

CHAPTER 06: BUDGET



BUDGET

LEGISLATION:

The budget has been drawn up in line with the MFMA, Act 56 of 2003 (Chapter 4) and the MFMA: Municipal Budgeting and Reporting Regulations 2009 which inter alia state:

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

BACKGROUND:

The Annual Budget is strategically aligned to the IDP 2014/2015(as revised) and provides the financial framework to the strategic objectives and targets. In order to deliver a budget which conforms to the key objectives and strategies of the Sedibeng District Municipality the Finance Cluster had met individually with the ED's and HODs (or their duly delegated representatives) of all Clusters after their respective consultations with their relevant MMC's.

As a result of the limited resources as determined by National Treasury by means of the equitable share allocation the budget had to be drawn up within those constraints. During the 2014/2015 budget process, Clusters were tasked to provide their budgetary requests as per their needs analysis and within their pre-determined indicative allocation and in alignment to IDP key performance areas. Incremental based budgeting was only used for expenses which have existing obligations, such as employee-related costs.

The budget was compiled based on a trend analysis taking into consideration the expected revenue to realise in the 2014/15 financial year. Contractual obligations such as salaries and contracted services were first determined whereby general expenses were reduced in order to obtain a balanced budget where no reserve funds will be utilised for operational and/or capital purposes.

As economic uncertainty continues throughout the country, it is imperative that we take a conservative approach to the budget in order to give financial stability and start building financial reserves for the municipality. Controlling municipal spending by spending less than the municipal takes in, demonstrates a commitment to common-sense budgeting and economic health that Sedibeng District Municipality deserve.

The reporting requirements of this draft budget are disclosed in terms of MFMA circulars 48, 51, 54, 55, 58, 66, 67 and 70as well as Municipal Budget and Reporting Regulations.

The following Annexures are attached:

Annexure "A"	Budget Summary
Annexure "B"	Budgeted Financial Performance by classification
Annexure "C"	Budgeted Financial Performance by vote (cluster)
Annexure "D"	Budgeted Capital Expenditure
Annexure "E"	Budgeted Financial Performance – revenue & expenditure
Annexure "F"	Tariff of Charges



BUDGET ALLOCATION:

Financing of operating activities:

The budget on financial performance (previously income and expenditure statement) has been drawn up on the GRAP (Generally Recognised Accounting Practices) principles of accounting where provision for depreciation has been taken into account.

The following should be noted:

Indicative Macroeconomic Forecasts:

Municipalities are expected to levy their tariffs taking into account their local economic conditions, affordability levels and remain broadly in line with macro-economic policy. Municipalities must also take account the policy and recent developments in government sectors relevant to their local communities. Tariff increases must be thoroughly substantiated in the municipal budget documentation for consultation with the community.

<i>Fiscal year</i>	<i>2011/12 Actual</i>	<i>2012/13 Estimate</i>	<i>2013/14 Forecast</i>	<i>2014/15 Forecast</i>	<i>2015/16 & 2016/17 Forecast</i>
<i>CPI Inflation</i>	5.7%	5.9%	5.6%	5.4%	5.4%

Source: MFMA Circular 70

Transfers to Municipalities:

Section 214 of the Constitution provides for national government to transfer resources to municipalities in terms of the Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions. Transfers to municipalities from national government are supplemented with transfers from provincial government.

The two spheres of government must gazette these allocations as part of the budget implementation process. The DoRA (and Section 37 of the MFMA) further requires transfers between district and local municipalities to be made transparent and reflected in the budgets of both transferring and receiving municipalities.

The Municipal Council were requested to ensure that the 2014/2015 performance contracts of their municipal managers, as well as those of senior officials, reflect, among other key performance areas, the above responsibilities and accountabilities.

<i>National Allocation as per DORA Bill, Government Gazette No. 37337 of 21 February 2014</i>	2014/2015 Allocation R'000	2015/2016 Forward Estimate R'000	2016/2017 Forward Estimate R'000
EQUITABLE SHARE	239,539	245,811	250,937
Local Government Financial Management Grant	1,250	1,250	1,300
Municipal Systems Improvement Grant	934	967	1,018
Extended Public Works Programme Integrated Grant	1,000	0	0
Neighborhood Development Partnership Grant (Capital Grant)	1,365	0	0



<i>Provincial Allocation as per MFMA 35(c,d), 36(2) Provincial Gazette No. 56 of 3 March 2014</i>	2014/2015 Allocation R'000	2015/2016 Forward Estimate R'000	2016/2017 Forward Estimate R'000
HIV & AIDS	6,691	7,043	7,416
GDARD	818	818	861

Cognisance must be taken that an unfunded mandate amounting to R38, 5 million is still outstanding. SDM is committed and will continue endeavouring to claim the unfunded total back from the Provincial Department of Health.

Key Legal Provisions to be strictly enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2014/15 financial year in accordance with the Municipal Budget and Reporting Regulations. In this regard, municipalities must comply with both:

- The formats set out in Schedules A, B and C of the regulations; and
- The relevant attachments to each of the Schedules (the Excel Formats).

All municipalities must do a funding compliance assessment of their 2014/15 budgets in accordance with the guidance given in MFMA Circular 42 and the MFMA Funding Compliance Guideline before tabling their budget, and where necessary rework their budget to comply so that they table a properly funded budget.

The deadline for consideration of approval of the annual budget is 31 May 2014, thirty days before the commencement of the 2014/2015 financial year as per Section (24)(1) of the MFMA.

The deadline for the submission to National Treasury, MEC, DLG, AG and SALGA of approved budgets is ten working days after Council approves the annual budget as per Regulation 18 of the MFMA: Municipal Budget and Reporting Regulations 2009.

Public Participation:

The annual operating and capital budget 2014/2015 as tabled at Council March 2014 was subjected to public participation processes. The tabled document was made public and submitted to National and Provincial Treasuries and invitation for comments was made in terms of Section 22 of the MFMA.

The Budget Office confirmed with the IDP Office under the Office of the Municipal Manager that no material amendments were received on the tabled budget after the conclusion of these public participation processes.



Operating Income:

The service charges and rental income have been increased between 8 - 15% in accordance with the guidelines as prescribed by National Treasury.

DESCRIPTION	BUDGET BY SOURCE R'000	BUDGET 14/15 R'000
A. OPERATING REVENUE		
<u>Service Charges</u>		8,789
Fresh Produce Market	8,772	
Heritage (Technorama Sales)	17	
<u>Rental Of Facilities And Equipment</u>		745
Maintenance & Cleaning	555	
Vereeniging Theatre	56	
Mphatlalatsane Theatre	134	
<u>Interest Earned - External Investments</u>		2,199
Finance Cluster - Financial Management	2,199	
<u>Licenses And Permits</u>		69,102
License Services Centre - Support	0	
License Services Centre - Vereeniging	22,717	
License Services Centre - Vanderbijlpark	19,589	
License Services Centre - Meyerton	16,339	
License Services Centre - Heidelberg	9,557	
Air Quality Management	900	
<u>Government Grants And Subsidies</u>		251,597
Finance Cluster - Financial Management (Equitable Share, FMG, MSIG)	241,723	
SPED Cluster - Extended Public Works Programme Integrated Grant	1,000	
SPED Cluster - GDARD	818	
SPED Cluster - Neighbourhood Development Programme Grant	1,365	
Community Services Cluster - HIV & AIDS	6,691	
<u>Revenue From Agency Services</u>		6,740
Corporate Services Cluster - IT Emfuleni	5,623	
Corporate Services Cluster - IT Midvaal	1,117	
<u>Other Revenue (Minor Tariffs)</u>		9,726
Finance Cluster - Financial Management & Tender Income	5,458	
Corporate Services Cluster - Human Resources Administration (SDL)	915	
Telephone Income	273	
Vereeniging Airport (Airfield Fuel and Usage Fees)	3,081	
Total Operating Revenue		348,898

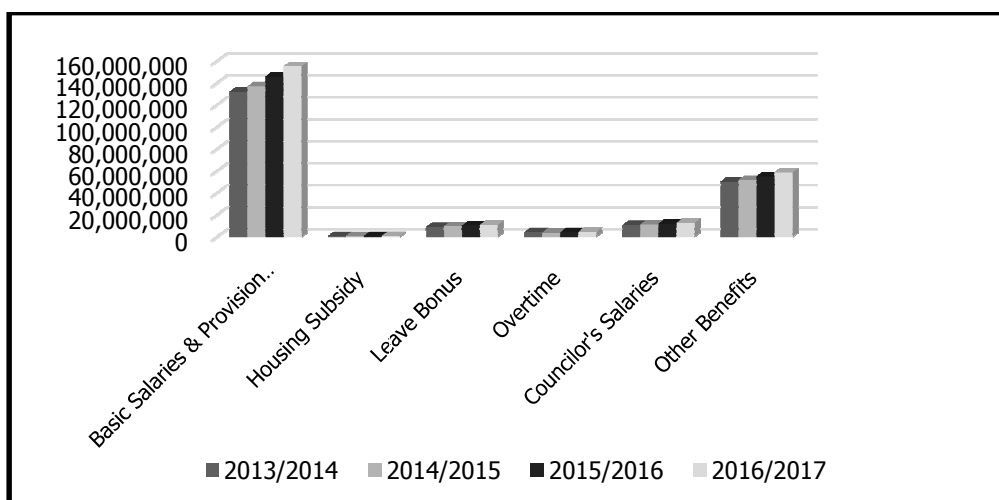
DESCRIPTION	BUDGET 14/15 R'000
<u>B. OPERATING EXPENDITURE</u>	
Employee/Councilor Related Cost	215,341
Bad Or Doubtful Debts	0
Depreciation	26,766
Repair And Maintenance	3,973
Contracted Services	18,553
Grants And Subsidies	1,365
General Expenses	82,859
Provisions	500
Total Operating Expenditure	348,858
Operating Surplus / (Deficit) A - B	40

Employee and Councillor Related costs

Salaries are projected at R215million for the 2014/2015 financial year. The three-year labour salary agreement (SALGA & SALGBC) has been estimated at an increase of 6.8%. No provision for vacancies (new posts and attritions) was made for all Clusters as part of cost-reduction measures.

Council must note that although employee related costs have grown by 6.8%, the provisional equitable share allocation has only grown by 2.9% leaving Council to fund a deficit of 3.9%. This deficit has had to be filled by reducing other operational expenditure, potentially reducing Council's ability to render services but still able to fulfil our coordinating role based on our current human capital.

Attention is drawn to the current trend of the steep growth in employee-related expenditure for the total organisation.



Depreciation:



In accordance with the GRAP principles and standards and the prescription of the approved asset management policy, depreciation on all assets needs to be provided for within the statement of financial performance.

This will allow Council to charge consumers during the useful life of the asset on a proportionate basis and not at the date of acquiring the asset. The amount provided for the 2014/2015 financial year amounts to R27million, which is cash generated and serves as capital replacement reserves to maintain the assets for the outer years of 2015/16 and 2016/17.

Repair and Maintenance:

Repairs and maintenance will be for current buildings occupied by Sedibeng District Council as well as the movable assets on the asset register. An amount of R3, 9 million has been provided. This is a decrease on the 2013/2014 budget which amounts of R4, 4 million.

Repairs and maintenance of Council’s assets are allocated as follows:-

REPAIR AND MAINTENANCE	R'000
Buildings Fences & Sites	2,276
Network / Infrastructure	365
Plant Equipment & Furniture	911
Vehicles	420

National Treasury Circular 48 makes reference to repairs and maintenance and renewal backlogs that exist in relation to municipal infrastructure, and based on National Treasury parameters, the repairs and maintenance backlogs were not catered for in the draft 2014/15MTREF as prescribed by National Treasury due to financial constraints and reduced revenue.

Contracted Services:

Contracted services have been determined by the need for services to be rendered by service providers and taking the current obligations into account.

The top ten user-departments are stated below and the projects relate to:-

CONTRACTED SERVICES	R'000
Internal Security Unit	9,600
Maintenance & Cleaning: (Council buildings)	2,925
Community Safety : (CCTV Maintenance contract)	1,634
Corporate & Legal (Fumigation and Fire Protection for Archives)	182
Licensing Service Center – Support (Drop Safe Deposit and Coin Security contract)	1,258
Utilities (Fresh produce market, Airport & Taxi ranks)	400
IT Sedibeng (IT Systems Maintenance Contracts)	785



Human Resources Administration:(EAP Psychological referrals, trauma debriefing and OHS Compliance Services)	100
Internal Audit	1005
Organizational Performance (ePMS System)	60
Finance Cluster: Supply Chain Management:(Database Verification and Clean-up Project)	176

General Expenses:

The general expenditure budget has been drawn up in order to assist the employees of Council to provide them with the necessary tools to achieve the deliverables as set in the GDS, IDP and SDBIP. The budget has also been drawn up taking into consideration that the main purpose of the District is to plan and co-ordinate, whereas the execution process will be performed at a Local Municipality level. There has been a decrease in general expenditure of 4,9million due to the Equitable share being consumed by the salary increase which is higher than the equitable share by 3,9%.

Council are advised to review training and development costs in terms of the operational and service delivery requirements of Council, and an effort be made immediately to approach the various SETA's to gain grant funding as income before the approval of the final budget for 2014/2015 by Council.

O R Tambo Inter-Municipal Games:

It must be noted by Council that the funding of the operational requirements for the O.R. Tambo Inter-Municipal Games 2014 for the sum of 3,028,947-62 has not been provisioned for as the matter is currently still in the process of being dealt with through the IGR structures of the Executive Mayor's office. Discussions are currently underway with the Executive Mayors and Municipal Managers of the local municipalities within the region as the hosting of the Games is subject to availability of funds at the local municipalities.

Sourcing of Donor and Grant Funding:

In support of the SDM sourcing of donor funding programme, a framework and policy was adopted as initiative that fundamentally serves social economic and infrastructure development objectives of the District as well as that of Provincial Government and the State.

Should additional funding be secured after the approval of the tabled annual budget, it will be dealt with as an adjustment budget item for Council's consideration and approval, in terms of MFMA section 28. Through this framework, MSIG of R934,000 was secured for the 2014/2015 year for the SPED GIS system.



Investment into Capital:

The total Capital investment for 2014/2015 will be R17, 237,736, whereby the full amount will be funded from our internal resources (**See Annexure "D"**). Clusters are encouraged to source grant funding for future capital projects. Donor Funding must also be considered for planned projects as outlined in the IDP to ensure that it is properly funded before the final 2014/15 budget.

Budget Steering Committee:

In terms of the Municipal Budget and Reporting Regulations no. 4, the mayor must establish a *budget steering committee* (Budget Panel) to provide technical assistance to the mayor in discharging his responsibilities as per section 53 MFMA.

The Municipal Manager together with The Chief Financial Officer and the Director: Financial Management & Budgets consulted extensively internally during the drafting of this annual budget and as a result, successfully balanced the capital and operational requirements (CAPEX & OPEX) to the operational resources allocations and were able to present to the Executive Mayor and MMC: Finance with a balanced budget that is aligned to the strategic objectives of Council's IDP as well as conformed to MFMA requirements.

The budget preparation process highlighted several operational issues which the Municipal Manager has since earmarked for closer monitoring of performance for future evaluation and assessment. These would include:-

- Revenue generating abilities or sharing of services with SAPS of CCTV monitoring and surveillance;
- Revenue generating abilities (potential versus existing levels) of the Vereeniging Fresh Produce Market;
- Revenue generating abilities of ambulance despatch service; and
- Operational expenditure versus organisational requirements and resource allocation for internal security.

On matters relating to financial investment activities into maintenance, repair, improvement and additions to property, plant and equipment, it has been recommended under cover of a separate report to Council that a Capex Committee be established with the purpose of compiling capital spend and repairs and maintenance plans as well as regular monitoring and reporting on the performance of the organisation against these plans.

Alignment with Council Strategies

This Budget is aligned to the Reviewed IDP for 2014/2015, the district's GDS-2, Municipal Budget and Reporting regulations GN 32141 as well as circulars 48, 51, 54, 55, 58,66 and 70 of National Treasury.



Financial Implications:

The total estimated operating revenue of	R 348,898,163;
The total estimated operating expenditure of	R 348,857,775;
Resulting in a minor operational surplus of	R 40,388; and
The total estimated Capital Budget of	R17, 237,736.

Section 18 of the MFMA act needs to be adhered to when looking at the budget funding requirements. This section indicates the following:

- "18. (1) *An annual budget may only be funded from—*
- (a) *Realistically anticipated revenues to be collected;*
 - (b) *cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*
 - (c) *Borrowed funds, but only for the capital budget referred to in section 17(2).*
- (2) *Revenue projections in the budget must be realistic, taking into account—*
- (a) *Projected revenue for the current year based on collection levels to date; and*
 - (b) *Actual revenue collected in previous financial years."*