

# MUNICIPALITY OF ENGCOBO



## ANNUAL BUDGET 2010/2011

**Enquiries: Mr. S Mahlasela (Acting Municipal Manager)**

**E-mail: [gigom@engcobolm.org.za](mailto:gigom@engcobolm.org.za)**

**Tel: (047) 5481221**

**Fax : ( 047) 5481078**

1. Council presided on the 24 March 2010 resolved the following in compliance of circular 51 and Section 16(2) of the MFMA:
  - 1.1. Operating revenue by source reflected in Schedule A1
  - 1.2. Operating expenditure by vote reflected in schedule A1
  - 1.3. Capital expenditure by vote and associated funding reflected in schedule A1
  - 1.4. Capital funding by sourced in schedule A1
  - 1.5. Multi year capital projections by vote
  - 1.6. All rates and tariffs for services provided by the municipality
  - 1.7. Amendments to all budget related polices
  - 1.8. All supporting schedules, tables, charts and annexures;  
be approved as appropriated for the budget year 2010/2011; and indicative for the two projected outer years 2011/2012 and 2012/2013.
2. Council resolves that the increment of 5.7% for 2010/11, 6.2% for 2011/12 and 5.9% for 2012/13 on property rates, other tariffs and charges reflected in Budget statement are approved for the annual budget for year 2010/2011.
3. Council resolves that the measurable performance objectives for revenue reflected in reconciliation of IDP are approved for the budget year 2010/2011.
4. Council resolves to adopt the revised Integrated Development Plan for 2010/2011 financial year.

Approved By:

.....  
Cllr. L Jiyose  
Mayor

.....  
Date

24 MARCH 2010

The speaker of the council, the chief whip, the members of the mayoral committee, leaders of all political parties, fellow councilors, the acting municipal manager, managers and officials, members of the community, distinguished guests ladies and gentlemen I greet you today on the year not only South Africa but the entire Africa will experience the coming of the world cup to its soil.

## Introduction

Local government is about service to the people. It is however important that the work done at a local level can only be significantly yield results if we ensure that the different spheres of government collaborate and work with one another as chapter 3 of the constitution speaks of these spheres as interdependent and interrelated.

We remain aware that the debate about the value and the efficiencies of local government will never come to an end, we have a responsibility to demonstrate that the local government has to make a difference where it matters most.

Based on the strategic objectives, the municipality strives to efficiently, effectively and economically to provide of quality basic services and infrastructure, provide higher economic growth and development, to fight poverty, build clean healthy safe and sustainable communities, to promote good corporate governance and financial viability.

Medium capacity municipalities such as Engcobo Local Municipality were required to comply with the budgetary provisions of the Municipal Finance Management Act 56 of 2003.

This document is therefore the second high level budget that is developed to comply with the said Act. The format of the budget has been stipulated in Circular 48 of National Treasury Guidelines. This circular states Votes, Sub Votes, GFS functions and Standard Items as the most appropriate way to report in accordance with the international standards of reporting. Our Budget Treasury Office staff has spent many hours preparing this document that will make this Council proud and also introduce a new process to enhance sound financial management in this municipality.

## MFMA REFORM PROCESS

The MFMA brought about major changes to municipal financial management in South Africa.

To align the Council's structure with the MFMA the following policies were developed and also implemented:

- Supply Chain Management Structure including delegations and the terms of reference of the various committees;
- Fixed Asset Management policy compliant with **GAMAP/GRAP**;
- Financial Policy including budget approval, credit control and indigent support, cash management and investments, rates and tariffs;
- Fraud Prevention Policy.
- Debt collection and credit control policy.
- Rates and tariff policy

The Council is required to convert our annual financial statements to comply with **General Recognized Accounting Practices** in the 2008/2009 financial year and this is a major project.

## **MUNICIPAL SERVICES**

The Accounting Officer dealt the various aspects that influence service delivery both positively and negatively.

I must emphasize that financial constraints in the budget is of serious concern which is further influenced by the low level of economic activity in the municipality as it is not favorably positioned to absorb the impact of the local fallout from the global economic crisis. This needs us to critically strive to balance our spending with the revenue we receive.

Our population of 148,719 people is spread over 2,258 hectares in some 322 villages. Service delivery is therefore exceptionally difficult and costly to achieve. It is estimated that the cost to provide service at RDP levels by 2014 will amount to a half billion rand.

## **SERVICE DELIVERY & BUDGET IMPLEMENTATION PLAN**

After the adoption of this annual budget, our administration will immediately respond by preparing the SDBIP's and linking the budget to the Performance Management System to comply with legislation. A summary of each functional SDBIP within each directorate is provided in the following pages showing the information set out in MFMA Circular 13 under the section "Format of Departmental SDBIPs":

- Purpose (outcomes);
- Service delivery description (outputs);
- Resources utilised (inputs);
- Inputs to detailed sector capital plans; and

The link between performance measures in the SDBIP and performance contracts

## **CONCLUSION**

Kindly allow me to convey my appreciation to the Accounting Officer and his staff for long hours and hard work that they have invested in this budget collecting and consolidating data, analyzing it to ensure maximum linkage with the IDP and the general economic trends. Their dedication is sincerely appreciated.

We have been elected by our community to deliver the services that they so urgently need, to develop a sound and effective administration and generally commit ourselves to the promises made during the election campaign.

## **The Budget**

### **Executive Summary**

The Municipal Finance Management Act (MFMA) and the related Circulars that have been distributed by the National Treasury require that the Mayor table a three year medium term budget strategy and expenditure framework to the Engcobo Municipal Council by the end of March for the financial year beginning July 1, 2010 and ending June 30.

The tabled budget is to be taken out to the public for consultation and then with all revisions be brought back to the entire municipal council for approval before the beginning of the new financial year as required in the MFMA. This final budget to be brought back to council will incorporate any of the submissions and changes that are deemed required by the Mayor.

Most of the requirements of the MFMA concerning the budget content and documentation are in place for this budget process and were incorporated into this budget document. Major requirements of the MFMA include: 1) the budget must set out 'realistically anticipated revenues' for the year by each revenue source; 2) the budget must be generally divided between capital and operating expenditures and each must be set out by 'vote'; 3) expenditures can only be funded by 'realistic' revenues, surplus cash carried forward and not committed to any other expenditure or borrowed funds (borrowed funds can only be used to fund capital projects). There are many other format requirements for the budget that are too numerous to mention here, however, a complete listing can be found in section 17 of the MFMA.

The preparation of this budget document evolved the making of critical policy decisions and key strategies and policy directions that were given by the Mayoral Committee over the past months. In August of 2009 the Mayoral committee approved a set of assumptions and forecasts that were then used to prepare 'baseline' budgets. These 'baseline' budgets formed the basis for operating budget discussions and these were given to the Directors to review and revise within given guidelines. These revised baseline budgets returned by the directors then formed the basis for the draft budget that was built upon the key assumptions and decisions (*see section 10 for a discussion of budget assumptions*).

The budget and financial policies used to develop this budget are focused on making Engcobo financially sustainable in the long run. One of the biggest challenges facing the municipality in the near future is maintaining an operating year end cash balance to allow for positive operating cash flows and unexpected contingencies. We must not only have sufficient cash available to pay all the creditors that we owe as required by the MFMA but also to allow for a cash reserve to even out sporadic cash flows during the operating year. We have worked diligently toward this goal over the past few years and have finally reached the point where we anticipate beginning the next financial year with enough cash to pay our creditors and still maintain some level of cash reserves.

As presented, the Budget for 2010/11 balances expenditures with revenues and available cash balances as required by the MFMA. In addition, we anticipate moving toward our goal of maintaining an operating cash reserve of 30 days.

In preparing the budget many issues emerged that had to be taken into account. Several assumptions were utilized to produce estimates and forecasts. In addition, many policy decisions were incorporated into this budget document. The following list attempts to give the most significant of these.

### Operating Revenues

- Revenues are shown on a 'billed' (or accrual) basis where applicable. In many cases revenue billed is much higher than cash actually collected on that billing. The council has not yet considered the writing off of the bad debts.
- **Rates and tariffs** in most cases contain proposed increases. A detailed listing and explanation of these is included in this document (see appendix A). To summarize these recommended increases:
  - Rates                    5.7% increase
  - Refuse Collection    5.7% increase

- o Water & Sanitation 5.7% increase

### Operating Expenditures

- o **Employee salaries** and related expenses are increased by the level indicated by correspondence from SALGA. This amount to a **13% increase in 2010/11**. Council salaries are also budgeted to increase this same amount. In addition, all positions are budgeted to be filled for the entire year except where contract workers are used in the place of a vacancy. In Rand terms the salary and allowance related budget increased by almost R2 Million over the adopted budget in the current 2010/11 budget. This is due to the incremental element of the salaries and additional posts catered for the budget and treasury office.
- o **No amount** is included in the operating budget for the purchase of small equipment and machinery.

### Capital Budget

The capital budget reflected in this document utilizes actually anticipated revenues, cash forward and borrowings to fund the budgeted expenditures of **54,8 million**. Major items include the allocation of almost **R52.9Million** in conditional capital grants and allocated to the municipality. A complete listing is included within the budget document.

### Other items in the operating budget

Included in the appendix is a separate listing of various conditional grants/other funded items and programs included within the operating budget. Most of these items (amounting to some **R1,9 Million**) are funded by conditional grants that specify exactly what the money can be expended on.

The budget as presented in this document meets the requirements of the MFMA and is presented to Council for consideration and review.

As with any such endeavour, preparation of this document required the participation and time of many individuals. Appreciation and thanks are expressed to all those involved in making this possible.

The table and charts below show the percentage makeup of the revenue and expenditures for the 2009/10 Engcobo Budget.

These budget schedules are to be approved by resolution of Council and are contained in the annexed spreadsheets:

### **Supporting Documentation**

Section 17(3) of the MFMA requires certain documents must accompany the budget.

### **Budget Process Overview**

The following schedule was adopted by the Council in August 2006 and was followed in the preparation of the 2007/08 medium term budget document.

### **Engcobo Municipality**

2010/11 August

KEY DEADLINES FOR IDP BUDGET PREPARATION SCHEDULE
--

	Item description	Due Date	Responsible Person
PHASES	July and August 2009		
PRE-PLANING	Review the 2009/10 IDP/ Budget Process	1-31 July	CFO/MYEKO
	Establish process and timetable for the 2010/11 to 2012/13 Budget Development.	19-August-09	Mayor, CFO
	<b>COUNCIL MEETING: IDP/Budget Schedule to be tabled to the Council</b>	20-Aug-09	MAYOR
	2008/09 Financial Statements submitted to Auditor-General	31-Aug-09	CFO
	September- October 2009		
Analysis	MAYORAL/ BUDGET STEERING COMMITTEE MEETING: Mayoral committee to meet and identify strategies and guidelines for the development of the 2010/11 to 2011/12 Budgets. Committee should adopt the 'Budget Preparation and Financial Guidelines' proposed. Present process plan to IGR MEETING	06-Sep-09  08 September 09	CFO
	MAYORAL / STEERING COMMITTEE MEETING: - review progress and budget assumptions IDP/Budget Rep forum meeting IDP/Budget road shows	08-Sep-09 09 September 2009 14-18 September 09	CFO MAYOR
	MEETING WITH DIRECTORS AND MANAGERS: Directorates to be provided with the current Baseline Operating Medium Term Expenditure Forecasts (MTEF) 2010/11 thru 2011/12 that are to be used as a basis for the development of new Operating Medium Term Expenditure	21-Sep-09	CFO
	Check with National, Provincial Governments and District Municipality for any adjustments to projected allocations for the next three years.	30-Sep-09	CFO

IDP/Budget Rep forum meeting

2009/10

2 October 09 MAYOR

KEY DEADLINES FOR BUDGET PREPARATION SCHEDULE			
	Item description	Due Date	Responsible Person
	October 2009		

	MAYORAL / STEERING COMMITTEE MEETING: - review progress and baseline operating budget.	05-Oct-09	CFO
	Schedule individual meetings with Directorate to review baseline budget and work progress for completion of changes and supplemental requests IDP/Budget Steering committee Analysis phase completed	16-Oct-09 20 Oct 09 28 Oct 09	CFO MYEKO MAHLASELA
	Review current tariffs, receive requested changes from directorates and prepare options for consideration	30-Oct-09	CFO, Acc.
	SUBMISSION OF BASELINE BUDGETS AND SUPPLEMENTAL REQUESTS FROM DIRECTORATES: Final date for submission of all Baseline Operating Budgets, Capital Budgets and Operational plans by Directorates to the budget office.	30-Oct-09	Directorates
STRATEGIES	November 2009		
	Draft report on proposed tariff changes for review to Budget Steering Committee delivered to CFO	05-Nov-09	CFO, Acc.
	MAYORAL / STEERING COMMITTEE MEETING: - review progress and proposed tariff report, Budget reviews and strategies. IDP/Budget strategic workshop IDP/Budget Rep Forum	10-Nov-09 18,19,20 Nov 09 24 Nov 09	CFO, MM MM and Myeko MAYOR
	Prepare first draft of operating and capital medium term budget based on baseline operating budgets submitted by directorates	27-Nov-09	CFO
	Receive audited Financial Statements and Audit report from the Auditor-General for the 2008/09 financial year	30-Nov-09	Auditor-General
PROJECTS	December 2009		
	MAYORAL / STEERING COMMITTEE MEETING: - review progress, baseline budget report AND DRAFT TARRIFS and prepare for project phase COUNCIL MEETING: Table Adjustment budget for mid-year	04-Dec-09 08 Dec 09	CFO, Budget Mgr and MM MM and Speaker
	January 2010		
	Sections and directorate meet to discuss strategies and objectives MAYORAL / STEERING COMMITTEE MEETING: - review progress and DRAFT BUDGET.	04-14 Jan 2010 15 Jan 2010	Managers CFO,
	MAYORAL COMMITTEE MEETING: PRESENT MIDYEAR PERFORMANCE REPORT TO MAYORAL COMMITTEE: Final review of 2009/10 operating and capital budget for midyear adjustments to	22-Jan-2010	Municipal Manager



	mayoral committee for approval to council.		
	SUBMISSION OF CAPITAL BUDGET REQUESTS FROM DIRECTORATES: Final date for submission of all Capital Budget plans by Directorates to the budget office.	22-Jan-2010	All Managers

KEY DEADLINES FOR BUDGET PREPARATION SCHEDULE			
	Item description	Due Date	Responsible Person
ALIGNMENT AND ADOPTION	February 2010		
	MAYORAL / STEERING COMMITTEE MEETING: - review progress and the DRAFT BUDGET. IGR Meeting IDP/Budget Rep Forum	05-Feb-2010  09-Feb 2010 23- Feb 2010	CFO MM MAYOR
	March 2010		
	MAYORAL / STEERING COMMITTEE MEETING: - review progress and DRAFT BUDGET.	05-Mar-2010	CFO
	Final Date for Directorates to present SDBIP performance indicators and service delivery targets for 2010/11 for review.	12-Mar-2010	Directorates
	MAYORAL / STEERING COMMITTEE MEETING: final draft operating and capital budget presented to Mayoral committee for review	19-Mar-2010	CFO
	COUNCIL MEETING: Council (after consideration of the 2008/09 Annual Report) to adopt an Oversight Report.	26-Mar-2010	Oversight Committee
	COUNCIL MEETING: Operating and Capital draft budget and IDP tabled to Council for consultation with the community	26-Mar-2010	Mayor, Finance MEC
	Submit to National Treasury, Provincial Treasury and the MEC responsible for Local Government the Annual Financial Statements, the 2008/09 audit report and any corrective action taken in response to the findings of the audit report.	31-Mar-2010	Administrative Director
	Submit draft budgets in required form to NT, Provincial Treasury	07-Apr-2010	CFO

KEY DEADLINES FOR BUDGET PREPARATION SCHEDULE		
Item description	Due Date	Responsible Person
April 2010		
IGR Meeting Check with National, Provincial Governments and District Municipality for any adjustments to projected allocations for the next three years.	6- April 2010 16-Apr-2010	CFO
Directorates are to provide a list of Capital Projects to be rolled over for inclusion in the 2010/11 Budget to the budget office and cash balances forward for grant projects. Public meetings and consultation on IDP/ Budget	30-Apr-2010  19- 30 April 2010	Directorates  Speaker and Mayor
May 2010		
MAYORAL IMBIZO	7 May 2010	MAYOR
Final Budgets prepared taking into consideration submissions made during consultation process	10-May-2010	CFO
MEETING OF MAYORAL / STEERING COMMITTEE: Approval of FINAL operating and capital budget for presentation to the full council	14-May-2010	CFO
COUNCIL MEETING: IDP & Budgets for 2010/11 thru 2011/12 adopted by Council along with the Mayor's budget address	26-May-2010	Mayor, Finance MEC
June 2010		
The Service Delivery and Budget Implementation Plans (SDBIP) along with the annual performance agreements for the Municipal Manager and all managers directly responsible to the MM (based on the operational plans and IDP) is to be issued to the Mayor by the	11-Jun-2010	Municipal Manager
IDP & Annual Budget reports to National, Provincial Treasury and the District municipality.	11-Jun-2010	CFO/ MYEKO
MAYORAL TO APPROVE SDBIP AND PERFORMANCE AGREEMENTS within 14 days after receiving them.	28-Jun-2010	MAYOR

The Budget is a political document. Although most of the technical preparation of the document is performed by staff, the budget is, in accordance with the MFMA, the Mayor's document. The Mayor and the Mayoral committee were involved with the budget at every step.

In July 2009 the mayor appointed a 'Budget' Steering committee to assist in the political oversight of the budget process. This committee met regularly to review each step of the budget's development. It was this committee that made the major political decisions regarding policies, tariffs and funding issues.

### ***Budget Development Overview***

The 2010/11 budget process began in July 2009 with the development of a Budget Schedule. This schedule outlined the key steps, milestones and timetables for the budget process. The Mayoral Committee also reviewed and approved the 'Budget Preparation and Financial Guidelines' that list the assumptions, goals and roles and responsibilities used in preparing the new budget.

In August 2009 the Mayoral committee approved the budget preparation schedule and tabled that schedule to council.

During the months of September through November 2009 the baseline budget was prepared using the approved guidelines and assumptions. Each directorate was given the opportunity to make changes within their operating budgets. Directorates were also requested to submit capital requests and supplemental operating requests on items such as personnel and new programs.

Concurrent with this process various committees were appointed to review and make recommendations on the municipalities various budget related policies.

At the end of November a first draft budget was prepared using all available data and in early December this report was presented to the Mayoral Committee.

In March the mid year assessment was prepared and based on that report an adjustments budget is submitted today for approval by council.

In February 2010 a draft budget was presented to the Mayoral along with a list of recommendations for items such as tariff increases and miscellaneous items. This final budget was prepared in conformance with circular 48 from National Treasury and is now being tabled to the entire council on March 24, 2010.

After being tabled to the council, the budget and IDP documents will be submitted to the National and Provincial Treasuries and made available to the public at all libraries and in city offices as well as being placed on the municipality's website.

A formal consultation schedule was developed by the Administrative Services Directorate in conjunction with the Speaker. These hearings started on the 28<sup>th</sup> April up to the 8<sup>th</sup> May. These workshops were held in every ward cluster within Engcobo Municipality. These consultative meetings will be attended by Mayoral Committee members, Ward Councillors, municipal officials and ward committee members. Both verbal and written submissions are encouraged at these meetings and will be recorded and maintained in the Administrative Services Directorate.

From these public consultations submissions are to be received and reviewed by the Mayor. Along with consultative inputs from the national and provincial treasuries, these submissions will subsequently be included in the final budget approved by council in May.

### **Alignment of Budget with Integrated Development Plan**

*Each year the IDP must be reviewed as required by the Municipal Systems Act and MFMA. It should be reviewed in terms of performance in achieving outcomes and outputs, since the current financial position and the future fiscal outlook for the municipality will have a direct bearing on delivery. The review should ensure that the plans are still within the financial*

*capacity of Engcobo. This section should give readers a good understanding of what is contained in the IDP and how that guides the allocations in the budget. The intention is not to attach the IDP as an annexure or to repeat everything in the IDP. However, it is critical that the user of the budget documentation obtains a good high-level overview of the IDP and be referred to the detailed IDP documentation.*

## **Budget Related Policies Overview and Amendments**

The **detailed policies** are not included in the budget documentation, however they are available on request to councillors and are to be made publicly available when the budget is tabled for consultation, tabled for consideration of approval and finally approved.

This section attempts to give a **broad overview** of the budget policy framework and highlight the amended policies to be approved by council resolution.

Budget related policies include, but are not limited to:

- Revenue related policies (tariffs, credit control, revenue collection, indigents, etc)
- Free basic services including levels, households benefiting and cost
- Investment of funds, reserves, cash management
- Supply chain management policy

### ***Revenue Related Policies***

In November 2009 the municipality approved several revised revenue related policies. These included a revised credit control and debt collection policy.

The policies submitted for revision in with the 2010/11 tabled budget include the following:

#### ***Credit Control and Debt Collection Policy***

This policy lays out the framework and the principles by which the municipality deals with those citizens that either want to connect to the municipal services or fall into arrears on the municipal services for which they are provided service.

This policy sets out the application process, the billing process and the mechanism to be used when performing the debt collection function.

#### ***Free Basic Services***

The free basic services policy is written in line with national directives and recommendations and states that those households registered as indigent and has the infrastructure within the municipality will receive 50kw of electricity and 10kl of water each month free of charge for the provision of basic service.

#### ***Investment of Funds and cash management***

In accordance with the MFMA, this past financial year the council adopted a 'cash and investment policy' setting out various principles and reporting requirements for the municipality's investments.

During 2009/10 a cash management policy municipality was also adopted. This policy sets a framework for the municipality to use when considering the use of the resources. This policy also sets self imposed limits on both the total amount of debt that can be issued by the municipality and the amount required each year for annual debt servicing.

#### ***Supply Chain Management Policy***

The MFMA required the municipality to adopt and implement a new supply chain policy by January 1<sup>st</sup> of 2006. The municipality met this deadline. We now have a detailed policy of council and a set of procedures to follow. The Supply Chain unit has been established within the Finance Directorate and is operating. The policy set limits for the various methods of procurement used within the municipality and delegated authority to implement the policy to the Accounting Officer as required in the MFMA.

#### ***Unforeseen and Unavoidable Expenditure Policy***

The municipality has developed this policy which is encompassed in the budget policy.

#### ***Adjustment budget Policy***

The municipality has developed this policy which is encompassed in the budget policy.

#### ***Debt Management Policy***

The municipality has developed this policy which stipulates to what extent and what criteria the municipality needs to use in order to enter into any debt agreement.

#### ***Write Off Policy***

The municipality has developed this policy which stipulates the criteria to be used to substantiate the amount owing as unrecoverable.

#### ***Arrangements Policy***

The municipality developed this policy which states what the debtors' responsibility is in order to maintain the credit rating in the municipality.

### **Budget Assumptions**

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. Documentation of the assumptions used in preparing the budget assists understanding of the information. The section provides a comprehensive summary of all the assumptions used in preparing the budget.

### **General inflation outlook and its impact on the municipal activities**

General inflationary pressure is expected to remain in the moderate range as per the National Treasury forecasts. We have used the guidelines as per circular 48 from National Treasury for the next three years when preparing this medium term budget

### **Interest rates for borrowing and investment of funds**

Investment income is calculated using a 9% rate for cash invested. The municipality has no borrowings that attract interest.

### **Rates, tariffs, charges and timing of revenue collection**

The Engcobo Municipality is still in the process of performing new valuations on property within the municipality. As a result of this, current valuations use property values sometimes dating back many years. Because of the uncertainty of when the new valuation roles will be completed we have conservatively used a zero percent increase in values for property. Rates are set to increase by 8% representing the CPIX.

A costing study was conducted in 2005/06 to assist the municipality in determining the 'total' direct and indirect cost of delivering the various services to the community. As a result of this study a new costing model was developed to distribute the indirect or 'administrative' costs incurred by the municipality. This new costing model is reflected in the proposed tariffs for the municipality this year.

The municipality performs the water and sanitation services under an agency contract with the Chris Hani District Municipality. The district must approve all tariff increases relating to the water and sanitation function. A recommendation was received from the Chris Hani District municipality to increase the water and sanitation tariff with 6% as well. Given the history discussed above, no increases have been included for the outer years of this budget.

### **Growth or decline in tax base of the municipality**

The municipality has continued to experience challenges in completing the valuation of property within the municipality.

A new valuation roll has been presented for approval we are using a zero growth factor. The municipality has also taken into account the valuation roll that was available in April 2009. However, the municipality has budgeted for a flat rate that is currently levied on non-rated properties. There are certain properties that are exempted and others are charged at a discounted rate called the rebate in order to comply with the municipal property rates act.

### **Collection rates for each revenue source and customer type**

*(for more detail see – revenue by source and vote)*

Collection of billed services continues to be problematic in many areas of the municipality. These lower collection rates continue to put upward pressure on service tariffs and will require a conscience effort to address in the future. No provision for bad debts as the council is not in a financial position to finance it, however should a situation arise where, according to our provision for bad debts

Collection rates for services that are billed to the community are usually very different than the amount actually billed for a particular service. This is the result of many different factors including consumer attitude, ability to pay and other issues. The CHDM appointed a service provider to assist the municipality to improve the collection of the various billed services through a revenue management plan that addresses many different areas of the billing and collection cycle.

In addition, the credit control and debt collection policy was revised last year and a debtor's write off and arrangements policies were also added to the mix. The adoption of these policies is only one part of a multi-prong approach to address this issue.

### **Average salary increases**

When we include councillor allowances, salaries and related expenses make up almost half of the operating budget. This salary related expense is increased each year by bargaining agreements controlled by SALGA.

Salaries for municipal workers are projected to increase steadily over the medium term budget forecast. For 2010/11 salaries are projected to increase 13%, for 10/11 6,2%, and for 10/11 a projected 4.6% increase.

## **Funding the Budget**

### **Fiscal Overview**

Over the past few years the Engcobo Municipality has been working to reform its financial position and reporting systems to promote sustainability and conformance to the requirements of the MFMA.

Sustainability can mean many different things but at its core is the idea of financial stability and the ability to financially meet the obligations and commitments that are required to deliver the services within the community.

The MFMA requires many things from the municipality in this respect. Some of these items include: 1) Payment of all creditors within 30 days; 2) using only realistically expected actual revenues and non-committed cash surpluses to fund the budget; 3) discontinue the use of short term borrowing (bank overdraft) to fund operating expenses; and 4) ensuring that all required reserve funds are 'cash backed'.

Primarily from a cash point of view, Engcobo has faced serious financial difficulties over the past few years. Engcobo is not alone. Many local municipalities in South Africa are facing the same difficulties. The reasons for this situation are not simple and neither are the solutions. Over the past years the municipality has been required to take on large numbers of employees, a large borrowing debt and a large population that simply do not have the income to pay the rates and tariffs required.

These conditions have resulted in overall low collection rates for services billed, growing pressure on salaries to become a greater and greater portion of the operating budget and finally, cash strapped bank accounts. The past few years the municipality has ended each fiscal year with a large bank overdraft and large creditor balance. The MFMA will not allow this to continue. The municipality was mandated to eliminate this situation before the end of the 2007/08 financial year.

It is to this end the municipality has continued to focus its attention toward the past few years. Prudent budgeting and some hard decision making has allowed this goal to become a reality. The municipality will end 2009/10 with enough cash at the end of the financial year to pay all of its creditors. This, however, must not be the end.

The municipality must strengthen its credit control and debt collection efforts. We must evaluate every area of operations and ask ourselves if we are doing things in the most efficient and effective way. We must make sure that those organs of state for which we supply agency functions pay for those functions in their entirety so that local Rand can be used to pay for the local services that we are required to perform.

Probably most important, we must be willing to change. We cannot continue to do things the way that we always have done them in the past.

New challenges always bring with them new opportunities. We must find those opportunities that present themselves and use them to better our municipality.

### **Funded versus a Balanced budget:**

The implementation of the MFMA changes the prospective of the budget from a 'funds' prospective where the emphasis is on balancing funds going out to funds coming in to a more dynamic accounting prospective.

This new prospective requires us to analysis the budget from several viewpoints to ensure that the budget is indeed balanced in accordance with the MFMA. The MFMA requires in section 18 that the budget be funded using only 'realistically' anticipated revenues to be collected and cash backed accumulated funds that are not committed to other purposes. Borrowed funds can only be used to fund capital budget items in accordance with MFMA requirements.

Although we show revenues on an accrual basis we must ensure that revenues used to fund the budget are realistically anticipated to be collected.

To be credible the budget must be consistent with the IDP and be achievable in terms of service delivery and performance targets. Credible budgets have realistic revenue and expenditure projections and the implementation of it improves the financial viability of the municipality.

The municipality has followed these principles and the directions put forth in NT circulars 41, 42 and 51 concerning both the budget process and funding of a municipal budget.

We have made full disclosure on all revenues using accrual methods and all cash that is available has been shown where it is legally committed to be spent.

Cash flow for the 2010/11budget year reflects that cash receipts for the year will be sufficient to place a small surplus into working operating capital.

### **Financial Indicators**

The municipality is in the process of developing useful performance indicators that will be both meaningful and useful for detecting financial problems and trends that need to be investigated. These indicators are not available at this time but will be made public once finalized.

#### **Property Rates**

In light of the failure to implement the valuation roll in 2003 the general valuation roll used is still the 1999 valuation. The Engcobo Municipality is prepared and there currently no indication of any dispute. The interim valuation was done in October to curb the gap between the old valuation roll and implemented.

A new valuation roll has be presented for approval we are using a zero growth factor. The municipality has also to taken into account the valuation roll that was available in April 2009. However, the municipality has budgeted for a flat rate that is currently levied on non rated properties. There are certain properties that are exempted and others are charged at a discounted rate called the rebate in order to comply with the municipal property rates act.

It is critical to the municipality that the general valuation for the municipality be completed as soon as possible. The municipality has appointed service providers to complete the general valuation and the draft is about to go to inspection by the public.

#### **Refuse Collection**



Refuse collection tariffs are 'use based' fees that are based on factors such as the category of the customer and the number of removals required.

For 2009/10 a **5.4%** increase in refuse tariffs across the board is scheduled. The reason for such increase is as a result of the service not breaking even.

### **Savings and efficiencies**

The budget must be fully funded and be able to fund the required reserves with cash per the MFMA. To meet this goal the municipality will need to continue to find savings and operating efficiencies in municipal operations. Currently the municipality has to place constraints on the expenditure accounts in certain areas of operation. The municipality also has plans to investigate the elimination of certain areas and operations that are not core functions of the municipality.

Other areas of operations being examined include; the implementation of the credit control and debt collection policy of the municipality; and addressing a major issue concerning a tremendous amount of extremely old and very difficult to collect debtors on the active billing system. The old hard to collect accounts in this billing system need to be purged and 'cleaned' to a separate collection system that is then contracted out to the private sector for processing. This will allow the limited staff to focus on more current debtors; those with a higher likelihood of collection

### **Grant allocations**

*The following is a listing of grants included within the budget and a brief description of each.*

#### **MUNICIPAL INFRASTRUCTURE GRANT**

This fund is allocated to municipalities to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure, as well as the rehabilitation and renewal of municipal infrastructure. Conditions to the grant is to prioritise residential infrastructure for water, sanitation, refuse removal, street lighting, solid waste, connector and bulk infrastructure, and other municipal infrastructure like roads in line with the MIG policy framework. Municipalities must adhere to the labour intensive construction method and must report to DPLG in terms of the Division of Revenue Act on progress.

#### **MUNICIPAL SYSTEM IMPROVEMENT PROGRAMME**

This grant is allocated to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance system as required in the Local Government Municipal Systems Act of 2000.

Conditions include that a activity plan must be submitted in the prescribed format with detail budgets and timeframes. Submission of monthly expenditure reports in accordance of the Division of the Revenue Act.

#### **LOCAL GOVERNMENT FINANCIAL MANAGEMENT GRANT**

This grant is allocated to promote and support reforms to financial management and the implementation of the Municipal Finance Management Act.

Conditions include submission of council resolution striving to achieve multi-year budgets, accounting and reporting reforms. The employment of a skilled chief financial officer and

promotion of internship programme in financial management and ongoing review, revision and submission of implementation plans to address weaknesses in financial management.

## **Disclosure on Implementation of MFMA & Other Legislation**

The MFMA (Municipal Finance Management Act) became effective July 1<sup>st</sup> of 2004. Most of the requirements of the act took effect immediately; however, various delays were given to certain sections of the act based on the 'capacity' of the municipality as was determined by National Treasury. All local municipalities were classified as either a high, medium or low capacity municipality with each level given different implementation dates for the various delayed sections.

Engcobo is classified as a medium capacity municipality and was required to meet the implementation dates put forth for medium capacity municipalities.

A MFMA implementation plan was developed to assist the municipality in implementing the required changes by the deadlines given. With only a few exceptions all sections of the MFMA were required to be implemented by Engcobo by July 1<sup>st</sup> of 2006.

Many of the major changes required by the act have not been implemented by the municipality. Some of these include establishment of a supply chain unit, the establishment of a budget and treasury office within the finance directorate, delegations within the organization, establishment of a new audit committee and other administrative requirements.

The budget and how it must be designed, funded and reported on is a very big part of MFMA implementation. Requirements include funding the budget only from realistic revenue, surplus cash or borrowing (but only for capital projects). The budget must also be prepared and tabled to council much earlier than was previously required (by March 31<sup>st</sup>) and must be voted on in its final form before the end of May.

Much of the implementation of the MFMA involves new and sometimes complex budgetary and financial reporting requirements. Detailed monthly budgetary reports must be delivered to the Mayor along with quarterly performance indicators. The Mayor is required to make quarterly reports to the council on all aspects of the budgets implementation and any problems that need to be addressed. A mid year performance report is to be delivered to council along with recommendations on needed mid year adjustments that need to be made. Annual, quarterly and monthly reports are required to be delivered to National Treasury in very specific formats. All of these reporting requirements are already being met.