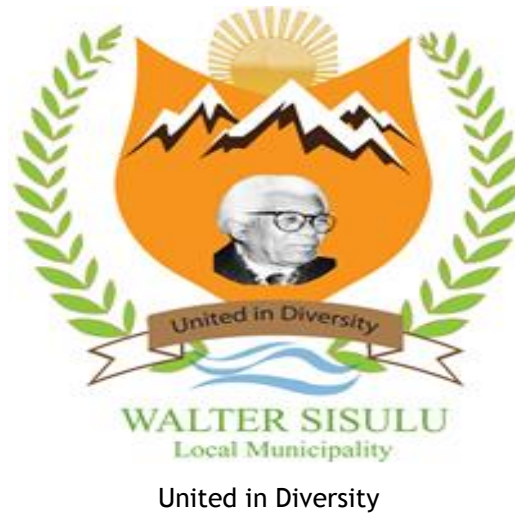


# **Walter Sisulu Municipality**



## **Budget 2016/17 – 2018/19**

### **Medium Term Revenue and Expenditure Framework**

## Table of Contents

Table of Contents .....	2
Glossary .....	3
<b>PART 1 - ANNUAL BUDGET .....</b>	<b>5</b>
Section 1 - Mayor's Report .....	5
Section 2 - Budget Related Resolutions .....	7
Section 3 - Executive Summary .....	8
Section 4 - Annual budget tables .....	24
<b>PART 2 - SUPPORTING DOCUMENTATION .....</b>	<b>25</b>
Section 5 - Overview of annual budget process .....	25
Section 6 - Overview of alignment of the annual budget with the Integrated Development Plan .....	27
Section 7 - Measurable performance objectives and indicators .....	22
Section 8 - Overview of budget related policies .....	23
Section 9 - Overview of budget assumptions.....	24
Section 10 - Overview of budget funding .....	30
Section 11 - Expenditure on allocations and grant programmes.....	34
Section 12 - Allocations and grants made by the Municipality .....	37
Section 13 - Councillor allowances and employee benefits .....	38
Section 14 - Monthly targets for revenue, expenditure and cash flow .....	40
Section 15 - Annual budgets and service delivery and budget implementation plans - internal departments.....	41
Section 16 - Annual budgets and service delivery agreements - municipal entities and other external mechanisms.....	42
Section 17 - Contracts having future budgetary implications .....	43
Section 18 - Capital expenditure details .....	44
Section 19 - Legislation compliance status.....	45
Section 20 - Other supporting documents .....	51
Section 21 - Municipal manager's quality certification .....	52
Annexure A - Tariffs.....	

# Glossary

**Adjustments Budget** - Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

**Allocations** - Money received from Provincial or National Government or other municipalities.

**Budget** - The financial plan of the Municipality.

**Budget Related Policy** - Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

**Capital Expenditure** - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

**Cash flow statement** - A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

**DORA** - Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

**Equitable Share** - A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

**Fruitless and wasteful expenditure** - Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**GFS** - Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

**GRAP** - Generally Recognised Accounting Practice. The new standard for municipal accounting.

**IDP** - Integrated Development Plan. The main strategic planning document of the Municipality

**KPI's** - Key Performance Indicators. Measures of service output and/or outcome.

**MFMA** - The Municipal Finance Management Act - No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

**MTREF** - Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

**Net Assets** - Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

**Operating Expenditure** - Spending on the day to day expenses of the Municipality such as salaries and wages.

**Rates** - Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

**SDBIP** - Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

**Strategic Objectives** - The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

**Unauthorised expenditure** - Generally, spending without, or in excess of, an approved budget.

**Virement** - A transfer of budget.

**Vote** - One of the main segments of a budget. In Walter Sisulu Municipality this means at function level.

# PART 1 - ANNUAL BUDGET

## Section 1 -Mayor's Report

It is with great pleasure that I present the 2016/2017 Medium Term Revenue and Expenditure framework (MTREF) to the Council and especially the community at large, for input.

I am specifically pleased to announce that our budget materially complies with the latest budget regulations as well as the requirements of the National Treasury, for which I must thank the Chief Financial Officer and his staff for the tremendous effort.

The Council's strategic objective of service delivery includes the continuation of the acceptable levels of service as well as the improvement in those areas where it lacks acceptable levels.

The balancing act is to achieve these objectives with available financial resources, and to always consider the effect of tariff adjustments on the community at large, and specifically the poor. In addition, we did not escape the effect of the global economic downturn, as well as the recently announced tariff increases by ESKOM, and this makes the achievement of the service delivery objectives so much more difficult.

The forecasted expenditure can be summarised as follows: (R 000)

TYPE	2016/2017	2017/2018	2018/2019
Operating	240 999 446	261 209 000	272 065 401
Capital	26 210 350	9 552 037	0
<b>TOTAL</b>	<b>267 209 797</b>	<b>270 731 037</b>	<b>272 065 401</b>

We need to recognise the funding role of the National and Provincial Governments, with contributions from these spheres of governments through grants and subsidies amounting to a total R98 million in total.

An indication of our commitment is that we grant rebates on service charges on indigent consumers. In addition to these rebates and discounts, which provides for free basic services to the poor. This, together with the funding as mentioned above, are also indicative of the level of

unemployment and poverty in the region, and we must assist in National - and Provincial programs to improve this situation within the means of our Constitutional mandates.

National -, Provincial-, District - and local priorities for service delivery must be aligned and this is to a large degree achieved through the Integrated Development Plan process, whereby communities give input into service needs and which is being incorporated into the I.D.P. The different spheres of government then allocate resources to these requirements, but I must emphasise again that it is only to the extent that resources are available.

Our infrastructure development objectives are obviously to have services at acceptable levels to all, and for this purpose the budget for 2016/17 provides for roads - and storm water projects totalling R21 million which will also contribute to the national priority of safety.

While we recognise the need for the extension of services through infrastructure development, we must also recognise the need for the maintenance of these infrastructures and to this end we provide in the capital program for replacement of some of our aging vehicles and equipment. However, to provide for the capital is probably not that problematic, but to find the funds to maintain our infrastructure and other assets properly in the operating budget, without overburdening our consumers and ratepayers, is the big concern. It is common knowledge that the first place where funds are cut when other expenditure items increase to such an extent that a reduction in expenditure is necessary, is on maintenance votes.

I must also mention the effect of the ESKOM bulk tariff increases and the limitations set by NERSA on the electricity increases to be applied by the municipality. The ESCOM bulk tariff increase for the current year is set at 9.4%, while the increase allowed for the municipality is 7.64%.

I believe we have done all in our power to address service delivery requirements within our financial means and would like to thank our community for their inputs into the IDP process, my fellow Councillors for their continued hard work and support as well as the Municipal Manager and his staff for all their efforts.

## Section 2 - Budget Related Resolutions

Walter Sisulu Municipality

MTREF 2016/2017

These are the resolutions that will be approved by Council with the final adoption of the budget in May:

RESOLVED:

- [a]. That the annual budget of Walter Sisulu Municipality for the financial year 2016/2017; and indicative for the two projected years 2017/18 and 2018/19, as set-out in the schedules contained in Section 4, be approved:
  - 1.1 Table A2: Budgeted Financial Performance (expenditure by standard classification)
  - 1.2 Table A3: Budgeted Financial Performance (expenditure by municipal vote)
  - 1.3 Table A4: Budgeted Financial Performance (revenue by source)
  - 1.4 Table A5: Budgeted Capital Expenditure for both multi-year and single year by vote, standard classification and funding
- [b]. Property rates reflected in Annexure 1 and any other municipal tax reflected in Annexure 1 are imposed for the budget year 2016/2017.
- [c]. Tariffs and charges reflected in Annexure 1 are approved for the budget year 2016/2017.
- [d]. The measurable performance objectives for revenue from each source reflected in Section 7 are approved for the budget year 2016/2017.
- [e]. The measurable performance objectives for each vote reflected in S are approved for the budget year 2016/2017.
- [f]. Council notes the amended Integrated Development Plan adopted on 31 March 2016 reflected as summarised in Section 6.
- [g]. Council notes the performance indicators tabled with the budget for subsequent approval by the Executive Mayor reflected in Section 7.
- [h]. The amended policies for credit control, debt collection and indigents as reflected in Section 8 are approved for the budget year 2016/2017.
- [i]. The other new and/or amended budget related policies reflected in Section 8 are approved for the budget year 2016/2017;
- [j] Council notes the draft service delivery and budget implementation plan adopted on 31 March 2016

## Section 3 - Executive Summary

### Introduction

The budget is in the formats prescribed in the new Budget Regulations and related circulars.

This budget complies with the requirements of Generally Recognised Accounting Practises (GRAP).

### Effect of the annual budget

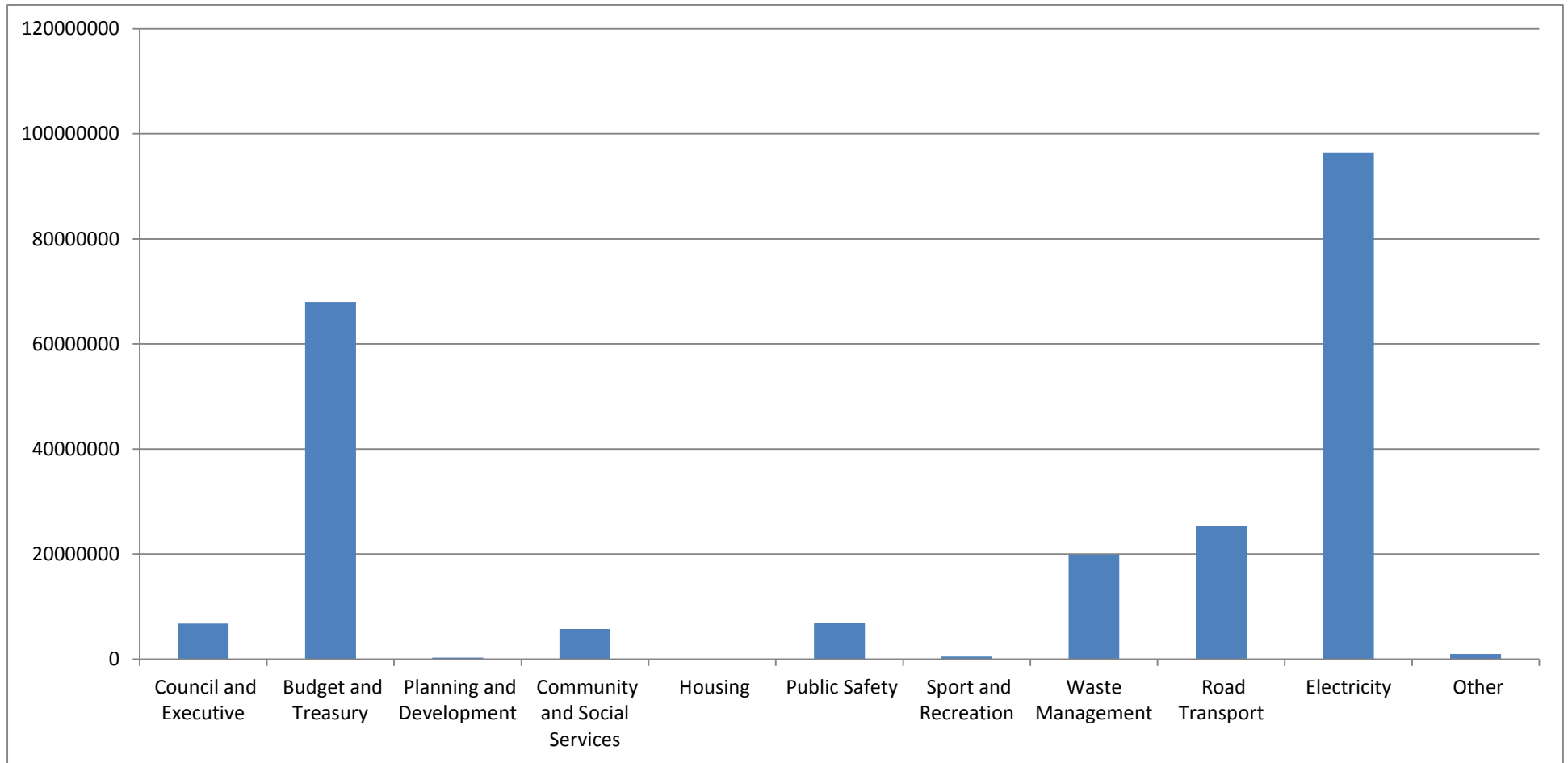
The projected forecasts for the MTREF are as follows: (R 000)

#### OPERATING BUDGET

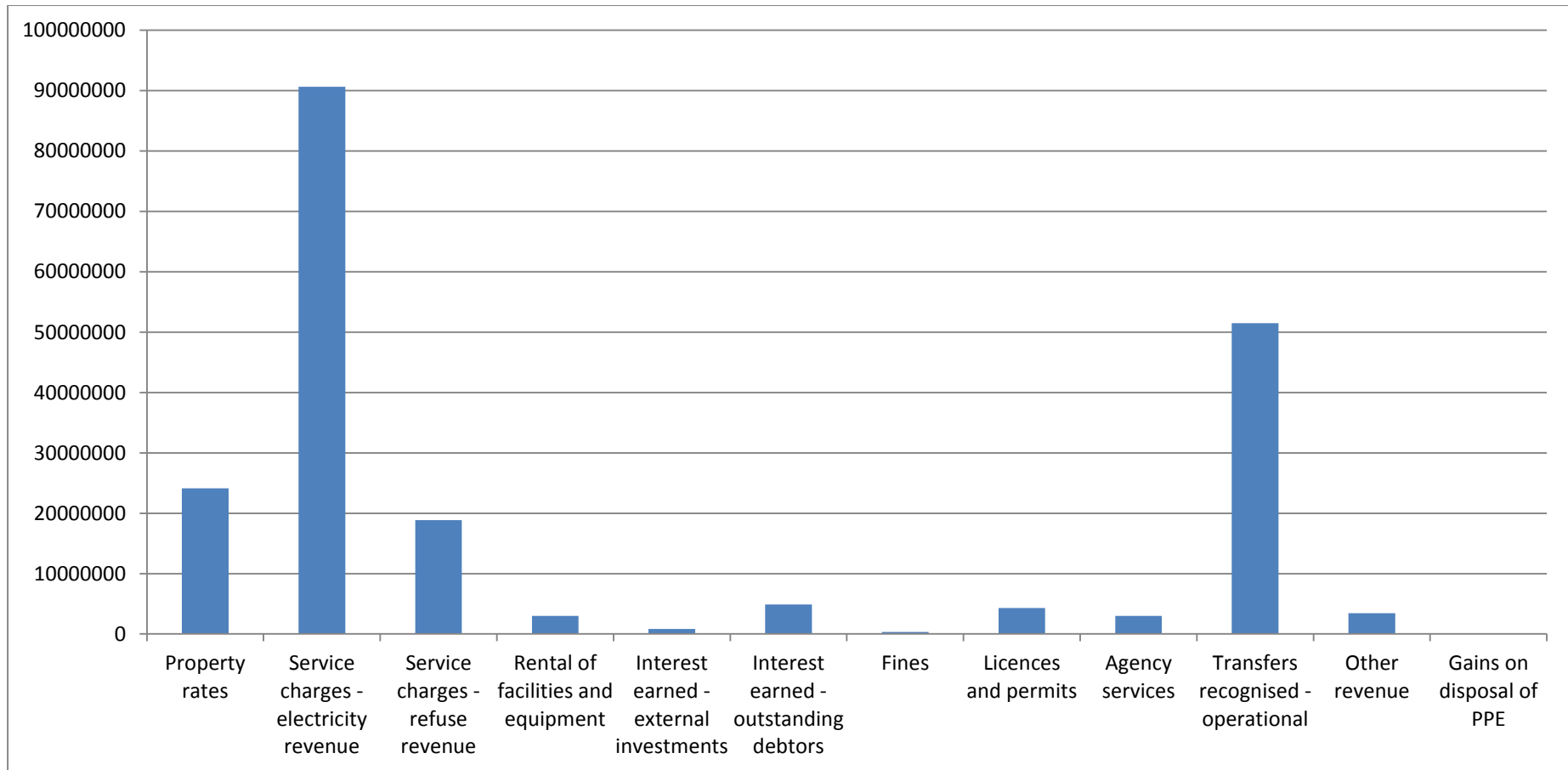
Type	2016/17	2017/18	2018/19
Revenue	231 001 979	229 980 113	248 808 979
Expenditure	(240 999 446)	(261 209 000)	(272 065 401)
Surplus/(Deficit)	<b>(9 997 468)</b>	<b>(31 228 887)</b>	<b>(23 256 421)</b>
Less: Capital Grants	(25 990 324)	(18 722 037)	(19 569 751)
Surplus/Deficit excluding Capital Grants	<b>(35 987 792)</b>	<b>(49 950 924)</b>	<b>(42 826 173)</b>



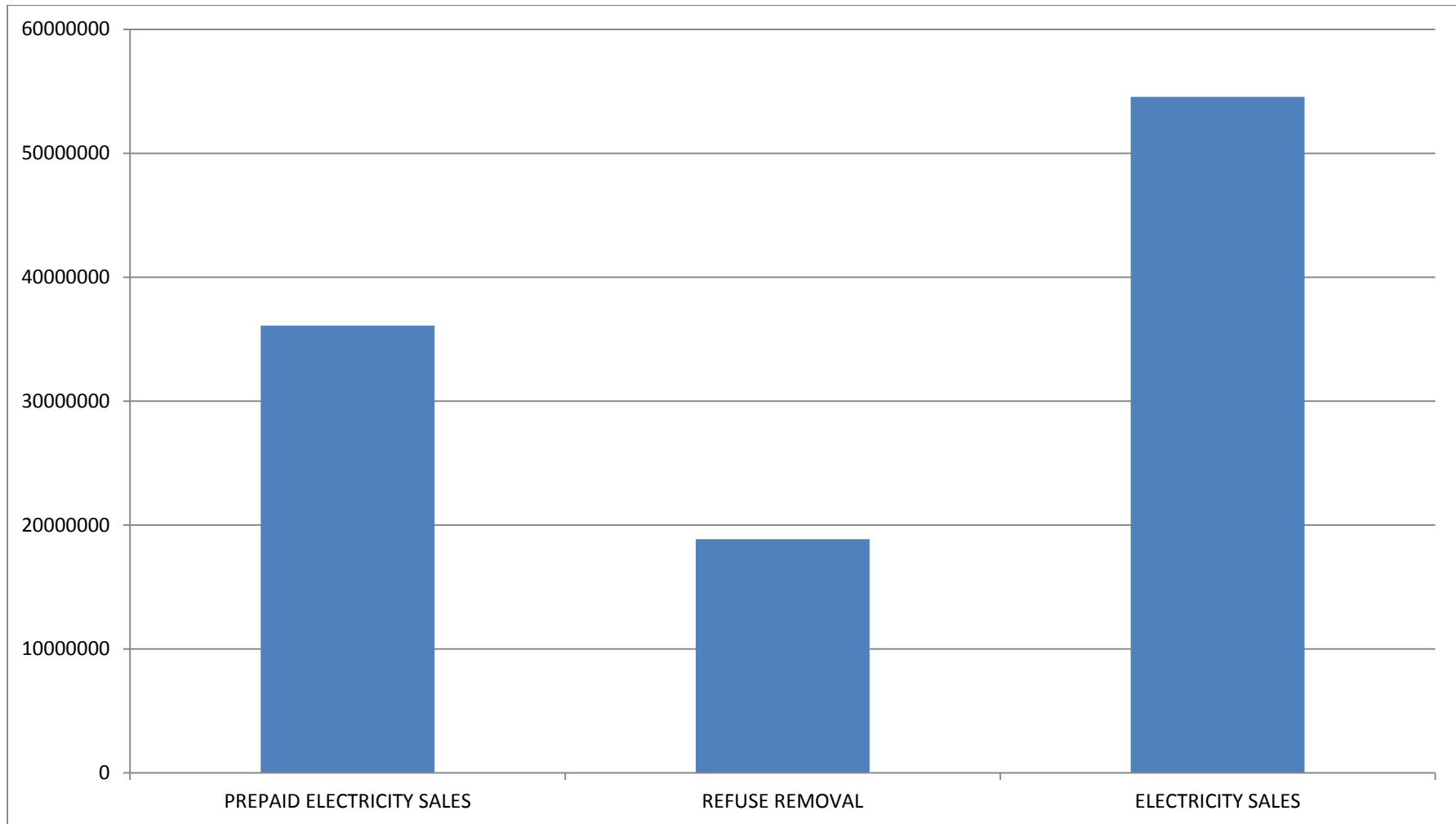
## Revenue by Vote



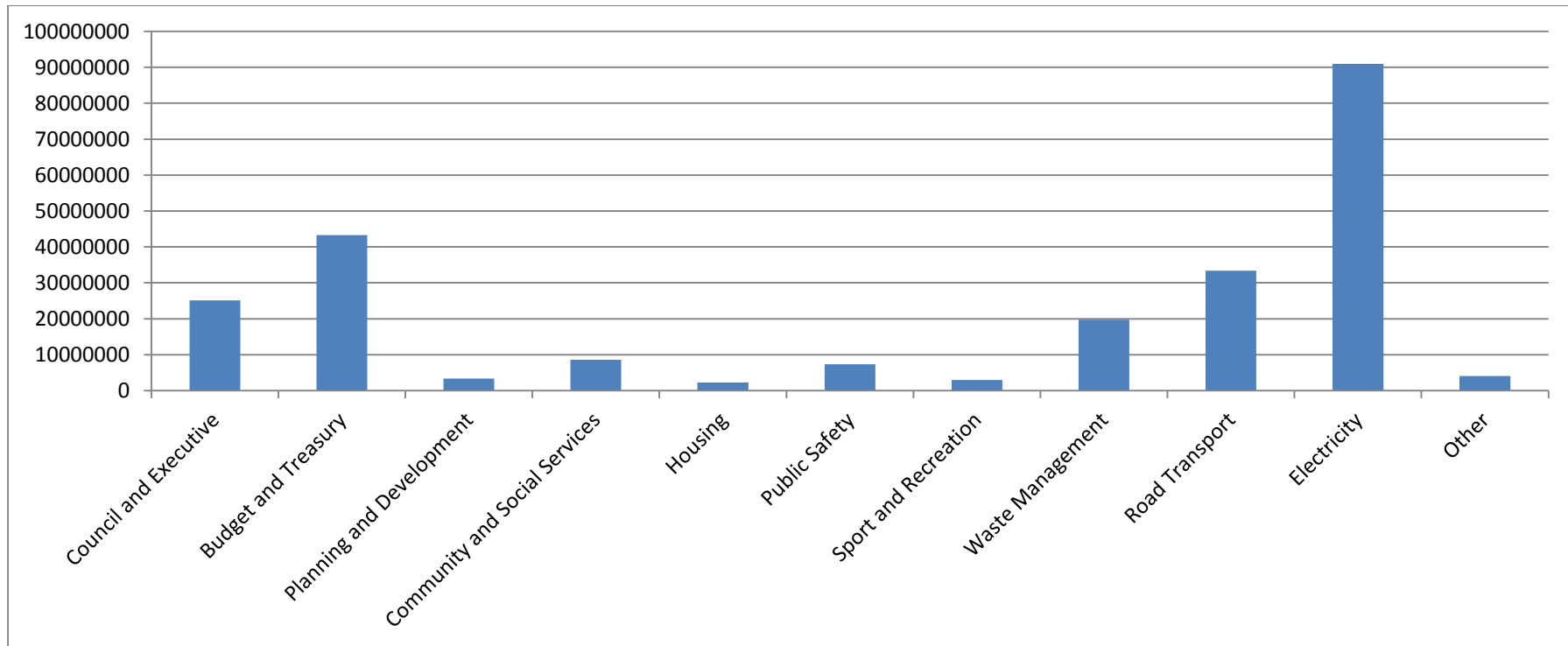
## Revenue by Source



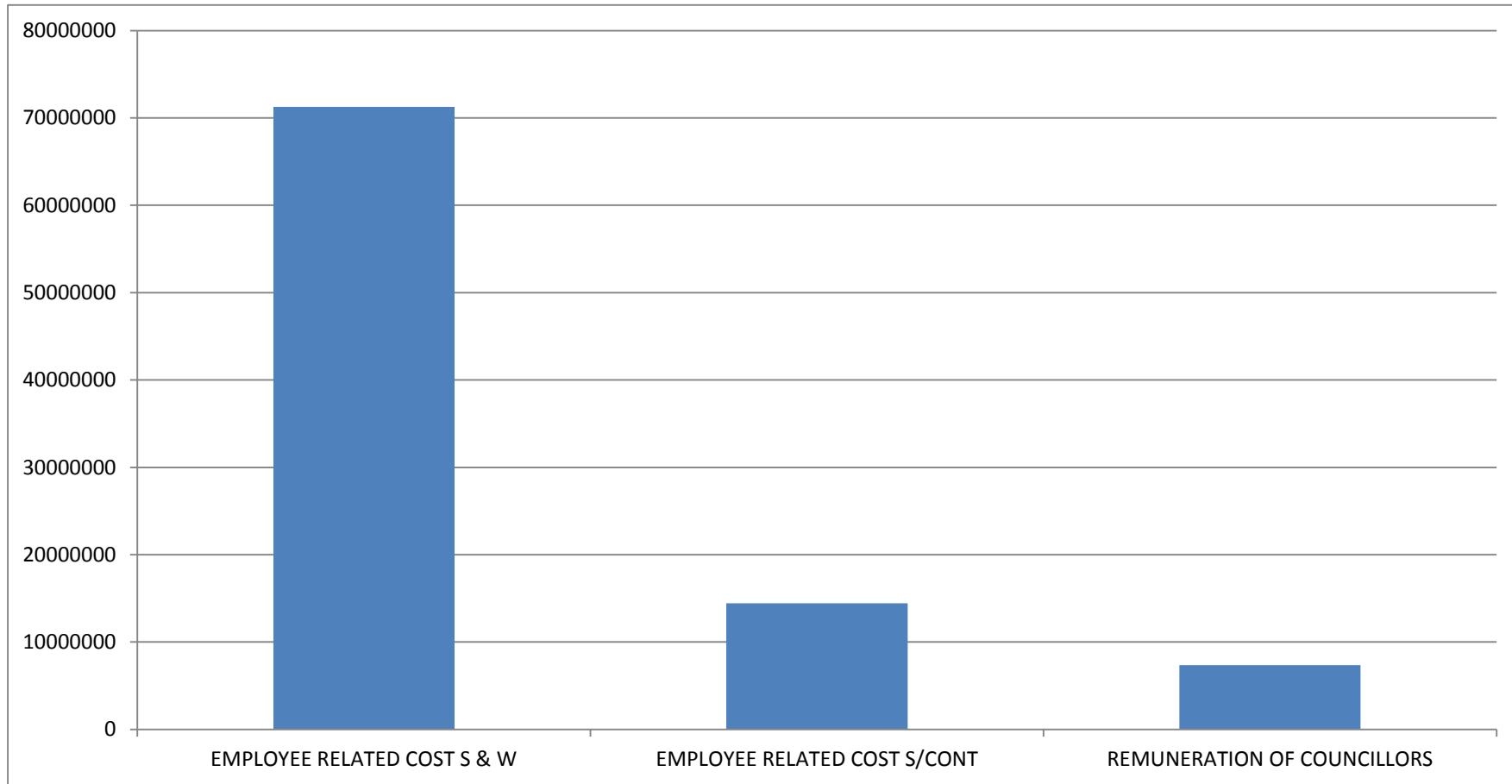
## Service Charges



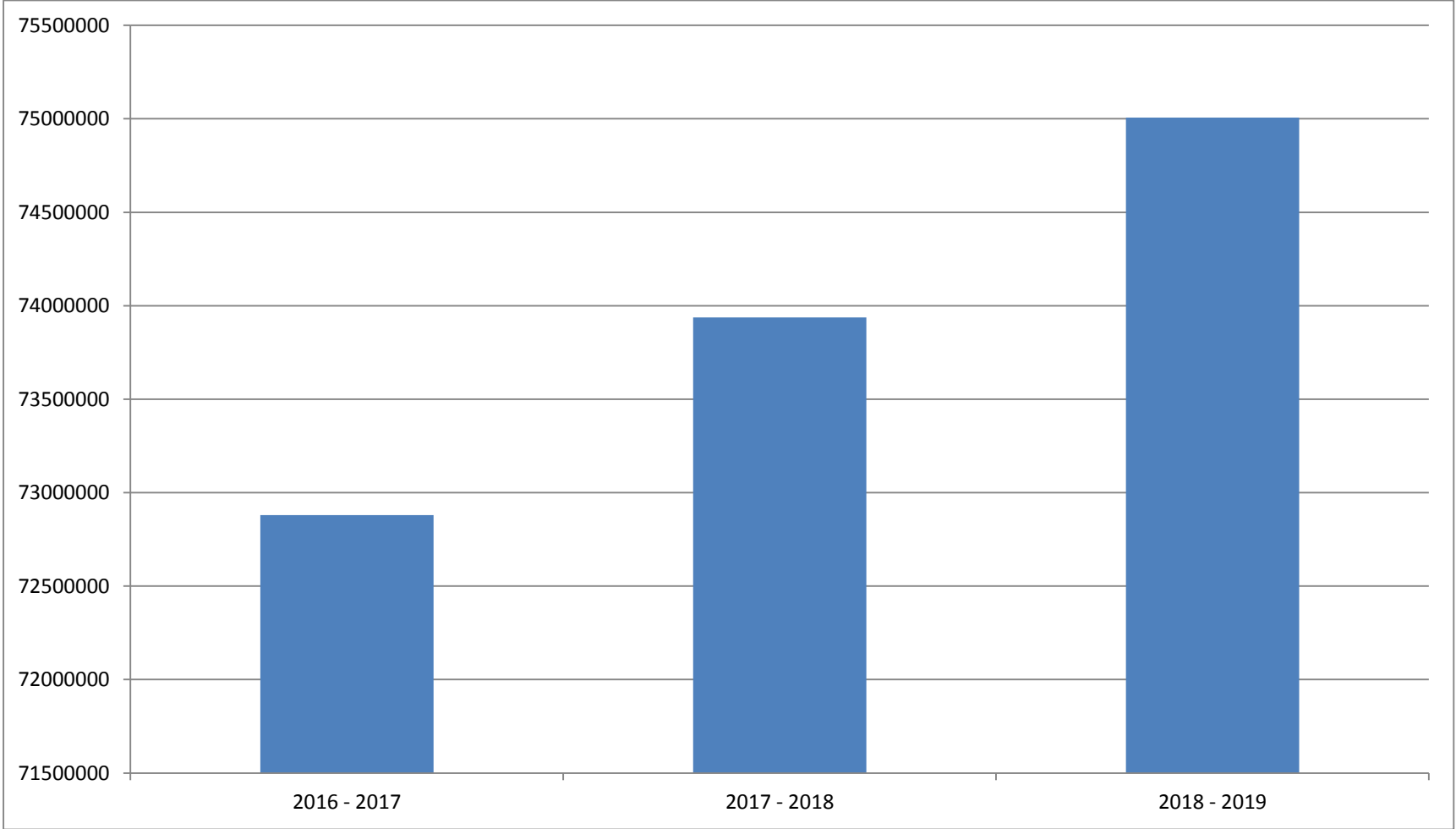
## Expenditure by Vote



## Employee Related Costs



**Bulk Purchases**



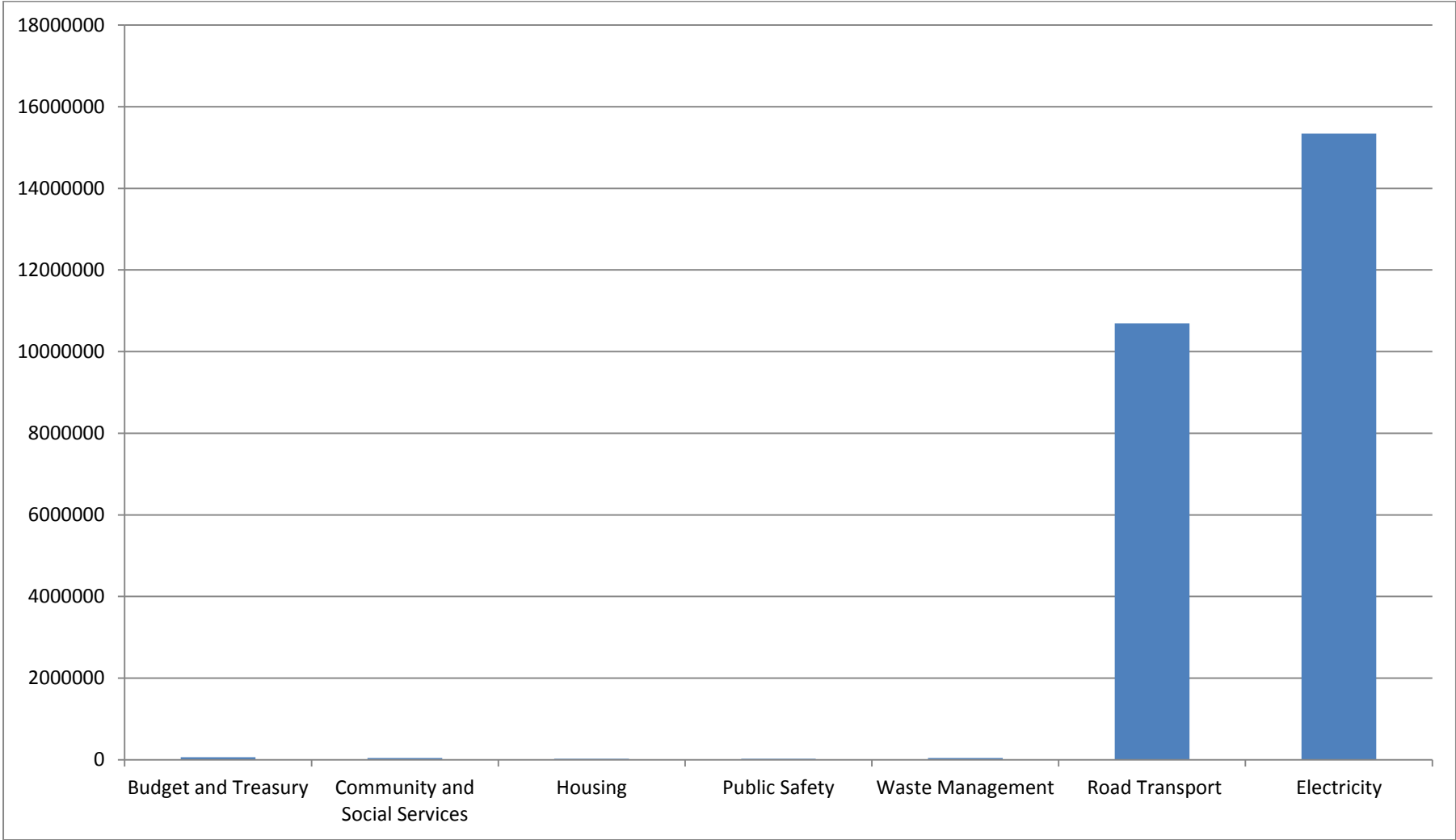
**CAPITAL BUDGET (R 000)**

Objective	2016/17	2017/18	2018/19
Governance and Admin	60	-	-
Community and Safety Services	80	-	-
Economic Services	10 691	9 522	-
Trading Services	15 379	-	-
<b>Total</b>	<b>26 210</b>	<b>9 522</b>	<b>-</b>

The projected funding of the capital budget is as follows: (R 000)

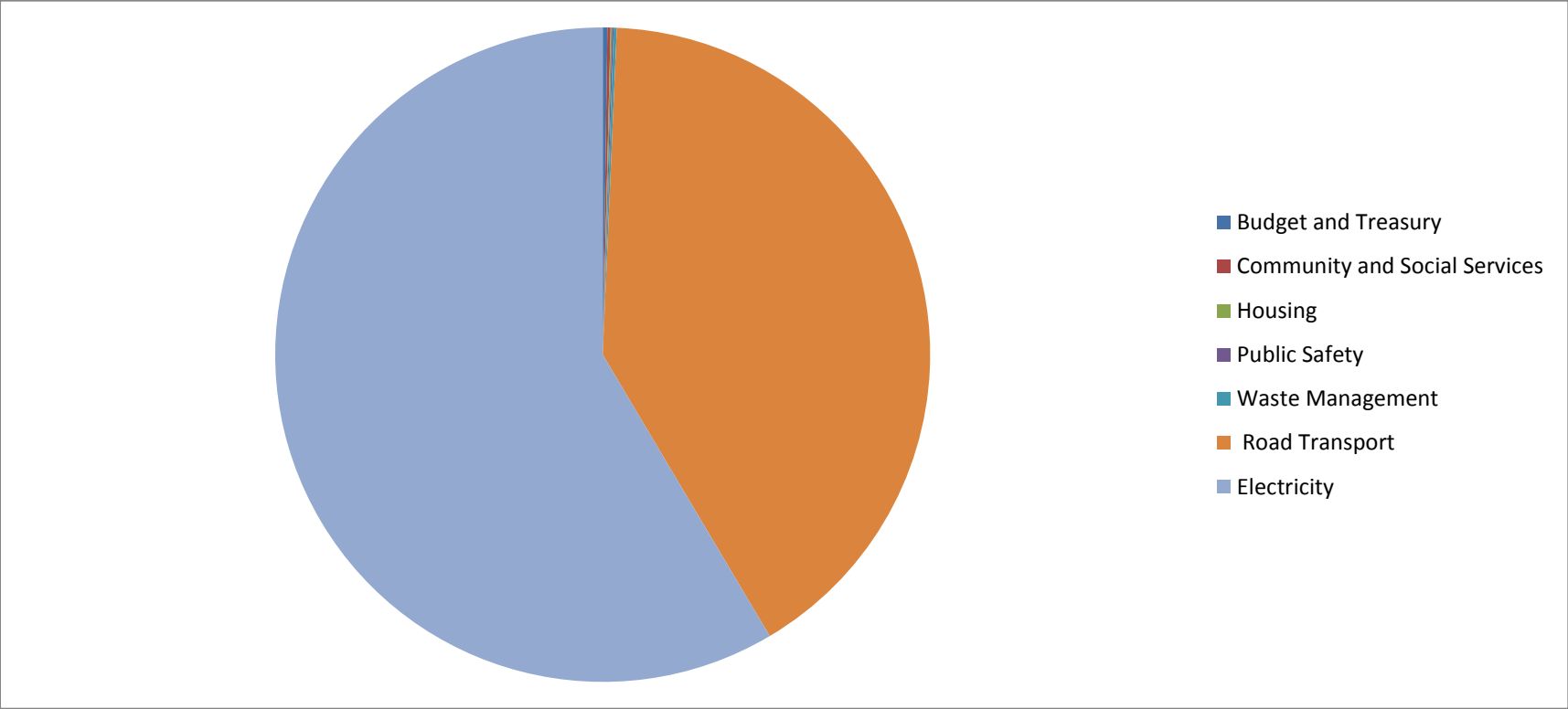
Funding Source	2016/17	2017/18	2018/19
National Government	25,990	9 522	
Own Funds	220	0	0
<b>Total</b>	<b>26 210</b>	<b>9 522</b>	<b>9 959</b>

Capital Expenditure by vote

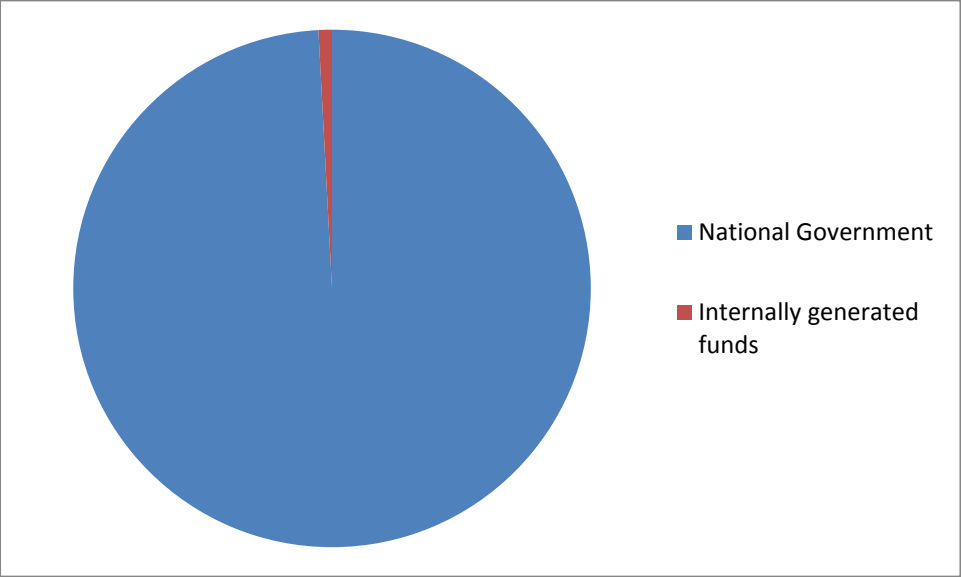




Capital Expenditure by National Priority



### Funding of Capital Expenditure



## TARIFFS

The proposed major tariff adjustments are as follows:

Property Rates	6.600%
Waste Management (Refuse)	12.00%
Electricity	7.640%

The Municipality's budget must be seen within the context of the policies and financial priorities of the National, Provincial and district government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced in Walter Sisulu. Walter Sisulu Municipality alone, however, cannot meet these challenges. It requires support from the other spheres of Government through the direct allocation of resources as well as the achievement of their own policies.

#### The National Context

South Africa has achieved considerable success in achieving macroeconomic stability; however, the economy is still plagued with high levels of unemployment and poverty.

The following table shows the allocations to Walter Sisulu Municipality as set out in the National Budget Division of Revenue Bill in the MTEF period; and the Provincial allocations:

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>R thousand</b>										
<b>RECEIPTS:</b>	1, 2									
- <u>Operating Transfers and Grants</u>										
<b>National Government:</b>		-	-	-	-	-	-	71,649	58,263	57,945
Local Government Equitable Share								51,948	49,452	52,683
Finance Management								3,835	4,245	4,501
EPWP Incentive								2,438		
Municipal demarcation transition grant								13,428	4,566	
Municipal systems improvements grant										761
<b>Provincial Government:</b>		-	-	-	-	-	-	-	-	-
<b>District Municipality:</b>		-	-	-	-	-	-	-	-	-
[insert description]										
<b>Other grant providers:</b>		-	-	-	-	-	-	-	-	-
[insert description]										

<b>Total Operating Transfers and Grants</b>	5	-	-	-	-	-	-	71,649	58,263	57,945
<b>Capital Transfers and Grants</b>										
<b>National Government:</b>		-	-	-	-	-	-	26,552	25,231	20,113
Municipal Infrastructure Grant (MIG)								21,552	19,231	20,113
Integrated national electrification programme Energy efficiency and demand side management grant								5,000	6,000	
Other capital transfers/grants [insert desc]										
<b>Provincial Government:</b>		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]										
<b>District Municipality:</b>		-	-	-	-	-	-	-	-	-
[insert description]										
<b>Other grant providers:</b>		-	-	-	-	-	-	-	-	-
[insert description]										
<b>Total Capital Transfers and Grants</b>	5	-	-	-	-	-	-	26,552	25,231	20,113
<b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b>		-	-	-	-	-	-	98,201	83,494	78,058

## Assumptions used in the budget

Each year, National Treasury issues a circular to municipalities advising them of the budget parameters within which municipalities should work when preparing their budgets.

The headline CPIX forecast for 2016/17, 2017/18 and 2018/19 are 6.6%, 6.2% and 5.9 % respectively. However these figures can change very fast due to external factors as recently experienced. The current estimate for 2016/17 in the MFMA Circular is 6.6 percent.

These growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies, unless it can be shown that external factors impact otherwise. Unfortunately, as explained earlier on, the effect of the ESKOM tariff adjustments *inter alia* forces the municipality to increase tariffs by much more than the CPIX forecasts.

The following budget related policies were reviewed;

1. Supply Chain Management Policy (Revised Preferential Procurement Policy Framework Act (PPPFA) (December 2011))
2. Virement Policy
3. Irregular Expenditure
4. Unauthorised Expenditure
5. Fruitless and Wasteful Expenditure
6. Assets Management Policy
7. Funding and Reserves Policy
8. Accounting Policy
9. Cash Management Policy
10. Borrowing Policy
11. Budget Policy
12. Financial and Budgeting Framework Policy
13. Tariff Policy
14. Investment Policy

The budget fully complies with the requirements of the municipality's Funding and Reserves Policy.

The major data and assumptions used in the preparation of the budget areas follows:

Increase in Employee related costs	7.6%
Increase in inflation parameters	5.0%
Average payment rate	85%

Basic services are provided to a large degree to all the towns in the municipal boundaries, and there is a continuing effort in extending services. The total cost of providing free services, as well as rebates and discounts to the community, is R18 million.

## **CONCLUSION**

The budget is cash - funded while, at the same time, extending within financial means, service delivery and free basic services.

## **Section 4 - Annual budget tables**

The annual budget tables are attached to this document as Tables A1 to A 10.

As mentioned in the Executive Summary the budget changed significantly due to the removal of the Water and Sanitation functions as well as the introduction to GRAP.

The Budget tables are:

Table A1 - Budget Summary

Table A2A - Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A3A - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A4 - Budgeted Financial Performance (revenue and expenditure)

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

Table A5A - Budgeted Capital Expenditure by vote, standard classification and funding

Table A6 - Budgeted Financial Position

Table A7 - Budgeted Cash Flows

Table A8 - Cash backed reserves/accumulated surplus reconciliation

Table A9 - Asset Management

Table A10 - Basic service delivery measurement



# **PART 2 -SUPPORTING DOCUMENTATION**

## **Section 5-Overview of annual budget process**

### **Budget Process Overview**

#### Political oversight of the budget process

Section 53 of the MFMA requires that the Mayor provides general political guidance over the budget process and the priorities that must guide the preparation of the budget.

#### Schedule of Key Deadlines relating to budget process [MFMA s 21(1)(b)]

The Act requires the formal budget process to start with the tabling by the Mayor in Council of a schedule showing the key budget deadlines. This was prepared for tabling in Council by the end of August. Process used to integrate the review of the IDP & preparation of the budget

The budget process is integrated with the review of the IDP through the IDP review mechanism. The outcome of consultation feeding into the IDP review is taken into account in the budget process.

#### Process for tabling the budget in Council for consultation

A statutory period of consultation follows the tabling of the budget in Council on 31 March 2016. Meetings with the local community will be advertised in the local press following the tabling of the draft budget.

The Executive Mayor will consider the outcomes of these consultation meetings and a report detailing the responses will be tabled at the same meeting where the budget will be tabled for final approval.

#### Process for approving the budget

The budget must be approved by Council by 31 May.

#### Process and media used to provide information on the budget to the community

All budget documentation, the MTREF together with tariffs and policies, will be made available at Council libraries and offices for inspection. It will also be available on Council's website.

Advertisements informing the public about the availability of these documents and the schedules for the IDP/Budget public hearings will be published in all local newspapers and put up at municipal offices and libraries.

### **Budget Process 2016/17**

The budget process in Walter Sisulu follows the requirements of the MFMA.

A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2016.

The proposed budget must be tabled in Council by the end of March 2016. A period of consultation then follows. At the culmination of the consultation process the Mayor must consider any representations and decide if any amendments should be made to the budget.

The final budget has to be agreed by Council by the end of May 2016.

The Municipality's budget is again prepared on a 3-year basis. This takes into account the National and Provincial 3 year allocations to the Municipality. It is necessary to plan and budget on a 3-year basis to take account of resource constraints and also capacity constraints on service delivery. The MFMA requires municipalities to prepare 3 year budgets to ensure more thorough financial planning and provide for seamless service delivery.

However as was the case last year, in the present uncertain economic climate, both capital and operating income and expenditure figures in the outer years are indicators of need or wish, and in some instances hope, rather than of reality.

The municipality will set out measurable performance objectives to link the financial inputs of the budget to service delivery on the ground. This will be done in the form of the quarterly service targets and monthly financial targets that are contained in the Service Delivery and Budget Implementation Plan (SDBIP). This must be agreed by the Mayor within 28 days of agreement of the final budget and forms the basis for the Municipality's in year monitoring.

## Section 6-Overview of alignment of the annual budget with the Integrated Development Plan

The Integrated Development Plan process aims to on a continuing basis, address service delivery needs by identifying new needs or areas of improvement. It is, however, also a known fact that the needs identified by far exceeds the resources, and in particular financial resources, available.

Strategic Objective	Goal	Goal Code	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand												
Basic Service Delivery and Infrastructure Development	Provide support services to all departments and contribute to the delivery of sustainable basic service delivery The allocation of sufficient funds to provide housing within the municipal area									154,960	152,432	165,350
Financial Viability	To create an environment of effective, accountable and viable financial management with reliable information technology and accurate database by fully implementing all MFMA regulations and reforms									68,124	69,712	75,130
Good Governance	To create a healthy and sustainable environment by improving social services and the maintenance of public facilities and buildings. To create and maintain public areas, sportsfields and resorts for the benefit of the community.									7,919	7,836	8,329
Local Economic Development	To create jobs through municipality's local economic development initiatives											
Allocations to other priorities			2									
<b>Total Revenue (excluding capital transfers and contributions)</b>			1	-	-	-	-	-	-	231,002	229,980	248,809

The alignment of the budget with the objectives set in the IDP is as follows:

Refer to annual budget tables attached for further details.

## **Section 7-Measurable performance objectives and indicators**

### **Key financial indicators and ratios:**

Refer to attached schedule - SA 8 - for key indicators and ratios.

### **Measurable performance objectives:**

Measurable performance objectives are included in attached tables SA 4 to SA 7 and includes the following:

Objectives for revenue for each source

Objectives for operating and capital expenditure for each vote

KPI's for all material expenditure. The complete SDBIP could also be viewed on the official website of the municipality.

### **Measurable performance objectives for provision of free basic services**

Refer to A 10 for the cost associated with the provision of free basic services, the level of services to be provided free and the revenue forgone in providing these services.

## Section 8 - Overview of budget assumptions

### Budget Assumptions

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. This section provides a comprehensive summary of the assumptions used in preparing the budget.

#### External Factors:

There is no real growth in the municipal area, with the number of people, as well as the number of households, remaining fairly consistent.

Job opportunities are limited, and the National budget identified employment creation as a priority and suggests that municipal capital and maintenance projects should seek to assist in this manner, by implementing labour intensive projects within financial means.

#### General inflation outlook and its impact on the municipal activities

General inflation (CPIX) is estimated at 6.6% for the 2016/17 financial year. This of course lends to expectations that municipal tariffs should increase by more or less the same percentage, which is impossible due to a wage increase settlement at national level of inflation plus 1% as well as the increase in bulk electricity charges from ESKOM, and of course the full implementation of GRAP requirements such as depreciation charges and Non - current Employee Benefits and other provisions. This budget and the proposed tariff increases therefore exceed the inflation outlook for these reasons.

	2016/2017	2017/2018	2018/2019
General inflation	6,6%	6.2%	5,9%

#### Interest rates for borrowing and investment of funds

The following assumptions are built into the MTREF;

	2016/17	2017/18	2018/19
Average Interest Rate - New Borrowing	10.5%	11.50%	11.50%
Average Interest Rate - Investments	6%	6%	6%

Rates, tariffs, charges and timing of revenue collection

The rates, tariffs and charges for the 2016/17 budget are included in annexure 2.

The following table shows the assumed average percentage increases built into the MTREF for rates, tariffs and charges;

	2016/17	2017/18	2018/19
<b>Rates</b>	6%	6%	6%
<b>Refuse</b>	12%	12%	12%
<b>Electricity - monthly consumption tariff</b>	<b>7.64%</b>	<b>7.64%</b>	<b>7.64%</b>

The monthly cash flow statement in annexure 1 shows when rates and tariffs are expected to be collected over the financial year. In general terms, the timing of rates, tariffs and charges is based on the following;

Rates and annual charges	Annual and monthly billing in July. Interim billing throughout the year as required. Revenue foregone recognised in July.
Consumption Tariffs	Monthly billing. On-going prepayment meters. Seasonal fluctuations.
Charges	Generally steady state throughout the financial year with seasonal fluctuations.

Collection rates for each revenue source and customer type

Furthermore, its policy on indigent support and social rebates means that many households who would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the burden of municipal debt.

Nevertheless, there will always be an element of the total amount billed that will remain uncollected. The Municipality is the same as any other business in this regard. Adequate provision has to be made in the budget for any bad debts based on assumptions on collection rates.

### Price movements on specific items

The bulk purchases from Eskom 2016/17 - 2018/19:

R '000	2015/16	2016/17	2017/18
Eskom	72,879,647	73,937,119	75,005,814

The budgeted amount on bulk purchases is kept unchanged for the two outer years in anticipation of a complete overhaul of the tariff structure as a result of the impending amalgamation with Gariiep Municipality.

### Average salary increases

The MTREF includes the following average percentage increases in salaries and wages and for Councillors' allowances:

	2016/17	2017/18	2018/19
Councillors	7.6%	7.2%	6.9%
Senior Managers	7.6%	7.2%	6.9%
Administrative, professional, technical, clerical & manual	7.6%	7.2%	6.9%
Medical aid contributions	7.6%	7.2%	6.9%

### Industrial relations climate, reorganisation and capacity building

The ability of the Municipality to deliver quality services is dependent on its staff and the ability to provide services to the Walter Sisulu population at a viable level. Failure by the Municipality to invest in its staff to ensure that the capacity and skills exist to meet the challenges being faced by Walter Sisulu will ultimately mean a failure to deliver services.

The Municipality has made the following amounts available for training over the MTREF period:

R '000	2016/17	2017/18	2018/19
Training Budget	589 000	845 841	875 938

### Changing demand characteristics (demand for services)

Walter Sisulu has to respond to changing demand for services that can occur through a number of reasons such as population migration, changing demographic profile, technological changes, and major infrastructure development.

The selling of prepaid electricity by all outside vendors assisted consumers to purchase prepaid electricity after hours and over weekends by means of the Syntell system.

The growth of formal housing in prior years has impacted on the demand for services and challenges the Municipality in how services are delivered.

#### Trends in demand for free or subsidised basic services

Walter Sisulu criteria for supporting free or subsidised basic services are set out in the indigent support policy. The Government allocates revenue via the Division of Revenue Act (DORA) in the form of the Equitable Share Grant with the primary aim of assisting municipalities with the costs of providing free or subsidised basic services.

#### Impact of national, provincial and local policies

Walter Sisulu sees itself as working in partnership with national, provincial and district municipality spheres of Government in meeting the priority service needs of its people.

#### Implications of restructuring and other major events into the future

The budget does not include any provision for the establishment of a Regional Electricity Distributor for Walter Sisulu as there is still considerable uncertainty as to how and when this would operate.

### **Funding compliance**

The budget is cash - funded which is first indicator of a “credible” budget.

Funding levels are unacceptable at 2 months cash - resources, which is an indication of these economic times, and is insufficient to cover all requirements of the funding and reserves policy.

There is a huge increase in tariffs above the CPIX forecast, mainly as a result of the effect of the electricity increases. Other increases, set at about 10%, is in order not to reduce maintenance programs, but even these programs are affected negatively due to the increase in bulk charges and the cap on an increase in electricity tariffs set by NERSA.

Revenue from grants exceeds 100% of current grant receipts due to unspent grants still being implemented and carried forward.

## **Section 10 - Overview of budget funding**

### **Funding the Budget**

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;



- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

### **A Credible Budget**

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and on past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

### **Fiscal Overview of Walter Sisulu Municipality**

Over the past financial years via sound and strong financial management, Walter Sisulu Municipality has moved internally to a position of relative financial stability. There is also a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management.

As mentioned the switch over to GRAP has had huge ramifications not least amongst the professional staffing at the local government level. Walter Sisulu municipality cannot afford the salaries that are a prerequisite to GRAP. There is already a dearth of qualified accountants in South Africa and the complexities that are GRAP in local government are such that outside of the metropolitan areas it is highly unlikely that qualified accountants are going to be available to work at the salaries on offer

internally and Walter Sisulu has therefore taken steps to manage the situation externally.

### Long term financial planning

The municipality's financial position is sound and this budget further ensures that it stays sound. Long-term borrowing is limited and the cash position is strong.

The municipality plans to continue exercising strict financial management and ensuring a cash flow which meets the requirements.

Due to the fact that the majority of capital expenditure from own sources be funded by way of own cash, the municipality must ensure that the principle of "the user pays for the use of the assets" be applied in its long -term financial strategy. It is for this reason that the municipality provided for cash - backed reserves, which consist of Employee Benefits provisions, the cost of replacing the existing valuation roll and contributions to the Capital Replacement Reserve with the idea being a contribution at least equal to the depreciation charges on those assets being used.

### **Sources of funding**

Supporting table SA 15 and SA 16 shows the current investments.

Interest earned from investments is applied to the income and expenditure account to help fund the operating budget. The following tables summarises the budgeted interest over the MTREF;

R '000	2016/17	2017/18	2018/19
<b>Investment Interest received</b>	889	944	998
<b>Loan interest paid</b>	795	819	839

## **Contributions and donations**

The Municipality can receive contributions from developers to provide infrastructure and other works as part of the conditions of agreeing planning permission.

## **Sale of assets**

The Municipality is in the process of reviewing its land and asset holdings as part of its longer term financial strategy. Major asset sales are therefore, excluded from the MTREF at this stage.

## **Borrowing**

The MFMA prescribes the conditions within which municipalities may borrow through either short or long term debt.

The Act stipulates that short term debt can be used to meet immediate cash flow needs but that it must be fully repaid within the financial year in which it was incurred. Long term debt can only be incurred for capital expenditure or to re-finance existing long term debt. Proposals to incur long term debt must go through a public consultation process.

The cash flow projections will determine the likely need to borrow short term. It is not projected that any short term borrowing will be required over the MTREF period.

The ratios as set out in the Cash and Management Investment policy are used to establish prudential levels of borrowing in terms of affordability and the overall indebtedness of the Municipality.

# **Section 11 - Expenditure on allocations and grant programmes**

## **Grant allocations**

Details of each grant are shown in the schedule that follows:

## National and Provincial Grant Allocations 2016/17 to 2018/19

Name of Grant	Operating / Capital	Allocating Authority / Department	Amount 2016/17 R'000	Indicative 2017/18 R'000	Indicative 2018/19 R'000	Purpose of the Grant
Library Services	Operating	Province/ Cultural Affairs and Sport	0	0	0	To enable public libraries to render an improved service by addressing staffing shortages.
Local Government Financial Management Grant (FMG)	Operating	National / National Treasury (National Vote 7)	3,835	4,245	4,501	To promote and support reforms in financial management by building the capacity in municipalities to implement the Municipal Finance Management Act.
Equitable Share	Operating	National	51,948	49,452	52,683	The equitable share of National Revenue in accordance with the requirements of the Constitution
EPWP Incentive Grant	Operating	National	2,438	-	-	Assist in creating employment opportunities on extended public works projects
MIG	Operating	National	1 078	935	1 006	PMU Operational Grant
MIG	Capital	National	20 474	18 296	19 107	Capital projects on roads

## **Section 12 - Allocations and grants made by the Municipality**

**Allocations Made by the Municipality**

None

## **Section 13 - Councillor allowances and employee benefits**

### **Salaries, Allowances and Benefits**

Supporting tables SA 22 and SA 23 in Annexure 1 summarises the salary, allowances and benefits over the MTREF.

## **Section 14 - Monthly targets for revenue, expenditure and cash flow**

### **Monthly Cash Flows by source**

Supporting tables SA 24 to SA 30 show the monthly cash flows.

Supporting tables SA 12 and SA 13 provide details of all Property Rates and valuations information.

Supporting table SA14 provides details of monthly household accounts for small and large households.

## **Section 15 -Annual budgets and service delivery and budget implementation plans - internal departments**

Refer to table SA 7 for service delivery and budget implementation plans.

## **Section 16 - Annual budgets and service delivery agreements - municipal entities and other external mechanisms**

### **ENTITIES**

The municipality does not have any entities.

### **Other Service Delivery Mechanisms.**

The municipality has no other service delivery agreements with external parties for the delivery of the Municipality's services.

## **Section 17 -Contracts having future budgetary implications**

The municipality does not have any roll - over contracts with budget implications.

## **Section 18 - Capital expenditure details**

Capital expenditure details are listed in Supporting Table SA 34 to SA 37.

# Section 19 - Legislation compliance status

## Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1<sup>st</sup> July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Walter Sisulu has been designated as a low capacity municipality.

The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing.

### The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

#### The budget preparation process

*The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.*

#### Overview

The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

#### Budget preparation timetable

The first step in the budget preparation process is to develop a timetable of all key deadlines relating to the budget and to review the municipality's IDP and budget-related policies.

The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).



### Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the municipal manager.

The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

### Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

### Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

### Opportunity to comment on draft budget

When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

### Opportunity for revisions to draft budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.

### Adoption of the annual budget

The Council must then consider the approval of the budget by 31 May and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved - before 1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

## **BUDGET IMPLEMENTATION**

### Implementation management - the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

### Managing the implementation process

The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

### Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote - and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

### Revision of budget estimates - the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder of the financial year.

In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.

**Requirements of the MFMA relating to the contents of annual budgets and supporting documentation**

Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. In its MFMA circular 48, National Treasury set out detailed guidance on the contents of budget documentation and the supporting schedules. Walter Sisulu Municipality has made every effort to comply with the circular.

The following table shows how Walter Sisulu Municipality complies with the disclosure requirements of section 17 of the MFMA.

Requirement	Disclosure in budget documentation
Schedule of reasonably anticipated revenue for the budget year from each revenue source	A4
Schedule showing appropriations of expenditure for the budget year under the different votes of the Municipality	A3
Schedule setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year	A3 and A4
Schedule setting out- (i) estimated revenue and expenditure by vote for the current year and (ii) Actual revenue and expenditure by vote for the financial year preceding the current year.	A3 and A4
Draft resolutions - (i) approving the budget of the Municipality (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year and (iii) Approving any other matters that may be prescribed.	Section 2
Measurable performance objectives for revenue from each source and for each vote in the	Section 7 and SA 7

budget, taking into account the Municipality's Integrated Development Plan.	
Projection of cash flow for the budget year by revenue source broken down per month	SA 25 - SA 26
Proposed amendments to the Municipality's integrated development plan following the annual review of the IDP in terms of section 34 of the Municipal Systems Act	Section 15
Particulars of the Municipality's investments	SA 16
Any prescribe information on municipal entities under the sole or shared control of the Municipality	N/a
Particulars of all proposed new municipal entities which the Municipality intends to establish or in which the Municipality intends to participate	N/a
Particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements	Section 16
Particulars of any proposed allocations or grants by the municipality to- (i) other municipalities (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers (iii) any other organs of state (iv) any organisations or bodies referred to in section 67 (1) (bodies outside Government)	Section 12
The proposed cost to the municipality for the budget year of the salary, allowances and benefits of- (i) each political office bearer of the Municipality (ii) Councillors of the municipality (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager	Section 13
The proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of- (i) each member of the entity's board of	N/a

managers and (ii) the chief executive officer and each senior manager of the entity	
Any other supporting documentation as may be prescribed	SA forms

## Other Legislation

In addition to the MFMA, the following legislation also influences Municipal budgeting;

### The Division of Revenue Act (as amended) and Provincial Budget Announcements

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states - that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

### The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.

## Section 20 - Other supporting documents

More details on the budget can be found in the supporting tables SA 1 - SA 37.

## Annexure 1 - Rates and tariffs 2016/17

Rates, tariffs and other charges

*Please see the separately attached tariff schedule.*

The average increases for 2016/2017 are:

- Assessment rates 12.00%
- Refuse 12.00%
- Electricity 7.640%
- Other (Sundry) 10.00%

***All budget documents are available on the official website: Under construction***

***These include:***

- ***Medium Term Revenue & Expenditure Framework 2016/2017 - 2018/2019***
- ***Schedule of tariffs & charges 2016/2017***  
***Budget related policies, including Rates & Tariff Policies***