

CHAPTER 06: FINANCIAL PLAN



BACKGROUND:

National Treasury prescribes the guidelines of the MTREF period through a sustained and viable process as taken from the priorities of the country's National Development Plan. This is confined to our Growth and Development Strategy (as revised) and Council's 5-Year IDP. In addition the Gauteng Province has pronounced on plans to Transform, Modernise and Re-Industrialise (TMR) the beauty and resiliency of the province. This plans are confined in a ten pillar vision by the Premier which states the following:

- *Radical economic transformation;*
- *Decisive spatial transformation;*
- *Accelerating social transformation;*
- *Transformation of the state and governance;*
- *Modernisation of the economy;*
- *Modernisation of the public service and the state;*
- *Modernisation of human settlements and urban development;*
- *Modernisation of the public transport and other infrastructure;*
- *Re-industrialising Gauteng as the country's economic hub; and*
- *Taking the lead in Africa's new industrial revolution.*

However, 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 municipality takes in, demonstrates a commitment to common-sense budgeting and economic health that Sedibeng District Municipality deserve. In addition the District has been able to sustain our cost

containment or austerity measures program during our budgeting process which is still ongoing.

The legislative requirements of this draft budget are disclosed in terms of the MFMA circulars 48, 51, 54, 55, 58, 66,67, 70, 74,78, 79, 85and 86 as well as the Municipal Budget and Reporting Regulations (MBRR GN 393 of 2009).

The municipality has had to adopt a very conservative approach to budgeting for 2017/2018 MTREF as the municipality's revenue base (primarily composed of grants & subsidies) has begun to shrink, while operational expenditure continues to grow at a rate of CPI with salaries & employee-related costs growing at above CPI (due to the collective bargaining agreement).

The implementation of the Municipal Standard Chart of Accounts (MSCOA), has also assisted the municipality in moving away from cost line budgeting towards project-based budgeting.

BUDGET PROCESS

The Draft Annual Budget is strategically aligned to the IDP 2017/2018 and provides the financial framework to the strategic objectives and targets. Our budget conforms to the key objectives and strategies of the District Municipality. In this process the Finance Cluster met individually with the MMCs, EDs and HODs (or their duly delegated representatives) of all Clusters. 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 tight constraints based on the decline of this major revenue source over the last seven years.



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During the 2017/2018 budget process, Clusters were tasked to provide their budgetary requests as per their needs analysis, using the MSCOA project-based approach, 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 anticipated revenue realisable in the 2017/18 financial year. Contractual obligations such as salaries and contracted services were first determined whereby general expenses were reduced in an effort to obtain a balanced budget. Minimal allocations have been made for capital purposes due to these restricted revenue streams and lack of internal reserves.

Financing of Operating Activities:

The budget on financial performance (previously income and expenditure statement) has been drawn up on the GRAP (Generally Recognized 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>2016/17 Estimate</i>	<i>2017/18 Forecast</i>	<i>2018/19 Forecast</i>	<i>2019/20 Forecast</i>
<i>CPI Inflation</i>	6,4%	6,4%	5,7%	5,6%

Source: MFMA Circular 86

NB: The reclining growth of the equitable share from National Treasury coupled with the increase towards personnel costs over the last 7 years has had a negative impact on the Municipality meeting its short-term obligations towards the operations and programmes of the District.

National Treasury has further introduced a new funding model for district municipalities which has further reduced the municipality's equitable share allocation for 2017/2018. Effectively, there has only been a R3,897,000 or 1,55% growth from 2016/2017 to 2017/2018.

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.

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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.

<i>National Allocation as per DORA Bill, Government Gazette No. 40610 of 10 February 2017</i>	2017/2018 Allocation R'000	2018/2019 Forward Estimate R'000	2019/2020 Forward Estimate R'000
EQUITABLE SHARE	254,779	258,764	266,791
Local Government Financial Management Grant	1,250	1,250	1,250
Municipal Systems Improvement Grant	0	3,123	0
Extended Public Works Program Integrated Grant	2,490	0	0
Rural Roads Asset Management Systems Grant	2,431	23,560	2,703
TOTAL ALLOCATION GAZETTED	260,950	265,697	270,744

Key Legal Provisions to be Strictly Enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2017/18 financial year in accordance with the Municipal Budget and Reporting **AND** Municipal Standard Chart of Accounts 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 2017/18 budgets in accordance with the guidance given in MFMA Circular 80 and the Municipal Standard Chart of Accounts Regulations, GN 312 of 2014, before tabling their budget, and where necessary revise their budget submissions to comply with a properly funded budget.

The deadline for tabling a draft budget before Council is 31 March 2017 as per Section (16)2 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.

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Operating Income

The service charges and rental income have been increased by 6% in accordance with the guidelines as prescribed by National Treasury.

a) Operating Revenue by Source

DESCRIPTION	Budget by Source R	BUDGET 17/18 R
<u>A. OPERATING REVENUE BY SOURCE</u>		
<u>Service Charges</u>		8,496,960
Fresh Produce Market	8,480,000	
Heritage (Technorama Sales)	16,960	
<u>Rental Of Facilities And Equipment</u>		603,800
Maintenance & Cleaning	484,800	
Vereeniging Theatre	93,000	
Mphatlalatsane Theatre	26,000	
<u>Interest Earned - External Investments</u>		1,680,000
Finance Cluster - Financial Management	1,680,000	
<u>Licenses And Permits</u>		73,801,268
License Services Centre - Support	0	
License Services Centre - Vereeniging	24,305,724	
License Services Centre - Vanderbijlpark	22,753,868	
License Services Centre - Meyerton	17,955,516	
License Services Centre - Heidelberg	8,786,160	
<u>Government Grants And Subsidies</u>		268,740,000
Finance Cluster - Financial Management (Equitable Share, FMG, MSIG, EPWP, Transformation)	258,519,000	
TIE – Infrastructure rural roads	2,431,000	
Community Services Cluster - HIV & AIDS	7,790,000	
<u>Revenue From Agency Services</u>		7,953,306

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DESCRIPTION	Budget by Source R	BUDGET 17/18 R
<u>A. OPERATING REVENUE BY SOURCE</u>		
Corporate Services Cluster - IT Emfuleni	7,953,306	
Corporate Services Cluster - IT Midvaal	0	
<u>Other Revenue (Minor Tariffs)</u>		3,764,143
Finance Cluster - Financial Management & Tender Income	357,158	
Corporate Services Cluster - Human Resources Administration (SDL)	406,985	
Telephone Income	0	
Vereeniging Airport (Airfield Fuel and Usage Fees)	3,000,000	
Total Operating Revenue by Source		364,558,517

b) Operating Expenditure by category

DESCRIPTION	%	BUDGET 17/18 R
<u>B. OPERATING EXPENDITURE BY CATEGORY</u>		
Employee/Councilor Related Cost	67.2%	262,167,540
Bad Or Doubtful Debts	0%	0
Depreciation	4.3%	16,896,075
Repair And Maintenance	1.9%	7,503,341
Contracted Services	9.3%	36,140,598
Grants And Subsidies	0%	0
General Expenses	17.0%	66,631,550
Provisions	0.1%	500,000
Total Operating Expenditure		389,839,104
Operating Surplus / (Deficit) A - B	6.9%	25,280,587

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Employee and Councillor Related Costs(67.25%)

Salaries are projected at R262million for the 2017/2018 financial year. There is a three-year collective labour salary agreement (SALGA & SALGBC) currently in place and according to circular 86 the estimated increase for salaries & wages is $CPI + 1\% = 6,4\% + 1\% = 7,4\%$. Limited provision for vacancies (new posts and attritions) was made for all Clusters as part of existing recruitment processes to fill critical key posts.

Council must note that although employee related costs have grown by 7,4%, the provisional equitable share allocation has only grown by 1,55% leaving Council to fund a deficit of 6,1%. 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 2017/2018 financial year amounts to R17million, which is meant to be cash generated in order to serve as capital replacement reserves to maintain the assets for the outer years of 2018/19 and 2019/20.

Repair and maintenance (1.925%)

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 R7.5million has been provided, which equates to 1.925% of the total budget of Council. This is a decrease on the 2016/2017 budget which amounts of R3,610 million.

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 on powers and functions for the District.

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

Depreciation (4.33%)

In accordance with the GRAP principles and standards and the prescription of the approved asset management policy,

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

REPAIR AND MAINTENANCE	R'000
Maint - buildings fences & sites	144
Maint - network / infrastructure	6,479
Maint - plant equipment & furniture	350
Maint - vehicles	530

Contracted services (9.27%)

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 user-departments are stated below:-

CONTRACTED SERVICES	R'000
Security Services	10,004
Municipal Health Services	18,801

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CONTRACTED SERVICES	R'000
Internal Audit	1,256
Maintenance & Cleaning	3,426
Taxi Rank Cleaning	660
Fresh Produce Market	515
Information Technology	421
Heritage	384

General Expenses (17%)

The general expenditure budget has been drawn up in order to assist the employees of Council to provide them with the necessary tools and consumables to achieve the deliverables as set in the NDP, TMR, GDS and IDP, while remaining within the constraints of the municipality's limited revenue sources.

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 service delivery execution process will be performed at a Local Municipality level. Note should be taken that there has been an increase of R3million in general expenditure budgeted from 2017/2018 compared to the 2016/2017 adjustment budget due compensating for the decline in the growth of the equitable share and salary budget increase, which has grown above the equitable share growth by 4.45%.

Council are advised to review training and development costs in terms of the operational and service delivery requirements of Council, and a concerted effort be made immediately to approach the various SETA's to gain LGSETA discretionary

grant funding as income before the approval of the final budget for 2017/2018 by Council.

Implementation of MSCOA

The SCOA (Standard Chart of Accounts) must also be implemented in full before the deadline of 1 July 2017 and therefore an amount of R3, 2million was provided for in the capital budget. The draft 2017/2018 MTREF has been drafted in MSCOA format and the municipality is awaiting feedback from National Treasury on the technical soundness of the MTREF.

INVESTMENT INTO CAPITAL

The total Capital investment for 2017/2018 will be R6 million whereby the full amount will be funded from our internal provisions (**See Annexure "D"**). Clusters are encouraged to source grant funding for future capital projects. Donor and Grant Funding must also be considered for planned projects as outlined in the IDP to ensure that it is properly funded before the final 2017/18 budget is approved by Council.

BUDGET STEERING COMMITTEE

In terms of the Municipal Budget and Reporting Regulations no. 4, the Executive Mayor must establish a *budget steering committee* (Budget Panel) to provide technical assistance to the Executive Mayor in discharging her responsibilities as per section 53 MFMA. The MMC: Finance together with the Finance Cluster consulted extensively internally during the drafting of this annual budget and as a result, present to the Executive Mayor with a

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budget that is aligned to the strategic objectives of Council's IDP as well as conformed to MFMA requirements. The Committee must take note that as tabled, the 2017/2018 MTREF is not yet balanced, and the municipality will strive to balance expenditure to revenue during the public participation process, prior to tabling the final budget to Council for approval.

The budget preparation process, and arising from discussions at the Budget Panel, highlighted several operational issues for future evaluation and assessment. These included:-

- Further inter-governmental engagements on the future long-term funding of the Sharpeville Heritage Precinct now that has been recognized as a National heritage site, as well as on the Boipatong Memorial;
- Further inter-governmental discussion over the provision of funding for the Disaster Management function with specific reference to Schedule 4 – Part A of the Constitution (108/1996);
- The short to medium term revenue model for the funding of the Regional Tourism Organisation (RTO);
- The medium term outlook for the NDPG unit in SPED now that the funding has been relocated to the local municipalities;
- The apportioning of the Novell (IT network) license to the local municipalities;
- To conduct inter-governmental engagements on potential infrastructure funding for:
 - Refurbishing the taxi ranks,
 - Refurbishing licensing service centres,
 - Museums,
 - Theatres,
 - Municipal Administrative buildings.

ALIGNMENT WITH COUNCIL STRATEGIES

This report is aligned to the Reviewed IDP for 2017/2021, the district's GDS-3, Municipal Budget and Reporting regulations GN 393 of 2009, Municipal Standard Chart of Accounts Regulations, GN 312 of 2014 as well as circulars 48, 51, 54, 55, 58, 66, 67, 70, 74, 78, 79, 85 and 86 of National Treasury.

FINANCIAL IMPLICATIONS

The total estimated operating revenue of **R 364,558,517**;
The total estimated operating expenditure of **R 389,839,104**;
resulting in an operational deficit of **R 25,280,587**; and
The total estimated Capital Budget of **R 6,000,000**.

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

- (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."*

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The Committee must take note that as tabled, the 2017/2018 MTREF is not yet balanced, and the municipality will strive to balance expenditure to revenue during the public participation process, prior to tabling the final budget to Council for approval.

LEGAL IMPLICATIONS

The budget has been drawn up in line with the MFMA, Act 56 of 2003 (SS 16-17) which inter alia states:

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