

MAKHADO LOCAL MUNICIPALITY

LIM 344



**ADJUSTMENT BUDGET
2014/2015 FINANCIAL YEAR**

23 February 2015

TABLE OF CONTENTS

1. ANNUAL BUDGET

1.1 Resolutions.....	3
1.2 Executive Summary.....	3
1.3 Budget Review tables and charts.....	7

2. SUPPORTING DOCUMENTATIONS

2.1 Overview of budget process.....	8
2.2 Overview of alignment of budget with Integrated Development Plan.....	9
2.3 Measurable performance objectives and indicators.....	12
2.4 Overview of budget-related policies.....	12
2.5 Overview of budget assumptions.....	12
2.6 Overview of budget funding.....	13
2.7 Expenditure on allocations and grant programmes.....	15
2.8 Allocations and grants made by the municipality.....	15
2.9 Councillors and board member allowances and employee benefits.....	15
2.10 Monthly targets for revenue, expenditure and cash flow.....	16
2.11 Budget and service delivery and budget implementation plans departments.....	16
2.12 Budgets and service delivery agreements-municipal entities and other external mechanisms.....	16
2.13 Capital expenditure details.....	16
2.14 Legislation compliance status.....	16
2.15 Budget of municipal entities attached to the municipality's budget review.....	20
2.16 Municipal manager's quality certification.....	20



MAKHADO MUNICIPALITY BUDGET CONTENT AND FORMAT – SUPPORTING DOCUMENTATION: BUDGET FOR 2014/2015

1.1 Resolution

- Refer to annexure B.

1.2 Executive Summary

The budget has been compiled and funded in terms of the MFMA sec 18(1). The budget review was done taking into account performance to date in terms of income and expenditure.

The councillor's allowances were reviewed as per that was published on December 2014 with retrospective effect from 1 July 2014

1.2.1 Alignment with national, provincial and district priorities

1.2.1.1 The National, provincial and district priorities were gathered during consultative process and be integrated in the IDP of the Makhado Municipality and District Municipality.

1.2.1.2 Alignment with National and Provincial Government

Meetings were held by the different departments and the projects as reflected in the IDP were prioritised according to the framework, where possible.

1.2.2 Proposed Tariff Increases

1.2.3.1 All the tariffs will remain the same as of the original budget



1.2.3 Situational Analysis

1.2.3.1 Demography

The total population of Makhado has increased by about from 495 261 to 516 031 in 2011 (Based on the 2011 census outcome). The number of households have increased from 108 978 to 134 889 households (Census 2011) with about 225 059 registered voters. The Municipality is made up of 5 formal towns namely, Makhado, Vleifontein, Vuwani, Waterval and Dzanani with about 279 villages. The main administrative office is situated in Makhado town with three supporting regional administrative offices in Dzanani, Vuwani, and Waterval.

The municipality has 38 ward councillors and 37 proportional councillors. There are 14 traditional leaders who are ex-officio members of the municipal council and 10 councillors who are members of the executive committee. The Municipality also has 38 established and fully functional ward committees.

1.2.3.2 Current reality

Political Office Bearers and Municipal Manager	
Mayor	Cllr Mutavhatsindi FD
Speaker	Cllr Mogale LB
Chief Whip	Cllr Ludere R
Municipal Manager	Mr Mutshinyali IP
Service Delivery Backlogs as at 2012	
Population	516 031
Number of Households	134 889
Water Provision Backlog	40 635
Electricity Provision Backlog	14 298
Sanitation Backlog	86 036
Number of Households without refuse removal	88 252
Housing Backlog	16 807
Existing service Delivery Level	
Number of Voters	225 059
Indigent Households	24 464
Households Receiving free basic Electricity	18 592
Households Receiving free basic Water	129 224
Debts owed to the Municipality	R 222 146 188 .00



From an economic perspective, the main elements of the population can be summarised as follows:

Table 2.4 POPULATION ESTIMATES

POPULATION ELEMENT	PERCENTAGE (%)
Economically active	46 %
Economically inactive	54%
TOTAL	100

The figures above clearly show the high percentage of the population that is economically inactive. This figure can be attributed to the high percentage of the population being under the age of 15, which per definition renders them economically inactive.

The largest percentage of the rural black population between the ages of 15 – 65 years comprise of women. This can be attributed to the migration of men for employment opportunities elsewhere. The high level of male absenteeism implies that women are predominantly the key decision makers at home.

Challenges

- ❖ The population growth rates tend to be much higher than the economic growth rate, which implies that the economy is not able to provide sufficient employment opportunities to absorb new entrants to the labour market.
- ❖ There is no accurate information on the past and current incidence of HIV/AIDS, but it can be assumed that it has increased significantly over the past 2 – 3 years, particularly so in the rural areas.
- ❖ Local communities have sufficient information on life threatening diseases, particularly HIV/AIDS
- ❖ High child mortality levels are prevalent in the rural areas
- ❖ The presence of immigrants is a growing challenge.
- ❖ There is lack of economic activities and investment in the area that can create employment opportunities.

1.2.4 Service delivery standards, levels of services, outcomes, timetable for achievement and financial implications

1.2.4.1.1 Challenges in respect of water and sanitation

The municipality has inadequate and fragmented water services provision with different standards and plans. The inadequate water provision implies that less water will be for agricultural, which is one of the pillars of the economy.



- ❖ Most of the pit latrines in the rural areas have not been properly constructed. A number of innovative systems are available on the market.
- ❖ Unauthorised water connection.
- ❖ The water systems are not metered and monitored on continual basis.
- ❖ The overall sanitation system needs improvement.
- ❖ There must be a system to drain the full VIP toilets as a way to sustain the sanitation system.

Most rural areas do not have proper sanitation facilities and households have to construct their own pit latrines. About 76% (i.e. 99 119) of the households do not have sanitation at RDP standards. The following table indicates the current situation with regards to sanitation in Makhado Municipality.

1.2.4.1.2 Free Basic Water and Sanitation

The intention of the municipality's Free Basic Water Policy is to ensure that no one is completely denied access to water and sanitation supply because of not being able to pay for the service. The recipients of Free Basic Water are all metered households who are being billed as the universal approach policy is being used. However, for the Free Basic Sanitation, the poor households are targeted and receive an indigent subsidy monthly. An indigent register is kept and updated annually; each household receives 50 units per month.

1.2.4.2 Electricity Provision

Issues

About 35 000 households are without electricity.

1.2.4.2.1 Free Basic Electricity (FBE) and Free Basic Energy

The municipality has a FBE policy that targets poor households. 50 units of electricity are given free to indigent households monthly. An indigent register of the households earning less than R1 100 per month and or are unemployed is kept and is updated annually. About 19 340 indigent households in both Eskom and council's licence areas are receiving FBE. A further 1 100 households who are using the Solar systems in areas where there is no electricity grid are receiving a Free Basic Energy subsidy amount, even though most houses in



the rural areas are electrified, some do not have the electricity appliances. Prepaid cards are not accessible to all villages.

1.2.4.3 Waste Management

The Louis Trichardt town, air force base and surrounding townships have proper waste management systems with sufficient capacity for at least the short to medium term. The waste disposal sites in the rural areas do not have permits and observations indicate that households in the rural areas usually burn their waste. The waste sites also contribute to the contamination of ground water.

The municipality is responsible for the operational maintenance of the waste management system that serves the community. The Provincial Department of Health is responsible for the licensing, operation and maintenance of those waste management systems that treat and dispose of medical waste.

The municipality is removes the waste once per week from the military air force base. The rural areas Kutama and Sinthumule are serviced with a rudimentary system comprising one team of (57) people that collected the waste three times per week. The municipality removes waste everyday in the Makhado town CBD. Illegal disposal of waste is currently a major challenge, which is also placing a strain on the natural environment.

1.2.5 Levels of rates, service charges and other fees and charges

All the tariffs will remain the same as of the original budget

1.3 Budget Review tables

Refer to Municipal Budget Review and MTREF & Supporting Tables and charts attached as A



2. SUPPORTING DOCUMENTATION

2.1 Budget Process Overview

2.1.1 Schedule of key deadlines relating to budget process (MFMA s21(1)(b))

A budget time-table (Schedule of key deadlines) relating to budget process (MFMA s21 (1) (b)) was compiled and submitted to the Council of Makhado and approved in August 2013.

2.1.2 Stakeholders

Stakeholders who attended the IDP Steering Committee meetings and those Representative Forum meetings were from all over the Municipality.

2.1.3 Process for tabling the budget in council

The budget process plan was approved by council in August 2013. The instruction was issued to head of departments for them to submit the budget proposals to the Chief Financial Officer for consolidation. The reviewed budget was submitted for tabling.

2.1.4 Process for tabling the budget in council for consideration of approval

The Adjustment budgets were tabled to the Council to consider approval in terms of the MFMA during a Council Meeting scheduled on the 23 February 2015.

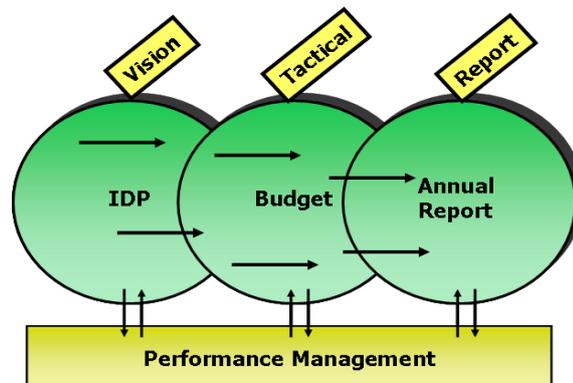
2.1.5 Models used for prioritising resource allocation

The Representative Forum communicated the needs and demands of the community to the meeting. The available funding for capital projects was obtained from the Division of Revenue Act and the Finance Department. Meetings were held by the different departments and the projects as reflected in the IDP were prioritised according to the framework, where possible.

2.1.6 Process to record and integrate inputs from the community in the final budget

The requests / comments received from the community were integrated into budget.

2.2 Overview of alignment of budget with Integrated Development



Plan

The above illustration clearly indicates that the IDP informs the budget and that the IDP as well as the budget informs the Annual Report. The vision of the council informs the strategies that will have to be put in place to give effect to the objectives of council and the tactical part, which is the budget, is the document that will indicate the availability of the funds to deliver the projects and simultaneously the service delivery to the community.

2.2.1 Review of the Integrated Development Plan

2.2.1.1 Vision for the municipality

The Representative Forum adopted the following vision as the vision of the Makhado Municipality, after carefully deliberating on it:



2.2.2 Strategic focus areas

Development priorities and objectives are clustered in respect to the following key performance areas:

- ❖ Infrastructure and service – Infrastructure services including water, sanitation, solid waste, electricity, roads and storm water and support services including transport, health, libraries, emergency services, housing, etc. in so far as these are applicable to municipalities.
- ❖ Social and local economic development.
- ❖ Financial viability and management.
- ❖ Democratic governance.
- ❖ Sustainability.
- ❖ Institutional transformation.

The above performance areas are based on the following developmental outcomes:

- ❖ Provision of household infrastructure and service.



- ❖ Creation of liveable, integrated towns and rural areas.
- ❖ Local economic development.
- ❖ Community empowerment and redistribution.

2.2.3 Long-term and short term goals or outcomes for the community

Long term goals and short term goals or outcomes identified can be defined as contributory to the building of a sustainable municipality. These goals need to be implemented within the next 5 years. Detail of these goals can be read in the IDP document available on separate report submitted to Council.

2.2.4 Consultative process undertaken to review the IDP

The members of the Representative Forum of the IDP hold meetings with their respective wards.

2.2.5 Service delivery and funding of housing and health services

2.2.5.1 Environmental Health

Municipal Health Services are defined as all functions falling under Environmental Health Services (excluding port health, malaria and control of hazardous substances). The aforementioned functions have been allocated to the District Municipality.

2.2.5.2 Housing

Housing is a National function. The District and Local Municipalities are the implementing agencies and responsible for the management of rental and hostel units.



2.3 Measurable performance objectives and indicators

- Refer to annexure 'A' Supporting table SB4.

2.4 Overview of budget related policies

2.4.1 Tariff Policy

The municipality does have a Tariff Policy that was approved and implemented on 1 July 2007.

2.4.2 Credit Control and Debt Collection Policy

The municipality does have a Credit Control and Debt Collection Policy that was approved and implemented on 1 July 2007.

2.4.3 Indigent Policy

The municipality does have an Indigent Policy that was approved and implemented on 1 July 2007.

2.4.4 Investment Policy

The municipality does have an Investment Policy that was approved and implemented on 1 July 2007.

2.4.5 Asset Management Policy

The municipality does have an Asset Management Policy that was approved and implemented on 1 July 2007.

2.5 Overview of budget assumptions

The following factors were taken into consideration and assumptions made when compiling the budget for 2014/2015, in order to compile a meaningful budget that is easy to understand:

- ❖ External factors utilized during the calculation of the estimated revenue:-
 - population;
 - households;
 - employment;
 - health;



- development of businesses;
- new residential areas;
- ❖ The current inflation rate and its impact on the municipal activities;
- ❖ Macro Economic Trends and Growth Rates
- ❖ Interest rates for:
 - borrowing; and
 - investment of funds;
- ❖ Rates, tariffs, charges and timing of revenue collection;
- ❖ Growth or decline in tax base of the municipality;
- ❖ Anticipated price movements on bulk purchases of water and electricity, fuel etc.;
- ❖ Anticipated average salary increases;
- ❖ Demand for the different services;
- ❖ Provision of Free basic services;
- ❖ Grants and subsidies as per Division of Revenue Act;
- ❖ Impact of national, provincial and local policies;
- ❖ Ability of the municipality to spend and deliver the services.

The abovementioned assumptions were developed from the following sources:

- ❖ Information provided by government and Statistics SA;
- ❖ Information gained from reports from the financial system;
- ❖ Local conducted surveys and consumption data in respect of water, electricity, waste, sewerage outflow etc; and
- ❖ The municipality's own analysis of statistical data in respect of actual demand and consumptions in their communities.

2.6 Overview of budget funding

2.6.1 Rates, Tariff and other charges

2.6.1.1 Tariff Schedule

All the tariffs will remain the same as of the original budget

2.6.1.2 Grant allocations

Grants and Subsidies will be detailed on supporting table SB7:

- ❖ Supporting table SB7 – Transfers and grant receipts



2.6.2 Fiscal Overview

2.6.2.1 Financial Statements

The 2013/2014 Financial Statements have been completed and audited by the Office of the Auditor General.

2.6.2.2 Capital Budget for the 2014/2015 Financial Year

The total capital adjustment budget approved by the Council for the 2014/2015 financial year amounts to R 191 854 954.10 with (R 34 159 438.39) being contribution from the municipal operational income and R 157 695 515.71 from grants.

2.6.2.3 Trade Creditors.

Trade creditors are not all paid on time and Council in arrears in respect of amounts owed for bulk purchases (Eskom) , but arrangement has been made with Eskom on how to pay the owed amount.

2.6.2.4 Investments

Investments vary on a continuous basis and are mainly short-term in respect of conditional grants and subsidies received for capital projects.

2.6.2.5 Provision of Free Basic Services

The municipality currently provides the following free basic services and indigent support:-

- ❖ Electricity: A subsidy of fifty (50) units of electricity per property per month to all individual households will apply. Where the consumption exceeds fifty (50) units per month the consumer will be charged for actual consumption exceeding fifty (50) units at the approved tariff.

It is proposed that the maximum amount of subsidisation be determined as set out below: -

Household Income per Month	Subsidy Amount
R0 to one state pensioner	100%
One state pensioner to R1 100	80%
R1 101 to two state pensioners	60%



2.6.2.6 Important Financial Indicators

A summary of key financial indicators for the last three years is as follow:-

- ❖ Majority of investments earmarked for specific trust funds or projects in progress and does not form part of the operating account.

2.7 Expenditure on allocations and grants programmes

- Refer to annexure 'A' Table SB8.

2.8 Allocations and grants made by the municipality

- ❖ No allocations were made by the Makhado Municipality to:-
 - Other municipalities;
 - Municipal Entities and other external service delivery mechanisms;
 - Any other organs of state; and
 - Any other organisation outside government

2.9 Councillors and board members allowances and employee benefits

Refer to Annexure 'A' Table SB11.

The above table is a comparison of the total expenditure related to salaries and benefits for the mentioned financial years as per the budget review for 2014/2015.

2.9.1 Breakdown of salaries, remuneration and benefits

The detailed breakdown of the salaries, wages, remuneration and benefits are will be depicted in Supporting table SB11:-



2.10 Monthly targets for revenue, expenditure and cash flow

The monthly cash flows will be reflected in the Supporting table SB15 and SB14:-

- ❖ Supporting table SB15 - Monthly Cash Flows
- ❖ Supporting table SB14- Monthly revenue and expenditure

2.11 Budget and service delivery and budget implementation plans-internal departments

- The final departmental service delivery and budget implementation plans were finalised and submitted to council.

2.12 Budget and service delivery agreements-municipal entities and other external mechanisms.

- The Makhado Municipality does not have the municipal entities.

2.13 Capital expenditure details

- Refer to Annexure 'A' Table B5

2.14 Legislation compliance status

2.14.1 Municipal Finance Management Act

On July 1, 2004 the Municipal Finance Management Act officially came into effect. This legislation provides for significant changes in the way municipalities in South Africa manage their financial affairs. The legislation not only deals with accounting and finance issues but also deals with general management issues.

While the official date for the legislation was July 1, 2004 the implementation will be phased in up to a maximum of five years. This is due to the fact that the changes required are significant and far-reaching. Councils require time to make the necessary changes and ensure that employees understand and are trained in the required changes.



In terms of implementation, Makhado Municipality has been classified as a medium capacity municipality. The Municipality has made significant progress in the implementation of the MFMA as can be read from the table below.

**IMPLEMENTATION OF MUNICIPAL FINANCE MANAGEMENT ACT
 MONITORING TOOL**

CHAPTER	SECTION	CONTENTS	LEGISLATIVE COMPLIANCE DATE	STATUS OF MUNICIPALITY
4	15	Budgets: Appropriation of funds		Complies
	16	Tabling and approval of budgets before start of financial year	Immediately, with 2014/2015 budget to be tabled in Council no later than 31 March 2014 and annually thereafter before 31 March	Complies
	17(1)(c), (d)(ii) and (3)(b)	Contents of budgets and supporting documents	Applies to 2014/2015 budget	Complies
	18	Funding of expenditure	With effect from 2014/2015 budget year	Complies
	19	Capital Projects	Applies to 2014/2015 budget	Complies
	21	Budget preparation process	Budget preparation plan to reach Council before 30 September and annually thereafter	Complies
	22	Publication of annual budget	Immediately after 31 March 2015	Complies
	23	Consultations on budget (Community participation)	Applies to 2014/2015 budget	Complies
	24(2)(c)(iii)	Approval and submission of budgets	Applies to 2014/2015 budget	Complies
	25	Failure to approve budgets	Immediate	Complies
	26, 27	Consequences of failure	Immediate	Complies
28	Municipal Adjustment budgets	With effect from 01 July 2014	Complies	



CHAP TER	SECTION	CONTENTS	LEGISLATIVE COMPLIANCE DATE	STATUS OF MUNICIPALITY
	29,30,31,32	Unforeseen, unavoidable, unauthorized, irregular expenditure	Immediate	Complies
	33	Contracts with future budget implications	Immediate	Complies
5	35	Promotion of co-operative governance	Immediate	Complies
	37	Promotion of co-operative governance	Applies to 2014/2015 Budget	Complies
	38,39,40	Stopping of funds to municipalities	With effect from 1 July 2014	Complies
6	45	Short-term debt repayment	Immediate with S45(4)(a)	Complies
	46,47,48,49, 50	Long-debt, debt security, disclosure and guarantees	Immediate	Complies
7	52	Responsibilities of Mayors	Immediate	Complies
	53 1(c)(ii)&(iii), & (3)	Service delivery and budget implementation plans		Complies
	54(1)(b), (c), (d)(i), (3)			Complies
8	60,61	MM to be accounting officer, Fiduciary responsibilities	Immediate	Complies
	62(1)(c) & (f)(i)(ii)(iii)	Internal audit		Complies
	62(1)(f)(iv)	Full and proper records and supply chain management		Complies
	63(2)	Asset and liability management		Complies
	63(1)	Asset & liability management		Complies
	64,65	Expenditure on staff benefits	Immediate with reports setting out totals for category {i.e. (a) to (g)} by 31 January (for July to December) and 31 July (for January to June) each year	Complies
	66		Immediate	Complies
	67,68	Funds transferred to organizations & budget preparation	Immediate	Complies
	69(1)&(2)	Monitoring of revenue & expenditure Submission of draft SDBIP		Complies
	69(3)	Shortfalls & overspendings		Complies



CHAP TER	SECTION	CONTENTS	LEGISLATIVE COMPLIANCE DATE	STATUS OF MUNICIPALITY
	70	Monthly budget statements		Complies
	71(1)(a)(b)(g) (iii), (2)(3)&(4)	Expenditure by vote		Complies
	71(1)(c)&(d)& (g)(iii)	Monthly budget statements DORA		Complies
	71(1)(e), (f), (5,6,7)	Midyear budget & performance assessment		Complies
	72(1)(a)(i)(iii) (iv) (1)(b), (2)&(3)	SDBIP		Complies
	72 (1)(A)(1) (ii)	Reports on failure to implement Budget		Complies
	73	General reporting obligation		Complies
	74	Information for web-sites		Complies
	75			Complies
9	80	Budget & Treasury Office establishment	Immediate	Complies
	82	Delegations by Director Finance		Complies
10	84,85,86,	Bank accounts	Immediate.	Complies
11	110,113,114, 115,116,117, 118	Supply chain management Supply chain management policy		Complies
	111	Policy to comply with framework		Complies
	112	Competency levels		Complies
	119			Complies
	120	PPP-conditions and process		Complies
12	121	Reports & Audits –annually		Complies
	122(1)	Financial statements	Immediate	Complies
	122(3)	Statements – GRAP compliance		Complies
	123	Disclosures on allocations	Immediate	Complies



CHAP TER	SECTION	CONTENTS	LEGISLATIVE COMPLIANCE DATE	STATUS OF MUNICIPALITY
	124,125	Disclosures on Councillors		Complies
	126,127,128, 129,130,131, 132,133,134	Reports and audit, submissions, consequences, annual reports		Complies
13	135 to 162			
14	165	Internal audit unit		Complies
	166	Audit committees	Immediate	Complies
	167,168,169, 170	Councilors remuneration, treasury regulations, consultative processes		Complies
15	171 to 175	Financial misconduct	Immediate	Complies

Abbreviations:

- MM - Municipal Manager or person acting in that capacity
- MF - Manager Finance or person acting in that capacity
- MCS - Manager Corporate Services or person acting in that capacity
- SDBIP – Service Delivery and Budget Implementation Plan
- MSA – Municipal Systems Act
- PPP – Public Private Partnership

2.15 Budget review of municipal entities attached to the municipalities annual budget

- The Makhado Municipality does not have the municipal entities.

2.16 Municipal Manager’s Quality Certification

Refer to the Municipal Manager’s Quality Certification attached.