

***-SUNDAYS RIVER VALLEY  
MUNICIPALITY***



***BUDGET 2012/2013 AND MTREF***

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## **CHAPTER 1**

### **MAYOR'S REPORT**

Madam Speaker, my fellow councillors, municipal manager, municipal officials and the public representatives, allow me to express my appreciation for your support during the past 10 months. As newly elected councillors of Sundays River Valley Municipality we were faced with the challenge of ensuring that the good work done by the Administrator remained intact and that this organisation moves forward.

The financial sustainability and proper service delivery to our community was our main priority. Although there is still much work to be done, it is my hope that both politicians and administration will continue to work hand in hand to reform this municipality and restore it to its former glory.

Today it is my privilege to table the final IDP and budget for 2012/13. This is the first IDP and budget that we as newly elected councillors have the opportunity to consider, drive and implement. It is my wish that through this budget, which is the implementing tool for our IDP, we will be able to consider the needs of our community and contribute to creating a better life for all.

According to the legislative requirements set out in the Municipal Systems Act of 2000(MSA) as well as the Planning and Performance Management Regulations, all municipalities, both district and local have to prepare an IDP and subsequently submit the document to the MEC for Local Government.

In terms of Section 34 of the MSA: *A municipal council –*

***(a) Must review its integrated development plan –***

***(i) Annually in accordance with an assessment of its performance measurements in terms of section 41; and***

***(ii) to the extent that changing circumstances so demand; and***

***(b) May amend its IDP in accordance with a prescribed process***

The 2012/2013 IDP Process Plan focused on strengthening the municipal IDP as the municipalities principle planning and management tool, through ensuring the seamless integration of especially the performance management system (PMS) and budgeting processes with the IDP Process.

The IDP/Budget process plan was approved by Council on the 27<sup>th</sup> July 2011 but was subsequently amended through a Council resolution in January 2012.

The IDP and budget are informed by deliberations and inputs from public participation processes. Key public participation sessions that determined the objectives set out in the IDP and Budget 2012/13 was amongst others:

- The publication of the process plan and needs raised at community engagements during the 100 days service delivery programme 2011/12
- Three Community Based Planning strategic sessions which were held with broader Ward Committees' forum
- Three District IDP Representative Forum meetings were held where Sector Departments presented their programmes and plans for inclusion in municipal IDPs
- Local Economic Development Forum was held on the 24 February 2012 and that assisted in amending the economic section of the IDP
- One IGR session was held on the 14 March 2012 and the second is to be held on the 31<sup>st</sup> May 2012. This seeks to ensure cooperative governance works
- Municipal strategic planning session was held in December 2011 to discuss among others challenges experienced in 2011/12 and objectives for 2012/13.
- The risk assessment workshop was held over two days i.e. 17-18 May 2012, the KPIs of officials must consider the objectives and outcomes set in the risk register.
- Ward consultations on IDP and Budget were held between 23 April 2012 and 22 May 2012. The issues raised are incorporated in the IDP section "issues emanating from ward consultations"

#### **IDP PRIORITIES**

The municipal vision and mission was changed by the current Council and there were no changes during the review process. The problems that affect communities require an understanding of the best solutions in terms of objectives selected to achieve our priorities. The 2012/13 priorities were not changed but only reformulated and included spatial planning. The social and economic development priority was separated into community services and local economic development. The following are budgeted projects per ward for 2012/13 financial year.

#### **WARD PROJECTS**

##### **WARD 1**

<b>Project</b>	<b>Area</b>	<b>Cost</b>	<b>Comment</b>
CASP- Nontsokolo Trust	Moses Mabida	R800 000	<b>CASP from DRDAR</b>
<b>Upgrading of Kirkwood Bulk Water Supply</b>	<b>Upper Valley</b>	<b>R800 000</b>	<b>Project cost is R20 418 838.00 and awaiting confirmation from RBIG</b>
Kirkwood: New area lighting	Moses Mabida;	R550 000 for 2013/14	Application for MIG
SMME support and	All wards	Operational	Business registration.

<b>development and Resource Mobilisation</b>			Tractor lease. Referrals and advice. Business plan development. Development of economic infrastructure.
<b>Customer care</b>	<b>All wards</b>	<b>Operational</b>	<b>Timely Response to customer complaints</b>
<b>Rehabilitation and upgrade of 7 Sport fields</b>	<b>All</b>	<b>R14 729 399.41</b>	<b>Phased approach over 5 years with 3,5 million budget per year</b>
<b>Post Youth Build Project</b>	<b>Moses Mabhida</b>	<b>Not specified</b>	<b>Dept of Human Settlements implementor. After care planned for 2012/13.</b>

#### WARD 2 PROJECTS

<b>Project</b>	<b>Area</b>	<b>Cost</b>	<b>Comment</b>
<b>Rehabilitation and upgrade of 7 Sport fields</b>	<b>All</b>	<b>R14 729 399.41</b>	<b>Phased approach over 5 years with 3,5 million budget per year</b>
<b>Upgrading of Kirkwood bulk water supply</b>	<b>Kirkwood</b>	<b>R20, 418,838.00</b>	<b>RBIG application awaiting confirmation</b>
<b>Capacity building of ward committee members</b>	<b>All wards</b>	<b>R270 000</b>	
<b>Customer care</b>	<b>All wards</b>	<b>N/A</b>	<b>Timely Response to customer complaints</b>
<b>SMME Support and development and resource mobilisation</b>	<b>All wards</b>	<b>Operational</b>	<b>Same as in ward 1</b>

<b>Centenary Celebrations</b>	<b>Kirkwood; Aqua Park; Bergsig; Moses Mabida; Msengeni</b>	<b>To be determined</b>	<b>Fund raising will be done</b>
<b>Refurbish community library in Kirkwood</b>	<b>Kirkwood</b>	<b>R1 300 000</b>	<b>CDM to do extension and alterations in Kirkwood library</b>
<b>Job creation fund</b>	<b>All wards</b>	<b>R1 million</b>	

#### **WARD 3 PROJECTS**

<b>Project</b>	<b>Area</b>	<b>Cost</b>	<b>Comment</b>
<b>Rehabilitation and upgrade of 7 Sport fields</b>	<b>All</b>	<b>R14 729 399.41</b>	<b>Phased approach over 5 years with 3,5 million budget per year</b>
<b>Addo: New area lighting</b>	<b>Addo/Valencia</b>	<b>R1 542 000</b>	<b>Funding requested for 2013/14 and 2014/15 and must still be confirmed</b>
<b>Kk113</b>	<b>Addo</b>	<b>TBD</b>	<b>DAFF and Dept of Agric to source funding. A steering committee will be set up.</b>
<b>Alien clearing</b>	<b>Addo central</b>	<b>R5 980 007.32</b>	<b>AENP implementer</b>
<b>Alien Clearing</b>	<b>Addo North West</b>	<b>R3 802 234.89</b>	<b>AENP implementer</b>
<b>Working for Land- Dry land rehabilitation</b>	<b>Addo</b>	<b>R1 267 543.</b>	<b>AENP implementer</b>
<b>Working for land. Rehab- spekboom</b>	<b>Addo</b>	<b>R6 615 912</b>	<b>AENP implementer</b>
<b>Working for water training centre</b>	<b>Addo Central</b>	<b>R76 032.81</b>	<b>AENP implementer</b>
<b>Nursary and rehabilitation</b>	<b>Addo central</b>	<b>R331 023.23</b>	<b>AENP implementer</b>

<b>SMME support and development and resource mobilisation</b>	<b>All wards</b>	<b>Operational</b>	<b>Same as in ward 1</b>
<b>Customer care</b>	<b>All wards</b>		<b>Timely Response to customer complaints</b>
<b>Waste Water treatment works including pump stations</b>	<b>Addo/Nomata msanqa</b>	<b>R7 000 000</b>	<b>4 Pumps too small and needs upgrading Repairs &amp; maintenance to sewer pumps R795k</b>
<b>Upgrade gravel roads</b>	<b>All</b>	<b>R5 000 000</b>	
<b>Blue &amp; green drop certification</b>	<b>All</b>	<b>R1 000 000</b>	<b>Commitment to clean drinking water</b>
<b>Establish Agri-village</b>	<b>Zuney</b>	<b>TBD</b>	<b>Discussions with land reform for the purchase of land for residential and economic development and to mitigate against farm evictions and</b>
<b>Liqhayiya Land care</b>	<b>Zuney</b>	<b>Not specified</b>	<b>Funded by the Department of Agriculture</b>

#### **WARD 4**

<b>Project</b>	<b>Area</b>	<b>Cost</b>	<b>Comment</b>
<b>Rehabilitation and upgrade of 7 Sport fields</b>	<b>All</b>	<b>R14 729 399.41</b>	<b>Phased approach over 5 years with 3,5 million budget per year</b>
<b>Paterson waste water</b>	<b>Paterson</b>	<b>R3 500 000</b>	
<b>Paterson Bulk water</b>	<b>Paterson</b>	<b>R17 000 000</b>	
<b>Paterson Reservoir</b>	<b>Paterson</b>	<b>R4 749 419</b>	<b>Under construction</b>
<b>Paterson new area lighting</b>	<b>Paterson</b>	<b>R1 320 000</b>	<b>Funding requested for 2013/14 and 2014/15 and must still be confirmed</b>

Zuney Bulk sewerage reticulation system	Zuney	R18 000 000	Submitted for MIG priority list but no confirmation of funding yet
Housing 269	Kwazenzele/ Moreson	Not specified	MEC Intervention programme. Proposed are 800.
Eco pullets	Paterson	Not specified	Application from jobs fund
Commonage	Paterson	N/A	Municipal land identified and to undergo Council processes to avail it to relocate livestock in residential area
Customer care	All wards	Operational	Timely Response to customer complaints
SMME support and development and Resource Development	All wards	Operational	Same as in ward 1

#### Ward 5 &6

Project	Area	Cost	Comment
Rehabilitation and upgrade of 7 Sport fields	All	R14 729 399.41	Phased approach over 5 years with 3,5 million budget per year
Addo: New area lighting	Wards 5&6	R1 542 000	Funding requested for 2013/14 and 2014/15 and must still be confirmed
Rehabilitation of Landfill sites	Langbos		Feasibility stage but still needs funding
Alien clearing	Addo central	R5 980 007.32	AENP implementer
Alien Clearing	Addo North West	R3 802 234.89	AENP implementer



<b>Working for Land- Dry land rehabilitation</b>	<b>Addo</b>	<b>R1 267 543.</b>	<b>AENP implementer</b>
<b>Working for land. Rehab- spekboom</b>	<b>Addo</b>	<b>R6 615 912</b>	<b>AENP implementer</b>
<b>Working for water training centre</b>	<b>Addo Central</b>	<b>R76 032.81</b>	<b>AENP implementer</b>
<b>Nursary and rehabilitation</b>	<b>Addo central</b>	<b>R331 023.23</b>	<b>AENP implementer</b>
<b>SMME support and development and Resource Mobilisation</b>	<b>All wards</b>	<b>Operational</b>	<b>Same as in ward 1</b>
<b>Customer care</b>	<b>All wards</b>	<b>N/A</b>	<b>Timely Response to customer complaints</b>
<b>Waste Water treatment works including pump stations</b>	<b>Addo/Nomata msanqa</b>	<b>R7 000 000</b>	<b>4 Pumps too small and needs upgrading Repairs &amp; maintenance to sewer pumps R795k</b>
<b>New waterborne sanitation</b>	<b>Addo Langbos</b>	<b>R9 300 000</b>	<b>Proposal made and subject to funding confirmation</b>
<b>Bulk water supply</b>	<b>Langbos</b>		<b>Prioritised project and is awaiting confirmation from MIG</b>
<b>CASP- Salieboom</b>	<b>Ward 5&amp;6</b>	<b>R210 000</b>	<b>Funded by Dept of Agr.</b>
<b>Upgrading of Ceasars Dam</b>	<b>Addo/Nomata msanqa</b>		
<b>Housing- Upgrading of infrastructure</b>	<b>Valencia</b>		<b>Upgrading of infrastructure before housing development</b>
<b>Upgrade gravel roads</b>	<b>All</b>	<b>R5 000 000</b>	
<b>Blue &amp; green drop certification</b>	<b>All</b>	<b>R1 000 000</b>	<b>Commitment to clean drinking water</b>

**WARD 7**

<b>Project</b>	<b>Area</b>	<b>Cost</b>	<b>Comment</b>
Refurbish community library in Kirkwood	Kirkwood	R1 300 000	CDM to do extension and alterations in Kirkwood library
Job creation fund	All wards	R1 million	
Paterson new area lighting	Paterson	R1 320 000	Funding requested for 2013/14 and 2014/15
Capacity building of ward committee members	All wards	R270 000	
Customer care	All wards		Timely Response to customer complaints
SMME Support and development and resource mobilisation	All wards		As in ward 1
Purchase land for community	Kleinpoort	TBD	Rural development and Land Reform

**Ward 8**

<b>Project</b>	<b>Area</b>	<b>Cost</b>	<b>Comment</b>
E & B WWTW	Enon Bersheba	R6 981 996	Under construction
Enon Bulk water		R3 222 525	Complete
Sewer Pump Outfall	Enon-Bersheba	R725 000	Under Implementation
CASP- Enon Bersheba	Enon-Bersheba	Not confirmed	Dept Agric, DAFF, Mun and CPA busy with process of calling development proposals
Implementation of Enon-Bersheba livelihood Study	Enon Bersheba	N/A	Study is 95% complete and was facilitated by the municipality. Will be

			presented to community. Resource mobilisation around identified projects.
Upgrade existing gravel roads	All wards	19,7million	Only R5 million is available for 2012/13. Municipality budgeted R560 000 for dry or wet blading
Rehabilitation and upgrade of 7 Sport fields	All	R14 729 399.41	Phased approach over 5 years with 3,5 million budget per year
Computer centre	Enon	Not specified	Department of education to provide the service at Enon Primary School.
Job creation fund	All wards	R1 million	Job creation projects
Housing 450	Enon/bersheba 450 KwaZenzele Moreson 269	Not specified	MEC intervention Programme (Rectification) 10 ha of land required at Enon/bersheba and 9ha from Kwazenzele/Moreson
Enon/Bersheba new area lighting	Enon-Bersheba	R1 320 000	Funding requested for 2013/14 and 2014/15
Customer care	All wards		Timely Response to customer complaints

## ACHIEVEMENTS

This financial year earmarked a number of achievements of which amongst others are:

- Improved public participation
  - The municipality adopted a new public participation policy as well as a communication policy to ensure that we improve our communication with our valid stakeholders

- Operational ward committees
  - All wards have operational ward committees and training has been provided for the ward committees
- Establishment of MPAC
  - Our newly elected MPAC participated in a three days capacity building workshop and the Office of the AG and Chairperson of Audit Committee attended the MPAC's first meeting to deliberate on the Annual Report for 2010/11.
  - The MPAC will further assist Council with proper oversight over the affairs of the municipality
- Moving from plenary system to collective executive system
  - Sundays River Valley now has an executive committee which assisted a lot in ensuring that the decision making process for vital service delivery issues has been shortened.
  - The municipality also has a full time Mayor and Speaker.
- Improved audit outcome for 2010/11 – qualification
  - For the first time in at least 4 years, the municipality managed to obtain an improved audit outcome – moving from disclaimer to qualification. It is our mandate to ensure that this audit outcome now improves to unqualified.
- Recovering from sec 139(1)(b) intervention
  - The Sec 139(1)(b) intervention was terminated during December 2011. One of our main priorities should be to ensure that the good work that was done during the intervention is maintained and that the municipality now moves forward with the objective of having a clean administration and being financially sustainable.

## CHALLENGES

Despite significant achievements, there are still challenges that we face. These are among others:

- ***The challenges that we faced with the implementation of the new billing system***
  - The municipality implemented a new financial system during 2011/12 which caused significant challenges. Although the majority of the issues have now been resolved it did have a negative influence on our ability to bill clients timeously which affected the cash flow and collection rate.
- ***Revenue collection rate***
  - The municipality's collection rate is still not at the required level and as mentioned has been influenced by the challenges faced during the implementation of the new billing system. Revenue collection target is set at 70% for the 2012/13 financial year and management should ensure that every effort is made to increase revenue collection.
  - Councillors should also remember that in terms of the Municipal Systems Act section 99(1)(a) it is the duty of the Executive Committee to oversee and monitor the implementation and enforcement of the credit control and debt collection policy. As such it could be said that each Councillor has the obligation to ensure that the municipality collects what is due to it.

- **Recruitment of specialists**
  - The municipality is facing the challenge of recruiting skilled and competent people especially when it comes to “scarce skills”. As such the municipality has adopted a retention policy to ensure that scarce skills remains within the municipality and is not lost to other organisations.
- **Sufficient indigent registration**
  - The municipality is still struggling to register all indigents. A door to door exercise and public meetings were held to try and register more indigents. The registration of indigents has a direct influence on the Equitable Share that the municipality will be getting in the future. At current only about 2 900 indigents are registered.
  - Management will be embarking on a data cleansing & indigent registration project as from May 2012 to try and increase the number of indigent registrations. Councillors are requested to assist where possible with the identification of indigents.
- **Revenue enhancement**
  - The municipality is still very much struggling with the identification and obtaining of additional funding to embark on much needed unfunded service delivery projects.
  - Management has now appointed a service provider to assist with resource mobilisation.
- **Service delivery**
  - Challenges that faced us during this financial year was mainly on roads and water
  - The condition of our roads in all wards is currently a frustration for all and requires serious intervention
  - The inability of the municipality to store sufficient water has caused communities to be without water for periods and caused communities to be deprived of the most basic service. Council cannot allow this situation to continue and although urgent short term solutions were implemented to relieve the situation slightly, permanent solutions need to be investigated to ensure continuous water delivery to our community
- **Performance Management Systems**
  - The municipality needs to review its PMS Policy framework to create a seamless process for development of credible performance contracts and SDBIP and the cascading of performance management to all employees in the institution.

## **BUDGET OVERVIEW**

In compiling the budget for 2012/13, consideration was given to the national priorities as communicated through National Treasury circular 58.

The Local Government Budgets and Expenditure Review released during September 2011 highlight the following areas as requiring particular attention:

- Revenue management – To ensure the collection of revenues, municipalities need to ensure that billing systems are accurate, send out accounts to residents and follow up to collect revenues owed.
- Collecting outstanding debts – This requires political commitment, sufficient administrative capacity, and pricing policies that ensure that bills are accurate and affordable, especially for poor households.
- Pricing services correctly – The full cost of services should be reflected in the price charged to residents who can afford to pay. Many municipalities offer overly generous subsidies and rebates that result in services being run at a loss, resulting in funds being diverted away from other priorities.
- Under spending on repairs and maintenance – Often seen as a way to reduce spending in the short term, under spending on maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs, and cause a deterioration in the reliability of services.
- Spending on non-priorities – Many municipalities spend significant amounts on non-priority items including unnecessary travel, luxury furnishings, excessive catering and unwarranted public relations projects. Consultants are often used to perform routine tasks.

Creating decent employment opportunities remains a national priority. In compiling our 2012/13 budgets and MTREFs all municipalities are urged to continue to explore opportunities to mainstream labour intensive approaches to delivering services, and more particularly to participate fully in the Extended Public Works Programme.

Municipalities are further urged to not just employ more people without any reference to the level of staffing required to deliver effective services, and what is financially sustainable over the medium term.

Circular 58 informs municipalities that expenditure priority ought to be given to:

- Ensuring that drinking water and waste water management meets the required quality standards at all times;
- Protecting the poor;
- Supporting meaningful local economic development (LED) initiatives that foster micro and small business opportunities and job creation;
- Securing the health of their asset base (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance; and
- Expediting spending on capital projects that are funded by conditional grants.
- Municipalities must also ensure that their capital budgets reflect consistent efforts to address the backlogs in basic services and the renewal of the infrastructure of existing network services.

The increases in tariffs and charges were considered in light of the standard and cost of services that have been provided to the community over the past year and also with a view to funding resources for the improvement of these services in the coming financial year.

If we want to continue building on a more financially stable municipality and for the benefit of our community, we have to make some hard decisions. It is a reality that the level of services the municipality is currently providing is not up to the required level, and must be improved. Service level improvement was the key focus of the Turnaround Plan. SRVM can only improve if it enters into a social

contract with the community, which will ensure that we collect the required revenue that will enable us to provide the best services.

It should be noted that no formal objections with regards to the budget were received from communities since the draft budget was tabled and published for public comments.

## **1. OPERATING REVENUE**

The operating revenue budget of SRVM amounts to R146 691 773 for 2012/2013 financial year. This represents an increase of R13 614 948 (10.23%).

In revising our tariffs, we considered the inflation rate as well as increased cost to provide the service. To ensure a credible and funded budget SRVM had to increase tariffs in general by 9%. Consideration was given to the fact that SRVM has been increasing tariffs marginally for a number of years in the past which resulted in tariffs not being cost effective. A review of the tariff structure started with refuse and sewerage in the previous financial year and will continue during 2012/13 – looking at water tariffs. Electricity increased with 11.03% as prescribed by NERSA.

## **2. OPERATING EXPENDITURE**

Sundays River Valley Municipality's budgeted expenditure for the 2011/2012 MTREF amounts to R110 301 936. This represents an increase of R7 853 507 (7.67%).

Personnel costs are currently representative of 29.4% of operating revenue for the 2012/2013 financial year.

The period of the *Salary and Wage Collective Agreement 2009/10 to 2011/2012* has come to an end. In the absence of other information from the South African Local Government Bargaining Council, municipalities were advised by National Treasury to budget for a 5 per cent cost-of-living increase adjustment, to be implemented with effect from July 2012.

We have increased our focus on service delivery in our budget for 2012/13 and have managed to increase repairs and maintenance from 4.8% to 6.5% which means that much needed assets for service delivery will be taken care of.

Bulk purchases increased by R1 643 190 (15.24%) which is a result of the increase in bulk electricity which amounted to 11.03%.

Debt impairment was increased with R1 000 000 (7%) from R14 000 000 to R15 000 000. The provision for bad debt is now seen to be adequate.

### LIST OF BUDGETED POSTS

Department	Post	Post level
Municipal Manager	1. Chief Internal Auditor	
Budget and Treasury	2. Asset Management Practitioner 3. Asset and insurance clerk 4. Fleet Control clerk	12 7 7
Community Services	5. Community hall caretakers x 4	5
Corporate Services	6. Assistant Manager HR 7. HR Practitioner	12 10
Technical Services	8. Senior electrician 9. Electrician Artisan 10. Electrical Artisan aide x 2 11. Spatial development Planning Officer 12. Social Housing Facilitator	10 9 3 11 6

### 3. CAPITAL EXPENDITURE

The capital budget of the municipality amounts to R42 186 059. This indicates an increase of R2 693 709 (6.8%).

The main projects that are funded in the capital budget are:

- Upgrading of Addo Waste Water Treatment works – R7 million
- Upgrading of Gravel roads – R5 million
- Upgrading of Paterson Waste Water Treatment works – R3.5 million
- Rehabilitation of sports fields – R3.5 million
- Langbos sewerage pump station – R1.5 million
- Langbos bulk water – R1.9 million
- Paterson bulk water – R17 million

These projects are funded by the Municipal Infrastructure Grant and Regional bulk infrastructure grants.



#### **4. GRANTS TO BE RECEIVED**

The following grants were gazetted in the DORA and provincial gazette to be received by SRVM:

- Equitable Share – R36 314 000 (2011/12: R32 105 000) – now includes contribution to Ward Committee stipends as well
- MIG – R23 659 000 (2011/12: R19 504 000)
- RBIG – R17 000 000 (2011/12 – R16 000 000)
- FMG – R1 500 000 (2011/12 – R1 500 000)
- MSIG – R800 000 (2011/12 – R790 000)
- EPWP – R1 000 000 (2011/12 – NIL)
- LIBRARY SUBSIDY – R1 157 000 (2011/12 – NIL)
- LED – R87 990 (2011/12 – R63 000)

Grants from Cacadu includes:

- Environmental health subsidy - R967 940 ( 2011/12 – R913 151)

#### **5. MAJOR CHANGES MADE TO DRAFT BUDGET**

The only major changes made since the draft budget was tabled were the review of the posts to be activated. Attention was given to activate posts in Technical Department as requested.

#### **CONCLUSION**

Madam Speaker, in conclusion I would like to express my gratitude to the following people for their input and assistance in reviewing the IDP and compiling the budget :

- The Budget committee
- The municipal manager
- The Head of Departments and staff
- The CFO
- Ward committees
- The community
- All Councillors

Honourable Speaker, I now formally table the IDP 2012/13 and budget for 2012/13 with annexures for Council's consideration.

## **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 2012/13; and indicative allocations for the two projected outer years 2013/14 and 2014/15; 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 assets
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 A, that were used to prepare the estimates of revenue by source, are approved with effect from 1 July 2012.
4. 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.
5. That in terms of section 5 of the Municipal Property Rates Act, 6 of 2004, the amendments to the rates policy as distributed during the workshop on 28 May 2012 is approved.
6. That in terms of section 62(1)(f) and section 111 of the Municipal Finance Management Act, 56 of 2003, the amended supply chain management policy as distributed during the workshop on 28 May 2012 is approved.

7. That in terms of section 24(2)(c)(iv) of the Municipal Finance Management Act, 56 of 2003, the final IDP for 2012/13 – 2016/17 as contained in **Annexure B** to the report be approved

## **CHAPTER 3**

### **EXECUTIVE SUMMARY**

#### **1. INTRODUCTION AND BACKGROUND**

Sundays River Valley Municipality recovered from a Section 139(1)(b) intervention during the 2011/12 financial year. As from December 2011 the intervention was uplifted and the reigns handed back to Council.

The 2012/13 budget tries to address some serious service delivery challenges whilst also attempting to correct errors of the past with regards to tariffs.

#### **2. IDP/BUDGET PROCESSES**

This was the first Budget and IDP that the new Council compiled. During the period of April to May 2012, the Council conducted its outreach program consulting the communities and obtaining their inputs into the draft budget and IDP. No formal objections were received with regards to the budget.

Comments made by the Mayor during the tabling of the draft budget were taken into consideration whilst preparing the final budget.

#### **3. IDP AND BUDGET SYNCHRONISATION**

A SDBIP for 2011/12 was approved by Council and quarterly reviews were conducted to ensure targets were met.

The Budget has been structured to ensure that there is alignment with the IDP and this is reflected in the SDBIP. Allocation of the budget will ensure that the IDP priorities are met where possible and the SDBIP will also outline key outputs for each of the IDP priorities.

#### **4. EQUITY IN THE BUDGET PROCESS**

After the IDP and Budget Public Participation process, an extensive engagement with the Municipal Manager, Councillors, Heads of Department and National Treasury Advisors took place to scrutinize the budget framework, departmental requests, and compliance issues to ensure that the budget is credible and balanced.

The municipality has sought advice from different stakeholders on budget related issues and tariff setting; and the major difficulty in drafting 2012-13 budget was to ensure a funded budget. The tariffs had to be increased more than the recommended tariff increase to ensure much needed services are delivered and infrastructure are taken care of.

## **5. THE BUDGET 2012/2013 – OPERATING REVENUE**

The Municipality's first consideration was to set the basics right by rectifying existing tariffs. The increases in tariffs and charges were considered in light of the standard and cost of services that have been provided to the community over the past year and also with a view to funding resources for the improvement of these services in the coming financial year.

Although the intervention yielded some positive results institutionally and administratively, there are still some service delivery challenges due to the poor collection rate and a high number of indigents that exist but not yet registered on our database.

Service level improvement was the key focus of the Turnaround Plan. The SRVM can only improve if it enters into a social contract with the community, which will ensure that we collect the required revenue that will enable us to provide the best services.

## **6. OPERATING REVENUE INCREASES**

Tariffs increased on average with 9% except electricity tariffs which increased with 11.03%

## **7. MAJOR SOURCES OF REVENUE**

The following table reflects the major sources of revenue for the 2012/13 financial year. This excludes Capital grants:

EC106 Sundays River Valley - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>Revenue By Source</b>											
Property rates	2	6 761	8 801	12 413	14 700	14 700	14 700	14 700	16 023	17 305	18 689
Property rates - penalties & collection charges		15			19	19	19	19	23	26	28
Service charges - electricity revenue	2	6 127	9 744	12 752	11 918	14 659	14 659	14 659	16 276	18 067	19 928
Service charges - water revenue	2	6 243	6 990	14 040	9 937	10 732	10 732	10 732	10 831	11 698	12 634
Service charges - sanitation revenue	2	1 491	1 484	1 653	2 677	2 811	2 811	2 811	2 918	3 152	3 404
Service charges - refuse revenue	2	3 033	3 254	3 530	5 062	5 062	5 062	5 062	5 518	5 959	6 436
Service charges - other					169	169	169	169	88	95	103
Rental of facilities and equipment		61	62	66	63	63	63	63	69	74	81
Interest earned - external investments		1 671	233	287	200	200	200	200	212	223	234
Interest earned - outstanding debtors		3 543	3 358	5 145	1 860	1 860	1 860	1 860	2 032	2 203	2 389
Dividends received		-									
Fines		1 280	3 231	1 454	1 012	1 012	1 012	1 012	1 073	1 130	1 186
Licences and permits		4 628	1 746	2 650	2 614	4 614	4 614	4 614	2 651	2 792	2 928
Agency services		-			1 107	1 107	1 107	1 107	1 173	1 235	1 296
Transfers recognised - operational		139 317	29 460	36 502	36 283	36 658	36 658	36 658	43 010	45 170	48 801
Other revenue	2	2 851	2 225	2 603	4 882	4 882	4 882	4 882	5 318	5 777	6 270
Gains on disposal of PPE											
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>177 020</b>	<b>70 589</b>	<b>93 095</b>	<b>92 503</b>	<b>98 548</b>	<b>98 548</b>	<b>98 548</b>	<b>107 216</b>	<b>114 905</b>	<b>124 407</b>

## 8. DEBTORS ARREARS

Council is currently facing an ever increasing debt book. This is due to incomplete registration of indigents, poor revenue collection and other factors.

The budget is based on a 70% collection rate. Every effort should be made to ensure that revenue due to the municipality is collected. National Treasury consultants are currently on site to advise and assist the municipality in every aspect of financial management. Only 2900 indigents managed to register for subsidy support during 2011/12. It is management's believe that there are at least 6 000 indigents in the area.

## 9. BUDGETED OPERATING REVENUE 2012/2013 – SUMMARY

- The Budgeted revenue from grants and subsidies totals to R82 485 930
- The Total budgeted revenue for the 2012/2013 is R146 691 773
- A provision for Doubtful Debts has been budgeted at R15 million

## 10. OPERATING BUDGET – EXPENDITURE

Personnel costs are currently representative of 29.4% of operating expenditure for the 2012/2013 financial year.

There must be a concerted effort to increase the O&M allocation, as failure to service our assets results in dissatisfied communities, and huge costs for major repairs and reconstruction.

The following table reflects the main operating expenditure per class:

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Expenditure By Type											
Employee related costs	2	22 196	24 139	24 576	29 304	27 975	27 975	27 975	32 429	34 423	36 478
Remuneration of councillors		2 617	2 745	2 896	3 826	3 826	3 826	3 826	4 530	4 801	5 089
Debt impairment	3	17 490	17 497	12 693	12 000	14 000	14 000	14 000	15 000	15 000	15 000
Depreciation & asset impairment	2	-	16 810	17 099	4 700	15 000	15 000	15 000	7 500	7 500	7 500
Finance charges		767	1 252	1 330	683	683	683	683	723	762	799
Bulk purchases	2	5 089	7 622	9 181	10 981	10 781	10 781	10 781	12 424	13 997	15 769
Other materials	8							-			
Contracted services		240	263	277	352	378	378	378	1 994	2 081	2 235
Transfers and grants		1 788	1 162	2 857	2 627	2 893	2 893	2 893	3 634	3 826	4 014
Other expenditure	4, 5	139 017	19 519	18 294	26 619	26 912	26 912	26 912	32 068	33 842	35 981
Loss on disposal of PPE								-			
Total Expenditure		189 203	91 009	89 204	91 091	102 448	102 448	102 448	110 302	116 232	122 865

## 11. OPERATING EXPENDITURE 2012/2013 – SUMMARY

- Personnel Costs	R32 429 014
- General Expenses	R24 456 715
- Contracted Services	R1 993 553
- Repairs & Maintenance	R7 132 305
- Other Provisions	R479 401
- Depreciation	R7 500 000
- Debt Impairment	R15 000 000

## 12. CAPITAL BUDGET 2012/2013

The Municipal Capital Budget is R42 186 059 with funding as follows:

- National Government Grants	R39 476 050
- Internally funded	R2 410 009
- Loan funded	R300 000
- Total Capital	R42 186 059

There is not enough funding internally for capital and this must be turned around, as Sundays River Valley Municipality cannot perpetually depend on external grants for capital funding. If the municipality raises more revenue internally, it will be able to allocate funding to all wards on an equitable basis; as currently the municipality cannot, due to the fact that most of the municipal capital budget comes from other departments who also have limited resources.

The following table reflects the capital expenditure per class :

Municipal Vote/Capital project  R thousand	Program/Project description	Total Project Estimate (R'million)	Prior year outcomes		2012/13 Medium Term Revenue & Expenditure Framework			Project information	
			Audited Outcome 2010/11	Current Year 2011/12 Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15	Ward location	New or renewal
<b>Parent municipality:</b> <i>List all capital projects grouped by Municipal Vote</i>									
Waste Water Management	Waterborne Sewerage (Phase 2)	17 536	1 828	142				MOSES MABIDA	NEW
Waste Water Management	Waterborne Sewerage (Phase 2)	12 869	5 680	286				EMSENG ENI	NEW
Waste Water Management	Upgrading of waste water treatment works (Phase 1)	3 278	403					ENON & BEERSHE BA	RENEW
Waste Water Management	Upgrading of waste water treatment works (Phase 2)	1 917		6 433				ENON & BEERSHE BA	RENEW
Waste Water Management	Sewerage pump station	5 424		725				BERSHE BA	NEW
waste water management	Upgrading of Waste Water treatment works (phase1)	7 011		944	7 000	7 000	5 371	ADDO	RENEW
waste water management	Sewerage Pumps	500		500				ALL	RENEW

Waste Water Management	Sewerage pump station	2 800			1 500	1 300		Langbos	NEW
Waste Water Management	Paterson waste water	11 000			3 500	5 385	2 115	PATERSON ENON & BEERSHEBA	RENEW
Water	Upgrading of water supply		2 020	1 220					RENEW
water	Upgrading of bulk water supply	8 949	1 000	7 809				ADDO	RENEW
water	Bulk Water Pipeline	36 000	12 084	16 000	17 000	6 466		PATERSON	NEW
water	Bulk water supply	21 633						ADDO	NEW
Water	Water pumps	500		500				ALL	RENEW
Water	Prepaid water meters	500		500				ALL	NEW
water	Bulk water	3 500			1 976	1 524		Langbos	NEW
Roads	Upgrade of gravel roads	19 700		970	5 000	5 000	9 474	ALL	RENEW
Sports & Recreation	Rehabilitation and upgrade of 7 sport fields (phase 1)	14 729			3 500	3 500	3 500	ALL	RENEW
Electricity	Community lightning	4 620					4 620	addo, enon, paterson & kwd	NEW
	Specialized vehicles	1 230		1 230	300			ALL	NEW
	Various (office equipment & furniture, etc)	633	611	633	1 680			ALL	NEW
Environmental health	other vehicles		93	1 600				KIRKWOOD KIRKWOOD	NEW
Executive & Council	Office buildings	650	346		730				NEW
Parent Capital expenditure					42 186	30 175	25 080		

### 13. BUDGET CONCLUSION

SRVM will continue with robust measures of credit control and indigent registration, as this is still a challenge. There are still some service delivery challenges, however with more revenue collection and ring fencing of grant funding as well as the resource mobilization that has been approved the level of service delivery standards will improve in the next financial year. The Council has taken a firm decision to increase its operating and maintenance budget with an aim of improving the standards of service delivery.

With all the challenges that SRVM is facing and currently dealing with this budget has been consolidated with due diligence and there is no doubt that it is indeed credible and funded.

**L.M.R. NGOQO**  
**MUNICIPAL MANAGER**



## **CHAPTER 4**

### **ANNUAL BUDGET TABLES**

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

The operating revenue budget of SRVM amounts to R146 691 773 for 2012/2013 financial year. This represents an increase of R13 614 948 (10.23%). The increase is mainly a result of:

- increased tariffs
- Increase in equitable share
- Increase in MIG grants

To ensure a credible and funded budget SRVM had to increase tariffs in general by 9%. Consideration was given to the fact that SRVM has been increasing tariffs marginally for a number of years in the past which resulted in tariffs not being cost effective. A review of the tariff structure started with refuse and sewerage in the previous financial year and will continue during 2012/13 – looking at water and electricity tariffs.

NERSA approved an 11.03% tariff increase for municipalities.

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

Sundays River Valley Municipality's budgeted expenditure for the 2012/2013 MTREF amounts to R110 301 936. This represents an increase of R7 853 507 (7.67%)

This increase is mainly a result of increase in:

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

The period of the *Salary and Wage Collective Agreement 2009/10 to 2011/2012* has come to an end. In the absence of other information from the South African Local Government Bargaining Council, municipalities were advised by National Treasury to budget for a 5 per cent cost-of-living increase adjustment, to be implemented with effect from July 2012 (in-line with the increase proposed in the 2012 MTBPS).

Bulk purchases increased by R1 643 190 (15.24%) which is a result of the increase in bulk electricity which amounted to 11.03%.

Debt impairment was increased with R1 000 000 (7%) from R14 000 000 to R15 000 000. The provision for bad debt is now seen to adequate.

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

The capital budget of the municipality amounts to R42 186 059. This indicates an increase of R2 693 709 (6.8%) which is mainly a result of:

- Increase in MIG funded projects (R3.9 million)
- Increase in RBIG funded projects (R1 million)
- Increase in own funded projects (R1.7 million)
- Decrease in loan funded projects (R4 million)

The main projects that are funded in the capital budget are:

- Upgrading of Addo Waste Water Treatment works – R7 million
- Upgrading of Gravel roads – R5 million
- Upgrading of Paterson Waste Water Treatment works – R3.5 million
- Rehabilitation of sports fields – R3.5 million
- Langbos sewerage pump station – R1.5 million
- Langbos bulk water – R1.9 million
- Paterson bulk water – R17 million

Refer to detailed breakdown of MIG programmes per ward.

These projects are funded by the Municipal Infrastructure Grant and Regional bulk infrastructure grants.

***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 R1 million to R15 000 000 which will be representative of an average collection rate of 70%.

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 accumulated depreciation of assets will increase with R7 500 000 for 2012/13, whilst assets will increase with acquisitions to the value of R42 186 059 (see capital budget schedule A5). This will have a result of net increase in assets (after accumulated depreciation) of R34 686 059.

Assets will be funded from own revenue – R2 410 009; grants - R 39 476 050 and loans – R300 000.

Non-current provisions consist of provision for rehabilitation of landfill sites and will increase to R5 412 000 for 2012/2013.

**Asset management (table A9)**

Capital expenditure is anticipated to increase with R42 186 059 (2012/2013). This indicates an increase of 6.8%. The increase in capital acquisition is due to the Increase in MIG and RBIG funding R4.9 million.

An amount of R7 132 305 has been allocated to repairs and maintenance. Repairs and maintenance will be spent according to the following categories of assets:

• Infrastructure – Road & transport	-	R2 239 780
• Infrastructure – Electricity	-	R799 205
• Infrastructure – Water	-	R846 984
• Infrastructure – Sanitation	-	R1 028 200
• Infrastructure – Other	-	R535 300
• Community & other assets	-	R415 082
• Other assets	-	R1 267 754

## **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 to the Executive Committee meeting on 27 July 2011.

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 then tabled 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 28 March 2012.

### ***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 the year and were submitted to council for approval.

### ***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 has been conducted after the draft budget & IDP were approved by Council.

This was done by the following methods:

- The budget was be made public by making them available at SRVM's offices and website
- Notices were published in local newspapers in the area inviting members of the public to submit representations on the budget.
- Community meetings in all wards

No submissions and or objections were received from community members.

Community hearings were 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.

### ***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 2012/2013 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 alignment of the IDP with the budget is illustrated in schedules SA4, SA5, SA6. The schedules are attached.

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**

The SDBIP will be tabled after final budget.

## **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 need to be enacted into by-laws thereby enabling council to undertake its revenue collection effort to court and further securing income generation. This process will start in the final quarter of 2012/13 whereby a review will be done of all by-laws that are needed and which might need updating.

#### ***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. The valuation roll is still valid for one year. A letter has been sent to the MEC requesting extension to the validity period of the valuation roll for one year to enable Sundays River Valley Municipality to embark on the processes to obtain a new valuation roll.

Changes proposed:

- (1) paragraph 11.7 to change income bracket of senior citizens from R5 000 to R8 000
- (2) Inclusion of paragraph 12.3 to include:  
***"No rates shall be levied on newly rateable properties that are owned and used by organisations conducting activities that are beneficial to the public and that are registered in terms of the Income Tax Act for those activities, during the first year. The phasing-in discount on these properties shall be as indicated below:-***

- ***First year : 100% of the relevant rate;***
- ***Second year : 75% of the relevant rate;***

- **Third year : 50% of the relevant rate; and**
  - **Fourth year : 25% of the relevant rate.**
- (3) paragraph 13.7 to change income bracket of senior citizens from R5 000 to R8 000
- (4) Annexure A to change subsidies provided to senior citizens and indigents

### ***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: The policy was reviewed in its entirety to include all changes to legislation and was workshopped to Councillors and officials on 28 May 2012

### ***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: none

### ***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.

### **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 are reminded in Circular 58 of National Treasury that when revising their rates, tariffs and other charges for their 2012/13 budgets and MTREF, they need to take into account the labour (i.e. the wage agreements with unions) and other input costs of services provided by the municipality or entity, the need to ensure financial sustainability, local economic conditions and the affordability of services, taking into consideration the municipality's indigent policy.

Municipalities should also take into account relevant policy developments in the different sectors (such as the *inclining block tariff* (IBT) proposals from the National Energy Regulator of South Africa (NERSA)).

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 5.9% (2012/13), 5.3% (2013/14) and 4.9% (2014/15).

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

### ***BULK PURCHASES***

The municipality budgeted for an increase of 13.5% in bulk electricity purchases - as guided by NERSA

### ***EMPLOYEE COST***

The budget is based on a salary increase of 5%.

The salary budget for 2012/13 amounts to R36 958 537. This represents a 16% increase in employee cost over the previous financial year. The position of MM was filled during 2011/12 and a number of new positions need to be filled during 2012/13.

### ***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 has budgeted for the following FBS:

- Electricity – R1 054 928
- Water- R1 378 000
- Sewerage – R848 000
- Refuse – R1 318 428

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

The municipality has provided for a provision of bad debt to the value of R15 million for 2012/13. The total provision for bad debt as at 30 June 2011 (as reflected in AFS) amounted to R46 006 674. An amount of R26 431 323 was written off as bad debt during 2010/11. Another write off will take place as soon as all the indigent registrations has been processed.

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. The administration was recalled during December 2011. Although the municipality is still struggling to maintain a healthy debt collection ratio, significant progress was made with regards to the collection of R24 million that was due to SRVM by Dept of Human Settlements. An amount of R18 million was recovered from the outstanding R24 million during 2011/12.

The municipality is also currently receiving assistance from National Treasury within the Municipal Finance Improvement Plan and consultants is stationed full time on site to assist Council in improving overall financial management.



**CHAPTER 10**

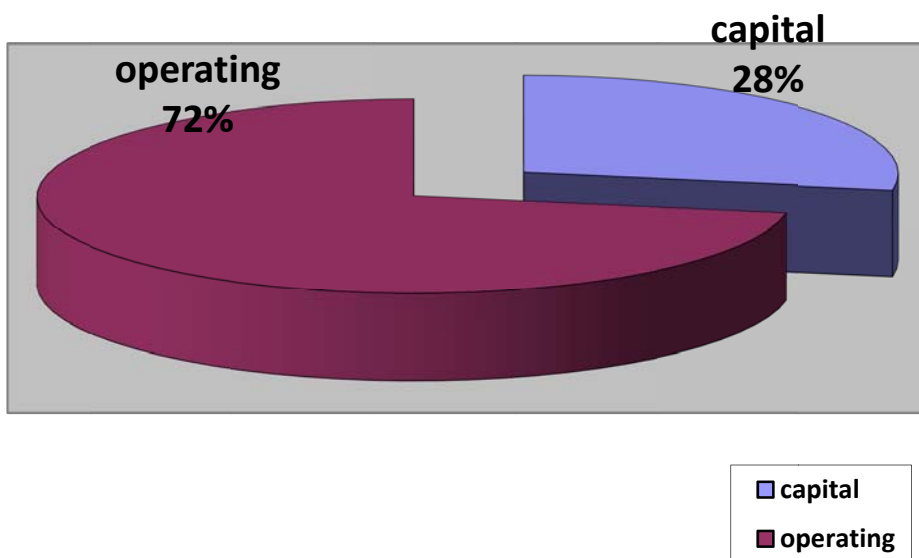
**BUDGET FUNDING**

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 28% of the total budget in 2011/2012 and is currently at 27.67 % of budget in 2012/2013. R39 476 050 (93.5%) of the capital budget for 2012/2013 will be funded by government grants. (2011/2012: 87.45%)

	2011/2012
capital	39 492 350
operating	102 448 429

Figure1



	2012/2013
capital	42 186 059
operating	110 301 936

Figure 2

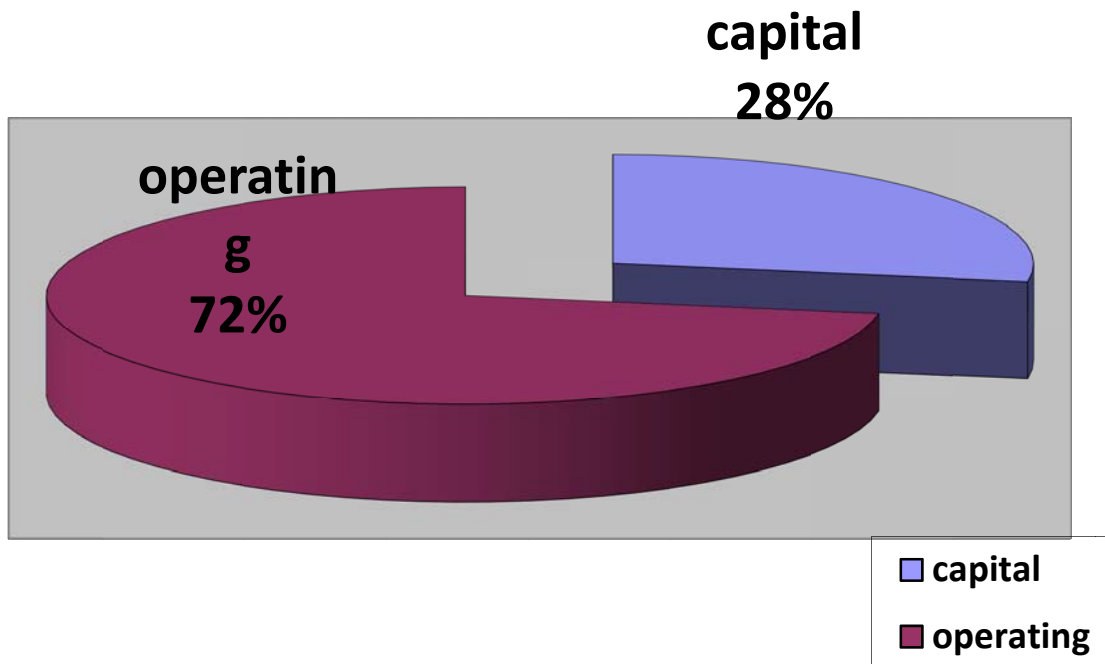
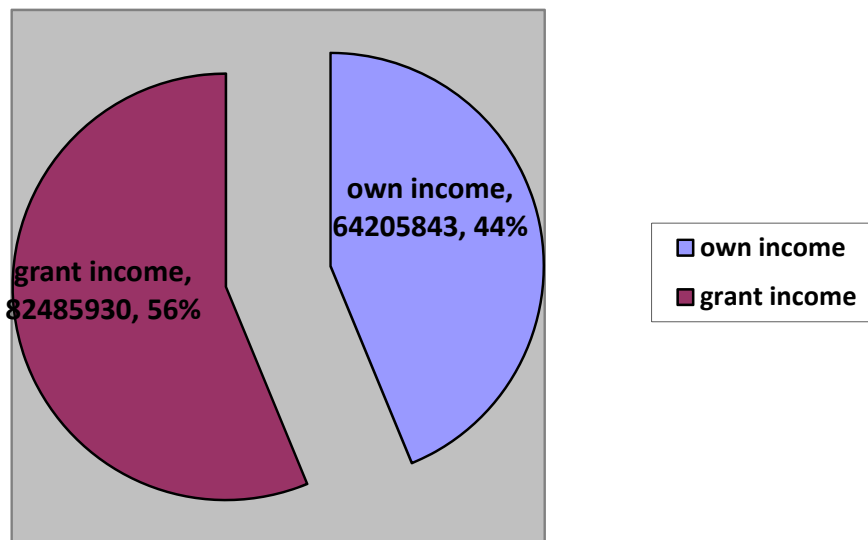


Figure 3

	2012/2013
own income	64 205 843
grant & other	82 485 930



As indicated in the pie, own income account for only 44% of total income whilst grant income accounts for 56% of income.

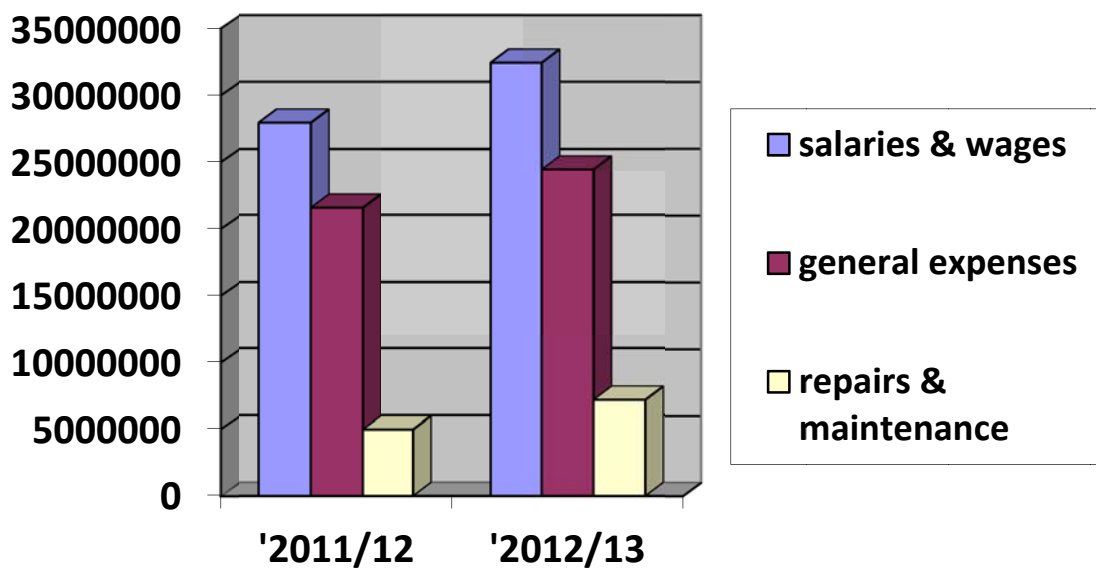
A major source of income still remains the equitable share allocation from National Treasury

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 major expenditure classes.

	2011/2012 (Adjusted)	2012/13
salaries & wages	27 975 468	32 429 014
general expenses	21 537 201	24 456 715
repairs & maintenance	4 943 462	7 132 305



#### 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) Poor/slow indigent registration

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 administration was lifted during December 2011.

## *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 is 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 has budgeted for a new refuse truck which will be acquired either through loan or lease financing. The overdraft facility of R1 million was repaid during 2011/12 financial year.

## *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 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.

## **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**

Draft SDBIP to be tabled



## **CHAPTER 14**

### **CAPITAL EXPENDITURE DETAILS**

Total capital expenditure for 2012/2013 will amount to R42 186 059. These acquisitions will be funded as follows:

- R39 476 050 – funded by government grant
- R300 000 – funded by loans
- R2 410 009 – 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 2012/2013 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 2011/12 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:*

The section 139(1)(b) administration was lifted during December 2011.

Debt collection increased with 20% from 2009/10 to 2010/11.

The municipality received an improved audit report moving from disclaimer to qualification during 201/11 financial year.

**CHAPTER 17**

**BUDGET – DETAILS PER DEPARTMENT**

Please refer to schedule SA2 for details

## **ANNEXURES**