

CHRIS HANI DISTRICT MUNICIPALITY

EXTRACT OUT OF MINUTES OF COUNCIL MEETING HELD 24 MAY 2017

**C546. REPORT ON PROPOSED FINAL BUDGET FOR 2017/2018 to
2019/2020 MTREF**

Purpose:

To request Council approval of the proposed final operating and capital budget for 2017/2018 to 2019/2020.

Authority:

Chris Hani District Municipality Council

Legislative framework:

Municipal Finance Management Act 56 of 2003;

Municipal Budget and Reporting Regulations; and

National Treasury MFMA Budget Circulars.

Background:

In terms of section 16(1) of the MFMA, read together with regulation 16 and 17 of the Municipal Budget and Reporting Regulation (MBRR), a municipality must for each financial year approve an annual budget for the municipality before the start of the financial year.

Section 17(1) of the MFMA further states that an annual budget must be a schedule in a prescribed format and further outlines the contents that should be included in such annual budget.

The prescribed format referred to is outlined in regulation 9 of the MBRR, which states that "the annual budget and supporting documentation of a

municipality must be in a format specified in Schedule A and include all the required tables, charts and explanatory information

The final budget presented to council recognises the funding streams of council that have remained the same as in the previous budget year being mainly service charges for water and sanitation services and grant funding from both national and provincial government departments. Other revenue addition to above is investment revenue and sundry revenue that also includes the output VAT on conditional grants.

The expenditure of the municipality is as a result of employee related costs and councillors allowances, expenditure on operating and capital grants, transfers and grants to the municipal entity and adopted schools, contracted services, debt impairment, depreciation on property plant and equipment and other expenditure that includes general expenses and repairs and maintenance.

Exposition of facts:

The final budget for 2017/2018 MTREF period, was preceded by a draft budget that was tabled in Council on 22 March 2017 and IDP/Budget roadshows that took place during the month of April in different local municipalities.

The allowable increases (parameters) of 6,1% for the budget year and 5,9% and 5,8% for the two outer years as determined by National Treasury in MFMA Circular 85 dated 09 December 2016 were taken into account during this process.

The salaries budget recognises current salary levels and potential increases for cost of leaving and general annual increase that will be effected on 01 July 2017.

All Directorates were requested to provide further input to the operational budget based on their needs and also taking into account the constraints presented by the limited revenue sources.

Provincial allocations (including agency functions) made/expected to the district were confirmed for current and outer budget years.

No budget provision has been made in instances where current/outer year allocations were not confirmed by the provincial government department.

The final budget proposes tariff increase for all municipal services that are namely, water, sanitation and municipal health services. The proposed increases are attached to the annexure that contains the executive summary.

All budget related policies have undergone an extensive review by management and political leadership. The policies that will still receive attention and be considered for adoption in June are Investments Policy, Supply Chain Management Policy, Irregular Expenditure Policy and Infrastructure Supply Chain Management Policy.

The municipality has also made a provision for the budget of Chris Hani Development Agency without any increase and for the Bursary Fund that the agency does on behalf of the municipality.

The outcome of the final budget process was a deficit of non-cash operating deficit of R246 million after contribution to the non-cash items like depreciation on assets and debt impairment. This depreciation has however decreased by R91 million when compared to the draft budget that was tabled in council in March due to interest on debtors that has been taken into account at R103 million for the next financial year.

The deficit should be closely monitored by the municipality as it cannot afford to continue in this state as this will negatively affect infrastructure improvements, as depreciation that is not reflecting a cash reserve for infrastructure replacement might negatively affect provision of basic services.

The capital programmes funded from capital grants were budgeted to the extent of funds allocated by the national and provincial departments and R97 million from municipal reserves. The total municipal deficit when taking into account the funding of the municipal movable assets and municipal building amounts to R343 million, again reflecting a decrease of R91 million when compared to the draft budget that was tabled in Council in March for the reasons stated in the later paragraph.

Table 1: PROPOSED FINAL BUDGET SUMMARY 2017/18 TO 2019/20 MTREF

Chris Hani District Municipality Consolidated Final Budget Summary 2017/18 MTREF						
Description	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget 2016/17	Adjusted Budget 2016/17	Full Year Forecast	Budget Year 2017/18	Budget Year + 1 2018/19	Budget Year + 2 2019/20
R thousand						
Total Revenue (excluding capital transfers and contributions)	893 554	914 248	–	1 039 393	1 089 621	1 104 550
Total Expenditure	1 214 243	1 299 122	–	1 285 881	1 338 868	1 407 080
Operating Surplus/(Deficit)	(320 689)	(384 874)	–	(246 488)	(249 247)	(302 530)
Capital Revenue	611 798	570 851		514 254	454 250	365 503
Capital Expenditure	741 325	691 078	–	611 254	557 070	474 492
Surplus/(Deficit)	(450 216)	(505 101)		(343 488)	(352 067)	(411 519)

The table above reflects a budgeted deficit of R343 million which is a decrease of R91 million in the budgeted deficit when compared to the draft budget, and R161 million decrease when compared to the second adjustment budget, which translate to 32% decrease in the budgeted deficit for 2017/18 financial year, but the deficit is increasing to R352 million and R411 million in the two outer years respectively.

The holistic review of municipal tariffs and cost of operating water and sanitation services as trading services is urgently needed to address the deficit reflected in the coming year and the two outer years.

PROPOSED 2017/2018 MTREF FINAL BUDGET:

The following tables (table 2 to 6) illustrate the anticipated proposed revenue and expenditure streams for the MTREF:

Table 2: 2017/2018 – Operating Revenue: Tables A1: R1,039 billion

Chris Hani District Municipality Operating Revenue by Source Final Budget 2017/18 MTREF					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year + 2018/19	Budget Year + 2019/20
R thousand					
Revenue By Source					
Service charges - water revenue	142 846	142 846	151 560	160 653	170 292
Service charges - sanitation revenue	33 558	33 558	35 940	38 097	40 383
Rental of facilities and equipment	–	–	–	–	–
Interest earned - external investments	28 284	28 284	33 154	35 110	37 146
Interest earned - outstanding debtors			103 234	35 110	37 146
Transfers recognised - operational	607 504	628 198	629 804	655 558	644 525
Other revenue	80 362	80 362	85 502	90 576	96 010
Gains on disposal of PPE	1 000	1 000	200	200	200
Total Revenue (excluding capital transfers and contributions)	893 554	914 248	1 039 394	1 015 304	1 025 702

Operating revenue has increased by 14% (R125,146 million), from R914 million on the second adjustment budget to R1,039 billion in the current financial year. When compared to the draft budget tabled in Council in March it has increased by R106 million or by 11,3%.

This increase was influenced by the following additional revenues:

Interest on external investments at R2 million;

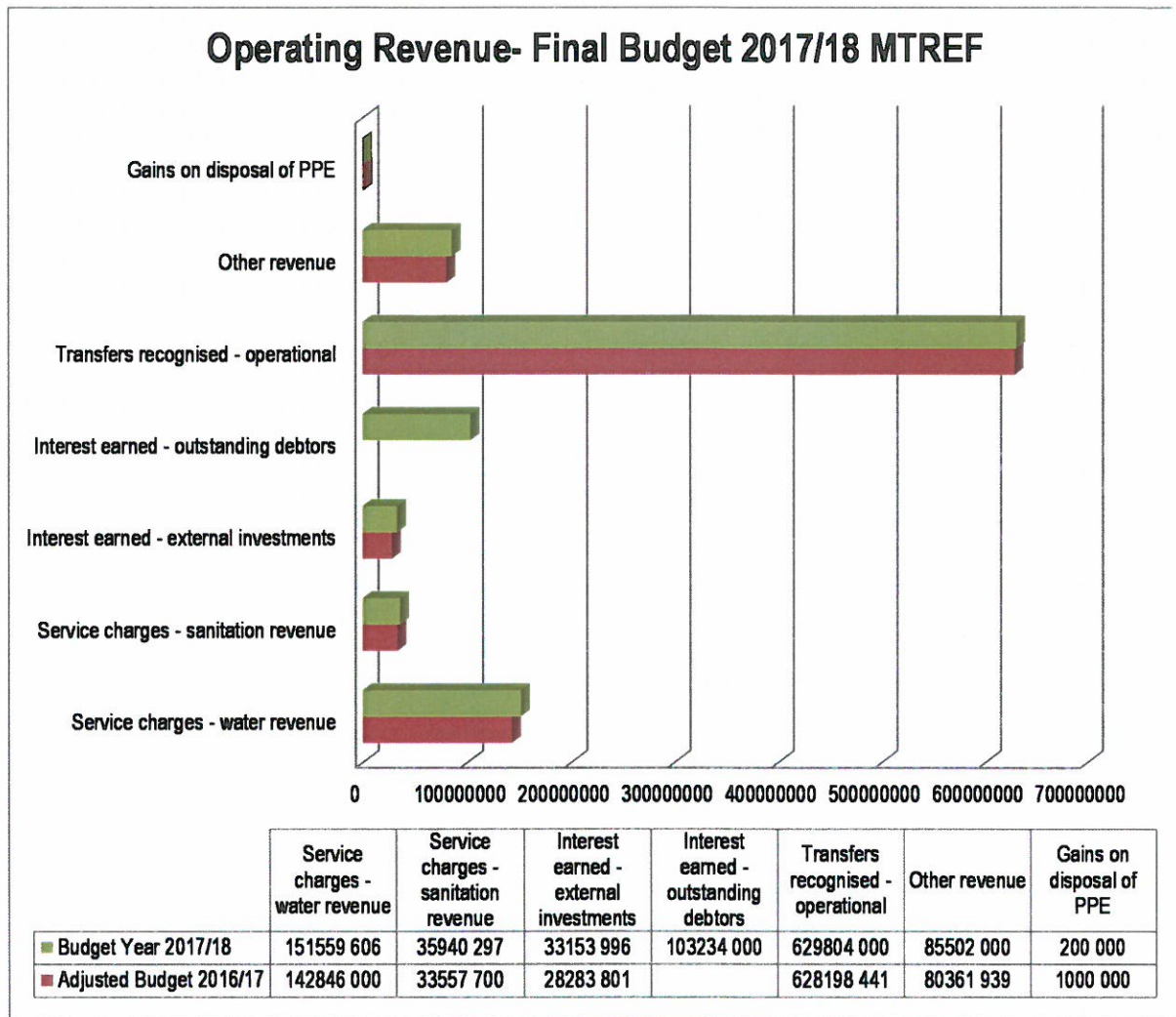
Interest on outstanding debtors at R103 million; and

Transfers recognised operational at R2 million.

The R2 million for transfers recognised operational was from Human Settlements for Emergency Housing in the entire district.

Revenue increase was significantly influenced by the increases in service charges for Water and Sanitation at 6%, other revenue by 6% and Investment Revenue by 17%. Operating revenue reflects 5% and 1% increase in the outer years and the 1% increase in 2019/20 budget year was influenced by a decrease in transfers recognised-operational, whilst other revenue sources were budgeted in line with the CPIX increases.

Figure 1: 2017/2018 proposed – Final Operating Revenue



Grants and Subsidies represent the combination of all grants and subsidies utilised to fund the operating budget including provincial agency grants. This also includes the Equitable Share, Finance Management Grant (FMG), and allowable portion of the MIG to fund the Project Management Unit (PMU) and deliver VIP toilet facilities and Extended Public Works Programme, etc.

Investment revenue comprises of anticipated interest on surplus funds invested, that are not immediately required for service delivery. Service charges are estimated water and sanitation revenue from the WSA/WSP function undertaken by the District municipality.

Other revenue comprises the anticipated sundry revenue such as administration fees on salary deductions, sale of tender documents etc. and includes the input VAT realised on expenditure of conditional grants.

Table 3: 2017/2018 Final– Operating Expenditure: Table A1- R1,285 billion

Chris Hani District Municipality Final Operating Expenditure 2017/18 MTREF					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year + 2018/19	Budget Year + 2019/20
R thousand					
Expenditure By Type					
Employee related costs	312 011	326 038	349 188	370 139	392 347
Remuneration of councillors	11 954	11 744	12 578	13 333	14 133
Debt impairment	196 237	196 237	200 000	200 000	200 000
Depreciation & asset impairment	130 000	129 991	180 000	190 800	202 248
Finance charges	400	1 100	1 200	1 272	1 348
Bulk purchases	17 050	23 050	24 894	26 387	27 971
Contracted services	16 000	62 991	32 956	25 008	26 508
Transfers and grants	18 540	20 540	20 198	21 290	22 447
Other expenditure	512 052	527 431	464 868	490 640	520 079
Loss on disposal of PPE					
Total Expenditure	1 214 243	1 299 122	1 285 881	1 338 868	1 407 080

Operating expenditure has increased by 1% (R14,3 million) when compared to the draft budget that was tabled in Council in March, from R1,271 billion to R1,285 billion and has decreased by 1% (R13,2 million) when compared to the second adjustment budget from R1,299 billion to R1,285 billion.

The increase was influenced by increases in the following expenditure items when compared to the draft budget:

Debt Impairment increased by 2%;

Depreciation and Asset Impairment increased by 3,5%; and

Other Expenditure increased by 1%.

The increase in other expenditure was influenced by the R2 million grant from Department of Human Settlements and an increase of R2,5 million in computer and software licencing, that was not accommodated in the draft budget.

The decrease was influenced by increases and decreases in the following expenditure items when comparing the final budget with the second adjustment budget:

Employee related costs and Councillors Allowances increased by 7%;

Water bulk purchases increased by 8%;

Contracted Services decreased by 48%; and

Other Expenditure decreased by 11,9%.

Other expenditure includes MIG operating expenditure, equitable share funded IDP programmes, operating conditional grants expenditure, payment of CSPS, indigent subsidy, other general running costs like telephone, stationery etc and repairs and maintenance for water and sanitation services function, repairs on municipal vehicles and municipal buildings.

The expenditure to the agency function of roads carried on behalf of the Department of Roads and Public Works is budgeted for under the operating expenditure in line with the operating revenue.

Figure 2: 2017/ 2018 proposed Final– Operating Expenditure:

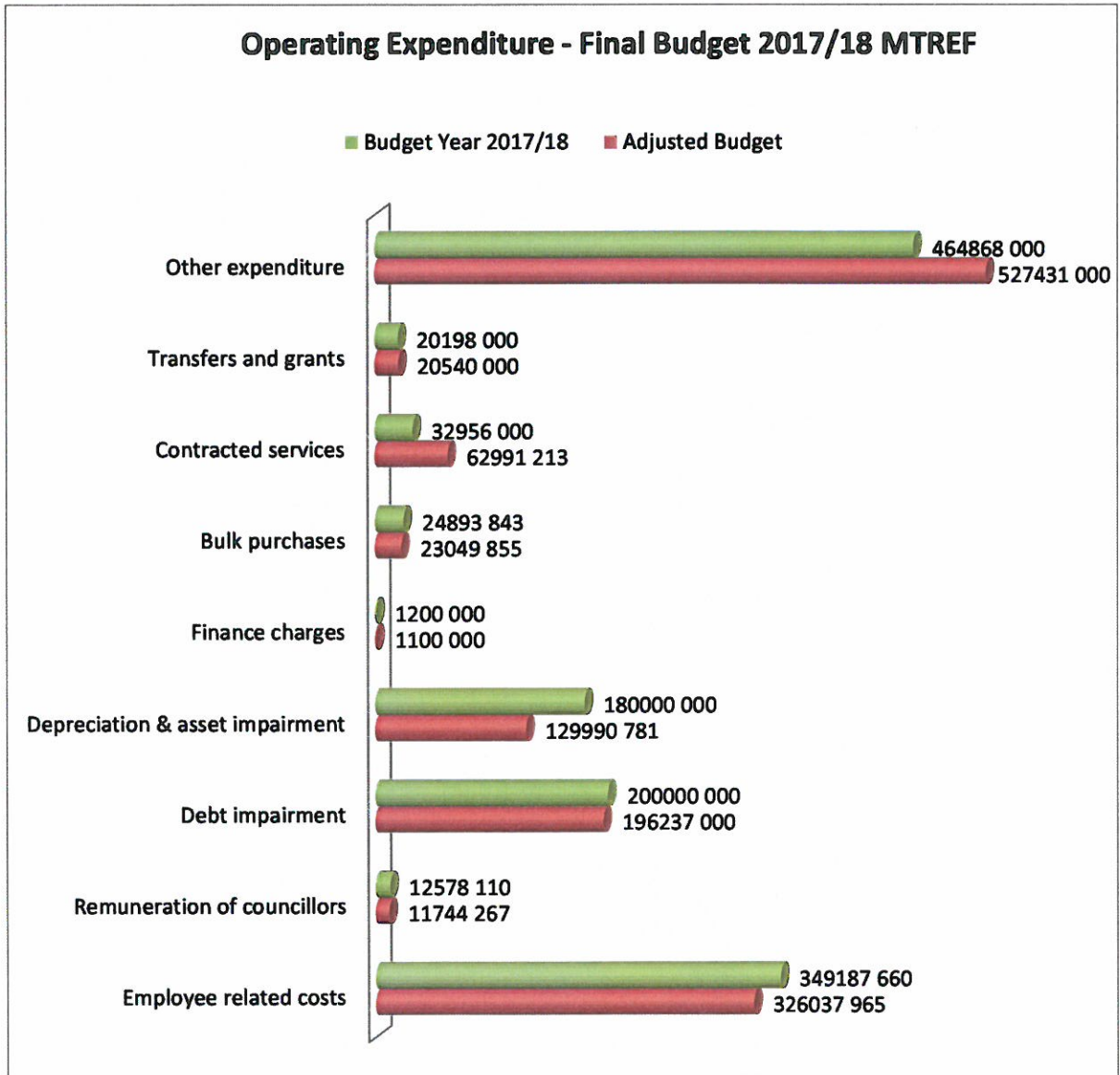


Table 4: IDP Equitable Share Funded Projects/Programmes - 2017/18

DEPARTMENT	ADJUSTED	PROPOSED FINAL	VARIANCE
	BUDGET 2016/17	BUDGET 2017/18	
	R'000	R'000	R'000
Municipal Managers Office	19 437	10 420	9 017
Municipal Health & Community Services	16 430	13 550	2 880
Corporate Services	20 210	14 200	6 010
Budget & Treasury Office	2 000	3 200	-1 200
Integrated Planning & Development	53 011	45 000	8 011
Technical Services	2 200	2 200	-
TOTAL	113 288	88 570	24 718

The above table reflects a decrease in equitable share programmes by 22% when compared to the second adjustment budget and an increase of 4% (R3,3 million) when compared to the draft budget that was tabled in Council in March.

The final budget has taken into account programmes that will be funded by other sector departments and programmes that are already catered for under general expenses.

The decrease was also influenced by the deficit that the municipality is faced and therefore justifying a need to cut on some expenditure items and unfunded mandates.

Table 5: EPWP projects 2017/18 MTREF

EPWP PROJECTS 2017/18 BUDGET YEAR			
DEPARTMENT	ADJUSTED	PROPOSED FINAL	VARIANCE
	BUDGET 2016/17	BUDGET 2017/18	
	R'000	R'000	R'000
Municipal Manager	-	1 500	-1 500
Municipal Health & Community Services	2 517	1 637	880
Corporate Services	2 280	3 280	-1 000
Integrated Planning & Development	3 000	3 620	-620
TOTAL	7 797	10 037	-2 240

EPWP operating revenue has increased by 1% (R 2.2 million), from R7,7 million to R10 million in the coming year. The increase was influenced by an increase in the allocation for the coming financial year. The outer years are not provided for as the allocation for EPWP is provided for one financial year. The change presented in the final budget from the draft budget is the movement of SPU budget from Municipal Health & Community Services to Strategic Management in the Municipal Managers Office. The R1,5 million is meant for war rooms and non-profit organisations.

Table 6: 2017 / 2018 Final– Capital Revenue: Table SA 18, - R 514,2 million,

Chris Hani District Municipality Capital Revenue Draft Budget 2017/18 MTREF					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget 2016/17	Adjusted Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Capital Transfers and Grants					
National Government:	539 702	519 151	504 254	454 250	365 503
Municipal Infrastructure Grant (MIG)	200 261	177 710	220 754	219 986	237 503
Regional Bulk Infrastructure (RBIG)	207 815	207 815	208 500	132 000	25 000
Water Services Infrastructure Grant (WSIG)	97 097	97 097	75 000	102 264	103 000
Municipal Water Infrastructure Grant (MWIG)	34 530	34 530	-	-	-
ACIP	-	2 000	-	-	-
Provincial Government:	72 096	51 700	10 000	-	-
Provincial Treasury	42 096	21 700	10 000	-	-
DHS Unblocking	30 000	30 000	-	-	-
Total Capital Transfers and Grants	611 798	570 851	514 254	454 250	365 503

MIG, RBIG and WSIG are conditional grants allocated in the DORB to specified approved projects. Provincial treasury/COGTA and DHS unblocking are also conditional grants received from the provincial state departments for specified projects.

The 10% overall decrease in capital grant funding was influenced by the following grants:

MIG increased by 24%;

RBIG increased by 1%;

WSIG decreased by 23%;

COGTA decreased by 54%; and

There was no provision for ACIP and DHS Unblocking in the coming financial year there was no indication from the user department.

MIG allocation was adjusted for 5% funding of operating expenses of the Project Management Unit (PMU) and for the operating projects to fund VIP toilets.

There is no change in the capital budget from the draft budget that was tabled in Council in March.

Table 6: 2017 / 2018 Final– Capital Expenditure: R611,2 million

Chris Hani District Municipality Capital Expenditure by vote Final Budget 2017/18 MTREF					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year + 1 2018/19	Budget Year + 2 2019/20
R thousand					
Capital expenditure -vote					
Multi-year expenditure to be appropriated					
Vote 7 - Technical Services	611 798	570 851	514 254	454 250	365 503
Capital multi-year expenditure sub-total	611 798	570 851	514 254	454 250	365 503
Single-year expenditure to be appropriated					
Vote 1 - Council					
Vote 2 - Municipal manager					
Vote 3 - Budget & Treasury	49 527	75 227	42 000	44 520	47 191
Vote 4 - Community Services					
Vote 5 - Corporate Services	80 000	45 000	55 000	58 300	61 798
Vote 6 - Planning & Development					
Capital single-year expenditure sub-total	129 527	120 227	97 000	102 820	108 989
Total Capital expenditure-vote	741 325	691 078	611 254	557 070	474 492

The capital expenditure is made up of the R514 million from conditional grants and R97 million from Asset Financing Reserve. The R97 million is meant to fund municipal assets and CHDM village. There is change on the capital expenditure from the draft budget that was presented in Council in March.

Proposed tariffs for 2017/18 Budget Year:

Water Related Tariffs:

Domestic/Household Consumptive Tariffs:

TARIFFS	CHDM Current Tariff 2016/2017	CPIX Increase (6,1 %)	CHDM Proposed Tariff after CPIX (6,1 %) Increase for 2017/2018
WATER			
<i>Water Consumption (Domestic/Household use)</i>			
0-6	8.66	0.53	9.19
7-15	10.02	0.61	10.63
16-30	12.28	0.75	13.03
31-45	15.29	0.93	16.22
46-60	16.70	1.02	17.72
61 or more	18.85	1.15	20.00

Institutional/NGO's Tariffs:

TARIFFS	CHDM Current Tariff 2016/2017	CPIX Increase (6,1 %)	CHDM Proposed Tariff after CPIX (6,1 %) Increase for 2017/2018
WATER			
<i>Water Consumption (Institutional, etc)</i>			
0-200kls per month	10.24	0.62	10.86
201-2500 kl per month	11.32	0.69	12.01
2501 or more kl per month	12.39	0.76	13.15

Business Tariffs:

TARIFFS	CHDM Current Tariff 2016/2017	CPIX Increase (6,1 %)	CHDM Proposed Tariff after CPIX (6,1 %) Increase for 2017/2018
WATER			
<i>Water Consumption (Business & other use)</i>			
0 – 5 000 kl / month	13.14	0.80	13.94
5001 -25000 kl / month	13.36	0.81	14.17
25 001- 50000 kl/month	13.57	0.83	14.40
50 001- or more kl / month	13.57	0.83	14.40

Basic Water Tariffs:

TARIFFS	CHDM Current Tariff 2016/2017	CPIX Increase (6,1 %)	CHDM Proposed Tariff after CPIX (6,1 %) Increase for 2017/2018
WATER			
<i>Water Consumption (no meter/unread meter) - Flat Rate (Per Month)</i>			
Domestic/Household	91.00	5.55	96.55
Institutional	118.30	7.22	125.52
Business & other	127.40	7.77	135.17

CONSUMPTIVE SANITATION TARIFFS:

TARIFFS	CHDM Current Tariff 2016/2017	CPIX Increase (6,1 %)	CHDM Proposed Tariff after CPIX (6,1 %) Increase for 2017/2018
SANITATION			
<i>Sewerage charges (waterborne sewer system)</i>			
<i>Domestic / Households Full - Standard</i>			
Single residential properties- 70% of water consumption to a maximum of 35kl of sewerage per month (70% of 50kl water = 35 kl of sewerage)			
Step 1 (0to 4kl) - Per kl	7.84	0.48	8.32
Step 2 (4.1kl to 7.35kl) - Per kl	8.21	0.50	8.71
Step 3 (7.36kl to 14 kl) - Per kl	15.46	0.94	16.40
Step 4 (14.1 kl to 24.5 kl) - Per kl	16.90	1.03	17.93
Step 5 (24.6kl to 35 kl) - Per kl	17.74	1.08	18.82
<i>Commercial - Standard - Per kl</i>			
95% of water consumption	10.96	0.67	11.63
<i>Industrial - Standard - Per kl</i>			
95% of water consumption	10.96	0.67	11.63
<i>Government - Standard - Per kl</i>			
National / Provincial – 95% of water consumption	10.96	0.67	11.63
<i>Schools / Sport Bodies / Churches / Charities - Standard - Per kl</i>			
Any educational activity / sporting activity / religious activity / charitable activity	10.96	0.67	11.63
<i>Miscellaneous - Standard - Per kl</i>			
All consumers who do not fall within the above categories	10.96	0.67	11.63
<i>Homeless people shelters / Homes catering for physically or mentally challenged individuals - Standard - Per kl per person</i>			

Financial Implications:

Increase in uncollectable consumer service debtors, thus increasing the provision for debt impairment;

Decrease in grant funding, thus decreasing projects funded from conditional grants; and

The budget deficit that is limited to non-cash items and assets that are funded from municipal reserves.

Other Implications:

The funding and balancing of the budget needs to be monitored closely moving forward into future years; and

Strict implementation of cost containment measures to improve the deficit budget.

Other parties consulted:

HOD'S

Communities within Chris Hani

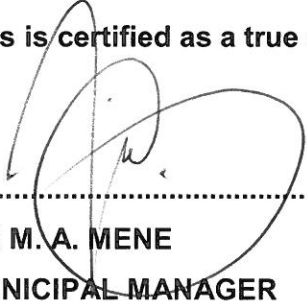
Mayoral Committee

Resolutions:**It was resolved that:**

- 1) Council **approve** the final operating and capital budget for 2017/18 MTREF as reflected in table A1;
- 2) Council **approve** the operating expenditure of R1,285 billion and operating revenue of R1,039 billion as reflected in Table A4;
- 3) Council **approve** the capital expenditure of R611 million and capital revenue of R514 million as reflected in Table A5;

- 4) Council **approve** the municipality's annual budget, and specifically appropriating the amount for the different votes, and for single year and multi-year capital expenditure as reflected in Tables A2 and A3;
- 5) Council **approve** tariff increases as 6% for Municipal Health tariffs, water and sanitation. Sanitation be calculated as a step tariff for 70% of water consumption.
- 6) Council **approve** the following budget related policies:
 - a. Indigent Policy with no amendments;
 - b. Debt and Credit Control Policy with amendments;
 - c. Tariff Policy amendments;
 - d. Asset Management Policy with amendments;
 - e. Inventory Management Policy with amendments; and

This is certified as a true copy of the original.



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MR M. A. MENE
MUNICIPAL MANAGER