

**9.1.3 AMATHOLE DISTRICT MUNICIPALITY BUDGET FOR THE FINANCIAL YEAR ENDING 30 JUNE 2008, INTEGRATED DEVELOPMENT PLAN FOR 2007-2012 AND THE AMATHOLE ECONOMIC DEVELOPMENT AGENCY BUDGET AND PROJECTS FOR THE 2007/2008 FINANCIAL YEAR**

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**PURPOSE**

- [i] To present to Council the Amathole District Municipality's (ADM) proposed budget for the 2007/2008 financial year for approval, as well as the forecast budgets for 2008/2009 and 2009/2010 for noting.
- [ii] To inform the Amathole District Municipality of the key considerations influencing the financial sustainability of the water sector.
- [iii] To obtain Council's approval regarding tariffs for the following in the 2007/08 financial year:
  - Water and Sanitation Fees
  - Building Plan Fees
  - Calgary Museum and Conference Centre Fees
- [iv] To present to Council the Amathole District Municipality's Integrated Development Plan (IDP) for 2007 - 2012 for approval.
- [v] To present to Council the Amathole Economic Development Agency's Budget and Projects for approval.

**LEGAL/STATUTORY REQUIREMENTS**

- The Municipal Finance Management Act 56 of 2003
- The Division of Revenue Act of 2007
- 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 Constitution of the Republic of South Africa, Act 108 of 1996
- The Local Government Municipal Systems Act 32 of 2000
- The Strategic Framework on Water Services
- Generally Recognised Accounting Practices (GRAP)
- The Local Government Municipal Structures Act 117 of 1998
- The Municipal Planning and Performance Management Regulations No R796 of 2001

## **REASONING**

### **ADM BUDGET 2007/2008**

## **EXECUTIVE SUMMARY**

### **CONSULTATION**

The IDP & Budget were published on the official website of Council after tabling of the budget and IDP, as well as being distributed to National and Provincial Treasury and hand delivered to all local municipalities' offices and libraries within the districts. The tabling of the Budget& IDP was advertised in the local newspaper, as well as offering members of the public the opportunity to collect copies of the budget. Thereafter Council embarked on a series of road shows, commencing on 26 April 2007 at Ngqadu Great Place and culminating on 18 May 2007, at Council's open day at the Christian Centre.

### **ALIGNMENT**

The entire focus of this year's budget has been in line with the Water Service Authority Status and Nationals focus on achieving water and sanitation targets within the specified time frames. Council has set aside R24 million to address water infrastructure replacement/refurbishment, with no allocations to other projects for the year.

### **LOCAL ECONOMIC DEVELOPMENT**

Local Economic Development will focus on the projects specified in the capital budget to the tune of R1 750 000 funded by MIG and R204 250 allocated from internal funds.

### **MAJOR INITIATIVES AND CHALLENGES**

### **PRIORITY PROJECTS VS OPERATING BUDGET VS CAPITAL REPLACEMENT RESERVE**

As in the prior financial year, the Council will assume full spending of project monies. In terms of the parameters set previously by the Council, assume that unspent funds will be invested and earn interest at a rate of 6.32% per annum.

As from 2007/08, the concept of priority projects, funded from the ADM's Regional Services Levies collected will no longer exist. Instead, programs previously funded from specific priority project allocations like the Amathole Economic Development Agency (AEDA), Marketing, New Building, Job Evaluation Unit, to name but a few, will be budgeted for under the Council's operating budget as line item programs. The Council will also focus on water, for

which it is the authority, with any surplus funds being invested in a capital replacement reserve, instead of being allocated to specific priority projects. The capital program in the IDP will reflect on projects associated with asset refurbishment as most of the infrastructure has already reached the end of its useful life. This reduction in priority project allocation began a few years back, with the allocation reducing from R 80 million in 2005/06 to an initial allocation of R 45,027 844 million in 2006/07, to no specific allocation in 2007/08. This has once again posed the challenge on how to accommodate staff who were appointed and funded through prior year priority project allocations to run certain projects. The staff costs have been included in the operating budgets of the Departments to which they are affiliated, and the Council is challenged with actively having to hunt for external funds under the guidance of the strategic management department, which has developed a policy to guide these processes.

### **PRIMARY HEALTH CARE**

It is anticipated that the Council will no longer continue to provide this service on an Agency basis for 2007/08, but that it will be transferred back in its entirety to the Provincial Department of Health. The budget has been determined for 2007/08 and reflected as part of Council's overall budget, but the service bears no financial implications to Council. Council has not brought in the 10% administration fee for rendering these services as a source of revenue, nor reflected it as an expense for the service, in anticipation of the service being handed back to Province.

### **POLITICAL PRIORTIES AND LINKAGES TO THE IDP**

Council is faced for the first time without funding to distribute for projects other than MIG funded projects, with R24 million being allocated to the capital replacement reserve. This brought with it its own challenges in terms of projects needs identified by the clusters, for which no funding is available. As these projects are still a priority of Council, they have been included in the IDP as a separate listing of unfunded projects, and attempts will be made to source funding for these projects.

### **FREE & SUBSIDISED SERVICES**

The entire tariff framework for water and sanitation was revised, with a major shift being that only RDP level service will receive 6kl free water, with no connection or termination fees payable either for indigents. A sliding scale with stepped tariffs is applicable to all other users, with business paying more for deposits and new connections. As far as sanitation is concerned, RDP level and lower will not pay for VIP clearance, or bucket clearance, and there will also be no charge for indigent connection and termination fees. Once again, business will pay high connection fees than domestic users, also with a sliding scale for consumption charges being implemented.



## **OTHER FEES AND CHARGES**

### **EMERGENCY WATER AND SEWERAGE TARIFFS**

The Council will continue to provide tanker services for emergency water supply and sewerage removal. The cost of these facilities is heavily subsidized by the equitable share, with the following proposed tariffs:

R 16 per tanker and R 8.12 per kilometre for water;

R 9 per tanker and R 8.12 per kilometre for conservancy tank clearance

This reflects a major reduction on costs from prior year, important to consider that consumers will now pay a basic monthly fee, which contributes to the subsidization of this service.

### **WATER AND SANITATION TARIFFS**

#### **WATER**

The ADM has opted to affect a cost recovery strategy, based on an internal analysis conducted, and on financial prudence. The strategy focuses on two components, namely:

#### **CAPITAL DEVELOPMENT CHARGE**

This charge is levied, based on the direct investment made into infrastructure, depreciated over the useful life of an asset, in accordance with the prescripts of GAMAP. Importantly, every owner of a stand, whether developed or undeveloped, is liable for the payment of a charge. In the event of multiple users on a stand, the charge is linked directly to the number of active meters on a stand. Proceeds from this charge are directly linked to the Capital Replacement Reserve, used to finance re-investment into infrastructure.

#### **VARIABLE TARIFF**

This charge is directly linked to the level of consumption a consumer enjoys. The level of usage is categorized by 5 tiers. First order usage set significantly below cost of production, to promote conservation of scarce resources, as well as to provide specific financial relief to poorer households, not defined within the indigent threshold. The tariff framework progressively penalizes high end users that place significant demand on infrastructure, whose tariff framework is set above the cost of production threshold, thereby subsidizing low end usage.

#### **SANITATION**

ADM has opted, to affect a cost recovery strategy, based on internal analysis conducted and financial prudence, that also focuses on the two components, namely:

### **CAPITAL DEVELOPMENT CHARGE**

This charge is levied, based on the direct investment made into infrastructure, depreciated over the useful life of an asset in accordance with the prescripts of GAMAP. Importantly every owner of a stand whether developed or undeveloped, is liable for the payment of a charge. In the event of multiple users on a stand, the charge is linked directly to the number of active meters on a stand. Proceeds from this charge are directly linked to the Capital Replacement Reserve, used to finance re-investment into infrastructure.

Importantly, users of conservancy tanks, are effectively liable for a proportionate capital, cost associated with the waste water treatment facility, and excludes the reticulation network capital costs. This cost on average, equates to 67% of the capital costs of the entire capital network, as the effluent extraction, relocation and treatment costs are embodied within a rate per km travelled by the tanker service. **(This is a fundamental departure from the existing practice, categorized by a marginal flat rate).**

### **VARIABLE TARIFF**

This charge is directly linked to the level of consumption a consumer enjoys. The level of usage is categorized by 5 tiers. First order usage set significantly below cost of production, to promote conservation of water resources, as well as provide specific financial relief to poorer households not defined within the indigent threshold. The tariff framework progressively penalizes high end users that place significant demand on infrastructure, whose tariff framework is set above the cost of production threshold, thereby subsidizing low end usage.

This extensive study into the actual costs associated with water and sanitation was done at scheme level, current tariffs assessed, and amendments to the tariffs made accordingly, with an averaging out, and cross subsidization across schemes within municipal areas. It is important to consider that an amount of equitable share in excess of R100 million was brought into account, to fund water and sanitation provisioning [cost subsidization for the poor]. When referring to water aspects, the inclusion of the sanitation aspect is a given i.e. when reference is made to water, it includes sanitation aspects as well.

### **SCHEME BASED BUDGETING [WATER AND SANITATION]**

This year has seen the move to scheme based budgeting, with the creation of 59 new cost centres, each representing either a water or sanitation scheme. Included in these 59 new cost centres are the VIP sanitation schemes, tanker services,

borehole schemes and Toleni and Borehole schemes, ex DWAF. Funding to the value of R 18.3 million ex DWAF has also been recognized this year for the running of these schemes. Revenue associated with these schemes, including water revenue of R 47.4 million, and sewerage revenue of R 48.9 million are reflected under these schemes. The other impact of these budgets is having to include the loans taken on previously by Local Municipalities with the associated interest and redemption costs of R 1 437 110 and R 1 357 157, respectively, being included in the schemes budgets. The issue of bad debts also needs to be brought into account, with a total contribution to the Provision for Bad Debts of R 47.8 million, being included in the 2007/08 budget.

### **BUILDING PLAN FEES**

Although the function of Building Plans is at a local level, the function has been delegated for 3 Local Municipalities to the ADM. Building plan fees are to remain at the same rate as last year, based on 0.5% of project value, with a minimum charge of R375, except for the R100 fee applicable to low cost housing. Although the rate remains unchanged at 0.5% the revenue generated will increase due to the increase in the physical building costs.

### **CALGARY MUSEUM AND CONFERENCE CENTRE**

Internal Rate: R 225 for 1st 15 people, thereafter R 25 a head.

External Rate: R 275 for 1st 15 people, thereafter R 35 a head with a R 350 refundable deposit.

Museum entrance fee of R 6 an adult and R 3 a child.

### **BUDGET POLICY STATEMENTS & BUDGET ASSUMPTIONS**

#### **EXTERNAL FUNDS**

The Division of Revenue Act of 2007 (DORA) includes the following funding for 2007/08:

Equitable Share	R 137 639 000
Replacement of Levy Income Grant	R 146 314 000
DWAF Operating and Transfer Subsidy	R 18 359 000
Municipal Infrastructure Grant (MIG)	R 172 497 000
Public Transport Infrastructure & Systems Grant	R 21 000 000
Municipal Systems Improvement Grant (MSIG)	R 1 000 000
Financial Management Grant (FMG)	R 500 000

The Council has an Administration Fee Policy, which allows for a fee of between 2% and 10% being charged on any external funds being administered by the ADM.

In addition to the funds secured above, assumed Council will collect water and sanitation income to the tune of R96 million, at the same time provided R47.8 for bad debts.

Assume any surplus funds will be invested, using Council's investment policy to spread investments, earning interest at a rate of 6.32%, rendering R3 million rands income.

Salary increases have been budgeted for at 7.5%, as indicated in the budget parameters.

### **PIMSS AMALGAMATION WITH MUNICIPAL SUPPORT**

As the PIMSS Unit is no longer externally funded, the entire operations and costs of the PIMSS Unit have been amalgamated with the Municipal Support Unit.

### **MUNICIPAL HEALTH SERVICES**

In terms of the National Health Act 61 of 2003, Municipal Health Services are the responsibility of Metropolitan and District Municipalities. Therefore in terms of the Act, the ADM is responsible for Municipal Health Services as from 1 July 2005.

The Memorandum Of Understanding for the transfer of Municipal Health to the ADM was signed by the Superintendent General of the Department of Health in February 2007. In terms of this understanding, the Eastern Cape Department of Health is obliged to transfer certain personnel and certain assets used in providing Municipal Health Services to ADM by 30 June 2007, *i.e.* the process will have been complete at the start of the 2007/08 financial year.

In terms of budgeting for Municipal Health, the interim approach has been used as a starting point. The idea is to adopt a phased in approach, which will ultimately result in the ideal situation being implemented. The Eastern Cape Department of Health (ECDOH) will fund the Provincial commitment [100%] over a period of 3 years.

### **PENSIONERS**

The Council still has a liability to its pensioners, in the form of ex-gratia grants and medical aid co-contributions. The costs of these have all been consolidated under Council General's budget this year.

### **PRIOR YEAR SURPLUSES**

The Council has previously committed funds for the shared financial services project, as well as the new office complex. Prior year income of R 9.5 million and R 25 million, respectively, will be utilized to fund these two projects.

### **SOLID WASTE SITE**

The ADM will launch its first solid waste site in Butterworth, being the Eastern Region Solid Waste Landfill Site, servicing the municipalities of Mnquma and Mbhashe, on 1 July 2007. Operating costs, which include maintenance, have been included in this budget.

## **BACKGROUND TO THE BUDGET**

“The foundation of human association is the idea that human life has equal worth and human beings are equally entitled to political, economic and social rights which allow them to choose a life they have reason to live.

### **Human life has equal worth....**

Motho ke moto, ga ana bosehlana (a human being is a human being, there is no lesser human being)”. An extract from Trevor Manuel’s Budget Speech 2007.

The spending priorities of the country, filtered down to the District, must be informed by the overriding objective of accelerating growth, modernizing public services and infrastructure and reducing poverty and inequality. Resources must be used so that human life can indeed have equal worth.

The District’s focus on water and sanitation provisioning in this budget year, aims at meeting the targets set by the President in 2004, in relation to water and sanitation and goes a long way in addressing basic needs of our communities to attempt to do justice, to give human life equal worth.

## **WATER AUTHORITY STATUS**

Policy and institutional reform has, for the better part of 3 years, been at the forefront of the ADM’s reform agenda, primarily driven by the onerous burden that has been conferred to transform the water sector, with the aim of ensuring financial sustainability, as well as ensuring the implementation of key policy decisions around access to free basic services, and enhancing and preserving the rights of those with access to water and sanitation services.

The 2006/07 financial year has heralded the start of the implementation phase of the reform agenda, under the umbrella of the internal service delivery mechanism selected under the section 78 processes, through to the centralization of the entire financial administration, processes of which have both effectively embedded the entire planning, operational, strategic, and policy formulation frameworks under the direct control of the District Municipality.

## **DEVELOPMENT OF TARIFF FRAMEWORK**

Within this context, the tariff framework had to be developed, strategically aligning costs in line with ADM’s core mandate, directing appropriate investment into income generating activities; significantly enhancing revenue generation capacity in line with true cost of production, providing significant poverty alleviation mechanisms, including rewarding those consumers that recognize the importance of water as a scarce resource, and directing investment into promoting

efficiencies, reducing non billable water, and ultimately significantly curtailing non billable cost drivers.

Critically, it is necessary as a departure point, to reflect objectively on the critical issues that have historically been overlooked and neglected in favour of localized acceptable tariff pricing, and assess the quantitative impact that these deliberate oversights and omissions have had on the financial sustainability of the water sector, and propose meaningful interventions within available limited resources, to begin appropriately aligning the business of water, with due regard to the marginalized and affordability as a whole.

To this effect the following material oversights are evident within the existing tariff policy framework

### **ANALYSIS OF KEY RISKS**

- No level of uniformity within costing methodology, resulting in no level of tariff uniformity.
- Water tariffs are plagued by low levels of recovery, driven by poor policy models.
- Water tariffs are significantly challenged by low levels of economy of scale.
- No record of the cost of schemes (water and sanitation).
- Large scale overhead inherited from erstwhile Water Authorities, not linked to schemes.
- Assets in excess of R 3bn requiring varying degrees of refurbishment.
- Repairs and maintenance not effectively undertaken.
- No water audits (scheme inefficiencies up to 50%).
- High levels of “unaccounted for water”.
- Debt brought forward from erstwhile WSA’s with no levels of reliance.
- Excessive levels of staffing (significant cost driver).
- DWAF schemes that do not demonstrate sustainability norms (subsidy tapering mechanism).
- Significant increase in asset take-on, zero capital replacement reserves.
- Recognition of the international standards of accounting (assets and depreciation), not taken into consideration during tariff formulation.
- Establishment of funds to cater for bad debts, not cash backed.
- Entire water and sanitation budgets frameworks are not cash based.

### **IN TERMS OF UNPACKING HOW THESE OVERSIGHTS HAVE IMPACTED ON THE TARIFF FRAMEWORK FOR 2007/08, THE FOLLOWING SYNOPSIS IS PROVIDED:**

- Scheme based costing has been introduced - 59 water and sanitation schemes have been brought onto the financial system.

- The above-mentioned allows for inefficiencies to be measured per area and not per scheme, for tariff purposes- “abolishment of town silo effects”.
- Carrying of inefficiencies have been quantified, cost thereof is carried by discretionary revenue, and not the consumer.
- Asset verification of all water services infrastructure undertaken, full asset cost is known and costed in accordance with GRAP.
- Capital recoupment charge allows for the refurbishment of assets in line with accounting standards and recommendations- dependent on resources.
- Water Services is completely ring fenced.
- Accurate costing of free basic services.
- Accurate costing of indigent support.
- Entire budget framework, including provision and reserves are cash backed.

The above-mentioned analysis is best illustrated through a financial overview of water as a whole, sanitation as a whole, and commentary provided on critical policy statements that have been relied upon, that signifies a considerable departure from the existing tariff framework methodology.

## **WATER**

In terms of key policy directives, there are ostensibly two critical components underpinning the methodology utilized to finance water operations. They are specifically, fixed costs associated with the infrastructure investment, and the variable costs, directly linked to demand and output production of the water infrastructure.

Presently within the existing tariff structure, certain erstwhile water authorities have opted to subject the entire revenue generating methodology, to a consumptive tariff basis of cost recovery, at the risk of mass under recovery, should demand not meet supply.

In an environment where water availability is being threatened daily, large portions of land lie undeveloped at the expense of direct capacity investment in infrastructure to meet developmental needs, where material components of the consumer network are migrant users of the infrastructure, seriously begs the review of this basis of tariff enforcement methodology.

## **TARIFF CALCULATIONS – ILLUSTRATION**

The following is a high level overview of the water operations across the District, and is intended for illustrative purposes only, and does not signify area based tariffs developed which is unique to an area of operation, kindly refer to table denoting tariff per area for analysis, attached as **Annexure “A”**.

In terms of unpacking the above mentioned analysis, it would be evident that the ADM’s annual output production equates to 20 916 megalitres per annum, with

direct operational costs, net outflow items amounting to R 124,381,757. The costs included here are raw water costs and direct scheme costs.

This analysis reveals that on average, it costs **R 5.95** to produce a 1 kilolitre of water within the District, being the break even point, the cost at which the District must pitch the pricing of services to recover the operational costs.

Turning attention to the financing resource recovery aspect, it is clear that from the historical data held within the financial systems, that the District anticipates selling 6 200 megalitres within 2007/08, at an average rate of R 4.87 per kl, which, at face value, is technically pitched below the break even point. (Billable water accounts for 29.69% of production volumes).

This component is partially correct, and the District has opted to subsidize the tariff by 35 cents per kl, to minimize the impact of tariffs on affordability levels.

Similarly, review of the most significant component of users, being those consumers who are subject to RDP level of service and hence are deemed Free Basic Service users, are positioned higher in terms of tariff setting at R 6.12, predominately due to the fact that the costs associated with this level of user from a scheme and area perspective is significantly higher than the average cost of production. (Free Basic Water accounts for 34.4% of production volumes).

Non billable water, under the line item “unaccounted for water” is the total water that is lost in production across the District, and is positioned, on average, lower than the average cost of production, due to main losses being incurred within areas who’s operational efficiencies are marginally greater than the average which operates at a production cost of less than the average cost of production. Unaccounted for water accounts for 35.9% of production volumes.

Of specific importance, is the departure from the inherited practice of providing 6 kl free to all households, effective 1 July 2007. Only those consumers having service levels at RDP level and those identified as Indigent, enjoying services at intermediate and high levels, will qualify for 6 kl free.

Lastly, the capital development charge is costed at R 17 million per annum in terms of investment already made into infrastructure, and must be recovered in order to finance replacement capital. On average a consumer would pay R 615.87 per annum, it must be noted that this charge differs materially from area to area, kindly see analysis of tariff per area.

## **SANITATION**

In terms of key policy directives, there are ostensibly two critical components underpinning the methodology utilized to finance sanitation operations, they are specifically fixed costs associated with the infrastructure investment, and the

variable costs directly linked to the return flow to the WWTW, proportionately linked to output production of the water infrastructure at a rate of 80% as defined within the red book (Engineering design guidelines).

In terms of existing practices the District's existing tariff policy is directly aimed at a combination flat rate, or basic monthly fee linked to a proportionate number of sanitation outlets housed on an erven. Whilst this framework is viable, where a servicing authority has a mechanism to control the expansions to infrastructure on household site, the District Municipality is not mandated to keep updated records of property valuation movements for this and rating purposes. This aspect in itself, effectively negates this method, due to the high administrative cost of establishing and maintaining the mechanism.

The following is a high level overview of the sanitation operations across the district, and is intended for illustrative purposes only, and does not signify area based tariffs developed, which is unique to an area of operation, kindly refer to table denoting tariff per area for analysis, attached as **Annexure "K"**.

In terms of unpacking the above mentioned analysis, it would be evident that the ADM intends treating 10 886 megalitres of effluent per annum, with direct operational costs, net outflow items amounting to R 15.449 million.

This analysis reveals that on average it costs R 1.42 to treat 1 kl of effluent within the District, being the break even point, the cost at which the District must pitch the pricing of services to recover operational costs.

Turning attention to the financing, resource recovery aspect, it is clear that from the historical data held within the financial systems, that the District anticipates selling 10 858 346 megalitres within 2007/08 at an average rate of R 2 per kl, which at face value is technically pitched beyond the break even point.

This component is partially correct, cognizance should be taken of the fact that some areas operate at break even point beyond R3 per kl; and that the District, to minimize the impact of tariffs on affordability levels, has opted to subsidize the tariff in the sum of 96 cents per kl in the area of Ngqushwa and Mbhashe, who's sales tariff is averaging R 3.93 and R 4.26 respectively.

Lastly, the capital development charge is costed at R 24.4 million per annum, in terms of investment already made into infrastructure, and must be recovered in order to finance replacement capital. On average, a consumer would pay R 915.93 per annum for full water borne sanitation, and a consumer on conservancy tanks would pay a capital charge of R 616.96. It must be noted that this charge differs materially from area to area, kindly see analysis of tariff per area.

Importantly, consumers who make use of services at RDP level and below, will be provided services at no cost, an amount of R 3 351 599 has been set aside to clear 2,385 households as per the clearance cycle (Bucket system) for the period ending December 2007. Similarly 300 VIP users have been identified for clearance within 2007/08 at a cost of R 210 000, cost of which is to be borne through free basic sanitation.

In conclusion, having provided a detailed overview of water and sanitation, linked to clear methodologies underpinned by sound financial planning, the following area based tariff framework is presented for consideration and approval; for illustrative purposes, tables denote existing tariffs and proposed tariffs by charge type, depicting percentage increase based on a consumer, consuming and average of 14 kl of water per month.

### **BUDGET PROCESSES OVERVIEW**

The Budget Technical Team was re-established, consisting of one representative per department, confirmed by each Head of Department. Preliminary discussions were held with the team to discuss any structural changes required to the budget. After a one year period of Administration being further subdivided into two additional cost centers, being Supply Chain Management and Council Support and Auxiliary Services, it was decided that this did not offer the best solution to their needs, and the three cost centres have been merged into one again. In terms of the Water budgets, schemes were broadly split between the ADM schemes, LM schemes and DWAF schemes in the 2006/07 budget cycle. This year, the move has been to scheme based budgeting as previously mentioned, which will allow for scheme based costing and a more accurate reflection of costs per scheme, as well as being able to assess the viability of each scheme more readily. PIMMS Unit was also amalgamated with the Municipal Support Unit.

### **ADOPTION OF BUDGET PROCESS PLAN**

The prior budget process plan was revisited, updated and changes made due to lessons learnt in the past and this process plan was advertised and approved by Council on 19 August 2006, within the legislative timeframe of 10 months before the beginning of the financial year.

### **BUDGETING PROCESS**

Budget templates reflecting the 06/07 budget figures as at end of October 2006, as well as actuals for the four month period July to October 2006 were distributed to the Budget Technical Task Team (BTTT) for population of the line item details.

All new staff requirements were submitted via the Organizational Development and Recruitment Division in October 2006, subsequent to departments making presentations to the Municipal Manager in terms of perceived staffing needs.

An extract of the currently employed staff was drawn from the payday system, these were compared to the approved organogram, and vacant posts as well as all the new required posts were then added to this database.

This “costed” staffing requirement schedule, as well as the populated budget templates, was then all consolidated into an overall budget, resulting in an initial R70 million deficit situation.

The budget templates were then amended to reflect the 7 months actuals, with a forecast expenditure being calculated for the full financial year, based on the 7 month trend. This was then combined with the individual departments proposed budgets for 2007/08. Individual meetings between each Head of Department and the Municipal Manager were held, in which budgets were analyzed and the necessary reductions made to remedy the initial deficit situation. The consolidated draft budget was tabled to Council on 30 March 2007. As previously mentioned it was then posted on the website, distributed to NT and PT and all LM’s as well as advertising to public that copies were available for collection. Road shows were then undertaken for further community participation and after the Council Open day on 18 May 2007, the final budget will be tabled to Council for approval.

### **BUDGET PARAMETERS**

- a. Increase in the salary budget was set at 7.5% increase, this provision includes Councillors and Section 57 employees, although the remuneration of Section 57 employees and Councillors are not governed by the wage agreements, some provision must be made for increases, to ensure the affordability of increases once they are finally negotiated for the Section 57 employees and gazetted for the Councillors.
- b. Minimum wage of R2 907 effective 1 January 2007, with CPIX + 1.5% increases for 2008/09 already been agreed upon.
- c. Performance Bonuses for HOD’s capped at 14% of overall package, in line with the guidelines issues by the Department of Provincial Local Government (DPLG).
- d. A 12% budgetary increase on Medical Aid costs was applied across the board, remembering that the limits will be applied to Council 60% co funding.
- e. A 10% budgetary increase was applied to all group schemes, except for Fedsure, which is linked to the 7.5% salary increase.

- f. Growth parameters of 4.8% for 2007/2008, 4.5% for 2008/2009 and 5% for 2009/2010 were set.
- g. An interest rate of 6.32% on investment was assumed, based on a 3 month average of 6.32% from July to September 2006.
- h. As the results of the Job evaluation process have not yet been published, a 3% of salary cost, was provided for the implementation of the results of this exercise.
- i. Depreciation and the associated offset depreciation for assets financed from grants were budgeted for.
- j. Redemption of leave equivalent to the 8 days of accumulated leave which can be encashed, was provided for under the salary costs of each cost centre.

## **IDP PROCESSES**

In terms of Section 25 of the Municipal Systems Act 32 of 2000, 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 the annual budget must be based.

In August 2006, the Amathole District Municipality adopted a Framework Plan for the IDP throughout its area of jurisdiction, followed by an IDP and Budget Process Plan. These plans were adopted in accordance with the relevant legal prescripts and have dictated the process to be followed for developing the IDP.

Particular attention was paid to Institutional issues, IDP-budget link and an updated list of projects. An analysis was conducted in respect of various sector plans attached to the ADM's IDP and some were found to be still relevant whilst others required a review.

Organizational arrangements were put in place as per the IDP Process Plan and all legislative prescripts were adhered to. Of particular note, has been the effective and efficient operation of structures, such as DIMAFO, IDP Representative Forum, cluster workshops and the IDP Steering Committee. These have executed their mandates in terms of the adopted Process Plan and ensured the achievements of key milestones and deliverables.

Strict compliance with Municipal Planning and Performance Management Regulations of 2001, Chapter 2 has been ensured through an ongoing process of consultation between the ADM and all Local Municipalities through the operations of the said structures as well as through the activities of the MSU (PIMSS team) of the ADM.

## **BUDGET IDP ALIGNMENT**

The cluster objectives, strategies and project programmes are detailed in the attached IDP document and the Budget/ IDP linkage is reflected in the tables, which show how the entire budget is broken down per programme, per source of funding, to achieve the overall objectives of the Council.

## **OVERVIEW OF THE IDP**

- Chapter 1: Contains the planning process. It contains a table reflecting the schedule of meetings and activities undertaken throughout the year.
- Chapter 2: Contains the situational analysis
- Chapter 3: Contains the performance management framework
- Chapter 4: Contains the cluster objectives, strategies and specific project Programmes. This is where the tables reflecting the IDP budget linkage can be seen.
- Chapter 5: Contains the various sector plans
- Chapter 6: Contains the financial plan. Includes the three year capital plan
- Chapter 7: Monitoring and Review elements of the IDP.

The IDP 2007 – 2012 is attached under a **separate cover**.

## **FUNDING THE BUDGET**

Council requires an overall budget of R 723 641 534 to perform its functions during the 2007/08 financial year, detailed as follows:

### **SOURCES OF FUNDING:**

#### **INTERNAL INCOME**

The internal sources of income being:

- Service Charges: Water	R 47 458 384
- Service Charges: Sanitation	R 48 969 704
- Rent of Facilities	R 123 767
- Interest on investment	R 3 083 782
- Municipal Health Subsidy	R 6 000 000
- Primary Health Care Subsidy	R 11 041 532
- Prior Year Income	R 35 337 530
- Other Income	R 693 934
- Admin Fee Recovery	R 600 000
- Offset Depreciation	R 69 550 902

**SERVICE CHARGES WATER AND SANITATION – 13.33% OF TOTAL INCOME**

A total income of R 96 428 088 for water and sanitation has been forecast, with a corresponding Provision for Bad Debts of R 47 888 746 being brought into account.

The detailed tariffs for water and sanitation are contained in **Annexures “J” and “K”**.

**INTEREST ON INVESTMENTS – 0.43% OF TOTAL INCOME**

This is interest earned on unspent money, which is invested. Assumed a reduction to a level of R 3 083 782 million, due to the 100% project spent assumption, earning interest at an average rate of 6.32%.

**PRIOR YEAR INCOME – 4.88% OF TOTAL INCOME**

This consists of funding reserved for the shared financial services project to be rolled out in Local Municipalities of R9 485 000, as well as the R25 852 530 for the construction of the new office block for the ADM.

**OTHER INCOME – R693 934 – 0.10% OF TOTAL INCOME**

This comprises:

- R 505 897 interest earned on current account
- R 68 580 commission earned
- R 62 083 interest earned on loans
- R 24 374 job evaluation income
- R 33 000 abattoir fees

**ADMIN FEE RECOVERY – 0.08% OF TOTAL INCOME**

The ADM anticipates recovering at least R 600 000 in administration fees charged on housing projects undertaken.

**OFFSET DEPRECIATION – 9.61% OF TOTAL INCOME**

Depreciation to the tune of R 76 243 945 is reflected under the ADM’s operating expenses. Of this, R 69 550 902 is offset, relating to assets grant funded or donated assets.

**GRANT ALLOCATIONS/ALLOCATIONS MADE BY THE MUNICIPALITY**

No grant allocations to any local municipalities are to be made this year.

## **SALE OF ASSETS**

No revenue recognised from this source as Council is not anticipating sale of any assets.

## **BORROWING**

No anticipated loans will be taken out as a source of revenue by the Council.

## **EXTERNAL INCOME**

### **EQUITABLE SHARE – 19.02% OF INCOME**

The equitable share allocation for ADM for 2007/08 is R 137 639 000 as compared to the R 111 544 000 for 2006/07, representing a 23.39% increase in allocation.

### **RSC LEVY REPLACEMENT GRANT – 20.22% OF INCOME**

The allocation according to DORA will extend to 2009/10, with the 2007/08 allocation being R146 314 000, representing a 14.29% growth on the R128 024 000 level of 2006/07.

### **DWAF OPERATING AND TRANSFER SUBSIDY GRANT – 2.52% OF INCOME**

Full allocation of R18 359 000 will be transferred to the ADM this financial year, for all the DWAF operated schemes now under control of the ADM.

### **MUNICIPAL INFRASTRUCTURE GRANT (MIG) – 23.84% OF INCOME**

The 2007/08 MIG allocation for this year equates to R 172 497 000 for the municipal financial year, with a specific allocation of R 15 498 000 for bucket eradication.

### **PUBLIC TRANSPORT INFRASTRUCTURE & SYSTEMS GRANT (PTIS) – 2.90% OF INCOME**

The ADM is to receive R 21 000 000 in terms of this grant for the 2007/08 period for the first time ever. The grant will be utilised for two projects namely, Butterworth Public Transport Interchange, R15 million, and Non motorized transport infrastructure, R6 million. This grant does not extend into the outer two years.

### **MUNICIPAL SYSTEMS AND IMPROVEMENT GRANT (MSIG) AND FINANCIAL MANAGEMENT GRANT (FMG) - 0.24% OF INCOME**

The grant allocations and purposes of these grants have remained exactly the same as in the 2006/07 financial year. Specific projects are funded with the MSIG funding (R 1 000 000) and the FMG grant (R 500 000) is used chiefly to finance the two interns, currently employed at the Budget and Treasury Office.

### **MUNICIPAL HEALTH SUBSIDIES – 0.83% OF TOTAL INCOME**

The Municipal Health Budgets of Buffalo City, Nkonkobe, Amahlathi and Nxuba Municipalities have been reflected as separate costs centres in the ADM's budget. At present, an amount of R6 million rand has been included as revenue, pending the finalization of the costing of running the service.

### **PRIMARY HEALTH CARE SUBSIDY – 1.52% OF TOTAL INCOME**

Assume Primary Health Care to be fully subsidized to the tune of R11 14 532. Grants and Subsidies.

### **CHALLENGES**

- 1) **Limited discretionary funding** – chief sources of funding being Equitable Share and levy replacement grant, which are focused on free basic services, supporting the indigent and financing inefficiencies. Largely reliant on this source of funding.
- 2) **Municipal Health** - ADM to receive subsidization of 100% first three years for provincial costs, with nothing thereafter
- 3) **Capital Streams** – MIG funding for instance is discretionary by nature and does not allow for replacement capital [focused on new capital].
- 4) **Powers and functions** forcing expenditure on non-income generating functions e.g. fire services, heritage function, which are not self sustainable. Institution to actively hunt for funding for these types of initiatives.
- 5) **Repairs and maintenance** in isolation are not sufficient, but must be viewed in conjunction with the capital replacement reserve.
- 6) **Salaries** constitute 22.63% of overall expenditure – need to look at natural attrition of staff in areas where surplus people are employed and curb the consistent rise in demand for new posts.
- 7) **High levels of capacity in project management**, funding however is aligned to operations.

- 8) **Amathole Economic Development Agency (AEDA)** needs to re focus its priorities, partner with the LED unit within the ADM, and engage in income generating initiatives, which will ultimately lead to it becoming self sustainable.
- 9) **Concept of priority projects phased out with the abolishment of RSC levies** – no allocation specifically to priority projects – refer to ring fencing of water income, focusing on asset refurbishment grant, and inclusion of soft programs like communications, AEDA, etc being included in the operating budgets.

## **EXPENDITURE**

### **EMPLOYEE RELATED COSTS – 22.63% OF EXPENDITURE**

Assumed a 7.5% increase (as well as a 2,5% notch increase, where applicable) for staff, Section 57 employees and Councillors salaries. The 33% growth on 2006/07 figures can be attributed to the 82 new posts being created for the 2007/08 financial year, 50 of these new posts being in terms of providing Municipal Health within the District. Total employee related costs account for 22.5% of total budgeted expenditure. The Council is also challenged with including all water staff, municipal health staff and staff previously funded by priority project income in this salary component. The Council will have to go through a process of natural attrition to get staff to the required levels.

The level of remuneration of the CFO, and the remaining section 57 employees being: R637 426 in total per annum, with a maximum performance bonus of R89 240 being provided for. The Municipal Managers remuneration is budgeted for at R768 907 per annum with a performance bonus of R107 647 being provided,

### **REMUNERATION OF COUNCILLORS**

#### **COUNCILLOR SITTING ALLOWANCES – 1.49% OF EXPENDITURE**

The amount increased from R 150 000 to R 200 000 based on historical payouts in 2006/07 of actual meetings attended.

#### **PROVISION FOR BAD DEBTS – 6.62% OF EXPENDITURE**

Total provision set at a total of R 47 888 746. Provisions based this year on scheme irrecoverable debt, remembering that an anticipated level of R 96 428 88 of revenue being generated from water and sanitation has been budgeted for. Initiatives including the data cleansing of the consumer database are being undertaken to curb the recurrence of such a sizeable provision.

#### **LEGAL COSTS – 0.08% OF EXPENDITURE**

Only provided for legal expenses for 2007/08 with no provision for the 15% commission paid to external service providers for levies collected, as no further outstanding levy income has been budgeted for.

## **REPAIRS AND MAINTENANCE – 2.29% OF EXPENDITURE**

Computer Maintenance has been further broken down within the ICT division, to cater and reflect on specific needs e.g.:

3 G Fees, Internet Fees, Local Area Network switches, SAN, VPN's, WAN, Uninterrupted Power Supply, Arcserve, Dims, Documentum, Edams, Firewall, GIS, MEA, Payday, Service Desk, Trend, Venus and Intranet all being budgeted for separately. A total of R 6 080 000 being budgeted for accounting for 36.75% of total repairs and maintenance.

Buildings maintenance of R 1 240 000 has been included under the Building repairs budget, includes maintenance of 40 Cambridge Street, Caxton House, BOE Building, Whelan Workshop and other ADM buildings situated within the District.

Maintenance for the Water and Sanitation Schemes amounts to R 8 453 144, being 51% of total repairs and maintenance budget. The level of repairs may seem low, only 2.29% of overall expenditure, but this must be viewed in conjunction with the capital replacement reserve of R24 000 000, which constitutes 3.32% of total budget.

## **INTEREST AND REDEMPTION EXPENSES – 0.39% OF EXPENDITURE**

The ADM has had to incorporate the following Local Municipality loan and redemption commitments:

<b>LM CONTROLLED SCHEME</b>	<b>INTEREST PORTION</b>	<b>REDEMPTION PORTION</b>
Stutterheim Water Treatment Works	149 837	611 690
Alice Water Treatment Works	387 273	345 467
Cintsa East Sewerage	200 000	100 000
Alice Sewerage	700 000	300 000
<b>TOTAL:</b>	<b>1 437 110</b>	<b>1 357 157</b>

## **GENERAL EXPENSES – 19.21% OF EXPENDITURE**

General Expenses reflect a 14% increase on last year, including R 81 770 400 for Water Schemes, this includes R 19 051 845 for indigent support to consumers, R20 293 399 for treated water purchases and R 6 524 429 for raw water purchases. The other major contributor to general expenses being R 9 485 000 under ICT for the shared services project, which is currently being implemented at the first LM, being Nkonkobe. The advantage of having a uniform financial system will become profoundly evident in being able to produce comparable financial reports.



**TRANSFER TO CAPITAL REPLACEMENT RESERVE – 3.32% OF EXPENDITURE**

A total amount of R 24 000 000 has been transferred to this reserve in the 2007/08 financial year, in an effort to ring fence water revenue for refurbishment of water assets, many of which have almost reached their maximum useful life and will need replacing for Council to be able to continue to provide water and sanitation services in the future.

**NEW AND REPLACEMENT CAPITAL – 6.57% OF EXPENDITURE**

This includes R 25 867 530 for the new office building for the ADM, as well as R 17 462 000's worth of capital for water & sanitation schemes. The latter incorporating half ton bakkies, specialized water care vehicle, one ton bakkies, water tankers, night soil tankers, TLB's, plumbing trailers, specialized plumbing trucks, sachet plant and sachet delivery truck, which will see water packaged in much the same way as milk sachets, allowing 2 sachets containing 4 litres of water each to be easily slung over the shoulder and carried. R 3 500 000 is also included under the equipment capital budget for the purchase of 2,200 prepaid water devices.

**MIG CAPITAL PLAN ALLOCATIONS**

Council has been allocated R172 497 000 for MIG projects for 2007/08. The detailed proposed projects are listed in the capital budget and can be summarised broadly as follows:

Water, Sanitation and Housing: R155 095 218  
Roads & Transport: R2 808 279  
Solid Waste: R9 350 000  
Community Facilities: R3 493 503  
Local Economic Development: R1 750 000

## **SHARE OF BUDGET PER PRIORITY FUNCTION**

The Council's focus on Water and Sanitation as a key priority area is evident from the chart below:

### **Share of Budget per Priority Function**

<b>Function</b>	<b>Amount</b>	<b>Percentage</b>
Councillors & Support Staff	29,414,650	4.06%
Municipal Manager & Related Departments	49,073,897	6.78%
Administration (incl Calgary, Buildings, Land & Housing, Supply Chain Management, Council Support and Auxilliary Services)	50,770,161	7.02%
Budget & General	21,290,267	3.00%
Human Resources	11,337,703	1.57%
Water & Sanitation	310,371,054	42.89%
Engineering	12,615,464	1.74%
PMU Unit	5,755,830	0.80%
Municipal Health Services	15,268,346	2.11%
Fire Services	5,931,246	0.82%
Health & Protection & Disaster Management	5,401,384	0.75%
Primary Health Care	11,014,532	1.52%
MIG Allocation	172,497,000	23.84%
MSIG	1,000,000	0.14%
PTIF	21,000,000	2.90%
FMG	500,000	0.07%
<b>Total Expenditure:</b>	<b>723,641,534</b>	<b>100.00%</b>

## **CONCLUSION**

The ADM to re-brand its customer [customer charter], collect what is due to Council as far as debt is concerned, grow its data base, and route out inefficiencies, in order to enhance the levels of recovery on discretionary revenue.

The ADM also to observe expenditure levels on non-income generating services in order to force sustainability and allow for maximum spending on income generating services.

## **STAFF IMPLICATIONS**

The staffing requirements have been considered and the budget associated with the 85 new proposed posts has been included in the salaries and wages budget. Final approval to fill the posts still needs to be obtained before the posts can be advertised in the new financial year.

## **FINANCIAL IMPLICATIONS**

The full financial effect of the 2007/08 budget is summarized in the attached budget summaries.

IDP-Budget link has been fostered throughout the process and has been attained.

## **OTHER PARTIES CONSULTED**

Budget Technical Task Team  
Budget Steering Committee  
IDP Steering Committee  
Departmental Heads  
Municipal Manager  
Technical Services Directorate  
National Departments  
Provincial Departments  
Local Municipalities within the ADM  
Youth Commission  
Non-Governmental Organisations  
Community Based Organisations  
Parastatals