**OFFICE OF THE MAYOR**

25 March 2013

For submission to Council

**TABLING OF THE 2013/14 ANNUAL BUDGET**

# 1. Purpose

To present to council the draft budget for 2013/14 financial year.

# 2. Applicable Legislation

**MFMA**

In terms of section 16 (1) of the Local Government Municipal Finance Management Act 56 of 2003, 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 the 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.

In terms of section 17 (1) an annual budget of a municipality must be in 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 financial 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.

(2) An annual budget must generally be divided into capital and operating budget in accordance with international best practice, as may be prescribed.

(3) When an annual budget is tabled in terms of section 16 (2), it must be accompanied by the following documents:

(a) Draft resolutions –
  (i) approving the budget of the municipality
  (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
  (iii) approving any other matter that may be prescribed;
(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;
(c) a projection of cash flow for the budget year by revenue source, broken down per month;
(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
(e) any proposed amendments to the budget-related policies of the municipality;
(f) particulars of the municipality's investments;
(g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;
(h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
(j) particulars of any proposed allocations or grants by the municipality to –
  (i) other municipalities;
  (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
  (iii) any other organs of state;
  (iv) any organisations or bodies referred to in section 67 (1);
(k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of –
  (i) each political office-bearer of the municipality;
  (ii) councillors of the municipality;

(iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;

(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of –

(i) each member of the entity's board of directors; and
(ii) the chief executive officer and each senior manager of the entity; and

(m) any other supporting documentation as may be prescribed

# 3. NATIONAL TREASURY Circulars

Compliance with **budget circulars 66 and 67.**

# CIRCULAR 66

The following excerpts are highlighted:

**Taking the 2011 Local Government Budgets and Expenditure Review forward**

The *Review* highlights the following areas as requiring particular attention by municipalities:

i. ***Collecting outstanding debts*** – This requires political commitment, sufficient administrative capacity, and pricing policies that ensure that bills are accurate and affordable.

ii. ***Pricing services correctly*** – The full cost of services should be reflected in the price charged to residents who can afford to pay. Many municipalities offer overly generous subsidies and rebates that result in services being run at a loss, resulting in funds being diverted away from other priorities.

iii. ***Underspending on repairs and maintenance*** – Often seen as a way to reduce spending in the short term, underspending on maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs, and cause a deterioration in the reliability of services.

iv. ***Spending on non-priorities*** – Many municipalities spend significant amounts on non- priority items including unnecessary travel, luxury furnishings, excessive catering and unwarranted public relations projects. Consultants are often used to perform routine tasks. Considering the pressurised economic climate continued spending on non- priority wants cannot be sustained.

## Local government equitable share formula review and 2011 Census

### *Impact of the new formula on municipal budgets*

The new formula will use data from the 2011 Census that will reflect substantial changes since the 2001 Census which was the source of most of the data used in the current equitable share formula. The change to the formula as well as the updating of the data will both result in changes to the allocations to individual municipalities.

In order to provide predictability and stability in equitable share allocations, national government provides a guarantee that municipalities will receive at least 90 per cent of the allocation for 2013/14 published in the 2012 Division of Revenue Bill. In addition to this guaranteed minimum, the new equitable share allocations will also be phased in over a period of three to five years to provide municipalities time to absorb adjustments to allocations.

## Council oversight over the budget process

A municipal council is elected to direct and exercise oversight of how a municipality raises revenue, plans the use of funds through its budget and spends the funds in accordance with the council approved budget. In terms of section 4(2)(a) of the Municipal Systems Act the council has a duty **"to use the resources of the municipality in the best interests of the local community"**. This duty is extended to individual councillors through the *Code of Conduct for Councillors*, which states:

2. **General conduct of councillors**. – A councillor must –
   (a) perform the functions of office in good faith, honestly and in a transparent manner; and
   (b) at all times act in the best interests of the municipality and in such a way that the credibility and integrity of the municipality are not compromised.

Over the last few years, an escalating trend in unauthorised, irregular and fruitless and wasteful expenditures has been observed by the Auditor-General in its annual reports on local government audit outcomes. Many municipalities have not dealt effectively with instances of unauthorised, irregular and fruitless and wasteful expenditure. Such matters must be dealt with decisively by council so to address any perceived fraud and corruption.

Therefore, each council has a duty to put in place policies and processes to:

(a) **Prevent** unauthorised, irregular and fruitless and wasteful expenditure;

(b) **Identify and investigate** unauthorised, irregular and fruitless and wasteful expenditure; and

(c) **Respond** appropriately, and in accordance with the law, to confirmed instances of unauthorised, irregular and fruitless and wasteful expenditure.

**Management accounting and tariff setting**

Municipalities are increasingly under recovering the cost associated with trading services i.e. electricity, water, waste management and waste water management and this position is further exacerbated by the fact that no consideration is given to overhead costing and the influence on the total cost of providing the service. This in turn impacts on tariff setting and in many instances municipalities are cross subsidising a trading service from property rates revenue; a totally defective approach to pricing and tariff setting of municipal trading services.

The Technical Committee on Finance (TCF) endorsed a pilot project to be undertaken at a local municipality in reviewing and researching an appropriate cost management methodology for local government. The project involved unpacking the adopted municipal budget for the 2012/13 financial year, evaluating cost distribution tools and methodologies and testing appropriateness of applications. The first phase of the project is nearing completion and a guideline will be distributed early in 2013 providing municipalities with a generic management accounting methodology.

In addition to the guideline, the research work has informed the design principles for a segment within the SCOA for local government. This will provide municipalities with not only pure accounting functionality as part of SCOA but also the key dimension of management accounting. In finalisation of SCOA for local government and ensuring the alignment between the Municipal Budget and Reporting Regulations, in-year reporting and annual financial systems National Treasury envisages additions to the Municipal Budget and Reporting Regulations going forward.

Further guidance around tariff setting for main trading services is supplied in the section of this Circular dealing with revising of rates, tariff and other charges.

## Headline inflation forecasts

Municipalities must take the following inflation forecasts into consideration when preparing their 2013/14 budgets and MTREF. Again this information will be updated in a further Budget Circular to be issued after the tabling of the National Budget on 27 February 2013.

| Fiscal year | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| | Actual | Estimate | | Forecast | |
| **CPI Inflation** | 5.0% | 5.7% | 5.5% | 5.1% | 4.9% |

*Source: Medium Term Budget Policy Statement 2012*

# Revising rates, tariffs and other charges

### Water and sanitation tariffs must be cost-reflective

Municipalities are reminded to review the level and structure of their water and sanitation tariffs carefully with a view to ensuring:

- Water and sanitation tariffs are on aggregate fully cost-reflective – including the bulk cost of water, the cost of maintenance and renewal of purification/treatment plants and network infrastructure, and the cost of new infrastructure;
- Water and sanitation tariffs are structured to protect basic levels of service; and
- Water and sanitation tariffs are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

If a municipality's water and sanitation tariffs are not fully cost reflective, the municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time. However, all municipalities should aim to have appropriately structured, cost-reflective water and sanitation tariffs in place by 2014.

To mitigate the need for water tariff increases, municipalities must put in place an appropriate strategy to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service, and not simply attributed to water 'losses'.

Municipalities' not already calculating and reporting non-revenue water in accordance with the International Water Association (IWA) standards as required by the Department of Water Affairs (DWA) should contact DWA for assistance in this regard. National Treasury is working with DWA to publish this information in the near future.

### Solid waste tariffs

Municipalities are once again reminded that in many instances waste tariffs do not cover the cost of providing the different components of the service. Where this is the case, municipalities should aim to have appropriately structured, cost-reflective solid waste tariffs in place by 2015.

The tariffs for solid waste management must take into account that it is good practice to maintain a cash-backed reserve to cover the future costs of rehabilitating landfill sites.

Municipalities are encouraged to explore alternative methodologies to manage solid waste, including recycling and incineration in plants that use the heat energy to generate electricity.

## Funding choices and management issues

Municipalities are once again reminded that given on-going economic pressures, the revenue side of municipal budgets will continue to be constrained, so they will again need to make some very tough decisions on the expenditure side this year. Priority still needs to be given:

Ensuring that drinking water and waste water management meets the required quality standards at all times;

- Protecting the poor;
- Supporting meaningful local economic development (LED) initiatives that foster micro and small business opportunities and job creation;
- Securing the health of their asset base (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance;
- Expediting spending on capital projects that are funded by conditional grants;
- and Ensuring that borrowed funds are invested in revenue generating assets as part of the capital programme.

Municipalities must also ensure that their capital budgets reflect consistent efforts to address the backlogs in basic services and the renewal of the infrastructure of existing network services.

**Employee related costs**

Municipalities must take into account the multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1 February 2012 until 31 January 2013, plus 1.25 per cent for the 2013/14 financial year.

Considering that municipalities will be preparing and finalising their respective 2013/14 MTREF for tabling as per the MFMA prior to the announcement of the final CPI for the relevant period, municipalities will have to provide for assumed budget growth as it relates to employee related costs.

In this regard municipalities are advised that average CPI for the period November 2011 to October 2012 is 5.74 per cent which compares well to the estimate of 5.7 per cent for 2012 as provided for in the 2012 Medium Term Budget Policy Statement. Municipalities are therefore advised to provide for increases related to salaries and wages for the 2013/14 budget and MTREF as follows:

*2013/14 Financial Year – 6.95 per cent (5.7 per cent plus 1.25 per cent)*
*2014/15 Financial Year – 6.5 per cent (5.5 per cent plus 1 per cent)*

Once the final average CPI for the period 1 February 2012 until 31 January 2013 is available municipalities will be a position to adjust their 2013/14 budget and MTREF prior to tabling for consideration and approval to the end of May 2013; it is not envisaged that the actual CPI will be a significant deviation from the guidelines and should therefore not have a detrimental impact on the tabled budget prior to community consultation.

In addition to considering the actual salary and wage increases municipalities are reminded to accurately budget for actual positions and vacancies as per the organisational structure of the municipality and notch increments where applicable. Municipalities are also reminded that supporting tables SA22 (Summary councillor and staff benefits), SA23 (Salaries, allowances and benefits of political office bearers/councillors/senior managers) and SA24 (summary of personnel numbers) as part of the Municipal Budget and Reporting Regulations need to be accurately completed. Municipalities are urged to provide a narrative to the budget document explaining the numbers and budget appropriations.

Excessive expenditure on overtime has been increasingly observed in National Treasury's analysis of municipal budgets. In certain instances overtime can account for as much as 8 per cent of the employee related costs. Although overtime is considered acceptable, as it relates to essential services; an excessively high allocation could be an indication of performance inefficiencies. Overtime is an expensive form of remuneration and can easily be abused. Should excessive overtime be found to be legitimate it could be an indication that the organisational structure is insufficiently funded and hence would require funds being rather appropriated against vacancies. Based on the most recent Budget and Benchmark Engagements with the non-delegated municipalities, overtime as a percentage of total remuneration averaged 4.5 per cent. As a guideline, municipalities are advised that a percentage above 5 per cent would require further investigation; it needs to be noted that this percentage is based on total municipal remuneration and individual functions will differ owing to the nature of the service rendered.

**Debt impairment, depreciation, and other non-cash expenditure items**

Municipalities have recently raised concern over the classification of non-cash flow expenditure being classified as unauthorised owing to overspending; such expenditure relates to debt impairment, depreciation and asset impairment, and transfers and grants as appropriated in Table A4 (Budgeted Statement of Financial Performance: revenue and expenditure) of the MBRR.

Although these expenditures are considered non-cash items as there is no transaction with the 'outside world', an under provision during the budget compilation process is a material misstatement of the surplus/(deficit) position of the municipality. This could be associated with poor budgeting and financial management or events that gave rise to the asset and debt impairment were unknown at the time of budget finalisation and adoption. Nevertheless, the Auditor-General must express an opinion in relation to non-cash items as it relates to unauthorised expenditure resulting from overspending. In this regard Table A4 (Budgeted Statement of Financial Performance: revenue and expenditure) must be read in conjunction with supporting Table SA1 of the MBRR. Although National Treasury understands that budgeting for certain non-cash flow expenditure such as investment property impairment is extremely difficult owing to the nature of the transaction; other non-cash flow expenditure such as debt impairment and depreciation are more predictable and should be informed by actual municipal performance and intended capitalisation of property, plant and equipment during the budget year.

Municipalities are advised to carefully project and appropriate expenditure against non-cash items during the budget compilation process in proactively dealing with possible instances of unauthorised expenditure. Section 160(2) of the Constitution provides that a council may not delegate the approval of budgets or the imposition of rates, taxes, levies and duties. In other words, *only the council may make decisions related to the raising of municipal revenues and approving (or authorising) the spending of those revenues through the budget or an adjustments budget*.

**Renewal and repairs and maintenance of existing assets**

It is observed that budget appropriations for renewal and operational repairs and maintenance of existing asset infrastructure is still not receiving adequate priority regardless of guidance supplied in MFMA Circular No. 55 – Municipal Budget Circular of the 2011/12 MTREF.

Municipalities are therefore once again reminded of the guidelines as supplied in MFMA Circular No. 55. For the 2013/14 budgets and MTREF's municipalities must take into consideration:

- Where the municipality allocates less than 40 per cent of its 2013/14 Capital Budget (as reflected on Table A9) to the renewal of existing assets it must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing health of the municipality's infrastructure supported by reference to its asset management plan;
- Where the budgeted amounts for repairs and maintenance reflected on Table A9 are less than 8 per cent of the asset value (write down value) of the municipality's Property Plant and Equipment (PPE) as reflected in the municipality's 2011/12 annual financial statements, the municipality must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing health of the municipality's infrastructure supported by reference to its asset management plan; and
- In the case of a municipality that received an audit qualification related to its assets register, where the budgeted amounts for repairs and maintenance reflected on Table A9 are less than 10 per cent of the municipality's operating expenditure on Table A4, the municipality must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing health of the municipality's infrastructure supported by reference to its asset management plan.

**Eliminating non-priority spending**

The following additional examples of non-priority expenditure have been observed, and municipalities are reminded that they need to be eliminated:

i. excessive sponsorship of music festivals, beauty pageants and sporting events, including the purchase of tickets to events for councillors and/or officials;
ii. public relations projects and activities that are not centred on actual service delivery or are not a municipal function (e.g. celebrations; gala dinners; commemorations, advertising and voter education);
iii. LED projects that serve the narrow interests of only a small number of beneficiaries or fall within the mandates of other government departments such as the Department of Agriculture;
iv. excessive catering for meetings and other events, including the use of public funds to buy alcoholic beverages;
v. arranging workshops and events at expensive private venues, especially ones outside the municipality (as opposed to using the municipality's own venues);
vi. excessive printing costs (instead of maximising the use of the municipality's website, including providing facilities for the public to access the website);
vii. excessive luxurious office accommodation and office furnishings;
viii. foreign travel by mayors, councillors and officials, particularly 'study tours';
ix. excessive councillor and staff perks such as luxurious mayoral cars and houses, notebooks, IPADS and cell-phone allowances; travel and subsistence allowances. Municipalities are reminded that in terms of section 7 (1) of the Remuneration of Public Office-bearers Act, 1998 (Act No.20 of 1998) the Minister for Cooperative Governance and Traditional Affairs must determine the limit of salaries and allowances of the different members of municipal councils and any budget provision may not be outside this framework;
x. excessive staff in the office of the mayor – particularly the appointment of political 'advisors' and 'spokespersons';
xi. all donations to individuals that are not made in terms of the municipality's indigent policy or a bursary scheme; for instance donations to cover funeral costs (other than pauper burials which is a district municipality function);
xii. costs associated with long-standing staff suspensions and the legal costs associated with not following due process when suspending or dismissing staff, as well as payment of severance packages or 'golden handshakes'; and
xiii. the use of consultants to perform routine management tasks, and the payment of excessive fees to consultants.

**Budget management issues dealt with in previous MFMA Circulars**

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54 and 55 with regards to the following issues:

1. *Mayor's discretionary funds and similar discretionary budget allocations* – National Treasury regards allocations that are not designated for a specific purpose to be bad practice and discourages them (refer to MFMA Circular 51).
2. *Unallocated ward allocations* – National Treasury does not regard this to be a

good practice, because it means that the tabled budget does not reflect which ward projects are planned for purposes of public consultation and council approval (refer to MFMA Circular 51).

3. *New office buildings* – Municipalities are required to send detailed information to National Treasury if they are contemplating building new main office buildings (refer to MFMA Circular 51).
4. *Virement policies of municipalities* – Municipalities are reminded of the principles that must be incorporated into municipal virements policies (refer to MFMA Circular 51).
5. *Providing clean water and managing waste water* – Municipalities are reminded to include a section on 'Drinking water quality and waste water management' in their
   2013/14 budget document supporting information (refer to MFMA Circular 54).
6. *Renewal and repairs and maintenance of existing assets* – Allocations to repairs and maintenance, and the renewal of existing infrastructure must be prioritised.
   Municipalities must provide detailed motivations in their budget documentation if allocations do not meet the benchmarks set out in MFMA Circular 55.
7. *Budgeting for an operating deficit* – Over the medium term, a municipality should budget for a moderate surplus on its Budgeted Statement of Financial Performance so as to be able to contribute to the funding of the Capital Budget. If the municipality's operating budget shows a deficit it is indicative that there are financial imbalances that need to be addressed (refer to MFMA Circular 55).
8. *Credit cards and debit cards linked to municipal bank accounts are not permitted* – On 02 August 2011 National Treasury issued a directive to all banks informing them that as from 01 September 2011 they are not allowed to issue credit cards or debit cards linked to municipal bank accounts (refer to MFMA Circular 55).

# CIRCULAR 67

### 5.6 Municipal water infrastructure grant and non-revenue water

The 2013 DoRA introduces a new grant namely; the Municipal Water Infrastructure Grant to be administered by the Department of Water Affairs. The grant is aimed at accelerating the delivery of clean water to communities that do not have access to basic water services. The grant provides funding for municipalities to plan and implement various projects; including the construction of new infrastructure and the refurbishment and extension of existing water schemes.

According to the latest National Non-Revenue Water Assessment Report recently released by the Water Research Commission and the Department of Water Affairs, more than 50 per cent of municipalities cannot provide a water balance. These municipalities cannot determine whether demand for water exceeds supply or quantify the extent to which non-revenue water influences water security and financial sustainability.

Considering this strategic imperative, managing non-revenue water becomes a critical aspect of accelerating the delivery of clean water to communities. Municipalities are required to ensure appropriate measurement and reporting of all water losses as per the national targets, and to ensure a common understanding and alignment between technical and financial departments on water loss issues. Inconsistencies have been observed in the methodology applied by municipalities in reporting water losses.

Municipalities are reminded that they are required to report on both apparent (commercial) and real (physical) losses as per the Modified International Water Association (IWA) Water Balance for South Africa. Municipalities are referred to the 2011 Local Government Budget and Expenditure Review (pages 131 to 140) for further information.

# Funding choices and management issues

### 6.1 Benefits to councillors and mayors

In terms of section 167(2) of the MFMA, any remuneration paid in cash or kind to a person as a political office-bearer or as a member of a political structure of a municipality, other than is provided for in the framework of the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998), is regarded as irregular expenditure. This remuneration includes any bursary, loan, advance or other benefit.

The Determination of Upper Limits of Salaries, Allowances and Benefits of Different Members of Municipal Councils (Government Gazette No. 35962) creates allowance for 'tools of trade'. As defined in the Gazette, tools of trade are the resources or enabling facilities provided by a municipal council to a councillor to enable effective and efficient fulfilment of his/her duties in the most cost effective manner, and at all times remain the assets of the municipality. Section 14 of the Gazette details the tools of trade that may be extended to councillors.

It has to come to the attention of National Treasury that there are efficiency leakages in the way that municipalities manage costs associated with cellular telephones and mobile data (3G). National Treasury has come across instances were municipalities are spending tens of thousands on individual contracts per month. This situation must be urgently addressed by all municipalities in ensuring cost efficiency and value for money for the tax payer.

Where such a policy is not already in place, municipalities are required to compile and approve a cellular telephone (mobile) and data (3G) policy with effect of 1 July 2013. The policy must set upper monthly limits for costs associated with these expenses and the 2013/14 MTREF budget must be compiled in line with these limits.

National Treasury will request the Auditor General to audit against the policy for the 2013/14 financial year and where it is found that expenditure was incurred outside the limits contained in the policy framework, such expenditure will be classified as fruitless and wasteful expenditure as part of the 2013/14 audit finding.

### 7.4 Responsibilities of transferring and receiving authorities

The legal obligations placed on transferring and receiving officers in terms of the 2013 Division of Revenue Bill are very similar to previous requirements. National Treasury intends ensuring strict compliance in order to improve spending levels, and the quality of information relating to the management of conditional grants.

Municipalities are again reminded that compliance with the annual Division of Revenue Act is the responsibility of the municipal manager as the "receiving officer". The municipal manager is responsible for, among other things, the tabling of monthly reports in council on whether or not the municipality is complying with the Division of Revenue Act. He/she is also responsible for reporting on any delays in the transfer or the withholding of funds. Failure on the part of a municipal manager to comply with the Act will have financial implications for the municipality as it will lead to the municipality losing revenue when funds are stopped and/or reallocated.

Where the municipality is unable to comply, or requires an extension, the municipal manager must apply to the National Treasury and provide comprehensive motivation for the non-compliance.

### 7.5 Unspent conditional grant funds for 2012/13

To bring legal certainty to the process of managing unspent conditional grant funds, section 21 of the 2013 Division of Revenue Bill contains all provisions relating to the treatment of unspent conditional grant funding.

The process to ensure the return of unspent conditional grants for the 2012/13 financial year will be managed in accordance with section 21 of the Division of Revenue Bill. In addition to the previous MFMA circulars, the following practical arrangements will apply –

Step 1: Municipalities must submit their June 2013 conditional grant expenditure reports according to section 71 of MFMA reflecting all accrued expenditure on conditional

Step 2: When preparing their annual financial statements a municipality must determine what portion of each national conditional allocation it received remained unspent as at 30 June 2013. These amounts MUST exclude all interest earned on conditional grants and all VAT related to conditional grant spending that has been *reclaimed from SARS*, which must be disclosed separately.

Step 3: If the receiving officer wants to motivate in terms of section 21(5)(b) of the Division of Revenue Bill 2013 that the funds have been spent or are committed to identifiable projects or wants to propose an alternative payment method or schedule the required information must be submitted to National Treasury by 30 August 2013. ***National Treasury will not consider any rollover requests that are incomplete (see item 7.6 below) or that are received after this deadline.***

Step 4: National Treasury will confirm in writing whether or not the municipality may retain as a rollover any of the unspent funds because they are committed to identifiable projects or whether it has agreed to any alternative payment methods or schedules by 1 October 2013.

Step 5: A municipality must return the remaining unspent conditional grant funds that are not subject of a specific repayment agreement with National Treasury to the National Revenue Fund by 21 October 2013. Failure to return these unspent funds by this date will constitute financial misconduct in terms of section 34 of the Division of Revenue Act.

Step 6: Any unspent conditional grant funds that should have been repaid to the National Revenue Fund by 21 October 2013 will be offset against the municipality's November equitable share allocation.

All the calculations of the amounts to be surrendered to the National Revenue Fund will be audited by the Auditor-General.

### 7.6 Criteria for the rollover of conditional grant funds

Municipalities may not rollover unspent conditional grant spending in terms of section 28(2)(e) of the MFMA (read together with regulation 23(5) of the Municipal Budget and Reporting

Regulations) because they are national/provincial funds. The applicable rollover process is then given effect through the national/provincial adjustments budget in October/November each year. In this regard refer to MFMA Budget Circular No. 51 for more information.

Section 21 of the 2013 Division of Revenue Bill requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund, unless the receiving officer proves to the satisfaction of National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When applying to retain unspent conditional allocations committed to identifiable projects or requesting a rollover in terms of section 21(2) of the Division of Revenue Act, municipalities must supply National Treasury with the following information –

1. A formal letter addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 21(2) of the 2013 of DoRA;
2. List of all the projects that are linked to the unspent conditional grants;
3. Evidence that work on each of the projects has commenced, namely either of the following:
    a. Proof that the project tender was published and the period for tender submissions closed before 30 June; or
    b. Proof that a contract for delivery of the project was signed before 30 June.
4. A progress report on the state of implementation of each of the projects;
5. The amount of funds committed to each project, and the conditional allocation from which the funds come;
6. An indication of the time-period within which the funds are to be spent; and
7. Proof that the Chief Financial Officer is permanently appointed. ***No rollover requests will be considered for municipalities with vacant or acting chief financial officers***.

**If any of the above information is not provided or the application is received by National Treasury after 30 August 2013, the application will be declined.**

In addition, National Treasury will also take into account the following information when assessing rollover applications, and reserves the right to decline an application if there is non-performance by the municipality in any of these areas:

1. Compliance with the in-year reporting requirements in sections 71 and 72 of the MFMA and section 12 of the 2013 DoRA, including the municipal manager and chief financial officer signing-off on the information sent to National Treasury;
2. Submission of the pre-audit Annual Financial Statements information to National Treasury by 31 August 2013;
3. Accurate disclosure of grant performance in the 2012/13 pre-audit Annual Financial Statements; and
4. Cash available in the bank as at 30 June 2013 to finance the roll-over request.

When approving any rollover requests, National Treasury will use the latest conditional grant expenditure information available at the time, which in this instance is likely to be the disclosure of grant performance in the 2012/13 pre-audit Annual Financial Statements which need to be concluded by 31 August 2013.

### 8.3 Certification that budget is correctly captured

Once the municipal council has adopted the municipal budget in the format of Schedule A the relevant portions of the budgets reflected in Tables A1 to A10 need to be captured on the municipality's financial system so that the municipality can manage its revenue and expenditure against the adopted budget. It has come to National Treasury's attention that many municipalities do not capture their adopted budgets on their financial system, and even those that do, do not 'lock' the adopted budget – meaning that the budget reflected on the system can be changed at any time without following due process.

To eliminate this bad practice, National Treasury hereby requests the accounting officer of each municipality in terms of the section 74 of the MFMA to provide a signed certificate by no later than 15 July 2013 certifying that:

1. The adopted annual budget has been captured on the municipality's financial system, and that there is complete agreement between the budget on the system and the budget adopted by council;
2. That the adopted annual budget on the municipality's financial system is locked; and
3. That the municipality has in place controls to ensure that the budget captured on the financial system can only be changed in accordance with:
    a. a virement authorised by the municipal manager, or duly delegate official, in terms of a council approved virements policy; and
    b. an Adjustments Budget approved by council.

## 9 Budget process and submissions for the 2013/14 MTREF

Over the past number of years there have been significant improvements in municipal budget processes. Municipalities are encouraged to continue their efforts to improve their budget processes based on all previous guidance provided and the Municipal Budget and Reporting Regulations. Municipalities are reminded that the IDP review process and the budget process should be combined into a single process.

### 9.1 Submitting budget documentation and schedules for 2013/14

To facilitate oversight of compliance with Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that ***immediately*** after an annual budget is tabled in a municipal council it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. So if the annual budget is table to council 29 March 2013, the final date of submission of the electronic budget documents is **Tuesday, 2 April 2013**. Hard copies must be received by no later than **Wednesday, 10 April 2013** including a council resolution in support of the tabled budget; and

The municipal manager must submit:

- the budget documentation as set out in Schedule A of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and all the supporting tables (SA1 – SA37) and prescribed minimum narrative information in both printed and electronic format;

- the draft service delivery and budget implementation plan in both printed and electronic format; and
- in the case of approved budgets, the council resolution.

### 9.3 Publication of budgets on municipal websites

In terms of section 75 of the MFMA all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (containing audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting public accountability and good governance.

### 9.4 Publication of municipal budgets on National Treasuries website

National Treasury publishes all the approved municipal budgets on its website. However, before publishing National Treasury verifies the correctness of the information submitted by municipalities by comparing the following three sources of information:

1. The Approved Budget, which is the municipality's budget in the format of Schedule A as approved by council (hard copy).
2. Schedule A1, which is the electronic version of the budget Tables A1 to A10, and supporting tables.
3. The Database budgets, which is the municipal budget generated from the information the municipality submits in the Budget Reform Returns.

The information in the Schedule A1 and the Database budget returns **MUST** reconcile with the Approved Budget as this is the budget that council has adopted and is therefore the legal basis for all revenue collection and expenditure activities within the municipality.

While only 112 municipalities managed to achieve this reconciliation in the 2011/12 financial year, 149 municipal budgets were aligned in the 2012/13 financial year. Efforts will continue to ensure all municipalities meet requirements and further improve the quality of budget information.

# 4. FINANCIAL IMPLICATION(S)

See Tariff List Annexure "A"

# 5. DISCUSSION: BUDGET RELATED POLICIES

The following budget related policies which affect the general public, are attached for consideration by the council:

1 Credit Control Policy

2 Indigent Policy

3 Rates policy

4 Tariff Policy.

5 Budget Policy

As attached per annexure “B”

# 6. DISCUSSION BUDGET

The draft budget is tabled in the FOLLOWING Formats:

## Budget Schedule

The Budget Schedule, as informed by the Excel schedules as set out below, to be submitted to provincial- and national treasury.

## Excel or “Line Item” format.

The following tables and schedules inform the draft budget:

**1. DORA comparing 2012-13 to 2013-14 allocations**

**Table 1**

| **Equitable Share** | | | | |
|---|---|---|---|---|
| | **2012-13** | **2013-14** | **2014-15** | **2015-16** |
| DORA 2012-13 | 49 602 000 | 53 122 000 | 57 602 000 | |
| DORA 2013-14 | | 50 117 000 | 50 828 000 | 52 400 000 |
| | | **-3 005 000** | **-6 774 000** | |
| **Contribution Councillors** | | | | |
| | 1 400 000 | 1 771 000 | 2 080 000 | |
| | | 1 756 000 | 2 037 000 | 2 114 000 |
| | | **-15 000** | **-43 000** | |
| Equitable share decreased per new formula | | **-3 020 000** | **-6 817 000** | |

The above reduction has a negative impact when using the incremental methodology to draft a budget.

Apart from the above, the council needs to refund national treasury the amount of R12 487 503. This needs to be done as follows: 2013-14 - R7 mill and 2014-15 R5 487 503.

**2. Line Items – viz. the revenue and expenditure per Item. Annexure “C”**

The following needs to be noted:

a. The budgeted amount for salaries is limited to the staff employed as at February 2013. No provision is made for any other appointments.

b. The list reflecting the submissions by managers.

   The budget steering committee recommended various changes to the requests, and requested the CFO to determine other submissions which could be accommodated. The annexure sets out those requests accommodated.

See annexure “D”

c. The savings effected in respect of expenditure that would have been budgeted using the accrual system.

TABLE 2

| | 2012-13 | | 2013-14 | | | |
|---|---|---|---|---|---|---|
| **Savings for following year** | **Prior budget** | **adj Budget** | **Incremental Budget** | **% Decrease** | **SAVINGS** | **Proposed budget** |
| Printing & Stationary; | 607 470 | 951 660 | 1 334 971 | 30.0% | -398 991 | 935 980 |
| Publications;Community Servi | 53 720 | 53 880 | 170 400 | 30.0% | -51 120 | 119 280 |
| Security Services; | 52 700 | 1 344 570 | 1 071 342 | 80.0% | -857 072 | 214 270 |
| Postage; | 190 650 | 519 250 | 549 372 | 20.0% | -109 872 | 439 500 |
| Rent - Office Equipment;Admi | 1 142 440 | 818 920 | 400 000 | 30.0% | 0 | 400 000 |
| Training; | 510 120 | 483 350 | 400 000 | 30.0% | 0 | 400 000 |
| Water Chemicals; | 1 581 000 | 4 898 370 | 5 172 684 | 30.0% | -1 551 804 | 3 620 880 |
| Subsistence & Traveling; | 1 766 900 | 2 417 480 | 3 124 618 | 40.0% | -1 239 848 | 1 884 770 |
| Telephone Charges; | 1 473 410 | 1 408 850 | 2 104 004 | 40.0% | -841 604 | 1 262 400 |
| Uniforms & Protective Clothi | 244 350 | 509 100 | 702 910 | 20.0% | -140 580 | 562 330 |
| Fuel & Oil - Vehicles; | 1 461 040 | 2 708 330 | 2 847 665 | 10.0% | -184 765 | 2 662 900 |
| Consumables; | 26 380 | 223 010 | 242 571 | 30.0% | -72 771 | 169 800 |
| CCA - Infrastructure; | 0 | 0 | 120 000 | 20.0% | 0 | 120 000 |
| CCA - Tools & Equipment; | 535 960 | 806 710 | 863 886 | 20.0% | -170 376 | 693 510 |
| CCA - Vehicles, Plant & Equi | 360 000 | 3 558 670 | 273 162 | 20.0% | -54 632 | 218 530 |
| Professional Services; | 5 134 970 | 7 152 780 | 10 233 438 | 70.0% | -6 981 408 | 3 252 030 |
| Bad Debts; | 6 178 420 | 1 930 460 | 13 317 675 | **55.0%** | -7 324 725 | 5 992 950 |
| Pauper Burials; | 19 810 | 2 730 | 11 050 | 100.0% | -11 050 | 0 |
| **TOTAL** | **21 339 340** | **29 788 120** | **42 939 748** | | **-19 990 618** | **22 949 130** |

Of concern is the reduction on the provision of bad debts from R13.32 million to R5.99 million. Steps need to be taken to enhance to collection of revenue.

## 3. REVENUE FROM RATES & SERVICES

The expected income from services is based on the transactions in respect of 2012-13 as set out in the **following table.**

**TABLE** 3

| | 2012-13 | 2013-14 | | 2013-14 | |
|---|---|---|---|---|---|
| **SERVICE** | **12 Months** | **Increase** | **12 months** | **Less Receipts** | **Bad Debts** |
| **Rent** | 296 754 | 10.0% | 326 430 | -115 864 | 210 565 |
| **Property Rental** | 26 953 | 10.0% | 29 648 | -16 094 | 13 555 |
| **Rates** | 7 048 857 | 10.0% | 7 753 742 | -6 286 983 | 1 466 760 |
| **Water** | 5 847 319 | 10.0% | 6 432 051 | -1 529 618 | 4 902 432 |
| **Sanitation** | 5 245 944 | 10.0% | 5 770 539 | -1 862 820 | 3 907 718 |
| **Refuse** | 3 508 497 | 10.0% | 3 859 346 | -818 574 | 3 040 772 |
| | | | **24 171 756** | **-10 629 953** | **13 541 802** |

## 4. ASSUMPTIONS

The following assumptions were made during the preparation of the budget

**TABLE** 3

| | | | | |
|---|---|---|---|---|
| | / | **2013-14** | **2014-15** | **2015-16** |
| | | | | |
| Salaries Staff | | 6.85% | 6.40% | 5.40% |
| Salaries Man | | 6.85% | 6.40% | 5.40% |
| Salaries Councillors | | 6.85% | 6.40% | 5.40% |
| | | | | |
| Med Aid | | 8.00% | 8.00% | 8.00% |
| Maintenance | | 8.00% | 8.00% | 8.00% |
| Fuel | | 8.00% | 8.00% | 8.00% |
| | | | | |
| Electricity Purchases | | 8.00% | 8.00% | 8.00% |
| Other Expenditure | | 5.60% | 5.40% | 5.40% |
| | | | | |
| **TARIFF INCREASES** | | | | |
| Rates | | 10.00% | 11.00% | 12.00% |
| Housing | | 10.00% | 11.00% | 12.00% |
| Refuse | | 10.00% | 11.00% | 12.00% |
| Sewerage | | 10.00% | 11.00% | 12.00% |
| Water | | 10.00% | 11.00% | 12.00% |
| Electricity | | 8.00% | 8.00% | 8.00% |
| Fines, General | | 10.00% | 11.00% | 12.00% |
| Rent | | 10.00% | 11.00% | 12.00% |
| Sundry Tariffs | | 10.00% | 11.00% | 12.00% |

# 7. PARTIES CONSULTED

Budget Steering Committee

# 8. RECOMMENDATION

BUDGET

1. Council notes the tabling of the 2013-14 to 2015-16 draft
2. Council approves the draft annual budget of the municipality for the financial year 2013/14 as well as the two projected outer years 2014/15 and 2015 /16.
3. Council approves the draft rate as reflected in the 2013-14 tariff schedules.
4. Council approves the draft schedule setting out the various other tariffs and charges reflected in 2013-14 tariff schedules.
5. Council notes that the draft measurable performance objectives for each revenue source will be submitted together with the final budget.
6. Council resolves that the draft measurable performance objectives for each vote reflected will be submitted together with the final budget.
7. Council notes that the draft capital budget for each revenue source will be submitted after the draft IDP has been adopted. The capital budget will be submitted together with the final operating budget.

**POLICIES**

8. That the council note and adopt the following draft policies to be effective 1 July 2013. These policies will be made available to all interested parties as from 6 April 2013.
   a. Credit Control Policy
   a. Indigent Policy
   b. Rates policy
   c. Tariff Policy.
   d. Budget policy

Compiled by:

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**A.M Shasha**
**Mayor/Speaker**