

# **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 FINAL 2015/16 IDP/BUDGET OF THE ALFRED NZO DISTRICT MUNICIPALITY TO THE SITTING OF ORDINARY COUNCIL MEETING TO BE HELD AT THE ALFRED NZO COUNCIL CHAMBERS ON THE 28 MAY 2015 AT 10H00

Honourable Speaker of the Council  
Chief Whip of the Council  
Deputy Executive Mayor  
Members of the Mayoral Committee  
MPAC Chairperson and Members  
The Whippers  
Councillors  
linkosi zomthonyama  
Board Members of ANDA  
Members of the Audit Committee  
Acting Municipal Manager  
Senior Managers  
Acting CEO of ANDA  
Officials

Distinguished guests in the gallery  
Members of the media present here today

Friends and Comrades mandinibulise kuni nonke ngalentsasa

Mr Speaker and the Council, President Jacob Zuma in his address to the nation in February, he called upon all South Africans to celebrate the Africa Day and also put aside the Month of May as Africa month, and indeed this week, we saw the culmination of various activities that have been held across the country, the continent and the diaspora to mark this important day and month in our continent.

Africa Day is celebrated and commemorated every year by Africans regardless of their whereabouts or situation and they celebrate with the notion of African unity and renaissance.

These activities were held under the theme: "We are Africa" – Africa Unite for Peace and Friendship from Cape to Cairo"

Honourable Speaker and the House, in our efforts to actively encourage greater Social Cohesion and Nation Building in our communities, we must also work together to foster African unity in all our communities.

Honourable members of this Council, next week it will be the start of the Youth Month and the Alfred Nzo Month, which will see a series of activities being held to mark

these important days in our calendar. The annual Alfred Nzo memorial lecture will be held on the 26 June in Matatiele to honour the struggle stalwart and also celebrate his life and times.

We should use these activities to reflect on progress that has been made since 1994 and collectively as government and our public private partners, we must work together to address many social ills, as many of our young people are still trapped in poverty, with income inequalities and unemployment still remaining high and many more young people are battling with diseases and substance abuse.

As this municipality, we are expected to continue to implement policies and programmes that will further improve the quality of the lives of our people, more especially the poor and vulnerable groups through the acceleration of delivering water, sanitation and driving local economic development.

Honourable Chief Whip and the Whippers, the 2015/16 programme of action is a product of many engagements with our communities and stakeholders, where they reflected on the performance of the municipality in terms of service delivery and also raised many challenges that they face in their respective communities and constituencies.

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 poverty, income inequalities and unemployment which are the dominant challenges we face in our district.

Good governance is at the centre of this municipality and its leadership and in this regard more is still to be done to achieve better audit outcomes, Chairperson 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 the new Audit Committee members and Members of the Public Accounts Committee (MPAC) should therefore be at the centre and indeed working together we can achieve better audit outcomes.

Mr Speaker, I am honoured to address this important sitting of the Council to table the final 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 to accelerate the development of our district.

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 in our district.

Honourable members of this house, Water is Life and Sanitation is Dignity, 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.

As the district municipality, we are also affected by the narrowing fiscal envelope, whilst on the other side there is an increasing demand for speeding up of service delivery in many of our communities, it is imperative that fiscal sustainability and revenue generation is achieved in order to address the shortfall thereof.

Honourable members of this house given the decreasing fiscus it is very clear to everyone in this Council that we must find innovative ways of increasing our own revenue. In this regard as the executive, we are on course to increase the municipal revenue, as part of the revenue enhancement strategy and the strategy will create an opportunity for new revenue generation that can be put towards improving our infrastructure and whilst we do so we can also grow the economy of the district.

Chairperson of the Council, our plans and strategies for 2015/16 financial year are now in place, and now all our efforts, resources and energies must be focussed on accelerating the implementation and service provision to all our communities. In order to implement this programme of action we need money, I therefore present to this house that the total operating revenue for the municipality is R1.218 billion and it has decreased by R31.5 million for 2015/16 financial year when compared to the 2014/15 Adjustments Budget which was R1.249 billion.

Fellow Councillors, our budget continues to indicate that we are highly dependent on grants as we have received R641 million and R365 million for equitable share respectively from the central government. Meanwhile, our own revenue generation methods have contributed R73.2 million to our total revenue but let me indicate that the amount shows a significant growth compared to previous years and it is estimated to grow even further as we implement the Revenue Enhancement Strategy as stated above.

The municipality over the years has been able to maintain a sufficient reserve base and in the current year budget we have taken R56,1million to assist in financing both operational and capital expenditure. Mr. Speaker and Councillors, it must however be made very clear that our reserves are shrinking drastically, 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 consideration the Back To Basics Principles.

We therefore as we implement this programme of action, we must be very firm on cutting down of excessive expenditure on travel and subsistence, consultants, venues, catering, cellphones and many other aspects in line with the resolutions of the many Council Strategic Planning sessions.

Honourable Councillors, South Africa faces similar challenges with regard to water supply, as it does currently 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 in this regard, a tariff increase of 6 % 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% for sanitation services from 01 July 2015 is also recommended and this is based on the input cost assumptions related to water. We will also be granting 6 kilo-litre water each month free of charge to all qualifying residents in the district.

Mr. Speaker, we have received R6 million for Energy Efficiency and Demand Side Management Grant, which is aimed at providing 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 R204 million, which equals 41% of the total operating expenditure and as the Council we should be concerned with our employee costs as we have now exceeded the acceptable personnel costs which must be between 25-40%.

Deputy Executive Mayor, water and sanitation projects have received the highest allocation of R703.9 million in 2015/16 in order to fastrack the provision of services to our people.

On the other side, Deputy Executive Mayor as the Council welcomes the new board members of the Alfred Nzo Development Agency (ANDA), we are also allocating an amount of R15 million for 2015/16 financial year to the agency to drive economic growth and development in the district, we therefore expect a robust programme tangible that will radicalise economic transformation in this district and the agency and its programmes must be visible and must be felt by all our people.

With regard to operations and maintenance, we have received many complaints from many communities across the district, mostly in our towns as they experience water challenges, sewerage leaks, Honourable Councillors, to respond to these concerns, as well as the ageing infrastructure demands and maintenance, the budget for repairs and maintenance of the water and sanitation infrastructure has been provided at R41.1 million , with the main aim being to provide quality and sustainable water and sanitation services to our all communities.



Many of our people are still unemployed in response to the challenge; we are on course to implement the Keya Kenella job creation initiative that we brought to this Council recently. The initiative will see the municipality having coalface agents which will be central in arresting service delivery shortfalls in all ANDM service delivery projects timeously.

Meanwhile, on the other side the implementation of Expanded Public Works Programme (EPWP) for the year 2015/2016 is budgeted for as per the DORA allocation at R4.8 million.

Mr Speaker, it is with great pleasure for me to address this Council, communities and various stakeholders on the sitting of this important meeting of tabling of the final 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, of 2000, as amended.

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

Chairperson and the Council, I therefore recommend that:

The Council adopts the final IDP, budget and its related policies in respect of the 2015/2016, in line with section 24 of the Municipal Finance Management Act, (Act 56 of 2003) as presented to the Council as follows:

Total Operating Income	R 1 218 233 144
Total Operating Expenditure	R 1 218 233 081
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 tariffs for the supply of water, the tariffs for sanitation services and all other tariffs as entailed in the Tariff Policy.
- In our attempt to speed up service provision to our people more personnel is needed and in this regard I present to this Council the 2015/2016 Organisational Structure to be adopted as the vehicle to implement the programme of action as presented to this house today.

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

Ndizakuthi ndinike eliBhunga ummango nengxam yale programme of action ngokupheleleyo xa ndisothula ngokusesikweni intetho yobume besithili kwiBhunga elivulelekileyo elizakuthi likhwetywe nguSomlomo ngomhla we 24 June phaya kwa Ward 3 eNtabankulu.

Mr. Speaker and the Council in closing once again, the Freedom Charter and the Constitution asserts that “South Africa belongs to all who live in it”. We must embrace and partner with our fellow Africans residing in our country and elsewhere on the continent.

South Africa is as an integral part of the African Continent

We Are Africa  
I thank you

## 2.1 Budget Resolutions

On 31 March 2015 a sitting of the Council 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. A Council sitting of 27 May 2015 will further take the following resolutions:

1. In line with section 24 of the Municipal Finance Management Act, (Act 56 of 2003), council resolved to adopt:
  - 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:

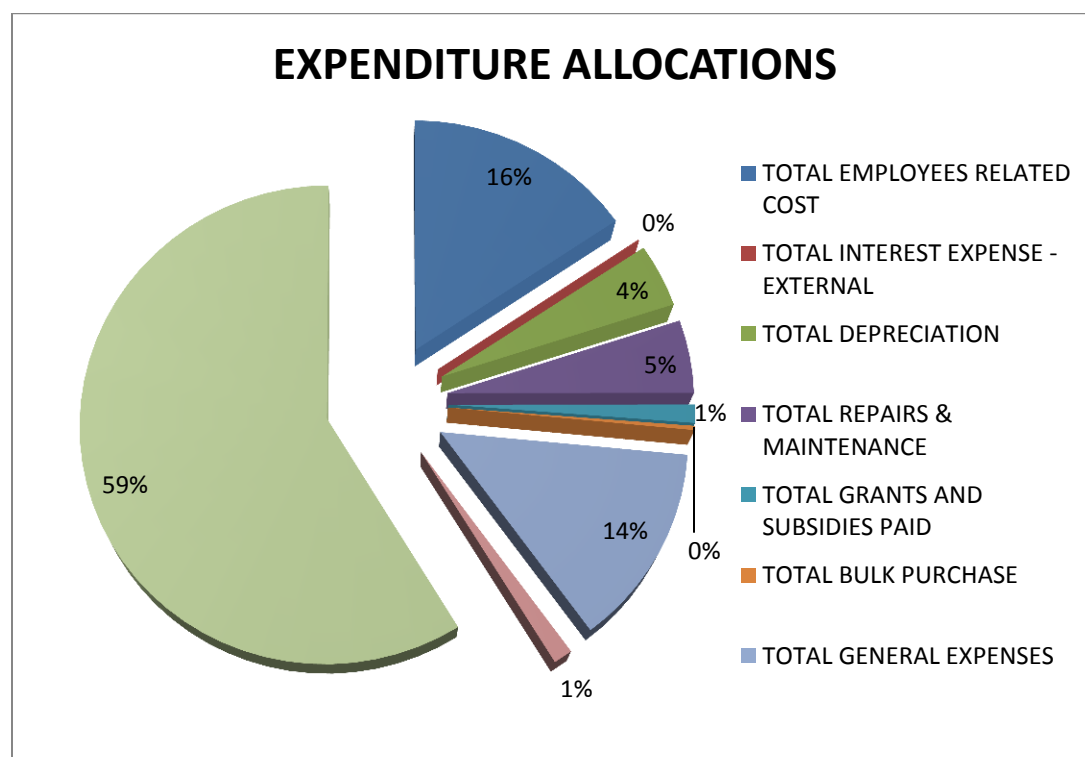
- The 2014/15 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were used as the upper limits for the new baselines for the 2015/16 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets 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	1 218 233 144	1 279 643 277	1 351 960 258
Total Operating Expenditure	(490 151 015)	(494 832 048)	(520 097 900)	(551 992 339)
Surplus/Deficit for the Year	<b>759 631 929</b>	<b>723 401 096</b>	<b>759 545 377</b>	<b>799 967 919</b>
Total Capital Expenditure	(759 631 236)	(723 401 033)	(759 545 344)	(799 967 833)
<b>NET SURPLUS/(DEFICIT)</b>	<b>694</b>	<b>63</b>	<b>32</b>	<b>36</b>

<b>REVENUE SOURCES 2015 - 2016</b>		
INTERNAL FUNDS	73 215 114	6%
GRANTS -NT / PT	645 085 000	53%
EQUITABLE SHARE	365 517 000	30%
EXTERNAL LOAN	78 222 000	6%
OPERATING RESERVES	56 194 030	5%
<b>Total expenditure</b>	<b>1 218 233 144</b>	



Total Revenue (R1.218 billion) has decreased by 3 per cent or R31 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 R61 million and R72 million to R1.279 and R1.351 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 R494 million and translates into a percentage increase of 1 per cent from 2014/15 adjusted budget. Operating expenditure continues to increase in the outer years by R26 million and R31 million respectively (2016/17 – R520 million and 2017/18 – R551 million). A slight operating surplus of R63, R32 and R36 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 R723 million for 2015/16 has decreased by 5% 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 R68 million to R56 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 R759 million in the 2016/17 financial year and then to R799 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**



ALFRED NZO DISTRICT MUNICIPALITY PROPOSED DRAFT ANNUAL BUDGET 2015/16 MTREF 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		
			MID-TERM ADJUSTED BUDGET	Proposed Budget 2015/16	Budget Year +1 2016/17	Budget Year +1 2017/18
14000	801	INTEREST ON INVESTMENTS	-18 675 718	-25 000 000	-26 475 000	-27 957 600
	803	INTEREST RECEIVED AREAR DEBTORS	-	-12 000 000	-12 708 000	-13 419 648
		<b>TOTAL INTEREST RECEIVED</b>	<b>-18 675 718</b>	<b>-37 000 000</b>	<b>-39 183 000</b>	<b>-41 377 248</b>
14000	14001	EQUITABLE SHARES	-344 812 000	-365 517 000	-387 616 000	-410 995 000
14000	16100	FMG GRANT	-1 250 000	-1 325 000	-1 460 000	-1 795 000
14000	16102	FIRE & EMERGENCY	-7 428	-8 000	-8 472	-8 946
14000	16107	MSIG	-934 000	-930 000	-960 000	-1 033 000
14000	16108	EPWP	-8 323 000	-4 853 000	-	-
14000	16109	WATER SERVICE OPER SUB GRANT	-5 000 000	-10 000 000	-7 500 000	-10 000 000
14000	16111	MIG	-357 363 000	-366 609 000	-382 214 000	-405 604 000
14000	16113	REGIONAL BULK INFRASTRUCTURE	-50 000 000	-143 189 000	-265 000 000	-247 346 000
14000	16115	TRANSPORT	-2 104 000	-2 100 000	-2 157 000	-2 299 000
14000	16122	WSOG	-300 000	-10 000 000	-	-
14000	16127	MUNICIPAL HEALTH	-1 500 000	-2 500 000	-	-
14000	16128	ISDG	-3 000 000	-3 000 000	-3 000 000	-4 000 000
14000	16129	M.W.I.G	-54 857 000	-91 071 000	-90 219 000	-167 241 000
14000	16136	ENERGY EFFIC & DEMAND SIDE MAN	-4 000 000	-6 000 000	-6 000 000	-
		DBSA GRANT FUNDING	-	-3 000 000	-	-
14000	17006	LG SETA - GRANT	-1 400 000	-500 000	-	-
			<b>-846 820 595</b>	<b>-1 010 602 000</b>	<b>-1 146 134 472</b>	<b>-1 250 321 946</b>
14000	17008	DBSA LOAN	-221 082 518	-78 222 000	-	-
			<b>-221 082 518</b>	<b>-78 222 000</b>	<b>-</b>	<b>-</b>
14000	16126	RESERVES	-124 756 015	-56 194 030	-55 973 999	-12 799 934
			<b>-124 756 015</b>	<b>-56 194 030</b>	<b>-55 973 999</b>	<b>-12 799 934</b>
14000	17003	CONFERENCE CENTRE & BOARDROOM	-7 194	-9 000	-9 531	-10 065
14000	17006	LG SETA - Refunds	-157 273	-140 000	-148 260	-156 563
14000	17009	SANITATION	-2 243 060	-3 200 000	-3 388 800	-3 578 573
14000	17010	WATER CONSUMERS	-33 000 000	-30 000 000	-31 770 000	-40 510 743
14000	17011	WATER CONNECTION FEE	-97 394	-100 000	-105 900	-111 830
14000	17012	PREPAID WATER	-530 952	-600 000	-635 400	-670 982
14000	17013	SEPTIC TANK	-241 240	-250 000	-264 750	-279 576
14000	17014	SUNDRY INCOME	-31 001	-25 000	-26 475	-27 958
14000	17016	SANITATION CONNECTION	-	-9 000	-9 531	-10 065
14000	17017	RENTAL - FNB	-444 407	-329 420	-348 856	-368 392
14000	17018	TENDER DEPOSITS	-689 631	-1 500 000	-1 588 500	-1 677 456
14000	17021	COMMISSION RECEIVED -GARNISHEES	-6 400	-30 000	-31 770	-33 549
14000	17023	REFUND RECIEVED	-3 180	-3 000	-3 177	-3 355
14000	17053	PUBLIC TOILETS	-	-4 000	-4 236	-4 473
14000	17045	GOVERNMENT COMMS AND INFO SYST	-	-15 694	-16 620	-17 551
		<b>TOTAL INTERNAL REVENUE</b>	<b>-38 448 098</b>	<b>-36 215 114</b>	<b>-38 351 806</b>	<b>-47 461 130</b>
		<b>TOTAL REVENUE</b>	<b>-1 249 782 944</b>	<b>-1 218 233 144</b>	<b>-1 279 643 277</b>	<b>-1 351 960 258</b>

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 (R56.1 million, R55.9 million and R12.8 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, R39.1 million and R41.3 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 R44.2 million in the 2015/16 financial year and decreases to R21 million in 2016/17 and steadily increases again to R19.1 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**

		BUDGET YR.1	BUDGET YR.2	BUDGET YR.3
	CURRENT YEAR 2014/15	2015/16 Medium Term Revenue & Expenditure Framework		
	MID-TERM ADJUSTED BUDGET	Proposed Budget 2015/16	Budget Year +1 2016/17	Budget Year +1 2017/18
FMG GRANT	-1 250 000	-1 325 000	-1 460 000	-1 795 000
FIRE & EMERGENCY	-7 428	-8 000	-8 472	-8 946
MSIG	-934 000	-930 000	-960 000	-1 033 000
EPWP	-8 323 000	-4 853 000	-	-
WSOG	-300 000	-10 000 000	-7 500 000	-10 000 000
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
ENERGY EFFIC & DEMAND SIDE MAN	-4 000 000	-6 000 000	-6 000 000	-
DBSA GRANT FUNDING	-	-3 000 000	-	-
LG SETA - GRANT	-1 400 000	-500 000	-	-
	<b>-23 118 428</b>	<b>-44 216 000</b>	<b>-21 085 472</b>	<b>-19 135 946</b>

### 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

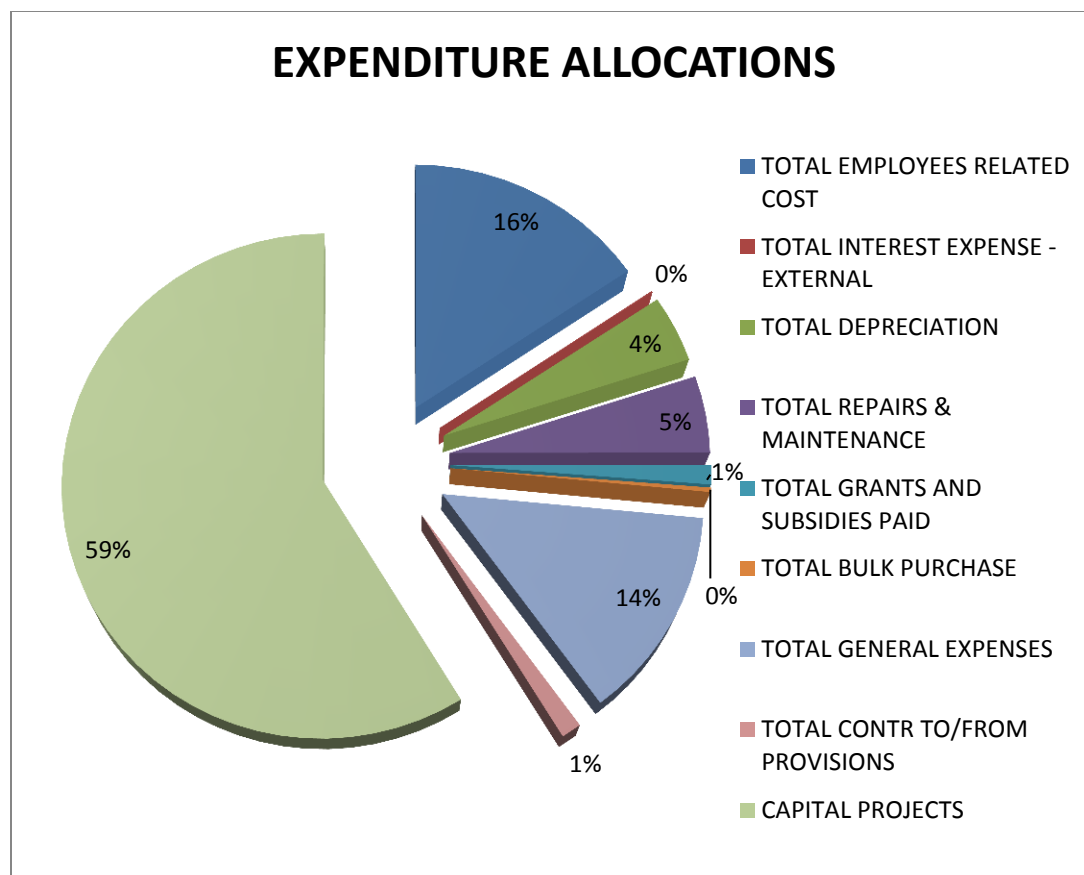
The District Municipality's expenditure framework for the 2015/16 budget and MTREF is informed by the following:

- 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**

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
<b>OPERATING EXPENDITURE</b>				
TOTAL EMPLOYEES RELATED COST	168 116 616	204 322 399	214 926 999	227 077 654
TOTAL INTEREST EXPENSE - EXTERNAL	1 725 654	1 140 000	1 207 260	1 274 867
TOTAL DEPRECIATION	50 000 000	52 500 000	54 251 700	57 289 795
TOTAL REPAIRS & MAINTENANCE	41 192 938	41 181 984	43 254 583	45 676 840
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	162 187 665	170 980 858	183 210 000
TOTAL CONTR TO/FROM PROVISIONS	15 000 000	15 000 000	15 885 000	16 774 560
<b>TOTAL OPERATING EXPENDITURE</b>	<b>490 151 015</b>	<b>494 832 048</b>	<b>520 097 900</b>	<b>551 992 339</b>



The budgeted allocation for employee related costs for the 2015/16 financial year totals R204.3 million, which equals 41 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, R54.2 million – 2016/17 and R57.2 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 R41.1 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 decrease of R19.1 from the provision made in the current year adjusted budget (R60.2 million). The decrease is as a result of properly accounting for costs incurred on all rural water scheme operators costs that have been transferred to salaries and wages in line with AG's recommendations.

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**

<b>CAPITAL BUDGET PER DEPARTMENT - 2015/16</b>			
	<b>ADJUSTED BUDGET 2014- 2015</b>	<b>FINAL BUDGET 2015-2016</b>	<b>%</b>
EXECUTIVE AND COUNCIL	770 000	-	0.00%
MUNICIPAL MANAGER'S OFFICE	300 000	1 000 000	0.14%
PLANNING & DEVELOP	800 000	750 000	0.10%
BUDGET & TREASURY OFFICE	3 855 645	2 560 000	0.35%
COMMUNITY DEVELOP. SERVICES	13 599 829	9 100 000	1.26%
CORPORATE SERVICES	5 600 000	6 050 000	0.84%
TECHNICAL SERVICES	734 705 762	703 941 033	97.31%
<b>Tot. CAPEX PER DEP</b>	<b>759 631 236</b>	<b>723 401 033</b>	

For 2015/16 a total budget of R723 million has been appropriated for the development of infrastructure which equates to a 4 per cent decrease from the current years adjusted budget of R759 million. In the outer years this amount totals R759 million and R799 million respectively. Water and sanitation projects receive the highest allocation of R703 million.

Included in the R723 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 \_\_\_\_\_