MEDIUM TERM REVENUE AND EXPENDITURE BUDGET 2013/14 - 2015/16

Inkwanca Local Municipality

Copies of this document can be viewed:

- At the reception of the Molteno and Sterkstroom offices
- At www.inkwanca.gov.za

Contents

The Budget has been compiled within the framework of the Municipal Financial Management Act (MFMA), Municipal Budget and Reporting Regulations (MBRR), MFMA Circulars No 51, 54, 55, 58 and 66.

COUNCIL RESOLUTIONS

The Council of Inkwanca Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2013:

A. OPERATING BUDGET

IT HAS BEEN RESOLVED

1. That the operating revenue of R 45 414 million, operating expenditure of R 52 895 million, capital grants and contributions of R 11 011 million for Inkwanca Local Municipality for the financial year 2013/14, and the indicatives for the projected medium term period 2014/15 to 2015/16 be considered as set out in the following attachments:

   1.1 The operating budget of the municipality as reflected in Annexure A, b and C.

   1.2 The operating and revenue budget by vote for the municipality as reflected in Annexure D.

2. That the supporting information contained in the 2013/14 – 2015/16 Medium Term Revenue and Expenditure budget document as required in terms of Section 17(3) of the Municipal Finance Management Act (Act 56 of 2003) be considered in conjunction with this report.

3. That the Accounting Officer:

   3.1 In accordance with Chapter 4 of the Systems Act:

   (a) Make public the annual operating budget and other documents referred to in section 17(3) of the MFMA;

   (b) Invite the local community to submit representations in connection with the annual operating budget;

   3.2 Submit the annual operating budget:

   (a) In both printed and electronic formats to the National and Provincial Treasury;

   (b) In either format to any prescribed national or provincial organs of state and to such other municipalities as may be affected by the budget.

4. That the annual operating budget, together with such representations received as a result of the processes followed in terms of paragraph 3 above, as presented to Council

B. CAPITAL BUDGET

IT HAS BEEN RESOLVED
1.That the annual capital budget of R 11 011 million for the year 2013/14, R10 818 million for the year 2014/15 and R 11 244 million for the year 2015/16 of Inkwanca Local Municipality be as set out in the following schedules:

1.1 Capital budget by vote and project as reflected in Annexure D

2. That the Accounting Officer:

In accordance with Chapter 4 of the Systems Act:

Make public the annual capital budget and other documents referred to in section 17(3) of the MFMA;

Invite the local community to submit representations in connection with the annual capital budget;

Submit the annual capital budget:

In both printed and electronic formats to the National and Provincial Treasury;
In either format to any prescribed national or provincial organs of state and to such other municipalities as may be affected by the budget.

3. That the annual capital budget, together with such representations received as a result of the processes followed in terms of paragraph 3 above, be presented to Council for consideration and approval in terms of Sections 23(1) and 24(1) of the MFMA.

C. TARIFFS

IT HAS BEEN RESOLVED
1. That the tariff of charges for the 2013/14 budget, as tabled.

2. That, in terms of Section 17(3)(a)(iii) and 22(a)(i) and (ii) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) and Section 21, 22A(1) and 2 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) as amended, Inkwanca Local Municipality;

Displays the notice and the documents in the manner prescribed;

Seeks to convey to the local community by means of radio broadcasts covering the areas of the municipality the information contemplated in Section 21A(c) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) as amended;

That, in terms of Section 22(b)(i) and (ii) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) a copy of the documents be sent forthwith to the National and Provincial Treasury; MEC for Local Government; as well as other organs of state or municipality affected by the budget.

The motion was raised by councillors Mkhubukeli and seconded by councillor Cwebi to adopt and approved the annual budget of 2013/14 with the above resolution.

MAYOR'S FORWARD

Fellow citizens of our beautiful Inkwanca Municipality, today, we have a great pleasure of delivering the state of the municipality address since our term begun in May 2011.

In this month, we are celebrating the 50th Anniversary since the formation of the African Union (AU) formerly known as the OAU. AU was formed to liberate African countries from colonialism, unite African people and spearhead economic development among Africans both at home and in the diaspora. We salute the following great leaders who selflessly spearheaded the objectives of the African Unity:

- Kwame Nkrumah
- Samora Machel
- Julius Nyerere
- Nelson Mandela
- Oliver Thambo
- Robert Mugabe
- Jomo Kenyata and others

This week, we celebrate the Child Protection Week. I would like to call upon all citizens of this municipality to take good care of their children. It is important to remember that children are our future. Therefore, they really need to be taken care of because they are our investment.

I also want to use this opportunity to pay tribute to our workers who have passed on during this financial year. These are:

- Mr Vet Yekelo
- Mr Msokoli Cele
- Mr Xolani Yekani
- Mr Douglas Sobandla

May their souls rest in perfect peace.

Section 53 of the MFA requires the Mayor of the municipality to provide a general political guidance over the Budget. In addition, Chapter 2 of the Municipal Budget and Regulations states that the Mayor of the municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the MFMA.

Successes

As the ANC led municipality, we have made some strides in changing the lives of our people. Prominent among these successes chalked over the 2012/13 financial year include:

- Creation of 1502 jobs through the EPWP, Community Work Programme, Wind Energy (Dorper Wind Farms).
- We have managed to fence three cemeteries –
- Masakhe Cemetery (Sterkstroom),
- Malambile (Molteno)
- Demmekruin (Molteno)
- Roman Catholic Cemetery –Molteno (at the construction stage)

- We have also secured and delivered 43 temporal shelters for our people residing in dilapidated houses.
- 40 in Sterkstroom
- 3 in Molteno
- We came second in the provincial Greenest Town Competition which gave us an amount of R300, 000.
- As a municipality, we managed to pay our staff notch arrears due to them since 2009/2010, 2010/2011 and 2011/2012 financial years.
- We have built a mini-park in Sterkstroom through the EPWP project.
- We have also managed to secure funding from the DEDEA to build a park in Ward Four-Molteno.
- We have constructed a pond in Molteno;
- The License Testing Station has also been completed and about to commence operation for revenue enhancement.
- The Airstrip Housing Project 1127 is expected to start on the third of June 2013.
- We have assisted Nola to secure funds to the constructions of a water treatment plant to supply water to the factory and the surrounding areas.
- We have paved 2km of our access routes
- We have also resurfaced our bus routes and its going to cover about 4KM.
- We have graveled 18kms of our internal streets and roads.
- The Community Hall in Sterkstroom is near completion
- Our water is Blue Drop Compliant. It's the best portable water in the whole of the CHDM.
- We have organized a very successful Mayor Cup where the following sports codes were participated in:
- Golden Games
- Soccer
- Netball
- Draft
- Pool Table
- Cultural Groups
- Rugby
- We have also facilitated the training of disabled with Enoch Sotonga Disabled School. They were trained in the following courses: Welding; Woodwork and Sewing. We urge people to use their services so that they cannot depend on grants. As a municipality, we are in the process of registering them as Co-ops so that they could access government funding

Challenges
The year 2012/2013 had its own share of challenges. These challenges were:

- Electric transformers which could not sustain increase and electricity demand;
- Audit Outcomes continues to be a Disclaimer in 2012/2013 financial year;
- Monies upheld by the National Treasure due to previous years MIG under spending

Financial Viability
The total operating revenue for 2013/2014 financial year amounts to R 39, 059, 585. This represents a growth of 8% of R 3, 913, 812 when compared to 2012/2013 adjusted budget.

For the two outer years, operational revenue would increase by 6% respectively, equaling to a total revenue growth of R 7, 991, 454 over the outer year of the MTREF when compared to 2013/2014 financial year.

The capital budget amounts to R 11, 485, 000 for 2013/2014. MIG funds decreased from R9, 991, 00 to R9, 485. This represents a decrease of .05% when compared with 2012/2013 budget. Other capital projects amounts to R2, 000,000 are funded from our own revenue.

- Tariff setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and affordability of services were taken into account to ensure the financial sustainability of the municipality. Determining effective property rate tariff is therefore an integral part of the municipal's budgeting process.
- The tariffs for the municipal service are set at a level that would create surplus cash or bill reserves and market related taken into account the cost of rendering municipal services.
- A more detailed analysis still needs to be made about the municipality's cost drivers and how to curtail these without compromising sound corporate governance and service delivery standards.

Tariffs for 2013/2014

- Electricity tariff has increased by 8%, if approved by NERSA
- Refuse removal will also increase by 6%
- Property rates would increase by 3%. New valuation row which was implemented on 1st September 2013 has been revalued from R696,045,600 to R967, 028, 849.
- Generally all sundry tariffs have been reviewed and brought in line with tariffs charged by surrounding municipalities.

Infrastructure Development

As a community, we recall that in this area, we are faced with the challenge of ageing infrastructure. We are determined to address the matter by reviving our ageing infrastructure before it's too late.

The amount of allocation that we are receiving from MIG is woefully insufficient to deal with our backlogs. This is worsened by the reduction in MIG grants in relation to the population growth in the municipality. However, as a municipality, we need to spend wisely on allocations that we receive. We must not compromise on quality and the value of output.

Roads and Storm Water

We would resurface our roads and cover 4km which is divided as follows:

- The Bus Route that runs from Nolitha Primary School to Astra at Nkululeko
- Another Bus Route that runs from NDA to a portion of Ward Two
- Road that runs in front of Joe Slovo Freedom High School.
- The Taxi Route that links Siyaphakama High School and the Taxi Routes
- The Bus Route in Pumla Mqesh
- Another Bus Route in Sonwabile Village
- We would also continue with our paving projects.

Water and Sanitation

- We would continue upgrading the Water Treatment Works in Sterkstroom with an amount of R3, 800 000 from CHDM
- Upgrading of Waste Water Treatment Works in Sterkstroom with an amount of R3 000 000 also from CHDM
- Molteno Oxidation Pond R2 300 000 from CHDM

Community Facilities & Amenities

- We are renovating Sterkstroom sports field R 2 7 00 000. The project covers the three year MTREF.
- Purchasing of wheel bins in the following manner: 2013/2014 Ward One, 2014/2015 IN Ward Three, 2015/2016 Ward Four.

Upgrading of Electricity

In response to the challenge of electricity which confronted us in 2013, we have succeeded in securing a grant of R3 000 000 to enable us mitigate the challenge of low power shedding in order to allow us deliver services efficiently and effectively to our people.

EPWP

In line with the president's call for job creation, we have budgeted R1 000 000 under EPWP. We are in a mission of making our towns beautiful, clean and attractive to tourists.

Creation of Decent Jobs

The following positions have been budgeted for in response to the ANC led government to deal with the triple challenges of unemployment, poverty and inequality.

- Public participation and communications officer
- Debtors Clerk
- Income Accountant
- Senior Accountant
- 16 general workers

Let us congratulate Fire Stone Club and Unicons Netbal Club who are going to represent Inkwanca municipality in the District Mayors Cup by virtue of being the winners in the Municipal Mayor's Cup.
Let salute Sterkstroom Police station for emerging as the best station in the fight against crime in the Queenstown Cluster.

We must also congratulate Joe Slovo Freedom High School for partaking in the National Netball Competition.

Councillors, I present to you the 2013/2014 IDP/Budget/PMS having taking into account all the legislative requirements and processes involved in formulating these strategic documents in cognizance of our mission which says "we would ensure equal opportunity for material and social up-liftment through integrated stakeholders involvement for quality work".

Working together, we can build better communities.

Hon Cllr. M. Qamngwana

(Mayor)

PART 1 – ANNUAL BUDGET

1. Executive Summary

Inadequate financial resources is one of the principal reasons that municipal services are inadequate in Inkwanca LM. Mindful of the aforementioned state of affairs, the municipality is committed to broadening services delivery. Municipal Services – electricity, solid waste, transport, water, and waste water, – are the basic building blocks of efficient, healthy, and economically vital communities. Although ensuring adequate provision of these services is one of the primary responsibilities local governments, service provision may fall short. Quality of municipal services support the economic development of municipalities, while poor levels of service, interruptions of supply, low coverage rates, and other problems can undermine the quality of life in municipalities, slow economic growth, and reduce trust in local government.

The 2013/14 Medium Term Budget strives to focus on ensuring financial sustainability while delivering on the programmes outlined in the Integrated Development Plan (IDP). It reaffirms the commitment towards the prudent management of the municipality's finances. In order to attain financial sustainability the municipality enlisted the Eastern Cape Planning and Treasury Municipal CFO Support. In pursuing its goal the municipality will embark on a process to achieve three distinct objectives which are deemed necessary for capacity building.

- The first to streamline and simplify the business processes at the municipality;
- The second to create a basis that can be used to build capacity;
- And thirdly to create the environment that can facilitate the capacity building.

The 2013/14 Medium Term Budget is premised on the following principles:

- Changing course means changing the way we may do things within limited resources;
- Improving or reengineering the revenue base of the municipality.

2. The main challenges experienced during the compilation of the 2013/14 Medium Term Budget can be summarised as follows:

- For the Sustainability the municipality, it is confronted with escalating uncollectible consumer debt and service and the challenge faced is to successfully turn around the current declining position

- Major sources of recurrent revenue, namely the water income, with agency agreement Chris Hani District Municipality, has been considerably reduced. These have not performed to expectation in Inkwanca LM and the reasons for this are numerous, including inappropriate personnel and under capitalisation.

- Property rates and land usage management. This tax, levied under the MPRA, accounts for nearly 15% of all council's income. This is a tax on property based on value of the property and improvements. This assessment income is not fully utilised as the process of objections have not been finalised.

- Recurrent Revenues – User Charges and Fees

  Councils have various user charges and fees which they can levy on the recipients of service from the councils. These fees and charges are normally mandated under by laws made by councils within their jurisdictions and are meant to, at least, recover the cost of providing such service.

- Capital Financing and contributions to capital outlay

  For the purpose of financing capital developments by council, loans, capital receipts and revenue contributions to capital outlay are normally used. No major assets could be created by the use of the realised funds as these were too little and the difficulties in the operating circumstances of the municipal council meant that most of these funds went into covering operating expenses, contrary to the concept of applying capital receipts for new capital acquisitions.

  This source of capital funding is not readily available now as the revenue accounts as Inkwanca LM operate at a loss.

- Cost effectiveness of revenue sources

  The cost effectiveness of revenue sources refers to the cost of collecting such revenue relative to the yield from such revenue source. There are various sources of revenue that are available to local government but the yield of some of these, relative to the cost of administration makes the introduction of such revenue sources uneconomical.

  Currently it is doubtful whether the tariff structure is cost effective as the overheads considerably and possibly exceed the revenue yield.

- tax structures and tariffs

  In determining the tax structures and tariffs it is necessary to take into account more progressive structure is to be preferred as this takes into account the capacity to pay and reduces the tax burden per taxpayer and the necessary tax effort required to collect the revenue.

  First and foremost the structure must be such that the tax is able to yield sufficient revenue to cover the cost of administering the revenue administration as well as provide sufficient income for provision of public services.

- Cross Subsidies

Tariff structure should take into account possibilities of cross subsidies to enable the rate payers with higher capacity to pay for services to partly subsidise those that do not have similar capacity. Tariff settings for water and sewerage undertaking services usually apply this principle.

- Billing systems. Billing systems must be efficient and accurate to ensure effective collection of revenue.
- Budgeting - Budgeting plays various important roles in all organisations whatever their purpose for existence.

General expenses

Expenditure items not included in the categories listed above, will be provided for under this category. Such expenditure items include Advertising Costs, Audit Fees, Bank Charges, Contributions to Provisions and Reserves (other than included in Employee Related Costs, Bad Debts and in Net Assets in the AFS), Entertainment, Fuel and Oil, Insurance, Inventory Items (assets, with a value lower than the capitalisation threshold, purchased), Legal Costs (other than collection costs), Materials (other than materials used for maintenance purposes), Operational Leases, Postage, Printing and Stationery, etc.

Contracted services

This expenditure relates to payments for services provided by external entities. These services may also be referred to as “outsourced services”. The entities rendering these services are not Council owned entities or municipal entities but are independent businesses.

There are two main types of these services –

Services provided by external parties – where the municipality contracts out the rendering of services such as refuse removal. Services provided for the internal functioning of the municipality, i.e. corporate services such as internal audit, information technology and security services.

The contacted services that were budgeted for, are based on contracts in place for existing and / or planned future services performed under contract, considering the escalation and other relevant clauses in terms of such contracts. In some cases there might be a situation where minor short-term once-off contracts are allocated during the year, which are not easily quantifiable.

Provisions and other commitments

Types of provisions include

- Provision for the rehabilitation of tip sites.
- Provision for the clearing out of alien vegetation.

- Provision for grant – in – aid – contributions.

We neither could nor review the list of provisions made in the previous' financial years, evaluate the data, consider the assumptions on which the estimates were made and determine the likelihood that the same assumptions will be applicable in the budget year. All information available relating to the provision should be taken into account. When possible council should compare estimates made for prior periods with actual results of those periods to determine the reliability of such estimates and underlying assumptions.

Repairs and Maintenance

The Municipality was unable to determine the repairs and maintenance to be budgeted for, as there is limited established municipal standard operating procedures to follow for budgeting of repairs and maintenance. Furthermore we were unable to review the "Asset Management Programs" of the municipality as there are maintenance plans for the different classes of assets, that indicate the intervals of different maintenance to be performed.

The proposed intervention for the consideration is that the recommended budget process should be implemented to identify and tag assets that have regular problems, and thus needs maintenance more often including of the future maintenance of new assets purchased.

Alternatively base the estimate for repairs and maintenance on past experience of maintenance costs and considering annual guidelines for inflation indicators and all the repairs and maintenance identified on the IDP's for the Medium term budget period.

Linking the IDP and the Budget

- While budgets are made up of numbers, their importance does not necessarily lie in the numbers but in the underlying activities that those numbers represent. These activities need to be aligned to the council's over all vision in order to ensure that they contribute to the achievement of such vision. This links the budget to the strategic plan of councils.

- The resources to be used in undertaking such plans are identified and costed. This reduces the plan to a common base, cost. The various costs are then added up and the plan is now called a budget. A budget is therefore sometimes referred to as a plan in monetary terms.

The municipality acknowledges the challenge over the past decade, Inkwanca LM has become less sustainable as they are confronted with escalating uncollectible consumer debt and service delivery backlogs. The challenge facing the municipal council is to successfully turn around the current declining position and to build sustainable municipalities for the future, revenue enhancement is one of the arsenal of "turn around strategies" that can and should be used to address the challenge.

3. To respond to this, the municipality and Eastern Cape Planning and Treasury Municipal CFO Support will develop short, medium interventions.

3.1 Short term

The focus for 2013/14 Budget year remains the financial improvement and sustainability of, which is key component to improve and stabilise the revenue base. Achieving this will enable the municipality to fund key programmes outlined in the IDP. In the year one the municipality will commence with implementation of revenue enhancement turnaround strategy. This can only be achieved by critically reviewing the current revenue management business models and processes being applied within the various municipalities.

To effectively deal with the current challenges, municipalities must plan and implement effective and integrated revenue enhancement strategies. Revenue enhancement is a process focussed on the holistic improvement of municipal business model. To improve on the current business model it is important to identify all the critical elements that currently affect municipal revenue performance.

This review process will provide a sound platform for effective planning. The need for an integrated approach should not be taken lightly. Isolated projects that focus on symptoms like debt and access to services, rather than root cause further compound the current crisis.

3.2 Medium Term

Over the medium term budget, the sustainability of the municipal's financial position remains the a focus. Through an improved financial position the municipality will be a position to accelerate the implementation of IDP programmes and commit to excellent municipal service delivery as a norm.

Revenue enhancement and Municipal Sustainability is based on the following critical elements:

- Communication Strategy
- Provision of Metered Services
- Accurate Billing
- Revenue Collection (Debt and Credit Management)

The municipal revenue business models need to focus on maximising revenue collection, reducing inefficiency and costs, and reducing uncollectible debt. A holistic approach to local government sustainability is crucial to ensuring that all the above mentioned critical elements are simultaneously addressed.

4. Operating Budget Framework

The proposed operating revenue framework is approximately R 47 779 million and the operating expenditure budget is totalling R 54 994 million for the 2013/14 financial year. Revenue is increasing by 5% and expenditure by 4% over the 2012/13 financial year.

The table below sets out the Medium Term Budget for the 2013/14 – 2015/16 financial years.

	Adjusted Budget 2012/13 R 000	Draft Budget 2013/14 R 000	%	Draft Estimate 2014/15 R 000	Draft Estimate 2015/16 R 000
Revenue	39 059	45 414	5	47 779	53 300
Expenditure	46 002	52 895	4	54 994	58 269
Surplus/(Deficit)	-6 943	-7 481		-7 215	-4 969

The municipality is budgeting for a deficit (before capital grants) of approximately R 7 481 million for the 2013/14 after taking into account the non – cash items including depreciation and impairment of debtors.

4.1 Revenue Analysis

In 2012/13, the direct revenues were budgeted at R 39 059 million estimated to be R 47 524 in 2013/14.

Revenue	Adjusted Budget 2012/13 R millions	Draft Budget 2013/14 R millions	%	Draft Estimate 2014/15 R millions	Draft Estimate 2015/16 R millions
Property rates	2 548	4 776	6	5 062	5 366
Electricity	5 746	5 780	6	6 126	6 494
Water	450	450	6	477	506
Sewerage	600	600	6	636	674
Refuse	239	265	6	281	298
Operating grants	21 133	23 903	4	24 978	29 131
Other revenue	8 343	9 401	6	9 964	10 563
Total Revenue	39 059	45 175		47 524	53 032

The increase of 6% in revenue is mainly as a result of the general CPIX and , 6% increase in water and sewerage revenue and 6% in property rates revenue.

Property rates: the property rates revenue is projected to increase by 3% on the adjusted budget, the increase is based on a base increase on % on the new valuation roll that was implemented as from 01 July 2012 in line with requirements of the Municipal Property Rates Act (MPRA).

Service charges – Electricity: The projected electricity revenue of R 5 780 million is approximately 6% increase from the 2012/13 financial year, mainly as a result of the assumed 8% NERSA /Eskom increases. The 2013/14 proposed average tariff increase for electricity is 8%.

Services Charges – Water and Sewerage: Projected water, sewerage and refuse removal charges are estimated at R 600 000 approximately 6% increase from the 2012/13 financial year. The 2013/14 proposed average tariff increase for water, sewerage and refuse removal is 6%

Operating Grants are increasing by R 21 133 or 4% from the 2012/13 financial year. The increase is mainly as a result of the increase in the equitable share.

4.2 Expenditure Analysis

The municipality adopted 2012/13 Adjusted Operating Budget of R 46 002. 2013/14 presents a budget of R 52 895 million.

Expenditure	Adjusted Budget 2012/13 R Millions	Draft Budget 2013/14 R Millions	%	Estimated 2014/15 R Millions	Estimated 2015/16 R Millions
Employee related costs	19 806	21 672	0.06	22 972	24 351
Remuneration of councillors	1 818	1 997	0.06	2 117	2 264
Debt impairment	7 081	7 704	0.06	8 167	8 657
Depreciation & asset impairment	713	1 984	0.06	2 103	2 229
Bulk Purchases	5 201	6 568	0.06	6 962	7 380
Contracted Services	-	127	0.06	135	143
Other Expenditure	11 384	12 842	-0.02	12 539	13 246
Total Expenditure	46 003	52 894	0.32	54 995	58 270

4.2.1 Repairs and Maintenance

In the 2013/14 Medium Term Budget a greater emphasis was given preserving and maintaining the municipality's current infrastructure. The 2013/14 Medium Term Budget will provide an opportunity to review the area of assets management, it should be noted that the municipal assets register figures were disclaimed by the Auditor – General. The Municipality will devise an recovery audit plan to address the decificienes and exceptions as raised by the Auditor – General.

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.

4.2.2 Capital Expenditure

The level of capital expenditure are based on the principles of affordability, prudential indicators and sustainability. The capital budget will be funded from grants and subsidies. The proposed budget projects a spending plan of approximately R 33 073 million over the next three years.

The table ……………. Reflects the medium term capital budget over the next three years. Annexure "A".

5. Annual Budget Tables

The following pages presents the main tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2013/14 budget and the Medium Term Budget.

Table A1 : Budget Summary – Consolidated Budget Summary.

Table A2 : Consolidated Budgeted Financial Performance (revenue and expenditure by standard classification).

Table A3 : Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A4 : Budgeted Financial Performance (revenue and expenditure)

Table A5 : Budgeted Capital Expenditure by vote, standard classification and funding

Table A6 : Budgeted Financial Position

Table A7 : Budgeted Cash Flows

6. Statement of tariff setting

Tariff-setting is a pivotal and strategic part of the compilation of any budget. The municipality should annually reviews its tariff to ascertain whether they are still capable of producing the required revenue envelope, taking note of the prevailing trends. This process of tariff structure setting has not taken place within the framework of the municipality's tariff policy. The tariff policy is premised on principle of financial sustainability, social considerations as relates to the affordability of services, economic soundness and environment considerations.

The Municipality will review the tariff structure for all the services charges and assessment rates during the community consultation period. National Treasury, on one hand, continues to encourage municipalities to set cost – reflective tariffs especially for trading services such as water and sanitation, electricity and refuse removal. In its MFMA Circular No 66, the National Treasury notes that the municipalities are increasingly under recovering the cost associated with trading services. Tariffs for the aforementioned services are informed by increase in bulk purchases rather than inflation.

Given that these tariffs increases are determined by external agencies, the impact they have on the municipality's electricity and water tariffs is largely outside the control of the municipality.

When rates, tariffs and other charges are going to be revised, the local economic conditions, input costs and the affordability of services will be taken into account. Tariffs we will be set with a view of striking a balance between the interests of poor households, other customers and ensuring the financial sustainability of the municipality.

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

Within this framework the Municipality will undertake the tariff setting process relating to service charges as follows:

6.1 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 is done in this 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).
- 30 per cent rebate will be granted on all state owned properties;
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 50 per cent (calculated on a sliding scale) will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:

The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;

Rebates are subject to conditions as detailed in the Property Rates Policy. The municipality intends increasing property rates by 5.5% for 2013/14. The categories of rateable properties and the rates for the 2013/14 financial year based on a 5.5% increase from 01 July 2013 are contained in the "Annexure marked "A".

6.2 Water, Sewerage and Sanitation Services

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

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

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

Taking the aforementioned factors into account, the municipality will be applying the tariffs as per Chris Hani Tarriff structure. 6 kl water per 30 – day period will again be granted free of charge to all residents. Registered indigent will continue to receive subsidised sewerage and sanitation services as per the municipality's subsidy scheme.

The proposed average increase is smoothed across the various bands of the tariff structure as per the attached Annexure marked (B)".

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

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

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

The primary aims of the Budget Steering Committee are to ensure:

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

- That the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.2 Budget Process Overview

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

The Mayor tabled in Council the required the IDP and budget time schedule on 30 August 2012. Key dates applicable to the process were:

- **15 August 2012** – Aim: review of previous year's budget process and complete Budget evaluation checklist.
- **20 August 2012** – Presentation of draft process plan to the IDP & Budget Steering Committee
- **24 August 2012** – Draft schedule of key deadlines
- **30 August 2012** – Submit the process plan to special council for adoption.
- **1 September-28 October 2012** – IDP process plan with schedule of key deadlines to be advertised to public. IDP and Budget steering Committee meet to plan public participation. IDP and District IDP Rep Forum meet. IDP and Budget Steering Committee consolidate information gathered from the public and the district Rep Forums.
- **to 19 December 2012 -** Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and review of tariffs. HOD's meet to discuss draft budget, projects strategies for the coming year and effect changes.
- **10January – 20 March 2013** – HOD's and the Municipal Manager review the organ gram. Municipal strategic session IDP steering Committee to discuss projects. Budget Committee prepare draft budget. Ward Committee meetings 17-29/02/2012. Meetings with sector departments and other recognized stakeholders.
- **6 February 2013 -** Council considers the 2012/13 Mid-year Review and Adjustments Budget;
- **March 2013** – IDP & Budget steering committees finalise service delivery agreements and entities, finalise organ gram, finalise proposed nation and provincial allocation.;
- **27 March 20**13 - Tabling in Council of the draft 2012/13 IDP and 2012/13 MTREF for public consultation;
- **April 2013** – Public consultation;
- **6 May 2013 -** Closing date for written comments;
- **6 to 21 May 2013** – Finalisation of the 2011/12 IDP and 2011/12 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **31 May 2013 -** Tabling of the 2011/12 MTREF before Council for consideration and approval.

There were deviations from the key dates set out in the Budget Time Schedule tabled in Council, as there was a change in management and this led to difficulty to stick to the time schedule.

2.3 IDP and Service Delivery and Budget Implementation Plan

This is the fourth review of the IDP as adopted by Council in May 2012. It started in 31 August 2012 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2013/14 MTREF in August 2012.

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

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

The IDP has been taken into a business and financial planning process leading up to the 2013/14 MTREF, based on the approved 2012/13 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2013/14 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2012/13 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.4 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2012/13 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2013/14 MTREF:

- Municipality's growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e. inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2012/13 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- The need for tariff increases versus the ability of the community to pay for services;

- Improved and sustainable service delivery

  In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 54 and 57 has been taken into consideration in the planning and prioritisation process.

2.5 Community Consultation

The draft 2013/14 MTREF was tabled before Council on 28 March 2013 and was made available for community consultation at municipal offices in Molteno & Sterkstroom.

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

Ward Committees were utilised to facilitate the community consultation process from 13 to 29 April 2012. The applicable dates and venues were published in all the local newspapers and on average attendance of 200 were recorded per meeting. This is up on the previous year's process. This can be attributed to the additional initiatives that were launched during the consultation process, including the specific targeting of ratepayer associations. Individual sessions were scheduled with organised business and imbizo's were held to further ensure transparency and interaction. Other stakeholders involved in the consultation included churches, non-governmental institutions and community-based organisations.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2013/14 MTREF. Feedback and responses to the submissions received are available on request. The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Several complaints were received regarding poor service delivery, especially waste removal backlogs and the state of road infrastructure;
- Poor performance of contractors relating to infrastructure development and maintenance especially in the areas of road construction and maintenance were raised;
- The affordability of tariff increases, especially electricity, was raised on numerous occasions. This concern was also raised by organized business as an obstacle to economic growth;
- Pensioners cannot afford the tariff increases due to low annual pension increases; and
- During the community consultation process large sections of the community made it clear that they are not in favour of any further tariff increases to fund additional budget requests. They indicated that the municipality must do more to ensure efficiencies and value for money.

2.6 Overview of alignment of annual budget with IDP

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

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

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

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

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

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

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP.

2.7 Measurable performance objectives and indicators

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

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

2.8 Performance indicators and benchmarks

Capital charges to operating expenditure are a measure of the cost of borrowing in relation to the operating expenditure.

Safety of Capital

The debt-to-equity ratio is a financial ratio indicating the relative proportion of equity and debt used in financing the municipality's assets. The indicator is based on the total of loans, creditors, and overdraft and tax provisions as a percentage of funds and reserves.

The gearing ratio is a measure of the total long term borrowings over funds and reserves.

Liquidity

Current ratio is a measure of the current assets divided by the current liabilities and as a benchmark the Municipality has set a limit of 1, hence at no point in time should this ratio be less than 1.

The liquidity ratio is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations.

Revenue Management

As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, and credit control and debt collection. Data cleansing process is also under way.

Creditors Management

Inkwanca Municipality is struggling to settle its creditors within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has still got a lot to do in this regard.

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

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the Municipality. With the exception of water, only registered indigents qualify for the free basic services.

For the 2013/14 financial year approximately 2,203 registered indigents have been provided for in the budget. In terms of the Municipality's indigent policy registered households are entitled to 6kℓ fee water, 50 kWh of electricity as well as a discount on their property rates.

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

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

2.10 Providing clean water and managing waste water

Chris Hani District Municipality is the Water Services Authority for the entire municipality in terms of the Water Services Act, 1997 and Inkwanca acts as water services provider.

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

Inkwanca were awarded Blue Drop status in 2011/12, indicating that Inkwanca Municipality's drinking water is of exceptional quality.

2.11 Overview of budget related-policies

Inkwanca Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies. No Review of the SCM current year, the municipality is in a processes of reviewing and aligning all the municipal policies, and by laws as per the municipal code for tabling and consultation and including final approval by council after engaging all the stakeholders as per legislation during the budget adjustment approval at the end of the second quarter of the ensuing financial year.

2.11.1 Review of credit control and debt collection procedures/policies

The Credit Control and debt collection Policy was approved by Council in May 2010. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

The 2013/14 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 80 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing Inkwanca Municipality's cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy. Target groups are business, government and farmers.

2.11.2 Asset Management, Infrastructure Investment and Funding Policy

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

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

2.11.3 Budget Adjustment Policy

The adjustments budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that Inkwanca Municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

2.11.4 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 31 March 2009.

2.11.5 Cash Management and Investment Policy

Inkwanca Municipality Cash Management and Investment Policy were amended by Council in March 2010. The aim of the policy is to ensure that the Municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduce time frames to achieve certain benchmarks.

2.11.6 Tariff Policies

Inkwanca Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery.

All the above policies will be available on Inkwanca Municipality's website, as well as the following budget related policies:

- Property Rates Policy;
- Budget Policy; and
- Basic Social Services Package (Indigent Policy).

2.12 Overview of budget assumptions

2.2.12.1 External factors

Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank by an estimated 1.8 per cent last year and about 900 000 people lost their jobs. It is expected that recovery from this deterioration will be slow and uneven, and that growth for 2013 will be 2.3 per cent rising to 3.6 per cent by 2014.

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 finance.

2.13 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 2013/14 MTREF:

- National Government macro economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration. Employee related costs comprise 47 per cent of total operating expenditure in the 2013/14 MTREF and therefore this

increase above inflation places a disproportionate upward pressure on the expenditure budget. .

2.14 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 (51 per cent) of annual billings. Cash flow is assumed to be 60 per cent of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only is considered a source of additional cash in-flow once the performance has been carefully monitored.

2.15 Growth or decline in tax base of the municipality

Debtor's revenue is assumed to increase at a rate that is influenced by the consumer debtor's collection rate, tariff/rate pricing, real growth rate of Inkwanca Municipality, household formation growth rate and the poor household change rate.

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.

2.16 Salary increases

The collective agreement regarding salaries/wages came into operation on 1 July 2012 and shall remain in force until 30 June 2015.

2.17 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.

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

It is estimated that a spending rate of at least 80 per cent is achieved on operating expenditure and 98 per cent on the capital programme for the 2012/13 MTREF of which performance has been factored into the cash flow budget.

2.19 Breakdown of operating revenue over the 2013/14 MTREF

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. Inkwanca Municipality derives most of its operational revenue from government grants and transfers.

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

- Revenue management and enhancement;
- Achievement of a 80 per cent annual collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- And the ability to extend new services and obtain cost recovery levels.

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

2.20 Cash Flow Management

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

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

2.21 Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA. Each of the measures is discussed below.

Cash/cash equivalent position

Inkwanca Municipality forecast cash position was discussed as part of the budgeted cash flow statement. A 'positive' cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

Cash plus investments less application of funds

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The detail reconciliation of the cash backed reserves/surpluses is contained in Table 25, on page 25. The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

Monthly average payments covered by cash or cash equivalents

The purpose of this measure is to understand the level of financial risk should the municipality

Be under stress from a collection and cash in-flow perspective. Regardless of the annual cash position an evaluation should be made of the ability of the Municipality to meet monthly payments as and when they fall due. It is especially important to consider the position should the municipality be faced with an unexpected disaster that threatens revenue collection such as rate boycotts. As indicated above the Municipality aims to achieve at least one month's cash coverage in the medium term, and then gradually move towards two months coverage. This measure will have to be carefully monitored going forward.

Surplus/deficit excluding depreciation offsets

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An 'adjusted' surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs. If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming over the medium term.

Property Rates/service charge revenue as a percentage increase less macro inflation target

The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets. This measure is based on the increase in 'revenue', which will include both the change in the tariff as well as any assumption about real growth such as new property development, services consumption growth etc.

2.22 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting

   Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality's website.

2. Internship programme

   Inkwanca Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. Of the five interns one has been appointed permanently from Oct 2011. One of the remaining four will have completed her two year contract in October 2011, and the other three have only been appointed in December 2011. Since the introduction of the Internship programme the Municipality has successfully employed and trained 5 interns through this programme and a majority of them were appointed either in the Municipality.

3. Budget and Treasury Office

   The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee

   An Audit Committee has been established and is fully functional.

5. Service Delivery and Implementation Plan

   The detail SDBIP document is at a draft stage and will be finalised after approval of the 2012/13 MTREF in May 2012 directly aligned and informed by the 2012/13 MTREF.

6. Annual Report

   Annual report is compiled in terms of the MFMA and National Treasury requirements.

7. MFMA Training

   The MFMA training module in electronic format is and training is ongoing.

8. Policies

   An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009 was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.