

# SCHEDULE A

## AN ANNUAL BUDGET AND SUPPORTING DOCUMENTATION OF INGQUZA HILL LOCAL MUNICIPALITY

ANNUAL BUDGET OF

# **INGQUZA HILL LOCAL MUNICIPALITY**

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

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## Abbreviations and Acronyms

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

# Annual Budget

## 1.1 Mayor's Report

In his SOMA Speech to Council on 26 March 2014, the Mayor said: "We cannot expect to do the same old things and expect different results". In the past three years, the world economy has gone through its deepest recession in over 70 years. Signals are that the recovery is still fragile and many commentators caution that current positive economic trends may be short-lived and that the world economy may yet experience a second recessionary wave. Ingquza Hill Local Municipality was in no way immune to the harsh economic realities associated with the recession. Among the impacts are the serious cash flow challenges currently being experienced by the municipality due to among other things declining collection rates; historic expenditure patterns and a general lack of "investment opportunities".

Management within local government has a significant role to play in strengthening the link between the citizen and government's overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the Ingquza Hill Local Municipality. Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

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

## 1.2 Council Resolutions

On 27 May 2014 the Council of Ingquza Hill Local Municipality is meeting to consider the annual budget of the municipality for the financial year 2014/15. The Council will approve and adopt the following resolutions:

1. The Council of Ingquza Hill 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)
    - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote)
    - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) and
    - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source
  - 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;
  - 1.2.2. Budgeted Cash Flows as contained;
  - 1.2.3. Cash backed reserves and accumulated surplus reconciliation;
  - 1.2.4. Asset management and
  - 1.2.5. Basic service delivery measurement.
2. The Council of Ingquza Hill Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2014:
    - 2.1. the tariffs for property rates,
    - 2.2. the tariffs for solid waste services
  3. The Council of Ingquza Hill Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2014 the tariffs for other services, as set out in Annexure.
  4. To give proper effect to the municipality's annual budget, the Council of Ingquza Hill Local Municipality approves:
    - 4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all reserves and provisions, and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.
    - 4.2. That the municipality be permitted to enter into long-term loans for the funding of the capital programmes in respect of the 2014/15 financial year limited to an amount of the project to be funded in that financial year of the MTREF in terms of Section 46 of the Municipal Finance Management Act.
    - 4.3. That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above lending programme.

### **1.3 Executive Summary**

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

The IHLM's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. This has resulted in savings to the municipality of nearly 10 percent of the current financial year's adjusted budget. Key areas where savings were realized were on personnel and other projects that couldn't commence in this financial year.

The IHLM has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. These collection strategies include the appointment of the debt collector to collect on behalf of the Municipality and the results are quite good. Furthermore, the IHLM has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government. The Ingquza Hill Local Municipality is also in the processes of finalizing the new general valuation

roll to be implemented on the 01 July 2014. The municipal valuer has already submitted a draft GV and now the process for objections has been opened.

National Treasury's MFMA Circular No. 71 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 summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality from R 303m to R 296m;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original number of allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2014/15 MTREF process; and
- Availability of affordable capital/borrowing(front loading proved to be expensive) to finalize DTC.

The following budget principles and guidelines directly informed the compilation of the 2014/15 MTREF:

- The 2013/14 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2014/15 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost telephone and fuel expenses, etc. In addition, tariffs need to be reduced because of huge increases in the value of the properties as it has been indicated by the new general valuation roll and should take into account the need to address service delivery backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

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

Table 1 Consolidated Overview of the 2011/12 MTREF

	<b>Adjusted Budget 2013/14</b>	<b>Budget Year 2014/15</b>	<b>Budget Year 2015/16</b>	<b>Budget Year 2016/17</b>
Total revenue	303 318 958	296 788 108	320 625 948	330 524 300
Opex	175 681 056	176 776 631	185 465 910	194 876 998
Surplus	<b>127 637 902</b>	<b>120 011 477</b>	<b>135 160 038</b>	<b>135 647 301</b>

Capex	130 378 650	119 975 900	135 160 038	135 647 301
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Total municipal revenue has decreased by 6 per cent or R6.5 million for the 2014/15 financial year when compared to the 2013/14 Adjustments Budget. For the two outer years, operational revenue will increase by 7 and 3 per cent respectively, equating to a total revenue growth of R33 million over the MTREF when compared to the 2013/14 financial year.

Total operating expenditure for the 2014/15 financial year has been appropriated at R176 million and translates into a budgeted surplus of R120 million. When compared to the 2013/14 Adjustments Budget, operational expenditure has grown by 1 per cent in the 2014/15 budget and by 5 and 5 per cent for each of the respective outer years of the MTREF. The operating surplus for the two outer years steadily increases to R135 million and then stabilize at R135 million. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R 119 million for 2014/15 is 6 per cent less when compared to the 2013/14 Adjustment Budget. The reduction is due to various projects being finalized in the previous financial year as well as affordability constraints in the light of current economic circumstances. The capital programme remains at R119 million in the 2014/15 financial year and then evens out in 2015/16 and 2015/17 to R135 million. A substantial portion of the capital budget will be funded from grants over MTREF with anticipated borrowings of R3 million in each of the financial years of the MTREF. Borrowing will contribute 3 and 2 per cent of capital expenditure in each of the MTREF years, when government grants and transfers are excluded. The balance will be funded from internally generated funds. Note that the IHLM has not reached its prudential borrowing limits and so there is very huge chance to still incur some debt for capital programmes. The repayment of capital and interest (debt services costs) has not increased over the past five years. Consequently, the capital budget remains relatively flat over the medium-term.

## 1.4 Operating Revenue Framework

For Ingquza Hill Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

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

- National Treasury's guidelines and macroeconomic policy;
- Growth in the IHLM and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;



- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the IHLM.

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

### Summary of revenue classified by main revenue source

EC153 Ngquza Hills - Table A4 Budgeted Financial Performance

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
<b>Revenue By Source</b>		9	7	8	12	8	12	8	12	8	8
Property rates	2	411	644	000	000	000	000	000	000	424	837
Property rates - penalties & collection charges											
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	90	450	90	845	800	845	90	845	-	-
Service charges - other											
Rental of facilities and equipment		325	23	15	-	-	-	15	-	-	-
Interest earned - external investments		585	750	794	500	500	500	794	500	000	000
Interest earned - outstanding debtors											
Dividends received											
Fines		150	200	250	800	800	800	250	800	260	270
Licences and permits											
Agency services		400	707	000	168	000	168	000	168	000	000
Transfers recognised - operational		788	105 815	116 174	157 076	420	157 076	174	157 076	203 123	205 043
Other revenue	2	910	218	353	805	241	805	353	805	541	632
Gains on disposal of PPE											
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>110 659</b>	<b>127 807</b>	<b>156 677</b>	<b>221 194</b>	<b>279</b>	<b>221 194</b>	<b>677</b>	<b>221 194</b>	<b>221 348</b>	<b>222 782</b>

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 IHLM. Rates and service charge revenues comprise 0.004% of the total

revenue mix. In the 2013/14 financial year, revenue from rates and services charges totalled R 8 million. This increases to R12 million and also in the respective financial years of the MTREF. A notable trend is the increase in the total percentage revenue generated from rates and services charges which increases from 6 per cent in 2014/15. This growth can be mainly attributed to the increased CPIX and that contributes to the total revenue mix. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality. Details in this regard are contained in Table SA1 of the A1 Budget Schedule.

The other important sources is 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, income from plant, natis agency fees and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totals R158 million in the 2014/15 financial year and steadily increases to R203 million by 2015/16. Note that the year-on-year growth for the 2014/15 financial year is 22 per cent and then flattens out in the two outer years. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

#### Operating Transfers and Grant Receipts

		2015	2016	2017
EQ	4	142 857 000	188 844 000	190 661 000
SSC&W	4	10 685 000	11 162 000	11 664 000
FMG	5	1 600 000	1 650 000	1 700 000
EPWP	5	1 000 000	-	-
MSIG	5	934 000	967 000	1 018 000
DESRAC	4	724 000		
VUNA AWARDS		210 000	-	-
REV SMALL				
TOWNS		300 000	300 000	300 000
LED CAPACITY		112 000	105 000	108 000
		<b>158 422 000</b>	<b>203 028 000</b>	<b>205 451 000</b>

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 IHLM.

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 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 Rand Water bulk tariffs are far beyond the mentioned inflation target. Discounting the impact of these price increases in lower consumer tariffs will erode the IHLM'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 municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases, petrol, diesel, chemicals, cement etc. The current challenge facing the IHLM 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. Within this framework the IHLM has undertaken the tariff setting process relating to service charges as follows.

#### 1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

Refer to the rate policy for the actual amendments made to it.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2014/15 financial year based on market drivers as from 1 July 2014 is contained below:

#### Comparison of proposed rates to levied for the 2014/15 financial year

Category	Current Tariff (1 July 2013)	Proposed tariff (from 1 July 2014)
	<b>C</b>	<b>C</b>
Residential properties		
State owned properties		
Business & Commercial		
Agricultural		
Vacant land		
Municipal rateable		
Industrial		
Non-permitted use		
Public benefit organisation properties		

#### 1.4.2 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The IHLM will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles (old trucks), increases in general expenditure such as petrol and

diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models, ie. Recycling. The outcomes of this investigation will be incorporated into the next planning cycle.

The following table compares current and proposed amounts payable from 1 July 2014:

**Table 2 Comparison between current waste removal fees and increases**

	CURRENT TARIFFS 2010/11		PROPOSED TARIFFS 2011/12	
	WASTE REMOVAL	IHLM CLEANING	WASTE REMOVAL	IHLM CLEANING

The amount payable is billed on a monthly bases:

## 1.5 Operating Expenditure Framework

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

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

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

### Summary of operating expenditure by standard classification item

The budgeted allocation for employee related costs for the 2014/14 financial year totals R101 million, which is 7 per cent increase and equals 58 per cent of the total operating expenditure and 35 per cent of the total budget. Based on the collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7 per cent for the 2014/15 financial year. An annual increase of 5 per cent has been included in the two outer years of the MTREF. As part of the IHLM's cost reprioritization and cash management strategy

vacancies have been significantly rationalized downwards. As part of the planning assumptions and interventions all vacancies were originally removed from the budget and a report was compiled by the Corporate Services Department relating to the prioritization of critical vacancies within the Municipality. The outcome of this exercise was the inclusion of R2.3 million in the 2014/15 financial year relating to critical and strategically important vacancies to be filled in 2014/15. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency cases and other critical functions.

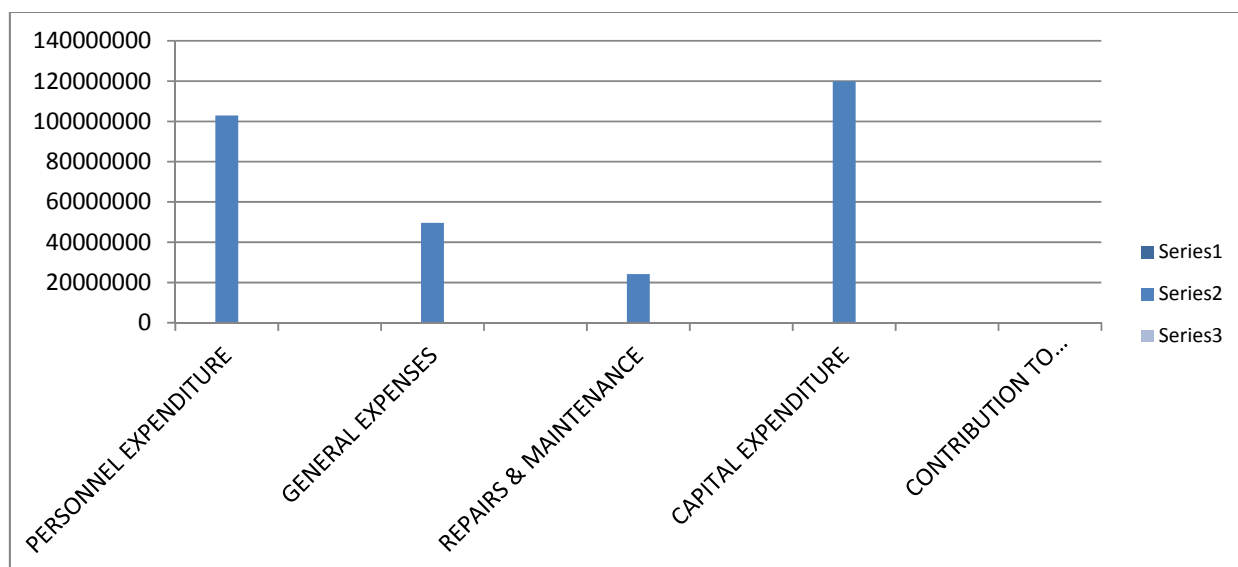
The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the IHLM's budget. The cost for the remuneration of councillors is R 15 million for 2014/15 financial year which shows an increase of 7 per cent compared to 2013/14 financial year.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital).

Other materials/expenditure comprises of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals, etc. In line with the IHLM's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the IHLM's infrastructure.

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 6 per cent for 2014/15 and curbed at 5.4 and 5.4 per cent for the two outer years, indicating that significant cost savings have been already realised.

The following table gives a breakdown of the main expenditure categories for the 2014/15 financial year.



**Main operational expenditure line items for the 2014/15 financial year**

**2. GENERAL EXPENSES**

ADVERTISING FEES	354 612	218 682	250 000	263 500	277 729
ACCOUNTING AND AUDIT FEES	3 867 908	3 397 706	4 099 982	4 321 381	4 554 736
ARTS & CULTURE	89 295	59 023	89 295	94 028	98 635
AUDIT COMMITTEE FEES	250 000	111 608	200 000	210 800	222 183
BANK CHARGES	111 619	83 456	100 000	105 400	111 092
BEACH MANAGEMENT	211 619	113 450	160 000	117 534	123 294
CATERING MEETINGS	287 469	108 984	437 469	460 655	483 227
CLEANING & GREENING	150 000	23 428	50 000	150 000	157 350
CLEANING MATERIAL	66 971	37 601	66 971	70 521	73 976
COMMUNICATION	400 520	187 315	424 551	447 477	471 641
CONSULTANTS & PROFF. FEES	10 000	1 473	10 000	-	-
COUNCIL FUNCTIONS & FUNCTIONS	2 300 000	1 568 910	2 300 000	2 424 200	2 555 107
CRIME PREVENTION	140 665	104 870	200 000	358 720	376 298
DATA LINES	70 808	22 460	50 000	52 700	55 546
DBSA LOAN REPAYMENT	496 586	233 704	496 586	523 402	551 666
E A P	300 000	175 167	300 000	-	-
EARLY CHILD HOOD DEVELOPMENT	78 133	-	78 133	82 274	86 306
EDUCATIONAL PROGRAMMES	173 238	-	50 000	182 419	191 357
ELECTRICITY PURCHASES	423 600	251 301	423 600	446 474	470 584
EPWP	2 863 718	1 790 379	2 863 718	3 015 495	3 163 254
EQUITABLE SHARE: F B S	2 201 400	265 815	2 201 400	2 318 074	2 431 660
EXPERIENTIAL LEARNERS	1 359 000	74 000	1 359 000	1 000 000	1 000 000
FMG EXPENDITURE	873 371	873 371	1 600 000	1 650 000	1 700 000
HEALTH SERVICE	145 104	30 598	100 000	152 795	160 282

HIV/AIDS	105 400	33 075	75 000	110 986	116 425
HOTEL ACCOMMODATION	1 463 022	502 052	1 135 837	1 103 457	1 160 088
I G R	21 080	10 402	85 000	89 590	94 428
IDP DEVELOPMENT	500 000	77 316	400 000	421 200	441 839
INSURANCE : EXTERNAL	689 578	679 371	812 578	856 457	902 706
INTERNAL AUDIT FEES	1 027 387	639 190	1 089 030	1 147 837	1 209 821
LABOUR RELATIONS	-	-	30 000	31 620	33 327
LEGAL FEES	2 145 424	1 752 326	2 274 149	2 396 954	2 526 389
LIBRARY SERVICES	345 104	187 391	195 104	205 445	215 511
LICENCE FEES	105 400	2 948	105 400	110 986	116 425
MUNSOFT & PAYDAY	744 129	546 117	644 129	678 912	715 573
PARKS, POUND & CEMETERIES	234 856	-	100 000	247 303	259 421
PETTY CASH	11 788	-	26 788	28 235	29 760
PLANNING & SURVEY-DHLTA	1 850 000	581 464	500 000	526 500	552 299
PLANT EXPENSES	8 000 000	4 541 253	7 000 000	7 378 000	7 776 412
POSTAGE	1 116	678	1 116	1 176	1 240
PRINTING & STATIONERY	490 000	342 680	490 000	500 000	524 500
PROPERTY VALUATIONS	900 000	402 152	500 000	526 500	552 299
PROTECTIVE CLOTHING	205 400	97 854	135 400	142 606	149 752
PUBLIC PARTICIPATION	134 000	122 514	301 080	317 338	334 475
REFUND LAND SALES	50 000	15 725	50 000	52 650	55 230
REFUSE BAGS & BINS	626 861	351 900	426 861	449 485	471 510
REGISTERING AUTHORITY	233 942	111 748	133 942	141 041	147 952
RELLOCATION EXPENSES	111 619	13 660	111 619	117 534	123 294
RENT - OFFICE EQUIPMENT	345 104	282 546	250 000	263 500	277 729

S&T	1 500 000	977 937	1 421 000	1 486 534	1 553 901
SITTING: TRADITIONAL COUNCILLORS	164 326	96 000	150 000	150 000	150 000
SPATIAL DEVELOPMENT FRAMEWORK	10 000	-	10 000	10 530	11 046
SPECIAL PROGRAMMES	2 254 327	1 834 881	2 389 587	2 518 624	2 654 630
SPORT PROMOTION	111 618	47 114	111 618	117 534	123 294
SUPPORT TO TRADITIONAL INSTITUTIONS	61 554	29 353	50 000	52 700	55 546
DRIVERS TESTING CARDS	-	-	160 000	-	-
TEAM BUILDING	550 000	134 704	300 000	316 200	333 275
TELEPHONE	2 935 000	2 045 239	2 635 000	2 774 655	2 910 613
TOURISM	500 000	336 553	500 000	500 000	500 000
TOWING SERVICES	22 324	9 851	22 324	23 507	24 659
TRAFFIC LAW ENFORCEMENT	279 047	92 020	200 000	293 836	308 234
TRAINING : ACCOMMODATION	639 437	568 288	539 437	568 027	595 861
TRAINING	550 000	343 956	400 000	421 200	441 839
VEHICLE CAR HIRE	869 827	479 175	869 827	915 928	960 809
VEHICLE FUEL & OIL	3 000 000	1 748 913	2 000 000	2 106 000	2 209 194
VODACOM 3G	257 180	98 372	357 180	376 110	394 539
WARD ADMINISTRATORS	2 844 992	1 920 353	2 500 000	2 635 000	2 777 290
PMS SYSTEM	500 000				
<b>TOTAL GENERAL EXPENSES</b>	<b>55 686 196</b>	<b>32 259 133</b>	<b>49 651 331</b>	<b>51 824 644</b>	<b>54 387 873</b>

### 1.5.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the IHLM's current infrastructure and other assets, the 2014/15 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the IHLM. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

#### Operational repairs and maintenance

BUILDINGS & INSTALLATIONS	1 812 350	58 265	1 700 000	1 791 800	1 888 557
COMPUTER INSTALLATION	100 000	24 998	100 000	105 300	110 460



OFFICE FURNITURE & COMP. EQUIPMENT	200 000	-	200 000	210 600	220 919
PLANT & EQUIPMENT	1 000 000	584 527	1 000 000	1 054 000	1 110 916
ROAD MAINTENANCE	20 465 950	8 839 898	20 465 950	21 571 111	22 735 951
STREET LIGHTS	400 000	15 000	400 000	421 600	444 366
TOOLS & EQUIPMENT	40 000	540	40 000	42 160	44 437
VEHICLES	300 000	170 127	300 000	315 900	331 379
<b>TOTAL REPAIRS &amp; MAINTENANCE</b>	<b>24 318 300</b>	<b>9 693 356</b>	<b>24 205 950</b>	<b>25 512 471</b>	<b>26 886 986</b>

During the compilation of the 2014/15 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the IHLM's infrastructure and historic deferred maintenance.

To this end, repairs and maintenance was kept the same because of the financial difficulties in 2014/15 financial year at R 24 million. During the 2013 Adjustment Budget this allocation was adjusted slightly upwards to R24 million owing to the cash flow savings by the IHLM. Notwithstanding the no change, 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 budget for repairs and maintenance is in-line with the National Treasury circular which indicates that the budget for repairs and maintenance must be 8 per cent.

### 1.5.2 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 IHLM's Indigent Policy. The target is to register as many indigent households as possible during the 2014/15 financial year, a process reviewed annually. The processes for the ward based data collection has been concluded and the indigent policy is also yet to be approved by the council in the next council meeting.

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.

Currently indigent beneficiaries are supplied with electricity through a service level agreement with Eskom and in 2014/15 IHLM will be supplying alternative energy as well.

## 1.6 Capital expenditure

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

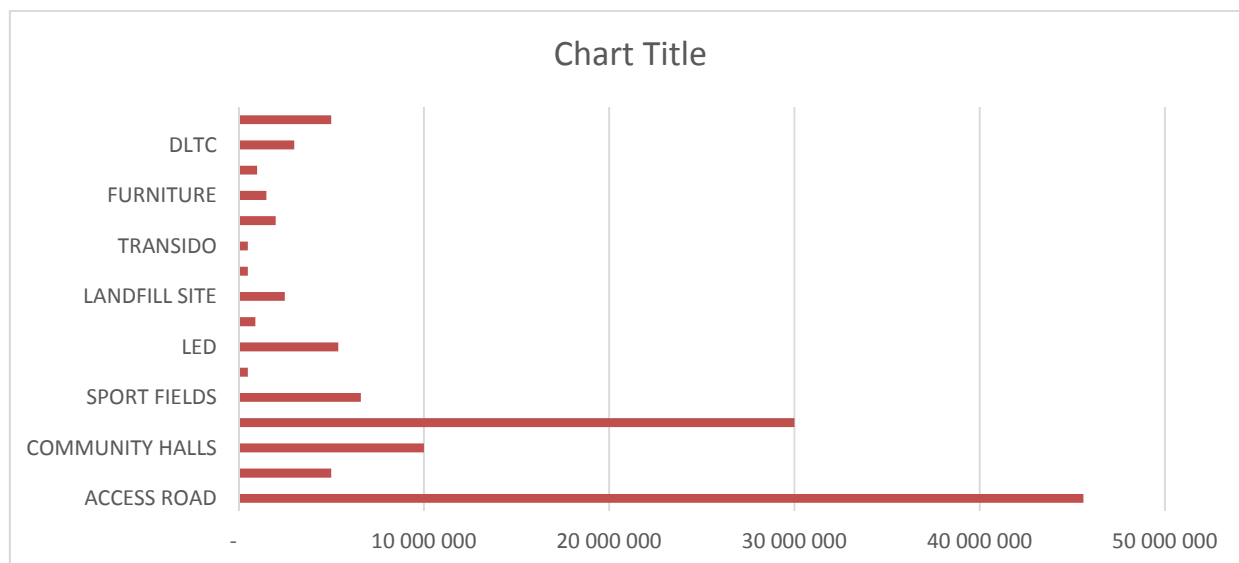
<b>CAPITAL EXPENDITURE</b>					
BUILDINGS	7 000 000	703 364	30 000 000	30 000 000	30 000 000
COMMUNITY HALL	11 487 650	6 032 653	10 000 000	4 278 016	3 350 238

COMPUTER EQUIPMENTS	2 000 000	825 154	500 000	527 000	555 458
PARKS, POUND & CEMETRIES(FENCING)		-	500 000	-	-
DRIVERS TESTING CENTER		-	3 000 000	-	-
ELECTRIFICATION	20 000 000	2 698 119	5 000 000	25 000 000	30 000 000
PAVING ROAD	2 500 000	-	2 000 000	-	-
FURNITURE & OFFICE EQUIPMENT	900 000	-	1 500 000	1 579 500	1 656 896
SERVICES FOR SITES		-	5 000 000	-	-
TRANSIDO	-	-	500 000	-	-
L E D PROJECTS	11 100 000	3 707 013	5 381 900	5 672 523	5 978 839
LANDFILL SITES	4 000 000	-	2 500 000	-	-
MIG – CAPS	44 591 000	12 946 902	45 594 000	53 198 000	55 524 000
MOTOR VEHICLES	2 800 000	1 656 415	900 000	948 600	999 824
STREET LIGHTS	-	-	1 000 000	5 000 000	250 000
SPECIALISED EQUIPMENT – PLANT	1 200 000	366 638	-	-	-
SPECIALISED EQUIPMENT – REFUSE	1 200 000	1 014 238	-	-	-
SPORT FIELDS	6 600 000	1 215 371	6 600 000	6 956 400	7 332 046
VEHICLE TESTING CENTRE	-	-	-	2 000 000	-
INVESTMENT PROPERTY	15 000 000	6 359 649	-	-	-
<b>TOTAL CAPITAL EXPEND EX</b>	<b>130</b>	<b>37</b>	<b>119</b>	<b>135</b>	<b>135</b>
<b>REVENUE</b>	<b>378 650</b>	<b>525 517</b>	<b>975 900</b>	<b>160 038</b>	<b>647 301</b>

For 2014/15 an amount of R 119 million has been appropriated for the development of infrastructure and other assets.

- Buildings – R30 million;
- Community halls – R10 million;
- Computers – R0.5 million;
- Parks, pound and cemeteries – R0.5 million;
- Vehicle testing center – R3 million;
- Electrification – R 5 million;
- Paving – R 2 million;
- Furniture – R 2 million;
- Services for sites – R 5 million;
- Transido – R 0.5 million;
- LED projects – R 5.4 million;
- Roads – R 45.6 million;
- Motor vehicles – R 0.9 million;
- Street lights – R1 million;
- Sport fields – R 6.6 million;

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



## 1.7 Annual Budget Tables - Parent Municipality

The following table present the summary of the main budget table as required in terms of section 8 of the Municipal Budget and Reporting Regulations. This table set out the municipality's 2014/15 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.

EC153 Ngquza Hills - Table A1 Budget Summary

Description	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
<b>Financial Performance</b>										
Property rates	9 411	7 644	8 000	12 000	8 000	12 000	8 000	12 000	8 424	8 837
Service charges	90	450	90	845	800	845	90	845	-	-
Investment revenue	585	750	794	2 500	3 500	2 500	794	2 500	3 000	3 000
Transfers recognised - operational	75 788	105 815	116 174	157 076	130 420	157 076	116 174 31	157 076	203 123	205 043
Other own revenue	24 785	13 148	31 618	48 773	36 441	48 773	618	48 773	6 801	5 902
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>110 659</b>	<b>127 807</b>	<b>156 677</b>	<b>221 194</b>	<b>106 279</b>	<b>221 194</b>	<b>156 677</b>	<b>221 194</b>	<b>221 348</b>	<b>222 782</b>
Employee costs	54 621	46 168	83 650	93 412	676 14	93 412	650 14	87 050	91 403	95 972
Remuneration of councillors	11 492	13 610	13 969	15 063	123	15 063	123	15 869	16 726	17 630
Depreciation & asset impairment	-	-	-	-	-	-	-	-	-	-
Finance charges	-	-	-	-	-	-	-	-	-	-
Materials and bulk purchases	-	-	-	-	-	-	-	-	-	-
Transfers and grants	-	-	-	-	-	-	-	-	-	-
Other expenditure	-	-	-	-	-	-	-	-	-	-

	-	-	-	-	-	-	-	-	-	-
<b>Total Expenditure</b>	66 114	59 777	97 619	108 475	109 800	108 475	97 773	102 919	108 129	113 602
<b>Surplus/(Deficit)</b>	44 546	68 030	59 058	112 719	(3 521)	112 719	903	118 275	113 219	109 180
Transfers recognised - capital	44 857	36 755	48 263	69 073	64 591	69 073	48 263	55 594	78 198	85 524
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	89 403	104 785	107 321	181 792	61 070	181 792	107 166	173 869	191 417	194 704
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) for the year</b>	89 403	104 785	107 321	181 792	61 070	181 792	107 166	173 869	191 417	194 704
<b>Capital expenditure &amp; funds sources</b>										
<b>Capital expenditure</b>	57 969	52 253	88 688	134 873	130 379	134 873	88 688	119 976	84 422	130 343
Transfers recognised - capital	57 969	52 253	88 688	134 873	130 379	134 873	88 688	119 976	84 422	130 343
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	-	-	-	-	-	-	-	-
<b>Total sources of capital funds</b>	57 969	52 253	88 688	134 873	130 379	134 873	88 688	119 976	84 422	130 343
<b>Financial position</b>										
Total current assets	338 68	156 94	484 116	916 159	-	-	-	-	-	-
Total non current assets	344 599	912 586	812 777	640 777	-	-	-	-	-	-
Total current liabilities	728 51	722 52	983 67	684 77	-	-	-	-	-	-
Total non current liabilities	826 6	826 6	826 6	-	-	-	-	-	-	-
Community wealth/Equity	609 127	621 520	819 487	859 871	-	-	-	-	-	-
<b>Cash flows</b>										
Net cash from (used) operating	527 8	944 74	647 7	537 243	(2) 26	537 15	647 3	7 012	120 160	135 648
Net cash from (used) investing	892 5	472 378	378 500	500 051	051 500	500 378	378 976	3 (119) 976	(84) 422	(130) 343
Net cash from (used) financing	532 (7)	(481) 95	(509) 95	(537) 15	(497) 23	(537) 15	(509) 10	(497) (460)	(523) 755	(552) 507
<b>Cash/cash equivalents at the year end</b>	481	417	933	501	312	501	516	(460)	755	507
<b>Cash backing/surplus reconciliation</b>										
Cash and investments available	290 19	021 49	556 108	383 85	-	-	-	-	-	-
Application of cash and investments	(946) (33)	165 (41)	275 (47)	100 (69)	-	-	-	000 20	-	-
<b>Balance - surplus (shortfall)</b>	236 53	186 90	830 155	483 154	-	-	-	000 (20) 000	-	-
<b>Asset management</b>										
Asset register summary (WDV)	800 287	054 293	227 446	227 446	-	-	-	-	-	-
Depreciation & asset impairment	-	-	-	-	-	-	-	-	-	-
Renewal of Existing Assets	969 57	253 52	688 88	873 134	379 130	873 134	873 134	976 119	422 84	343 130
Repairs and Maintenance	661 2	931 2	232 8	006 23	232 8	006 23	206 24	206 24	512 25	887 26

<u>Free services</u>											
Cost of Free Basic Services provided	-	-	-	-	-	-	-	-	-	-	-
Revenue cost of free services provided	-	-	-	-	-	-	-	-	-	-	-
<u>Households below minimum service level</u>											
Water:	-	-	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-	-

### Explanatory notes to MBRR Table A1 - Budget Summary

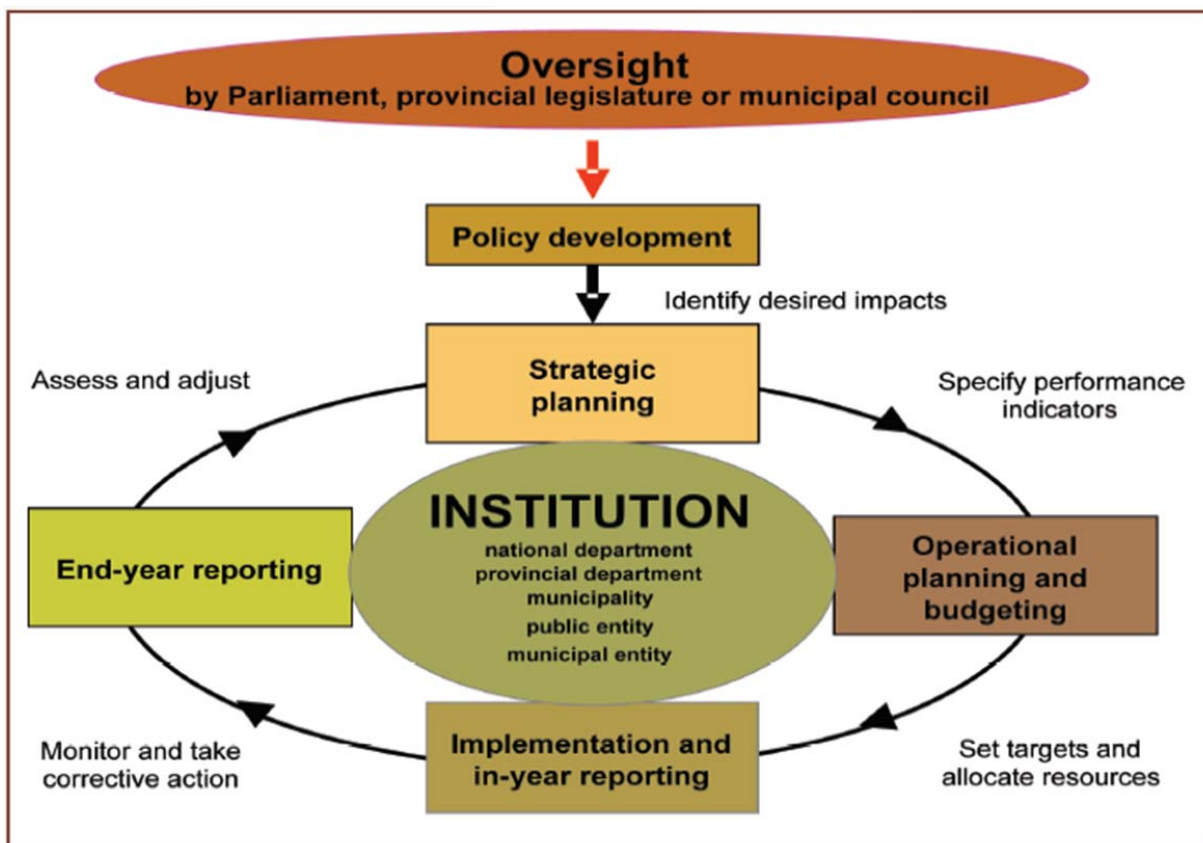
1. This is a Treasury template called Schedule A1, it is a budget summary and provides a concise overview of the IHLM's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of 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 emphasizes 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 recognized is reflected on the Financial Performance Budget;
    - ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
    - iii. 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.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations in accordance with the recently adopted Funding and Reserves Policy. This cannot be achieved in one financial year. But over the MTREF there is progressive improvement in the level of cash-backing of obligations. It is anticipated that the goal of having all obligations cash-back will be achieved by 2013/14, when a small surplus is reflected.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost

of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs. It is anticipated that by 2013/14 the water backlog will have been very nearly eliminated.

### 1.8 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 IHLM 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 department’s actual 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 cycle can be graphically illustrated as follows:



The performance information and the SDBIP as developed by the IHLM are not part of this document because the SDBIP will be finalized once the budget has been approved by the Council as per the MFMA no 56 of 2003 as amended.

However the two draft documents are available for inspection at the Municipal managers office, they will be made public after the approval of the budget and the actual finalization of the two documents by IHLM management.

### **Planning, budgeting and reporting cycle**

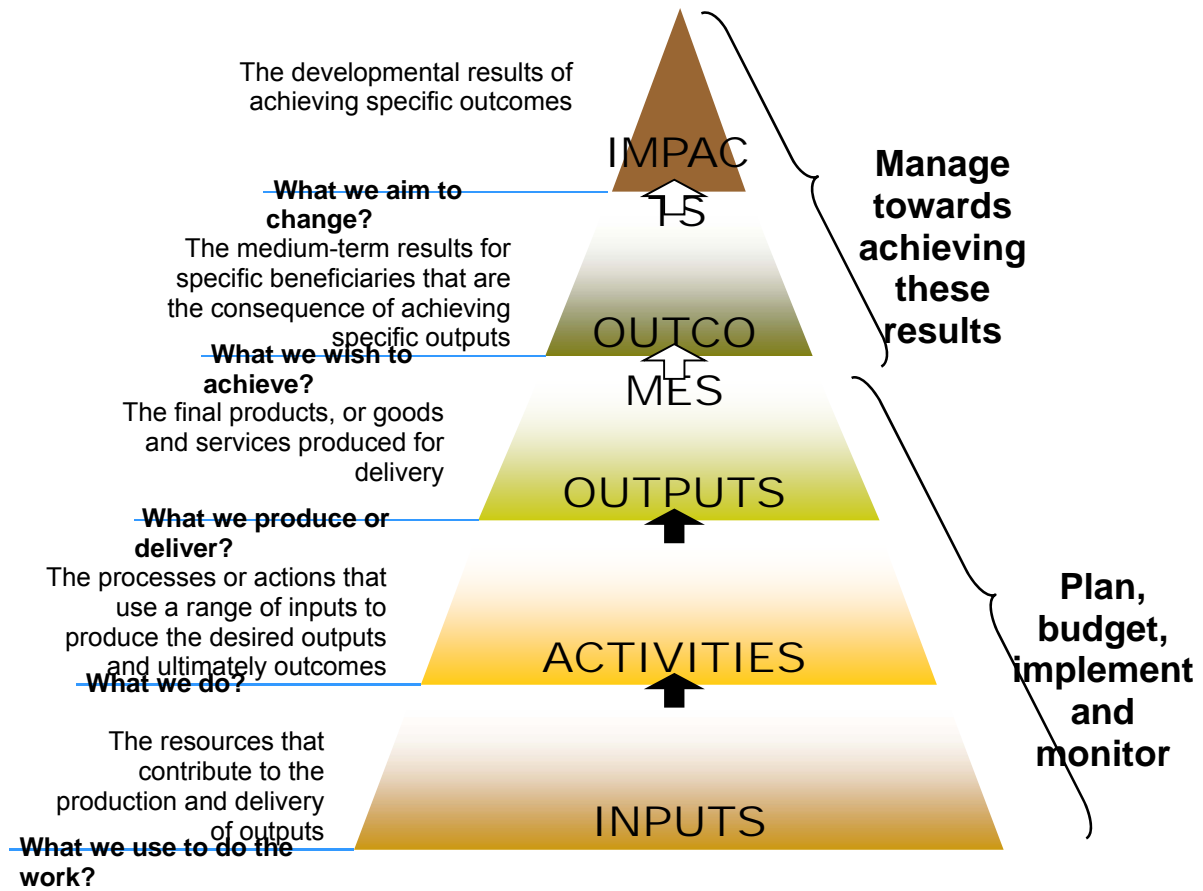
The performance of the IHLM relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The IHLM therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the IHLM in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury and the management reports to Council on a quarterly bases in this format:

Schedule A is attached for reference to other tables

This is nicely illustrated by the table below:



**Figure 1 Definition of performance information concepts**

The following table provides the main measurable performance objectives the municipality undertakes to achieve this financial year.



### 1.9 Municipal manager's quality certificate

I ....., municipal manager of Ingquza Hill Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name \_\_\_\_\_

Municipal manager of Ingquza Hill Local Municipality (EC153)

Signature \_\_\_\_\_

Date \_\_\_\_\_