EMPOWERMENT THROUGH DEVELOPMENT

GREAT KEI
MUNICIPALITY

MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK 2011/2012 – 2013/2014

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PART 1 – ANNUAL BUDGET

Section 1: MAYOR`S REPORT

I have pleasure in presenting the Medium Term Revenue and Expenditure Framework for the budget years 2011/2012 – 2013/2014.

Local government reforms in South Africa pose a challenge to all Municipalities and as well as smaller municipalities like ours. Indeed the Great Kei Municipality has sets its targets to comply with accounting reforms as envisaged in the MFMA and other pieces of legislation.

The economic viability of the region remains a priority for our municipality. Every effort has been made and continues to be made to stimulate investment in the Great Kei Municipality with the limited resources and high rate of unemployment that is faced by the municipality.

The council's strategic objective of service delivery includes improving delivering acceptable levels of services in roads, refuse removal and electricity distribution.

National, Provincial, District and local priorities have been considered through Integrated Development Plan process, whereby communities give input into service needs and these are incorporated in the IDP document.

I must however admit that the IGR processes does not run smoothly as expected, however deliberations are being made with the relevant sector departments like, Health, Education, Housing and Amathole District municipality as the water service authority.

The council as an institution is faced with numerous challenges. The greatest challenge is the culture of nonpayment for rates and services by customers on a regular basis. Due to this challenge the municipality has become increasingly reliant on grant funding received from National Government. Also posing as a challenge is the high rate of electricity tampering.

To be able to generate own revenue, council has increased electricity tariff with 20.38%, refuse and other tariffs has increased by 10%. Rates tariffs are increased per category of property. The electricity increases is in line with MFMA circular 55 issued by National Treasury in March 2011.

The electricity service though is supposed to generate revenue to improve electricity infrastructure and subsidize other services, it is being ran at a loss in Great Kei as a result of tampering by the community. The high unemployment rate in the region has become the major contributing factor towards the inability of customers to service their accounts. Further, other municipal areas are supplied directly by Eskom which then leaves a major challenge and limiting factor in that the full implementation of debt and credit control policy is a challenge.

The municipality is however working toward improving its credit control policy to be able to deliver on its mandate and achieve National and Provincial priorities. The municipality is having meetings with the community to address the electricity distribution losses that are faced by the municipality.

Inability of the municipality to attract skilled employees, like engineers and electricians to deal with service delivery issues is another challenge as the revenue base of the municipality is limited.

As a summary, the medium term service delivery objectives include the:

- The registration of indigent consumers and the rollout of free basic electricity;
- Improve credit control;
- Improving Financial Management;
- Improve IT infrastructure;
- Upgrading of roads;
- Improve Cemeteries;
- Upgrading of electricity infrastructure;
- Coordination of housing delivery
- Reduce electricity distribution losses;
- Capacity building; and
- SMME development.

The Great Kei Municipal Budget is prioritizing service delivery and creation of job opportunities through SMME development.

The total budget of the municipality for year 11/12 is R60 m of which R16m is for capital expenditure and R43m is for operating expenditure. Due to limited resources the municipality is not in a position to contribute more to capital expenditure.

EXPENDITURE TYPE	**2010/2011**	**2011/12**	**2012/13**	**2012/2014**
Operating	39 954 750	43 647 197	43 822 061	44 084 994
Capital	13 986 203	16 625 762	16 958 665	17 768 657
Total	**53 940 953**	**60 272 959**	**60 780 726**	**61 853 651**

Despite the numerous challenges facing Council, I and my fellow councilors are confident for the future of the Great Kei Municipality and are committed to building the financially sound and prosperous municipality that delivers services on time to Great Kei communities.

I would like to thank the community for their inputs into the IDP and budget process, my fellow councilors, the Acting Municipal Manager, the Chief Financial Officer and all municipal staff for their continued support.

N W TEKILE

MAYOR

SECTION 2: BUDGET RESOLUTIONS

That in terms of section 24 of the Municipal Finance Management Act 56 of 2003, the annual budget of the Great Kei Municipality for the financial year 2011/2012, and indicative allocations for the two projected outer 2012/2013 and 2013/2014, 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 by source and expenditure by standard classification)
1.3 Budgeted Financial Performance (revenue by source and expenditure by type) and
1.4 Multiyear and single year capital appropriations by municipal vote and standard classification and associated funding by source.

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 Basic service delivery measurement

3. That in term of section 24 (2) © (i) and (ii) of the Municipal Finance Management Act, 56 of 2003 and sections 74 and 75A of the Local Government Municipal Systems Act, Act 32 of 2000 as amended, the tariffs for the supply of electricity, waste services, and property rates as set out in annexure A, that are used to prepare the estimates of revenue by source, are approved with effect from 1 July 2011.

SECTION 3: EXECUTIVE SUMMARY

<u>Introduction</u>

The budget is the second with 2009/2010 being the first of the Municipality which is in the format and therefore is significantly different from previous year`s budget formats. The municipality has prepared the budget to reflect the seven year that is required by National Treasury.

Effect of the annual budget

The Municipality uses external mechanisms to provide service delivery, in particular, the construction of capital assets and professional engineering services associated with the service.

Electricity distribution is done in the area of Komga only, as all other municipal areas are supplied by Eskom directly. Bulk electricity purchases budget for the year is R 4 157 319, however, there is gross under collection in the service as there is a large number of consumers tampering with electricity. Free basic electricity has a budget provision of R 1 006 422 and the targeted beneficiaries are R 12 000 for the year 2011/2012. Electricity charges are as per the amendment in MFMA circular 55 issued in March 2011 with increase of 20.38%.

Refuse removal is done internally in all municipal areas and the municipality has capacity to deliver this service to communities. Provision was made in the 2010/2011 MIG budget for the construction of waste transfer station in Kei Mouth and Chintsa. Budget allocation for refuse removal is distributed among the expenditure votes including fuel, vehicle licensing, maintenance as well as the human capital associated with the service.

Budget provision for construction of roads via MIG amounts to R 11 892 000, including miscellaneous expenses of the Project Management unit.

The provincial department of sports, Arts and Culture has gazetted funds for library operating costs will be transferred to local municipalities effective from the 2009/2010 financial year. However, only R 493 000 of these funds have been transferred into the Municipal bank account. In the past these funds were allocated to the District Municipality and sourced via written business plans.

Provision has been made by the National Government for the establishment of rural housing for Great Kei Communities in the years 2011/2012 as well as in 2012/2013. This was in the2010 DORA gazette to be a transfer to the Municipality, which has been changed in the 2011 Dora. This has then been removed from the Municipal budget as these funds will no longer be transferred. The Municipality therefore has to liaise with the relevant sector department to speed up delivery of these houses.

The proposed major tariff adjustments are as follows:

Waste Management	-	10%
Electricity	-	20.38%
Other Sundries tariffs	-	10%
Rates:		
Residential	-	0.0050
Commercial/ Business	-	0.010
Public Service Infrastructure	-	0.00168
Agricultural properties used for agriculture	-	0.00168
Agricultural properties used for commercial/industrial		0.00168
Agricultural properties used for eco-tourism, Conservation trading in or hunting	-	0.00168
Agricultural properties not used for any Activities/not known by the Municipality	-	0.0050
State owned enterprises that provide local / Regional services	-	0.00168
Vacant plots	-	0.005
Mining properties	-	0.00168

Municipal properties - 0.0000

GAZETTED ALLOCATIONS:

National Allocations	2010/2011	2011/2012	2012/2013	2013/2014
Equitable Share	24 084 000	28 209 000	31 184 000	33 221 000
MIG	9 888 000	11 892 000	14 460 000	15 255 000
Finance Management Grant	1 500 000	1 500 000	1 500 000	1 500 000
Municipal Systems Improvement Grant	750 000	790 000	800 000	900 000
Electricity Upgrade	0	2 000 000	0	0

CONCLUSSION

The municipality prioritizes electricity distribution, construction of roads, community halls; refuse removal, among others, as well as SMME development through the implementation of Supply Chain Policy.

SECTION 4: ANNUAL BUDGET TABLES

The Annual Budget Tables are attached in this budget document as Tables A1 to A 10.

The Budget Tables Are:

Table A1 – Budget Summary

Table A2A - Budget Financial Perfomance (revenue and expenditure by standard classification)

Table A3A – Budgeted Financial Perfomance (revenue and expenditure by municipal vote)

Table A 4 – Budgeted Financial Perfomance (revenue and expenditure)

Table A5 – Budgeted Capital Expenditure by vote, standard classification and funding

Table A5A – Budgeted Capital Expenditure by vote, standard classification and funding

Table A6 – Budgeted Financial Position

Table A 7 – Budgeted Cash Flows

Table A 8 – Cash backed reserves/accumulated surplus reconciliation

Table A 9 – Asset Management

Table A 10 – Basic Service Delivery measurement

PART 2 – SUPPORTING DOCUMENTATION

SECTION 5: Overview of annual budget process

Municipal Finance Management Act section 21 requires that the process for preparing the annual budget and for reviewing the municipality`s intergrated development plan and budget should be well co-ordinated to ensure consistency as well as credibility.

The budget and IDP process plan of the municipality was tabled in Council in August 2010. Communities gave priorities per ward in the various consultative meetings during the months of September to December 2010. The draft budget and IDP will be tabled in Council in March 2011.

The draft budget will be placed on the Municipal website for public comment and on all municipal libraries as well as in Municipal Satellite Offices.

The proposed budget will be tabled in Council on 31 May 2010 as the municipality has selected option 1 of having the old Council adopting the budget and the new council approving the budget. The Municipalities budget is prepared on a three year basis. This takes into account the National and Provincial allocations to the Municipality. The MFMA requires municipalities to prepare 3 year budgets, with comparatives of the past three years as well as the current year. This is meant to ensure a more thorough financial planning and provide for seamless service delivery.

SECTION 6: BUDGET ASSUMPTIONS

Each year National Treasury issues a circular to municipalities indicating the budget parameters within which municipalities should base their budgets.

The headline forecast for the year 2011/2012 and 2012/2013 is 4.8 percent,5.3 percent and 5.5 percent respectively.

- Assumptions that inform the budget are consumer price index (CPI) for Councillor Allowances,
- 6% increase for S 57 Managers,
- 6 % increase for employees below S 57 Managers,
- Administration costs,
- repairs and maintenance costs of 5.7% equal to 6% increment based on circular 51 published by National Treasury,
- capital charges incremental is 6%
- capital budget estimates are based on grant allocations as Gazzetted in the DORA
- capital budget has increased from R 9 888 000 to R 11 892 000
- Bulk electricity upgrade of R 2 000 000

SECTION 7: Overview Of Alignment Of The Annual Budget With The Intergrated Development Plan

The Intergrated Development Plan is the strategic document of the municipality which forms the basis of all projects undertaken. The budget is the enabling tool and consists of community priorities and indicates funded and non funded projects.

Community consultation allow for proper prioritization of needs per ward and takes into account available resources, particulary, financial resources.

The highlights of the budget for the year 2011/12 include, but not limited to the following projects to be funded by internal revenue: This is on the assumption that all revenue projected will be received during the 2011/2012 financial year.

Project name	**Department allocated to**	**Amount budgeted**
Institutionalised Activities (Christmas Function for underpriviledged Children)	Municipal Council	R 200 000
Additional Councillor plus 10 Additional Ward Committees	Municipal Council	R 850 000
Training Costs Councillors	Municipal Council	R 100 000
Public Participation	Municipal Council	R 100 000
Land & Building – Fencing	Municipal Council	R 200 000
Ward Committee Meetings	Municipal Council	R 50 000
Mayor`s Cup	Municipal Council	R 50 000
Moral Regeneration	Municipal Council	R 50 000

LED Projects	Strategic Services	R 600 000
Special Programmes	Strategic Services	R 700 000
Life Saving	Strategic Services	R 250 000
Community Based Planning	Strategic Services	R 25 000
IDP and PMS	Strategic Services	R 250 000
Public Participation	Strategic Services	R 200 000
Plant Equipment & Tools	Technical Services - Streets	R 630 000
Street Lights & Paving	Technical Services - Streets	R 315 000
Roads Infrastructure	Technical Services - Streets	R 10 382 400
Vehicles	Community Services - Refuse	R 110 000
Refuse dump	Community Services – Refuse	R 120 000
Plant Equipment & Tools (New)	Community Services – Refuse	R 55 000
Plant Equipment & Tools (Repairs)	Community Services – Refuse	R 70 000
Refuse Trucks fuel	Community Services – Refuse	R 250 000
Bulk Electricity	Technical Services - Electricity	R 4 157 319
Free Basic Electricity	Technical Services - Electricity	R 1 183 875
Renovations Caravan Park	Caravan Park	R 297 000
Office furniture & Equipment	Town Planning	R 50 000
Bulk Electricity upgrade	Electricity	R 2 000 000
Refurbishment of Community Halls	Amenities	R 350 000
Town Planner	Town Planning	R 300 000
Fencing	Amenities	R 200 000
Tractor	Amenities	R 200 000

Municipal Infrastructure Grant income amount to R 11 892 000 for the year 2011/2012 and includes Project Management unit operating expenses of 5%. Identifiable projects to be utilized by the MIG grant include:

- Jongilanga Access Road
- Tuba Internal Streets
- Lusizini Access Road
- Sithungu Access Road
- Cefane Internal Streets
- Makhazi Internal Streets
- Renovation of Art Center at Gwaba Village
- Chintsa East Sports Field
- Rehabilitation of Komga Sports Field
- Morgan Bay Yellowoods Access Road
- Komga landfill site
- Ngxingxolo Internal Streets
- Tuba Community Hall
- Eluqolweni Creche
- Community Hall in Gwaba

SECTION 8: Measurable performance objectives and indicators

In developing measurable performance objectives, consideration has been given to:

- the IDP of the Municipality,
- the Service delivery and budget implementation plan
- Economic development initiatives that facilitate job creation, economic growth, poverty alleviation as well as provision for basic services.

Measurable performance objectives and indicators include the following:

(a) Borrowing management
(b) Debtors and creditors management
(c) Expenditure types
(d) Revenue sources

Measurable performance objectives for :

- Revenue for each vote
- Revenue for each source
- Operating and capital expenditure for each vote

SECTION 9: Overview of budget assumptions

Budget assumptions:

Circular 51 was utilized as the primary source of obtaining guidance on percentages for all expenditure and revenue increases. Internal and external factors affecting the budget have been considered.

External factors:

(a) The high rate of unemployment within the municipal area which results in the increase in the indigent register. Also, the debtors’ book has huge balances that will be considered for writing off as irrecoverable.

(b) The recent economic downturn has also affected the ability for other consumers to pay for services as well as the attitude of non payment for services.

(c) The municipality has limited funds to support SMME development which would serve as an exit strategy for indigent consumers as well as to improve the overall status of consumers.

(d) The general inflation is estimated at 5.7% for the 2011/2012 financial year. This affects the general tarriff increases levied by the Municipality from year to year.

(e) The recent increases in electricity tariffs by Eskom mean the municipality has to increase distribution costs and thereby the consumer has to pay more for acquiring the services.

(f) The agreement reached by Unions in terms of the wage negotiations

SECTION 10: Funding Compliance

The municipality depends mostly on grant funding to finance operations. Factors affecting the financial viability of the municipality have been highlighted in the above paragraphs. A revenue raising strategy will be developed for implementation in the 20011/2012 financial year. The financial viability of the municipality has been identified as one of the key priorities in the New Year.

The huge increases for tariffs are supported by the result of the increment approved by Nersa in March 2010. Other service increases are set at 10% so as to cover operational costs.

The budget is credible as it is cash funded. The municipality does not foresee entering into loan arrangements but has processes in place to repay all outstanding loans, eg. DBSA loan.

SECTION 11: <u>OVERVIEW OF BUDGET FUNDING</u>

The MFMA S 18 (1) states that the annual budget may only be funded from:

- Realistically anticipated revenues to be collected
- Cash backed accumulated funds from previous year`s surplus funds nor committed for other purposes, and
- Borrowed funds, but only for capital budget referred to in S17

This section requires that projected revenues be based on recorded revenues of the previous period which forms a clear indication of how projections should be set.

A Credible Budget

- A Budget is Credible when it is an implementing tool for the Municipal IDP, this ensures that projects indicated in the IDP will be achieved within the financial constraints of the Municipality.
- The service delivery and budget implementation plan of the municipality and set performance targets can be achieved with the budget
- Contains revenue and expenditure projections that are consistent with current and past performance and are supported by documented evidence of future assumptions
- does not compromise the financial viability of the Municipality
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

FISCAL OVERVIEW OF GREAT KEI MUNICIPALITY

The Great Kei Municipality is largely dependent on Grant funding that are allocated by the National Revenue Fund. The amount generated from internal revenue is largely affected by external factors, including the attitude or culture of non payment for services by consumers. Further, the municipality has an electricity distribution license to the Komga community only as all other areas of the municipality are supplied directly by Eskom. This then is a loss of revenue that could assist the municipality on financial sustainability and on the proper implementation of debt and credit control policies.

The municipality is unable to match employee salaries with those of municipalities of a similar size. This is particulary due to limited funds available. It therefore leaves the municipality at a disadvantage of not being able to attract properly skilled individuals to perform