

**C536. REPORT ON PROPOSED DRAFT BUDGET FOR 2017/2018 to 2019/2020
MTREF**

Purpose:

To request Council to approve the proposed draft operating and capital budget for 2017/2018 to 2019/2020.

Authority:

Chris Hani District Municipality Council.

Legislative framework:

Municipal Finance Management Act 56 of 2003;
Municipal Budget and Reporting Regulations; and
National Treasury MFMA Budget Circulars.

Background:

In terms of the MFMA, section 16, a municipality must approve the annual budget tabled by the Mayor before Council at least 90 days before the start of the budget year in the prescribed budget format.

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

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

Exposition of facts:

The draft budget for the 2017 / 2018 MTREF period, started with a process of considering the issues that were raised in the strategic session that influenced the current IDP, taking into account allowable increases (parameters) of 6.1% for the budget year and 5.9 and 5.8 % for the two outer years as determined by National Treasury in circular 85 dated 09 December 2016.

The salaries budget recognises current salary levels and potential increases for cost of living and general annual increase that will be effected in July 2017. All Directorates were requested to provide further input to the operational budget based on their needs and also taking into account the constraints presented by the limited revenue sources.

Provincial allocations (including agency functions) made/expected to the district were confirmed for current and outer budget years. No budget provision has been made in instances where current/outer year allocations were not confirmed by the Provincial State departments. This information will be included in the final budget in May 2017, if such budget provisions are received. The draft budget proposes an increase in the water & sanitation tariffs as outlined under Consumptive Sanitation Tariffs tables.

All budget related policies will be reviewed and undergo consultation process before the final adoption of the Budget & IDP in May 2017 with the exclusion of the Indigent Policy. There is also a need for the Council to consider the new policy which is the Infrastructure Supply Chain Management Policy. The budget of the Chris Hani Development Agency for the current financial year has not been presented to Council for approval and as such the previous financial year's allocation has been maintained in this draft budget, including the bursary allocation.

The outcome of the draft budget process was a deficit of non-cash operating deficit of R337 million after contribution to the non-cash items like depreciation on assets and debt impairment. The deficit should be closely monitored by the municipality as it cannot afford to continue in this state as this will negatively affect infrastructure improvements.

The capital programmes funded from capital grants were budgeted to the extent of funds allocated by the National departments and R97 million from municipal reserves. The total municipal deficit when taking into account the funding of the municipal movable assets and municipal building amounts to R434 million.

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

Chris Hani District Municipality Consolidated Draft Budget Summary 2017/18 MTREF						
Description	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget 2016/17	Adjusted Budget 2016/17	Full Year Forecast	Budget Year 2017/18	Budget Year + 1 2018/19	Budget Year + 2 2019/20
R thousand						
Total Revenue (excluding capital transfers and contributions)	893 554	914 248	–	933 841	979 912	988 258
Total Expenditure	1 214 243	1 299 122	–	1 271 533	1 326 005	1 393 671
Operating Surplus/(Deficit)	(320 689)	(384 874)	–	(337 692)	(346 093)	(405 413)
Capital Revenue	611 798	570 851		514 254	454 250	365 503
Capital Expenditure	741 325	691 078	–	611 254	557 070	474 492
Surplus/(Deficit)	(450 216)	(505 101)		(434 692)	(448 913)	(514 402)

The table above reflects a budgeted deficit of R434 million which is a decrease of R70, 4 million in the budgeted deficit when compared to the second adjustment budget, which a 14% decrease in the budgeted deficit. The budgeted deficit is however not improving when looking at revenue and expenditure for the outer years.

PROPOSED 2017/2018 MTREF DRAFT BUDGET:

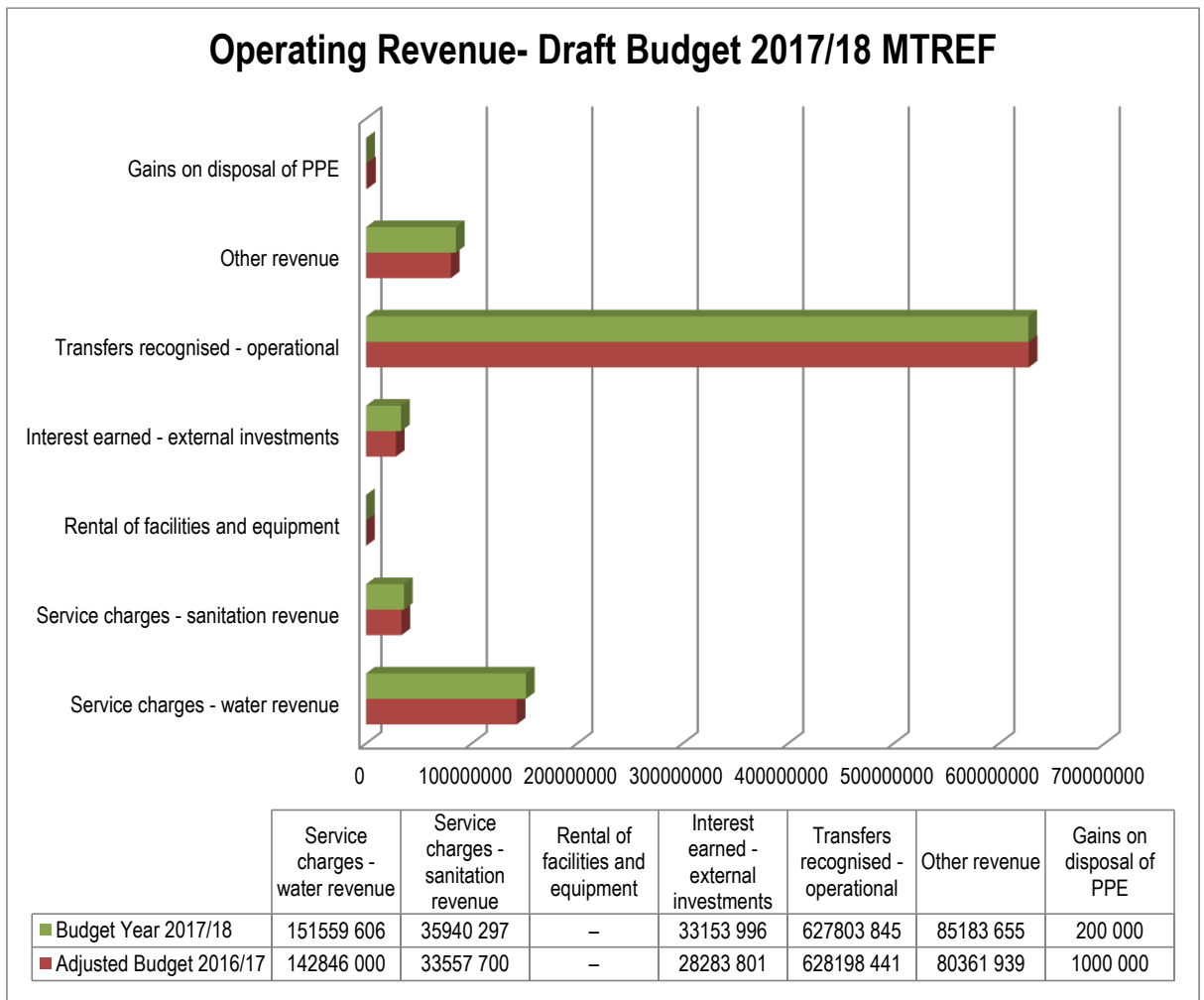
The following tables (table 2 to 6) illustrate the anticipated proposed revenue and expenditure streams.

Table 2: 2017/2018 - Operating Revenue: Tables A1; R933,841 million

Chris Hani District Municipality Operating Revenue by Source Draft Budget 2017/18 MTREF					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year + 2018/19	Budget Year + 2019/20
R thousand					
Revenue By Source					
Service charges - water revenue	142 846	142 846	151 560	160 653	170 292
Service charges - sanitation revenue	33 558	33 558	35 940	38 097	40 383
Rental of facilities and equipment	–	–	–	–	–
Interest earned - external investments	28 284	28 284	33 154	35 110	37 146
Transfers recognised - operational	607 504	628 198	627 804	655 558	644 525
Other revenue	80 362	80 362	85 184	90 295	95 712
Gains on disposal of PPE	1 000	1 000	200	200	200
Total Revenue (excluding capital transfers and contributions)	893 554	914 248	933 841	979 913	988 258

Operating revenue has increased by 2% (R19.5 million) to 933.8 million in the current financial year, significantly influenced by the increases in Service charges for Water and Sanitation 6%, other revenue by 6% and Investment Revenue by 17%. Operating revenue reflects 5% and 1% increase in the outer years and the 1% increase in 2019/20 budget year was influenced by a decrease in transfers recognised-operational, whilst other revenue sources were budgeted in line with the CPIX increases.

Figure 1: 2017/2018 proposed – Draft Operating Revenue



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

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

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

Table 3: 2017/2018 Draft – Operating expenditure: Table A1- R1,271 billion

Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year + 2018/19	Budget Year + 2019/20
R thousand					
Expenditure By Type					
Employee related costs	312 011	326 038	349 188	370 139	392 347
Remuneration of councillors	11 954	11 744	12 578	13 333	14 133
Debt impairment	196 237	196 237	196 237	196 237	196 237
Depreciation & asset impairment	130 000	129 991	173 915	184 350	195 411
Finance charges	400	1 100	1 200	1 272	1 348
Bulk purchases	17 050	23 050	24 894	26 387	27 971
Contracted services	16 000	62 991	32 956	25 008	26 508
Transfers and grants	18 540	20 540	20 198	21 290	22 447
Other expenditure	512 052	527 431	460 368	487 990	517 270
Loss on disposal of PPE					
Total Expenditure	1 214 243	1 299 122	1 271 533	1 326 006	1 393 672

Operating expenditure has decreased by 2% (R27,6 million) when compared to the second adjustment budget from R1,299 billion to R1,271 billion.

The decrease was influenced by increases and decreases in the following expenditure items:

Employee related costs and Councillors Allowances increased by 7%;

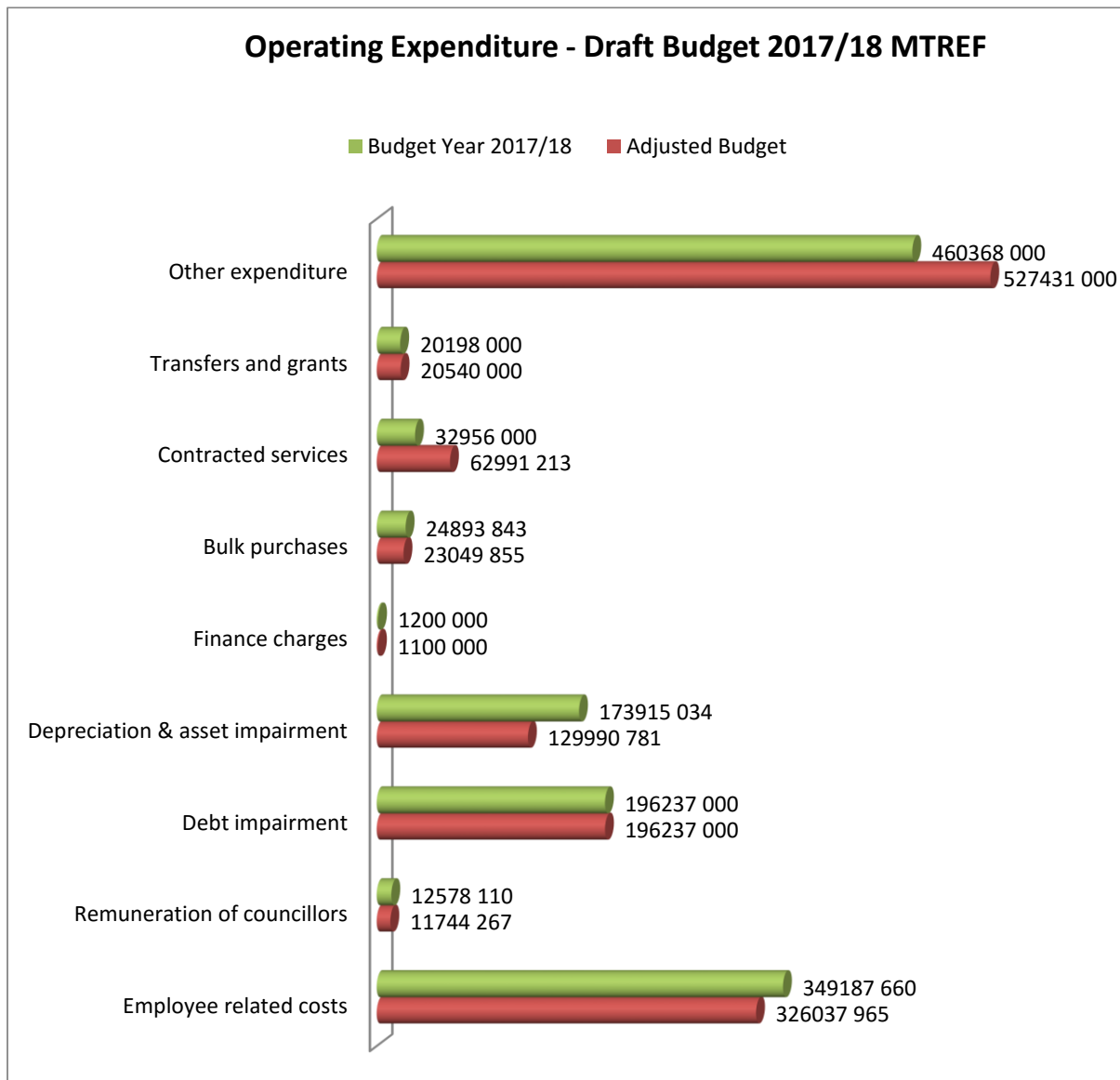
Water bulk purchases increased by 8%;

Contracted Services decreased by 48%; and

Other Expenditure decreased by 13%.

Other expenditure includes MIG operational expenditure, equitable share funded IDP programmes, operating conditional grants expenditure and also repairs and maintenance on water services function and municipal buildings.

Figure 2: 2017/ 2018 proposed Draft – Operating expenditure:



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

Table 4: IDP Equitable share projects/programmes 2017/18

PROPOSED EQUITABLE SHARE PROGRAMMES 2017/18 BUDGET YEAR			
DEPARTMENT	ADJUSTED BUDGET 2016/17	PROPOSED DRAFT BUDGET 2017/18	VARIANCE
	R'000	R'000	R'000
Municipal Managers Office	19 437	7 100	12 337
Municipal Health & Community Services	16 430	13 550	2 880
Corporate Services	20 210	14 200	6 010
Budget & Treasury Office	2 000	3 200	-1 200
Integrated Planning & Development	53 011	45 000	8 011
Technical Services	2 200	2 200	-
TOTAL	113 288	85 250	28 038

The above table reflects a decrease in equitable share programmes by 25% when compared to the adjusted budget. The draft budget has taken into account programmes that will be funded by other sector departments and programmes that are already catered for under general expenses.

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

Table 5: EPWP projects 2017/18 MTREF

EPWP PROJECTS 2017/18 BUDGET YEAR			
DEPARTMENT	ADJUSTED BUDGET 2016/17	PROPOSED DRAFT BUDGET 2017/18	VARIANCE
	R'000	R'000	R'000
Municipal Health & Community Services	2 517	3 137	-620
Corporate Services	2 280	3 280	-1 000
Integrated Planning & Development	3 000	3 620	-620
TOTAL	7 797	10 037	-2 240

EPWP operating revenue has increased by 1% (R 2.2 million), from R7,7 million to R10 million in the coming year. The increase was influenced by an increase in the allocation for the coming financial year. The outer years are not provided for as the allocation for EPWP is provided for one financial year.

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

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

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

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

MIG increased by 24%;

RBIG increased by 1%;

WSIG decreased by 23%;

COGTA decreased by 54%; and

There was no provision for ACIP and DHS Unblocking in the coming financial year.

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

CAPITAL EXPENDITURE R611,2 million

The capital expenditure is made up of the R514 million from conditional grants and R97 million from Asset Financing Reserves. The R97 million is meant to fund municipal assets and CHDM village. **The annexure for capital projects per grant is attached as Annexure “C”**.

Chris Hani District Municipality Capital Expenditure by vote draft Budget 2017/18 MTREF					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year + 1 2018/19	Budget Year + 2 2019/20
R thousand					
Capital expenditure -vote					
Multi-year expenditure to be appropriated					
Vote 7 - Technical Services	611 798	570 851	514 254	454 250	365 503
Capital multi-year expenditure sub-total	611 798	570 851	514 254	454 250	365 503
Single-year expenditure to be appropriated					
Vote 1 - Council					
Vote 2 - Municipal manager					
Vote 3 - Budget & Treasury	49 527	75 227	42 000	44 250	47 191
Vote 4 - Community Services					
Vote 5 - Corporate Services	80 000	45 000	55 000	58 300	61 798
Vote 6 - Planning & Development					
Capital single-year expenditure sub-total	129 527	120 227	97 000	102 550	135 989
Total Capital expenditure-vote	741 325	691 078	611 254	556 800	501 492

Proposed tariffs for 2017/18 Budget Year:

Water Related Tariffs:

Domestic/Household Consumptive Tariffs:

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

Institutional/NGO's Tariffs:

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

Business Tariffs:

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

Basic Water Tariffs:

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

CONSUMPTIVE SANITATION TARIFFS:

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

The above tables reflect an increase of 6% on water related tariffs. For sanitation tariffs, the municipality is proposing the use of consumptive tariffs, at a rate of 70% of water usage per household or consumer. The detailed list of tariffs is attached within the executive summary **as Annexure “B”**.

Financial Implications:

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

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

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

Other Implications:

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

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

Other parties consulted:

All departments within Chris Hani District Municipality.

National Treasury budget circulars.

Recommendation(s)

It is recommended that:

1) The draft operating and capital budget for 2017/18 MTREF **be approved** as reflected in table A1;

2) The operating expenditure of R1, 271 billion and operating revenue of R933 million **be approved** as reflected in Table A4;

3) The capital expenditure of R611 million and capital revenue of R514 **million be approved** as reflected in Table A5;

4) Council **approve** of the municipality's annual budget, and specifically appropriating the amount for the different votes, and for single year and multi-year capital expenditure as reflected in Tables A2 and A3.

4) Council **approve** the tariff increases as 6% for Municipal Health, water and sanitation tariffs be calculated as a step tariff for 70% of water consumption.

5) Council **confirm** the indigent policy with no amendments.

8) Council **note** the following budget related policies for reviewal and consultation processes:

- a. Debt and Credit Control Policy with amendments;
- b. Investment Policy amendments;
- c. Tariff Policy amendments;
- d. Asset Management Policy with amendments;
- e. Inventory Management Policy with amendments;
- f. Supply Chain Management Policy with amendments;
- g. Infrastructure Supply Chain Management Policy;
- h. Irregular Expenditure Policy; and
- i. Budget Policy with amendments.

