

# SCHEDULE B

## AN ADJUSTMENT BUDGET AND SUPPORTING DOCUMENTATION OF INXUBA YETHEMBA MUNICIPALITY

2013/14



ADJUSTMENT BUDGET OF

# **INXUBA YETHEMBA MUNICIPALITY**



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## Abbreviations and Acronyms

AMR	Automated Meter Reading	ℓ	litre
ASGISA	Accelerated and Shared Growth Initiative	LED	Local Economic Development
BPC	Budget Planning Committee	MEC	Member of the Executive Committee
CBD	Central Business District	MFMA	Municipal Financial Management Act Programme
CFO	Chief Financial Officer	MIG	Municipal Infrastructure Grant
CM	City Manager	MMC	Member of Mayoral Committee
CPI	Consumer Price Index	MPRA	Municipal Properties Rates Act
CRRF	Capital Replacement Reserve Fund	MSA	Municipal Systems Act
DBSA	Development Bank of South Africa	MTEF	Medium-term Expenditure Framework
DoRA	Division of Revenue Act	MTREF	Medium-term Revenue and Expenditure Framework
DWA	Department of Water Affairs	NERSA	National Electricity Regulator South Africa
EE	Employment Equity	NGO	Non-Governmental organisations
EEDSM	Energy Efficiency Demand Side Management	NKPIs	National Key Performance Indicators
EM	Executive Mayor	OHS	Occupational Health and Safety
FBS	Free basic services	OP	Operational Plan
GAMAP	Generally Accepted Municipal Accounting Practice	PBO	Public Benefit Organisations
GDP	Gross domestic product	PHC	Provincial Health Care
GDS	Gauteng Growth and Development Strategy	PMS	Performance Management System
GFS	Government Financial Statistics	PPE	Property Plant and Equipment
GRAP	General Recognised Accounting Practice	PPP	Public Private Partnership
HR	Human Resources	PTIS	Public Transport Infrastructure System
HSRC	Human Science Research Council	RG	Restructuring Grant
IDP	Integrated Development Strategy	RSC	Regional Services Council
IT	Information Technology	SALGA	South African Local Government Association
kℓ	kilolitre	SAPS	South African Police Service
km	kilometre	SDBIP	Service Delivery Budget Implementation Plan
KPA	Key Performance Area	SMME	Small Micro and Medium Enterprises
KPI	Key Performance Indicator		
kWh	kilowatt		

## Part 1 – ADJUSTMENT BUDGET

### 1.1 Mayor's Report

In his Budget Speech to Parliament the Minister of Finance said: "The budget sets us on a path, that will be neither easy nor uncontested – hard work and difficult choices lies ahead. But the journey is under way. We have embarked on a long way to economic freedom. All South Africans aspire to these freedoms:

Freedom from poverty,

Freedom from need,

Freedom to exercise our talents and thrive as individuals,

Freedom to work together as communities, as organised social formations, as business, as a proud and forward looking nation".

The Minister of Finance further stated "Inclusive growth means efforts to cut back poverty and inequality that continue to blight us".

For us as Inxuba Yethemba Municipality our strategy and approach in ensuring that the new growth path as highlighted by the Finance Minister is inclusive should take these into consideration:

- It must continue to broaden the public investment in infrastructure to make a serious dent in the aging infrastructure that threatens service delivery,
- It must target more labour-absorbing activities both in the capital projects we are undertaking and also the EPWP projects,
- It must also support the rural development through the initiatives with other stake holders like the Sugar beet project.

For the poor the Budget continues to expand spending on housing, LED initiatives and projects, and also to better their lives by ensuring that access to basic services is maintained.

For the workers, our budget emphasises job creation in ensuring that vacant posts are filled and also through initiatives like the EPWP projects, people are able to access the job opportunities,

For the business sector, business opportunities are created through procurement of their services, in the form of capital projects implementation, as well as the operational activities of the municipalities.

For the small business sector, development programs from LED are targeted to ensure that sustainable growth in our economy is achieved.

Our country has suffered great depression in the form of the economic recession that reverberated the entire country.

Unfortunately Inxuba Yethemba region was in no way immune to the harsh economic realities associated with the recession. Among the impacts are the serious cash flow challenges currently being experienced by the municipality due to among other things declining collection rates; historic expenditure patterns and a general lack of “doing business smarter”.

Increases in food prices and fuel prices have indeed pushed the inflation however the inflation is expected to fall back into the target range by the end of this year.

The budget does seem to be more favorable and optimism seems more appropriate taking into account the hardships and difficulties that this municipality has faced over the years. This I say is due to the ever promising signs of a good forecast for the South African economy. Our economy grew by slightly over 2.3% in 2012, and the forecasts of the growth rates between 3.1% and 4.1% for the next two years is reasonably expected as the recovery seems to be realistic. The forecast in the inflation is also expected to be within the target range over the next two years.

In line with the vision of the Inxuba Yethemba Municipality of a coherent developmental municipality putting people first and providing a better life for all its citizens, this municipality has resolutely over the years had to do more with little. Today we mark the beginning of yet another commitment made by this council to deliver on our constitutional and legislative mandate of bettering the lives of our people by providing the basic services.

Essentially the core of our budget has not changed over the last few number of years as we need to do more with less. The recession had a profound impact in the country and Cradock was not immune to this. This affected the collectability of the municipal revenues, due to job losses as well as the adverse economic conditions. These inadvertently has impacted on the municipal cash flows as well as the service delivery action plans. However through all of these challenges, the municipality has against all odds, managed to keep above water.

This municipality has to collect approximately 75% own revenue and the rest comes from the government grants.

Unfortunately we cannot increase the tariffs beyond what is considered reasonable as it would cause considerable strife to our rate payers.

This budget quoting from the words of the our Madam Premier in the Eastern Cape in her 2012 state of the province address speech, “most of our plans and strategies are in place, and now our efforts and resources are focused on accelerating implementation and action”

This indeed must be a period of action. We must forge ahead in implementing our programs that will better the lives of our people.

In tabling this budget our aim is to display transparency on how the Cradock and Middelberg communities will benefit from the municipal programmes and projects as well as demonstrating our revenue sources and how the revenue is actually spent.

For the poor the Budget continues to better their lives by providing some of the basic services for free.

For the workers the budget emphasises job creation and expenditure on “social wage” including municipal infrastructure and various projects.

For the youth there are also initiatives aimed at ensuring that our youth are kept busy and not roaming our streets, and honorable councilors this is aimed to create hope for our youth.

This budget has also taken the high level objectives of the National Development Plan into account in order to make meaningful progress in eliminating poverty and creating economic opportunities in the form of employment in the labour intensive projects. The National Planning Commission envisions a South Africa where opportunity is determined not by birth, but by ability, education and hard work.

Furthermore to briefly highlight some of the key elements of the budget that Council had to consider.

In line with legislative requirements, communities were consulted before tabling of the Draft Budget at the end of March 2013. This culminated from the ward committee meetings that were held early on in the financial year to start the budget process and to get the communities involved. This was done in order to obtain proposals and inputs regarding the budget, and also to explain the process in order to get a buy-in. Some of the inputs from communities have found

expression in this draft budget from the IDP road shows. After the tabling of the draft budget to Council, it will then be taken back again to the communities, this time with an indication of the tariffs.

In an ideal world, the budget process would encompass the estimation of the total expenses needed for service delivery and then the tariffs would be determined in order to generate the necessary income needed to cover the expenses. However, the reality today does not conform to this utopian dream. The reality within which we operate suggests that, we first determine potential income and then adjust expenses in line with the anticipated income.

#### Challenges:

Due to both ESKOM's extraordinary increases recurring on a yearly basis and the limitations placed on the percentage increases in the ESKOM tariffs by NER, the increase on Council's bulk purchase of electricity far exceed the increases which are passed on to the consumer. The subsidisation of electricity tariffs for the indigents also compounded to these challenges. This has seriously hampered Council's ability to generate income from the most reliable source.

The other reality is that areas where ESKOM supplies the electricity the council's capacity for debt collection is seriously compromised. This courses enormous problems as there are also a huge number of indigents in those areas as well. This translates into statistics that indicate 76% of our communities are potentially indigent consumers. All of these factors combined, explain the difficulties we have in maintaining Council's infrastructure that is deteriorating by the day.

The revenue enhancement strategy of Inxuba Yethemba is meant to ensure that this challenge is overcome and thus credit control and debt collection ultimately becomes better managed.

On compliance issues, national government has set 2014, as a target during which all municipalities are expected to achieve clean audits with regard to their Annual Financial statements. Whilst we are very much aware that meeting this target is not going to be easy, however we are confident that with the assistance of the Office of the Auditor General, everything will be done to ensure that IYM complies with the vision of the National Government. Action plans are in place indeed to ensure that this is achieved.

The last year's visit by the Auditor General highlighted some of the key areas that we as the council need to attend to in order to ensure the target of a clean audit by 2014 is realised.



The budget process plan was not adequately followed due to some challenges facing the institution as well as lack of capacity in the Budget and Treasury section. There were also some logistical problems as many budget road shows were cancelled at the last minutes due to logistical problems and poor communication. I am hoping honourable councilors with better planning next time around this will not be repeated.

Also the budget process plan was not followed and the budget steering committee could not sit with sufficient regularity, and thus leading to poor oversight of the budget process.

This has resulted in numerous delays and problems encountered during the budget process not being adequately addressed.

#### Budget 2013/2014

One of the key issues, we must collectively take note of is that, this budget has prioritised expenditure that is directly linked to service delivery and the IDP. We are very pleased to announce that expenditure on maintenance of infrastructure has been appropriated at R35,5 million rands. This includes water and sewerage services. The actual breakdown of infrastructure maintenance is as follows:

## 1.2 Council Resolutions

On 19<sup>th</sup> February 2014 Council of Inxuba Yethemba Local Municipality met in the Council Chambers of Inxuba Yethemba Municipality to consider the adjustment budget of the municipality for the financial year 2013/14. The Council approved and adopted the following resolutions:

1. The Council of Inxuba Yethemba Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

## 1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. This has resulted in savings to the municipality of nearly R 6 million or 2.1 percent of the current financial year's adjusted budget. Key areas where savings were realized were on, telephone, hire of vehicles, printing, workshops, travel, accommodation, and catering.

The municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Price Waterhouse & Coopers were appointed to assist in the revenue enhancement programme of Inxuba Yethemba Municipality to assist the municipality. Furthermore, the municipality will undertake various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

The main challenges experienced during the compilation of the 2013/14 can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2013/14
- Availability of affordable capital/borrowing.

### 1.4 Municipal manager's quality certificate

I ....., municipal manager of Inxuba Yethemba Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name \_\_\_\_\_

Municipal manager of Inxuba Yethemba Municipality (EC131)

Signature \_\_\_\_\_

Date \_\_\_\_\_