

ITEM :

REPORT BY THE EXECUTIVE MAYOR

DRAFT ANNUAL BUDGET 2013/2014

PURPOSE OF THE REPORT

The purpose of the report is to table the multi-year draft 13/14 budget of the Waterberg District Municipality to Council for approval.

STATUTORY/LEGAL REQUIREMENT

Section 24(2)(c) of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“An annual budget must be approved together with the adoption of resolutions ... approving any changes to the municipality’s integrated development plan”

Section 16(2) of the MFMA:

“...the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.”

Section 17 of the MFMA states that an annual budget must be in a schedule in the “prescribed format”.

Circular 42 gives guidance on the funding of the Budget & Adjustment Budget and that all must be cash backed.

Paragraph 9 of the Municipal Budget & Reporting regulations (MBRR) indicates that:

“The annual budget and supporting documentation must be in the format specified in Schedule A and include all the required tables, charts and explanatory information.”

Paragraph 14 of the MBRR indicates that:

“An annual budget and supporting documentation tabled in a municipal council must be in the format in which it will eventually be approved by Council and be credible and realistic such that it is capable of being approved and implemented as tabled.”

Section 22 of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“(a) in accordance with Chapter 4 of the Municipal Systems Act—

(i) make public the annual budget and the documents referred to in section 17(3); and

(ii) invite the local community to submit representations in connection with the budget; and

(b) submit the annual budget—

(i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

(ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget”

Section 87(1) of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“The board of directors of a municipal entity must for each financial year submit a proposed budget to its parent municipality not later than 150 days before the start of the entity’s financial year.”

Section 87(3) of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“The mayor of the parent municipality must table the proposed budget of the municipal entity in the council when the annual budget of the municipality for the relevant year is tabled.”

BACKGROUND, EXPOSITION, FACTS AND PROPOSALS

According to the original Budget Process Plan the annual 2013/2014 budget has to be tabled to Council 90 days before the start of the new budget year, therefore to be tabled by 31 March 2013.

After the approval by Council of the tabled 2013/2014 budget, the budget will be made public and will be submitted to National and Provincial Treasury. The municipality will embark on public participation for the Budget & IDP between March and April 2013 in terms of the 13/1 IDP/Budget Process Plan approved by Council in August 2012.

No budget related policies are attached to this item as they are currently being reviewed and will be submitted with the final budget, if any adjustments are required.

The budget is divided into a capital and operating budget. The IDP projects are divided into projects of a capital and operating nature, although the final list has not yet been finalised.

The municipal tariffs for the Abattoir and Fire Fighting have been reviewed and are attached to this budget item, additions are proposed to the Fire Fighting tariffs but no changes are proposed for Abattoir tariffs from the approved 12/13 tariffs.

All current investments have been committed in terms of the 2012/2013 IDP & Budget and the 2013/2014 IDP & Budget, to such an extent that we are anticipating an operating shortfall in the medium term due to lack of accumulated surplus to fund the current operating losses.

The recommendation of the SALGA Wage Curve Agreement recommends a budgeted increase on personnel expenditure of 6.85% which is also recommended by Circular 67.

The shortfall in the 13/14 operating budget of R 25,269,412 is funded from accumulated surplus carried over from the previous budget years. This includes the operating portion of IDP projects. Of this shortfall R 18,509,000 relates to projects to be identified / already identified on the 13/14 IDP and R 6,760,412 relates to an actual operating shortfall in the 13/14 year whereby the revenue received during the 13/14 year will not be enough to fund our budgeted 13/14 operating expenditure, even when excluding operating IDP projects. This is a major cause for concern as the indication is that we will continuously be short on the budget in future as our revenue is fixed per grants and majority of our operating expenditure is salary related which often increases by more than the CPI or relevant equitable share percentage increase. The accumulated surpluses from previous years would as per the state of affairs currently only be able to fund the annual operating shortfalls for this new MTREF, after which surpluses will also be depleted. This will also have a detrimental effect on the IDP as surpluses which were previously allocated to the IDP will now have to be used to fund operating shortfalls, thereby decreasing the IDP amount for projects significantly. Attached as Sheet SA10 is the funding measurement test which indicates that all years of the budget is funded.

STAFF IMPLICATIONS

One new appointment has been budgeted in the 2013/2014 Budget year although not all existing budgeted positions have been filled yet. There are new cell phone allowances and travel allowances budgeted as well as additions to the Operational Allowance budget created in 12/13. The new post is the Clerical Assistant PL11 at Lephale Disaster Centre.

FINANCIAL IMPLICATIONS

See attached Schedules.

Budget/IDP Road Shows will be held in March & April 2013 by the Offices of the Municipal Manager and Executive Mayor. The costs will be defrayed from the IDP votes CO11 and CO12.

OTHER PARTIES CONSULTED

WDM Municipal Manager
WDM Section 57 managers
WDM Divisional managers
WDM IDP Forums

ANNEXURES

Budget:

Table A1	-	Budget Summary
Table A2	-	Budgeted Financial Performance (by standard classification - GFS)
Table A2a	-	Budgeted Financial Performance (by standard classification)
Table A3	-	Budgeted Financial Performance (by municipal vote)
Table A3a	-	Budgeted Financial Performance (by municipal vote)
Table A4	-	Budget Financial Performance (by revenue source & expenditure type)
Table A5	-	Budgeted Capital Expenditure by vote, standard classification and funding
Table A5a	-	Budgeted Capital Expenditure by vote, standard classification and funding
Table A6	-	Budgeted Financial Position
Table A7	-	Budgeted Cash Flows
Table A8	-	Cash backed reserves / accumulated surplus reconciliation
Table A9	-	Asset Management
Table A10	-	Basic Service Delivery Measurement

Supporting documents:

Table SA1	-	Supporting detail to "Budgeted Financial Performance"
Table SA2	-	Matrix Financial Performance Budget (revenue source/expenditure per type)
Table SA3	-	Supporting detail to "Budgeted Financial Position"
Table SA4	-	Reconciliation of IDP strategic objectives and budget (revenue)
Table SA5	-	Reconciliation of IDP strategic objectives and budget (operating expenditure)
Table SA6	-	Reconciliation of IDP strategic objectives (capital expenditure)
Table SA7	-	Measurable performance objectives
Table SA8	-	Performance indicators and benchmarks
Table SA9	-	Social, economic and demographic statistics and assumptions
Table SA10	-	Funding measurement
Table SA11	-	Property rates summary
Table SA12a-	-	Property rates by category (current year)
Table SA12b-	-	Property rates by category (budget year)
Table SA13	-	Service Tariffs by category
Table SA14	-	Household bills
Table SA15	-	Investment particulars by type

ANNEXURES (continued)

Supporting documents (continued):

Table SA16 -	Investment particulars by maturity
Table SA17 -	Borrowing
Table SA18 -	Transfers and grant receipts
Table SA19 -	Expenditure on transfers and grant programme
Table SA20 -	Reconciliation of transfers, grant receipts and unspent funds
Table SA21 -	Transfers and grant made by the municipality
Table SA22 -	Summary councillor and staff benefits
Table SA23 -	Salaries, allowances and benefits (political office bearers/cllrs/senior managers)
Table SA24 -	Summary of personnel numbers
Table SA25 -	Budgeted monthly revenue and expenditure (source & type)
Table SA26 -	Budgeted monthly revenue and expenditure (municipal vote)
Table SA27 -	Budgeted monthly revenue and expenditure (standard classification)
Table SA28 -	Budgeted monthly capital expenditure (municipal vote)
Table SA29 -	Budgeted monthly capital expenditure (standard classification)
Table SA30 -	Budgeted monthly cash flow
Table SA31 -	Not required – municipality does not have active entities
Table SA32 -	List of external mechanisms
Table SA33 -	Contracts having future budgetary implications
Table SA34a	Capital expenditure on new assets by asset class
Table SA34b	Capital expenditure on the renewal of existing assets by asset class
Table SA34c	Repairs and maintenance by asset class
Table SA34d	Depreciation by asset class
Table SA35 -	Future financial implications of the capital budget
Table SA36 -	Detailed capital budget
Table SA37 -	Projects delayed from previous financial analysis (to be determined in July 2012)

Annexure 1 -	Abattoir Tariffs
Annexure 2 -	Fire Fighting Tariffs
Annexure 3 -	IDP project summary
Annexure 4 -	Salary Summary
Annexure 5 -	Organogram 13/14 implementation status
Annexure 6 -	High level summary of Circular 66 & 67 of March 2013
Annexure 7 -	Cash available for 13/14 IDP projects
Annexure 8 -	Signed 13/14 Quality Certificate for Draft 13/14 Budget
Annexure 9 -	A schedule explanations

AUTHORITY

- Municipal Finance Management Act, No 56 of 2003
- Municipal Systems Act, No 32 of 2000
- Government Gazette No 34287 Notice No R 4220: Determination of Earnings Threshold for Overtime of 13 May 2011
- Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009
- The Division Of Revenue Bill 2012/2013
- MFMA Budget Circulars, most recently is 66 & 67 for the 13/14 Budget Year

RECOMMENDATIONS

That:

1. The report by the Executive Mayor regarding the 2013/2014 Annual Budget of the Waterberg District Municipality contained in the agenda, be approved.
2. Council approve the Draft Tabled Annual Operating Budget for the financial year 2013/2014 and indicative for the two projected outer years 2014/2015 and 2015/2016.
3. Council approve the multi-year capital appropriations for the financial year 2013/2014 and indicative for the two projected outer years 2014/2015 and 2015/2016 (considering that the projects prioritisation phase still has to be completed before the final budget).
4. Council approve the Tariffs reflected in Annexure 1 for Abattoir for the Budget year 2013/2014.
5. Council approve the Tariffs reflected in Annexure 2 for Fire Fighting for the Budget year 2013/2014.
6. The operating budget allocation per local municipality within the Waterberg District Municipality for Fire-Fighting Services be approved for the budget year 2013/2014.

Bela Bela Municipality	R	930 671
Lephalale Municipality	R	2 922 025
Modimolle Municipality	R	1 757 505
Mogalakwena Municipality	R	6 468 289
Mookgophong Municipality	R	912 987
Thabazimbi Municipality	R	1 595 832

7. Approve the budgeted annual salary increase for councillors of 6% for the 2013/2014 budget year.
8. Approve the budgeted annual salary increase for officials and managers of 6.85% for the 2013/2014 budget year.

DRAFT ANNUAL BUDGET 2013/2014

The Annual Budget was prepared in terms of National Treasury MFMA Municipal Budget and Reporting Regulations. The growth parameters were calculated based on the average CPIX and guidance of Circular 67 as 5.6% in 2013/2014, 5.4% in 2014/2015 and 5.4% in 2015/2016.

The multi year draft budget is presented to Council for approval.

REVENUE

Council's main source of income is Government Grants.

GRANT ALLOCATIONS – DIVISION OF REVENUE ACT (DORA)

In terms of the 2013/14 Division of Revenue Act, the following allocations are made to Council:

	2013/14	2014/15	2015/16
Equitable Share	94 609 000	99 446 000	106 745 000
Mun. Systems Improvement grant	890 000	934 000	967 000
Finance Management Grant	1 250 000	1 250 000	1 250 000
EPWP Incentive Grant	1 000 000	-	-
RRAMS Grant	1 571 000	1 779 000	1 839 000

No grant is included from the Provincial Department of Health as the grant for 2012/13 was not received.

INTEREST RECEIVED

Interest received is income from external investments and interest on the current account. Provision of R 6 020 000 was made in this regard.

ABATTOIR

Council operates an Abattoir, which is a trading service. The trading service is supposed to break even, but is currently running at a loss. The Abattoir has a budgeted operating loss of R 4 592 777 for 2013/2014 (R 3 144 514 for 2012/2013).

No tariff increase is proposed at the abattoir. The current tariffs are attached per Annexure 1.

An amount of R 732 000 is provided for income from the abattoir, of which R 3 000 for interest received is not included in service charges on the A1 Schedule but disclosed as part of investment income.

OTHER INCOME

Other income refers to sundry income, fire fighting income and recovery of tender document costs to a total budgeted amount of R 43 000.

Additional Fire Fighting tariffs is proposed for 2013/2014 (See attached Annexure 2). All six local municipalities must be encouraged to implement these particular Tariffs for the purposes of cost recovery. Only R 94 527 fire fighting income has been budgeted due to the trend of the past years where very little to no fire fighting income was transferred to WDM.

The total budgeted revenue amounts to R 106 309 527 (12/13 - R 100 944 391). This is an increase of 5% as compared to the 2012/2013 Adjustment Budget).

Attached per **Tables A2, A3 and A4** are details on the revenue by GFS, vote and source.

EXPENDITURE

A reason for the increase in general operating expenditure is due to a number of new disaster assets being purchased thus increasing depreciation and insurance.

EMPLOYEE RELATED COSTS

Personnel expenditure increases by 10% in 2013/2014 to R 59 821 523 for officials (2012/2013 original – R 54 474 744), excluding contributions to long service awards and post-retirement medical aid actuarial valuations.

Provision is made for a general increase of 6.85% for all employees as per MFMA Circular 67 and the SALGA Collective Agreement lapses on 30 June 2012. Council should determine if the 5% should be increased due to possible renegotiation of the increase on the Collective Agreement. There is still no outcome communicated on the Wage Curve Agreement implementation.

The Health salaries amount to R 13 615 769 (2012/2013 - R 12 518 980) which comprises 22.7% (23.7% in 2012/2013) of the total salaries – 8.8% increase year on year.

The Disaster salaries amount to R 5 627 529 (2012/2013 - R 4 871 994) which comprises 9.4% (8.7% in 2012/2013) of the total salaries – 15.5% increase year on year. This excludes the salaries budgeted in local municipalities for fire fighting staff appointed by the local municipalities. The high increase is due to the inclusion of 1 new post, namely Lephale Disaster Centre Clerical Assistant at Post Level 11.

The Abattoir salaries amount to R 3 623 726 (2012/2013 - R 2 743 575) which comprises 6% of the total salaries – 32% increase year on year. The high increase is due to the 8 contract slaughterers being increase to permanent employees at a PL 13 at a cost of R 1 189 017 in the 13/14 year.

EMPLOYEE RELATED COSTS (*continued*)

Travel allowances were budgeted for all Divisional Managers as well as other extensive travellers in terms of the WDM approved Travel Allowance Policy. There are 63 travel allowances budgeted in comparison to a total staff compliment of 120 permanent employees (47%). 6 new travel allowances are for Internal Auditor, ICT Officer, Agricultural Officer, Sports Arts & Culture Officer, IGR Officer and Air Quality Officer at a cost of R 510 670 for the 13/14 year.

Overtime increased by 83.8% to R 106 850 (2012/2013 - R 178 396) due to the increase in overtime hours requested by the Disaster Department and Corporate Support & Shared Services.

Wages decreased by 5.75% to R 106 850 (2012/2013 - R 660 198). This is due to the fact that the contract workers at the abattoir has not moved from the wages budget item to the salary budget item as permanent employees.

Travel allowances have increased by 23.64% to R 7 156 302 (5.82% in 2012/2013 - R 5 788 047). 15% of the increase is due to the fact that kilometre allowance capping of the travel allowances have been increased to 850km for PL3 and 750km for below PL3 as partial implementation of the revised Travel Allowance Policy which was approved by Council in March 2012, but put on hold in June 2012 due to budget constraints.

Performance bonuses for S57 managers were budgeted for all managers who were anticipated to be employed at the WDM for at least one year at 30 June 2013, thus excluding CSSS, PED and Infrastructure.

Budget is still provided for Provision for Leave and Provision for Officials' Bonuses due to the GRAP disclosure requirements for annual leave and officials' bonuses.

The total employee related costs amounts to R 60 015 923 (R 62 539 298 including long term provisions) for 2013/2014 which is a 9.8% increase on 2012/2013 personnel budget of R 54 659 859). This comprises 47.53% (2012/2013 – 41.49% ; 2011/2012 - 42.60% ; 2010/11 – 43.40%) of the total operating expenditure (including operating expenditure projects on the IDP and excluding Councillor Remuneration).

REMUNERATION OF COUNCILLORS

Councillors' salaries and allowances were based on the Government Gazette termination of Earnings Threshold of December 2012 plus an annual increase of 6% in 2013/2014. The budget is still compiled on a Grade 3. Provision is made for six full time councillors. The total salaries and allowances for councillors amounts to R 5 879 223 (2012/2013 – R 5 474 982) and comprises 4.5% (2012/2013 – 4.3% ; 2011/2012 – 4.3%) of the total operating expenditure. The provision made for the full time indirect MAYCO member is the difference between the remuneration package paid by the Local Municipality (Mookgophong) and the District Municipality.

GENERAL EXPENSES

The major general expenses are audit fees, subsistence & travel, depreciation, municipal services, annual insurance and security for WDM premises, Abattoir, Modimolle and Lephalale disaster centres.

General expenditure also includes allocations to the Modimolle and Lephalale Disaster Centres for the operation thereof.

Provision of R 8 835 000 (2012/2013 – R 6 950 000) is made for depreciation and R 309 000 (2012/2013 - R 430 000) for amortisation, which is in line with GRAP requirements. The reason for the significant increase in depreciation is the purchase of a number of new disaster vehicles and equipment as well as the capitalisation of the abattoir upgrade. The reason for the decrease in the amortisation is due to the removal of certain intangible assets which was no longer in use or replaced by cheaper versions.

REPAIRS AND MAINTENANCE

An amount of R 1 162 763 (2012/2013 – R 1 084 394) is provided and constitutes 0.89% (2012/2013 - 0.85%) of the total operating budget. The provision is low due to the fact that we do not have infrastructure assets. This provision is mainly for buildings, vehicles and equipment.

CONTRACTED SERVICES

Contracted services refer to the fire fighting service which is rendered on behalf of Council by the Local Municipalities. Claims are submitted by the local municipalities on a regular basis. Provision of R 14 587 309 (2012/2013 – R 13 223 646) is made for all 6 local municipalities in total and this represents 11% (2012/2013 – 9.2%) of the operating budget. The provision for fire fighting per municipality is as follows:

Bela Bela Municipality	R	930 671
Lephalale Municipality	R	2 922 025
Modimolle Municipality	R	1 757 505
Mogalakwena Municipality	R	6 468 289
Mookgophong Municipality	R	912 987
Thabazimbi Municipality	R	1 595 832

The budget for the whole Disaster Department (including contract services for fire fighting) is R 27 819 148 (2012/2013 - R 26 068 300) which is an increase of 6.7%. The total fire fighting/disaster function thus constitutes 21% (2012/2013 - 19%) of the total operating budget. This is excluding the IDP capital expenditure portion.

MUNICIPAL HEALTH

Budget of R 16 685 894 (2012/2013 - R 17 591 912) (excluding the IDP capital expenditure) is made for Municipal Health. This includes personnel costs for 30 officials, which consist of a divisional manager, 6 environmental health heads and 23 environmental health practitioners. The reason for the decrease is due to the fact that no project expenditure has been allocated to this department in 13/14 but there was R 2 300 000 included in 2012/13. If that is excluded, the increase year on year is 9.1%.

National government has indicated that they will partly fund the service by providing an equitable share. As per previous equitable share breakdowns, the equitable share portion amounts to approximately R 12 300 000. The grant from the Department of Health is gazetted in the prior year, but we have not received it in 12/13 and therefore it is not considered realistically anticipated revenue in 13/14.

The total funding for the health function thus amounts to approximately R 12 300 000. The total projected operating expenditure of the Health division amounts to R 16 685 894 (excluding projects). The function is thus partially unfunded by approximately R 4 400 000.

The total operating expenditure amounts to:

Including the IDP operating expenditure portion: R 131 578 939 (2012/13 - R 131 905 369)

Excluding the IDP operating expenditure portion: R 113 069 939 (2012/13 - R 101 667 369)

This is an increase of 11.22% (2012/13 - 10.72% ; 2011/12 - 6.3%) as compared to the previous financial year. The MFMA Circular only allows 6% and therefore the additional increases have to be motivated as above.

Attached per **Tables A2, A3 and A4** are details on the operating expenditure by GFS, vote and source.

EXPENDITURE PER VOTE

A department constitutes a vote as per the MFMA definition. The following provisions were made per department:

	Operating	Capital	Total
Budget & Treasury	R 11 807 031	R -	R 11 807 031 (6)
Municipal Manager	R 18 379 386	R -	R 18 379 386 (3)
Corporate Services	R 20 891 413	R -	R 20 891 413 (2)
Planning & Econ Development	R 4 517 663	R -	R 4 517 663 (9)
Infrastructure Development	R 7 196 662	R -	R 7 196 662 (7)
Office of Executive Support	R 16 089 027	R -	R 16 089 027 (5)
Social Dev & Community Serv	R 2 868 137	R -	R 2 868 137 (10)
Disaster (Fire Fighting)	R 27 819 148	R 3 491 000	R 31 310 148 (1)
Municipal Environmental Health	R 16 685 894	R -	R 16 685 894 (4)
Abattoir	R 5 324 577	R -	R 5 324 577 (8)
Total	R 131 578 939	R 3 491 000	R 135 069 939

IDP FUNDING

Projects have not yet been identified in terms of Council's priorities. The only projects already included in the IDP are those that Council approved as 13/14 commitments during the 12/13 Adjustment Budget in February 2013 at a total amount of R 11 932 000. The remainder of funding available for projects has been assigned to the Office of the Municipal Manager for reporting purposes.

The total budget allocation for projects is as follows:

2013/14	R 22 000 000
2014/15	R 7 661 000
2015/16	R 4 839 000

The IDP MTEF totals R 34 500 000 of which the R 29 311 000 is funded by WDM and R 5 189 000 is funded by the RRAMS Grant (2012/2013 IDP MTEF – R 68 000 000).

The projects on the IDP are to be divided into operating and capital projects for the 2013/14 budget year, but since the projects haven't been prioritised yet, the only capital portion is that of commitments, and are as follows:

IDP Capital	R 3 491 000
IDP Operating	R 18 509 000

Attached per **Schedule A5** are the details of the IDP by **GFS, vote and source**.

Attached per **Annexure 3** is a detailed breakdown of projects included in the IDP. The original proposed project list submitted by the S57 managers will be included in the column indicate as the "wishlist". The Budget will then be compiled on the projects and budget amounts recommended by the MM, as to be indicated in the "MM proposed" column.