



THABAZIMBI LOCAL MUNICIPALITY (NP 361)
DRAFT MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS 2011/12 TO 2013/14

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Abbreviations and Acronyms

AMR	Automated Meter Reading
ASGISA	Accelerated and Shared Growth Initiative
BSC	Budget Steering Committee
CBD	Central Business District
CFO	Chief Financial Officer
CPI	Consumer Price Index
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
EE	Employment Equity
EEDSM	Energy Efficiency Demand Side Management
FBS	Free basic services
GDP	Gross domestic product
GFS	Government Financial Statistics
GRAP	Generally Recognised Accounting Practices
HR	Human Resources
HSRC	Human Science Research Council
IDP	Integrated Development Plan
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt hour

Abbreviations and Acronyms continued.....

ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

Part 1 – Annual Budget

1.1 Mayoral Speech

Not available at this time.

1.2 Council Resolutions

Council approves and adopts;

- 1.2.1** The annual budget of the municipality for the financial year 2011/12 and the multi-year and single-year capital appropriations as set out in the following tables:
- 1.2.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18;
 - 1.2.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19;
 - 1.2.1.3 Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table; and
 - 1.2.1.4 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 22
- 1.2.2** The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
- 1.2.2.1 Budgeted Financial Position as contained in Table 23;
 - 1.2.2.2 Budgeted Cash Flows as contained in Table 24;
 - 1.2.2.3 Cash backed reserves and accumulated surplus reconciliation as contained in Table 25;
 - 1.2.2.4 Asset management as contained in Table 26; and
 - 1.2.2.5 Basic service delivery measurement as contained in Table 27 on page 38.
- 1.2.3** In terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) and with effect from 1 July 2011 all municipal tariffs – as set out in Annexure A,
- 1.2.4** Property Rates Policy (to be issued for public comments and representations) – as set out in Annexure B,
- 1.2.5** that the municipality be permitted to enter into long-term financing arrangements with authorised financial services provider for the funding of Municipal Fleet amounting to R3 950 000,
- 1.2.5.1 That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above lending programme.

1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and "nice to have" items.

National Treasury's MFMA Circular No. 54 and 55 were used to guide the compilation of the 2011/12 MTREF.

The main challenges experienced during the compilation of the 2011/12 MTREF can be summarized as follows:

The ongoing difficulties in the national and local economy;

Aging and poorly maintained water, roads and electricity infrastructure;

The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;

The increased cost of bulk water and electricity (due to tariff increases from Rand Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;

Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies;

The following budget principles and guidelines directly informed the compilation of the 2011/12 MTREF:

- The 2010/11 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2011/12 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water

and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In a view of the aforementioned, the following table is a consolidated overview of the proposed 2011/12 MTREF.

Table 1: Consolidated Overview of the 2011/12 MTREF

R thousands	Adjusted Budget	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Total Revenue (excluding capital transfers and contributions)	182,210	198,950	212,231	224,498
Total Expenditure	182,388	177,862	187,289	197,590
Surplus/(Deficit)	(178)	21,088	24,942	26,909
Total sources of capital funds	52,713	57,973	61,046	64,403

Total operating revenue rose by 9 per cent or R16.7 million for the 2011/12 financial year when compared to the 2010/11 Adjustments Budget. For the two outer years, operational revenue will increase by 7.2 and 5.85 per cent respectively, equating to a total revenue growth of R25.6 million over the MTREF when compared to the 2010/11 financial year.

Total operating expenditure for the 2011/12 financial year has been appropriated at R177 million and translates into a budgeted surplus of R21 million. When compared to the 2010/11 Adjustments Budget, operational expenditure has decreased by 2 per cent in the 2011/12 budget but would grow by 5 and 6 per cent for each of the respective outer years of the MTREF. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R57 million for 2011/12 is 10% per cent more when compared to the 2010/11 Adjustment Budget. The capital programme increases by R6.4 million for the two outer years

A minimal portion of the capital budget will be funded from borrowing over MTREF with anticipated borrowings of R3.95 million in each of the financial years of the MTREF. The balance will be funded from internally generated funds and funding from National Government (MIG). Note that the Municipality has reached its prudential borrowing limits and so there is very little scope to substantially increase these borrowing levels over the medium-term. Consequently, the capital budget remains relatively flat over the medium-term.

1.4 Operating Revenue Framework

For Thabazimbi Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty whilst consumers' debt continues to rise due to the economic conditions. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

An amount of R100 000 has been budgeted to review and implement the revenue enhancement strategy. The strategy will be built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 85 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2011/12 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Description R thousand	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Revenue By Source									
Property rates	16 036	17 393	8 895	24 031	24 031	24 031	29 928	31 514	33 247
Property rates - penalties & collection charges	2 554	3 465	1 696	3 230	3 230	4	546	575	607
Service charges - electricity revenue	16 350	18 608	27 431	31 633	31 633	31 633	45 659	48 079	50 723
Service charges - water revenue	8 608	9 294	20 883	30 566	30 566	30 566	31 062	32 709	34 508
Service charges - sanitation revenue	5 584	6 462	9 210	13 646	13 646	13 646	8 919	9 391	9 908
Service charges - refuse revenue	4 185	4 651	7 398	14 324	14 324	14 324	10 220	10 762	11 354
Rental of facilities and equipment	647	1 682	592	1 787	1 787	512	433	456	481
Interest earned - external investments	1 294	2 801	1 488	804	804	30	804	847	893
Interest earned - outstanding debtors	1 780	4 050	5 114	4 800	4 800	3 788	4 800	5 054	5 332
Fines	154	166	145	234	234	898	652	686	724
Licences and permits	1 581	1 545	1 403	2 571	2 571	1 090	5 791	6 098	6 434
Agency services	295	286	637	300	300	103	350	369	389
Transfers recognised - operational	22 875	28 575	35 286	48 850	51 997	48 850	56 640	62 378	66 403
Other revenue	1 067	9 746	3 984	2 087	2 087	2 087	2 947	3 103	3 274
Gains on disposal of PPE	-	-	-	200	200	-	200	211	222
Total Revenue (excluding capital transfers and contributions)	83 010	108 724	124 162	179 063	182 210	171 562	198 950	212 231	224 498

In line with the formats prescribed by the Municipal Budgeting and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than 72% of the total revenue mix. There has been a small decline in the municipal revenue from services because of non-payment of services by the consumers that has resulted in reengineering of the formula for billing sanitation revenue. In the 2010/11 financial year the municipality collected only 65% of its billed revenue hence the decline in the projected revenues of the municipality. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality. Details in this regard are contained in Table 64 MBRR SA1.

The other contributing item to revenue is 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, cemetery fees and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totals R56 million the 2011/12 financial year and steadily increases to R66 million by 2013/14.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 4 Operating Transfers and Grant Receipts

Description R thousand	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
RECEIPTS:									
Operating Transfers and Grants									
National Government:	21 026	22 655	27 751	47 398	50 545	50 545	55 385	61 055	65 002
Equitable share	19 792	21 420	26 516	45 148	48 295	48 295	53 095	58 755	62 602
Municipal Systems Improvement	734	735	735	750	750	750	790	800	900
Finance Management	500	500	500	1 500	1 500	1 500	1 500	1 500	1 500
Provincial Government:	-	-	464	500	500	500	533	567	600
Local Government SETA	-	-	464	500	500	500	533	567	600
District Municipality:	136	221	360	952	952	952	1 014	1 080	1 142
Fire Reimbursement Subsidy	136	221	360	952	952	952	1 014	1 080	1 142
Other grant providers:	-	-	-	-	-	-	-	-	-
Total Operating Transfers and Grants	21 162	22 876	28 575	48 850	51 997	51 997	56 932	62 702	66 744
Capital Transfers and Grants									
National Government:	12 703	14 661	20 464	28 892	28 892	28 892	34 750	42 252	44 575
Municipal Infrastructure (MIG)	12 703	14 661	20 464	28 892	28 892	28 892	34 750	42 252	44 575
Other grant providers:	1 710	787	2 650	5 000	5 000	5 000	1 600	5 000	3 000
Department of Mines and Energy	1 710	787	2 650	5 000	5 000	5 000	1 600	5 000	3 000
Total Capital Transfers and Grants	14 413	15 448	23 114	33 892	33 892	33 892	36 350	47 252	47 575
TOTAL RECEIPTS OF TRANSFERS & GRANTS	35 575	38 324	51 689	82 742	85 889	85 889	93 282	109 954	114 319

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of both Eskom and Magalies Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the

control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property rates should cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. It should be noted that the current valuation roll of the municipality is inaccurate and thus resulted in numerous disputes with the local rate payers' association. Their dispute included among others, the public consultation on the property rates policy. This resulted in the municipality restoring changes it made in 2010/11 financial year in terms of the rebates allowed to consumers.

National Treasury's MFMA Circular No. 51 deals, *inter alia* with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0.25:1. The implementation of these regulations was not fully done in the previous budget process hence the dispute with the local rate payers' association. The dispute has since been resolved with the local rate payers and tariffs are charged in accordance with MFMA circular 51.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- 40 per cent rebate will be granted on all residential properties
- Additional 20% will be granted to residents of Leeupoort
- 75% rebate shall be granted to agriculture
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;

- For pensioners, physically and mentally disabled persons, an additional rebate of 20% will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:
 - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;
 - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
 - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and;
 - The property must be categorized as residential.

The categories of rateable properties for purposes of levying rates and the proposed rates for the 2011/12 financial year based on a 10 per cent increase from 1 July 2011 is contained below:

Table 5 Proposed Property Rates Tariffs

Description of Property	2010/11 Tariff	2011/12 Tariff
Residential	0.00562	0.00597
Business/industrial	0.00479	0.00509
Mining	0.00648	0.00688
Government	0.00479	0.00509
Sectional Titles	0.00562	0.00597
Agriculture	0.00141	0.00149
Public Service Infrastructure	0.00141	0.00149
Vacant Stands	0.00562	0.00597

1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability. Magalies Water has increased its bulk tariffs with 16 per cent from 1 July 2011.

Magalies Water has undertaken a critical assessment of its capital infrastructure requirements. The assessment indicates that Rand Water's current infrastructure is unlikely to sustain its long-term ability to supply water and they had no other choice but to enter capital markets to raise R173 million for infrastructure upgrades.

In addition 6 kℓ water per 30-day period will again be granted free of charge to all residents.

A summary of proposed tariffs for households and non-residential consumers are as follows;

Table 5 Proposed Water Tariffs

(a)	0 – 6 KL free to all indigent households	Free	Free
(b)	Per connection per KL :		
	0 - 6 KL (Indigents)	R -	R -
	1 - 10 KL	R 6.96	R 8.07
	10 - 30 KL	R 8.52	R 9.88
	30 - 51 KL	R 10.03	R 11.63
	51- 80 KL	R 11.36	R 13.20
	80 KL and above	R 14.44	R 16.75

NB: Refer to Annexure A for detailed proposed water tariffs including non residential consumers

1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 26.7 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2011. Considering the Eskom increases, the consumer tariff had to be increased by 22 per cent to offset the additional bulk purchase cost from 1 July 2011. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

The following table shows the impact of the proposed increases in electricity tariffs on the water charges for domestic customers:

Domestic consumers	Group	kWh Consumption					Energy charge
Urban/Rural	Block 1	0-50kWh (Free for Indigents)					R0.891/kWh
	Block 2	51-350kWh					R0.91/kWh
	Block 3	351-600kWh					R1.06/kWh
	Block 4	>600kWh					R1.22/kWh
Small business cons.		Service Charge	Network Charge ≤40A 3Ø	Network Charge >40A 3Ø & ≤80A 3Ø	Network Charge >80A 3Ø ≤100A 3Ø	Energy charge	Prepaid(*2)
Urban		R 6.80/day	R 5.78/day	R 12.07/day	R 18.36/day	R 0.8113/kWh	R0.891/kWh
Large users : Low voltage		Service Charge	Admin Charge	Demand Charge	Voltage surcharge(*1)		Energy Charge
Business and industrial:							
Urban		R 21.98/day	R 7.36/day	R 125.20/kVA			R 0.3610/kWh

Business and industrial							
Urban		R 86.23/day	R 44.39/day	R 112.79/kVA			R 0.3044/kWh
Business and industrial							
Urban		R 86.23/day	R 44.39/day	R 110.41/kVA			R 0.2517/kWh
Time of use tariff:							
For large users : Urban	R 86.23/day	R 44.39/day	R 39.89/kVA	$\geq 11000V < 33kV$ 10,07%	High season		Low season
Urban				$\leq 420V$ 17,3%	R 1.3529/kWh	Peak	R 0.5553/kWh
Urban					R 0.5299/kWh	Standard	R 0.3649/kWh
Urban					R 0.2963/kWh	Off-peak	R 0.2049/kWh
Unmeasured supplies							
		R 28.81/ 100 Watt / Month					
Notes							
	(*1) Will be calculated as a % of demand and energy charges only						
	(*2) Only available for connections bigger than 20A single phase and smaller than 60A single and 40A three phase						
	(*3) Only available for connections smaller or equal to 20A single phase						

	(*4) Payable during peak and standard periods only
	(*5) To qualify for this tariff a consumer should have registered a load ratio of 300kWh/kVA for at least 3 consecutive months and a maximum demand of 1200kVA

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2011. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor).

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply). Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable for the consumers.

As part of the 2011/12 medium-term capital programme, funding has been allocated to electricity infrastructure but these funding levels will require further investigation as part of the next budget cycle in an attempt to source more funding to ensure this risk is mitigated.

1.4.4 Sanitation and Impact of Tariff Increases

A new tariff structure for sanitation from 1 July 2011 is proposed. This is based on the input cost assumptions related to the size of the property. It should be noted that electricity costs contributes approximately 20 per cent of waste water treatment input costs, therefore the higher than CPI increase of 6.2 per cent for sanitation tariffs. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;
- Free sanitation will be applicable to registered indigents; and

NB: Please refer to annexure A on Detailed proposed tariff structure for sanitation services.

1.4.5 Solid Waste and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration and maintenance of the landfill site. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function

be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

A 6.2 per cent increase in the waste removal tariff is proposed from 1 July 2011. Higher increases will not be viable in 2011/12 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services. Any increase higher than 6.2 per cent would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

The following table compares current and proposed amounts payable from 1 July 2011:

1. DOMESTIC CHARGES

		2010/11 TARIFF	PROPOSED 2010/11 TARIFF
(a)	Removal of domestic refuse, once per week per dwelling or availability levy :	R 57.21	R 60.76
(b)	Removal of domestic refuse or availability levy - Rooiberg, Northam	R 41.69	R 60.76
(c)	Removal of domestic refuse liable from water connection date for depositing of refuse on a pre-arranged point :	R 22.00	R 23.36
(d)	Removal of domestic refuse once per week per dwelling at squatters:	R 21.87	R 23.22
(e)	Sport clubs once per month or part thereof:	R 57.21	R 60.76
(f)	Private users (i.e. Guest Farms etc) per dumping in the landfill site per m ² :	R 36.47	R 38.73

2. COMMERCIAL CHARGES

Removal of refuse from business, public hospitals, schools, hostels and any other premises not mentioned in Item 1, two (2) times per week per any other premises not mentioned in Item 1, two (2) times per week per bin per month or part of a month:	R 133.41	R 145.41
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3. SPECIAL REMOVAL CHARGES

Bulk removals, from business premises, per load or part thereof:	R 198.02	R 215.84
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4. SALE OF REFUSE REMOVAL PARAPHERNALIA

Plastic bags for the removal of garden refuse :	Cost + 20%	Cost + 20%
Supply of refuse bins or containers :	Cost + 20%	Cost + 20%

5. SUNDRY CHARGES

CARCASS REMOVAL AND DISPOSAL THEREOF:			
(a)	Horses, cattle, donkeys and mules, per carcass :	R 190.10	R 207.20
(b)	Foals, calves, sheep, goats and pigs per carcass :	R 154.45	R 168.35
(c)	Dogs and cats per carcass:	R 100.99	R 110.08
REJECTION OF FOODSTUFFS			
	The owner shall be responsible for the removal and destruction :	Cost + 20%	Cost + 20%

DEPARTMENTAL USES			
(a)	For the removal of refuse per container per week :	R 42.22	R 46.02
(b)	Mass containers per removal :	R 152.08	R 165.76

1.5 Operating Expenditure Framework

The municipality's expenditure framework for the 2011/12 budget and MTREF is informed by the following:

- The repairs and maintenance of infrastructure assets;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the needs of the community and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2011/12 budget and MTREF (classified per main type of operating expenditure):

Table 13 Summary of operating expenditure by standard classification item

Description R thousand	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Expenditure By Type									
Employee related costs	37 473	41 507	48 106	58 681	57 453	57 453	67 835	71 431	75 359
Remuneration of councillors	4 288	4 645	5 757	4 872	4 403	4 794	4 800	5 055	5 333
Debt impairment	–	–	4 508	–	–	–	–	–	–
Depreciation & asset impairment	–	–	–	16 256	16 256	16 256	2 638	2 778	2 931
Finance charges	2 482	2 187	2 022	1 095	1 095	562	960	1 010	1 066
Bulk purchases	20 172	23 420	30 225	31 773	31 773	31 773	43 187	45 476	47 977
Contracted services	1 144	1 357	7 049	2 500	2 500	2 500	7 495	7 892	8 326
Other expenditure	16 705	25 269	54 484	60 194	68 908	68 908	50 947	53 647	56 598
Total Expenditure	82 264	98 385	152 151	175 371	182 388	182 246	177 862	187 289	197 590

The budgeted allocation for employee related costs for the 2011/11 financial year totals R68 million, which equals almost 40 per cent of the total operating expenditure. Based on the three year Collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6.4 per cent for the 2011/12 financial year. An annual increase of 7.5 per cent has been included in the two outer years of the MTREF. As part of the municipality's cost reprioritization and cash management strategy vacancies have been significantly rationalized

downwards. In addition expenditure against overtime is continuously increasing. In the new financial year, departmental heads should take reasonable care to ensure that overtime is reduced by at least 25%.

The settlement reached by the SALGBC parties in the salary dispute resulted in a further financial implication on this area of expenditure. It should be noted that the total financial implication could not be determined as the applicable municipal wage curve (representing equal pay for equal work at all municipalities in South Africa) has not been finalized.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 65 per cent and the Debt Write-off Policy of the municipality. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). As previously noted, the municipality has reached its prudential limits for borrowing – hence the planned borrowing to finance the capital budget does not result in finance charges as a percentage of operational expenditure increasing – rather it is kept relatively low over the MTREF.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Magalies Water Board. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the municipality's aged infrastructure.

Contracted services have been identified as a cost saving area for the municipality. As part of the compilation of the 2011/12 MTREF this group of expenditure was critically evaluated and

operational efficiencies were enforced. As part of the process of identifying further cost efficiencies, a business process reengineering project will commence in the 2011/12 financial year to identify alternative practices and procedures, including building in-house capacity for certain activities that are currently being contracted out. The outcome of this exercise will be factored into the next budget cycle and it is envisaged that additional cost savings will be implemented.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved.

The following figure/chart gives a breakdown of the main expenditure categories for the 2011/12 financial year.

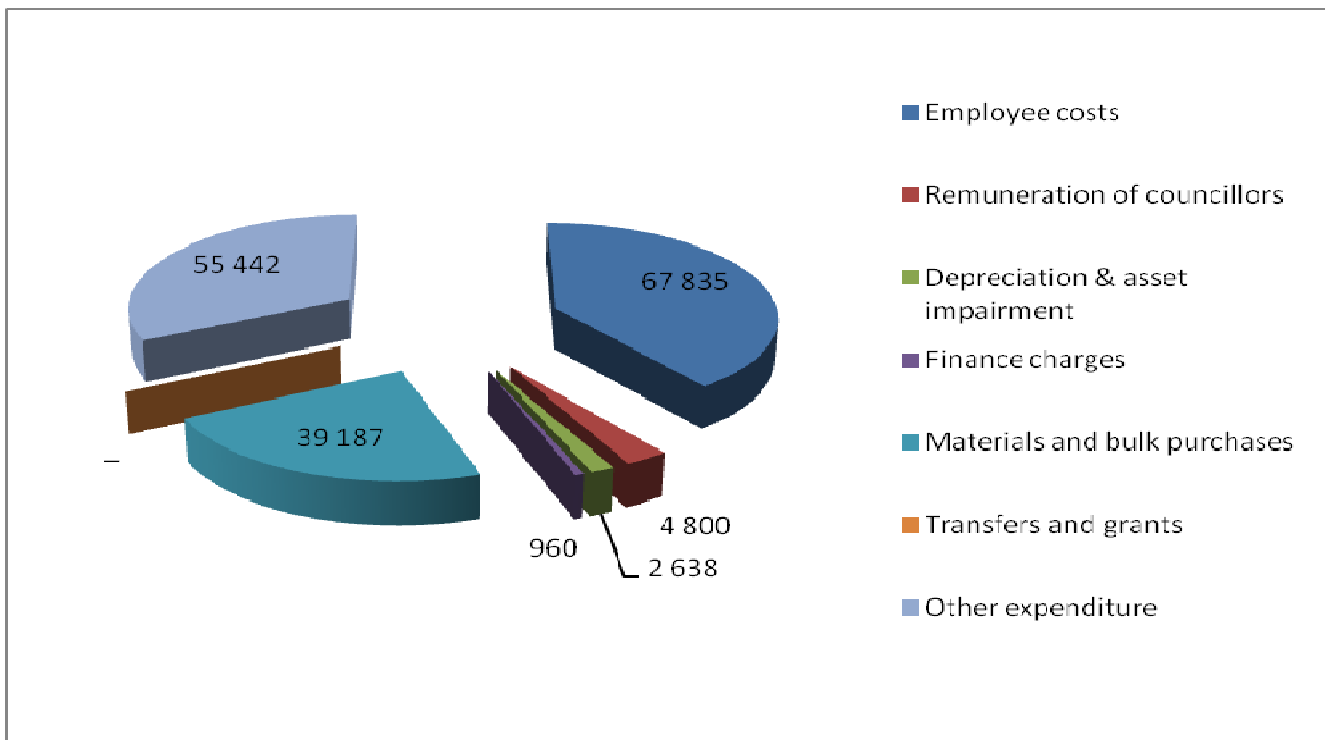


Figure 1 Main operational expenditure categories for 2011/12 financial year

1.5.1 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the municipality's Indigent Policy. The target is to register 5000 or more indigent households during the 2011/12 financial year, a process reviewed annually. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement)

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.6 Capital Expenditure

The following table provides a breakdown of budgeted capital expenditure by vote;

Table 2011/12 Medium term capital budget per vote

Vote Description R thousand	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework			
	Original Budget	Adjusted Budget	Full Year Forecast	Budget 2011/12	Year 2012/13	Budget Year +1 2013/14	Year +2 2013/14
Capital Expenditure - Standard							
Governance and administration	5,800	5,945	5,945	6,031	6,351	6,700	
Executive and council	3,150	3,150	3,150	6	7	7	
Budget and treasury office	150	150	150	300	316	333	
Corporate services	2,500	2,645	2,645	5,725	6,028	6,360	
Community and public safety	6,750	6,750	6,750	5,126	5,398	5,695	
Community and social services	2,555	2,555	2,555	4,560	4,802	5,066	
Sport and recreation	4,195	4,195	4,195	-	-	-	
Public safety	-	-	-	566	596	629	
Economic and environmental services	21,815	21,815	21,815	210	221	233	
Planning and development	-	-	-	210	221	233	
Road transport	21,815	21,815	21,815	-	-	-	
Trading services	14,674	18,203	18,203	46,606	49,076	51,775	
Electricity	7,419	7,906	7,906	4,800	5,054	5,332	
Water	4,755	7,797	7,797	5,750	6,055	6,388	
Waste water management	-	-	-	33,950	35,749	37,716	
Waste management	2,500	2,500	2,500	2,106	2,218	2,340	
Total Capital Expenditure - Standard	49,039	52,713	52,713	57,973	61,046	64,403	

For 2011/12 an amount of R34 million has been appropriated for the construction of new waste water treatment works in both Northam and Thabazimbi. The waste water treatment works in Northam will have a capacity to treat 5 mega liters of waste water per day. Partnership with municipal stakeholders is inevitable in this regard to assist with the speedy finalisation of the said projects.

A total of R24 million worth of capital projects will be funded through internally generated revenue. Further detail relating to asset classes and proposed capital expenditure can be found in table 10 (Asset Management)

The following are, among others, capital projects to be implemented in the 2011/12 financial year;

- Construction of New Waste Water Treatment Works in Northam – R22 million
- Upgrading of Thabazimbi Waste Water Treatment Works – R11 million
- Upgrading of pump station and pipeline – R800 000

- Regorogile Pipe system upgrades – R650 000
- Replacement of Domestic Water meters – R900 000
- Northam Upgrading of sewer networks – R1.5 million
- Upgrading of Rooiberg Waste Water treatment Works – R750 000
- VIP Toilets for informal settlements – R350 000
- Regorogile Ext. 5&9 upgrading of Prepaid Meters – R3.5 million
- Upgrading of electrical network – R700 000
- Raphuthi Installation of high mast lights – R600 000
- Renovations of the Northam satellite office – R250 000
- Purchase of Bulk Containers – R150 000
- Purchase of a refuse removal tractor with Telecon – R450 000
- Weigh bridges for two landfill sites – R1 million
- Purchase of Standby Generators – R350 000
- Development and Construction of cemeteries in Northam – R4.5 million
- IT equipment – R2 million
- Replacement of municipal fleet (including mayoral vehicle) – R3.95 million
- Upgrading of Council Chamber - R400 000
- Upgrading of records department – R300 000
- Centralisation of fleet – R1million

1.7 Annual Budget Tables

The following pages present the main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables are set out in the municipality's 2011/12 budget and MTREF. Each table is accompanied by explanatory notes on the facing page.

MBRR Table A1 – Budget Summary

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
R thousands									
Financial Performance									
Property rates	18 590	20 858	9 291	27 261	27 261	24 035	30 474	32 089	33 854
Service charges	34 727	39 015	66 222	90 169	90 169	90 169	95 860	100 941	106 492
Investment revenue	1 294	2 801	1 488	804	804	30	804	847	893
Transfers recognised - operational	22 875	28 575	35 286	48 850	51 997	48 850	56 640	62 378	66 403
Other own revenue	5 524	17 475	11 875	11 979	11 979	8 478	15 173	15 977	16 856
Total Revenue (excluding capital transfers and contributions)	83 010	108 724	124 162	179 063	182 210	171 562	198 950	212 231	224 498
Employee costs	37 473	41 507	48 106	58 681	57 453	57 453	67 835	71 431	75 359
Remuneration of councillors	4 288	4 645	5 757	4 872	4 403	4 794	4 800	5 055	5 333
Depreciation & asset impairment	–	–	–	16 256	16 256	16 256	2 638	2 778	2 931
Finance charges	2 482	2 187	2 022	1 095	1 095	562	960	1 010	1 066
Materials and bulk purchases	20 172	23 420	30 225	31 773	31 773	31 773	43 187	45 476	47 977
Other expenditure	17 849	26 626	66 041	62 694	71 408	71 408	58 442	61 539	64 924
Total Expenditure	82 264	98 385	152 151	175 371	182 388	182 246	177 862	187 289	197 590
Surplus/(Deficit)	746	10 339	(27 989)	3 692	(178)	(10 684)	21 088	24 942	26 909
Transfers recognised - capital	–	–	25 843	–	33 892	33 892	36 886	45 252	49 575
Surplus/(Deficit) for the year	746	10 339	(2 146)	3 692	33 714	23 208	57 974	70 194	76 484
Capital expenditure & funds sources									
Capital expenditure	15 402	25 932	24 832	49 039	52 713	52 713	57 973	61 046	64 403
Transfers recognised - capital	15 402	23 114	24 483	33 892	33 892	33 892	36 886	45 252	49 575
Borrowing	–	–	–	–	–	–	3 950	–	–
Internally generated funds	–	2 818	348	15 147	18 821	18 821	17 137	15 794	14 828
Total sources of capital funds	15 402	25 932	24 831	49 039	52 713	52 713	57 973	61 046	64 403
Financial position									
Total current assets	56 908	70 621	32 150	81 256	79 730	160 009	30 344	31 953	33 710
Total non current assets	16 031	12 782	46 780	62 890	66 564	130 883	102 115	107 525	113 441
Total current liabilities	36 716	26 746	58 013	17 387	23 405	125 457	51 118	31 843	45 489
Total non current liabilities	16 184	8 408	7 563	6 765	6 765	13 737	13 824	13 166	12 523
Community wealth/Equity	20 039	48 249	13 354	119 994	116 124	151 698	67 517	136 046	174 581

Cash flows									
Net cash from (used) operating	40 682	4 470	12 393	68 948	65 304	65 304	53 499	6 289	6 790
Net cash from (used) investing	(18 156)	(15 990)	(9 056)	(61 039)	(64 713)	(64 713)	(51 185)	(5 196)	(5 686)
Net cash from (used) financing	(781)	(8 279)	(7 468)	(1 541)	(1 541)	(1 541)	(976)	(976)	(976)
Cash/cash equivalents at the year end	13 201	(6 598)	(10 729)	7 318	-	-	2 208	2 325	2 453
Cash backing/surplus reconciliation									
Cash and investments available	15 247	14 860	(7 876)	17 361	15 835	34 295	2 208	2 325	2 453
Application of cash and investments	14 907	1 127	31 209	12 252	18 270	87 542	(31 234)	(65 419)	(57 397)
Balance - surplus (shortfall)	340	13 733	(39 085)	5 109	(2 435)	(53 247)	33 442	67 744	59 850
Asset management									
Asset register summary (WDV)	13 987	8 408	46 780	57 890	61 564	130 883	102 115	107 525	113 441
Depreciation & asset impairment	-	-	-	16 256	16 256	16 256	2 638	2 778	2 931
Renewal of Existing Assets	-	-	-	7 419	7 419	7 419	-	-	-
Repairs and Maintenance	5 040	5 417	5 793	6 533	13 635	13 635	15 951	16 796	17 720
Free services									
Cost of Free Basic Services provided	6 762	7 232	7 734	8 848	8	8	9 424	10 159	10 159
Revenue cost of free services provided	-	-	-	-	-	-	24 247	26 139	26 139
Households below minimum service level									
Water:	-	72	72	72	72	72	72	72	72
Sanitation/sewerage:	-	8 416	8 416	8 416	8 416	8 416	8 416	8 416	8 416
Energy:	-	9 884	9 884	9 884	9 884	9 884	9 884	9 884	9 884
Refuse:	-	12 478	12 478	12 478	12 478	12 478	12 478	12 478	12 478

Explanatory notes to MBRR Table A1 – Budget Summary

- 1 Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
- 2 The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- 3 Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:

- a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - b. Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognised is reflected on the Financial Performance Budget;
 - ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
 - iii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash flows from investing activities on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations in accordance with the recently adopted Funding and Reserves Policy. This cannot be achieved in one financial year. But over the MTREF there is progressive improvement in the level of cash-backing of obligations.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs. It is anticipated that by 2013/14 the water backlog will have been very nearly eliminated

MBRR Table A2 – Budgeted Financial Performance (Revenue and Expenditure by standard Classification)

Standard Classification Description R thousand	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Revenue - Standard									
<i>Governance and administration</i>	56 414	54 104	52 977	80 080	83 227	95 616	92 390	100 022	106 112
Executive and council	48 830	44 597	43 292	71 469	74 616	89 064	85 313	92 569	98 249
Budget and treasury office	6 938	8 917	7 934	6 484	6 484	4 550	6 225	6 554	6 915
Corporate services	646	590	1 751	2 127	2 127	2 002	853	898	948
<i>Community and public safety</i>	3 190	2 101	3 051	4 353	4 353	2 467	8 414	8 861	9 354
Community and social services	231	190	282	393	393	236	264	278	293
Sport and recreation	16	15	–	–	–	–	1	1	1
Public safety	2 943	1 896	2 769	3 960	3 960	2 231	8 149	8 583	9 060
<i>Economic and environmental services</i>	655	–	426	838	838	274	482	508	536
Planning and development	655	–	426	838	838	274	482	508	536
<i>Trading services</i>	22 726	46 128	66 551	93 731	98 731	75 168	98 839	105 393	113 024
Electricity	3 901	20 958	28 891	34 828	39 828	32 900	48 341	52 218	56 925
Water	9 057	15 187	20 944	30 903	30 903	25 996	31 285	32 943	34 755
Waste water management	5 583	5 462	9 210	13 646	13 646	9 030	8 919	9 391	9 908
Waste management	4 185	4 521	7 506	14 354	14 354	7 242	10 294	10 840	11 436
<i>Other</i>	25	6 391	27 001	61	28 953	28 902	35 711	42 700	45 047
Total Revenue - Standard	83 010	108 724	150 006	179 063	216 102	202 427	235 836	257 483	274 073
Expenditure - Standard									
<i>Governance and administration</i>	24 364	30 456	68 245	75 477	74 131	42 066	57 953	61 024	64 380
Executive and council	21 111	21 054	27 535	37 313	35 388	11 544	17 664	18 600	19 623
Budget and treasury office	2 862	4 355	33 797	21 838	21 174	17 823	20 224	21 296	22 467
Corporate services	391	5 047	6 913	16 326	17 569	12 699	20 065	21 128	22 290
<i>Community and public safety</i>	12 311	11 628	12 190	17 364	16 875	15 416	16 879	17 773	18 751
Community and social services	9 098	7 096	6 741	9 822	9 422	8 032	8 125	8 556	9 026
Public safety	3 213	4 532	5 449	7 542	7 453	7 384	8 754	9 217	9 724
<i>Economic and environmental services</i>	10 089	21 044	23 670	45 190	47 097	47 106	34 780	36 624	38 638
Planning and development	1 883	3 787	3 890	5 152	4 947	4 472	6 033	6 353	6 703
Road transport	8 206	17 257	19 780	40 038	42 150	42 634	28 747	30 271	31 935
<i>Trading services</i>	35 500	35 257	48 047	37 340	44 285	67 609	68 251	71 868	75 821
Electricity	17 368	18 858	26 257	13 080	13 653	39 049	34 624	36 459	38 464
Water	12 903	10 503	15 991	16 037	19 110	18 422	21 451	22 588	23 830
Waste water management	2 271	2 499	2 719	3 697	4 733	3 982	3 833	4 037	4 259
Waste management	2 958	3 397	3 080	4 526	6 789	6 156	8 342	8 784	9 267
Total Expenditure - Standard	82 264	98 385	152 152	175 371	182 388	172 197	177 862	187 289	197 590
Surplus/(Deficit) for the year	746	10 339	(2 146)	3 692	33 714	30 230	57 974	70 194	76 484

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile „whole of government“ reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity, Water and Waste water functions, as well as the Waste management function.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Executive and Council.

MBRR Table A3 – Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote)

Vote Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
R thousand									
Revenue by Vote									
Vote1 - 100 Political Office Bearers	48 830	44 597	43 292	71 469	74 616	89 064	85 313	92 569	98 249
Vote2 - 200 Municipal Manager	-	-	-	-	-	-	-	-	-
Vote3 - 300 Budget & Treasury	6 938	8 917	7 934	6 484	6 484	4 554	6 225	6 554	6 915
Vote4 - 400 Corporate Services	646	590	1 751	2 127	2 127	2 000	853	898	948
Vote5 - 500 Planning and Development	655	-	426	838	838	274	482	508	536
Vote6 - 600 Community Services	7 375	6 622	10 557	18 706	18 706	9 705	18 708	19 701	20 790
Vote7 - 700 Technical Services	18 566	47 998	86 045	79 439	113 331	96 826	124 256	137 253	146 636
Total Revenue by Vote	83 010	108 724	150 005	179 063	216 102	202 423	235 836	257 483	274 073
Expenditure by Vote									
Vote1 - 100 Political Office Bearers	21 111	18 692	23 261	31 950	31 117	7 954	11 900	12 531	13 220
Vote2 - 200 Municipal Manager	-	2 362	4 274	5 363	4 271	4 144	5 764	6 069	6 403
Vote3 - 300 Budget & Treasury	2 862	4 355	33 797	21 838	21 174	17 829	20 224	21 296	22 467
Vote4 - 400 Corporate Services	391	5 047	6 913	16 326	17 569	12 143	20 065	21 128	22 290
Vote5 - 500 Planning and Development	1 883	3 787	3 890	5 152	4 947	4 470	6 033	6 353	6 703
Vote6 - 600 Community Services	15 269	15 025	15 270	21 890	23 663	21 568	25 221	26 557	28 018
Vote7 - 700 Technical Services	40 748	49 117	64 746	72 852	79 647	104 085	88 655	93 354	98 489
Total Expenditure by Vote	82 264	98 385	152 151	175 371	182 388	172 193	177 862	187 289	197 590
Surplus/(Deficit) for the year	746	10 339	(2 146)	3 692	33 714	30 230	57 974	70 194	76 484

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the municipality. This means it is possible to present the operating surplus or deficit of a vote.

MBRR Table A4 –Budgeted Financial Performance (Revenue and Expenditure)

Description	2007/8	2008/9	2009/10	2011/12 Medium Term Revenue & Expenditure Framework			Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
R thousand									
Revenue By Source									
Property rates	16 036	17 393	8 895	24 031	24 031	24 031	29 928	31 514	33 247
Property rates - penalties & collection charges	2 554	3 465	396	3 230	3 230	4	546	575	607
Service charges - electricity revenue	16 350	18 608	27 431	31 633	31 633	31 633	45 659	48 079	50 723
Service charges - water revenue	8 608	9 294	20 883	30 566	30 566	30 566	31 062	32 709	34 508
Service charges - sanitation revenue	5 584	6 462	9 210	13 646	13 646	13 646	8 919	9 391	9 908
Service charges - refuse revenue	4 185	4 651	7 398	14 324	14 324	14 324	10 220	10 762	11 354
Service charges - other	–	–	1 300	–	–	–	–	–	–
Rental of facilities and equipment	647	1 682	592	1 787	1 787	512	433	456	481
Interest earned - external investments	1 294	2 801	1 488	804	804	30	804	847	893
Interest earned - outstanding debtors	1 780	4 050	5 114	4 800	4 800	3 788	4 800	5 054	5 332
Fines	154	166	145	234	234	898	652	686	724
Licences and permits	1 581	1 545	1 403	2 571	2 571	1 090	5 791	6 098	6 434
Agency services	295	286	637	300	300	103	350	369	389
Transfers recognised – operational	22 875	28 575	35 286	48 850	51 997	48 850	56 640	62 378	66 403
Other revenue	1 067	9 746	3 984	2 087	2 087	2 087	2 947	3 103	3 274
Gains on disposal of PPE	–	–	–	200	200	–	200	211	222
Total Revenue (excluding capital transfers and contributions)	83 010	108 724	124 162	179 063	182 210	171 562	198 950	212 231	224 498
Expenditure By Type									
Employee related costs	37 473	41 507	48 106	58 681	57 453	57 453	67 835	71 431	75 359
Remuneration of councillors	4 288	4 645	5 757	4 872	4 403	4 794	4 800	5 055	5 333
Debt impairment	–	–	4 508	–	–	–	–	–	–
Depreciation & asset impairment	–	–	–	16 256	16 256	16 256	2 638	2 778	2 931
Finance charges	2 482	2 187	2 022	1 095	1 095	562	960	1 010	1 066
Bulk purchases	20 172	23 420	30 225	31 773	31 773	31 773	43 187	45 476	47 977
Contracted services	1 144	1 357	7 049	2 500	2 500	2 500	7 495	7 892	8 326
Other expenditure	16 705	25 269	54 484	60 194	68 908	68 908	50 947	53 647	56 598
Total Expenditure	82 264	98 385	152 151	175 371	182 388	182 246	177 862	187 289	197 590
Surplus/(Deficit)	746	10 339	(27 989)	3 692	(178)	(10 684)	21 088	24 942	26 909
Transfers recognised - capital			25 843		33 892	33 892	36 886	45 252	49 575
Surplus/(Deficit) for the year	746	10 339	(2 146)	3 692	33 714	23 208	57 974	70 194	76 484

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. Reconstruction of the valuation roll will result in more income being generated from mining properties previously classified incorrectly, that have now been reclassified. However a decline in rebates on certain properties from 20% to 40% will impact on negatively on total revenue generated from property rates. Tariffs have generally increased by 6.2%.
2. Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the municipality totaling almost R96 million for the 2011/12 financial year. Increase in bulk price of water is 16%
3. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grant receipts from national government are growing rapidly over the MTREF.
4. Bulk purchases have significantly increased over the 2007/08 to 2012/14 period. These increases can be attributed to the substantial increase in the cost of bulk electricity from Eskom and water from Magalies Water.
5. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

MBRR Table A5 – Budgeted Capital Expenditure by vote, standard classification and funding source

Vote Description R thousand	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Capital expenditure - Vote									
Multi-year expenditure to be appropriated									
Vote1 - 100 Political Office Bearers	6	-	-	-	-	-	6	7	7
Vote2 - 200 Municipal Manager	-	92	81	3 150	3 150	3 150	-	-	-
Vote3 - 300 Budget & Treasury	48	-	-	150	150	150	300	316	333
Vote4 - 400 Corporate Services	150	790	706	2 500	2 645	2 645	5 725	6 028	6 360
Vote5 - 500 Planning and Development	-	58	-	-	-	-	210	221	233
Vote6 - 600 Community Services	4 327	7 554	232	9 250	9 250	9 250	7 232	7 615	8 034
Vote7 - 700 Technical Services	10 871	17 438	23 812	33 989	37 518	37 518	44 500	46 859	49 436
Capital multi-year expenditure sub-total	15 402	25 932	24 831	49 039	52 713	52 713	57 973	61 046	64 403
Capital Expenditure - Standard									
Governance and administration	204	882	787	5 800	5 945	5 945	6 031	6 351	6 700
Executive and council	6	92	81	3 150	3 150	3 150	6	7	7
Budget and treasury office	48	-	-	150	150	150	300	316	333
Corporate services	150	790	706	2 500	2 645	2 645	5 725	6 028	6 360
Community and public safety	4 327	7 554	232	6 750	6 750	6 750	5 126	5 398	5 695
Community and social services	1 546	7 028	232	2 555	2 555	2 555	4 560	4 802	5 066
Sport and recreation	10	-	-	4 195	4 195	4 195	-	-	-
Public safety	2 771	526	-	-	-	-	566	596	629
Economic and environmental services	10 715	12 246	23 690	21 815	21 815	21 815	210	221	233
Planning and development	-	58	-	-	-	-	210	221	233
Road transport	10 715	12 188	23 690	21 815	21 815	21 815	-	-	-
Trading services	156	4 141	-	14 674	18 203	18 203	46 606	49 076	51 775
Electricity	156	1 763	-	7 419	7 906	7 906	4 800	5 054	5 332
Water	-	1 494	-	4 755	7 797	7 797	5 750	6 055	6 388
Waste water management	-	884	-	-	-	-	33 950	35 749	37 716
Waste management	-	-	-	2 500	2 500	2 500	2 106	2 218	2 340
Other	-	1 109	123	-	-	-	-	-	-
Total Capital Expenditure - Standard	15 402	25 932	24 832	49 039	52 713	52 713	57 973	61 046	64 403
Funded by:									
National Government	14 661	20 464	24 483	28 892	28 892	28 892	35 286	40 252	46 575
Other transfers and grants	741	2 650	-	5 000	5 000	5 000	1 600	5 000	3 000
Transfers recognised - capital	15 402	23 114	24 483	33 892	33 892	33 892	36 886	45 252	49 575
Borrowing	-	-	-	-	-	-	3 950	-	-
Internally generated funds	-	2 818	348	15 147	18 821	18 821	17 137	15 794	14 828
Total Capital Funding	15 402	25 932	24 831	49 039	52 713	52 713	57 973	61 046	64 403

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.
3. Single-year capital expenditure has been appropriated at R58 million for the 2011/12 financial year and remains relatively constant over the MTREF.
4. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the municipality. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.
5. The capital programme is funded from capital and provincial grants and transfers, public contributions and donations, borrowing and internally generated funds from current year surpluses. For 2011/12, capital transfers totals R34 million.

MBRR Table AG – Budgeted Financial Position

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
ASSETS									
Current assets									
Cash	293	–	14	1 526	–	32 589	1 355	1 427	1 505
Call investment deposits	24 775	14 595	2 853	10 835	10 835	1 706	853	898	948
Consumer debtors	26 777	49 696	13 927	62 330	62 330	98 942	18 125	19 085	20 135
Other debtors	3 523	2 710	12 922	2 710	2 710	21 690	5 581	5 877	6 200
Inventory	1 540	3 620	2 434	3 855	3 855	5 082	4 431	4 666	4 922
Total current assets	56 908	70 621	32 150	81 256	79 730	160 009	30 344	31 953	33 710
Non current assets									
Investments	2 044	4 374	–	5 000	5 000	–	–	–	–
Investment property	–	–	–	15 905	15 905	–	–	–	–
Property, plant and equipment	13 987	8 408	46 676	41 985	45 659	130 779	102 011	107 418	113 326
Biological	–	–	0	–	–	0	0	0	0
Intangible	–	–	104	–	–	104	104	107	115
Total non current assets	16 031	12 782	46 780	62 890	66 564	130 883	102 115	107 525	113 441
TOTAL ASSETS	72 939	83 403	78 930	144 146	146 294	290 892	132 459	139 478	147 151
LIABILITIES									
Current liabilities									
Bank overdraft	11 865	4 109	10 743	–	–	–	–	–	–
Borrowing	1 948	8 148	2 234	1 435	1 435	4 468	1 783	1 877	1 980
Consumer deposits	2 649	2 146	3 043	2 284	2 284	6 137	5 107	5 377	5 673
Trade and other payables	15 198	7 286	35 835	7 760	13 778	104 262	43 211	23 517	36 705
Provisions	5 056	5 057	6 158	5 908	5 908	10 590	1 017	1 071	1 130
Total current liabilities	36 716	26 746	58 013	17 387	23 405	125 457	51 118	31 843	45 489
Non current liabilities									
Borrowing	16 184	8 408	7 563	6 765	6 765	13 737	13 124	12 429	11 745
Provisions	–	–	–	–	–	–	700	737	778
Total non current liabilities	16 184	8 408	7 563	6 765	6 765	13 737	13 824	13 166	12 523
TOTAL LIABILITIES	52 900	35 154	65 576	24 152	30 170	139 194	64 942	45 008	58 012
NET ASSETS	20 039	48 249	13 354	119 994	116 124	151 698	67 517	94 469	89 139
COMMUNITY WEALTH/EQUITY									
Accumulated Surplus/(Deficit)	12 334	37 232	13 354	113 613	109 743	151 698	67 517	94 469	89 139
Reserves	7 705	11 017	–	6 381	6 381	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	20 039	48 249	13 354	119 994	116 124	151 698	67 517	94 469	89 139

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table 66 is supported by an extensive table of notes (SA3) providing a detailed analysis of the major components of a number of items, including:
 - Call investments deposits;
 - Consumer debtors;
 - Property, plant and equipment;
 - Trade and other payables;
 - Provisions non-current;
 - Changes in net assets; and
 - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

MBRR Table A7 – Budgeted Cash Flow Statement

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Ratepayers and other	41 905	41 431	74 350	27 261	27 261	27 261	93 603	97 743	86 781
Government - operating	44 967	30 808	34 684	47 438	50 585	50 585	56 640	62 378	66 403
Government - capital	-	21 956	25 843	33 892	33 892	33 892	36 886	45 252	49 575
Interest	5 294	2 801	1 488	804	804	804	804	847	893
Payments									
Suppliers and employees	(48 945)	(90 950)	(121 921)	(39 352)	(46 143)	(46 143)	(133 474)	(198 920)	(195 796)
Finance charges	(2 539)	(1 576)	(2 051)	(1 095)	(1 095)	(1 095)	(960)	(1 010)	(1 066)
NET CASH FROM/(USED) OPERATING ACTIVITIES	40 682	4 470	12 393	68 948	65 304	65 304	53 499	6 289	6 790
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Decrease (increase) in non-current investments	(2 992)	(2 338)	15 776	(12 000)	(12 000)	(12 000)	200	211	222
Payments									
Capital assets	(15 164)	(13 652)	(24 832)	(49 039)	(52 713)	(52 713)	(51 385)	(5 407)	(5 908)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(18 156)	(15 990)	(9 056)	(61 039)	(64 713)	(64 713)	(51 185)	(5 196)	(5 686)
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Increase (decrease) in consumer deposits	25	(503)	-	27	27	27	26	26	26
Payments									
Repayment of borrowing	(806)	(7 776)	(7 468)	(1 568)	(1 568)	(1 568)	(1 002)	(1 002)	(1 002)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(781)	(8 279)	(7 468)	(1 541)	(1 541)	(1 541)	(976)	(976)	(976)
NET INCREASE/ (DECREASE) IN CASH HELD	21 745	(19 799)	(4 131)	6 368	(950)	(950)	1 338	117	128
Cash/cash equivalents at the year begin:	(8 544)	13 201	598	950	950	950	870	2 208	2 325
Cash/cash equivalents at the year end:	13 201	(6 598)	(10 729)	7 318	-	-	2 208	2 325	2 453

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

MBRR Table 8 – Cash Backed Reserves/Accumulated Surplus Reconciliation

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Cash and investments available									
Cash/cash equivalents at the year end	13 201	(6 598)	(10 729)	7 318	–	–	2 208	2 325	2 453
Other current investments > 90 days	2	17 084	2 853	5 043	10 835	34 295	(0)	0	0
Non current assets - Investments	2 044	4 374	–	5 000	5 000	–	–	–	–
Cash and investments available:	15 247	14 860	(7 876)	17 361	15 835	34 295	2 208	2 325	2 453
Application of cash and investments									
Unspent borrowing	–	–	–	–	–	–	(3 950)	–	–
Other working capital requirements	(4 032)	(17 005)	14 653	(5 400)	618	69 890	30 690	4 775	19 086
Long term investments committed Reserves to be backed by cash/investments	18 939	18 132	16 556	17 652	17 652	17 652	–	–	–
Total Application of cash and investments:	14 907	1 127	31 209	12 252	18 270	87 542	(31 234)	(65 419)	(57 397)
Surplus(shortfall)	340	13 733	(39 085)	5 109	(2 435)	(53 247)	33 442	67 744	59 850

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".

4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2010/11 MTREF was not funded owing to the deficit.
6. As part of the budgeting and planning guidelines that informed the compilation of the 2011/12 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

MBRR Table A9 – Asset Management

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
CAPITAL EXPENDITURE									
Total New Assets	20 152	15 402	25 932	49 039	46 539	46 539	57 973	61 046	64 403
Infrastructure - Road transport	10 715	3 648	11 678	21 815	21 815	21 815	-	-	-
Infrastructure - Electricity	156	1 763	-	7 419	7 419	7 419	4 800	5 054	5 332
Infrastructure - Water	-	2 379	6 092	4 755	4 755	4 755	2 350	2 475	2 611
Infrastructure - Sanitation	-	-	-	-	-	-	37 350	39 330	41 493
Infrastructure	10 871	7 790	17 770	33 989	33 989	33 989	44 500	46 859	49 436
Community	4 326	7 554	3 818	6 100	6 100	6 100	4 500	4 739	4 999
Other assets	4 955	58	4 344	8 950	6 450	6 450	8 973	9 449	9 968
Total Renewal of Existing Assets	-	-	-	7 419	7 419	7 419	-	-	-
Infrastructure - Electricity	-	-	-	7 419	7 419	7 419	-	-	-
Infrastructure	-	-	-	7 419	7 419	7 419	-	-	-
Total Capital Expenditure									
Infrastructure - Road transport	10 715	3 648	11 678	21 815	21 815	21 815	-	-	-
Infrastructure - Electricity	156	1 763	-	14 838	14 838	14 838	4 800	5 054	5 332
Infrastructure - Water	-	2 379	6 092	4 755	4 755	4 755	2 350	2 475	2 611
Infrastructure - Sanitation	-	-	-	-	-	-	37 350	39 330	41 493
Infrastructure	10 871	7 790	17 770	41 408	41 408	41 408	44 500	46 859	49 436
Community	4 326	7 554	3 818	6 100	6 100	6 100	4 500	4 739	4 999
Other assets	4 955	58	4 344	8 950	6 450	6 450	8 973	9 449	9 968
TOTAL CAPITAL EXPENDITURE - Asset class	20 152	15 402	25 932	56 458	53 958	53 958	57 973	61 046	64 403
ASSET REGISTER SUMMARY - PPE (WDV)									
Infrastructure - Road transport	77 749	80 207	11 047	129 072	129 072	129 072	11 047	11 632	12 272
Infrastructure - Electricity	22 441	24 204	1 775	31 622	32 109	32 109	6 575	6 923	7 304
Infrastructure - Water	18 308	18 874	-	21 489	24 531	24 531	2 350	2 475	2 611
Infrastructure - Sanitation	14 979	15 442	-	17 582	17 582	17 582	37 350	39 330	41 493
Infrastructure - Other	(145 623)	(164 854)	-	(197 331)	(197 331)	(112 211)	(2 638)	(2 778)	(2 931)
Infrastructure	(12 146)	(26 127)	17 238	2 434	5 963	91 083	54 683	57 582	60 749
Community	7 343	14 897	29 438	25 007	25 007	25 007	4 500	4 739	4 999
Investment properties	-	-	-	15 905	15 905	-	-	-	-
Other assets	18 790	19 638	4 416	14 544	14 689	14 689	42 828	45 098	47 578
Biological assets	-	-	0	-	-	0	0	0	0
Intangibles	-	-	104	-	-	104	104	107	115
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	13 987	8 408	46 780	57 890	61 564	130 883	102 115	107 525	113 441
EXPENDITURE OTHER ITEMS									
Depreciation & asset impairment	-	-	-	16 256	16 256	16 256	2 638	2 778	2 931
Repairs and Maintenance by Asset Class	5 040	5 417	5 793	6 533	13 635	13 635	15 951	16 796	17 720
Infrastructure - Road transport	-	-	-	-	1 838	1 838	7 608	8 011	8 452
Infrastructure - Electricity	-	-	-	-	500	500	1 323	1 393	1 469
Infrastructure - Water	-	-	-	-	2 843	2 843	3 828	4 031	4 253

<i>Infrastructure - Sanitation</i>	–	–	–	–	900	900	2 035	2 143	2 261
Infrastructure	–	–	–	–	6 081	6 081	14 794	15 578	16 435
Community	504	542	579	653	653	653	–	–	–
Other assets	4 536	4 875	5 214	5 880	6 901	6 901	1 157	1 218	1 285
TOTAL EXPENDITURE OTHER ITEMS	5 040	5 417	5 793	22 789	29 891	29 891	18 590	19 575	20 651
<i>% of capital exp on renewal of assets</i>	0.0%	0.0%	0.0%	15.1%	15.9%	15.9%	0.0%	0.0%	0.0%
<i>Renewal of Existing Assets as % of deprecn"</i>	0.0%	0.0%	0.0%	45.6%	45.6%	45.6%	0.0%	0.0%	0.0%
<i>R&M as a % of PPE</i>	36.0%	64.4%	12.4%	15.6%	29.9%	10.4%	15.6%	15.6%	15.6%
<i>Renewal and R&M as a % of PPE</i>	36.0%	64.0%	12.0%	24.0%	34.0%	16.0%	16.0%	16.0%	16.0%

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The Municipality meets does not meet these recommendations as majority of resources have been allocated towards clearing the backlog on new infrastructure.

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MM.

The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and,
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 3 September 2010. Key dates applicable to the process are contained in the budget process document as per annexure C

There were deviations from the key dates set out in the Budget Time Schedule tabled in Council.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

This is the fourth review of the IDP as adopted by Council in May 2006. It started in September 2010 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2011/12 MTREF in the very same month.

The municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2011/12 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2011/12 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2010/11 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modeling and Key Planning Drivers

As part of the compilation of the 2011/12 MTREF, an extensive financial modeling exercise was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2011/12 MTREF:

- Municipal growth
- Policy priorities and strategic objectives

- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The 2010/11 adjustments budget and performance against the SDBIP
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51, 54 and 55 has been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation

After Council adopts the draft 2011/12 MTREF, public participation as required by Chapter of Municipal Systems Act must be undertaken. The document should be placed on municipal website and hard copies should be made available at municipal offices and libraries. The process will allow the community and stakeholders to make inputs and representations on the adopted 2011/12 MTREF.

All documents in the appropriate format (electronic and printed) should be provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees should be utilised to facilitate the community consultation process.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);

- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's strategic objectives for the 2011/12 MTREF and further planning refinements that have directly informed the compilation of the budget:

- Water and Sanitation
- Land and Housing
- Electricity
- Local Economic Development
- Transport, Roads and Storm water
- Institutional Development
- Waste Management, Health and Environment
- Community Participation and Communication
- Disaster Management
- Social Development
- Safety and Security
- Sport, Art & Culture

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the municipality by identifying the key performance areas to achieve the strategic objectives mentioned above.

2.3 Measurable Objectives and Indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality target, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

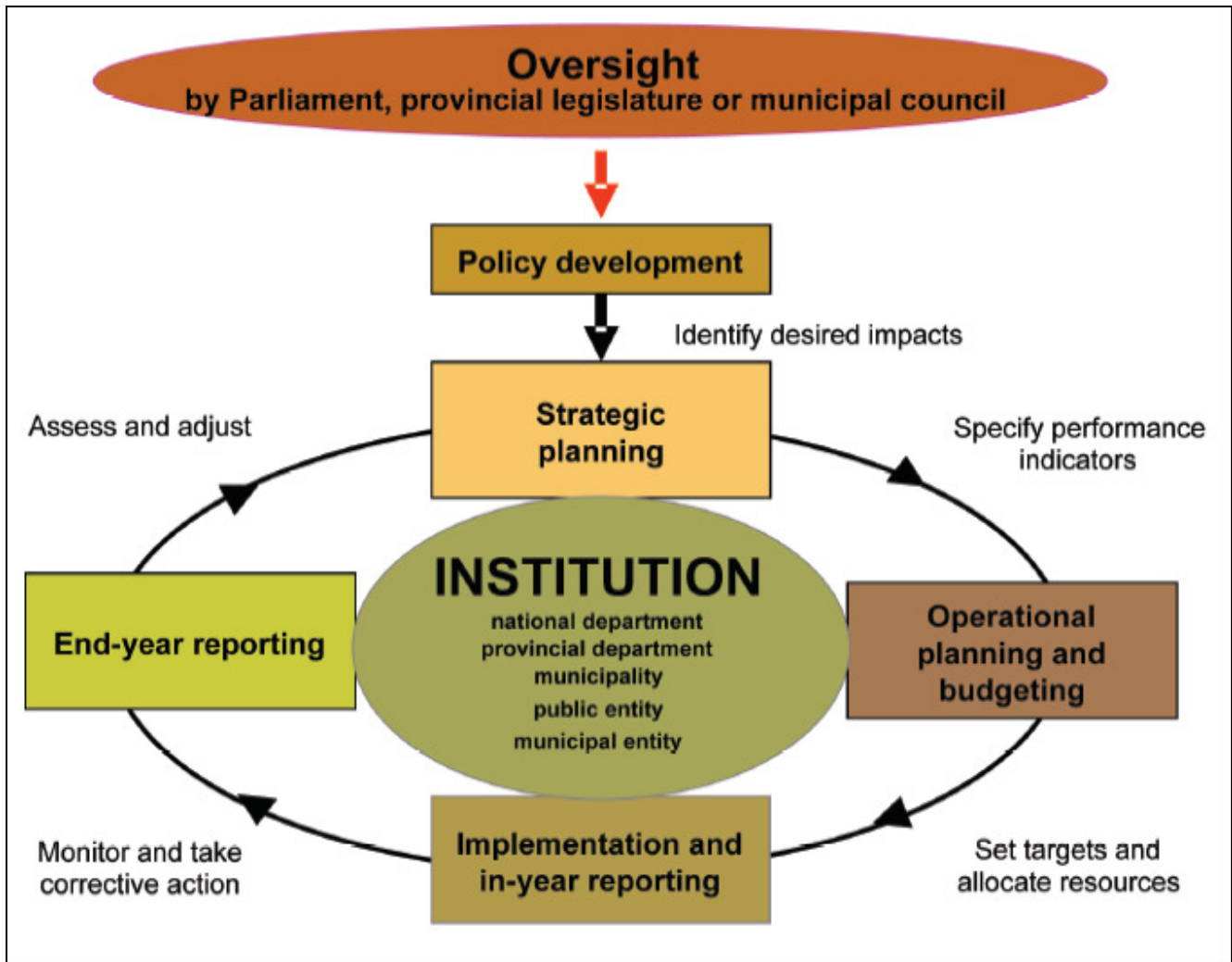


Figure Planning, budgeting and reporting cycle

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the municipality in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:

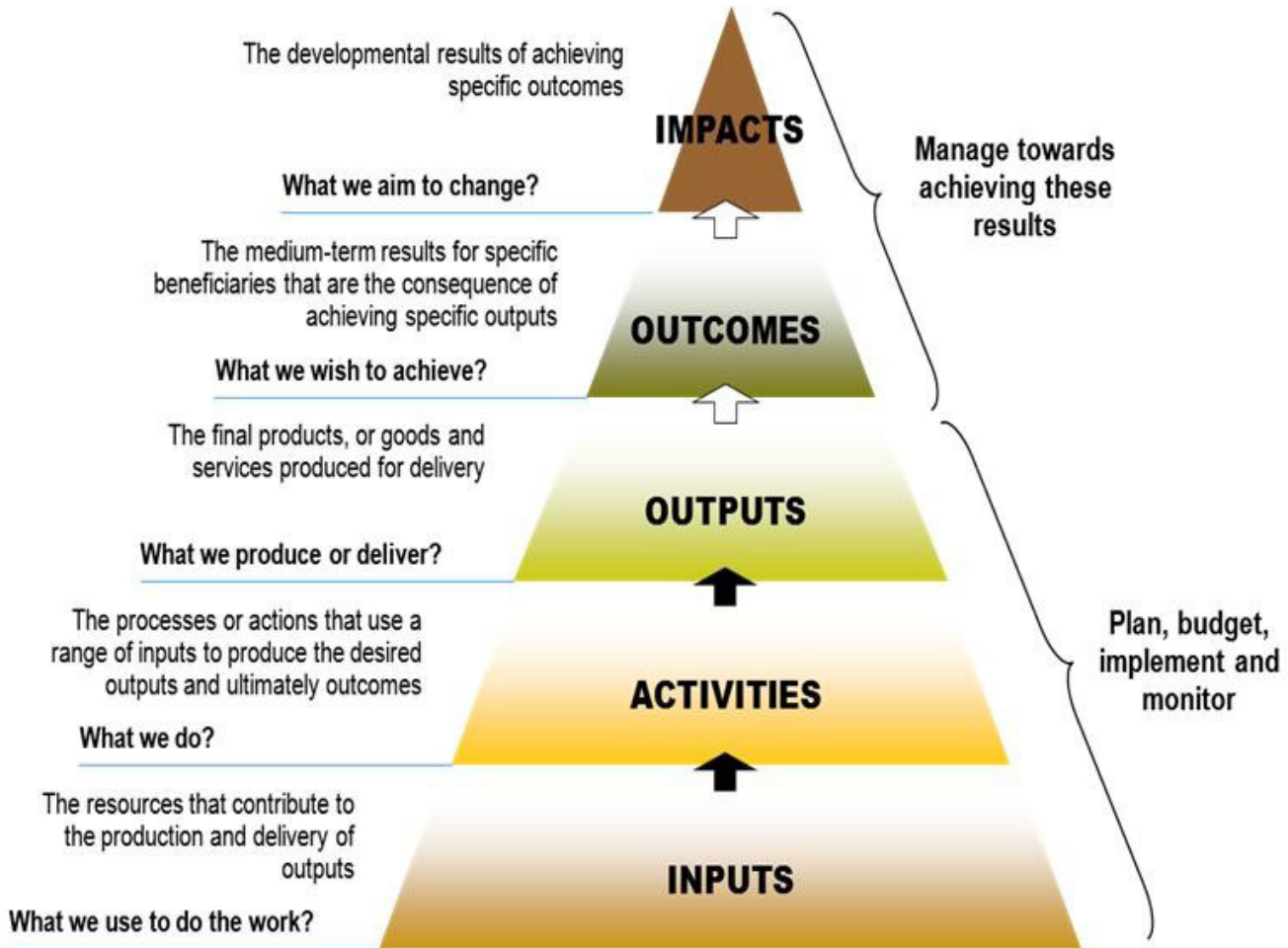


Figure Definition of performance information concepts

The following table sets out the municipality's main performance indicators and benchmarks for the 2011/12 MTREF

Description of financial indicator	Basis of calculation	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
<u>Borrowing Management</u>										
Borrowing to Asset Ratio	Total Long-Term Borrowing/Total Assets	22.2%	10.1%	9.6%	4.7%	4.6%	4.7%	9.9%	8.9%	8.0%
Credit Rating		TBA	TBA	TBA	TBA	TBA	TBA	TBA	TBA	TBA
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	4.0%	10.1%	6.2%	1.5%	1.5%	1.2%	1.1%	1.1%	1.0%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure excl. transfers and grants and contributions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	26.0%	26.0%	26.0%
<u>Safety of Capital</u>										
Debt to Equity	Loans, Creditors, Overdraft & Tax Provision/ Funds & Reserves	264.0%	72.9%	491.1%	20.1%	26.0%	91.8%	96.2%	33.1%	33.2%
Gearing	Long Term Borrowing/ Funds & Reserves	210.0%	76.3%	0.0%	106.0%	106.0%	0.0%	19.0%	19.0%	19.0%
<u>Liquidity</u>										
Current Ratio	Current assets/current liabilities	1.5	2.6	0.6	4.7	3.4	1.3	0.6	1.0	0.7
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	1.5	2.6	(0.2)	3.5	2.6	1.1	0.1	0.4	0.5
Liquidity Ratio	Monetary Assets/Current Liabilities	0.7	0.5	0.0	0.7	0.5	0.3	0.0	0.1	0.1
<u>Revenue Management</u>										
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing		73.4%	56.5%	90.4%	90.4%	90.4%	22.9%	68.6%	68.0%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	36.5%	48.2%	21.6%	36.3%	35.7%	70.3%	11.9%	11.8%	11.7%
Longstanding Debtors Recovered	Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	5.0%	5.0%

Creditors Management										
Creditors System Efficiency	% of Creditors Paid Within Terms (within 'MFMA' s 65(e))	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	99.0%	99.0%	99.0%
Funding of Provisions										
Provisions not funded - %	Unfunded Provns./Total Provisions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Indicators										
Electricity Distribution Losses (2)	% Volume (units purchased and generated less units sold)/units purchased and generated	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%
Water Distribution Losses (2)	% Volume (units purchased and own source less units sold)/Total units purchased and own source	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Employee costs	Employee costs/(Total Revenue - capital revenue)	45.1%	38.2%	38.7%	32.8%	31.5%	33.5%	34.1%	33.7%	33.6%
Remuneration	Total remuneration/(Total Revenue - capital revenue)	39.3%	34.5%	33.4%	35.5%	32.9%	34.9%	2.0%	2.0%	2.0%
Repairs & Maintenance	R&M/(Total Revenue excluding capital revenue)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.0%	8.0%	8.0%
Finance charges & Depreciation	FC&D/(Total Revenue - capital revenue)	3.0%	2.0%	1.6%	9.7%	9.5%	9.8%	1.8%	1.8%	1.8%
IDP regulation financial viability indicators	-									
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	5.7	8.9	37.5	54.9	54.9	54.9	77.0	79.1	83.4
ii. O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	56.1%	85.1%	35.3%	54.6%	54.6%	105.2%	18.7%	18.7%	18.7%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	2.2	(1.0)	(1.1)	0.7	-	-	0.2	0.2	0.2

2.3.1 Performance Indicators and Benchmarks

2.3.1.1 Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, Thabazimbi's borrowing strategy is primarily informed by the affordability of debt repayments. The structure of the municipality's debt portfolio is dominated by annuity loans. The following financial performance indicators have formed part of the compilation of the 2011/12 MTREF:

- *Borrowing to asset ratio* is a measure of the long-term borrowing as a percentage of the total asset base of the municipality. The current ratio is 9.9%.
- *Capital charges to operating expenditure* is a measure of the cost of borrowing in relation to the operating expenditure. While borrowing is considered a prudent financial instrument in financing capital infrastructure development, this indicator will have to be carefully monitored going forward as the municipality has reached its prudential borrowing limits.
- *Borrowing funding of own capital expenditure* measures the degree to which own capital expenditure (excluding grants and contributions) has been funded by way of borrowing.
- The municipality's debt profile provides some interesting insights on the municipality's future borrowing capacity.
- In summary, various financial risks could have a negative impact on the future borrowing capacity of the municipality. In particular, the continued ability of the municipality to meet its revenue targets and ensure its forecasted cash flow targets are achieved will be critical in meeting the repayments of the debt service costs. As part of the compilation of the 2012/13 MTREF the potential of smoothing out the debt profile over the longer term will be investigated.

2.3.1.2 Safety of Capital

- *The debt-to-equity ratio* is a financial ratio indicating the relative proportion of equity and debt used in financing the municipality's assets. The indicator is based on the total of loans and creditors as a percentage of funds and reserves.
- *The gearing ratio* is a measure of the total long term borrowings over funds and reserves.

2.3.1.3 Liquidity

- *Current ratio* is a measure of the current assets divided by the current liabilities and as a benchmark the municipality has set a limit of 1, hence at no point in time should this ratio be less than 1. The municipality is still struggling to meet this benchmark.
- *The liquidity ratio* is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality

should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations. For the 2010/11 financial year the ratio was below 1. This needs to be considered a pertinent risk for the municipality as any under collection of revenue will translate into serious financial challenges for the municipality. As part of the longer term financial planning objectives this ratio will have to be set at a minimum of 1.

2.3.1.4 Revenue Management

- As part of the financial sustainability strategy, an aggressive revenue management framework has to be implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention is to streamline the revenue value chain by ensuring accurate billing, customer service, and credit control and debt collection. The current Revenue Enhancement Strategy is outdated and an amount of R100 000 has been appropriated for its review and implementation.

2.3.1.5 Creditors Management

- The Municipality has struggled during the 2010/11 MTREF to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has only managed to ensure a 70 per cent compliance rate to this legislative obligation. This has had an adverse impact on suppliers' perceptions of risk of doing business with the municipality, which is expected to be a potential harm to the municipality in the form of more competitive pricing of tenders, as suppliers would be reluctant to compete for the municipality's business.

2.3.1.6 Other Indicators

- The electricity distribution losses have been managed downwards to an average of 14 per cent over the MTREF. The initiatives to ensure these targets are achieved include managing illegal connections and theft of electricity by rolling out smart metering systems, including prepaid meters.
- The water distribution losses are still a major challenge because of the aged infrastructure. The municipality requires a capital injection of R173 million to fund the new pipeline.
- Employee costs as a percentage of operating revenue continues to decrease over the MTREF. This is primarily owing to the departmental heads' support in prioritizing critical positions.

2.3.2 Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the municipality.

For the 2011/12 financial year almost 2000 registered indigents have been provided for in the budget with this figured increasing to 4000 by 2013/14. In terms of the Municipality's indigent policy registered households are entitled to 6kl fee water, 50 kWh of electricity, free sanitation and free waste removal once a week, as well as 100% rebates on their property rates.

Further detail relating to the number of households receiving free basic services, the cost of free basic services, highest level of free basic services as well as the revenue cost associated with the free basic services is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement).

Note that the number of households in informal areas that receive free services and the cost of these services (e.g. the provision of water through stand pipes, water tankers, etc) are not taken into account in the table noted above.

2.3.3 Providing clean water and managing waste water

The municipality is the Water Services Authority for the entire municipality in terms of the Water Services Act, 1997 and acts as water services provider. Approximately 90 per cent of the municipality's bulk water needs are provided directly by Magalies Water in the form of purified water. The remaining 10 per cent is generated from the municipality's own water sources, such as boreholes.

Despite being a WSA, the municipality still doesn't supply industrial water to the mining industry in the Thabazimbi Municipality's area of jurisdiction.

The Department of Water Affairs conducts an annual performance rating of water treatment works, presenting a Blue Drop or Green Drop award respectively to potable water treatment works and waste water treatment works that meet certain criteria of excellence.

The following is briefly the main challenges facing the Municipality in this regard:

- The infrastructure at most of the waste water treatment works is old and insufficient to treat the increased volumes of waste water to the necessary compliance standard;
- Shortage of skilled personnel makes proper operations and maintenance difficult;

The following are some of the steps that have been taken to address these challenges:

- Infrastructure shortcomings are being addressed through the capital budget in terms of a 5-year upgrade plan;
- The filling of vacancies has commenced and the Waste Water Division will embark on an in-house training programme, especially for operational personnel;

2.4 Overview of budget related-policies

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.4.1 Review of credit control and debt collection procedures/policies

The Collection Policy as approved by Council in 2011 is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

The 2011/12 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 75 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the municipality's cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy.

2.4.2 Asset Management Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the municipality's revenue base. Within the framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.

Further, continued improvements in technology generally allow many assets to be renewed at a lesser "real" cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation. The Asset Management Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

2.4.3 Budget Adjustment Policy

The adjustments budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the Municipality continues to

deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

2.4.4 Supply Chain Management Policy

The Supply Chain Management Policy has been a thorny issue in the municipality. The AG also raised these concerns in his report. The current policy was adopted by Council in two previous financial years but was not in line with the SCM regulations. An amended policy will be considered by Council in due course of which the amendments will be extensively consulted on.

2.4.5 Budget and Virement Policy

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the municipality's system of delegations. The Budget and Virement Policy was approved by Council in May 2010.

2.4.6 Investment Policy

The Municipality's Cash Management and Investment Policy was adopted by Council in the previous financial years and must be reviewed as a matter of extreme urgency. The aim of the policy is to ensure that the municipality's investments are adequately managed, especially the funds set aside for the cash backing of certain reserves.

2.4.7 Tariff Policies

The municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next financial year.

2.5 Overview of budget assumptions

2.5.1 External factors

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

2.5.2 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2011/12 MTREF:

- National Government macro economic targets;
- The general inflationary outlook and the impact on municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration. Employee related costs comprise 40 per cent of total operating expenditure in the 2011/12 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget.

2.5.3 Credit rating outlook

The municipality's bankers are still to provide the credit rating

2.5.4 Interest rates for borrowing and investment of funds

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions.

2.5.5 Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (65 per cent) of annual billings. Cash flow is assumed to be 75 per cent of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will, however, only be considered a source of additional cash in-flow once the performance has been carefully monitored.

2.5.6 Growth or decline in tax base of the municipality

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the municipality, household formation growth rate and the poor household change rate. .

2.5.7 Salary increases

The collective agreement regarding salaries/wages came into operation on 1 July 2009 and shall remain in force until 30 June 2012. Year three is an across the board increase of 8.54 per cent.

2.5.8 Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focused service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

2.5.9 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 95 per cent is achieved on operating expenditure and 90 per cent on the capital programme for the 2011/12 MTREF of which performance has been factored into the cash flow budget.

2.6 Overview of budget funding

2.6.1 Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term:

Description R thousand	2011/12 Medium Term Revenue & Expenditure Framework				
	Budget Year 2011/12	% Change	Budget Year +1 2012/13	% Change	Budget Year +2 2013/14
Revenue By Source					
Property rates	29 928	5%	31 514	6%	33 247
Property rates - penalties & collection charges	546	5%	575	5%	607
Service charges - electricity revenue	45 659	5%	48 079	5%	50 723
Service charges - water revenue	31 062	5%	32 709	6%	34 508
Service charges - sanitation revenue	8 919	5%	9 391	6%	9 908
Service charges - refuse revenue	10 220	5%	10 762	5%	11 354
Rental of facilities and equipment	433	5%	456	5%	481
Interest earned - external investments	804	5%	847	5%	893
Interest earned - outstanding debtors	4 800	5%	5 054	6%	5 332
Fines	652	5%	686	5%	724
Licences and permits	5 791	5%	6 098	6%	6 434
Agency services	350	5%	369	6%	389
Transfers recognised - operational	56 640	10%	62 378	6%	66 403
Other revenue	2 947	5%	3 103	5%	3 274
Gains on disposal of PPE	200	5%	211	6%	222
Total Revenue (excluding capital transfers and contributions)	198 950		212 231		224 498

Table Breakdown of the operating revenue over the medium-term

The following graph is a breakdown of the operational revenue per main category for the 2011/12 financial year.

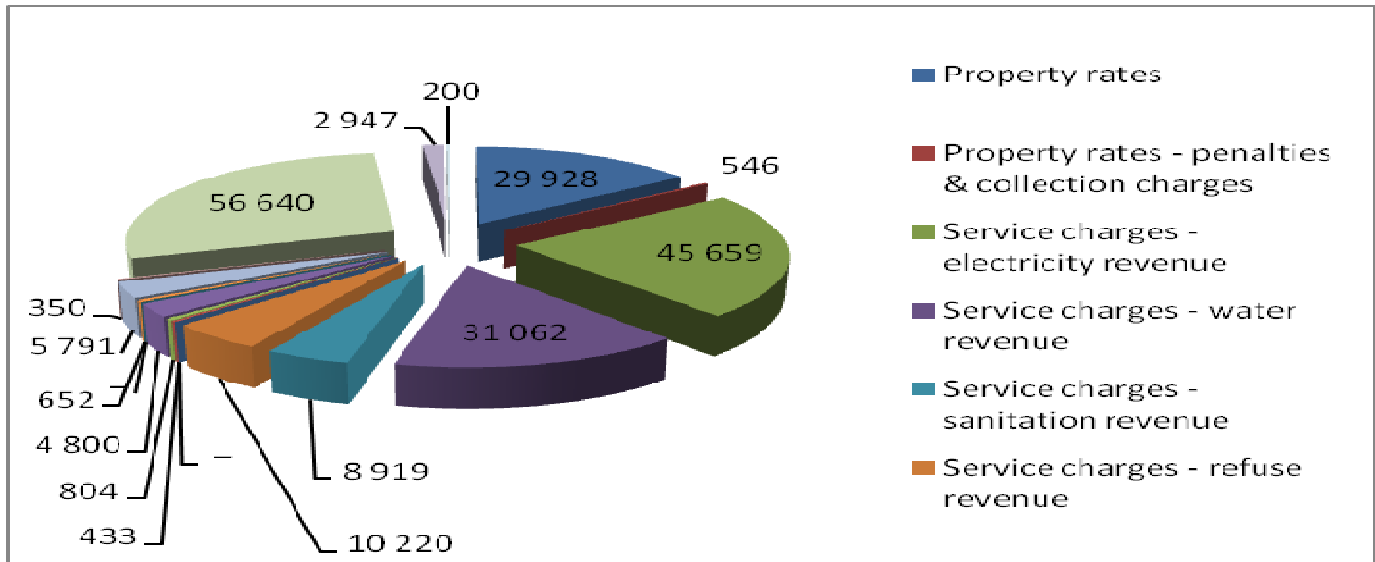


Figure 7 Breakdown of operating revenue over the 2011/12 MTREF

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The municipality derives most of its operational revenue from the provision of goods and services such as water, electricity, sanitation and solid waste removal, property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, licenses and permits etc).

The anticipated revenue strategy is a function of key components such as:

- Growth in the municipality's and economic development;
- Revenue management and enhancement;
- Achievement of a 75 per cent annual collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- And the ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

Revenue to be generated from property rates is R29 million in the 2011/12 financial year and increases to R33 million by 2013/14 which represents 10 per cent of the operating revenue base of the municipality. It remains relatively constant over the medium-term. With the implementation of the Municipal Property Rates Act the basis of rating significantly changed.

The municipality will be compiling its new valuation roll during the 2011/12 MTREF to ensure adequate public participation. The new valuation roll is scheduled for implementation in 2012/13 MTREF. The rate payers' association had objections which were duly addressed to the satisfaction of the chairpersons' forum.

Service charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Municipality totaling R96 million for the 2011/12.

2.6.2 Medium-term outlook: capital revenue

The following is a breakdown of the funding composition of the 2011/12 medium-term capital programme:

- MIG funded projects to the tune of R34.5 million
- National Department of Energy to the tune of R1.6 million
- Internally generated funds to the tune of 22 million
- Finance lease for vehicles to the mount of R3.95 million

2.6.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understandability for councillors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from "Ratepayers and other" to be provided for as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue, and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt)

MBRR Table A7 – Budgeted Cash flow statement

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Ratepayers and other	41 905	41 431	74 350	27 261	27 261	27 261	93 603	97 743	86 781
Government - operating	44 967	30 808	34 684	47 438	50 585	50 585	56 640	62 378	66 403
Government - capital	–	21 956	25 843	33 892	33 892	33 892	36 886	45 252	49 575
Interest	5 294	2 801	1 488	804	804	804	804	847	893
Payments									
Suppliers and employees	(48 945)	(90 950)	(121 921)	(39 352)	(46 143)	(46 143)	(133 474)	(198 920)	(195 796)
Finance charges	(2 539)	(1 576)	(2 051)	(1 095)	(1 095)	(1 095)	(960)	(1 010)	(1 066)
NET CASH FROM/(USED) OPERATING ACTIVITIES	40 682	4 470	12 393	68 948	65 304	65 304	53 499	6 289	6 790
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Decrease (increase) in non-current investments	(2 992)	(2 338)	15 776	(12 000)	(12 000)	(12 000)	200	211	222
Payments									
Capital assets	(15 164)	(13 652)	(24 832)	(49 039)	(52 713)	(52 713)	(51 385)	(5 407)	(5 908)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(18 156)	(15 990)	(9 056)	(61 039)	(64 713)	(64 713)	(51 185)	(5 196)	(5 686)
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Increase (decrease) in consumer deposits	25	(503)	–	27	27	27	26	26	26
Payments									
Repayment of borrowing	(806)	(7 776)	(7 468)	(1 568)	(1 568)	(1 568)	(1 002)	(1 002)	(1 002)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(781)	(8 279)	(7 468)	(1 541)	(1 541)	(1 541)	(976)	(976)	(976)
NET INCREASE/ (DECREASE) IN CASH HELD	21 745	(19 799)	(4 131)	6 368	(950)	(950)	1 338	117	128
Cash/cash equivalents at the year begin:	(8 544)	13 201	(6 598)	950	950	950	870	2 208	2 325
Cash/cash equivalents at the year end:	13 201	(6 598)	(10 729)	318	–	–	2 208	2 325	2 453

The above table shows that cash and cash equivalents of the Municipality were largely depleted between the 2007/08 and 2010/11 financial year. The cash and cash equivalents situation is

expected to stabilize during the next two financial years. With the 2010/11 adjustments budget various cost efficiencies and savings had to be realised to ensure the Municipality could meet its operational expenditure commitments. In addition the municipality will undertake an extensive debt collection process to boost cash levels. These initiatives and interventions will translate into a positive cash position for the municipality.

2.6.4 Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be "funded". Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination

MBBR Table 8 – Cash backed reserves/accumulated surplus reconciliation

Description R thousand	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Cash and investments available									
Cash/cash equivalents at the year end	13 201	(6 598)	(10 729)	7 318	–	–	2 208	2 325	2 453
Other current investments > 90 days	2	17 084	2 853	5 043	10 835	34 295	(0)	0	0
Non current assets - Investments	2 044	4 374	–	5 000	5 000	–	–	–	–
Cash and investments available:	15 247	14 860	(7 876)	17 361	15 835	34 295	2 208	2 325	2 453
Application of cash and investments									
Unspent borrowing	–	–	–	–	–	–	(3 950)	–	–
Other working capital requirements	(4 032)	(17 005)	14 653	(5 400)	618	69 890	30 690	4 775	19 086
Long term investments committed	18 939	18 132	16 556	17 652	17 652	17 652	–	–	–
Reserves to be backed by cash/investments	–	–	–	–	–	–	(57 974)	(70 194)	(76 484)
Total Application of cash and investments:	14 907	1 127	31 209	12 252	18 270	87 542	(31 234)	(65 419)	(57 397)
Surplus(shortfall)	340	13 733	(39 085)	5 109	(2 435)	(53 247)	33 442	67 744	59 850

2.7 Municipal manager's quality certificate

I TSR Nkhumise, municipal manager of Thabazimbi Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the integrated Development Plan of the Municipality

Print Name: _____

Municipal Manager of Thabazimbi Local Municipality (LIM361)

Signature: _____

Date _____

