to ensure that sustained funding goes to initiatives that work and have maximum impact for development and our people.

With regards to the implementation of austerity measures the MEC indicated that drastic measures need to be rolled out in the Province such as the curbing of excessive expenditure on Travel and Subsistence, Consultants, Venues, Catering, Government Fleet, Cellphones and these pronouncements are in line with the resolutions of the Council Strategic Planning session recently held in Wild Coast Sun.

The MEC further reiterated that given the constrained fiscas it has become incumbent on every one in government to find innovative ways of increasing their own revenue. The increasing of own revenue creates an opportunity for new revenue streams that can be put towards improving public infrastructure and growing the economy. As the executive we are currently rolling a massive revenue enhancement strategy that will see many of our communities paying for the services we provide to them.

In the 2015/16 financial year our plans and strategies are in place, and now our efforts and resources are focussed on accelerating implementation and service provision.

The total operating revenue (R1.213 billion) has decreased by R35.9 million for the 2015/16 financial year when compared to the 2014/15 Adjustments Budget (R1.249 billion).

The budget also indicates that the district municipality is highly dependent on grants R641 million, and R365 million for equitable share.

Meanwhile our own revenue only contributes R73 million to total revenue which has grown significantly compared to previous years which is estimated to grow even further as we implement the Revenue Enhancement Strategy as adopted by the Council.

Meanwhile, over the years, the district municipality has been able to maintain a sufficient reserve base and the current year budget has appropriated R55,2 million to assist in financing both operational and capital expenditure.

Mr. Speaker and Councillors, it must however be made clear that such cash reserves will overtime be finished and to be cautious, we need to continue leaving within our means and do away with nice to have's, as outlined in the Budget Policy Speech as presented by the Minister of Finance in Parliament in February 2015 and also take into cognisance the Back To Basics Principles.

Honourable Councillors, South Africa faces similar challenges with regard to water supply, as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure the following:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition, National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2016.

Honourable Councillors, a tariff increase of 6 per cent from 01 July 2015 for water is recommended and this is based mainly on the Consumer Price Index (CPI) inflation rate as projected by the National Treasury.

Furthermore, a tariff increase of 6 per cent for sanitation from 01 July 2015 is also recommended and this is based on the input cost assumptions related to water. The proposed tariff increases remain the same as those proposed in the current year.

In addition once credible systems are put in place, it is expected that 6 kℓ water per 30-day period will again be granted free of charge to all qualifying residents.

The district municipality is currently performing a tariff modelling exercise that is likely to realistically provide details, as to whether our current tariffs are cost-reflective as required by the national treasury.

Mr. Speaker there has been an increase in our budget as we have received R6 million for Energy Efficiency and Demand Side Management Grant, which is aimed to provide subsidies to municipalities to implement Energy Efficiency and Demand Side Management initiatives within municipal infrastructure, in order to reduce electricity consumption and improve energy efficiency.

Meanwhile, the budgeted allocation for employee related costs for the 2015/16 financial year totals R189 million, which equals 37.8% of the total operating expenditure. This percentage should immediately ring cause concern to this Council as an acceptable major of personnel costs to operating costs ranges between 25-40%.

More pleasing, Honorable Councillors, water and sanitation projects have received the highest allocation of R693 million in 2015/16.

Included in the budget provision is an amount of R15 million (2015/16), respectively in lieu of the Alfred Nzo Development Agency (ANDA).

It must however be emphasized that continued reliance by the entity on the district municipality's budget to finance their operations is not sustainable. These entities should position themselves in such a way that they undertake projects/programs that will ensure self-sustainability in the long-run.

Majority of our people in the district are unemployed, indigent and mostly dependent on state social intervention, this has a negative bearing on our revenue collection and this also prevents them from playing a meaningful role in driving the economy of the district.

It is imperative then, as the district working together with various spheres of government to put in place various economic development initiatives to ignite local economic activities in the region.

Honourable Councillors, to respond to ageing infrastructure demands and maintenance, the budget for repairs and maintenance of the water and sanitation infrastructure has been provided at R60.2 million (increased by R19 million from 2014/2015) with the main aim to provide sustainable water and sanitation services to our communities.

Many of our people are still unemployed in response we are bringing to this Council a draft policy for adoption that will see a massive rollout of a localised version of a district wide job creation initiative programme called Keya Kenella Initiative.

The policy is intended to see a drastic realignment of line function budgets (capital and operational) so that expenditure by the municipality results in an increased employment opportunities and training, particularly for unemployed and unskilled labour.

The objective of the policy is to guide the cross cutting implementation approach within the municipality

As the municipality we must have coalface agents to arrest service delivery shortfalls in all ANDM service delivery projects

In the process we will create employment opportunities for the unemployed within local communities through the implementation of ward cluster approach in each local municipality

More importantly we will provide an approach on facilitation of transfer of skills to designated groups working with strategic stakeholders and partners.

The implementation of Expanded Public Works Programme (EPWP) for the year 2015/2016 is budgeted for as per the DORA allocation of R4.8 million.

Mr Speaker, it is with great pleasure for me to address this Council, communities and various stakeholders on the sitting of the important meeting of tabling of the Draft Integrated Development Plan and Budget for 2015/16 financial year of the adopted ANDM IDP 5 Year Strategic document 2012-17, as guided by Chapter 5 Section 25 of the Municipal Systems Act, 2000, as amended.

As mandated by the said legislation through Section 27 of the same Act, the municipality in consultation with all local municipalities drafted and adopted IDP Framework Plan that has guided the process of developing IDPs.

In conclusion Mr. Speaker and the Council, I therefore recommend that:

The Council notes the draft budget in line with section 24 of the Municipal Finance Management Act, (Act 56 of 2003) as presented to the Council.

That the attached draft IDP, Budget and budget related policies in respect of the 2015/2016 be noted as follows:

Total Operating Income	R 1 213 833 144
Total Operating Expenditure	<u>R 1 213 833 081</u>
Surplus	R (63)

- Furthermore, the Council, acting in terms of section 75(a) of the Local Government: Municipal Systems Act (Act 32 of 2000 as amended) adopts with effect from 01 July 2015 the draft tariffs for the supply of water, the draft tariffs for sanitation services and all other tariffs as entailed in the tariff policy

I further recommend to the Council to note the Draft Budget for the Alfred Nzo Development Agency for the 2015/16 financial year.

A clarion call has been made by central government for all organs of the state to prioritise job creation in response to the pronouncement; I therefore recommend that the Council adopts the Keya Kenelella Job Creation policy as attached on the addendum.

In our attempt to strengthen governance of the institution, I recommend that the following candidates for Audit Committee be approved by Council:

1. Mr. Anil Ramnath (Qualification: CA),
2. Mr. Velenkosi Mtshali (Qualification: CA),
3. Mr. Thandwefika Watkinson Mgidlana (Qualification: Admitted as an Attorney)

The Term of Office of Audit Committee members will be period of three years from the date of appointment. The Audit Committee will be remunerated a sitting allowance at the rate adopted by the Council or adopted S&T policy will be applied accordingly.

Mr. Speaker, the role of the Alfred Nzo Development Agency is paramount to our developmental agenda, it in this regard Honourable Councillors, that I recommend the appointment of Alfred Nzo Development Agency non –executive board members as follows:

1. Mr. S. Diko
2. Mr. T. Diko
3. Ms. N.I. Mabude
4. Mr. M. Mthimkulu
5. Ms. K.L. Sangoni

Honourable Chairperson of the Council, on the 26 March 2015 once again our district was unfortunately affected by heavy rains and thunderstorms which left many people injured, homes and infrastructure damaged in Mbizana & Ntabankulu Local Municipalities.

In the incident more than 106 households were left homeless, 87 homes were partially damaged and 12 people were injured in the process.

- I therefore, recommend to the Council to declare local state of disaster regarding the incidents occurred in Mbizana and Ntabankulu Local Municipalities.

Honourable Chairperson of the Council and Councillors, in order to improve the performance in the Office of the Executive Mayor, it is essential to note that the Executive Mayor is delegating the following functions to the Deputy Executive Mayor

Delegated Powers by the Executive Mayor;

- In terms of Section 56(6) of the Municipal Structures Act 117 of 1998, the Deputy Executive Mayor of the Municipality exercises the powers and performs the duties of the Executive Mayor in the absence or if the Executive Mayor position is vacant
- Assume responsibilities of all statutory powers delegated to the Executive Mayor in terms of the Council Delegation of Framework of ANDM in the absence of the Executive Mayor
- Deputies the Executive Mayor at all times
- Assume the Role of the Chairperson of the Mayoral Committee whenever the Executive Mayor is not available
- Chairperson of the joint standing Committees
- Political Champion heading the Municipal Entity (Alfred Nzo District Municipality).

As the district municipality working with our strategic partners we will not be deterred in our vision to bring positive changes to our communities and working together we are indeed moving the district forward.

I thank you

2.1 Budget Resolutions

On 30 March 2015 the sitting of the Joint Standing Committees of Alfred Nzo District Municipality met in the Council Chambers to consider the annual budget and draft Integrated Development Plan of the municipality for the financial year 2015/16. The Council sitting of 31 March 2015 further took the following resolutions:

1. In line with section 24 of the Municipal Finance Management Act, (Act 56 of 2003) the committee recommends approval and adoption:
 - 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);
 - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote);
 - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
 - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding
 - 1.1.5. Budget Related Policies
2. The Council meeting, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000 as amended) further recommended noting of the following:
 - 2.1. the tariffs for the supply of water
 - 2.2. the tariffs for sanitation services

2.2 Executive Summary

The application of sound financial management principles for the implementation of the District Municipality's budget is essential and critical to ensure that the district municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The district municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programs so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. This has resulted in partial savings to the district municipality. Key areas where savings were realized were on telephone and internet usage, printing, workshops, traveling and accommodation, and catering.

It is planned that in order to realize the revenue provisions as outlined in the budget, the district municipality needs to embark on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the district municipality needs to undertake various customer care initiatives to ensure that the district municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular's No. 51, 54, 58, 59, 66, 67, 70,72, 74 & 75 were used to guide the compilation of the 2015/16 MTREF.

The main challenges experienced during the compilation of the 2015/16 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy resulting in a weakened global economic outlook and a pattern of slow growth;
- Downward revision of South Africa's gross domestic product (GDP) forecast for 2015;
- Inadequate electricity supply;
- Aging and poorly maintained water and sanitation infrastructure;
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water (due to tariff increase by the Department of Water Affairs), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects; and
- Continued budget provisions being made for unfunded/partially funded mandates (Municipal Health Services).

The following budget principles and guidelines directly informed the compilation of the 2015/16 MTREF:

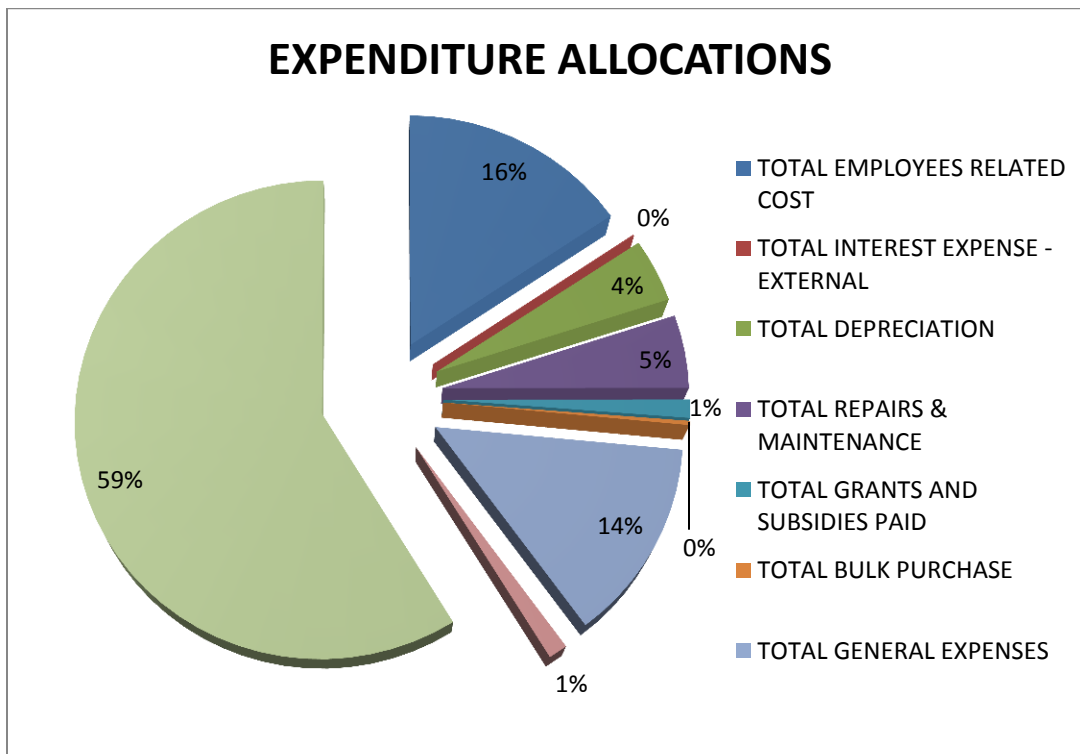
- The 2014/15 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were used as the upper limits for the new baselines for the 2015/16 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff 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 water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial unfunded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- Going back to basics and reduction of expenditure on nice to have's.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/16 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2015/16 MTREF

		Medium Term Revenue & Expenditure Framework (MTREF)		
	2014/2015	BUDGET YR. 1 2015/2016	BUDGET YR. 2 2016/2017	BUDGET YR. 3 2017/2018
	ADJUSTMENTS BUDGET	ANNUAL BUDGET	ANNUAL BUDGET	ANNUAL BUDGET
Total Revenue	1 249 782 944	1 213 833 144	1 281 259 277	1 340 329 810
Total Operating Expenditure	(490 151 015)	(500 432 048)	(530 402 659)	(557 866 608)
Surplus/Deficit for the Year	759 631 929	713 401 096	750 856 617	782 463 202
Total Capital Expenditure	(759 631 236)	(713 401 033)	(750 856 298)	(782 462 842)
NET SURPLUS/(DEFICIT)	694	63	319	360

REVENUE SOURCES 2015 - 2016		
<i>INTERNAL FUNDS</i>	73 215 114	6%
<i>GRANTS -NT / PT</i>	641 585 000	53%
<i>EQUITABLE SHARE</i>	365 517 000	30%
<i>EXTERNAL LOAN</i>	78 222 000	6%
<i>OPERATING RESERVES</i>	55 294 030	5%
Total expenditure	1 213 833 144	



Total Revenue (R1.213 billion) has decreased by 3 per cent or R36 million for the 2015/16 financial year when compared to the 2014/15 Adjustments Budget (R1.249 billion). For the two outer years, total revenue will increase by R68 million and R59 million to R1.281 and R1.340 billion respectively, equating to a total revenue of R3.8 billion over the MTREF.

Total operating expenditure for the 2015/16 financial year has been appropriated at R500 million and translates into a percentage increase of 2 per cent from 2014/15 adjusted budget. Operating expenditure continues to increase in the outer years by R30 million and R27 million respectively (2016/17 – R530 million and 2017/18 – R557 million). A slight operating surplus of R63, R319 and R360 rands has been budgeted for over the MTREF.

It must also be emphasized that due to increased pressures from key departments and a spiraling growth in personnel costs coupled with necessary provisions to be made in lieu of depreciation and repairs and maintenance, year on year growth in the district municipalities budget over the MTREF is less than 5%.

The capital budget of R713 million for 2015/16 has decreased by 6% from the 2014/15 Adjustment Budget. This decrease is mainly attributable to an anticipated reduction in funds to be received from the DBSA for the MIG frontloaded projects. Also, due to depleting reserves base that has been pre-dominantly utilized in the previous financial years to finance capital expenditure, provision made from internal reserves has drastically been reduced by a whopping R69 million to R55 million (R124 million in 2014/15). However, continuing to finance such capital expenditure from reserves will not be sustainable in the long-run as such reserves will eventually become depleted.

The capital program increases to R750 million in the 2016/17 financial year and then to R782 million during 2017/18. Also, a portion of the capital budget will be funded from borrowing during 2015/16 with anticipated borrowings of R78.2 million coming from the MIG front loading.

2.3 Operating Revenue Framework

For the district municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

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

- National Treasury's guidelines and macroeconomic policy;
- Growth in the district municipality and continued economic development;
- Efficient revenue management, which aims to ensure approximately 60% per cent of annual collection rate for key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to trading services (water and sanitation);
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- Increase ability to extend new services and recover costs;

- Continued installation of water meters to all consumers so as to recover the related costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the district municipality.

The following table is a summary of the 2015/16 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

REVENUE - BUDGET AND REPORTING				
REVENUE - BUDGET AND TREASURY	CURRENT YEAR	BUDGET YR.1	BUDGET YR.2	BUDGET YR.3
	2014 - 2015	2015/16 Medium Term Revenue & Expenditure Framework		
	FULL YEAR FORECAST	Proposed Budget 2015/16	Budget Year +1 2016/17	Budget Year +1 2017/18
INTEREST ON INVESTMENTS	(21 995 132)	(25 000 000)	(26 475 000)	(28 301 000)
INTEREST RECEIVED AREAR DEBTORS	-	(12 000 000)	(7 924 000)	(6 052 300)
TOTAL INTEREST RECEIVED	(21 995 132)	(37 000 000)	(34 399 000)	(34 353 300)
EQUITABLE SHARES	(344 812 000)	(365 517 000)	(387 616 000)	(410 995 000)
FMG GRANT	(1 250 000)	(1 325 000)	(1 460 000)	(1 795 000)
FIRE & EMERGENCY	(7 428)	(8 000)	(8 472)	(8 946)
RURAL HOUSING DEVELOPMENT	(1 302 345)	-		
MSIG	(934 000)	(930 000)	(960 000)	(1 033 000)
EPWP	(8 323 000)	(4 853 000)	-	-
WATER SERVICE OPER SUB GRANT	(5 000 000)	(10 000 000)	(7 500 000)	(10 000 000)
MIG	(357 363 000)	(366 609 000)	(382 214 000)	(405 604 000)
REGIONAL BULK INFRASTRUCTURE	(110 000 000)	(143 189 000)	(265 000 000)	(247 346 000)
TRANSPORT	(2 104 000)	(2 100 000)	(2 157 000)	(2 299 000)
WSOG	(300 000)	(10 000 000)	-	
MUNICIPAL HEALTH	(1 500 000)	(2 500 000)	-	-
ISDG	(3 000 000)	(3 000 000)	(3 000 000)	(4 000 000)
M.W.I.G	(54 857 000)	(91 071 000)	(90 219 000)	(167 241 000)
RURAL HOUSING INFRASTR GRANT	(8 500 000)	-		-
ENERGY EFFIC & DEMAND SIDE MAN	(4 000 000)	(6 000 000)	(6 000 000)	
VUNA AWARDS	(165 000)	-	-	
	(903 417 772)	(1 007 102 000)	(1 146 134 472)	(1 250 321 946)
DBSA LOAN	(221 082 518)	(78 222 000)		
	(221 082 518)	(78 222 000)	-	-
RESERVES	(101 630 000)	(55 294 030)	(62 373 999)	(8 213 434)
	(101 630 000)	(55 294 030)	(62 373 999)	(8 213 434)
CONFERENCE CENTRE & BOARDROOM	(6 167)	(9 000)	(9 531)	(10 065)
LG SETA - Refunds	(134 805)	(140 000)	(148 260)	(156 563)
SANITATION	(2 242 313)	(3 200 000)	(3 388 800)	(3 578 573)
WATER CONSUMERS	(33 740 868)	(30 000 000)	(31 770 000)	(40 510 743)
WATER CONNECTION FEE	(87 152)	(100 000)	(105 900)	(111 830)
PREPAID WATER	(506 394)	(600 000)	(635 400)	(650 982)
SEPTIC TANK	(247 442)	(250 000)	(264 750)	(279 576)
SUNDRY INCOME	(28 064)	(25 000)	(26 475)	(27 958)
SANITATION CONNECTION	-	(9 000)	(9 531)	(10 065)
RENTAL - FNB	(321 477)	(329 420)	(348 856)	(368 392)
TENDER DEPOSITS	(934 784)	(1 500 000)	(1 588 500)	(1 677 456)
COMMISSION RECEIVED -GARNISHEES	(27 890)	(30 000)	(31 770)	(33 549)
REFUND RECIEVED	(5 486)	(3 000)	(3 177)	(3 355)
PUBLIC TOILETS	-	(4 000)	(4 236)	(4 473)
GOVERNMENT COMMS AND INFO SYST	-	(15 694)	(16 620)	(17 551)
TOTAL INTERNAL REVENUE	(38 291 840)	(36 215 114)	(38 351 806)	(47 441 129)
TOTAL REVENUE	(1 286 417 262)	(1 213 833 144)	(1 281 259 277)	(1 340 329 810)

Only revenue generated from water and sanitation service charges forms a significant percentage of own generated revenue. Such revenue totals R34.1 million (2015/16), R36.1 million (2016/17) and R45.1million (2017/18) over the MTREF. Currently, the district municipality is performing a water meter audit exercise from source to tap for all consumers. This project is expected to be completed by June 2015. Linked to this project is a data cleansing project. Once the meter audit is completed, all faulty meters will either be fixed or replaced as well as installation of new water meters for all consumers who do not have functioning water meters.

As depicted in the table above, both the current year and the outer years budgets are financed from reserves (R55.2 million, R62.3 million and R8.2 million respectively over the MTREF). Likewise with all other rural district municipalities, our District municipality significantly relies on grants to finance both its operations and capital expenditure without which it could cease to exist.

It is also anticipated that over the MTREF, the district municipality will continue to realize interest on both investments and debts totaling to R37 million, R34.3 million and R34.3 million respectively.

Included in programs budgeted for that continue to be unfunded mandates is Municipal Health Services. The agreement signed between the district municipality and the relevant department is silent on the actual amount to be received for the 2015/16 financial year. Until the district municipality realizes the portion of grant to finance expenditure that goes with this function, continuing to finance it internally will remain an unfunded mandate. As a result of this anomaly and as required by the Municipal Budget and Reporting Regulations, the 2015/16 budget has not accounted for any grant to be received in lieu of this function as it has not been gazetted in the Provincial Gazette.

Operating grants and transfers totals R20.1 million in the 2015/16 financial year and decreases to R12.9 million in 2016/17 and steadily increases again to R16.8 million in 2017/18. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts

	Medium Term Revenue & Expenditure (MTREF)			
		BUDGET YR. 1	BUDGET YR. 2	BUDGET YR. 3
	2014/2015	2015/2016	2016/2017	2017/2018
	ADJUSTMENT BUDGET	ADJUSTMENT BUDGET	ADJUSTMENT BUDGET	ADJUSTMENT BUDGET
FMG GRANT	(1 250 000)	(1 325 000)	(1 460 000)	(1 795 000)
MSIG	(934 000)	(930 000)	(960 000)	(1 033 000)
EPWP	(8 323 000)	(4 853 000)	(0)	(0)
Water Services Operating Subsidy Grant	(5 000 000)	(10 000 000)	(7 500 000)	(10000 000)
ISDG	(3 000 000)	(3 000 000)	(3 000 000)	(4000 000)
TOTAL OPERATING GRANTS	(18 507 000)	(20 108 000)	(12 920 000)	(16 828 000)

2.3.1 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition, National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective. As a district municipality, plans are that once the water meter audit exercise is completed as well as installation of water meters, a tariff determination exercise will be performed for full implementation during the 2016/17 financial year.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of 6 per cent from 1 July 2015 for water is proposed. This is based primarily on the CPI inflation rate as projected by the National Treasury. In addition once credible systems are put in place it is expected that 6 kℓ water per 30-day period will again be granted free of charge to all qualifying residents.

2.3.2 Sanitation and Impact of Tariff Increases

A tariff increase of 6 per cent for sanitation from 1 July 2015 is also proposed. This is based on the input cost assumptions related to water. The proposed tariff increases remain the same as those proposed in the current year. Due to prevailing economic conditions, increasing these beyond the current inflation rate would impact negatively on consumers ability to service their debts.

2.4 Operating Expenditure Framework

The District Municipality's expenditure framework for the 2015/16 budget and MTREF is informed by the following:

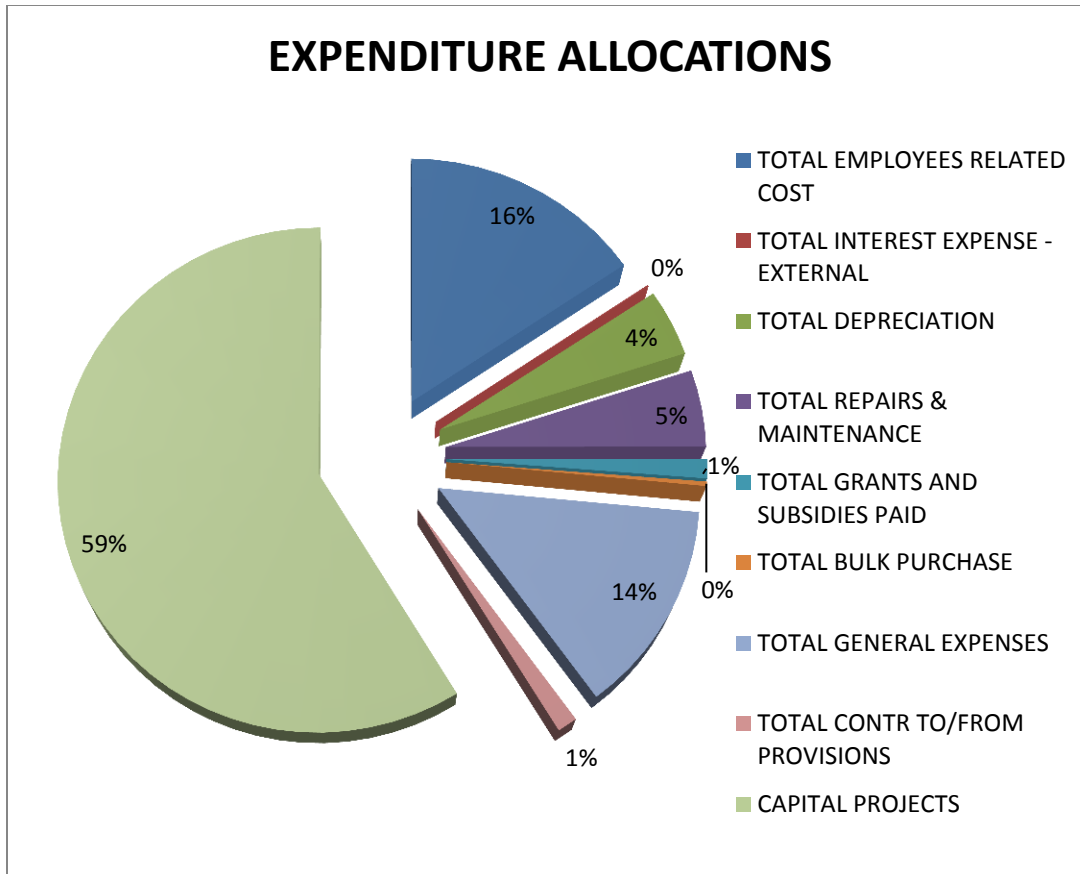
- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;

- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Ensuring that the district municipality implements the back to basics exercise so as to reduce non-priority spending.

The following table is a high level summary of the 2015/16 budget and MTREF (classified per main type of operating expenditure):

Table 4 Summary of operating expenditure by expenditure type

ALFRED NZO DISTRICT MUNICIPALITY PROPOSED DRAFT ANNUAL BUDGET 2015 - 2016 MTREF SUMMARY - ALL DEPARTMENTS				
Budget 2015- 2016	BUDGET YR. 1	BUDGET YR.1	BUDGET YR.2	BUDGET YR.3
	2014/2015	2015/16 Medium Term Revenue & Expenditure Framework		
	MID-TERM ADJUSTED BUDGET	Proposed Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
DESCRIPTIONS	R	R	R	R
OPERATING EXPENDITURE				
TOTAL EMPLOYEES RELATED COST	168 116 616	189 489 344	200 268 496	212 267 257
TOTAL INTEREST EXPENSE - EXTERNAL	1 725 654	1 140 000	1 100 000	1 161 600
TOTAL DEPRECIATION	50 000 000	52 500 000	55 597 500	58 710 960
TOTAL REPAIRS & MAINTENANCE	41 192 938	60 200 000	63 751 800	67 321 901
TOTAL GRANTS AND SUBSIDIES PAID	15 000 000	15 000 000	15 885 000	16 774 560
TOTAL BULK PURCHASE	3 500 000	3 500 000	3 706 500	3 914 064
TOTAL LOSS ON DISPOSAL OF PPE	-	-	-	-
TOTAL GENERAL EXPENSES	195 615 807	163 602 704	174 208 364	180 941 706
TOTAL CONTR TO/FROM PROVISIONS	15 000 000	15 000 000	15 885 000	16 774 560
TOTAL OPERATING EXPENDITURE	490 151 015	500 432 048	530 402 659	557 866 608



The budgeted allocation for employee related costs for the 2015/16 financial year totals R189.4 million, which equals 38 per cent of the total operating expenditure. Based on the press release issued by the South African Local Government Association (SALGA) on 03 March 2015, salary increases have been factored into this budget at a percentage increase of 4.4 per cent for the 2015/16 financial year. An annual increase of 6.2 per cent has been included in the two outer years of the MTREF (CPI plus 0.25%). As part of the District Municipalities cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the district municipality’s budget and a provision of 6 per cent has accordingly been made to cushion such costs.

A significant provision has been made in lieu of depreciation expense (R52.5 million – 2015/16, R55.5 million – 2016/17 and R58.7 million – 2017/18 respectively). This is in line with the continued capital infrastructure program being implemented by the district municipality on an annual basis. Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. It must also be noted that the implementation of GRAP 17 accounting standard has meant bringing a range of assets

previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

The district municipality has made a provision of R60.2 million in the 2015/16 budget for repairs and maintenance. Whilst this is not in line with the National Treasury's requirement of 8% provision to be made from the Total Property, Plant and Equipment (PPE) in line with MFMA circular number 55, considering the current budgetary constraints, the district municipality can only stretch itself this far in order to make the necessary provision due to budgetary constraints. This is however a significant increase (46 per cent) from the provision made in the current year adjusted budget (R41.1 million).

As part of the review of the local government infrastructure grant framework, National Treasury has announced in the 2015 Division of Revenue Bill that the rules in the municipal infrastructure grant (MIG) framework will be amended to allow funds to be used to refurbish and replace infrastructure in the future. This will assist municipalities in the long-run as they do not have sufficient funding to make such provisions from their own budgets.

Included in the budget provision is an amount of R15 million (2015/16), R15.8 million (2016/17) and R16.7 million (2017/18) respectively in lieu of the Alfred Nzo Development Agency and Emfundisweni Skills Resource Centre. It must however be emphasized that continued reliance by these entities on the district municipality's budget to finance their operations is not sustainable. This entity should position itself in such a way that it undertakes projects/programs that will ensure self-sustainability in the long-run.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital).

Bulk purchases are directly informed by the purchase of water from the Department of Water Affairs (DWA). The total provision made in lieu of bulk water purchases during 2015/16 is R3.5 million.

2.5 Capital expenditure

Table 5 Summary of Capital Expenditure Municipal Vote

CAPITAL BUDGET PER DEPARTMENT	
	2015/16
EXECUTIVE AND COUNCIL	
MUNICIPAL MANAGER'S OFFICE	1 000 000
PLANNING & DEVELOP	750 000
BUDGET & TREASURY OFFICE	2 560 000
COMMUNITY DEVELOP. SERVICES	9 100 000
CORPORATE SERVICES	6 050 000
TECHNICAL SERVICES	693 941 033
TOTAL CAPEX PER DEP	713 401 033

For 2015/16 a total budget of R713 million has been appropriated for the development of infrastructure which equates to a 6 per cent decrease from the current years adjusted budget of R759 million. In the outer years this amount totals R750 million and R782 million respectively. Water and sanitation projects receive the highest allocation of R693 million.

Included in the R713 million capital expenditure is an amount of R78.2 million brought into the budget in line with the MIG/DBSA front-loading arrangements and also a total of R367 million has been provided for in lieu of the MIG allocations. Capital projects relating to Regional Bulk Infrastructure total to R143 million.

Whilst it makes sense to finance projects internally, consideration should be made to the extent of internal funds available to finance such projects.

Departmental capital expenditure in the form of Furniture & Fittings, Computers, Motor Vehicles, etc totals to 19.4 million during the 2015/16 financial year.

2.6 Municipal manager’s quality certificate

I, municipal manager of Alfred Nzo District Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name _____

Municipal manager of Alfred Nzo District Municipality (DC14)

Signature _____

Date _____