6. IDP BUDGET DRAFT 2011/12 TO 2013/14

6.1. INVESTMENT INTO OPERATING ACTIVITIES

The budget on financial performance (previously income and expenditure statement) has been drawn up on the GRAP (Generally Recognized Accounting Practices) principles of accounting where provision for depreciation has been taken into account (See Annexure A). The following should be noted:

6.1.1. Indicative Macroeconomic Forecasts

Municipalities are expected to levy their tariffs taking into account their local economic conditions, affordability levels and remain broadly in line with macro-economic policy. Municipalities must also take account of the policy and recent developments in government sectors relevant to their local communities. Tariff increases must be thoroughly substantiated in the municipal budget documentation for consultation with the community.

Fiscal year	*2009/10 Actual*	*2010/11 Estimate*	*2011/12 Forecast*	*2012/2013 Forecast*	*2013/14 Forecast*
Headline CPI Inflation	6.3%	4.2%	4.8%	5.3%	5.5%

Source: MFMA Circular 55

6.1.2. Transfers to Municipalities

Section 214 of the Constitution provides for national government to transfer resources to municipalities in terms of the Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions. Transfers to municipalities from national government are supplemented with transfers from provincial government. The two spheres of government must gazette these allocations as part of the budget implementation process. The DoRA (and Section 37 of the MFMA) further requires transfers between district and local municipalities to be made transparent and reflected in the budgets of both transferring and receiving municipalities.

The Municipal Council were requested to ensure that the 2011/2012 performance contracts of their municipal managers, as well as those of senior officials, reflect, among other key performance areas, the above responsibilities and accountabilities.

Allocation as per DORA Bill, Government Gazette No. 33959 of 24 January 2011	2011/2012 Allocation R'000	2012/2013 Forward Estimate R'000	2013/2014 Forward Estimate R'000
EQUITABLE SHARE	220,439	227,627	233,903
Local Government Financial Management Grant	1,250	1,250	1,250
Municipal Systems Improvement Grant	800	1,000	1,000
Neighborhood Development Partnership Grant (Capital Grant)	14,000	25,000	25,000

Source: Government Gazette No. 33959 of 24 January 2011

6.1.3 Key Legal Provisions to be Strictly Enforced

All municipalities must prepare budgets, adjustments budgets and in-year reports for the 2011/12 financial year in accordance with the Municipal Budget and Reporting Regulations. In this regard, municipalities must comply with both:

- The formats set out in Schedules A, B and C of the regulations; and
- The relevant attachments to each of the Schedules (the Excel Formats).

All municipalities must do a funding compliance assessment of their 2011/12 budgets in accordance with the guidance given in MFMA Circular 42 and the MFMA Funding Compliance Guideline before tabling their budget, and where necessary rework their budget to comply so that they table a properly funded budget.

The deadline for the submission of tabled budgets is *Thursday, 31 March 2011.*

The deadline for the submission of approved budgets is ten working days after Council approves the annual budget

6.1.3. Operating Income

The service charges and rental income have been increased by 6,5% as laid out in "Table A6."

DESCRIPTION	Budget by Source R'000	BUDGET 11/12 R'000
A. OPERATING REVENUE		
Service Charges		**7,623**
Fresh Produce Market	**7,623**	
Heritage	**0**	
Rental Of Facilities And Equipment		**446**
Maintenance & Cleaning	**346**	
Vereeniging Theatre	**60**	
Mphatlalatsane Theatre	**40**	
Interest Earned - External Investments		**7,886**
Finance Cluster - Financial Management	**7,886**	
Licenses And Permits		**58,728**
License Services Centre - Support	**3,600**	
License Services Centre - Vereeniging	**22,512**	
License Services Centre - Vanderbijlpark	**18,678**	
License Services Centre - Meyerton	**7,572**	
License Services Centre - Heidelberg	**6,366**	
Government Grants And Subsidies - Operating		**263,398**
Finance Cluster - Financial Management (Equitable Share, FMG)	**222,489**	
HR	**1,000**	
HIV & AIDS	**3,905**	

EMS Coordination EPWP (Taxi Ranks)	34,694 1,310	
Government Grants And Subsidies - Capital		14,000
NDPG Unit	14,000	
Other Revenue (Minor Tariffs)		16,133
Finance Cluster - Financial Management	7,081	
Human Resources Administration	1,024	
Corporate	0	
Vereeniging Airport	825	
IT Emfuleni	5,439	
IT Midvaal	1,336	
License Services Centre - Support	2	
License Services Centre - Vereeniging	2	
License Services Centre - Vanderbijlpark	1	
License Services Centre - Meyerton	2	
License Services Centre - Heidelberg	2	
EMS Coordination	420	
Total Operating Revenue		**368,214**

DESCRIPTION	BUDGET 11/12 R'000
B. OPERATING EXPENDITURE	
Employee/Councilor Related Cost	246,215
Bad Or Doubtful Debts	0
Provisions	2,000
Depreciation	8,000
Repair And Maintenance	5,665
Finance Charges	5,604
Contracted Services	21,790
Grants And Subsidies	0
General Expenses	64,776
Transfers To Capital Expenditure	14,000
Total Operating Expenditure	**368,050**
Operating Surplus / (Deficit) A - B	**164**

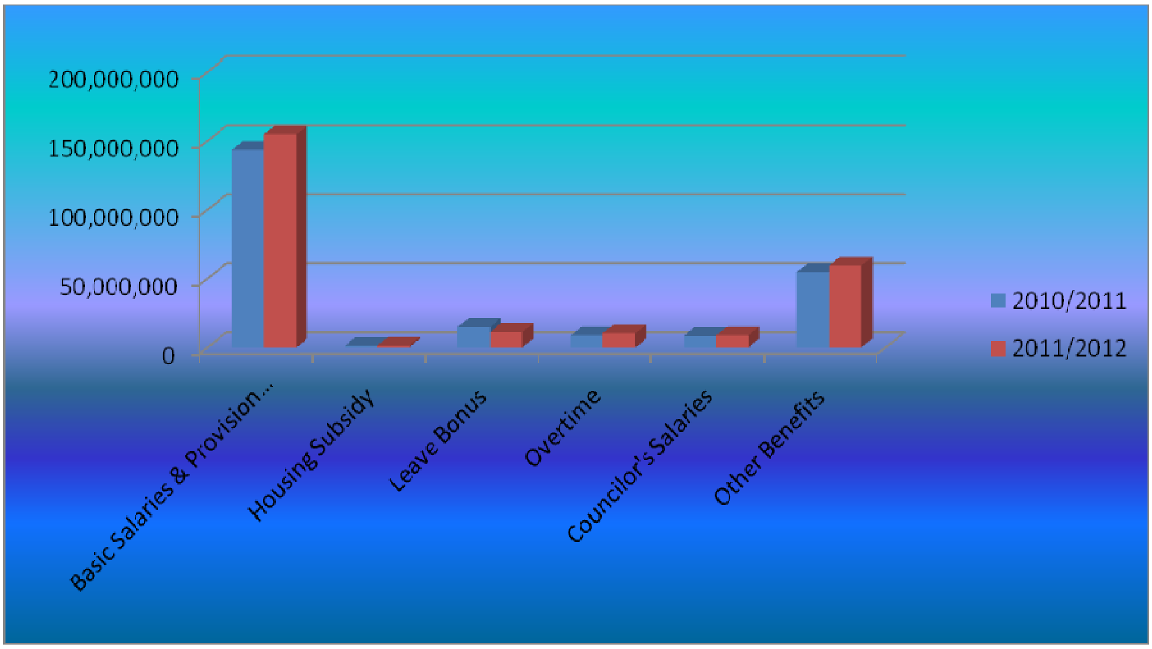
6.1.4. Employee and Councilor Related Costs

Salaries are projected at R246 million for the 2011/2012 financial year. The three-year labour salary agreement (SALGA & SALGBC) has been estimated at an increase of 8%. No provision for vacancies (new posts and attritions) was made for all Clusters as part of cost-reduction measures. The Municipality is currently in the process to finalize our personnel cost reduction strategy to bring structural alignment and stability to our salary bill.

Council must note that although employee related costs have grown by 8%, the provisional equitable share allocation has only grown by 3, 2% leaving Council to fund a deficit of 4,8%. This deficit has had to be filled by reducing other operational expenditure, potentially reducing Council's ability to render services but still able to fulfill our coordinating role based on our current human capital.

Attention is drawn to the current trend of the steep growth in employee-related expenditure for the total organization directly related to the increase in employee-related costs within Emergency Medical Services (EMS) and Licensing Service Centers (LSC). It can be reported that the Provincial Department of Health will proceed with provincialization of EMS in the 2011/12 financial period, to ensure this process to run smoothly the EMS budget has been ring-fenced accordingly. The total unfunded mandate once provincialization gets implemented will be raised as a debtor payable by the Department of Health. The amount currently stands at R 33,547,523 (R15, 808,047 for 2010/11 and R17, 095,544 for *2011/12 financial year*).

Council is advised that these departments make alternative arrangements through shift and flexi-time systems to compensate staff for working outside regular municipal working hours in order to reduce overtime costs.



6.1.5. Depreciation

In accordance with the GRAP standards and principles, depreciation on all assets needs to be provided for within the statement of financial performance. This will allow Council to charge consumers during the useful life of the asset on a proportionate basis and not at the date of acquiring the asset. The amount provided for the 2011/2012 financial year amounts to R8 million, which is non-cash generated and only included as a book entry.

6.1.6. Repair and maintenance

Repairs and maintenance will be for current buildings occupied by Sedibeng District Council as well as the movable assets on the asset register. An amount of R6 million has been provided. This is a reduction of 25% of the 2010/2011 budgeted amount of R8 million based on actual expenditure and the growth parameters permitted by National Treasury.

However, the allocated amount is at 1,8% and above the accepted norm of 1% of total operating expenditure as part of Council's programme to address service delivery backlogs.

Repairs and maintenance of Council's assets are allocated as follows:-

REPAIR AND MAINTENANCE	*R'000*
Buildings Fences & Sites	3, 220
Network / Infrastructure	560
Plant Equipment & Furniture	1, 424
Vehicles	461

6.1.7. Contracted services

Contracted services have been determined by the need for services to be rendered by service providers and taking the current obligations into account. The top eight user-departments are stated below and the projects relate to:-

	CONTRACTED SERVICES R'000
Internal Security Unit	12,500
Maintenance & Cleaning: (Council buildings)	1,024
Community Safety : (CCTV Maintenance contract)	540
Corporate & Legal (Fumigation and Fire Protection for Archives)	542
Human Resources Administration: (EAP psychological referrals, trauma debriefing and OHS compliance)	440
Finance Cluster: Financial Management: (Implementation of Long Term Financial Plan & VAT Review)	1,500
Fresh Produce Market: (Maintenance and repair contracts)	1,184
Finance Cluster: Supply Chain Management: (Database Clean-up Project & Implementation of Procurement Strategy)	144

6.1.8. General Expenses

The general expenditure budget has been drawn up in order to assist the employees of Council to provide them with the necessary tools to achieve the deliverables as set in the GDS, IDP and SDBIP. The budget has also been drawn up taking into consideration that the main purpose of the District is to plan and co-ordinate, whereas the execution process will be performed at a Local Municipality level. There is a decrease of R 24 million from R106 million in 2010/2011 adjustment budgets to a sum of R82 million for 2011/2012.

This reduction has been effected to assist Council in funding the deficit on the employee-related costs bill.

The major decreases were:-

General Expend - Departments	*BUDGET 2010/2011 R'000*	*BUDGET 2011/2012 R'000*	*VARIANCE*	*% DECREASE*
Donations	855	126	729	85%
Collection Costs	3, 400	0	3,400	100%
Catering	1,367	974	393	29%
Workshops	7, 285	5, 287	1,998	27%
Legal Charges	3, 225	1, 670	1,555	48%
Market & Promotions	3, 054	1, 512	1,542	50%
Subsistence & Travel	2, 936	1, 629	1,307	45%
Consultation Fees	3, 491	1, 769	1,722	49%
Contracted Services	25, 848	21, 790	4,058	16%

These savings were redistributed towards service delivery orientated expense items such as marketing/promotion/advertisements, computer requirements, advertisements, bank charges, stationery, telephone – office, entertainment – external, uniforms, congresses / attending meetings, legal charges, aviation fuel, training, periodicals/reference book/magazines, telephone - cell phones, local municipalities agency services, transport - fuel and oil, office refreshments, stock and materials, electricity, rental, membership fees, printing and binding and disaster recovery.

Council can further decrease telephone costs by strictly applying the limitation of the maximum of R300 per month per staff member and any costs over the threshold are to be recovered monthly through the payroll and recognized as telephone income.

Council are advised to cease issuing internal bursaries to staff as the process is not regulated through an approved policy and may be construed as a loan to staff which is a prohibited practice as per the MFMA. It must be noted that the creation to develop and the search for talent from a Management perspective must be reviewed for the favourable application of this function towards succession planning.

Council are advised to review training and development costs in terms of the operational and service delivery requirements of Council, and an effort be made immediately to approach the various SETA's to gain grant funding as income before the approval of the final budget for 2011/2012 by Council.

6.1.9. INVESTMENT INTO CAPITAL

The total Capital investment for 2011/2012 will be R 30 million, whereby R 4 million will be funded from our internal reserves and R 26,250 million from grant funding (See Annexure B). Grant funding must be sourced before any Capital Project can proceed. Donor Funding must also be considered for planned projects as outlined in the IDP to ensure that it is properly funded before the final 2011/12 budget.

6.2. ALIGNMENT WITH COUNCIL STRATEGIES

The report is aligned with the Reviewed IDP for 2011/2012, the district's GDS, Municipal Budget and Reporting regulations GN 32141 as well as circulars 45, 48 and 51 of National Treasury.

6.3. FINANCIAL IMPLICATIONS

The total estimated **Operating Revenue** of R 368,214,871.

The total estimated **Operating Expenditure** of R 354,050,736.

The total estimated **Capital Budget** of R 50,380,000.

Section 18 of the MFMA act needs to be adhered to when looking at the budget funding requirements. This section indicates the following:

"18. *(1) An annual budget may only be funded from—*

(a) Realistically anticipated revenues to be collected;

(b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and

(c) Borrowed funds, but only for the capital budget referred to in section 17(2).

(2) Revenue projections in the budget must be realistic, taking into account—

(a) Projected revenue for the current year based on collection levels to date; and

(b) Actual revenue collected in previous financial years."

6.4. LEGAL IMPLICATIONS

The budget has been drawn up in line with the MFMA, Act 56 of 2003 (SS 16-17) which inter alia states:

"The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year."