FINANCIAL SERVICES

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INTEROFFICE MEMORANDUM
FINANCIAL SECTION

ENQUIRIES	:	CHIEF FINANCIAL OFFICER
REFERENCE	:	5/1/1 (2013-2016)
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DATE	:	WEDNESDAY, 21 AUGUST 2013

TO	:	EXCO/COUNCIL
SUBJECT	:	MULTI-TERM EXPENDITURE BUDGET FRAMEWORK 2013/2016

1. PURPOSE

To submit to EXCO/Council the Multi-term Expenditure Budget Framework for the period 2013-2016 for consideration.

2. DELIBERATION

The preparation of the Multi-term Budget has been extremely difficult where the municipality continues to be faced with more challenges and requirements to deliver the basic services to all the communities of Abaqulusi and to balance this with the National and Provincial priorities with limited revenue.

Council and Management within Abaqulusi has a significant role to play in strengthening the link between the community and governments overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the AbaQulusi Municipality.

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities.

The challenge is to do more with the limited resources available. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The economic outlook is improving, but requires that we pursue a different outlook if we are to address the challenges ahead. We need to work together for a common vision that connects the past to the present to make a better future possible. Change is not just a challenge to government but affects all of society. A new framework for development is an opportunity to unite around an inclusive vision and join hands in constructing a shared future. Working together we can all do better.

While building on our strengths we have to tackle our weaknesses aggressively by professionalising our services and strengthening our accountability. Improving management and enforcing systems to fight corruption. Improved planning and management of strategic infrastructure projects. By implementing this we can assist in reducing poverty and inequality and this in turn will raise employment and investment into Abaqulusi.

The Income budget has been based on tariff increases as follows:
Property Rates – 6%
Electricity – Indigent 8%, with sliding tariffs up to a maximum of 25%. NERSA for the past 3 years in a row allowed Eskom to increases its tariff to municipalities higher than what municipalities could charge their consumers and this continues to have a negative impact on the municipality's revenue from electricity and is starting to impact on the maintenance of the electrical infrastructure. An analysis of the municipality's consumption patterns is being done to calculate more accurate tariffs and submitted to NERSA for approval. The draft tariff is to ensure the section is ring fenced is as follows:

- Block 1 (0 – 50 kwh) – 8%
- Block 2 (51 – 350 kwh) – 18%
- Block 3 (351 – 600 kwh) – 19,5%
- Block 4 (>601 kwh) – 25%

Water – 15%
Sanitation – 15%
Refuse – 15%
Other tariffs – 6, 5%

The salaries budgeted allocation for employee related costs for the 2013/14 financial year totals R 118,7 million, which equals 30.4 percent of the total operating expenditure. The multi-year Salary and Wage Collective Agreement for the 1 July 2012 to 30 June 2015 has been taken into account for the 2013/14 financial year. An annual increase of 6.95 percent for the 2013/14 financial year and the two outer years 6.5 percent has been utilized. As part of the Municipality's cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards. As part of the planning assumptions and interventions all vacancies were originally removed from the budget and a report was compiled by the Finance Department relating to the prioritization of critical vacancies within the Municipality. The outcome of this exercise was the inclusion of critical and strategically important vacancies. Excessive overtime has been observed by National Treasury during their analysis of municipal budgets and although it is considered acceptable as long as it related to essential services an excessively high allocation could be an indication of performance inefficiencies as it is an expensive form of remuneration easily abused. If National Treasury finds excessive overtime to be legitimate it will be an indication that the organisational structure is insufficiently funded and funds being rather appropriated against vacancies. The maximum percentage allowable for overtime is 4.5 of total remuneration.

All other services have been increased based on either a zero base or based on current expenditure. The cost of bulk electricity will be increased by 8% which pushes the total cost to R119 million.

The maintenance budget is projected at R20, 2 million 5, 1% of the budget. The maintenance budget is lower than we would like to increase it by but due to limited revenue it is not possible to increase the amount to the required 8%.

It must be noted that a new formula for the local government equitable share will be introduced in 2013/14 that recognises the need to better differentiate assistance to different municipalities, including those in rural areas. Municipal infrastructure grants will also be re-aligned and go hand in hand with more integrated planning of new developments, so that we can make meaningful strides in overcoming the spatial inequalities of the past. This is to ensure progress continues to extending access to housing, electricity, water, sanitation and refuse removal services. The new formula will provide a subsidy of R275 for every household with a monthly income of less than R2, 300 per household. The equitable division of revenue takes into account the 2011 Census which shows substantial shifts in the distribution and age structure of the population. These changes will be phased in to avoid disruption of services.

One of the focus points of the budget this year is to improve the efficiency of the municipality by redirecting spending to priority areas. Department's budgets have been cut in selected areas and funds shifted towards the key priorities.

It must be noted that expenditure on non-essential items such as catering, Subsistence & Travelling and other "nice to haves" have been reduced in order to comply with MFMA Circulars 58, 66 and 67.

The revenue per department must be noted in relation to the cost of the department. All departments' delivery basic services should at least "break even".

The Equitable Share has increased from R73 million to R79 million.

The following subsidies have been allocated in terms of the Provincial DORA:

- Library – R2,832,000
- Museum – R143,000

The following grants have been allocated in terms of the National DORA for capital:

- MIG – R29,982,000
- DoE – R9,000,000
- EPWP – R1,000,000
- FMG – R1,550,000
- MSIG – R890,000

3. INSTITUTION/S CONSULTED

National Treasury
Provincial Treasury
Municipal departments

4. FINANCIAL IMPLICATIONS

Cost of total budget.

5. RECOMMENDATIONS

5.1 That EXCO supports the Multi-term Budget for 2013-2016, which includes the Tariff of Charges and recommends it be tabled before Council for adoption.

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CHIEF FINANCIAL OFFICER **DATE**

SUPPORTED/NOT SUPPORTED
APPROVED/NOT APPROVED

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ADMINISTRATOR **DATE**