

AMATHOLE DISTRICT MUNICIPALITY DRAFT INTEGRATED DEVELOPMENT PLAN (IDP) REVIEW AND BUDGET FOR 2010/2011 TO 2012-2013

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PURPOSE

- [i] To present to Council the Amathole District Municipality's reviewed Integrated Development Plan (IDP) 2010/2011 for approval;
- [ii] To present to Council, the Amathole District Municipality's (ADM) proposed budget for the 2010/2011 financial year for approval;
- [iii] To obtain Council's approval regarding tariffs in the 2010/2011 financial year with respect to the following:-
 - Building Plan Fees
 - Calgary Museum and Conference Centre Fees
 - Eastern Region Solid Waste Tariffs
 - Fire Services Tariffs
 - Water & Sanitation Tariffs

LEGAL/STATUTORY REQUIREMENTS

- The Constitution of the Republic of South Africa Act 108 of 1996
- The Municipal Finance Management Act 56 of 2003
- National Treasury Budget & Reporting Regulations 2009
- The Division of Revenue Bill 2010
- The Local Government Municipal Systems Act 32 of 2000
- The Local Government Municipal Structures Act 117 of 1998
- The National Health Act 61 of 2003
- The Local Government Municipal Property Rates Act 6 of 2004
- The Water Services Act 108 of 1997
- The Strategic Framework on Water Services
- General Recognized Accounting Practice [GRAP]

BACKGROUND

Section 25 of the Municipal Systems Act no. 32 of 2000 states that:

“Each municipal council must adopt a single, inclusive and strategic plan for the development of the municipality which –

- links, integrates and co-ordinates plans and takes into account proposals for the development of the municipality;
- aligns the resources and capacity of the municipality with the implementation of the plan;
- forms the policy framework and general basis on which annual budget must be based.”

Section 34 further states that –

“A municipal council – (a) must review its integrated development plan

- (i) annually in accordance with the assessment of its performance measurements in terms of section 41; and
- (ii) (ii) to the extent that changing circumstances so demand; and (b) may amend its integrated development plan in accordance with a prescribed process.

On 28 August 2009, the Amathole District Municipality adopted an IDP Framework Plan together with the IDP/Budget Process Plan. These plans were adopted in accordance with the relevant legal prescripts and have dictated the process to be followed for the review of the IDP and the development of the Budget.

Organizational arrangements were put in place as per the IDP/Budget Process Plan and all legislative prescripts were adhered to. Of particular note, have been the operations of structures, such as IDP//PMS/Budget Representative Forum, IDP Steering Committee, Budget Steering Committee, IGR, DIMAFO, and Cluster Teams. These have executed their mandates in terms of the adopted IDP/Budget Process Plan and ensured the achievements of key milestones and deliverables.

Particular attention was paid to Institutional issues, IDP-budget linkage and ADM clusters approach. An analysis was done on the effectiveness of the clusters. This exercise led to the reviewal of the IDP cluster teams for the following reasons.

- To facilitate proper alignment of programs with the 5 key performance areas of local government;
- to get interdependent departments within the institution linked to each other for better service delivery; and
- to enable better management of projects that transform the Municipality to achieve a set of strategic objectives.

In the process of developing the IDP and the Budget, a strategic planning session was held on 14-16 February 2010. The session was intended to facilitate provision of a framework that will guide the municipal strategic direction towards 2010/2011.

An analysis was conducted in respect of various sector plans attached to the ADM's IDP and some were found to be still relevant and required minor update, others required a review whilst new ones were developed.

Chapter 4 of The Municipal Finance Management Act referred to above indicates:

(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 2010/2011 draft IDP is structured as follows:

Section A: The Planning Process

Section A of the IDP outlines the planning process with specific reference to the IDP process, and organisational arrangements. This chapter provides the reader with an understanding of the process followed by the Amathole District Municipality in compiling the Integrated Development Plan.

Section B: The Situational Analysis

Section B provides a detailed situational analysis of Amathole District Municipality.

Section C: Cluster Objectives, Strategies and Projects

Section C provides a concise summary of the municipal vision, mission and values, and a detailed breakdown of objectives, strategies and project programmes for each development cluster. The tables for cluster objectives and strategies and priority areas include indicators, measurement source and frequency, baseline, targets and accountable officials. This is followed by a table for funded projects and another table reflecting a list of all projects that did not receive funding.

Section D: Sector Plans

Section D provides a list of all ADM sector plans and their status, with executive summaries of the newly developed sector plans.

Section E: Financial Plan

Section E provides the district municipality's financial strategies, medium term expenditure, proposed budget for the 2010/11 financial year as well as the 3 Year Financial Plan.

Section F: Monitoring and Evaluation

Section F provides the legal context of the municipality's performance management system, an overview of the monitoring and evaluation process, a background to the ADM Performance Management Framework as well as the Municipal Scorecard model as adopted by the district municipality.

Amathole District Municipality this year once again faced a very trying budgeting process, with Council's needs far outweighing its limited resource pool. A different approach this year involved allocating the equitable share and levy replacement grant according to the ratio of spending in the 2008/09 financial year. Departments were given their funding envelopes and attempted to match their needs to the funding pool. However, this proved impossible in certain departments, with other departments having surplus funds. The deficits which existed after the first round of cutting done at departmental level, were once again split amongst departments, in an attempt to reach a balanced budget. Departments factored in projects and new staff and ultimately Head's of Departments (HOD's) met with the Municipal Manger (MM) and further cuts were done. After all the cuts were done, the a deficit of R60,739,441 still remained. Rather than tapping into prior year resources, the VAT portion of 2009/10 and 2010/11 Municipal Infrastructure Grant was earmarked to fund the remaining deficit.

ADM BUDGET 2010/2011

PROJECTS

Following the strategic session, where objectives and strategies were finalized, departments then formulated needs in terms of projects required to achieve their objectives and strategies. The initial list of projects amounted to R124 784 000 and these were then prioritized, and the amounts required in year one reduced to R66 086 826.

The funding contribution to Aspire for the 2010/11 financial year was increase from R8 000 000 to R10 000 000, representing a 25% growth.

PRIMARY HEALTH CARE

ADM is still continuing with the provisioning of primary health care with a budget requirement of R18 438 452 for the 2010/11 financial year. Level of funding from province not yet confirmed, but assuming a fully funded service.

BUILDING PLAN FEES

Building plan fees to remain constant for 2010/11 after the increases implemented in the 2008/09 financial year. Fees will be based on 0.5% of project value, with the minimum charge being R415, except for the R100 fee applicable to low cost housing, which also remains unchanged. The rates are per m2. To illustrate, if you submit plans for a dwelling of 100m2, you will pay: $(100\text{m}^2 \times \text{R}1500) \times 0.5\% = \text{R}750.00$

CALGARY MUSEUM AND CONFERENCE CENTRE

Internal Rate: R247,50 for 1st 15 people then R27.50 a head

External Rate: R302,50 for 1st 15 people then R38.50 a head with a R385 refundable deposit

Museum entrance fee of R6,60 an adult and R3,30 a child.

SOLID WASTE SITE

The proposed tariffs remain constant for 2010/11 being R345 per ton and a minimum service charge of R194 697 for Mnquma and R13 636 for Mbhashe respectively, based on the number of sites in each Local Municipality.

FIRE SERVICES TARIFFS

Tariffs for fire services also remain unchanged, with varying rates for different class of vehicles ranging from R600 per hour for a major pumper to R160 per hour for a service vehicle. For incidents outside ADM's municipal jurisdiction, an additional rate per km is to be levied.

The Fire levy of R10 per household and R15 per business in Dutywa, Butterworth, Komga and Peddie, where the fire service is readily available will continue as before.

In Centane, Ngqamakwe, Elliotdale, Willowvale, Chintsa East, Chintsa West, Kei Mouth, Morgans Bay, Mooiplaas, Bluewaters, Kwelera, Hamburg and Wesley where the service is not readily available due to the vast distance, a fire availability levy of R5 per household and R10 for businesses will be implemented. Indigents will be exempt from these levies.

BUDGET POLICY STATEMENTS

EXTERNAL FUNDS

The Division of Revenue Bill of 2010 (DORB) includes the following funding for 2009/2010:

Equitable Share	R 289 469 000
Replacement of Levy Income Grant	R 191 571 000

Water Services Operating Subsidy Grant (DWAF)	R 11 059 000
Municipal Infrastructure Grant (MIG)	R 267 167 000
Municipal Systems Improvement Grant (MSIG)	R 750 000
Financial Management Grant (FMG)	R 1 000 000
Neighbourhood Development Partnership Grant (Capital)	R 25 000 000
Municipal Drought Relief Grant	R 12 264 000
Expanded Public Works Programme Incentive Grant	R 12 285 000
Allocations in kind:	
Neighbourhood Development Partnership Grant)	R 9 800 000
Regional Bulk Infrastructure Grant	R 45 500 000

BUDGET MOVES (VIREMENTS)

In terms of re-allocating funds from line item to line item and from cost centre to cost centre, within the same vote, the Head of Department is entitled to authorize such budget moves, provided it is merely a move of budget and not an overall increase or decrease in the budget, and the move facilitates sound risk and financial management.

Movements cannot take place from the capital budget to the operating budget, and neither can moves add to the capital budget.

No movement which adds to the personnel expenditure items is allowed.

No movement adding or subtracting from bulk purchases, debt impairment, interest charges, depreciation, grants to individuals, revenue foregone, insurance and VAT are permitted.

No movements can take place with regards to revenue items.

Movement of funds on conditional grant funds to purposes outside of that specified in the relevant conditional grant framework are not be permitted.

The Executive Mayor's written approval is required if the budget is to be increased or decreased overall, or if there are proposed moves from one vote to another, example, from Budget & Treasury Office to Engineering Services. Any such moves to be ratified by Council thereafter by inclusion in the annual adjustments budget process.

MUNICIPAL HEALTH SERVICES (MHS)

The devolution of health services has still not been finalized. The ADM will continue with the arrangement entered into with Buffalo City Municipality for BCM to render services on ADM's behalf for the 2010/11 financial year, with a budget commitment of R14 605 037.

UTILISATION OF VAT PORTION OF MUNICIPAL INFRASTRUCTURE GRANT

This year, the vat on the 2009/10 MIG allocation in the amount of R27 959 459 as well as the vat on the 2010/11 allocation of R32 809 982 are to be utilized to fund the 2010/1 budget deficit. It is important to note that the MIG capital plan reflects the VAT inclusive amounts. In terms of Circular 48 this vat can be utilized as own revenue.

PENSIONERS & POST RETIREMENT BENEFITS

Included in this budget is R 2.5 million rands worth of liability for pensioners medical aid costs as well as R 67 223 for ex gratia pensioners.

An amount of R54 786 852 has also been provided for post retirement benefits, as required. However, this is a non cash flow item and therefore has no impact on the budget, with it being funded by prior year reserves.

PROCESSES FOLLOWED IN DEVELOPING THE BUDGET

The Budget Technical Team was re-established, consisting of a representative for each cost center, nominated by the Head of Department (HOD). Structural changes to the budget saw the formation of the Land, Human Settlements & Economic Development Department. The concept of new sub votes was also introduced in March 2010 and will be phased in in the new financial year. The prior Budget Process Plan was revisited and changed to meet the next year requirements. This process plan was approved by Council on 28 August 2009.

An extract of the currently employed staff was drawn from the ADM's payroll system, this was then compared to the approved organograms, and vacant posts added.

Budget templates reflecting the 2009/2010 budget figures, forecast expenditure for the 2009/10 year and two prior years actual expenditure were distributed for population of the line item details. Guidelines in terms of growth parameters as well as maximum expenditure levels for capital items were also given. The completion and finalization of the budget templates was suspended until after the strategic session. After the strategic session, projects and new post requirements were identified linked to the objectives and strategies formulated at the strategic session.

The equitable share and levy replacement grant were combined and then allocated to the departments in line with the expenditure trend as reflected in the 2008/09 financial statements.

Departments submitted project requirements, new staff requirements and operational requirements. Each HOD was tasked with assessing his vote and identifying possible cuts. After the first phase of cuts, just on operational requirements, a deficit of R13 216 622 existed. This deficit was then reallocated to departments in an attempt to achieve

individual balanced budgets. Project requirements and new staff requirements were then brought into account, further cuts done at departmental level, before the MM met with the individual HOD's to implement further cuts. Projects were reprioritized, as were staffing needs, operational budget cuts and a final deficit of R60 739 441. This deficit was funded by VAT savings on the MIG allocation for 2009/10 and 2010/11 as reflected above.

OVERVIEW OF THE 2010/2011 BUDGET

Council requires an overall budget of R 1 206 524 883 to perform its functions during the 2010/2011 financial year, detailed as follows:

2010/10 INCOME ANALYSIS

SERVICE CHARGES

Income for service charges for water & sanitation was calculated with the new concept of a standardized tariff across all local municipalities. The option which includes a monthly basic charge, which varies according to the category of consumer ranging from R300 to R1152 for Domestic to Municipal customers is the proposed preferred tariff structure which will generate a total revenue of R111 165 464. Uniform sanitation tariffs are also proposed, based on category of consumer with a monthly availability fee.

RENT OF FACILITIES & EQUIPMENT

Tariffs increased by 10% for use of Calgary Museum with a total revenue of R202 000.

INTEREST EARNED EXTERNAL INVESTMENTS

This is pitched at a level of R20 million, based on actual interest earned in the 2009/10 financial year. This interest is being used to fund operations and no longer allocated to the individual projects.

GRANTS & SUBSIDIES

This includes:

Equitable share	R 289 469 000
Levy Replacement Grant	R 191 571 000
Financial Management Grant	R 1 000 000
Municipal Drought Relief Grant	R 12 264 000
Water Services Operating Subsidy	R 11 059 000
Expanded Public Works Program Incentive Grant	R 12 285 000
Neighbourhood Development Partnership Grant	R 25 000 000
Municipal Systems Improvement Grant	R 750 000
Municipal Infrastructure Grant	R 267 167 000

In terms of the distribution of grant funding, the percentage spent per department in the 2008/09 financial year was used as a basis to split the equitable share and levy replacement grant allocation in 2010/11, as follows:

VOTE	2010/11
COUNCIL GENERAL DEPARTMENT	15,892,825
MUNICIPAL MANAGEMENT DEPARTMENT	10,309,696
STRATEGIC MANAGEMENT DEPARTMENT	56,589,159
CORPORATE SERVICES DEPARTMENT	25,927,530
BUDGET & TREASURY DEPARTMENT	27,300,849
ENGINEERING DEPARTMENT	258,111,034
HEALTH & PROTECTION DEPARTMENT	45,235,010
LAND HUMAN SETTLEMENTS & ECON DEV DEPARTMENT	41,673,897
TOTAL:	481,040,000

OTHER INCOME

PRIOR YEAR INCOME R212 346 162

This includes prior year income to fund non cash flow items including:

Depreciation

Post Retirement Benefits

Portion of Provision of bad debts not covered in the tariff calculation

As well as the Vat on MIG for 2009/10 of R27 929 459

Commission on Garnishee orders R188 000

Interest on Current Account R 2 400 000

Solid Waste Site Income R7 705 554

Sundry Income R32 809 982 being Vat on MIG allocation for 2010/11

Connection & reconnection fees and septic tank clearance R1 000 772

Emergency Tanked Water R114 444

Interest on Water & Sanitation Debtors R18 299 301

Connection Fees Sanitation R49 759

2010/11 EXPENDITURE ANALYSIS

SALARIES

The total Salaries budget, including social contributions and remuneration of Councillors, constitutes 29.24 % of the overall budgeted expenditure for 2010/11.

At the initial stages of the budgeting process, an overall 10 % increase was applied to salaries, based on the nine month CPI index from February 2009 to October 2010 plus 1.5%. This amounted to 8.78%. A growth factor of 1.22% was added to this to avoid a repeat of the situation of salary increases being under budgeted for in the 2009/10 financial year.

Other increases applied to Salary related costs based on current trends are as follows:

10% increase for Travel Allowances
16% increase for Medical Aid
10% increase for Group Life.

The 10.2% budget increase was applied to all employees, including Councillors and Section 57 employees. The 10% is also applied to the current minimum wage of R4 000 per month.

Current organograms were assessed, vacant posts identified as well as requirements for new posts.

PERFORMANCE BONUSES

Performance bonuses were budget for at 14% of total remuneration of the Section 57 employees.

EMPLOYEE STUDY ASSISTANCE SCHEME

All staff request for study assistance have been budgeted for in the 2010/11 financial year.

REDEMPTION OF LEAVE

A budget equivalent to 14 days leave was provided for redemption of leave, based on the increased salary levels of all posts budgeted for, including existing and vacant posts.

WORKMANS COMPENSATION

0.009 % of salary cost of each department provided for this liability.

PROVISION FOR BAD DEBTS

Provision for bad debts has been set at 40% of anticipated billed revenue. Current collection rate at end of February 2010 has shown an improvement from last year's level of 30% to 37.32% in 2010.

COLLECTION COSTS

These costs amounting to R1.9 million, are for anticipated legal costs and collection costs incurred by the institution as a whole .

DEPRECIATION

Depreciation budget for 2010/11 is set at R 78 770 564. As this is a non cash item, this has no overall budget, as it is financed by prior year surpluses.

REPAIRS AND MAINTENANCE

This amount has increased from R19 million to R34 million in 2010, with the majority being spent on maintaining infrastructure assets.

INTEREST EXPENSE

An amount of R163 930 is budgeted for interest on lease agreements. No interest and redemption for loans, as Council has no outstanding loans.

GENERAL EXPENSES

Included in these general expenses are R66 million rands worth of internally funded projects identified during the budgeting process, linked to the Strategies & objectives formulated at the Strategic Session, as well as a R10 000 000 allocation to ASPIRE.

Other significant amounts included under General Expenses:

Audit fees of R3.3 million. Amount based on actual costs incurred for the 2008/09 audit.

Electricity costs of R16 million, which reflect Eskom's approved increases

Insurance premium costs of R5.6 million

Licenses for documentum R2 million

Rentals of office accommodation of R5.7

Vehicle rentals of R5.9 million

Security Costs R7.6 million

Solid Waste Site R7.7 million

Transport Costs R11 million

Water Purchases R49.9 million

Amatola Water Costs for Bulk Schemes R58.4 million

STAFF IMPLICATIONS

Final approval to fill the posts still needs to be obtained from Council before the posts can be advertised in the new financial year, bearing in mind the phased in approach for filling some of the posts.

FINANCIAL IMPLICATIONS

The full financial effect of the 2010/11 budget is summarized in the attached budget summaries.

OTHER PARTIES CONSULTED

Heads of Departments
Office of the Municipal Manager
The Budget Technical Task Team
Budget Steering Committee

ANNEXURES

Annexure “A”	-	Detailed Income Budget for 2010/11, 2011/12 and 2012/13
Annexure “B”	-	Detailed Expenditure Budget for 2010/11, 2011/12 and 2012/13
Annexure “C”	-	Income and Expenditure per GFS classification
Annexure “D”	-	Capital Budget
Annexure “E”	-	MIG 3 year Capital Plan
Annexure “F”	-	Tariffs for 2010/11
Annexure “G”	-	Split of RSC Replacement Grant & Equitable Share
Annexure “H”	-	Division of Revenue Bill Allocations 2010 to 2013
Annexure “I”	-	Internally Funded Project Allocations
Annexure “J”	-	Cost Centre Summary 2010/2011
Annexure “K”	-	Income and Expenditure Breakdown per subtotal
Annexure “L”	-	Income Graph
Annexure “M”	-	Expenditure Graph
Annexure “N”	-	Departmental Breakdown
Annexure “O”	-	Total split of revenue

RECOMMENDATIONS

- [a] That the Council approves the Reviewed IDP for 2010/11
- [b] That the Annual Budget of the Amathole District Municipality for the financial year 2010/11 be approved as set out in the following schedules:
- Detailed Income budget per source for 2010/11, 2011/12 and 2012/2013 **Annexure “A”**
 - Detailed Expenditure Budget per vote for 2010/11, 2011/12 and 2012/2013 **Annexure “B”**
 - Income and Expenditure per GFS classification **Annexure “C”**
 - Capital Expenditure 2010/11 per **Annexure “D”**
- [c] That the MIG three year capital plan be approved as reflected in **Annexure “E”**
- [d] That the tariffs as set out in **Annexure “F”** and **Annexure “L”** be approved.