BACKGROUND

National Treasury prescribes the guidelines of the MTREF period through a sustained and viable process as taken from the priorities of the countries National Development Plan. This is confined to our Growth and Development Strategy and our 5-Year IDP. In addition the Gauteng Province has pronounced on plans to transform, modernise and re-industrialise the beauty and resiliency of the province. These 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 measure program during our budgeting process which is still ongoing.

The reporting requirements of this draft budget are disclosed in terms of the MFMA circulars 48, 51, 54, 55, 58, 66, 67, 70 and 74 as well as the Municipal Budget and Reporting Regulations.

The favourable conditions of revenue growth exceeding CPI and the associated expenditure are no longer present as we do not have control over the economic and consumer output. In this light the District had to implement certain cost containment measures over the last 5 years. These steps were necessary to ensure continued progress towards a better life for all. If managed properly it would lay the foundation for better economic reforms and job creation looking into the future.

The Municipality is obliged to safeguard the public finances, its assets and manage the liquidity levels and cash-flow with due diligence without exposing it to risk. To do the opposite will expose the municipality to a debt trap which will have damaging consequences from a financial and sustainability perspective whereby we would have to pay-off interest on debt.

Notwithstanding the weaker economic environment and the limited fiscal room to manoeuvre, the 2016 budget remains firmly focused on the transformation of the Districts functions over the long term towards optimising governance. Our primary goals remain the reconstruction and development of our country, the building of a shared future in which we can take pride, the creation of jobs and security in our communities.

Every year the **National Government** publishes a Budget Review which estimates how much revenue can be raised. Government firstly consider the economic environment, which informs the ability to raise taxes. The more the economy grows the more revenue government will be able to collect. Mostly based on this an allocation will be done in the DORact indicating the portion of revenue allocated to the Municipality.

The Municipality will go through the same exercise as Government, looking at their own ability to raise revenue taken into consideration the powers and functions assigned to the Municipality.

1. BUDGET DISCUSSION

The Draft Annual Budget is strategically aligned to the IDP 2015/2016(as revised) 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 ED's and HODs (or their duly delegated representatives) of all Clusters after their respective consultations with their relevant MMC's. In addition a Budget Panel was convened where Clusters were requested to correct and make adjustments to their submissions through a priority model towards the core functions of the District Municipality. 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 five years.

During the 2015/2016 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 2015/16 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 minimal reserve funds will be utilised for capital purposes.

1.1. 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:

1.1.1. 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.

Fiscal year	*2013/14 Actual*	*2014/15 Estimate*	*2015/16 Forecast*	*2016/17 Forecast*	*2017/18 Forecast*
CPI Inflation	5.6%	6.2%	5.8%	5.5%	5.3%

Source: MFMA Circular 74

NB: The reclining factor of the equitable share from National Treasury over the last 5 years will have a negative impact on the Municipality meeting its short-term obligations towards the operations of the District and the potential increase towards personnel costs.

1.1.2. 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 2015/2016 performance contracts of their municipal managers, as well as those of senior officials, reflect among other key performance areas, the above responsibilities and accountabilities.

National Allocation as per DORA Bill, *Government Gazette February 2015*	**2015/2016 Allocation R'000**	**2016/2017 Forward Estimate R'000**	**2017/2018 Forward Estimate R'000**
EQUITABLE SHARE	245,670	250,824	255,332
Local Government Financial Management Grant	1,250	1,250	1,250
Municipal Systems Improvement Grant	930	960	1,018
Extended Public Works Program Integrated Grant	1,000	0	0
Infrastructure – Rural roads	2,080	2,350	2,467
Neighborhood Development Partnership Grant (Capital Grant)	0	0	0

Provincial Allocation as per MFMA 35(c,d), 36(2) *Provincial Gazette March 2015*	**2015/2016 Allocation R'000**	**2016/2017 Forward Estimate R'000**	**2017/2018 Forward Estimate R'000**
HIV & AIDS	7,043	7,416	7,787
GDARD	2,818	2,430	2.552

1.1.3. Key Legal Provisions to be Strictly Enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2015/16 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 2015/16 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 approval of tabled draft budgets is 31 March 2015 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.

1.1.4. Operating Income

The service charges and rental income have been increased between 7 - 15% in accordance with the guidelines as prescribed by National Treasury.

DESCRIPTION A. OPERATING REVENUE	Budget by Source R'000	BUDGET 15/16 R'000
Service Charges		8,717
Fresh Produce Market	8,700	
Heritage (Technorama Sales)	17	
Rental Of Facilities And Equipment		808
Maintenance & Cleaning	569	
Vereeniging Theatre	133	
Mphatlalatsane Theatre	106	
Interest Earned - External Investments		2,040
Finance Cluster - Financial Management	2,040	
Licenses And Permits		59,826
License Services Centre – Support	0	
License Services Centre – Vereeniging	19,927	

DESCRIPTION A. OPERATING REVENUE	Budget by Source R'000	BUDGET 15/16 R'000
License Services Centre – Vanderbijlpark	17,184	
License Services Centre – Meyerton	14,332	
License Services Centre – Heidelberg	8,383	
Government Grants And Subsidies		262,738
Finance Cluster - Financial Management (Equitable Share, FMG, MSIG, EPWP, Transformation)	250,797	
SPED Cluster – GDARD	818	
TIE – Infrastructure rural roads	2,080	
SPED – Agriculture – milling plant	2,000	
Community Services Cluster - HIV & AIDS	7,043	
Revenue From Agency Services		6,721
Corporate Services Cluster - IT Emfuleni	5,994	
Corporate Services Cluster - IT Midvaal	727	
Other Revenue (Minor Tariffs)		18,956
Finance Cluster - Financial Management & Tender Income	14,997	
Corporate Services Cluster - Human Resources Administration (SDL)	496	
Telephone Income	163	
Vereeniging Airport (Airfield Fuel and Usage Fees)	3,300	
Total Operating Revenue		**359,806**

DESCRIPTION B. OPERATING EXPENDITURE	BUDGET 14/15 R'000
Employee/Councilor Related Cost	219,309
Bad Or Doubtful Debts	0
Depreciation	26,767
Repair And Maintenance	3,891
Contracted Services	17,917
Grants And Subsidies	6,283
General Expenses	85,014
Provisions	500
Total Operating Expenditure	**359,681**
Operating Surplus / (Deficit) A – B	**125**

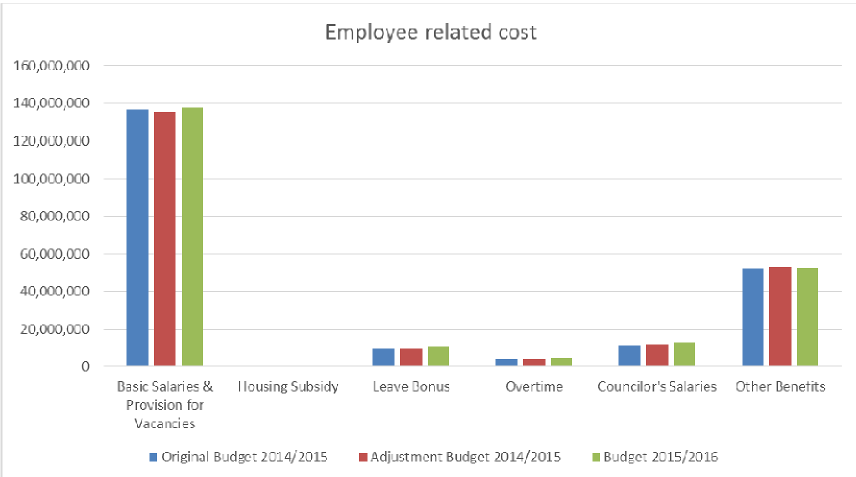
1.1.5. Employee and Councillor Related Costs

Salaries are projected at R219 million for the 2015/2016 financial year. There is no collective labour salary agreement (SALGA & SALGBC) currently in place and according to circular 74 the estimated increase is 5.8%. No provision for vacancies (new posts and attritions) was made for all Clusters as part of cost-containment and reduction measures.

Council must note that although employee related costs have grown by 5.8%, the provisional equitable share allocation has only grown by 2.6% leaving Council to fund a deficit of 3.2%. 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.

It should be noted by Council that as there is no agreement currently in place for the collective salary agreement, the District faces a risk of potentially having to apply for an exemption from National Treasury if the increase is above the 5,8% allocated in the equitable share for the 2015/16 financial budget.

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



1.1.6. 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 2015/2016 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.

1.1.7. 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, 891 million has been provided. This is a decrease on the 2014/2015 budget which amounts of R5, 545 million.

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

REPAIR AND MAINTENANCE	*R'000*
Buildings Fences & Sites	1,900
Network / Infrastructure	646
Plant Equipment & Furniture	843
Vehicles	522

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 2015/16 MTREF as prescribed by National Treasury due to financial constraints and reduced revenue.

1.1.8. 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*
Corporate Services: Security Outsourced	12,000
Corporate Services: Maintenance & Cleaning of Council Buildings	720
Community Services : CCTV Maintenance contract	1,634
MM's Office: Internal Audit Function Outsourced	1,400
Corporate Services-Records Management	182
TIE: Licensing Service Center – Support Drop Safe Deposit a's and Coin Security contract	1,080
Corporate Services: Utilities Maintenance Contracts for Fresh Produce Market System and Taxi ranks	707
Corporate Services: IT Sedibeng (IT System Maintenance Contracts)	601
Human Resources Administration:(EAP Psychological Referrals, Trauma debriefing and OHS Compliance Services)	55
MM's Office – Risk Analysis survey & Performance Management	55
MM's Office-Performance Assessments and Moderation	110

1.1.9. 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. Note should be taken that there has been a decrease in general expenditure of R26 million from the adjustment budget due to the Equitable share being consumed by the salary increase which is above the equitable share by 3,2%.

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 2015/2016 by Council. Council is also urged, through management processes to improve human capital performance and productivity levels by allocating this commodity towards services delivery projects that has a direct output from each Clusters IDP and SDBIP's.

3.1.10 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 R930, 000 was secured for the 2015/2016 year for the SPED GIS system.

3.1.11 Upgrading of the Financial Database in the Region

After an evaluation of the financial database platform by the IGR CFO Forum it was established that the current system when compared to new technology available is outdated and can have a detrimental effect on our revenue collection ability. In essence the Regions financial viability, sustainability and collection ratings can be hampered if this exercise was not undertaken and consolidated at the District. An analysis was then conducted to establish the cost towards software, hardware infrastructure, training, maintenance and license fees which is currently being finalised by the District to determine the value of the upgrade process for the District and its Local Municipalities. Economy of scale was considered and discussions to obtain grant funding is currently in process. Once the grant funding has been secured the formal procurement processes would follow to obtain approval towards this project.

3.1.12 Registration of Expanded Public Work Projects in the Region

The District is currently in a process to register new and existing projects with the Department of Public Works towards the EPWP program with the intention to create job opportunities within our region. Discussions with the respective department is at an advanced stage to secure the grant funding. Once the program has been approved for registration the District would be required to keep record of the expense and thereafter claim it back from the EPWP program subject to written confirmation of the grant commitment between the District and the Department of Public Works. Once the funding has been secured it is intended that the project would start immediately.

3.2 INVESTMENT INTO CAPITAL

The total Capital investment for 2015/2016 will be R13, 616,000 whereby the full amount will be funded from our internal reserve resources (**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 2015/16 budget is approved by Council.

3.3 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 centre;
- Revenue generating abilities (potential asset offset versus existing levels of operational viability) of the Vereeniging Fresh Produce Market and the Vereeniging Airport;
- Revenue generating abilities of Ambulance Despatch Service to Provincial Health on Communication centre; and
- Operational expenditure versus organisational requirements and resource allocation for internal security.

On matters relating to financial investment activities into other operational, maintenance, repair, improvement and additions to property, plant and equipment, it has been recommended that Clusters prepare their procurement plans with the purpose of regular monitoring and reporting on the performance of the organisation against these procurement plans.

2. ALIGNMENT WITH COUNCIL STRATEGIES

This report is aligned to the Reviewed IDP for 2015/2016, the district's GDS-2, Municipal Budget and Reporting regulations GN 32141 as well as circulars 48, 51, 54, 55, 58, 66, 70 and 74 of National Treasury.

3. FINANCIAL IMPLICATIONS

The total estimated operating revenue of	R 359,806,000;
The total estimated operating expenditure of	R 359,681,007;
resulting in a minor operational surplus of	R 124,994; and
The total estimated Capital Budget of	R 13,616,000.

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."

The following Annexures are attached:

Annexure "A"	Budget Summary & A Schedule
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

4. <u>LEGAL IMPLICATIONS</u>

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."