

**OUTSHOORN**  
**Municipality**



**Annual Budget/Begroting**  
**2015/16 - 2017/18**

**Medium Term Revenue and  
Expenditure Framework**

**Medium Termyn Inkomste- en  
Uitgaweraamwerk**

# Contents

|  |           |
|--|-----------|
| Contents .....   | 2         |
| Glossary .....   | 3         |
| <b>PART 1 - ANNUAL BUDGET .....</b>  | <b>5</b>  |
| Section 1 - Mayoral Report.....  | 5         |
| Section 2 - Budget-related Resolutions.....  | 9         |
| Section 3 - Executive Summary.....   | 10        |
| Section 4 - Budget tables .....  | 16        |
| <b>PART 2 - SUPPORTING DOCUMENTATION.....</b>  | <b>17</b> |
| Section 5 - Overview of annual budgetary process.....  | 17        |
| Section 6 - Overview of alignment of the annual budget with the<br>Integrated Development Plan .....                   | 19        |
| Section 7 - Measurable performance objectives and indicators .....   | 22        |
| Section 8 - Overview of budget-related policy.....   | 23        |
| Section 9 - Overview of budget assumptions .....   | 24        |
| Section 10 - Overview of budget funding .....  | 29        |
| Section 11 - Expenditure on grant allocations and grant programmes .....   | 33        |
| Section 12 - Grant and allocations made by the Municipality .....  | 35        |
| Section 13 - Annual budget and service delivery and budget<br>implementation plans - internal departments .....        | 37        |
| Section 14 - Annual budget and service delivery agreements -<br>municipal entities and other external mechanisms ..... | 37        |
| Section 15 - Contracts with future budget implications.....  | 39        |
| Section 16 - Legislative compliance status .....   | 39        |
| Section 17 - Quality certification by Municipal Manager .....  | 45        |
| <br>Annexure A - Tariffs   |           |
| Annexure B - Budget Tables   |           |
| Annexure C- Supporting Budget Tables   |           |
| Annexure D- Detailed Capital Budget  |           |

## Glossary

**Adjustments budget** - Prescribed in Section 28 of the MFMA. The formal manner in which a municipality can revise its budget during the year.

**Budget** - The financial plan of the Municipality.

**Budget-related Policy** - Policy of a municipality affecting the budget or affected by the budget, such as the tariff policy, rates policy and credit control and debt collection policy.

**Capital expenditure** - Expenditure on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

**Cash flow statement** - A statement showing when actual cash is to be received and spent by the Municipality. Cash payments do not always correspond with budgeted expenditure frameworks. For example, when an invoice is received by the Municipality, it is regarded as expenditure in the month, even it is not paid within the same period.

**DORA - Distribution of Revenue Act.** Annual legislation containing the total allocations by national government to provincial and local governments.

**Equitable share** - A general allocation paid to municipalities. It is mainly aimed at rendering assistance with free basic services.

**Fruitless and wasteful expenditure** - Expenditure done in vain and that could have been avoided if reasonable care was exercised.

**GFS** - Government Finance Statistics. An internationally recognised classification system making a type by type comparison between municipalities.

**Grants** - Money received from Provincial or National Government and other municipalities.

**GRAP** - Generally Recognised Accounting Practice. The new standard for municipal accounting.

**IDP** - Integrated Development Plan. The main strategic planning document of the Municipality.

**KPI's** - Key Performance Indicators. Measurement of service outputs and/or outputs.

**MFMA** - The Municipal Financial Management Act - No. 53 of 2003. The main legislation applicable to municipal financial management.

**MTREF** - Medium term Revenue and Expenditure Framework. A Medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budgetary allocations. Also includes details of the financial position of the preceding and current year.

**Nett Assets** -Nett assets are the residual interest in the assets of the entity after all its liabilities have been deducted. This means that the nett assets of the municipality equal the "nett welfare" of the municipality, after all assets had been sold/ recovered and all liabilities had been paid. Transactions that do not fall under the description of Revenue or Expenditure, such as increase in the value of Property, Plant and Equipment, where no in- or outflow of resources occurs, are recorded under Nett Assets.

**Operational expenditure** - Expenditure on the day-to-day expenses of the Municipality, such as salaries and wages.

**Property rates** - Local authority rates based on the assessed value of a property. In order to calculate the rates payable, the assessed value is multiplied by the rate in the rand.

**SDBIP** - Service Delivery and Budget Implementation Plan. A detailed plan consisting of quarterly performance targets and monthly budget estimates.

**Strategic Objectives** - The main priorities of the Municipality as set out in the IDP. Budgeted expenditure must contribute to the achievement of the strategic objectives.

**Unauthorised expenditure** - In general, expenditure without, or in excess of an approved budget.

**Virement** - A budget transfer.

**Vote** - One of the main segments of a budget.

# **PART 1 - ANNUAL BUDGET**

## **Section 1 - Mayoral Report**

In terms of section 16 (2) of the Municipal Financial Management Act (Act 56 of 2003), it is my privilege to submit the 2014/2015 Medium term Revenue and Expenditure Framework (MTREF) to Council. Section 24 of the MFMA, further states that the municipal Council must at least 30 days before the start of the budget year, consider approval of the annual budget.

As this budget constitutes the proposed financial plan for the next 3 years, it impacts on the community as a whole and it is thus extremely important to consult the community with a view to accept joint ownership and joint responsibility for the welfare of the municipality's financial affairs.

We will embark on a full community participation process to obtain the input of the community on the Annual Budget. Community meetings will be held in all wards and the input obtained from these meetings will be considered when we table the final budget in Council.

Council's strategic objectives of service delivery include the continuation of the acceptable level of services, as well as improvement in those areas still lacking. The mission statement of the municipality as contained in the IDP document states "To provide a better service, improve lives of people, eradicate extreme poverty and create a conducive environment for sustainable economic and social development.

The tourism industry is currently the main economic activity in Oudtshoorn, and we therefore need to fulfil our responsibility to maintain and cherish our tourism facilities and to support tourism activities as they play a vital role in job creation and job security. Council also acknowledges its immense responsibility towards not only our community needs, but also the strategically important role fulfilled by Oudtshoorn as a tourist destination in the region as well as the country as a whole. It is thus crucial to maintain our infrastructure as a top tourism destination and to attempt to attract more tourists in an extremely competitive market.

Council is in the process of developing a vision 2030 strategy which aims to establish and/or strengthen Greater Oudtshoorn in the following principle focal areas:

- A knowledge economic town, offering opportunities for training and skills development,
- A tourist economic town, offering a range of attractions from the environment to entertainment
- An infrastructure economic town, offering a full range of services and economic opportunities, notably in disadvantaged areas

- A social economic town which advances good governance and social development
- An industrial economic town in which various industries can expand
- An arts and culture economic town creating economic and social opportunities through the arts, heritage and sport.

To achieve the above, a balancing act is required between the set objectives and available financial resources, while taking into consideration the effect of tariff adjustments on the community as a whole, and the poor in particular. In addition, we have not escaped the downturn in the economy, which has had a considerable influence in Oudtshoorn, resulting in an increase in the number of registered indigent households. The continuous high annual tariff increases announced by ESKOM, is a huge challenge for local authorities as well as the community, as we have no control over this. These increases impact negatively on the input costs of the municipality and have a ripple effect on expenditure which makes the achievement of the service delivery objectives so much more difficult and a greater challenge. The challenge is further to achieve more with less and in so doing increase the municipality's productivity level.

Taking all of the above into consideration, I submit to you the following estimated expenditure summarised as follows:

| <b>Objective</b>   | <b>Original<br/>2015/2016<br/>R'000</b> | <b>Original<br/>2016/17<br/>R'000</b> | <b>Original<br/>2017/18<br/>R'000</b> |
|--------------------|---|---------------------------------------|---------------------------------------|
| CAPITAL BUDGET     | 60 928                                  | 57 450                                | 83 777                                |
| OPERATIONAL BUDGET | 517 872                                 | 548 168                               | 562 220                               |
| <b>TOTAL</b>       | <b>578 800</b>                          | <b>605 618</b>                        | <b>645 997</b>                        |

In achieving the above, provision was made for the following:

- Salary increases of 5.4% in the absence of a collective wage agreement.
- Annual increase in Councillor Remuneration of 5.4%.
- An increase of 14.24 % in Eskom’s bulk purchase price for electricity.
- Interest on external loans to finance capital expenditure.
- Increase in the costs of subsidies due to the increasing number of indigent households.
- Compulsory statutory provision for depreciation of assets and bad debt, and sufficient GRAP provision for post-employment medical contributions and long service awards.

**Notwithstanding fiscal parameters as prescribed and set by National Treasury the municipality had impose higher than inflation tariff increases in order to balance the budget .**

Tariff increases are inevitable to balance the budget as set out above and the proposed tariff adjustments are as follows:

|                                 |        |
|---------------------------------|--------|
| Property rates                  | 7.0%   |
| Refuse removal                  | 8.5%   |
| Sewerage                        | 7.5%   |
| Water units                     | 7.25%  |
| Electricity                     | 12.69% |
| Other Diverse Tariffs (average) | 6.0%   |

It is necessary to increase tariffs in order for the municipality to be in a position to expand and improve service delivery. The municipality is not in a position to keep tariff increases within the inflation target mainly because of above inflation increases in its input costs. The cost of electricity, labour and fuel all increase more than the inflation target. The growth in the revenue base of the municipality is limited due to challenges experience with economic growth within the Greater Oudtshoorn municipal area.

In order to improve affordability of municipal services for the poorest of the poor the basic charge for indigent households has been kept at R0.00.

It should be noted that a new general valuation roll will be implemented with effect 1 July 2017, and for the 2015/2016 financial year the current property roll is still being implemented.

This may result in some property owners paying less and others more for property rates depending on the growth in the value of their properties.

