



Medium Term Revenue and Expenditure Framework Budget 2017/2018,2018/2019 and 2019/2020

The application of sound financial management principles for the compilation of the district wide financial plan is essential and critical to ensure that the district remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The district business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The municipality has undertaken various customer consultation initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No.82,85,86, and Division of Revenue Bill 2017 were used to guide the compilation of the 2017/18Final MTREF.

The compilation of the 2017/2018 medium -Term Budget and Expenditure Framework is compliant with the mSCOA Classification framework set out in A schedule A (version 6.1) of Municipal budget and Reporting regulations.

The main challenges experienced during the compilation of the 2017/2018 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- The need to re-priorities projects and expenditure within the existing resource envelope given the cash flow realities and the cash position of the municipality;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – the municipal allocation relating to infrastructure grant associated with capital investment has been withdrawn (Municipal Infrastructure Grant), thus prohibit the functions of the District in relation to bulk infrastructure investment for the budget year 2017/2018 MTREF and beyond; and
- Availability and/or affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2017/2018 MTREF:

- The 2016/2017 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2017/2018 Draft budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- An upper limit of R11 million was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to prioritise expenditures:
 - Bursary fund;

- Public Participation;
- ICT and Programming;
- Rural Community Support;
- SMME Development; and
- Youth development programme.

In view of the above the following table is a consolidated overview of the proposed 2017/2018 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2017/2018 MTREF

R thousand	Adjustment Budget 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19	Budget Year +3 2019/20
Total Operating Revenue	108,954,381	219,773,586	125,208,982	126,644,753
Total Operating Expenditure	105,763,102	219,532,086	125,108,982	126,644,753
Surplus / (Deficit) for the year	0.00	0.00	0.00	0.00
Total Capital Expenditure	3,191,279	241,500	100,000	0.00

Total operating revenue has increased by R110 million for the 2017/2018 financial year when compared to the 2016/17 Adjustments Budget. For the two outer years, operational revenue will decrease by R94 million and increase by R1.4 million in 2018/19 and 2019/20 respectively.

The capital budget of R241 thousand for 2017/18 is R2.9 million less when compared to the 2016/17 Adjustment Budget. The decrease is due to increase in operational Projects as compared to the adjustment budget 2017/18. The capital programme continues to decrease to R100 thousand in the 2018/19 financial year and further decrease to R- in 2019/20. The entire capital budget will be funded from own source revenue realized from savings in the operating revenue over MTREF.

1.1 Operating Revenue Framework

For Thabo Mofutsanyana District Municipality to continue improving the quality of services provided to its citizens and the support to its local municipality within the district it needs to generate the required revenue. In these tough economic times, strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty.

The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to balancing expenditures against realistically anticipated revenues.

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

- National Treasury's guidelines and macroeconomic policy;
- Growth in the District and continued economic development;
- Efficient revenue management;
- The wide district financial recovery plan;

The following table is a summary of the 2017/18 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Description	Current year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjustment Budget	2017/18	2018/19	2019/20
R thousand					
<u>Revenue by Source</u>	-	-	-	-	-
Property rates	-	-	-	-	-
Property rates - penalties & collection charges	-	-	-	-	-
Service charges - electricity revenue	-	-	-	-	-
Service charges - water revenue	-	-	-	-	-
Service charges - sanitation revenue	-	-	-	-	-
Service charges - refuse revenue	-	-	-	-	-
Service charges - other	-	-	-	-	-
Surplus cash at the beginning of the year	-	737,867	-	-	-
Interest earned - external investment	1,264,250	1,264,250	1,425,162	1,520,648	1,621,011
Operating grants	102,401,000	102,533,896	215,001,000	120,148,000	121,283,000
Other revenue	3,450,916	3,671,118	3,347,424	3,540,334	3,740,742
Transfers recognised to operation	-	-	-	-	-
Gain on disposal of PPE	-	-	-	-	-
Total Revenue (Excluding capital transfers and contribution)	107,116,166	108,954,381	219,773,586	125,208,982	126,644,753

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Operating grants and transfers forms a significant percentage of the revenue basket for the municipality. Operating grants and transfers totals R215 million in the 2017/18 financial year and steadily decreases to R120.1 million by 2018/19 and R121.2 million by 2019/20 respectively.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts

Description R thousand	Current year 2016/17		2017/18 Medium Term Revenue &		
	Original	Adjustment	2017/18	2018/19	2019/20
RECEIPTS:					
<u>Operating Transfer and Grants</u>					
National Government:					
Local Government Equitable Shares	97,724,000	97,724,000	101,909,000	106,990,000	110,846,000
Financial Management Grant	1,250,000	1,250,000	1,250,000	1,505,000	1,765,000
Municipal System Improvement Grant	-	-	-	3,123,000	-
EPWP Incentive Grant	1,120,000	1,120,000	2,142,000	-	-
Rural Assets Management System	2,307,000	2,307,000	2,400,000	2,530,000	2,672,000
Energy Efficiency & Demand	-	-	6,000,000	6,000,000	6,000,000
Provincial Government					
TETA Grant	-	747 250	-	-	-
CETA Grant			101,300,000		
Total Operating Transfer and Grants	102,401,000	103,148,250	215,001,000	120,148,000	121,283,000

1.2 Operating Expenditure Framework

The Municipality's expenditure framework for the 2017/18 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The following table is a high-level summary of the 2017/2018 budget and MTREF (classified per main type of operating expenditure):

Table 4 Summary of operating expenditure by standard classification item

Description R thousand	Current year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjustment Budget	2017/18	2018/19	2019/20
Expenditure By Type					
Employee related costs	53,175,345	53,175,345	56,148,393	59,910,335	63,864,417
Remuneration of councilors	9,252,044	9,252,044	9,339,645	9,965,401	10,623,118
Finance charges	75,040	75,040	81,418	88,339	95,848
Depreciation and assets impairment	3,272,416	3,502,618	3,146,064	3,325,390	3,511,612
Contracted services	400,000	760,000	-	300,000	-
Transfers and grants	-	810,000	-	-	-
Other expenditure	36,904,233	36,313,055	148,239,190	48,729,431	46,342,628
Repairs and maintenance	1,625,000	1,875,000	2,577,375	2,790,085	2,207,130
Total Expenditure	104,704,078	105,763,102	219,532,086	125,108,982	126,644,753

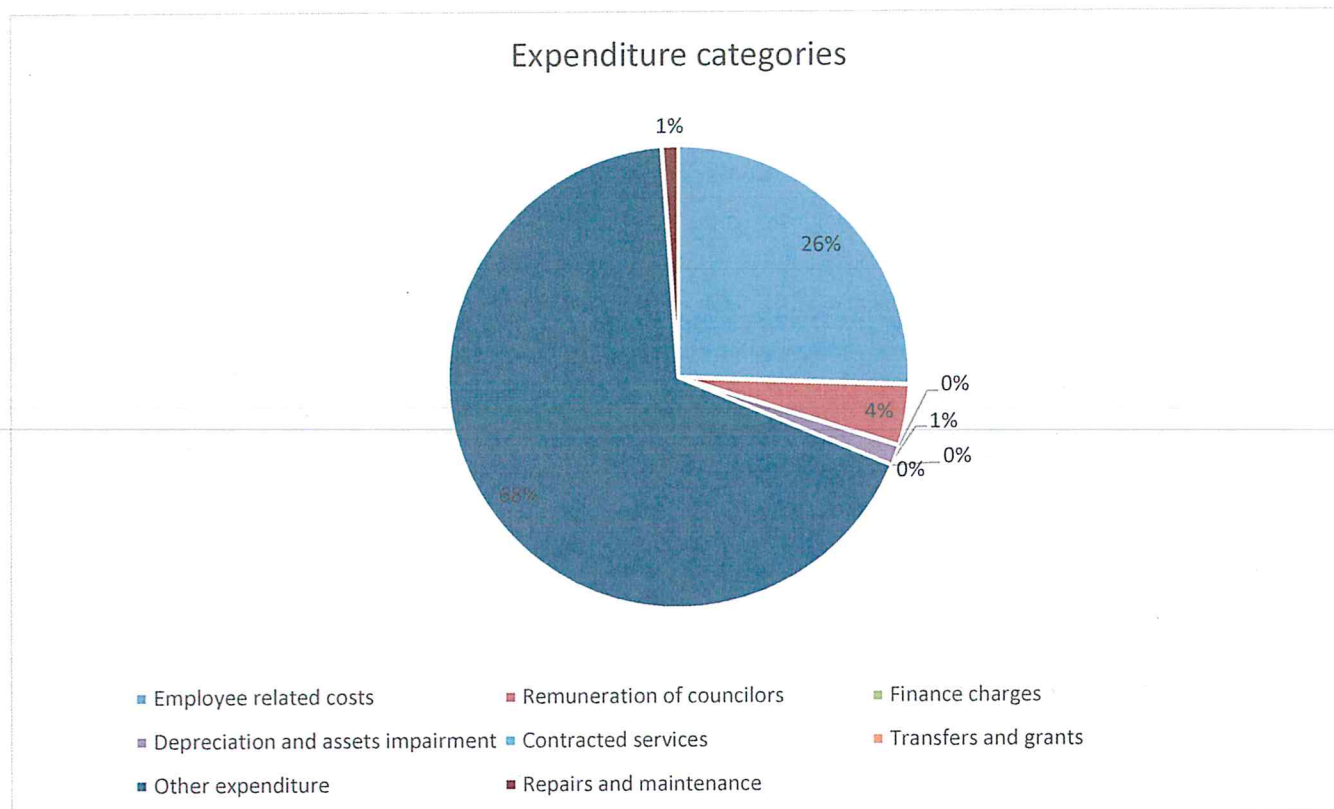
The budgeted allocation for employee related costs for the 2017/18 financial year totals R65,4 million, which equals 55 per cent of the total operating expenditure. Since the three-year collective SALGBC agreement will be coming to end during 2017/18 budget year, salary increases have been factored into this budget at an estimated percentage increase of 7.4 per cent for the 2017/18 financial year, this was based on the guideline of circular 86 and CPIX plus additional 1 per cent on CPIX. An annual increase of 6.7 and 6.6 per cent has been included in the two outer years of the MTREF.

As part of the Municipality's cost reprioritization and cash management strategy vacancies have been significantly rationalized and only important and critical position have been budgeted for. As part of the planning assumptions and interventions all vacancies were originally removed from the budget

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been considered in compiling the municipality's budget.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditures has been identified as an area in which cost savings and efficiencies can be achieved. Average growth has been limited to 4.5 per cent to some item of expenditure for 2017/18 and curbed at 5.7 and 5.6 per cent for the two outer years, indicating that significant cost savings have been already realised.

The following table gives a breakdown of the main expenditure categories for the 2017/18 financial year.



1.3 Capital expenditure

2017/18 Medium-term capital budget per vote

For 2017/2018, an amount of R241,500 has been appropriated for the Furniture and Equipment in the outer years this amount totals R100,000 thousand and R- respectively for each of the financial years.

Part 2 – Supporting Documentation

Overview of the annual budget process

Section 53 of the MFMA requires the Executive Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Executive Mayor.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, considering the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.


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