TABLING OF THE DRAFT MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK FOR THE FINANCIAL PERIODS 2013/14-2015/2016 BY HONOURABLE MAYOR OF BELA BELA, CLLR FREDDY HLUNGWANE

MUNICIPAL CHAMBERS,

BELA BELA

27 MARCH 2013

Madam Speaker

Honourable Members of the Executive Committee

Chief Whip of the African National Congress

Honourable Members of Council

Acting Municipal Manager

Officials of the municipality

Residents and Members of the community

Comrades

Ladies and gentlemen

Good morning, Avuxeni, Thobela

Madam Speaker

We are meeting here in these chambers today to table before Council the Draft 2013/14 -2015/16 IDP/Budget.

The tabling of this budget is significant for us as municipality in that, as a Council and administration, we are taking the lead in complying with the prescripts of the law in particular the Municipal Financial Management Act.

This is important for these collective leadership to be at the forefront of compliance with the law, particularly after we had faced challenges in the recent past, where our commitment to adhere to legislative requirements have been tested and questioned.

To this end, we wish to further reiterate our undertaking to be exemplary to other municipalities who may have similar challenges.

Our commitment therefore is consistent with the oath we took to serve and protect the interests of the community of Bela Bela and to respect all the laws that govern this beautiful country, which so many of our people fought and died for.

Madam Speaker

Allow me to take this opportunity to remind honourable councillors that this is our second Budget that we are tabling to Council for consideration since our election in 2011.

It is therefore imperative that, as we move forward, we begin to assess the strides we have made towards ensuring a better life for all our people in Bela Bela.

In the same spirit, we must also ask ourselves if, as council and administration, we are working together to the best of our efforts to ensure that the people and ratepayers of this municipality are getting the quality service delivery our glorious movement – the African National Congress - had promised them.

In this instance, I wish to take this opportunity to welcome the efforts that honourable councillors particularly from the ANC and parties represented in these chambers, are making to ensure that the financial viability of our municipality is improved.

To this end, we are convinced that the appointment of our new Chief Financial Officer with effect from the 01st February 2013, will go a long way to turnaround the finances of our municipality.

It remains however, one of key our strategic goal to revive our Budget and Treasury department such that it plays a sustainable role in the delivery of services to our people.

We should therefore, working collectively with the new CFO and his department, ensure that the municipality generates and utilise its capital resources in a responsible, sustainable and progressive manner. We must learn to spent where necessary, given our limited resources.

Madam Speaker

Our municipality has a mandate to provide basic services to the community in ways that sustain itself. And the provision of these should be planned in such a way that it addresses the service delivery backlogs and contribute towards growth within the municipality and complement the provincial and national growth plans.

In this regard, we should take note and be informed by the centrality of the National Development Plan in our planning, as outlined by President Jacob Zuma during the State of the Nation Address on 14 February 2013.

We should, as President Zuma indicated, pay particular attention to the eradication of the treble challenges facing our people, which are poverty, inequality and unemployment.

To this end, we should play our central part in the provision of quality water, electricity, sanitation, housing to our people and at the same time ensuring that they live in clean environment, where they could work and live in peaceful surroundings.

This, we owe to our people and nation as we begin to implement 20 year vision as contain in the National Development Plan.

Madam Speaker

The purpose of this item serving before council is to also kick start, and where possible, accelerate the budget and planning cycle which will culminate with the adoption of the 2013/14 IDP/Budget by May 2013.

Key in that planning cycle is the public participation in the development and adoption of our annual IDP and Budget processes. And that process is due to start in the first week of April 2013, upon which as Council, we will gather inputs of our community.

It is therefore prudent that as we go out to engage our communities in all our nine (09) wards, that we not only listen, but take into consideration, their needs and aspirations.

It is through this, Madam Speaker that we will be responsive to the electorate thus meeting the objectives of this Council and our National Democratic Revolution.

Furthermore in our engagement, we should be as honest and helpful to our people as possible to avoid miscommunication especially around the overall budget, the proposed tariffs, our organisational arrangements and in particularly, our proposed capital projects for the next financial year.

In this regard, we are proposing a total budget of R337milion, with R26 million going to our capital expenditure, R305million been our operating expenditure and R284million been our operating income.

This Madam Speaker is our proposed budget we are taking to our community, next month.

As we table this budget, we should also be mindful of the challenges and needs out in the community, some of which due to budgetary limitations, we may not fulfil this year hence our approach for multi year budget planning.

Madam Speaker

As I have indicated above, Council has recommitted itself to ensure compliance with all laws and regulation governing local government without fail. To this end, we have also resolved to immediately develop a long-term financial plan that will inform the financial strategies that should guide the municipality in practicing sound financial management. In preparation for this plan, the budget committee has taken note of the following strategic decision that underpins Draft MTREF 2013/2014. It is expected that these decisions shall be incorporated into the long term financial plan;

a) The municipality needs to focus on its core functions. During the compilation of 2013/2014 budget Chairperson of Finance Committee, Portfolio Councillors in conjunction with the Heads of Departments, scrutinised the budget to affect all possible savings;

b) The need to maximise income through effectiveness and not necessary rates and service charge increases was again emphasised. Targets must be determined in certain cases;
c) A separate income enhancement exercise needs to be developed to determine whether all consumers are billed and are contributing to the municipality's income;
d) Sufficient provision for debtor's impairment should be made in the 2013/2014 operating budget. The writing off of bad debt will also be scrutinized to ensure that this is done within proper credit control measures;
e) Provision should be made for a contribution to the capital replacement reserve (CRR) in the 2013/14 operating budgets;
f) The policy relating to capital contributions must be developed to ensure that the municipality does not subsidise developers in terms of infrastructure developments;
g) Greater emphasis must be put on cash management to improve liquidity;
h) All attempts need to be made to maximise National and Provincial Government grants to fund capital projects;
i) The marketing of available land is being reconsidered in an attempt to improve the sale of land.

The 2012/13 adjustment budget in March 2013 again proved that the ability of Council to reduce costs is limited due to the fact that the fixed cost component of the operating budget exceeds the variable costs by far. The adjustments budget nonetheless defined the basis for the draft budget.

In spite of the abovementioned challenges, the municipality, with the exception of electricity sales and water, managed to restrict all tariff increases to single digit increases with an average of 8%.

National Treasury issued MFMA Circular No. 66 on 24 January 2013 providing guidance to municipalities on their 2013/14 budgets and Medium Term Revenue and Expenditure Framework (MTREF). Circular 66 was followed up by Circular no. 67 dated 12 March 2013. Circular No. 66 & 67 reminds us of the key focus areas for the 2013/2014 budget process, and that it must be read together with MFMA Circulars no. 48, 51, 54 and 55. It is essential reading material in order to understand the background to this budget.

The 2013/14 adjustments budget again proved that the ability of Council to reduce costs is limited by the fact that the fixed cost component of the operating budget by far exceeds the variable costs. Salaries, depreciation, interest on external loans and bulk purchases of electricity absorbs 76% of the budget. Service delivery will therefore be severely affected by reducing the variable costs.

Budget Overview of the 2012/13 MTREF

This section provides an overview of the Bela-Bela Municipality's 2013/14 to 2015/16 MTREF. It includes an assessment of how the budget links with the national and provincial government contexts along with a review of the fiscal position of Bela-Bela Municipality.

In view of the aforementioned, the following table is a consolidated overview of the proposed MTREF:

	Adjustments Budget 2011/12	Budget Year 2012/13	Budget Year 2013/14	Budget Year 2014/15	Budget Year 2015/16
Total Operating Revenue	209,609,499.49	258,464,716.80	284,385,923.20	312,008,331.90	344,196,729.8
Total Operating Expenditure	206,130,762.99	231,556,109.28	305,917,093.70	319,133,760.37	337,503,481.7
Appropriations	25,524,800.00	26,908,608.00	26,846,750.00	28,596,650.00	30,435,200.0
(Surplus)/Deficit	- 22,046,063.50	- 0.48	- 48,377,920.51	- 35,722,078.47	- 23,741,951.8
Total Capital Expenditure	25,524,800.00	26,908,608.00	26,846,750.00	28,596,650.00	30,435,200.0

The Municipality's budget must be seen within the context of the policies and financial priorities of national, provincial and district government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced in Bela-Bela. Bela-Bela alone cannot meet these challenges. It requires support from the other spheres of

Government through the direct allocation of resources as well as the achievement of their own policies. According to Circular No. 66, the following headline forecasts underpin the national 2013 Budget:

Fiscal year	**2010/11**	**2011/12**	**2012/12**	**2013/14**	**2014/2015**	**2015/16**
	Actual		Estimate	Forecast		
Real GDP growth	3.4	3.1	2.5	3	3.6	3.8
CPI Inflation	3.8	5.6	5.6	5.6	5.4	5.4

The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies, unless it can be shown that external factors impact otherwise. The budget process in Bela-Bela followed the requirements of the MFMA. A Committee which included the Mayor, Chairperson of Finance Committee was established to examine, review and prioritise budget proposals from departments.

OPERATING BUDGET – REVENUE

Overall budget growth was limited to 10% resulting in annual operating revenue increasing from R258 464 717 in 2012/2013 to R284 385 923 (excluding non-cash items) in 2013/2014. Taking cognisance of the economic conditions, the resultant low employment levels and levels of disposable income, it was important to keep services affordable by critically looking at the costs associated with providing the service and the effect on future service charges to provide the services. Accordingly leadership and management must investigate potential pitfalls and amongst others spiralling expenditure on employee costs that does not keep trend with realistically anticipated revenue streams.

This municipality has access to limited revenue sources and therefore keeping a tight grip on staff costs and preventing wastage must be the key drivers to ensure an affordable, realistic and credible budget.

INCOME CATERGORIES	**2012/2013**	**2013/2014**		**% INCREASE**
Property Rates	65,862,016	72,118,908	6,256,892	9%
Electricity	67,955,000	77,128,925	9,173,925	14%
Water	18,500,000	20,295,518	1,795,518	10%
Sewerage	6,645,900	7,260,280	614,380	9%

Refuse	6,304,286	6,903,193	598,907	10%
Rental of Facilities	219,000	214,100	-4,900	-2%
Fines	1,750,000	3,600,000	1,850,000	106%
Licences and Permits	8,600,000	8,750,000	150,000	2%
Operational Grants	49,473,392	53,227,250	3,753,858	8%
Sundry Income	15,051,123	15,541,000	489,877	3%
MIG	18,104,000	19,346,750	1,242,750	7%
Total Expenditure	**258,464,717**	**284,385,923**	**25,921,206**	**10%**

Rental and Facilities Income in above table is less than 1 percentage points and as a result of rounding reflects as zero.

The 10% growth in revenue is mainly achieved by the following increases:

- Average tariff increases: Property Rates 13.5%
  Electricity 8%
  Water 13%
  Sewerage 5.6%
  Refuse 5.6%

The Municipality continues to access a new grant allocation: EPWP Incentive Grant for Municipalities in a bid to give some relief to the poorest of the poor by means of contract employment opportunities over the short term, for 2013/14 an amount of R1 500 000 has been allocated.

Property Rates

In the 2013/2014 financial year, the Property Taxes paid by owners will increase by only 13.5%, whilst total rates income will increase by 9% as a result of projected growth due to natural growth and completed developments to be included in the income base. The increase in rates tariffs is attributed to the unbundling of some categories of properties that the municipality have, so in real terms the increase is 5.6%. Rates rebates to senior citizens and disabled persons are also available as per the requirements of the amended Property Rates Policy, to qualifying ratepayers.

Electricity

According to NERSA, the inclining block rate tariff structure is commonly used to charge for electricity usage. The feature of this tariff structure is that the more you use, the higher the average price. The objective of the inclining block tariff is to provide protection for lower usage customers against high price increases resulting in a reduction in tariffs to these customers. This means that higher consumption customers will see increasingly punitive charges based on their electricity usage. The municipality is implementing the directive from NERSA as part of the Municipality's Licensing Agreement.

Council's attention is further drawn to the fact that the proposed electricity tariff is prescribed at 8% whereas the increase in electricity bulk purchases for the 2012/2013 financial year is also 8% as approved by NERSA (National Electricity Regulator of South Africa) for implementation by all municipalities.

Water

Taking cognizance of the plight of the poor and the affordability of basic services, the scale of 0 – 30 kl was increased with only 5.6%. The average tariff increase for the rest of the consumptive water scales is 13 %. **It is however important to note that the proposed revenue as per table above is based on the anticipated actual performance of the income to be derived in 2012/2013 and not based on the approved budget for the same year**

Sewerage (Sanitation)

The proposed increase in this tariff is 5.6%. This tariff increase above the prescribed by circular 66 from National Treasury. **It is however important to note that the proposed revenue as per table above is based on the anticipated actual performance of the income to be derived in 2012/2013 and not based on the approved budget for the same year.**

Refuse (Solid Waste)

The solid waste tariffs were modelled to give effect to the principle of the service charge being cost reflective as the service cannot be cross-subsidized. It is proposed that the tariff increases by 5.6% as a result of the before mentioned. The very nature of this tariff does not lend it to financing the expansion of the landfill site. **It is however important to note that the proposed revenue as per table is based on the**

anticipated actual performance of the income to be derived in 2012/2013 and not based on the approved budget for the same year.

Debt Management

The municipality is currently executing all credit control and debt collection procedures as required in the Credit Control and Debt Collection policy approved by Council. These internal procedures followed include the disconnection of services, where there are services that can be disconnected, the issuing of final notices, the conclusion of reasonable agreements where the settlement of the accounts are not possible and also the follow up on defaulting debtors not honoring arrangements.

The municipality continuously enforces the above procedures to ensure that debt which is collectable is collected and all debt that is regarded as not recoverable, should be written off. The municipality will also promulgated the Credit Control and Debt Collection By-Law on the before the end of the financial year to strengthen the internal credit control and debt collection procedures through handing over of all debt over 90 days to the appointed attorneys. A zero tolerance approach will be followed where consumers are able to pay for services, as this indirectly denies paying consumers the level and standard of service that they are entitled to. The latter includes non-payment of rentals, which will be dealt with by means of right-sizing and educational programs driven by the Public Participation programmes as resolved by both the Finance committee and EXCO.

OPERATING BUDGET – EXPENDITURE

The budget sees an increase in annual operating expenditure from R225 015 886 in 2012/2013 to
R225 015 886 in 2013/2014, excluding non-cash item totaling R48 480 741. This 12.5% increase is primarily due to increases in several expenditure categories, examples which are included in the table below:

EXPENDITURE CATERGORIES	2012/2013	2013/2014		% INCREASE
Employee Related Costs	74,555,308	87,999,585	13,444,277	18%
Remuneration of Councillors	4,698,464	5,027,357	328,893	7%
Opreating Grants	10,365,392	11,458,250	1,092,858	11%

Non-Cash Item Provisions	6,540,223	48,480,741	41,940,518	641%
Bulk Purchases	58,370,851	67,515,139	9,144,288	16%
Rebates	27,003,523	29,568,857	2,565,335	10%
Contracted Services	20,315,777	23,681,254	3,365,476	17%
Other Expenditure	29,706,571	32,185,910	2,479,339	8%
Total Expenditure	**225,015,886**	**257,436,352**	**32,420,466**	**13%**

Bulk Purchases

Directive/decision issued by NERSA setting the bulk purchase increase at 8%, whilst the increase on water was estimated at 13% as the bulk purchase charge.

Contracted Services

The 8% increase can be attributed to the annual increases in the service level agreements.

CAPITAL BUDGET

The capital budget decreased from R26 908 608 in 2012/2013 to R26 846 750 in 2013/2014

DEPARTMENT	2012/2013	2013/2014	% Change
	R	R	
Municipal manager	-	-	
Mayor and councillors	-	-	
Social and Community services	1,900,000.00	2,620,000.00	38%
Corparate services	800,000.00	650,000.00	-19%
Technical services	21,838,608.00	22,346,750.00	2%
Budget and treasury	2,000,000.00	500,000.00	100%
Planning and economic development	370,000.00	730,000.00	97%
	26,908,608.00	**26,846,750.00**	-0.23%

FUNDING SOURCE	2012/2013	2013/2014	% Change
	R		%

Own funding			
Capital Replacement Reserve	9,170,000.00	7,500,000.00	-18%
External Funding			
Grants National Government	18,104,000.00	19,346,750.00	7%
Total	**27,274,000.00**	**26,846,750.00**	**-2%**

Madam Speaker

In conclusion, I must remind the house that the purpose of this Council item is to table the proposed budget for the financial year 2013/2014.

I therefore present the following documentation for tabling, in terms of section 24 of the Municipal Finance Management Act, 56 of 2003.

1. Revised 2013/2014 IDP
2. 2013/2014 Annual Budget
3. Revised Budget related policies
   3.1 Tariffs' for municipal trading services
   3.2 Draft Sundry Tariffs
   3.3 Credit Control and debt collection policy
   3.4 Tariffs policy
   3.5 Property rates policy
   3.6 Indigent policy
4. Organisational Structure

Madam Speaker

I thank you