



DRAFT BUDGET 2011/2012

PRESENTED BY



The Honourable Mayor,

Cllr B J Mncwango



Mayoral Budget Speech 2011/2012

KZ 262

UPHONGOLO MUNICIPALITY

Mayoral Budget Speech 2011/2012

It gives me great pleasure to table the uPhongolo Municipality's draft budget for the financial year 2011/2012, in my capacity as the Mayor of this municipality. Before I can proceed allow me to remind you all what the Municipality's mission and vision are:

OUR MISSION

To ensure provision of sustainable service delivery in order to improve the quality of life of the communities within our area of jurisdiction

OUR VISION

uPhongolo Local Municipality will evolve into a dynamic socio-economically driven environment through sustainable service delivery

Now having reminded you on the mission and the vision I will now proceed to present this budget that is guided by Section 152 of the RSA Constitution. The section in summary eludes to the responsibility of Local Government to provide and improve the basic services to the community within its jurisdiction.

Economic Scenario

The national economic recession that started during the first quarter of 2009 officially ended during the third quarter of the same year. While the recession was short-lived, its effect on the economic performance was very dramatic and severe. Although South-Africa's financial markets were largely insulated from the crash that engulfed the US and most of Europe, the real economy suffered tremendously as credit lines shrunk and liquidity in the market evaporated. Our Gross Domestic Product shrunk by 1.68% on average in 2009. Final consumption recorded negative growth of 3.1% - significantly down from the 8.3% positive growth in 2006. The economy lost more than 1 million jobs since September 2008, commencing as the early signs of the global recession of 2009 started making their way through the economy. Even though the general consensus seems to imply that the worst of the recession is now over, the pace of the recovery is painfully sluggish.

The economic outlook, however, seems somewhat more promising for 2011. According to the latest forecasts, the national economy is expected to expand by 3.4% in 2011, 3.7% in 2012 and 4% in 2013. The Provincial Treasury projects an estimated economic growth of between 3% and 3.5% for KwaZulu-Natal. However, for the South African economy to create jobs, it needs to grow at more than 7% per annum for a prolonged period.



Mayoral Budget Speech 2011/2012

KZ 262

The New Growth Path

A new growth path for South Africa has been adopted by Cabinet. It focuses on changing the structure of the economy from a resource extraction economy to a more production-led economy that can create employment opportunities. Sectors that will be targeted, given their potential to create jobs, are the:

- Infrastructure/construction industry
- Agriculture value chain
- Mining value chain
- Green economy
- Manufacturing sectors
- Tourism and high-level services.

The Skeleton of the State

KwaZulu-Natal government's priorities are:

- Creating decent work and economic growth
- Ensuring rural development/agrarian reform and food security
- Fighting crime
- Education
- Health
- Nation building and good governance.

According to MFMA Circular No. 56, the Municipality is guided specifically on the 2011/2012 budget and the CPI inflation increase to be catered for is 4.8% for 2011/2012; 5.3% for 2012/2013 and 5.5% for 2013/2014.

As I present this budget, uPhongolo Municipality however remains cash strapped and is mainly grant dependant. Without grants like the Equitable share the municipality will battle to let ends meet.

I thought that as the Mayor, it is important that I should mention all these factors upfront, so that our communities can be aware that as a caring municipality we are aware of these conditions, and that we have taken them into consideration when putting together this budget.

The Budget preparation Process

The preparation process of the Capital and Operating Budget 2011/2012 commenced as expected by submitting the Budget and IDP Review plan to Council for approval on the 30th August 2010.

Management submitted their budget proposals for consolidation into one Council Draft Budget. This draft budget will be made available for public comments after an extensive advertisement notice on the availability of the budget document at strategic places in order to allow a Budget consultative process.



Mayoral Budget Speech 2011/2012

KZ 262

Once the budget consultative process is complete, consideration will be taken of input from all those who will comment and then finalize the budget for 2011/2012.

-BUDGET PRESENTATION-

1. OPERATING BUDGET

The total operating expenditure has been budgeted at the sum of R95 535 443.00.

This has been increased by the sum of R3 072 279.00 from the 2010/2011 budget of R92 463 164.00 and this reflects a 3.32 per cent overall growth expenditure increase.

The operating budget is tabled as follows:

Details	R/M Budget 2011/2012	R/M Budget 2010/2011	% Increase / (Decrease) Between years
Salaries, wages & allowances	R31 939 450	30 476 560	4.80%
General Expenditure	R47 139 643	49 325 827	(4.64%)
Repairs & Maintenance	R5 549 471	6 589 936	(18.75%)
Capital charges / Depreciation	R3 410 721	1 621 836	110.30%
Contribution to funds & Reserves	R7 496 158	7 340 932	2.11%
Contribution to Capital Outlay	R31 693 000	23 868 000	32.78%
Grand Total	R127 228 443	119 223 091	6.71%

SALARIES WAGES AND ALLOWANCES

The salaries budget is proposed and budgeted at an increase of 6.8% as from 1st July 2011

The total salaries including Councillors allowances budget proposed is R31 939 450.00

This increased by 4.80% from 2010/2011 budget . It must be borne in mind that after the new Council is elected, the Councillors will increase from 22 to 27 and the current 11 Wards will increase to 14 Wards after the Local Government elections scheduled to take place on the 18th May 2011.



Mayoral Budget Speech 2011/2012

KZ 262

The percentage of salaries budget is 33.43% of the total operating budget.

GENERAL EXPENSES

The total general expenses budget amounts to R47 139 643.00.

These expenses are for day to day operations of the Council. A provision for administration funding as well as other Council programmes has been made and programmes like community communication; special programmes; economic programmes and social programmes.

The allocation for General Expenditure to the operating budget is 49.34% of the total operating budget.

REPAIRS AND MAINTENANCE

The total repairs and maintenance budget provision amounts to R5 549 471.00.

This is mainly for roads and stormwater maintenance, electricity maintenance, plant and equipment and machinery maintenance and property maintenance.

These are 5.81% of the total operating budget.

CAPITAL (LOAN) CHARGES

The provision for the repayment of internal and external loans has been allocated R3 410 721.00. This is mainly for external loans raised previously for capital expenditure.

This reflects as 3.57 % of the operating budget of R95 535 443.00.

CONTRIBUTION TO FUNDS

The budgeted amount of R7 496 158.00 has been prepared to make provision for all the contributions from Council Revenue to Statutory funds as approved by legislation.

This contribution includes a significant increased contribution for the provision of Bad Debt as the municipality is currently being owed in excess of R47.8 million. The likelihood of this debt being recovered is slim thus the need for a significant bad debt provision.

These are 7.85% of the total operating budget.

ELECTRICITY CONTRIBUTIONS TO RATES AND GENERAL

The electricity makes contributions from its trading surplus to subsidize all the rates and general activities as approved by Council.

The guidelines of NERSA states that municipal electricity tariff increases should be 20.38% while Eskom will increase the Electricity bulk purchases by 26.71%.



TARRIFFS

Property rates

The uPhongolo Municipality is legislatively compelled to comply with the Municipal Property Rates Act which provides an alternative rating system on property rates. In addition to this it also includes charging the Public Benefit Organization over a phased period.

For this reason I feel it is important that I give a brief explanation on the requirements of the Municipal Property Rates Act.

In accordance with the Municipal Property Rates Act the rate on the categories of non residential property listed in the first column of the table below may not exceed the ration to the rate on residential properties listed in the second column of the table below, where,

- a) the first number in the second column of the table represent the ratio to the rate on residential properties;
- b) the second number in the second column of the table represents the maximum ratio to the rate on residential property that may be imposed on the non-residential properties listed in the first column of the table:

TABLE

Categories	Ratio in relation to residential property
Residential property	1:1
Agricultural property	1:0.25
Public service infrastructure property	1:0.25
Public Benefit Organization	1:0.25

The Government Gazette No. 32061 Government Notice No. GR 363 provides the following definition of 'agricultural property':

"agricultural property" means property envisaged in section 8(2)(d)(i), (e) and (f)(i) of the MPRA. (Municipal Property Rates Act)

In other words:

- farm properties used for agricultural purposes – section 8(2)(d)(i);
- farm properties not used for any purpose – section 8(2)(e); and
- smallholdings used for agricultural purpose – section 8(2)(f)(i).



Mayoral Budget Speech 2011/2012

KZ 262

Neither the MPRA nor the regulation defines 'public service infrastructure property'. Section 1 of the MPRA does. However, define 'public service infrastructure' as follows:

"public service infrastructure" means publically controlled infrastructure of the following kinds:

- (a) national, provincial or other public roads on which goods, services or labour move across a municipal boundary;
- (b) water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water sewer scheme serving the public;
- (c) power stations, power substations or power lines forming part of an electricity scheme serving the public;
- (d) gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;
- (e) railway lines forming part of a national railway system;
- (f) communication towers, masts, exchanges or lines forming part of a communications system serving the public;
- (g) runways or aprons at national or provincial airports;
- (h) breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar service of ports, or navigational aids comprising lighthouses, radio navigational aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels;
- (i) any other publically controlled infrastructure as may be prescribed; or
- (j) rights of way, easements or servitudes in connection with infrastructure mentioned in paragraphs (a) to (i).

The Municipal Property Rates Regulations on the rate ratios between residential and non-residential categories of property, were amended in order to include a ratio for Public Benefit Organization property of 1:0.25 (Government Gazette no 33016 dated 12th March 2010)

Welfare and humanitarian, health care and education and development items as reflected on the 9th schedule to the Income Tax act, are applicable to the ratio and phasing in of payment of property rates.



Mayoral Budget Speech 2011/2012

KZ 262

The tariff increases for 2011/2012 are proposed as follows:

• Residential & Sectional Titles	R 0.010112 cents in the rand
• Business, Commercial and Industrial	R 0.012641 cents in the rand
• PSI	R 0.012641 cents in the rand and a further 30% rebate of value
• Agriculture 3 rd Year Phase 75% thereof	R0.001896 cents in the rand R0.000632 generic rebate of 25%
• Municipal Property	R Nil
• Industrial Property	R0.012641 cents in the rand
• Vacant Land	R0.012641 cents in the rand
• State Owned Properties	R0.012641 cents in the rand
• Rebates on Residential Property Value	R60 000.00
• Public Benefit Organization –2 nd year phasing in	R0.002528 cents in the rand 25% of tariff = R0.000632 cents in the rand
• Rebates - Indigent Pensioners and disabled upon submission of application and supporting documents	20% rebate
• Special Non-Market Properties	R0.012641
• Ecotourism	25% rebate

Property used by an agricultural association that is affiliated to a Provincial or National recognized agricultural union 20% rebate. In order to assist the agriculture sector we catered to give bona fide farmers a generic rebate of 25% on rates and those farmers who make additional contribution to the development of their surrounding rural community through community upliftment and community development initiative a further rebate to a maximum of 15%.

The respective tariffs subject to approval per application will be assisted with rebates in terms of the property rates assessment.

Furthermore a rebate of 25% has been provided for to Ecotourism properties which are tourism related institutions that combine conservation or natural environment with the promotion of economic welfare of the community another rebate highlighted of 20% is for property used by an agricultural association affiliated to a Provincial or National recognized agricultural union.

Refuse removal

We are proposing the refuse removal be increased by 6%.

All Other charges

We are proposing that other charges be increased on an average at 6%

OPERATING BUDGET SUMMARY



Mayoral Budget Speech 2011/2012

KZ 262

The operating budget as proposed and explained above is summarized as follows:

Description	Expenditure	Income	Income (Deficit)
Rates & General Services	R77 640 479	R83 778 243	R6 137 764
Electricity Services	R17 894 964	R18 764 074	R869 110
Total	R95 535 443	R102 542 317	R7 006 874

The operating Budget as proposed is inclusive of the R5 450 000.00 to fund the capital expenditure from council's own revenue.

CONDITIONAL AND UNCONDITIONAL GRANTS

Equitable share grant allocation of R52 611 000.00 has been budgeted as part of the council revenue as gazetted in the Division of Revenue Act (DoRa) for 2011/2012.

Municipal Systems Improvement Grant allocation of R1 000 000.00 has been budgeted as part of the Council conditional revenue to improve institutional capacity and systems. This is the amount of allocation gazetted to be transferred in the DoRa for 2011/2012.

MIG allocation as gazetted to DoRa has been budgeted at an amount of R16 793 000.00 for the construction or rehabilitation of infrastructure for service delivery.

Financial Management Grant allocation of R1 450 000.00 has been budgeted for as gazetted in DoRa for financial management reforms.

Other Grants are to the amount of R498 000.00 and R8 million for Electrification.



Mayoral Budget Speech 2011/2012

KZ 262

Capital Projects 2011/2012

Name of Project	Budget
MIG Project – PMU	
MIG Project – EXT 4 roads and stormwater	<u>R16 793 000.00</u>
MIG Project – Access roads and stormwater in various Wards	
Electricity Connections – rural areas	<u>R8 000 000.00</u>
Electricity network connection – EXT 4	<u>R1 250 000.00</u>
Extension of Main Boardroom	<u>R1 450 000.00</u>
Purchase of other capital assets	<u>R4 200 000.00</u>
<u>TOTAL</u>	<u>R31 693 000.00</u>

Conclusion

Before I conclude my presentation, I would like to thank the Municipal Manager and the entire Management for the effort and sleepless nights they have put into this process. Whilst this has been a difficult and sometimes testing process, one noticed a unified approach in dealing with all challenges and a rejuvenated willingness to work as a team for the interest of this municipality.

In conclusion, this is a proposed budget for both capital and operating estimates as prepared by the EXCO, assisted by Management. The capital estimates have been compiled after taking into account the IDP projects and the capacity of the Municipality to deliver on all these projects. Legally the deadline for the submission of the SDBIP is the end of July each year, however, it gives me pleasure to announce that we are on track to finalize SDBIP by the required legislative deadline.

Accordingly I so move that the Council adopts this as the draft budget for the uPhongolo Municipality for the financial year 2011/2012.

I THANK YOU
