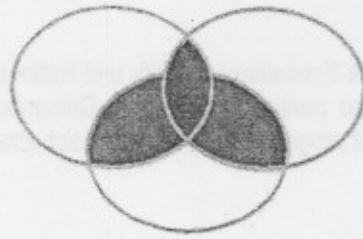


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SALGA

South African Local Government Association

BUDGET REVIEW

1 JULY – 31 DEC 2005

1. Purpose

The purpose of this report is to provide the Executive Authority and National Treasury with the financial and operational review of SALGA for the period 1 July to 31 December 2005 in compliance with Treasury Regulations. The report covers a progress made against each strategic objective of SALGA.

2. Introduction

SALGA's key role is the effective representation of local government in the legislative processes of all spheres of government, and in inter-governmental processes. SALGA represents local government interests in forums such as the National Council of Provinces, the Financial and Fiscal Commission, the Budget Forum dealing with inter-governmental transfers, MinMec, and in the drafting of legislation that affects the status, institutions, powers and functions of municipalities. In order to fulfil this representative role effectively, SALGA must develop its own policy formulation and advocacy, as well as develop strong internal mandating and consultative processes.

SALGA's strategy is set out as stated below:

2.1 Vision

To be an association of municipalities that is at the cutting edge of quality and sustainable services

2.2 Mission

To be consultative, informed, mandated, credible and accountable to our membership, and provide value for money

2.3 Values

- Responsive
- Innovative
- Dynamic
- Excellence

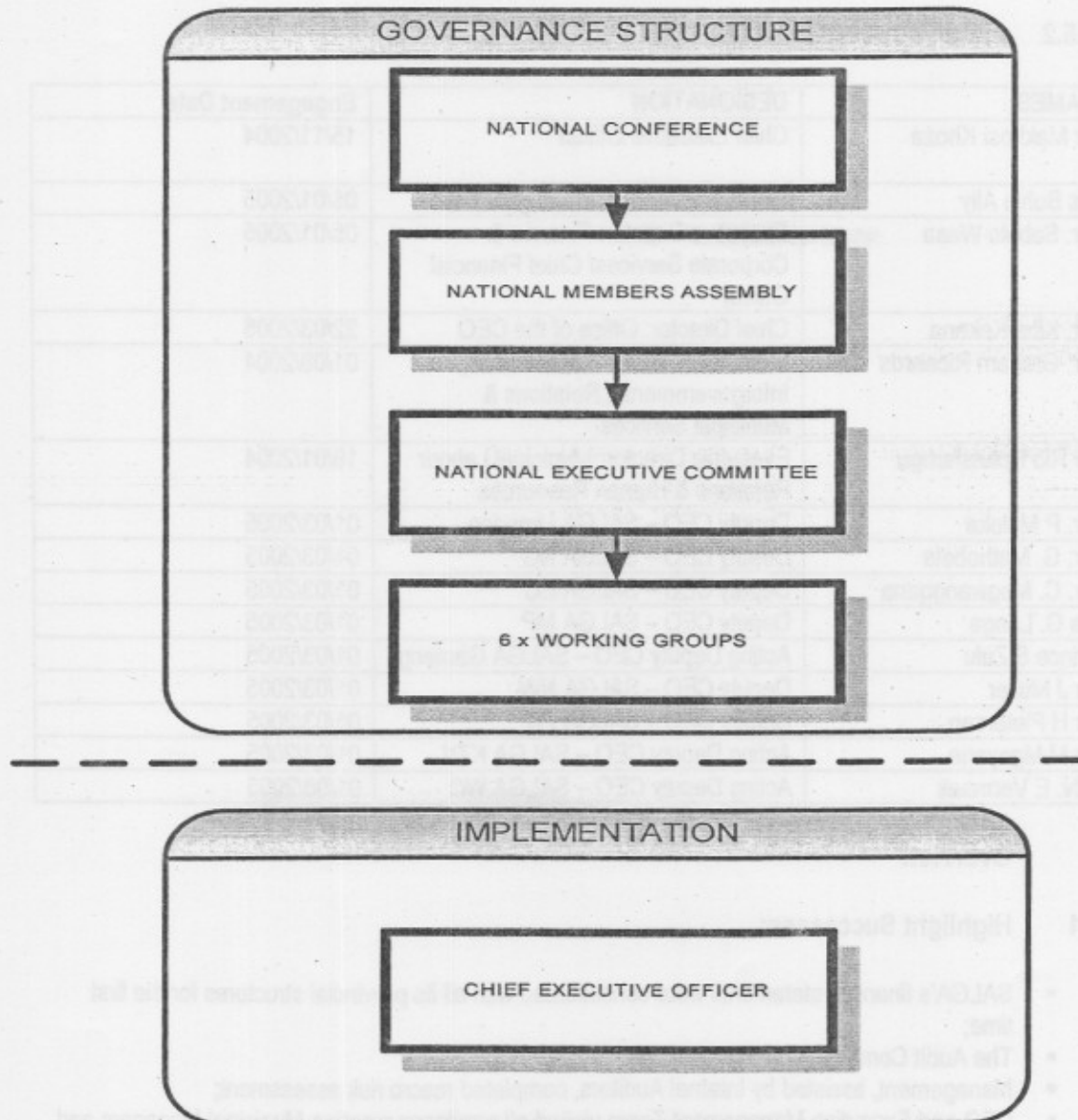
2.4 Strategic Objectives

- Increase SALGA's effectiveness and efficiency to enhance sustainability of organised local government and quality of service to its members;
- To foster policy, strategy and operational integration of SALGA;
- To foster planning, reporting and budgetary context for the organisation as a whole;
- To facilitate the strengthening of the system of communication in local government;
- To ensure that SALGA enhances and maintains a high profile position locally, regionally and internationally;
- To facilitate and support the capacity of member municipalities locally and through continental and international exchanges and peer learning in key areas;
- To mainstream issues of gender, youth, people with disabilities and HIV and Aids as central cross-cutting issues in the local government developmental agenda;
- Promote a lawful governance system which will enable service delivery in a developmental state;
- Promote the credibility and relevance of the local government agenda in national policy and programmes;
- Promote the enhancement and mobilisation of existing capacity within the local government sphere to share responsibility for its own development;

- Monitor performance, evaluate service delivery and communication;
- To facilitate the implementation of a labour and human resources dispensation in municipalities that enhances service delivery;
- To advocate for labour peace in the sector;
- To ensure municipal compliance to workplace legislation;
- To contribute to and support the government programme of integrating the public sector;

2.5 SALGA STRUCTURE

2.5.1 Governance Structure



The Accounting Authority of SALGA NEC is comprised as follows:

- Executive Mayor Amos Masondo Chairperson
- Executive Mayor Obed Mlaba Deputy Chairperson
- Executive Mayor Hazel Jenkins Deputy Chairperson
- Executive Mayor Regina Mhaule Deputy Chairperson
- Dr Makhosi Khoza Chief Executive Officer
- Six additional Members (Chairpersons of the Working Groups)
- Nine Provincial Chairpersons' and
- Two Co-opted Members

2.5.2 Administrative Structure

NAMES	DESIGNATION	Engagement Date
Dr Makhosi Khoza	Chief Executive Officer	15/11/2004
Ms Buhle Ally	Executive Director: Strategic Affairs	05/01/2005
Mr. Sabelo Wasa	Executive Director: Finance & Corporate Services/ Chief Financial Officer	05/01/2005
Mr. Kiba Kekana	Chief Director: Office of the CEO	22/03/2005
Mr. Graham Ricahrds	Executive Director: Governance, Intergovernmental Relations & Municipal Services	01/08/2004
Mr Rio Nolutshungu	Executive Director: Municipal Labour Relations & Human Resources	19/01/2004
Mr. P Maloka	Deputy CEO – SALGA Limpopo	01/03/2005
Mr. G. Mathobela	Deputy CEO – SALGA NC	01/03/2005
Mr. C. Magwangqana	Deputy CEO – SALGA EC	01/03/2005
Ms G. Langa	Deputy CEO – SALGA MP	01/03/2005
Prince S Zulu	Acting Deputy CEO – SALGA Gauteng	01/03/2005
Mr J Muller	Deputy CEO – SALGA NW	01/03/2005
Mr H Pietersen	Deputy CEO – SALGA FS	01/03/2005
Mr M Mgeyane	Acting Deputy CEO – SALGA KZN	01/03/2005
Adv. E Vermaak	Acting Deputy CEO – SALGA WC	01/08/2005

3. Overview

3.1 Highlight Successes:

- SALGA's financial statements were consolidated with all its provincial structures for the first time;
- The Audit Committee is fully functional;
- Management, assisted by Internal Auditors, completed macro risk assessment;
- CEO and Executive Management Team visited all provinces meeting Municipal Managers and CFOs of municipalities to assess, amongst others:
 - The state of affairs in municipalities;
 - SALGA's provincial capacity to meet municipal needs;
 - Areas of immediate intervention by the CEO;
 - Cooperation with sector departments provincially and nationally;
- SALGA signed MOU with its sister organisation in Mali;
- SALGA is a step closer to finalising the establishment of a single Pension Fund in Local Government;

- Improved membership levies collections from only 40% payment for the entire 2004/05 financial year to more than 95% in the second quarter of 2005/06;
- Improved staff turnover from 47% in years 2003-2004 to 13.8% for 2005;
- More visibility of SALGA in IGR structures;
- Comprehensive involvement with Cross Boundary Municipalities Bill and Constitutional 12th Amendment Bill;
- Ruling on Dispute with unions with regard to Micro Lending deductions from payroll was in favour of SALGA;
- Ruling on dispute with unions relating to Accrued Leave was in favour of SALGA;
- Performance Management System toolkit was launched and workshops held in seven provinces;
- Guidelines on HIV and AIDS in the Workplace have been completed and signed by the CEO. The launch is expected just after Local Government Elections;
- Continuous improved relations with stakeholders.

3.2 Highlight Challenges:

- Lack of International Relations (IR) Strategy;
- Listing of SALGA as Schedule 3A Public Entity, as it limits alternative revenue generation for long term sustainability of the organisation;
- Lack of integrated systems between SALGA National and the provincial offices;
- Poor responses from donor community.

4. Financial Review

4.1 Revenue

SALGA derives its revenue mainly from membership fees paid by municipalities. For the financial year 2005/06, the total budgeted income is R161, 934, 000. The table 1 below illustrates summary levies received.

4.1.1 MEMBERSHIP LEVIES 2005/2006 (October - December)

Table 1

SUMMARY MEMBERSHIP LEVY 2005/2006 ONLY				
PROVINCE	INVOICED 2005/2006	RECEIPTED 2005/2006	BALANCE	% PAID
WESTERN CAPE	13,203,738.85	13,200,647.90	3,090.59	99.98%
NORTHERN CAPE	2,605,297.51	2,132,136.23	473,161.28	81.84%
EASTERN CAPE	14,433,903.42	7,235,988.94	7,197,914.48	50.76%
FREE STATE	6,584,683.44	3,650,450.39	2,934,233.05	55.44%
KWAZULU NATAL	15,349,127.36	12,873,393.91	2,475,733.45	83.87%
MPUMALANGA**	5,059,070.06	5,417,282.83	- 358,212.77	107.08%
LIMPOPO	4,630,563.18	4,026,724.13	603,839.05	86.96%
NORTH WEST**	4,350,299.52	5,051,564.07	-701,264.55	116.12%
GAUTENG	25,529,599.41	21,884,331.32	3,645,268.21	85.72%
	91,746,282.75	75,562,519.72	16,183,763.03	

** Over-recovery in those two provinces is due to amounts received with respect to 2004/05 unpaid membership levies, and is no indication that all municipalities in those provinces are paid up for 2005/06.

4.1.2 Breakdown of Municipalities Payment Status per Province.

Table 2:

PROVINCE	MUNICIPAL ANALYSIS			Total
	FULLY PAID	PARTIALLY PAID	NO PAYMENT	
WESTERN CAPE	28	0	2	30
NORTHERN CAPE	18	6	7	31
EASTERN CAPE	28	8	9	45
FREE STATE	14	6	5	25
KWAZULU NATAL	27	8	26	61
MPUMALANGA	13	4	2	20
LIMPOPO	8	21	3	32
NORTH WEST	21	4	0	25
GAUTENG	6	5	4	15
	163	62	58	284

4.1.3 Percentage Distribution of Income: Budgeted

- Membership Levies 49%
- Donor Funding 33%
- Grants from DPLG 11%
- Sponsorship 0.4%
- Other (Interest, etc) 6%

4.1.4 Percentage Distribution of Income: Actual

- Membership Levies 85%
- Grants from DPLG 35%
- Other 6%
- Donor Funding 10%

The above translates to a total of 54% actual income already received as at 31 December 2005.

5. Summary of Income and Expenditure against Budget

Table 3

INCOME	BUDGET Annual R'000	ACTUAL July- September R'000	ACTUAL October- December R'000	BALANCE R'000	% of actual income received against budgeted
Grant from DPLG	18385	6 500	-	11885	35
Levies	79356	67 583	7 719	4 054	95
Donor Funding	55000	513	5 000	49 487	10
Sponsorship	50	0	0	50	0
Other	9143	185	360	8 598	6
Total Income	161 934	74 781	13 079	74 074	54
					% of expenditure against budget
Total Expenditure	161 934	28 237	22 301	111 396	31
Personnel	49390	11912	13 574	23 904	52
Administration	12487	2531	1183	8773	30
Programme cost(Provinces)	66959	7328	3 695	55 936	16
Capital Expenditure	8 724	858	1 449	6 418	26
Programme Costs(National)	24 374	5609	2 400	16 365	33

5.1 Programme Costs consists mainly of the following:

- Budget weeks forums
- CEO's Provincial visits
- Development of RSC Levy position paper
- Research on unfunded mandates
- 50/50 campaign,
- Participation in IGR Structures, NCOP, etc.

The Nature of SALGA's work requires extensive travelling; and therefore travel and accommodation costs become programme costs in our context.

5.2 Capital Expenditure consists of the following:

- Computers & Laptops(for National Office & Provinces)
- Office equipment (for National Office & Provinces)
- Furniture & fittings
- Motor Vehicles

6. Actual Performance against Strategic Objectives

Strategic objective: Increase SALGA's effectiveness and efficiency to enhance sustainability of organised local government and quality of service to its members

Projects	Performance Indicator	Progress in Q1	Progress in Q2
Risk Management Strategy	<ul style="list-style-type: none"> - Risk assessment - Three year rolling plan - One year audit plan 	<ul style="list-style-type: none"> - Internal auditors (Gobodo) are currently assisting management in developing risk management strategy - A risk assessment plan discussed and approved by the Audit Committee 	<ul style="list-style-type: none"> - Macro risk assessment complete - Business unit level risk is 80% - Risk management strategy, three year rolling and one year plan will be presented to Audit Committee in February 2006
Audit Committee	<ul style="list-style-type: none"> - New Audit Committee is appointed and fully functional 	<ul style="list-style-type: none"> - The former Audit Committee's term expired in June - The new Audit Committee has been appointed with 3 Chartered Accountants, CFO of City of JHB and an Advocate 	<ul style="list-style-type: none"> - The new Audit Committee is fully operational
Alternative Revenue Strategy	<ul style="list-style-type: none"> - Alternative Revenue Strategy documented and implemented 	<ul style="list-style-type: none"> - Draft Alternative Revenue strategy is currently being discussed by SALGA internal structures 	-
CEO Provincial visits	<ul style="list-style-type: none"> - Meet the key local government stakeholders in each province - Meet Municipal Managers and CFOs 	<ul style="list-style-type: none"> - Visited eThekweni Metro - Visited Nelson Mandela Metro - Visited Mpumalanga; Limpopo and Free State provinces 	<ul style="list-style-type: none"> - Visited Eastern Cape; KZN; North West; Western Cape; Gauteng and met Municipal Managers and CFOs - A report was developed and tabled to SALGA NEC
Membership Levy Formula	<ul style="list-style-type: none"> - Revised membership formula implemented 	<ul style="list-style-type: none"> - An interim membership formula has been implemented, which improved membership levies payment from about 37% in 2004/05 financial year to about 85% in the first quarter of 2005/06 - Consultations are currently taking place for a permanent formula 	<ul style="list-style-type: none"> - Membership levies collection is currently at 95% compared to 37% in the whole of 2004/05 - Consultations are still underway for new and permanent formula (Attended a CFO's forum in DBN in October 2005 to introduce the subject
Protect SALGA of risky contracts	<ul style="list-style-type: none"> - SALGA to concentrate on delivering on its mandate 	<ul style="list-style-type: none"> - SALGA performed a forensic audit to identify all risky contracts - Most of the identified risky contracts binding SALGA for a lengthy period of time were cancelled and others are in the process of being cancelled 	<ul style="list-style-type: none"> - Legal action against identified perpetrators is currently underway

Projects	Performance Indicator	Progress in Q1	Progress in Q2
Staff Salary Benchmarking	- Salary framework is in place	- Salary benchmarking exercise has been completed and is due to be fully implemented by the end of November 2005 - Negotiations with affected staff members is currently underway	- Salary benchmarking exercise was completed and implemented in November 2005 as planned
Intranet & video conferencing facilities	- All SALGA offices are linked together and are effectively communicating	- Ensuring that equipment in different offices is compatible - Delays were experienced as result of SITA processes	-All base equipment has been procured and installed in all provinces -Intranet will be operational in February
Staff Rationalisation	- National Office staff is cut to 60 and that more capacity is deployed to provinces	- Management levels are cut from 6 to 3 - 15 Staff deployed to provincial offices of SALGA - Provincial are currently appointing suitable staff to meet the needs of the provinces - Interns are currently being employed to increase capacity - Provincial offices are currently moving to new offices (Western Cape and North West have completed the process) - SALGA NEC adopted a resolution that SALGA must utilise the services of municipal staff members more and this is being formalised	-Recruitment is being finalised in all provinces
Improve institutional memory	- Properly structured registry is in place and properly operational	- Pilot project of functional registry is currently being undertaken	-Pilot project of functional registry has been completed and will be rolled out in January 2006
Associate Membership	- Associate Members are part of SALGA structures as stipulated by the Constitution	- An Associate Membership criteria has been developed and is awaiting NEC approval	- NEC approved the Associate Membership criteria and applications are being invited
Due Diligence Audits	- To gauge the control environment of the organisation	- Western Cape; Gauteng; KZN due diligence audits were completed in mid August 2005, whilst the national office due diligence was completed at the beginning of September 2005	-Recommendations of Due Diligence audit are continuously being implemented

Projects	Performance Indicator	Progress in Q1	Progress in Q2
Financial Reporting	- Financial statements are developed timeously and submitted in two months after year end	-Financial statements are 80% complete due to consolidation of financial statements for national and provincial offices for the first time	- Consolidated financial statements were completed and submitted to the Auditor General. -Draft report was issued in mid-December 2005 with an indication that SALGA will be disclaimed as a result of historical reasons and the problems relating to the consolidation of provincial financials

Strategic objective: To foster policy, strategy and operational integration of SALGA

Projects	Performance Indicator	Progress in Q1	Progress in Q2
Integration of SALGA as a unitary structure	- SALGA operates as one organisation	- All provincial associations are now integrated into SALGA - All Memorandums of Understanding were signed - The process of transferring assets, staff, and harmonisation of systems and policies are 90% complete	- Transferring of assets is 95% complete and the challenge is transferring fixed property
Governance Structures	- Governance structures are properly constituted and properly operating	- All SALGA structures are properly constituted as per its constitution - All meetings have taken place as scheduled except the NEC meeting of September 2005 - National Members Assembly took place on August 5, 2005 as scheduled - All provincial governance structures are properly constituted and are properly functioning	-All meetings are held as scheduled during the quarter, except the regular NEC meetings due to Local Government Elections
Strategic Planning	- Strategy is documented, organisational structure linked and resources allocated (budget)	- Strategic business plan was developed and approved by SALGA NEC and National Members Assembly - Organisational structure linked to strategy completed and is in the process of	- Review of strategy session as a result of CEO provincial visits is scheduled for January 2005

		being filled - Budget was approved timeously	
Projects	Performance Indicator	Progress in Q1	Progress in Q2
Performance Management System	- Performance Management System is fully operational	- Scorecards, Performance Agreements and Personal Development Plans for CEO; Deputy CEOs; Executive Directors and Heads of Units are 90% complete	- Performance Management System documents have been completed and are ready to be signed by the relevant parties
Performance Audit	- Performance audit report	- The Auditor General has completed the field work and we are awaiting a report	- Performance audit report has been received and the Auditor General will publish it in due course

Strategic Objective: To facilitate the implementation of a labour and human resources dispensation in municipalities that enhances service delivery.

Projects	Performance Indicator	Progress in Q1	Progress in Q2
Conditions of Service	Uniform conditions of service have been implemented throughout the sector	<ul style="list-style-type: none"> ▪ Concluded that better benefits will terminate on 31 December 2005 ▪ Discussions continuing mainly on Divisional Bargaining 	<ul style="list-style-type: none"> ▪ Circular clarifying the phasing out of better on benefits was issued 9 November 2005 to all municipalities to ensure uniformity and compliance ▪ Divisional bargaining on outstanding issues is to commence on or before February 2006.
Pension Fund.	Uniform/single Pension Fund established for the sector.	<ul style="list-style-type: none"> ▪ A meeting will be held with Municipal Managers of metros and SACN on 26 October 2005 to discuss the way forward. 	<ul style="list-style-type: none"> ▪ A meeting was held with MM's and CFO's of metros during October 2005. ▪ Task team was established to advise the broader meeting on how to take matters forward. ▪ The office of the CEO together with the Corporate Affairs Directorate issued a call for expression of interest for administration of the fund in November 2005. ▪ The selection process for the administration of the fund was done during December 2005.

Projects	Performance Indicator	Progress in Q1	Progress in Q2
Pension Fund (cont...)			<ul style="list-style-type: none"> ▪ An announcement on appointed service provider will be in January 2006.
Medical Aid Restructuring.	Uniform/single Medical Aid implemented for the whole sector.	<ul style="list-style-type: none"> ▪ Implementation and compliance issues discussed. ▪ Window period begins 01 November 2005 – 31 December 2005. ▪ Managing the costs of the agreement e.g. the rising costs for municipalities. ▪ Medical Aid dependents have to be defined and limited. 	<ul style="list-style-type: none"> ▪ Amended collective agreement signed by parties during November 2005. ▪ Accredited medical schemes reduced to six (6). ▪ Second round of accreditation to commence by March 2006. ▪ SALGA proposing 20 000 threshold for the next phase – moving from the current 14 000 threshold. ▪ In this we hope to reduce accredited schemes to three (3).
Salary and Wage Negotiations.	Multi-year agreement reached.	<ul style="list-style-type: none"> ▪ Unions have suspended the strike action – rejected mediator's proposal. ▪ Focus on damage assessment and corrective action subsequent to the strike. 	<ul style="list-style-type: none"> ▪ Wage negotiation timetable was agreed to at the Bargaining Council during December 2005. ▪ Unions have requested SALGA to disclose certain areas of information in order to assist them to prepare for development of their own proposals. ▪ Information to be submitted to unions in January 2006. ▪ SALGA negotiating team to be confirmed by the NEC at its first seating in February 2006. ▪ Subsequently, the team will have their own strategic planning session to plan for negotiations – i.e. seeking a mandate, developing an approach, etc: by February 2006.
Sector Disputes	Resolution of all sector disputes.	<ul style="list-style-type: none"> ▪ Terms of Reference for a Technical Advisory Committee have been developed and it is being set 	<ul style="list-style-type: none"> ▪ The following disputes were handled between October – December 2005, and awards were