

***SUNDAYS RIVER VALLEY  
MUNICIPALITY***



***BUDGET 2011/2012 AND MTREF***

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**CHAPTER 1**

**MAYOR'S REPORT**

To be tabled at the meeting

## **CHAPTER 2**

### **COUNCIL RESOLUTION**

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the Annual budget of the Sundays River Valley municipality for the financial year 2011/12; and indicative allocations for the two projected outer years 2012/13 and 2013/14; and the multi-year and single year capital appropriations are approved as set-out in the following tables:
  - 1.1. Budgeted Financial Performance (revenue and expenditure by standard classification);
  - 1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote);
  - 1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
  - 1.4. Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.
  - 1.5. That council in principle approves the application for loan funding to fund the identified infrastructure assets
  - 1.6. That council in principle approves the application for lease funding to fund the vehicles for technical department
2. That the financial position, cash flow, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are adopted as set-out in the following tables:
  - 2.1. Budgeted Financial Position;
  - 2.2 Budgeted Cash Flows;
  - 2.3 Cash backed reserves and accumulated surplus reconciliation;
  - 2.4 Asset management; and
  - 2.5 Basic service delivery measurement.
3. That in terms of section 24(2)(c)(i) and (ii) of the Municipal Finance Management Act 56 of 2003 and sections 74 and 75A of the Local Government: Municipal Systems Act 32 of 2000 as amended, the tariffs for the supply of water, electricity, waste services, sanitation services and property rates as set out in annexure ....., that were used to prepare the estimates of revenue by source, are approved with effect from 1 July 2011.
4. That in terms of section 5 of the Municipal Property Rates Act, 6 of 2004, the amendments to the rates policy as set out in Annexure ..... is approved.
5. That in terms of section 24(2)(c)(iii) of the Municipal Finance Management Act 56 of 2003, the measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out in Supporting Table SA7 are approved.
6. That in terms of section 24(2)(c)(iv) of the Municipal Finance Management Act 56 of 2003, the amendments to the integrated development plan as set out in annexure ... is approved

**CHAPTER 3**

**EXECUTIVE SUMMARY**

## **CHAPTER 4**

### **ANNUAL BUDGET TABLES**

#### ***Operating budget (Schedules A1, A2, A3 &A4)***

When drafting the annual budget for SRVM consideration was given to the fact that the municipality has been placed under partial administration by the MEC of Local Government and Traditional Affairs in accordance with section 139(1) (b) of the Constitution. A conservative approach has been maintained for both income and expenditure budgets to try and assist in the stabilization of the organization.

The operating revenue budget of SRVM amounts to R111 031 835 for 2011/2012 financial year. This represents an increase of R15 203 851 (15.87%). The increase is mainly a result of:

- increased tariffs
- restructuring of tariffs
- Increase in equitable share directly attributable to new demarcation process
- Increase in MIG grants

Although SRVM has determined that it will increase tariffs in general by 6% the municipality reviewed all tariffs to ensure that they are cost-reflective. Electricity was increased 20.38% as prescribed by NERSA.

A review of the tariffs indicated that refuse and sewerage charges were not economically viable for the municipality and was increased with at least R20 per month each.

Please refer to budget assumptions for more detail. (Chapter 9)

Sundays River Valley Municipality's budgeted expenditure for the 2011/2012 MTREF amounts to R91 084 059. This represents an increase of R9 755 308 (12%)

This increase is mainly a result of increase in:

- Salaries
- Increase in bulk purchases
- Increase in debt impairment
- General price increases

The anticipated salary increase is in accordance with SALGA Salary and Wage Collective agreement 2009/10 to 2011/12. This indicated a wage increase linked to average CPI index for the period 1 February 2010 until 31 January 2011 plus 2 percent. According to National Treasury Circular 55 the average CPI for this period is set at 4.08 percent . This will thus result in a salary increase of 6.08%.

Bulk purchases increased by R2 227 279 (25.44%) which is a result of the increase in bulk electricity which amounted to 20.38%.

Debt impairment was increased by R2 000 000 (15%) from R13 000 000 to R15 000 000. The provision for bad debt is now seen to adequate.

Please also refer to chart A1, A2 (a), A5, A6, A7, A7 (a)

### ***Capital budget (Schedule A5 & A9)***

The capital budget of the municipality amounts to R22 827 550. This indicates an increase of R8 329 547 (57.4%) which is mainly a result of:

- Increase in MIG funded projects (R4.5 million)
- Increase in capital acquisition funded by loans (R2.8 mill)

The main projects that are funded in the capital budget are: STILL TO BE INDICATED

These projects are funded by the Municipal Infrastructure Grant.

Please also refer to chart A9, A10 & A13

### ***Budgeted Financial position (Schedule A6)***

Current assets are assets that can be converted in cash within 12 months and mainly consist of cash in the bank, investments and debtors.

The provision for bad debt will increase with R2 million to R15 000 000 which will be representative of an average collection rate of 50%.

Non-current Assets are assets that has a lifespan of longer than 12 months and mainly consist of fixed assets e.g. infrastructure and moveable assets.

It is anticipated that depreciation of assets will amount to R4 700 000 for 2011/12 (2009/2010: R6 625 000), whilst assets will increase with acquisitions to the value of R 22 827 550 (see capital budget schedule A5). This will result in a net increase of assets of R18 127 550 from 2010/2011.

Assets will be funded from own revenue – R1 910 050; grants - R 18 537 500 and loans - R 2 880 000. The raising of new loans will be used to fund capital acquisition relating to sewerage and water pumps that urgently needs to be replaced, the purchase of an additional 500 prepaid water meters to assist with credit control and tractors that needs to be replaced.

Current provisions consist of provisions for leave pay, provision for bonuses and provision for bad debt from R13 682 132 in 2010/2011 to R 15 402 086 in 2011/2012.

Non-current provisions consist of provision for rehabilitation of landfill sites and will remain at R3 400 000 for 2011/2012.

***Asset management (table A9)***

Capital expenditure is anticipated to increase from R 14 498 003 (2010/2011) to R 22 827 550 (2011/2012). This indicates an increase of 57.45%. The increase in capital acquisition is due to the Increase in MIG funding R4.4 million as well as the assets that will be funded from new loans raised – R2.8 million.

An amount of R5 793 462 has been allocated to repairs and maintenance. Repairs and maintenance will be spent according to the following categories of assets:

- Infrastructure – Road & transport - R1 285 000
- Infrastructure – Electricity - R740 000
- Infrastructure – Water - R686 966
- Infrastructure – Sanitation - R1 010 000
- Infrastructure – Other - R505 000
- Community & other assets - R785 690
- Other assets - R780 806



## **CHAPTER 5**

### **OVERVIEW OF THE ANNUAL BUDGET PROCESS**

The entire budget process is prescribed by the Municipal Finance Management Act.

Section 21(1) (b) of the MFMA requires the mayor to table not later than 10 months before the start of the budget year a time schedule outlining the key deadlines and processes for the preparation, tabling and approval of the Annual Budget, the review of the IDP and budget related policies and any consultation process which would be part of the process.

The time schedule was tabled in Council meeting on .....

The consultation process involves presenting and eliciting comments from the public by Ward and by placing an advert in the local press requesting budget input.

The following stakeholders are identified:

- 1 community
- 2 senior management
- 3 the work force
- 4 trade unions
- 5 rate payers association
- 6 general public and interested parties
- 7 district municipality
- 8 national and provincial sector departments

Prescribed forms have been developed for both operating and capital inputs.

A presentation is delivered to the communities and responses are recorded. These are considered within the budget realm and capacity. Meetings are arranged by ward and the related Councilor manages the process.

A Draft Budget is prepared, based on budget assumption, and presented to Budget Committee members as a pre-draft budget so as to give an outlook for the year in question. At this stage the budget still needs to be gauged against realistic income and expenditure which translated to budget performance.

Thereafter the eagerly awaited Division of Revenue is received during February and published the grant and subsidy allocation in terms of which budget parameters are set or adjusted. Information from other sources, District Councils and Provincial Authorities are confirmed. Any surplus capacity is consumed.

During this time the IDP process has started with steering committee meetings as well as public consultation to primary confirm and re-affirm priorities as well as to disclose any new development. Critical to this process is capital project funding in terms of MIG. The IDP and Budget, as policy documents are reflected against each for purpose of IDP preparation and budget finalization.

A final meeting with Budget Committee members is held to discuss any changes made and to prepare for final tabling of draft budget to Council.

The draft budget is now table to Council and then council authorizes that the budget is made public for comment. Once this period closes the comments received are once again considered and adjustments are brought about. The draft budget was tabled to Council on 23 March 2011.

The budget is now tabled during May as a final budget for implementation.

### ***Political oversight of the process***

The schedule of key deadlines was submitted to management meeting to monitor the progress of the process by officials against the schedule tabled by the Mayor. The Mayor was regularly informed on the progress. The key deadlines were reviewed during February 2011 to accommodate the earlier adoption of the budget due to local government elections. The revised key deadlines were approved by Council on 16 February 2011.

### ***Consultations & advertisements***

Advertisements will be placed in the local newspapers circulating in the area of jurisdiction and district informing the community of the budget, indicating where they can view a copy and how to lodge comments.

A formal process for consultation will be conducted after the draft budget & IDP has been approved by Council.

This will be done by the following methods:

- The budget will be made public by making them available at SRVM's offices.
- Notices will be published in two newspapers in the area inviting members of the public to submit representations on the budget.

Any submissions received will be considered and if necessary it will be incorporated in the budget being presented for consideration.

Community hearings will conducted at all areas –

- Bergsig
- Aquapark
- Moses Mabida
- Paterson
- Valencia
- Nomathamsanqa
- Kirkwood – Ratepayers Association
- Bersheba
- Glenconner

Please also refer to IDP document for details of community participation.

**Schedule of key deadlines**

The following revised schedule of key deadlines was approved by Council:

**PROPOSED AMENDMENTS TO THE BUDGET AND IDP PROCESS PLAN**

MILESTONE	ACTIVITIES	RESPONSIBILITY	TIMEFRAME
<b>SITUATIONAL ANALYSIS</b>	Consolidation of sector input on progress made	IDP Unit	18 Jan 2011
	Preparation and distribution of budget guidelines.	Budget & Treasury Office	12 January 2011
	Evaluation of service delivery achievement and identification of gaps.	IDP Steering Committee IDP Rep Forum	14 – 16 January 2011 26 January 2011
	Mid –term performance assessments	Mayor/Administrator	25 January 2011
	Preparation of 2010/11 adjustment budget.	All Departments	14 – 21 January 2011
<b>Special Council</b>	Tabling of Annual Report Tabling of Adjustment Budget 2010/11	Council	31 January 2011
<b>Council sitting</b>	Adoption of Revised/ Amended IDP, PMS & Budget Process Plan.	Council	16 February 2011
<b>PROJECT PRIORITIZATION AND STRATEGIES</b>	Identification of priority projects in 2010/11.	IDP Steering Committee District Sector Forums	21 January 2011 12 – 21 January 2011
	Capital budget preparation and submission to BTO. Operational budget preparation and submission to BTO	All departments All departments	7 February 2011 7 February 2011
	Oversight Roadshows on the Annual Performance Report	Council IDP Rep Forum	21-23 February 2011 01 March 2011
<b>PROJECT PHASE</b>	Outline prioritized development projects and setting of targets and indicators	All Departments	7 – 11 February 2011
	Projects phase session to align projects and programmes of local municipalities, sector departments and parastatals	IDP Steering Committee	21 February 2011

	IDP , PMS & Budget Roadshows	MAYORAL OUTREACH IDP Rep Forum	17 – 25 March 2011 28March 2011
<b>INTEGRATION PHASE</b>	Integrate - interdepartmental & sector projects	All Departments IDP Steering Committee	21 February 2011
<b>COUNCIL SITTING</b>	Tabling of Draft IDP and Budget for 2011/12. IDP Indaba – for further inputs into the draft IDP before final adoption. Completion of technical work on budget Draft IDP and advertise for comments	Council IDP Unit  BTO IDP Unit/ Public Participation office	11 March 2011 4 – 8 April 2011  15 April 2011 11 March 2011
<b>COUNCIL SITTING</b>	Approval of Annual Report, Approval of IDP Approval of Budget	Council	31 March 2011 20 April 2011 20 April 2011

## ***Stakeholders***

The following stakeholders to be consulted include, but are not limited to:

- National Treasury
- Provincial Treasury
- Provincial sector departments
- District municipality
- Providers of bulk resources for water & electricity
- Community

## **CHAPTER 6**

### **ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN**

#### **AMENDMENT AND ADJUSTMENT TO THE 2011/2012 IDP**

##### ***The review process focussed on:***

- ❖ Improving the **strategic nature** of the document, thereby ensuring effective use of available data, careful consideration of available resources, as well as exploring locally appropriate solutions to complex development issues.
- ❖ Increasing the usefulness of the document during **implementation** and monitoring.

##### ***The process was influenced by:***

- ❖ Project progress information as provided by Heads of Departments
- ❖ An extensive data search to update the analysis chapter.
- ❖ Inputs from community based planning initiatives

##### ***The Reviewed IDP document 2010/2011 reflects the following adjustments:***

The alignment of the IDP with the budget is illustrated in schedules SA4, SA5, SA6. The schedules are attached.

The breakdown of the percentages of funds allocated to each activity is as follows:

○ Finance	35.17%
○ Service Delivery	36.89%
○ Local Economic Development	1.74%
○ Governance	7.98%
○ Institutional Building	4.8%
○ Community Services	13.46%

These allocations are to link up with the Service Delivery and Budget Implementation plan.

A draft Service Delivery and Budget Implementation Plan has been developed and will be tabled with the budget to Council. The final SDBIP needs to be approved within 28 days after the adoption of the budget. KPA's and KPI's have been developed and strategic alignment between IDP, Budget and SDBIP is ascertain.

## **CHAPTER 7**

### **MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS**

Please refer to the draft SDBIP for details of measurable performance objectives and indicators.

## **CHAPTER 8**

### **BUDGET RELATED POLICIES**

The prioritization of service delivery and the management of council functions is the key to the budget. Sundays River Valley municipality's budget process is guided and governed by legislation regulations and budget related policies.

Sundays River Valley Municipality embarked on a process of reviewing all financial and budget related policies during 2010/11 financial year.

These policies will be enacted into by-laws thereby enabling council to undertake its revenue collection effort to court and further securing income generation.

#### ***Tariff Policy***

The Municipal Systems Act requires a municipality to have a tariff policy. One of the challenges in setting tariffs is ensuring affordable tariffs whilst maintaining financial stability.

The tariff policy tries to address this issue and creates a foundation for the principles that address social, economic and financial imperatives that the process of tariff setting should take into account.

Changes proposed: None

#### ***Rates policy***

Sundays River Valley has adopted a rates policy which is line with legislative requirements. The policy became effective 01 July 2009.

The policy provides that properties be rated based on their market value. A new valuation roll is in place.

Changes proposed: None

#### ***Indigent Policy***

This policy was reviewed and approved during the 2009/2010 financial year.

Sundays River Valley municipality is committed to ensure that all households have access to its services. Due to the fact that Sundays River Valley Municipality has a high level of unemployment and seasonal workers, the municipality decided to adopt an indigent policy. This policy will ensure that poor households have at least access to basic services.

Changes proposed: None



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

Municipalities are required in terms of section 111 of MFMA to have a supply chain management policy. Sundays River Valley Municipality has a policy within the framework of the legislation. The policy adheres to the following principles:

- Procurement system which is fair, equitable, transparent, competitive and cost effective in terms of section 217 of the Constitution
- Best practice within supply chain management
- Uniformity in supply chain management systems between organs of state in all spheres

Changes proposed: None

### ***Credit control and debt management policy***

The credit control and debt management policy of Sundays River Valley Municipality was reviewed during 2009/2010. This policy provides the procedures and mechanisms for credit control and collection of debts. The primary objective is to ensure that all monies due to the municipality are collected efficiently and promptly.

Changes proposed: Changes to accommodate the provisions of the National Credit Act relating to incidental credit.

### ***Banking and Investment policy***

As custodians of public funds, the Council has an obligation to see to it that cash resources are managed as effectively as possible. Council has a responsibility to invest public funds with great care and are liable to the community in that regard.

The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when funds are not needed. To bring this about, it is essential to have an effective cashflow management program.

Changes proposed: None

### ***Asset management policy***

The Asset Management Policy provides direction for the management, accounting and control of Property, Plant & Equipment (Fixed Assets) owned or controlled by municipality.

Changes proposed: None

### ***Policy on the writing off of irrecoverable debt***

Despite strict enforcement of the credit control and indigent policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this the Credit Control Policy, inter alia, stipulated that:-

- The Municipal Manager must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality.
- In addition, the policy further stipulates that:-
  - Council must appoint a committee in terms of its delegations to review and recommend to Council to approve all bad debt write off cases

The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalized.

Changes proposed: None

### ***Financial management policy***

This policy incorporates amongst others regulations relating to:

- General budgeting principles and processes
- Levying of tariffs, fees and charges
- Collection and control of income
- Operating expenditure
- Capital expenditure
- Creditors and payments
- Salaries & Wages
- Petty Cash
- Asset management
- Investments
- Risk management and Insurance
- Loans

Changes proposed: None

## **CHAPTER 9**

### **BUDGET ASSUMPTIONS**

The following list provides an outlook of the budget assumptions used in the compilation of the budget.

#### ***Income***

1. That the Budget will be funded from realistic income sources

This includes:

- the income generated from patrons of basic services as well as other service rendered
- the income received from grants, subsidies and donated from all spheres of government and public.

2. Income is calculated during the budget process on the principle that current income generated will be proportional and indicative of what income will be realized after considering abnormal events.

These events includes the implementation of new General Valuations or new housing developments.

3. Income is recognized and adjusted according to the above principle and consideration is given to current and prior year collect and payment levels.
4. Income collected from prior years is not consider as a budget funding source as current years Tariffs are intended to fund the budget.
5. Income utilized from the Equitable Share to subsidized basic services is so recorded and turned over to fund expenditure

#### ***Expenditure***

1. The principle of realistic income mirrors the objective of realistic expenditure against the Background of what is our mandated.
2. Driving expenditure is considered real and thus divided into spending categories:
  - 2.1 the upkeep of basic, existing services
  - 2.2 mandatory and contractual obligations
3. Expenditure is adjusted and dependant on the achievement of realistic income and availability of cash resources
4. Expenditure is divided in two main classes, namely:

- 4.1 Capital  
This expenditure budget is mainly funded by grant income and own income
- 4.2 Operating  
This budget includes the day-to-day running expenses of the municipality.
- 5. Budget growth is guided by National Treasury guidelines e.g. CPIX predictions as well as actual expenses to be incurred.
- 6. Prior year and current year performance plus the need to improve or reduce expenditure is considered when setting the rand amount with no compromise to point 2.1.
- 7. Cost cutting measures in terms of the financial turnaround plan of the municipality.
- 8. The municipality was placed under administration in accordance with section 139(1)(b) of the Constitution during February 2010. A strategic workshop was conducted of which the outcome was a strategic turnaround plan for the municipality. The objectives of the turnaround plan were taken into consideration with the drafting of the budget.

**Tariff**

- 1. Tariff increases are guided by National Treasury CPIX predictions as well as affordability.
- 2. Tariff supports income generation and is usually set for the financial year
- 3. A tariff is a derivative of:

Basic expenditure

divided by

No of patrons

plus

subsidization

- 4. All tariffs are set taking into consideration the cost to provide the service and national trends and regulations.

Municipalities were advised by National Treasury (Circular 51) that they should revise their rates, tariffs and other charges for their 2011/12 budgets and MTREF taking into account the labour (i.e. the wage agreements with unions) and other input costs of services provided by the municipality, the need to ensure financial sustainability, local economic conditions, the affordability of services and their indigent policy.

- 4.1 The following tariffs indicate significant increase due to a review of the tariff structure

and/or review of cost of providing the service:

- Sanitation
- Refuse removal

Please refer to tariff list, Annexure A, for further details

### ***Adjustment***

1. The budget is adjusted according to performance of both income and expenditure.
2. Inter-budget adjustment also takes place where provisions made proved insufficient and counted by over-provisions or objective change.

### ***External Factors***

The Minister of Finance suggested a headline CPI inflation rate of 4.8% (2011/12), 5.3% (2012/13) and 5.5% (2013/14).

These inflation rate expectations have been used for the compilation of this budget

### ***BULK PURCHASES***

The municipality budgeted for an increase of 26.71% in bulk electricity purchases - as guided by NERSA

### ***EMPLOYEE COST***

The budget is based on a salary increase of 6.08%.

The salary budget for 2011/12 amounts to R27 494 586. This represents a 9.06% increase in employee cost over the previous financial year. This is due to the provision for the post of Municipal Manager and Director Technical services to be filled.

### ***FREE BASIC SERVICES***

SRVM's indigent policy currently makes provision for the subsidization of 50 KWH of electricity (pre-paid customers only) and 6 KL of water (for all) per month. The municipality can no longer afford to subsidize all households for the first 6 KL of water and therefore it is proposed to allow the recovery of this subsidy from the tariff for water usage of 25 KL and more. The municipality has budgeted for the following FBS:

- Electricity - R933 152
- Water- R1 500 000
- Sewerage - R 800 000
- Refuse - R243 800

### ***PROVISION FOR BAD DEBT***

The municipality has provided for a provision of bad debt to the value of R15 million for 2011/12. The total provision for bad debt as at 30 June 2010 (as reflected in AFS) amounted to R 56 752 027. Council resolved during the 2010/11 budget process that this provision be utilized to write off bad debt. This will be done before year end.

The municipality believes that the R15 million should be adequate.

### ***FINANCIAL SITUATION OF SRVM***

The municipality was placed under financial administration by the MEC of Local Government during February 2010. In order to address the financial situation of the municipality a financial turnaround plan was approved by Council on 25 March 2010. Please refer to the IDP document for a copy of the financial turnaround plan. The principle of zero-based budgeting was used and focus areas in turnaround plan enjoyed preference in the budget,

**CHAPTER 10**

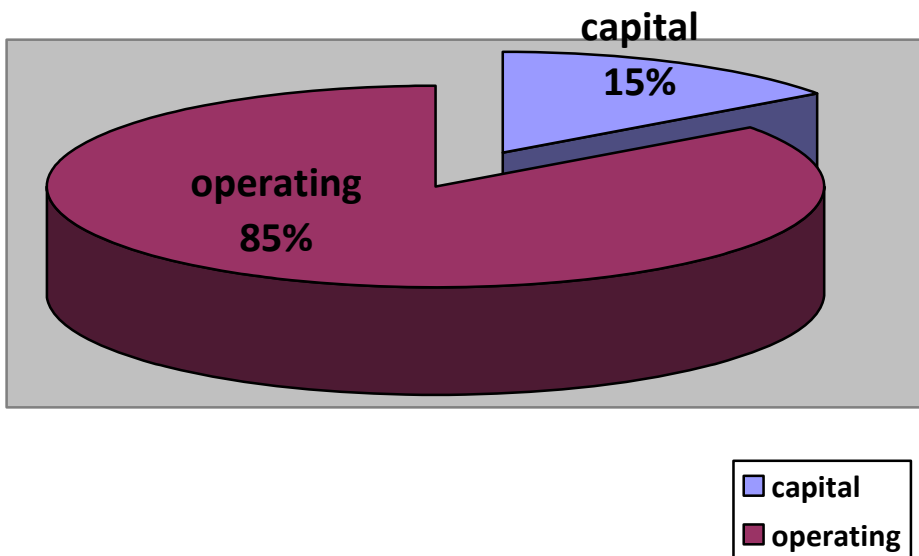
**BUDGET FUNDING**

The following is a broad overview of the financial outlook of the municipality in the current year and compared to the coming year.

The capital budget represented 17.8 % of the total budget in 2010/2011 and has increased to 25 % of budget in 2011/2012. R18 537 500 (81%) of the capital budget for 2011/2012 will be funded by government grants. (2010/2011: 96%)

	2010/2011
capital	14 498 003
operating	81 328 751

Figure1



	2011/2012
capital	22 827 550
operating	91 084 059

Figure 2

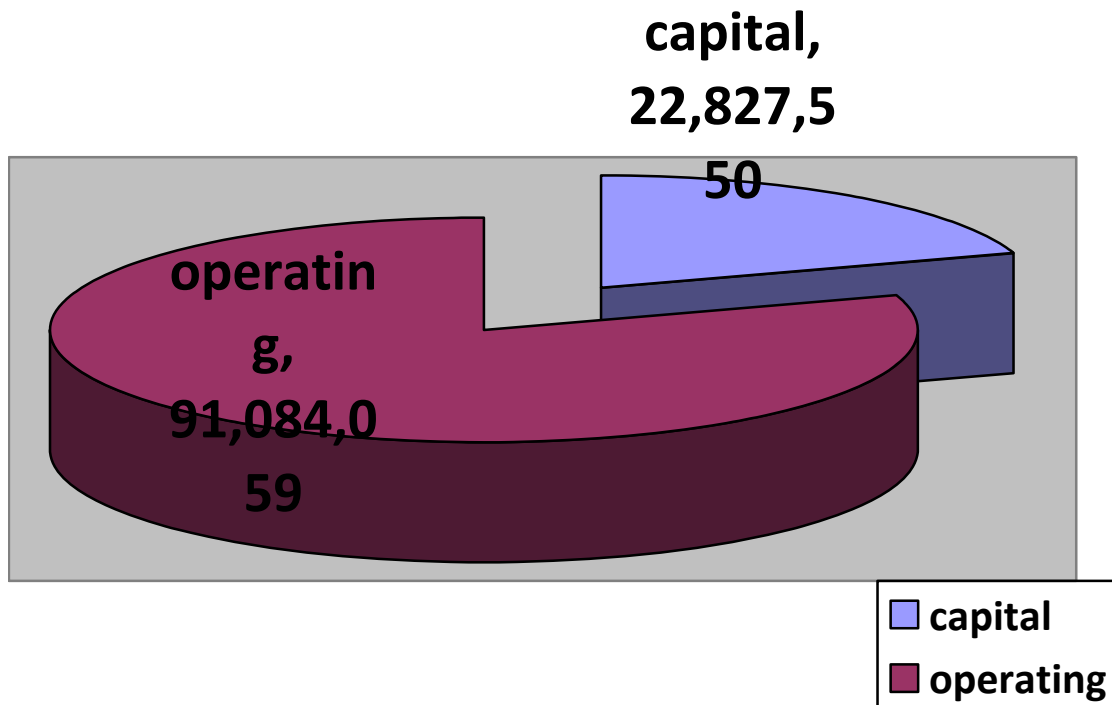
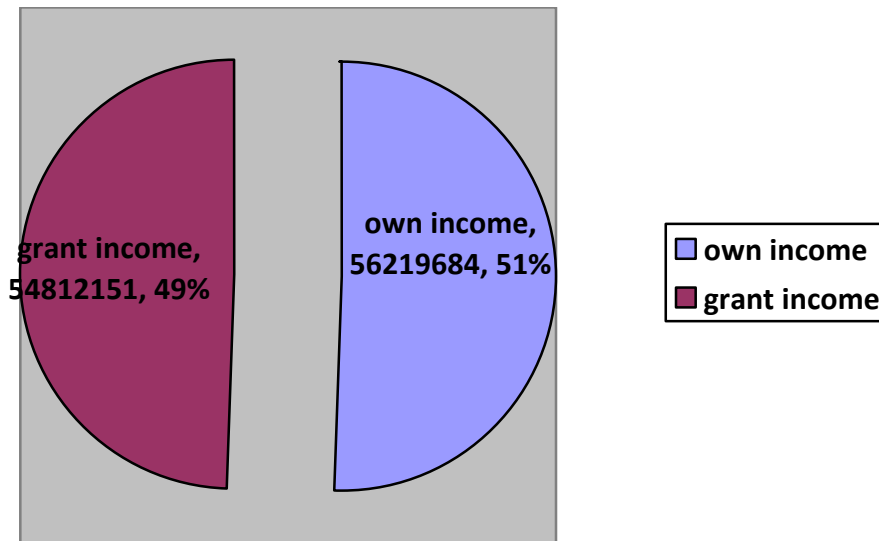




Figure 3

	2011/2012
own income	56 219 684
grant & other	54 812 151



As indicated in the pie, own income account for 51% of total income whilst grant income accounts for 49% of income.

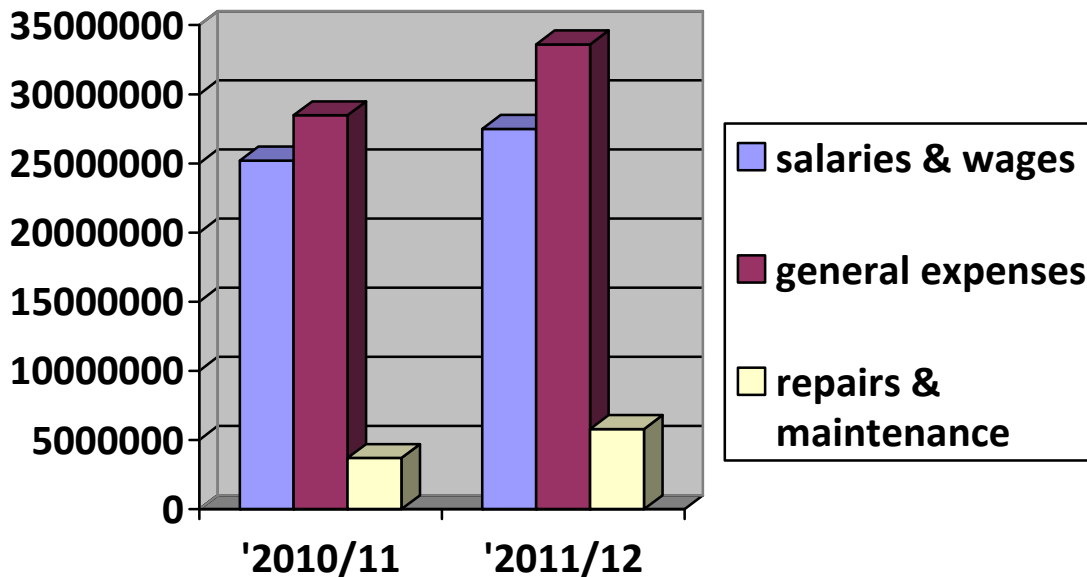
A major source of income still remains the equitable share allocation from National Treasury

Own income increase is funded from:

- 1 Tariff increase
- 2 New billing area from formal and high density residential development
- 3 New property valuations

Graph 4 illustrates the expenditure to be committed in spending types.

	2010/2011 (Adjusted)	2011/12
salaries & wages	25 209 957	27 494 586
general expenses	28 483 069	33 608 808
repairs & maintenance	3 700 811	5 793 462



#### FINANCIAL CHALLENGES AND CONSTRAINTS

SRVM faces the following financial challenges:

- 1) Achieving financial stability in the medium term and long term
- 2) Increasing the debt collection %
- 3) Dependence on grant funding
- 4) Acceptable level of tariff increases – trying to balance financial sustainability and affordability
- 5) Managing cost
- 6) Exploring alternative revenue sources
- 7) Identifying cost savings

In order to address the first challenge, the municipality was subsequently placed under financial administration during February 2010 after which an administrator was appointed by the MEC of Local

Government. A strategic turnaround plan was developed for the municipality to address key areas that need intervention.

The municipality has also adopted a number of new financial policies as already highlighted. The credit control unit was capacitated with more staff to ensure the functions are performed adequately. The current collection rate of Sundays River Valley municipality is approximately 40%.

#### *FINANCIAL RISKS*

Financial risks include:

- Changes in inflation rate and other variables
- Unemployment trends
- Global financial instability

#### *FORECAST FOR FUTURE FINANCING AND PERFORMANCE*

The key to a future prediction is stability in two realms, firstly, management and Council and secondly, the service environment. Needs are ever increasing and funding are a challenge.

Trying to kick start development has to be in the way we interact with communities during the IDP and Budget processes. External stakeholders such as provincial departments needs to subscribe to the same developmental ideas as found in local government. We still find sector departments not being financially capable of adequately supporting development. This limits large developments as the municipality is not financial viable enough to service large loans.

The municipality anticipates raising a new long term loans to the value of R2.8 million. This will be used to fund infrastructure items. The repayment has been calculated over 7 years. The municipality currently utilizes a bank overdraft of R1 million. The overdraft is reviewed annually. The revolving fund of R1 million that was used for prepaid water meters in previous financial years will be fully repaid on 30 June 2011.

#### *STATEMENT OF INVESTMENT AND MEDIUM-TERM STRATEGY*

Being a small municipality and not having surplus resources, the action of preserving the future value of money is found in a banking practices whereby funds are automatically transferred to a call account bearing a favorable interest rate.

All funds received as "trust funds" are deposited in individual banks accounts for independent transactions.

The success to the indicative future is to ensure that the current year not only uphold current trends and commitments but also act as a precursor to the future. Importantly it is recorded in the IDP for the successive years. Planning capital and service infrastructure to contemplate future services needs ahead of e.g. housing developments are important. This is also towards a commitment for achieving the 2011/12 and 2012/13 objectives.

Consequential to infrastructure development is accommodating the operating budget, which we have. This includes the amendment of the organogram for labor resource needs.

Future development is a denominator of revenue which in turn depends on tariff increase. Due to the poor nature of our inhabitants it is difficult to drive income with tariff as approximately 65% of the consumers are indigent.

*GRANTS TO BE RECEIVED*

Please refer to schedule SA18 for all grants that will be received by Sundays River Valley Municipality.

*INFORMATION ON PROPERTY RATES*

Please refer to schedule SA11 for summary of property rates information.

## **CHAPTER 11**

### **EXPENDITURE ON ALLOCATIONS AND GRANT FUNDING**

Please refer to the following schedules

- Schedule SA18 – Transfer and grants receipts
- Schedule SA19 –Expenditure on transfer and grants

## **CHAPTER 12**

### **ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY**

No allocations will be made to any other municipality, any organ of state or any organization or bodies outside any sphere of government as referred to in section 67(1) of the Act.

Please refer to schedule SA21.

**CHAPTER 13**

**ANNUAL BUDGET AND SDBIP – DEPARTMENTS**

Please refer to draft SDBIP attached.

## **CHAPTER 14**

### **CAPITAL EXPENDITURE DETAILS**

Total capital expenditure for 2011/2012 will amount to R22 827 550. These acquisitions will be funded as follows:

- R18 537 500 – funded by government grant
- R2 880 000 – funded by loans
- R1 910 050 – funded by own grants

Please refer to Schedules:

- SA34a – Capital expenditure on new assets per class
- SA34b – Capital expenditure on the renewal of existing assets
- SA34c – Repairs and maintenance schedule by class of asset
- SA36 – Detailed capital budget
- SA37 – projects delayed from previous year



## **CHAPTER 15**

### **CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS**

The municipality does not have any contracts which have future budgetary implications beyond the 3 years budgeted for.

Please refer to Schedule SA33

## **CHAPTER 16**

### **LEGISLATIVE COMPLIANCE**

The Municipal Finance Management Act brought about uniformity, accountability and control measures to local government in terms of financial reporting and budgeting. The Act required a high level of transformation financial disciplines and planning.

New budget regulations were published in Gazette nr. 32141 on 17 April 2009. The object of these regulations is to secure sound and sustainable management of the budgeting and reporting practices of municipalities by establishing uniform norms and standards and other requirements for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting process. The 2010/2011 budgets for all municipalities needs to comply with these regulations.

#### *Challenges experienced:*

The financial systems operated by the municipality does not allow for the automatic population of the budget schedules as prescribed and the municipality has to manually convert the information to the new formats.

The MFMA regulates monthly and quarterly reports to be submitted to National Treasury. A significant improvement was noted during the 2010/11 financial year with regards to the submission of S71 reports – all reports were submitted on time except one month where a delay in month end procedures were experienced.

#### *Achievements:*

An Administrator was appointed by the MEC to ensure financial turnaround and stability within the organization. An extensive strategic turnaround plan was developed by the Administrator and approved by Council on 25 March 2010.

As a direct result of the turnaround plan the following policies were adopted by Council

- Tariff policy
- Indigent policy
- Credit control and debt collection policy
- Asset management policy
- Financial management policy
- Write off policy
- Investment policy

These policies are all a requirement of the MFMA and the Municipal Systems Act.

The Municipality has adopted GRAP standards and the 2005/06 annual financial statements were prepared in line with GRAP standards. The municipality is however facing challenges with implementation of a number of GRAP standards. To address this problem, a gap analysis was done and an implementation plan developed.

**CHAPTER 17**

**BUDGET – DETAILS PER DEPARTMENT**

Please refer to schedule SA2 for details

**ANNEXURES**