

The FFC problem statement raises the following question on p3

The LGFF is the funding arrangement required to ensure that local government and individual municipalities are financed sufficiently to fulfil their constitutional mandates so that adequate services are rendered to communities

ELM WILL RESPOND TO THIS STATEMENT AS FOLLOW

ELM is going to debate that this statement is not true and does not succeed in achieving those goals.

Elm is going to further debate that that it suffers from a vertical fiscal deficit that disallows itself to fulfil their constitutional mandates so that adequate services are rendered to communities .

ELM will attempt to prove the debate by submitting as detailed possible costing data and spatial and other information in order to support the above statement.

It follows naturally that within the presentation time allocated only highlight issues will be discussed.

**There is a general expectation that low capacity municipalities are institutionally deteriorating and that AG disclaimers and full qualifications are the rule of the day .
This will surely influence the credibility and accuracy of data in order to assist in this study.**

The status of the Auditor General opinion on the Financial Statements

An unqualified audit report for the 2005/6 book year

An unqualified audit report for the 2006/7 book year.

An unqualified audit report for the 2007/8 book year.

An unqualified audit report for the 2008/9 book year.

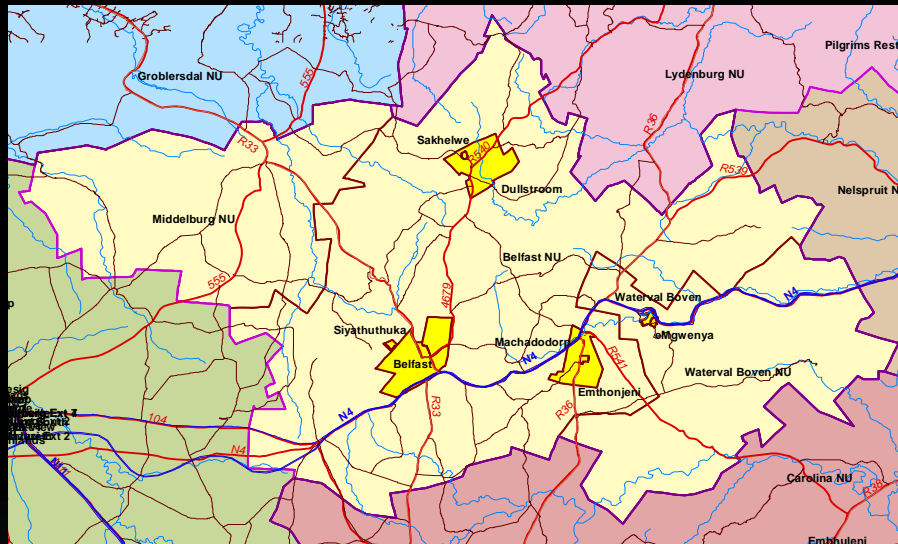
An unqualified audit report for the 2009/10 book year.

Furthermore the 2009/10 financial statements were converted from IMFO standards to GRAP standards.

We this have confidence that the information supplied for any cost analysis is accurate and reliable

EMAKHAZENI LOCAL MUNICIPALITY SPATIAL CHARACTER

while rural municipalities are relatively more sparsely populated. These differences impact on the costs of providing services and suggest unique planning decisions around these unique environments (page 5 problem statement)



There are eight towns in our area namely:

Emakhazeni and Siyathuthuka; Dullstroom and Sakhelwe; Entokozweni and Emthonjeni; and Waterval-Boven and Emgwenya.

Settlements in the area are sparsely distributed with residential densities increasing towards towns in the area as well as rural settlements, such as Wonderfontein, Paardeplaats and Driefontein.

EMAKHAZENI LOCAL MUNICIPALITY POPULATION CHARACTER

“PER CAPITA” is the core component of costing analysis and in a sense determines the LES formula

According to Statistics South Africa of 2001,

- the total population of the ELM amounts to 59 928 persons,
- which amounts to 4.2 % of the total Nkangala District Municipality’s population (1 020 589 persons)
- and 1.3% of Mpumalanga’s population (3 122 988 persons).

Table 1: Population/ Household Figures

	Total population	No. of household consumer units
Urban	43 667	7 586
Dense	2 947	673
Village	1 164	265
Scattered	60	14
Farmland	11 460	2 618
Total	59 298	11 156

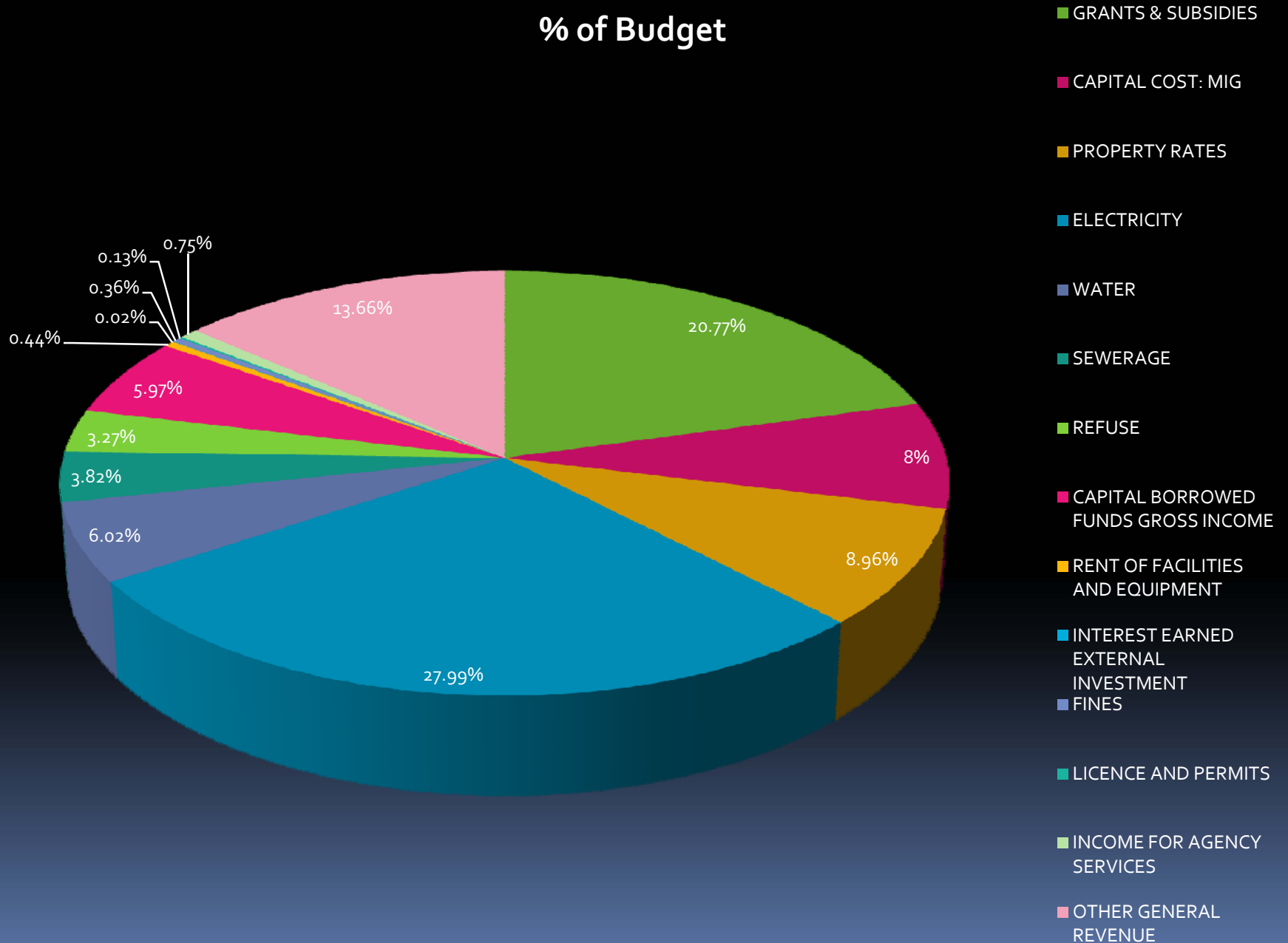
Employed/Unemployed		
Employed	11,714	43%
Unemployed	5,021	18%
Not Economically Active	10,758	39%
	27,493	

ELM 2011/12 PER CAPITA INCOME BUDGET ANALYSIS

Item Description	2011/12		PER CAPITA
	Proposed Budget CR	% of Budget	Estimated Budget CR
GRANTS & SUBSIDIES	34 772 000.00	20.77%	580.23
CAPITAL COST: MIG	13 131 000.00	8%	219.11
PROPERTY RATES	14 993 823.00	8.96%	250.20
ELECTRICITY	46 853 516.00	27.99%	781.83
WATER	10 069 817.00	6.02%	168.03
SEWERAGE	6 392 214.00	3.82%	106.66
REFUSE	5 466 555.00	3.27%	91.22
CAPITAL BORROWED FUNDS GROSS INCOME	10 000 000.00	5.97%	166.87
RENT OF FACILITIES AND EQUIPMENT	732 880.00	0.44%	12.23
INTEREST EARNED EXTERNAL INVESTMENT	41 400.00	0.02%	0.69
FINES	600 850.00	0.36%	10.03
LICENCE AND PERMITS	211 610.00	0.13%	3.53
INCOME FOR AGENCY SERVICES	1 254 500.00	0.75%	20.93
OTHER GENERAL REVENUE	22 861 215.00	13.66%	381.48
TOTAL	167 381 380.00	100.28%	2793.04
LESS REVENUE FORGONE	5 742 770.00		95.83
TOTAL DIRECT OPERATING REVENUE	161 638 610.00		2697.21

ELM 2011/12 PER CAPITA INCOME BUDGET ANALYSIS GRAPH

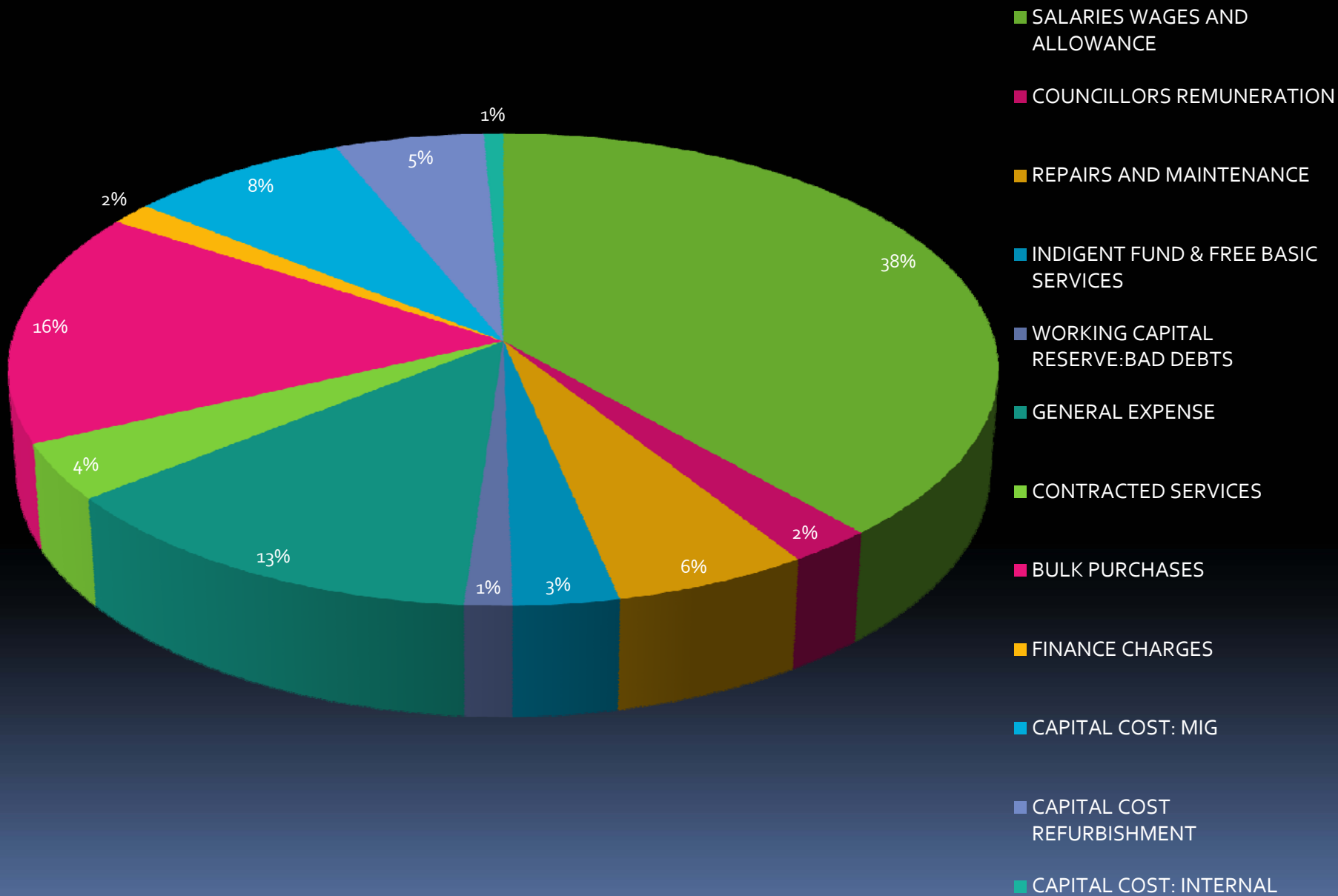
% of Budget



ELM 2011/12 PER CAPITA EXPENDITURE BUDGET ANALYSIS

Item Description	Proposed Budget DR	% of Budget	PER CAPITA
SALARIES WAGES AND ALLOWANCE	62 186 414.00	38%	1 037.77
COUNCILLORS REMUNERATION	3 977 322.00	2%	66.37
REPAIRS AND MAINTENANCE	9 226 011.00	6%	153.96
INDIGENT FUND & FREE BASIC SERVICES	4 999 608.00	3%	83.43
WORKING CAPITAL RESERVE:BAD DEBTS	2 243 240.00	1%	37.44
GENERAL EXPENSE	21 190 662.00	13%	353.63
CONTRACTED SERVICES	6 277 547.00	4%	104.76
BULK PURCHASES	25 979 664.00	16%	433.55
FINANCE CHARGES	2 443 990.97	2%	40.79
CAPITAL COST: MIG	13 131 000.00	8%	219.13
CAPITAL COST REFURBISHMENT	8 841 974.03	5%	147.56
CAPITAL COST: INTERNAL	1 141 177.00	1%	19.04
TOTAL	161 638 610.00	100%	2 697.44

ELM 2011/12 PER CAPITA EXPENDITURE BUDGET ANALYSIS



THE FIRST ACID TEST : HOW MUCH EXPENDITURE IS RELATED TO PURE SERVICE DELIVERY ?

AN ACID TEST ANALYSIS OF THE EXPENDITURE

OUR ESTIMATION OF EXPENDITURE ITEMS DIRECTLY ALLOCATABLE AND RELATED TO SERVICE DELIVERY AND EXPENDITURE RELATED TO LEGISLATIVE REQUIREMENTS ADHERANCE

IN TERMS OF PAGE 5 OF THE PROBLEM STATEMENT WE CLASSICALLY FIT BETWEEN SMALLER AND LARGER TOWNS

Item Description	Proposed Budget DR	% of Budget	PER CAPITA	% SERVICE DELIVERY	PER CAPITA	% INSTITUTIONAL	PER CAPITA
SALARIES WAGES AND ALLOWANCE	62 186 414.00	38%	1 037.77	45.00%	467.00	55.00%	570.77
COUNCILLORS REMUNERATION	3 977 322.00	2%	66.37	100.00%	66.37	0.00%	0.00
REPAIRS AND MAINTENANCE	9 226 011.00	6%	153.96	100.00%	153.96	0.00%	0.00
INDIGENT FUND & FREE BASIC SERVICES	4 999 608.00	3%	83.43	0.00%	0.00	100.00%	83.43
WORKING CAPITAL RESERVE:BAD DEBTS	2 243 240.00	1%	37.44	0.00%	0.00	100.00%	37.44
GENERAL EXPENSE	21 190 662.00	13%	353.63	75.00%	265.22	25.00%	88.41
CONTRACTED SERVICES	6 277 547.00	4%	104.76	25.00%	26.19	75.00%	78.57
BULK PURCHASES	25 979 664.00	16%	433.55	0.00%	0.00	100.00%	433.55
FINANCE CHARGES	2 443 990.97	2%	40.79	0.00%	0.00	100.00%	40.79
CAPITAL COST: MIG	13 131 000.00	8%	219.13	100.00%	219.13	0.00%	0.00
CAPITAL COST REFURBISHMENT	8 841 974.03	5%	147.56	100.00%	147.56	0.00%	0.00
CAPITAL COST: INTERNAL	1 141 177.00	1%	19.04	100.00%	19.04	0.00%	0.00
TOTAL	161 638 610.00	100 %	2 697.44		1 364.48		1 332.96

THE SECOND ACID TEST : HOW MUCH OPERATIONAL EXPENDITURE IS RELATED TO PURE SERVICE DELIVERY ?

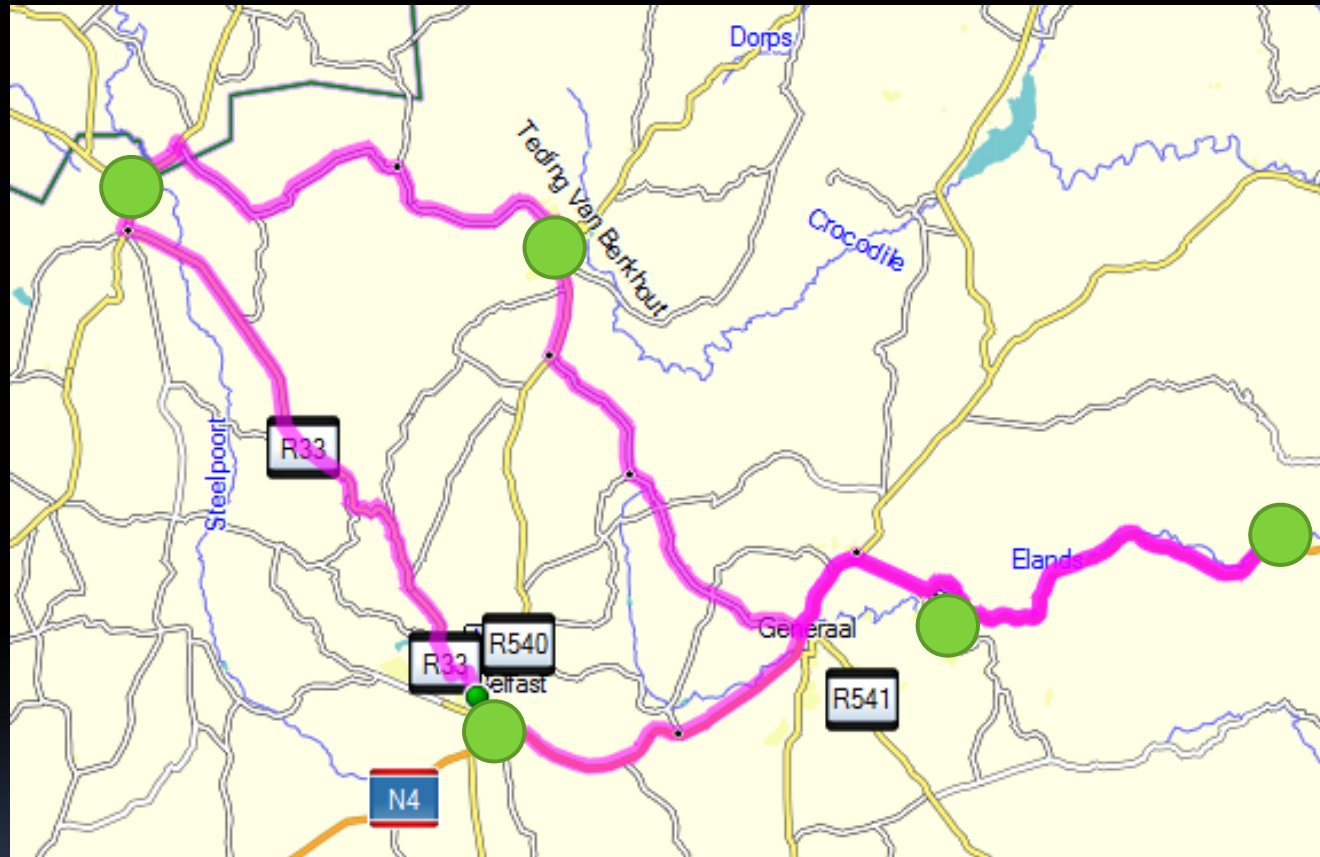
AN ACID TEST ANALYSIS OF THE OPERATIONAL EXPENDITURE

IN TERMS OF PAGE 5 OF THE PROBLEM STATEMENT WE CLASSICALLY FIT IN BETWEEN THE SMALLER TOWNS AND RURAL MUNICIPALITIES

Item Description	Proposed Budget DR	% of Budget	PER CAPIT A	% SERVICE DELIVER Y	PER CAPITA	% INSTITU TIONAL	PER CAPITA
REPAIRS AND MAINTENANCE	9 226 011.00	6%	153.96	100.00%	153.96	0.00%	0.00
	21 190						
GENERAL EXPENSE	662.00	13%	353.63	75.00%	265.22	25.00%	88.41
	13 131						
CAPITAL COST: MIG	000.00	8%	219.13	100.00%	219.13	0.00%	0.00
CAPITAL COST REFURBISHMENT	8 841 974.03	5%	147.56	100.00%	147.56	0.00%	0.00
CAPITAL COST: INTERNAL	1 141 177.00	1%	19.04	100.00%	19.04	0.00%	0.00
TOTAL	53 530 824.03	33%	893.33		804.92		88.41

THE THIRD ACID TEST : HOW EFFECTIVE IS THE OPERATIONAL EXPENDITURE RELATED TO PURE SERVICE DELIVERY ?

AN ACID TEST EFFECTIVITY ANALYSIS OF THE OPERATIONAL EXPENDITURE



A typical inspection route between all eight towns equal 225 kilometres of travel
This is also the typical route of the one single TLB operational to service needs over the area with one toll gate in between

EMAKHAZENI LOCAL MUNICIPALITY FFC PRESENTATION

On the other hand, rural municipalities and district municipalities are heavily dependent on grants. This dependency ranges from 70%-80%, suggesting that the ability to generate revenues in these areas are minimal P6.

On face value of the preceding the above statement seems to be not true and that we are coping fairly well and is quite satisfied with the equitable share received every year.

Nothing can be further from the truth than the above statement.

The impact of ESKOM charges will prove the contrary.

The backlog on capital projects since the amalgamation of the eight towns will prove this.

The cost of institutional compliance will also prove this.

EMAKHAZENI LOCAL MUNICIPALITY THE EFFECT OF ESKOM

What other issues in the local government and, in general, the intergovernmental fiscal relations systems weaken the performance of municipalities?

- a. The future of the EDI and the role of Eskom in electricity distribution?
- b. The following are our calculation of electricity reticulation losses

PERIOD 1 JULY 08 TO JUNE 2009				
RAND SALES ANALYSIS			KW SALES ANALYSIS	
CONLOG PRE PAID SALES IN RAND	7 338 788.82		CONLOG PRE PAID SALES IN KWH	13 329 466.00
MUNSOFT DEBTORS SALES IN RAND	8 340 030.90		MUNSOFT DEBTORS SALES IN KWH	15 522 670.48
FREE BASIC RAND VALUE ESTIMATE	2 103 156		FREE BASIC KW ESTIMATE	3 160 944
TOTAL SALES IN RAND	17 781 975.72		TOTAL SALES IN KWH	32 013 080.48
INTERNAL USAGE	1 300 000.00		INTERNAL USAGE	2 500 000.00
RAND PURCHASES	12 514 210.37		KW PURCHASES	44 975 938.89
NETT PROFIT	3 967 765.35		RETICULATION LOSSES	-10 462 858.41
PERIOD 1 JULY 09 TO JUNE 2010				
RAND SALES ANALYSIS			KW SALES ANALYSIS	
CONLOG PRE PAID SALES IN RAND	10 839 153.92		CONLOG PRE PAID SALES IN KWH	11 657 176.00
MUNSOFT DEBTORS SALES IN RAND	9 502 462.96		MUNSOFT DEBTORS SALES IN KWH	13 700 324.00
FREE BASIC RAND VALUE ESTIMATE	3 449 700		FREE BASIC KW ESTIMATE	4 999 560
TOTAL SALES IN RAND	23 791 316.88		TOTAL SALES IN KWH	30 357 060.00
INTERNAL USAGE	1 800 000.00		INTERNAL USAGE	2 500 000.00
RAND PURCHASES	20 571 152.59		KW PURCHASES	47 496 505.60
NETT PROFIT	1 420 164.29		RETICULATION LOSSES	-14 639 445.60
PERIOD 1 JULY 09 TO JUNE 2011 PROJECTED				
RAND SALES ANALYSIS			KW SALES ANALYSIS	
CONLOG PRE PAID SALES IN RAND	13 648 699.92		CONLOG PRE PAID SALES IN KWH	12 652 271.00
MUNSOFT DEBTORS SALES IN RAND	11 693 264.62		MUNSOFT DEBTORS SALES IN KWH	13 301 666.00
FREE BASIC RAND VALUE ESTIMATE	4 281 636		FREE BASIC KW ESTIMATE	3 857 328
TOTAL SALES IN RAND	29 623 600.54		TOTAL SALES IN KWH	29 811 265.00
INTERNAL USAGE	2 300 000.00		INTERNAL USAGE	2 500 000.00
RAND PURCHASES	29 209 431.70		KW PURCHASES	45 783 769.98
NETT PROFIT	-1 885 831.16		RETICULATION LOSSES	-13 472 504.98

Why do we experience such profound losses?

Disregarding what NERSA approved the price impact on our ESKOM accounts were the following increases:

Period	ESKOM UNIT INCREASE	PRICE COST
JUNE 2010	53,57 %	
JUNE 2011	48.84 %	

This was due to mainly the following reasons:

- Excess ion of maximum demand and population densification usage.
- Increased bridging of meters by the community who could not any more afford our Nersa approved tariffs.
- The fact that we were disallowed to obtain the electricity sales licences of the following
 - Dullstroom town
 - All major industries in the ELM distribution area.
 - ESKOM took the cream of the crop when the amalgamation were done
- We have no capital resources capacity to expand the electrical network due to ESKOM exceptional high charges for substation upgrading etc.
- It is a catch 22 : we cannot afford the maximum demand penalty charges, neither can we afford the ESKOM quotes for upgrading.

The Municipality has no capacity to contribute from operational income towards capital expenditure.

When we review the relation between operating and capital expenditure the following is noted:

It is clear that the budget is mainly aimed at funding of operational expenditure. The above financial plan indicates that only between 1% and 2% can be allocated towards internal capital funding.

The MIG grants, which are taken up into the total budget, amounts to a 9 % contribution towards capital projects.

When however the contra credit under income is reviewed it should only be seen as grant contribution towards capital expenditure

The Municipality has no capacity to fund a majority backlog capital expenditure indicated in the IDP. The following is an indication of the backlog in community services amounting to R 70.6 m

Refurbishment and or construction of ablution block in new Siyathuthuka	Siyathuthuka	2012/2013	200 000.00	Unfunded
Fencing of cemetery in Siyathuthuka next to Manzini street	Siyathuthuka	2011/2012	250 000.00	Unfunded
Fencing of cemetery in Emthonjeni	Emthonjeni	2011/2012	350 000.00	Unfunded
Fencing of cemetery in Entokozweni	Entokozweni	2012/2013	400 000.00	Unfunded
Paving of access roads to Sakhelwe cemetery	Sakhelwe	2012/2013	500 000.00	Unfunded
Paving of access roads to Dullstroom cemetery	Dullstroom	2013/2014	800 000.00	Unfunded
Paving of access roads to Siyathuthuka cemetery	Siyathuthuka	2012/2013	1 000 000.00	Unfunded
Upgrading of alternative sports ground facility in Siyathuthuka	Siyathuthuka	2012/2013	1 200 000.00	Unfunded
Upgrading of an alternative sports ground facility in Emthonjeni	Emthonjeni	2013/2014	900 000.00	Unfunded
Reconstruction of Funda Hall	Emakhazeni	2012/2013	2 000 000.00	Unfunded
Resuscitation of Emgwenya swimming pool	7	2012/2013	500 000.00	Unfunded
Construction of conference hall and five chalets at the eMakhazeni Caravan Park	Dam	2014/2015	5 000 000.00	Unfunded
Renovations to emakhazeni gate clinic	eMakhazeni	2012/2013	60 000.00	Unfunded
Establishment, management and permitting of Emakhazeni landfill site	1, 2, 3 & 8	2013/2014	7 000 000.00	Unfunded
Rehabilitation and closure of Dullstroom landfill site	4	2013/2014	7 000 000.00	Unfunded
Establishment, management and permitting of new Dullstroom landfill site	4	2013/2014	6 000 000.00	Unfunded
Rehabilitation and closure of Entokozweni landfill site	5 & 6	2011/2012	7 000 000.00	Unfunded
Establishment, management and permitting of new Entokozweni landfill site	5 & 6	2011/2012	6 000 000.00	Unfunded
Establishment and management of Emgwenya landfill site	7	2011/2012	7 000 000.00	Unfunded
Initiate recycling projects in all units	All units	2012/2013	500 000.00	Unfunded
Purchasing of 1 Bulldozer and Low-bed	All units	2013/2014	4 600 000.00	Unfunded
Purchase of 1 (One) TLB	All units	2011/2012	500 000.00	Unfunded
Purchasing of 4 tractors and 4 trailers	All units	2011/2012	1 600 000.00	Unfunded
Purchase of 1 (One) Tipper truck	All units	2011/2012	550 000.00	Unfunded
Purchasing of 2 (two) compactor trucks	All units	2013/2014	3 000 000.00	Unfunded
Appointment of service providers to assist with maintenance of all 4 landfill sites	All units	2011/2012	1 500 000.00	Unfunded
Development of a Waste Information System	All units	2012/2013	1 000 000.00	Unfunded
Provision of access control gate, fence, guard-house and toilets at Emgwenya landfill site	7	2011/2012	1 000 000.00	Unfunded
Provision of access control gate, fence, guard-house and toilets at Entokozweni landfill site	5 & 6	2011/2012	150 000.00	Unfunded
Provision of access control gate, fence, guard-house and toilets at Emakhazeni landfill site	1, 2, 3 & 8	2011/2012	150 000.00	Unfunded
Provision of access control gate, fence, guard-house and toilets at Dullstroom landfill site	4	2011/2012	150 000.00	Unfunded
Fencing of and Equipping of the Dullstroom fire house	4	2011/2012	400 000.00	Unfunded
Acquire beer halls in Siyathuthuka back to the Municipality	Siyathuthuka	2011/2012	400 000.00	Unfunded
Upgrading of beer hall in Emgwenya into a Multipurpose center	Emgwenya	2013/2014	2 000 000.00	Unfunded
			70 660 000.00	

The Municipality has no capacity to fund a majority backlog capital expenditure indicated in the IDP. The following is an indication of the backlog in Technical services amounting to R 166 300 000.00

Water reticulation	R 30 210 000.00	Unfunded
Water refurbishment	R 24 700 000.00	Unfunded
Water bulk infrastructure	R 19 800 000.00	Unfunded
Water treatment works	R 23 450 000.00	Unfunded
Waste reticulation	R 40 440 000.00	Unfunded
Waste refurbishment	R 4 000 000.00	Unfunded
Waste treatment works	R 23 700 000.00	Unfunded
Total unfunded	R 166 300 000.00	

The Municipality has no capacity to fund a majority backlog capital expenditure indicated in the IDP. The following is an indication of the backlog in Technical services amounting to R 15 801 000.00

GRAP 17 PROJECT R 6 800 700.00 Unfunded

PROJECT METER REPLACEMENT R 9 000 500.00 Unfunded

Water bulk infrastructure R 15 801 000.00 Unfunded

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EMAKHAZENI LOCAL MUNICIPALITY FFC PRESENTATION

SUMMARY

It is clear from the summary that we can only fund 25.68 % of the capex backlog in the next three years.

It is also clear that all the funding is from external sources

All of the backlog capex projects are directly related to service delivery.

External Funded projects over 3 years	R 82 804 936.00
Internal Unfunded projects current	R 252 761 000.00
Total capex requirements	R 335 565 936.00

The Municipality has no capacity to generate additional funds to support backlog capex projects

- In view of the current economic crisis and taking into consideration the micro economic limitations of the Emakhazeni community, alternative mechanisms have been sought and designed in order to attempt to finance investment in infrastructure.
- The following projects were designed and implemented in order to achieve additional income generation “outside” the MTREF resources
 - NDM project of installation of 900 pre paid meters
 - Internal project investigating electricity sales losses.
 - Alienation of land via land availability agreements with third parties.
 - The implementation of the MPRA.
 - The redesign and change of the revenue enhancement project.
- The above projects expected revenue generation are however limited and will not be able to fund all required backlogs.

EMAKHAZENI LOCAL MUNICIPALITY RESPONSES TO HEARING QUESTIONS

Is the proposed problem statement for LGFF appropriate and the most pressing one?	It is the most critical debate relating to the survival of low capacity municipalities
Is the current local government fiscal framework catering for the needs of all municipalities in the country given the diverse social, demographic and economic characteristics of municipalities?	No it does not.
Appropriately empowering urban municipalities to manage the built environment?	Our infrastructure is ten years old and deteriorating into disuse.
Devolution of additional powers and functions to urban municipalities?	With no income base this will not make sense
Ensuring rural municipalities are well capacitated to roll out a decent quality of basic services to communities?	We agree especially on capital backlogs
Is the current intergovernmental transfer system accounting for the difference inherent across the local government sphere?	No it does not take into consideration the geographical cost burden of service delivery neither the inheritance of a ten year old dilapidated infrastructure.
Are certain municipalities underfunded?	Yes we are
The impacts of FBS policies on municipal expenditure pressures?	We have stopped FBS except for indigents.
Issues around the roles and responsibilities of district municipalities?	Will be debated
The future of the EDI and the role of Eskom in electricity distribution?	ESKOM increases and capital cost for improvement is destroying small municipalities.
Poor efforts from municipalities in terms of enhancing existing revenue sources?	We are attempting this effort. But selling off assets to fund operational expenditure an ESKOM accounts is a disaster
Poor expenditure on repairs and maintenance of existing and new infrastructure?	We have no internal funding capacity.