



baviaans

PARTICIPATION FOR DEVELOPMENT

umasipala
local municipality
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**ANNUAL BUDGET 2016/2017 AND
MTREF**

CHAPTER 1

MAYORAL SPEECH

Councilors, municipal manager, head of departments, guests, ladies and gentlemen, good morning to all.

The vision of the Baviaans Municipality is to strive towards the establishment of a progressive community within a safe environment where basic service delivery is guaranteed and wherein decision-making is based on maximum participation from the community.

In the next financial year the rendering of good quality and uninterrupted services to our community will remain the main priority of the Baviaans Municipality, especially in light of the disestablishment of Baviaans Municipality, Ikwezi Municipality and Camdeboo Municipality and the establishment of the larger Dr. Beyers Naude Local Municipality after the 3 August 2016 local government elections.

The 2016 Division of Revenue Act no longer made any reference to grant allocations to EC107 Baviaans Municipality, all allocations were made to EC101 EC101. MFMA Circular number 79 was used as guidance to do the apportionment for budget purposes between the existing municipalities. It was indicated that municipalities should use the proportion of funds allocated to each municipality in terms of the 2015 Division of Revenue Act as a guide to how to apportion 2016/2017 MTEF allocations between the existing municipalities.

Economic pressures country wide continues to impact on Baviaans Municipality especially considering the limited economic growth in our towns. The country's economic performance has slowed down over the last couple of years and without this had a direct effect on our area. Global conditions impacted on the South African economy, with projected GDP growth revised down to 0,9% for 2016.

The average inflation rate for the 2015/2015 was 5.6% and the estimate is that it will be 5.4% for 2015/2016, 6.6% for 2016/2017 and 6.2% for 2017/2018. Value for money will have to be the focus in all our procurement processes. We must encourage savings and ensure that we maximize all possible revenue sources in order to ensure the economic viability of the municipality.

It is expected that municipal revenue and cash flows will remain under pressure in 2016/2017 and municipalities are advised to adopt a conservative approach when projecting their revenue and cash receipts for 2016/2017. The Baviaans municipality was struggling severely with cash flow constraints during 2015/2016 of which the main reasons could be contributed to:

- The management of the previously DMA areas which was incorporated with Baviaans during 2011 and which was and still is under funded

- The repayment of R5.2 million to the National Fiscus for unutilised grand funding during 2012/13 financial year.

The cash flow problems were reported to National Treasury, Provincial Treasury and COGTA.

A further challenge facing the municipality is the implementation of cost-reflective tariffs. The problem is a historic one that relates partly from the fact that accurate costing for services are not done and the cost component for all services is therefore not known. Where the costs can be determined, it is clear that that increasing the tariffs to reflect the costs of services will result in the services becoming unaffordable to our community. In addition, a comparison between the current cost structure of Baviaans Municipality and our neighbours indicates that our community is already heavily burdened by high tariffs as the tariff base is so small.

The budget I am tabling here today was prepared in accordance with the prescripts of the Municipal Finance Management Act, (Act 56 of 2003) and complies with Generally Recognized Accounting Practice as applicable to Local Government.

The budget was compiled, taking into account the Macro-economic growth parameters and also addresses the following National key priorities and Provincial priorities including the following:

- Building the capacity of local government through the "back to basics" approach

The following underlying factors were also taken into consideration with the compilation of the 2016/2017 draft budget:

- The current socio economic circumstances of our communities and especially the high rate of unemployment
- External factors having a direct impact on the budget such as the Eskom tariff increase of 7.7%, consumer inflation
- The wage agreement concluded between organized labour and the South African Local Government Bargaining Council for the period 1 July 2015 to 30 June 2018

FOCUS OF THE 2016/2017 BUDGET

With the 2016/2017 budget, emphasis is placed on:

- The core service delivery obligations assigned to the municipality in the constitution.
- Maintenance of existing infrastructure
- Provision of basic services, improvement of the quality of housing, infrastructure as well as sustainable service delivery.

CAPITAL BUDGET

The capital budget flows from the IDP process and contains information obtained from relevant stakeholders and communities through a public participation process as well as ward committee processes where applicable.

The capital budget for the 2016/2017 financial year amounts to R 33.6 million with the main focus on the following:

| | | |
|--|---|-------------|
| Provision of water: Steytlerville – Erasmuskloof | - | R20 958 772 |
| Streets Willowmore | - | R 877 193 |
| Streets Steytlerville | - | R 877 193 |
| Sport Fields Baviaans | - | R 1 189 079 |
| LED projects | - | R 487 191 |
| Willowmore Bulk Water Supply | - | R 5 825 966 |
| Electricity supply improvements | - | R 3 209 243 |

(*The above figures exclude VAT)

It is important to note that a few internal adjustments can still take place in terms of the capital budget. Council will be informed thereof. Furthermore, the DORA is still a draft and adjustments can be expected in the final DORA.

Capital projects for the 2016/2017 financial year are funded from grants receivable from the National and Provincial Government amounting to R 33.6 million. The municipality does not have sufficient funds to fund projects out of own revenue.

OPERATING BUDGET

The operating expenditure budget for the 2016/2017 financial year amounts to R 89.4million which represents an increase of 4.11 % over the adjustment budget for the 2015/2016 financial year. The operating revenue budget for the 2016/2017 financial year increased with 9.5% over the adjustment budget for 2015/2016 amounting to R 106 645 448.

A 7% across the board general salary increase is budgeted for.

The total salary expenditure amounts to R 28 675 000 million and represents 32.08% of the total budgeted expenditure. This amount also includes the remuneration applicable to public office bearers.

The major sources of revenue can be summarized as follows:

| | |
|----------------------|-----------------|
| Sale of Electricity | R 12.458million |
| Assessment Rates | R 5.25 million |
| Sale of Water | R 4.5 million |
| Sewerage fees | R2 9 million |
| Refuse fees | R 3.3 million |
| Grants and Subsidies | R 75.8 million |

INDIGENT SUBSIDIES

Provision is made in the operating budget for the subsidizing of the indigent households. The subsidy includes 6000 liters of water, 50 units of electricity as well as a 100% subsidy on the refuse, 100% on assessment rates as well as the sewer tariff applicable to a household. The indigent policy provides for assistance to be given to households with a monthly income of less than twice the government pension.

Additional provision is made for support to households with a total monthly household income of less than R 3 500.

The total budget for Indigent subsidies amounts to R 8 million for the 2016/2017 financial year.

TARIFFS

In the MFMA Circular number 79 National Treasury continues to encourage municipalities to keep increases in property rates, tariffs for trading services and charges for other municipal own revenue sources within the parameters of the country's inflation rate. The comparison with the tariffs currently being used by the other municipalities to be incorporated into Dr. Beyers Naude resulted in tariff increases being re-assessed and no tariff increases being implemented. This decision was made to ensure:

- (a) that we stay competitive in terms of market price
- (b) that we do not find ourselves on an island of high tariffs surrounded by municipalities with lower tariffs

This decision is further supported by the lowering of the bulk electricity input costs as a direct result of the upgrades done re the bulk electricity supply to Willowmore.

The municipality implemented a new valuation roll as from 1 July 2014.

INTEGRATED DEVELOPMENT PLAN (IDP)

The adjusted draft IDP in the 5 year cycle is also presented today for provisional approval. We are proud of our IDP as the IDP has achieved high scores in the assessment done by the MEC for Local Government in all areas in the last 2 years, an overall high score has been obtained over the last 6 years in the assessment.

The IDP includes a comprehensive project register which indicates both funded and unfunded projects. The IDP and budget is linked with each other and the linkage is illustrated in the budget document. The IDP and budget tries to address service delivery backlogs which needs to be prioritized. The municipality's strategic objectives and also the national priorities are clearly indicated in the document.

SDBIP (SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN)

The top level service delivery and budget implementation plan is attached herewith and is an indication of service delivery targets that is set for the 2016/2017 financial year. Emphasis is placed on sustaining and improving service delivery levels and extending services to all our communities.

ORGANOGRAM

An effective output of personnel which is in line with their salaries is a big concern. It is very difficult to sell salary increases to the public while the latter is aware of the low output of some personnel in certain posts.

IN CONCLUSION

Thank you to the CFO and her personnel for the compilation of this budget under difficult circumstances. Furthermore, I would like to express my gratitude to the Community Services department for the compilation of an IDP of high standards.

**I THANK U
E LOOCK
MAYOR**

CHAPTER 2

COUNCIL RESOLUTION

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the Annual budget of the Baviaans Municipality for the financial year 2016/2017; and indicative allocations for the two projected outer years 2017/2018 and 2018/2019; and the multi-year and single year capital appropriations are approved as set-out in the following tables:
 - 1.1. Budgeted Financial Performance (revenue and expenditure by standard classification);
 - 1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote);
 - 1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
 - 1.4. Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.
2. That the financial position, cash flow, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are adopted as set-out in the following tables:
 - 2.1. Budgeted Financial Position;
 - 2.2. Budgeted Cash Flows;
 - 2.3. Cash backed reserves and accumulated surplus reconciliation;
 - 2.4. Asset management; and
 - 2.5. Basic service delivery measurement.
3. That in terms of section 24(2)(c)(i) and (ii) of the Municipal Finance Management Act 56 of 2003 and sections 74 and 75A of the Local Government: Municipal Systems Act 32 of 2000 as amended, the tariffs for the supply of water, electricity, waste services, sanitation services and property rates as set out in annexure A, that were used to prepare the estimates of revenue by source, are approved with effect from 1 July 2016.
4. That in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) the tariffs for other services, as set out in Annexure A, that were used in compiling the final budget, are approved with effect from 1 July 2016.
5. That in terms of section 24(2)(c)(iii) of the Municipal Finance Management Act, 56 of 2003, the measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out in Supporting Table SA7 are approved.
6. That free basic services be provided to all registered indigent consumers *only* as follows:
 - The first 50 units of electricity free of charge
 - The first 6 kiloliters of water free of charge
 - Refuse removal - full subsidy of single residential monthly levy and town cleaning levy
 - Sewerage – full subsidy of single residential monthly usage and basic service charges
 - Property rates 100% subsidy

That the additional indigent support contained in the policy be provided.

7. That interest be charged on all debtors accounts outstanding for a period of more than 30 days at the prevailing prime interest rate plus 2% charged by the Municipality's Banker.
8. That in terms of the provisions of **Section 75A** of the Municipal Systems Act, 32 of 2000, the notice of the tariff amendments be displayed on notice boards at all municipal offices, libraries, and be advertised in local newspapers.
9. That in terms of the provisions of the Municipal Property Rates Act, (Act 6 of 2004) the remissions be granted to property owners in terms of the provisions of the municipal rates policy subject to the conditions contained in said policy
10. That the amount due in respect of annual assessment rates for the 2016/2017 be due and payable on or before 30 September 2016.
11. That the amount due in respect of monthly Assessment rates and other service, basic and consumption charges, fees and penalties be due and payable on or before the following dates: 15 July 2016, 15 August 2016, 15 September 2016, 17 October 2016, 15 November 2016, 15 December 2016, 16 January 2017, 15 February 2017, 15 March 2017, 18 April 2017, 15 May 2017, 15 June 2017.
12. That in terms of section 5 of the Municipal Property Rates Act, 6 of 2004, the amendments to the rates policy as indicated are approved with effect 1 July 2016.
13. That in terms of the municipal budget and reporting regulations, paragraph 7, the amendments to the budget policies, as indicated, are approved with effect 1 July 2016.
14. That in terms of section 6 of the Local Government: Municipal Property Rates Act, 2004 the draft Property Rates by-law be approved with effect 1 July 2016.
15. That in terms of section 24(2)(c)(iv) of the Municipal Finance Management Act, 56 of 2003, the final IDP for 2016/17 – 20/21 be approved.
16. That the Service delivery targets be approved.
17. That Council approves the application for an overdraft facility to the value of R2 million as discussed in the budget document.
18. That the final documents be available for inspection and comments at the following places:
 - Willowmore Municipal office
 - Steytlerville Municipal Office
 - Rietbron Municipal Office
 - Willowmore, Rietbron, Steytlerville & Baviaanskloof Libraries

CHAPTER 3

EXECUTIVE SUMMARY

PREFACE

Baviaans Municipality is a category B Municipality and together with 9 other category B municipalities form the Sarah Baartman District Municipal area.

Baviaans Municipality covers an area of 11 668.52 square kilometers with three urban nodes, namely Willowmore and Steytlerville and Rietbron. Willowmore is the nodal point of the municipality as determined in terms of the Section 12 notice published in terms of the provisions of the municipal structures Act and also serves as administrative hub for the municipality, the district offices of Provincial as well as National Government Departments.

The area is scarcely populated with a population density of 1.68 per km². The Local municipality is situated between 23 and 25 degree longitude and 33 and 34 degree of Southern Latitude and is approximately 1500 meters above sea level.

The widely known Baviaanskloof Nature Reserve is situated in the southern portion of the jurisdictional area and also covers approximately 60% of the municipal area.

The Baviaans Municipality is earmarked for re-demarcation and amalgamation with Camdeboo Municipality and Ikwezi Municipality to form a new municipality referred to the 2016 Division of Revenue Bill (DOR Bill) only as EC101. Allocations published in the 2016 DOR Bill are based on the new municipal boundaries because the new demarcations will be in effect for the majority of the 2016/2017 financial year. The new municipality comes into being on the date of the 2016 local government elections, an election that will take place on 3 August 2016.

The guidelines provided in the MFMA Circular number 79 was used to allocate the transfers allocated to EC101 between the current EC101 (Camdeboo), EC103 (Ikwezi) and EC107 (Baviaans). The 2016/2017, 2017/2018 and 2018/2019 allocations were apportioned on a pro-rata basis between the three municipalities using the DORA of 2016/2017 as base.

Agriculture, tourism and service industries form the basis of the area's economy.

The budget tabled here today is the MTREF (Medium Term Revenue and Expenditure Framework) for the 2016/2017, 2017/2018 and 2018/2019 financial years as legislatively prescribed.

The following documents were considered in the preparation of the budget:

- National treasury circulars 78 & 79 as well as other prior year circulars giving guidance on budget processes
- The municipal budget and reporting regulations as issued in government gazette 32141 on 17 April 2009

CAPITAL BUDGET

The drafting of the IDP runs concurrent with the 2016/2017 budget process in order to update the Medium Term Expenditure Framework (MTEF). The IDP budget link is summarized in the supporting tables attached hereto.

The Medium Term Expenditure Framework should guide the municipality with regards to its funding requirements in the medium term (3 years). Provision capital grant funding for the 2016/2017 financial year amounts to R 33.6 million.

| Project Title | Funding source | Project Type | 2015_2016 | Adjustment 2015_2016 | 2016_2017 | 2017_2018 | 2018_2019 |
|---|----------------|-----------------------|-------------------|----------------------|-------------------|-------------------|-------------------|
| Upgrading of Streets and Storm Water-Willowmore | MIG | Streets & Storm water | 1 755 482 | 1 755 482 | 877 193 | 877 193 | 877 193 |
| Upgrading of Streets and Storm Water-Steytlerville | MIG | Streets & Storm water | 1 755 482 | 1 755 482 | 877 193 | 877 193 | 877 193 |
| Rietbron High Mast Light | MIG | Electricity | 175 439 | 175 439 | | | |
| Waste Water Treatment Works Rietbron | MIG | Waste Water | 1 929 825 | 1 929 825 | | | |
| Upgrading of Sport Fields in Baviaans Municipality | MIG | Sport Facilities | 1 167 105 | 1 167 105 | 1 189 079 | 816 271 | 854 808 |
| Baviaans LED project | MIG | LED | 389 035 | 389 035 | 487 191 | 272 090 | 264 936 |
| Willowmore Bulk Water Supply-Wiigerkloof | MIG | Water | 219 298 | 219 298 | 5 825 966 | 2 326 967 | 2 519 652 |
| Vehicles - Leases | Lease | Vehicles | 792 087 | 792 087 | | | |
| Replacement of old domestic water meters - Rietbron | Provincial | Water | 1 592 962 | 1 592 962 | | | |
| IT Infrastructure upgrade | MSIG | IT | 789 474 | 486 842 | | | |
| Refurbishment of buildings | Own funding | Buildings | | 40 000 | | | |
| Replacement of equipment | Own funding | Water | | 70 000 | 35 088 | 35 088 | 35 088 |
| Replacement of equipment | Own funding | Electricity | | 10 000 | 35 088 | 35 088 | 35 088 |
| Replacement of equipment | Own funding | Sanitation | | 10 000 | 35 088 | 35 088 | 35 088 |
| Replacement of equipment | Own funding | Streets & Storm water | | 20 000 | 35 088 | 35 088 | 35 088 |
| Electricity | INEP | Electricity | | | 3 209 243 | 6 416 485 | 6 627 728 |
| Steytlerville Bulk Water Erasmuskloof | RBIG | Water | 20 884 211 | 23 691 228 | 20 958 772 | 17 195 507 | |
| | | | 31 450 420 | 34 104 805 | 33 564 987 | 28 924 056 | 16 181 860 |

The aforementioned capital requirements are only indicative of the confirmed funding for the MTEF and do not include issues of priority where funding applications are in process and have not yet been confirmed.

From the MTEF it is clear that the council is once again relying on grants and subsidies for the funding of its capital requirements, the main source being MIG and Regional Bulk infrastructure grants.

OPERATING BUDGET

EXPENDITURE

Summary of Expenditure Budget per type:

| | 2015/2016 Budget | 2015/2016 Adjustment Budget | Sum of 2016/2017 Budget | Sum of 2017/2018 Budget | Sum of 2018/2019 budget |
|--|-------------------|-----------------------------|-------------------------|-------------------------|-------------------------|
| Bulk Purchases | 10 620 000 | 12 000 000 | 13 128 000 | 14 362 032 | 15 712 063 |
| Contributions To/(From) Provisions | -23 084 | 1 276 916 | 1 361 192 | 1 445 586 | 1 530 876 |
| Depreciation and asset impairment | 16 000 000 | 16 500 000 | 17 589 000 | 18 679 518 | 19 781 610 |
| Employee Related Costs - Social | 3 885 073 | 3 794 837 | 4 060 476 | 4 369 072 | 4 683 645 |
| Employee Related Costs - Wages | 20 833 771 | 21 164 003 | 22 645 483 | 24 366 540 | 26 120 931 |
| Grants & Subsidies Paid | 7 267 966 | 7 411 434 | 7 900 589 | 8 390 425 | 8 885 460 |
| Interest Expense - External Borrowings | 1 060 000 | 1 160 000 | 1 236 560 | 1 313 227 | 1 390 707 |
| Special projects | - | 2 631 580 | - | - | - |
| Loss On Disposal Of Property | - | 35 000 | 37 310 | 39 623 | 41 961 |
| Other Expenditure | 16 529 965 | 18 046 966 | 19 470 566 | 20 430 826 | 21 636 245 |
| Remuneration Of Councillors | 1 858 644 | 1 847 131 | 1 969 042 | 2 091 122 | 2 214 498 |
| Grand Total | 78 032 335 | 85 867 867 | 89 398 217 | 95 487 971 | 101 997 996 |

The increase in the operating budget amounts to R 3.5 million for the 2016/2017 financial year and represents an increase of 4.11 % over the 2015/2016 adjustment budget. Increase in budget can be ascribed to the following:

- Increase in salary expenditure due to the 7 % across the board increase as agreed at the South African Local Bargaining Council
- An increase of 7.7 % in the purchase price of electricity from Eskom.

A summary of the operating budget is attached herewith and includes all operating expenditure necessary for operating the municipality for the 2016/2017 financial year.

The operating budget was based on the average inflation rate estimates of 5.4% for 2015/2016, 6.6% for 2016/2017 and 6.2% for 2017/2018. The estimated rate used for 2018/2019 was 5.9 %

as indicated in the MFMA Circular number 79. Where other factors impacting on the budget are known, it has been calculated as such and is included in the budget figures.

Salary and related expenditure, excluding remuneration of public office bearers, amounts to R 26 705 959 million or 29.87 % of the total expenditure.

REVENUE

The budgeted revenue (including capital grant revenue) for the 2016/2017 financial year amounts to R 106.6million.

Summary of Revenue Budget per source:

| | Sum of Original Budget | Sum of Adjustment budget | Sum of 2016/2017 Budget | Sum of 2017/2018 Budget | Sum of 2018/2019 budget |
|---------------------------------------|------------------------|--------------------------|-------------------------|-------------------------|-------------------------|
| Fines | 2 000 | 2 000 | 2 132 | 2 264 | 2 398 |
| Gain On Disposal Of Property | | 60 000 | 63 960 | 67 926 | 71 933 |
| Grants & Subsidies Received - Capital | 34 050 500 | 40 250 500 | 42 385 141 | 37 359 905 | 21 962 045 |
| Grants & Subsidies Received - | 28 083 499 | 28 344 499 | 33 456 381 | 27 170 074 | 26 993 417 |
| Income For Agency Services | 755 700 | 680 000 | 724 880 | 769 823 | 815 242 |
| Interest Earned | 121 000 | 40 000 | 42 640 | 45 284 | 47 955 |
| Interest Earned - Debtors | 529 876 | 250 000 | 266 500 | 283 023 | 299 721 |
| Licenses & Permits | 831 897 | 635 000 | 676 910 | 718 878 | 761 292 |
| Other Revenue | 509 813 | 270 604 | 523 344 | 311 852 | 333 812 |
| Property Rates | 4 893 042 | 4 924 940 | 5 249 986 | 5 575 485 | 5 904 438 |
| Less Revenue Foregone | -78 875 | -100 000 | -106 600 | -113 209 | -119 889 |
| Rent Of Facilities | 196 515 | 155 800 | 166 083 | 176 380 | 186 786 |
| Service Charges | 22 930 388 | 21 458 938 | 23 194 092 | 25 030 797 | 26 984 649 |
| Grand Total | 92 825 355 | 96 972 281 | 106 645 448 | 97 398 480 | 84 243 800 |

TARRIFS

It is important to ensure the financial sustainability and economic viability of the municipality and these principles were therefore applied in the determination of the tariffs for the 2016/2017 financial year, the macro-economic forecasts as outlined in MFMA Circular number 79 was also taken into account.

In terms of a National treasury guideline, municipalities are eluded to the fact that tariffs should be cost reflective and it should be noted that this principle would need to be applied in this and future budgets. Current tariffs are not cost reflective and serious consideration would need to be given to substantial tariff increases in the subsequent financial years.

ASSESSMENT RATES

In order to enable the municipality to fulfill its constitutional mandate with regards to the rendering of municipal services and the management of its municipal area and in order to remain in line with the surrounding areas, no increase in assessment rates are to be implemented.

The rebates on assessment rates are contained in municipal rates policy and are applicable once again to the 2016/2017 financial year to qualifying ratepayers subject to the conditions as determined by Council.

SEWERAGE

It is proposed that the sewerage tariffs not be increased for both households and businesses.

ELECTRICITY

The Municipality will not be increasing its electricity tariffs in 2016/2017.

50 units of free basic electricity are provided only to indigent consumers in the 2016/2017 financial year.

The electricity function is currently running at a loss to the municipality, but the funds received by the municipality from the Department of Energy as allocated in the adjustment DORA of 2016 will allow the municipality to switch to a more cost effective tariff structure with Eskom. The electricity infrastructure will be upgraded as the municipality is constantly using in excess of the maximum demand as determined by Eskom and paying penalties to Eskom due to this.

WATER

No tariff increase is proposed for water.

REFUSE REMOVAL

No tariff increase for refuse is proposed for the 2016/2017 financial year.

INDIGENT SUBSIDY

The municipality will once again in the 2016/2017 financial year strive towards sufficient subsidization of indigent households. Provision is made as follows in the operating budget for the subsidizing of the indigent:

| | |
|------------------|---|
| Electricity | 50 Units |
| Water | 6 Kiloliter |
| Sewerage | Full subsidy of the single household tariff |
| Refuse removal | Full subsidy of the single household tariff |
| Assessment rates | 100% Subsidy |

FINANCIAL VIABILITY AND SUSTAINABILITY

The Municipality must ensure the financial sustainability of its operations and ensure that it operates as a going concern. The budget currently does not support this principle and a serious effort would be necessary to ensure the reaching of these goals.

The budget for 2016/2017 as well as the outer 2 years is unfunded. The municipality is currently not able to table a funded budget mainly due to the following:

- The municipality has creditors outstanding relating to the previous financial year (2015/2016)
- Currently the municipality is in a financial position where its current liabilities exceed its current assets, which means that it has very poor liquidity.
- The municipality is in the situation where income generation is hampered by the large indigent population it supports in terms of service delivery. This is a cause for concern with regards to the future sustainability of the municipality and may impact on service delivery.
- The municipality needs a cash injection of at least R 20 million to ensure a possibility of future funded budgets.

SDBIP (SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN)

The municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. A top level service delivery and budget implementation plan is included in the budget documentation. The SDBIP is indicative of service delivery targets for the 2016/2017 financial year. Emphasis is placed on the sustaining of current services and further enhancement of service delivery to all communities.

POLICY CHANGES

Management has conducted the required annual review of all budget related policies. The following policies have been reviewed without any changes:

- Tariff policy
- Banking and investment policy
- Asset management policy
- Virement policy
- Loans policy

The following policies have been reviewed with changes:

- Rates policy – to include adjustments required by Municipal Property Rates Amendment Act which will come into effect on 1 July 2016
- Indigent policy – to make provision for households to qualify for a lower level of support based on an income of less than R 3 500 per month per household
- Credit control and debt management policy – to implement a minimum amount outstanding before disconnection of services; update budget related charges.
- Supply Chain Management Policy – Amended to include the compulsory registration of all suppliers on the National Treasury Central Supplier Database.

J.Z.A VUMAZONKE

MUNICIPAL MANAGER

CHAPTER 4

ANNUAL BUDGET TABLES

See Annexure A

Basic service delivery standards

See Annexure B

CHAPTER 5

OVERVIEW OF THE ANNUAL BUDGET PROCESS

The entire budget process is prescribed by the Municipal Finance Management Act.

Section 21(1) (b) of the MFMA requires the mayor to table not later than 10 months before the start of the budget year a time schedule outlining the key deadlines and processes for the preparation, tabling and approval of the Annual Budget, the review of the IDP and budget related policies and any consultation process which would be part of the process.

The time schedule was tabled to the Council in August 2015.

The consultation process involves presenting and eliciting comments from the public by Ward and by placing an advert in the local press requesting budget input.

The following stakeholders are identified:

- 1 community
- 2 senior management
- 3 the work force
- 4 trade unions
- 5 rate payers association/agricultural forums
- 6 general public and interested parties
- 7 district municipality
- 8 national and provincial sector departments

Prescribed forms have been developed for both operating and capital inputs.

A Draft Budget is prepared, based on budget assumption where after the eagerly awaited Division of Revenue is received during February and published the grant and subsidy allocation in terms of which budget parameters are set or adjusted. Information from other sources, District Councils and Provincial Authorities are confirmed. Any surplus capacity is consumed.

The impact of the amalgamation process during the 2016/2017 process has, however, resulted in a lot of uncertainty as EC107 did not receive any grant allocation in the DOR Act 2016.

Political oversight of the process

The schedule of key deadlines was submitted to management meeting to monitor the progress of the process by officials against the schedule tabled by the Mayor. The Mayor was regularly informed on the progress.

Consultations & advertisements

Advertisements was be placed in the local newspapers circulating in the area of jurisdiction and district informing the community of the approval of the budget.

Stakeholders

The following stakeholders have been consulted:

- National Treasury
- Provincial Treasury
- Provincial sector departments
- District municipality
- Providers of bulk resources for water & electricity
- Community

CHAPTER 6

ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

AMENDMENT AND ADJUSTMENT TO THE 2016/2017 IDP

The review process focussed on:

- ❖ Improving the **strategic nature** of the document, thereby ensuring effective use of available data, careful consideration of available resources, as well as exploring locally appropriate solutions to complex development issues.
- ❖ Increasing the usefulness of the document during **implementation** and monitoring.

The process was influenced by:

- ❖ Project progress information as provided by Heads of Departments
- ❖ An extensive data search to update the analysis chapter.
- ❖ Inputs from community based planning initiatives

The alignment of the IDP with the budget is illustrated in the A Schedule.

These allocations are to link up with the Service Delivery and Budget Implementation plan.

A Service Delivery and Budget Implementation Plan has been developed and is tabled with the final budget to Council. The final SDBIP needs to be approved within 28 days after the adoption of the budget. KPA's and KPI's have been developed and strategic alignment between IDP, Budget and SDBIP is ascertain.

CHAPTER 7

MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

The SDBIP is tabled as separate document together with the budget.

CHAPTER 8

BUDGET RELATED POLICIES

The prioritization of service delivery and the management of council functions is the key to the budget. Baviaans municipality's budget process is guided and governed by legislation regulations and budget related policies.

Baviaans Municipality embarked on a process of reviewing all financial and budget related policies during the budget process for 2016/2017 financial year.

These policies need to be enacted into by-laws thereby enabling council to undertake its revenue collection effort to court and further securing income generation.

Tariff Policy

The Municipal Systems Act requires a municipality to have a tariff policy. One of the challenges in setting tariffs is ensuring affordable tariffs whilst maintaining financial stability.

The tariff policy tries to address this issue and creates a foundation for the principles that address social, economic and financial imperatives that the process of tariff setting should take into account.

Changes proposed: No changes proposed

Rates policy

Baviaans Municipality has adopted a rates policy which is line with legislative requirements. The policy became effective 01 July 2009 and was reviewed during 2015/2016

The policy provides that properties be rated based on their market value. New valuation rolls have been compiled and the rolls became effective from 1 July 2014.

Changes proposed: Changes proposed to take into consideration new Municipal Property Rates Amendment Act which will be effective from 1 July 2015 and amendments proposed by the National Department of Co-operative Governance.

Indigent Policy

Baviaans municipality is committed to ensure that all households have access to its services. Due to the fact that Baviaans Municipality has a high level of unemployment the municipality decided to adopt an indigent policy. This policy will ensure that poor households have at least access to basic services.

Changes proposed: Increase the additional assistance level to a household income of R 3 500

Supply Chain Management Policy

Municipalities are required in terms of section 111 of MFMA to have a supply chain management policy. Baviaans Municipality has a policy within the framework of the legislation. The policy adheres to the following principles:

- Procurement system which is fair, equitable, transparent, competitive and cost effective in terms of section 217 of the Constitution
- Best practice within supply chain management
- Uniformity in supply chain management systems between organs of state in all spheres

The policy has been reviewed during the 2015/2016 financial year.

Changes proposed: To include the registration of all suppliers on the Central Supplier Database.

Credit control and debt management policy

The credit control policy of Baviaans Municipality was reviewed during 2015/2016. This policy provides the procedures and mechanisms for credit control and collection of debts. The primary objective is to ensure that all monies due to the municipality are collected efficiently and promptly.

Changes proposed: implement a minimum amount outstanding before disconnection of services; update budget related charges; update deposits to be paid and include amendments proposed by the National Department of Co-operative Governance.

Banking and Investment policy

As custodians of public funds, the Council has an obligation to see to it that cash resources are managed as effectively as possible. Council has a responsibility to invest public funds with great care and is liable to the community in that regard.

The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when funds are not needed. To bring this about, it is essential to have an effective cashflow management program.

Changes proposed: No changes proposed

Asset management policy

The Asset Management Policy provides direction for the management, accounting and control of Property, Plant & Equipment (Fixed Assets) owned or controlled by municipality.

Changes proposed: No changes proposed

Virement policy

No changes proposed

Loans policy

The policy guides the conditions applying to the raising of both short and long term loans by the municipality

No changes proposed

CHAPTER 9

BUDGET ASSUMPTIONS

The budget for the 2016/2017 financial year was drawn up with the following assumptions and principles taken into account:

- The budget is prepared in terms of the provisions of the Generally Recognised Accounting Practice framework to comply with the provisions of the MFMA GAMAP/GRAP implementation dates.
- Revenue figures are based on realistic estimates of revenue to be collected.
- Actual revenue collected for the current year and realistic revenue projections were taken into account in determining the revenue for the coming year.
- The principals of economic viability and sustainability is applied in all services and where possible no cross subsidization is done between services.
- National growth parameters were used as far as possible for the determination of outer year budget amounts.
- Increase in Electricity purchases are budgeted at 7.7 % subject to NERSA approval of the application.

- A general salary increase of 7 % is used for the determination of the salaries of staff whilst CPI was used for increase in salaries for the Public office bearers
- The Municipality still relies heavily on grants and subsidies for funding of the capital requirements for the 2016/2017 financial year and does not possess the financial capacity to raise capital from own revenue sources.
- Only funded capital projects are included in the capital estimates for the 2016/2017 financial year.
- Both the capital and operating budgets are informed by the IDP process done through a public participation process.

CHAPTER 10

BUDGET FUNDING

FUNDING OF OPERATING EXPENDITURE

Operating expenditure to the amount of R 89.4 Million is funded through the following sources:

| | Sum of 2016/2017 Budget |
|---|------------------------------------|
| Fines | -2 132 |
| Gain On Disposal Of Property, | -63 960 |
| Grants & Subsidies Received - Capital | -42 385 141 |
| Grants & Subsidies Received - Operating | -33 456 381 |
| Income For Agency Services | -724 880 |
| Interest Earned - External Investments | -42 640 |
| Interest Earned - Debtors | -266 500 |
| Licenses & Permits | -676 910 |
| Other Revenue | -523 344 |
| Property Rates | -5 249 986 |
| Less Revenue Foregone | 106 600 |
| Rent Of Facilities And Equipment | -166 083 |
| Service Charges | -23 194 092 |
| TOTAL REVENUE | -106 645 448 |
| TOTAL EXPENDITURE | 89 398 217 |
| NET (SURPLUS) | -17 247 231 |

Outstanding debtors have been handed over to attorneys and debt collection agencies to assist the municipality in collecting outstanding monies. It is because of this process as well as the decision to write off all outstanding debt older than 90 days together with improved revenue collection procedures and measures.

FUNDING OF CAPITAL EXPENDITURE

| Project Title | Funding source | Project Type | 2015_2016 | Adjustment 2015_2016 | 2016_2017 | 2017_2018 | 2018_2019 |
|---|----------------|-----------------------|-------------------|----------------------|-------------------|-------------------|-------------------|
| Upgrading of Streets and Storm Water-Willowmore | MIG | Streets & Storm water | 1 755 482 | 1 755 482 | 877 193 | 877 193 | 877 193 |
| Upgrading of Streets and Storm Water-Steytlerville | MIG | Streets & Storm water | 1 755 482 | 1 755 482 | 877 193 | 877 193 | 877 193 |
| Rietbron High Mast Light | MIG | Electricity | 175 439 | 175 439 | | | |
| Waste Water Treatment Works Rietbron | MIG | Waste Water | 1 929 825 | 1 929 825 | | | |
| Upgrading of Sport Fields in Baviaans Municipality | MIG | Sport Facilities | 1 167 105 | 1 167 105 | 1 189 079 | 816 271 | 854 808 |
| Baviaans LED project | MIG | LED | | | | | |
| Willowmore Bulk Water Supply-Wilgerkloof | MIG | Water | 389 035 | 389 035 | 487 191 | 272 090 | 284 936 |
| Vehicles - Leases | Lease | Vehicles | 219 298 | 219 298 | 5 825 966 | 2 326 987 | 2 519 652 |
| Replacement of old domestic water meters - Rietbron | Provincial | Water | 792 087 | 792 087 | | | |
| IT Infrastructure upgrade | MSIG | IT | 1 592 982 | 1 592 982 | | | |
| Refurbishment of buildings | Own funding | Buildings | 789 474 | 486 342 | | | |
| Replacement of equipment | Own funding | Water | | 40 000 | | | |
| Replacement of equipment | Own funding | Electricity | | 70 000 | 35 088 | 35 088 | 35 088 |
| Replacement of equipment | Own funding | Sanitation | | 10 000 | 35 088 | 35 088 | 35 088 |
| Replacement of equipment | Own funding | Sanitation | | 10 000 | 35 088 | 35 088 | 35 088 |
| Replacement of equipment | Own funding | Streets & Storm water | | 20 000 | 35 088 | 35 088 | 35 088 |
| Electricity | INEP | Electricity | | | 3 209 243 | 6 418 486 | 9 627 728 |
| Steytlerville Bulk Water Erasmuskloof | RBIG | Water | 20 884 211 | 23 891 228 | 20 958 772 | 17 195 507 | |
| | | | 31 450 420 | 34 104 805 | 33 564 987 | 28 924 056 | 15 181 860 |

FISCAL SUSTAINABILITY OF THE MUNICIPALITY

Budget control is exercised in order to ensure that operating expenditure does not exceed actual operating revenue received. The current revenue levels are not sufficient to ensure the sustainable rendering of services and the execution of the constitutional mandate in the short and medium term. The municipality is currently struggling to service all of its current commitments and continue as a going concern.

The credit control policy will be strictly enforced in the 2016/2017 financial year to ensure that all monies due to the municipality is collected in further contribution to the sustainable rendering of services. Incentives are available to consumers/ratepayers in arrears should accounts be settled or arrangements for the settlement of long outstanding debt be concluded.

FINANCIAL CHALLENGES AND CONSTRAINTS

Baviaans Municipality faces the following financial challenges:

- 1) Achieving financial stability in the medium term and long term
- 2) Dependence on grant funding
- 3) Acceptable level of tariff increases – trying to balance financial sustainability and affordability
- 4) Managing cost
- 5) Exploring alternative revenue sources
- 6) Poor/slow indigent registration
- 7) Debt collection in Eskom serviced areas
- 8) Unfunded budget due to shortage in working capital. The municipality is unable to pay all its creditors and creditors are carried over to the next financial year without sufficient funding therefore.

In order to address the first challenge, the municipality had approach Provincial Treasury for assistance. Provincial Treasury assisted with drafting a recovery plan which is implemented and constantly monitored.

All tariffs needs a review and a process of investigating tariffs and ensuring all cost associated with providing the service has been taken into account, started during 2014/15 financial year. The municipality has received assistance through the Municipal Finance Improvement Programme administered by National Treasury. Through this programme the municipality will receive assistance to do a tariff analysis and by using a tariff model and ensuring all direct costs as well as indirect costs are linked to services will then be in a position to recommend proper cost reflective tariffs.

Indigent registration will already commence on 1 April 2015. An improved project plan has been adopted by the Indigent steering committee to ensure maximum exposure of the field workers and maximum advertising of the campaign. Special focus will be given to the Eskom serviced areas where indigent registration is extremely poor.

A debt collector has been appointed to assist the municipality in recovering debt.

FINANCIAL RISKS

Financial risks include:

- Changes in inflation rate and other variables
- Unemployment trends
- Global financial instability

FUNDING COMPLIANCE IN TERMS OF SECTION 18 OF THE MFMA

In compliance with the requirements of Section 18 of the MFMA, the revenue budget was based on the following principles:

- Realistically anticipated revenue to be collected.
- Borrowed funds only for capital expenditure.
- Projected revenue for the current year is based on collection levels to date.
- Actual revenue of previous years was taken into account.
- Capital projects were only included if funding confirmation was received, either by means of the DORA allocations as promulgated or by means of commitment from funding institutions.

PARTICULARS OF PLANNED SAVINGS OVER THE MEDIUM TERM

The principle of value adding in all aspects of the administration and service rendering is applied and no expenditure is incurred unless value is added to the municipal administration or services. Care is taken in administrative and supply chain processes to ensure that real economic benefit flows to the municipality as a result of funds being spent.

The following expenditure items are closely monitored:

- Travelling and subsistence
- Telephone expenses.
- Overtime and standby allowances
- Workshops and conferences.
- Fuel and maintenance expenditure in respect of service delivery vehicles

CONTRIBUTIONS OR DONATIONS IN CASH OR IN-KIND

No donations are budgeted for the 2016/2017 financial year.

PARTICULARS OF THE MUNICIPALITY'S INVESTMENTS

None

PARTICULARS OF BANK OVERDRAFTS AND CREDIT FACILITIES

The municipality currently operates a bank overdraft to finance operational requirements in the short term, and it is envisaged that the municipality may once again be required to make use of an overdraft facility in the 2016/2017 financial year in the amount of R2 Million.

PARTICULARS OF GRANTS AND SUBSIDIES RECEIVED

The budgeted grants to be received for the 2016/2017 financial year are as follows, it should be noted that the allocations to EC101 in the DOR Bill had been split in line with the guidelines provided in the MFMA Circular number 79:

Equitable Share

| | <u>Total</u> | <u>EC101</u> | <u>EC103</u> | <u>EC107</u> |
|------------------------------------|--------------|--------------|--------------|--------------|
| Total allocation 2015/2016 | 88 857 000 | 43 753 000 | 21 057 000 | 24 047 000 |
| Percentage of 2015/2016 allocation | | 49% | 24% | 27% |
| Total allocation 2016/2017 | 84 241 000 | 41 480 091 | 19 963 118 | 22 797 791 |
| Total allocation 2017/2018 | 78 096 000 | 38 454 306 | 18 506 898 | 21 134 795 |
| Total allocation 2018/2019 | 83 220 000 | 40 977 353 | 19 721 165 | 22 521 482 |

Municipal Demarcation Transitional Grant

| | <u>Total</u> | <u>EC101</u> | <u>EC103</u> | <u>EC107</u> |
|----------------------------|--------------|--------------|--------------|--------------|
| | | 49% | 24% | 27% |
| Total allocation 2016/2017 | 20 143 000 | 9 918 371 | 4 773 413 | 5 451 216 |
| Total allocation 2017/2018 | 6 847 000 | 3 371 448 | 1 622 576 | 1 852 975 |

Finance Management Grant

| | <u>Total</u> | <u>EC101</u> | <u>EC103</u> | <u>EC107</u> |
|------------------------------------|--------------|--------------|--------------|--------------|
| Total allocation 2015/2016 | 5 275 000 | 1 800 000 | 1 875 000 | 1 600 000 |
| Percentage of 2015/2016 allocation | | 34% | 36% | 30% |
| Total allocation 2016/2017 | 5 460 000 | 1 863 128 | 1 940 758 | 1 656 114 |
| Total allocation 2017/2018 | 5 945 000 | 2 028 626 | 2 113 152 | 1 803 223 |
| Total allocation 2018/2019 | 6 455 000 | 2 202 654 | 2 294 431 | 1 957 915 |

EPWP

| | <u>Total</u> | <u>EC101</u> | <u>EC103</u> | <u>EC107</u> |
|------------------------------------|--------------|--------------|--------------|--------------|
| Total allocation 2015/2016 | 3 018 000 | 1 000 000 | 1 000 000 | 1 018 000 |
| Percentage of 2015/2016 allocation | | 33% | 33% | 34% |
| Total allocation 2016/2017 | 3 101 000 | 1 027 502 | 1 027 502 | 1 045 997 |
| Total allocation 2017/2018 | - | - | - | - |
| Total allocation 2018/2019 | - | - | - | - |

MIG

| | <u>Total</u> | <u>EC101</u> | <u>EC103</u> | <u>EC107</u> |
|------------------------------------|--------------|--------------|--------------|--------------|
| Total allocation 2015/2016 | 30 043 000 | 13 341 000 | 7 832 000 | 8 870 000 |
| Percentage of 2015/2016 allocation | | 44% | 26% | 30% |
| Total allocation 2016/2017 | 37 623 000 | 16 707 001 | 5 808 053 | 11 107 946 |
| Total allocation 2017/2018 | 21 012 000 | 9 330 862 | 5 477 881 | 6 203 655 |
| Total allocation 2018/2019 | 22 004 000 | 9 771 173 | 5 736 289 | 6 496 538 |

INEP

| | <u>Total</u> | <u>EC101</u> | <u>EC103</u> | <u>EC107</u> |
|------------------------------------|--------------|--------------|--------------|--------------|
| Total allocation 2015/2016 | 4 100 000 | 1 100 000 | | 3 000 000 |
| Percentage of 2015/2016 allocation | | 27% | 0% | 73% |
| Total allocation 2016/2017 | 5 000 000 | 1 341 463 | - | 3 658 537 |
| Total allocation 2017/2018 | 10 000 000 | 2 682 927 | - | 7 317 073 |
| Total allocation 2018/2019 | 15 000 000 | 4 024 390 | - | 10 975 610 |

RBIG

| | <u>Total</u> | <u>EC101</u> | <u>EC103</u> | <u>EC107</u> |
|------------------------------------|--------------|--------------|--------------|--------------|
| Total allocation 2015/2016 | 32 008 000 | 5 000 000 | | 27 008 000 |
| Percentage of 2015/2016 allocation | | 16% | 0% | 84% |
| Total allocation 2016/2017 | 59 948 000 | 23 440 000 | 12 615 000 | 23 893 000 |
| Total allocation 2017/2018 | 49 184 000 | 19 231 216 | 10 349 906 | 19 602 878 |
| Total allocation 2018/2019 | | | | |

Capital grants

| | <u>Total</u> | <u>EC101</u> | <u>EC103</u> | <u>EC107</u> |
|----------------------------|--------------|--------------|--------------|--------------|
| Total allocation 2015/2016 | 66 151 000 | 19 441 000 | 7 832 000 | 38 878 000 |
| Total allocation 2016/2017 | 102 571 000 | 41 488 465 | 22 423 053 | 38 659 482 |
| Total allocation 2017/2018 | 80 196 000 | 31 244 806 | 15 827 587 | 33 123 607 |
| Total allocation 2018/2019 | 37 004 000 | 13 795 564 | 5 736 289 | 17 472 147 |

PARTICULARS OF PROPERTY VALUATIONS RATES TARIFFS AND CHARGES

Property rates are levied in terms of the provisions of the Municipal Property Rates Act, 6 of 2004. The current valuation roll was implemented with effect from 1 July 2014. The current valuation roll is valid until 30 June 2019.

Categories Ratio in relation to residential property

Residential property 1:1
 Agricultural property 1:0.071
 Public service infrastructure property 1:0.25
 Public benefit organization property 1:0.25

CHAPTER 11**ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY**

No allocations will be made to any other municipality, any organ of state or any organization or bodies outside any sphere of government as referred to in section 67(1) of the Act.

The only non-cash grants that will be given are the subsidies for free basic electricity to be paid over to ESKOM on an invoice basis.

CHAPTER 12

CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

There are no contracts with future budgetary implications

CHAPTER 13

LEGISLATIVE COMPLIANCE

The Municipal Finance Management Act brought about uniformity, accountability and control measures to local government in terms of financial reporting and budgeting. The Act required a high level of transformation financial disciplines and planning.

New budget regulations were published in Gazette nr. 32141 on 17 April 2009. The object of these regulations is to secure sound and sustainable management of the budgeting and reporting practices of municipalities by establishing uniform norms and standards and other requirements for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting process. The 2016/2017 budgets for all municipalities needs to comply with these regulations.

Challenges experienced:

Although the financial system has the capabilities of generating the budget schedules, problems were experienced with regards to the accuracy of the information generated. Not all staff in the BTO has been trained on the reporting module of the financial system.

The MFMA regulates monthly and quarterly reports to be submitted to National Treasury. A significant improvement was noted during the 2014/15 and 2015/2016 financial year with regards to the submission of S71 reports.

Achievements:

The municipality received assistance from National Treasury within the MFIP II programme. A National Treasury Advisor has been allocated to the municipality to assist the municipality and address key issues identified and stipulated in an activity plan. The advisor is assisting greatly in ensuring compliance with regards to reporting and other compliance issues.

The municipality also received assistance from the Sarah Baartman District Municipality who implemented a project to ensure improved audit outcomes within the local municipalities. A service provider has been appointed and is working on site to assist with issues relating to audit readiness.

ANNEXURES

- Annexure A - A Schedule Budget Tables
- Annexure B - Schedule of Service Delivery Standards
- Annexure C - Summary of line item per Department
- Annexure D - Tariff listing
- Annexure E - MFMA Circular No. 82
- Annexure F - Quality Certificate
- Annexure G - Signed Council Resolution
- Annexure H - Supporting tables (SA1 – SA37)
- Annexure I - mSCOA implementation plan