

MANDENI MUNICIPALITY



DRAFT BUDGET REPORT 2011/2012

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1. MAYORAL BUDGET SPEECH

**SPEECH BY THE MAYOR OF MANDENI MUNICIPALITY COUNCILLOR B L MAGWAZA
PRESENTED TO THE MUNICIPAL COUNCIL BUDGET APPROVAL IN THE COMMUNITY
HALL, MANDENI**

(To be tabled)

2. BUDGET RELATED RESOLUTIONS

1. Council resolves that the annual budget of the municipality for the financial year 2011/12; and indicative for the two projected outer years 2012/13 and 2013/14 be approved as set-out in the following tables in **Annexure 1**
 - 1.1. Operating revenue and expenditure by Standard Classification reflected in **Table A2**;
 - 1.2. Operating revenue and expenditure by vote reflected in **Table A3**;
 - 1.3. Operating revenue and expenditure by Financial Performance reflected in **Table A4**;
 - 1.4. Capital Expenditure by vote, standard classification and funding as reflected in **Table A5**;
2. Council resolves that property rates reflected in (**Annexure 2**) are imposed for the budget year 2011/12.
3. Council resolves that tariffs and charges reflected in (**Annexure 2**) are approved for the budget year 2011/12.
5. Council resolves to adopt the amended Integrated Development Plan reflected in (**Annexure 3**).
6. Council resolves that the amended policies for credit control, debt collection and indigents as reflected in (**Annexure 4**) are approved for the budget year 2011/12.
7. Council resolves that the other amended budget related policies reflected in (**Annexure 5**) are approved for the budget year 2011/12.
8. Council notes the SDBIP tabled with the budget for subsequent approval by the Mayor (**Annexure 6**)
9. The expenditure be proceeded with in terms of the municipal finance management act, supply chain management system and financial regulations.
10. That the staff structure as budgeted for be approved
11. Council resolves that the tabled annual budget of the municipality for the financial year 2011/12; and indicative for the two projected outer years 2012/13 and 2013/14 be approved for consultation process.

3 THE BUDGET

3.1 EXECUTIVE SUMMARY

The 2011/12 budget has been prepared in accordance with the New Budget Reform Regulations. In terms of these regulations multi-year budget is prepared spanning over three (3) years with the actual activities for the past three years. The 2011/12 to 2013/14 budget preparation commenced in August 2010 after Council approved a timetable for the IDP and Budget preparation process.

The Budget comprises both Operating and Capital budget, which is a requirement of the Constitution and the Municipal Finance Management Act (MFMA). The Operating Budget is the largest component of the budget that includes the provision of services, such as electricity, health, refuse collection, etc.

One of the objectives of the budget timetable is to ensure integration between the development of the IDP and the budget. This is critical to enable the achievement of IDP objectives.

The budget is further guided by Circular 55 provided by National Treasury informed by the 2011/12 Medium Term Revenue and Expenditure Framework (MTERF) policy statement, the State of the Nation address and the Division of Revenue Bill on the following issues:

2011 Local government elections and the budget process

The adjustment on the process plan had to be done to accommodate the local government elections this year. In terms of the section 16 of the MFMA a municipal council must approve the annual budget before the start of the financial year. To avoid the campaigning period, which is likely to coincide with the budget process, it is advisable that the budget approval be finalized by end of April 2011.

National outcomes

In January 2010, Cabinet adopted 12 outcomes within which to frame public –service delivery priorities and targets. Cabinet ministries have signed performance agreements linked to these outcomes. All municipalities are then expected to take the 12 outcomes into consideration when reviewing IDP and developing the annual budgets.

Financial implications of the demarcation process

The demarcation process has created an extra ward to our municipality to be 17 now. Although there is not much financial implication due to this process, the municipality will accommodate two more councilors in the budget.

Municipal Budget and Reporting regulations

The budget and reporting regulation were introduced in the previous financial year. It is now compulsory that all municipalities are reporting in terms of these regulations. Indeed this municipality is submitting this budget according to the regulations as attached.

Headline inflation forecasts

1. The headline inflation forecast for 2011/12 is 4.8 per cent. Municipalities must take this into consideration when preparing their budgets.
2. Municipalities should also take into account the wage agreement SALGA concluded with municipal workers unions on 31 July 2009.

Revising rates, tariffs and other charges

3. Municipalities must explore imaginative ways of structuring the tariffs for utility services to encourage more efficient use of these services and to generate the resources required to maintain, renew and expand infrastructure.
4. National Energy Regulator of South Africa (NERSA) issued a guideline to increase the electricity bulk tariff for municipalities by 20.38%.
5. All municipalities should aim to have appropriately structured, cost-reflective water tariffs in place by 2014.
6. COGTA has prescribed a ratio with respect to public benefit organizations and Public Services Infrastructure (PSI) relative to residential properties.
7. Publication of multi –year tariff is encouraged

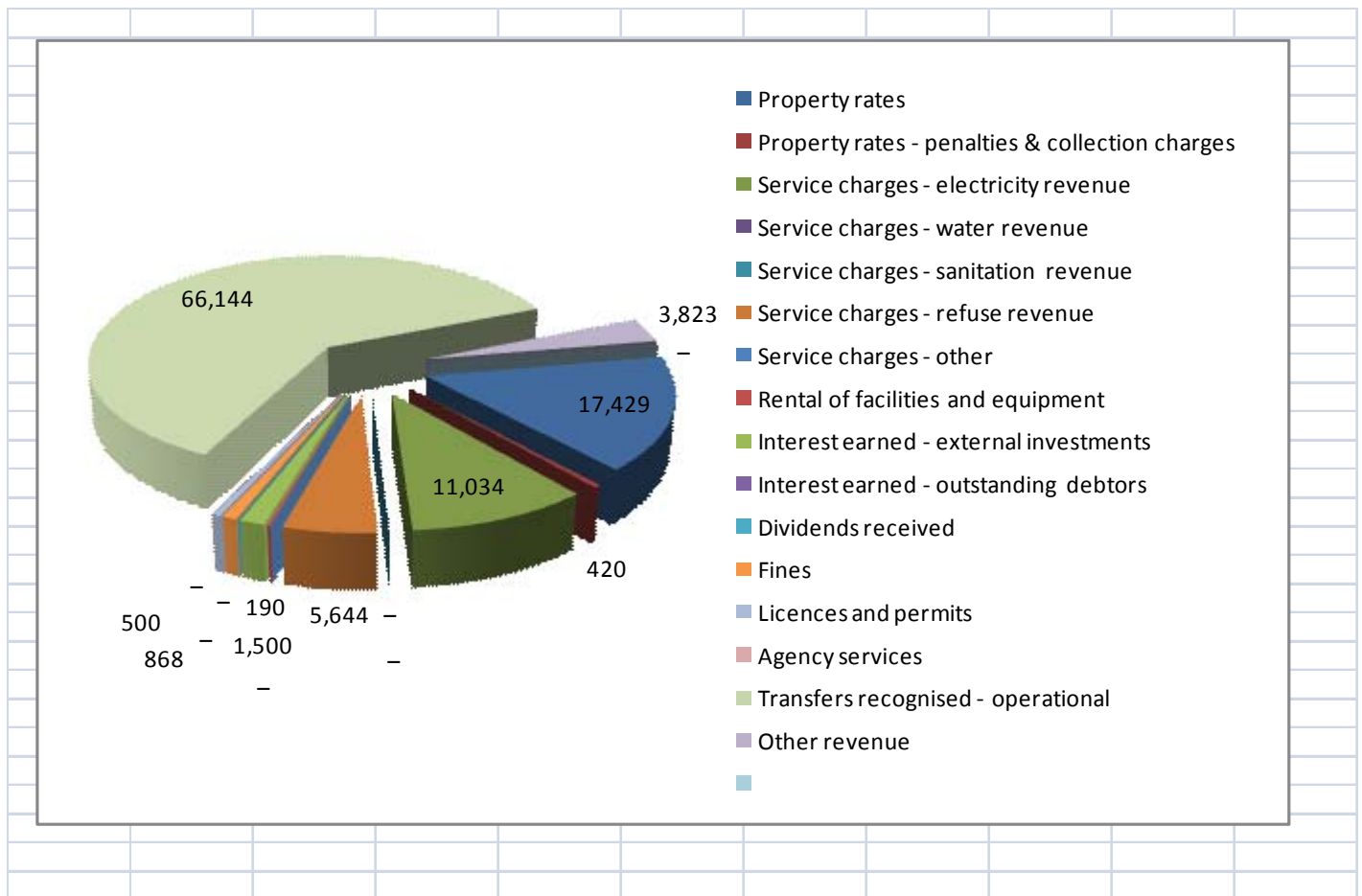
Funding choices and management issues

8. Municipal revenues and cash flows are expected to remain under pressure in 2011/12 and so municipalities should adopt a conservative approach when projecting their expected revenues and cash receipts.
9. Municipalities must pay special attention to controlling unnecessary spending on nice-to have items and non-essential activities, such as foreign travel, councillor and staff perks, advertising and public relations activities.
10. Municipalities must also ensure that their capital budgets reflect consistent efforts to address the backlogs in basic services and the refurbishment of existing network services.
11. Allocations to “Mayoral Discretionary Funds”, “Special Projects”, “Special Events” or similar discretionary type funds are discouraged.
12. Municipalities are urged to allocate all Ward Allocations in tabled and approved budgets.

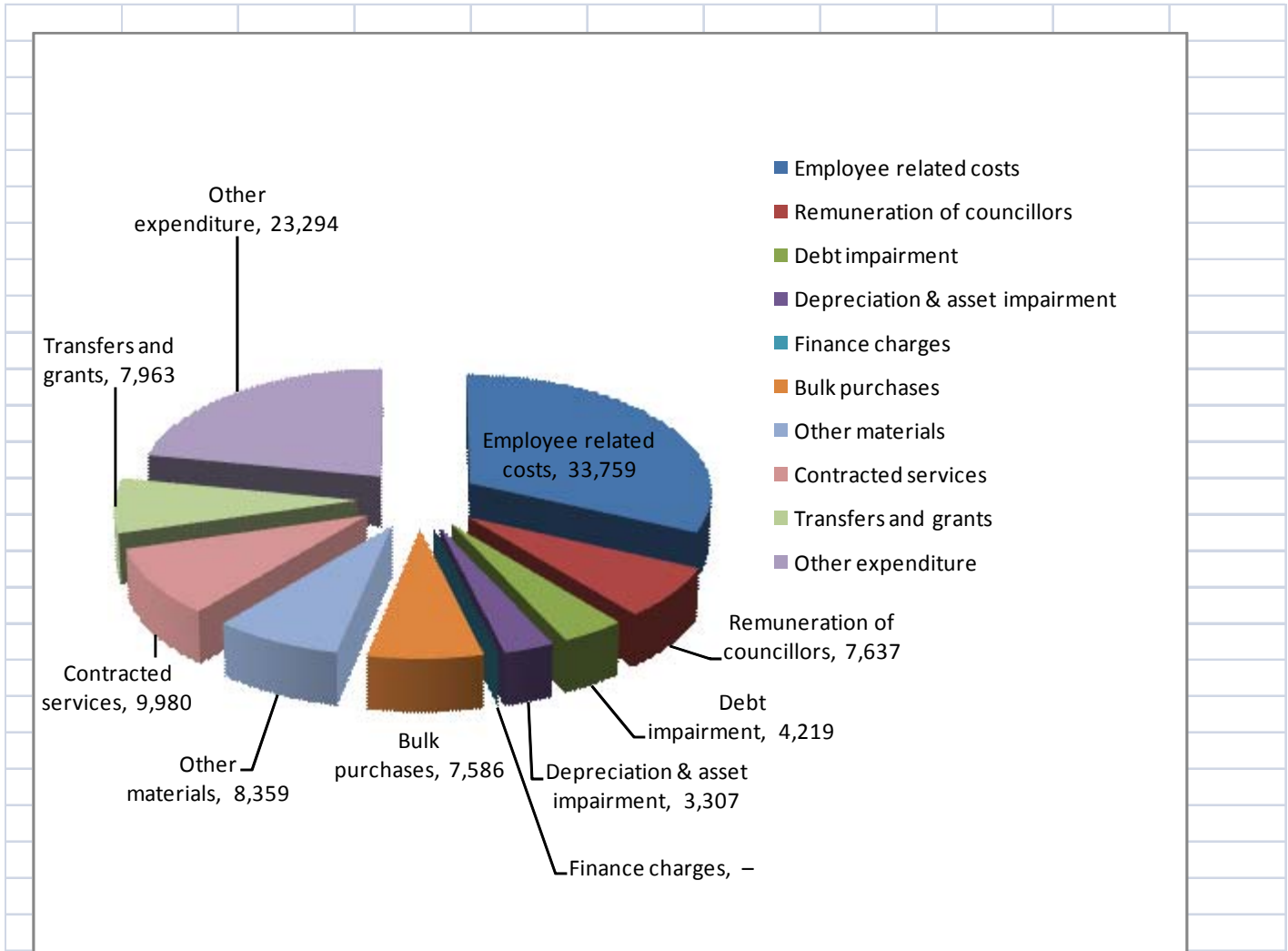
Operating Budget

The Operating budget totals R107 553 000 which funds the continued provision of services provided by the municipality

Funding is obtained from various sources. The major sources being property rates (17.4m), electricity (R11.0m), refuse (R5.6m) and grants and subsidies from National and Provincial Governments (R66.1m)



The major expenditure items are employee costs, Bulk electricity purchases, contracted services, repairs and maintenance, general expenses, grants and subsidies paid, and impairment of assets.



In order to support the 2011/12 Operating budget the following increase in rates and services charges have been proposed with effect from 1 July 2011:

Property Rates	-	9%
Refuse	-	9%
Electricity	-	20.38%

As per NERSA's guideline it is insisted that municipalities must introduce the Inclining Block Tariff in c/kWh for 2011/12. As a result of using NERSA's municipal tariff benchmark the electricity tariff is proposed as follows:

kWh	NERSA's benchmark	Current tariff	Proposed	Customers
0 - 50	58	72.60	58	27
51 - 350	67	72.60	67	229
351 - 600	93	72.60	72.60	475
>600	109	72.60	98	137

The proposed property rates tariffs for 2011/12 is tabled below.

Cartegories	Rating cartegory	Rating cartegory	Tariff	Tariff
Residencial	1	1	0.0112	0.0122
Commercial	2	2	0.0179	0.0195
Industrial	3	3	0.0190	0.0207
Industrial Estate Special		4	0.0139	0.0180
Mining	4	5	0.0212	0.0231
Agricultural	5	6	0.0028	0.0030
Institutional	7	7	0.0168	0.0183
Special Purpose	8	8	-	-
Public Services Infrastructure	9	9	0.0028	0.0030
Municipal Property	10	10	-	-

The assistance to the indigent provides the following monthly benefits to indigent households:
 Free 50 Kwh electricity
 Property rates subsidy

Cartegory	Pension bracket	Rebate
Disabled		100%
Pensioners	R0 - R7000	100%
	R7001 - R10000	75%
	R10001 -R15000	50%
	R15001- R20000	25%

The budget related policies have been adhered to in the development of the budget.

3.1.2 BUDGET PROCESSES

Legislative requirements: The MFMA sets out key legislative requirements for the municipal budget process. These comprise the following:

Timing: The Mayor must table the annual budget of the municipality at a council meeting at least 90 days before the start of the budget year. The council must consider approval of the annual budget at least 30 days before the start of the budget year. This is however realigned this budget year as a result of the municipal elections.

Consultation on the tabled budget: The budget documents is made public immediately after being tabled in council. This include posting the information on the municipal website and placing the budget at municipal public places. The requirements of the MFMA to seek views on the tabled budget from the under mentioned stakeholders is adhered to :

- The local community
- The relevant district municipality
- Other local municipalities within the area
- The relevant provincial treasury
- National departments and
- Providers of bulk services

3.1.3 BUDGET ASSUMPTIONS

In preparing the draft budget the following assumptions were adopted:

- **7.2% Salary increase**

The maximum percentage increase has been adopted as per the guide by Circular 54 from National Treasury. However the negotiations at the Bargaining Council are the reason to budget for 7.2%.

- **Departmental proposals**

Management has been consulted and played a participatory role in inform the budget inputs where zero based budgeting principle was used.

- **Integrated Development Plan**

Integrated Development Plan is the source of all the activities by the Municipality.

- **Actual expenditure 2010/2011**

Prior year's activity was used as a basis for future plan of action.

- **Circular 55**

National Treasury issued Circular 55 as a guide in terms of National priorities, indicative macro economic forecast and requirements for 2010/11 MTERF timeline and submissions

- **Division of Revenue Bill and Provincial Gazette**

Division of Revenue Bill gives allocations that are given by National Treasury in a form of Equitable Share to Municipalities.

- **Generally Recognized Accounting Practice**

It is also assumed that the municipality will be fully compliant with the reporting standards. It is therefore imperative that the allocation be provided for depreciation.

- **Bulk Purchases**

The 20.38 % electricity tariff increase by ESKOM .

3.1.4 INTEGRATED DEVELOPMENT PLAN

The IDP review process is finalized based on the community consultation process as is required by legislation. The IDP includes specific deliverables that forms the basis for the Budget and SDBIP.

3.1.5 ALIGNMENT OF BUDGET WITH IDP

Reconciliation of IDP strategic objectives and budget (revenue)						
Strategic Objective	2008/9	2009/10	Current Year 2010/11	2011/12 Medium Term Revenue & Expenditure		
	Audited Outcome	Audited Outcome	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
R thousand						
Sustainable Services	5,200	8,771	11,132	13,410	14,554	15,498
Sustainable Services	4,872	4,676	5,853	6,644	7,224	7,752
Sustainable Services	1,179	1,009	1,064	1,833	1,989	2,128
Sustainable Services	265	85	155	778	662	1,209
Infrastructure	5	-	-	-	-	-
Infrastructure	-	24,208	-	-	-	-
Good Governance	42,031	18,752	150	150	163	174
Good Governance	-	-	950	950	1,031	1,103
Good Governance	30,806	54,784	74,195	80,323	88,408	94,250
Good Governance	68	90	-	-	-	-
Good Governance	2,435	14,867	1,948	2,045	2,160	2,285
Economic Development	1,600	-	1,000	-	-	-
Social Development	7	13	12	12	13	14
Safety & Security	1,630	2,155	2,326	1,409	1,528	1,635
Total Revenue (excluding capital transfers)	90,100	129,410	98,785	107,553	117,731	126,049

3.1.6 BUDGET OVEVIEW

Capital and operating budget 2011/2012 to 2013/2014

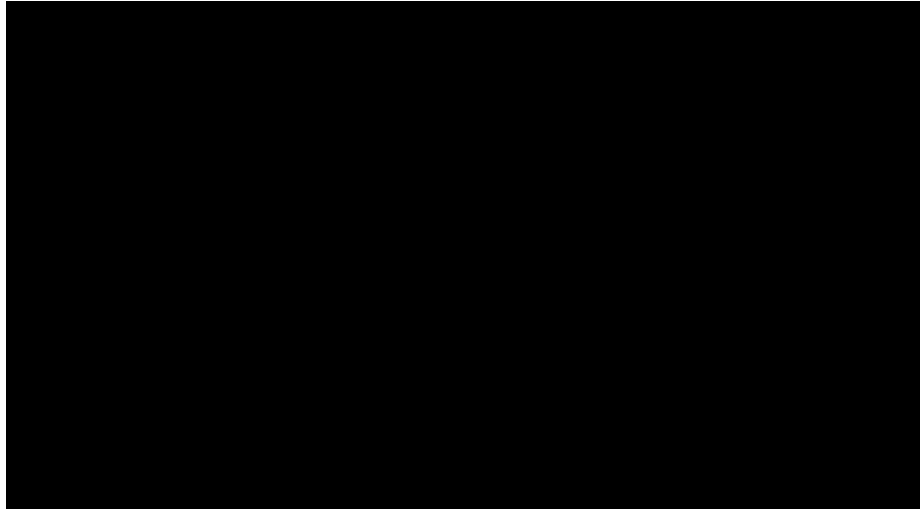
Budgeted Financial Performance (revenue and expenditure)							
Description R Thousands	2007/8	2008/9	2009/10	Current Year	2011/12 Medium Term Revenue &		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Operating Budget	52,768	90,100	129,325	100,935	107,553	121,235	129,798
Capital Budget	31,354	38,116	42,789	72,983	62,639	97,912	93,329
Total Budget	84,122	128,215	172,114	173,917	170,192	219,147	223,127

Operating budget of all departments by category

Budgeted Financial Performance (revenue and expenditure)					
Description R thousand	2009/10	Current Year	2011/12 Medium Term Revenue &		
	Audited Outcome	Original Budget	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Revenue By Source					
Property rates	21,914	18,205	17,429	18,911	20,235
Property rates - penalties & collection charges	296	550	420	456	488
Service charges - electricity revenue	8,225	8,963	11,034	11,972	12,810
Service charges - refuse revenue	4,676	5,131	5,644	6,124	6,552
Rental of facilities and equipment	186	190	190	206	221
Interest earned - external investments	861	1,300	1,500	1,628	1,741
Fines	365	790	868	942	1,008
Licences and permits	1,805	4,000	500	543	580
Transfers recognised - operational	87,684	57,994	66,144	72,802	77,975
Other revenue	3,313	3,812	3,823	4,148	4,438
Total Revenue (excluding capital transfers and contributions)	129,325	100,935	107,553	117,731	126,049
Expenditure By Type					
Employee related costs	23,832	28,237	33,759	36,459	39,376
Remuneration of councillors	6,214	6,991	7,637	8,248	8,908
Debt impairment	31,796	7,409	4,219	5,553	4,782
Depreciation & asset impairment	3,778	3,307	3,307	3,712	3,961
Finance charges	78	611	-	-	-
Bulk purchases	4,367	6,075	7,586	8,230	8,807
Other materials	7,091	7,756	8,359	9,070	9,704
Contracted services	6,623	8,598	9,980	10,829	11,587
Transfers and grants	46,614	6,701	7,963	8,527	9,501
Other expenditure	13,054	15,984	23,294	19,971	21,795
Loss on disposal of PPE	-	-	-	-	-
Total Expenditure	143,446	91,669	106,105	110,599	118,421
Surplus/(Deficit)	(14,121)	9,266	1,449	7,132	7,628
Transfers recognised - capital	(42,789)	(72,983)	(62,639)	(97,912)	(93,329)
Contributions recognised - capital	42,789	72,983	62,639	97,912	93,329
Contributed assets	(338)	(9,266)	(1,449)	(7,132)	(7,628)
Surplus/(Deficit) for the year	(14,459)	(0)	(0)	(0)	(0)

Capital Budget

Funding Source



The projects earmarked this budget year are all grant funded through Municipal Infrastructure grant (MIG) R21.1m for Sundumbili roads Phase 6 & 7, Neighborhood Development Programme (NDPG) R12.0m , the continuation of the Sibusisiwe hall,the sport precinct and Thokoza road link and housing at Inyoni R29.5m.

3.2 BUDGET SCHEDULES AND SUPPORTING TABLES

3.3 Budget Related Charts and Explanatory Notes

4.1 to 4.5 SCHEDULE OF TARIFFS

4.6 BUDGET RELATED POLICIES AMENDMENTS

Budget Related Policies

These are the budget related policies as they were implemented. The schedule will show these policies and those that were amended.

POLICY	AMENDED	NEW
Accounting policy	None	
Banking policy	None	
Debt Management and Credit control policy	None	
Fixed asset Management policy	None	
Indigent policy	None	
Insurance policy	None	
Information Technology usage policy	None	
Rates policy	Amended	
Risk Management policy	None	
Supply Chain Management policy	None	
Tariffs policy	None	
Virement policy	None	

4.7 BUDGET PROCESS OVERVIEW AND ITS OUTCOMES

In preparing the budget the key deadline activities as recommended by National Treasury has been relied upon.

TIME SCHEDULE OF KEY DEADLINES		
Mayor to Table in Council 10 Months Prior to Start of Budget Year		
Month	Municipality _____ Mandeni _____	Budget Year __2011/12_____
Mayor and Council / Entity Board		Administration - Municipality and Entity
July	Mayor begins planning for next three-year budget in accordance with co-ordination role of budget process MFMA s 53 Planning includes review of the previous years budget process and completion of the Budget Evaluation Checklist	Accounting officers and senior officials of municipality and entities begin planning for next three-year budget MFMA s 68, 77 Accounting officers and senior officials of municipality and entities review options and contracts for service delivery MSA s 76-81
August	Mayor tables in Council a time schedule outlining key deadlines for: preparing, tabling and approving the budget; reviewing the IDP (as per s 34 of MSA) and budget related policies and consultation processes at least 10 months before the start of the budget year. MFMA s 21,22, 23; MSA s 34, Ch 4 as amended Mayor establishes committees and consultation forums for the budget process	
September	Council through the IDP review process determines strategic objectives for service delivery and development for next three-year budgets including review of provincial and national government sector and strategic plans	Budget offices of municipality and entities determine revenue projections and proposed rate and service charges and drafts initial allocations to functions and departments for the next financial year after taking into account strategic objectives Engages with Provincial and National sector departments on sector specific programmes for alignment with municipalities plans (schools, libraries, clinics, water, electricity, roads, etc)
October		Accounting officer does initial review of national policies and budget plans and potential price increases of bulk resources with function and department officials MFMA s 35, 36, 42; MTBPS
November		Accounting officer reviews and drafts initial changes to IDP MSA s 34
December	Council finalises tariff (rates and service charges) policies for next financial year MSA s 74, 75	Accounting officer and senior officials consolidate and prepare proposed budget and plans for next financial year taking into account previous years performance as per audited financial statements
January	Entity board of directors must approve and submit proposed budget and plans for next three-year budgets to parent municipality at least 150 days before the start of the budget year MFMA s 87(1)	Accounting officer reviews proposed national and provincial allocations to municipality for incorporation into the draft budget for tabling. (Proposed national and provincial allocations for three years must be available by 20 January) MFMA s 36
February	Council considers municipal entity proposed budget and service delivery plan and accepts or makes recommendations to the entity MFMA s 87(2)	Accounting officer finalises and submits to Mayor proposed budgets and plans for next three-year budgets taking into account the recent mid-year review and any corrective measures proposed as part of the oversight report for the previous years audited financial statements and annual report Accounting officer to notify relevant municipalities of projected allocations for next three budget years 120 days prior to start of budget year MFMA s 37(2)
March	Entity board of directors considers recommendations of parent municipality and submit revised budget by 22nd of month MFMA s 87(2) Mayor tables municipality budget, budgets of entities, resolutions, plans, and proposed revisions to IDP at least 90 days before start of budget year MFMA s 16, 22, 23, 87; MSA s 34	Accounting officer publishes tabled budget, plans, and proposed revisions to IDP, invites local community comment and submits to NT, PT and others as prescribed MFMA s 22 & 37; MSA Ch 4 as amended Accounting officer reviews any changes in prices for bulk resources as communicated by 15 March MFMA s 42
April	Consultation with national and provincial treasuries and finalise sector plans for water, sanitation, electricity etc MFMA s 21	Accounting officer assists the Mayor in revising budget documentation in accordance with consultative processes and taking into account the results from the third quarterly review of the current year
May	Public hearings on the budget, and council debate. Council consider views of the local community, NT, PT, other provincial and national organs of state and municipalities. Mayor to be provided with an	Accounting officer assists the Mayor in preparing the final budget documentation for consideration for approval at least 30 days before the start of the budget year taking into account consultative processes and any other

	<p>opportunity to respond to submissions during consultation and table amendments for council consideration. Council to consider approval of budget and plans at least 30 days before start of budget year. MFMA s 23, 24; MSA Ch 4 as amended</p> <p>Entity board of directors to approve the budget of the entity not later than 30 days before the start of the financial year, taking into account any hearings or recommendations of the council of the parent municipality MFMA s 87</p>	<p>new information of a material nature</p>
June	<p>Council must approve annual budget by resolution, setting taxes and tariffs, approving changes to IDP and budget related policies, approving measurable performance objectives for revenue by source and expenditure by vote before start of budget year MFMA s 16, 24, 26, 53</p> <p>Mayor must approve SDBIP within 28 days after approval of the budget and ensure that annual performance contracts are concluded in accordance with s 57(2) of the MSA. Mayor to ensure that the annual performance agreements are linked to the measurable performance objectives approved with the budget and SDBIP. The mayor submits the approved SDBIP and performance agreements to council, MEC for local government and makes public within 14 days after approval. MFMA s 53; MSA s 38-45, 57(2)</p> <p>Council must finalise a system of delegations. MFMA s 59, 79, 82; MSA s 59-65</p>	<p>Accounting officer submits to the mayor no later than 14 days after approval of the budget a draft of the SDBIP and annual performance agreements required by s 57(1)(b) of the MSA. MFMA s 69; MSA s 57</p> <p>Accounting officers of municipality and entities publishes adopted budget and plans MFMA s 75, 87</p>

Abbreviations: **IDP** - Integrated Development Plan; **MFMA** - Local Government: Municipal Finance Management Act, No. 56 of 2003; **MSA** - Local Government: Municipal Systems Act, No. 32 of 2000, as amended; **MTBPS** - National Treasury annual publication, Medium Term Budget and Policy Statement; **NT** - National Treasury; **PT** - Provincial Treasuries; **SDBIP** - Service Delivery and Budget Implementation Plan

The Mandeni Municipality is confident that the public participation has been the cornerstone of the preparation of the 2011/2012 Budget. With the preparation of the 2012 budget the Municipality consulted a number of community based structures and use mechanism, processes and procedures which are used to encourage public participation in matters of Local Government.

Participation and consultation took place at different levels. Through these public meetings in forums and ward committees comments were received and reviewed by the Mayor before finalizing the budget. Some of these comments includes the following:

- All pensioners regardless of the source of pension must benefit on rates rebates
- The gazette on rates ratio for Residents vs Agriculture, special properties and Public Service Infrastructure
- The representation by farming community on rates tariff in consideration of services provided to farms
- Budget for the ward committee is not enough to cover previous years shortfall
- Rural community on basic infrastructure on water, electricity, roads and housing
- Concerns about the accessibility of the municipal rebates to needy people

4.8 INTEGRATED DEVELOPMENT PLAN (IDP)

The key over-arching six key objectives and how they are linked with the 5 year Local Government Strategic objectives are reflected in the table below:

KEY OBJECTIVES	KEY ISSUE
<u>Good governance and community participation</u>	The strategy is aimed at ensuring that effective mechanisms and procedures for vibrant governance are the corner stone of the development. And therefore in all our efforts as we advance with our mission to eradicate poverty, strengthen Economy and delivery of basic services continued participation of the masses shall govern.
<u>Financial viability and financial management</u>	The strategy aims to ensure that the Municipality increases its revenue base by strengthening debt collection and putting in place sound financial managements practices.
<u>Local Economic Development</u>	A strategy has been developed to stimulate economic growth and development, with particular focus on Tourism & Property development, Agriculture Development, Industrial Development. The focus shall remain in contributing in poverty eradication and job creation for woman and youth.
<u>Basic service delivery and Infrastructure investment</u>	Strategies have been formulated to ensure integrated and holistic service delivery and infrastructure development over the next two years by reducing the current backlog of households without access to basic service.
<u>Municipal Transformation and institutional development</u>	The strategy aims at ensuring that the development of transformation of the organisation by developing and implementing all human resource policies that will advance the Municipality in service delivery.

4.9 SERVICE DELIVERY AND IMPLIMENTATION PLAN (Draft)

- (a) Community services
- (b) Protection and safety
- (c) Corporate Services
- (d) Finance
- (e) Technical Services