

## **PART 1 – ANNUAL BUDGET**

### **1.1 EXECUTIVE MAYOR'S REPORT**

The Honourable Minister of Finance stated in his budget speech of 24 February 2016 that a period of unprecedented monetary stimulus in response to the 2008 recession is not yet over, and global volatility and structural imbalances are far from resolved. He further highlighted that the South African major exports (platinum, gold, iron ore and coal) have seen substantial declines in global demand and in prices. These have the negative effects to the country's economy that are widespread:

- lower export earnings,
- lower revenue,
- declining investment,
- job losses, and in some cases business failures.

The speech also highlighted the fact that the world's economic growth declined from 3.4 per cent in 2014 to an estimated 3.1 per cent last year. The decline in the sub-Saharan Africa was from 5 per cent to 3.5%. According to National Treasury, the South African economic growth is also expected to decline from 1.3% in 2016 to 0.9% this year (2016).

The Honourable Minister's speech also noted another important fact that faster growth is being achieved in countries which have undertaken bold structural reforms, such as India's scaling back of subsidies for industry and opening up of trade opportunities, and the promotion of skilled immigration, urban investment and labour-intensive manufacturing and agro-processing in South-east Asian and several African economies. This gives us pointer on the likely route the City could follow to combat the declining economic growth. The City has the responsibility to contribute towards measures that would help the Country to attract investors and stimulate economic growth.

The speech of the Honourable MEC for Finance in the province of 04 March 2016, indicated that the provincial economy is forecast to lag behind the national average thus requiring an integrated sectoral approach to ensure growth. The speech further indicated that the severe drought has affected agricultural output which stood at 1.5 % in 2013 to -

10.6 % in the 3rd quarter of 2015. The speech advises that fiscal policy choices that will enable us to mitigate against the effects of a subdued economy be made.

In response to the above challenges the Honourable Minister of Finance responded by putting the stringent cost containment measures across all departments.

These include:

- Restrictions on filling managerial and administrative vacancies, subject to review of human resource plans and elimination of unnecessary positions;
- Reduced transfers for operating budgets of public entities;
- Capital budgeting reforms to align plans with budget allocations while strengthening maintenance procedures;
- Mandatory use of the new e-tender portal, thereby enforcing procurement transparency and accessible reference prices for a wide range of goods and services;
- A national travel and accommodation policy and instructions on conference costs;
- New guidelines to limit the value of vehicle purchases for political office bearers;
- Renegotiation of government leasing contracts;
- New centrally negotiated contracts for banking services, ICT infrastructure and services, health technology, school building and learner support materials.

The Honourable MEC for Finance in the province has heeded a call and put the following cost containment measures:

- Ensuring fiscal sustainability
- Strict implementation of Cost Containment Measures
- Containment of the Provincial wage Bill
- Increasing own revenue generation
- Rationalisation of Public Entities and
- Attaining value for money

The Buffalo City Metropolitan Municipality understands that it is not immune to the economic challenges that are experienced globally and by South African. Therefore,

BCMM has taken and followed a tune of a more conservative approach in the manner in which it approaches this MTREF budget. This approach includes giving consideration in the budget to the cost containment measures suggested by National Treasury. These measures are being implemented in an attempt to ensure the future viability of the institution and to focus on reducing the negative impact on the residents within our boundaries. Continuing from prior year cost containment measures, the following cost containment measures have been applied in the 2016 MTREF budget:

- The annual budget allocation for critical unfunded posts has been ceased.
- Contracted Services and General Expense annual increase has been capped at 4% in the 2016/17 financial, this below the CPI annual increase was reached having considered that no annual increase was effected on these expenditure categories in the 2015/16 MTREF.
- The exercise of scrutinising cost drivers within our value chain to identify areas for efficiency improvement is still on-going.

It gives me great pleasure to announce that our total budget (operating and capital) for the MTREF period is growing from R7.46 billion in the 2016/17 to R8.10 billion in the 2017/18 financial year, it further grows to R8.77 billion in the 2018/19 financial year of which consistently over R1.5 billion per annum has been allocated for infrastructure investment. Our commitment to respond to our people's legitimate demand for a better life is reflected in a budget in which the **key priorities are Water and Sanitation, Roads and Storm water, Human Settlements development, Transport Planning, Electricity and related critical infrastructure and maintenance.** In a continued effort to create jobs for the communities of Buffalo City and to encourage private sector investment the capital budget is being focused on a mix social and economic infrastructure investments. As part of its long term plan on human capital development, the city has allocated funding for internship programmes, especially in the areas of finance and engineering as well as the EPWP Programme. The City further continues to allocate funding for bursaries to its employees as well as communities of BCMM. This is in line with, and reflects our commitment to the priorities of the National Development Plan and Provincial Development plan while of course reflecting our own Constitutional role as a local actor on the national stage. The budget allocation is based on the priorities that have been identified through the City's IDP

reviews process. It also seek to works towards achieving the goals that are set in the recently adopted Metro Growth and Development Strategy.

In total, the budget for our **capital and operating projects** amounts to just over **R6.2 billion over the MTREF period** (2016/17: R1.9 billion, 2017/18: R2.1 billion and 2018/19: R2.3 billion. The municipality has recognised the economic adversities that is currently being experienced by its citizens and in an attempt to relieve the growing poverty it has taken a decision to strive to keep its tariff increases at the most minimal feasible levels. This has resulted in the Metro reducing its tariff increases as compared to those that were approved by Council in the 2015/16 MTREF on Property Rates and all the services. On Property Rates the increase has been reduced from 9.6% to 7.6% for 2016/17, decrease from 9.4% to 7.2%, for 2017/18 and an increase of 7% is projected for 2018/19. Refuse Removal has been reduced from 9.2% to 7.8% for 2016/17, decreased from 9% to 7.5% for 2017/18 and an increase 7.2% is projected for 2018/19 financial year. The Sewerage tariff increase has also been decreased form 9.2% to 7.8% for 2016/17, reduced from 9% to 7.5% for 2017/18 and an increase of 7.2% for 2018/19 is projected. However, Water and Electricity losses remain a concern. For the Water Service, the tariff increases that was approved in the 2015/16 MTREF for 2016/17 has been reduced from 10.70% to 8%, for 2017/18 the increase has also been decreased from 10.5% to 7.89%. An increase of 7.92% is proposed for the 2018/19 financial year. The City has followed the proposed NERSA increase of 7.64% for Electricity tariff.

The preparation of the General Valuation Roll as required by the Municipal Property Rates Act was undertaken and was implemented on 1 July 2014. Supplementary Valuations will continue being regularly conducted throughout the years and it is anticipated that this will result in increased property rates revenue (2016/17: R97 million).

In a continued effort to ensure future financial viability of the city continuous review of the operational cost base is being undertaken in an attempt to identify inefficiencies. This has yielded positive results hence the institution has been able project reduced tariff increases. The institution will continue focusing on the operational budget in the 2016/17 financial year in order to reduce further any inefficiency and thereby reduce the impact on Buffalo City Metropolitan Municipality residents. The City strives to ensure that the tariffs are cost

reflective of the services that have been provided. It is however important to mention the fact that the City's revenue base is not at the required levels due to high rural areas that are part of the Metro. This required creative and innovative ways of ensuring efficiency in whatever activities that are undertaken. We shall continue to strive for equal service levels for all our communities in the Metro.

We have been mindful that inflation leads to more pain for the poor than any other group. I am happy therefore to propose that the **7.69% increase** of the basic welfare package for households that qualify in terms of our policy, which means that the indigents of Buffalo City will continue to have a **safety net of free basic services**, translating in the new year to a basket of services to the value of **R485.82 per household per month**.

In support of our local economy, the Directorate of **Economic Development & Agencies** is running programmes in an effort to reduce unemployment and indigent rate in our Metro. The Directorate has been allocated a capital budget of R148 million (R44.5 million, R45.5 million and R57.5 million) over the MTREF period

In the coming year our engineers will continue with the process of eradicating backlogs in **water supply infrastructure whilst also attending to aging infrastructure**. We will continue to meet our pressing **sanitation challenges** in rural areas and informal settlements, as well as expanding the capacity of infrastructure in **our urban area to accommodate and open opportunities for further developments**.

An amount of **R830 million** (2016/17: R267 million, 2017/18: R274 million and 2018/19: R289 million) has been set aside over the next three (3) years for the construction and refurbishment of **Roads and Storm Water infrastructure** across the City. The City is also continuing with the process of fleet renewal and procuring its own specialized vehicles for the maintenance and construction of rural roads. A total allocation of **R58 million** has been provided for this (Vehicles) over the MTREF.

As far as **Wastewater Treatment infrastructure** is concerned, a total capital budget of **R1.3 million over the MTREF period** to this trading service (2016/17: R371 million,

2017/18: R507 million and 2018/19: R389 million). This includes the amount of R310 million from own funds specifically for the replacement and refurbishment of existing infrastructure within the Metro that has been allocated in the MTREF period. It also include an amount of R436 million from borrowings to be utilised over the MTREF period fund the sewer diversion tunnel project.

Our **Water Services** benefit to a total capital budget of **R323 million over the MTREF** period (2016/17: R87.5 million, 2017/18: R95 million and 2018/19: R140 million) to expand our water infrastructure, to augment water treatment capacity and to eradicate backlogs in access to potable water supply. This includes the amount of R160 million from own funds specifically for the replacement and refurbishment of existing infrastructure within the Metro that has been allocated in the MTREF.

Our Municipal Services Directorate is scheduled to spend a capital budget amounting to **R361 million** in the forthcoming MTREF period of which R86 million that is from own funds will be spent in the 2016/17 financial year mainly on **Construction and Refurbishment of Waste Cells at Landfill Sites; Cemeteries** as well as a range of **public amenities** including community halls, sports facilities, etc. Each year the City's cemeteries are being brought under increasing pressure as a result of the **elevated mortality rate** in Buffalo City. This requires our **Environmental Services Department** annually to identify potential new sites for **cemetery development** that meet the rigorous requirements of environmental legislation, while being close enough to our settlements to be practically useful. An amount of R14 million over the MTREF period has been provided for development and upgrading cemeteries in the Metro.

From the **health and public safety perspective**, an amount of R13 million has been allocated over the MTREF period installation of a **CCTV camera surveillance network** in order to improve safety in the Metro. The City has allocated R21 million in the MTREF period towards fire engines, fire equipment and disaster management vehicles & equipment to ensure that we are able to swiftly respond to fire and disaster emergency calls. An amount of R15.5 million has been set aside in the MTREF period for the KWT

Traffic Building. A further R5 million has been provided for Vehicle Test Station Upgrade and equipment over the MTREF period.

**Transport Planning** continues to be a focus area for the institution considering the higher traffic volumes on our roads. In order to ensure that we are alleviating congestion and protecting our inhabitants an amount of **R549 million** (2016/17: R140 million, 2017/18: R162 million and 2018/19: R247 million) has been allocated in the MTREF period for the implementation of integrated transport plan. This includes the establishment and refurbishment of transport facilities.

On **Spatial Planning and Development**, the City will be spending **R273 million** (2016/17: R91 million, 2017/18: R98 million and 2018/19 R85 million) over the MTREF period towards achieving spatial transformation and integration.

**Electricity Trading Service** has been allocated **R477 million over the MTREF period** (2016/17: R143 million, 2017/18: R163 million and 2018/19: R171 million) for **bulk infrastructure, electrification and upgrading of informal areas**. This includes the amount of R330 million from own funds specifically for the replacement and refurbishment of existing infrastructure within the urban core that has been provided in the MTREF (2016/17: R100 million, 2017/18: R110 million and 2018/19: R120 million). BCMM is still proceeding with investigating potential alternative sources of energy to ensure a more sustainable energy mix by 2030. The BCM State of Energy Report (2008) highlighted some issues and opportunities associated with sustainable energy in BCMM. These are outlined here below:-

- Energy not necessarily used efficiently or sustainably - Energy demand is increasing, the focus has been on increasing supply, rather than managing demand;
- Lack of incentive to use energy efficiently;
- There are a number renewable energy, energy efficiency and carbon trading opportunities in BCMM;

A number of sustainable energy initiatives have been planned for implementation by the municipality. Energy-efficient municipal operations provide a way to cut running costs while reducing negative impact on the natural capital.

The institution has reconstituted the Board of the Buffalo City Metro Development Agency (BCMDA) whose mandate is to drive Buffalo City Metropolitan Municipality's development. It is envisaged that the board will provide strategic direction regarding the future focus areas of the Buffalo City Metro Development Agency in an attempt to grow the local economy through encouraging private sector investment. The board is currently finalising the appointment of critical staff component that will be tasked with the daily operations of the agency with the core positions of CEO and CFO having already been appointed. The Agency is expected to run in full swing in the new financial year

BCMM, a City growing with you has a story to tell, I would like to believe, that this is a metro that is moving progressively towards being more productive, more sustainable, more responsive, more developmental and indeed more people-centred than we have been in the past.



## **1.2 COUNCIL RESOLUTIONS**

On 31 May 2016 the Council of Buffalo City Metropolitan Municipality convenes to consider the 2016/17 Integrated Development Plan (IDP) Review, Medium Term Revenue and Expenditure Framework (MTREF) and Built Environment Performance Plan (BEPP). It is recommended that the Council approves and adopts the following resolutions:

1. The Council of Buffalo City Metropolitan Municipality, acting in terms of Section 34 of the Municipal Systems Act, 32 of 2000 approves and adopts the revised 2016/17 Integrated Development Plan (IDP).
2. The Council of Buffalo City Metropolitan Municipality, acting in terms of DoRA, 2016 approves and adopts the 2016/17 Built Environment Performance Plan (BEPP)
3. The Council of Buffalo City Metropolitan Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
  - 3.1. The annual budget of the parent municipality (BCMM) for the 2016/17 MTREF and the multi-year and single-year capital appropriations as set out in the following tables:
    - 3.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained on **{Table 20}**;
    - 3.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained on **{Table 21}**;
    - 3.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained on **{Table 22}**; and
    - 3.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained on **{Table 23}**.

- 3.1.5. Budgeted Financial Position as contained on **{Table 24}**;
  - 3.1.6. Budgeted Cash Flows as contained on **{Table 25}**;
  - 3.1.7. Reserves and accumulated surplus reconciliation as contained on **{Table 26}**;
  - 3.1.8. Asset management as contained on **{Table 27}**; and
  - 3.1.9. Basic service delivery measurement as contained on **{Table 28}**.
- 3.2. The annual budget of the municipal entity (BCMDA) for the 2016/17 MTREF as set out in the following tables:
- 3.2.1. Budgeted Financial Performance (revenue by source and expenditure by type) as contained on **{Table 65}**;
  - 3.2.2. Budgeted Financial Position as contained on **{Table 66}**; and
  - 3.2.3. Budgeted Cash Flows as contained on **{Table 67}**.
- 3.3. The consolidated annual budget of the municipality the 2016/17 MTREF as set out in the following tables:
- 3.3.1. Budgeted Financial Performance (revenue by source and expenditure by type) as contained on **{Table 30}**;
  - 3.3.2. Budgeted Financial Position as contained on **{Table 31}**;
  - 3.3.3. Budgeted Cash Flows as contained on **{Table 32}**;
  - 3.3.4. Reserves and accumulated surplus reconciliation as contained on **{Table 33}**;
4. The Council of Buffalo City Metropolitan Municipality Council, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts tariffs (percentage increase contained on **{Table 3}**) effective from 1 July 2016:
- 4.1. property rates – as set out in Annexure E
  - 4.2. electricity – as set out in Annexure E
  - 4.3. water – as set out in Annexure E
  - 4.4. sanitation services – as set out in Annexure E
  - 4.5. solid waste services – as set out in Annexure E

4.6. other services as set out in Annexure E

5. To give proper effect to the municipality's draft annual budget, the Council of Buffalo City Metropolitan Municipality approves:
  - 5.1. That an indigent subsidy be granted to registered indigents in terms of Council's Indigent Policy.
  - 5.2. That an indigent consumer be given a maximum subsidy on his account of R485.52 per month, which includes a maximum of 50kwh for electricity and 6kl for water.
  - 5.3. That free basic electricity be granted for a registered indigent consumer of 50KWh per month.
  - 5.4. That free basic water be granted to a registered indigent of 6Kl per month.
6. The Buffalo City Metropolitan Municipality Council, approves and adopts the revised budgeted related policies as set out in Annexures F, G, H and N:
  - 6.1. Tariff Policy
  - 6.2. Budget Virement Policy
  - 6.3. Budget Policy (Budget Management Policy)
  - 6.4. Long-term Borrowing Policy
7. That Council note the budget-related policies adopted in the previous financial years and where no amendments have been made after review, as listed in Section 1.3.8.2 of this report and are available on BCMM's website at [www.buffalocitymetro.gov.za](http://www.buffalocitymetro.gov.za) .
8. That in terms of Section 24(2)(c)(iii) of the Municipal Finance Management Act, 56 of 2003, the measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out in Supporting Table SA7 {Table 41} be approved.

9. That in terms of Section 24(2)(c)(iv) of the Municipal Finance Management Act, 56 2003, the amendments to the Integrated Development Plan as set out in the Budget Chapter 17 be approved.
10. Council notes that the 2016/17 MTREF Budget tabled for adoption is structured in terms of the then Buffalo City Metropolitan Municipality votes and functions.
11. MFMA Circular 78, 79 and 82 Municipal Budget Circular for the 2016/17 MTREF attached as Annexure I to be noted by Council.



**A. MTSI**

**EXECUTIVE MAYOR**

*23rd May 2016*