

ITEM :

REPORT BY THE EXECUTIVE MAYOR

ANNUAL BUDGET 2010/2011

PURPOSE OF THE REPORT

The purpose of the report is to submit the multi-year 10/11 budget of the Waterberg District Municipality to Council for approval.

STATUTORY/LEGAL REQUIREMENT

In terms of:

Section 24(1) of the Municipal Finance Management Act (MFMA) No. 56 of 2003:

“The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.”

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

“...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.

Section 9 of the Municipal Budget & Reporting regulations 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.

Section 14 of the Municipal Budget & Reporting Regulations 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. The Municipal Manager must submit the draft Municipal Service Delivery and Budget Implementation Plan to the mayor together with the annual budget to be considered for tabling.

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 34 of the Municipal Systems Act, 2000:

“A municipal council—

(a) must review its integrated development plan—

(i) annually in accordance with an assessment of its performance measurements; and

(ii) to the extent that changing circumstances so demand”

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 Budget Process Plan the annual 2010/2011 budget has to be tabled to Council 90 days before the start of the new budget year, therefore to be tabled by 31 March 2010. The Draft Annual Budget for the 2010/2011 financial year was tabled to Council for approval at least 90 days before the start of the financial year on 30 March 2010. After the approval by Council of the tabled 2010/2011 budget, the budget was made public and submitted to National and Provincial Treasury.

The 2010/11 Budget was a consultative process in which all S57 managers participated.

Between April and May 2010, the Waterberg District Municipality embarked on IDP hearings /road shows. The aim was still to solicit inputs and the public were invited in the form of public notice to make comments. The comments and outcome of these Road Shows and other forms of public participation will be discussed in the IDP item.

No budget related policies are attached to this item as they are still being reviewed in line with GRAP requirements and the outcome of the 09/10 audit.

The budget is divided into a capital and operating budget. The IDP projects are divided into projects of a capital and operating nature.

The municipal tariffs for the Abattoir and Fire Fighting have been reviewed and are attached to this budget item.

All current investments have been committed in terms of the 2009/2010 IDP & Budget and the 2010/2011 IDP & Budget.

The existing municipal entity, Waterberg Economic Development Agency did not table the annual 2010/2011 budget for the entity to Council on 30 March 2010, but the draft WEDA budget is attached to this item for Council consideration. This will be a deviation from the MFMA as the public participation process was not conducted for the WEDA budget, which council will have to ratify.

Schedules per GFS classification are also attached. GFS stands for Government Finance Statistics. The aim of the standard classification approach is that all municipalities will approve a budget in one common format.

The new Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009 was effective for high capacity municipalities from 1 July 2009 and will be

effective for medium and low capacity municipalities (like Waterberg District Municipalities) on budgets prepared from 1 July 2010 (the 2010/2011 budget to be tabled by 31 March 2010).

A budget steering committee must be established consisting of the Cllr for Budget & Treasury Portfolio, Municipal Manager, CFO, S57 managers and the Divisional Manager Budget & Reporting. Currently, WDM has no official committee, but budget matters are discussed at each Management Meeting where all above members are present except the Chairperson of Budget & Treasury Portfolio, but financial / budget reports are submitted to each Budget & Treasury Portfolio Committee meeting.

MFMA Circular 51 issued by National Treasury indicates a number of new requirements and focus areas for the 10/11 Budget. A summary of these requirements are attached as Annexure 1.

The only changes affected on the budget since the tabling on 30 March 2010 are as follows:

- The graphs has been completed and are attached;
- WEDA 10/11 Budget has been included to an amount of R 1,500,000
- New travel allowances for the positions Network Administrator and Air Quality Officer
- Telephone expenditure for Modimolle & Lephalale Disaster Centres was increased due to the procurement of VOIP systems (including ASDL & ISDN lines) for both centres which necessitates an increased monthly charge.
- Increased cell phone allowance for the Divisional Manager: Communication, IGR & Protocol to R 800 per month from R 700 per month;
- Increased Water & Sanitation Coordination budget in the Department Infrastructure Development to implement the resolutions of the District Water Summit held in March 2010.
- The cash flow forecast was adjusted to reflect the actual portions in which equitable share will be transferred as reported by COGTA in April 2010.

The recommendation of the SALGA Wage Curve Agreement has not yet been submitted and is therefore not accommodated in this budget. There is, however, a budgeted increase on personnel expenditure of 7.8 % even though Circular 51 has indicated the annual increase for 10/11 to be 7.7% to compensate for changes that might occur if the Wage Curve Agreement is implemented in the 2010/2011 budget year.

The shortfall in the operating budget of R 2,005,250 is funded from accumulated surplus carried over from the previous budget years.

STAFF IMPLICATIONS

Certain new appointments as per the approved organogram and previous council resolutions have been included in the 2009/2010 personnel budget, namely:

BTO	-	2 Financial Interns	2 year contract	(paid from FMG)
MM	-	Assistant IDP	PL8	

None of the new positions requested for WDM Disaster has been included in this budget, but the 3 new fire fighters for respectively Thabazimbi, Lephalale and Mogalakwena Municipalities has been included in their local operating budgets included in Contracted Services on the operating budget. IF the adjusted Organogram is approved, these new positions, if any, will have to be added to this final 2010/2011 budget to be approved by Council in May 2010. If the organogram is not approved, the 3 fire fighting positions as mentioned above will have to be removed from this budget.

Performance bonuses of S57 managers were budgeted for all filled positions, namely Chief Financial Officer, Manager Corporate Support & Shared Services, Manager Planning & Economic Development and Manager Infrastructure Development.

FINANCIAL IMPLICATIONS

See attached Schedules.

Budget/IDP Road Shows was held in April and May 2010 by the Office of the Municipal Manager. The costs is defrayed from the IDP vote CO-012.

OTHER PARTIES CONSULTED

WDM Municipal Manager	Bela Bela Local Municipality
WDM Section 57 managers	Modimolle Local Municipality
WDM Divisional managers	Thabazimbi Local Municipality
WDM IDP Forums	Mookgophong Local Municipality
Limpopo Provincial Treasury	Lephalale Local Municipality
National Treasury	Mogalakwena Local Municipality
Community	

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

Annexure 1	-	Circular 51 Summary
Annexure 2	-	Abattoir Tariffs
Annexure 3	-	Fire Fighting Tariffs
Annexure 4	:	IDP project summary
Annexure 5	:	Departmental salary analysis
Annexure 6	:	WEDA Budget

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 EDP 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
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Supporting documents (cont):

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Table SA11 -	Property rates summary
Table SA12 -	Property rates by category (summary)
Table SA13 -	Property rates by category (budget year)
Table SA14 -	Household bills
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Table SA26 -	Budgeted monthly revenue and expenditure (municipal vote)
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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
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Table SA34c	Repairs and maintenance 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

Graphs on:

Financial Performance
Capital Expenditure
IDP
Miscellaneous

AUTHORITY

- Municipal Finance Management Act, No 56 of 2003
- Municipal Systems Act, No 32 of 2000
- The South African Local Government Bargaining Council 3 Year Wage and Salary Collective Agreement for the financial years 2009/2010, 2010/2011 & 2011/2012.
- Government Gazette No 30720, Notice No R 100: Determination of Earnings Threshold of 1 February 2008
- MFMA Circular No 51 of 19 February 2010
- Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009
- The Division Of Revenue Bill 2010/2011 (published in Government Gazette 32882 of 22 January 2010)

RECOMMENDATIONS

That:

1. The report by the Executive Mayor regarding the 2010/2011 Annual Budget of the Waterberg District Municipality contained in the agenda, be approved.
2. Council approve the Annual Operating Budget for the financial year 2010/2011 and indicative for the two projected outer years 2011/2012 and 2012/2013.
3. Council approve the multi-year capital appropriations for the financial year 2010/2011 and indicative for the two projected outer years 2011/2012 and 2012/2013.
4. Council approve the Tariffs reflected in Annexure 2 for Abattoir for the Budget year 2010/2011.
5. Council approve the Tariffs reflected in Annexure 3 for Fire Fighting for the Budget year 2010/2011.
 - 5.1 That water tariffs be as per the rates of the Local Municipality.
 - 5.2 That registered indigents be treated in terms of the indigent's policy of Local Municipality.
 - 5.3 That the Fire Fighting Tariffs remain unchanged due to the current global economic downturn.
 - 5.4 That all six local municipalities be encouraged to implement these particular Tariffs for the purposes of cost recovery.
 - 5.5 That the generated fire fighting services income be monitored and deposited to the WDM on a monthly basis.
6. The operating budget allocation per local municipality within the Waterberg District Municipality for Fire-Fighting Services be approved for the budget year 2010/2011.

Bela Bela Municipality	R	601 721
Lephalale Municipality	R	2 413 386
Mogalakwena Municipality	R	4 753 460
Modimolle Municipality	R	1 364 679
Mookgophong Municipality	R	951 892
Thabazimbi Municipality	R	952 924
7. Council approve the WEDA 2010/2011 budget and ratify the deviation from the MFMA whereby the budget was not tabled to Council by 30 March 2010 and the public participation process was not followed.

ANNUAL BUDGET 2010/2011

The Annual Budget was prepared in terms of National Treasury MFMA Municipal Budget and Reporting Regulations. MFMA Circular 51 provides the growth parameters of 5.7% in 2010/11, 6.2% in 2011/12 & 5.9% in 2012/13 over the medium term for the 2010/11 to 2012/13 MTEF.

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

REVENUE

Council's main source of income, Regional Services Council (RSC) levies was abolished as from 1 July 2006. The replacement grant forms part of the equitable share allocation that will be made to Council. Council's main source of income now is Government Grants.

GRANT ALLOCATIONS – DIVISION OF REVENUE ACT (DORA)

In terms of the 2010/11 Division of Revenue Act, the following allocations will be made to Council:

	2010/11	2011/12	2012/13
Equitable Share	85 215 000	89 991 000	94 460 000
Mun. Systems Improvement grant	750 000	790 000	790 000
Finance Management Grant	1 000 000	1 250 000	1 250 000

An additional grant is received directly from the Provincial Department of Health:

	2010/11	2011/12	2012/13
Health Grant	7 881 000	8 353 860	0

INTEREST RECEIVED

Interest received is income from external investments and interest on the current account. Provision of R 8 400 000 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 2 214 507 for 2010/2011.

A feasibility study was carried out on the abattoir during the previous financial years. The study has indicated that the abattoir is not optimally utilised. Currently, the abattoir is operating at a loss pending the completion of the upgrade of the Abattoir which was a current project on the 2008/09 IDP which was extended to the 2009/10 IDP and re-budgeted in the 2010/11 IDP. A divisional manager is also appointed on contract basis to oversee the daily operations of the Abattoir to ensure a turnaround in the earnings potential.

ABATTOIR (*cont*)

No tariff increase is proposed at the abattoir as the current tariffs are higher than industry average and the intention is to rather increase the throughput. The current tariffs are attached per Annexure 2.

An amount of R 1 246 500 is provided for income from the abattoir, of which R 25,000 for interest received and R 96,000 for rental income is not included in service charges but in Other Revenue.

OTHER INCOME

Other income refers to sundry income, recovery of tender document costs, fire fighting income, interest received and abattoir rental income to a total budgeted amount of R 193,000.

No Fire Fighting tariff increase is proposed for the 2010/11 year (See attached Annexure 3) due to the current global economic downturn. All six local municipalities must be encouraged to implement these particular Tariffs for the purposes of cost recovery. The generated fire fighting services income must be monitored and deposited to the WDM on a monthly basis. An amount of R 10 000 is budgeted for Fire Fighting Income, included under Other Income.

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

The total budgeted revenue amounts to R 105,601,500. This is an increase of 6% as compared to the original 2009/2010 Budget (2% increase on the 2009/2010 Adjustment Budget).

EXPENDITURE

Council's personnel expenditure increases significantly in the 2010/11 budget year as a result of the establishment and further expansion of the Disaster Management Unit, further expansions on benefits of Environmental Health Practitioners and new positions as indicated in the Staff Implications paragraph on the budget item. A reason for the increase in general operating expenditure is due to the inclusion of interest and service cost for post-retirement benefits which is a new GRAP requirement based on actuarial valuations.

EMPLOYEE RELATED COSTS

Provision is made for a general increase of 7.8% for all employees as per SALGA guidance and the prevailing CPIX. Circular 51 recommends a 7.7% increase, but provision is made for a 7.8% increase to also compensate for the possible implementation of the SALGA Wage Curve Agreement. The South African Government Bargaining Council 3 Year Wage and Salary Collective Agreement, which was signed in September 2009, established and agreed 2010/11 salary increase of January 2010 CPIX plus 1.5%. The January average annual CPIX was 6.2% plus 1.5% equals the 7.7% budgeted salary increase plus 0.01% provision for the Wage Curve Agreement implementation.

The Headline CPI inflation estimate for 2010/11 in terms of MFMA Circular 51 is 5.7% and 6.2% for 2011/12.

EMPLOYEE RELATED COSTS *(cont)*

Council during the 07/08 year reviewed its Organogram. This has an effect on the expenditure as numerous new positions can be filled which remained vacant in the 2008/09 & 2009/2010 budget year. An item was tabled to Council and approved on 31 March 2009 regarding the Disaster Centre Organogram and the subsequent spin-off effect on other support service departments, such as Corporate Support & Shared Services and Budget & Treasury Office. An additional extension on the Disaster Department has been requested by Head: Disaster, but still has to be considered by Council.

The Health salaries amount to R 10 770 696 which comprises 23.1% (23.4% in 2009/10) of the total salaries (Table D).

The Disaster salaries amount to R 3 732 072 which comprises 8% (8% in 2009/10) of the total salaries (Annexure 5).

Travel allowances were budgeted for all Divisional Managers as well as other extensive travellers.

Government Gazette No 30720, Notice No R 100: Determination of Earnings Threshold of 1 February 2008, increased the earnings threshold for overtime from R 115 572 to R 149 736 in 08/09, thereby decreasing the number of staff members eligible for overtime payment.

Wages increased by 46% due to the implementation of the minimum wage limit as per the new SALGA Salary & Wage Collective Agreement.

Protective clothing has increased by 119% due to requests from various departments for new protective clothing or replacement of existing protective clothing.

Travel allowances have also increased by 25% due to the new travel allowances being implemented for Health Practitioners to replace municipal vehicles, the Air Quality Officer and the IT Network Administrator. The current 5 municipal vehicles were transferred to Corporate Support & Shared Services for general administration. The movement to travel allowance has lead to an increase in the Health Department's Subsistence & Travel Expenditure (on top of the travel allowance paid) of 91% (from R340,000 in 09/10 to R 650,000 in 10/11).

Performance bonuses for 557 managers were only budgeted for managers who will be employed at the WDM for at least one year at 30 June 2010.

The increase in Provision for Leave and the new Provision for Officials' Bonuses is due to the GAMAP/GRAP disclosure requirements for annual leave and officials' bonuses which changes the method in which annual leave was budgeted before – a full accrual has to be made for the outstanding commitment at each year end.

The total employee related costs amounts to R 46 701 323 (14% increase on 09/10 personnel budget) and comprises 43.40% (2009/10 – 48.80%, 2008/09 - 43.56%) of the total operating expenditure (including operating expenditure projects on the IDP and excluding Councillor Remuneration).

The Tables on personnel expenditure includes the cost of post-retirement benefits, which is not included in this review as it relates to an accounting entry which is non-cash flow and out of WDM's control (based on annual actuarial valuations).

REMUNERATION OF COUNCILLORS

Councillors' salaries and allowances were based on the Government Gazette No 32833, Notice No R 1225: Determination of Earnings Threshold of 21 December 2009 plus an annual increase of 7.8%. Provision is made for four full time councillors. The total salaries and allowances for councillors amounts to R4 703 695 and comprises 5.7% (2009/10 - 6.04%) of the total operating expenditure. The provision made for the full time Chief Whip is the difference between the allowance paid by the Local Municipality (Mogalakwena) and the District Municipality.

GENERAL EXPENSES

The total general expenses amounts to R 19 218 192 and comprises 23% (2009/10 - 18.9%) of the operating budget. The major 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 separate allocations to the Modimolle and Lephalale Disaster Centres for the operations thereof.

Provision of R2 713 000 is made for depreciation and R 301,260 for amortisation, which is in line with GAMAP/GRAP requirements.

REPAIRS AND MAINTENANCE

An amount of R550 479 is provided and constitutes 0.7% of the total operating budget. The provision is low due to the fact that we do not have infrastructure assets. This provision is 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 11 038 061 (2009/10 - 9 423 310) is made for all 6 local municipalities in total and this represents 13.4% (2009/10 - 13.3%) of the operating budget. The provision for fire fighting per municipality is as follows:

Bela Bela Municipality	R 601,721
Lephalale Municipality	R 2,413,386
Mogalakwena Municipality	R 4,753,460
Modimolle Municipality	R 1,364,679
Mookgophong Municipality	R 951,892
Thabazimbi Municipality	R 952,924

The budget for WDM operations of fire fighting is R 7 595 540 (2009/10 - R 4 886 831). The reason for the 55% increase from 2009/10 is due to both Modimolle and Lephalale Disaster Centres being fully operational in 2010/11 while both remained predominantly dormant in the 2009/10 year.

A total amount of R 17 518 604 (2009/10 - R14 310 142) (excluding the IDP operating expenditure portion) is provided for the total fire fighting/disaster function which constitutes 21% (2009/10 - 20%) of the total operating budget.

MUNICIPAL HEALTH

Provision of R 12 696 134 (2009/10 - R 10 637 073) (excluding the IDP operating expenditure portion) 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.

National government has indicated that they will partly fund the service by providing an equitable share. As per the DORA, R 18 per household is included in the equitable share for health. If calculated on the 2007 Stats SA Census, this amounts to approximately R 3 024 000. The grant from the Department of Health is R 7 881 000. The total funding for this function amounts to approximately R 10 905 000.

There is thus a shortfall of R 1 791 134 on the health function, excluding the capital expenditure which is also unfunded.

The total operating expenditure amounts to R 82 211 750 (2009/10 - R 70 818 796) (excluding the IDP operating expenditure portion). This is an increase of 16.09% as compared to the previous financial year.

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 (excluding the IDP operating expenditure portion):

Financial Services	R 9 717 028
Municipal Manager	R 6 401 888
Corporate Services	R 11 999 663
Planning & Econ Dev	R 3 809 693
Technical Services	R 2 720 969
Executive Mayor's Office	R 12 080 828
Social Services	R 1 805 935
Fire Fighting	R 17 518 604
Municipal Health	R 12 696 134
Abattoir	R 3 461 007

IDP FUNDING

Projects were identified in terms of Council's priorities. The total cost of the projects is as follows:

2009/10	R 45 876 193
2010/11	R 10 105 000
2011/12	R 6 270 000

The IDP MTEF totals R 62 251 193 of which R 60 464 193 are funded by WDM and the remaining R 1 787 000 is funded as follows:

FMG	R 250 000
MSIG	R 500 000
EPWP IG	R 1 037 000

The projects on the IDP are divided into operating and capital projects for the 2010/11 budget year and are as follows:

IDP Capital	R 20 481 193
IDP Operating	R 25 395 000

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

Attached per **Annexure 4** is a detailed breakdown of all projects included in the IDP.