

**NATIONAL COUNCIL OF PROVINCES
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 358 [CW468E]
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358. Mr H B Groenewald (North West: DA) to ask the Minister of Finance:

- 1) Whether he will take any actions to ensure that the Mayor and the Council of the Kgetlengrivier Local Municipality adjust their high income budget for the 2015-16 financial year for a real expected income; if not, why not; if so, what are the relevant details;
- 2) how can the municipality be expected to generate enough income to run effectively and efficiently when its remuneration costs exceed the real income (details furnished)?

CW468E

REPLY:

1. Yes, based on an independent assessment as outlined by National and Provincial Treasuries, the 2015/16 adopted budget is not funded as required in terms of Section 18 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA)¹. The National Treasury has, through the support of the MEC for Finance in North West, requested the municipality to redo the 2015/16 budget with the view of presenting a funded budget over the medium term revenue and expenditure framework (MTREF) period.

In essence, the Mayor and council must re-adopt a funded, credible and sustainable budget for implementation by the municipality. This message was conveyed to all political principals of municipalities during the last MUNIMEC meeting jointly hosted by the MEC for Finance and the MEC for Local Government in the province on 6 August 2015.

Kgetlengrivier Local Municipality's 2015/16 adopted budget indicates that the municipality's council has adopted a surplus operating budget amounting to R12.7 million. This suggests that the operating revenue and expenditure is not being correctly calculated during the budget preparation stage. Judging from the trend it can be assumed that the 2015/16 budget is prepared merely for compliance and will not be a sustainable for the period ahead. In this case the operating revenue for 2015/16 is R143.8 million and the operating expenditure is R131 million. The operating revenue shows that government grants are the largest contributor and employee related costs are the largest expenditure item.

¹ Section 18 of the Municipal Finance Management Act (MFMA) states that annual budget may only be funded from realistically anticipated revenues to be collected,

Furthermore, National and Provincial Treasuries' recalculation of the cash flow indicates that certain line items need to be recalculated by the municipality. Based on this, the cash flow forecast suggests a shortfall/deficit of R25.3 million after all commitments have been considered. The cash flow budget was based on a collection rate of 59 per cent, which is below the norm of 95 per cent as articulated in MFMA Circular No. 72.

A comprehensive report on the assessment of the adopted 2015/16 budget will be shared with the municipality as a guide to produce a funded budget for re-adoption by the municipality's council.

2. The budget assessment shows that the remuneration ratio of the municipality is 31 per cent to the operational expenditure. The ratio is within the norm of between 25 per cent and 40 per cent. However, the remuneration costs are the largest component of the municipal expenditure.

During recent engagements between the Kgetlengrivier Local Municipality and National and Provincial Treasuries, it was agreed that cost containment measures be considered to address imbalances in the budget. In addition, it is advisable that the municipality consider the following to improve its revenue management. Namely:

- Review the tariff structure and ensure that tariffs are cost reflective;
- Make concerted efforts to implement the revenue management strategy in order to improve the collection rate;
- Fully implement cost containment measures and project savings on non-priority activities;
- Develop a financial recovery plan that will create a sound financial footing for the municipality;
- Correct consumer's data on the billing system to ensure accurate billing and align this data with the information from the deed's office as well as the valuation roll. The accurate billing system is essential to ensure that the correct customer is being billed for the right usage; and
- Review its contracts or other outsourced services to ensure value for money. In addition, the municipality should avoid duplicating costs arising from the appointment of service providers when there are officials in the municipality's employment to undertake the work. Given the high proportion of the remuneration costs, it is evident that the municipality may want to consider reviewing the organogram.

In conclusion, the municipal should not live beyond its means hence the budget must be restructured in line with the recommendations made by both the National and Provincial Treasuries.