

**SCHEDULE A**

**AN ANNUAL BUDGET AND  
SUPPORTING DOCUMENTATION  
MOPANI DISTRICT MUNICIPALITY**

**ANNUAL BUDGET OF**  
**MOPANI DISTRICT**  
**MUNICIPALITY**

**2013/2014 TO 2015/16**  
**MEDIUM TERM REVENUE AND**  
**EXPENDITURE FORECASTS**

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## Abbreviations and Acronyms

ASGISA	Accelerated and Shared Growth Initiative	litre	
BC	Budget Committee	LED	Local Economic Development
CFO	Chief Financial Officer	MMC	Member of Mayoral Committee
MM	Municipal Manager	MFMA	Municipal Financial Management Act
CPI	Consumer Price Index	MIG	Municipal Infrastructure Grant
CRRF	Capital Replacement Reserve Fund	MSA	Municipal Systems Act
DBSA	Development Bank of South Africa	MTEF	Medium-term Expenditure Framework
DoRA	Division of Revenue Act	MTREF	Medium-term Revenue and Expenditure Framework
FBS	Free basic services	NERSA	National Electricity Municipality Regulator South Africa
GDP	Gross domestic product	NKPIs	National Key Performance Indicators
GFS	Government Financial Statistics	OP	Operational Plan
GRAP	General Recognised Accounting Practice	PMS	Performance Management System
IDP	Integrated Development Plan	PPE	Property Plant and Equipment
IT	Information Technology	SALGA	South African Local Government Association
k	kilolitre	SDBIP	Service Delivery Budget Implementation Plan
km	kilometre	SMME	Small Micro and Medium Enterprises
KPA	Key Performance Area		
KPI	Key Performance Indicator		
kWh	kilowatt		

## Part 1 – Annual Budget

### 1.1 Mayor's Report

It is my privilege to present the 2012/2013 Draft Medium Term Revenue Expenditure Framework budget. Mister Pravin Gordhan, the Minister of Finance said in his budget speech that our new story, our period of transaction, is about building a modern infrastructure, a vibrant economy, a decent quality of life for all, reduced poverty, decent employment opportunities. It is a story that must be written by all of us. Not just by government. Not just by business. Not just by unions. By all of us, South Africans from all corners of this country.

This Draft Budget is derived from our mandate being that provision of water, sanitation, fire services and provision of disaster management functions. We therefore need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

As part of our drive to eliminate poverty and improve the lives of our communities, the Mopani District Municipality will be spending R127m for the construction of about 18 000 VIP toilets in the four local municipalities (Ba-Phalaborwa, Greater Tzaneen, Greater Letaba and Greater Giyani) during the current financial year. The district was able to eliminate the backlog in terms of provision of sanitation in Maruleng during the 2009/2010 financial year. The district is on track to eliminate the backlog in terms of provision of sanitation in the 2012/2013 financial year with a budget of R50 million.

In dealing with the provision of water and sewer reticulation, the district will be spending an amount of R152 million for the provision of bulk water and reticulation and an amount of R75 million for the provision of bulk sewer system and reticulation. This is in terms of the district priorities as indicated the Integrated Development Plan.

In assisting the local municipalities in the district, the district has put aside an amount of R111 million for the provision of road infrastructure, R11, 5 million for sportsfields, R8, 6 million for disposal sites and R5, 7 million for provision of electricity and Apollo lights in order to deal with crime.

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

In doing so, we also need an increased working relationship as Water Service Authority and the locals as Water Service Providers.

## 1.2 Council Resolutions

Council of Mopani District Municipality met to consider the annual budget of the municipality for the financial year 2013/2014. The Council approved and adopted the following resolutions:

1. The Council of Mopani District Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
  - 1.1. The annual budget of the municipality for the financial year 2013/2014 and the multi-year and single-year capital appropriations as set out in table A1 to A10 and supporting tables SA 1 to SA 37.
    - 1.1.1. A1: Budget Summary
    - 1.1.2. A2: Budgeted Financial Performance (revenue and expenditure by standard classification).
    - 1.1.3. A3: Budgeted Financial Performance (revenue and expenditure by municipal vote)
    - 1.1.4. A4: Budgeted Financial Performance (revenue by source and expenditure by type)
    - 1.1.5. A5: Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source
    - 1.1.6. A6: Budgeted financial position
    - 1.1.7. A7: Budget Cash flow
    - 1.1.8. A8: Cash backed reserves/accumulated surplus reconciliation
    - 1.1.9. A9: Asset Management
    - 1.1.10. A10: Basic Service Delivery measurement
2. The Council of Mopani District Municipality approved and adopted the following budget related policies on 30 March 2012.
  - 2.1. the tariffs policy
  - 2.2. the indigent policy
  - 2.3. the budget policy
  - 2.4. the investment policy
  - 2.5. the Virement policy
  - 2.6. the Supply chain Management policy
  - 2.7. Asset management policy
  - 2.8. Writing off of bad debts policy
  - 2.9. Inventory
  - 2.10. Support to Traditional Leaders
  - 2.11. Credit control and debt collection
3. The Council of Mopani District Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts the tariffs for water and sewerage as per annexure (Greater Tzaneen, Greater Letaba, Ba-Phalaborwa, Greater Giyani and Maruleng), fire services and sale of tender documents.

### 1.3 Executive Summary

The Mopani District Municipality has during May 2012 approved a time schedule outlining the key deadlines in terms of the preparation of both IDP and budget for the 2013/2014 financial year. In the reminding ourselves about the objectives of the Municipal Finance Management Act, the application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the Mopani District Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The service delivery priorities were reviewed as part of this year's planning and budget process. The municipality's budget has been aligned to the national key indicators to allow maximum service delivery. The current climate has given rise to a need by municipality to maximise on water projects. In the previous year, the municipality appointed a service provider for the compilation of the Revenue Enhancement Strategy, which will include policy for credit control and debt collection. The strategy will therefore give birth to compilation of the Indigent Register for an effective implementation of the strategy.

National Treasury's MFMA Circular No. 51, 54, 55, 58, 59, 66 and 67 were used to guide the compilation of the 2013/2014 MTREF.

The main challenges experienced during the compilation of the 2013/2014 MTREF can be summarised as follows:

- É The ongoing difficulties in the national and local economy;
- É Aging and poorly maintained water infrastructure;
- É The need to reprioritise projects and expenditure within the existing available resources given the cash flow realities and declining cash position of the municipality;
- É The increased cost of bulk water and electricity (due to tariff increases from Lepelle Northern Water and Eskom), which is placing upward pressure on service tariffs to residents.
- É Affordability of capital projects considering that the municipality is predominantly rural with no infrastructure.
- É Fully taking over the staff and liabilities from DWA.
- É Cost effective tariff implementation on residents.

Our budget was informed amongst others by the following:

- É The 2012/13 Adjustments Budget priorities and targets,
- É Tariff increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity.
- É Ensuring that service delivery and capital projects use labour intensive methods;
- É Ensuring that service providers use labour intensive approaches;
- É Supporting labour intensive LED projects;
- É Participating fully in the Extended Public Works Programme; and
- É Implementing interns programmes to provide young people with on the job training.

The table below gives an overview of the Mopani District Municipality 2013/2014 budget  
**Table 1 Consolidated Overview of the 2013/2014 MTREF**

R Thousand	Budget Year 2013/2014	Budget Year 2014/2015	Budget Year 2015/2016
Total Revenue	1 797 039 06	1 823 527 08	1 495 527 45
Total Operating Expenditure	773 519 52	826 519 20	873 276 72
Surplus Deficit	406 184 54	496 905 88	617 498 73
Total Capital Expenditure	543 693 400	513 422 020	559 099 871
Surplus/(Deficit) after capital exp	(137 508 546)	(164 314 32)	58 398 402

Total revenue budget is mainly represented by equitable share and MIG allocations amounting to R504 009 000 and R375 582 000 for the 2013/2014 financial year respectively.

Revenue from local municipalities on water and sanitation estimated at R163 297 54. The debt impairment is budgeted at R19 530 01. This is informed by review of water tariffs especially in Greater Tzaneen Municipality. This is represented by an amount of R137 679 641 and R25 950 13 for water and sewerage services respectively as indicated in Table A2 (Budget Financial Performance). **This has decrease by about 60.37% from full year forecast of R270 556 473 in 2012/2013 financial year to R163 297 54 in the 2013/2014 financial year and is mainly due to annual increases and adjustments in other tariffs that did not take input costs into consideration. Another contributing factor is the spillage caused by the disaster at Maruleng municipality which led to the municipality being unable to bill for the water usage, given the state of the water.**

Included in the operating expenditure of R773 519 22 is an amount of R137 510 403 for depreciation which represent a non cash item for the financial year 2013/2014.

Repairs and maintenance which forms part of operating budget amounts to R112 229 06, and bulk purchases amounts to R69 080 645 for the financial year 2013/2014. **A reduction in bulk purchases is informed by taking into account the performance of the local municipalities purchases for the year ending February 2012 based on the information from July 2011 provided by all local municipalities excluding Ba-Phalaborwa were the district is responsible for paying current account to Lepelle Northern Water. In the adjustments budget a figure of bulk purchase for Ba-Phalaborwa has been included.**

Salaries and allowances amounts to R306 437 80 including budget for locals amounting to R25 296 40 for the 2013/2014 budget.

Included also in the salaries and allowance budget is an amount of R 120 538 416, R32 548 502 and R14 442 497 for Water, fire and disaster management services respectively in the 2013/2014 financial year budget.

Salaries and allowances has increase from an amount of R236 102 30 in 2012/2013 financial year to an estimated budget of R306 437 80 in the 2013/2014 financial year.



This increase is due to an annual increase of 6.85%.

Capital expenditure consists of an amount of R 368 582 000 for water and sanitation infrastructure projects which have been relocated to PMU which are funded by MIG, which are the core function of the municipality and the budget is included in R442 582 000. Other Water infrastructure projects which are funded by Regional Water Infrastructure Grant amounting to 80 689 000. Other capital projects amount to R20 422 400 which include amongst others vehicles and other administrative equipment. The total capital expenditure is R543 693 400 for the 2013/2014 financial year.

The municipality's budget also includes 3 roads projects amounting to R7 000 000. Two of the projects are previous years' projects whilst only one is new. The municipality is moving away from implementation of roads projects since it is not the core competency of the municipality.

The municipality has not taken any long term loan for financing its capital projects in the 2013/2014 financial year.

## 1.4 Operating Revenue Framework

The municipality derives its revenue mainly from grants and subsidies.

The following table is a summary of the 2013/2014 MTREF (classified by main revenue source):

**Table 2 Summary of revenue classified by main revenue source**

Description	2013/14	2014/15	2015/16
Equitable Shares	504 909 000	558 369 000	620 072 000
Regional Bulk Water -Nandoni(Drought Relief)	35 000 000	42 000 000	-
EPWP	1 000 000	-	-
Regional Bulk Water -Mametja Sekororo	45 689 000	44 915 000	83 167 000
DWA WSOG (in Kind)	11 511 000	12 023 000	13 417 000
Municipal Water Infrastructure Grant	13 102 150	43 017 000	102 523 000
Financial Management Grant	1 250 000	1 250 000	1 250 000
DWA WSOG (Refurbishment)	20 000 000	39 868 000	44 867 000
Municipal Systems Improvement Grant	890 000	934 000	967 000
Municipal Infrastructure Grant	375 582 000	429 825 000	463 658 000
Rural Transport Grant	1 726 000	1 995 000	2 045 000
Services charges	163 829 754	163 826 451	174 332 624
Other revenue	5 215 000	5 704 900	6 263 736
<b>Total</b>	<b>1 179 703 904</b>	<b>1 323 510 008</b>	<b>1 490 775 045</b>

The table below illustrate the breakdown of the services charges per local municipality

Municipality	2013/14	2014/15	2015/16
Ba-Phalaborwa-Water	65 845 279	61 883 208	65 843 734
Ba-Phalaborwa-Sewerage	9 410 619	10 012 899	10 653 724
Greater Giyani- Water	13 468 110	14 330 069	15 247 193
Greater Giyani- Sewerage	2 722 156	2 896 374	3 081 742
Greater Letaba – Water	6 213 676	6 611 351	7 934 478
Greater Letaba – Sewerage	4 599 801	4 894 188	5 207 416
Greater Tzaneen – Water	49 065 747	30 713 155	32 678 797
Greater Tzaneen - Sewerage	9 217 537	8 460 676	9 002 159
Maruleng – Water & Sewerage	3 286 831	3 497 188	3 721 008
<b>Total</b>	<b>163 829 754</b>	<b>163 826 451</b>	<b>174 332 624</b>

#### 1.4.1 Sale of Water and Impact of Tariff Increases

Mopani District Municipality is a Water Services Authority and has appointed the locals municipality as Water Service Providers. In addition to the local municipalities been appointed as water service providers, the Lepelle Northern Water has also been appointed to do water provisioning in other areas of the district. Water Service Level Provision Agreements have been signed will all involved in water service provisioning.

- É Water tariffs are fully not cost-reflective . including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- É 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
- É Water tariffs are designed to encourage efficient and sustainable consumption.

Tariffs policy and indigent policy have been prepared and forms part of the budget related policies presented to give effect to the effective implementation of all issues mentioned above.

The bulk supply of water is done by Lepelle Northern Water using Politsi, Modjadji, Ba-Phalaborwa and Nkowankowa schemes.

Greater Tzaneen Municipality is responsible for the Water Purification at Tzaneen and all the other schemes are operated by Mopani District Municipality.

An average across the board tariff increase of 5.6 per cent from 1 July 2013 for water is proposed. This is based on input cost assumptions of for each individual schemes . In addition 6 k water per month will again be granted free of charge to all indigents households.

The Mopani District Municipality is in the process of compiling a district wide indigent register which will assist in the provision of all free basic services.

A summary of the proposed tariffs for households (residential) and non-residential are attached as per annexure:

#### 1.4.2 Sanitation and Impact of Tariff Increases

A tariff increase of 5.6 per cent for sanitation from 1 July 2013 is proposed. This is based on the input cost assumptions related to water.

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

Proposed tariffs are as per annexure

#### 1.4.3 Overall impact of tariff increases on households

The overall percentage increase on tariffs is on average 5.6. For the sale of tenders, these are the new tariffs determined in terms of the approved tariff policy.

### 1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2013/2014 budget and MTREF is informed by the following:

- É The asset renewal strategy;
- É Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- É Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- É The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- É Operational gains and efficiencies will be directed to funding the capital budget and other core services; and

The following table is a high level summary of the 2013/2014 budget and MTREF (classified per main type of operating expenditure):

**Table 3 Summary of operating expenditure by standard classification item**

<b>Expenditure By Type</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2015/2016</b>
Employee related costs	306'137'180	326'036'458	347'228'256
Remuneration of councillors	9'085'243	9'675'784	10'159'573
Debt impairment	19'530'801	19'957'641	21'234'929
Depreciation & asset impairment	137'510'403	144'385'923	151'605'216
Finance charges	650'000	682'500	716'652
Bulk purchases	69'080'645	73'501'806	78'205'922
Other materials	112'229'706	141'510'464	156'378'301
Contracted services	13'465'551	11'775'346	12'644'768
Other expenditure	106'479'523	98'482'770	90'390'462
<b>Total</b>	<b>773'519'052</b>	<b>826'008'420</b>	<b>846'789'560</b>

The budgeted allocation for employee related costs for the 2013/14 financial year totals R306 million, which equals 40 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6.85 per cent for the 2013/2014 financial year. An annual increase of 6 per cent has been included in the two outer years of the MTREF.

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

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption.

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

Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals.

Other expenditure comprises of various line items relating to the daily operations of the municipality.

### **1.5.1 Priority given to repairs and maintenance**

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.

Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the budget and MTREF provide for extensive growth in the area of asset maintenance as informed by the asset renewal strategy and repairs and maintenance plan from the municipality.

During the compilation of the budget, operational repairs and maintenance was identified as a strategic imperative owing to the aging of municipal infrastructure and historic deferred maintenance.

### **1.5.2 Free Basic Services: Basic Social Services Package**

Mopani District Municipality provides as part of its basic social services package both free basic water of 6kl and free sanitation for all indigent households per month.

## **1.6 Capital expenditure**

The total capital budget for the 2013/2014 financial year amounts to R543 693 400 of which R368 582 000 is for municipal infrastructure grant, representing 68 percent of total capital budget and Regional Bulk infrastructure grant amounting to R80 689 000. The multi-year projects, especially water represent the highest amount of capital budget due to the fact that the core mandate of the municipality is water provision. Further detail relating to asset classes and proposed capital expenditure is contained in Table A9 (Asset Management). In addition to the MBRR Table A9, MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class. Some of the salient projects to be undertaken over the medium-term includes, amongst others:

The following are some of the capital expenditure projects to be implemented in the 2013/2014 financial year:

Water reticulation to villages in Greater Giyani	: R15 000 000
Sekgosese Water Development Water Scheme	: R5 000 000
Giyani Water Works- Extension and upgrading	: R46 000 000
Sefototse/Ditshosine/Ramahlati Bulk line	: R25 000 000
Hoedspruit Bulk Water supply	: R20 000 000
Hoedspruit Sewer Plant	: R15 000 000
Kamperus Sewage Plant	: R20 000 000
Upgrading of water reticulation in Greater Tzaneen	: R12 000 000
Upgrading of water reticulation in Greater Letaba	: R 5 000 000
Jopie Mawa Bulk Water Supply	: R28 000 000
Upgrading of water reticulation in Ba-Phalaborwa	: R17 000 000
Upgrading of water reticulation in Maruleng	: R20 000 000
Upgrading of Selwane Water scheme	: R25 000 000
Kamperus Water supply	: R15 000 000
Thabina Water Reticulation	: R5 582 000
Upgrading of Senwamokgope Sewer Plant	: R11 000 000
Upgrading of Phalaborwa Sewer Plant	: R11 000 000
Mopani Rural Household Sanitation	: R60 000 000
Mamakata Water Supply	: R2 000 000
Lephepane BulkWater Scheme	: R11 000 000
Mametja Sekororo Regional Water Scheme	: R45 689 000
Nandoni to Nsami Pipeline	: R35 000 000

In addition to the Water and Sanitation projects listed above, the District will be implementing the following projects for Road and Bridges to be handed over to the local municipalities upon completion:

Rebuilding of Muhlava Road	: R2 000 000
Xikukwane Xibulane Road	: R4 100 000
Maribe Thema Bridge	: R1 000 000
Leretjeng Sports Complex	: R2 200 000
Modjadji Royal House & Extension of fencing	: R5 600 000

### 1.6.1 Future operational cost of new infrastructure

The infrastructure development done is mainly in the rural areas and presently there is no revenue collection done at these areas hence no operational cost of new infrastructure.

## 1.7 Annual Budget Tables – Mopani District Municipality

Ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2013/2014 budget and MTREF as approved by the Council.

### **1.7.1.Explanatory notes to MBRR Table A1 - Budget Summary**

1. Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
  - a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
  - b. Capital expenditure is balanced by capital funding sources, of which
    - i. Transfers recognised is reflected on the Financial Performance Budget;
    - ii. Internally generated funds is financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.

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

Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile a whole of government reports.

Note the Total Revenue on this table includes capital revenues (Transfers recognised . capital) and so does not balance to the operating revenue shown on Table A4.

Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is not the case for Water and Sanitation. This situation is due to distribution losses, debt impairment and salaries and allowances of personnel operating in rural areas where there is no billing. **The tariffs for local municipalities are also not cost reflective. The revenue generated is less than the expenditure.**

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

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

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

Total revenue excluding capital transfers is R708 million in 2013/2014 and escalates to R761 million and R844 million by 2014/15 and 2015/2016 respectively. Transfers recognised . operating includes the local government equitable share and other operating grants from national and provincial government.

The main component of the total revenue is grant and subsidies amounting to R539 million, R612 million and R681 million for the financial years 2013/2014, 2014/2015 and 2015/2016 respectively. The other revenue component is Service charges for water & sanitation amount to R144 million, R122 million, R135 million for the financial years 2013/2014, 2014/2015 and 2015/2016 respectively. The revenue for interest on outstanding debtors is budgeted at R19 million, R21 million and R22 million for the financial years 2013/2014, 2014/2015 and 2015/2016 respectively.

The main components of other income is sale of tenders at R1 million, Mayor's charity cup at R3 million, fire services charges at R35 000 and others at R130 000.



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

Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations, for 2013/2014 R371 million has been allocated.. This allocation escalates to R512 million in 2014/15 and then increase to R547 million in 2015/16. It must be noted that the reason why the MIG grant is not reconciling to the funding on capital expenditure from grant is that a portion of MIG used for the construction of VIP toilets is not regarded as capital.

#### **1.7.6. Explanatory notes to Table A6 - Budgeted Financial Position**

Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).

This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as %accounting+Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

Table SA3 provides a detailed analysis of the major components of budgeted financial position items, including:

- É Property, plant and equipment;
- É Trade and other payables;
- É Changes in net assets; and

The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

#### **1.7.7. Explanatory notes to Table A7 - Budgeted Cash Flow Statement**

The budgeted cash flow statement is the first measurement in determining if the budget is funded.

It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

Cash and cash equivalents totals for 2013/2014 amounts to R19 million.

#### **1.7.8. Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation**

The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 . Funding a Municipal Budget.

In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.

The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be funded.

Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.

As indicated in Table SA 10, the Mopani District Municipality's budget is fully funded for the 2013/2014 financial year.

#### **1.7.9. Explanatory notes to Table A9 - Asset Management**

Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class. An amount of R448 million will be spend on new assets in the 2013/2014 financial year while an amount of R96 million will be spend on renewal of existing assets.

#### **1.7.10. Explanatory notes to Table A10 - Basic Service Delivery Measurement**

Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.

As indicated in the Mayor's Report, the Municipality continues to make good progress with the eradication of backlogs with sanitation backlog being targeted. **The new statics information shows that the households have increased with around 25 percent from the previous statistics, hence the increase in backlogs.**

## 2 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 Head of Finance Portfolio Committee.

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

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

#### 2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2012) 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 in May 2012. Key dates applicable to the process were:

- É **21-22 January 2013** . Strategic planning session took place at Swadini. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2013/2014 MTREF;
- É **07 January 2013** . Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- É **25 January 2013** - Council considers the 2011/12 Mid-year Review
- É **28 February 2013** - Adjustments Budget is approved;
- É **29 March 2013** - Tabling in Council of the draft 2013/2014 IDP
- É **06 – 10 May 2013** MTREF 2013/2014 for public consultation
- É **30 May 2012** - Tabling of the 2013/2014 MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

### 2.1.2 IDP and Service Delivery and Budget Implementation Plan

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 IDP has been taken into a business and financial planning process leading up to the 2013/2014 MTREF, based on the approved 2013/14 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 2013/2014 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.

### 2.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2013/2014 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 2013/2014 MTREF:

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

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51, 54, 58, 59, 66 and 67 has been taken into consideration in the planning and prioritisation process.

## **2.1.4 Community Consultation**

The draft 2013/2014 MTREF as tabled before Council on 29 March 2013 for community consultation was published on the municipality's website, and hard copies will be made available at customer care offices, municipal notice boards and various libraries.

The public participation process took place at the following areas:

- ✓ 06 May 2013 . GGM Blinkwater/ Msengi Village
- ✓ 07 May 2013 . BPM Makhushane Village
- ✓ 08 May 2013 . GTM Mokhwathi Village
- ✓ 09 May 2013 . Maruleng Worcester Village
- ✓ 10 May 2013 . GLM Chabelang Village

This was followed by the IDP representative forum that took place at Mopani Disaster Centre on 22 May 2013.

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.

## **2.2 Overview of alignment of annual budget with IDP**

The IDP is informed by the consultation process with the community through community public participation process. Priorities are identified and reprioritized taking into consideration the need to satisfy the basic needs of the community.

This is costed annually through the Medium Term Revenue Expenditure Framework taking into account the availability of funds and the need to provide sustainable basic services.

The IDP has been guided amongst others by the following:

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

## **2.3 Measurable performance objectives and indicators**

The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual directors 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.

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

- É Planning (setting goals, objectives, targets and benchmarks);
- É Monthly Monitoring monitoring and checking on the progress against plan;
- É Identifying areas requiring change and improvement;
- É Quarterly reporting to council
- É Making changes where necessary.

### **2.3.1 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.

All qualifying indigent households receive 6 kl per month of free basic water and free sanitation as per indigent policy of the municipality.

### **2.3.2. Providing clean water and managing waste water**

In terms of the 2009/2010 financial year performance with regard to the provision of all schemes in the district that are run by both Lepelle Northern Water and Greater Tzaneen Municipality, have a blue drop status. The schemes that are run by the Mopani District Municipality had status of between 20 and 30 percent in the 2009/2010 financial year.

For the financial year, 2010/2011, the Mopani District received an average of 72% for the blue drop status. Tzaneen and Nkowankowa schemes received the blue drop status.

## **2.4 Overview of budget related-policies**

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

### **2.4.1 Review of credit control and debt collection procedures/policies**

The Credit control and debt collection is currently under review.

### **2.4.2 Asset Management , Infrastructure Investment and Funding Policy**

The Asset Management, Infrastructure and Funding Policy is 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. The policy has been reviewed for 2013/2014 financial year.

### **2.4.3 Budget Policy**

The 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. The policy has been reviewed for 2013/2014 financial year.

#### **2.4.4 Supply Chain Management Policy**

The goal of this Policy is to provide a mechanism to ensure sound, sustainable and accountable supply chain management within the Mopani District Municipality, whilst promoting black economic empowerment.

The Supply Chain Management Policy has been reviewed and comments were also sought from Provincial Treasury. The policy has been reviewed for 2013/2014 financial year.

#### **2.4.5 Cash Management and Investment Policy**

The purpose of this policy is to secure the sound and sustainable management of Mopani District Municipality's surplus cash and investments.

The Municipality's Cash Management and Investment Policy has been reviewed for 2013/2014 financial year.

#### **2.4.6 Tariff Policies**

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policy has been reviewed for 2013/2014 financial year.

#### **2.4.7 Indigent policy**

The indigent policy seeks to balance the immediate needs of the poor population to have access to affordable basic services with the long term implications of failure to implement remedial measures coupled with the provision of affordable services to indigents in a financially viable manner.

The policy has been reviewed for 2013/2014 financial year.

#### **2.4.8 Writing off of bad debts**

The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalised.

The policy has been reviewed for 2013/2014 financial year.

#### **2.4.9 Virement policy**

The purpose of this policy is to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.



The policy has been reviewed for 2013/2014 financial year.

#### **2.4.10 Inventory Policy**

The purpose of this policy is to ensure that all the inventory management processes relating to purchasing, issuing and control are formalised.

The policy has been drafted for approval on the 30<sup>th</sup> May 2013

#### **2.4.11 Support to Traditional Leaders Policy**

The purpose of this policy is to provide guidance to the municipality on the support to be provided to the traditional leaders within the district jurisdiction.

The policy has been drafted for approval on the 30<sup>th</sup> May 2013

### **2.5 Overview of budget assumptions**

#### **2.5.1 External factors**

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers hence the reduction of service charges from R270 million in 2012/13 to R163 million in 2013/14. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

#### **2.5.2 General inflation outlook and its impact on the municipal activities**

There are five key factors that have been taken into consideration in the compilation of the 2013/2014 MTREF:

- É National Government macro economic targets;
- É The general inflationary outlook of 5.6%
- É The impact of municipal cost drivers;
- É The increase in prices for bulk electricity and water; and
- É The increase in the cost of remuneration.

#### **2.5.3 Collection rate for revenue services**

The debt impairment as indicated in the budget seeks to indicate that more efforts need to be put in the collection process.

Due to the floods experienced in Maruleng, there has been contamination of water that has resulted in stopping of consumer billings. Collection rate is low and the debt book is huge.

#### **2.5.4 Salary increases**

Salary increases as guided by Circular 67 of National Treasury is 6.85%.

#### **2.5.5 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:

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

The municipality's infrastructure projects are labour intensive.

#### **2.5.6 Ability of the municipality to spend and deliver on the programmes**

It is estimated that a spending rate of at least 99 per cent is achieved on operating expenditure and 100 per cent on the capital programme for the 2013/2014 MTREF of which performance has been factored into the cash flow budget.

### **2.6 Budget funding compliance and funding measurement**

The municipality's budget has a positive balance which indicates that the municipality has complied with the funding measurement. The municipality has sufficient liquidity to meet its average monthly operating payments, adherence to macro-economic targets, realistic average cash collection, indicative of planned capital expenditure level % cash payment timing, substantiation of National/Provincial allocations are included in the budget, indicative of realistic of realistic current and long term debtors collection targets, credible allowance for repairs and maintenance of assets and credible allowance for asset renewal.

## **2.7 Municipal manager’s quality certificate**

I **Maake MT**, Municipal Manager of Mopani District Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name   Maake M.T

Municipal Manager of Mopani District Municipality

Signature       \_\_\_\_\_

Date             \_\_\_\_\_