



**LG MTEC 3 ENGAGEMENT**  
**Bitou Local Municipality**  
**Response to the Provincial Budget and IDP analysis**

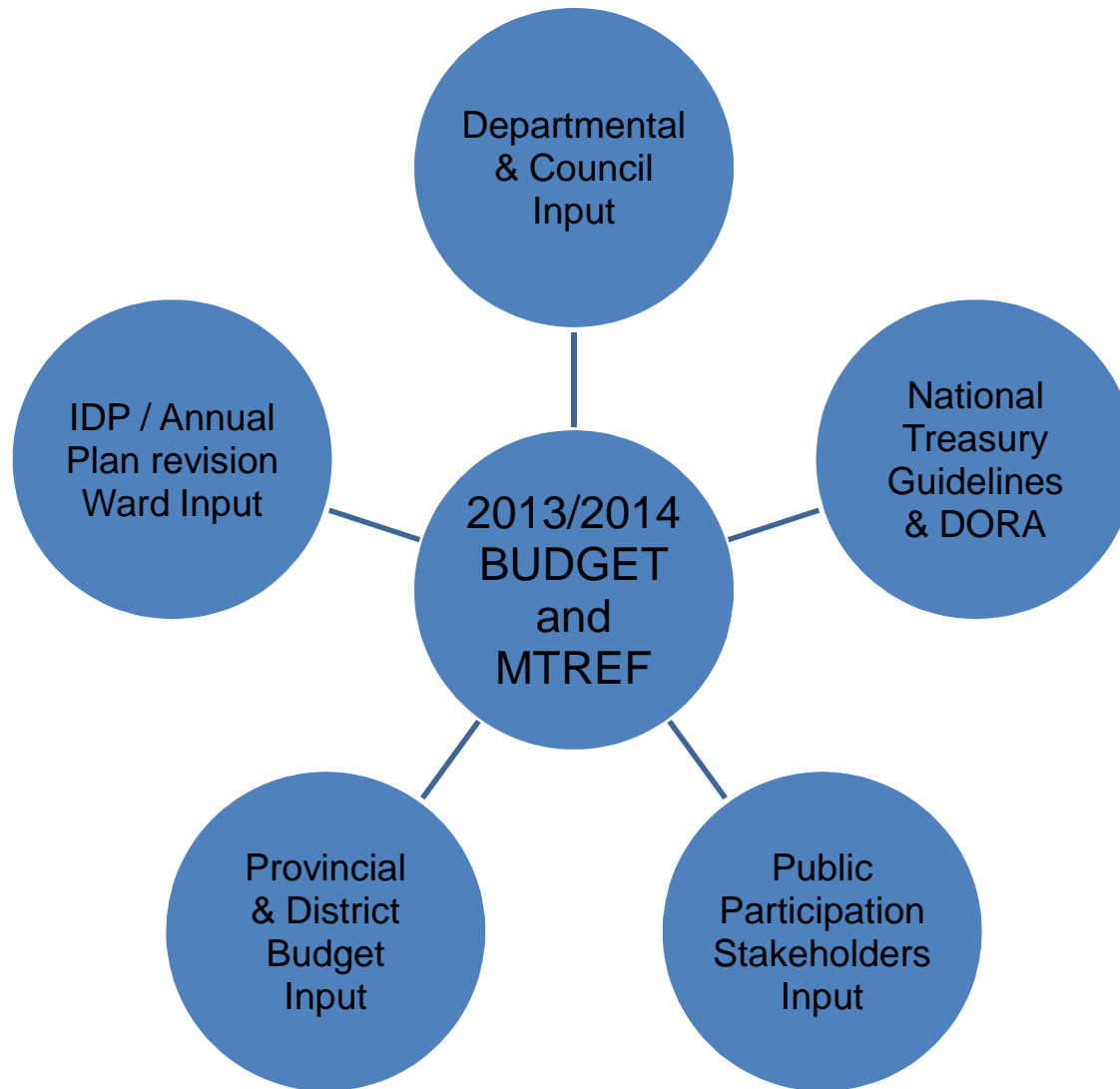
**24 April 2013**



# Introduction and Background

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# Budget/IDP Review Process overview





# Budget/IDP Review Process overview

- **CHALLENGES**
  - Ward Committees recently established
  - Needs outweigh the resources 10 fold
  - Current financial position – taking into account legacy issues that still needs to be addressed and its impact on the cash flow.
  - Result of Census 2011 and its impact on service delivery
  - Stability and continuity in leadership and management.
  - Affordability issues (Tariff increases 16% 2012/13 to current)
  - Internal capacity and resources



## Strategic Focus Areas/Strategic Objectives

- *Refer to page 2 of the budget document*
- Core service delivery obligations assigned to the municipality in the constitution.
- Maintenance of existing infrastructure enjoys preference and we are focusing on preventative and scheduled maintenance preceded by proper planning processes.
- Provision of basic services, improvement of the quality of housing, infrastructure as well as sustainable service delivery to ensure the economic progression of our communities
- Balancing quality and affordability in the rendering of services to all communities within Bitou.
- Encouraging savings and value for money spending in all areas of service delivery thereby ensuring the financial sustainability of the municipality.
- Strengthening of management, leadership and oversight.

## Budget Assumptions /Parameters

Fully elaborated on pages 55 to 57 of the budget document

# Response to findings: Responsiveness - IDP



- *Executive Summary*
  - Par. 2 unresolved matters - It is not correct that these documents are not complete; the LED strategy was adopted on 30 March 2012 and the resolution number is M/6/64/03/12. The Draft SDF is ready for tabling in the May 2013 Council Meeting
  - Par. 3 and 5 contradictory w.r.t compliance. The IDP alignment to be done upon integration, the last step before final adoption.
  - Draft SDBIP could not be submitted due to lack of internal capacity but all effort will be put in to ensure future compliance.
  - Storm water master plan to be developed over the next 2 years, extensive work needs to be done as infrastructure is inadequate.

# Response to findings: Executive Summary (P3)



- *Executive Summary*
  - Municipality did not Budget for Deficit, Transfers recognised capital includes VAT whereas Capital Expenditure funded from grants excludes VAT, thus resulting in Surplus of R 2.564 Million
  - Par. 2 – Don't agree completely, Debtors Year on Year comparison as at 31 March shows that although there is a year on year increase, the outstanding debt is decreasing on a monthly basis
  - Par. 3 – Don't agree, not unrealistic, should recognise the extent of non-cash items that is provided in the budget (Provisions) and if deducted from the application of cash and investments in table A8 a cash surplus is evident. In 2015/2016 the financial recovery should be complete to the extent that provisions will be cash backed.

# Response to findings: Previous LGMTEC issues(P5)



- *Sustainability and Credibility*

- Long term Financial Plan – to be done
- Planned operating deficit – Don't agree with figures quoted
- Capital Budget spending – Delay in Loan Approval and EIA all efforts are made to increase by 30 June.
- Debtors management (fully elaborated under credibility)



# Response to findings: Previous LGMTEC issues(P5)



- *Sustainability and Credibility*
- **AIR QUALITY MANAGEMENT PLAN: page 6 & 13**
  - Bitou Municipality is currently engaged in the development of the Air Quality Management Plan.
  - The Eden District Municipality is assisting municipalities to develop and adopt AQMP.
  - A fifth progress report is available if required.
  - The appointment of an Air Quality Officer is in process.
  - Discussions with the Eden District Municipality for a service level agreement where the District Municipality will perform the Air Quality activities on behalf of Bitou have also started.)

# Response to findings: Previous LGMTEC issues(P5)



- *IDP Analysis*

- LED Strategy recently adopted . A great amount of work has gone into chapter 6, it is a phase in our process plan after the adoption of the draft IDP and will be completed upon final approval.
- SDF will be adopted with the budget in May 2013
- Water Services Development Plan – this plan is under review and will be completed by August 2013
- Pavement Management Plan – available and needs approval by Council
- Integrated Transport Plan – approved by Council in 2009, needs to be reviewed through the Eden District Municipality
- The Storm Water Master Plan will be developed
- Electricity Master Plan – approved by Council in March 2013
- Asset management plans have been developed regulating acquisition, safeguarding and maintenance.
- Funding remains the major constraint and plans will be reviewed and implemented in accordance with the availability of financial resources
- Renewable energy to be covered in electricity master plan, we have potential to become energy neutral from renewable sources. Measures will be considered to reduce electricity demand such as solar heating, PPP's with electricity generators may also be considered.

## Response to findings: Compliance/Conformance review



- *The IDP*
  - We shall correct all grammatical and technical errors. However, the disjuncture between our data is as a result of administrative and census data being used.
  - The SDF will be submitted for approval concurrent with the budget.
  - The reference to the sector plans review and linkage is noted, the status of the plans have been discussed in the preceding slide.
  - The IDP is a reviewed IDP in terms of Section 34(a)
  - 6 Ward committees were established in December 2012 and are actively participating in the IDP processes
  - The census results will be considered and relevant comments included in the final IDP document

# Response to findings: IDP Assessment against National KPI's



- **IDP Assessment**

- **Spatial Development analysis**

- Integration issues will be dealt with, the IMAP tool will be used to link IDP to Budget to SDBIP.
- Not possible to comply with all environmental requirements due to lack of resources (HR and Financial)

- **Basic Service Delivery and Infrastructure Development**

- The assistance of DWA will be mentioned as highlighted
- Inconsistencies in sanitation data is noted and will be addressed
- Electricity master plan linkage will be included in the IDP as well as indigent data
- Transport related matters will be addressed as identified in the review
- Storm water master plan is in the process of being developed

- **Waste management**

- Bitou Municipality has a 1<sup>st</sup> Generation IWMP that was adopted in 2006.
- A 2<sup>nd</sup> Generation IWMP is currently being developed through the review process to be concluded 2013/14

# Response to findings: IDP Assessment against National KPI's



- ***IDP Assessment***

- **Good governance and public participation**

- 6 out of 7 ward committees are functioning and actively participating in IDP processes.
- Social issues will be elaborated on further in the final IDP also indicating the extend in which other spheres of government are involved in Bitou.

- **Thusong Programme**

- Page 34 of the draft IDP is dedicated for Thusong Centre's and the final IDP will have a detailed chapter on Thusong Centre's

- **Institutional Development and Transformation**

- All Section 56 and 57 positions are filled
- The municipality is busy filling the critical vacancies and have adopted a scarce skills policy to attract and retain suitable candidates.



## Response to findings: IDP Assessment against National KPI's

- *IDP Assessment*

- **RECYCLING AND RE-USE**

- Bitou Municipality is currently planning to build a Refuse Transfer Station.
- Part of this facility is a recycling and composting facility.
- The IWMP has a recycling chapter on it and we are currently running a two bag system one of which is for recycling.
- Currently recycling is done by a private company (collections) as our facility was declared illegal by the Department of Planning and Environmental Affairs.

- **Landfill – Site (Closure)**

- All specialist studies for environmental scoping for closure and rehabilitation have been completed.
- The final Basic Assessment Report has been put out for 21 days public comments and of a Waste License for closure.
- DEADP has confirmed receipt and acceptance of the final BAR.
- The current site has been surveyed for closure design and construction.
- The site will have to remain open for garden waste and builders' rubble and the temporary transfer station until the RTS is operating.
- A draft by-law will be tabled in the Council Meeting of May for an in principle decision.

# Response to findings: Responsiveness - Budget



- *IDP Assessment*
- **HUMAN SETTLEMENTS: page 13**
- Bitou Municipality approved the sustainable Human Settlement Plan on 27 September 2011 per Council Resolution Number C/4/08/09/11.
- The Bitou Housing Pipe-line was approved on December 2012 for the period 2012-2018 and is logged with the Human Settlements Department.
- Together with the SDF, the HSP has been received by IQ vision and will be tabled in the Council Meeting of May 2013.
- **DISASTER MANAGEMENT: page 14**
- Bitou Municipality has a level 1 Disaster Management Plan adopted in 2010
- A draft Integrated Disaster Management Plan with secondary risk and disaster recovery plans will be approved before the end of this financial year as well.

# Response to findings: Responsiveness - Budget



- *Operational Budget (P. 17)*
  - Decrease in housing expenditure 2014/2015 not within the control of the municipality as Provincial Housing allocates the funding.
  
- *Capital Budget (P.18)*
  - Do not agree with analysis that no allocation is made to housing infrastructure, an amount of R11.7 Million (Budget P.2) is provided



# Response to findings: Responsiveness - SDBIP



- *Measureable performance objectives*
  - The strategic goal linking socio-economic issues in the IDP is noted and will be considered for inclusion in the final IDP
  - Proper correlation between the budget and IDP and census data will be provided within the final documents that will be tabled to council.
  - 6.4 Growth and development – Housing allocations are received from Provincial Department, not the control of the municipality, additional funding allocation will therefore be appreciated.

# Response to findings: Credibility



- ***Compliance with reforms***
  - Full compliance with Section 71 reporting requirements
  - Rollover budget – Capacity constraints and Impractical to submit to council by 25 August (Figures not yet audited and may differ from final audited figures)
  - Mid-year assessment was submitted to the Mayor in terms of the legislative requirements on 25 January 2013, we will ensure future compliance regarding submission to NT and PT.
  
- ***Budget Documents in Prescribed format***
  - Relevant tables will be fully completed upon submission of final budget.
  - Indigent policy is part of Credit control policy, Long term financial policy needs to be developed, other policies are available have previously been, and will again be submitted.

# Response to findings: Credibility



- *Financial Health assessment (p.26 & 27 Key findings and recommendations)*
  - CRR Point (a) and (e) - I. T. O. Funding and reserves policy AO to decide after AFS is completed whether a contribution can be made considering cash surpluses available. Contribution as proposed not feasible and represents an additional across the board tariff increase of 7.4%
  - Short term obligations (f) – Cash ratio: improved to 0.86 as at 31 March 2013
  - Unspent conditional grants (g) – fully cash backed as at 31 March 2013
  - Net asset position (h) increased by R81,5 Million as at 31 March 2013
  - Contracted Services (i) – represents 4.8% of expenses: (R19.593 million)
    - Security R2.7 Mil
    - Traffic Services R2.9 Mil
    - Revenue enhancement – R3.3 Mil
    - IT Services R1.8 Mil
    - Waste transfer services R4,0 Mil
    - Desalination plant operations R1.65 Mil

# Response to findings: Credibility



- *Sustainability and Credibility (Debtors point (j) p. 26,27*

- Debtors management – R50,835,083 (62%) 90 days compares well with Provincial and National average of 76.2% and metros of 73.5% and secondary cities of 78.8%. Current average annual collection rate 95% compares well with the national average of 91.1% as at 31 December 2012

- Collection rate for March 101.38%

- Write off done as follows:

2012/2012	4 026 345.15
2012/2013	10 447 368.20
<b>Total</b>	<b>14 473 713.35</b>

- Additional revenue raised 2011/2012 to 2012/2013 R29.8 Million

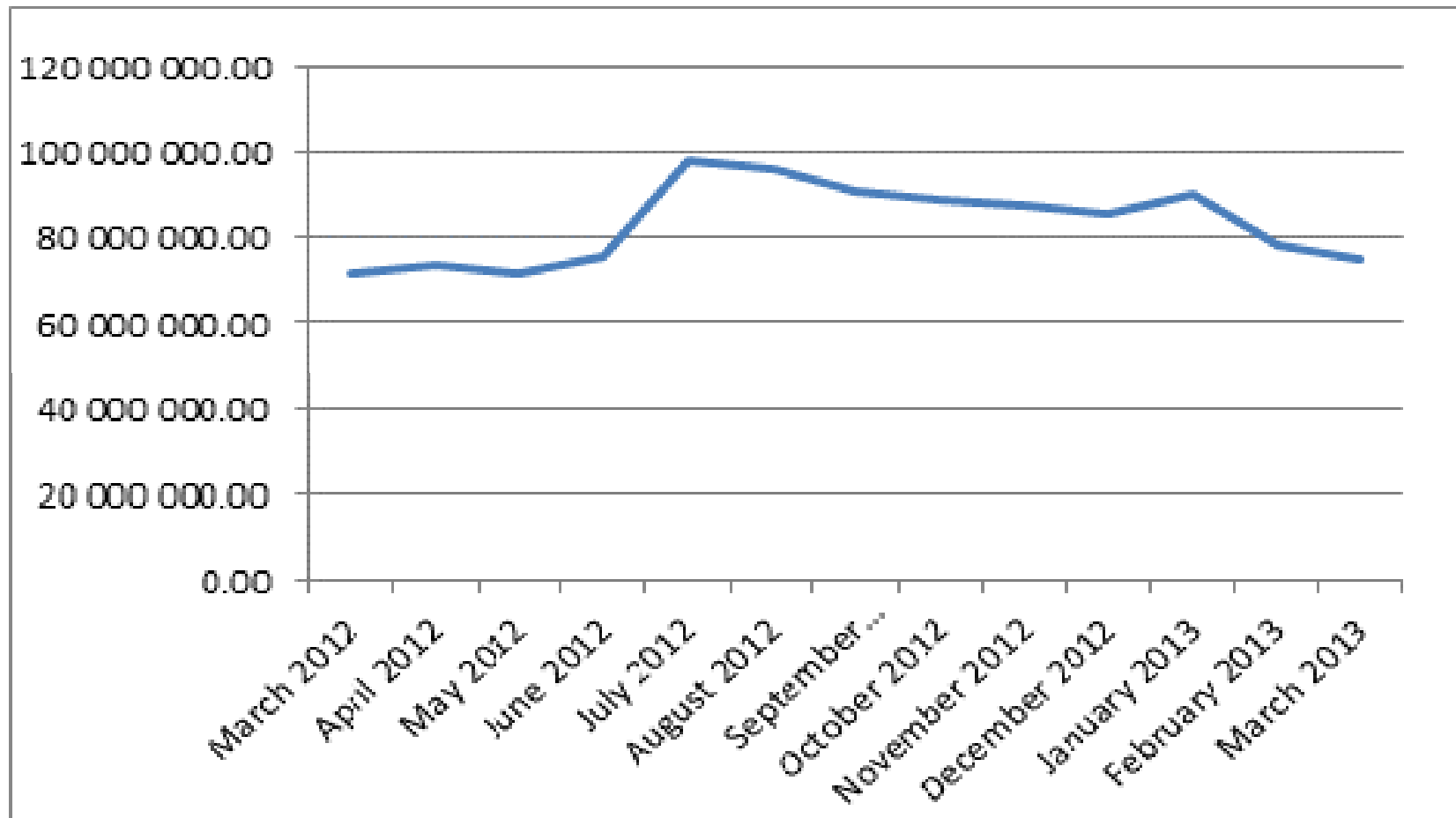
- Budgeted revenue based on 94% Collection rate effectively over collecting

- Revenue enhancement accounted for additional billing to the value of R1.8 Million

# Response to findings: Credibility



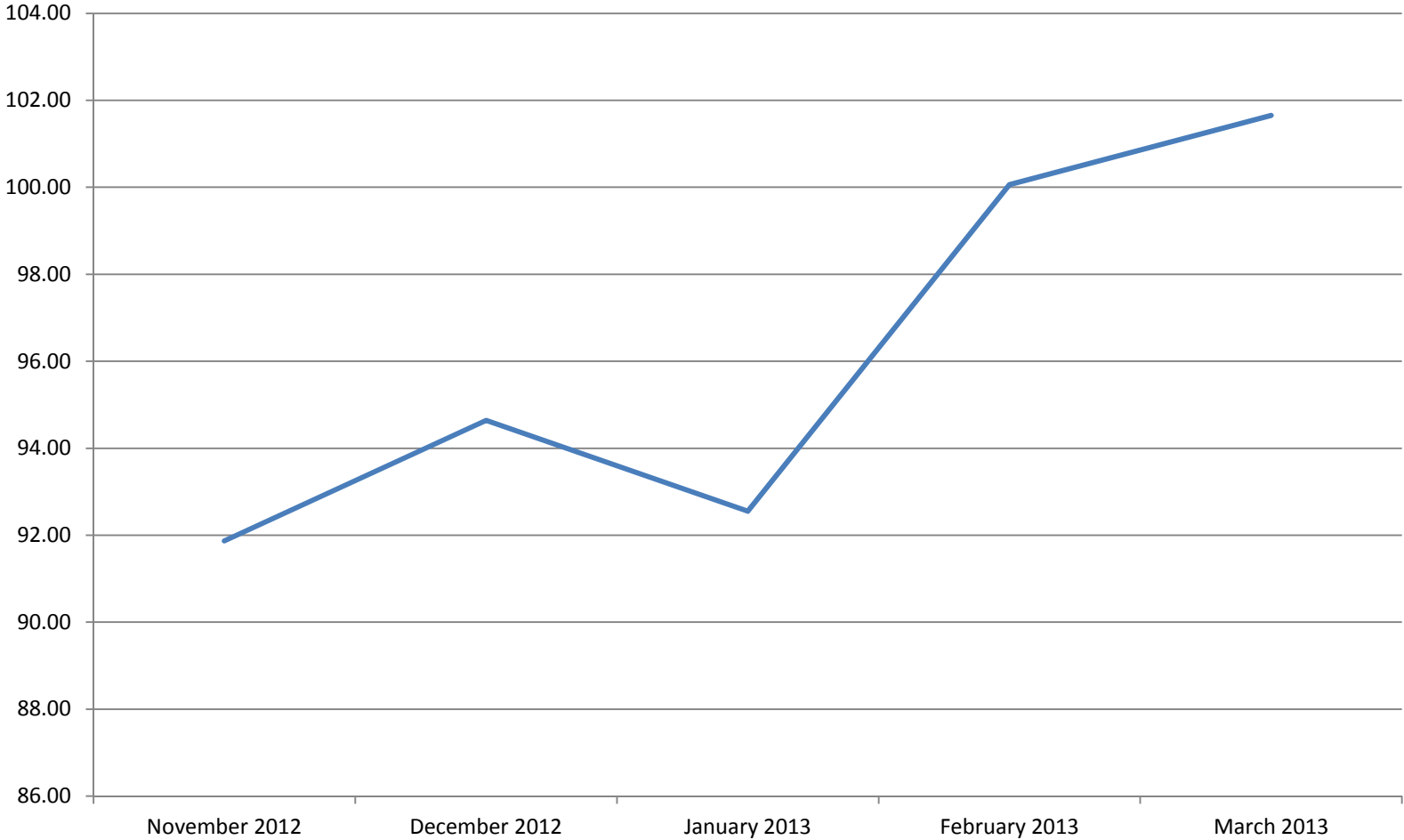
- *Outstanding Debtors trend*



# Response to findings: Credibility



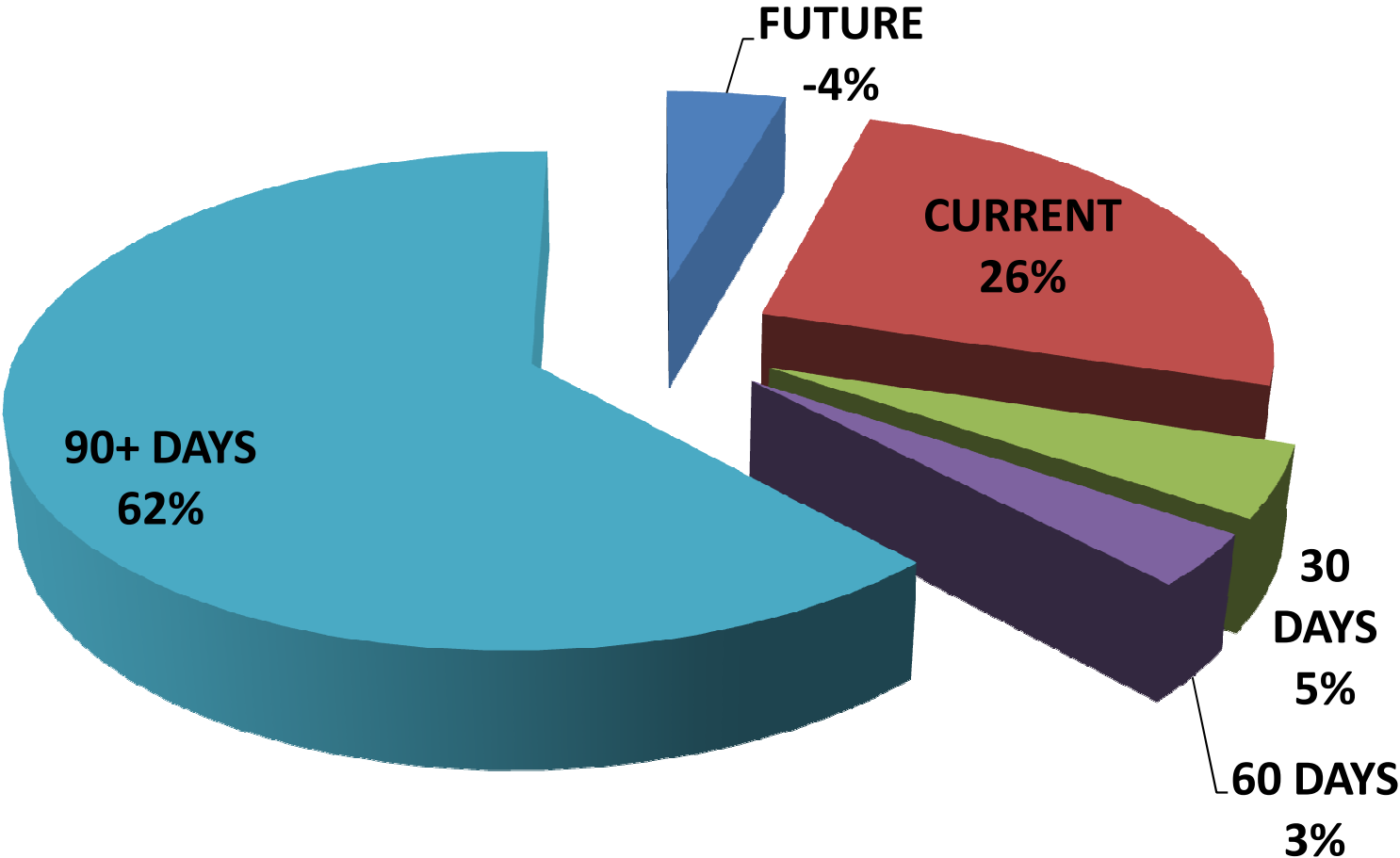
- *Debtors payment rate*



# Response to findings: Credibility



- *Debtors age analysis*





## Response to findings: Credibility

- *Budget overview and other matters p.28 to 35*
  - Budget Deficit – Already explained
  - P29 1<sup>st</sup> paragraph main categories in capital budget correctly refers to housing (contradicting)
  - Rollover funding, will be adjusted in the final budget in accordance with spending achieved to date
  - Relief measures rates – Applied for many years and cannot be reduced
  - Water and Electricity losses are monitored closely on a monthly basis, a loss control officer will be appointed in electricity department to further assist.
  - Water loss control measures include:
    - Replacement of infrastructure
    - Telemetry system to monitor
    - Installation and repair of bulk control meters
    - Monthly measuring and management reporting
  - Service charges sanitation – Increase in debtors mainly due to settlement priorities of financial system as consolidated account approach is used, NOT weak debtor management.



# Response to findings: Sustainability



- *Key findings and recommendations p. 34 to p. 35*
  - Operating Deficit – already explained, cash surplus anticipated of R2.56 Million
  - Main source of revenue rate and service charges 71% - Noted
  - Transfers from Department of Human settlements in outer years as a result of official correspondence received.
  - NOT a deterioration in the collection of outstanding debt current debtor payment rate exceeds budgeted collection rate

# Response to Key findings: Credibility Expenditure



- *Key findings and recommendations page 39 to 40*
  - a. Increase in housing allowance – incorrect classification to be corrected  
Councillors allowances increase budgeted at 5.8%
  - b. Organisational structure will be filled in accordance with critical nature of the position and affordability
  - c. Correction in the contribution to the reserve for staff leave accruals
  - d. Cellular and data policy is in a revision process and will be made available and be approved by 1 July 2013
  - e. Contracted services are not necessarily consulting services, a breakdown will be provided as required. Consultants are managed to ensure skills transfer.
  - f. Other expenditure mainly comprises of the Housing construction allocation and expenses and is realistic
  - g. Creditors older than 30 days is a result of administrative issues and systemic problems that is in process of being sorted out.
  - h. The norm of 8% is unaffordable and the budget for maintenance will be adjusted upwards in accordance with affordability considerations. A proper costing of maintenance activities will provide an improved spending percentage.

# Response to Key findings: Credibility Capital Budget



- *Key findings and recommendations page 42 to 43*

- a. The grant funding was included in accordance with the DORA Bill and provincial gazette, the sources of funding do however include a portion of the Disaster funding allocated to the municipality in 2012/2013.
- b. The contribution to the CRR will be made upon closure of the books for 2012/2013, the Funding and reserves policy authorises the AO to determine the contribution in accordance with the cash surplus available upon the compilation of the AFS.
- c. The performance of a credit rating will be considered.
- d. The planning and execution processes for spending of capital will be reviewed as recommended.



## Response to findings: Cash management

- *Key findings and recommendations page 43 to 48*
- The cash flow opening balance for 1 July 2012 was corrected in the adjustment budget
- Borrowing - The municipality intends to borrow only an amount equal to the redemption portion of the current loans in order not to over commit its financial resources to Loan repayments.
- Investment risk – The projected investments over the MTREF is not unrealistic bearing in mind the significant contribution to provisions and reserves as well as the performance on debt collection, the additional contribution in equitable share should also be considered as expenditure forecasts are not equal to higher grant allocations over the MTREF.
- Cash flow – The cash flow is not unrealistic, bearing in mind the aforementioned explanation as well as current performance. The past performance should not be limited to the last 3 financial years when considering the MTREF, the cash position in 2009 is indicative of what was achieved previously.
- Monthly Cash in- and out flow – It is realistic as the current collection rate is 95% with the monthly rate for February and March exceeding 100% revenue, adequate provision is made for irrecoverable debt as well as subsidization of free services.



## Response to findings: Cash management

- *Key findings and recommendations page 43 to 48*
- Cash and investments less applications – We take note of the opinion, it should be noted that the financial recovery to a position of adequate funding will take approximately 3 years to complete.
- Borrowing as % of capital funding – Noted the municipality will only be in a position to make significant contributions to capital expenditure from own funding upon conclusion of the 2015/2016 financial year.
- Current consumer % change – Noted and will be corrected
- Long term receivables change – Will be corrected
- Repairs and maintenance expenditure levels – Noted, an increase in maintenance allocations will be phased in, a proper costing of maintenance related activities may also significantly influence the percentage.
- Asset renewal expenditure level – Noted, an assurance will be provided that the amount is adequate taking into account the current financial position and resources

# Way forward



- *Review and consider input*
  - The LGMTEC analysis will be carefully scrutinised to further determine the improvements that can be made to the draft budget that was submitted.
  - The input of the public that was received through the public participation process needs to be considered and may also lead to adjustment of certain budget figures.
  - The municipality will carefully analyse its planning processes and financial modelling to continually improve on its budgeting and reporting processes.
  - The errors in the IDP as well as the budget will be corrected in order to ensure reliable and credible information.

# Conclusion



The Municipality is committed not only to ensure compliance with the legislative requirements of the Budget and the IDP processes, but also to continually improve its internal processes thereby ensuring credible planning documents and addressing the community needs within its financial and other means.