



REPORT TO THE MSUNDUZI MUNICIPAL COUNCIL

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IN COMMITTEE/OUT COMMITTEE
FOR NOTING/CONSIDERATION

1st Level: SMC: 24 March 2014
2nd Level: PORTFOLIO COMMITTEE:
3rd Level: AUDIT COMMITTEE (date)
4th Level: EXCO (date)
5th Level: COUNCIL

**SUBJECT: DRAFT ANNUAL BUDGET AND MEDIUM TERM REVENUE AND EXPENDITURE
FRAMEWORK 2014/15 TO 2016/17**

DATE: 24 March 2014

1. PURPOSE

To report to the Council the Draft Annual Budget and Medium term revenue and Expenditure Framework for 2014/15 to 2016/17 that is submitted for approval.

2. ANNEXURES

- 2.1 Draft Annual Budget and Medium Term Revenue and Expenditure Framework 2014/15 to 2016/17.
- 2.2 Municipal Annual Budget and MTREF & Supporting Tables
- 2.3 Financial Policies
- 2.4 Tariffs and Rates Register for 2014/15

3. LEGISLATIVE PROVISIONS (if applicable)

- 3.1 MFMA.

4. BACKGROUND

The National Treasury has imposed a provisional limitation of 5.6% growth in expenditure. The Budget Circular No 70 received recently recommended a growth rate of 5, 6% for 2014/15, 5.4% for 2015/16 and 5.4% for 2016/17.

Section 18 of the MFMA states:

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).

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".

5. COMMENTS FROM FINANCE

5.1 Operating Budget

5.1.1 Revenue

5.1.1.1 Tariffs Projections

Electricity	7.39%
Rates	5.6%
Water	8.3%
Sanitation	5.6%
Refuse	5.6%
Other	5.6%

5.1.1.2 Equitable Shares

Equitable share allocation for The Msunduzi Municipality for 2014/15 is R373.5 million compared to R354.3 million received last financial year. This indicates an increased of R19.2 million .

5.1.2 Expenditure

5.1.2.1 Employee Related costs

The Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015 provides for a wage increases based on the average CPI for the period starting from 1 February 2013 until 31 January 2014, plus 1 per cent for 2014/15 financial year (with effect of 1 July 2014).

The average CPI for the period from February 2013 to 31 January 2014 is 5.79 per cent which is more or less the same with 5.9 per cent for 2013 as provided for in the 2013 Medium Term Budget Policy Statement.

In terms of MFMA Circular No.72 a provision of 6.79 per cent has been made, (5.79 per cent plus 1 percent) should be provided for.

Msunduzi Municipality has provided 8 percent in the draft budget. Included in the budget is an amount of R 60 million provided for vacant posts.

The National Treasury has raised a concern regarding excessive overtime expenditure. An amount of R 30 million has been provided in the 2014/15 financial year. Although overtime is considered acceptable, as it relates to essential services; an excessively high allocation could be an indication of performance inefficiencies.

Overtime is viewed as an expense form of remuneration and can easily be abused. Should excessive overtime is found to be legitimate it could be an indication that the organisational structure is insufficiently funded and hence it would require funds to be appropriated against vacancies.

Municipalities are advised that a percentage above 5 per cent would require further investigation, it needs to be noted that this percentage is based on total municipal remuneration and individual functions will differ owing to the nature of the service rendered.

5.1.2.2 Remuneration of Councilors

Councillor's allowances have been increased by the same percentage as council employees.

5.1.2.3 Bulk Purchases

Eskom bulk tariff increase included in the draft budget is 8.06 per cent as per MFMA Circular No 70. Any changes to this percentage, National Treasury will communicate with municipalities. Municipalities are urged to examine the cost structure of their undertakings and apply to NERSA for electricity tariff increases that are cost reflective and ensure continued financial sustainability. Water bulk tariff increase is 8.3 per cent, same principle as electricity tariff is necessary to be applied regarding cost structure.

5.1.2.4 Debt impairment and Depreciation

These are non-cash items. Debt impairment figure is based on the collection rate. In this case the municipality is targeting 95 per cent collection rate therefore the remaining 5 per cent will form part of debt impairment. Depreciation figures are based on the assets the municipality is possessing.

5.1.2.5 Repairs and Maintenance

A provision for repairs and maintenance has been increased from R 77 million (2013/14) to R 205 million (2014/15). National Treasury raised a concern regarding an under provision on this item that the existing asset infrastructure is still not receiving adequate priority. The municipality may be requested to provide a detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing health on the infrastructure supported by reference to its asset management plan. Under-spending on maintenance can shorten the life of these assets, increase long-term maintenance and refurbishment costs, and also cause deterioration in the reliability of services.

5.1.2.6 Other expenditure

General expenses were increased by 5.6% as per MFMA Circular No.70.

5.1.2.7 Finance Charges

Finance charges figures are based on the amortization table.

5.2 Capital Budget

The requests received from the Business Units amounts to R 370 billion on council funded Projects. All these requested projects were incorporated in the draft budget. The municipality will need to fund these projects by a way of raising loan and internal funding. In terms of the Division of Revenue Act (DORA) the following has been allocated:

-Municipal Infrastructure Grant	R 159.2 million
-Public Transport and Systems	R 100.0 million
-Neighbourhood Development Partnership	R 10.4 million
-Integrated National Electrification Programme	R 3.0 million
-Municipal Water Infrastructure Grant	R 11.4 million

6. IMPLICATIONS (having been considered by the author)

- 6.1 FINANCIAL –Budget is prepared in accordance with chapter 4 of the MFMA.
- 6.2 LEGAL – N/A
- 6.3 COMMUNICATION-N/A
- 6.4 COMMUNITY-N/A

7. RECOMMENDATION

7.1 That the Draft Annual Budget and Medium Term Revenue and Expenditure Framework for 2014/15 to 2016/17 be approved.

7.2 That Council mandates the Mayor and the Accounting Officer to subject the Draft Budget for the 2014/2015-2016/2017 financial year to a consultative process.

7.3 That the following reviewed financial policies be approved;

7.3.1 Supply Chain Management policy

7.3.2 Asset Management Policy

7.3.3 Cash and Investment Management policy

7.3.4 Budget Policy

7.3.5 General Insurance Policy

7.3.6 Indigent policy

7.3.7 Tariffs policy

7.3.8 Rates Policy


7.3.9 Credit control and debt management policy

7.3.10 Virement policy

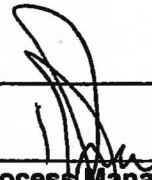
7.3.11 Funding and reserves policy

7.4 Approve the provisional rates and tariffs register for 2014/15 with the interim randages for property rates based on CPI . The current General Valuation Roll is still under review is still yet to be subjected to mandatory processes and public consultation before the municipality finalise rates for 2014/15 financial year.

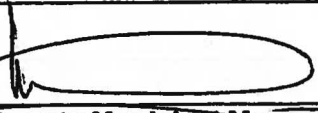
7.5 Approve the provisional rates and tariffs register for 2014/15 with the interim randages for property rates based on CPI . The current General Valuation Roll is still under review and is to be subjected to the mandatory processes and public consultation before the municipality finalise rates for 2014/15 financial year.



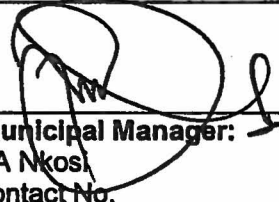
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