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MAKANA LOCAL MUNICIPALITY

**BUDGET REPORT 2012/13 TO
2014/15 (TABLING OF THE BUDGET
FOR APPROVAL
29TH MAY 2012)#**

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1.1. EXECUTIVE SUMMARY AND CHALLENGES

The application of sound financial management principles for the compilation of Makana Municipality's budget is essential to ensure the financial viability and that municipal services are rendered sustainable, economical and equitable to all communities. Service delivery priorities were reviewed during strategic sessions that took place since January 2012, and these strategies are, as far as possible, incorporated in this budget.

Several challenges were identified during the process of compiling this budget.

1. Council currently collects on average 75% of the billed revenue. In order to provide services as expected by the citizens, this situation has to improve. Current arrears amount to more than R220 million. At a meeting held during March 2012, a decision was taken that the Credit Control Policy will be enforced in an effort to reduce the loss of income through non-payment and other reasons such as illegal connections to the electricity and water network. This further result in Council having to provide for an increasing contribution to a bad debts provision, that leads to less funds available to spend on other service delivery items.
2. Ageing infrastructure still remains a problem and requires constant maintenance. It is also the cause of numerous water and electricity outages.
3. The ever increasing cost of bulk electricity, while the recovery rate from consumers are limited to a rate lower than that Council has to pay. Although the increase on the Bulk Purchases of Electricity is set at 13.5%, NERSA advised that the recovery must be maximised at 11%, thereby resulting in a loss on the sale of Electricity of approximately R2, 5million.
4. A critical need to fill vacancies with limited funds for salaries, equipment and office accommodation

5. Ever increasing needs exceeding resources, financial and otherwise, by a huge margin. Critical capital and operating requirements requested by departments had to be reduced drastically due to unaffordability.
6. Inability to restrict tariff increases to a level not exceeding the CPI.

The Revenue Budget of R329 015 780, up 10,86% from R296 781 040 for 2011/12, was largely based on the projected income for the current financial year, compared to the actual income for the previous financial year, while ensuring a budgeted surplus adequate to fund the own-funded projected capital expenditure.

The Operating Expenditure Budget for 2012/13 of R305 092 280 is up 2,8% from the R296 781 040 of 2011/12. The resulting surplus of R23 923 500 will be utilized to fund the own-funded portion of the capital budget.

The total Capital Budget amounts to R124 736 010, up 2.26% from the original budget for 2011/2012 of R121 976 750.

I would like to thank the team that worked on this budget for long hours for their combined efforts in an attempt to provide a credible product to Council.

CLR Z. PETER
EXECUTIVE MAYOR: MAKANA MUNICIPALITY

1.2. THE EXECUTIVE MAYOR'S BUDGET SPEECH

The separate document covering the Mayor's Budget Speech will be made available when tabling the draft budget to Council for approval and will also be loaded on the internet, and availed to Treasury as is required.

1.3. BUDGET PROCESS OVERVIEW

The annual budget process of a municipal council normally starts in August of each year with the approval of a budget timetable, and the process culminates in inputs obtained from the community being captured in the draft budget, which has to be approved by the end of March each year. The next step involves consultations being held with internal and external stakeholders to produce a credible, realistic and fully funded budget that has to be adopted by Council by the end of May each year. This budget also has to be aligned with the Integrated Development Plan (IDP), and this year it is no different as projects identified in the IDP is included in this draft budget. Over and above this, several regulations and circulars from National Treasury has to be conformed with during these processes.

This year there were certain delays as directorates were tasked to hold individual strategic sessions flowing from the institution-wide strategic session held in mid-January. The final inputs were provided in March, after considering the outcomes of the individual strategic sessions.

The draft budget was adopted by Council on 30 March 2012, where after meetings were held with directorates and relevant councilors to ensure the compilation of the final budget for approval by Council on 29 May 2012.

1.4. OPERATING REVENUE FRAMEWORK

In order to maintain the current level of services and to improve on it, revenue has to be generated. Large sections of our community live in poverty due to a

high rate of unemployment in the area. Our ageing infrastructure requires a high level of maintenance, and even higher costs to replace. There is a huge need to eradicate developmental backlogs – some residents still makes use of bucket sanitation. Roads are in desperate need of upgrading. Furthermore, the new developments in our area also results in additional strain on our infrastructure such as Sewer, Water, Roads and Electricity networks. All this requires money, that is not freely available, to maintain and upgrade.

As a result Credit Control measures have to be enforced in an effort to collect what is due to Council. The value of efforts to promote revenue enhancement through Local Economic Development and Tourism is also often understated.

After considering these and other factors, the following increases in tariffs are proposed to fund the operations of Council during the 2012/13 financial year:

Rates	9 %
Electricity	11 %
Water	9 %
Refuse	9 %
Sewer	9 %
Other Income	9 %
Infrastructure Levy	3 % of revenue from above services

The proposed Infrastructure Levy, if approved, is intended to fund extensions to and maintenance of our infrastructure due to the increased demands placed on our infrastructure as a result of new developments within the Makana area of jurisdiction.

1.5. OPERATING EXPENDITURE FRAMEWORK

There is a desperate need in certain areas to fill vacant positions. As mentioned earlier, there is a desperate need to increase maintenance on our assets. Due to

limited financial resources being available, unpopular decisions had to be made. Requests to increase maintenance had to be reviewed and adjusted where required. Maintenance in certain areas like Roads were increased, while other areas were allocated the same as the previous year, based on past spending patterns. Requests to fill vacancies were limited to posts already budgeted for in 2011/2012. No new posts are budgeted for in 2012/2013, and only those vacancies arising from natural attrition during the year will be filled in 2012/2013. Salary increases of 6% were budgeted for. Increases in expenditure were largely based on previous year actual expenditure, as compared to actual expenditure projected for the current financial year, and allowing for limited increased/additional activities in the next financial year.

In an effort to be able to fund the own-funded capital requests from a budgeted surplus as is required, we were faced with a particular challenge by having to limit the increase in operating expenditure compared to the 2011/12 financial year. This was done in accordance with past trends where the full budget was not spent in all areas.

1.6. CAPITAL EXPENDITURE

Initial requests for Capital Expenditure to be funded from our own sources amounted to R71m. These are all considered to be desperately needed. Our vehicle fleet dates back to the 1980's in some cases, although numerous new vehicles were bought in recent years. Networks have to be upgraded and extended. New staff needs equipment and vehicles to perform their duties.

Once again certain unpopular decisions had to be made due to unaffordability. All requests for vehicles were removed to a next financial year, upgrades to networks were reduced and/or moved to outer years. Due to the fact that the filling of vacancies was put on hold, the budget for the purchase of equipment was also reduced substantially.

However it is important to note that infrastructural development in service delivery areas funded from Grants amounting to R69.98m will still proceed as planned. The overall capital budget is increased by only 2,26% to R124 736 010 when compared to the original budget for the previous year. This was achieved through increased externally funded projects and a reduction in own funded projects.

1.7. OVERVIEW OF BUDGET RELATED POLICIES

The Finance Directorate regularly embarks on a process of reviewing all financial related policies. All financial related policies are then tabled to Council for approval when the budget is finally approved by Council on or before end May of each year. As there were no fundamental changes in legislation, the current policies generally are still considered adequate. During the 2012/2013 financial year, an adequacy assessment on all the budget related policies will however be undertaken.

However, the Supply Chain Management policy is currently being reviewed and will be communicated to all stakeholders for comments, as there were certain changes in legislation that was gazetted in December 2011. The Cacadu District Municipality embarked on a pilot program, in conjunction with National Treasury, to implement a standard Supply Management Policy throughout the district. The final product will be presented to Council for consideration after the consultation processes were concluded.

1.8. OVERVIEW OF BUDGET FUNDING

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

portion of grant funding is the Equitable Share which is unconditional by nature, followed by conditional grants such (i) Municipal Infrastructure Grant and (ii) Neighbourhood Development Partnership Grant (NDPG). The conditional grants can be utilised only for the sole purpose they were intended for (in terms of the Division of Revenue Act), whilst the unconditional grants can be used at the discretion of the municipality.

The Division of Revenue Bill for 2012 / 13 was made available immediately after the Minister of Finance (Mr Pravin Gordhan) delivered his budget speech early this year in Parliament, and the indicative grants or subsidies to be received by Makana Municipality in the forthcoming financial year are as follows: -

GRANT FUNDING – 2012 / 2013 (As per Division of Revenue Bill)

TYPE OF GRANT	2012 / 2013 ALLOCATION (As per Municipal Financial Year)	2013 / 2014 ALLOCATIO N (As per Municipal Financial Year)	2014 / 2015 ALLOCATION (As per Municipal Financial Year)
Equitable Share	63 592 000	68 127 000	73 212 000
Financial Management Grant	1 500 000	1 500 000	1 750 000
Municipal Systems Improvement Grant	800 000	870 000	950 000
Municipal Infrastructure Grant	29 490 000	31 109 000	32 908 000
Councillors Remuneration (part of Equitable Share)	3 410 000	3 858 000	4 930 000

Integrated National Electrification Programme (Eskom) Grant	80 000	1 693 000	2 695 000
Neighbourhood Development Partnership Grant	20 000 000	14 270 000	0
Expanded Public Works Programme	1 000 000	0	0
Electricity Demand Side Management Grant	6 000 000	0	0
TOTAL	125 872 000	121 427 000	116 445 000

These figures were confirmed by National Treasury through the Division of Revenue Act which was enacted into law and gazetted on 17 May 2012 through Government Gazette 35361.

The Revenue Budget for 2013/2013 of R329 015 780 will be funded from own revenue (R258 306 780), MSIG (R800 000), Equitable Share (R67 002 000), FMG (R1 470 000), and MIG (R1 437 000).

The funding of the Capital Budget can be illustrated with the following table:

FUNDING SOURCES - CAPITAL BUDGET					
	<u>2012/2013</u>			<u>2013/2014</u>	<u>2014/2015</u>
AFF	23,923,500			75,843,000	13,416,300
<u>GRANTS:</u>					
MIG	28,030,500			29,553,550	31,262,600
NDPG	20,000,000			14,270,000	
FMG	30,000				
DME	6,000,000				
DBSA LOAN	43,000,000				
DWA	2,852,510				
DSRAC	899,500				
	124,736,010			119,666,550	44,678,900

The escalating increase in the debtor's situation is worrying more so when the government departments are also owing the municipality a sizeable amount. Efforts were made recently by Provincial Treasury to assist the Municipality in identifying deposits made that will result in reducing a portion of the arrear debt from government departments. The debt collection rate at present is about 75% which indicates that for every R1 billed it is likely that R0.25c will not be collected.

1.9. SALARIES AND ALLOWANCES PAYABLE TO COUNCILLORS AND SECTION 56/7 EMPLOYEES

An increase of 6% was budgeted for both staff salaries and allowances for councilors.

The following table illustrates the salaries of the Section 57 employees:

Category	Current Salary Package	Increased by 6%	Performance Bonus @14%	Total
Municipal Manager	R 1,039,520	R 1,101,891	R 154,265	R 1,256,156
Chief Financial Officer	R 794,823	R 842,512	R 117,952	R 960,464
Director: Corporate Services	R 794,823	R 842,512	R 117,952	R 960,464
Director: Local Economic Development	R 794,823	R 842,512	R 117,952	R 960,464
Director: Community & Social Services	R 794,823	R 842,512	R 117,952	R 960,464
Director: Technical & Infrastructural Services	R 794,823	R 842,512	R 117,952	R 960,464
TOTAL	R 5,013,635	R 5,314,453	R 744,023	R 6,058,477

The following table illustrates the allowances payable to councillors:

<u>PROPOSED COUNCILLOR'S ALLOWANCES - 2012 / 2013 (INCREASED BY 6%)</u>				
CATEGORY	SALARY (PA)	TRANSPORT ALLOWANCE (PA)	CELLPHONE ALLOWANCE (PA)*	TOTAL (PA)
1 x Executive Mayor (Full-time)	486,456	162,152	19,970	668,579
CATEGORY TOTAL	486,456	162,152	19,970	668,579
1 x Speaker (Part-time)	214,041	71,347	12,453	297,840
5 x Portfolio Chairpersons (Full-time)	1,824,211	608,070	99,852	2,532,134
21 X Other Councillors (Part-time)	3,064,685	1,021,561	261,510	4,101,657
CATEGORY TOTAL	5,102,936	1,700,979	373,815	6,931,631
GRAND TOTAL	5,589,393	1,863,131	393,786	7,600,210

1.10. BUDGET RELATED RESOLUTIONS

The final budget resolution forms part of the actual item to Council for the approval of the IDP and Budget documents for 2012/13 financial year.

1.11. MUNICIPAL MANAGER'S QUALITY CERTIFICATE

I, Mr M. Planga, Acting Municipal Manager of Makana Municipality, hereby certify that the Annual Budget (2012/13 to 2014/15) and supporting documents have been prepared to the best of our ability in accordance with the Municipal Finance Management Act and the regulations made under this Act.

NAME: M. PLANGA

MAKANA MUNICIPALITY (EC104)

SIGNATURE:

DATE: