MUSINA MUNICIPALITY

FINAL BUDGET 2017/2018

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ABBREVIATIONS

MFMA- Municipal Finance Management Act 56 of 2003

MBRR- Municipal Budget and Reporting Regulations

MTREF- Medium Term Revenue and Expenditure Framework

EPWP – Expanded Public Works Programme
FMG – Finance Management Grant
INEP – Integrated National Electricity Program
MIG –Municipal Infrastructure Grant
SPECIAL GRANT – Provincial Treasury Relief Grant.

1.1. Mayors Report

See as an separate attachment the Final budget Speech by Her Worship Mayor of Musina, Cllr. Mihloti Muhlope during the Council Meeting held at Musina Municipality Council Chambers on 27th May 2017.

DEPARTMENTAL BUDGET BY MAJOR VOTE

	Adj. 2016/17 Budget	**and Final Budget 2017/18**
Executive and Council	: R 61 895 million	R 63 672 million
Municipal Manager	: R 21 156 million	R 18 446 million
Financial Services	: R 26 698 million	R 25 197 million
Community Services	: R 26 693 million	R 27 913 million
Technical Services	: R 110 441 million	R 111 300 million
Planning and Development	: R 23 151 million	R 29 763 million
Corporate Services	: R 13 419 million	R 19 774 million
GRAND TOTAL BUDGET:	**R 283 454 million to**	**R 296 066 million**

1.2. COUNCIL RESOLUTION

See attached

1.3 EXECUTIVE SUMMARY

In terms of the legislative process, the IDP and Budget must be tabled to Council by no later than 90 days before the commencement of the new financial year for endorsement so that the public participation processes can commence in the following month. Thereafter the tabled budget with input from the role players must be considered by Council for final approval not later than 30 days before the new financial year.

The draft IDP and Budget was being put forward for tabling to Council as required by section 16 of the MFMA.

The following attachments are provided:

SECTION ONE: INTEGRATED DEVELOPMENT PLANNING

Annexure A Reviewed Integrated Development Plan (IDP) see the attached Draft Budget package

SECTION TWO: MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

Annexure B Medium Term Revenue and Expenditure Framework – Complete Budget Document as per Budget and Reporting Regulations

SECTION THREE: SERVICE DELIVERY BUDGET IMPLEMENTATION PLAN

Annexure C Departmental Service Delivery Budget Implementation Plan (Measurable Performance Indicators section) (SDBIP)

DISCUSSION

Section 16 of the MFMA dealing with the tabling of annual budgets, inter alia, reads as follows:

1) *The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.*

2) *In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.*

3) *Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.*

Section 24 of the MFMA dealing with the approval of annual budgets and, inter alia, reads as follows:

1) *The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.*

2) *An annual budget-*

   a) *must be approved before the start of the budget year;*
   b) *is approved by the adoption by the council of a resolution referred to in section 17(3)(a)(i); and*
   c) *must be approved together with the adoption of resolutions as may be necessary-*

      i. *imposing any municipal tax for the budget year;*
      ii. *setting any municipal tariffs for the budget year;*
      iii. *approving measurable performance objectives for revenue from each source and for each vote in the budget;*
      iv. *approving any changes to the municipality's integrated development plan; and*
      v. *Approving any changes to the municipality's budget related policies.*

3) *The accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury.*

PROCESS FOLLOWED

Background

- In terms of the Budget Schedule of Key Deadlines as approved by Council in August 20165, the draft IDP and Budget has to be tabled to Council in March 2017.
- The Draft IDP and Budget will thereafter be presented to stakeholders of the Musina Municipality, including the broader community, National and Provincial Departments, CBOs, NGOs, etc. for their respective input.
- The departments received budget compilation guidelines and templates to be submitted in support of their budget requests during September 2016.
- Departments duly complied and submitted their Operating and Capital Budget requests to the Finance department for consolidation during October 2016. Consolidation of the departmental input received and analysis of the requests took place from November 2016 to January 2017.
- Departments refined and set targets for their respective departmental plans which are included in the Draft IDP. The proposals contain results which departments will work towards achieving and to support the achievement of the programs contained in the **Annexure A** of Reviewed IDP for the 2017/18 financial year.
- Annexure B contains the detailed budget of Musina Local Municipality for the MTREF period. It is compiled in line with the Budget Guideline set out by National Treasury. The template supplied by National Treasury was used and it is in the exact format as prescribed.
- **Annexure C** is a complete list of all the various tariff schedules of Council. It includes the major tariff schedules as well at the tariff schedules of other services. A summary of the tariff increases is included in Annexure B as well.
- In terms of the Municipal Budget and Reporting Regulations Council must consider only the policies with proposed changes as part of the budget process. However, **Annexure D** contains ALL the Budget Related Policies of Council.
- The Departmental Service Delivery Budget Implementation Plan (Measurable Performance Indicators section) (SDBIP) of Council. In terms of legislation it must be reflected in MBRR Table SA7 as part of Annexure B of the report. For ease of reference the complete document in **Annexure E**.
- A detailed Capital Budget which make reference to the ward information is included as **Annexure F.** Though such an annexure is not required in term of legislation, it assist in many ways when budget is scrutinised during public participation.

Process followed to compile the Tabled and Final Budget for the 2017/18 period

The Budget Office was responsible for the consolidation of the budget requests as submitted by the departments. After consolidation of the budget requests the Capital and Operating Budget was submitted to both HOD meetings and Budget Steering Committee.

Various meetings took place and the budget requests were scrutinized in detail. The following factors affected the compilation of the draft budget:

- Evaluation of the capital budget submission by MIG. The entire purpose is to ensure that the budget is addressing the strategic goals set by Council as embedded in the prioritization model.
- The Mid-year performance of departments were also taken into consideration during the evaluation of the budgets.
- The assessment conducted during the quarterly Budget Review meetings of the Extended HOD meeting: Finance together with strategic departments affected the draft budget as tabled.
- The budget requests were scrutinized by HOD Committee on administrative level.

IDP REVIEW AND SDBIP PREPARATIONS

In terms of section 34 of the Municipal Systems Act, 32 of 2000, the council must annually review its Integrated Development Plan in terms of a predetermined process.

The review of the Integrated Development Plan (IDP) in terms of the Municipal Systems Act was guided and informed by the following:

- It must support and work towards achieving the Vision and Mission of Musina Local Municipality.
- Working towards the achievement of the Musina Local Municipality Growth goals and programs.
- Addressing the National Outcomes set by Parliament as well as the National Development Plan (NDP).
- Focus on basic service delivery in terms of the eradication of backlogs and the maintenance of existing infrastructure and ward priorities.
- Provincial plans and programs applicable to the specific. Budget allocations by the respective provincial sector departments to these projects should also be reflected as far as possible.

All departments were part of the process of reviewing the IDP and SDBIP in terms of the approved Steering Committee set dates.

The Economic Development and Planning Department conducted meetings with ward committees to get input for the review of IDP. Ward committees were consulted to obtain the priorities and need of the various ward committees. The proposals formulated in terms of the high level results which departments will work towards achieving to support the Growth Programs has been drafted. These still need further refinement in terms of detail targets to be reflected in the SDBIP.

IDP engaged meetings with each department during September 2016. This consisted of one-on-one engagement with Departments to discuss the Budget, SDBIP and finalize indicators and targets. The process also involves ensuring that Departmental outputs are aligned with national outcomes and the Growth Development Strategy

FINAL BUDGET

The Final budget was tabled for adoption based on all the principles and guidelines as contained in the Medium Term Budget and the other budgeted related policies of Council and included in this report.

Operating Budget

The MTREF for the 2017/18 Multi-year Final and Adjustment budget, with comparative information is as follows:

	Adjustment Budget Year 2016/17 Read '000	**Budget year +1 2017/18 Read '000**	**Budget Year + 1 2018/19 Read '000**	**Budget Year +2 2019/20 Read 000**
Total Operating Revenue	284 704	296 065	304 989	326 898
Total Operating Expenditure	283 455	296 065	303 337	324 574
Surplus / (Deficit) for the Year	1 250	0	1 652	2 324
Total Capital Expenditure	38814	47 468	40 984	52 585

The above table illustrate the high level synopsis of our Revenue and Expenditure and growth patterns as slow as they appear, it is the realistic collections and grants received which are in contrary with the Economic zone status accorded us, looking at expenditure the amount thereof are as little cut to the bone as possible to enable us to render services and operate as a going concern, however it is going to be painstakingly tough considering our unpaid debts in respect of Eskom, Labour, Traffic, Loans repayment etc.

Highlights of the Budget

Economic Growth Rate

The Municipality is cognisant of the economic pressures that its customers are facing and are aiming to keep tariff increases as low as possible this year.

The compilation of the MTREF remains a huge challenge to balance the budget between the limited revenue resources available and the immense need to provide quality service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth to ensure financial sustainability

In terms of the National Treasury Budget Circular No 86 dated 08 March 2017, the economic growth rate is predicted at 0.5% for the 2016/17 financial year. The International Monetary Fund recently published their assessment of the SA economy and a growth rate of 0.7% is predicted. Taking local factors into consideration as well as the results in the mid-year report of Council the following growth rate is predicted for 2017/18:

The **inflation outlook** as set out in Circular No 86 issued on 8th March 2017 is set at **6.4**%.

Tariff Increases

It is proposed that the **property rate tariff** be increased by 6.4**%** for 2017/18, which is still in line with the tariff increase set in the current MTREF approved by Council.

It is indicated in Circular 86 of National Treasury that bulk purchases from Eskom should increase with 7.88%, but as a result of the fact that Eskom applied for a higher tariff increase to compensate for under recovery of revenue, The draft tariff has thus far been adjusted in accordance with the final recommendation by NERSA to be infected after 5th April 2017 tabling of eskom tariff tabling prices for municipalities to be indicative rate of 0.31% guide

Refuse removal tariff increase was set at **6.4%** for all users. This is largely based on the increase of the main cost drivers of the service.

The following table reflects the multi-year tariff assumptions for the 2017/18 MTREF as discussed:

Revenue category	2016/17 proposed tariff increase	2017/18 proposed tariff increase	2018/19 proposed tariff increase
	%	%	%
Assessment Rates Income	6.5%	6.4%	5.7%
Electricity Sales(Indicative rate is at 0.31%) prior to approval in the circular 86)	7.86%	1.88%	7.9%
Refuse Removal / Solid Waste Sales	6.5%	6.4%	5.7%

The financial sustainability of the 2017/18 MTREF is largely dependent on the collection level of billed income. Provision is made for a **collection level of 84%**. To achieve this collection, the Municipality will have to implement more robust credit control measures.

In terms of Council's social commitment to assist the poorer communities in Musina it is proposed to make no changes to the supply of free basic services and social contributions to identified households in MLM.

All houses with a market value of below R 75 000.01 is exempted for assessment rates and market value above R75 000.01 the first R30 000 is exempted. Various other grants on assessment rates, such as pensioners' rebate, rebate to low income people, properties zoned for religious purposes, will continue in the new year.

Cognisance must be taken of the fact that the budget will in accordance with Council's resolution be tabled for Adoption May 2017. There are some factors that affected the draft budget before it is tabled for Council adoption in May 2017. The assessment by Provincial Treasury has to be considered therefore find its expression in the Final budget as Adopted by Council.

CAPITAL BUDGET

The **Capital Budget** of **R47 468~~637~~ million** for 2017/18 is apportioned according to the R18 Million envisaged to be received from the department of energy as a grant and MIG of R 29 468~~637~~ Million

The Capital Budget is largely driven by projects emanating from the IDP and projects identified by the community as well as the backlog in services. A comprehensive backlog study was conducted and various components of backlog on infrastructure were analyzed, including access backlogs, technical backlogs, and growth and renewal backlogs

The evaluation of the project proposals was based on the following key criteria:

- Compliance with Draft Capital Projects from the IDP Review – PMU
- Compliance with Grant conditions placed on the Project plans

The Capital Budget will be funded as follows:

- **Other grant funding** - allocation of all the external funds as per the 2016 Division of Revenue Act (DoRA) and the Provincial gazette - to fund social projects that will not necessarily generate revenue.
- **Internal generated funds**- the municipality does not have the funds to cover for projects

The following tables A5 and A5A provides a breakdown of budgeted capital expenditure by vote as attached schedule A.

PROPOSED POLICY CHANGES

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

The entire set of Budget Related Policies can be viewed on the MUSINA LOCAL MUNICIPALITY website: http://www.musina.gov.za

It is required by legislation that amendments to all budget related policies must form part of the tabled budget as such they've been taken through Public Participation. The following budget related policies are included as Annexure D to this report:

LIST OF BUDGET RELATED POLICIES

The following is a list of all budget - related polices which have been reviewed:

1. Asset management policy;
2. Budget policy;
3. Cash management and investment policy;
4. Credit control policy;
5. Indigent policy;

6. Overtime policy;
7. Supply Chain Management policy;
8. Risk management policy;
9. Tariff policy; and
10. Property Rates Policy
11. Virement Policy

ORGANISATIONAL AND HUMAN RESOURCE IMPLICATIONS

None

FINANCIAL IMPLICATIONS

None

LEGAL IMPLICATIONS

The tabling of the IDP and Budget in March 2017 and Adoption in May 2017 will ensure compliance with Section 16 of the MFMA.

COMMUNICATION IMPLICATIONS

Immediately after tabling to Council, the community consultation process, including the oversight process must be commenced with.

This will include the following:

- Documentation to be placed on the website
- Copies of all documentation to be made available at all libraries and pay points
- Community consultation meetings to be arranged
- Documentation to be circulated to National and Provincial Treasuries and Cogsta
- Advertisements to be placed in the media advising the community of the consultation process.
- The above process was conducted from 6th April 2017 to 8th of May 2017

RECOMMENDATIONS

1. **That** the report regarding the Final Integrated Development Plan and the Final Medium Term Revenue and Expenditure Framework for Musina Local Municipality for the 2017/2018 to 2019/2020 financial period **BE NOTED.**

2. **That** the final Integrated Development Plan and the final Medium Term Revenue and Expenditure Framework for the 2017/2018 to 2019/2020 Budget Year +2 financial period, inclusive of Tariffs and budget related policies as contained in the Budget Document **BE NOTED** in terms of Section 16 of the Municipal Finance Management Act**.**

3. **That** the final Integrated Development Plan and the final draft Medium Term Revenue and Expenditure Framework for the 2017/2018 to 2019/2020 Budget Year +2 financial period, inclusive of tariffs and final budget related policies as contained in the Budget Document **BE SUBJECTED** to a detailed review and community consultation process in terms of Sections 22 and 23 of the Municipal Finance Management Act and that the consultation process be done in accordance with Chapter 4 of the Municipal Systems Act.

   The executive summary of MUSINA LOCAL MUNICIPALITY for the Final Budget of 2017/18 has been quality assured by the following signatories.

CFO Signature…….

Municipal Manager Signature……...

1.4. Musina Local Municipality's Final Operating Revenue Framework 2017/2018

For Musina Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue.

In these tough economic times strong revenue management is fundamental to the financial sustainability of our municipality.
The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The Musina Local Municipality's revenue strategy is built around the following key components:

• National Treasury's guidelines and macroeconomic policy;
• Growth in the Town and continued economic development;
• Efficient revenue management, which aims to ensure an 83 % annual collection rate for property rates and other key service charges;
• Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA); @ 1.88%
• Achievement of full cost recovery of specific user charges especially in relation to trading services;
• Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
• The Municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
• Increase ability to extend new services and recover costs;
• The Municipality's Indigent Policy and rendering of free basic services; and
• Tariff policies of the Municipality

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.
Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix.

Total revenue generated from rates and services charges R17.3 million of Property Rates and Budget to R118.9 million of Services Charges respectively 2017/2018. This increase in growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, of 2017/18 which in turn is due to rapid increases in the Eskom tariffs for bulk electricity, and thus the increase of 1.88% for 2017/18 cannot be regarded as increase flowing from the high cost of electricity from previous years. Property rates is the third largest revenue source totaling R17million. The second largest sources is „other revenue" which consists of various items such as income received from permits and licenses, sale of sites, building plan fees, connection fees, and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totals R97.8 million in the Annual Budget 2016/17 financial year and adjusted to R117, 8 million in 2016/17 the huge increase is as a result of us as Musina Municipality receiving the Relief Grant from Provincial Treasury amounting to R20 Million. And for the year in reporting of 2017/2018 is R114.5 million considering that the relief grant promissory note was scheduled for 1 financial year.

Note that the year-on-year growth for the 2016/17 financial year has stabilized but critical to service delivery allowing the Municipality steadily increase in the Adjustment Budget revenue and having set the Tariffs structure in the beginning of July 2016 that is pro-poor and investor's friendly, the tariff for 2017/2018 as set are at 6.4% thus requiring us to be within the projected growth as stipulated in circular 86.

Note: tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Town (Municipality).

Note: National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

Note: Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.
It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilized for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, petrol, diesel, chemicals, cement etc.

The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. However tough it is the municipality is facing financial difficulties considering

the number of creditors we owe v/s the amount of revenue generated, especially sectoral debt ie. Eskom, Department of Transport, labour and this flow has a negative impact on the assessment of our Budget, the Municipality adjustment budget was consulted on with provincial treasury and we worked mainly on trying to have a funded budget, which on current year status (remaining six month) it is funded but due to the enormous strain in our cash book, service previous year debts it remain very much critical hence the notion of unfunded annual budget was raised by assessment by Mr. Mahaye of Provincial treasury, none the less critical to revenue collection the majority of services are funding their cost drivers in away.
Within this framework the Musina Local Municipality has undertaken the tariff setting process relating to service charges not to be changed because for this current year financial recovery plan has not been tabled in council.
Also to note.

- *Property rates - the municipality received more than budgeted for as a results of rates and taxes received in advance for DeBeers mine.*
- *Traffic fines- the municipality received less than budgeted for and there is a slow pace in revenue collected*
- *Transfer and Grants – this has increased revenue as a result of grants received e.g. Relief Grant in 2016/2017 however in 2017/18 we would see the decrease in our transfers and grants*

1.5. Musina Local Municipality's Final Operating Expenditure Framework 2017/2018

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

• The asset policy and the repairs and maintenance plan;
• Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit; our budget outlook has considered a lot of inputs as alluded to by provincial treasury, with all been said that our Budget is not funded, but during many engagement, with provincial treasury, cogta, it was said that due to commitments to pay previous years debts, ie. Eskom,dept labour and transport coupled with inability to honor some of our obligations, the current and coming Book YEAR will look similar with trends because the current account which is the Budget funds not only anticipated 2017/2018 debts or commitments but also historic issue. Which put strain on the funding model, unless if we can get cash injection (relief grant) or be more creative in terms of tariff setting.

The cash flow analysis will bear testimony to the trends, and extensive cutting of non-essential items was done, to try and reduce the burden. The only items that are in our Draft Budget can only sustain the Municipality to meet its obligations over the years.
• Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;

The final budget allocation for employee related costs for the 2017/18 financial year totals R 104 514 million, and R 9 462 million for councilor remunerations allocated considering the Upper limits and effects of after august elections and disestablishment of Mutale local. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6 per cent for the 2016/17 financial year.

An annual increase of 5.7 per cent has been included in the two outer years of the MTREF. As part of the Musina Local Municipality cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards.

In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

- *Employee related costs- Over spending as a results of payment of salaries for the disestablished municipality which is addressed in budget adjustment.*
- *Contracted services – payment of own contracted service provider due to cash flow challenges which increased our creditors.*
- *Other materials under spent.*
- *Over spending on general expenses contributed to major variance due to payment of Audit fees which includes fees for 2014/15 financial year and other provisions paid which was not budgeted for , debt repayment DRT , legal fees and annual show*
- ***Bulk purchase:***
- *Under spending as a result of cash flow to service Eskom debt*
- *Over spending on Repair and maintenance Plant and Equipment and Vehicles, their dependants is as an when need arises. The Above assessment give rise to what led to our budgeting from the adjustment and mid-year point of departure, our budget had not excessively increased due to the ability to raise taxes that are realistic and attainable.*

Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Town's current infrastructure, the 2017/18 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by repairs and maintenance plan of the Musina Local Municipality, the budget for repair and maintenance has increased to R19.8m. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

1.6. Capital Expenditure

2017/18 MTREF capital budget per vote

Medium Term Revenue & Expenditure Framework Current Year 2016/17
The capital budget increases from R40.0 million in 2016/17 (February 2016 adjustments budget) to R47 .6million in 2017/18.
National Treasury, in its MFMA circulars, has indicated that a minimum of 40% of a municipality's capital budget should be for renewal of existing assets as opposed to new infrastructure. In the municipality's proposed capital budget the renewal of existing assets equates to R29.6 million or 52% of the total 2017/18 capital budget, while new assets represents R18.0million or 47%. It is important to note that asset renewal represents the upgrading or replacement or extension of existing municipality owned assets, while new assets will result in an increase in the asset base of this municipality.

1.7. Overview Final Budget Tables explanatory notes

The following pages in this section presents the 10 main budget tables as required in terms of Section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2017/18 final budget and MTREF as approved by Council. Each table is accompanied by *explanatory notes* on the facing page.

Explanatory notes to MBRR Table A1 – Budget Summary (Referred to Table A1 Draft budget 2017/2018)

1. Table A1 represents a high-level summation of the Musina municipality's budget, providing a view that includes all major components, i.e. operating, capital, financial position, cash flow and MFMA funding compliance.

2. In essence it provides a synopsis of the amounts to be approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance and the municipality's commitment to eliminate basic service delivery backlogs.

3. Financial management reforms emphasizes the importance of funding for the municipal budget. This requires the simultaneous assessment of the financial performance, financial

position and cash flow budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:

a. The operating surplus/deficit (after total expenditure) is R0, R1.6Mil and R2.3Mil over the MTREF.

b. Capital expenditure is balanced by capital funding sources, of which:

i. Transfers recognized are reflected on the Financial Performance Budget.

ii. The municipality does not have borrowings to fund capital budget.

iii. The municipality does not have internally generated funds to finance capital budget as indicated above on point a.

4. The cash-backing/surplus reconciliation shows that the liquidity position of the municipality is under pressure and consequently many of its obligations are not cash-backed. This placed the municipality in a very vulnerable financial position. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations in accordance with the recently adopted MFMA Circular 70 regarding cost containment measures. This cannot be achieved in one financial year. But over the MTREF there will be progressive improvement in the level of cash-backing of obligations.

5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of FBS shows that the amount spent on FBS and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Explanatory notes to MBRR Table A2 (Referred to Table A2 Final budget 2017/18 document) - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile ‘whole of government’ reports.

2. Note that in Table A2A Expenditure standard on Mayor and Council has gone down compared to 2016/2017 Adjustment Budget due to Mscoa classification in 2017/2018 final budget which will be implemented in July 2017.

3. Note that the Total Revenue in this table excludes capital revenues (transfers recognised – capital) and so does balance with the operating revenue shown on Table A4.

4. Note that as a general principle the revenues for Trading Services should exceed expenditures. The table highlights that this is the case for electricity, and the solid waste management (refuse removal) functions.
5. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under Budget and Treasury Office

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance – (Referred to Table A3 Final budget 2017/2018)

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organizational structure of the municipality. This means it is possible to present the vote's operating surplus or deficit.

Explanatory notes to MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure) (Referred to Table A4 Final budget 2017/2018)

Revenue generated from **rates and service charges** forms a significant percentage of the revenue basket for the municipality. Rates and service charge revenues comprise 46.50% of the total revenue mix. In the 2017/18 financial year, revenue from rates and service charges totaled R136.3 million in the income budget. It increases to R144.3million and R152.7million in the respective outer years.
Property rates are the second largest revenue source totaling 5.9% of the total income budget or R17million.
Property rates for 2017/2018 budget has increased compared to 2016/2017 adjustment budget as a result of rezoning of properties from residential to business or industrial properties. The new mall in the municipality area and development of vacant land from extension 14 will also increase billing of property rates , though certain Municipal properties were included in billing for 2015/2016 hence as data cleansing in valuation roll we have excluded municipal properties in 2016/2017 final budget.

Electricity is the biggest source of income and represents R104.1million of the total income budget in 2017/18 an increase by 12.2 percent is due to new mall and developments of vacant land from extension 14

Refuse removal as compared to 2016/2017 adjustment budget has gone up from R13.9million to R14.8million and looking on the fact that as a results of demarcation the municipality is going to inherit rural villages from Mutale which the municipality will be servicing by collecting waste, though there is a tariff increase of 6.4% that cut across other households and businesses.

Interest earned from outstanding debtors has increased as compared from 2016/2017 adjustment budget R1.8million to R1.9 million.

Interest earned from investment has increased from R552 000 2016/2017 adjustment budget to R583 000 in 2017/2018 final budget.
License and permits has increased from R3.7 Million 2016/2017 Adjustment budget to R4. Million in 2017/2018 draft budget and this is as a results of municipality appointing traffic wardens that are assisting in collecting revenue and more from the now disestablished Mutale Local Municipality

Other revenue which comprises of rezoning of sites, building plans and extra has increased from R2.6 Million to R2.7 Million in 2017/2018 draft budget.

Operating grants and transfers totals R117.8 million or 39% of total income budget in the 2016/17 financial year and moves to R114.5 million by 2017/18.

Gains on disposal of PPE there are more than 80 sites available for sale and more than 100 that are awaiting transfers from lawyers and deeds office

Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years. Employee related cost has increased as compared to 2016/2017 adjustment budget from R100 .9 Million to R104.5 Million in 2017/2018 draft budget and this is as a result of annual salary 6.4% increase , critical vacancy position contribute to variance. Management of the municipality has develop a system to manage overtime where in employees will no longer work overtime more than 40 hours which gives a savings of R500 000 per month compared to 2016/2017 draft budget.

Bulk purchases significantly increased between 2013/14 and 2019/20, escalating from R44 million to R80.6 million. These increases can be attributed to the substantial massive increase in the cost of bulk electricity from Eskom.
Depreciation – the municipality only account for depreciation at year end, therefore the adequacy of the provision is reasonable

Other Expenditure has increased from R61.4 million to R67.9million in 2017/2018 budget which is made of Sec 10 of IDP development strategies, programmes on page 358 of IDP internal operating cost also taking cognizance of actual year to date expenditure in the section 71 reports it is further illustrated in a separate sheet attached with break down making up the totals

Contracted services has increased from R11.3Million to R19.3Million due to the contracts envisages for 17/18 which are Electronic PMS, Prevention of fire system in the server, protective clothing, medical detection programme and security services, additional buildings transferred from Mutale as well as new offices that need to be secured and this are existing contracts, which will further be described in the list attached below.

Other Expenditure	17/18	
Property transfer ext 5,6&7	2 138	
Fire Exit Plan,Alarm and Detector	1 295	
Customer Help desk	1 645	
Electronic Records Management System	2 638	
Bursaries(Further studies,Post grad, MFMP,CPMD and Councillors Finance for Non Fin Exc)	1 808	
Conferences and delegations	150	
Consulting fees	1 176	
Insurance	2 838	
Licence fees - computers	1 404	
Membership fees	1 158	
Postage	1 498	
Printing and stationery	1 450	
Rental of buildings	49	
Telephone cost	1 150	
Training	900	
Travel and subsistence	2 950	
Musina Annual Show	2 000	
		26 246 760
Bad Debts	588	***588 000***
Contracted Services	–	***19 367 000***
> Security	9 000	
> Safety clothing	2 186	
> Health Check ups	2 541	
> Solid Waste	5 640	
Other Expenditure		***11 883 400***
> Collection costs	1 392	
> Contributions to 'other' provisions	64	
> Audit fees	2 951	
> Replacement globes/street lights/cablin for highmust	1 961	
Valuation Roll	3 527	
General expences	108	
Mayoral Special programmes	1 880	
		9 244 000
Accomodation media houses	75	
By Laws Development	1 438	
Letigation Register	1 738	
GIS	650	
Employment wellness programme	470	
WSP	745	
Replacement of copper to alluminium	2 848	
Parameter fence	600	
News Letters	680	
	–	**67 329 160**

Explanatory notes to MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source (Referred to Table A5 Final budget 2017/2018)

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the Capital Budget, including information on capital transfers from national and provincial departments.

2. The MFMA provides that a municipality may approve multi-year or single-year Capital Budget appropriations. In relation to single-year appropriations for 2017/18, R47 468 million has been allocated of the Capital Budget, refer to IDP for the listing of projects. This allocation reduced to R40.9million in 2018/19 and R52.5million in 2019/20 as per DORA 2016, the Capital programme is funded by grants and transfers from government (Municipal infrastructure grant).

3. The municipality does not have internal generated funds.

Explanatory notes to MBRR Table A6 - Budgeted Financial Position (Referred to Table A6 Final budget 2017/2018)

1. Table MBRR A6 is consistent with international standards of good financial management practice, and improves councilors' and management's understanding of the impact of the budget on the statement of financial position (balance sheet).

2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents assets less liabilities as "accounting" community wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash or liabilities immediately required to be met from cash, appear first.

3. MBRR Table SA3 – supporting detail to the statement of financial position is supported by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:

- Call investments deposits.
- Consumer debtors.
- Property, plant and equipment.
- Trade and other payables.
- Provisions non-current.
- Changes in net assets.
- Reserves.

4. The municipal equivalent of equity is community wealth/equity. The justification is that ownership and the net assets of the municipality belong to the community.

5. Any movement on the budgeted financial performance or the Capital Budget will inevitably impact on the budgeted financial position. For example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

6. The municipality doesn't anticipate to enter into any new borrowings for 2017/2018 financial year however the municipality will continue to repayment of the existing borrowings which is amounting to R4.8 Million.

Explanatory notes to MBRR Table A7 - Budgeted Cash Flow Statement (Referred to Table A7 Final budget 2017/2018)

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.

2. It shows the expected level of cash inflow versus cash outflow that is likely to result from the implementation of the budget, and the cash that will be available at the year-end is amounting R2Million

3. The cash and cash equivalents increase because of healthy increases in operational activities due to implementations of various interventions, i.e. extensive debt collection drive and reduction in expenditure pattern and spending previous years debt. Exacerbate the strain in our cash flow

4. The municipality is anticipating that 84% of the budgeted revenue will be collected.

Explanatory notes to MBRR Table A8 – Cash-backed Reserves/Accumulated Surplus Reconciliation (Referred to Table A8 Final budget 2017/2018)

1. The cash-backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence, the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. The end objective of the medium-term framework is to ensure the budget is funded and aligned to Section 18 of the MFMA.
6. From the table it can be seen that the cash surplus is increasing over the years.
7. As part of the budgeting and planning guidelines that informed the compilation of the 2017/18 MTREF and considering the requirements of Section 18 of the MFMA.
8. Cash and investments available increase to R26.5million in 2017/2018 financial year

Explanatory notes to MBRR Table A9 - Asset Management (Referred to Table A9 Final budget 2017/2018)

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40% of their Capital Budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8% of PPE. The municipality meets the 40% renewal requirement.
3. The repairs and maintenance is not met due to the Musina municipality having revalued its assets with the first time adoption of GRAP 17 and asset values are currently high. However, the R&M budget is increased to meet not only NT benchmark target of 8%, but to improve the service delivery to the community.
4. The percentage increase from the current 6.1% in 2016/17 to 6.4% in 2017/18. This does not implicate a reduction in the repair and maintenance budget, but merely as a result that internal labour (which is included in the current year) are now excluded from the repair and maintenance budget of Council. This was done in order to align the repair and maintenance budget with the GRAP principles.

Explanatory notes to MBRR Table A10 - Basic Service Delivery Measurement (Referred to Table A10 Final budget 2017/2018)

1. It is anticipated that these FBS will cost the municipality R5.2million in 2017/18. This 'tax expenditure' needs to be seen within the context of the municipality's overall revenue management strategy – the more the municipality gives away, the less there is available to fund other services.
2. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
3. The municipality continues to make good progress with the eradication of backlogs:
4. The budget provides for 2043 households to be registered as indigent in 2017/18, and therefore entitled to receiving FBS. The level of FBS will have to be reviewed to cover the cost of additional indigents given the rapid rate of immigration to the municipality, especially by poor people seeking economic opportunities.

2.5. Overview of budget Assumptions

- The Final budget for 2017/2018 was done in terms of MFMA and municipal budget reporting regulation.
- Final Budget was prepared in an environment of uncertainty and assumptions had to be made about internal and external factors that could impact on the budget during the course of the financial year.
- We have also looked at the following factors
  (a) Economic climate
  (b) Poverty levels
  (c) Inflation
  (d) Service delivery cost increases
  (e) Increase of staff costs and demands

The inflation rate forecasts as per MFMA circular no.85 and 86 issued by National Treasury has been used on the MTERF. However some tariffs are based on cost recovery. The method used on Capital Budget is zero based budgeting.

Revenue

- Revenue to be generated from property rates has increased to R17.3 million by 2017/2018 and remains a significant funding source for the municipality. The municipality is anticipating to collect 84 % of on all billed services.
- Other revenue like Tender document, building plans, clearance certificates, Hawkers licence, etc.
- Gains on disposal of PPE – the municipality is anticipating to sell sites with a rand value of R33 million in the 2017/18,the municipality has more than 80 sites available for sale and more than 100 that awaiting transfers from lawyers and deeds office
- Transfers recognized – operating includes the local government equitable share and other operating grants from national Government. The grants receipts from national government are growing rapidly over the budget year, however in 2017/2018 there has been an increase in operational grant due to new demarcation arrangements and also the budgeted figure of electrification grant of R18 MILLION from Provincial Energy Department. Operational grant alone has decreased from R117.8 Million in 2016/2017 to R114.5Million in 2017/2018 financial year. 'The R20million from Treasury is not catered for in the MTREF'

Expenditure

- The salaries and wages for 2016/2017 financial year was R100.9 million Adjusted and it has increased to R 104.5 million for 2017/2018 financial year, the municipality has taken

cognisance of actual year to date expenditure of R82Million in mid year assessment and anticipate that the municipality will spend R104.5million, 6% annual salary increase has been taken into consideration , though there are vacant critical positions

- Contracted services has increased from R11.3 Million to R19.3Million due to the contracts envisages for 17/18 which are Electronic PMS, Prevention of fire system in the server, protective clothing, medical detection programme and security services both this contracts are multiyear contracts with an annual increases on prices

- It is the requirement of GRAP presentation in respect of assets. Depreciation has increased to R29.5 Million in 2017/2018 due to assets received from Mutale.
- Repair and maintenance holds 8% of total budget amounting to R22.0 Million , this will cater for maintenance of existing assets and new assets of the municipality, refer to table B9.

Surplus/(Deficit)

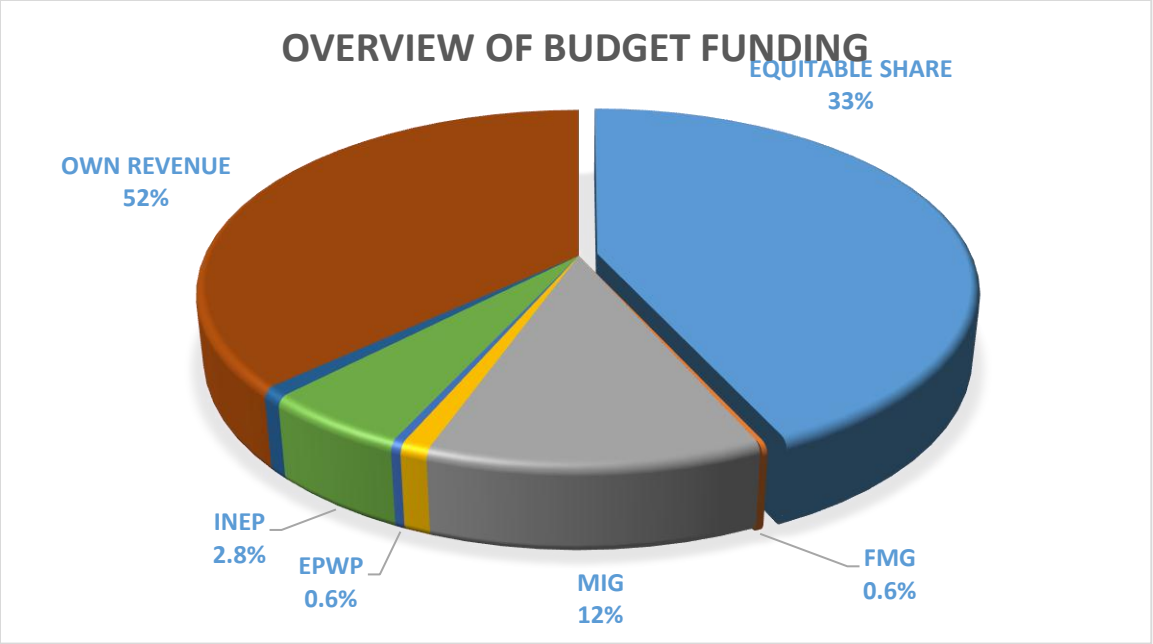
In the 2017/18, the municipality projected a zero surplus/deficit.

2.6. Overview of budget funding

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. Refer Table B8: Cash backed reserves/accumulated surplus reconciliation' and Supporting Table SA10: Funding measurement.



2.7. Expenditure on allocations and grant programmes

Expenditure for each grant for the MTREF period is summarised in the table below also in Table SA19

LIM341 Musina - Supporting Table SA19 Expenditure on transfers and grant programme

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
EXPENDITURE:	1									
Operating expenditure of Transfers and Grants										
National Government:		**37 933**	**42 767**	**51 587**	**97 852**	**97 852**	**97 852**	**114 522**	**129 682**	**140 467**
Local Government Equitable Share		34 393	38 966	47 735	87 434	87 434	87 434	104 327	122 782	133 307
Local Government Equitable Share										
Finance Management		1 650	1 800	1 800	1 825	1 825	1 825	1 900	1 900	2 160
Municipal Systems Improvement		890	934	940	–	–	–	–	–	
EPWP Incentive		1 000	1 067	1 112	1 879	1 879	1 879	1 013	–	
Energy Efficiency and Demand Management								5 000	5 000	5 000
Munic Demarcation Transtional Grant					6 714	6 714	6 714	2 282	–	
Provincial Government:		–	–	–	–	–	–	–	–	–
Munic Demarcation Transtional Grant						–	–			
District Municipality:		–	–	–	–	–	–	–	–	–
[insert description]										
Other grant providers:		–	–	–	–	**20 000**	**20 000**	–	–	–
Provincial Treasury Grant in Kind						20 000	20 000			
Total operating expenditure of Transfers and Grants		**37 933**	**42 767**	**51 587**	**97 852**	**117 852**	**117 852**	**114 522**	**129 682**	**140 467**
Capital expenditure of Transfers and Grants										
National Government:		**16 844**	**11 728**	**14 356**	**38 814**	**38 814**	**38 814**	**47 468**	**40 984**	**52 585**
Municipal Infrastructure Grant (MIG)		16 844	11 728	14 356	35 814	35 814	35 814	29 468	30 984	32 585
Electrification Grant					3 000	3 000	3 000	18 000	10 000	20 000
Provincial Government:		–	–	–	–	–	–	–	–	–
Other capital transfers/grants [insert description]										
District Municipality:		–	–	–	–	–	–	–	–	–
[insert description]										
Other grant providers:		–	–	–	–	–	–	–	–	–
Provincial Treasury Gr										
Total capital expenditure of Transfers and Grants		**16 844**	**11 728**	**14 356**	**38 814**	**38 814**	**38 814**	**47 468**	**40 984**	**52 585**
TOTAL EXPENDITURE OF TRANSFERS AND GRANT		**54 777**	**54 495**	**65 943**	**136 666**	**156 666**	**156 666**	**161 990**	**170 666**	**193 052**

Allocation and grants made by municipality

- No allocations and grants made by the municipality

2.8. Councilor allowances and employees benefits

- The councilor allowances have been prepared in line with SALGA Gazette, while the employee's benefits were done considering 6% salary increase as per Circular No 79 as already detailed in the executive summary.

2.9. Monthly targets for revenue, expenditure and cash flows

Disclosure on monthly targets for revenue, expenditure and cash flow is made in the following MTREF tables:

(A) TABLE SB12 - Budgeted monthly revenue and expenditure (municipal vote)
(B) TABLE SB13 - Budgeted monthly revenue and expenditure (standard classification)
(C) TABLE SB16 - Budgeted monthly capital expenditure (municipal vote)
(D) TABLE SB17 - Budgeted monthly capital expenditure (standard classification)
(E) TABLE SB15 - Budgeted monthly cash flow

2.10. Draft budgets and services delivery and budget implementation plans – internal departments

- The monthly and quarterly service delivery targets and performance indicators will be attached in a package to be sent to PT & NT

2.11. Contracts having future budgetary implications

- In terms of the Municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the Financial Management Division of the Treasury Department.

2.12. Capital Expenditure Details

Capital Details are shown in the following MTREF Tables:

Supporting Tables SB16,SB17,SB18a and SB18b be noted.

2.13. Legislation Compliance Status

Also read with the Budget Overview narrated separately.

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. **in year reporting**

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality's website.

2. Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed 7 interns undergoing training in various divisions of the Financial Services Department.

3. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee

A district shared Audit Committee has been established and is fully functional.

5. Service Delivery and Implementation Plan

The detail SDBIP of the municipality will be reviewed as part of this year's planning and budget process.

6. Annual Report

Annual report is compiled in terms of the MFMA and National Treasury requirements.

7. MFMA Training

The MFMA training module are currently being conducted in the municipality.

2.14. Other Supporting Documents

Various supporting documents are attached to enable the reader a fuller understanding of the various processes involved. They consist of the following

(A) ANNEXURE A – BUDGET RELATED RESOLUTIONS
(B) ANNEXURE B - BUDGET RELATED SCHEDULES
(C) ANNEXURE C – MTREF TABLE B1-B10
(D) ANNEXURE D - MTREF SUPPORTING TABLES SB1 – SB20.

Annual budgets of municipal entities attached to the municipal annual budget

Musina Municipality has no Municipal entities

2.15. Municipal Managers Quality certificate

attached