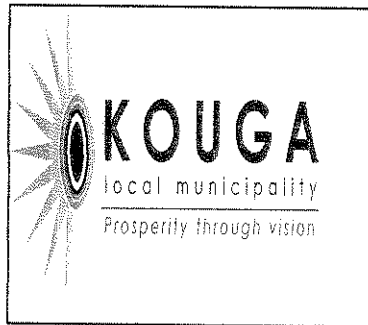


ANNUAL BUDGET OF
KOUGA LOCAL
MUNICIPALITY



2012/13 TO 2014/15
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

Copies of this document can be viewed:

- **All satellite offices and public libraries within the municipality**
- **At www.kouga.gov.za**

Table of Contents

| | |
|--|----|
| PART 1 – ANNUAL BUDGET | |
| 1.1 EXECUTIVE MAYOR'S REPORT | 3 |
| 1.2 EXECUTIVE SUMMARY | 5 |
| 1.3 OPERATING REVENUE FRAMEWORK | 6 |
| 1.4 OPERATING EXENDITURE FRAMEWORK..... | 10 |
| 1.5 ANNUAL BUDGET TABLES – ANNEXURE A REFERS | 12 |
| | |
| PART 2 – SUPPORTING DOCUMENTATION | |
| 2.1 OVERVIEW OF THE ANNUAL BUDGET PROCESS | 15 |
| 2.2 LEGISLATION COMPLIANCE STATUS | 18 |
| 2.3 MUNICIPAL MANAGER'S QUALITY CERTIFICATE..... | 19 |

Part 1 – Annual Budget

1.1 Executive Mayor's Report

In his Budget Speech to Parliament on 17 February 2010, the Minister of Finance said: "We cannot expect to do the same old things and expect different results". When we came into Council, I don't believe any of us had an idea of the dire financial situation facing this Municipality. We were faced with serious cash flow challenges due to among other things, declining collection rates, historic expenditure patterns and a general lack of "doing business smarter".

In the last twelve months we have started to do things differently and smarter and we have been able to see positive results. I think it would only be appropriate to give a report on the financial position of the Council before addressing the annual budget.

Debtors owing the Municipality in rates and services charges amount to R113 million as at the end of April 2012. Improved efforts to collect see us monthly decreasing this amount. The monthly reduction in the debtors book can be attributed to new systems and controls being introduced in the Debt collection department as from May 2011. It is envisaged that law enforcement and a team of lawyers within the institution should also be utilised in the collection of outstanding debt. One of the biggest challenges remains that of registering all indigents who qualify for free basic services.

The Municipality has been able to reduce its creditors by R20 million in the last 12 months. Even though there are still challenges to pay creditors within 30 days as required by the Municipal Finance Management Act, there has been marked improvement noted.

The loans with INCA have been restructured and the loan repayment conditions are being adhered to. The loans with DBSA are still in the process of being restructured.

The high monthly salary cost remains a concern. Even though the salaries equate to 35% of the budget we are experiencing that the salaries cost amount to 50% of the monthly cash flow of the municipality due to non payment of ratepayers. Overtime is still too high and measures are being put in place to eliminate all overtime. It is also envisaged to fill critical vacancies from the internal pool of employees where possible.

It should also be brought to the attention of this Council that the audit opinion for the financial year 2010/11 is a disclaimer. Various factors have contributed to this, but the main one would be due to loss of key personnel over the last 2 financial years with no transfer of skills and not using a consultant in drafting the Annual Financial Statements due to financial constraints. A detailed action plan is being drafted currently to turn the situation around. The short and medium term goal is as to move in audit opinion as follow:

- 2011/2012 financial year: Qualified opinion
- 2012/2013 financial year: Unqualified opinion
- 2013/2014 financial year: Clean audit opinion

A full financial recovery plan has been compiled and is being implemented by the Administration. Further a financial recovery steering committee has been established with the financial standing committee, INCA and DBSA to play an advisory role in the recovery process.

The Committee was established in November 2011. Three meetings were held in December 2011 and the weekly meetings resumed on 24 January 2012. These sessions have been fruitful in understanding and managing the process more effectively. Going forward, this financial recovery programme will fall under the ambit of the Kouga Cabinet.

Management within local government has a significant role to play in strengthening the link between the citizen and government's overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within Kouga Local Municipality. Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.

The Operating Budget for 2012/2013 amounts to R 521,398,000.00

Total operating expenditure has grown by 11 per cent or R52.9 million for the 2012/13 financial year when compared to the 2011/12 Adjustments Budget.

The capital budget for 2012/13 is R 35,007,000.00

1.2 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on *non-core and 'nice to have'* items. Certain cost cutting line items that have been identified is currently contracted services and as these contracts expire, the cost cutting measures will be introduced.

The Municipality will embark on implementing a range of revenue collection strategies to optimise the collection of debt owed by consumers. We are engaging with the City of uMhlathuze for peer to peer learning as this Municipality's debtors in 60 days plus are less than 20%.

National Treasury's MFMA Circular No. 58 and 59 was used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The ongoing difficulties in the local economy;
- Aging and poorly maintained infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from the Metro and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - *as there will be point where services will no-longer be affordable;*
- The need to fill critical vacancies, but the current employee remuneration is already 35% of the operating budget;

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- *There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;*

The Operating Budget for 2012/2013 amounts to R 521,398,000.00

Total operating expenditure has grown by 11 per cent or R52.9 million for the 2012/13 financial year when compared to the 2011/12 Adjustments Budget. For the two outer years, operational revenue and expenditure was increased by 5.3 and 4.9 per cent respectively in line with guidance given by National Treasury.

The capital budget for 2012/13 is R 35,007,000.00. The reduction in capital expenditure is due to affordability constraints in the light of current economic circumstances. The capital programme for the 2013/14 and 2014/15 financial years will decrease until MIG funding has been secured. It should be noted that the Municipality has reached its prudential borrowing limits and there is very little scope to substantially increase these borrowing levels over the medium-term. The repayment of capital and interest (debt services costs) has substantially increased over the past few years. Consequently, the capital budget remains relatively flat over the medium-term.

1.3 Operating Revenue Framework

For Kouga Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following is a high level summary of the 2012/13 MTREF (classified by main revenue source):

The operational revenue of R 521,398,000.00 will be sourced as follow:

| | |
|------------------------|------------------|
| • Assessment rates | R 128,625,000.00 |
| • Electricity | R 191,501,000.00 |
| • Water | R 40,384,000.00 |
| • Sewerage | R 35,540,000.00 |
| • Refuse | R 25,526,000.00 |
| • Other income | R 43,390,000.00 |
| • Grants and subsidies | R 56,432,000.00 |

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality (89%). Rates and service charge revenues comprise more than two thirds of the total revenue mix. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix (37 per cent), which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality. Details in this regard are contained in the expenditure budget.

Property rates are the second largest revenue source totalling 25 per cent. The third largest sources is 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport fees and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers total R 56, 432,000.00 in the 2012/13 financial year. There has been a slight increase in the final gazetted Equitable Share Allocation, but a decrease in the Extended Public Works Programme Grant due to a new funding module being applied.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality. It should however be noted that all tariffs are still not cost reflective and this will be phased in over a period of time.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of both Eskom and Metro (Water) bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the Municipality.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

1.3.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The categories of rateable properties for purposes of levying rates and the rates for the 2012/13 financial year based on a 5.9 per cent increase from 1 July 2012 is contained in Annexure B.

It should be noted that the Municipality obtained a 1 year extension on the implementation of a new valuation roll from the MEC, the date of implementation now being 1 July 2014.

1.3.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability. The Metro (NMBM) has increased its bulk tariffs and as a result, Kouga Local Municipality has increased its bulk tariff with 12 per cent from 1 July 2012.

A summary of the tariffs for households (residential) and non-residential can be obtained in Annexure B.

The tariff structure of the 2012/13 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption at a higher rate per 30 day period.

1.3.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 13.5 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2012.

Considering the Eskom increases, the consumer tariff had to be increased by an average of 11.03 per cent to offset the additional bulk purchase cost from 1 July 2012.

The tariff structure of the 2012/13 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption at a higher rate per 30 day period. The aim is to subsidise the lower consumption users (mostly the poor).

A summary of the tariffs can be obtained in Annexure B.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the Municipality. The upgrading of the Municipality's electricity network has therefore become a strategic priority, especially the substations and transmission lines. R8.5 million's worth of Capital Projects funded by grants have been identified for the 2012/13 financial year.

1.3.4 Sanitation and Impact of Tariff Increases

A tariff increase of 9 per cent for sanitation from 1 July 2012 will be implemented. This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes approximately 20 per cent of waste water treatment input costs, therefore the higher than CPI increase of 9 per cent for sanitation tariffs.

A summary of the tariffs can be obtained in Annexure B.

1.3.5 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributing factors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, a comprehensive investigation into the cost structure of solid waste function was undertaken. The outcomes of this investigation will be incorporated into the next planning cycle with phasing in of the tariffs.

A 6 per cent increase in the waste removal tariff is proposed from 1 July 2012. Higher increases will not be viable in 2012/13 owing to the overall impact of higher than inflation increases of water and electricity tariffs.

A summary of the tariffs can be obtained in Annexure B.

1.4 Operating Expenditure Framework

The Municipality's expenditure framework for the 2012/13 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following is a high level summary of the 2012/13 budget and MTREF (classified per main type of operating expenditure):

The operational expenditure of R 521,398,000.00 is split as follow:

- | | |
|---------------------------|--|
| • Remuneration | R 181,510,000.00 (including Councillors) |
| • Electricity purchases | R 143,000,000.00 |
| • Water purchases | R 16,491,000.00 |
| • Other general expenses | R 140,074,000.00 |
| • Repairs and Maintenance | R 40,323,000.00 |

The budgeted allocation for employee related costs for the 2012/13 equals 35 per cent of the total operating expenditure. The period of the Salary and Wage Agreement 2009/10 to 2011/12 has come to an end. In absence of other information from the South African Local Government Bargaining Council, municipalities are advised to budget for a 5 per cent cost of living increase adjustment to be implemented with effect from 1 July 2012 (in line with the increase proposed in the 2012 MTBPS). As part of the Municipality's cost reprioritisation and cash management strategy, only critical vacancies have been budgeted for. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from the Metro (NMBM). The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved.

The provision of debt impairment was determined based on an annual collection rate of 95 per cent and the Debt Write-off Policy of the Municipality. All non-cash flow items and grants were eliminated from the income balance before the provision calculation was applied. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital).

1.4.1 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. Details relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement are contained within the expenditure budget.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.5 Annual Budget Tables – Annexure A

Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
 - a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - b. Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognised is reflected on the Financial Performance Budget;
 - ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
 - iii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. It is necessary to ensure adequate cash-backing for all material obligations. This cannot be achieved in one financial year.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures.

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means that it is possible to present the operating surplus or deficit of a vote.

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

Key dates applicable to the process were:

- **August 2011** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2011/12 MTREF;
- **November 2011** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2012** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2012** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **28 January 2012** - Council considers the 2010/11 Mid-year Review and Adjustments Budget;
- **February 2012** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The draft 2011/12 MTREF is revised accordingly;
- **28 March 2012** - Tabling in Council of the draft 2011/12 IDP and 2011/12 MTREF for public consultation;
- **April 2012** – Public consultation;
- **5 May 2012** - Closing date for written comments;

- **5 to 21 May 2012** – finalisation of the 2011/12 IDP and 2011/12 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **31 May 2012** - Tabling of the 2011/12 MTREF before Council for consideration and approval.

2.1.2 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2012/13 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2011/12 MTREF:

- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- Cash Flow Management Strategy
- Debtor payment levels
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 58 and 59 has been taken into consideration in the planning and prioritisation process.

2.1.3 Community Consultation

The draft 2012/13 MTREF as tabled before Council on 28 March 2012 for community consultation was published on the municipality's website, and hard copies were made available at various libraries.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees were utilised to facilitate the community consultation process during April 2012. The applicable dates and venues were published in the local newspaper.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2012/13 MTREF. Feedback and responses to the submissions received are available on request. The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Providing for a 95% collection rate is a concern based on the payment history;
- Ring fencing of EMF levy and St. Francis Bay Sewerage levy;
- Repairs and Maintenance to be 10% of the Annual budget;
- Indication as to payment of outstanding creditors;
- Increase percentage in property rates tariff

In a short response to the above:

- If the payment is compared to the monthly billings for the last 9 months, excluding opening debt, the percentages are:

| Month | Collection percentage (%) |
|-----------|---------------------------|
| July | 37.41 |
| August | 164.61 |
| September | 148 |
| October | 90.69 |
| November | 91.55 |
| December | 138.52 |
| January | 93.49 |
| February | 111.65 |
| March | 100.25 |

As mentioned previously in this budget document, the Municipality will embark on implementing a range of revenue collection strategies to optimise the collection of debt owed by consumers. We are engaging with the City of uMhlatuze for peer to peer learning as this Municipality's debtors in 60 days plus are less than 20%. The 95% collection percentage is also in line with Council Policy.

- The St. Francis Bay Sewerage Levy being collected will be invested to fund a possible project for 2013/14.
The EMF levy is ring fenced as to specific expenditure line items being attributed to it, for example:
 - EIA studies R2.4 million
 - Coastal environ management plan R350k
 - Rehabilitation of landfill sites R1.008 million
 - Green drop R250k
 - Environmental clean up operation R50k
 - St. Francis Beach rehabilitation R1.2 million
 - Fencing of sewerage sites R1.5 million
 - Integrated waste management plan R60k
- Repairs and maintenance amount to 8% of the Annual Budget. A 10% increase is not achievable at this stage.
- Both the debtors book balance and the creditors book balance has been excluded from the 2012/13 Budget. The debtors' book balance far exceeds the creditors' book balance and arrear payments will be funded from these collections.
- The increase in the properties rates tariff is 5.9% (in the draft budget it was 5.6%) and the applicable tariff can be picked up in Annexure B.

Significant changes effected in the final 2012/13 MTREF compared to the draft 2012/13 MTREF that was tabled for community consultation, include:

- The 2011 Division of Revenue Act (DORA) grant allocations were finalised and aligned to the gazetted allocations.

2.2 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. **In year reporting**
Reporting to National Treasury in electronic format was complied with on a monthly basis.
2. **Internship programme**
The Municipality is participating in the Municipal Financial Management Internship programme and has employed interns undergoing training in various divisions of the Financial Services Department.
3. **Budget and Treasury Office**
The Budget and Treasury Office has been established in accordance with the MFMA.
4. **Audit Committee**
An Audit Committee is in the process of being re-established and an advertisement has been placed in March 2012 for filling of these positions.
5. **Service Delivery and Implementation Plan**
The detailed SDBIP document is still to be developed after the approval of the annual budget and draft IDP.
6. **Annual Report**
Annual report is compiled in terms of the MFMA and National Treasury requirements.
7. **Policies**
An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

2.3 Municipal Manager's Quality Certificate

I Sidney Fadi....., Municipal Manager of Kouga Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name FADI SIDNEY

Municipal manager of Kouga Local Municipality

Signature 

Date 23/07/2012