TSOLWANA MUNICIPALITY MTREF 13/14

THE 2013/2014 MULTI-YEAR OPERATIONAL AND CAPITAL BUDGET

Medium term Revenue and Expenditure Framework 31 May 2013

APPROVED AT COUNCIL MEETING 31 May 2013

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2. GLOSSARY

Adjustments Budget – prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

Budget – the financial plan of the municipality

Budget related policy – policy of a municipality affecting or affected by the budget, such as the tarrifs policy, rates policy and credit control and debt collection policy, etc

Capital Expenditure – Spending on assets such as land, building s and machinery. Any capital expenditure must be reflected as an asset on the municipality's balance sheet.

Cash flow statement – a statement showing when actual cash will be received and spent by the municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the municipality it scores as expenditure in the month it is received, even though it may not be paid in the same period.

DORA – Division of Revenue Act. Annual legislation that shows the amount of allocations from National to Local government.

Equitable share – a general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GAAP – General Accepted Accounting Principles. World Wide Accepted Standards

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting.

IDP – Integrated Development Plan. The main strategic planning document of the municipality

KPI's – Key Performance Indicators. Measures of service output and / or outcome.

MFMA – The Municipal Finance Management Act – no 53 of 2003.
The principle piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current year's financial position.

Operating expenditure – spending on the day to day expenses of the municipality such as salaries and wages.

Rates – Local government taxation based on an assessed valued of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – the main priorities of the municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – generally, spending without, or in excess of , and approved budget.

Virement – a transfer of budget

Virement Policy – The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be taken and approve by Council.

Vote – one of the main segments into which a budget is divided, usually at directorate / department level.

3. MAYORAL BUDGET SPEECH

Hon Chief whip
All Councillors
Traditional Leadership present here today
Members of MPAC
Members of the Audit Committee
All invited guests
Members of the Public

It is with great pleasure that I present the 2013/2014 Budget to the Council for consideration.

We have reached that stage again where we have to reflect on our Strategic and Financial plans for the period ahead. The 2011 Local Elections gave us a clear mandate as the current leadership to provide Strategic Leadership and Service delivery to the masses of our people.

Very key to our mandate is the “Speeding- up of service delivery and expansion therefore to the rural areas of our LM”. We are mindful of the challenges facing all our people mainly:

1. Unemployment
2. Access to basic services such as water, sanitation, and electricity
3. Poor and lack of infrastructure
4. Poor Local Economic Development
5. Youth and rural development

However, Council’s objective with the Budget has not changed since the previous financial year and I am once again repeating them for your convenience. They are:

• Ensure that every citizen of the Tsolwana area shares in the services that this Municipality provides.
• Provide cost-effective and efficient services to the community as a whole.
• Improve the standard of services.
• Provide for the maintenance of existing infrastructure.
• Provide and plan for new infrastructure and new bulk services due to the growing needs of the town.
• Protect the poor by subsidising various rates and tariffs from the equitable share paid by the State, and to
• Maintain financial discipline, thereby ensuring that the finances of this Council are kept on a sound basis.

As with the budget for the present financial year our focus in compiling this budget has once again been, as it should be, on good service delivery. In this regard we have been guided by our communities, through the IDP process, as well as our able management team, the latter to guide us on the requirements to maintain and expand our infrastructure to ensure that Tsolwana is also able to cope with future development.

The needs of the community were prioritised to form the basis for the budget and to match income and resources with the needs of the community to the best of our ability. We have attempted to spread the budget as equitably as possible across the various wards.

Expenditure of course has to match revenue and it was not possible to include all requests or wishes that were tabled during the community participation processes. It is therefore inevitable that there will be some disappointments.

There is not enough time on this occasion to provide you with every detail of the 2012/2013 Budget, but I would like to highlight the following:

- The budget for 2013/2014 consists of a Capital Budget of R15,294 million and an Operational Budget of R61,661 million. The Operational Budget, however, includes non-cash transactions to the value of R7,424 million. If these are subtracted the Operational Cash Budget for 2012/2013 amounts to R54,237 million.

- The Council's main priority have remained unchanged for infrastructure development from the prior periods and still focuses on ensuring that all members of the community have access to high quality basic services. Infrastructure spending, especially in previously disadvantaged communities, remains high and this is clearly depicted in the proposed capital budget. Included in the prior year budget and the new budget is the building of a Traffic and Testing station that will ensure future delivery to the Tsolwana area.

Detail of major capital projects:

R thousand	Program/Project description	Wards	Funding 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15	Budget Year +1 2015/16
1.1 - Municipal Manager	Buildings	All wards	MIG	2 091 150.00	4 128 500.00	-
4.1 - Community Services	Community hall 1	Khayalethu Community Hall	MIG	-	-	2 750 000.00
4.4 - Sport and Recreation	Sport field 1	Phakamisa Sportfield	MIG	-		3 000 000.00
4.5 - Public Safety	Traffic testing station	All wards	MIG	3 340 700.00	-	-
5.1 - Roads and Stormwater	Internal Roads	Ward 1, 2	MIG	3 800 000.00	3 618 250.00	
5.1 - Roads and Stormwater	Internal Roads 2	Ward 1	MIG	-	-	4 600 000.00
5.1 - Roads and Stormwater	Internal roads Zola	Ward 4	MIG			1 970 550.00
5.1 - Roads and Stormwater	Bridge - Bacclesfarm	Ward 3	MIG	2 000 000.00	4 000 000.00	-
5.2 - Electricity	Electricity 1		INEP	3 000 000.00	-	-
5.2 - Electricity	Electricity 2		INEP	-	5 000 000.00	-
				14 231 850.00	16 746 750.00	12 320 550.00
SLA has been signed by TLM for the internal road projects:				15 000 000.00	25 000 000.00	25 000 000.00

- The department of Roads and Transport approved R15 million for 2013/2014 for the internal roads and R25 million for 2014/15 and 2015/16 each.

- The national grants include the Integrated National Electrification Programme Grant of R3 million, Municipal Infrastructural Grants of R11,232 million, an

Expanded Public Works Integrated Grant of R1 million, Equitable Share Indigent Subsidies in the amount of R27,463 million, Municipal Systems Improvement Grant of R890 000 and Finance Management Grant of R1,65 million.

- We will also focus on how we will "Collect" what belongs to the Kitty from those who owes so that in return we sustain this Institution. We cannot always carry everything ourselves without the community and stakeholders holding our hands by paying for the services they are getting. We will focus on the collection of revenues of the municipality during the coming financial year to ensure sustainability going further.

- We are entering a difficult time pertaining to tariff increases. Chris Hani district Municipality (Water and Sanitation Authority) approved a material tariff increase for water and sanitation. Sanitation will no longer be billed based on a fixed amount, however it will be based on our water consumption. Block tariffs are now being implemented for water. Refuse charges also increased substantially based on our current charge of R43.23 to R69.17 to ensure proper refuse removal. The proposed increase in the electricity tariff is 7%. The proposed budget will go a long way to alleviate the pressure placed on the local community, especially if we take into account the ever increasing costs of living.

- Our commitment to the less privileged in our community remains to be a high priority of Council. This commitment is illustrated in the budget, with a large portion of the budgeted expenditure allocated to free basic services, rebates and a contribution to doubtful debts. The allocations are as follows (R'000):

Description	2011/12		2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Adjusted Budget	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Cash Transfers to Groups of Individuals					
Water	–	300			
Sanitation	1 109	1 200	1 124	1 236	1 360
Electricity	622	700	749	801	858
Refuse	872	970	1 038	1 111	1 188
Pauper Barials	1	5	12	15	20
Total Cash Transfers To Groups Of Individuals:	2 604	3 175	2 923	3 163	3 426

Indigents are entitled to the following assistance:

1	No availability fee for water
2	50 kWh free electricity per month is granted
3	6 kiloliters of water free per month is granted
4	6 kiloliters as the charge is based on water consumption/Other fully subsidised.

5	Refuse charges fully subsidised

We have done all in our power to address service delivery requirements within our financial means and would like to thank our community for their inputs into the I.D.P. process, my fellow Councillors for their continued hard work and support, as well as the Municipal Manager and his staff for all their efforts.

Lastly we must all commit to retain and improve our Audit Outcome using this Budget as a Yard Stick. We must also commit to “Collect” what is due to us to support this Budget moving forward.

Thank you

Hounarable Mayor
K Nqiqhi

4. BUDGET RELATED RESOLUTIONS

Council Resolutions

On 31 May 2013 the Council of Tsolwana Municipality Local Municipality met in the Council Chambers of Tsolwana Municipality to consider the annual budget of the municipality for the financial year 2013/14. The Council approved the following resolutions:

1. That Council approves the new 5 year Integrated Development Plan (IDP) for the period of 2013-2018.

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

2.1. The annual budget of the municipality for the financial year 2013/14 and the multi-year and single-year capital appropriations as set out in the following tables: **see Annexure A**

2.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2

2.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3

2.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4

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 A5

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: **see Annexure A**

2.2.1. Budgeted Financial Position as contained in Table A6

2.2.2. Budgeted Cash Flows as contained in Table A7

2.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table A8

2.2.4. Asset management as contained in Table A9

2.2.5. Basic service delivery measurement as contained in Table A10

3. The Council of Tsolwana Municipality Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves with effect from 1 July 2013 the tariffs as set out in **Annexure B.**

4. To give proper effect to the municipality's annual budget, the Council of Tsolwana Municipality Local Municipality approves:

   4.1. That cash backing is implemented by keeping dedicated bank accounts for all unspent long-term loans and unspent conditional grants as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

5. That Council approves the amended budget related policies reflected in Annexure B for the budget year 2013/14.

6. That Council approves the filling of the vacant and new posts as identified by the Executive Management of this document subject to the public participation process.

5. OVERVIEW OF THE BUDGET

5.1 Balanced and Credible Budget

The following Nation Treasury guidelines have been taken into consideration when preparing the budget:

- Tabling a balance and credible budget that is based on realistic estimates of revenue to be collected, taking into account both actual revenue collected in the past financial year, and revenue projects for the current financial year.
- The inclusion of all grants in the annual budget, on both the revenue and expenditure side;
- The presentation of three year capital and operating budgets;
- The revision of the IDP to be consistent with the three year budget;
- The maximum expenditure growth limit of 6% to stay within inflation targets as determined by National Treasury. The growth limit applies to own revenue sources only and exclude intergovernmental grants, for both the capital and operating budgets.
- Increases in rates and taxes have been kept within inflation targets, in support of government's macro-economic objectives and investor confidence.

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous year's surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget

Achievement of these requirements in totality effectively means that council has "balanced" its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

Credible Budget

Amongst other things, the following has been taken into consideration to ensure that this is a credible budget;

- Only activities consistent with the revised IDP have been included in the budget, taking into consideration the financial constraints of the municipality;
- It is achievable in terms of the agreed services delivery and budget implementation plan and performance targets;
- Contains revenue and expenditure projection that are consistent with current and past performance

- Does not jeopardize the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term; and
- Provided managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

The budget sets out certain service delivery levels and associated financial implications, therefore the community should realistically expect to receive these promised service delivery levels and understanding the associated financial implications.

5.2 Government Priorities Considered

THE MTREF

The budget has been prepared based on the new requirements and significant progress has been made on the implementation thereof. However, some processes are still being developed to ensure full compliance, which include activity based costing, asset management, system shortcomings, human capacity building amongst others.

Although the fact that our municipality is categorized as Low Capacity Municipality, it is also of outmost importance to ensure that Council complies with all legislative requirements, this entails the channelling of fund which would ordinarily be utilized for services delivery to the implementation of the legislative requirements.

In President Jacob Zuma's State of the Nation Address of 2013, he indicates government key priorities to be:

- Improving the quality of education
- Upgrading health care
- Promoting public safety
- Supporting rural development
- Creating decent jobs
- Building sustainable human settlement
- And encouraging efficient government

Therefore, in framing this budget, priority has been given to objectives and priorities of government based on the IDP adopted by council.

It has been difficult to balance the budget due to the small tax base of the municipality and employee cost challenges as per the salary and wage agreement within the Bargaining Council processes. Provision has been made for critical positions and certain new post as a result of the new organogram and inputs from departments.

Remuneration of councillors and its increases are not yet known however we have budgeted for an 8% increase based on the increases in the past.

A bulk electricity purchase has increased drastically over the past two years as result of NERSA and ESKOM tariff increases. **Bulk electricity price increase for 2013/14 from ESKOM will be 9 % while municipalities budgeted for an increase of 7 % ,**

awaiting final approval from NERSA. This is having a negative impact on cash flow since the cost of the electricity increased by more than what the tariff has been increased with.

By addressing the poor, as well as the successful implementation of the indigent campaign, the provision of free basic services and indigent subsidy are increasing in our new budget in comparison to previous years. Electricity income however is also increasing due to the higher demand based on more households having access to electricity.

The budgeted deficit before capital grant income is due to non-cash items. The municipality is working towards the achievement of realising a surplus in future.

The area of focus in the coming financial year will be mainly in collecting revenue, which will include sundry revenue, to ensure the financial viability of the municipality since Tsolwana Municipality is very much grant dependant at this stage. We are also embarking on reducing/management of our Electricity losses due to illegal bridging in our areas.

The effective management of assets will also be a focus area to ensure that all assets are maintained and repair based on the conditions of all assets in conjunction with the cost effectiveness thereof. This remains a concern since we are relying on our assets to ensure effective basic service delivery. We have budgeted for the development of a Maintenance plan in 2013/14.

More budget related policies/strategies will be developed to assist the municipality to control its revenue and expenditure in future. No material changes were made to the existing budget related policies.

More effort must be put on the development of the Service Delivery and Budget implementation Plans (SDBIP) of departments, in order to ensure that there is a better and smooth process in the development of the two documents.

6. EXECUTIVE SUMMARY

Introduction

The municipality made good progress in recent years with regards to the budgeting procedures and ensuring that budgets are prepared in line with GRAP and National Treasury Budget Regulations.

National Treasury's MFMA Circular No. 66 was mainly used to guide the compilation of the 2013/14 MTREF. Some of the key challenges faced by the municipality when compiling the budget were:

- The ongoing difficulties in the national and local economy;
- Aging of infrastructure assets and the effective budgeting of repairs and maintenance of such assets;
- The need to prioritise projects and expenditure within the financial means of the municipality.
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects and the resultant operational costs associated with new infrastructure projects; and
- Availability of affordable capital/borrowing.
- The increased cost of bulk electricity (due to tariff increases from 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;
- The municipality has a challenge of not completing the MIG capital **projects** within the prescribed time frames. The latter result to unnecessary rollover of funds and explanation to the different treasuries

The municipality's financial position is currently at an acceptable level. Steps should be taken to stabilise the cash position of the municipality. 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 programs so as to maintain sound financial stewardship.

The Municipality has embarked on data cleansing exercise. When the latter is completed, the municipality will embark and craft a revenue collection strategy to optimize the collection of debt owed by consumers.

The following budget principles and guidelines directly informed the compilation of the 2013/14 MTREF:

- The 2012/13 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 2013/14 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, electricity and annual salary increases. 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 view of the aforementioned, the following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

Consolidated Overview of the 2013/14 MTREF

EC132 Tsolwana - Table A1 Budget Summary

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Financial Performance										
Property rates	222	1 124	1 360	1 300	1 800	1 800	1 800	1 580	1 700	1 700
Service charges	3 616	4 648	8 035	7 700	9 872	9 872	9 872	11 433	12 258	13 311
Investment revenue	802	567	378	342	225	225	225	238	248	259
Transfers recognised - operational	45 008	29 921	26 562	29 870	31 811	31 811	31 811	32 614	35 774	43 684
Other own revenue	1 356	970	8 636	10 392	12 584	12 584	12 584	9 276	10 159	11 107
Total Revenue (excluding capital transfers and contributions)	51 004	37 229	44 970	49 604	56 291	56 291	56 291	55 141	60 139	70 061
Employee costs	6 874	14 235	17 434	21 009	19 813	19 813	19 813	20 857	23 043	25 130
Remuneration of councillors	1 742	1 999	2 192	2 422	2 321	2 321	2 321	2 540	2 769	3 018
Depreciation & asset impairment	–	5 474	5 704	6 075	5 955	5 955	5 955	6 244	6 698	7 180
Finance charges	20	31	–	160	–	–	–	–	–	–
Materials and bulk purchases	3 867	5 371	6 389	8 597	8 297	8 297	8 297	9 049	9 778	10 565
Transfers and grants	–	–	2 604	–	3 175	3 175	3 175	2 911	3 148	3 406
Other expenditure	36 943	17 428	26 635	17 414	21 424	21 424	21 424	20 060	19 820	21 364
Total Expenditure	49 445	44 537	60 958	55 677	60 984	60 984	60 984	61 661	65 256	70 663
Surplus/(Deficit)	1 558	(7 308)	(15 987)	(6 073)	(4 693)	(4 693)	(4 693)	(6 520)	(5 117)	(603)
Transfers recognised - capital	12 478	9 842	10 858	12 515	16 420	16 420	16 420	14 397	16 927	12 516
Contributions recognised - capital & contributed a	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	14 036	2 534	(5 130)	6 442	11 727	11 727	11 727	7 877	11 810	11 913
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	14 036	2 534	(5 130)	6 442	11 727	11 727	11 727	7 877	11 810	11 913

Total operating revenue has slightly decreased for 2013/14 financial year when compared to the 2012/13 Adjustments Budget due to the limited Water Service Authority contribute for the 2013/14 period..

Total operating expenditure for the 2013/14 financial year has been appropriated at R61,661 million and translates into a budgeted Deficit of R6,520 million, excluding the capital contributions. When compared to the 2012/13 Adjustments Budget, operational expenditure has grown by 1.1 per cent in the 2013/14 budget and by 5.8 and 10.1 per cent for each of the respective outer years of the MTREF. The operating deficit for the two outer years are decreasing increases from R6,520 million to R0,603 million over the MTREF period. These deficits are due to the fact that the municipality should be fully compliant with GRAP 17. The deficit relates to depreciation and we are steadily budgeting for a surplus going forward.

Capital expenditure & funds sources										
Capital expenditure	11 440	9 164	9 865	21 044	17 149	17 149	17 149	15 294	17 359	12 680
Transfers recognised - capital	10 945	8 007	9 157	12 515	16 284	16 284	16 284	14 397	16 927	12 516
Public contributions & donations	–	–	–	–	–	–	–	–	–	–
Borrowing	–	–	–	7 294	–	–	–	–	–	–
Internally generated funds	495	1 157	707	1 235	865	865	865	897	433	164
Total sources of capital funds	11 440	9 164	9 865	21 044	17 149	17 149	17 149	15 294	17 359	12 680
Financial position										
Total current assets	20 881	22 442	15 033	15 398	9 960	9 960	9 960	16 501	17 942	24 898
Total non current assets	106 276	89 076	91 897	119 286	109 106	109 106	109 106	118 156	128 817	134 316
Total current liabilities	9 481	8 988	9 923	6 255	6 995	6 995	6 995	3 385	3 057	3 339
Total non current liabilities	2 438	2 957	5 694	10 547	3 902	3 902	3 902	5 314	7 505	7 705
Community wealth/Equity	114 245	99 573	91 312	117 882	108 169	108 169	108 169	125 793	135 852	145 265
Cash flows										
Net cash from (used) operating	15 477	5 542	7 616	7 897	46 549	46 549	46 549	20 726	18 867	19 792
Net cash from (used) investing	(11 305)	(9 400)	(9 870)	(13 429)	(17 149)	(17 149)	(17 149)	(15 294)	(17 359)	(12 680)
Net cash from (used) financing	41	(30)	(46)	8 415	7 299	7 299	7 299	3	3	4
Cash/cash equivalents at the year end	14 271	10 384	8 084	8 636	45 144	45 144	45 144	14 071	15 581	22 696
Cash backing/surplus reconciliation										
Cash and investments available	14 271	10 278	8 445	8 636	7 544	7 544	7 544	14 071	15 581	22 696
Application of cash and investments	4 276	(9 912)	5 767	(4 298)	(1 629)	(1 629)	(1 629)	826	1 769	2 909
Balance - surplus (shortfall)	9 996	20 190	2 678	12 934	9 173	9 173	9 173	13 245	13 812	19 787
Asset management										
Asset register summary (WDV)	106 276	27 861	34 684	61 184	65 293	65 293	80 387	80 387	97 746	110 426
Depreciation & asset impairment	–	5 474	5 704	6 075	5 955	5 955	6 244	6 244	6 698	7 180
Renewal of Existing Assets	–	–	–	–	–	–	–	–	–	–
Repairs and Maintenance	–	–	–	–	2 915	2 915	3 624	3 624	3 807	4 007

The capital budget of R15,294 million for 2013/14 is 10.2 % per cent less when compared to the 2012/13 Adjustment Budget due to the paving project included in the adjustment budget not being a new project in 2013/14 again. The capital program is R15,294 million in the 2013/14 financial year and then evens out in 2014/15 and 2015/16 to R17,359 million and R12,880 million respectively. A reason for the increases is due to the INEP allocation to the amount of R5 million during 2014/15. Tsolwana also created a Capital Replacement Reserve in line with the Funds and Reserve policy which will be used to fund capital assets.

The main objective of the budget is to allocate realistically expected resources to the service delivery goals or performance objectives identified as priorities in the approved IDP.

The final budget has also been prepared in accordance with chapter 4 of the Municipal Finance Management Act (MFMA Act no 56 of 2003), the Municipal Budget and Reporting Regulations, 23 January 2009 and all relevant prescriptions received via National Treasury Circulars and in particular Circulars 54, 55 and 59.

The following aspects are some of the important issues addressed when preparing the 2013/2014 MTREF:

- In levying rates and tariffs the local economic conditions and affordability levels have been taken into account.
- A three year Operations and Capital Budget has been compiled in accordance with National Treasury uniform formats, and is linked to the performance targets for each vote on the budget, through the Service Delivery and Budget implementation Plan (SDBIP). The SDBIP will be approved within 28 days after the approval of the final budget.
- The budget reflects all revenue anticipated to be received and recognized during the 2012/2013 year and beyond. All sources of realistically anticipated revenues such as own revenue, grants, subsidies, agency receipts have been included.

6.1 Key Budget assumptions

External factors

Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank fast and millions of people lost their jobs. It is expected that recovery from this deterioration will be slow and uneven and that growth for 2014 will minimal with a slightly better growth in the outer years.

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.

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 2012/13 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
- The increase in the cost of remuneration.

Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher that 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 of annual billings.

Although the tariff increase for the 2013/14 year might seem drastic it is important to note that our sustainability were taken into account and the tariffs for the Water and Sanitation (which are the material increases) were determined by Chris Hani District Municipality as the Water Service Authority. We are the implementing Water Service Provider.

The collections of the municipality on outstanding debtors are anticipated to increase during the coming financial period due to implementation of effective credit control. It should however be noted that the revenue budgeted for are 100% based on billing and therefore we need to explore and implement effective controls to increase our billing capacity to decrease our current grant dependency. The municipality is however in process of moving away from conventional electricity meters to prepaid meters that might increase the revenue as well as identifying properties to be billed.

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.

We have budgeted for a collection rate of 60% which is not the ideal. Effective credit control will be implemented to assist in the achievement of the 60% collection for the 2013/14 year. It should be noted that there is no more phase-in rebates and therefore an increase in the anticipated revenue from Rates.

We anticipate to see an increase in the outer years due to a new valuation roll that will be implemented, depending on the material increases during the valuation the tariffs might be affected to ensure affordability going forward.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

Tariff increases

It should be noted that the tariffs are attached as an annexure to the budget due to the complexity of the tariffs versus the budget schedule.

- Property Rates has increased by 7% for 2013/2014 budget. When compared to the previous financial year 2012/2013, it has been increased by 6% due to the fact that the MPRA (Municipal Property Rates Act) are fully implemented.
- Service charges – Electricity has increased by 7% for 2013/2014. When compared to the 2012/2013 financial year, it has been increased by 11.06%. The reason for that is due to an increase of the number of house connections that has been finalized in Matyantya township in Tarkastad as well as the average approval from Nersa.
- Service charges – Refuse has increased from R43 to R69 for the 2013/2014 budget. When compared to the 2012/2013 financial year.
- Water and Sanitation – As discussed earlier in this document, the tariff increase were determined by Chris Hani District Municipality and we are only implementing their approved tariff.

- Fines – We have budgeted to build a traffic station which will have an impact on our revenue. Since we haven't had this type of revenue before it might seems as an extensive increase, where in matter of fact it is due to a new revenue source of the municipality. It was included in the 2012/2013 original budget, however due to the fact that we were not ready to implement the traffic department services it was adjusted and first revenue anticipated to be received in 2013/2014 now. This will be a new source of revenue to Tsolwana and the 2013/14 period will be the indicative year as to our ability to receive fine revenue
- Interest on investments – We aim to put more monies on our short term investment accounts resulting in an increase of interest received.
- Interest on outstanding debtors – Based on the more effective implementation of the credit control and debt management policy it is expected to decrease.
- Other revenues – No material other revenues has been budgeted for the total amount budgeted for is R98 600 which is not material in our municipality

Salary increases and Council Remuneration

There is a collective agreement on salary increases in place for the budget year. Based on the agreement and the notch increase we have budgeted for 9 per cent increase for the 2013/2014 period and 9 per cent for the outer years. Excluded from the 9 per cent is the budgeting for the vacancies to be filled in the 2013/2014 period.

The budget for the council remuneration includes the implementation of the increases in chairpersons of section 79 committees which were not previously implemented.

Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed 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.

Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of almost 100% will be achieved over the MTREF period.

Budgets are prepared in an environment of uncertainty. To prepare a meaningful budget, assumptions are made about internal and external factors that could influence the Annual Budget.

Other assumptions:

- Investments
  Tsolwana municipality does not have fixed investments, only call accounts which are included in the cash and cash equivalents as per our annual financial statements.
- Borrowing
  We are not planning to apply for any borrowing at this stage.

6.2 Service delivery

As part of the improvement of service delivery, more strategies will need to be developed and implemented by the technical department in repairing faulty electricity metres due to the high volume of broken /non-functioning of meters, which have a negative effect on councillors' finances.

6.3 Implementation of GRAP

One of the challenges facing the Finance Department is to ensure that the change over from fund accounting system to the GRAP format that was completed during the financial year 2011/2012, be maintained. Funding of the change will mostly come from FMG to be received from National Treasury.

The project involves the review of the current Asset Management Policy to be aligned to GRAP standards. The major challenge of this project is the unbundling of Capital assets on an on-going basis, in other words, assets need to be broken down to major components, e.g. current Asset – Sewer Purification plant, need to be broken down to, Dam, Pump, Building, Pipe, Electrical works, etc.

6.4 Internal Charges

The current method of cost recovery between service departments must be reviewed in terms of Activity Based Costing Principles and Standards. Activity based costing principles if correctly applied, will ensure that all costs applicable to a specific service are recorded. This means that tariff setting will be improved. Our current financial system cannot perform this function and due to capacity problems within the finance department, this function will be on hold until the new organogram can be implemented.

6.5 Functions outsourced and functions performed on agency basis

- No municipal services have been contracted out to section 21 or Proprietary Limited companies.
- Agent for Department of Roads and Transport on certain e-Natis transactions.
- Water Service Provider for the Chris Hani District Municipality

6.6 Operating Budget

The 2013/2014 operating expenditure budget amounts to R61,661 million supporting Tables A3 and A4 gives more detail.

6.7 Capital Budget

The 2013/2014 capital budget amounts to R15,294 million. (Including MIG and Dept. of Energy grant funding) Supporting tables A5 and SA36 gives more detail around the capital programme/budget. (See capital programme)

6.8 Employee cost and other expenditure to total Operating expenditure

EC132 Tsolwana - Table A1 Budget Summary

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Financial Performance										
Employee costs	6 874	14 235	17 434	21 009	19 813	19 813	19 813	20 857	23 043	25 130
Remuneration of councillors	1 742	1 999	2 192	2 422	2 321	2 321	2 321	2 540	2 769	3 018
Depreciation & asset impairment	–	5 474	5 704	6 075	5 955	5 955	5 955	6 244	6 698	7 180
Finance charges	20	31	–	160	–	–	–	–	–	–
Materials and bulk purchases	3 867	5 371	6 389	8 597	8 297	8 297	8 297	9 049	9 778	10 565
Transfers and grants	–	–	2 604	–	3 175	3 175	3 175	2 911	3 148	3 406
Other expenditure	36 943	17 428	26 635	17 414	21 424	21 424	21 424	20 060	19 820	21 364
Total Expenditure	49 445	44 537	60 958	55 677	60 984	60 984	60 984	61 661	65 256	70 663

The total employee cost for 2013/2014 including water and sanitation services and amounts to R20,857 million compared R19,8 million of 2012/13 adjustment budget and Councillor Allowance of R2.5 million compared to R2.3 million. It should be noted that the casual wages, normally included under Employee related cost decreased and therefore only reflecting an increase of 5%. Furthermore to the Councillor allowances, it includes the remuneration of Section 79 Chairpersons, not previously remunerated ito the Public Office bearers act. Total operating expenditure including water and sanitation, amounts to R23,86 million in 2013/14. It should be noted that General Repairs and Maintenance reflects under other expenditure which is set out in detail under SA34c. It should further more be noted that the Transfers and grants are based on the free basic services to indigents in our community.

7.1 BUDGET TABLES

(Annexure A)

7.1.1	A1 Budget Summary
7.1.2	A2 Budgeted Financial Performance (revenue and expenditure by standard classification)
7.1.3	A3 Budgeted Financial Performance (revenue and expenditure by detail standard classification)
7.1.4	A4 Budgeted financial Performance (revenue and Expenditure by Municipal vote)
7.1.5	A4 Budgeted Financial Performance (revenue and expenditure by detail municipal vote)
7.1.6	A4 Budgeted Financial Performance (revenue and expenditure)
7.1.7	A5 Budgeted Capital Expenditure by vote, detailed standard classification and funding
7.1.8	A5 Budget Capital expenditure by vote, detailed standard classification and funding
7.1.9	A6 Budgeted Financial Position
7.1.10	A7 Budgeted Cash Flows
7.1.11	A8 Cash backed reserves / accumulated surplus reconciliation
7.1.12	A9 asset management
7.1.13	A10 Basic Service delivery measurement

7.2 BUDGET SUPPORTING TABLES

7.2.1	SA 1 Supporting detail to “Budgeted Financial Performance”
7.2.2	SA2 Matrix Financial Performance Budget (revenue source/expenditure type and dept)
7.2.3	SA3 Supporting detail to “Budgeted Financial Position”
7.2.4	SA4 Reconciliation to IDP strategic objectives and budget (revenue)
7.2.5	SA 5 Reconciliation to IDP Strategic objectives and budget (operating expenditure)
7.2.6	SA6 Reconciliation to IDP strategic objectives and budget (capital expenditure)
7.2.7	SA7 Measurable performance objectives
7.2.8	SA8 performance Indicators and benchmarks
7.2.9	SA9 Social, economic and demographic statistics and assumptions
7.2.10	AS10 funding measurements
7.2.11	SA11 Property rates summary
7.2.12	SA 12 & 13 Property rates by category (current year)
7.2.13	SA14 Housing bills
7.2.14	SA15 Investment particulars by type
7.2.15	SA16 Investment particulars by maturity
7.2.16	SA17 Borrowing
7.2.17	SA18 Transfers and receipts
7.2.18	SA19 Expenditure on transfers and grant programme
7.2.19	SA20 Reconciliation of transfers, grant receipts and unspent funds
7.2.20	SA21 Transfers and grants made by the municipality
7.2.21	SA22summary councillor and staff benefits

8. OVERVIEW OF THE ANNUAL BUDGET PROCESS

Budget Process Overview

Schedule of Key Deadlines relating to budget process [MFMA s 21(1)(b)]
The Act requires the formal budget process to start with the tabling by the Mayor in Council of a schedule showing the key budget deadlines. This was prepared and tabled during a Council meeting in August 2009.

Political oversight of the budget process
Section 53 of the MFMA requires that the Mayor provides general political guidance over the budget process and the priorities that must guide the preparation of the budget.

Process used to integrate the review of the IDP & preparation of the budget
Departments were required to give input and their needs to the budget. The budget process is integrated with the review of the IDP through the IDP review mechanism. The outcome of consultation feeding into the IDP review is taken into account in the budget process.
This budget had also better input from government departments in compared to previous years

Process for tabling the budget in Council for consultation
A statutory period of consultation follows the tabling of the budget in Council on 27 March 2013. Meetings with the local community should be advertised in the local press following the tabling of the draft budget.
The Mayor had considered the outcomes of these consultation meetings.

Process for approving the budget
The budget must be approved by Council by 31 May.

Process and media used to provide information on the budget to the community
All budget documentation, the MTREF together with tariffs and policies, was made available at Council libraries and offices for inspection.
Advertisements informing the public about the availability of these documents and the schedules for the IDP/Budget public hearings was published in all local newspapers and put up at municipal offices and libraries.

9. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH THE INTEGRATED DEVELOPMENT PLAN

The IDP has been prepared for the Medium Term Revenue and Expenditure period which includes instances up to 2015/2016. A Budget and IDP Process Plan was developed and approved by Council during August 2012 Council meeting. The whole development of the Budget and IDP was based on the Budget and IDP Process Plan.

All the wards were visited and community needs and inputs were sought. All relevant stakeholders were consulted through the Intergovernmental Relations and Steering Committee meetings. The Integrated Development Plan of 2012/13 was developed in partial response to:

- The requirements of compliance with the Local Government Municipal Systems Act (MSA) 32 of 2000 which prescribes for the review of municipal integrated development plan (IDP), in which it prescribes for the municipality to:
- Identify the gaps that warrant review in its IDP and revise accordingly
- Review its performance and incorporate the outcomes of the review in its IDP review
- Comments raised by MEC on the previous IDP
- Queries raised by the auditor general in the municipality's annual statements which bear relevance for IDP and PMS linkages
- A gap analysis conducted on the current IDP document pointed to the following key areas for specific attention and improvement during the formulation of this IDP.

9.1 Updating of the planning data

Updated statistical information has been sourced from Global Insight 2008 and used to improve our demographic projections. Further, we have collected updated planning information from sector departments and that has necessitated few changes in the document. The planning information is also updated to accommodate recent changes in government restructuring which took place after the April 2009 elections.

9.2 Response to issues raised by AG relating to IDP & PMS linkages

Auditor General has raised concern over shortfalls in certain aspects of our planning process. In particular, key concerns were raised relating to the alignment of PMS and IDP. This IDP has been designed to ensure clear alignment between its IDP KPAs, development objectives and Targets. The document provides both the framework adopted for managing our performance management and the actual commitments in terms of the scorecards describing a set of indicators and targets for our performance management.

10. MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

10.1 Lack of office space

The municipal assessment of how to improve its service delivery has found that the lack of office space surely has an impact on service delivery. Staff cannot be appointed and community stand in long queues when visiting the municipal offices for whatever reason. We have included this as a MIG project for the 2013/14 period.

10.2 Public Safety

The municipality is in the process of establishing their own traffic department. We have budgeted for the construction of a traffic station partially funded from MIG to the amount of R7.9 million. This is part of the municipality's revenue enhancement strategy to ensure financial sustainability in future.

10.3 Rehabilitation of internal roads

The condition of the internal road was also identified as a priority for Tsolwana Municipality. The roads in especially previously disadvantaged areas and rural areas need much attention to bring it up to an acceptable level. We have budgeted to upgrade the internal roads in Ward 1 during 2013/14.

11. OVERVIEW OF BUDGET RELATED POLICIES AND

AMENDMENTS

Listed below with a brief description are the municipality's budget related policies. The **detailed policies** are not included in this budget documentation. However, they are available at the Council's office in 21 Murray Street, Tarkastad.

This section is trying to give the user of this budget document a broad overview of the budget policy framework and highlights the amended policies by council resolution.

Some of these policies will undergo a reviewed process before the final adoption of the budget in May 2012.

11.1 Budget Policy

Purpose/Basic areas covered by policy/main objective
The objectives of the budgeting policy are to set maximum expenditure limits for the budget or each component thereof, for the Municipality. A Municipality may only incur expenditure in accordance with its approved budget.

Date of council approval:

With previous budget (31 May 2012)

11.2 Tariff Policy

Purpose/Basic areas covered by policy/main objective
The purpose of this tariff policy is to prescribe the accounting and administrative policies and procedures relating to the determining and levying of tariffs by Tsolwana Municipality.

Date of council approval:

With previous budget (31 May 2012)

11.3 Credit Control and Debt Collection Policy

Purpose/Basic areas covered by policy/main objective
The Local Government: Municipal Finance Management Act, 2003, Act 56 of 2003 contains legal prescriptions for sound and sustainable management of the financial affairs of municipalities. Section 97 deals with revenue management, inter alia with effective revenue collection systems and the preparation of accounts for service charges.
A Credit Control and Debt Collection Policy is required in order to give effect to requirements of Act 56, generally and specifically with revenue collection.
Date of council approval:

With previous budget (31 May 2012)

11.4 Cash Management and Investment Policy

Purpose/Basic areas covered by policy/main objective
In order to ensure sound and sustainable management of the cash resources of the municipality this policy addresses all principles and processes involved in cash and investment management

Date of council approval:

With previous budget (31 May 2012)

11.5 Property rates policy

Setting of criteria for establishing rates tariffs.

Date of council approval:

With previous budget (31 May 2012)

11.6 Accounting Policy

Purpose/Basic areas covered by policy/main objective
Accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with GRAP standards and any guiding principles issued by Accounting Standards Board and National Treasury.

Date of council approval:

With previous budget (31 May 2012)

11.7 Virement Policy

Purpose/Basic areas covered by policy/main objective
The virement policy establishes the framework for managers to manage their respective budgets within certain limitations. It also ensures good budgeting practices en effective financial management.

Date of council approval:

With previous budget (31 May 2012)

11.8 Borrowing Policy

Purpose/Basic areas covered by policy/main objective
The objective of this policy is to ensure that the Municipality's borrowing practices at all times comply with the relevant laws and best practices. The primary goal in the borrowing of funds is to ensure that the funds are obtained at the lowest possible interest rates at minimum risk.

Date of council approval:

With previous budget (31 May 2012)

11.9 Fixed Assets Management Policy

Purpose/Basic areas covered by policy/main objective
The fixed assets management policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilisation, control, maintenance and disposal of assets. The policy guides directorates/departments and staff in their responsibility and duties for control of their assets.

Date of council approval:

With previous budget (31 May 2012)

11.10 Funding and Reserves Policy

Purpose/Basic areas covered by policy/main objective
This policy aims to set standards and guidelines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

Date of council approval:
With previous budget (31 May 2012)

11.11 Policy on the Use and Application of Information Technology

Purpose/Basic areas covered by policy/main objective
The purpose of this policy is to provide guidance to all current and future users of the information technology (IT) network, consisting of a variety of servers, personal computers, network printers and direct printers, to ensure that the system is properly managed, optimally used, applied to the best advantage of the municipality, and to prevent abuse of the system. This policy cannot lay down rules to cover every possible situation. Instead, it is designed to express the municipality’s philosophy and set out the general principles that employees should apply when using computers.

Date of council approval:
With previous budget (31 May 2012)

12. OVERVIEW OF BUDGET FUNDING AND FUNDING COMPLIANCE

12.1 Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

12.2 A credible budget

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and on past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

12.3 Fiscal Overview of Tsolwana Municipality

Over the past financial years via sound and strong financial management, Tsolwana Municipality has moved internally to a position of relative financial stability. There is also a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management.

For the first time in years the municipality received an unqualified audit report from the Auditor-General. The municipality also adopted GRAP standards in 2008/2009 and also prepared its AFS for 2009/2010 as per GRAP standards and per exemptions in Directive 4

Municipality fully adopted GRAP standard with its AFS of 2011/12

12.4 Long term financial planning

The municipality's financial position is sound and this budget further ensures that it stays sound. The municipality plans to continue exercising strict financial management and ensuring a cash flow which meets the requirements.

Since the 2008/2009 financial year, the municipality received its MIG allocation directly and not via Chris Hani District Municipality. This implies that that most of our capital funding are funded from MIG allocation.

However, due to the size and tax base of the municipality, the municipality is starting to reach its ceiling in terms of its own funds and equitable grant to help fund its budget. Priorities need to be prioritised as demands will always outscored resources available.

12.5 Sources of funding

The main sources of funding can be found under SA table 1.

However, the main own funding sources of the municipality comes from property rates and sale of electricity. **The municipality is very dependent on the Equitable Share allocation as a funding source of its operating budget.** The municipality does not have **any investments** and all money is needed on a real "immediate" scenario. This is why money is rather put in call accounts to obtain a better interest rate then to leave it in cheque account.

12.6 Sale of assets

The municipality is in the process of updating its assets register. New valuation roll has also been compiled during 08/09 financial year for implementation in 2009/10. Municipality is in the process to make land available to ease huge housing need for middle income people. Municipality will also use annual stock and asset count to determine absolute and redundant assets and to make a recommendation to council on what to do with it.

13. GRANT EXPENDITURE AND ALLOCATIONS

The grants programme its expenditure on transfers can be found under SA table 19.

Details of each grant are shown in the schedule that follows:

Name of Grant	**Operating/capital**	Allocation authority/department	Purpose of grant
Library Services	Operating	Province/ Cultural Affairs and Sport	To enable public libraries to render an improved service by addressing staffing shortages and operating needs. **However, no formal correspondence received on any allocation that will be transferred to municipality**

Councillor remuneration	Operating	National Treasury	To assist municipalities with the cost of cllr remuneration
Local Government Financial Mng grant (FMG	Operating	National Treasury	To promote and support reforms in financial mng by building capacity in municipalities to implement MFMA
Municipal Systems Improvement Grant (MSIG)	Operating	COGTA	To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems
Municipal Infrastructure Grant (MIG)	Operating/ Capital	COGTA	To supplement capital finance for basic municipal infrastructure. The operating portion is utilised for project management 8unit.
Equitable Share	Operating	National Treasury	The equitable share of national revenue in accordance with the requirements of the Constitution.
EPWP	Incentive	National Public works	To assist with job creation

14. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Any allocation made to an outside body must comply with the requirements of section 67 of the MFMA. This stipulates that before transferring funds to an outside organisation the Municipal Manager, as Accounting Officer, must be satisfied that the organisation or body has the capacity to comply with the agreement and has adequate financial management and other systems in place.

National Treasury further indicated in MFMA circular 51 that no more "discretionary" funds may be appropriated in the budget due to such funds not being transparent during the consultation process.

The municipality did not budget to make any grant transfers to any outside organisation/body or other organ of state other than the indigent relief as included per Treasury guidance under transfers and grants paid. It should however be noted that these Indigent subsidies reflects under revenue foregone in the Annual financial statements due to GRAP requirements and not an expense item as per the budget.

15. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Supporting tables SA 22 and SA 23 summarises the salary, allowances and benefits over the MTREF.

16. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

The Municipality's service delivery and budget implementation plan can be found under the Municipality's final IDP reviewed document for 2013/14.

17. INVESTMENTS

The municipality does not have any money **that complies with the definition of investment.** However, most money is easily needed on an 'immediate' sort of scenario. That's why money not immediately needed is put in call accounts to attract a better interest rate than what you might get from a current account and a call account does not qualify as an investment.

18. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

The municipality does not have any roll – over contracts with budget implications, other than the delivery of water and sanitation as a Water Service Provider as per arrangement with the Chris Hani District Municipality.

19. CAPITAL EXPENDITURE AND PREVIOUSLY DELAYED PROJECTS

Capital expenditure details are listed in supporting tables 34 to SA37. The municipality do not have any projects that were delayed in previous financial years.

20. ANNUAL BUDGETS AND SERVICE DELIVERY AGREEMENTS-MUNICIPAL ENTITIES AND OTHER EXTERNAL MECHANISMS

20.1 Entities

The municipality does not have any entities.

20.2 Other External Service Delivery Mechanisms.

The municipality has no other service delivery agreements with external parties for the delivery of the Municipality's services.

The municipality provides the water – and sanitation functions as the Water Service Provider on behalf of the Chris Hani District Municipality who is the Water Services Authority.

21. LEGISLATION COMPLIANCE STATUS

Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1st July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services. The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting. The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Tsolwana has been designated as a medium capacity municipality. The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

<u>The budget preparation process</u>

The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.

Overview
The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).
These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.
The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

Budget preparation timetable
The first step in the budget preparation process is to develop a timetable of all key deadlines relating to the budget and to review the municipality's IDP and budget-related policies.
The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).

Budget preparation and review of IDP and policy
The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the municipal manager.
The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.
This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

Tabling of the draft budget
The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

Publication of the draft budget
Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

Opportunity to comment on draft budget
When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

Opportunity for revisions to draft budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.

Adoption of the annual budget

The Council must then consider the approval of the budget by 31 May and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved – before1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

BUDGET IMPLEMENTATION

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

Managing the implementation process

The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

Revision of budget estimates – the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder of the financial year.
In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.
The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.

Requirements of the MFMA relating to the contents of annual budgets and supporting documentation
Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. In its MFMA circular 48, National Treasury set out detailed guidance on the contents of budget documentation and the supporting schedules. Tsolwana Municipality has made every effort to comply with the circular.

The following table shows how Tsolwana Municipality complies with the disclosure requirements of section 17 of the MFMA.

Requirement	Disclosure in budget documentation
Schedule of reasonably anticipated revenue for the budget year from each revenue source	A4
Schedule showing appropriations of expenditure for the budget year under the different votes of the Municipality	A3
Schedule setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year	A3 and A4
Schedule setting out- (i) estimated revenue and expenditure by vote for the current year and (ii) Actual revenue and expenditure by vote for the financial year preceding the current year.	A3 and A4
Draft resolutions - (i) approving the budget of the Municipality (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year and (iii) Approving any other matters that may be prescribed.	Section 4
Measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the Municipality's Integrated Development	Section 22 and SA 7

Plan.	
Projection of cash flow for the budget year by revenue source broken down per month	*SA 25 – SA 26*
Proposed amendments to the Municipality's integrated development plan following the annual review of the IDP in terms of section 34 of the Municipal Systems Act	Section 9
Particulars of the Municipality's investments	Section 17 and SA 16
Any prescribe information on municipal entities under the sole or shared control of the Municipality	N/a
Particulars of all proposed new municipal entities which the Municipality intends to establish or in which the Municipality intends to participate	N/a
Particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements	Section 20
Particulars of any proposed allocations or grants by the municipality to- (i) other municipalities (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers (iii) any other organs of state (iv) any organisations or bodies referred to in section 67 (1) (bodies outside Government)	Section 14
The proposed cost to the municipality for the budget year of the salary, allowances and benefits of- (i) each political office bearer of the Municipality (ii) Councillors of the municipality (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager	Section 15
The proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of- (i) each member of the entity's board of directors and (ii) the chief executive officer and each senior manager of the entity	N/a
The proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of- (i) each member of the entity's board of directors and	N/a

(ii) the chief executive officer and each senior manager of the entity	
Any other supporting documentation as may be prescribed	SA forms

Other Legislation

In addition to the MFMA, the following legislation also influences municipal budgeting;

<u>The Division of Revenue Act 2010 and Provincial Budget Announcements</u>
Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.
Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.
Section 18 of the MFMA states that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

<u>The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003</u>
One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.

22. OTHER SUPPORTING DOCUMENTS

More details on the budget can be found in the supporting tables SA 1 – SA 3

TSOLWANA

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MUNICIPAL MANAGER'S QUALITY CERTIFICATION

I, S.J. Dayi, Municipal Manager of Tsolwana 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.

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S.J. Dayi
Municipal Manager of Tsolwana Municipality (EC 132)

Date: 31 May 2013