

# **XHARIEP DISTRICT MUNICIPALITY**

## **BUDGET 2013/2014 FINANCIAL YEAR**

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**BUDGET 2013/2014 FINANCIAL YEAR**

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**OFFICE OF THE EXECUTIVE MAYOR**

28 June 2013

Submission to Council

**BUDGET COUNCIL SUBMISSION – 2013/2014****Purpose**

The purpose of this submission is to present to Council, Xhariep District Municipality's annual budget for the 2013/2014 financial year and related MTREF.

**Background**

**The Municipal Finance Management Act (MFMA) Section 16, stipulates that:**

**Annual budgets**

16. (1) The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.
- (2) In order for a municipality to comply with subsection (1), 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.
- (3) Subsection (1) does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

**The Municipal Finance Management Act (MFMA) Section 17, stipulates that:**

**Contents of annual budgets and supporting documents**

17. (1) An annual budget of a municipality must be a schedule in the prescribed format—
  - (a) setting out realistically anticipated revenue for the budget year from each revenue source;
  - (b) appropriating expenditure for the budget year under the different votes of the municipality;
  - (c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
  - (d) setting out—
    - (i) estimated revenue and expenditure by vote for the current year; and
    - (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
  - (e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.

**Discussions**

In compliance with Section 16 and 17 of the MFMA, the Executive Mayor hereby presents to council, Xhariep District Municipality's 2013/2014 financial year annual budget for consideration, adoption and approval.

The municipality's revenue and expenditure for the 2013/2014 financial year are summarised as follows:

<b>BUDGETED REVENUE</b>	<b>AMOUNTS</b>
<b>GRANTS AND SUBSIDIES</b>	
Equitable share	25,535,000
Rural Roads Assets Management Systems Grant	1,296,000
Municipal Systems Improvement Grant	890,000
Financial Management Grant	1,250,000
EPWP Grant	1,000,000
<b>TOTAL NATIONAL GRANTS</b>	<b>29,971,000</b>
FREE STATE PROVINCIAL COGTA	30,000,000
<b>TOTAL GRANTS NATIONAL AND PROVINCIAL GRANTS</b>	<b>59,971,000</b>
<b>OTHER INCOME</b>	
Rental Income (KOPANONG AND BASIL READ RENTAL)	340,723
Tender document fees	15,000
Investment interest	125,000
Current Account interest	3,600
Parking bays fees	88,774
Interest on car loans	7,432
Interest on electricity deposit	3,326
<b>TOTAL OTHER INCOME</b>	<b>583,855</b>
<b>TOTAL BUDGETED INCOME</b>	<b>60,554,855</b>

<b>EXPENDITURE ITEMS</b>	<b>AMOUNTS</b>
Employee related costs	34,411,007
Remuneration of councillors	3,239,545
Depreciation & asset impairment	3,866,862
Contracted services	706,000
Consultant fees	810,000
Audit fees	1,800,000
General expenses	6,246,087
Repairs and maintenance	1,151,000
Projects	6,279,817
<b>TOTAL EXPENDITURE ITEMS</b>	<b>58,358,464</b>
<b>CAPITAL EXPENDITURE</b>	<b>4,346,000</b>
<b>TOTAL BUDGETED EXPENDITURE</b>	<b>62,704,464</b>
<b>NET DEFICIT</b>	<b>2,301,642</b>

## **Financial Implications**

Total budgeted revenue amounts to R 60.5 million, including a R 30 million financial assistance grant anticipated from COGTA in respect of the 2013/2014 financial year. Total budgeted expenditure amounts to R 62.7 million, including R 4.3 million for capital expenditure.

Net deficit amounts to R 2.3 million. It must however be noted that the recorded deficit is inclusive of a non-cash item in the form of *Depreciation and Asset Impairment* amounting to R3.8 million.

## **Legal Implications**

To comply with Section 16 and 17 of the Municipal Finance Management Act.

## **Other Parties Consulted**

Managers and Directors of Xhariep District Municipality..

## **Attached – Final Annual Budget 2013/2014**

## **Recommendations**

1. The Council of Xhariep District Municipality, takes note of the following and considers them for adoption and approval:
  - 1.1. The annual budget of the municipality for the financial year 2013/2014 and the multi-year and single-year capital appropriations as follows:
    - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) ;
    - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) ;
    - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) ; and
    - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.
  - 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets as follows:
    - 1.2.1. Budgeted Financial Position;
    - 1.2.2. Budgeted Cash Flows;
    - 1.2.3. Cash backed reserves and accumulated surplus reconciliation;
    - 1.2.4. Asset management; and
    - 1.2.5. Basic service delivery measurement.
2. Council adopt the rental rates contained in the tariff policy to be imposed for the budget year 2013/2014.
3. Council note that the SDBIP submission and approval will be dealt with in accordance with sections 69(3)(a) and 53(1)(c)(ii) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).
4. That Council approve and adopt the Budget related policies.
5. It is further recommended that the Executive Mayor, together with the Accounting Officer, continue to make follow ups on outstanding financial assistance amounts with COGTA and Provincial Treasury relating to the previous financial years.



6. A request be made to COGTA that all the anticipated financial assistance amounts be paid to the Municipality early during the financial year to ensure that the budgeted investment income (interest) gets realised by the Municipality.

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Cllr. M.G. Ntwanambi  
Executive Mayor



An area of unfound diversity

**Xhariep**  
District Municipality

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## OFFICE OF THE EXECUTIVE MAYOR

## INTRODUCTION – 2013/2014 BUDGET

### **Vision of the Municipality**

Be a community oriented municipality characterised by a sound political and administrative capacity with sustainable and enabling business environment.

### **Mission of the Municipality**

To facilitate and support local municipalities in rendering effective services to communities

To create value and make a difference, everywhere we engage

To better the lives of the Xhariep District community

Promote Public Private Partnership

Create a safe health environment, pro-active risk disaster management

### **Values of the Municipality**

Our values serve as a compass for our actions and describe how we behave in the world.

Leadership  
Mutual Trust  
Confidentiality  
Integrity  
Anti fraud and corruption  
Innovation and continuous learning  
Honesty  
Inclusiveness  
Responsiveness  
Passion  
Respect  
Transparency  
Accountability

**XHARIEP DISTRICT MUNICIPALITY**

**XHARIEP DISTRICT MUNICIPALITY**

**2013/2014 ANNUAL BUDGET EXECUTIVE SUMMARY**

## 1.3 EXECUTIVE SUMMARY

### 1.3.1 Introduction

Xhariep District Municipality (XDM) was formally established on 06 December 2001 as a result of Section 21 of the Local Government Municipal Demarcation Act of 1998 whereby all areas of the former LG bodies were re-demarcated and new municipal entities established. The District is made up of four Local Municipalities, namely, Kopanong, Mohokare, Naledi and Letsemeng. Naledi Local Municipality became part of the district after the Local Government Elections of 18 May 2011 which resulted in a disestablishment of Motheo District Municipality and upgrading of Mangaung Local Municipality to a Metropolitan Municipality.

Xhariep District Municipality constitutes the southern part of the Free State Province and covers an area of approximately 37,674 km<sup>2</sup>. The district is a home to a population of approximately 146,259 (2001:162,727) and 45,368 (2001:46,454) households according to census 2011. There are 20 towns in this district, which boasts abundant natural resources such as water and agricultural land. As a matter of fact, the largest Dam in South Africa is situated at the southern tip of the District. Moreover, 3 National Roads (N1 – Gauteng to Cape Town, N6 – Eastern Cape to Bloemfontein and N8 – Bloemfontein to Kimberley) pass through the district. The area is also relatively crime free.

The population and households within the Xhariep District Municipal area is relatively scattered over a large geographical area, thus making it very costly to deliver services to the residents.

### 1.3.2 Overview of the 2013/2014 Budget

Xhariep District Municipality depends solely on the National and Provincial Governments for its existence in terms of revenue. Grants constitute 99% of the municipality's total revenue. The municipality's anticipated revenue can be summarised as follows:

<b>REVENUE BY SOURCE</b>	<b>AMOUNT</b>
Rental of facilities and equipment	340,722.68
Interest earned - external investments	128,600.00
Transfers recognised – National	29,971,000.00
Transfers recognised – Provincial	30,000,000.00
Other revenue	114,532.00
<b>TOTAL</b>	<b>60,554,854.68</b>

The municipality's personnel costs constitute approximately 64% of the total operating expenditure budget. The municipality's operations are mainly human driven and result in spending on personnel being the biggest cost of the municipality. The municipality has the following as part of its main functions:

#### Planning and Social Development

- Environmental health services
- Developmental services
- Local economic development
- Engineering services
- Disaster management services

#### Office of the Municipal Manager

- Internal audit services
- Risk management services
- Performance management services
- Communication

#### Corporate services

- Administration
- Buildings and facilities management
- Human resources management
- Youth development services
- Special programmes services

#### Budget and treasury office

- Budget, revenue, reporting and compliance
- Supply chain management
- Expenditure and payroll

#### Office of the speaker

- Speaker of council
- Public participation

#### Office of the executive mayor

- Executive mayor of council

The municipality's expenditure for the 2013/2014 financial year is summarised as follows:

<b>EXPENDITURE BY TYPE</b>	<b>AMOUNT</b>
Employee related costs	34,411,006.50
Remuneration of councillors	3,239,545.07
Depreciation & asset impairment	3,866,861.74
Finance charges	34,000.00
Contracted services	706,000.00
Other expenditure	20,598,903.61
<b>TOTAL</b>	<b>62,856,316.92</b>

The municipality's capital spending can be summarised as follows:

<b>CAPITAL EXPENDITURE BY VOTE</b>	<b>AMOUNT</b>
Vote 1 - General Council	5,000.00
Vote 2 - Municipal Manager	25,000.00
Vote 3 - Budget & Treasury Office	635,000.00
Vote 4 - Planning & Social Development	1,746,000.00
Vote 5 - Corporate Services	1,935,000.00
<b>TOTAL</b>	<b>4,346,000.00</b>

A net budget deficit can be illustrated as follows

<b>ITEM</b>	<b>AMOUNT</b>
TOTAL BUDGETED REVENUE	60,554,855.04
TOTAL BUDGETED OPERATING EXPENDITURE	(58,510,316.92)
TOTAL BUDGETED CAPITAL EXPENDITURE	(4,346,000.00)
<b>DEFICIT</b>	<b>(2,301,461.88)</b>

The deficit of R2 301 461.88 includes a non-cash item of *Depreciation and Asset Impairment* amounting to R3.8 million.

### **1.3.3 Financial viability of Xhariep District Municipality**

Xhariep District Municipality is currently not financially viable. The district depends almost 100% on National and Provincial Governments for its sustainability. The challenges faced by Xhariep District Municipality can be traced to an era when the district was still part of the Bloem area, the area that later became Motheo District Municipality and eventually Mangaung Metropolitan Municipality. All the development initiatives were only undertaken within the Bloemfontein area while the southern part of the then Bloem Area (now Xhariep District) was neglected. The initiatives included, amongst others, heavy investments in water, roads and other infrastructure. With these kind of investments on the Bloemfontein side of the then Bloem Area, the area's economic activities were boosted and some people migrated to the area as it promised better opportunities, and services.

The Bloemfontein side of the Bloem Area was then able to bill and collect a lot in terms of the RSC Levies. On abolishment of the RSC Levies, a replacement thereof was built into the Equitable Share Grant. All the district municipalities that could collect better RSC Levies were favoured by this move. It was later realised that the distribution of wealth in the form of development investments between the Bloemfontein area and the southern part of the Bloem Area, now Xhariep District Municipality, was unfair. A decision was then taken to have the two parts separated into two district municipalities. On its own, Xhariep District Municipality's RSC Levy replacement was dramatically low due to obvious reasons discussed above. Also lack of development investing in the area left the district without any economic activities at all. The bulk water and electricity providers serving the Xhariep District Municipalities are still the Bloemwater board and Centlec, entities residing and owned by Mangaung Metropolitan Municipality respectively. These are the recipients of service charges and any grant funding in

respect of the services they are rendering in respect of the Local Municipalities in Xhariep District.

Xhariep District Municipality did present the case to the Financial and Fiscal Commission (FFC) which in turn assisted by ensuring that the Equitable Share Formula Review favoured the municipality by ensuring that it takes into account the need of the municipalities. The municipality has noted that the formula review will, over a number of years, close much of the municipality's current gaps in funding of its operations. The anticipated outlook on a formula results can be illustrated as follows:

<b>Increases in equitable share</b>	<b>2013/14</b>	<b>%</b>	<b>20 14/15</b>	<b>%</b>	<b>20 15/16</b>	<b>%</b>	<b>2016/17</b>	<b>%</b>	<b>2017/18</b>
Formula	11,590	21%	14,648	26%	19,906	7%	21,504	7%	23,207
RSC Levy Replacement	11,434	3%	11,775	3%	12,128	3%	12,492	3%	12,867
Special Councillors Support	2,511	14%	2,920	14%	3,329	14%	3,795	14%	4,326
<b>TOTALS</b>	<b>25,535</b>		<b>29,343</b>		<b>35,363</b>		<b>37,791</b>		<b>40,400</b>

*It must be noted that the outlook figures in respect of the RSC Levy Replacement and Special Councillor Support above are calculated projections based on the current percentage increases. These might differ significantly from the above illustration. The outlook figures on the Formula are per the National Treasury's estimates. They are also warning that these might change as well with the passage of time.*

While the results seem to be promising over the number of years, it must be noted that the 2017/18 financial year will be the last financial year in which the changes as a result of the Equitable Share Formula review will be taking place. Xhariep District Municipality will be receiving the same amount subsequent to the 2017/18 financial year with some changes on the basis of inflation or other adjustments deemed necessary by the National Treasury. The National Treasury, However, promises a 90% guarantee. i.e. changes cannot be more than 10% in a given year.

### **1.3.4 Conclusion and way forward**

Considering the ultimate R 40 Million equitable share as at 2017/18 financial year, the municipality will have to further engage National Treasury in respect of the R 45 Million anticipated future deficit(s).

While reducing its budget to about R 85 Million, the municipality will be incurring employee costs of about 47% of the total operating expenditure budget. This is a picture suggesting that the municipality's main reason for existence is payment of salaries. While this might be reflecting negatively on the readers, the truth of the matter is that the municipality's operations are people driven.

## **XHARIEP DISTRICT MUNICIPALITY**

### **2.1 2013/2014 BUDGET PROCESS**

#### **2.1.1 Political Oversight of the budget process**

Section 53 (1) (a) of the MFMA (no 56 of 2003) stipulates that the Mayor of a municipality must provide general political guidance over the budget process and the priorities that must guide the preparation of a budget. Political oversight of the budget process is necessary to ensure that the needs and priorities of the community, as set out in the IDP, are properly linked to the municipality's spending plans. The following actions are required in terms of Section 53 (1) and (3) of the Act:

The Mayor of the municipality must –

1. (c) take all reasonable steps to ensure—

- (i) that the municipality approves its annual budget before the start of the budget year;
  - (ii) that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget; and
  - (iii) that the annual performance agreements as required in terms of section 57(1)(b) of the Municipal Systems Act for the municipal manager and all senior managers—
    - (aa) comply with this Act in order to promote sound financial management;
    - (bb) are linked to the measurable performance objectives approved with the budget and to the service delivery and budget implementation plan; and
    - (cc) are concluded in accordance with section 57(2) of the Municipal Systems Act.
- (3) The mayor must ensure—
- (a) that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter, as set out in the service delivery and budget implementation plan, are made public no later than 14 days after the approval of the service delivery and budget implementation plan; and
  - (b) that the performance agreements of the municipal manager, senior managers and any other categories of officials as may be prescribed, are made public no later than 14 days after the approval of the municipality's service delivery and budget implementation plan. Copies of such performance agreements must be submitted to the council and the MEC for local government in the province.



### **2.1.2 Budget Process**

The IDP and Budget development process is integrated, consistent and undertaken as part of a continuous cycle of planning, implementation and monitoring. In August 2012, the Xhariep District Municipality Council approved the IDP Process Plan and Budget Schedule, detailing the process for the IDP review and Budget development for the 2013/2014 MTREF period. Circular number 67 of the MFMA, as well as other previous circulars providing guidelines in developing a municipal annual budget were used as references when compiling this budget. The circular highlights the following points to be considered by the municipalities in developing their 2013/2014 annual budgets:

The 2013 Budget Review notes that spending plans outlined in the 2013 Budget continue to support government's commitment to broadening service delivery and expanding investment in infrastructure, while taking account of the constrained fiscal environment.

South Africa's economy has continued to grow, but at a slower rate than projected at the time of the 2012 Budget.

GDP growth reached 2.5 per cent in 2012 and is expected to grow at 2.7 per cent in 2013, rising to 3.8 per cent in 2015.

Inflation has remained moderate, with consumer prices rising by 5.7 per cent in 2012 and projected to increase by an average of 5.5 per cent a year over the period ahead.

The NDP (National Development Plan) sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality by 2030.

Municipalities are once again reminded to adopt a conservative approach when projecting their expected revenues and cash receipts. Municipalities should also pay particular attention to the affordability of tariff increases especially on main services, managing all revenue and expenditure and cash streams effectively, and carefully evaluating all spending decisions.

As a sphere of government, municipalities are required to incorporate the objectives of the NDP initiatives after consideration of the Spatial Development Frameworks (SDF) into their Integrated Development Plan (IDP) which should directly inform prioritised budget allocations within the medium-term revenue and expenditure framework (MTREF) of each municipality.

Furthermore, other internal and external reports and information were considered in drafting the 2013/2014 draft annual budget. These include mainly the 2012/2013 annual financial statements and Auditor-General Report.

### **2.1.3 Community and stakeholder consultation**

Consultative meetings will be held as scheduled in some of the towns of each of the four local municipalities within the district to reach most of our communities and stakeholders. During these meetings, a platform will be provided to all members and other stakeholders to raise concerns give inputs and recommendations. The Executive Mayor will consider the inputs made and provide responses as well as the decision whether the IDP and/or the budget have been amended to cater for the inputs and recommendations made.

### **2.1.4 Municipal Staff**

Almost all staff members of Xhariep District Municipality were afforded an opportunity to make inputs into the 2013/2014 draft budget. These inputs and recommendations were, where possible, incorporated into the draft operating and capital budgets.

### **2.1.5 Compilation of the 2013/2014 draft annual budget**

Due to the geographical location of Xhariep District Municipality, it is very difficult to retain staff and ensure smooth uninterrupted operations of the municipality like compilation of the annual budgets within the statutory timeframes and other requirements. During the months of February and March 2013, the municipality received resignations from the Assets and Budget Accountant as well as the Budget and Reporting Manager respectively. This left the municipality with no option but to urgently involve consultants to assist with the compilation of the 2013/2014 draft budget and ensure compliance with statutory requirements. The two employees were key to the compilation of the budgets, financial statements and other financial reports of the municipality. The municipality has already commenced with the recruitment processes to fill the two critical positions left vacant as a result of the said resignations.

### **2.1.6 Tabling of budget**

The draft budget and IDP will be tabled before the municipal Council during an Ordinary Council meeting to be held on Wednesday, 27 March 2013 in Trompsburg for consideration.

### **2.1.7 Approval of Budget**

The final three-year budget for the 2013/2014, 2014/2015 and 2015/2016 financial years will be approved during an Ordinary Council meeting to be held on 30 May 2013 or at any later date before the 30<sup>th</sup> of June 2013.

### **2.1.8 Flowchart on the budget process**

There are basically three different processes in the budgeting cycle running at the same time:

- Reporting on Previous year budget,
- Current year budget implementation, and
- Preparation of the new financial year's budget (including the two following financial year estimates)

## **Reporting on Previous year budget:**

This is mainly done through the compilation of the Annual Financial Statements of the previous financial year, including the Auditor-General's Audit Report. Another example is the different reporting formats to National and Provincial government on the previous year's budget and financial performance.

## **Current year budget implementation:**

Implementation of the budget starts once the budget has been approved. An important document in the implementation of the budget is the Service Delivery and Budget Implementation Plan (SDBIP), which sets out the service delivery targets and performance indicators for the financial year. The SDBIP must be approved within 28 days after the approval of the budget.

Another important aspect is the monitoring and reporting on the current year budget. According to Section 71 of the MFMA, the accounting officer must by no later than 10 working days after the end of each month submit to the Mayor of the municipality and the relevant provincial treasury a statement on the state of the municipality's budget. This will enable the mayor to check if the approved budget is implemented in accordance with the SDBIP, consider revisions to the approved budget and identify any financial problems facing the municipality.

## **Preparation of the new financial year's budget:**

There are six distinct steps to the preparation of the new financial year's budget:

### **\* Planning**

Schedule key dates; establish consultation forums; review previous processes.

### **\* Strategic**

Review IDP; internal and external consultations; set service delivery objectives for the next 3 years; consult on tariffs, credit control, travel and subsistence policies, etc.; consider local, provincial and national issues; consult previous year's performance and current economic and demographic trends.

### **\* Preparation**

Prepare revenue and expenditure projections; draft budget policies; consult and consider local, provincial and national priorities; measurement of past and current performance against the budget.

### **\* Tabling**

Table complete proposed budget, IDP revisions and budget related policies no later than 31 March (90 days before the start of the new budget year) before council; make public the budget as soon as it has been tabled (via website, hard copies and electronic copies); consult with and consider formal local, provincial and national inputs or responses.

### **\* Approving**

After the Mayor has responded to recommendations and where necessary made revisions to the tabled budget, full council must meet no later than 31 May (30 days before the start of the new budget year) to consider the budget for approval. Council has to approve the budget and related policies before the start of the new financial year. Should the municipality fail to approve a budget before the start of the budget year, the mayor must inform the MEC for Treasury immediately.

### **\* Finalization**

Publish and approve SDBIP and annual performance agreements and indicators 28 days after the approval of the budget. A delegations policy of spending authority on budget votes is also critical for successful budget and monitoring and evaluation.

### **2.1.9 Schedule of Key Budget Deadlines in terms of Section 21 (1)(b) of the MFMA (Municipal Finance Management Act)**

The mayor must, according to the MFMA, co-ordinate the processes for preparing the annual budget and for reviewing the municipality's IDP and budget-related policies. The mayor therefore tabled a schedule of key deadlines with regards to the budgetary process and the review of the municipality's IDP, in council on the 31 August 2012.

## **XHARIEP DISTRICT MUNICIPALITY**

### **2.15 SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN**

#### **2.15.1 Introduction**

The SDBIP is a key management, implementation and monitoring tool, which provides operational content to the end-of-year service delivery targets, set in the budget and IDP.

The SDBIP of Xhariep District Municipality is developed according to the Local Government Turn Around Strategy. It contains the Strategic Focus Areas, projects and sub-projects as well as monthly, quarterly and annual targets and actual performances. The document also reflects Capital and Operational budgets per project and during the 2013/2014 SDBIP will also include quarterly expenditure per project against the allocated budget.

#### **2.15.2 Planning**

During the planning phase, the draft SDBIP is developed to be tabled before the Executive Mayor in terms of Section 53(1)(c)(ii) which stipulates that: The mayor of a municipality must — take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget

#### **2.15.3 Tabling**

The draft IDP and draft Budget will be tabled before Council on 27 March 2013. Consultation with the community and stakeholders of the IDP will be done through budget hearings and formal local, provincial and national inputs and responses will be considered in developing the final documents.

#### **2.15.4 Adoption**

The Final SDBIP will be provided to the Executive Mayor by the Accounting Officer within 14 days of approval of the Municipal IDP and Budget. The Executive Mayor will approve the SDBIP not later than 28 days after the adoption of the municipality's IDP and budget.

#### **2.15.5 Publishing**

Adopted SDBIP will be made public as soon as the Executive Mayor approves it.

## **XHARIEP DISTRICT MUNICIPALITY**

### **2.18 LEGISLATION COMPLIANCE STATUS**

#### **2.18.1 Introduction**

The passing of the MFMA into law was a key milestone that had a fundamental impact on municipal financial management that requires transformation in financial discipline and planning processes.

Xhariep District Municipality is classified as a low capacity municipality according to the Government Gazette No 26511 of 1 July 2004. With this classification it was exempt from a number of provisions of the ACT until 1 July 2009. Xhariep District Municipality was however not been waiting for these deadlines and a number of provisions were already implemented. A checklist is compiled on a monthly and quarterly basis to monitor further progress on the implementation of the most important provisions of the Act and an annual checklist is compiled for budget documentation.

#### **2.18.2 IDP**

The 2013/2014 IDP review process was followed according to the required legislation. The district has further improved and intensified public and other stake-holders participation on the budget and IDP public participation road-shows. These were further enhanced by the existence of the dedicated Inter-Governmental Relations in the municipality.

#### **2.18.3 2013/2014 BUDGET**

This 2013/2014 Annual Budget has been developed taking the MFMA, Municipal Budget and Reporting Regulations and National Treasury requirements into account. The budget will be tabled on 27 March 2013 for council to consider approving. The budget will be approved by council not later than 28 June 2013. This is in line with the statutory deadline as it is before the start of the budget year.

#### **2.18.4 CAPACITY BUILDING AND FILLING OF VACANT POSTS**

Section 54A position of the Accounting Officer has recently become vacant and will be filled within a short space of time. Section 56 positions in the municipality are adequately filled. Other positions, especially in the Budget and Treasury Office as well as the support to governance structures (Chief Risk Officer) will also be filled within a short space of time. These are budgeted for and have recently become vacant.

### **2.18.5 BUDGET AND TREASURY OFFICE**

A budget and Treasury Office has in the past financial year been filled to about 80% capacity with staff. Most of the staff members had to undergo training initiatives aimed at enhancing their skills and efficiencies. Most of the appointments were made from within the municipality. Some positions that have recently become vacant will be filled within a short space of time.

### **2.18.6 AUDIT COMMITTEE**

Xhariep District Municipality is using a shared audit committee services. The services are shared by the District together with its three local municipalities. The committee is effective and does add value to the satisfaction of the municipality.

### **2.18.7 GRAP IMPLEMENTATION**

The municipality had implemented GRAP successfully over the past two financial years and improved to an unqualified audit opinion on two consecutive years. It was the municipality's plan to compile GRAP compliant annual financial statements and fixed assets register internally without involvement or with very little involvement of consultants for the financial year 2012/2013. However, with the recent resignations of the two key personnel in the Budget and Treasury Office, there is a need to have consultants involved with these important year end procedures of compiling GRAP compliant annual financial statements and fixed assets register.

### **2.18.8 IN-YEAR REPORTING AND VAT RETURNS**

Reporting obligations to the National and Provincial Treasuries have been met on most occasions during the past financial year. There had been instances when VAT returns were lodged late to the South African Revenue Services (SARS) during the past financial year. The municipality is in the process of recruiting skilled personnel in respect of expenditure management and compliance with Acts and legislation ruling the municipalities and setting reporting requirements thereof.

### **2.18.9 COMPLIANCE TO PROCUREMENT REGULATIONS AND POLICIES**

There had been instances in which the municipality did not comply fully with the procurement regulations and policies. These resulted in the municipality incurring and reporting irregular expenditure. The municipality is in the process of recruiting personnel with relevant skills in terms of Supply Chain Management and related policies and regulations. An SCM policy is currently being reviewed as well.

The municipality has ensured that it budgets better for the 2013/2014 financial year to limit or completely do away with any unauthorised expenditure.

## **XHARIEP DISTRICT MUNICIPALITY**

### **2.19 MUNICIPAL TARIFFS – 2013/2014**

#### **2.19.1 Introduction**

Xhariep District Municipality does not have any significant own revenue that it bills on a continuous basis. Only few rental of facilities in the form of office space, other building facilities and parking bays are levied by the municipality on receipt of a request to utilise such facilities by outside people or organisations.

#### **2.19.2 TARIFF CHARGES**

Where the municipality incurred expenses on behalf of the Local Municipalities, an amount equal to the costs incurred by the municipality will be levied to recover such costs.

Applicable tariff charges for short and Long term Contractual Lease Agreements as prescribed by the Municipality from time to time and on regular intervals are as follows:

- Partitioned Side Hall: R60.00 per square meter for 314.42 square meters per month.
- Lock-up Parking: R85.00 per parking per month (only day use).
- Lock-up Parking: R400.00 per parking per month (24 hours access to the facility).
- Shaded Parking: R121.00 per parking per month.
- Office Space: R37.93 per square meter for 742 square metres per month.

A deposit equivalent to one month's rental is chargeable with each of the above rentals on commencement of a rental contract. Where an escalation is relevant and implemented, the difference between the old and the new monthly rental is payable with the first rental of the month in which the escalation is being implemented. The deposit is refundable within a month of the termination of the rental agreement on condition that the municipality is satisfied that the facility/use of the facility is returned to the municipality in a condition similar to that which it was before the rental or a condition satisfactory to the municipality.

Applicable tariff charges for short term or day to day rentals as prescribed by the Municipality from time to time and on regular intervals are as follows:

- Auditorium: R 605.00 per day
- Side Hall: R 550.00 per day
- Kitchen: R 242.00 per day
- Barbecue (Braai) Area: R 220.00 per day

A deposit equivalent to the rental amount is chargeable with each of the above rentals per day/rental. The deposit is refundable within a month of the use of the facility on the condition that the municipality is satisfied that the facility/use of the facility is returned to the municipality in a condition similar to that which it was before the rental or a condition satisfactory to the municipality.





An area of unfound diversity

**Xhariep**

**District Municipality**

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**OFFICE OF THE MUNICIPAL MANAGER**

27 June 2013

Submission to Council

**QUALITY CERTIFICATE BY THE ACTING MUNICIPAL MANAGER**

I, **Mazondi Martin Kubeka**, Acting Municipal Manager of **Xhariep District Municipality**, hereby certify that the 2013/2014 annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

\_\_\_\_\_  
**Mazondi Martin Kubeka**  
**Acting Municipal Manager**

\_\_\_\_\_  
**Date**

## **XHARIEP DISTRICT MUNICIPALITY**

### **2.5 ALIGNMENT OF BUDGET WITH INTEGRATED DEVELOPMENT PLAN**

#### **2.5.1 Introduction**

Integrated development 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. The budget seeks to implement the strategic decisions in the IDP.

The IDP is the result of a number of planning processes and comprises of a five year period which correlates to the term of the political incumbents.

#### **2.5.2 Summary of Key Priorities for 2013/2014**

Based on the analysis the following key priorities were identified for attention during the 2013/2014 IDP review processes. These are also given according to clusters which are adopted from the FS Provincial Growth and Development Strategy and modified to suite municipal reporting and implementation arrangements.

1. Water, Sanitation and Infrastructure.
2. Economic Development and SMME support.
3. Employment creation.
4. Tourism opportunities along NI and Gariep Dam.
5. Emerging farmer strategy and housing backlogs.
6. Financial viability, revenue strategies and organizational capacity of XDM.
7. Education, skills transfer and capacity building.
8. Special programmes: Youth, Women and people with disabilities.
9. Crime prevention.
10. Youth development.

#### **2.5.3 Political Priorities and linkages to the IDP**

The IDP is an all-encompassing plan which provides the framework for development within a municipality. It aims to co-ordinate the work of local and other spheres of government in coherent plans to improve the quality of life for all the people living in the Xhariep District Municipality district area.

All operating and capital programs in the 2013/2014 medium-term budget have been evaluated and prioritized to ensure that there is alignment to the development strategy of the municipality. The IDP formed the basis of the priorities identified in the strategic plan and all resources are focused on the achievement of the priorities.

#### **2.5.4 IDP overview and key amendments**

To encourage better planning, government has legislated that municipalities must produce Integrated Development Plans (IDP's). The IDP is a five year plan whose principle purpose is to ensure the development of the community in an integrated manner which involves strategic business units within the municipality, relevant strategic stakeholders and the community.

### **2.5.5 IDP review process and stakeholder participation**

The current generation of Xhariep's Integrated Development Plan (IDP) has now undergone its final review and is focusing on translating the Municipality's vision into tangible action. The public was invited to participate in the process. The IDP is reviewed on an annual basis in order to inculcate a democratic approach to local governance by ensuring all stakeholders get an opportunity to voice their opinions in influencing the shape, form, direction and pace of development in their localities. The municipality is committed to address the needs of the people and values the inputs from communities and stakeholders.

As set out in the Municipal Systems Act (2000), in the review of the IDP on an annual basis, a stakeholder consultation process is necessary. Of critical importance was for the municipality to ensure that there was thorough consultation with the community and strategic stakeholders. As part of the Annual Review of the municipality's IDP as prescribed by the Municipal Systems Act, the Council embarked on an extensive process to engage with all stakeholders and elicit comments which was fed back in to the reviewed 2013/2014 IDP and Budget.

### **2.5.6 Link between the IDP and the Budget**

In compliance with the Municipal Structures Act (1998) and the Municipal Financial Management Act (2003), Xhariep's budget is informed and aligned to the IDP objectives. The IDP determines and prioritizes the needs of the community. The budgetary allocations for both the capital and operating expenditure are undertaken in a manner that will not only ensure that the IDP outcomes are achieved, but also to ensure that the Municipality's vision is realized. The IDP remains the strategic driver of both the municipality's budget and its Turn Around Strategy.

The following programmes in the IDP are adequately budgeted for:

<b>DEPARTMENT</b>	<b>PROJECT DESCRIPTION</b>	<b>AMOUNT</b>
<b>General Council</b>	<b>Public Participation</b>	<b>20 000.00</b>
	<b>Youth Development Programmes</b>	<b>150 000.00</b>
	<b>Special Programmes</b>	<b>80 000.00</b>
	<b>IGR</b>	<b>10 000.00</b>
	<b>Social Responsibility Fund</b>	<b>200 000.00</b>
	<b>Mandela Day</b>	<b>20 000.00</b>
	<b>District Aids Council</b>	<b>25 000.00</b>
	<b>MSIG</b>	<b>222 500.00</b>
		<b>727 500.00</b>

<b>Planning and Development</b>	<b>Environmental Health Projects</b>	<b>300 000.00</b>
	<b>Promotion and Marketing</b>	-
	<b>IDP Review and printing of the document</b>	<b>150 000.00</b>
	<b>LED and Marketing Brochures</b>	-
	<b>LED Trainings</b>	<b>100 000.00</b>
	<b>Disaster Management Plan Review and printing of the document</b>	<b>40 000.00</b>
	<b>Health &amp; Hygiene Education</b>	<b>20 000.00</b>
	<b>LED Projects</b>	<b>500 000.00</b>
	<b>Tourism Awareness Programme</b>	<b>20 000.00</b>
	<b>District Forums</b>	<b>40 000.00</b>
	<b>EPWP Grants</b>	<b>1 000 000.00</b>
	<b>Machinery</b>	<b>400 000.00</b>
	<b>Disaster Management Conference</b>	-
	<b>Tourism Month Celebrations</b>	-
	<b>XDM Community Benefit Events</b>	-
	<b>Support for SMME's</b>	<b>50 000.00</b>
	<b>Profiling of roads in the district (RRAMS)</b>	<b>1 296 000.00</b>
	<b>LED FEASIBILITY STUDIES</b>	-
	<b>Disaster Training</b>	<b>10 000.00</b>
	<b>Establishment of the Disaster management Centre</b>	<b>300 000.00</b>
	<b>4 226 000.00</b>	
<b>Budget and Treasury Office</b>	<b>Compilation of AFS 2012/13</b>	<b>222 500.00</b>
		<b>222 500.00</b>
<b>Corporate Services</b>	<b>FA Contribution /Motor Vehicle</b>	<b>250 000.00</b>
	<b>FA Contribution /Motor Vehicle</b>	<b>500 000.00</b>
	<b>FA Contribution /Motor Vehicle</b>	<b>500 000.00</b>
	<b>Land</b>	<b>650 000.00</b>

	<b>MSIG (ICT Master Planning)</b>	<b>222 500.00</b>
		<b>2 122 500.00</b>
<b>Office of the Municipal Manager</b>	<b>MSIG ( Internal Audit Software)</b>	<b>222 500.00</b>
		<b>222 500.00</b>
<b>TOTAL PROJECTS</b>		<b>7 521 000.00</b>

## **XHARIEP DISTRICT MUNICIPALITY**

### **2.7 2013/2014 REVIEWED BUDGET RELATED POLICIES**

The budget is prepared within the context of draft Council policies and the legislative framework as promulgated by the National Parliament. Council strives to amend and implement policies complying with all relevant legislation. Policies are reviewed on an annual basis, and where necessary, amendments are made.

Council have the following policies that govern the municipality's budget compilation and implementation thereof:

#### **2.7.1 Banking and Investment Policy**

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003. The purpose of this policy is to provide the framework and procedures to be followed.

#### **2.7.2 Laptop Policy**

In order to enable and enhance the productivity of the municipality's business, as well as reduction of costs in terms of the stationery, printing and delivery costs, the council found it necessary to make use of the latest means of communication technology. Based on this, laptops are allocated to certain officials and Councillors for sound business reasons, primarily for receiving business E-Mails and sending business E-mails, especially when not located in the office. The objective of the Laptop Policy is aimed at controlling the use of the Laptops by employees and Councillors of Xhariep District Municipality. The policy provides guidelines, standards and norms used on the provision of laptops to employees and Councillors.

#### **2.7.3 Cell-phone Policy**

In order to enable and enhance the productivity of the municipality's business units, it is critical to make use of the latest means of communication technology. Based on this, cellular phones are allocated for sound business reasons, primarily for receiving business calls and making business calls when not located in the office. The objective of the Cell phone Policy is aimed at controlling the use of cell-phones by employees and Councillors of Xhariep District Municipality. The policy provides guidelines, standard and norms used on the provision of cell-phones to employees and Councillors.

#### **2.7.4 Tender Policy**

The objective of the Tender Policy is to ensure compliance to the Bidding Process requirements of the municipality. These requirements are informed by the prescribed regulations and related Acts.

#### **2.7.5 Tariff Policy**

The Tariff Policy provides a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. Council reviewed the Tariff Policy in terms of Section 74(1) of the Municipal Systems Act (Act 32 of 2000) in order to be approved.

#### **2.7.6 Budget Transfers and Virements policy**

The objective of this policy is to provide flexibility to the heads of departments of the municipality. A greater flexibility in managing their budgets and provide clear guidance of when funds can be shifted between items, projects, programmes and votes.

#### **2.7.7 Fixed Assets Policy**

It assists the municipality to account for either movable or immovable assets under its control, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year. It is in accordance with Generally Recognised Accounting Practices.

#### **2.7.8 Funding and reserves policy**

The policy assists the municipality to comply with the legislative requirements, also to ensure that the municipality's operating and capital budgets are adequately funded. This policy also ensures that the provisions and reserves are maintained at the required levels, in order to mitigate unfunded liabilities in future financial years.

## **Budget Policy Statement**

1. The budget should address priorities as identified in the Council's IDP document and through ongoing consultations with communities and other stake-holders.
2. Operating costs should be funded from ongoing revenues. Expenditure must be aligned with revenue and the set performance indicators to ensure that spending is per the pre-determined performance outcomes of the municipality.
3. Revenue projections should be realistic and not be overly optimistic or too conservative.
4. The municipality must produce a balanced budget.
5. The municipality will maintain all of its assets at a level adequate to protect the capital investments and minimize future maintenance and replacement costs.

## **Legislative Framework**

- Municipal Finance Management Act, No 56 of 2003
- Local Government: - Municipal Supply Chain Management regulations: Gazette No 27636, 30 May 2005;
- Local Government: Municipal Systems Act, No 32 of 2000;
- Local Government: Municipal Systems Amendment Act, No 7 of 2011;
- Local Government: Municipal Structures Act, No 117 of 1998;
- Local Government: Municipal Fiscal Powers and Functions Act, No 12 of 2007; and
- Local Government: - Municipal Budget and Reporting Regulations: Gazette 32141, 17 April 2009
- Annual Division of Revenue Bill
- MFMA Circular 42: Funding a Municipal Budget
- MFMA Circular 48: Municipal Budget Circular for the 2009/2010 MTREF
- MFMA Circular 51: Municipal Budget Circular for the 2010/2011 MTREF
- MFMA Circular 54: Municipal Budget Circular for the 2011/2012 MTREF
- MFMA Circular 55: Guidance to municipalities for the preparation of 2011/2012
- MFMA Circular 58: Guidance to municipalities for the preparation of 2012/2013
- MFMA Circular 59: Guidance to municipalities for the preparation of 2012/2013
- MFMA Circular 67: Municipal Budget Circular for the 2013/14 MTREF
- Municipal Budget Regulations



- Local Government Capital Asset Management Guideline
- Budget Formats Guideline

## XHARIEP DISTRICT MUNICIPALITY

### 2.8 2013/2014 BUDGET ASSUMPTIONS

Budget assumptions/parameters are determined in advance of the budget process to allow budgets to be constructed to support the achievement of the longer-term financial and strategic targets.

The municipal fiscal environment is influenced by a variety of macroeconomic control measures. National Treasury provides guidelines on the ceiling of year-on-year increases in Budget, whilst the National Electricity Regulator of South Africa (NERSA) regulates electricity tariff increases and DWA regulates water tariff increases. Various government departments also affect municipal service delivery through the level of grants and subsidies.

Xhariep District Municipality is neither a bulk electricity distributor nor a water service authority.

The following principles and guidelines directly informed the compilation of the district's Budget:

- The priorities and targets in relation to the key strategic focus areas as determined in the IDP;
- Alignment of the municipality to the central government call to support and implement the National Development Priorities;
- Alignment of the municipality to the priority to create jobs and implement labour intensive mechanisms;
- Commitment by the municipality to comply substantially with the requirements of the Local Government Municipal Structures Act, Act No. 117 of 1998, specifically Section 84(1): Functions and Powers of the District Municipality.
- An assessment of the relative capacity to implement the Budget;
- No budget allocation to be made to programmes and projects, unless the respective programme and project plans are submitted by the relevant municipal department's director; and
- The need to enhance the municipality's revenue base.

The multi-year budget is therefore underpinned by the following assumptions:

#### **2013/2014 OPERATING INCOME**

Xhariep District Municipality rely solely on Grant revenue from the National and Provincial Governments. This is mainly due to the municipality's inability to generate its own revenue. There is no other significant source of revenue except for the Kopanong Local Municipality's rental income levied on a monthly basis. The Xhariep District Municipal area is highly characterised by poverty and less dense population which makes it costly to deliver services to all the residents of the municipality. These circumstances and others resulted in the Equitable Share Formula review favouring the municipality to some extent.

- All investments with the various financial institutions are strictly in compliance with the Municipal Finance Management Act and Investment regulations. The municipality had not been in a position to generate substantial interest returns on its investments as very little can be invested at very short space of time.

### **2013/2014 OPERATING EXPENDITURE**

Expenditure forecasts were made taking the guidelines and inflation forecasts as contained in the MFMA Circular 67. These can be summarised as follows:

#### **Inflation forecasts**

<b>Fiscal Year</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>Actual</b>		<b>Estimate</b>	<b>Forecast</b>		
Real GDP growth	3.4	3.1	2.5	3.0	3.6	3.8
CPI Inflation	3.8	5.6	5.6	5.6	5.4	5.4

*Source: Budget Review 2013*

- Increases in purchases / payments of electricity - Eskom : are expected to have a minimal impact on the district's budget as the district is not a bulk electricity distributor. The budgeted consumption is based on past experience and level of spending.
- Increases in employees' remuneration is mostly as a result of anticipated filling of positions that are vacant as well as an annual cost of living adjustment that is decided upon by the bargaining council. The district has embarked on ensuring compliance with its statutory obligation to perform the functions and powers as contained in Section 84(1) of the Municipal Structures Act No. 117 of 1998. For this reason, a platform for service delivery was set and capacity built during the preceding financial year. The municipality has also budgeted for the newly created position of a Manager: Engineering Works as well as a data capturer. This came as a requirement for the municipality to be able to participate in the Rural Roads Assets Management Systems Grant. The employee costs represent approximately 38% of the total operating expenditure.
- Spending on Repairs and maintenance will not change significantly from the prior year's budget.
- Over the past financial year, the district has seen growth in economic activities within its numerous towns. There is currently, an Expanded Public Works Programme going on within the district. The programme is labour intensive and involves working on the public roads. The N1 joining Cape town, Port Elizabeth and Bloemfontein to Johannesburg passes through the district. This road is vulnerable to road accidents. For this reason and others, the municipality has never been faced with an urgent need for a fully fledged disaster management function as well as the municipal health services than now. Although the functions were set up during the preceding financial years, there is still a great need for a disaster management centre. This could not be budgeted for due to lack of funding for the project. Only the initial plans and other preparatory documentation have been budgeted for.
- Inflation rate is expected to remain constant between the current and forthcoming financial years.

- All municipalities regardless of capacity are to comply with GRAP standards since 2010/11 financial year. One of the requirements of GRAP 17 (Property, Plant and Equipment) is the depreciation of assets according to National Treasury's guidelines of estimated useful lifespan. In order for the Municipality to comply with this requirement, a depreciation budgeted amount must be included in the budget. This requirement was not met during the prior financial year budgeting.

### **2013/2014 CAPITAL EXPENDITURE**

Xhariep District Municipality does not receive any Municipal Infrastructure Grants from National Treasury per the DORA allocations. The municipality does not have any significant infrastructure projects planned for the 2013/2014 financial year.

The MFMA specifies that borrowing can only be used to fund capital or refinancing of borrowing certain conditions. Due to cash flow constraints, Xhariep District Municipality is not in a position to take up any borrowing and is therefore 100% dependent on Grant Funding for any Capital Projects.