FINAL OPERATING AND CAPITAL MTREF FOR 2012/2013 TO 2014/15 FOR SEDIBENG DISTRICT MUNICIPALITY

(5/1/1) (2012/2013)

Cluster: Finance
Portfolio: Financial Management

1. PURPOSE

The purpose of the report is table before Council the Operating and Capital MTREF for the 2012/2013 financial period in terms of Section 16(2) of the MFMA.

2. BACKGROUND

The Budget is based on the IDP 2012/2013 and includes the financial framework. In order to deliver a budget which conforms to the key objectives and strategies of the Sedibeng District Municipality the Finance Cluster had met individually with the ED's of all Clusters after their consultations with their relevant MMC's. As a result of the limited resources as determined by National Treasury by means of the equitable share allocation the budget had to be drawn up within those constraints.

During the 2012/2013 budget process, Clusters were tasked to provide their budgetary requests as per their needs analysis and within their pre-determined indicative allocation and in alignment to IDP key performance areas. Incremental based budgeting was only used for expenses which have existing obligations, such as employee-related costs.

The budget was compiled based on a trend analysis taking into consideration the expected revenue to realise in the 2012/13 financial year. Contractual obligations such as salaries and contracted services were first determined whereby general expenses were reduced in order to obtain a balanced budget where no reserve funds will be utilised for operational and/or capital purposes.

As economic uncertainty continues throughout the country, it is imperative that we take a conservative approach to the budget in order to give financial stability and start building financial reserves for the municipality. Controlling municipal spending by spending less than the municipal takes in, demonstrates a commitment to common-sense budgeting and economic health that Sedibeng District Municipality deserve.

The reporting requirements of this final budget are disclosed in terms of MFMA circulars 48, 51,54, 55 and 58 as well as Municipal Budget and Reporting Regulations, Gazette Notice 32141.

The following Annexures are attached:

Annexure "A"	Budget Summary
Annexure "B"	Budgeted Financial Performance by classification
Annexure "C"	Budgeted Financial Performance by vote (cluster)

Annexure "D"	Budgeted Capital Expenditure
Annexure "E"	Budgeted Financial Performance – revenue & expenditure
Annexure "F"	Investment Recon
Annexure "G"	Remuneration of Individual Executive Directors
Annexure "H"	Remuneration of Councillors

3. BUDGET DISCUSSION

3.1. FINANCING OF OPERATING ACTIVITIES

The budget on financial performance (previously income and expenditure statement) has been drawn up on the GRAP (Generally Recognised Accounting Practices) principles of accounting where provision for depreciation has been taken into account.

The following should be noted:

3.1.1. Indicative Macroeconomic Forecasts

Municipalities are expected to levy their tariffs taking into account their local economic conditions, affordability levels and remain broadly in line with macro-economic policy. Municipalities must also take account of the policy and recent developments in government sectors relevant to their local communities. Tariff increases must be thoroughly substantiated in the municipal budget documentation for consultation with the community.

Fiscal year	*2010/11 Actual*	*2011/12 Estimate*	*2012/13 Forecast*	*2013/14 Forecast*	*2014/15 Forecast*
Headline CPI Inflation	3.8%	5.7%	5.9%	5.3%	4.9%

Source: Budget Review 2012

3.1.2. Transfers to Municipalities

Section 214 of the Constitution provides for national government to transfer resources to municipalities in terms of the Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions. Transfers to municipalities from national government are supplemented with transfers from provincial government. The two spheres of government must gazette these allocations as part of the budget implementation process. The DoRA (and Section 37 of the MFMA) further requires transfers between district and local municipalities to be made transparent and reflected in the budgets of both transferring and receiving municipalities.

The Municipal Council were requested to ensure that the 2012/2013 performance contracts of their municipal managers, as well as those of senior officials, reflect, among other key performance areas, the above responsibilities and accountabilities.

Allocation as per DORA Bill, *Government Gazette No. 35022 of 7February 2012*	**2012/2013 Allocation R'000**	**2013/2014 Forward Estimate R'000**	**2014/2015 Forward Estimate R'000**
EQUITABLE SHARE	226,009	234,056	242,549
Local Government Financial Management Grant	1,250	1,250	1,250
Municipal Systems Improvement Grant	1,500	1,000	1,000
Extended Public Works Programme Integrated Grant	1,000	0	0
Neighborhood Development Partnership Grant (Capital Grant)	2,508	5,000	10,593

Allocation as per DORA Bill, *Provincial Gazette No. 61 of 5 March 2012*	**2012/2013 Allocation R'000**	**2013/2014 Forward Estimate R'000**	**2014/2015 Forward Estimate R'000**
HIV & AIDS	6,069	6,372	6,691
Emergency Medical Services	47,721	50,250	53,014
Tariff Model -DBSA	300		
Optic Fibre / CCTV project	9,000		

EMS subsidy is based on actual provision budgeted (R47,721) and will form part of negotiations to provincialize the function. The actual cost of running EMS will be set-off with the negotiated income which would lead to a nil effect. It is envisaged that EMS will be provincialized effective from the 1st of April 2012. In the event provincialization does not take place, Council has made provision to continue operations. Cognisance must be taken that the gazetted subsidy only equals R36 million in relation to actual cost of R47 million, which will result in an unfunded mandate amounting to R11 million. This amount to run the operations will increase the unfunded mandate projected as at 30 June 2012 from R42,8 million to R 53,9 million projected to 30 June 2013. SDM is committed and will continue endeavouring to claim the unfunded total back from the Provincial Department of Health during current negotiations.

3.1.3. Key Legal Provisions to be Strictly Enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2012/13 financial year in accordance with the Municipal Budget and Reporting Regulations. In this regard, municipalities must comply with both:

- The formats set out in Schedules A, B and C of the regulations; and
- The relevant attachments to each of the Schedules (the Excel Formats).

All municipalities must do a funding compliance assessment of their 2012/13 budgets in accordance with the guidance given in MFMA Circular 42 and the MFMA Funding Compliance Guideline before tabling their budget, and where necessary rework their budget to comply so that they table a properly funded budget.

The deadline for the submission of tabled budgets is Friday, 30 March 2012 as per Section (16)2 of the MFMA.

The deadline for the submission to National Treasury, MEC, DLG, AG and SALGA of approved budgets is ten working days after Council approves the annual budget.

3.1.4. Operating Income

The service charges and rental income have been increased by 5%in accordance with the maximum headline CPI rate as prescribed by National Treasury.

DESCRIPTION **A. OPERATING REVENUE**	**Budget by Source R'000**	**BUDGET 12/13 R'000**
Service Charges		7,803
Fresh Produce Market	7,803	
Heritage	0	
Rental Of Facilities And Equipment		712
Maintenance & Cleaning	622	
Vereeniging Theatre	90	
Mphatlalatsane Theatre	0	
Interest Earned - External Investments		3,035
Finance Cluster - Financial Management	3,035	
Licenses And Permits		61,902
License Services Centre - Support	0	
License Services Centre - Vereeniging	21,204	
License Services Centre - Vanderbijlpark	16,170	
License Services Centre - Meyerton	14,315	
License Services Centre - Heidelberg	10,213	
Government Grants And Subsidies - Operating		283,849
Finance Cluster - Financial Management (Equitable Share, FMG, MSIG)	228,760	
Finance Cluster –Extended Public Works Programme Integrated Grant	1,300	
HIV & AIDS	6,069	
EMS Coordination	47,720	
Government Grants And Subsidies - Capital		11,508
NDPG Unit	2,508	
Corporate Services – IT Sedibeng	9,000	
Other Revenue (Minor Tariffs)		10,517
Finance Cluster - Financial Management	326	
Human Resources Administration	1,024	
Corporate Services (Town Hall, Corporate Admin, Corporate)	69	

Vereeniging Airport	1,171	
IT Emfuleni	6,001	
IT Midvaal	1,459	
Heritage	5	
License Services Centre - Vereeniging	2	
License Services Centre - Vanderbijlpark	1	
License Services Centre - Meyerton	3	
Vereeniging Theatre	6	
EMS Coordination	450	
Total Operating Revenue		**379, 326**

DESCRIPTION	BUDGET 12/13 R'000
B. OPERATING EXPENDITURE	
Employee/Councilor Related Cost	246,497
Bad Or Doubtful Debts	0
Depreciation	15,953
Repair And Maintenance	4,729
Finance Charges	8,151
Contracted Services	22,656
Grants And Subsidies	0
General Expenses	67,062
Provisions	2,500
Total Operating Expenditure	**367, 548**
Operating Surplus / (Deficit) A - B	**11,777**

Sedibeng District Municipality has undertaken a process to explore appropriate ways of structuring our tariffs to encourage more efficient use of these services and to generate the resources required to fund the maintenance, renewal and expansion of infrastructure required to provide the services.

The tariff model seeks to ensure that:

- What the funding requirements of the municipality are to ensure continued future operations, scheduled maintenance of assets as well as the acquisition of new assets;
- These funding requirements will then be populated into a model to determine what the levels of tariffs should be in order to generate the revenue required to meet the funding needs;
- The model will further take into consideration socio-economic factors unique to the municipality such as (but not limited to)
    - Indigency support and relief;
    - Pro-poor strategy of Council;
    - Current debt collection and credit control policies of the municipality;
    - Equitable and fair billing for consumer services based on community needs and affordability as opposed to historic incremental tariffs.

It is Sedibeng District Municipality’s intention in line with the MFMA that once the tariffs are reviewed it would form part of the public participation process to make our revenue source viable.

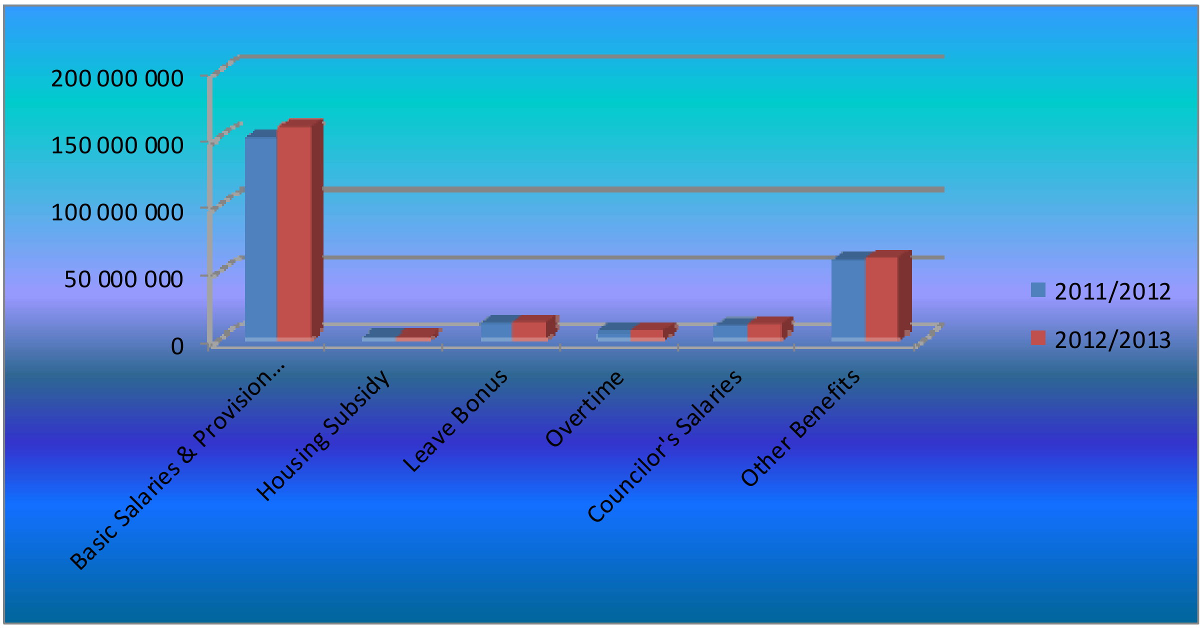
3.1.5. Employee and Councillor Related Costs

Salaries are projected at R246millionfor the 2012/2013 financial year. The three-year labour salary agreement (SALGA & SALGBC) has been estimated at an increase of 8%. No provision for vacancies (new posts and attritions) was made for all Clusters as part of cost-reduction measures. The Municipality is currently in the process to finalise our personnel cost reduction strategy to bring structural alignment and stability to our salary bill.

Council must note that although employee related costs have grown by 8%, the provisional equitable share allocation has only grown by 2.4% leaving Council to fund a deficit of 5.6%. This deficit has had to be filled by reducing other operational expenditure, potentially reducing Council’s ability to render services but still able to fulfil our coordinating role based on our current human capital.

Attention is drawn to the current trend of the steep growth in employee-related expenditure for the total organisation directly related to the increase in employee-related costs within Emergency Medical Services (EMS) and Licensing Service Centres (LSC). It can be reported that the Provincial Department of Health will proceed with provincialization of EMS in the 2011/12 financial period, to ensure this process to run smoothly the EMS budget has been ring-fenced accordingly. Provision for the full EMS operational costs has been made as per the agreement with the Provincial Health Department and will be recovered on a monthly basis.

Council is advised that these departments make alternative arrangements through shift and flexitime systems to compensate staff for working outside regular municipal working hours in order to reduce overtime costs.



3.1.6. Depreciation

In accordance with the GRAP principles and standards and the prescription of the approved asset management policy, depreciation on all assets needs to be provided for within the statement of financial performance. This will allow Council to charge consumers during the useful life of the asset on a proportionate basis and not at the date of acquiring the asset. The amount provided for the 2012/2013 financial year amounts to R15,9 million, which is cash generated and serves as capital replacement reserves to maintain the assets for the outer years of 2013/14 and 2014/15.

3.1.7. Repair and maintenance

Repairs and maintenance will be for current buildings occupied by Sedibeng District Council as well as the movable assets on the asset register. An amount of R4,7 million has been provided. This is a reduction of 6% of the 2011/2012 budgeted amount of R5 million based on actual expenditure and the growth parameters permitted by National Treasury.

Repairs and maintenance of Council's assets are allocated as follows:-

REPAIR AND MAINTENANCE	*R'000*
Buildings Fences & Sites	3,001
Network / Infrastructure	559
Plant Equipment & Furniture	751
Vehicles	418

National Treasury Circular 48 makes reference to repairs and maintenance and renewal backlogs that exist in relation to municipal infrastructure, and based on National Treasury parameters, the repairs and maintenance backlogs were not catered for in the 2012/13 MTREF as prescribed by National Treasury due to financial constraints.

3.1.8. Contracted services

Contracted services have been determined by the need for services to be rendered by service providers and taking the current obligations into account. The top eight user-departments are stated below and the projects relate to:-

	CONTRACTED SERVICES R'000
Internal Security Unit	12,500
Maintenance & Cleaning: (Council buildings)	4,000
Community Safety : (CCTV Maintenance contract)	540
Corporate & Legal (Fumigation and Fire Protection for Archives)	448
Human Resources Administration: (EAP Psychological referrals, trauma debriefing and OHS Compliance Services)	300
Internal Audit	1,500
Organizational Performance (ePMS System)	507
Finance Cluster: Supply Chain Management: (Bulk sms server and ongoing Intenda support and call out)	144

3.1.9. General Expenses

The general expenditure budget has been drawn up in order to assist the employees of Council to provide them with the necessary tools to achieve the deliverables as set in the GDS, IDP and SDBIP. The budget has also been drawn up taking into consideration that the main purpose of the District is to plan and co-ordinate, whereas the execution process will be performed at a Local Municipality level. There is a decrease of R 10 million from R97 million in 2011/2012budgets to a sum of R87 million for 2012/2013.

This reduction has been effected to assist Council in funding the deficit on the employee-related costs bill.

The major savings were:-

General Expend - Departments	*BUDGET 2011/2012 R'000*	*BUDGET 2012/2013 R'000*	*VARIANCE*	*% DECREASE*
Donations	926	126	-800	86%
Contracted Services	26,242	22,655	-3,586	14%
Catering	1,124	768	-356	32%
Advertisements	1,328	1,208	-120	9%
Workshops	7,378	5,023	-2,354	32%
Consultation Fees	1,614	972	-642	40%
Stationery	1,601	971	-629	39%
Subsistence & Travel	2,065	1,432	-632	31%
Training	2,329	1,866	-463	20%
Printing & Binding	2,173	1,174	-999	46%

These savings were redistributed towards service delivery orientated expense items such as audit fees, computer systems, electricity, external bursaries, legal charges, marketing/promotion/advertisements, membership fees, public participation, rental, telephone - office, transport - fuel and oil, training, periodicals/reference book/magazines, telephone - cell phones and computer requirements.

Council can further decrease telephone costs by strictly applying the limitation of the maximum of R300 per month per staff member and limiting outgoing calls to only landlines. Any costs over the threshold are to be recovered monthly through the payroll and recognised as telephone income.

Council are advised to review training and development costs in terms of the operational and service delivery requirements of Council, and an effort be made immediately to approach the various SETA's to gain grant funding as income before the approval of the final budget for 2012/2013 by Council.

3.1.10 Sourcing of Donor and Grant Funding

In support of the SDM sourcing of donor funding programme, a framework and policy was recently adopted as initiative that fundamentally serves social economic and infrastructure development objectives of the District as well as that of Provincial Government and the State.

Once funding is secured it will be dealt with as an adjustment budget item for Council's consideration and approval.

Funding already secured and paid to Council has been ring-fenced and forms part of the statement of the financial position (Lotto-Sport, Biofuel, etc.). PPP's where funding are externally sourced and paid for by the main partner can merely be noted by Council in our budget process that includes Taxido- PRASA partnership.

3.2 INVESTMENT INTO CAPITAL

The total Capital investment for 2012/2013 will be R 2 578 000, whereby R 70 000 will be funded from our internal resources and R 2,508 million from grant funding (**See Annexure "F"**).Grant funding must be sourced before any Capital Project can proceed. Donor Funding must also be considered for planned projects as outlined in the IDP to ensure that it is properly funded before the final 2012/13 budget.

After review by the Budget Panel, SPED undertook to engage NT-NDPG Unit to ensure that the release of grant money is in line with the roll-out project plan of SDM. Due consideration must also be given on progress on all precinct projects which has an impact on the cash flow within the National Fiscus which would result in an adjustment in allocations once an agreement has been reached between SDM and NT.

4. ALIGNMENT WITH COUNCIL STRATEGIES

This report is aligned to the Reviewed IDP for 2012/2013, the district's GDS, Municipal Budget and Reporting regulations GN 32141 as well as circulars 48, 51, 54, 55 and 58 of National Treasury.

5. FINANCIAL IMPLICATIONS

The total estimated operating revenue of R379 325 566.
The total estimated operating expenditure of R367 548 651.
The total estimated Capital Budget of R 11 670 000.

Section 18 of the MFMA act needs to be adhered to when looking at the budget funding requirements. This section indicates the following:

"18. *(1) An annual budget may only be funded from—*
(a) realistically anticipated revenues to be collected;
(b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
(c) borrowed funds, but only for the capital budget referred to in section 17(2).

(2) Revenue projections in the budget must be realistic, taking into account—
(a) projected revenue for the current year based on collection levels to date; and
(b) actual revenue collected in previous financial years."

6. COMMENTS FROM PUBLIC PARTICIPATION PROCESS

The public participation/stakeholder engagement process took place on the 25 April 2012. Three presentations were made during the Sedibeng GDS and IDP/Budget Sectoral Engagement, namely Sedibeng GDS, IDP 2012/13 and 2012/16 and lastly the Sedibeng 2012/13 Draft Budget. The public participation process therefore disbursed into commissions to discuss sectoral plans/projects based on cluster presentations made at the commissions. No significant feedback/comments impacting directly on the presented draft budget were received from the public participation process.

7. LEGAL IMPLICATIONS

The budget has been drawn up in line with the MFMA, Act 56 of 2003 (SS 16-17) which inter alia states:

"The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year."

RECOMMENDED

1. THAT Committee provide approval for the final capital and operating expenditure budget in accordance with the requirements as set out in the Municipal Budget and Reporting Regulations;

2. THAT the consolidated three year final Capital and Operational Budget as per Annexure "A" to "H" be approved and submitted to the MEC in terms of Section 22 and 23 of MFMA;

3. THAT the proposed tariffs for all services as per Annexure "I" be approved in terms of the Tariff Policy and Section 75A of the Local Government Municipal Systems Act, No 32 of 2000;

4. THAT the outcome process of community participation through stakeholders meetings as contemplated in terms of Section 16 of the Local Government Systems Act, No 32 of 2000 through the IDP process be noted;

5. THAT Council approve the provision of EMS operations subject to the completion of the provincialization negotiation process; and

6. THAT Council ring-fence the provision of EMS operations to determine the actual cost with a nil impact to Council.

BRENDON SCHOLTZ **CHIEF FINANCIAL OFFICER**	**CLLR B.P. TSOTETSI** **MMC: FINANCE**
DATE	**DATE**