

INGQUZA HILL LOCAL MUNICIPALITY



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30 June 2011

Ref: 11/7/11

Enq: LLD Pepeta

Attention: Ms Ansie Myburgh

RE: INGQUZA HILL LOCAL MUNICIPALITY FINAL BUDGET 2010/11

The Ingquza Hill Local Municipality herewith submits its Final Budget for the Medium Term Expenditure Framework. On the 15th June 2011 the Council approved this budget and also attached hereto is:

- i) Annual Budget;
- ii) A1 Schedules
- iii) Budget Supporting Documents

Council did embark on an EXCO outreach to all wards to collect and consolidate priority lists coming from the wards and link the budget with the IDP. This Final budget is based on the budget implementation plan and also the EXCO outreach.

All Budget Related Documents will be sent through an email to the National Treasury and a copy will be sent to the Provincial Treasury as required by the Legislation.

Should you require further information on any of the above issues, please do not hesitate to contact us.

Yours truly,

M FIHLANI

MUNICIPAL MANAGER

ANNUAL BUDGET OF

INGQUZA HILL MUNICIPALITY

2011/12 TO 2013/14
MEDIUM TERM REVENUE AND EXPENDITURE
FORECASTS

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Abbreviations and Acronyms

AMR	Automated Meter Reading	ℓ	litre
ASGISA	Accelerated and Shared Growth Initiative	LED	Local Economic Development
BPC	Budget Planning Committee	MEC	Member of the Executive Committee
CBD	Central Business District	MFMA	Municipal Financial Management Act Programme
CFO	Chief Financial Officer	MIG	Municipal Infrastructure Grant
CM	Municipality Manager	MMC	Member of Mayoral Committee
CPI	Consumer Price Index	MPRA	Municipal Properties Rates Act
CRRF	Capital Replacement Reserve Fund	MSA	Municipal Systems Act
DBSA	Development Bank of South Africa	MTEF	Medium-term Expenditure Framework
DoRA	Division of Revenue Act	MTREF	Medium-term Revenue and Expenditure Framework
DWA	Department of Water Affairs	NERSA	National Electricity Regulator South Africa
EE	Employment Equity	NGO	Non-Governmental organisations
EEDSM	Energy Efficiency Demand Side Management	NKPIs	National Key Performance Indicators
EM	Executive Mayor	OHS	Occupational Health and Safety
FBS	Free basic services	OP	Operational Plan
GAMAP	Generally Accepted Municipal Accounting Practice	PBO	Public Benefit Organisations
GDP	Gross domestic product	PHC	Provincial Health Care
GDS	Gauteng Growth and Development Strategy	PMS	Performance Management System
GFS	Government Financial Statistics	PPE	Property Plant and Equipment
GRAP	General Recognised Accounting Practice	PPP	Public Private Partnership
HR	Human Resources	PTIS	Public Transport Infrastructure System
HSRC	Human Science Research Council	RG	Restructuring Grant
IDP	Integrated Development Strategy	RSC	Regional Services Council
IT	Information Technology	SALGA	South African Local Government Association
kl	kilolitre	SAPS	South African Police Service
km	kilometre	SDBIP	Service Delivery Budget Implementation Plan
KPA	Key Performance Area	SMME	Small Micro and Medium Enterprises
KPI	Key Performance Indicator		
kWh	kilowatt		

Part 1 – Annual Budget

1. Mayor's Budget Speech

Madam Speaker let me start by indicating that we are a municipality that has such potential to do more than what have been able to do in the past. However, this is not withstanding the effort and vigour that my predecessor, Councilor Ngozi was able to demonstrate in leading a team that pursued our noble objective of a 'Better Life for All'. I therefore want to thank Councilor Ngozi and all those who put an indelible mark in developing our area, this refers to individuals, government departments and many others not mentioned here.

Madam Speaker, it would however be an error not to acknowledge the challenges that we are faced with going forward. Our area is one of the poorest areas in the country with unemployment rate hovering at about 66%; clearly this is a major issue that needs an immediate intervention. Our development index is seating at 1:4, which is a lower that the average index of the province; this means the area of Ingquza is highly underdeveloped.

This underdevelopment is very much rooted to our past of the apartheid misrule and Bantustan plunder of our resources. We indeed need to do things differently to hasten development as our people have waited long enough. However, we are well aware that the resources may not always be allowing to do all what we want at once, but with the correct political will, together with our communities, we can do more. We however, must rise up to the challenge as there is no option. The President of the Republic through his State of The Nation Address has declared this year as a year of JOB CREATION, we therefore have to play our role in the face of the challenges ahead of us and we dare not fail.

Madam Speaker, this budget has to be aligned with our priorities in the IDP, to put priorities as raised in the Investment Conference two years ago and the Spatial Development Framework. It is therefore important to look into this budget not in isolation of other work that is happening in the Municipality. Fiscal discipline and prudence is of paramount importance; openness and transparency is of critical importance. We therefore have to work hard to ensure that the little resources are well spent and accounted for appropriately.

PRESSURES ON THE MUNICIPALITY

Budget 2011/12 – 2014 caters for daily pressures that are exerted by the socio-economic conditions. These pressures are:

- Improving current service delivery
- Maintenance of infrastructure
- Dealing with increasing staff costs
- Increasing internal efficiency and improving customer care
- Improved financial management
- Service improvement
- Ensuring effective and efficient management
- Job creation

NATIONAL TREASURY GUIDELINES

National Treasury issued many Circulars that serve as a guide to municipalities in preparing for municipal budget. Circular numbers 10, 28, 51 and 55 etc are amongst the Circulars that have guided us in preparing this budget. National Treasury has made it clear that all municipalities must follow Circulars 51 and 55 in preparing for 2011/12– 2014 financial years. The budget we are presenting today has been prepared in accordance with these Circulars and all schedules have been prepared and will be sent as annexures with the budget.

National treasury has also provided for the guide line growth limits for municipal budget for 2011/12, 2012/13 and 2013/14 financial years are 4.8%, 5.3% and 5.5% respectively. This is a guideline for self generated revenue sources

- It excludes the increased national allocations provided for the purposes of expanding infrastructure and providing basic services to more households

KEY BUDGET ASSUMPTIONS AND STRATEGIES

In August 2010, management submitted to my predecessor, His Worship Mayor W Ngozi budget assumptions for the development of 2011/12 to 2013/14 budget. Throughout the year, some of these assumptions were modified as more information became available. The following table identifies the current budget assumptions, which have been in this budget.

TABLE 1 : BUDGET ASSUMPTIONS

Description	2010/11	2011/12	2012/13	2013/14
National Treasury Guidelines				
CPIX	5.7%	4.8%	5.3%	5.5%
Salaries	13%	7.5%	7.2%	6.9%
Water Purchases	%	%	%	%
Refuse	2.00%	2.00%	2.00%	2.00%
Telephone Costs	6.7%	5.7%	6.2%	5.9%
Free Basic Electricity Municipality (Indigent)	50 kwh	50 kwh	50 kwh	50 kwh
Free Basic Water (Indigent)	N/A	N/A	N/A	N/A
Equitable Share Allocation		22.35%	12.57%	9.90%

Operating Budget

We have considered the collective bargaining council agreement that provides for an increase of salaries for 2011/12- 2013/14 financial years

CPIX as January and February + 2%.

We have also catered for the maximum of 5.7% increase in general expenses and repairs and maintenance. Tables 6, 7 & 8 and figures 1 & 2 show the operating budget, capital

OPERATIONAL BUDGET

PERSONNEL

R71 237 483.20

For the 2011/12 financial year we are budgeting R71 237 483.20 which is an increase of the CPIX as at January and February plus 2%,

PERFORMANCE BONUS

R947 042.70

The performance bonus that will be based on the performance evaluation as per performance agreements entered between the Mayor and the Municipal Manager is budgeted at R947 042.70. The performance bonuses for 2009/10 have not yet been paid due to the fact that the evaluation committees for both Section 57 managers and Municipal Manager were not presented and approved by the Council as a result Managers are denied of their well deserved performance bonuses due to the non sitting of council. It is recommended that the Council dispense with this matter as a matter of urgency before the next financial year begins since the performance bonuses for 2010/11 will be due after financial year end.

DISASTER MANAGEMENT

R100 000

Notwithstanding the fact that Disaster Management is the core function of the District Municipality, we have set aside R100 000.

This is informed by the fact that the entire OR Tambo District Municipal area is disaster – prone area.

EVENTS AND PROGRAMMES **R500 000**

The above amount is allocated for the implementation of institutionalized / calendar events that we conduct in pursuance of the Special Programmes that are directed towards the designated / targeted groups.

INDIGENT SUPPORT **R600 000**

We have set aside R600 000 to subsidize the ratepayers who cannot afford to pay for services rendered by the municipality and also for the community who are using grid and non grid electricity.

SUBSISTENCE AND TRAVELLING **R720 000**

This vote is meant for travelling, accommodation, subsistence and travelling for councillors and officials when discharging official duties.

SPU PROGRAMMES **R1 045 000**

Special Programmes Unit is allocate R 1 045 000 for Policy Development, Gender mainstreaming, SPU Training and Development and other programmes related thereto and we have also consolidated the Mayor's discretionary fund to these programmes.

ACCOUNTING AND AUDIT FEES **R1 950 000**

For audit fees, accounting fees as well as matters related to financial statements we are allocating R1 950 000 so that we can comply with the requirements and provisions of the statutes that relate to auditing.

INSURANCE EXTERNAL **R743 400**

The above amount is set aside for insurance policies for movable and immovable property as well as equipment.

STATIONERY & PRINTING **R400 000**

For stationery and printing material we are allocating R400 000 so as to ensure smooth running of offices within our institution.

LEGAL FEES

R1.3 Million

For legal fees we are allocating R1.3 million so as to protect the institution from litigations.

STRATEGIC PLANNING & TEAMBUILDING

R380 000

Teambuilding and strategic planning is one of the key pillars of a dynamic institution. For this to be realized we have set aside R380 000.

COUNCIL SUPPORT

We are proposing for amendment of the organizational structure to include the post of Council secretary who will coordinate all the activities of the Council and its structure.

MSIG

R790 000

This allocation is for the enhancement of the institutional capability of the Municipality in respect of systems.

POVERTY RELIEF PROJECTS

R800 000

Abject poverty continues to inflict pain and trauma to our communities. In this regard we are allocating R800 000 to fund poverty relief projects

CAPITAL BUILDING

Our capital budget is outlined hereunder as follows:

LED PROGRAMME

R5.5 Million

As an additional effort of pushing back the frontiers of poverty, R5.5 million is allocated to LED Projects.

DRIVERS TESTING CENTER

R2.598 191

This allocation is for infrastructural development of driving testing centre

FLAGSTAFF BY PASS

R2. 251 000

This allocation is from the Department of Local Government to build this road in order to ease the traffic congestion in the main road. The top up funding for the Flagstaff by pass road is sought from OR Tambo district municipality by utilizing the equitable share meant for our

municipality. We affirm the resolution taken by the Council meeting that considered the budget regarding the above.

SOCIAL FACILITIES**R2.800 000**

This allocation is for infrastructure relating to social facilities, like building of community halls. This is meant to create jobs by using labour intensive methods.

LAND FILL SITES**R4 000 0000**

Land fill sites have to be environmental friendly and comply with all the environmental laws e.g. National Environmental Management Act (NEMA). We shall identify land fill sites to the areas that will be suggested by environmental consultants after geotechnical studies have been conducted to determine the suitability of the place. We urge the Ward Councillors of the identified areas to cooperate and convince the communities who will be vehemently opposed to the establishment of land fill sites.

MIG PROJECT**R28.542 617**

We have inherited a dilapidated infrastructure from the legacy of the past; we want to allocate a sum of R28.542 617 as our direct response to the infrastructural backlog we are faced with.

INTERGRATED ELECTRIFICATION PROGRAMME**R9 000 000**

This allocation is for electricity infrastructure and has been reduced significantly due to the reasons cited above.

ON GOING PROJECT**R7 000 000**

This allocation is for ongoing project for the retention of MIG project and Electrification Programme. .

MAJOR SOURCES OF REVENUE

Equitable Share	R97 182 000
Refuse Removal	R 191 953
Finance Management Grant	R 1 450 000
Enatis Agency	R2 707 190
Municipal Infrastructure Grant	R31 543 000
Municipal Systems Improvement Grant	R790 000
Integrated Electrification Programme	R9 000 000
Other Income	R5 895 884
Internal Plant Unity	R4 870 000
Rates	R7 644 029

THE TOTAL ALLOCATION PER DEPARTMENT

Council Department	R13 691 372
Municipal Manager Department	R 4 127 157
Budget and Treasury Department	R18 177 764
Corporate Services Department	R20 338 198
Community Services Department	R22 031 156
Strategic Planning, Develop &LED	R14 962 204
Infrastructure	R65 138 860

TOTAL BUDGET R161 525 903

CONCLUSION

Tomorrow marks the 35th Anniversary of June 16 Soweto uprising. We all know that this day brought back the vigilance, assertiveness and commitment to a fight against injustices and all other brutalities meted out by Apartheid regime. This is the day that caused the liberation movements in particular ANC to strengthen all forms of struggle especially the armed struggle and Mass mobilisation that led to the total isolation of apartheid regime.

The Youth of today is challenged by the Scourge of HIV/AIDS, abuse of drugs and alcoholism, unemployment etc. which we must join hands in support of all the Youth struggles. This we can do by ensuring that we involve all communnites in the implementation of government policies and programmes to ensure quality service delivery. This will ensure the ideals of Freedom Charter adopted in Kliptown 56 years ago, are realised. In pursuit of these ideals let's join hands in ensuring that our meagre resources are spent efficiently and effectively and that; there is a value for money.

Let's join hands in fighting corruption

Thank you

2. Council Resolutions

On 15 June 2011 the Council of Ingquza Hill Municipality Local Municipality met in Lusikisiki College Of Education Hall to consider the annual budget of the municipality for the financial year 2011/12. The Council approved and adopted the following resolutions:

The Council of Ingquza Hill Municipality Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

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:

- Budgeted Financial Performance (revenue and expenditure by standard classification) R102 280 307 as contained in A2 schedules;
- Budgeted Financial Performance (revenue and expenditure by municipal vote) R102 280 307 as contained in A3 schedules;
- Budgeted Financial Performance (revenue by source and expenditure by type) R102 280 307 as contained in A2A schedules; and
- Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in A5 schedules R59 226 496.

The Council of Ingquza Hill Municipality Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2010 the tariffs for other services.

3. Executive Summary

The 2011/12 to 2013/14 Operating and Capital Budget is submitted for consideration and adoption.

The formulation of this Budget commenced in August 2010 with the adoption of the Budget Process Plan. This Budget Process Plan as in the previous year ensured that the Budget and Integrated Development Plan were formulated concurrently resulting in the budget being aligned to the Integrated Development Plan.

It will become evident when reading this document that the IDP and Budget compliment each other and the community can have confidence that the budget is supporting Council's direction as identified in the IDP.

The community was consulted during the process of outreach programme and this culminated in a comprehensive feedback during the gathering exercise which was done on the month of April 2011 in all wards were all the consideration and the feedback was included in this final budget for 2011/12.

Over the past years Ingquza Hill Local Municipality introduced budget reform with initiatives such as creation of a specialist Budget Department, production of a three year budget, ensuring that the budget consists of realistic figures, reliable indicators and reporting in accordance with the Municipal Finance Management Act. The municipality can now have more reliance on its financial reports. A major initiative which supports the reliability of the Budgets has been the implementation of tariff setting.

Following are the budget pressures and National Treasury guidelines which influence the direction of the budget.

National Treasury's MFMA Circular No. 51 and 54 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 summarised as follows:

The reviewed IDP (2010/11) was undertaken in full consideration of the IDP review for 2010/11. This was then used as basis for developing this IDP and more information would be availed when the Council had undergone proper planning processes.

The key issues for Ingquza Local Municipality have not changed.

The key issues for Ingquza Hill Local Municipality for the five years are:

- The need for housing.
- All access Roads Needs to be upgraded – to have number of Kms of roads in bad condition. (Transportation plan)
- The need to extend the water supply and for water tanks to be maintained.
- The need for adequate sanitation.
- The need for an electricity supply.
- The need for education and educational facilities to be upgraded and improved.
- The need for institutions that train technical skills and provide access to information.
- The need for the creation of employment opportunities.
- The need for HIV/AIDS awareness campaigns and life education.
- The need for orphanages in the communities.
- The need to support the elderly in the community.
- The need for more police stations to be built.
- The need for stringent crime prevention strategies to be implemented.
- The need for improved health services.
- The need for an improved transport system.
- The need for more clinics to be built, dedicated staff to be employed and medication to be made available.
- The need for gravel roads to be maintained and the tarring of certain roads.
- The need for the construction of bridges where needed.
- The need for better cell phone coverage.
- The need for training in improved agricultural methods.

The need for fencing of maize fields and grazing camps

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

Following are the budget pressures and National Treasury guidelines which influence the direction of the budget.

PRESSURES ON THE MUNICIPALITY

- Improving current service delivery
- Maintenance of infrastructure.
- Dealing with increasing staff costs.
- Increasing internal efficiency and improving customer care.
- Ensuring efficient and effective management.
- Service improvement.
- Improved financial management

NATIONAL TREASURY GUIDELINES

National Treasury in its MFMA Circular No. 10, Process require the following:

- The Mayor is required to coordinate the process of the annual budget and the revision of the Integrated Development Plan and budget related policies.
- The accounting officer is tasked with assisting the mayor in developing and implementing the budgetary process.
- A review of the budget process is undertaken in early August before determining the new schedule of key deadlines.
- A revised IDP is adopted at the time of adopting the budget. Therefore, the process leading to the adoption of the 2011/12 budget and IDP must be incorporated into one process, together with the process for approving taxes, user charges and budget related policies.
- The Budget process must be consultative and the collective product of all within the municipality.
- Budget preparation includes the following processes: -

- Winning support for the priorities that will shape the way budget allocations will be determined
 - Integration of strategic objectives with budget allocations
 - Appropriate planning and improved project management
 - Assessing affordability of rates and service charges, and identifying poor households unable to afford such rates and charges
 - Estimation of accurate revenue and expenditure projections
 - Consultation and review of national, provincial and local priorities
 - Assessment of previous year performance and corrective action to be incorporated in the next budget
- Municipalities are required to produce a 3 year capital plan when tabling the draft budget. This is required to be disaggregated by municipal ward and reflect the MIG sector priorities to enable national and provincial transfers to flow directly to municipalities.
 - The final step of the implementation of the budget is the approval of the Service Delivery and Budget Implementation Plan (SDBIP) within 28 days of the adoption of the Budget and the performance agreements for the municipal manager and other senior managers for the coming financial year.

-

National Treasury also provided the following Revenue and Guideline Growth Parameters

- The guideline growth limits for municipal budgets for 2011/12, 2012/13 and 2013/14 are 6.2 %, 5.9 % and 5.9 %, respectively. This is a guideline, for self-generated revenue sources.
- It excludes the increased national allocations provided for the purposes of expanding infrastructure and providing basic services to more households.
- A increases in municipal rates and tariffs above the guideline growth limits must be fully motivated and explained to the local and business communities. Municipalities are obliged to ensure that their budgets are balanced, and all expenditure is fully funded.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2011/12 Medium-term Revenue and Expenditure Framework:

Table 2 Consolidated Overview of the 2011/12 MTREF

	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Adjusted	Budget	Budget	Budget
	R	R	R	R	R
<u>Income</u>					
Grants Received	61 497 416	116 681 000	140 323 000	168 195 000	177 423 000
Assessment Rates	5 276 991	10 671 894	7 644 030	7 644 030	7 644 030
Refuse	1 280 588	48 087	191 953	191 953	191 953
Other Income	5 959 389	14 411 389	13 397 803	17 641 764	18 644 622
<u>Total Income</u>	74 014 384	141 812 370	161 556 786	193 672 747	203 903 605
Net Internal Transfers	0				
<u>Total Operating Income</u>	74 014 384	77 445 794	102 961 766	111 254 246	118 560 441
<u>Expenditure</u>					
Salaries, Wages & Allowances	45 306 673	65 429 118	71 237 483	75 283 143	80 482 663
General Expenses	21 925 288	20 207 477	28 993 484	29 940 068	31 702 705
Depreciation	5 845 538	0	0		
Interest Paid	105 682	0	0	0	0

Repairs & Maintenance	3 099 865	1 586 288	2 719 340	6 007 360	6 351 812
Loss on Disposal of PPE	188 930	0			
<u>Direct Operating Expenditure</u>	76 471 977	87 222 883	102 950 307	111 230 570	118 537 181
Net Internal Transfers	0	0	0	0	0
<u>Total Operating Expenditure</u>	76 471 977	87 222 883	102 950 883	111 230 570	118 537 181
<u>Surplus/(Deficit)</u>	(2 457 593)	(9 777 089)	10 883	23 676	23 260

Total operating revenue has grown by 12 per cent or R19.7 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 17 and 5 per cent respectively, equating to a total revenue growth of R559.1 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 R102.95 million and translates into a budgeted surplus of R10 883. When compared to the 2010/11 Adjustments Budget, operational expenditure has grown by 15 per cent in the 2011/12 budget and by 7 and 6 per cent for each of the respective outer years of the MTREF. The operating surplus for the two outer years steadily increases to R23 676 and then stabilise at R23 260. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

Capital Budget Per Service	2010/11	2011/12	2012/13	2013/14
	R	%	R	R
Social Facilities	4 684 936	2 800 000	6 000 000	5 000 000
Electrification	15 000 000	9 000 000	20 000 000	20 000 000
Roads & Stormwater	20 259 173	28 542 617	38 353 000	40 462 000
LED	2 757 891	5 500 000	8 000 000	8 000 000
Other	17 498 700	12 752 979	10 065 500	11 881 164
TOTAL	60 200 700	58 595 596	82 418 500	85 343 164

The capital budget of R58.6 million for 2011/12 is 3 per cent less when compared to the 2010/11 Adjustment Budget. The reduction is due to various projects being finalised in the previous financial year as well as the reduction of electrification grant. The capital programme increases to R82.4 million in the 2012/13 financial year and then evens out in 2013/12 to R85.3 million. A substantial portion of the capital budget will be funded from grant funding over MTREF and the balance will be funded from internally generated funds.

4. Operating Revenue Framework

For Ingquza Hill 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. 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.

The municipality's revenue strategy is 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 95 per cent annual collection rate for property rates and other key service charges;
- 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 3 Summary of revenue classified by main revenue source

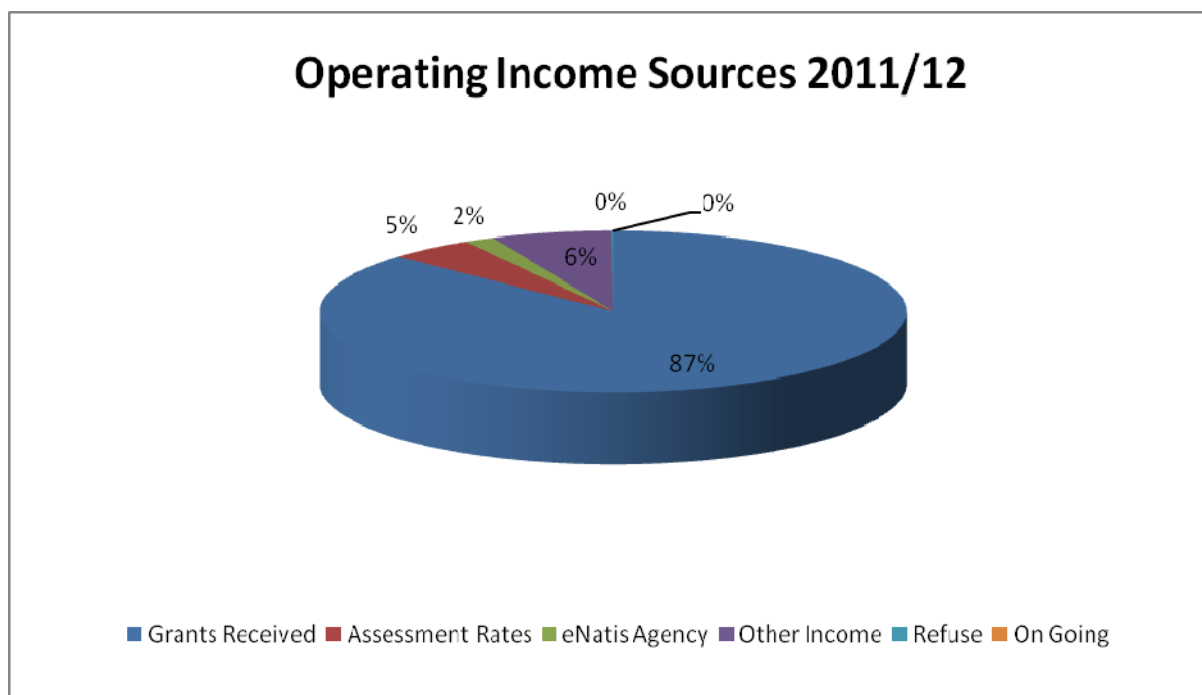
Description	Ref	2007/8	2008/9	2009/10	Current Year 2010/11				2011/12 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Revenue By Source											
Property rates	2	2,584	–	15,392	7,672	9,411	8,849	8,844	7,644	7,644	7,644
Property rates - penalties & collection charges		–	–	–	–	–	–	–	–	–	–
Service charges - electricity	2	–	–	–	–	–	–	–	–	–	–
Service charges - water revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - sanitation revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - refuse revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - other		–	–	–	–	–	–	–	–	–	–
Rental of facilities and equipment		–	–	–	–	–	–	–	–	–	–
Interest earned - external investments		712	–	575	180	585	872	1,230	585	191	202
Interest earned - outstanding debtors		–	–	–	–	–	–	–	–	–	–
Dividends received		–	–	–	–	–	–	–	–	–	–
Fines		–	–	–	–	–	–	–	–	–	–
Licences and permits		–	–	–	–	–	–	–	–	–	–
Agency services		–	–	–	–	–	–	–	–	–	–
Transfers recognised - operational		37,125	–	64,182	76,488	77,284	77,019	77,019	40,503	27,424	31,568
Other revenue	2	16,489	–	2,837	19,713	25,128	24,437	12,292	13,006	17,643	18,684
Gains on disposal of PPE		–	–	–	–	–	–	–	–	–	–
Total Revenue (excluding capital transfers and contributions)		56,910	–	82,985	104,053	112,408	111,176	99,384	61,738	52,901	58,098

Table 4 Percentage growth in revenue by main revenue source

Description	2008/09	2009/10	2011/12	2012/13	2013/14
Rates	R0.02	R0.02	R0.015	R0.015	R0.015
Business	R0.02	R0.02	R0.02	R0.02	R0.02
Government	R0.02	R0.02	R0.02	R0.02	R0.02
Refuse	0%	0%	0%	0%	0%
Sewerage	0%	N/A	N/A	N/A	N/A
Water	0%	N/A	N/A	N/A	N/A
Average	0%	0%	0%	0%	0%
Increase					

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

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. In the 2010/11 financial year, revenue from rates and services charges totalled 7.8 million.



Property rates is the third largest revenue source totalling 5 per cent, grant is the first largest revenue source totalling to 87%, other income is the second largest revenue source totalling to 6%, and eNatis Agency is the fourth largest revenue source totalling to 2% increases to R3.76 billion by 2013/14. The second largest sources is 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport 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 R75.5 million in the 2010/11 financial year and steadily increases to R116.9 million by 2013/14. Note that the year-on-year growth for the 2011/12 financial year is 24 per cent and then flattens out to 10 and 6 per cent in the two outer years.

1.1.1 Property Rates

Property rates 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.

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 done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

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). In addition to this rebate, a further R35 000 reduction on the market value of a property will be granted in terms of the Municipality's own Property Rates Policy;
- 35 per cent rebate will be granted on all residential properties and business
- 20 per cent rebate will be granted on all government properties;
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
- The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Municipal Manager in the prescribed format for such a grant.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2011/12 financial year based on a table below from 1 July 2011 is contained below:

Table 1 Comparison of proposed rates to levied for the 2011/12 financial year

The table below gives you an indication of proposed tariffs for 2010 and 2011 financial year.

Category	Old Tariff	New Tariff
	2009/10	2010/2011

Property Rates

Assessment Rates (Residential)	2.00c/R	1.50c/R
Assessment Rates (Business)	2.00c/R	2.00c/R
Assessment Rates (Government)	2.00c/R	2.00c/R

1.1.2 Sale of Water and Impact of Tariff Increases

1.1.3 Waste Removal 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. 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.

There is no increase proposed for the waste removal 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.

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

Table 6 Comparison between current waste removal fees and increases

	2010/2011	2011/2012
Households – Low Cost Houses	R30.00	R30.00
Households – In Town	R82.00	R87.00
Households – With One Block of Tenants	R114.00	R120.00
Households – With Two Block of Tenants	R171.00	R177.00
Households – With Three Block of Tenants	R256.50	R260.00
Businesses (1 x Weekly)	R114.00	R120.00
Businesses (3 x Weekly)	R171.00	R177.00
Businesses (Daily)	R256.50	R260.00
Government (1 x Weekly)	R114.00	R120.00
Government (3 x Weekly)	R171.00	R177.00
Government (Daily)	R256.50	R260.00

5. Operating Expenditure Framework

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

- The asset renewal strategy and the repairs and maintenance plan;
- 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 asset renewal strategy 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 plan 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 7 Summary of operating expenditure by standard classification item

Description	Ref	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	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Expenditure By Type	-										
Employee related costs	2	4,700	4,141	1,042	1,237	4,387	4,984	5,328	57,546	60,922	65,130
Remuneration of councillors		9,869	-	10,901	11,492	11,492	9,410	11,400	13,691	14,361	15,352
Debt impairment	3	-	-	11,371	-	-	-	-	-	-	-
Depreciation & asset impairment	2	-	-	-	-	-	-	-	-	-	-
Finance charges		-	-	524	734	706	441	441	879	941	996
Bulk purchases	2	223	-	176	455	400	152	152	483	517	546
Other materials	8	-	-	-	-	-	-	-	-	-	-
Contracted services		-	-	-	-	-	-	-	-	-	-
Transfers and grants		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	21,926	-	14,872	25,579	28,875	18,275	18,758	29,681	34,222	36,228
Loss on disposal of PPE		-	-	-	-	-	-	-	-	-	-
Total Expenditure		36,718	4,141	38,886	39,499	45,861	33,262	36,080	102,280	110,963	118253

The budgeted allocation for employee related costs for the 2011/12 financial year totals R57.5 million, which equals 36 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 7 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. As part of the planning assumptions and interventions all vacancies were originally removed from the budget and a report was compiled by the Corporate Services Department relating to the prioritization of critical vacancies within the Municipality. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

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 finalised.

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.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make R483 425 of operating expenditure and increases to R546 450 by 2013/14. 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 close to 4 per cent over the MTREF.

Other materials comprises 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 infrastructure.

Contracted services has 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.

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. Growth has been limited to 5 per cent for 2011/12 and curbed at 6.2 and 5.9 per cent for the two outer years, indicating that significant cost savings have been already realised. Further details relating to contracted services can be seen in Table 64 MBRR SA1 (see page 100).

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

1.1.4 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2011/12 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the Municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Operational repairs and maintenance

During the compilation of the 2011/12 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the Municipality's infrastructure and historic deferred maintenance. To this end, repairs and maintenance was substantially increased by 26 per cent in the 2010/11 financial year, from R847 635 to R3.3 million. During the 2010 Adjustment Budget this allocation was adjusted slightly downwards to R763 020 owing to the cash flow challenges faced by the Municipality. Notwithstanding this reduction, as part of the 2011/12 MTREF this strategic imperative remains a priority as can be seen by the budget appropriations over the MTREF. The total allocation for 2011/12 equates to R3.3 million a growth of 26 per cent in relation to the Adjustment Budget and continues to grow at 44 and 6 per cent over the MTREF. In relation to the total operating expenditure, repairs and maintenance comprises of R3, 6 and 6 per cent for the respective financial years of the MTREF.

1.1.5 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 90 000 or more indigent households during the 2011/12 financial year, a process reviewed annually

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.

6. Capital expenditure

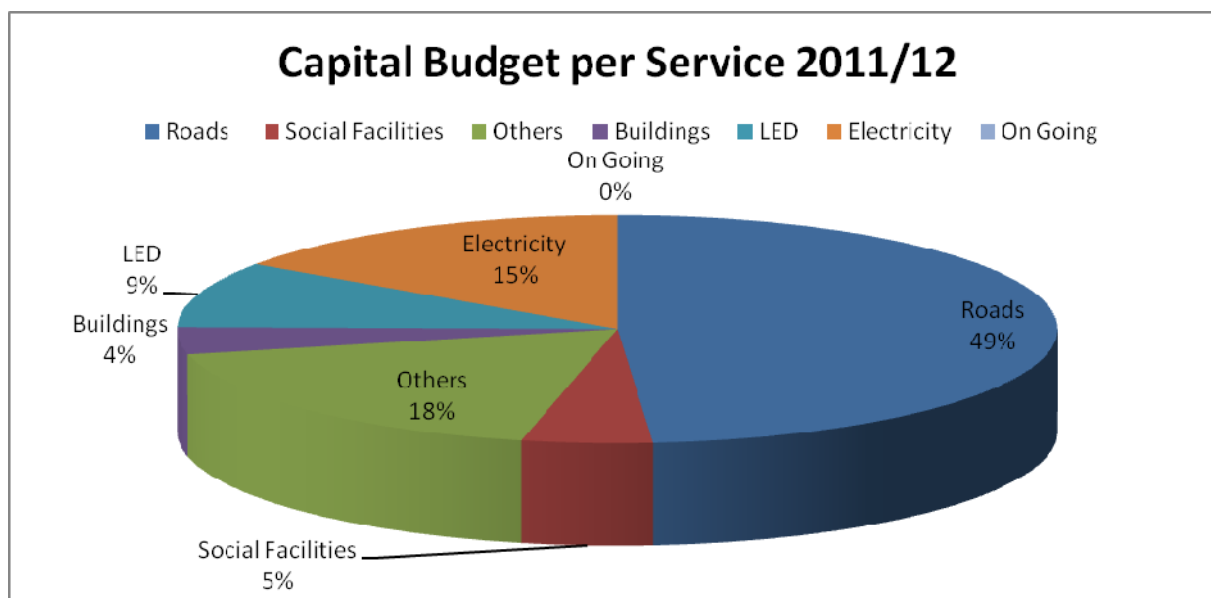
The following table provides a breakdown of budgeted capital expenditure by vote:

Table 8 2011/12 Medium-term capital budget per vote

Description	Ref	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	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
R thousand	1										
<i>Single-year expenditure to be appropriated</i>	2										
Vote 1 Corporate Services		1,881	-	15	250	274	246	246	1,586	266	281
Vote 2 Strategic & Planning		663	-	93	3,000	2,678	416	416	5,500	8,000	8,000
Vote 3 Budget & Treasury		69	-	-	-	-	-	-	2,000	-	-
Vote 4 Community Services		84	-	-	800	1,180	-	-	580	450	-
Vote 5 Infrastructure		16,892	-	-	60,493	56,093	20,898	20,898	49,559	73,703	77,062
Capital single-year expenditure sub-total		19,588	-	108	64,543	60,225	21,560	21,560	59,226	82,419	85,343
Total Capital Expenditure - Vote		19,588	-	108	64,543	60,225	21,560	21,560	59,226	82,419	85,343

For 2011/12 an amount of R59.2 million has been appropriated for the development of infrastructure which represents 36.7 per cent of the total capital budget. In the outer years this amount totals R82.4 million, 43.5 per cent and R85.3 million, 41.9 per cent respectively for each of the financial years.

The following graph provides a breakdown of the capital budget to be spent on infrastructure related projects over the MTREF.



Capital Infrastructure Programme

Capital Budget Per Service	2010/11	2011/12	2012/13	2013/14
	R	%	R	R
Social Facilities	4 684 936	2 800 000	6 000 000	5 000 000
Electrification	15 000 000	9 000 000	20 000 000	20 000 000
Roads & Stormwater	20 259 173	28 542 617	38 353 000	40 462 000
LED	2 757 891	5 500 000	8 000 000	8 000 000
Other	17 498 700	12 752 979	10 065 500	11 881 164
TOTAL	60 200 700	58 595 596	82 418 500	85 343 164

1.1.6 Future operational cost of new infrastructure

The future operational costs and revenues associated with the capital programme have been included. This table shows that future operational costs associated with the capital programme totals R58.6 million in 2011/12 and escalates to R85.3 million by 2013/14.

7. Municipal manager’s quality certificate

I, municipal manager of Ingquza Hill 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 Ingquza Hill Municipality (EC153)

Signature _____

Date _____