Mafube Local Municipality

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REPORT OF THE BUDGET ROADSHOWS HELD IN FOUR TOWNS WITHIN MAFUBE ON THE 04,05,07,11 & 12 APRIL 2011

1. PURPOSE

To report to Council about the budget roadshows that took place during April 2011.

2. EXECUTIVE SUMMARY

In terms of section 23 of the Municipal Finance Management Act 56 of 2003 and Municipal Systems Act, the municipality should commence the process of consultation on tabled budget by conducting public hearings (budget road shows).

The draft 2011/12 MTREF as tabled before Council on 25 March 2011 for community consultation were made available at customer care offices, municipal notice boards and various libraries. Ratepayer associations, community-based organisations and organised business were also invited to participate in the road shows. The opportunity to give electronic feedback was also communicated on the roadshows.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

3. ATTENDANCE

Ward Committees and the Office of the Speaker were utilised to facilitate the community consultation process from 04 to 12 April 2011. The applicable dates and venues were published in all the local newspapers and on average attendance of 200 was recorded for all meetings held. This is up on the previous year's process. This can be attributed to the additional initiatives that were launched during the consultation process, including the specific targeting of ratepayer associations. Individual sessions were scheduled with organised business and imbizo's were held to further ensure transparency and interaction. Other stakeholders involved in the consultation included churches, non-governmental institutions and community-based organisations.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2011/12 MTREF.

4. METHODOLOGY USED

Consultations were made in a form of an open public meeting where the community was given ample opportunity to comment and ask questions on budget related issues. Each meeting lasted for about two to three hours.

5. CONCERNS, COMMENTS AND QUESTIONS

The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Several complaints were received regarding poor service delivery, especially waste removal backlogs, the state of road infrastructure and the quality of water
- The affordability of tariff increases, especially electricity, was raised on numerous occasions.

- Pensioners cannot afford the tariff increases due to low annual pension increases;
- The DPSA (Disabled People of South Africa) is requesting to be provided with finance to fund for the office and the art center they need in Villiers
- The community acknowledges and appreciates efforts made by the Municipality to create jobs
- Some members of the community complained about the misuse of municipal vehicles by the employees
- Most of the sports facilities have been vandalized; the request from the community is that the facilities should be fixed
- Graveyards should be prioritized during the cleaning campaigns
- Due to bad road infrastructure, the emergency services (ambulances) struggle to reach the patients' houses.
- Clarity on free basic services was requested

5. RESPONSES

The Mayor promised the community that the municipality will consider their inputs when amending the budget for final approval. He further indicated that the municipality takes service delivery seriously.

All concerns and complaints that were raised will be investigated further with the relevant departments and feedback will be provided.

6. CLOSURE

The municipality is generally happy about the way residents participated in these consultative public meetings.

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PI Radebe

Municipal Manager

ITEM: 261

TABLING OF THE 2011/2012 ANNUAL BUDGET

1. PURPOSE

To table to Council the 2011/2012 budget and projected two outer years.

2. BACKGROUND

In terms of section 16 (1) of the MFMA, the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.

(2) In order for a municipality to comply with subsection (1), the Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

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 has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 51, 54 and 55 were used to guide the compilation of the 2011/12 MTREF.

The main challenges experienced during the compilation of the 2011/12 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- Water quality
- 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 Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;

The following budget principles and guidelines directly informed the compilation of the 2011/12 MTREF:

- The 2010/11 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2011/12 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost

reflective, and should take into account the need to address infrastructure backlogs;

- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2011/12 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2011/12 MTREF

DESCRIPTION	ADJUSTMENT BUDGET	BUDGET 2011/12	BUDGET 2012/13	BUDGET 2013/14
TOTAL OPERATING EXPENDITURE	159,346,587	162,343,412	179,375,589	200,564,833
TOTAL OPERATING INCOME	(150,001,065)	(164,896,224)	(183,100,527)	(203,533,601)
TOTAL OPERATING SURPLUS / DEFICIT	9,345,522	(2,552,812)	(3,724,938)	(2,968,768)
TOTAL CAPITAL EXPENDITURE	25,921,986	35,503,000	33,001,000	37,226,000

Total operating revenue has grown by 10% or R 14 million for the 2011/12 financial year when compared to the 2010/11 Adjustments Budget. For the two outer years, operational revenue will increase by 11% respectively, equating to a total revenue growth of R54 million over the MTREF when compared to the 2010/11 financial year.

Total operating expenditure for the 2011/12 financial year has been appropriated at R162 million and translates into a budgeted surplus of R2 million. When compared to the 2010/11 Adjustments Budget, operational expenditure has grown by 2% in the 2011/12 budget and increased by 10% and 12% for each of the respective outer years of the MTREF. The operating surplus for the two outer years will increase to R3.7 million and then decrease to R2.9 million. Out of the

R2,5 million, R3.7 million and R2.9 million surpluses for the years 2011/12 to 2013/14, the R2 million for both 2011/12 and 2012/13 financial years will be used to fund capital projects and further ensure cash backing of reserves and funds and R1.9 million for 2013/14 will also be used to fund capital projects.

The capital budget of R36 million for 2011/12 is 37% more when compared to the 2010/11 Adjustment Budget. The increase is mainly caused by the fact that the population has grown so the expansion for the electricity infrastructure is needed. The capital programme decreases to R33 million in the 2012/13 financial year and then increases in 2013/14 to R37 million.

3. OPERATING REVENUE FRAMEWORK

For Mafube Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality’s revenue strategy is built around the following key components:

- National Treasury’s guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management,
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);

- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2011/12 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

DESCRIPTION	ADJUSTMENT BUDGET 2010/11	BUDGET 2011/12	BUDGET 2012/13	BUDGET 2013/14
REVENUE				
PROPERTY RATES CHARGES	(7,490,000)	(8,695,285)	(9,390,908)	(10,142,180)
REFUSE REMOVAL	(4,555,512)	(9,487,040)	(10,246,003)	(11,065,683)
ELECTRICITY	(48,600,000)	(49,275,709)	(59,130,851)	(70,957,021)
SALE OF WATER	(8,239,000)	(13,427,238)	(14,501,417)	(15,661,530)
SEWERAGE	(7,590,000)	(10,154,952)	(10,967,348)	(11,844,736)
EQUITABLE SHARE	(61,766,000)	(67,075,000)	(74,135,000)	(78,962,000)
FINANCE MANAGEMENT GRANT	(1,000,000)	(1,450,000)	(1,500,000)	(1,500,000)
GRANTS - INEP	(8,000,000)	(12,100,000)	(5,000,000)	(8,000,000)
GRANTS - MIG FUNDS	(17,712,000)	(21,303,000)	(25,901,000)	(27,326,000)
GRANTS - EPWP	-	(536,000)	-	-
GRANTS - MSIG	(750,000)	(790,000)	(800,000)	(850,000)
FINES - TRAFFIC	(250,000)	(262,000)	(275,100)	(288,855)
INTEREST EARNED - EXTERNAL INVESTMENTS	(10,553)	-	-	-
EQUIPMENT RENTAL	(250,000)	(518,000)	(543,900)	(571,095)
NON-PAYERS FEES	(6,500,000)	-	-	-
SUNDRY	(3,000,000)	(600,000)	(630,000)	(661,500)
INTEREST ON OVERDUE ACCOUNTS	-	(2,625,000)	(980,000)	(1,029,000)
TOTAL OPERATING INCOME	(175,713,065)	(198,299,224)	(214,001,527)	(238,859,601)

Table 3 Percentage growth in revenue by main revenue source

DESCRIPTION	ADJUSTMENT BUDGET 2010/11		BUDGET 2011/12		BUDGET 2012/13		BUDGET 2013/14	
REVENUE		%		%		%		%
PROPERTY RATES CHARGES	(7,490,000)	0%	(8,695,285)	16%	(9,390,908)	8%	(10,142,180)	8%
REFUSE REMOVAL	(4,555,512)	0%	(9,487,040)	108%	(10,246,003)	8%	(11,065,683)	8%
ELECTRICITY	(48,600,000)	81%	(49,275,709)	1%	(59,130,851)	20%	(70,957,021)	20%
SALE OF WATER	(8,239,000)	0%	(13,427,238)	63%	(14,501,417)	8%	(15,661,530)	8%
SEWERAGE	(7,590,000)	0%	(10,154,952)	34%	(10,967,348)	8%	(11,844,736)	8%
EQUITABLE SHARE	(61,766,000)	0%	(67,075,000)	9%	(74,135,000)	11%	(78,962,000)	7%
FINANCE MANAGEMENT GRANT	(1,000,000)	0%	(1,450,000)	45%	(1,500,000)	3%	(1,500,000)	0%
GRANTS - MSIG	(750,000)	0%	(790,000)	5%	(800,000)	1%	(850,000)	6%
FINES - TRAFFIC	(250,000)	51%	(262,000)	5%%	(420,000)	5%	(441,000)	5%
INTEREST EARNED - EXTERNAL INVESTMENTS	(10,553)	17%	-	-	-	-	-	-
EQUIPMENT RENTAL	(250,000)	- 51%	(518,000)	107%	(543,900)	5%	(571,095)	5%
NON-PAYERS FEES	(6,500,000)	30%						
SUNDRY	(3,000,000)	53%	(600,000)	-80%	(630,000)	5%	(661,500)	5%
INTEREST ON OVERDUE ACCOUNTS	-		(2,625,000)	100%	(980,000)	-63%	(1,029,000)	5%
TOTAL OPERATING INCOME	(150,001,065)	19%	(164,896,224)	10%	(183,100,527)	11%	(203,533,601)	11%
TOTAL REVENUE FROM RATES AND SERVICE CHARGES	(76,474,512)	40%	(91,040,224)	19%	(104,236,527)	14%	(119,671,151)	15%

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. In the 2010/11 financial year, revenue from rates and services charges totalled R76.4 million or 40% per cent.

Operating grants and transfers totals R69.3 million in the 2011/12 financial year and steadily increases to R76.4 million and 81.3 million respectively. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 4 Operating Transfers and Grant Receipts

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
R Thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Local Government Equitable Share	29,900	37,780	49,407	61,766	–	61,766	67,075	74,135	78,962
Finance Management	500	500	750	1,000	–	1,000	1,450	1,500	1,500
Municipal Systems Improvement	734	735	735	750	–	750	790	800	850
TOTAL OPERATING GRANTS	31,134	39,015	50,892	63,516	–	63,516	69,315	76,435	81,312

4. TARIFF MODELLING

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of Eskom bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges in which a full recovery of cost to render a particular service will be recovered. It must be noted that in the past the municipality applied inflation adjustment to increase tariffs and this led the municipality fail to recover the full cost of providing services and thus seldom generate sufficient revenue to cover those costs.

4.1 Benefits for pensioners

- Pensioners earning less than R1500 per month will be exempt from paying rates and taxes
- Pensioners earning between R1501 – R5000 per month will be discounted by 40% on their rates and taxes
- Pensioners earning between R5001 – R8000 per month will be discounted by 20% on their rates and taxes.

5. BUDGET RELATED POLICIES

5.1 Adjusted Budget Related Policies

- There are no adjusted related policies for the 2011/12 financial year

5.2 New Budget Related Policies

- Property Rates Policy
- Banking and Investment Policy

4. LEGAL IMPLICATION

Section 25:

(1) stipulates that if a municipal council fails to approve an annual budget, including revenue raising measures necessary to give effect to the budget, the council must reconsider the budget and again vote on the budget, or on an amended version thereof, within seven days of the council meeting that failed to approve the budget.

(2) The process provided for in subsection (1) must be repeated until a budget, including revenue-raising measures necessary to give effect to the budget, is approved.

(3) If a municipality has not approved an annual budget, including revenue-raising measures necessary to give effect to the budget, by the first day of the budget year, the mayor must immediately comply with section 55 stipulating that If a municipality has not approved an annual budget by the first day of the budget year or if the municipality encounters a serious financial problem referred to in section

136, the mayor of the municipality—

(a) must immediately report the matter to the MEC for local government in the province; and

(b) may recommend to the MEC an appropriate provincial intervention in terms of section 139 of the Constitution.

5. FINANCIAL IMPLICATIONS

None

6. RECOMMENDATIONS

- That Council approves the 2011/2012 budget and two projected outer years.
- That Council approves 2011/2012 tariffs
- That budget related policies be also approved.