



We hereby acknowledge receipt of various letters and e-mails sent to the Offices of the Mayor, Municipal Manager and Acting Chief Financial Officer and oral inputs made in various wards in public participation process since the Draft Budget for 2015/2016 was tabled before Council.

This response wishes to condense all the above mentioned inputs.

Bela-Bela Local Municipality would like to acknowledge its responsibility in terms of community participation as outlined in Chapter 4 of the Municipal Systems Act, 2000 (Act 32 of 2000). It is our Council's responsibility to encourage and create conditions for our local community to participate in the affairs of the Municipality, including specifically the preparation of the IDP and Annual Budget. Furthermore, it is required by the above mentioned Act, that the Municipality must provide for the following as part of the community consultative process although this is not limited to the compilation of the annual Budget;

- The receipt, processing and consideration of petitions and complaints lodged by members of the local community;
- Notification and public comment procedures;
- Public meetings and hearings by the Municipal Council and other political structures and political office bearers and ;
- Reports back to the local community.

In this regard the 2015/2016 IDP/Budget consultation process ensued immediately after the 2015/2016 Draft MTREF was tabled before Council on the 30 March 2015. In terms of section 22 (a) of the Municipal Finance Management Act, (56 of 2003), read with section 25 (4) of the Municipal Systems Act, (32 of 2000), the Accounting Officer must after the Annual Budget is tabled before Municipal Council make public the Annual Budget and the documents referred to in terms of section 17 (3) of the MFMA, within 14 days as prescribed by Chapter 4 of the MSA. In this regard the Annual Budget book and all documents referred to above were advertised on the Municipal website and also made available in the Office of the Chief Financial Officer.

In terms of the approved Budget Timetable, the Municipality was supposed to only conduct consultation with the community in all nine (9) wards. However, owing to the previous relationship that developed between the Municipality and other interested stakeholders in particular, Afriforum, BBTF, Farmers Association and other organisations, Council decided to convene various meetings with these stakeholders to solicit their inputs and comments on the IDP and Budget for 2015/2016 financial year. In this regard, meetings were held between these organisations before all wards were engaged.

It is worth noting that some of the organisations particularly BBTF were given a hearing by both the Executive Committee and Top Management of the Municipality. The Office of the Municipal Manager committed itself to respond to all the inputs after all nine (9) wards consultation have taken place and presented to the Budget Steering Committee chaired by the Mayor. .

The Office of the Municipal Manager committed to table all the contentious (area of disagreements) issues at the Budget Steering Committee and provide the response. Section 4 of the Municipal Budget and Reporting Regulations (As published under GN 393 in GG 32141 dated 17 April 2009), the Municipality must establish a Budget Steering Committee that must provide the Mayor with technical assistance in discharging his responsibilities in terms of section 53 of the MFMA.

We confirm that the final Budget Steering Committee meeting was held on the 19<sup>th</sup> of May 2015, wherein all the received comments were processed. The following are the formal responses to all issues raised by the stakeholders:

### **Tariff policies not amended**

In terms of the study that Management has commissioned to investigate the cost reflectiveness of our four major tariffs, all our tariffs except for Property rates were found not to be cost reflective and operating at a loss. In terms of MFMA circular 66 *“Municipalities are increasingly under recovering the cost associated with trading services i.e. electricity, water, waste management and waste water management and this position is further exacerbated by the fact that no consideration is given to overhead costing and the influence on total cost of providing the service. This in turn impacts on tariff setting and in many instances municipalities are cross subsidizing a trading service from property rates revenue; a totally defective approach to pricing and tariff setting of municipal trading services”*.

In this regard Management commissioned services of three (3) independent consultants including NERSA to conduct our tariff analysis. As a result to this studies and various directives from National Treasury contained in Circular 64, 66 and 67, our tariff policy has been amended to clarify all components that Council has taken into account when costing each and every service. Section 9 of the Draft Tariff Policy also outlines all recourse that members of public should follow in case of an amendment of this policy.

It is also critical to acknowledge that the other suggestions which the public has made particularly on sanitation services have now been incorporated into the policy. In addition, it is important for the public to note section 4.2 of MFMA Circular 67 relating to inclining block tariffs (IBT) structure. This is implemented as per recommendation by National Treasury. Our policy was also submitted to Treasury for comments and inputs with which the Steering Committee agreed to and incorporated.

Finally, I will like to assure all residents that in terms of the Draft Tariff Policy, they will all have an opportunity to still lodge an objection in terms of section 9, even after Council has approved the final Budget. This is done

to ensure that Council not only consults the Community and approve tariffs without any further inputs from the Community.

### **Additional Issue on Policies: Are Policies Draft or Final?**

There are a number of policies which are referred to as Budget Related Policies. These policies informs the budget compilation process. All these budget related policies that were tabled with the Draft Budget are not final. This means members of the Community can still make inputs on them until the Final Council approval. Some of these policies will then go through the by-law process as prescribed by the relevant legislation.

**The following are some of the highlights on some of the amendments that have been made to various policies as per your inputs;**

#### **Property Rates Policy**

The policy has been amended to align it with the Municipality Property Amendment Act which includes, the due date for closing of applications for rebates which was amended to be 30 June 2015?

#### ***Provision for doubtful debt***

The policy has been amended in accordance to the treasury guideline on provision for doubtful debts where consumer accounts are individually assessed in accordance with the risk profiling.

#### **Indigent policies**

The policies have been amended in accordance to the social services increases.

#### **Tariff policies**

Amendment to sanitation includes the change on the levying of sanitation. Sanitation are no longer levied on a fixed rate and are now levied based on the fixed rate and water consumption.

#### **Refuse Revenue recoverability on the cost to provide**

Proposed tariff are cost reflective to the trading and economic services that municipality provide. Before compilation of the budget and determination of the budget amounts, detail costing to all proposed tariff were undertaken by the municipality taking into consideration the recoverability which municipality must achieve.

### **Tariff policies shall be transparent**

The tariff policy is a true reflection of how the municipal tariff is determined and levied.

### **Non-disclosure of policy on the website**

All the amended policies, together with proposed tariffs were published in accordance with section 22 and 75 of MFMA act.

### **Tariff should be easily explained**

Tariff book is attached which clearly indicate all proposed tariff.

### **Non submission of budget document**

In terms of section 22 of the MFMA the Accounting Officer must publish the Annual Budget after the Municipal Council in accordance with;

- a) Chapter 4 of the Municipal Systems Act-
  - (i) Make public the annual budget and the documents referred to in section 17 (3); and
  - (ii) Invite the local community to submit representation in connection with the budget

Section 17 (3) of the MFMA requires that the draft budget be tabled with certain documents. All the documents that are required in terms of the provision were submitted to Council. We have noted that BBTF is alleging that the Offices of the Municipal Manager and CFO have mislead Council by not tabling certain documents at a Council meeting. This type of allegations have the potential of deflecting an important engagement that Council is compelled by law and the Constitution to perform. Therefore it will not assist this administration to engage in petty mud slugging that will not yield any fruits and certainly does not benefit the community. The Municipality has tabled all the documents required to be tabled before Council by the legislation governing the municipal budget.

Furthermore, it is important for BBTF to note that we have submitted our tabled budget to Treasury and have received our benchmarking report which we have incorporated into the final budget. The purpose of the benchmarking exercise by Treasury is to ensure that there are similarities in all budget documents compiled by the Municipality. It will also be helpful if BBTF can familiarize themselves with other budget documents from sister Municipalities.

### **Request for detail calculation of estimated monthly levy based on the proposed tariff**

Detailed calculations were provided to specific stakeholders that requested calculations on new tariffs.

## **Water Charges**

According to MFMA Circular 66 *the full cost of services should be reflected in the price charged to all consumers 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.*

This Circular reminded Municipalities to review the level and structure of their water and sanitation tariffs careful with a view of ensuring;

- Water and sanitation tariffs are on aggregate fully cost reflective – including the bulk cost of water, the cost of maintenance and renewal of purification /treatment plants and network infrastructure, and the cost of new infrastructure;
- Water and sanitation tariffs are structured to protect basic levels of service and
- Water and sanitation tariffs are designed to encourage efficient and sustainable consumption (through inclining block tariffs).

The Circular advises that if a Municipality's water and sanitation tariffs are not fully cost reflective, the Municipality should develop a pricing strategy to phase in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time. Therefore all Municipalities were requested to have an appropriately structured, cost reflective water and sanitation tariffs in place by 2014. In this regard Bela-Bela Municipality is lagging behind due to a lot of inherited problems. However in the 2015/2016 financial year we intend to gradually introduce a user pay principle which will enable the Municipality to reach cost recovery in the next three (3) years.

In conclusion, our tariff policy outlines the basis upon which the Municipality is charging water and the method within which this service will be billed in the 2015/2016 financial year.

## **Non Cash Item**

This input on the Budget was welcomed by the Steering Committee. There is an agreement that the non-cash items should be transferred to a cash backed reserve. This will ensure that the Municipality practices sound and sustainable financial management. However, given the current restructuring process with regards to the tariffs, any transfer of funds to non-cash items will be counterproductive and set the Municipality against the rate payers. At the moment Council does not favour an approach where there is a wholesome increase in the Municipal tariffs.

However, we endeavour to implement the recommendation of Circular 54, which requires the Municipality to develop a strategy to ensure that their tariffs are cost reflective and implemented over time not to over burden the consumers.

## **Queries on the A schedule**

The draft Budget is tabled before Council in terms of section 16(2) of the MFMA, and section 17 (3) outlined a list of all documents that must be submitted when a budget is tabled before Council. Furthermore, section 15(1) of the MBRR empowers the Accounting Officer to publish all documents that the Municipal Council considers appropriate to facilitate the budget consultation process. In this regard, we will not publish any information that has not been adopted by Council as it will not qualify to be a Council approved document.

What is of significant importance here is whether the Municipal Council through the Accounting Officer, has published sufficient documents to enable the community to make valuable inputs into the Budget and our assessment of the inputs we received in totality. These inputs varies from those requesting additional information to those requesting additional capital project. It is up to Council to take a decision on all the valuable inputs we have received. Certainly the Budget Steering has already agreed to incorporate a lot of the inputs thus far. The Municipality is of the view that the public consultation for the 2015/2016 financial was very robust.

As the Municipality, we are not able to respond to information that is in possession of people bearing our letterhead without a source. All information that is submitted to National Departments and any other organ is supposed to have a covering letter from the Office of the Municipal Manager. The BBTF must bear in mind that with regards to the Budget, Council cannot discuss any model that is not presented before it to discuss. Furthermore, because this is a legislative process, the Office of the Auditor General will have to audit whether or not the Municipality has complied with all necessary laws and regulations. The final budget will also be submitted to Treasury for scrutiny.

## **Executive Summary issues on policy**

"Principle and policy on tariff" is included under council resolution statement (point number 2) where a recommendation is requested to approve the 2015/16 revised draft budget related policies.

## **Alignment of tariff book to tariff policy**

The alignment of both these books has been effected. The Municipality is grateful and indebted to BBTF for their input in this regard.

### **Issue of Implementation of step tariff not cost reflective**

The response has already been provided above.

### **Request for detail calculations**

Summary of detail calculations have been provided to specific stakeholders who requested them on the specific sections where clarity was required.

### **Electricity consumption by agriculture**

The price of electricity is regulated and the implementation of the tariff is regulated by NERSA.

### **Issue of Implementation of step tariff**

A detailed explanation as to what informed the step tariff has already been provided above.

### **Step tariff not included in the executive summary**

The block tariffs are included in the tariff book.

The mentioned SA tables were not presented by municipality as it is not required to do so.

Budget document which included summary of A1 to A10 of the schedule was published in accordance to Schedule A paragraph 6 of the Municipal Budget and Reporting Regulation.

### **Audited information on water and electricity losses**

The mentioned SA tables were not presented by municipality as it not required to do so.

Budget document which included summary of A1 to A10 of the schedule was published in accordance to Schedule A paragraph 6 of the Municipal Budget and Reporting Regulations.

The audited annual report for 2013/14 which contains all distribution loses is available on the Municipal website.

### **Cash Flow**

Municipality is not aware of the cash flow information as mentioned by BBTF. The cash flow used in the assessment by BBTF was not what municipality presented to council.

The cash flow presented to council as per A7 schedule depicts an ending cash balance of R30 million.

### **Employee number**

Municipality's proposed organizational structure have been compiled and published on website as part of the 2015/16 draft IDP which contains all the required employee related information. In average The Municipality has approximately 450 employees including EPWP and contract workers.

### **Bulk purchases**

The bulk purchases presented to council depict a budget amount of R104 million for 2015/16 financial year.

### **Water**

The issue has already been responded to above.

### **Provision for future replacement**

This has already been responded to above.

### **Debt Impairment**

Municipality did provide for debt impairment in the budget. It was however, mapped with other expenditure items. The A4 does indicate debt impairment amounts and on the A1 (summary), the amount is included on "other expenditure".

### **Issue of "Property rates tariff not being changed" as per executive summary statement**

- The statement on the executive summary says "*Property rates tariffs remain unchanged for 2015/2016, **with the exception** of residential tariff which are going to be reduced by 5.8%.*

The Rate policy gives 65% rebate to specific property categories the alleged 55% is not an accurate figure as submitted by some community members.



## **NERSA Issues**

NERSA has revised tariffs and proposed the tariffs for the 2015/16 financial year, which led to Bela-Bela Local Municipality to increase the tariff in accordance to the NERSA guidelines.

### **Tariff setting**

Distribution losses has been incorporated when determining tariffs for the 2015/16 financial year.

The electricity increases have been aligned to NERSA guidelines.

Details about refuse removal tariff and revenue increases have been amended in the budget document for clarity.

### **Revenue growth**

The Provincial Treasury raised a concern about revenue growth above the CPI, more information on the revenue growth drivers have been incorporated in the budget document, including:

- Above inflation increase in electricity tariff (Caused by higher purchase cost increased)
- Above inflation increase in water tariff (Caused by higher purchase cost increased)
- Restructuring of sanitation revenue
- Introduction of step water tariffs on commercial consumers.

### **Other income (all other revenue items not included above)**

The Municipality had an auction of all old and redundant assets during 2014/15 financial year, the auction was a once off transaction which will not re-occur in the 2015/16 financial year and that will result in decrease in profit on sale of fixed assets and other income.

### ***Employee related Costs***

Employee cost has been increased by higher than recommended percentage as the organisational structure has been migrated to the TASK system in order to cater for the wage curve job evaluations in case they are finalised during the 2015/16 financial year.

### ***Remuneration of Councillors***

The remuneration of Councillors has been adjusted by 6% higher than the upper limits of salaries, allowances and benefits of different members of municipal council as determined by Department of Cooperative Governance, government (CoGTA) gazette number 38608 in order to cater for the 2015/16 upper limits to avoid having to compile adjustment budget when the minister tables the new increased upper limits in 2015/16 financial year.

### ***Contingency plan for prolonged power outages***

Backup generators have been budgeted for in the 2014/15 financial year and there is no need to consider them

in the 2015/16 budget, information with regards to backup generators has now been included in the budget document.

### **Bad debts written off**

Information about debts written off in the financial year has been incorporated in to the budget book.

### **Service standards**

Bela-Bela Local Municipality has a separate document dedicated to service standards as required by circular 73 and will be published together with the 2015/16 budget, a summary of service standards has been included in part two of the budget book.

### **General Expenditure (Cost containment measures and non-priority spending)**

Cost containment measures have been fully implemented by The Municipality and now incorporated to the Supply Chain management Policy (SCM)

### **Conclusion**

The Municipality would like to thank all stakeholders for all the well-crafted comments and inputs that we have received on the tabled Budget. It is our view that whilst it may appear as though this is a one financial year budget, it is important to actually have a medium term perspective on the Budget. Due to many limitations, it is not possible to produce a Budget that will answer to the aspirations of everyone in one (1) financial year. It is our commitment as a Municipality to continue to work with all our stakeholders to improve service delivery to the Community as required by the Constitution.

In conclusion, the Municipality will meet with all community representatives including: political parties, civic organisations, ward committees and other stakeholders on Sunday, 24 May 2015 to discuss our formal response to the stakeholders budget inputs all the amendments that have been made before Council adopts the final Budget.