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MAKANA LOCAL MUNICIPALITY

**BUDGET REPORT 2011/12 TO
2013/14 (TABLING OF THE DRAFT
BUDGET FOR ADOPTION – 31 MARCH
2011)**

TABLE OF CONTENTS

Page No.

1.1.	Executive Summary and Executive Mayor's Report	3
1.2.	Makana Municipality at a Glance	4 – 5
1.3.	Municipal Services at a Glance	5
1.4.	Executive Mayor's Budget Speech	5
1.5.	Budget Process Overview	6
1.6.	Financial Challenges/Constraints/Assumptions	6 - 7
1.7.	Grants receivable in the 2011/12 financial year	7 - 8
1.8.	Overview of budget related policies	8
1.9.	Overview of budget funding	8 - 9
1.10.	Disclosure of allocations made by the municipality	9
1.11.	Salaries and allowances payable to Cllrs and Section 57's	9 - 12
1.12.	Current overall financial position and liquidity status	12-13
1.13.	Implementation of MFMA and other legislation	13
1.14.	Budget related resolutions	13
1.15.	Municipal Manager's Quality Certification	13

1.1. EXECUTIVE SUMMARY AND THE EXECUTIVE MAYOR'S REPORT

During the time when we were preparing the 2010 / 2011 (current financial year) financial year's budget we assumed that by the time the 2011/12 financial year's budget is finalized local government elections would have taken place. However, that has not been the case and we are required to finalize our term by adopting a draft budget for the coming financial year.

The National Treasury has availed a budget circular sensitizing us on how the 2011/12 budget must be prepared or considerations that must be borne in mind when the budget is prepared, some of which are national considerations. The issues relating to job creation has been raised more vocally even during the latest speech of the President of the Republic, Hon. Mr JG Zuma. We must therefore work even harder in creating conducive environment for ensuring that job creation is a reality.

This draft budget has also been prepared when NERSA (National Electricity Regulator of South Africa) has just made an announcement of bulk electricity tariff increases for the next three financial years which are also quite high. The times are getting tighter and tighter which therefore means that we must cut down on budgeting for nice-to-have, and rather stick on core issues. It is high time that we consider creating cooperatives in certain non-core areas (e.g. beatification of the town, greening of the town, cleaning of parks and recreation areas, etc.).

As it has been a norm from the 2008/09 financial year a budget that addresses the problems experienced by the Rural Communities (namely Rural Outreach programme) has been set aside (**year 1 = R1.9m, year 2 = R2m and year 3 = R2.1m**). This allocation is made possible from the Equitable Share allocation.

All resolutions dealing with the (a) approval of the annual budget, (b) approval of rates and tariffs, (c) approval of the Service Delivery and Budget Implementation Plan (SDBIP), and (d) approval of budget related policies will be dealt with when the final budget is tabled to the Council on or before the end of April 2011 for approval.

I would like to express my sincere appreciation to all of you who have made it possible for us to table this draft budget and encourage you all to do more so that a balanced budget, linked to the IDP, is tabled to this Council before the end of April 2011, and considering comments by the public including priorities from other levels of state (national, provincial and district).

CLLR VG LWANA
EXECUTIVE MAYOR: MAKANA MUNICIPALITY

1.2. MAKANA MUNICIPALITY AT A GLANCE

Makana Municipality is situated in the Province of the Eastern Cape and is one of the nine Local Municipalities under Cacadu District Municipality. Makana Municipality incorporates the areas of Grahamstown, Alicedale, Riebeeck East, Salem, Fort Brown, Seven Fountains and Sidbury. The Makana area of jurisdiction is known as the “Festival City” due to the fact that various festivals are staged in this area, in a calendar year, such as “Arts Festival, Sci-Fest, Freedom Festival, Journalist’s Annual Indaba”, amongst other activities.

Makana Municipality is surrounded by world-known Game Reserves, such as Lalibela, Shamwari, Kwandwe, Kwantu, amongst others. The area boasts itself with highly recognised or highly rated educational institutions, such as Rhodes University and other colleges. The Makana Municipal area of jurisdiction is a historic area, where a number of frontier wars took place in the past.

Population and Household Data

The population figures for the Makana Area indicated as per the census 2001 amounts to a total population of 82 682, whilst the survey conducted by Cacadu District Municipality came up with a figure of 140 120, so it is possible that the total population in this area is above 110 000. The households’ statistics as per the 2001 census gave a figure of 18 453, whilst the same survey conducted by Cacadu District Municipality resulted to a figure of 16 758, and it is therefore possible that the total households in the area exceed 17 000.

Executive Mayoral System

The municipality operates an Executive Mayoral Committee system with the Executive Mayor and five Portfolio Chairpersons being members of the Mayoral Committee. The meetings of the Mayoral Committee are held once a month, and the same applies to the meetings of the Portfolio Committees, whilst the Council meetings are held four times during a calendar year.

Administration

The Municipal Manager / Accounting Officer is the head of administration and is supported by the following Directorates: -

- ❑ Corporate Services;
- ❑ Community and Social Services;
- ❑ Infrastructure Services (Including Housing and Land);
- ❑ Local Economic Development; and
- ❑ Finance

Financial Viability

The municipality was awarded a credit rating of Baa2.za by Moody’s Investors Service in the 2009/10 financial year. The rating results of Baa2.za indicate that the municipality’s financial and economic outlook is stable, as this symbol

represents average credit worthiness. The municipality is faced with many challenges that include the non-payment of services, with the payment rate a little over 80% as at end June 2010.

1.3. MUNICIPAL SERVICES AT A GLANCE

Makana Municipality provides the following essential services under its area of jurisdiction: -

- Electricity (providing electricity through Eskom in former Grahamstown East and certain rural areas, whilst former Grahamstown West and part of Alicedale is supplied by the Municipality);
- Sewerage;
- Water;
- Refuse Removal, and

Other essential services such as Libraries, Traffic Control, and Environmental Management are also provided by the municipality. Makana Municipality also provides Primary Health services on an “agency basis”. The problem with Primary Health provision is the fact that Makana Municipality contributes more than the required 20% of the supposed **80:20** split and the fact that nurses are resigning or leaving the municipality for “greener pastures” in Provincial Health Department due to salaries being provided by the Department, which is higher than the grading of the municipality. I must indicate though that with effect from 1st January 2011 the Primary Health Care service has be reverted back to the Provincial Department of Health (through a process named “provincialisation of Primary Health Care”).

In an endeavour to promote or market the area of Makana the municipality has a long-standing arrangement with Makana Tourism, and the municipality avails some financial allocation to this institution. The Municipality has recently signed (early in 2010) a Service Level Agreement (SLA) with Makana Tourism in order to formalise this arrangement.

Makana Municipality does not operate nor has a “municipal entity” under its control and does not utilise external mechanisms for basic service delivery. At the moment there are negotiations in place for partnering with Amatola Water for the purpose of assisting in the area of water service as a partner.

1.4. THE EXECUTIVE MAYOR’S BUDGET SPEECH

The separate document covering the Mayor’s Budget Speech will be made available **when** tabling the **draft** budget to Council for **adoption** and will also be loaded on the internet.

1.5. BUDGET PROCESS OVERVIEW

In August 2010 the Chief Financial Officer tabled a Budget Timetable which indicated vital due dates of all budget related processes. A combined timetable for the budget and IDP with due dates was tabled and approved by Council in September 2010. The budget timetable and IDP were circulated to all Directorates, Heads of Departments and were also discussed at Senior Management Team meetings which are held at least twice a month. Directorates were being kept reminded when the closing dates were drawing closer so that deadlines are achieved.

1.6. FINANCIAL CHALLENGES / CONSTRAINTS AND ASSUMPTIONS

Makana Municipality is surrounded by a number of rural areas under its area of jurisdiction, and obviously the municipality is experiencing a high unemployment rate. The high financial dependence for the municipality is mainly the Electricity Income whilst Grants and Subsidies are coming second. The high dependence on Grants and Subsidies is of great concern as that could create a disaster if such grants fail to materialise for unknown reasons.

The arrear debt situation is of great concern as at the end January 2010 the arrear debt situation was standing at **R170.8m**. These are the challenges that we must all jointly endeavour to address in the upcoming financial years, and also continue ensuring that those who are indigent and poor are brought into the "safety net" through the municipality's Indigent / Assistance to the Poor Policy. As part of the Audit Action Plan for the 2009/10 financial year's audit it has been suggested that a process of data cleansing and meter audit be embarked upon. The audit action plan has been recently approved by Council and soon tenders will be called and the analysis of the Debtor's book is also being targeted through this project.

The Municipality has also budgeted for the provision for bad debts against various services such as Electricity, Water, Sewerage and Refuse in order to cater for escalating non-payment of services. The draft budget that is tabled to the Council is not yet complete as it is not balanced as a lot of work will still need to be undertaken, up until the period leading to before end April 2011, when it is expected that it will be finally approved. The Budget Task Team will have to work hard to ensure that the budget not only balances, but is also linked to the IDP. Assumptions made in compiling this budget include (i) increase salaries by 8%, rates and taxes increased by 8%, electricity increased by 20% and also budget for loan repayment starting from 2011/12 financial year.

During the 2010/11 financial year an amount of R1.1m had to be paid to Cape Joint Pension fund resulting from the recent poor economic situation around. There is also a debate with Department of Water Affairs where there is a claim

that as from 2002 the municipality is also amongst those municipalities that were charged their water tariffs based on incorrect tariffs by DWA. This matter is not yet finalised and is being discussed with the Department.

1.7. GRANTS RECEIVABLE IN THE 2011 FINANCIAL YEAR

The following are grants (conditional / non conditional) receivable from National Organs of states for various purposes as indicated in the Annual Division of Revenue Bill as availed immediately after the budget speech by the Minister of Finance (Mr P Gordhan) in early February 2011. The figures indicated in this schedule will be confirmed on or before 1 April 2011 or when the Bill is enacted, and usually through past years' experiences these figures do not change: -

Figure: 1.7.1 GRANT FUNDING – 2011 / 2012 (As per Division of Revenue Bill)

TYPE OF GRANT	2010 / 2011 ALLOCATION (As per Municipal Financial Year)	2011 / 2012 ALLOCATION (As per Municipal Financial Year)	2012 / 2013 ALLOCATION (As per Municipal Financial Year)	2013 / 2014 ALLOCATION (As per Municipal Financial Year)	Page Number of the DOR Act
Equitable Share	R53 620 000	R59 143 000 (Incl R1 684 000 for Cllrs remuneration)	R65 410 000 (Incl R1 779 000 for Cllrs remuneration)	R69 677 000 (Incl R1 882 000 for Cllrs remuneration)	28 and 301
Financial Management Grant	R1 200 000	R1 450 000	R1 500 000	R1 500 000	178
Municipal Systems Improvement Grant	R750 000	R790 000	R800 000	R850 000	178
Municipal Infrastructure Grant	R20 213 000	R24 312 000	R29 560 000	R31 185 000	201
National Electrification Grant	R7 410 000	R0	R0	R0	221
Integrated	R236 000	R4 236 000	R1 693 000	R2 695 000	254

National Electrification Grant (through Eskom or not to be paid to Makana LM)					
Neighborhood Development Partnership Grant	R20 000 000 (IG) and R1 000 000 (TAG)	R15 000 000 R500 000 (TAG)	R18 000 000	R13 071 000	Per letter from NT 265
Expanded Public Works Programme (Incentive Grant to meet projects)	R0	R536 000	R0	R0	277
TOTAL	R104 429 000	R105 967 000	R116 963 000	R118 978 000	

1.8. OVERVIEW OF BUDGET RELATED POLICIES

The Finance Directorate embarks on a process of reviewing all financial related policies from the beginning of a financial year. All financial related policies are then tabled to Council for approval when the budget is finally approved by Council on or before end May of each year, and the 2011/12 budget preparation will not be different to other years. The crucial policy that needs urgent attention during this time is the Property Rates Policy which requires that it be re-developed and be in line with the Municipal Property Rates Act of 2004. The Draft Policy will be publicised during the month of April 2011 for comments.

1.9. OVERVIEW OF BUDGET FUNDING

The sources of funding the municipality's budget include inter-alia (i) Electricity charges, (ii) Water Charges, (iii) Sewerage Charges, (iv) Refuse Charges, (v) Property Rates and a bigger portion also originates from (vi) Grant Funding. The high dependence on grants could signal some challenges in cases where the municipality fails to receive such grants from relevant authorities. The bigger portion of grant funding is the Equitable Share which is unconditional by nature and followed by conditional grants such (i) Municipal Infrastructure Grant and (ii)

Neighborhood Development Partnership Grant (NDPG). The conditional grants can be utilised only for their sole purpose (or in terms of the Division of Revenue Act), whilst the unconditional grants can be used at the discretion of the municipality. The municipality has also raised a loan of R50m (20 year loan) in order to fund the requirements in the area of Water Infrastructure and the loan has been raised with the Development Bank of Southern Africa (DBSA).

The escalating increase in the debtor's situation is worrying more so when the government departments are also owing the municipality a sizeable amount. The debt collection rate as at end June 2010 was about 81% which indicates that for every R1 billed there's a likelihood that R0.19c will not be collected and this assumption was used in providing for a working capital (provision for bad debts).

1.10 DISCLOSURE OF ALLOCATIONS MADE BY THE MUNICIPALITY

Makana Municipality has an old arrangement with Makana Tourism in an endeavour to ensure that the municipal area is marketed. The Municipality makes annual financial contribution to Makana Tourism in order for it to finance its operations. Makana Tourism is in turn expected to provide monthly financial reports, as well as Audited Annual Financial statements to the municipality. The financial reporting attempts to allay the municipality of any abuse of public funds by the organisation. Makana Tourism has been allocated an amount of **R559 600** in the 2011/12 financial year from **R508 600 (2010/11)** an increase of **10%**. The allocation for 2011/12 has not yet been confirmed as this report relates to the draft budget.

1.11 SALARIES AND ALLOWANCES PAYABLE TO COUNCILLORS AND SECTION 56/7 EMPLOYEES

The assumptions made on increasing salaries and allowances have been fixed at an increase of **8%** for everyone within the institution including Councillors allowances and also allowances payable to Section 57 employees. The summary of budgeted allowances for Section 56/57 employees can be displayed as follows: -

Figure 1.11.1. Budgeted Salaries and allowances for Section 56/57 employees (2011/12)

Category	Salary per annum	Transport Allowance (p.a.)	Cellphone Allowance (p.a.)	Performance Bonus	Total
1 x Municipal Manager	R894 457	R159 202	R14 475	R151 231	R1 219 365
5 x Directors	R3 419 193	R651 258	R54 340	R578 883	R4 703 674
TOTAL	R4 313 650	R810 460	R68 815	R730 114	R5 923 039

The following are detailed budgeted salaries and allowances for Section 56/57 employees: -

Figure 1.11.1(a) Detailed Budgeted Salaries and allowances for Section 56/57 employees (2010/11)

Category	Salary per annum	Transport Allowance (p.a.)	Cellphone Allowance (p.a.)	Performance Bonus	Total
1 x Municipal Manager	R894 457	R159 202	R14 475	R151 231	R1 219 365
1 x Chief Financial Officer	R683 839	R130 251	R10 868	R115 777	R940 735
Director: Corporate Services	R683 839	R130 251	R10 868	R115 777	R940 735
Director: Local Economic Development	R683 839	R130 251	R10 868	R115 777	R940 735
Director: Community and Social Services	R683 839	R130 251	R10 868	R115 777	R940 735
Director: Infrastructural Services	R683 839	R130 251	R10 868	R115 777	R940 735
TOTAL	R4 313 650	R810 460	R68 815	R730 114	R5 923 039

The summary of budgeted allowances for Councillors can be displayed as follows: -

Figure 1.11.2. Budgeted Salaries and allowances for Councillors

Category	Salary per annum	Transport Allowance (p.a.)	Cellphone Allowance (p.a.)	Total
1 x Executive Mayor	R492 264	R164 088	R40 502	R696 854
5 x Members of Mayoral Committee	R1 845 986	R615 330	R101 113	R2 562 429
1 x Speaker of Council	R216 595	R72 199	R12 615	R301 409
17 x Other Councillors	R2 510 532	R836 837	R214 472	R3 561 841
TOTAL	R5 065 377	R1 688 454	R368 702	R7 122 533

The total Draft Operating Income (at Directorate level) is as follows: -

Figure 1.11.4(a) Draft Operating Income by Directorate level

Votes	Medium Term Revenue & Expenditure Framework				
	2010/2011 Approv. Budget R	2011/2012 Budget Year R	Year-to-Year Increase/ (Decrease)%	2012/2013 Budget Year+1 R	2013/2014 Budget Year+2 R
Mayoral Executive	120 940	183 020	51%	202 410	215 610
Municipal Council					
Municipal Manager's Office	1 355 000	1 896 100	37%	2 096 130	2 238 600
Budget & Treasury Office	448 713	525 826	17%	568 521	621 628
Technical Services	140 426 040	206 049 200	47%	206 654 500	219 024 050
Community & Social Services	24 034 420	23 593 740	-2%	25 698 075	27 624 140
Corporate Services	1 762 810	2 152 250	22%	1 703 450	1 801 630
Local Economic Development	0	0		0	0
TOTAL FOR VOTES	212 630 340	286 456 980	35%	293 206 775	313 066 310

Figure 1.11.4(b) Draft Operating Expenditure by Directorate level

Votes	Medium Term Revenue & Expenditure Framework				
	2010/2011 Approv. Budget R	2011/2012 Budget Year R	Year-to-Year Increase/ (Decrease)%	2012/2013 Budget Year+1 R	2013/2014 Budget Year+2 R
Mayoral Executive	1 500 510	2 062 230	37%	2 085 180	1 843 450
Municipal Council					
Municipal Manager's Office	7 718 210	11 148 430	44%	11 775 640	10 669 480
Budget & Treasury Office	11 950 050	18 297 460	53%	18 652 400	21 204 236
Technical Services	122 044 500	189 351 570	55%	191 672 880	197 339 750
Community & Social Services	51 055 480	64 316 920	26%	62 588 450	63 160 186
Corporate Services	15 214 010	23 392 090	54%	24 072 690	26 616 510
Local Economic Development	3 147 580	6 020 710	91%	6 591 380	7 992 480
TOTAL FOR VOTES	212 630 340	314 589 410	48%	317 438 620	328 826 092

From the above it can be seen that the total expenditure exceeds the total income for the three financial years as follows, R28132 430 (year 1), R24 231 845 (year 2) and R15 759 782 (year 3).

The summary capital budget can be summarised as follows: -

Figure 1.11.5(a) Draft Capital Budget (at a glance)

Votes	Medium Term Revenue & Expenditure Framework				
	2010/2011 Approv. Budget R	2011/2012 Budget Year R	Year-to-Year Increase/ (Decrease) %	2012/2013 Budget Year+1 R	2013/2014 Budget Year+2 R
Mayoral Executive	30 000	170 000	467%	0	0
Municipal Council	38 000				
Municipal Manager's Office	114 500	448 000	291%	0	0
Budget & Treasury Office	450 000	1 890 000	320%	0	0
Technical Services	40 545 380	126 452 950	212%	58 116 900	51 574 850
Community & Social Services	7 529 970	12 881 400	71%	5 036 000	17 447 000
Corporate Services	694 000	1 492 400	115%	50 500	56 500
Local Economic Development	20 194 250	15 580 000	-23%	18 000 000	13 071 000
TOTAL FOR VOTES	69 596 100	158 914 750	128%	81 203 400	82 149 350

Figure 1.11.5(b) Draft summarised Capital Budget (by Source of Funding)

FUNDING SOURCES - CAPITAL BUDGET					
AFF	70 410 300			35 121 400	39 452 600
GRANTS:					
MIG	23 164 450			28 082 000	29 625 750
MSIG	340 000			-	-
NDPG	15 000 000			18 000 000	13 071 000
DBSA LOAN	50 000 000			-	-
	158 914 750			81 203 400	82 149 350

The above budget will have to be scrutinised before being tabled to the Council meeting of April 2011 in order to ensure that it is based on realistic sources of revenue as is required by the Municipal Finance Management Act 56 of 2003.

1.12. CURRENT OVERALL FINANCIAL POSITION AND LIQUIDITY SITUATION

The Municipality is reasonable liquid based on its size and its budget. Makana Municipality ensures that prudent financial controls are in place and are practiced. The municipality is also in a position of accounting for funding that is financed externally, such as conditional grants, and others. In demonstrating the ability of the municipality to exercise financial controls the municipality has been awarded a reasonable rating by the rating agent Moody's and in the Council meeting of December 2010 an amount of about R27m was allocated to address

certain infrastructural requirements from matured investments and the budget was adjusted with this amount. The municipality has been able to settle a claim of R1.1m from Cape Joint Pension fund which resulted from the fund's condition whereby member municipalities are required to contribute in a case where the fund has performed poorly due to external economic conditions. This is the predicament that many municipalities found themselves in as far as this fund is concerned from May/June 2010.

1.13. IMPLEMENTATION OF THE MFMA AND OTHER LEGISLATION

The municipality works very hard in ensuring that it implements all necessary statutory requirements applicable in a municipal environment within its limited financial resources and also human resources. The municipality has managed to implement Grap/Gamap requirements with effect from the 2008/09 financial year and has also implemented Municipal Property Rates Act No. 6 of 2004. During the current financial year (2010/11) the municipality is working hard in complying with GRAP17 as all municipalities are compelled to be complying with effect from 2010/11 financial year.

1.14. BUDGET RELATED RESOLUTIONS

The final budget resolution will be attached or disclosed when the municipal Council is finally approving the budget on or before end April 2011, as at this stage the Council will be adopting a draft budget.

1.15. MUNICIPAL MANAGER'S QUALITY CERTIFICATE

I Ntombi Baart (Ms), Municipal Manager of Makana Municipality, hereby certify that the Draft Annual Budget and supporting documents have been prepared to the best of our ability in accordance with the Municipal Finance Management Act and the regulations made under this Act. I must also highlight that as this report has been prepared for the purpose of finalizing a Draft Budget some of the information that must be available in the budget report will be availed when the budget is finally approved by Council, on or before end April 2011.

NAME: N.L. BAART (Ms)
MAKANA MUNICIPALITY (EC104)

SIGNATURE:

DATE: