



# Medium-Term Budget

2011/12 - 2014/15



**Cacadu**  
DISTRICT MUNICIPALITY  
*Province of the Eastern Cape*  
*progress through development*

**Medium-Term Budget**  
**2011/12 - 2014/15**

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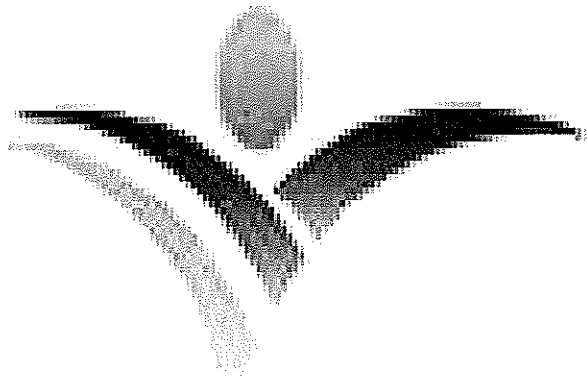
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**PART 1**

**ANNUAL BUDGET**

# **CHAPTER 1**



## **Mayor's Report**

**EXECUTIVE MAYOR'S BUDGET SPEECH**

**BUDGET SPEECH DELIVERED BY THE EXECUTIVE MAYOR OF THE  
CACADU DISTRICT MUNICIPALITY, COUNCILLOR MLUNGISI MVOKO  
IN THE CACADU DM COUNCIL CHAMBER, STANDARD BANK  
BUILDING, GOVAN MBEKI AVENUE, PORT ELIZABETH**

**Chief Whip of Council: Councillor Williams**

**Mayors and Speakers**

**Members of the Mayoral Committee**

**Fellow Councillors**

**Leaders of all Political Parties**

**Managers and Officials of Council**

**Members of the Community**

**Distinguished Guests**

**The Media**

**Fellow Citizens**

## Executive Mayors Budget Report

### 1. Introduction

Mr Speaker, fellow councilors, officials, members of the public and media, you are welcome to this Council meeting. Today we are to consider the draft IDP and Budget for the 2011/2012 financial year.

As you are no doubt aware local government elections are due to be held in May 2011. Elections are important occasions when we, as a country, reaffirm our commitment to democratic and accountable government by choosing representatives of the people who will guide the work of the local government for the next five years. During this time of transition, all role-players need to work together to ensure municipalities continue to perform their functions efficiently and effectively. Measures need to be put in place and risks need to be managed to ensure that the arrangements for the review of the IDP and preparation of the budget continue smoothly during the months preceding the elections.

The risks that need to be managed during the months ahead include:

- \* fixing of tariffs and charges to be implemented from the start of the municipal financial year (1July);
- \* approving the budget before 30 June 2011;
- \* ensuring financial sustainability; and
- \* ensuring effective public participation.

In an effort to mitigate these risks it has been resolved to adopt the National Treasury guidelines where the outgoing Council approves the 2011/2012 budget on 20 April 2011.

Mr Speaker, I am confident that although these arrangements has put pressure on the administration it minimizes the risks of there not being approved budget at the start of the financial year (1July 2011) and ensures continuity of service delivery.



The financial position of the Cacadu District Municipality is still strong, although it has a weak tax base. The Cacadu District Municipality achieved unqualified audit reports in 2006/7, 2007/2008, 2008/2009 and 2009/2010 financial years reflecting the drive towards financial management excellence in the Cacadu District Municipality. In the 2009/2010 financial year the Cacadu District Municipality achieved a spending of R331.3 million of the total capital and operating budget. The overall forecasted financial performance results for the 2010/2011 year reflect a forecasted total spending of R268.6 million and operating surplus of R5.2 million.

The Budget is more than a mere balancing of available revenue to meet expenditure needs. The budget is a policy instrument which seeks to transform our society with huge developmental needs.

## **2. Context**

According to recent population estimates population figures in Cacadu District were estimated to be 412 956. According to information received from Global Insight, the average growth rate of the district is estimated at 1.1% which is higher than the provincial growth rate. The population in the Cacadu District Municipality is concentrated in Makana, Kouga and Ndlambe with more than 50% of residents in the District residing in these municipalities. The remaining municipalities all have less than 50 000 inhabitants per municipality.

The percentage of people unemployed in the district in 2007 is 31.4% (Global Insight, 2008). There has been a gradual increase in the unemployment rate since 1996, which originally stood at 28.9%. The recent global recession and low growth rates predicted will undoubtedly impact negatively on unemployment figures and contribute to increased poverty levels in the district.

### **2.1 End of Term Report**

Mr Speaker it is important that we recognize that we are ending our term of office in May 2011 and that we need to review the outcomes of our efforts.

We have the responsibility to answer the questions and report on the following:

- Have we achieved the development objectives detailed in the IDP? These are:
  - Infrastructure Investment
  - Capacity Building and Support to Local Municipalities
  - Promotion of Economic Development
  - Providing community services

These development objectives and projects linked to them all have the intention of improving the sustainable quality of life in the district.

I am convinced that this municipality has added substantial value in the district since its inception and that we have succeeded in contributing to an improved quality of life in the district.

Mr Speaker, I have served my second and last term as Executive Mayor of the district. I believe that the Council has developed the necessary staff, systems, structures and services that will pave the way for the new Council to continue achieving service delivery objectives in the future. It has been an honour and a privileged for me to lead a team of dedicated and committed politicians and administrators over the past 10 years.

### **3. IDP and Budget**

Mr Speaker, the IDP, is the District's 5 year plan that guides development and service delivery. The IDP is based on the needs of the community and the district stakeholders. The IDP should respond to the challenges of economic growth, infrastructure and poverty in the district. The IDP outlines the 5 year strategic objectives, key performance indicators and targets programmes and the delivery agenda for the year ahead. The IDP also provides an overview of intergovernmental alignment, summarises the Spatial Developmental Framework and outlines the Performance Management System.

In 2007, the Cacadu District Municipality approved its 5 year IDP for the 2007 – 2011 electoral term. The Municipal System Act requires a municipality to review its IDP annually, taking into account an assessment of its performance as well as changes in priorities and external circumstances. The new Council will adopt its own 5 year IDP in 2012.

### **3.1 Key IDP Interventions**

Mr Speaker, the Cacadu District Municipality has identified a number of key IDP interventions. These represent flagship programmes that will accelerate the achievement of the principles contained in our Growth and Development Strategy.

1. Building sound relationships with Local Municipalities
2. Revitalising Local Government support and capacity building
3. Launch District Wide initiatives to address water crises.
4. Strengthen the Cacadu District Municipality's role as a facilitator of inter governmental and stakeholders co-ordination

### **4. High level overview of the 2010/2011 Budget**

The financial position of the Cacadu District Municipality is still strong in spite of the fact that it has a weak tax base. The Cacadu District Municipality achieved unqualified audit reports in 2006/7, 2007/2008, 2008/2009 and 2009/2010 financial years reflecting the drive towards financial management excellence in the Cacadu District Municipality. In the 2009/2010 financial year the Cacadu District Municipality achieved a spending of R331.3 million of the total capital and operating budget. The overall forecasted financial performance results for the 2010/2011 year reflect a forecasted total spend of R268.6 million and operating surplus of R5.2 million.

This year we are tabling a budget amounting to R191.8 million which represents a decrease of 41.5% over the 2010/2011 financial year adjusted budget of R328.3 million. The decrease is mainly due to the conditional grant funds which targeting flood damaged areas in KouKamma

which were spent in the previous financial year, the provincialization of the Primary Health Care Services and transfer of DMA Areas to local municipalities.

The Cacadu District Municipality's projected overall spending envelope for the 2010/2011 Medium Term Budget (MTB) amounts to R268.6 million. Approximately R6.5 million will be invested in capital infrastructure, vehicles, furniture and equipment.

The operating budget provides for many projects amounting to R123.5 million as more fully detailed in the budget document.

#### **4.1 Economic Landscape**

SA consumer inflation rose to 3,7% y/y for January 2011 in line with expectations. Food and fuel price pressures are starting to become evident. For 2010 as a whole SA CPI inflation averaged a very respectable 4.3% y/y after averaging 7.2% in 2009. During January 2011 there were two key factors impacting on inflation. The first was a relatively large 2.3% m/m increase in food prices. The other notable increase in January was the rise in transport costs driven by higher fuel prices. Oil prices are reaching record heights because of the risks in the Middle East due to unrest in the oil producing countries and the risks relating to oil being transported through the Suez Canal.

Looking ahead to 2011 there are therefore a number of clear upside risks to SA inflation, higher energy prices, and higher commodity prices. The extent to which these price pressures will impact on inflation will be heavily influenced by the Rand exchange rate. There is little doubt that the relative strength of the Rand in 2010 cushioned SA from some potential damaging price pressures, but this is likely to change in 2011. Domestically, further electricity hikes, coupled with other service costs and administered price rises (water, medical and education) as well as the concerning increase in wage demands could push SA inflation sharply higher in 2011.

Globally most countries are facing similar higher inflation risks with food prices and energy prices escalating at (34%) over the past year and food index increasing to 38% y/y (in dollars).

The risks of a broad based increase in the underlying global inflation is clearly rising especially as the fragile world economy continues to recover.

## **4.2 Tariffs**

The current tariffs were increased by 6%.

## **5. Medium Term Operating and Capital Budget for 2011/2012**

### **5.1 Revenue**

Mr Speaker, the total Operating Revenue Budget is estimated at R273.8 million. Revenue derived from Equitable Share of National Revenue and the Levy Replacement Grant for the 2011 / 2012 financial year amounts to R 12,786 million and R 52,629 million respectively. It is evident that the demarcation process whereby DMA areas are incorporated into local municipality areas have impacted negatively on the CDM's share of National Revenues. The CDM's equitable share has been reduced by R4,0 million which is a 23,9% reduction. On the positive side, all municipalities who have DMA areas incorporated into their areas have received a significant increase in their equitable share. This will enable them to continue with the provision of municipal services in these areas. The CDM will honour its financial commitment to all projects which are in progress in the new financial year. Investment interest and contribution from the accumulated surplus account amounts to R18.9 million and R42.3 million respectively. Conditional Grant funding to finance project expenditure amounts to R53 million. It is evident from the details provided in the budget that the municipality is totally dependant on grant funding from the National Treasury to finance its operations.

## 5.2 Allocation Per Vote

<b>Expenditure by Vote to be appropriated</b>	<b>Amount</b>	<b>%</b>
Executive and Council	50 781	26.5
Finance and Corporate Service	36 021	18.8
Planning and Development	29 434	15.4
Health	10 448	5.4
Community and Social Services	10 132	5.3
Housing	2 295	1.2
Public Safety	18 579	9.7
Sport and Recreation	500	0.3
Waste Management	1 000	0.5
Roads	8 246	4.3
Water	17 165	8.9
Electricity	1 000	0.5
Other	6 177	3.2
<b>Total Expenditure by Vote</b>	<b>191 778</b>	<b>100</b>

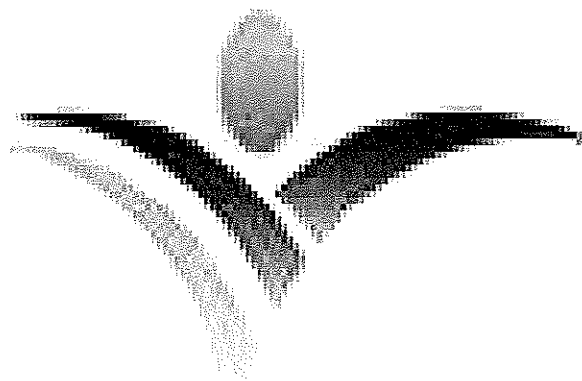
### Conclusion

Mr Speaker, in conclusion I express my heartfelt gratitude to:

- the members of the Mayoral Committee for providing the necessary political oversight during the budget process;
- the municipal manager and departments;
- the Chief Financial Officer and his budget team as well as officials who have played an important role in the compilation of the budget;

Honourable Speaker I now formally table the 2011/2012 medium term budget and annexures for Council's consideration in terms of Section 24 (1) of the Municipal Finance Management Act.

# **CHAPTER 2**



# **Resolutions**

## **CHAPTER 2**

### **RESOLUTIONS**

#### **Capital Budget**

##### **IT IS RECOMMENDED**

That the annual capital budget of R6.5 million for the year 2011/2012 and the estimates for the two projected outer years 2012/2013 and 2013/2014 for the Cacadu District Municipality be approved as set out in the following schedules:

- Capital budget by vote (**Annexure “E”**)

#### **Operating Budget**

##### **IT IS RECOMMENDED**

That the annual Operating Revenue of R191.8 million and the Operating Expenditure of R191.8 million for the Cacadu District Municipality for the financial year 2011/2012, and the indicatives for the projected medium term period 2012/2013 and 2013/2014 be approved as set out in the following attachments:

The total operating budget by vote for the departments as reflected on Table A3

That the supporting information contained in the 2011/2012 – 2013/2014 Medium Term Revenue and Expenditure Budget document as required in terms of Section 17(3) of the Municipal Finance Management Act (Act 56 of 2003) be considered in conjunction with this report.

#### **Tariffs**

##### **IT IS RECOMMENDED**

That the tariffs and charges as tabled in the Council agenda in **Annexure “F”** be approved for the 2011/2012 financial year.



## **Budget Related Policies**

### **IT IS RECOMMENDED**

That due to the significant change to policies as a result of the demarcation process and incorporation of District Management Areas into the affected local municipality areas, that the Budget Related Policies detailed below be recinded:

- Indigency Policy;
- Property Rates Policy;
- Revenue By-Laws;
- Credit Control & Debt Collection;
- Tariff Policy;
- Asset Management Policy;
- Budget Policy;
- Supply Chain Management Policy; and
- Banking and Investment Policy.

and that the revised and updated Budget Related Policies detailed below circulated under separate cover be approved:

- Petty Cash Policy and Procedures;
- Sundry Financial Policies;
- Banking and Investment Policy;
- Budget Policy;
- Supply Chain Management Policy;
- Asset Management Policy;
- Virement Policy;
- Credit Control and Debt Collection;
- Tariff Policy; and
- Revenue By-Laws.

## **Kouga Development Agency**

### **IT IS RECOMMENDED**

The 2011/12 Operating and Capital budget for the Kouga Development Agency as more fully detailed on **ANNEXURE H** be approved.

# **CHAPTER 3**



## **Executive Summary**

## **CHAPTER 3**

### **EXECUTIVE SUMMARY**

The Cacadu District Municipality's projected overall spending envelope for the 2011/2012 Medium Term Budget (MTB) amounts to R191.8 million. Approximately R6.5 million will be invested in capital infrastructure, vehicles, furniture and equipment.

The 2011/2012 MTB has been prepared within the context of a fragile global economy, taking into account the implications of the recovering global economy and rising inflation rates.

Within the recovering global economic environment and the local low-growth scenario, it is expected that the Cacadu District Municipality's revenue base will be adversely affected. The Cacadu District Municipality has also seen a slow increase in its revenue base with the introduction of the Levy Replacement Grant. The recent demarcation process whereby the District Management Areas (DMA) were incorporated in the local municipal areas has adversely impacted on the CDM's revenue base. The DORA reflects a R4.0 million decrease in Equitable Share revenue from the previous financial year excluding councillors allowances. The Levy Replacement Grant increased marginally from R51.1 million in the 2010/2011 to R52.6 million in the 2011/2012 financial year which will have a significant negative impact on the CDM's ability to perform its legal mandate and its efforts to ensure financial sustainability in the short and medium term.

A further blow to the municipality's efforts to improve the quality of life of the communities is the fact that no further allocation of MIG funds is available for infrastructure development as from the 2011/2012 financial year. The impact of these revenue reductions have forced the municipality to use greater amounts of its accumulated surplus impacting negatively on its financial sustainability in the medium term. It therefore means that more should be done with less, without compromising on essential programmes or services.

In the MFMA Circular No 54, the National Treasury provides some guidelines, taking into account the ongoing constraints on the revenue side, municipalities are made aware that tough decisions will have to be made on the expenditure side and that priority ought to be given to:

- Ensuring that drinking water meets the required quality standards at all times;
- Protecting the poor from the worst impacts of the slow recovery in the labour market;
- 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; and
- Expediting spending on capital projects that are funded by conditional grants.

National Treasury advises municipalities to pay special attention to controlling unnecessary spending on nice-to-have items and non-essential activities, such as foreign travel, councillor and staff perks, advertising and public relations activities. Attention should also be given to ensuring value for money is obtained when using consultancy and other outsourced services.

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

Accordingly, the Cacadu District Municipality's 2011/2012 MTB was guided by the following principles:

- Producing a credible balanced budget;
- Maintaining fiscal stability and financial sustainability;
- Maintaining the commitment to deliver quality services;
- Collectively managing the costs down;
- Identifying alternative funding;
- Reviewing all Cacadu District Municipality's services and programmes for operational efficiencies to improve service levels and delivery;
- Ongoing costs should be funded with ongoing revenues by aligning recurring expenditures with recurring revenues, on a level that can be reasonably sustained and reduce reliance on one-time funding;
- Further managing down general expenditure and contracted services. The choice of a service provider should be based on which service provider can provide the service most effectively at the lowest cost; and
- Maintaining all assets at a level adequate to protect the capital investment and minimise future maintenance and replacement cost.

In addressing the budget pressures, the Cacadu District Municipality will continue to implement cost reduction, mainly by scrutinizing discretionary items, not limited to the following:

- Scaling down the cost of consulting services;
- Paying bills on time so that no late charges are incurred;
- Limiting printing, e.g budget book, IDP, financial statements and other publications;
- Managing overtime;
- Managing breakaways;
- Managing IT costs (no unnecessary purchases of new laptops, computers, printers, etc);
- Delaying conferences and seminars;
- Re-negotiating some of the contracts where necessary;
- Limiting purchasing of furniture; and
- Limiting office renovations.

The financial position of the Cacadu District Municipality is still strong. The Cacadu District Municipality achieved unqualified audit reports in 2006/07, 2007/2008, 2008/2009 and 2009/2010 reflecting the drive towards financial management excellence in the Cacadu District Municipality. In the 2009/2010 financial year the Cacadu District Municipality achieved a spending of R331.3 million of the total capital and operating budget. The overall forecasted financial performance results for the 2010/2011 year reflect an expected total operating expenditure (including project expenditure) amounting to R268.6 million and a calculated operating surplus of R5.2 million. This calculated surplus includes an amount of Accumulated surplus reflected as income.

The Cacadu District Municipality's IDP is the primary point of reference for the MTB. In turn, the IDP is influenced by the support needs in the District. The aim is to align the financial resources to the Cacadu District Municipality's strategy and priorities, as well as continuously looking for efficiencies in all activities and programmes.

The 2011/2012 MTB continues to address the following key IDP interventions:

- Promotion of Economic Development;
- Infrastructure Investments and Infrastructure Maintenance and Planning in the district;
- Capacity Building and Support to local municipalities; and
- Provision of Community Services including environmental health services and disaster management services.

Economists agree that the Eskom Tariff increase and the increase in the cost of fuel is a substantial blow and one that will have a negative impact on both inflation and economic growth. There is no doubt that the cost of goods and services will increase and it has therefore been decided to increase tariffs and charges as well as the property rates

In times like these where we are aware that the economic downturn has adversely impacted on households, especially the poorest of the poor households, we need to agree that creating jobs and increasing employment is South Africa's most critical objective.

The Cacadu District Municipality will therefore focus on maximizing its contribution to job creation by:

- Ensuring that service delivery and capital projects use labour intensive methods wherever appropriate;
- Ensuring that service providers use labour intensive approaches;
- Supporting labour intensive LED projects;
- Participating fully in the Extended Public Works Programme.
- Implementing intern programmes to provide young people with on-the-job training.

The challenge for all municipalities in South Africa is to support these government initiatives and to do more within the existing resource envelope.