ANNUAL BUDGET PRESENTATION BY THE MAYOR OF BELA BELA LOCAL MUNICIPALITY, CLLR FREDDY HLUNGWANE ON THE OCCASION OF COUNCIL APPROVAL OF THE 2013/2014 MID TERM REVENUE AND EXPENDITURE FRAMEWORK

SHANGRILA LODGE, BELA BELA

31 MAY 2013

Madam Speaker
Chief whip of the ruling party
Members of the Executive Committee
Honourable Members of Council
Heads of Department
Divisional managers
Ladies and gentlemen

Good afternoon

Madam Speaker

We are meeting here today, both as Council and management of our municipality, to conclude a long hard journey that we all started months ago, in preparation for the adoption of our 2013/2014 annual budget. It is therefore fitting that we do so, rejuvenated by the positive spirit of all of us, as we equally conclude our annual strategic planning workshop.
I am inspired that all of us are now enthusiastic and have renewed hope in ourselves to do better and to serve our community, nobly and courageously.

Madam Speaker

This is a historic budget, for us as a Council and the community. It is historic in that by the time we reach the peak of its implementation, our people and our country will be celebrating two decades of freedom following our victory over evil, 20 years ago. These celebrations will not only mark a significant milestone in the life of our nation, but it will further affirm and demonstrate the power and resolve of our people to live, fight and die for the important value of the human spirit, which is freedom.

In this case, we look forward to that historic moment when, once again the majority ruling party, African National Congress, will be leading our society in reflecting upon strides we have made as a nation of freedom fighters and gallant heroes, since 1994. We will be celebrating even here in Bela Bela by ensuring that our community have uninterrupted access to the best service delivery this municipality has to offer. We will furthermore ensure that they are able to enjoy the benefit and fruits of freedom, by supplying them with qualitative water, reliable electricity supply, regular waste collection, improved access municipal roads, better housing and other services that our liberator – the ANC – promised our people during that defining moment 20 years ago.

Madam Speaker

We, as Council and indeed members of the ANC, look forward to those beautiful months ahead, confident that our people will use those celebrations to re-elect the ANC into power during the national elections scheduled for the same year. I would therefore urge members of Council to brace themselves to working hard, together with our people, to ensure that this country and this community, never experience racial discrimination, grinding poverty, inequality and underdevelopment of black communities, that we all saw and lived under apartheid policies.

In this regard Madam Speaker, I wish to take this opportunity to wish all councillors and in particular the leadership and membership of our African National Congress, the greatest victory in next year's elections. I also wish to urge our people best celebrations that this country has seen since the dawn of democracy. Afterall, we deserve it especially after enduring so much hardship during colonial period and apartheid, which was most brutal system of governance, the world has ever seen.

Madam Speaker

As we prepare ourselves to cement the values of democratic rule and participation, we should equally take stock of the challenges facing our municipality, many of which we were able to appreciate and deal with during our strategic planning workshop. Chief amongst these, is how do we turnaround our municipality? Perhaps to borrow from our Acting Municipal Manager, we should ask ourselves what are the "game changers" we need to achieve.

Already Madam Speaker, there are signs that tomorrow will be better.

For the first time in almost two years since council took office following our election in 2011, we have a Chief Financial Officer. This is a great achievement because, when we took office, this municipality did not have a CFO. It is even greater considering that we have been operating without our conditional grants (equitable share) after National Treasury withheld our grants following non-compliance challenges within our municipality. In this regard, I wish to express my personal appreciation and that of Council for the great work that our Budget and Treasury department, under the stewardship of the new CFO, continue to do in improving our revenue collection.

Their resilience in the implementation of the Credit Control Policy has culminated in our municipality managing our resources effectively and efficiently in that we were also able to pay our creditors, employees salaries and met all our contractual obligations.
I wish to thank the new CFO, his department and the rest of municipal employees for the outstanding work.

Madam Speaker, as Council we are now very close to finalising the appointment of the Municipal Manager, which according to our strategic plans, should take office at the beginning of the 2013/2014 financial year. Another game changer is that we will be hosting as Council and administration, separate political and management retreats before or immediately after the start of the new 2013/2014 financial year, to fine-tune the details of turning around this municipality.

These retreats Madam Speaker will add urgency and impetus to the resolve of this Council and administration to do things different but importantly seek to position this institution for greater progress and sustainable development in all the spheres of our operations.
I would therefore urge Council to consider sourcing the services of a reputable company to provide our institution with Change Management workshop.

This workshop must look at revitalising our staff, management and Council, inculcate corporate values and change in the mind and psyche of our institution but crucially inspire us all to work jointly towards improving our individual and collective work ethics, professionalism and the integrity of the institution. Our people and community want us to change. And change we must, honourable councillors. Our people want us to do this differently. They want us to fight corruption within the municipality and amongst our employees and Council.
They want us to fight nepotism, favouritism, tenders for pals and maladministration. Our people want a functional municipality they can be proud of. They want decent roads.
They want employment and job creation opportunities. They want sustainable economic development and progress. They want a better life that the African National Congress has rightfully promised them in 1994.

And this, they said to us during our 2013/2014 IDP and Budget public participation, which informs the gist of this budget we are presenting today. Our people can no longer accept the excuses we give for our poor performance as Council and management, each time we meet them on the street or corridors of power. They want change. And Honourable councillors, that we must do.

Madam Speaker

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.

In December 2012 the municipality was informed by National Treasury of the intention of the Treasury to withhold conditional and equitable share allocations in the last quarter of the national financial year ending March 2013. The grants amounting to approximately R14.0 million were subsequently withheld. This had a severe negative impact on the operations of the municipality for the last quarter of 2012/13 and for the 2013/14 medium term revenue and expenditure framework.

As a result of this action by National Treasury, the Bela-Bela municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. The municipality's credit control measures were strictly applied to improve its revenue and cash position. This had a positive impact on the municipality's cash position as it was able to meet its commitments. Furthermore, the municipality has undertaken various customer care initiatives to sustain its cash position and ensure that the municipality truly involves all citizens in the process of ensuring a people lead government. For the 2013/14 financial year, all capital projects to be funded from internally generated funds were shelved to the forthcoming years in order to enable the municipality to build its own reserves. Negotiations were conducted with the National Treasury requesting it to reverse its decision to invoke section 216 of the South African Constitution. At the moment the municipality is awaiting a final decision from National Treasury to roll-over the withheld funds in during July 2013.

The compilation of the 2013/14 MTREF was guided by the following legislative and policy framework:

- Municipal Finance Management Act (No. 56 of 2003);
- Municipal Budget and Reporting Regulations (Government Gazette 32141);
- Budget Formats Guideline;
- Annual Division of Revenue Act;
- Municipal Structures Act (No. 117 of 1998), as amended;
- Municipal Systems Act (No. 32 of 2000), as amended;

- Municipal Property Rates Act (No. 6 of 2004), as amended;
- Municipal Fiscal Powers and Functions Act (No. 12 of 2007);
- MFMA Circular 12: Definition of Vote in MFMA ;
- MFMA Circular 42: Funding a Municipal Budget;
- MFMA Circulars 48, 51, 54, 55, 66 and 67; and
- Local Government Capital Asset Management Guideline.

The following budget principles and assumptions directly informed the compilation of the 2013/2014 MTREF;

- National Treasury's MFMA Circular No. 48, 51, 55, 58, 59, 66 and 67 were used to guide the compilation of the 2013-2016 MTERF.
- Headline inflation predictions;
- National outcomes and priorities
- NERSA guidelines
- The priorities and targets in relation to the key strategic focus areas as determined in the IDP;
- The 2012/2013 Adjustment 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 baseline for the 2013/2014 annual budget;
- 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 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;
- The level of property rates and tariff increases to ensure the delivery of services on a financially sustainable basis;
- An assessment of the relative human resources capacity to implement the Budget;
- The need to enhance the municipality's revenue base
- There will be no capital projects funded from own source funds to give the municipality an opportunity to build a cash backed capital reserve fund over the next medium term;
- All conditional grants should always be cash backed;
- Cash flow projections should be strictly maintained to ensure the municipality ability to meets its obligations;
- Provision for non receipt of billed income has been made in the budget (this is called working capital budget). It is assumed that the total income budget of 76 percent will be received as actual income. For the first six months in the 2012/2013 financial year collection rate averaged 62 percent, while in the last three months the it averaged 80 percent.
- Operational cost will be maintained at current levels or reduced as cost containment measures.
- Expenditure will be strictly monitored and be limited to the "absolutely necessary" items. Expenditure on the "nice to have" will be stopped forthwith.

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

- The ongoing difficulties in the national and local economy;
- Aging and insufficiently funded 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 water and electricity (due to tariff increases from Magalies Water and 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;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – internal funding had to be postponed and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2013/14 MTREF process; and
- Unavailability of affordable capital/borrowing.

The rates and tariffs for various municipal services are increased as follows from the previous year. These increases are in line with the National Treasury guidelines contained in Budget Circulars 66 and 67.

- Property Rates 5.6 (due to the change in the Municipal Property Rates Policy, new categories of properties have been defined. As a result they have been allocation their own tariff)
- Electricity 7%
- Water 13%
- Sewerage 5.6%
- Refuse 5.6%
- Tariffs for sundry services 5.6%

On the expenditure side, the percentage increases were as follows:

- Employee salaries 6.85%
- Councillor allowances 5%
- Water purchases 13.5%
- Electricity purchases 7.0%

The draft 2013/14 MTREF as was tabled before Council on 28 March 2012 for community consultation was published on the municipality's website, and hard copies were made available at municipal offices and municipal library. Electronic and hard copies were sent to National Treasury and the Limpopo Provincial Treasury.

The municipality held public participation sessions with the communities in seven wards. A budget summary document, called "Budget at a Glance", was issued and discussed at these sessions. Comments were received from the local communities. The applicable dates and venues were published in all the local newspapers. Sessions were also held with the farming and business communities on the 8th May 2013.

A budget benchmarking exercise was conducted at a meeting held with the Provincial Treasury on 7 May 2013. The meeting followed a thorough analysis of the budget and IDP. Subsequent to the meeting, a feedback report was submitted to the municipality together with a compliance checklist. The National Treasury also submitted a compliance checklist on the tabled budget. The key issues raised by both the Treasuries were:

- Non and/ or incompletion of all budget schedules A1 to SA37;

- Insufficient funding of the budget, particularly the capital budget;
- Insufficient funding of repairs and maintenance budget;
- Some grants not aligned to allocations in Division of Revenue Act; and
- Non submission of the SDBIP.

The municipality found that the benchmarking exercise conducted by Provincial Treasury was extremely helpful and bolstered its effort to turnaround our unfortunate history of non-compliance. All the comments that were received from both the Provincial and National Treasury were incorporated into the final budget that was presented to Council for adoption. A huge effort was made to ensure that all budget schedules are properly completed. Due to the historical challenges of Council approving a budget that was not funded in terms of realistic anticipated revenue, all projects that were proposed in the Draft Budget to be funded from own source revenue had to be dropped.

Council resolved to build up a Capital Reserve Fund over the medium-term in terms of the long-term financial plan/policy. This means that over the next three years Council expects to have build up enough cash reserve to fund capital expenditure. The performance agreements of both the Accounting Officer and the Chief Financial Officer will include the building of a reserve fund as a milestone.

The credit and debt collection drive that Council embarked on in the past three months resulted in the payment level improving from 63 percent to 80 percent. In this regard a special Council meeting was convened and resolved to take the following steps;

- Consistent and sustainable implementation of credit control action to all household that can afford payment of services, including reminder letters, telephone, sms and other means of reminding consumers of the obligation with regard to their municipal accounts.
- Approval of indigent register
- Resolution of the current stand-off between the farmers and Council.
- Accurate and predictable monthly billing of municipal services, which requires that accounts are send regularly and on time to can enable consumers to plan or arrange for payment of services.
- A ward base campaign that is lead by the respective ward Councillor to promote payment of services within each ward. This campaign should include all stakeholders and the ward committees.

In the 2013/2014 financial year Council intends to boost the human resource capacity within the Credit Control Unit, to ensure that all this measures are implemented on a regular and consistent manner. A debt collector will be appointed to collect all debtors outstanding for more than 90 days. As noted above, since the invocation of section 216 of the Constitution by the Minister, the municipality has been able to meet their obligations without fail. Both the efforts of increased credit control measures and cost containment measures has yielded the positive outcome expected.

Council has noted with concern the low level of growth on repairs and maintenance. For this reason in the 2013/2013 financial year the department of Technical Service has been directed to develop an asset renewal strategy and repairs and maintenance plan. Preserving and maintaining our current infrastructure remains a high priority for Council and alignment of this with the budget will inform the level of growth which should be allocated for repairs and maintenance. This item will form part of the budget adjustment process in the first half of the 2013/2014 financial year.

All the other comments by the Provincial Treasury were incorporated into the budget, including all other administrative corrections that were identified in the benchmarking exercise.

Budget Overview for the 2013/14 MTREF

This section provides an overview of the Bela-Bela Municipality's 2013/14 to 2015/16 MTREF. It focuses on the billing and revenue environment of the municipality, the expenditure framework 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.

Operating Revenue Framework

For Bela-Bela municipality to continue improving the quality of services provided to its citizens, it needs to generate the required revenue levels. In these tough economic times, strong revenue management is fundamental to the financial sustainability of the municipality. The reality is that the municipality is 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, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Continuous engagements with key stakeholders, particularly farmers and business, to collect outstanding debt and improve current collection levels;
- 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 2013/14 MTREF (classified by main revenue source):

Madam Speaker

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. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2012/13 financial year, the adjusted revenue from rates and services charges totalled R165.4 million or 68.9 per cent. This increases to R154.6 million, R171.6 million and R190.3 million in the respective financial years of the MTREF. A notable trend in the total percentage revenue generated from rates and services charges is that it increases from 68.9 per cent to around 66.0 per cent during the 2013/14 MTREF. These increases are net of rates rebates and revenue foregone associated with the tariff policies of the municipality.

Operating grants and transfers totals R48.9 million in the 2012/13 financial year and steadily increases to R177.8 million over the 3-year MTREF. Note that the year-on-year growth for the 2013/14 financial year is 8.7 per cent, 8.8 per cent in 2014/15 and then a fairly large increase of 15.1 per cent in 2015/16.

Madam Speaker

With regard to allocations from the national government, operating grants increase from R48.9 million in 2012/13 to R53.0 million in 2013/14, R57.8 million in 2014/15 and R66.7 million in 2015/16. These allocations are in line with allocations in the 2013/14 annual Division of Revenue Act. Of importance to note is that no grants were allocated from the provincial government and the district municipality.

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 both Eskom and Rand Water 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 as follows.

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 residential areas and bona fide farmers are also available as per the requirements of the amended property rates policy, to qualifying ratepayers.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the 2008/09 budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the revised Property Rates Policy are highlighted:

Municipal properties

Municipal properties are exempted from paying property rates.

Residential properties

All residential properties with a market value of less than the amount as annually determined by the municipality are exempted from paying property rates. **For the 2013/2014 financial year the maximum amount is determined as R50 000.** The impermissible rates of R15 000 contemplated in terms of section 17(1)(h) of the Act are included in the amount as referred to above as annually determined by the Municipality. The remaining R35 000 is aimed primarily at alleviating poverty and forms an important part of the Municipality's indigent policy.

Public Service Infrastructure

Is exempted from paying rates as it provides essential services to the community.

Public Benefit Organisations

Public Benefit Organisation Property means property owned by public benefit organisations and used for any specified public benefit activity listed in item 1 (welfare and humanitarian), item 2 (health care), and item 4 (education and development) of part 1 of the Ninth Schedule to the Income Tax Act.

The abovementioned exemptions will automatically apply and no application is thus required by the owners of such property.

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 a consumer uses, 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 7% whereas the increase in electricity bulk purchases for the 2013/2014 financial year is also 7% 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 %. .

Sewerage (Sanitation)

The proposed increase in this tariff is 5.6%. This tariff increase above is prescribed by circular 66 from National Treasury**.**

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.

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 honouring 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 promulgate the Credit Control and Debt Collection By-Law before the beginning of the new 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.

Council is currently finalising the appointment of a Debt Collector to focus on all debts over 90 days. Their scope of work will include collection of debt from other categories of debtors that the municipality does not have a tool to enforce payment of services on time. This debt collector will be employed on a basis of performance and certain targets will have to be agreed between the service provider and the municipality

Operating Expenditure Framework

The budget sees an increase in annual operating expenditure from R231.4 million in 2012/2013 adjusted budget to R237.9 million in 2013/2014, excluding non-cash item totalling R48 480 741. This meagre 2.81% increase is primarily due to reprioritisation of personnel expenditure as mentioned under funding compliance above.

The municipality's expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- Personnel cost and Councillor remuneration increases informed by the decisions of the SALGA Bargaining Council and the Remuneration of Public Office Bearers Act;
- Balanced budget constraint (operating expenditure should not exceed operating revenue except for non-cash provisions) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- Contracted Services
- Bulk Purchases
- Strict adherence to the principle of ***no project plans no budget***. If there is no business plan no funding allocation can be made.

Madam Speaker, the following table is a high level summary of the 2013/14 budget and MTREF (classified per standard):

Employee costs

The budgeted allocation for employee related costs for the 2013/14 financial year totals R72.9 million, which equals 30.6 per cent of the total operating expenditure. This moderates to around 30.0 per cent over the 2014/15 and 2015/16 financial years. The proportion of personnel expenditure to total operating expenditure for the municipality is favourable at just below 30.0 per cent over the medium term. This leaves around 70.0 per cent of operating expenditure available for other major service delivery expenditure items such as bulk water and electricity purchases, contracted services and finance charges. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6.85 per cent for the 2013/14 financial year. An annual increase of 6.4 per cent has been included in the two outer years of the MTREF. In order to curtail personnel costs, the rationalisation of the municipality's organisational structure was reconsidered.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). In this regard, the most recent proclamation of an increase of 7.0 per cent has been taken into account in compiling the municipality's budget.

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. This expenditure include distribution losses.

Repairs and maintenance

The National Treasury Municipal Budget Circular number 66 for the 2011/2012 MTREF stated that municipalities must "secure the health of their asset base (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance". The municipality has, over the last two financial years, decreased the investment in repairs and maintenance as its priority. Due to funding challenges, the municipality's budget for repairs and maintenance is around 2.7 per cent of total operating expenditure. Leadership and management is required to address the critical backlogs in repairs and maintenance. Supporting table SA34c shows the budget for repairs and maintenance over the MTREF.

Contracted Services

The 8% increase can be attributed to the annual increases in the service level agreements. A review process is underway for all current contract to ensure that the municipality receives value for money.

Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the municipality's Indigent Policy. The number of households budgeted to receive a package of free basic services is 4032 in the 2013/14 MTREF. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table A10 of the MBRR (see attached schedule A - Basic Service Delivery Measurement).

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act. The withholding of equitable share allocation by National Treasury will negatively affect the provision of this social package to the indigents. However, the municipality has been able to continue to fund this social package nonetheless.

1.1 Capital expenditure

Madam Speaker, the following table provides a breakdown of budgeted capital expenditure by vote:

For 2013/14, an amount of R19.3 million has been appropriated for the capital expenditure of which 59.1 per cent is for infrastructure in Technical Services department. This increases to 63.1 per cent and 80.3 per cent in 2014/15 and 2015/16 respectively. All the funding for the capital programme is from Municipal Infrastructure Grant (MIG). As mentioned earlier, the municipality did not budget to fund any capital programme from internal funds due to cash flow challenges. Moreover, Council intends to build internal reserves over the medium term for massive capital programme to address backlogs. Finally, the whole capital expenditure is allocated to new infrastructure.

Madam Speaker

1. Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasise the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
    a. There are operating deficits (after total expenditure) over the MTREF. These surpluses amount to R2.5 million, R2.6 million and R3.0 million for 2013/14, 2014/15 and 2015/16, respectively;
    b. These exclude non-cash items comprising of depreciation on unbundled assets and provision for bad debts. Since these are non cash, they will not profoundly affect revenue and expenditure as well as the cash flows of the municipality.

4. There are operating surpluses after Total Expenditure over the MTREF.
5. The cash backing/surplus reconciliation shows that in previous financial years the Bela-Bela municipality has not been paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently, Council has taken a deliberate decision to withdraw all own source capital projects for 2013/2014 until it ensures adequate cash-backing for all material obligations in accordance with the recently adopted funding and Reserves Policy. This cannot be achieved in one financial year. But over the MTREF there will be progressive improvement in the level of cash-backing of Council's obligations. It is anticipated that the goal of having all obligations cash-backed will be achieved by 2014/2015, when a small surplus is reflected.
6. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues. In addition, the municipality continues to make progress in addressing service delivery backlogs. It is anticipated that by 2013/14 the water backlog will have been very nearly eliminated

Madam Speaker

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity, Water and Waste water functions, but not the Waste management function. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Corporate Services.

Madam Speaker

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the City. This means it is possible to present the operating surplus or deficit of a vote; and
2. The table shows that the BTO is the largest generator of revenue, particularly from Rates and service charges whereas technical Services department is the largest department incurring operating expenditure, The larger is due to the size of the department as well as its responsibility over service delivery projects such as water, electricity and sanitation.

Madam Speaker

1. Total revenue is R213. 2 million in 2012/13, is adjusted upwards to R240.3 million in the adjusted budget and declines to R235.39 million in 2013/14. This is due to the netting off of rates by the rates rebates and reductions;
2. Revenue to be generated from property rates is R42.5 million in the 2013/14 financial year (after taking into account the rebates amounting to R29.5 million) and increases to R54.7 million by 2015/16 which represents an average of 18.0 per cent of the operating revenue base and therefore remains a significant funding source for the municipality.
3. Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the municipality totalling R112.0 million for the 2013/14 financial year and increasing to R135.5 million by 2015/16. For the 2013/14 financial year services charges constitute to 47.5 per cent of the total revenue base and grows by around 10.0 per cent per annum over the medium-term. This growth can mainly be attributed to the increase in the bulk prices of electricity and water.
4. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government.
5. An amount of 5% of the MIG is allocated to operating grants as per the National Treasury Circular 66 and 67.
6. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

Madam Speaker

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (single - year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. Single-year capital expenditure has been appropriated at R19.3 million for the 2013/14 financial year and increase to R20.9 million and R22.4 million in the outer years.
3. No funding has been budgeted from municipality's own sources due to cash flow challenges and the intention to build reserves in the near future.
4. The municipality has not budgeted for any long term borrowing to fund the capital programme.

Honourable Councilors

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

   Madam Speaker

3. Table A6 is supported by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:
   - Call investments deposits;

- Consumer debtors;
- Property, plant and equipment;
- Trade and other payables;
- Provisions non-current liabilities;
- Changes in net assets; and
- Reserves

4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Honourable Councillors

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded;
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget;
3. As part of the 2012/2013 mid-year and adjustment budget this unsustainable cash position had to be addressed as a matter of urgency and various interventions were implemented such as the reduction of expenditure allocations and rationalization of spending priorities as noted in the Executive summary above.
4. The municipality shows positive net cash inflows of R22.9 million in 2013/14, increasing to positive R49.1 million in 2014/15 and increasing to positive R85.7 million in 2015/16. This is in line with the municipality's plans to improve its positive cash position in the short to medium term; and
5. The cash position will be managed to improved levels due to the strict implementation of the credit control policy and cost containment measures.

Madam Speaker

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2010/11 MTREF was not funded owing to the significant deficit.
6. As part of the budgeting and planning guidelines that informed the compilation of the 2013/14 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

7. The table shows that the budget is funded over the medium term, taking into account the working capital requirements.

Honourable councillors

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. The table shows that all of the capital allocations are for new assets.
3. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The municipality did not achieve these recommendations due to cash flow challenges

Madam Speaker

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
2. The City continues to make good progress with the eradication of backlogs:
    a. Water services – backlog will be reduced by 500 households in 2013/14. These households are largely found in 'reception areas' such as Rapotokwane and Masakhane and will need to be moved to formal areas so that they can receive services.
    b. Sanitation services – backlog will be reduced by 1 050 households over the MTREF.
    c. Electricity services – as with sanitation, backlog will be reduced by 1 050 households. The emphasis in the electricity sector is on addressing urgent network upgrades. Once the most pressing network issues have been addressed, the electrification programme will be prioritised to cater for new developments.

Honourable Councillors

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Budget/ Treasury and Governance Sub Committee. The Mayor attends the meetings of the Steering Committee.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out
- in the municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and

- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

Budget Process Overview

In terms of section 21 of the MFMA, the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2011) a time schedule that sets out the process to revise the IDP and prepare the budget. Bela Bela Municipality adopted an IDP Review Process Plan for the 2013/14 review process. The Process Plan was informed by the district municipality's framework plan and was adopted by the Municipal Council in August 2012. The main purpose of the Process Plan is to integrate all the processes and activities, institutional arrangements and time frames of the various sector departments, NGOs, Parastatals, etc.

The preparation of a reviewed IDP/ Budget is based on a Process Plan, which Bela Bela Municipality adopted in terms of the MFMA. The Plan establishes a firm foundation for the alignment of the IDP and budget preparation processes. This plan included the following:-

- a programme specifying the time frames for the different planning steps;
- appropriate mechanisms, processes and procedures for consultation and participation of local communities, organs of state, traditional authorities, and other role players in the IDP drafting process;
- an indication of the organisational arrangements for the IDP process;
- binding plans and planning requirements, i.e. policy and legislation;

The objectives of the Process Plan are as follows:

- to guide decision making in respect of service delivery and public sector investment;
- to inform budgets and Service delivery programs of various government departments and service agencies; and
- to coordinate the activities of various service delivery agencies within Bela Bela.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

IDP and Service Delivery and Budget Implementation Plan

Madam Speaker

This is the second draft IDP of the new Council which came into office after the May 2011 elections. The municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;

- Public participation process;
- Revision of the IDP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the draft 2013/14 MTREF, based on the adjusted 2012/13 MTREF and the mid-year review. The business planning process will subsequently be refined in the light of current economic circumstances and the resulting revenue projections prior to budget approval in May 2013.

With the compilation of the 2013/14 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2012/13 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

Community Consultation

The draft 2013/14 MTREF as tabled before Council on 28 March 2012 for community consultation was published on the municipality's website, and hard copies were made available at municipal offices and municipal library. Electronic and hard copies were sent to National Treasury and the Limpopo Provincial Treasury.

The municipality held public participation sessions with the communities in seven wards. A budget summary document, called "Budget at a Glance", was issued and discussed at these sessions. Comments were received from the local communities. The applicable dates and venues were published in all the local newspapers. Sessions were also held with the farming and business communities on the 8th May 2013.

A budget benchmarking exercise was conducted at a meeting held with the Provincial Treasury on 7 May 2013. The meeting followed a thorough analysis of the budget and IDP. Subsequent to the meeting, a feedback report was submitted to the municipality together with a compliance checklist. The National Treasury also submitted a compliance checklist on the tabled budget. The key issues raised by both the Treasuries were:

- Non and/ or incompletion of all budget schedules A1 to SA37;
- Insufficient funding of the budget, particularly the capital budget;
- Insufficient funding of repairs and maintenance budget;
- Some grants not aligned to allocations in Division of Revenue Act; and
- Non submission of the SDBIP.

All the comments were considered and where funding permitted, the budget was amended accordingly.

Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents.

The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by the municipality correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Bela Bela municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the City's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP.

Madam Speaker

The following table highlights the draft IDP's five strategic objectives for the 2013/14 MTREF and further planning refinements that have directly informed the compilation of the draft budget:

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Table 17 shows the alignment of operating revenue budget with the IDP objectives.

Honourable councillors

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the municipality. Indigent households receive free basic water of 50 kl and 100 kwh of electricity per month. For the 2013/14 financial year 4 032 registered indigents have been provided for in the budget.

Providing clean water and managing waste water

The municipality is the Water Services Authority for the entire municipality in terms of the Water Services Act, 1997 and Magalies Water is the water services provider.

Approximately 50 per cent of the Municipality's bulk water needs are provided by Magalies Water in the form of purified water. The remaining 50 per cent is generated from the Municipality's own water sources, such as boreholes and the dams.

The Department of Water Affairs conducts an annual performance rating of water treatment works, presenting a Blue Drop or Green Drop award respectively to potable water treatment works and waste water treatment works that meet certain criteria of excellence.

Bela-Bela Municipality has achieved an acceptable score of 71.07% during Blue Drop Certification Programme for its only Water Treatment Plant. This has put the Municipality on the 6th position in Limpopo Province. This is a sign that the municipality is doing well on improving its water quality and aiming to achieve an excellent score.

Waste water treatment works, did not perform well due to the upgrade which were taking place during the time of assessment. However, the upgrade is now complete and we are aiming to achieve better results in terms of meeting the minimum Green Drop certification standards.

The following is briefly the main challenges facing the Municipality in this regard:

- Shortage of skilled personnel makes proper operations and maintenance difficult; and
- Infiltration of storm water into the sewerage system.
-

The following are some of the steps that have been taken to address these challenges:

- The filling of vacancies has commenced and the Waste Water Division will embark on an in-house training programme, especially for operational personnel;
- The Division will be working in consultation with the Department of Water Affairs to address catchment management.

Madam Speaker

Bela Bela municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies. The following policies have been reviewed and tabled to Council with the budget:

- Property rates;
- Debt and credit control;
- Budget Implementation and Monitoring;
- Supply Chain Management Policy;
- Cash Management and Investment Policy;
- Asset Management Policy;
- Bad Debt irrevocable Policy; and
- Rates Policy.

The 2013/14 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 63 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the municipality's cash levels. Finally, debt owed by Councillors and municipal staff has been prioritised for speedy recovery. The credit control and debt collection policy has prioritised this area to show an example.

Overview of budget assumptions

External factors

Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank by an estimated 1.8 per cent last year and about 900 000 people lost their jobs. It is expected that recovery from this deterioration will be slow and uneven, and that growth in real terms for 2013 will be moderate at around per cent rising to 2.5 per cent by 2014.

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2013/14 MTREF:

- National Government macro economic targets;
- The general inflationary outlook and the impact on Bela Bela's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration. Employee and Councillor related costs comprise 39.4 per cent of total operating expenditure in the 2012/13 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement with SALGBC is not yet concluded

and National Treasury has advised municipalities to budget for an increase of 5.0 per cent.

Interest rates for borrowing and investment of funds

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions. The municipality did not budget to raise any long term loans due to the squeezed cash position and low payment levels.

Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher that CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (80 per cent) of annual billings. Cash flow is assumed to be 80 per cent of billings including collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

Growth or decline in tax base of the municipality

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

Salary increases

The collective agreement regarding salaries/wages for employees concluded in 2012. National Treasury advised municipalities to budget for an increase on 6.85 per cent for 2013/14.

Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities, as articulated by the President of the country in his State of the Nation Address (SoNA) early this year, form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and

- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

Honourable Councillors

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA. The funding compliance test and its calculations show that the 2013/14 MTREF is funded, unlike was the case in the 2012/13 and previous financial years. This is attributable to the sterling work done by the BTO under the leadership of the new CFO, and the willingness of Council to make hard choices.

Honourable Councillors

The municipality provides major infrastructure projects internally, though some technical work is contracted to professional service providers such as designs. The key service delivery departments are Technical Services and Social and Community Services. The Planning and IDP Department also does some work related to job creation and Local Economic Development, including Town Planning and establishment.

Each of the above departments is headed by a Senior Manager directly accountable to the Municipal Manager. About 50.5 per cent of the capital budget is allocated to Technical Services while around 43.0 per cent of the capital budget is allocated to Social and Community Services department.

The Senior Managers submit their departmental Service Delivery and Budget Implementation Plans to the Municipal Manager and then compiles the municipal SDBIP which is submitted to the Mayor and tabled with the budget. These SDBIP form the basis of performance agreements.

Madam Speaker

The municipality does have contracts that go beyond the three years. The one contract with a five year duration was for banking services with ABSA and it has expired. The municipality is in the process of evaluating the bids and this process will be concluded before the beginning of the 2012/13 financial year.

The table shows the details of the capital expenditure. The information in this table agrees to the main budget table A5.

Honourable councillors

Compliance with the MFMA implementation requirements has been substantially adhered to through the following activities:

- **In year reporting**

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved. However, changes in the new financial system to improve the quality of the reports.

- **Internship programme**

The municipality is participating in the Municipal Financial Management Internship programme and has employed fiver interns undergoing training in various divisions of the Budget and Treasury Office. The contracts of the new Interns commenced in November 2012 and will expire in October 2014 and Council would consider extending the contracts for the Interns to complete both their academic and theoretical training.

- **Budget and Treasury Office**

The Budget and Treasury Office has been established in accordance with the MFMA.

- **Audit Committee**

A shared Audit Committee with the Waterberg District municipality has been established and is fully functional.

- **Service Delivery and Implementation Plan**

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2013/14 MTREF directly aligned and informed by the 2013/14 MTREF.

- **Annual Report**

Annual report is compiled in terms of the MFMA and National Treasury requirements.

- **MFMA Training**

The MFMA training module in electronic format is presented and training is ongoing.

- **Policies**

An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

It is in this regard Madam Speaker that I submit that the Council of Bela Bela Local Municipality approves the following 2013/14 revised annual budget and budget related policies:

1.1. Property rates;
1.2. Debt and credit control;
1.3. Budget Implementation and Monitoring;
1.4. Supply Chain Management Policy;
1.5. Funding and Reserves Policy
1.6. Cash Management and Investment Policy;
1.7. Asset Management Policy;
1.8. Bad Debt irrevocable Policy; and
1.9. Municipal Property Rates Policy.

2. The Council of Bela Bela Local Municipality , acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2013 the tariffs;

   2.1. the tariffs for property rates;
   2.2. the tariffs for electricity;
   2.3. the tariffs for the supply of water;
   2.4. the tariffs for sanitation services;
   2.5. the tariffs for solid waste services;
   2.6. Credit Control and Debt Collection Policy;
   2.7. Cash Management and Investment Policy;
   2.8. Borrowing Policy;
   2.9. Funding and Reserve Policy;
   2.10. Policy related to long-term Financial Plan;
   2.11. Supply Chain Management Policy;
   2.12. Policy Related to Dealing with Infrastructure Investment and Capital Projects;
   2.13. Indigents Policy;
   2.14. Budget Implementation and Management Policy.

3. The Council of Bela Bela Local Municipality approves the 2013/14 revised IDP and the revised organisational structure;

4. To give proper effect to the municipality's annual budget, the Council of Bela Bela Local Municipality approves:

   4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of section 8 of the Municipal Budget and Reporting Regulations.

I thank you