

061017



**BUDGET REVIEW: MUNICIPAL DEMARCATION BOARD
PORTFOLIO COMMITTEE ON PROVINCIAL AND LOCAL
GOVERNMENT
&
SELECT COMMITTEE ON LOCAL GOVERNMENT AND
ADMINISTRATION**

17 October 2006



REPRESENTATION AND DOCUMENTS

- From the Board:
 - Dr V Mlokoti – Chairperson: Municipal Demarcation Board;
 - Mr R H Monare – Manager: Municipal Demarcation Board (Chief Executive & Accounting Officer)
 - Mr R M Somanje – Chief Financial Officer
- Document Tabled:
 - Annual Report 2005 – 2006



OVERVIEW

- The Board
- Last Briefing – 14 March 2006
- Report by the Auditor-General: 2005/06
- Receipts for the Year: 2005/06
- Expenditure for the Year: 2005/06
- Breakdown of Expenditure
- Outputs and Developments 2005/06
 - Determination and re-determination of municipal boundaries.
 - Delimitation of each municipality that qualified to have wards, into wards.
 - Assessments of Municipal Capacity and recommendation to MEC's for local government on the allocation and re-allocation of powers and functions between local and district municipalities.
 - Report to assess the adjustment of district municipality functions to local municipalities.
 - Updating of the Document on Local Government Powers and Functions- Definitions, Norms and Standards.

3



OVERVIEW

- Report to assess pollution legislation.
- Strengthening of interaction with Key Stakeholders.
- Strengthening the Board's Administrative and Financial functions.
- Improved management of Financial Assets and liabilities, through a Management Strategy for Financial Assets and Liabilities.
- Strategic Direction – Medium Term Strategy 2006/07 – 2009/10;
- Budget Programmes;
- Conclusion.

4



THE BOARD

- 9 Members since 1 February 2004;
- Chairperson the only full time member of the Board;
- Manager (CEO and Accounting Officer) in charge of the Board's Administration;
- 4 Operational Clusters;
- 27 Staff Positions in the Establishment:
 - > 5 Vacant;
 - > 3 are being filled in the current year;
 - > 63% African
 - > 0% Coloured
 - > 21% Indian
 - > 16% White
 - > 62% Male
 - > 38% Female;
 - > 0% Disabled.

5



LAST BRIEFING - 14 MARCH 2006

- We updated the Portfolio Committee on its 2005 request, to re-send our memo of 19 October 2004, initially sent to the Chairperson of the Committee, explaining all concerns and reservations that were raised on 11 October 2004;
- The concerns and reservations that had been raised in 2004 included:
 - > The Board's expenditure being possibly excessive, and rising from year to year at too high a rate, with respect to:
 - Professional Fees;
 - Office Expenses;
 - Staff Remuneration;
 - Board Members Remuneration;
 - Travel and Accommodation.
 - > Consultants employed by the Board possibly taking too substantial a portion of the Board's funding, whether the money being spent on consultants is justified, and that the money could be more appropriately spent on young emerging black graduates;

6



LAST BRIEFING - 14 MARCH 2006

- Salaries being paid to Staff possibly being totally inappropriate, and thus the request for the salaries to be broken down for the Portfolio Committee, to determine if the salaries are appropriate.
- The possibility that the Board may be spending its money on things that are irrelevant in as far as its core mandate is concerned, and thus the financial difficulties it faced;
- A former Member of the Board leaving the Board to set up a consultancy and get work from the Board, thus indicating that it is more lucrative to work for the Board as a consultant, than to stay as a Board Member;
- Steps taken by the Manager: MDB to rectify issues raised under "emphasis of matter" in the 2003/04 year.

7



LAST BRIEFING - 14 MARCH 2006

- As requested by the Portfolio Committee, our 2004 memo provided in detail:
 - A breakdown of all expenses incurred on professional fees and on Office Expenses;
 - A clear indication that expenditure on professional fees was fully justified, and that it was incurred in direct pursuance of the Board's core mandate, and the fact that taking away the expenditure on professional fees would have seriously compromised the Board's work;
 - An explanation of the fact that the vast majority of the consultants that have been employed at the Board are emerging Black graduates and professionals, who actually gain a major boost in their careers as a result of working for the Board;
 - The fact that no board member has ever left the Board to set up a consultancy, so as to get work from the Board.

8



LAST BRIEFING - 14 MARCH 2006

- Confirmation of the fact that in view of the Board's mandate and projects, scaling down on consultants just for the sake of reducing numbers, would mean employing additional staff at the Board, and this would have a net effect of increasing costs rather than reducing them;
- A clear demonstration that the annual escalations on office expenses and staff salaries were perfectly normal, and that there was nothing excessive about the escalations;
- An explanation of how staff salaries at the Board are made up;
- An explanation of the fact that Board Members' remuneration are simply what has been determined by the Minister for them, as well as reimbursements of their out-of-pocket expenses while in the course of their duties as Board members. There is therefore nothing excessive about their remuneration;

9



LAST BRIEFING - 14 MARCH 2006

- With respect to travel and accomodation, an explanation of the fact that:
 - Board Members cannot be expected to be largely office-bound if they are going to be effective;
 - Board Members, who are all part time except the Chairperson, must travel to attend Board meetings;
 - The Board is well known for its frugality in its modes of travel, and their accommodation around the country.
- An explanation of the effective steps taken by the Manager to rectify issues raised under "emphasis of matter" in 2003/04 Annual Report.

10

LAST BRIEFING - 14 MARCH 2006



- We also briefed the Portfolio Committee on the report of the Auditor-General to Parliament on the financial statements for the year ended 31 March 2005.
- In that report the Auditor General had qualified his audit opinion as a result of the differences between the fixed assets register and the financial statements.
- Since then, we have reconciled the assets register with the financial statements. During the reconciliation, the following issues surfaced:
 - Not all assets capitalised were recorded on the assets register.
 - Assets stolen were not removed from the asset register.
 - Depreciation was overprovided due to error of estimates.
- We submitted a report to the Board with a recommendation that those assets which should not be in the assets register, be written off.
- The Board accepted the recommendation, and the assets were written off.

11

LAST BRIEFING - 14 MARCH 2006



- The asset register and the carrying value per balance sheet now balance.
- We also indicated that, under emphasis of matter, the Auditor-General once again raised the going concern issue with respect to the Board, where he noted the deficits incurred by the Board in 2004/05, 2003/04, and 2002/03.
- The Auditor-General's concern that the MDB might have difficulty to continue as a going concern.

12



REPORT BY THE AUDITOR-GENERAL: 2005/06

- Since the last briefing of 14 March 2006, the Auditor-General has issued a report to Parliament on the financial statements of the Municipal Demarcation Board, for the year ended 31 March 2006.
- In that report the Auditor General has given an unqualified audit opinion.
- He has however raised issues under Emphasis of Matter, with respect to:
 - > Irregular Expenditure as a result of MDB procurement policies not being in accordance with the requirements of Treasury Regulation 16A and supply chain management practice notes issued by the National Treasury;
 - > Irregular Expenditure also as a result of the MDB entering into a finance lease transaction, in contravention of Treasury Regulation 13.2;
 - > Non compliance of our Internal Audit Function with all the standards set by the Institute of Internal Auditors as per Treasury Regulation 3.2.6;
 - > Password Control in our Information Systems not up to required standard.
- As a result, the Board has given the Manager: Municipal Demarcation Board a formal warning, to the effect that if similar issues are raised by the Auditor-General in a future audit, then further disciplinary steps will be taken against the him.

13



RECEIPTS FOR THE YEAR 2005/06

MTEF Allocation	24,959,000
Donor Funding	650,000
Map & Explorer Sales	67,000
Disposal of Assets	130,000
Other Income	67,000
TOTAL INCOME AT OUR DISPOSAL 2005/06	25,873,000

14



EXPENDITURE FOR THE YEAR 2005/06

Expenditure Item	Amount	Percentage of Total Income
Administrative Expenses	5,786,000	22.36
Staff Costs	7,840,000	30.30
Audit Fees	578,000	2.23
Project Expenses	6,143,000	23.74
Payments from Donor Funding	647,000	2.50
Other operating expenses	702,000	2.71
Finance Costs	30,000	0.12
Depreciation and Amortisation	682,000	2.64
TOTAL EXPENDITURE	22,408,000	86.60
Balance at 31 March 2006	3,465,000	13.40

15



BREAKDOWN OF EXPENDITURE

ADMINISTRATIVE EXPENSES	5,786,000
-Travel and Subsistence	1,423,000
-Rentals in respect of operating leases	1,122,000
>Buildings	
>Plant, Machinery and Equipment	
-General and Administrative Expenses	3,241,000
>Publications of Notices & Gazettes	
>Conferences and Seminars	
>Courier Services	
>Water & Electricity	
>Security Services	
>Meeting Expenses etc.	

16



BREAKDOWN OF EXPENDITURE

STAFF COSTS	7,840,000
-Staff Salaries and Wages	4,949,000
-Board Members' emoluments	2,745,000
-Employer's contributions to UIF and other salary related costs.	146,000
PROJECT EXPENSES	6,143,000
-Municipal Capacity Assessments	3,244,000
-Ward Delimitation	1,431,000
-Other Professional Services	1,468,000

17



BREAKDOWN OF EXPENDITURE

OTHER OPERATING EXPENSES	702,000
-Staff training and development	191,000
-Legal Fees	72,000
-Maintenance, repairs and running costs •Property & Buildings	18,000
-Fruitless and Wasteful expenditure	5,000
-Other	416,000

18



BREAKDOWN OF EXPENDITURE

- As we indicated to this Committee on 14 March 2006:
 - Expenditure on Municipal Capacity Assessments for 2005/06 was significantly cut. This was done by de-commissioning important work with respect to the 9 provincial reports and the national report.
 - We have put in place measures, to effect severe cuts with respect to the 2006/07 budget, including:
 - > Imposing a moratorium on the commissioning of all research at the Board. Only reports on municipal capacity assessments will be done, subject to availability of funds;
 - > Minimising the costs of printing the Annual Reports by doing the printing internally with a Colour printer, instead of them being done by professional printers;
 - > Using Tele-Conferencing and Video Conferencing for Board Meetings.
- During the year 2005/06 we have been successful in spending our budget without a deficit;
- The "surplus" of R3,465,000 was not because of under-spending, but as a result of:
 - A few days before the end of the financial year, we received an amount of R1,3 million from the dplg, being their repayment of expenses we incurred while doing work related to the phasing out of cross boundary municipalities;
 - We also took a conscious decision to set aside an amount of R1,8 million to pay the government printers for our gazettes. As at the end of the financial year, we had not yet received an invoice from them for these services.

19



OUTPUTS AND DEVELOPMENTS 2005/06

- Outputs during the year in the following areas of work:
 - > Determination and re-determination of municipal boundaries.
 - > Delimitation of each municipality that qualified to have wards, into wards.
 - > Assessments of Municipal Capacity and recommendation to MEC's for local government on the allocation and re-allocation of powers and functions between local and district municipalities.
 - > Report to assess the adjustment of district municipality functions to local municipalities.
 - > Updating of the Document on Local Government Powers and Functions- Definitions, Norms and Standards.
 - > Report to assess pollution legislation.
 - > Strengthening of interaction with Key Stakeholders.
 - > Strengthening the Board's Administrative and Financial functions.
 - > Improved management of Financial Assets and liabilities, through a Management Strategy for Financial Assets and Liabilities.

20



DETERMINATION AND RE-DETERMINATION OF MUNICIPAL BOUNDARIES. OUTPUTS AND DEVELOPMENTS 2005/06

- All changes to outer boundaries were discontinued on 20 February 2004 for the ward delimitation process.
- However as a result of Government's announcement in August 2005 to phase out Cross-Boundary Municipalities the re-determination process had to be reopened.
- The following changes were completed during the financial year:
 - > Bohlabela District Municipality disestablished. Maruleng Local Municipality together with the northern portion of the Kruger National Park District Management Area added to Mopani District Municipality and Bushbuckridge Municipalities together with the Southern Part of Kruger National Park added to Ehlanzeni District Municipality.
 - > The whole of the Sekhukhune District Municipality added to Limpopo Province. A portion of Thembisile Local Municipality and Nkangala District Municipality added to Kungwini Local Municipality and Metsweding District Municipality. Metsweding District Municipality moved into Gauteng Province. Merafong Local Municipality excluded from the municipal area of West Rand District Municipality and included into Southern District Municipality in North West.

21



DETERMINATION AND RE-DETERMINATION OF MUNICIPAL BOUNDARIES. OUTPUTS AND DEVELOPMENTS 2005/06

- > Umzimkhulu Local Municipality included into Sisonke District Municipality in Kwa-Zulu Natal and Matatiele Local Municipality included into Alfred Nzo District Municipality in the Eastern Cape. The boundaries between Umzimvubu Local Municipality and Matatiele Local Municipality reconfigured within Alfred Nzo District Municipality. Kgalagadi District Municipality and Francis Baard District Municipality included into the Northern Cape.

22