



## **Bela-Bela Local Municipality**

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2014/2015

MTREF REPORT

(SECTION 17 AND 21 OF MFMA)

MARCH 2014



## MTREF Report for 2014/2015

To the Speaker

Section 27(1) (a) of the Municipal Finance Management Act, No 56 of 2003 (MFMA), requires from the mayor of the municipality to co-ordinate the processes for preparing the annual budget and for reviewing the municipality's Integrated Development Plan (IDP) and budget-related policies to ensure that the tabled budget and any revisions of the Integrated Development Plan (IDP) and budget-related policies are mutually consistent and credible.

Section 16(2) of the MFMA determines that the mayor of a municipality must table the annual budget at a council meeting at least 90 days before the start of a budget year.

I hereby submit the annual budget report (Medium Term Revenue and Expenditure Framework Report) for the 2014/2015 financial years to be considered by Council.

**MAYOR** (F Hlungwane)

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**Date:** 27 March 2014



# MTREF Report for 2014/2015

## TABLE OF CONTENTS

1. INTRODUCTION .....	4
2. LEGISLATION .....	4
3. NATIONAL TREASURY CIRCULARS .....	10
4. BUDGET RELATED POLICIES .....	10
5. BUDGET ASSUMPTIONS .....	11
6. HIGH LEVEL OPERATING BUDGET SUMMARY .....	15
6.1 PER CATEGORY OF REVENUE AND EXPENDITURE .....	15
6.2 PER DIRECTORATE VOTE .....	17
6.3 PER CATEGORY AND ITEM OF REVENUE AND EXPENDITURE .....	19
7. HIGH LEVEL CAPITAL BUDGET SUMMARY .....	21
7.1 PER PRIORITISATION MODEL PER CAPITAL ASSETS INVESTMENT .....	21
7.2 PER GOVERNMENT FINANCIAL STATISTICS (GFS) VOTE .....	22
7.3 PER DEPARTMENT VOTE .....	23
7.4 PER FUNDING SOURCE .....	24
7.5 PER INFRASTRUCTURE TYPE .....	25
8. RECOMMENDATIONS .....	26
9. APPENDICES .....	27
10. TABLES .....	28



# MTREF Report for 2014/2015

## 1. INTRODUCTION

This Medium Term Revenue and Expenditure Framework (MTREF) Report for the 2014/2015 to 2016/2017 financial years deals with the operating budget and tariff proposals as well as the capital budget and funding sources proposals to ensure that Bela-Bela Local Municipality renders services to its local community in a sustainable manner.

The MTREF Report starts with a discussion of the legislative requirements to which the Municipality must adhere to, the MFMA budget circulars with directives issued by National Treasury, the budget related policies of Council and budget assumptions for next three financial years based on these documents and assumed economic trends. A high level summary of the operating and capital budget will follow with appropriate recommendations. Supporting information in the form of appendices, annexures and tables will form part of this report.

## 2. LEGISLATION

Sections 15 to 24 of the Local Government: Municipal Finance Management Act (MFMA), No 56 of 2003, read together with regulations 9 to 20 of the Local Government: Municipal Finance Management Act, 2003 Municipal Budget and Report Regulations govern the compilation and approval of municipal budget. The MFMA determines-

### ***Appropriation of funds for expenditure***

**15.** *A municipality may, except where otherwise provided in this Act, incur expenditure only—*

- (a) in terms of an approved budget; and*
- (b) within the limits of the amounts appropriated for the different votes in an approved budget.*

### ***Annual budgets***

**16.** *(1) The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.*



## MTREF Report for 2014/2015

*(2) In order for a municipality to comply with subsection (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.*

*(3) Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.*

### **Contents of annual budgets and supporting documents**

**17.** *(1) An annual budget of a municipality must be a schedule in the prescribed format—*

*(a) setting out realistically anticipated revenue for the budget year from each revenue source;*

*(b) appropriating expenditure for the budget year under the different votes of the municipality;*

*(c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;*

*(d) setting out—*

*(i) estimated revenue and expenditure by vote for the current year; and*

*(ii) actual revenue and expenditure by vote for the financial year preceding the current year; and*

*(e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.*

*(2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.*

*(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:*

*(a) Draft resolutions—*

*(i) approving the budget of the municipality;*

*(ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and*

*(iii) approving any other matter that may be prescribed;*

*(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;*

*(c) a projection of cash flow for the budget year by revenue source, broken down per month;*

*(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;*

*(e) any proposed amendments to the budget-related policies of the municipality;*

*(f) particulars of the municipality's investments;*

*(g) any prescribed budget information on municipal entities under the sole or shared control of the municipality (**Not applicable to Bela-Bela Local Municipality**);*



## MTREF Report for 2014/2015

- (h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate (Not applicable to Bela-Bela Local Municipality);*
- (i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;*
- (j) particulars of any proposed allocations or grants by the municipality to—*
  - (i) other municipalities (Not applicable);*
  - (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers (Not applicable);*
  - (iii) any other organs of state (Not applicable);;*
  - (iv) any organisations or bodies referred to in section 67(1) (Not applicable);;*
- (k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—*
  - (i) each political office-bearer of the municipality;*
  - (ii) councilors of the municipality; and*
  - (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;*
- (l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of—*
  - (i) each member of the entity's board of directors; and*
  - (ii) the chief executive officer and each senior manager of the entity; and*
- (m) any other supporting documentation as may be prescribed.*

### **Funding of expenditure**

- 18. (1)** *An annual budget may only be funded from—*
  - (a) realistically anticipated revenues to be collected;*
  - (b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*
  - (c) borrowed funds, but only for the capital budget referred to in section 17(2).*
- (2)** *Revenue projections in the budget must be realistic, taking into account—*
  - (a) projected revenue for the current year based on collection levels to date; and*
  - (b) actual revenue collected in previous financial years.*

### **Capital projects**

- 19. (1)** *A municipality may spend money on a capital project only if—*
  - (a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in section 17(2);*
  - (b) the project, including the total cost, has been approved by the council;*
  - (c) section 33 has been complied with, to the extent that that section may be applicable to the project; and*
  - (d) the sources of funding have been considered, are available and have not been committed for other purposes ( **contracts longer than three years that that has future budgetary implications** )*



## MTREF Report for 2014/2015

*(2) Before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider—*

*(a) the projected cost covering all financial years until the project is operational; and  
(b) the future operational costs and revenue on the project, including municipal tax and tariff implications.*

*(3) A municipal council may in terms of subsection (1)(b) approve capital projects below a prescribed value either individually or as part of a consolidated capital programme **(Regulation 13(2)(c) determines that this would be for capital projects with a total projected cost per capital project below R 50 million).***

### **Matters to be prescribed**

**20.** *(1) The Minister, acting with the concurrence of the Cabinet member responsible for local government—*

*(a) must prescribe the form of the annual budget of municipalities; and*

*(b) may prescribe—*

*(i) the form of resolutions and supporting documentation relating to the annual budget;*

*(ii) the number of years preceding and following the budget year for which revenue and expenditure history or projections must be shown in the supporting documentation **(Regulations)**;*

*(iii) inflation projections to be used with regard to the budget;*

*(iv) uniform norms and standards concerning the setting of municipal tariffs, financial risks and other matters where a municipality uses a municipal entity or other external mechanism for the performance of a municipal service or other function;*

*(v) uniform norms and standards concerning the budgets of municipal entities; or*

*(vi) any other uniform norms and standards aimed at promoting transparency and expenditure control.*

*(2) The Minister may take appropriate steps to ensure that a municipality in the exercise of its fiscal powers in terms of section 229 of the Constitution does not materially and unreasonably prejudice—*

*(a) national economic policies, particularly those on inflation, administered pricing and equity;*

*(b) economic activities across municipal boundaries; and*

*(c) the national mobility of goods, services, capital or labour*

### **Budget preparation process**

**21.** *(1) The mayor of a municipality must—*

*(a) co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible;*

*(b) at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for—*

*(i) the preparation, tabling and approval of the annual budget;*





## MTREF Report for 2014/2015

- (ii) the annual review of—*
  - (aa) the integrated development plan in terms of section 34 of the Municipal Systems Act; and*
  - (bb) the budget-related policies;*
  - (iii) the tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and*
  - (iv) any consultative processes forming part of the processes referred to in subparagraphs (i), (ii) and (iii).*
- (2) When preparing the annual budget, the mayor of a municipality must—*
  - (a) take into account the municipality's integrated development plan;*
  - (b) take all reasonable steps to ensure that the municipality revises the integrated development plan in terms of section 34 of the Municipal Systems Act, taking into account realistic revenue and expenditure projections for future years;*
  - (c) take into account the national budget, the relevant provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the Budget Forum;*
  - (d) consult—*
    - (i) the relevant district municipality and all other local municipalities within the area of the district municipality, if the municipality is a local municipality;*
    - (ii) all local municipalities within its area, if the municipality is a district municipality;*
    - (iii) the relevant provincial treasury, and when requested, the National Treasury; and*
    - (iv) any national or provincial organs of state, as may be prescribed; and*
  - (e) provide, on request, any information relating to the budget—*
    - (i) to the National Treasury; and*
    - (ii) subject to any limitations that may be prescribed, to—*
      - (aa) the national departments responsible for water, sanitation, electricity and any other service as may be prescribed;*
      - (bb) any other national and provincial organ of states, as may be prescribed; and*
      - (cc) another municipality affected by the budget.*

### **Publication of annual budgets**

- 22.** *Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—*
- (a) in accordance with Chapter 4 of the Municipal Systems Act—*
    - (i) make public the annual budget and the documents referred to in section 17(3); and*
    - (ii) invite the local community to submit representations in connection with the budget; and*
  - (b) submit the annual budget—*
    - (i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and*
    - (ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.*





## MTREF Report for 2014/2015

### **Consultations on tabled budgets**

- 23.** (1) When the annual budget has been tabled, the municipal council must consider any views of—
- (a) the local community; and
  - (b) the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity—
- (a) to respond to the submissions; and
  - (b) if necessary, to revise the budget and table amendments for consideration by the council.
- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to **(Budget Steering Committee)** consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

### **Approval of annual budgets**

- 24.** (1) The municipal council must at least 30 days before the start of the budget year (**1 June**) consider approval of the annual budget (**final budget after considering the views of the local community and other stakeholders**)
- (2) An annual budget—
- (a) must be approved before the start of the budget year (**1 July**);
  - (b) is approved by the adoption by the council of a resolution referred to in section 17(3)(a)(i); and
  - (c) must be approved together with the adoption of resolutions as may be necessary—
    - (i) imposing any municipal tax for the budget year;
    - (ii) setting any municipal tariffs for the budget year;
    - (iii) approving measurable performance objectives for revenue from each source and for each vote in the budget;
    - (iv) approving any changes to the municipality's integrated development plan; and
    - (v) approving any changes to the municipality's budget-related policies.
- (3) The accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury.

When compiling an annual budget in terms of legislation the budget circulars from National Treasury must also be taken into consideration.



## MTREF Report for 2014/2015

### 3. NATIONAL TREASURY CIRCULARS

National Treasury issued budget circulars during December 2013. MFMA Budget Circular No.70 issued on 04 December 2013 is attached hereto as Appendix 1 and MFMA budget Circular No.72 issued on 17 March 2014 is attached hereto as Appendix 2.

Both of these circulars deals with the key focus areas for the 2014/2015 budget process; the Division of Revenue Bill; macro-economic performance and projections; headline inflation forecasts; issues around the revising of rates, tariffs and other charges; reporting issues; funding choices and management issues; conditional transfers to municipalities; the Municipal Budget and Reporting Regulations; and, the budget process and submissions for the 2014/2015 MTREF.

All of the issues effecting the compilation of our budget to ensure that our anticipated revenue streams and funding sources for our operating and capital budgets are affordable and sustainable were taken into account. This was taken into consideration when the budget related policies were reviewed.

### 4. BUDGET RELATED POLICIES

In Table 1 below, the relevant budget related policies are set out. The Long-term Financial Plan Policy reviewed last year.

**Table 1: Policies**

No	Policy Description	Date Reviewed/ Developed	Status	Comment
1	Credit Control and Debt Collection Policy	2014/15	In use	With effect from 01/07/2014
2	Property Rates Policy	2014/15	In use	With effect from 01/07/2014
3	Assets Management Policy	2013/14	In use	No changes recommended
4	Indigent Policy	2008/09	In use	No changes recommended
5	Borrowing framework policy	2013/14	In use	No changes recommended
6	Budget Implementation and Monitoring Policy	2013/14	In use	No changes recommended
7	Cash Management and Investment Policy	2014/15	In use	With effect from 01/07/2014
8	Funding Reserves Policy	2013/14	In use	No changes recommended
9	Prioritisation Model for Capital Assets Investment	2014/15	Draft	With effect from 01/07/2014
10	Policy on Infrastructure Investment and Capital Projects	2013/14	In use	No changes recommended
11	Policy on Long Term Financial Planning	2013/14	In use	No changes recommended
12	Policy on Provision for doubtful debts and writing off of irrecoverable debts	2014/15	In use	With effect from 01/07/2014
13	Principles and Policy on Tariffs	2013/14	In use	No changes recommended
14	Supply Chain Management Policy	2014/15	In use	With effect from 01/07/2014



## MTREF Report for 2014/2015

There is one new policy (highlighted in grey in Table 1 above) was developed as part of the review process of our budget related policies. A Draft Prioritisation Model for Capital Assets Investment (Appendix 3 attached to the report) was developed to prioritise all capital project requests. The capital projects will compete for available funding based on their percentage points obtained in the prioritisation process. More about the available funding sources for capital projects will be discussed in paragraph 7.1 below in this report.

### Amendments in Supply Chain management policy

- The main amendments to the Supply Chain Management Policy includes inclusion of The Cost containment measures as part of the annexures to the policy.

### Policy on Provision for doubtful debts and writing off of irrecoverable debts

The main changes of on the policy includes:

- All outstanding indigent accounts for 2014/15 financial year will be written off upon approval
- If 50% of the 60 and more days outstanding account is paid, the remaining 50% will be written off.

### Property rates policy

The main changes of on the policy includes:

- 10% Rebate will be granted to all residential account
- 65% rebate will be granted to approved bona fida farmers
- No increase in the Rand in a Cent foe all categories

## 5. BUDGET ASSUMPTIONS

In Table 2 below the budget assumptions issues are depicted with the next three years assumed percentage increases.

Council's wage bill, bulk purchases and capital charges constitutes 75% of our operating budget expenditure. Council have very little control over them since the cost of living salary increases are determined at a higher authority (Bargaining Council level); bulk electricity purchases by NERSA; bulk water purchase by Magalies; and, interest on loans to be set by borrowing authorities (Financial Institutions).

The cost of living and notch increases on the wage bill amounted to 4.4% and 5.0% over the last two financial years and is estimated to increase with 6.8% for 2014/2015



## MTREF Report for 2014/2015

and 6.4% for the two outgoing years. Bulk electricity purchases increased with 12% in the previous financial year and are estimated to increase with 7.39% for 2014/2015 and 7.39% for the two outgoing years. Bulk water purchases increased with 15.0% and over the last two financial years and are estimated to increase with 15.00% for 2014/2015 and 15.0% over the last two outgoing years. Interest rates on external borrowings is 10.69% and seriously affect our operating budget when we borrow money to finance our capital expenditure.

Compare the above with actual CPIX inflation rate of 5.9% in the last two financial years and the estimated CPIX of 6.2% for 2014/2015 and the 5.9% for the outer two years and one will see that Council cannot approve tariffs at the inflation rate levels if Council would like to sustain their service standards.



## MTREF Report for 2014/2015

Table 2 Budget Assumptions				
No	Expenditure / Revenue Component	2014/15	2015/16	2016/17
1	CPI Inflation Rate	6.20%	5.90%	5.50%
2	Property Rates Revenue Increases	0.00%	5.90%	5.50%
3	Electricity Revenue increases	7.40%	7.40%	7.40%
4	Water Revenue Increases	16.00%	16.00%	16.00%
5	Sanitation Revenue Increases	5.40%	5.40%	5.40%
6	Refuse Revenue Increases	5.40%	5.40%	5.40%
7	Rental Revenue Increases	5.40%	5.40%	5.40%
8	Sundry Revenue Increases	5.40%	5.90%	5.50%
9	Salaries	6.80%	6.40%	6.40%
10	Bulk Electricity Purchases	7.39%	7.39%	7.39%
11	Bulk Water Purchases	15.00%	15.00%	15.00%

In Table 2 above the estimated operating revenue stream increases are depicted to fund the operating budget expenditure. It must be emphasised that to balance the operating budget, senior management had to cut material amount worth of operating expenditure requests that exceeded our affordable and sustainable revenue streams.

The revenue streams increases as follows

- Property rates with 0.0%;
- Electricity revenue with 7.40%
- Water revenue with 16.00%
- Sanitation revenue with 5.40%
- Refuse removal revenue with 5.40%
- Rental revenue with 8.00% and
- Sundry revenue with 6.20%.

It must be noted that property rates revenue due to the general valuation will undergo restructured tariffs. Electricity revenue tariffs will also undergo some restructuring especially with regard to the time-of-use customers and pre-paid electricity customers.



## MTREF Report for 2014/2015

Council is sensitive to the affordability and sustainability of the tariffs to be imposed. We carefully monitor the payment and collection rates and are thankful that the customer base of Bela-Bela Municipality pays more than 80% of their billed accounts. Through the financial support and incentives envisaged through our new budget related policies developed we are hopeful that the payment rate will increase to 90% over the next 12 to 15 months.

A discussion of the high level operating budget summary will now follow.



# MTREF Report for 2014/2015

## 6. HIGH LEVEL OPERATING BUDGET SUMMARY

### 6.1 PER CATEGORY OF REVENUE AND EXPENDITURE

The high level draft operating budget per category of Revenue and Expenditure is set out in Table 3 below (attached as Annexure A to Appendix 7 of this report). The classifications as per the government financial statistics votes are used by National Treasury to compare budget trends in local government in South Africa.

Table 3 2014/15 to 2016/17 MTREF per Category								
Description	2010/11	2011/12	2012/13	Current Year 2013/14		2014/15 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Financial Performance</b>								
Property rates	37 782	39 360	44 807	42 550	47 752	65 936	69 496	73 249
Service charges	28 320	103 761	116 688	112 059	123 490	135 753	147 368	160 106
Investment revenue	97	134	325	356	356	376	396	418
Transfers recognised - operational	38 031	42 317	34 903	53 722	64 214	60 905	69 417	74 565
Other own revenue	16 371	24 734	18 543	26 653	28 529	37 744	39 786	41 938
<b>Total Revenue (excluding capital transfers and contributions)</b>	120 601	210 306	215 265	235 340	264 341	300 713	326 463	350 275
Employee costs	61 100	62 266	66 644	73 828	79 205	88 234	93 867	99 909
Remuneration of councillors	1 796	3 671	3 988	5 027	5 497	5 956	6 310	6 688
Depreciation & asset impairment	51 684	42 975	66 755	7 500	47 720	17 040	18 131	19 291
Finance charges	3 228	3 007	1 247	3 100	3 105	3 100	3 100	3 100
Materials and bulk purchases	46 271	55 150	60 019	75 708	75 517	84 342	89 806	95 692
Transfers and grants	–	–	–	–	–	–	–	–
Other expenditure	46 898	59 748	62 241	72 743	72 745	89 930	94 289	99 038
<b>Total Expenditure</b>	210 976	226 818	260 893	237 906	283 789	288 602	305 503	323 718
<b>Surplus/(Deficit)</b>	(90 376)	(16 512)	(45 628)	(2 565)	(19 448)	12 112	20 960	26 556

The budget is financed through realistically anticipated revenue streams.

Anticipated operating revenue (total operating revenue less revenue forgone) for

2014/2015 is estimated at R300 713 000 or R 36 399 000 (14%) more than the adjustments budget revenue of R 264 341 000 for 2013/2014.





## MTREF Report for 2014/2015

Property rates revenue increases with 38% and services charges revenue on average with 9% compared with the individual increases for electricity (7.4%) water (16.0%), sanitation (5.4%) and refuse removal (5.4%). Operating grants decreases with R3 309 000 (5%) from R 64 214 000 to R 60 905 000. The decrease in operational grants is caused by 2012/13 equitable share which was only allocated during 2013/14 Financial year.

The increase in property rates income is as a result of increased customer base and increase in property value around Bela-Bela area.

Total operating expenditure for 2014/2015 is estimated at R 288 602 000 or (1.7%) (R4 813 000) more than the adjustments budget expenditure of R 283 789 000 for 2013/2014 financial year

The wage bill, bulk electricity purchases, bulk water purchases and capital charges (interest and depreciation) represent the major change in operating expenditure. Excessive fat were cut from the general expenses category and very little fat, if any, now remains in the operating budget. Major expenditure line items is estimated to change with the following averages:

- Employee related cost, 12%
- Bulk Purchases: Electricity, 7.39%
- Bulk Purchases: Water, 15%

The draft operating budget depicts a surplus of R 12 112 000 for the 2014/2015 financial year, R20 960 000 for the 2015/16 and R26 556 000 for the 2015/2016 financial year.



# MTREF Report for 2014/2015

## 6.2 PER DIRECTORATE VOTE

**Table 4 2014/15 MTREF per Municipal Vote**

Vote Description R thousand	Ref	2010/11	2011/12	2012/13	Current Year 2013/14		2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Revenue by Vote</b>	1								
Vote 1 - Chief Financial Officer		36 521	94 726	86 495	107 658	124 654	141 869	157 323	170 129
Vote 2 - Corporate Services		235	1 628	626	404	1 535	1 812	1 910	2 013
Vote 3 - Mayor		–	12	80	–	–	–	–	–
Vote 4 - Municipal Manager		–	–	–	–	–	–	–	–
Vote 5 - Planning and Economic Development		113	203	272	142	161	233	245	259
Vote 6 - Social and Community Services		14 591	16 809	23 292	20 185	20 148	26 048	27 425	28 876
Vote 7 - Speaker		–	–	–	–	–	–	–	–
Vote 8 - Technical Services		80 779	107 252	120 914	126 297	137 191	152 945	162 717	173 031
Vote 9 - Balance Sheet		–	–	–	–	–	–	–	–
Vote 10 - Balance Sheet		–	–	–	–	–	–	–	–
Vote 11 -		–	–	–	–	–	–	–	–
Vote 12 -		–	–	–	–	–	–	–	–
Vote 13 -		–	–	–	–	–	–	–	–
Vote 14 -		–	–	–	–	–	–	–	–
Vote 15 -		–	–	–	–	–	–	–	–
<b>Total Revenue by Vote</b>	2	<b>132 240</b>	<b>220 630</b>	<b>231 678</b>	<b>254 687</b>	<b>283 688</b>	<b>322 906</b>	<b>349 620</b>	<b>374 308</b>
<b>Expenditure by Vote to be appropriated</b>	1								
Vote 1 - Chief Financial Officer		80 360	75 183	96 890	59 762	94 489	93 158	98 086	103 411
Vote 2 - Corporate Services		15 498	16 964	26 925	29 453	34 525	37 278	39 375	41 603
Vote 3 - Mayor		3 965	2 987	1 459	1 786	1 664	2 231	2 372	2 523
Vote 4 - Municipal Manager		2 268	2 955	3 075	4 036	5 022	5 254	5 588	5 949
Vote 5 - Planning and Economic Development		4 936	5 267	5 190	6 341	6 265	8 481	9 005	9 576
Vote 6 - Social and Community Services		20 911	28 441	28 374	30 534	31 360	33 653	35 712	37 911
Vote 7 - Speaker		4 994	6 093	7 168	6 407	10 925	9 729	10 189	10 678
Vote 8 - Technical Services		75 595	88 560	90 049	99 586	99 539	98 817	105 175	112 069



## MTREF Report for 2014/2015

Vote 9 - Balance Sheet		5 381	367	1 763	-	-	-	-	-
Vote 10 - Balance Sheet		-	-	-	-	-	-	-	-
Vote 11 -		-	-	-	-	-	-	-	-
Vote 12 -		-	-	-	-	-	-	-	-
Vote 13 -		-	-	-	-	-	-	-	-
Vote 14 -		-	-	-	-	-	-	-	-
Vote 15 -		-	-	-	-	-	-	-	-
<b>Total Expenditure by Vote</b>	<b>2</b>	<b>213 908</b>	<b>226 818</b>	<b>260 893</b>	<b>237 906</b>	<b>283 789</b>	<b>288 602</b>	<b>305 503</b>	<b>323 718</b>
<b>Surplus/(Deficit) for the year</b>	<b>2</b>	<b>(81 668)</b>	<b>(6 187)</b>	<b>(29 215)</b>	<b>16 781</b>	<b>(101)</b>	<b>34 305</b>	<b>44 117</b>	<b>50 589</b>

The high level draft operating budget per municipal vote is set out in Table 4 below (attached as Annexure B to Appendix 7 of this report). The directorate votes are directly linked to the newly developed functional organisational structure approved by Council. It is the same information as set out in Table 3 above and the budgeted surplus totals correlate with one another.



## MTREF Report for 2014/2015

### 6.3 PER CATEGORY AND ITEM OF REVENUE AND EXPENDITURE

Table 6 (attached as Annexure 6 of Appendix 7 to this report) gives more detail per category of expenditure as depicted in Table 5 above. A summary of the line item totals per revenue and expenditure category are depicted there. The budget is further broken down into departments (functional areas) for use of the administration. Each department will have a head of department responsible to manage that department revenue and expenditure.

Section 17(3)(k) of the MFMA determines that as part of the budget resolutions the proposed cost to the municipality for the budget year of the salary, allowances and benefits of each political office bearer, Municipal Manager, Chief Financial Officer and senior manager reporting to the Municipal Manager must be disclosed. Since the abovementioned do not qualify for notch increases, an overall increase percentage of 6.80% as per inflation rates were used. The total proposed cost to the municipality packages budgeted for are

- Municipal Manager = R 1 450 000.00;
- Chief Financial Officer = R1 078 519.80;
- Executive Managers = R982 476.70;
- Mayor = R 723 918.17;
- Speaker = R 579 134.75;
- Chief Whip = R 542 939.16;
- Chairperson of S79 Committee = R 278 708.48; and
- Ordinary Council Member = R 217 175.66.

It is important to note that the grants recognised in the operating budget, being for operating or capital projects, are as per the Division of Revenue Bill and the provincial gazetted allocations to Bela-Bela Municipality not listed in the Division of Revenue Bill.

It is also important to note that this budget makes provision that "VAT reclaimed" in respect of conditional grant expenditures will be treated as own revenue as out on page 21 of 27 of MFMA Budget Circular No 66 of 11 December 2012. This will have an effect on the funding sources of our capital budget and will require additional counter funding from the municipality's side if a capital project expenditure funded through conditional grants is not scaled downwards.

# MTREF Report for 2014/2015



Table 6: 2014/15 MTREF per Standard classification

Standard Classification Description	Ref	2010/11	2011/12	2012/13	2014/15 Medium Term Revenue & Expenditure Framework				
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousand</b>	<b>1</b>								
<b>Revenue - Standard</b>									
<i><b>Governance and administration</b></i>		<b>36 756</b>	<b>96 366</b>	<b>87 200</b>	<b>108 062</b>	<b>126 189</b>	<b>143 683</b>	<b>159 235</b>	<b>172 144</b>
Executive and council		–	12	80	–	–	–	–	–
Budget and treasury office		36 521	94 726	86 495	107 658	124 654	141 871	157 325	170 131
Corporate services		235	1 628	626	404	1 535	1 812	1 910	2 013
<i><b>Community and public safety</b></i>		<b>8 629</b>	<b>10 083</b>	<b>16 296</b>	<b>13 241</b>	<b>13 203</b>	<b>17 005</b>	<b>17 893</b>	<b>18 829</b>
Community and social services		123	67	229	166	216	366	390	415
Sport and recreation		–	–	–	–	–	–	–	–
Public safety		8 506	10 015	16 067	13 075	12 988	16 638	17 503	18 414
Housing		–	–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–	–
<i><b>Economic and environmental services</b></i>		<b>8 823</b>	<b>10 422</b>	<b>17 685</b>	<b>21 521</b>	<b>20 507</b>	<b>23 551</b>	<b>24 527</b>	<b>25 417</b>
Planning and development		113	203	272	142	161	233	245	259
Road transport		8 709	10 219	17 413	21 379	20 347	23 318	24 282	25 158
Environmental protection		–	–	–	–	–	–	–	–
<i><b>Trading services</b></i>		<b>78 032</b>	<b>103 759</b>	<b>110 497</b>	<b>111 863</b>	<b>123 789</b>	<b>138 668</b>	<b>147 965</b>	<b>157 918</b>
Electricity		56 470	70 116	74 694	77 351	89 245	97 475	104 478	112 010
Water		15 599	26 917	28 807	27 567	27 599	32 046	33 777	35 601
Waste water management		–	–	–	–	–	–	–	–
Waste management		5 963	6 727	6 996	6 944	6 944	9 148	9 710	10 308
<i><b>Other</b></i>	<b>4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total Revenue - Standard</b>	<b>2</b>	<b>132 240</b>	<b>220 630</b>	<b>231 678</b>	<b>254 687</b>	<b>283 688</b>	<b>322 906</b>	<b>349 620</b>	<b>374 308</b>
<b>Expenditure - Standard</b>	<b>-</b>								
<i><b>Governance and administration</b></i>		<b>112 465</b>	<b>104 182</b>	<b>135 517</b>	<b>101 444</b>	<b>146 625</b>	<b>149 474</b>	<b>157 552</b>	<b>166 228</b>
Executive and council		11 227	12 036	11 702	12 230	17 610	17 214	18 149	19 149
Budget and treasury office		85 741	75 183	96 890	59 762	94 489	94 982	100 027	105 476
Corporate services		15 498	16 964	26 925	29 453	34 525	37 278	39 375	41 603
<i><b>Community and public safety</b></i>		<b>15 967</b>	<b>23 664</b>	<b>23 451</b>	<b>22 587</b>	<b>22 620</b>	<b>22 977</b>	<b>24 449</b>	<b>26 022</b>
Community and social services		7 393	8 478	9 957	8 893	9 465	8 747	9 308	9 913
Sport and recreation		–	–	–	–	–	–	–	–
Public safety		8 574	15 186	13 494	13 694	13 156	14 230	15 140	16 109
Housing		–	–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–	–
<i><b>Economic and environmental services</b></i>		<b>15 386</b>	<b>18 740</b>	<b>13 746</b>	<b>14 305</b>	<b>14 423</b>	<b>19 532</b>	<b>20 715</b>	<b>22 044</b>
Planning and development		4 936	5 267	6 637	6 341	6 265	8 359	8 875	9 437
Road transport		10 450	13 473	7 109	7 965	8 158	11 173	11 840	12 607
Environmental protection		–	–	–	–	–	–	–	–
<i><b>Trading services</b></i>		<b>70 089</b>	<b>80 231</b>	<b>88 179</b>	<b>99 569</b>	<b>100 121</b>	<b>96 619</b>	<b>102 787</b>	<b>109 424</b>
Electricity		49 938	58 368	62 843	70 614	70 604	65 102	69 426	74 105
Water		15 208	17 086	20 414	21 008	20 778	22 543	23 908	25 357
Waste water management		–	–	–	–	–	–	–	–
Waste management		4 943	4 776	4 922	7 947	8 740	8 974	9 453	9 962
<i><b>Other</b></i>	<b>4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total Expenditure - Standard</b>	<b>3</b>	<b>213 908</b>	<b>226 818</b>	<b>260 893</b>	<b>237 906</b>	<b>283 789</b>	<b>288 602</b>	<b>305 503</b>	<b>323 718</b>
<b>Surplus/(Deficit) for the year</b>		<b>(81 668)</b>	<b>(6 187)</b>	<b>(29 215)</b>	<b>16 781</b>	<b>(101)</b>	<b>34 305</b>	<b>44 117</b>	<b>50 589</b>



## MTREF Report for 2014/2015

### 7. HIGH LEVEL CAPITAL BUDGET SUMMARY

#### 7.1 PER PRIORITISATION MODEL PER CAPITAL ASSETS INVESTMENT

As part of the budget documentation there is a Draft Prioritisation Model for Capital Assets Investment (attached as Appendix 6 to this report) against which all capital projects will be evaluated and prioritised for competing for available capital budget funding resources.

In Table 7 below the IDP needs and available funding sources to meet these needs are depicted. The IDP needs for capital projects expenditure amounts to R 133 942 806 and compared with the available and sustainable funding resources of about R 99 383 000 leaves us with a difference of R34 559 806 or 26% of our IDP needs that we cannot service with available sustainable funding sources. This Picture clearly indicates that we must use our scarce resources where the highest priority of resources exists.

Table: 7 Available funding Sources to be used for the prioritisation model for capital Assets Investment						
Financial Year	IDP Needs	Funding Source Grants	Funding Source CRR	Funding Source Loans	Total Capital Expenditure to be prioritised	Total IDP Needs not funded
2014/15	55 249 333	22 193 000	10 000 000	0	32 193 000	23 056 333
2015/16	34 660 473	23 157 000	10 000 000	0	33 157 000	1 503 473
2014/16	44 033 000	24 033 000	10 000 000	0	34 033 000	10 000 000
<b>Grand Total</b>	<b>133 942 806</b>	<b>69 383 000</b>	<b>30 000 000</b>	<b>0</b>	<b>99 383 000</b>	<b>34 559 806</b>

Table 7 above it is clear that we cannot service the IDP needs and request for capital funding of R55 249 333. Our operating budget and available reserve can only service R10 000 000 and we simply cannot afford to borrow to finance capital expenditure through external loans to avoid inflating the cost of our services to unaffordable level by our customers. Add to this amount the Division of Revenue Bill grants of R 22 193 00 then our affordable and sustainable capital budget amounts to R 32 193 000 for the 2014/2015 financial year.

The available R22 193 000 MIG funds for 2014/2015 will be distributed as per the Prioritisation Model for Capital Assets Investment as indicated in Table 8 below. Basic services infrastructure will receive R11 200 000 or 50%, social infrastructure will receive R9 883 350 or 45% and Project Management Unit cost will receive R 1 109 650 or 5% each of the total available amount.



## MTREF Report for 2014/2015

**Table 8: THREE YEAR MIG CAPITAL PROGRAM AS PROPOSED**

NO	PROJECT NAME	DIRECTORATE	INFRASTRUCTURE TYPE	2014/2015	2015/2016	2016/2017
1	Bulk infrastructure	Technical Services	Community facility	3 900 000		
2	Multi purpose centre:X6	Social &Comm Services	Community facility	5 000 000	6 200 000	
3	Upgrade Moloto Street Sport Stadium	Social &Comm Services	Community facility	3 754 750	6 000 000	
4	Bela-Bela High: Sport Stadium	Social &Comm Services	Community facility	1 128 600		
5	Storm water Limpopo Road	Technical Services	Roads & Storm-water	3 800 000	5 500 000	
6	Road Paving Phase4	Technical Services	Roads & Storm-water	3 500 000	4 299 150	8 000 000
7	Bulk infrastructure X 25	Technical Services	Community facility			11 226 400
8	Upgrade of Sunfa Stadium	Social &Comm Services	Community facility		-	3 604 950
9	Roads Tarring – Bela-Bela	Technical Services	Roads & Storm-water	10 000 000	10 000 000	10 000 000
	PMU costs	PMU Division		1 109 650	1 157 850	1 201 650
	<b>Projected Expenditure</b>			<b>32 193 000</b>	<b>33 157 000</b>	<b>34 033 000</b>
	<b>MIG Allocation</b>			<b>22 193 000</b>	<b>23 157 000</b>	<b>24 033 000</b>
	<b>Own Source</b>			<b>10 000 000</b>	<b>10 000 000</b>	<b>10 000 000</b>
	<b>Balance</b>			<b>-</b>	<b>-</b>	<b>-</b>

It is important to note that the rating criteria was not applied consistently in all projects and that skewed the percentage points that was allocated to each capital project. The administration under the leadership of the Chief Financial Officer is now busy with the re-prioritisation of each capital project and the results will be distributed at the Council meeting.

Please note that the prioritised draft capital programme will be communicated through the IDP and budget road show in April 2014 and any member of the public, stake holder, councillor or even officials can submit comments on the draft budget. The MFMA requires from the Executive Mayor to assess on any comments received and then advise Council on any comments received. The Municipal Manager and the administration must in terms of section 68 of the MFMA assist the Executive Mayor in this regard.

### 7.2 PER GOVERNMENT FINANCIAL STATISTICS (GFS) VOTE

Table 9 below depict the capital programme per GFS vote and clearly indicates which GFS votes receive draft budgeted funds for the 2014/2015 MTREF. The budgeted MIG funds in total gradually increase from R22 193 000 for the 2014/2015 financial year to R 24 033 000 for the 2016/2017 financial year.



## MTREF Report for 2014/2015

Table9: 2014/15 MTREF per GFS Vote					
NO	GFS VOTE	PROJECT NAME	2014/2015	2015/2016	2016/2017
		<b>MIG</b>			
1	Water	Bulk infrastructure	3 900 000		
2	Social &Comm Services	Multipurpose centre:X6	5 000 000	6 200 000	
3	Sports and Recreation	Upgrade Moloto Street Sport Stadium	3 754 750	6 000 000	
4	Sports and Recreation	Bela-Bela High: Sport Stadium	1 128 600		
5	Waste Water Management	Storm water Limpopo Road	3 800 000	5 500 000	
6	Roads	Road Paving Phase4	3 500 000	4 299 150	8 000 000
7	Water	Bulk infrastructure X 25			11 226 400
8	Sports and Recreation	Upgrade of Sunfa Stadium		-	3 604 950
9	Roads	Roads Tarring – Bela-Bela	10 000 000	10 000 000	10 000 000
	Administration	PMU costs	1 109 650	1 157 850	1 201 650
		<b>Projected Expenditure</b>	<b>22 193 000</b>	<b>23 157 000</b>	<b>24 033 000</b>
		<b>MIG Allocation</b>	<b>22 193 000</b>	<b>23 157 000</b>	<b>24 033 000</b>
		<b>Own source</b>	<b>10 000 000</b>	<b>10 000 000</b>	<b>10 000 000</b>
		<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 7.3 PER DEPARTMENT VOTE

The same information as depicted in Table 9 above is now depicted in Table 10 below but only as per directorate. It is important to note that the PMU operational infrastructure needs have not been prioritised and the allocations as depicted in Table 8 above have been allocated as administrative operational infrastructure. Operational infrastructure relates to office furniture and equipment, computer equipment, computer software, tools and equipment, vehicles and equipment, office buildings and etcetera which the PMU Division will prioritise in the new financial year.

## MTREF Report for 2014/2015

Table 10: 2014/15 MTREF per Department Vote					
NO	DEPARTMENT	PROJECT NAME	2014/2015	2015/2016	2016/2017
		<b>MIG</b>			
1	Technical Services	Bulk infrastructure	3 900 000		
2	Social &Comm Services	Multi purpose centre:X6	5 000 000	6 200 000	
3	Social &Comm Services	Upgrade Moloto Street Sport Stadium	3 754 750	6 000 000	
4	Social &Comm Services	Bela-Bela High: Sport Stadium	1 128 600		
5	Technical Services	Storm water Limpopo Road	3 800 000	5 500 000	
6	Technical Services	Road Paving Phase4	3 500 000	4 299 150	8 000 000
7	Technical Services	Bulk infrastructure X 25			11 226 400
8	Social &Comm Services	Upgrade of Sunfa Stadium		-	3 604 950
9	Technical Services	Roads Tarring – Bela-Bela	10 000 000	10 000 000	10 000 000
	PMU Division	PMU costs	1 109 650	1 157 850	1 201 650
		<b>Projected Expenditure</b>	<b>32 193 000</b>	<b>33 157 000</b>	<b>34 033 000</b>
		<b>MIG Allocation</b>	<b>22 193 000</b>	<b>23 157 000</b>	<b>24 033 000</b>
		<b>Own Source</b>	<b>10 000 000</b>	<b>10 000 000</b>	<b>10 000 000</b>
		<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 7.4 PER FUNDING SOURCE

Table 12 below depicts the capital programme per funding source over the MTREF.

Table 11: 2014/15 MTREF per Funding Source				
NO	Funding Source	2014/2015	2015/2016	2016/2017
1	CRR	-	-	-
2	CRR (Roll-Over) [Projects to be confirmed]	10 000 000	10 000 000	10 000 000
3	Revenue	-	-	-
4	External Loans	-	-	-
5	Grants	22 193 000	23 157 000	24 033 000
<b>Total</b>		<b>32 203 000</b>	<b>33 167 000</b>	<b>34 043 000</b>

## MTREF Report for 2014/2015

### 7.5 PER INFRASTRUCTURE TYPE

Table 13 below depicts the capital programme per infrastructure type

Table 13: 2014/15 MTREF per Infrastructure type					
NO	INFRASTRUCTURE	PROJECT NAME	2014/2015	2015/2016	2016/2017
1	Water	Bulk infrastructure	3 900 000		
2	Social & Comm Services	Multipurpose centre:X6	5 000 000	6 200 000	
3	Sports and Recreation	Upgrade Moloto Street Sport Stadium	3 754 750	6 000 000	
4	Sports and Recreation	Bela-Bela High: Sport Stadium	1 128 600		
5	Waste Water Management	Storm water Limpopo Road	3 800 000	5 500 000	
6	Roads	Road Paving Phase4	3 500 000	4 299 150	8 000 000
7	Water	Bulk infrastructure X 25			11 226 400
8	Sports and Recreation	Upgrade of Sunfa Stadium		-	3 604 950
9	Roads	Roads Tarring – Bela-Bela	10 000 000	10 000 000	10 000 000
	Administration	PMU costs	1 109 650	1 157 850	1 201 650
		<b>Projected Expenditure</b>	<b>22 193 000</b>	<b>23 157 000</b>	<b>24 033 000</b>
		<b>MIG Allocation</b>	<b>22 193 000</b>	<b>23 157 000</b>	<b>24 033 000</b>
		<b>Own Source</b>	<b>10 000 000</b>	<b>10 000 000</b>	<b>10 000 000</b>
		<b>Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>

Operational received 5% of the total prioritised funds. Social infrastructure receives 45%% of the total prioritised funds. Basic services receives 50% of the prioritised funds. 60.0% as per the draft Prioritisation Model for Capital Assets Investment.



## MTREF Report for 2014/2015

### 8. RECOMMENDATIONS

It is recommended to Council that

- 8.1 That Council approves the 2014/2015 draft operating budget
- 8.2 That Council takes note that the operating budget realises a budgeted surplus of R 12 112 000
- 8.3 That Council approves the following increases in the revenue streams as outlined in table 2.
- 8.4 That the following draft budget related policies of Council be accepted to replace existing policies or for introduction as a new policy as outlined in table 1.
- 8.5 That Council takes note of the proposed total cost to municipality expenses for the salary, allowances and benefits of the Mayor, Speaker, Chief Whip, Section 79 Committee Chairperson, ordinary councillors, Municipal Manager, Chief Financial Officer and Executive Managers as set out in MTREF Report.
- 8.6 That the Municipal Manager in terms of legislation invites the local community through advertisements in the local press to submit representations in connection with the 2014/2015 draft operational and capital budget as required by the MFMA and the Municipal Systems Act.
- 8.7 That the IDP and budget road show programme be followed in April 2014 as approved by Council in the IDP review item.



# MTREF Report for 2014/2015

## 9. APPENDICES

Appendix 1: MFMA Budget Circular No 70

Appendix 2: MFMA Budget Circular No 72

Appendix 3: Draft Prioritisation Model for Capital Assets Investment

Appendix 4: 2014/2015 MTREF Operating Budget Annexures

Appendix 5: 2014/2015 MTREF Capital Budget Annexures

Appendix 6: 2014/2015 Budget and Reporting Regulations A-Schedules



## MTREF Report for 2014/2015

### 10. TABLES

Table 1:	Budget related policies
Table 2:	Budget assumptions: Tariff and bulk purchases increases
Table 3:	2014/2015 to 2016/2017 Draft Operating MTREF per GFS vote
Table 4:	2014/2015 to 2016/2017 Draft Operating MTREF per directorate vote
Table 5:	2014/2015 to 2016/2017 Draft Operating MTREF per category
Table 6:	2014/2015 to 2016/2017 Draft Operating MTREF per category and item
Table 7:	Available funding sources to be used for the Prioritisation Model for capital

#### Assets Investment

Table 8:	Distribution of available resources as per the Prioritisation Model for Capital Assets Investment
Table 9:	2014/2015 to 2016/2017 Draft Capital MTREF per GFS vote
Table 10:	2014/2015 to 2016/2017 Draft Capital MTREF per department vote
Table 11:	2014/2015 to 2016/2017 Draft Capital MTREF per department and capital project
Table 12:	2014/2015 to 2016/2017 Draft Capital MTREF per funding source
Table 13:	2014/2015 to 2016/2017 Draft Capital MTREF per infrastructure type
Table 14:	2014/2015 to 2016/2017 Draft Capital MTREF per prioritised capital project per infrastructure type and department