MEDIUM-TERM BUDGET POLICY STATEMENT

Item A-F (32-2016) **CM 28/04/2016**	**REVIEWD INTEGRATED DEVELOPMENT PLAN (IDP) AND MEDIUM TERM REVENUE AND EXPENDITURE FRAME WORK (MTREF): 2016/2017 TO 2018/2019**

Resolved:

5. **That** to guide the implementation of the municipality's annual budget, the Council of the EMM **APPROVES** the policies as set out in the following Annexures of this document:

Annexure D1 Medium-term Budget Policy Statement (reviewed)
Annexure D2 Pricing Policy Statement (reviewed)
Annexure D3 Property Rates Policy (remains unchanged)
Annexure D4 Provision of Free Basic Electricity Policy (remains unchanged)
Annexure D5 Waste Management Services Tariff Policy (reviewed)
Annexure D6 Consumer Deposit Policy (reviewed)
Annexure D7 Indigent Policy (remains unchanged)
Annexure D8 Credit Control & Debt Collection Policy (reviewed)
Annexure D9 Provision for Doubtful Debtors and Debtors Write Off (reviewed)
Annexure D10 Budget Implementation and Monitoring Policy (remains unchanged)
Annexure D11 Municipal Entity Financial Support Policy (reviewed)
Annexure D12 Accounting Policy (reviewed)
Annexure D13 Funding and Reserve Policy (remains unchanged)
Annexure D14 Borrowing Policy (remains unchanged)
Annexure D15 Cash Management Policy (remains unchanged)
Annexure D16 Policy on electricity metering for residential and small business customers in the EMM (reviewed)
Annexure D17 Policy for the Vending of Pre-paid Electricity (reviewed)
Annexure D18 Policy for Correction of Meter Reading and Billing Data (remains unchanged)
Annexure D19 Electricity Tariff policy (reviewed)
Annexure D20 Virement Policy (remains unchanged)
Annexure D21 Consumer Agreement Policy (reviewed)
Annexure D22 Renewable Energy Revenue Loss Mitigation Policy (new)

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MEDIUM TERM BUDGET POLICY STATEMENT

WHAT IS THE MEDIUM TERM BUDGET POLICY STATEMENT?

The Medium Term Budget Policy Statement (MTBPS) is a policy document that communicates to councillors, residents and any other role player in EMM the economic context in which the forthcoming budget will be presented, along with fiscal policy objectives and spending priorities over the three-year expenditure period.

The policy statement is an important part of EMM's open and accountable budget process. It empowers Council to discuss and shape local government's approach to the budget.

The statement must include:

- A revised fiscal framework for the current financial year and the proposed fiscal framework for the next three years.
- An explanation of the macroeconomic and fiscal policy position, and macroeconomic projections and assumptions underpinning the fiscal framework.
- The spending priorities of government for the next three years.
- The proposed division of revenue between national, provincial and local government for the next three years.
- Any substantial proposed adjustments to conditional grant allocations to provinces and local governments.
- A review of spending by each national department and each provincial government between 1 April and 30 September of the current financial year.

The policy form part of the budget related policies which are tabled to Council for consideration of final adoption of Council in April/May 2016.

1. PLANNING FRAMEWORK

The Constitution requires local government to relate its management, budgeting and planning functions to its service delivery objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. This includes the compilation of the Medium Term Revenue and Expenditure Framework.

The City's GDS and IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

With the compilation of the 2016/17 Medium-Term Revenue and Expenditure Framework (MTREF), each department/function had to review its business planning processes taking into their individual departmental strategies. Business planning links back to priority needs and master planning, and essentially inform the detail operating budget appropriations and three-year capital programme.

The main objectives of the City include:

- Provision of quality basic services and infrastructure;
- Economic growth and development that leads to sustainable job creation;
- Fighting poverty and building clean, healthy, safe and sustainable communities;
- Provision of integrated social services for empowered and sustainable communities;
- Fostering participatory democracy and Batho Pele principles through a caring, accessible and accountable service;
- Ensuring financial sustainability; and
- Optimal institutional transformation to ensure capacity to achieve set objectives.

In order to ensure integrated and focused service delivery between all spheres of government it is important for the City to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

The 2016/17 MTREF will, in particular, be based on the following strategic documents:

- EMM GDS 2055;
- Ekurhuleni Service Delivery Statement;
- Addressing the National Outcomes set by Parliament; and
- National Treasury guidance.

2. EKURHULENI SERVICE DELIVERY STATEMENT

- Reduce unemployment, poverty and inequality and produce decent jobs and sustainable livelihoods.
- Adequate education and training to enable people to participate productively in the economy and society.
- Health care in a system that is accessible to more South Africans.
- Rural communities benefiting from investments in basic services (water, electricity, sanitation and roads), and
- Safer communities as serious and priority crimes are reduced, corruption defeated, and the criminal justice system is radically changed.

3. EMM GDS 2055

EMM Gauteng City Regional Integration

- Regional accessible public transport network development.
- Regional broadband infrastructure networks development.
- Regionally integrated Ekurhuleni Aerotropolis redevelopment.
- Integrated regional air, rail and road logistics network development.

Sustainable Settlements and Infrastructure

- Invest in off grid long term infrastructure.

- Investment in on grid long term infrastructure.
- Develop long-term formal settlements plan.
- Develop long term informal settlements plan.

Connected working and living spaces

- Establish integrated urban core.
- Break through and re-connecting townships.
- Creating new civic identity and connections.
- Revalorise historic sites and redundant land assets.

Strengthened Industrial Competiveness

- Establish industrial development pricing mechanisms.
- Institutionalise industry clusters.
- Integrate industrial policy and government supply chain.

Industrial Systems and Infrastructure

- Establish a centre of excellence for sustainable industrial production.
- Establish an incentive framework for sustainable production.
- Establish an industrial skills hub.

New Value Chains Development

- Establish business development infrastructure for SMMEs.
- Integrated SMME development and urban development.
- Facilitate the development of new value chains in the green industry.

Market and Product Development

- Integrate industrial and urban development policy.
- Facilitate sustainable product development.
- Facilitate development and access to new markets.
- Greenhouse gas emissions policy development and implementation.

Sustainable Agriculture

- Integrated environmental and urban development policy.
- Integrated greening and food production.
- Conversion of wasted urban spaces for urban agriculture.

Sustainable Natural Resources Use

- Deployment of renewable energy regimes.
- Promote re-use of waste.
- Incentivise water harvesting and re-use.
- Increase usage of sustainable storm water.

Biodiversity and Ecosystems Management

- Conserving existing ecosystem and biodiversity.
- Acid mine water rehabilitation.
- Rehabilitate damage ecosystems and biodiversity.
- Waste lands rehabilitation.

Improved Environmental Governance

- Increase air pollution control measures.
- Develop, implement and enforce by-laws of carbon reduction.
- Incentives carbon efficient business and community measures.

Social care supply chains management

- Integrate social care policy and family development.
- Implement life cycle management.
- Integrate administrative and social structures.
- Social care chains development.

Capabilities Development

- Increase investment in economic and social skills.
- Promote multiple livelihood approaches.
- Increase support to primary and secondary education.
- Integrated family and early childhood development.

Responsive and Active Citizenry

- Integrate service delivery and citizen responsibility.
- Digitise municipal interactions with communities.
- Strengthen existing community structures.

Building a Capable Local City State

- Develop integrated urban development programme.
- Modernise and capacitate the institution.
- Effective and responsive area based management.

Strengthen Developmental Governance

- Establish partnerships for service delivery.
- Establish long term partnership for growth.
- Strengthen inter-governmental partnerships accords.
- Establish Gauteng City Region based development partnership.

Establish Long Term Fiscal Strength

- Galvanise state and private sector investment.
- Strengthen tax base and income streams.
- Balanced subsidy burdens and financial viability.

Strategic Acquisition and Management of Assets and Operations

- Strategic acquisition and management of HR assets.
- Strategic acquisition and management of key assets.
- Strategy aligned human resource management.
- Strategy aligned operations management.

4. NATIONAL TREASURY GUIDELINES

National Treasury guidelines are issued during the latter part of the year. As general principle, guidance provided in the National and Treasury budget circulars are adhered to.

Key focus areas for the 2016/17 budget process

The Medium Term Budget Policy Statement 2015

The Medium Term Budget Policy Statement 2015 highlights that the global economic outlook has been weaker than anticipated.

The South African economy is expected to grow by 1.5 per cent in 2015, 1.7 per cent in 2016 and 2.6 per cent in 2017. Domestic inflation is lower, largely as a result of declining oil prices. However, the depreciation of the Rand and the current drought gripping many parts of the country, however, pose some risk to the inflation outlook. Furthermore, the electricity supply shortages pose the largest domestic risk to growth.

Persistent high unemployment remains one of South Africa's most pressing challenges. Difficult trading conditions and low business confidence levels have limited hiring during 2015. The formal sector lost 76 000 jobs, with sharp declines in manufacturing and construction, as well as community, social and personal services.

These economic challenges will continue to pressurise municipal revenue generation and collection hence a conservative approach is advised for projecting revenue. **These circumstances make it essential for municipalities to reprioritise expenditure and implement stringent cost-containment measures**.

The following comment made by the erstwhile Minister of Finance in his Medium Term Budget Policy Statement in October 2015 is very relevant to Ekurhuleni's budget process:
"*Without stronger economic growth, the revenue trend will remain muted. If revenue does not grow, expenditure increases cannot be sustained.*"

Local government conditional grants and additional allocations

The purpose of the conditional grants is to deliver on national government priorities relating to service delivery. Additional funding is allocated in the form of unconditional allocations such as the equitable share and the sharing of the general fuel levy. The main purpose of the equitable share is to fund the provision of free basic services to the poor.

The 2015 Medium Term Budget Policy Statement indicates that over the 2016 MTEF period, transfers to local government total R350.6 billion, with 59.5 per cent transferred as unconditional allocations and the rest as conditional grants. The division of available funds to local government have increased to R106.9 billion or 9.2 per cent of the national revenue for 2016/17. These funds are expected to increase to R128.4 billion by 2018/19.

It is imperative that municipalities reflect the conditional grant allocations as per the 2016 Division of Revenue Bill once available, and plan effectively to utilise these allocations appropriately so as to avoid requesting roll-overs.

Changes to local government allocations

- The local *government equitable share* is being increased by R6 billion over the MTEF to provide some relief for the impact of increasing costs of bulk water and electricity and rapid growth in households.
- The *municipal demarcation transition grant allocation* is being increased to subsidise the additional administrative costs in respect of the re-demarcations. This includes increased allocations for demarcations approved in 2013 and allocations for demarcations approved in 2015.
- The *municipal systems improvement grant* will become an indirect grant so that it can support more strategic capacity building interventions at municipalities. The initiatives funded from this grant will be aligned to the Back-to-Basics strategy and the Department of Cooperative Governance and the National Treasury will jointly decide on the details of how this programme will work.
- The *municipal human settlements capacity grant* was introduced in 2014/15 to facilitate the development of capacity to manage human settlements programmes in anticipation of the assignment of the housing function to cities. However, there is no longer a need for this standalone grant as the assignment process was subsequently suspended indefinitely. The grant will be terminated in 2016/17. Cities will be allowed to use 3 per cent of the urban settlements development grant to improve their capacity with regard to the built-environment functions.
- The *indirect bucket eradication programme grant* was due to end in 2015/16 but will be extended to 2016/17 to complete the eradication of bucket sanitation systems in formal residential areas. Sanitation upgrading and bucket system eradication in informal areas will continue to be funded through the urban settlements development grant, human settlements development grant and municipal infrastructure grant.

Reforms to local government fiscal framework

The second phase of the collaborative review of the local government infrastructure grant system led by the National Treasury has been concluded. Several changes will be introduced over the 2016 MTEF period to streamline these grants and improve the value and sustainability of associated investments. Proposed reforms to be introduced from 2016 include:

- Enabling the use of funds for the renewal, refurbishment and rehabilitation of existing infrastructure, alongside asset management systems to plan and prioritise maintenance;
- Reforming the public transport network grant to support financially sustainable transit networks in large cities by using a formula to allocate the grant, thereby giving cities a clear financial envelope within which to plan;
- Consolidating urban grants over the MTEF to tackle challenges in the built environment;
- Rationalising grants to reduce complexity and administrative burdens. Several water and sanitation grants are being merged;
    - The municipal water infrastructure grant, the water services operating subsidy grant and the rural households infrastructure grant will be merged into a single grant that will be targeted at reticulation and on-site-solutions in low capacity municipalities.

- Introducing greater differentiation between urban and rural areas. Secondary cities in particular will see changes to their planning requirements.

National Treasury has initiated a process of reviewing development charges. A national draft policy framework on development charges has been developed and processes are underway to consult on the policy. The consultations will convene early next year. More detailed information on these consultation processes will be provided in due course.

5. FINANCIAL STABILITY IN THE CURRENT FISCAL FRAMEWORK

5.1 NATIONAL OUTLOOK

Since the 2015 National Budget the global economy has deteriorated and domestic GDP growth has again been revised down. Slower, more volatile growth has become an enduring feature of the world economy, raising concerns of a protracted period of weakness in global trade, investment and commodity prices. During 2015 the global and domestic economic outlooks have weakened

All developing countries face this difficult environment with their own unique circumstances. South Africa's priorities are to reduce high levels of unemployment, poverty and inequality. Over the medium term, government will continue to limit the country's external vulnerabilities and address domestic structural constraints to faster growth.

In today's turbulent global environment, prudent macro-economic policies provide an important anchor for stability. Sustainable fiscal policy protects the social gains made since 1994. And a resilient, flexible financial system helps the economy adjust to rapid change. The National Development Plan (NDP) lays the basis for much-needed economic and policy reforms to establish a platform for faster growth. Its objectives are embedded in government's medium-term strategic framework.

Government is maintaining the fiscal course announced last year. To ensure sustainable public finances that are not overwhelmed by debt and interest payments, spending limits will remain in place. Within these limits, funds will be shifted to accommodate the three-year public-sector wage agreement reached in 2015. Scarce resources will also be targeted to meet pressing social needs.

The MTBPS proposes a new long-term fiscal guideline to align the spending ceiling explicitly with the long-term path of economic growth. The guideline builds on government's countercyclical approach to sustain development over the long term. Given the weak economic outlook, proposals for additional taxes – which are essential to fund government's ambitious policy agenda – will be approached with caution. Over the medium term, government will continue to explore reforms that promote an efficient and progressive tax system, taking into account the recommendations of the Davis Tax Committee. Initiatives already under way include measures to combat base erosion, profit shifting and the misuse of transfer pricing.

Sustaining Progress in a Low-Growth World

Revenue growth will continue to outpace spending growth, narrowing the budget deficit from 3.8 per cent in the current year to 3.0 per cent in the outer year of the medium-term expenditure framework (MTEF). Over this period, government will restore the primary balance – the gap between revenue and non-interest spending – ensuring a sustainable fiscal path.

Sustaining social progress South Africa remains a society marked by high levels of long-term unemployment, widespread poverty and extreme inequality. Active citizens continue to challenge these conditions, which can be overcome by speeding up national development. Creating work and improving education to eliminate poverty and build a more equitable society are at the heart of the long-term reforms set out in the NDP.

Yet despite continuing economic and social hardship, the lives of millions of South Africans have improved markedly over the past decade. Access to social infrastructure – formal housing, potable water, sanitation and electricity – has increased substantially. Social grants continue to make a meaningful contribution to reducing extreme poverty. With 15 per cent of the budget going to public education, there is universal access to basic education. Enrolments in early childhood development and post-school education continue to expand. Life expectancy has risen from 52 years in 2006 to 61 years in 2014, as public health interventions limit the consequences of the HIV/AIDS pandemic. Child mortality has been halved over the past decade, and there has been a substantial reduction in cases of severe malnutrition among children.

Over next three years, government will restore primary balance, ensuring a sustainable fiscal path

South Africa has reduced poverty and expanded access to water, housing, sanitation and electricity. These achievements were made possible by government's sustainable approach to allocating public funds. Good fiscal planning supports government's ability to act on its constitutional mandate to realise fundamental social and economic rights in a progressive and affordable manner. Over the past decade, public spending has doubled in real terms, funding a large expansion of social and capital budgets.

The proposed medium-term fiscal framework will enable government to continue supporting social and economic development in a weak economic environment. Expenditure growth will outpace inflation by about 1.6 per cent. The framework builds on the commitments made last year to stabilise debt levels, close the primary balance and improve the effectiveness of spending.

Quantity, quality and composition of public spending

Spending over the MTEF period totals R4.7 trillion. This represents a large commitment of resources to support social progress and economic change. Yet the quantity of public expenditure is frequently let down by the quality of spending. Government is intensifying its efforts to improve value received for money spent. All South Africans can support this goal by highlighting waste, inefficiency and corruption wherever it arises.

The National Treasury, working with the Department of Planning, Monitoring and Evaluation in the Presidency, will make greater use of expenditure reviews and evaluations in the allocation of resources. Procurement reforms have already begun to make tender awards more transparent and less susceptible to corruption, and will achieve savings.

South Africa's public servants make an important contribution to the country's development goals, and government is committed to fair and sustainable levels of public-sector remuneration. The 2015 public-sector wage agreement resulted in a 10.1 per cent increase in the wages and benefits of government employees this year – well beyond the inflation-related adjustment that had been budgeted for. Without commensurate improvements in the quality of public services, such increases are not sustainable.

The wage agreement has consequences for the composition of spending, as salary requirements put pressure on capital and other critical inputs. Government recognises that there is a need to radically change the manner in which future negotiations are conducted, and is considering proposals to reform remuneration in the public sector.

Investing for social and economic change

There is little room for new spending priorities over the next three years. Nevertheless, government proposes to allocate additional resources to core areas of need, including projects that address urgent social priorities:

- Provision has been made to increase social grants to accommodate higher-than-expected growth in grant beneficiary numbers.
- The local equitable share has been bolstered to support the rising cost of free basic services.
- Resources have been added to social development budgets for substance-abuse centers and early childhood development.

Funds are set aside to improve the quality of public-order policing.

Financial support for health information systems will alleviate problems in the management of medicine stocks, and help lay a foundation for national health insurance.

Additional resources have been provided to support treatment of HIV/AIDS and tuberculosis.

Agencies that support science and innovation have received additional resources to bolster research and development.

Reforms to capital budgeting framework

In recent years, better coordination, the introduction of targeted incentives and efforts to build municipal financial capacity have improved capital project planning and execution. Local government spent 91 per cent of allocated infrastructure budgets in 2014/15, up from 86 per cent in 2013/14 and 77 per cent in 2012/13. To build on this progress, and improve value for money in infrastructure investment, government will introduce a medium-term capital budgeting framework. It will include:

- New appraisal tools for capital projects
- Strengthened procurement regulations
- Measures to lock in resources for operations and maintenance
- More transparency on the full life-cycle costs of large capital projects.

Restoring the momentum of economic growth

Given the global and domestic outlook, the fiscal resources required to sustain development will become increasingly strained unless government and the private sector work together to restore the momentum of economic growth. The resources available to the fiscus – which depends directly on revenues generated by the economy – are expanding too slowly to meet the country’s development requirements. High levels of poverty and inequality persist despite the redistributive character of the budget.

Economic growth is expected to be only 1.5 per cent in 2015 – the same as in 2014 – and to remain subdued, rising marginally to 1.7 per cent in 2016. The slowdown in economic growth is taking a toll on ordinary South Africans. Unemployment remains persistently high, fluctuating at about 25 per cent, or at about 33 per cent using the expanded definition.

Faster growth is both a key objective of the NDP and a necessary condition to raise the resources needed to support social and economic transformation. To overcome the economic inertia, it currently faces, South Africa needs to reconstruct social consensus behind a path of accelerated economic growth. This is the opportunity presented by the NDP.

Medium-term actions to support the economy

Government is acting to alleviate the most binding constraint to growth – inadequate electricity supply – and has set out a series of urgent economic reforms to build a more competitive economy. These include:

- Continuing to invest in economic infrastructure, especially in the transport, logistics and energy sectors.
- Reforming the governance of state-owned entities, rationalising state holdings and encouraging private-sector participation.
- Effecting labour-market reforms that can help avoid protracted strikes.
- Expanding the independent power producer programme.
- Encouraging affordable, reliable and accessible broadband access.
- Promoting black ownership of productive industrial assets.
- Finalising amendments to the Mineral and Petroleum Resources Development Act (2002), and continuing dialogue with the industry.
- Reviewing business incentive programmes in all economic sectors to ensure that resources support labour-intensive, job-creating outcomes.

5.2 Local Economy

The MTBPS projection is that the South African economy will grow at about 1.5 per cent this year, rising marginally to 1.7 per cent next year. This is considerably lower than at the time of the February budget, when we envisaged 2 per cent this year and 2.4 per cent in 2016. The IMF also projects a decline in growth next year.

- Electricity supply constraints, falling commodity prices and lower confidence levels have resulted in our growth forecasts being revised lower.
- Investment growth will be just 1.2 per cent this year. Limited employment growth and household income constraints are holding back consumption.
- Exports have grown strongly this year, a welcome recovery after setbacks in mining and manufacturing last year. Although exports have grown faster than imports since 2012, the current account deficit on the balance of payments is still a sizeable 4.1 per cent of GDP this year.
- Consumer price inflation has declined from 6.1 per cent in 2014 to a projected 4.8 per cent this year. Higher food prices and the weakening of the rand are expected to contribute to a rebound in inflation to around 6 per cent a year over the period ahead.
- Financial market volatility is high and capital inflows into emerging markets have slowed. This has raised borrowing rates for emerging markets globally. In addressing our barriers to growth.

Honourable Speaker, there is progress on several fronts. Though there is still a long way to go in building energy security, we are now benefiting from Eskom's enhanced maintenance efforts and our expanding renewable energy programme. The first unit of Medupi also came online, adding 800 MW of capacity to the grid. Minister Joemat-Pettersson has invited proposals for independent coal and gas power projects. The National Treasury is working with the Department of Energy to assess proposals and financing options for building additional nuclear power capacity. Rail capacity continues to expand, alongside road, water and telecommunications networks. Increased investment in broadband was one of the main reasons for South Africa's improved ranking in the Global Competitiveness Report to 49th place out of 140 countries. Amicable settlements have been reached this year in the coal and private security industries, and for the majority of gold workers. The CCMA has become increasingly proactive in settling labour disputes thanks to changes in the Labour Relations Act. NEDLAC is working on practical ways to avoid protracted and disruptive strikes, while also considering proposals for a national minimum wage. Our Employment Tax Incentive (ETI) for young work-seekers continues to attract broad participation. Total claims for the incentive have amounted to R3.9 billion since the start of the programme, up to the end of July 2015. It has been claimed by over 36 000 employers, for over 250 000 workers. There has been active debate around its impact. The ETI will be carefully assessed in due course, recognising that all programmes and incentives should be evidence-based and continuously evaluated. This will complement research by the Davis Committee on the role of incentives in the corporate tax system. Honourable Members, bold action is needed. Restoring the momentum of growth requires policy certainty, confidence and trust, shared between government, business, workers and households.

5.3 INFLATION OUTLOOK

The inflation outlook (CPI) for the MTREF is based on the guidance from government. The following table reflects the current outlook, the guidance from government and the estimated inflation outlook (CPI) utilised with the compilation of the 2016/17 MTREF. In line with National Treasury Municipal Budget Circular No 78 for the 2016/17 MTREF dated 8 December 2015 the CPI outlook is as follows:

Fiscal year	2014/15	2015/16	2016/17	2017	2018
	Actual	Estimate	Forecast		
CPI Inflation	5.6%	5.5%	6.0%	5.8%	5.8%

5.4 EMM RESPONSE TO ECONOMIC OUTLOOK

EMM as the manufacturing hub of South Africa will be affected by the current economic slowdown. EMM has to follow in the footsteps of National Treasury of cost containment and also aggressively embark on improving revenues streams through Siyakhokha campaign and revenue enhancement strategy. EMM also have to create an enabling business environment to revive business opportunities within the Metro. In terms of borrowing, EMM still have enough capacity to accommodate new debt without breaching lenders covenants. Since business confidence is low, borrowing maybe expensive. Internally generated cash is of most importance.

Municipal revenues and cash flows are expected to remain under pressure and, as such, the EMM must adopt a conservative approach when projecting expected revenues and cash receipts. EMM should also pay particular attention to managing all revenue and cash streams effectively and carefully evaluate all spending decisions.

The actual growth rate, as announced by the Minister of Finance in the 2015 Medium Term Budget Policy Statement, is expected as 1.7%, despite the recent assessment by IMF for an expected growth rate of 0.7%.

Despite the positive growth in Water and Sanitation income, Electricity, which is demand-driven, appears to show negative growth from the previous financial year. Population growth in EMM, as reflected in the 2011 statistics, does not necessarily imply they are economically active, which puts a huge demand on existing income sources.

Based on the various factors the following provision is made for the growth of the different services:

PROPOSED: GROWTH RATE PER SERVICE	2016/17	2017/18	2018/19
Assessment Rates Income	1. 00%	1. 50%	2.0%
Electricity Sales	0.00%	0.00%	0.00%
Water Sales	1. 00%	1. 50%	2.0%
Sanitation Sales	1. 00%	1. 50%	2.0%
Refuse Removal / Solid Waste Sales	1. 00%	1. 50%	2.0%

6. KEY ASSUMPTIONS FOR THE 2016/17 MTREF

6.1 Socio Economic Assumptions

- Despite various campaigns launched to increase the number of EMM registered indigents the number remains in the region of 36 000. This is also far below par if compared to neighbouring metros where is ranges between 100 000 and 130 000 indigents.

  This situation has a direct impact on the current collection levels and the increase in outstanding debts, and subsequently wasteful credit control costs. One of the biggest reasons for the low number of residents applying for indigent-status is the relative large number of residents living in Eskom electricity supply areas.

  EMM will continue with the maintenance of a formal indigents register. However, the Indigent Support Policy was amended to include the deemed indigents. All land owners of properties below R150 000, as reflected in Council's general valuation roll, will be deemed as indigent and benefit on the social grants available to indigents. The policy on indigents has been amended to accommodate registered as well as deemed indigents. The number of indigents will increase to approximately 115 000.

  Social support will be provided to indigents in the form of additional rebates and free basic services.
- It is further assumed that consumption management will be applied to ALL indigent households and no excess consumption will be written off.
- EMM will continue to supply 6Kl water as a free basic service to ALL residential properties.
- The first 6Kl charged for sanitation will also be supplied as a free basic service to ALL residential properties.
- Registered and deemed indigents will receive an additional 3Kl of water and sanitation as a free basic service.
- The current tariff schedule for assessment rates makes provision for a residential rebate of R150 000 for all residential properties, which is also being regarded as a free basic service and it will remain in the 2016/17 MTREF.

- The limited resources for the supply of electricity nationally have an impact on economic development in Ekurhuleni. As part of the national campaign to reduce energy demand EMM will continue to supply 100kWh electricity units. These will benefit from the targeted approach on making free basic services available to consumers who manage their consumption to be within prescribed limits. This will benefit indigents both by reducing the cost of their accounts, but also by providing a greener environment which would ultimately lead to increased investment and additional jobs (additional electricity capacity will attract businesses that require additional electricity capacity).
- The job creation projects will yield jobs during the MTREF period but as a result of in-migration of additional poor people seeking employment in the City, the number of poor households will remain stable.
- The medium term goal of Council to ensure financial stability is to increase collection rates closer to 95% of the billed income. The low collection level of residents in Eskom supply areas remains a huge burden in achieving the desired collection levels.

6.2 GRANTS FRAMEWORK ASSUMPTIONS

- Grants included in the MTREF as per the Division of Revenue Bill, 2015 - Bill published in *Government Gazette* No 38458, dated 13 February 2015.
- National Treasury will continue to use the Stats SA data to determine poverty in municipalities and use this data as the basis for the calculation of the Equitable Share Grant, and that the increased number of indigents registered in the EMM will not have any impact on the grant.
- The provincial grants are based on *Provincial Gazette Extraordinary* published on 13 March 2015.
- The EMM will continue to receive a portion of the Fuel Levy.
- Ekurhuleni will benefit from Public Transport Infrastructure (PTIS) grants for the amount of R970 million over the MTREF period as per the Integrated Rapid Public Transport Network (IRPTN) business plan, and funding request submitted to National Treasury. An amount of R750.4 million over the MTREF has also been provided from the USDG.

6.3 TARIFF INCREASE ASSUMPTIONS

- Projected revenue for the MTREF period is based on a 12% electricity bulk purchases **and** a 10% sales price increase.
- Projected revenue for the MTREF period is based on bulk water purchases of 9% and similar sales price increase of 9%.
- ERWAT tariff increases are indicatively set at 9.5% based on their capital and operating requirements. A sanitation charges increase of 9.5% is proposed.
- An assessment rate tariff increase of 7.5% is proposed. This increase remains in line with the previous year's MTREF estimates.
- Solid Waste will increase with 8% for residential properties, businesses and industries.
- All other services are assumed to increase by the CPI rate.

6.4 OTHER KEY ASSUMPTIONS AND COST DRIVERS

- ***Standard Chart of Accounts implementation***

EMM will provide a budget in terms of SCOA guidelines taking into consideration the current budget process. Shortcomings will be identified during this process and addressed where possible. This will be done in conjunction with BCX in terms of the system development to accommodate SCOA. For contingency purposes the budget will also be prepared in the traditional format used by EMM prior to SCOA guidelines.

BCX will develop their system in terms of the guidelines published by National Treasury, ensuring that the development complies with the guidelines as set up by the National Treasury.

The Parties will consult on all changes to the programs in accordance with SCOA compliance. The Parties agree to a process of consultation to determine needs and priorities. EMM will accept final responsibility for verification of the changes implemented by BCX to comply with SCOA legislation.

EMM will ensure that the internal SCOA steering committee is established and that the following Strategic Workshops has have been created, are operational and are being chaired by members of the executive committee:

- Utility Services
- Accounts Receivable
- Direct Revenue
- Expenditure
- Asset Register
- Inventory
- Support Services
- Functions and Standard Classifications

Strategic Workgroups will assist Departments to align their existing budgets to the new SCOA structure identifying Segment Items that has to be combined as well as Segment items that has to be split and or provision that has to be made for new items. This process will determine if immediate remedial action can be taken and if this would need to be documented and resolved in the next budget process;
The strategic Workgroups will assist Departments to align their processes, procedures and documents in accordance with the new SCOA requirements;

The rollout of the SCOA structure the awareness campaign and the full change management process will be the responsibility of EMM. It remains the responsibility of EMM to ensure that their current charter of accounts is mapped and aligned to the new SCOA structure.

7. REVENUE FRAMEWORK

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy.
- Growth in the City and continued economic development.
- Efficient revenue management, which aims to ensure a 93% annual collection rate for property rates and other key service charges. As a result of the revised indigent management methodology, there may be a movement between the provision for bad debt and the grants: indigent's line items but net revenue collected will remain stable.
- Revenue targets to be set for each department and, in particular, monthly revenue targets for:

- Assessment rates;
- Electricity;
- Water and Sanitation (based on water loss eradication programme);
- Refuse Removal;
- Real Estate Commercial Leases;
- SRAC Leases;
- Housing Rentals;
- Building Control Revenue;
- Outdoor Advertising; and
- Revenue from Data services provided.

- Electricity tariff increases as approved by the National Energy Regulator of South Africa (NERSA) – this does not exclude the application of tariffs higher than NERSA guidelines.
- Achievement of full cost recovery of specific user charges especially in relation to trading services – this could lead to higher than inflation tariff increases.
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service.
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA).
- Increase ability to extend new services and recover costs.
- The municipality's Indigent Policy and rendering of free basic services, which may include the phasing out of certain components of the free basic services over the MTREF period.
- Tariff policies of the City.

In summary, the following sources of income/funding (cash inflows) will be available to the Metro during the next financial year:

- Assessment Rates and User Charges for Services: R26.1 billion.
- Operating Grants including Fuel levy – R4.7 billion
- All other Revenue excluding the above listed income – R2.5 billion

A total of R30.0 billion is thus estimated as revenue/funding for the 2016/2017 financial year.

Capital grants amounting to R2.2 billion has been excluded in the above amount.

8. EXPENDITURE FRAMEWORK

The City's expenditure framework for the 2016/17 budget and MTREF is informed by the following:

- Institutional Review and Human Resources Strategy.
- The asset renewal and the repairs and maintenance requirements as identified in the asset condition assessment.
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit, of which there is none.
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA.

- Intensified cost reduction strategy to be implemented.

Expenditure is categorised as being either committed (top-slice) or discretionary based on the level of discretion that the municipality has in amending the cost in the medium term. The greatest portion of the operating budget is committed expenditure which is highly predictable based on contractual commitments. Committed costs can generally only be avoided/amended after the contractual period has expired.

Discretionary budget allocations will only be made based on Results Based Project submissions made by departments.

The following line items will be considered for budget allocations as the "Top Slice" and increases will be based on the appropriate index (be it CPI or other appropriate economic index):

- Salaries;
- Councillors' allowances;
- Provision for bad debt (based on a 93% collection rate);
- Depreciation;
- Interest expense;
- Committed contracts as per register;
- Bulk purchases (Eskom, Rand Water, ERWAT); and
- Accounting provisions.

8.1 Human Resource Cost

Insofar as Human Resources costs are concerned, the current profile of the salary bill is as follows:

Employee Category	No. of Positions	% Of Positions	Salary Budget	% Of Budget
Municipal Manager and Senior Managers	235	1%	311,788,536	6%
Other managers	566	3%	430,599,935	8%
Professionals	1127	6%	554,886,687	10%
Technicians	1856	10%	806,332,982	14%
Clerks	3744	20%	1,155,714,114	21%
Elementary Occupations	4790	26%	737,766,786	13%
Plant and Machine Operators and Assemblers	1864	10%	342,631,550	6%
Service and Sales Workers	4452	24%	1,208,403,323	22%

Skilled agricultural and Fishery Workers	96	1%	27,967,884	1%
Grand Total	**18730**	**100%**	**5,576,091,795**	**100%**

- **Municipal Manager and Senior Managers**: (City Manager, Heads of Departments, Divisional Heads).
- **Senior Management:** (Executive Managers, Senior Managers, Senior Professional Engineers, Regional Managers).
- **Professionals:** (Managers, Legal Advisors, Environmental Health Practitioners, Chief Accountants/ Engineers).
- **Technicians**: (Artisans, Engineers, Water Inspectors, ICT Technicians).
- **Clerks:** (Administrative Assistants, Clerks, Office attendants, Typists).
- **Elementary Occupation**: (Cleaners, General Assistants, Fuel Attendant, Handyman).
- **Plant and Machine Operators**: (Driver/Messenger, Small Plant Operators, Tractor Drivers, Part-time Bus Drivers)
- **Service and Sales Workers**: (Fire Fighters, Nurses, Building Inspectors, Call Centre Agents)
- **Skilled agricultural and Fishery Workers**: (Horticulturist, Park operators)

During this MTREF, focus will be in ensuring that more technical and professional's positions are brought into the structure. The vast majority of staff members are in the Elementary occupations and Services and sales category. The low percentages of management and professional staff are one of the contributing factors of the significant present use of consultants.

The HR strategy will be developed and resourced in the MTREF period and the following priorities will be dealt with:

- Finalisation of the Institutional Review;
- HR ICT Systems;
- Workforce Planning;
- Remuneration Framework;
- Scarce and Critical Skills;
- Health and Wellness – disease profiling;
- Scoping of the EMM Institute.

8.2 Provision for Bad Debt

The provision for bad debt is a quantification of the billed amounts not collected.

An amount equalling the amounts billed and not collected is shown as an expenditure item and as a contribution to the provision for bad debt. This is called "impairing" the debtor in accounting terms. In other words, the debtor is valued at less than the billed amount as it is expected that a lessor amount will be collected. This does not mean that the debt is actually written off. Only once Council approves debt write-offs, is the debt actually written off. These write offs are then not processed as an expenditure item but the write-off is effected against the provision for bad debt.

8.3 DEPRECIATION

Depreciation is the systematic expensing of the value of an asset as it is used up and does not relate to any cash payment made (nor is the money owed to anyone for that matter). A road can last for 40 years and every year 1/40th of the road is "used up" and that must be shown as an expenditure item called depreciation. The intention is to set these funds aside so that there is cash available at the end of the useful life of the asset to replace the asset.

The projected depreciation cost is based on the existing asset register, the remaining useful life of the assets, the condition of the assets as well as the new assets to be acquired as per the MTREF for the 2015/16 – 2017/18 financial periods.

Phasing in of the inclusion of depreciation as cost in the setting of tariffs: 2015/16 will be the eighth year of a 10-year implementation plan - with 2017/18 as the last year.

The depreciation charge for the 2016/17 MTREF is as follows:

Assets Fair Value Reserve	Opening Balance	Offset Depreciation	Closing Balance
2016/17	464 731 839.54	309 821 226.36	154 910 613
2017/18	154 910 613.18	154 910 613.18	-
2018/19	-	-	-

8.4 APPROPRIATION OF DISCRETIONARY LINE ITEMS

An overheads cost allocation will be given to departments – these items will be dealt with as incremental budgets as it is not cost effective to embark on a zero based budget for these typical administrative costs:

- Audit Fees;
- Bank Charges;
- Corporate Gifts;
- Fuel and Lubricants;
- General Consumables;
- Insurance;
- Materials;
- Postage;
- Printing and Stationery;
- Refunds of developer's contributions in terms of approved services agreements;
- Stock Adjustments;
- Telephone Costs; and
- Rental of existing leased buildings (where agreements are in place).

Costs that are classified as being "top-slice" and administrative will not be automatically increased without scrutiny. These cost items will be subjected to cost reduction processes. As a result, inflationary increases will be given to some departments, lower than inflationary increases will be allocated in certain cases, and even reductions in others.

Departments will then be given an opportunity to submit proposals for service delivery projects, which must include the outputs to be achieved. The allocation of funding will be based on the outputs to be achieved, and not based on actual expenditure of previous years.

8.5 FUNDING AND EVALUATION OF CAPITAL BUDGET

The capital budget will be funded as follows:

- USDG grant to be based on Housing Department's integrated planning and funding strategy and in compliance with the USDG framework;
- Other grant funding to be used to fund social projects that will not necessarily generate revenue;
- Municipal bonds to be used to fund economic infrastructure that will stimulate economic growth and job creation;
- The capital programme is aligned to the asset renewal needs and backlog eradication goals and, as such, 40% of the total capital amount will be used for asset renewals;
- Cash generated from revenue will be used to fund movable assets;
- Operational gains and efficiencies will be directed to funding the capital budget; and
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

The evaluation of the project proposals will be based on the following criteria:

- Compliance with approved Capital Investment Framework (CIF) – projects to be evaluated by the Capital Investment Framework Committee:
  - Spatially influence and guide municipal capital prioritisation and allocation;
  - Strategically influence and guide municipal capital prioritisation and allocation;
  - Spatially and strategically coordinate and integrate capital expenditure across all sectors;
  - Show where the municipality must and will be spending its capital budget; and
  - Map capital projects included in the budget.

- The Capital Investment Framework includes a Capital Prioritisation Model (CPM). The CPM consist of seven steps, namely:
  - Describe the capital budget in four project categories (Backlog Eradication, Upgrading and Renewal; Economic Development; Local Interventions) – minimum 40% of the capital budget must be allocated towards Upgrading and Renewal projects as per requirements from National Treasury;
  - Allocate a budget percentage to each of the four project categories;
  - Allocate each budget category per geographic priority area (in the CIF);
  - Screen all submitted projects for IDP, SDBIP and PMO compliance;
  - Allocate individual capital projects as submitted by departments into project categories and CIF geographic priority areas; and
  - Score individual capital projects to determine ranking per project category and CIF geographic priority areas (scoring system was tested for the 2015/16 to 2017/18 multi-year capital budget).
  - Monitoring and Evaluation

8.6 Strategic Projects Supporting the Achievement of the Service Delivery

Transport, Freight and Logistics

The Ekurhuleni Aerotropolis project includes, inter alia, development of land uses that facilitate the movement of people and goods by air. Initiatives include activities related to consolidating Ekurhuleni as a 'Gateway to Africa and the world'. This should include business tourism, head office facilities, and the like. In this financial year the focus will be on developing the strategic road map and the master plan for the Aerotropolis.

The Integrated Rapid Public Transport Network (IRPTN) project involves establishment of infrastructure, operations and modes of transport that will result in accessible reliable, safe and affordable public transport system. The project is mainly funded from the Public Transport Infrastructure Grant (PTIS), but it is proposed that EMM provides for additional funding from its own sources.

Based on the revised plan submitted to the National Department of Transport (DoT), the municipality is ready to proceed with the implementation of the subsequent phases of the project namely, preliminary and detailed design, construction of road infrastructure, construction of the transport control center and depots, rolling out of IT infrastructure, implementation of the public transport industry transition programme and the acquisition of appropriate fleet for the operations of the system.

A PTIS grant of R1.36 billion has been allocated to EMM over the 2015/16 medium term period.

Institutional Mobilisation and Capabilities

The Institutional Review and Development is a project with the ultimate aim of ensuring integration of the institutional configuration and capacity of the EMM. For some time, the EMM has been using the combination of two structures, both of which are not fully implemented. This has had a negative impact on service delivery, given the limited capacity in many departments. The institutional review process now under way will help create a single, integrated organisation with the requisite skills and competencies to give effect to better service delivery.

City Modernisation

The Digital City project aims to ensure innovative use of technology to create a smart Ekurhuleni. This project is divided into four streams of work, namely (1) Broadband infrastructure; (2) Setting up EMM as an internet service provider; (3) Enterprise Operation Centre/Unified Command Centre, and (4) Digital City Services and products. Phase 1 of the project is under way and incorporates the setting up of a Digital City unit to provide effective broadband infrastructure capable of supporting business services, commercialisation of the available optic fiber and connectivity for the Ekurhuleni community.

The City of Ekurhuleni is home to a significant number of manufacturing companies by any global comparative means. Global events such as the recessions across continents are also impacting upon the growth, both positive and negative, of the companies operating within Ekurhuleni municipal boundaries. These events and conditions affect decision making by senior managers, owners or investors in companies globally, inclusive of those in Ekurhuleni municipality. As such, negative decisions, disinvestments or reduction of production capacities could be engaged by these senior managers which will ultimately affect the competitiveness of Ekurhuleni as a region, liquidity of the city, and other socio-economic issues such as unemployment. The City, therefore, embarked on a programme of revitalising the manufacturing sector with the aim of contributing to the competitiveness of the manufacturing sector in its geography and contributes to the national agenda of job creation.

Urban Acupuncture

The utilisation of our water bodies to support the building of local economies, sport development, recreation and tourism has been started in the 2012/13 financial year. Ekurhuleni is rich with lakes and dams which have the potential to enhance economic activity in the City in the context of the Aerotropolis. The South African Maritime Safety Authority (SAMSA) and Ekurhuleni Metropolitan Municipality have started a process of assessing the development potential of these water bodies, and to determine their development and utilisation potential. To set the process in motion, some lakes and dams will be upgraded to appropriate standards. The Boksburg Lake, for example, is one water body that has been identified as contaminated with hazardous sludge. Here the main focus of the project is the dredging of the lake and restoration of its water quality to conform to recreational standards. In the past, the Brakpan Dam has had poor water quality resulting in an intolerable smell during the rainy season. In its case, the aim will be to ensure that its water quality is addressed through aeration as well as installation of litter and silt traps.

The Germiston Urban Renewal and Township Revitalisation and Renewal Strategy processes will help give direction and guidance in terms of investment and development of the township to achieve economic growth, social cohesion and facelift of townships. This process has started with the facilitating and developing townships economies through programmes of Township Hubs, which include Township Services Hubs, Township Shared Industrial Production Facilities, Township Business Parks, Recycling Buy Back Centers, Fabrication Laboratory and the provision of street trading facilities. In addition, the City is facilitating development and investment projects in townships such as shopping malls.

A funding model based on a percentage of the programme management cost of the project will be developed. The funding model will comprise funds from National Government as well as PPPs.

The township economies project aims to revive, revitalise and grow the collapsed state of the township economy that is as a result of the previous developmental trajectory that excluded previous black townships, resulting in poverty, unemployment, illiteracy and low skills base with the resultant current social ills such as social crime, teenage pregnancy, and substance abuse.

This project includes several paradigms that include economic transformation (supplier development and BBBEEE), agriculture, and enterprise development, skilling for the economy, graduate placement programme, support for the formal and informal economy through infrastructure provision (Township Hubs) and poverty alleviation.

Job Creation

The Revitalisation of the Manufacturing Sector programme aims to unlock investments into strategic, underdeveloped and marginalised areas to stimulate industrial investments that will drive efficiencies and competitiveness through sector development and support, industrial park regeneration and development, development facilitation, localisation of production, local procurement practices, and the provision of economic infrastructure in order to generate short, medium and long-term jobs.

The Ekurhuleni Community Skills Development, Job Creation and Economic Empowerment is a deliberate intervention to leverage its operational and capital expenditure budget for skills development, job creation and community empowerment through the following interventions:

- Type A: By setting aside a percentage of Capex on infrastructure (e.g. EPWP and Vukuphile) and Opex to develop and mainstream PDI-owned businesses.
- Type B: By setting aside a percentage of Opex to activate trade-in-services for community (i.e. indigents) according to work packages.
- Type C: By setting aside a percentage of Opex to activate a graduate development programme and experiential learning in partnership with local industries.
- Type D: By utilising the “Lungile Mtshali Poverty Alleviation Programme” to activate neighbourhood development and job creation initiatives; and
- Type E: By setting aside a percentage of Opex to activate youth development initiatives for unemployed youth to gain work readiness and experience.