

## **REPORT TO BCMM COUNCIL: 31 MARCH 2015**

# **BUFFALO CITY METROPOLITAN MUNICIPALITY'S DRAFT 2015/16 INTEGRATED DEVELOPMENT PLAN AND MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK**

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### **1. PURPOSE**

The purpose of this report is to table Buffalo City Metropolitan Municipality's Draft 2015/16 Integrated Development Plan (IDP) Review and Medium Term Revenue and Expenditure Framework (MTREF) for adoption by Council.

### **2. AUTHORITY**

Buffalo City Metropolitan Council.

### **3. LEGAL / STATUTORY REQUIREMENTS**

- The Constitution of the Republic of South Africa, Act 108 of 1996
- The Municipal Systems Act no. 32 of 2000, as amended;
- The Municipal Structures Act no. 117 of 1998;
- The Municipal Finance Management Act no. 56 of 2003; and
- Circular 58, 66 and 67 of the MFMA Regulation 2001.

### **4. BACKGROUND / REASONING**

Council adopted an IDP/Budget/PMS Process Plan, in compliance with section 28 of the Municipal Systems Act no 32 of 2000 as amended. The plan outlines the process to be followed in developing Buffalo City Municipality Metro's Integrated Development Plan [IDP] and Budget.

In terms of section 30(c) of the Municipal Systems Act, the Executive Mayor of a municipality must submit the draft Integrated Development Plan to the municipal council for adoption.

Section 34 of the Municipal Systems Act 32 of 2000 as amended, further states that a municipal council must review its integrated development plan:

- (i) Annually in accordance with an assessment of its performance measurements; and
- (ii) To the extent that changing circumstances so demand.

In compliance with the above, Buffalo City Metropolitan Municipality has embarked on a review to further develop its IDP and Budget towards the 2015/16 financial year in accordance with the requirements set out in the Municipal Systems Act 32 of 2000 as amended, the Local Government: Municipal Planning and Performance Management Regulations 2001 & 2006 and the Municipal Finance Management Act 56 of 2003.

Annual revisions allow the municipality to expand upon or refine plans and strategies, to include additional issues and to ensure that these plans and strategies inform institutional and financial planning. The review and amendment of the IDP thus, further develops the IDP and ensures that it remains the principal management tool and strategic instrument for the Municipality.

In compliance with the above provisions, the Buffalo City Metropolitan Municipality's 2014/15 reviewed IDP [Section D] has been prepared and submitted to Council for adoption, see attached annexure A.

In terms of Section 16 (1) of the Municipal Finance Management Act (MFMA) No 56, 2003:

*“the Council of the Municipality must for each financial year approve an annual budget for the municipality before the start of that financial year”*

In compliance with the above provisions, the Buffalo City Metropolitan Municipality's 2015/16 reviewed IDP and MTREF Budget has been prepared and submitted to Council for adoption [Annexure A and B].

In terms of Section 16(2) of the Municipal Finance Management Act (MFMA) No 56, 2003:

*“In order for a municipality to comply with sub-section (1), the Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.”*

## 5. EXPOSITION OF FACTS

### 5.1 PROCESS UNDERTAKEN

Section 28 (1) of the Municipal Systems Act requires each municipality to adopt a process in writing to guide the planning, drafting, adoption and review of its integrated development plan. In compliance with this requirement Buffalo City Metropolitan Municipality undertook the following activities in line with the IDP and Budget review towards 2015/16 financial year:

| Activity   | Date                 | Purpose  |
|--|----------------------|--|
| IDP Councillors Workshop                               | 15 August 2014       | Outlining the IDP/Budget Review process in order to ensure common understanding and full participation in the process.   |
| External Representative Forum Meeting                  | 19 August 2014       | Presentation of the IDP/Budget Process Plan and to provide feedback on 2012/13 performance to external stakeholders  |
| Council adopts IDP/Budget/PMS process plan for 2015/16 | 27 August 2014       | Adoption of IDP Process Plan   |
| Mayoral Imbizo Programme                               | 15-17 September 2014 | <ul style="list-style-type: none"> <li>- Executive Mayor to interact with communities</li> <li>- To provide feedback on issues raised during the last public consultation process</li> <li>- To share planned capital and operating expenditure earmarked for their respective areas</li> <li>- To highlight key achievements of the Metro.</li> </ul> |
| IDP Technical Cluster Meetings                         | 21-23 September 2014 | <ul style="list-style-type: none"> <li>• To present and discuss draft cluster situational analysis reports.</li> <li>• To prepare for Executive Mayoral Lekgotla.</li> </ul>   |

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| IDP Full Cluster Meetings             | 2; 3 & 9 October 2014 | <ul style="list-style-type: none"> <li>• To present and discuss draft cluster situational analysis reports.</li> <li>• To prepare for Executive Mayoral Lekgotla.</li> </ul>  |
| Executive Mayoral Lekgotla            | 15-17 October 2014    | <p>To review:</p> <ul style="list-style-type: none"> <li>• 2011-2014 Performance assessment</li> <li>• strategic objectives for service delivery and development and provide guidance to the unfolding review process</li> <li>• Broad capital budget allocations</li> </ul>  |
| IDP Cluster Meetings                  | 10-12 February 2015   | To confirm draft projects and programmes for 2015/16 – 2017/18.   |
| IDP/Budget Councillors Workshop       | 19-21 February 2015   | <p>To consider:</p> <ul style="list-style-type: none"> <li>- Back to Basics Programme;</li> <li>- Communication Action Plan</li> <li>-2015/16 Draft IDP Objectives, Strategies, Indicators and Targets; and</li> <li>-Draft 2015/16 MTREF Budget</li> <li>-Update on the Metro Growth and Development Strategy</li> </ul> |
| External Representative Forum Meeting | 18 March 2015         | To present draft IDP 2015/16 and MTREF Budget. To report on 2014/15 SDBIP 2nd quarter performance.  |
| Council Meeting                       | 25 March 2015         | To adopt draft IDP Review 2015/16 and MTREF Budget  |

## 5.2 KEY INFORMANTS

The IDP and Budget review towards 2015/16 financial year has taken cognisance of both internal and external factors which include the above mentioned process as well as the following key national and provincial events:

### 5.2.1 State of Nation Address

To ignite economic growth and create jobs, the state of the nation address outlined the following plan:

- ✚ Resolving the energy challenge.
- ✚ Revitalizing agriculture and the agro-processing value chain.
- ✚ Advancing beneficiation or adding value to our mineral wealth.
- ✚ More effective implementation of a higher impact Industrial Policy Action Plan.
- ✚ Encouraging private sector investment.
- ✚ Moderating workplace conflict.
- ✚ Unlocking the potential of SMMEs, cooperatives, township and rural enterprises.
- ✚ State reform and boosting the role of state owned companies, ICT infrastructure or broadband roll out, water, sanitation and transport infrastructure as well as
- ✚ Operation Phakisa aimed growing the ocean economy and other sectors.

### 5.2.2 State of the Province Address

The state of the province address focused on the following key priorities:

- ✚ Promoting quality education and skills development
- ✚ Achieving an improved health profile of the province
- ✚ Stimulating rural development, land reform and food security
- ✚ Transform the economy to create jobs and sustainable livelihoods
- ✚ Intensifying the fight against crime and corruption
- ✚ provision of integrated human settlements and building cohesive communities
- ✚ strengthening the developmental state and good governance

### **5.2.3 BCMM priorities from the Executive Mayoral Lekgotla**

- Focus on Back to Basics approach for municipalities
- BCMM to explore alternative sources of energy
- Improved Solid Waste management
- Focus on agriculture as key driver of economic development
- Develop strategies that will focus on port, railway and airport as key levers for economic transformation
- Job creation initiatives particularly benefiting youth
- Achieving housing level 2 accreditation for BCMM
- Develop a comprehensive plan to address the incorrect billing crisis
- Reviewal of the BCMM mission and vision to speak to the growth of the city
- Vigorous implementation of the communication strategy/plan
- Accelerate housing delivery
- Revival of the Buffalo City Development Agency
- Risk management
- Urgently address pertinent issues of Climate change
- Development and enforcing of municipal by-laws

### **5.3 BCMM STRATEGIC OUTCOMES**

All processes undertaken above contributed to the IDP/Budget review towards 2015/16 financial year. During the review process BCMM's key strategic focus areas were revisited and they still remain relevant. The strategic focus areas are outlined below:

#### **5.3.1 Strategic Focus Areas**

SFA 1: Institutional Restructuring and Stabilisation;

SFA 2: Improve Intergovernmental Relations;

SFA3: Building Citizen Confidence;

SFA 4: Bridging the Digital Divide;

SFA 5: Improving performance, compliance, processes and systems;

SFA 6: Build Sustainable Communities;

SFA 7: Job Creation;

SFA 8: Improving Governance; and

SFA 9: Financial Viability

#### 5.4 ALIGNMENT WITH SONA AND SOPA PRIORITIES

| <b>SONA Priorities</b>   | <b>BCMM IDP Intervention</b>   |
|--|--|
| Resolving the energy challenge   | Maintain a high level of investment in the bulk electricity network  |
| Revitalizing agriculture and the agro-processing value chain   | Facilitate rural economic development  |
| Encouraging private sector investment  | Create an enabling economic environment with focus on key growth sectors   |
| Moderating workplace conflict  | Ensuring a functional local labour forum   |
| Unlocking the potential of SMMEs, cooperatives, township and rural enterprises   | Implement Economic Infrastructure and Capacitation programmes  |
| State reform and boosting the role of state owned companies, ICT infrastructure or broadband roll out, water, sanitation and transport infrastructure as well as | Provision of ICT systems and infrastructure to support internal and external customers   |
| <b>SOPA Priorities</b>   | <b>BCMM IDP Intervention</b>   |
| Promoting quality education and skills development   | Providing training and development opportunities to BCMM staff   |
| Achieving an improved health profile of the province   | Implement Municipal Health Services Delivery Plan  |
| Stimulating rural development, land reform and food security   | Facilitate rural economic development  |
| Transform the economy to create jobs and sustainable livelihoods   | Create an enabling economic environment with focus on key growth sectors   |
| Intensifying the fight against crime and corruption  | Implement the BCMM Crime Prevention Strategy<br>Establishment of anti-corruption and fraud hotline                                   |
| provision of integrated human settlements and building cohesive communities  | Provision of formal houses as part of integrated sustainable human settlements<br>Implement land acquisition and transfer programmes |

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| strengthening the developmental state and good governance | Optimise participation of communities in municipal decision making processes. |
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## 5.5 2015/16 MTREF BUDGET

The following was taken into consideration in preparation of the MTREF Budget:

- (a) Tariff increase on Refuse was reduced in comparison to those that were approved by Council in the previous MTREF period (2015/16: reduced from 12.3% to 9.9% and 2016/17: reduced from 12.3% to 9.2%)
- (b) Tariff increase on Sewerage was reduced in comparison to those that were approved by Council in the previous MTREF period (2015/16: reduced from 10.3% to 9.5% and 2016/17: slightly reduced from 10.3% to 9.2%).
- (c) Tariff increase on Property Rates was also been reduced in comparison to those that were approved by Council in the previous MTREF period (2015/16: reduced from 11.3% to 9.9% and 2016/17: reduced from 11.3% to 9.6%).
- (d) Electricity tariff increase has been set at 12.2% in line with the NERSA guide.
- (e) Water tariff increase was reduced in comparison to those that were approved by Council in the previous MTREF period (2015/16 has been slightly reduced from 14.75% to 14.5%, for 2016/17 the increase has also been slightly decreased from 14.75% to 14.2%). The cost of untreated water to the Municipality from Amatola Water increased by 9.25%. The variance relates to the cost associated with purification and distribution of water to consumers.
- (f) Repairs and Maintenance be maintained at a steady growth of between 7% and 10% of total operating expenditure.

The following budget principles and guidelines directly informed the compilation of the 2015/16 MTREF:

- The 2014/15 Adjustment Budget and mid-year actuals were used as a baseline for the 2015/16 MTREF Budget, 2013/14 audited actuals were also considered;
- The service charges tariff has been calculated taking into consideration the cost associated with generating the service.
- In addition, the tariffs should take into account the need to address infrastructure backlogs as well as refurbishment and replacement of existing assets.



## **6. CHALLENGES**

The main challenges experienced during the compilation of the 2015/16 MTREF can be summarised as follows:

- The Municipality does not have a fully integrated financial system, including the necessary automated business processes linked to budget reforms.
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities in providing an effective and efficient service to the community at large;
- Funding future depreciation costs on infrastructure assets based on current replacement costs.
- Addressing the increasing water and electricity revenue losses.

Risks associated with achieving the 2015/16 MTREF Budget:

- The ongoing difficulties in the national and local economy, affecting the consumers ability to pay for services;
- The increased cost of bulk water (due to tariff increases from Amatola Water) is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable as there will be point where services will no longer be affordable; which will result in an increase in the debt book.
- The increased cost of bulk electricity is putting pressure on tariff increase and reduces the profit margin on electricity service.
- Rise in unemployment rate in the BCMM area.

## **7. STAFF IMPLICATIONS**

The staff implications have been budgeted for and are contained in the detailed budget report attached as Annexure B. Consumer Price Index as per MFMA Circular 75 guide was use to budget the salaries and wages increase.

## **8. FINANCIAL IMPLICATIONS**

In view of the aforementioned, the following table is a consolidated overview of the 2015/16 Medium-term Revenue and Expenditure Framework reflecting a surplus of R6.26 million for the 2015/16 financial year (detailed budget report attached as Annexure B) :

**Table 1 Consolidated Overview of the 2014/15 MTREF**

| <b>OPERATING AND CAPITAL<br/>BUDGET EXPENDITURE</b> | <b>2014/2015<br/>ADOPTED<br/>BUDGET YR1</b> | <b>2014/2015<br/>MID-YEAR ADJ<br/>BUDGET</b> | <b>2015/2016<br/>PROPOSED<br/>BUDGET</b> | <b>2016/2017<br/>PROPOSED<br/>ADJUSTMENTS</b> | <b>2017/2018<br/>PROPOSED<br/>BUDGET</b> |
|---|---|--|--|---|--|
| <b>Total Revenue</b>                                | <b>(4 761 340 651)</b>                      | <b>(4 871 757 646)</b>                       | <b>(5 563 809 030)</b>                   | <b>(6 370 991 417)</b>                        | <b>(6 669 449 701)</b>                   |
| <b>Total Operating Expenditure</b>                  | <b>4 749 700 442</b>                        | <b>4 890 429 217</b>                         | <b>5 557 548 363</b>                     | <b>6 191 395 160</b>                          | <b>6 439 758 693</b>                     |
| <b>(Surplus) / Deficit</b>                          | <b>(11 640 209)</b>                         | <b>18 671 571</b>                            | <b>(6 260 667)</b>                       | <b>(179 596 257)</b>                          | <b>(229 691 007)</b>                     |
| <b>Total Capital Expenditure</b>                    | <b>942 007 423</b>                          | <b>1 168 745 004</b>                         | <b>1 275 354 230</b>                     | <b>1 234 264 151</b>                          | <b>1 521 069 115</b>                     |
| <b>Total Budget</b>                                 | <b>5 691 707 865</b>                        | <b>6 059 174 221</b>                         | <b>6 832 902 593</b>                     | <b>7 425 659 311</b>                          | <b>7 960 827 808</b>                     |

**9. OTHER PARTIES CONSULTED**

- 9.1 Council
- 9.2 Mayoral Committee
- 9.3 IDP/PMS Portfolio Head
- 9.4 BCMM Top Management
- 9.5 BCMM Directorates
- 9.5 External Stakeholders

**10. RECOMMENDATIONS**

It is recommended that:

10.1 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:

1.1. The BCMM 2015/16 draft IDP and MTREF budget as well as the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1. Budgeted Financial Performance for the 2015/16 MTREF period (revenue by source and expenditure by type) as contained in Annexure B;

1.1.2. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Annexure B.

1.2. The financial position, cash flow budget in the following tables:

1.2.1. Budgeted Financial Position as contained in Annexure B;

1.2.2. Budgeted Cash Flows as contained in Annexure B;

2. 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 effective from 1 July 2015:
  - 2.1. the tariffs for property rates – as set out in Annexure E
  - 2.2. the tariffs for electricity – as set out in Annexure E
  - 2.3. the tariffs for the supply of water – as set out in Annexure E
  - 2.4. the tariffs for sanitation services – as set out in Annexure E
  - 2.5. the tariffs for solid waste services – as set out in Annexure E
  - 2.6. other miscellaneous tariffs as set out in Annexure E
  
3. The Buffalo City Metropolitan Municipality Council, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2015 the tariffs for other services as set out in Annexure E.
  
4. To give proper effect to the municipality's annual budget, the Council of Buffalo City Metropolitan Municipality approves:
  - 4.1. That an indigent subsidy be granted to registered indigents in terms of Council's Indigent Policy.
  - 4.2. That an indigent consumer be given a maximum subsidy on his account of R628.26 per month, which includes a maximum of 50kwh for electricity and 6kl for water.
  - 4.3. That free basic electricity be granted for a registered indigent consumer of 50KWh per month.
  - 4.4. That free basic water be granted to a registered indigent of 6kl per month.
  
5. The Buffalo City Metropolitan Municipality Council, approves and adopts the revised Draft budgeted related policies as set out in Annexure F:
  - 5.1. Investment and Cash Management Policy
  - 5.2. Long-Term Borrowings Policy and Tariff Policy
  - 5.3. That Council note that relevant By-Laws applicable all budget related policies have been approved by Council and promulgated which remain enforced.
  - 5.4. That Council note the other budget-related policies adopted in the previous financial years, which have been reviewed by management and it was determined that

no amendments were required. These policies are listed in Annexure B, and are available on BCMM's website at [www.buffalocity.gov.za](http://www.buffalocity.gov.za).

6. 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 are approved.
7. That in terms of Section 24(2)(c)(iv) of the Municipal Finance Management Act, 56 of 2003, the amendments to the Integrated Development Plan as set out in Annexure A be approved.
8. That no new capital expenditure be undertaken until a commitment for funding has been received by Buffalo City Metropolitan Municipality and such project has been approved by Council.
9. Council notes that the 2015/16 MTREF Budget tabled for adoption is structured in terms of the then Buffalo City Municipality votes and functions.
10. MFMA Circular 74 and 75, Municipal Budget Circular for the 2015/16 MTREF attached as Annexure G to be noted by Council.

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**Z.V. NCITHA**  
**EXECUTIVE MAYOR**

**ANNEXURES:**

A: 2015/16 Buffalo City Metropolitan Municipality Integrated Development Plan Review [Section D]

B: 2015/2016 Medium Term Revenue and Expenditure Framework (MTREF) Budget

C: 2015/16 MTREF Capital Projects

D: 2015/16 MTREF Operating Projects

E: 2015/16 Tariffs

F: Finance Policies

G: MFMA Circular 74 and 75