

AN ANNUAL BUDGET AND
SUPPORTING DOCUMENTATION
OF A NALA LOCAL MUNICIPALITY



ANNUAL BUDGET OF
**NALA LOCAL
MUNICIPALITY**

2014/15 TO 2016/17
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

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Part 1 – Annual Budget

1.1 Mayor's Report

1.2 Council Resolutions

On 28 March 2014 the Council of Nala Local Municipality met in the Council Chambers of the municipality to consider the annual budget of the municipality for the financial year 2014/15.

The Council approved and adopted the following resolutions:

1. The Council of Nala Local 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 2014/15 and the multi-year and single-year capital appropriations as set out in the following tables:
 - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Main Table A4 of the budget.
 - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Main Table A2 of the budget.
 - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Main Table A3 of the budget.
 - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Main Table A5 of the budget.
 - 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
 - 1.2.1. Budgeted Financial Position as contained in Main Table A6 of the budget.
 - 1.2.2. Budgeted Cash Flows as contained in Main Table A7 of the budget.
 - 1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Main Table A8 of the budget.
 - 1.2.4. Asset management as contained in Main Table A9 of the budget.
 - 1.2.5. Basic service delivery measurement as contained in Main Table A10 of the budget.
2. The Council of Nala Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) adopts the following tariff increases:

1.3 Executive Summary

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

Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on non-essentials. Key areas where savings were realized were on overtime, accommodation, transport costs and catering.

National Treasury's MFMA Circular No. 70 and 72 were used to guide the compilation of the 2014/15 MTREF.

The main challenges experienced during the compilation of the 2014/15 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increasing cost of bulk water and electricity (due to tariff increases from Sedibeng Water and Eskom), which is placing upward pressure on service tariffs to residents.
- Wage increases for municipal staff.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2014/15 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2014/15 MTREF

R Thousand	Adjustments Budget 2013/2014	Budget Year 2014/2015	Budget Year + 1 2015/2016	Budget Year + 2 2016/2017
Total Operating Revenue	R330.157 million	R327.086 million	R333.485 million	R334.094 million
Total Operating Expenditure	R441.546 million	R449.535 million	R476.134 million	R505.861 million
(Surplus) Deficit for the Year	R111.389 million	R122.449 million	R142.649 million	R171.767 million
Total Capital Expenditure	R76.101 million	R45.248 million	R30.999 million	R35.157 million

Total operating revenue has decreased by 3.2 per cent for the 2014/15 financial year when compared to the 2013/14 Adjustments Budget. For the two outer years, operational revenue will increase by 2.1 and 0.5 per cent respectively.

Total operating expenditure for the 2014/15 financial year has been appropriated at R441.526 million and translates into a budgeted deficit of R116.253 million. When compared to the 2014/15 Adjustments Budget, operational expenditure has decreased by 1.3 per cent in the 2014/15 budget. The operating deficit for the two outer years steadily increases to R134.065

million and R163.317 million. These deficit will not enable the municipality to fund capital expenditure and to further ensure cash backing of reserves and funds

The capital budget of R45.248 million for 2014/15 is 40.5 per cent less when compared to the 2014/15 Adjustment Budget. The reduction is due to decreases in capital grants from national government. Consequently, the capital budget will continue to decrease over the medium-term to R30.999 in 2015/2016 and increase to R35.135 in the 2016/2017 financial year.

1.4 Operating Revenue Framework

For municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of the municipality. The reality is that we are experiencing poor revenue collection and debt management. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and trying to fit expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines as outlined in Circular 72 and macroeconomic policy;
- Revenue management, which aims to ensure a 64 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 .(Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the municipality

The following table is a summary of the 2014/15 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

FS185 Nala - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Revenue By Source											
Property rates	2	9 804	10 947	-	18 418	12 628	12 628	-	17 277	18 296	19 302
Property rates - penalties & collection charges											
Service charges - electricity revenue	2	47 181	55 515	-	97 838	64 690	64 690	-	71 692	76 990	82 679
Service charges - water revenue	2	36 320	42 196	-	47 072	68 481	68 481	-	50 346	53 317	56 249
Service charges - sanitation revenue	2	14 353	15 652	-	19 461	18 082	18 082	-	20 329	21 528	22 712
Service charges - refuse revenue	2	20 282	22 088	-	28 156	25 526	25 526	-	28 376	30 050	31 703
Service charges - other											
Rental of facilities and equipment		19	10		50	50	50		53	56	59
Interest earned - external investments		316	676								
Interest earned - outstanding debtors					10 521	-	-		4 000	4 236	4 469
Dividends received		3 136	3 248						3	3	4
Fines		51	30		70	70	70		74	79	83
Licences and permits					1	3	3				
Agency services											
Transfers recognised - operational		129 999	123 826		135 210	135 210	135 210		129 967	123 668	111 282
Other revenue	2	418	4 979	-	5 417	5 417	5 417	-	4 969	5 262	5 552
Gains on disposal of PPE											
Total Revenue (excluding capital transfers and contributions)		261 878	279 166	-	362 214	330 157	330 157	-	327 086	333 485	334 094

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

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the municipality. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Property rates is the third largest revenue source at R17,277 million in 2014/2015 financial year and increases to R19,302 million in 2016/2017 financial year.

Operating grants and transfers totals R129.967 million in the 2014/15 financial year and steadily decreases to R123.668 million by 2015/16 and R111.282 million by 2016/2017 financial year. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts

FS185 Nala - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		114 249	120 911	-	134 060	134 060	134 060	129 967	123 668	111 282
Local Government Equitable Share		111 999	120 911		130 670	130 670	130 670	126 199	120 751	108 164
Finance Management		1 500	-		1 500	1 500	1 500	1 800	1 950	2 100
Municipal Systems Improvement		750	-		890	890	890	934	967	1 018
EPWP Incentive					1 000	1 000	1 000	1 034	-	-
Provincial Government:		9 800	2 915	-	2 100	-	-	-	-	-
Financial Support-COGTA		9 800	2 915		2 100	-	-	-	-	-
District Municipality:		-	-	-	-	-	-	-	-	-
Other grant providers:		-	-	-	-	-	-	-	-	-
Total Operating Transfers and Grants	5	124 049	123 826	-	136 160	134 060	134 060	129 967	123 668	111 282

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

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6.2 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of both Eskom and Sedibeng Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the municipality. Discounting the impact of these price increases in lower consumer tariffs will negatively affect the municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to the municipality. The cost drivers of the municipality are informed by items such as the cost of remuneration, bulk purchases, fuel, chemicals etc. The current challenge facing the municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions.

1.5 Operating Expenditure Framework

The municipality's expenditure framework for the 2014/15 budget and MTREF is informed by the following:

- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The asset renewal strategy and repairs and maintenance plan of the municipality;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to cost containment measures.

The following table is a high level summary of the 2014/15 budget and MTREF (classified per main type of operating expenditure):

Table 4 Summary of operating expenditure by standard classification item

FS185 Nala - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Revenue By Source											
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Service charges - sanitation revenue	2	14 353	15 652	-	19 461	18 082	18 082	-	20 329	21 528	22 712
Service charges - refuse revenue	2	20 282	22 088	-	28 156	25 526	25 526	-	28 376	30 050	31 703
Service charges - other											
Rental of facilities and equipment		19	10		50	50	50		53	56	59
Interest earned - external investments		316	676								
Interest earned - outstanding debtors					10 521	-	-		4 000	4 236	4 469
Dividends received		3 136	3 248						3	3	4
Fines		51	30		70	70	70		74	79	83
Licences and permits					1	3	3				
Agency services											
Transfers recognised - operational		129 999	123 826		135 210	135 210	135 210		129 967	123 668	111 282
Other revenue	2	418	4 979	-	5 417	5 417	5 417	-	4 969	5 262	5 552
Gains on disposal of PPE											
Total Revenue (excluding capital transfers and contributions)		261 878	279 166	-	362 214	330 157	330 157	-	327 086	333 485	334 094
Expenditure By Type											
Employee related costs	2	75 921	83 925	-	102 580	102 580	102 580	-	102 552	112 724	119 937
Remuneration of councillors		5 367	12 530		7 498	7 249	7 249		7 699	8 084	8 488
Debt impairment	3	72 296	96 133		52 618	66 644	66 644		66 644	69 976	73 475
Depreciation & asset impairment	2	17 420	4 747	-	22 659	84 659	84 659	-	84 659	88 892	94 136
Finance charges		6 860	6 507		5 138	5 138	5 138		5 565	5 843	6 135
Bulk purchases	2	52 663	74 910	-	92 112	97 112	97 112	-	102 426	110 967	120 223
Other materials	8		3 775		6 910	6 910	6 910		6 456	6 837	7 213
Contracted services		3 679	5 324	-	18 322	15 008	15 008	-	15 938	17 793	18 187
Transfers and grants		-	27	-	22 590	22 590	22 590	-	22 590	23 991	25 478
Other expenditure	4, 5	26 251	33 810	-	20 637	33 656	33 656	-	35 006	31 027	32 588
Loss on disposal of PPE											
Total Expenditure		260 457	321 689	-	351 064	441 546	441 546	-	449 535	476 134	505 861

The budgeted allocation for employee related costs for the 2014/15 financial year totals R102.552 million, which equals 23.5 per cent of the total operating expenditure. Based on the National Treasury guidelines in Circular 72, salary increases have been factored into this budget at a percentage increase of 6.75 per cent for the 2014/15 financial year. An annual increase of 6.4 per cent has been included in the two outer years of the MTREF. In addition expenditure against overtime is significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

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

The provision of debt impairment was determined based on an annual collection rate of 64 per cent for the 2014/2015. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R84.659 million for the 2014/15 financial and equates to 19 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of payment of interest on bulk service provider's accounts. Finance charges make up 1.2 per cent (R5.565 million) of operating expenditure.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Sedibeng 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 comprises of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. For 2014/15 the appropriation against this group of expenditure has decreased by 7 per cent (R6.456 million) and continues to grow at 6 per cent for the two outer years.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 4 per cent for 2014/15 and decreased by 12 in 2015/2016 and increased by 5 per cent in 2016/2017 for the two outer years, indicating that significant cost savings have been already realised. Further details relating to contracted services can be seen in Supporting Table SA32.

1.5.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the 2014/2015 budget and MTREF provide for asset repairs & 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. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Table 5 Operational Repairs and Maintenance

Repairs and Maintenance	8										
Employee related costs											
Other materials		4 393	3 775	-	6 910	6 910	6 910		7 338	7 705	8 091
Contracted Services											
Other Expenditure											
Total Repairs and Maintenance Expenditure	9	4 393	3 775	-	6 910	6 910	6 910	-	7 338	7 705	8 091

For the 2014/15 financial year, 2 per cent or R7.338 million has been allocated for repairs and maintenance.

During the compilation of the 2014/15 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the municipal infrastructure and historic deferred maintenance. To this end, repairs and maintenance was increased by 7 per cent in the 2014/15 financial year, from R6.910 million to R7.338 million. As part of the 2014/15 MTREF this strategic imperative remains a priority as can be seen by the budget appropriations over the MTREF. The total allocation for 2012/15 equates to R7.338 million a growth of 7 per cent in relation to the Adjustment Budget and continues to grow at 5 and 5 per cent over the MTREF. In relation to the total operating expenditure, repairs and maintenance comprises of 2, 2 and 2 per cent for the respective financial years of the MTREF.

Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the municipality's Indigent Policy. The target is to register more indigent households during the 2014/15 financial year, a process currently. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Main Table A10 MBRR A10 (Basic Service Delivery Measurement).

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

1.6 Capital Budget for 2014/2015 MTERF

The following table is a high level summary of the Capital Budget for 2014/15 budget and MTREF (classified per different vote):

Table 5 Summary of the Capital Budget classified by different Vote

Vote Description	Ref	2010/11			2011/12			2012/13			Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17						
Capital expenditure - Vote	1																
Multi-year expenditure - to be appropriated	2																
Council																	
Municipal Manager																	
Corporate Services																	
Budget and Treasury Office																	
Technical Services																	
Community and Social Services																	
0																	
0																	
0																	
0																	
0																	
0																	
0																	
0																	
0																	
0																	
Capital multi-year expenditure sub-total	7																
Single-year expenditure - to be appropriated	2																
Council																	
Municipal Manager																	
Corporate Services																	
Budget and Treasury Office																	
Technical Services																	
Community and Social Services																	
0																	
0																	
0																	
0																	
0																	
0																	
0																	
0																	
0																	
0																	
Capital single-year expenditure sub-total																	
Total Capital Expenditure - Vote																	
Capital Expenditure - Standard																	
Governance and administration					5 150	800	800										
Executive and council					4 150	300	300										
Budget and treasury office					750												
Corporate services					250	500	500										
Community and public safety	948				4 552	5 088	5 088		9 531	5 078	4 524						
Community and social services					257	775	775		3 569	110							
Sport and recreation	948				4 295	4 313	4 313		5 962	4 968	4 524						
Public safety																	
Housing																	
Health																	
Economic and environmental services	30 811				44 463	41 663	41 663		30 113	22 441							
Planning and development																	
Road transport	30 811				44 463	41 663	41 663		30 113	22 441							
Environmental protection																	
Trading services	8 972				26 922	25 922	25 922		3 442	2 000	29 126						
Electricity					20 000	21 000	21 000		3 442	2 000	5 000						
Water						1 000	1 000				8 000						
Waste water management	4 996				6 922	3 922	3 922				16 126						
Waste management	3 976																
Other	1 518				2 628	2 628	2 628		2 162	1 480	1 508						
Total Capital Expenditure - Standard	3	42 249			83 715	76 101	76 101		45 248	30 999	35 157						
Funded by:																	
National Government		36 299	22 501		52 565	52 565	52 565		43 248	28 999	30 157						
Provincial Government																	
District Municipality																	
Other transfers and grants		5 950	1 331		20 000	20 000	20 000		2 000	2 000	5 000						
Transfers recognised - capital	4	42 249	23 832		72 565	72 565	72 565		45 248	30 999	35 157						
Public contributions & donations	5																
Borrowing	6																
Internally generated funds					11 150	3 536	3 536										
Total Capital Funding	7	42 249	23 832		83 715	76 101	76 101		45 248	30 999	35 157						

For 2014/2015 an amount of R45.248 million or 40.5 per cent has been appropriated for development of infrastructure. In the outer years this amount totals R30,999 million and R35,157 million respectively. The reduction is due to decreases in capital grants from national government. Consequently, the capital budget will continue to decrease over the medium-term to R30.999 in 2015/2016 and increase to R35.135 due to Department of Energy funding in the 2016/2017 financial year. Some of projects to be undertaken in 2014/2015 financial year:

- Fencing of Cemeteries R3,569 million;
- Sport Facilities R5,962 million;
- Roads R30,113 million;
- Electricity R3,442 million; and

- Project Management Unit R2,162 million

Sources of Capital Funding over the MTREF

Description	Adjusted Budget 2013/2014	Budget Year 2014/2015	Budget Year+1 2015/2016	Budget Year+2 2016/2017
National Government	R52,565 million	R43,248 million	R28,999 million	R30,157 million
Other Grant Providers	R20,000 million	R2,000 million	R2,000 million	R5,000 million
Internal Generated Funds	R3,536 million	R0,00	R0,00	R0,00
Total Capital Funding	R76,101 million	R45,248 million	R30,999 million	R35,157 million

Part 2 – Supporting Documentation

1.7 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 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.

1.7.1 Budget Process Overview

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

The Mayor tabled in Council the required the IDP and budget time schedule on 30 September 2013. Key dates applicable to the process were:

- **30 January 2014** - Council considers the 2013/14 Mid-year Reports.
- **28 February 2014**- Adjustments Budget;
- **31 March 2014** - Tabling in Council of the draft 2014/15 IDP and 2014/15 MTREF for public consultation;
- **April 2014** – Public consultation;
- **09 May 2014** - Closing date for written comments;
- **12 to 23 May 2014** – finalisation of the 2014/15 IDP and 2014/15 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
- **30 May 2014** - Tabling of the 2014/15 MTREF before Council for consideration and approval.

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

1.7.2 IDP and Service Delivery and Budget Implementation Plan

The IDP as adopted by Council is under review. It started in September 2013 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2014/15 MTREF in September 2013.

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 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 2014/15 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 2014/15 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 2013/14 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.

1.7.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2014/15 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 2014/15 MTREF:

- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom and Sedibeng Water increases, household debt)
- Performance trends
- The approved 2013/14 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 70 and 72 have been taken into consideration in the planning and prioritisation process.

1.7.4 Community Consultation

The 2014/15 MTREF as tabled before Council on 31 March 2014 will be taken to stakeholder consultation and schedules will be published, and hard copies will be made available at municipal offices, municipal notice boards and community libraries.

1.8 Overview of alignment of annual budget with IDP

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

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

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

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

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

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

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

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2014/15 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 11 IDP Strategic Objectives

2013/14 Financial Year	2014/15 MTREF
1. The provision of quality basic services and infrastructure	1. Provision of quality basic services and infrastructure
2. Acceleration of higher and shared economic growth and development	2. Economic growth and development that leads to sustainable job creation
3. Fighting of poverty, building clean, healthy, safe and sustainable communities	3.1 Fight poverty and build clean, healthy, safe and sustainable communities
	3.2 Integrated Social Services for empowered and sustainable communities
4. Fostering participatory democracy and adherence to Batho Pele principles through a caring, accessible and accountable service	4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
5. Good governance, Financial viability and institutional governance	5.1 Promote sound governance
	5.2 Ensure financial sustainability
	5.3 Optimal institutional transformation to ensure capacity to achieve set objectives

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality's to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
 - o Provide electricity;
 - o Provide water;
 - o Provide sanitation;
 - o Provide waste removal;
 - o Provide roads and storm water;
 - o Provide planning services; and
 - o Maintaining the infrastructure of the municipality.

Free Basic Services: Basic Social Services Package for Indigent Households

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

For the 2014/15 financial year we intend to have more than 9 000 registered households' indigents. In terms of the Municipality's indigent policy registered households are entitled to 6kℓ free water, 50 kwh of electricity, 100% sanitation and 100% solid waste removal, as well as on their property tax.

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 Supporting Table 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.

1.9 Overview of budget related-policies

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies. The municipality is in the process of developing budget related policies which will be approved with the budget in May 2014.

1.10 Grants and Subsidies Receipts

The following tables is a breakdown of Grants and Subsidies for 2014/2015 financial year and outer years:

FS185 Nala - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		114 249	120 911	-	134 060	134 060	134 060	129 967	123 668	111 282
Local Government Equitable Share		111 999	120 911		130 670	130 670	130 670	126 199	120 751	108 164
Finance Management		1 500	-		1 500	1 500	1 500	1 800	1 950	2 100
Municipal Systems Improvement		750	-		890	890	890	934	967	1 018
EPWP Incentive					1 000	1 000	1 000	1 034	-	-
Provincial Government:		9 800	2 915	-	2 100	-	-	-	-	-
Financial Support-COGTA		9 800	2 915		2 100	-	-	-	-	-
District Municipality:		-	-	-	-	-	-	-	-	-
Other grant providers:		-	-	-	-	-	-	-	-	-
Total Operating Transfers and Grants	5	124 049	123 826	-	136 160	134 060	134 060	129 967	123 668	111 282
Capital Transfers and Grants										
National Government:		36 299	22 501	-	52 565	52 565	52 565	43 248	28 999	30 157
Municipal Infrastructure Grant (MIG)		36 299	22 501		52 565	52 565	52 565	43 248	28 999	30 157
Provincial Government:		-	-	-	-	-	-	-	-	-
District Municipality:		-	-	-	-	-	-	-	-	-
Other grant providers:		2 950	4 331	-	20 000	20 000	20 000	2 000	2 000	5 000
INEP		2 950	1 331		20 000	20 000	20 000	2 000	2 000	5 000
Water Affairs Grant			3 000							
Total Capital Transfers and Grants	5	39 249	26 832	-	72 565	72 565	72 565	45 248	30 999	35 157
TOTAL RECEIPTS OF TRANSFERS & GRANTS		163 298	150 658	-	208 725	206 625	206 625	175 215	154 667	146 439

1.11 Councillor and employee benefits

Summary of councillor and staff benefits

FS185 Nala - Supporting Table SA22 Summary councillor and staff benefits

Summary of Employee and Councillor remuneration	Ref	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousand		A	B	C	D	E	F	G	H	I
Councillors (Political Office Bearers plus Other)	1									
Basic Salaries and Wages					5 415	4 293	4 293	4 936	5 183	5 442
Pension and UIF Contributions					609	700	700	651	683	718
Medical Aid Contributions					35	311	311	333	350	368
Motor Vehicle Allowance					98	1 612	1 612	1 446	1 519	1 595
Cellphone Allowance						322	322	332	349	366
Housing Allowances										
Other benefits and allow ances					1 354					
Sub Total - Councillors		-	-	-	7 511	7 238	7 238	7 699	8 084	8 488
% increase	4				-	(3.6%)	-	6.4%	5.0%	5.0%
Senior Managers of the Municipality	2									
Basic Salaries and Wages								3 299	3 524	3 749
Pension and UIF Contributions										
Medical Aid Contributions										
Overtime										
Performance Bonus										
Motor Vehicle Allowance	3							753	753	753
Cellphone Allowance	3									
Housing Allowances	3									
Other benefits and allow ances	3									
Payments in lieu of leave										
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Senior Managers of Municipality		-	-	-	-	-	-	4 052	4 277	4 502
% increase	4				-	-	-	-	5.5%	5.3%
Other Municipal Staff										
Basic Salaries and Wages		46 405	53 274		66 015	67 885	67 885	68 823	73 228	77 914
Pension and UIF Contributions		7 297	8 755		10 358	16 205	16 205	11 719	12 469	13 267
Medical Aid Contributions		3 429	2 904		4 436	6 933	6 933	4 741	5 045	5 368
Overtime		6 012	7 136		6 295	6 560	6 560	4 212	4 481	4 768
Performance Bonus		4 485	4 827					-	-	-
Motor Vehicle Allowance	3	5 985	6 772		2 754	2 754	2 754	2 168	2 307	2 455
Cellphone Allowance	3				100	100	100	145	154	164
Housing Allowances	3	287	299		165	124	124	132	140	149
Other benefits and allow ances	3	1 240	415		9 053	1 723	1 723	10 227	10 882	11 578
Payments in lieu of leave					1 404	361	361	384	408	434
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Other Municipal Staff		75 140	84 381	-	100 580	102 645	102 645	102 552	109 115	116 098
% increase	4		12.3%	(100.0%)	-	2.1%	-	(0.1%)	6.4%	6.4%
Total Parent Municipality		75 140	84 381	-	108 091	109 883	109 883	114 303	121 476	129 089

The budgeted allocation for employee related costs for the 2014/15 financial year totals R102.552 million, which equals 23.5 per cent of the total operating expenditure. Based on the National Treasury guidelines in Circular 72, salary increases have been factored into this budget at a percentage increase of 6.75 per cent for the 2014/15 financial year. An annual increase of 6.4 per cent has been included in the two outer years of the MTREF. In addition expenditure against overtime is significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

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

1.12 Budgeted monthly revenue and expenditure

The following table is breakdown of Budgeted Monthly Cash Flows:

FS185 Nala - Supporting Table SA25 Budgeted monthly revenue and expenditure

Description	Ref	Budget Year 2014/15												Medium Term Revenue and Expenditure Framework			
		July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17	
Revenue By Source																	
Property rates		1 440	1 440	1 440	1 440	1 440	1 440	1 440	1 440	1 440	1 440	1 440	1 440	17 277	18 296	19 302	
Property rates - penalties & collection charges		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Service charges - electricity revenue		4 536	4 247	4 745	4 786	4 978	6 874	5 979	5 146	5 978	6 478	8 465	9 478	71 692	76 990	82 679	
Service charges - water revenue		3 465	3 456	4 256	4 491	4 579	5 169	4 937	4 565	4 179	4 165	3 878	3 205	50 346	53 317	56 249	
Service charges - sanitation revenue		1 694	1 694	1 694	1 694	1 694	1 694	1 694	1 694	1 694	1 694	1 694	1 694	20 329	21 528	22 712	
Service charges - refuse revenue		2 365	2 365	2 365	2 365	2 365	2 365	2 365	2 365	2 365	2 365	2 365	2 365	28 376	30 050	31 703	
Service charges - other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Rental of facilities and equipment		4	3	4	4	4	6	2	3	4	7	4	4	53	56	59	
Interest earned - external investments		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Interest earned - outstanding debtors		130	162	186	196	209	239	354	479	499	505	519	522	4 000	4 236	4 469	
Dividends received		-	-	-	-	-	-	-	-	-	-	-	0	3	3	4	
Fines		5	6	5	5	6	10	5	7	5	8	7	7	74	79	83	
Licences and permits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Agency services		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transfers recognised - operational		42 363	-	-	-	42 904	-	-	-	44 700	-	-	-	129 967	123 668	111 282	
Other revenue		444	414	618	548	212	378	456	699	315	245	246	394	4 969	5 262	5 552	
Gains on disposal of PPE		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Revenue (excluding capital transfers and contributions)		56 446	13 786	15 313	15 528	58 391	18 175	17 231	16 398	61 179	16 909	18 620	19 108	327 086	333 485	334 094	
Expenditure By Type																	
Employee related costs		8 058	8 269	8 253	8 646	8 572	8 724	8 940	8 724	8 373	8 879	8 598	8 515	102 552	112 724	119 937	
Remuneration of councillors		641	641	641	641	641	641	641	641	641	641	641	648	7 699	8 084	8 488	
Debt impairment		-	-	-	-	-	-	-	-	-	-	-	66 644	66 644	69 976	73 475	
Depreciation & asset impairment		-	-	-	-	-	-	-	-	-	-	-	84 659	84 659	88 892	94 136	
Finance charges		463	463	463	463	463	463	463	463	463	463	463	472	5 565	5 843	6 135	
Bulk purchases		9 312	7 345	7 246	7 990	8 638	8 765	7 989	7 955	7 956	9 346	9 946	9 938	102 426	110 967	120 223	
Other materials		475	386	275	525	456	285	374	680	745	1 235	520	500	6 456	6 837	7 213	
Contracted services		1 283	1 283	1 283	1 283	1 283	1 283	1 283	1 283	1 283	1 283	1 283	1 825	15 938	17 793	18 187	
Transfers and grants		1 882	1 882	1 882	1 882	1 882	1 882	1 882	1 882	1 882	1 882	1 882	1 888	22 590	23 991	25 478	
Other expenditure		3 917	3 878	3 165	1 789	2 856	1 798	2 645	2 978	3 980	2 456	1 978	3 566	35 006	31 027	32 588	
Loss on disposal of PPE		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Expenditure		26 031	24 147	23 208	23 219	24 790	23 842	24 217	24 606	25 323	26 184	25 312	178 655	449 535	476 134	505 861	
Surplus/(Deficit)		30 415	(10 360)	(7 895)	(7 691)	33 601	(5 666)	(6 986)	(8 208)	35 857	(9 275)	(6 692)	(159 546)	(122 449)	(142 649)	(171 767)	
Transfers recognised - capital		17 731	-	-	-	11 202	-	-	-	16 315	-	-	0	45 248	30 999	35 157	
Contributions recognised - capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Contributed assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Surplus/(Deficit) after capital transfers & contributions		48 146	(10 360)	(7 895)	(7 691)	44 802	(5 666)	(6 986)	(8 208)	52 172	(9 275)	(6 692)	(159 546)	(77 201)	(111 650)	(136 610)	
Taxation		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Attributable to minorities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Share of surplus/ (deficit) of associate		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Surplus/(Deficit)	1	48 146	(10 360)	(7 895)	(7 691)	44 802	(5 666)	(6 986)	(8 208)	52 172	(9 275)	(6 692)	(159 546)	(77 201)	(111 650)	(136 610)	

Collection Rate for Revenue Services

The base assumption is that tariff and rating will increase at a rate slightly higher than the 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 (64 per cent) of annual billings. Cash flow is assumed to be 64 per cent of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

1.13 Budgeted monthly capital expenditure (standard classification)

The following table is a breakdown of Monthly Capital Expenditure:

FS185 Nala - Supporting Table SA29 Budgeted monthly capital expenditure (standard classification)

Description	Ref	Budget Year 2014/15												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	Nov.	Dec.	January	Feb.	March	April	May	June	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Capital Expenditure - Standard	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Governance and administration</i>		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Executive and council		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Budget and treasury office		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate services		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Community and public safety</i>		1 408	1 560	769	1 242	1 997	790	765	364	436	200	-	(0)	9 531	5 078	4 524
Community and social services		297	330	147	253	987	334	221	364	436	200	-	0	3 569	110	-
Sport and recreation		1 111	1 230	622	989	1 010	456	544	-	-	-	-	(0)	5 962	4 968	4 524
Public safety		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Economic and environmental services</i>		3 726	6 387	1 734	2 286	2 980	1 110	2 189	1 734	1 564	1 978	2 645	1 780	30 113	22 441	-
Planning and development		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Road transport		3 726	6 387	1 734	2 286	2 980	1 110	2 189	1 734	1 564	1 978	2 645	1 780	30 113	22 441	-
Environmental protection		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Trading services</i>		-	-	976	1 480	986	-	-	-	-	-	-	(0)	3 442	2 000	29 126
Electricity		-	-	976	1 480	986	-	-	-	-	-	-	(0)	3 442	2 000	5 000
Water		-	-	-	-	-	-	-	-	-	-	-	-	-	-	8 000
Waste water management		-	-	-	-	-	-	-	-	-	-	-	-	-	-	16 126
Waste management		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other</i>		180	240	196	233	176	216	176	125	147	197	146	130	2 162	1 480	1 508
Total Capital Expenditure - Standard	2	5 314	8 187	3 675	5 241	6 139	2 116	3 130	2 223	2 147	2 375	2 791	1 910	45 248	30 999	35 157
Funded by:																
National Government		17 299	-	-	-	16 434	-	-	-	9 515	-	-	-	43 248	28 999	30 157
Provincial Government		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
District Municipality		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other transfers and grants		-	-	-	-	2 000	-	-	-	-	-	-	-	2 000	2 000	5 000
Transfers recognised - capital		17 299	-	-	-	18 434	-	-	-	9 515	-	-	-	45 248	30 999	35 157
Public contributions & donations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Internally generated funds		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Capital Funding		17 299	-	-	-	18 434	-	-	-	9 515	-	-	-	45 248	30 999	35 157

The municipality has projected to spent 100% of the capital budget of R45,248 million in the 2014/2015 financial year. The projection is informed by 2012/2013 financial year and the current year performance.

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, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

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

budgeting and reporting will be monitored regularly to ensure service delivery and improved performance in the municipality.

1.14 Overview of Budget Assumptions

External Factors

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

The current economic situation and consumer payment levels were taken into consideration when the 2014/2015 budget was prepared. The municipality has projected 64 per cent collection rate for 2014/2015 financial year and an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will only be considered a source of additional cash inflow once collection is made thereof in 2014/2015 financial year.

1.15 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 understanding and good cash flow management. It includes:

- Clear separation of receipts and payments within each cash flow category;
 - Clear separation of capital and operating receipts from government, which also enables cash ratepayers and other to be provide for as cash inflow based on actual performance. Actual collection rate of billed revenue.
 - Separation of borrowing and loan repayments, to assist with MFMA compliance assessment regarding the use of long term debt.
-

1.16 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.

2. Internship Programme

The 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. The previous group of interns has been appointed permanently from December 2013. Since the introduction of the Internship programme the municipality has successfully trained and employed interns through this programme.

3. Budget and Treasury Office

The municipality has undertaken the process of establishing The Budget and Treasury Office 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 2014/15 MTREF in May 2014 directly aligned and informed by the 2014/15 MTREF.

6. Annual Report

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

7. Policies

The municipality is in the process of developing budget related policies that will guide the budget in the 2014/2015 financial year.

It can be concluded that the municipality has an operating deficit. The municipality has no cash reserves which is a serious concern and should be considered a strategic risk to the financial stability of the municipality. As part of the planning strategy, this deficit needs to be aggressively managed downwards and as part of the medium term planning objectives. It is aimed that by 2016/17 this deficit would have been significantly reduced translating into a surplus if the municipality manage to improve collection rate to at least 75 per cent and also manage to reduce outstanding debtors. It needs to be noted that for all practical purposes the 2014/15 MTREF is unfunded when considering the funding requirements of section 18 and 19

of the MFMA. The 2014/15 MTREF has been informed by ensuring the financial plan meets the minimum requirements of the MFMA. However, from a practical perspective it would not be possible to eradicate this deficit in one financial year hence the phased approach over the MTREF. Nevertheless from a pure cash flow perspective (cash out flow versus cash inflow) the budget is funded and is therefore credible. The challenge for the municipality will be to ensure that the underlying planning and cash flow assumptions are meticulously managed, especially the performance against the collection rate.
