



Ikwezi Local Municipality

Municipal annual budgets and MTREF & supporting tables
(Adopted Annual budget 2015/16)



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Arise and Deliver



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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	City 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		

Part 1 – Annual Budget

1.1 Mayor's Report

SIZWE MNGWEVU BUDGET STATEMENT

WE MEET during May month, as we mark 20 years of celebrating our freedom and the celebration of our 103 year of selfless struggle, freedom and democracy. In September we also celebrate our heritage of our hard won democracy.

There is no organization in this country that understands democracy better than the ANC and that is because the ANC was the midwife of this democracy.

We practice democracy in the day to day running of our movement and in running the country. We have since 1994 worked hard to consolidate democracy.

We continuously work to transform the three arms of the state the legislature, executive and judiciary in line with the spirit of the Constitution and the Freedom Charter.

We have been proud in particular of the vibrant council in our country, where representatives of our people come together to make laws and undertake oversight over the work of the executive on behalf of the people

Section 87 (3) of the Municipal Finance Management Act No. 56 of 2003 requires the Mayor of the parent municipality to table the proposed budget of the municipal entity in the Council, when the annual budget of the municipality for the relevant year is tabled. Therefore, in compliance to Section 87 (3), I will be tabling the draft budget of the Ikwezi Municipality.

Councillors, the aforementioned documents that I will be tabling to this Council are strategic tools with which to effectively manage public funds entrusted to this Council for the purposes of service delivery.

Councillors, from February and March 2015, IDP Public Meetings and Exco Izimbizo were held within the Ikwezi Municipal; the purpose of which was to measure our service delivery progress to date as well as to solicit information on the immediate community needs. The Budget that I will be presenting to you is meant to respond to the community needs articulated during the said Izimbizo.

In preparing this budget, we have been fully conscious of our legislative mandate (the provision of water and sanitation and a sustainable environment) and we have ensured that the appropriate resources were allocated to meet these strategic objectives. A central principle of the Municipal Turn-Around Strategy is financial stability and sustainability.

Councillors, we have at this point, cash backed our grants and during the commencement of the 2015/2016 financial year we will ensure that our cash reserves (that is retentions and consumer deposits) are cash backed to the value of approximately R39 million.

In light of the difficult economic climate, we have had to try to confine our tariff increases to 6.% for water, and 6.% for sanitation. This will seriously impact on our income, positioning the financial year 2015/2016 as a year that will require even more financial prudence.

Councillors, let me caution you that the coming financial year is going to be a very challenging one in terms of completing our return to financial viability and hence be deemed a "going concern". This will require sacrifices from all of us as we must do more with less. We have no alternative but to ensure stringent measures to curtail non-service delivery related expenditure. We are counting on your unconditional support.

Our Council has always recognised the critical contribution that has to be made by all of us for the whole Ikwezi to move forward and achieve the Millennium Development Goals (MGDs), as we continue to realise the vision for South Africa by the year 2030. We have continued to play our pivotal role of implementing our core functions which is water and sanitation, as a result we have achieved a hundred percent coverage of the provision of Water Improved Sanitation Refuse Removal and 98% Households have access to Electricity in all 4 Wards of Ikwezi Local Municipality.

With regard to the 2014/2015 Budget, in terms of Chapter 57 of the Municipal Finance Management Act, Act No 56 of 2003, I am required to table before this Council meeting, our municipal budget for the 2014/2015 financial year for approval.

To ensure financial sustainability which I have referred to earlier, the employee related costs of the Municipality requires urgent attention as the continued increase thereof is a real threat to our financial viability.

We are also together with other stakeholders focusing on our revenue collection in a bid to ensure we collect all that is due to us. The challenges in our Revenue Management if not resolved poses a threat to our financial viability. This emphasis, which has already occurred, must restore us to our healthy financial position so that we can execute our mandate.

In spite of this, we are still required to deliver on our legislative mandate to our community. This will require us as the Council to be extra vigilant in the discharge of our role of political oversight and to ensure a more stringent monitoring of public expenditure.

We can do this by thorough verification of the impact of our service delivery interventions to our community. The impact of our service delivery must at all times address the challenges of unemployment, poverty and inequality.

Promoting more active community participation in local government We are encouraged by the rising collection rate in all areas of Ikwezi from 09% to 51%. We want to encourage our people to continue to pay for services so that the municipality can in turn render quality services to all. We also encourage those who cannot afford to pay for services because of changed financial circumstances to come forward and register as indigents.

Income Budget by Source	Budget 2015/2016	Budget 2016/2017	Budget 2017/2018
Property rates - Less Revenue Forgone	1 825 945	1 936 036	2 054 460
Penalties & Interest	219 380	232 543	246 495
Service charges - electricity revenue	10 197 824	11 314 345	12 623 561
Service charges - water revenue	3 167 086	3 357 111	3 558 538
Service charges - sewerage revenue	1 690 794	1 792 241	1 899 776
Service charges - refuse revenue	1 433 421	1 519 426	1 610 591
Rental of facilities and equipment	73 225	77 618	82 275
Interest earned - external investments	48 353	51 254	54 329
Interest earned - outstanding debtors	678 353	719 055	762 198
Agency Fees	688 139	729 428	773 193
Transfers recognised - operational			
Other revenue	2 324 397	2 207 821	3 578 348
Grants	42 417 000	35 524 000	36 204 000
Total Income Budget by Source	64 763 917	59 460 878	63 447 764

Relief for the Poor Difficult economic conditions means people will find it difficult to make ends meet. Within the provisions of our Indigent Support Policy, we will continue to provide those who qualify for indigent support with rebates. Regarding the provision of sanitation, indigent customers will receive a full monthly subsidy on sanitation, both in respect of waterborne sewer and conservancy tanks; except for additional 11 draw requests, which must be paid for separately by the customers.

Councillors, the underlying principles of this budget are as follows:

. I encourage you to continue with this practice as responsible consumers.

- o *Strengthening financial management and accountability;*
- o *Achieving financial sustainability; ensuring that the expenditure is aligned to the revenue and that the Ikwezi has sufficient cash to meet its debt obligations;*
- o *Ensuring that the Ikwezi generates surpluses to build its cash reserves; to ensure positive working capital and thereby reducing the level of borrowing;*
- o *Ensuring that the capital investment is within the financial capacity of the Ikwezi and that there is continuous investment on infrastructure maintenance;*
- o *Continue to review all the services and programmes for operational efficiencies; and*
- o *Stretching the rand – "doing more with less".*

Therefore, in the next financial year, we will ensure that the spending of the budget focuses on service delivery imperatives and takes into account the medium to long term priorities of the Ikwezi that will be agreed to as part of the GDS process.

Operating budget

Let me start by examining the operating budget. Specific details on allocations for each of the departments are contained in the budget book but, at a high level, the operating budget of the Ikwezi Municipality in this financial year will focus on:

- *Service delivery imperatives such as traffic management, maintenance of roads and fixing potholes, open space maintenance and grass cutting, repairing street lighting and reducing power outages, informal settlement cleaning and addressing of illegal dumping;*
- *A budgetary allocation has been made for improving the revenue value chain and customer interface;*

In this regard we should inculcate council values in society as living values.

Local Government.

- *The Back to Basics Plan on Local Government should be adopted by the Council.*
- *The Council should monitor the plan, and develop guidelines.*
- *The ward committees should develop an analysis of performance in their areas.*
- *It is important that an analysis of performance versus protest action – referred to as service delivery protests – should be developed and presented, for better understanding of what pertains at Local Government.*

Our Municipality and Provincial structures should ensure that we achieve this target. The Community Work Programme which is run by municipalities also has the potential to provide an income for many struggling families at least once or twice a week.

I am raising all of this because we can feel the pressure on our people. The economy is not growing at the rate we would like, and thus, it is not creating much needed jobs. The Council should come up with practical steps therefore to provide hope and to cushion our people while promoting self-reliance

I Thank you

Mr. S Mngwevu
MAYOR

1.2 It is recommended that:

1. The Council of Ikwezi Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves:

1.1. The annual MTREF budget of the Ikwezi Municipality for the financial year 2015/16 and the multi-year and single-year capital appropriations as set out in the following tables:

- 1.1.1. Budget Summary as contained in IKWEZI MUNICIPALITY Table A1; and**
- 1.1.2. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in IKWEZI MUNICIPALITY Table A2; and**
- 1.1.3. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in IKWEZI MUNICIPALITY Table A3; and**
- 1.1.4. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in IKWEZI MUNICIPALITY Table A4; and**
- 1.1.5. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in IKWEZI MUNICIPALITY Table A5.**

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 IKWEZI MUNICIPALITY Table A6; and**
- 1.2.2. Budgeted Cash Flows as contained in IKWEZI MUNICIPALITY Table A7; and**
- 1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in IKWEZI MUNICIPALITY Table A8; and**
- 1.2.4. Asset management as contained in IKWEZI MUNICIPALITY Table A9; and**
- 1.2.5. Basic service delivery measurement as contained in IKWEZI MUNICIPALITY Table A10.**

1.3. That all the Supporting schedules SA1 to SA37 are also part of the budget.

1.4. Summary of Increases:

	2015/2016	2016/2017	2017/2018
<i>Headline Inflation Forecast</i>	4,80%	5,90%	5,60%
<i>Tariff Increase (Excluding Electricity)</i>	6.00%	6.00%	6.00%
<i>Tariff Increase Electricity as per NERSA guideline dated 25 Feb 2015:</i>			
<i>Prepaid - Domestic: Indigent Average</i>	6.30%	7,30%	7,30%
<i>Prepaid - Domestic: Standard Average</i>	8.30%	12.20%	12.20%
<i>Commercial Prepaid</i>	13.20%	12.20%	12.20%
<i>Commercial - Conventional Average</i>	13.20%	12.20%	12.20%
<i>Eskom Bulk Tariff Increase (as approved by NERSA)</i>	12.20%	12.20%	12.20%
<i>Salary Increase Cost of Living Adjustment</i>	8.00%	6.00%	6.00%

1.5. That Council resolve to approve the reviewed IDP for 2015 /2016.

1.6. That Council budgeted for an increase of 8% for salaries.

1.7. That Council approve the following reviewed financial related Policies as reflected in the MTREF 2015/16 Budget:

- 1) *Asset Management Policy*
- 2) *Budget Policy*
- 3) *Cash Management and Payment of Creditors Policy*
- 4) *Cash Receipt and Banking Policy*
- 5) *Cost Estimation Policy*
- 6) *Credit Control and Debt Collection ex Revenue By-Law Policy*
- 7) *Administration of Immovable Property Policy*
- 8) *Investment Policy*
- 9) *Rates Policy*
- 10) *Virement Policy*
- 11) *Risk Management Policy*
- 12) *Roles and Responsibilities and the Delegation of Powers Policy*
- 13) *Standing Rules and Order*
- 14) *Transport Management Policy*
- 15) *Tariff Policy*
- 16) *Rewards, Gifts and Favours Policy*

- 17) *Recruitment Policy*
- 18) *Supply Chain Management Policy*
- 19) *Fraud Prevention Plan*
- 20) *Indigent Policy*
- 21) *Capital Infrastructure Investment Policy*
- 22) *Fruitless Wasteful Expenditure Policy*
- 23) *Borrowing Policy*
- 24) *Funding and Reserve Policy*
- 25) *Subsistence and Travel Policy*
- 26) *EPWP Policy*
- 27) *Cell Phone Policy*

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.

The budget was prepared in accordance with the Municipal Budget and Reporting Regulations (Notice 393 of 2009) as well as various MFMA Circulars from National Treasury's MFMA Circulars No. 74, 75 and Annexure "D"

When the budget was prepared the following two key concepts was also taken into consideration:

- *the budget must be funded according to MFMA section 18(1) & 19(1); and*
- *the budget must be credible.*

For the budget to be funded:

- *it must be from realistically anticipated revenues to be collected.*
- *cash backed accumulated funds from previous years, surpluses not committed for other purposes.*
- *borrowed funds, but only for the capital budget.*

For the budget to be credible:

- *it must fund only the activities consistent with the revised IDP and vice versa.*
- *the activities funded are realistically achievable given the financial constraints of the municipality.*
- *it must contain revenue and expenditure projections that are consistent with current and past performance.*
- *the community should realistically expect to receive the promised service delivery levels and understand the associated financial implications.*
- *the tabled budget should be fairly close to the final budget.*

The budget was linked to the revised IDP, while performance agreements of the Accounting Officer and Senior Management will be linked as soon as these agreements have been signed.

THE MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)

The budget document consists of high level VOTES and the various GFS functions and sub-functions.

Votes are generally described as the highest level of administrative functions for appropriate service delivery, policy setting and performance measurement.

It be noted that GFS Functions are for example Electricity while GFS Sub-functions relate to street lighting.

FUNDING THE BUDGET

Financial Performance

The Ikwezi Municipality strived to comply with all financial management requirements. In doing so they strived to establish a GRAP compliant Asset Register and establish the Budget Treasury Office. The 2014/2015 Financial Statements will be compiled according to the full GRAP Standards. The 2013/2014 GRAP Financial Statements was a Disclaimer by the Auditor-General.

Budget strategies

Ikwezi, like most typically rural local authorities, has the undesirable task of matching massive demands and expectations with very limited financial resources. This is of particular importance when one considers the capital budget.

The philosophy has to be one that looks to prioritise service delivery in line with municipal functions. These services are offered at basic levels to the entire community. The remaining resources are assigned to address strategic objectives as identified in the Integrated Development Plan. While assistance to the poor is a government policy widely embraced in the Council, it has to take place through a targeted approach and minimize cross-subsidization of those who can afford to pay for services. The recovery of what is due to the municipality for services rendered to the communities has become more critical than ever before.

The whole council has taken ownership of this fact, with the political leadership assisting in getting all those that deserve to benefit from indigent programs on board. The administration focuses at revenue collection methods including implementation of credit control policies.

Past and current performance and challenges

A few other factors have informed this year's budget. The municipality had to take into account the recent economic meltdown that dominated economic conditions throughout the world. The after effects of such an environment are still felt in a rural economy like ours.

The jobs shed in the big cities all over the country have had a direct impact on Ikwezi. In view of the national priorities, this budget has been fully aligned with the Integrated Development Plan of the municipality. This budget is also sensitive to the economic conditions of Ikwezi, coupled with massive unemployment - Ikwezi has made every effort to consider those who cannot afford to pay for the services rendered. The serious back log in infrastructure is under consideration. R5,991,480 has been set aside to continue with capital projects like Upgrade of waste water treatment works in Klipplaat, Upgrade of Phumlani Road in Jansenville. These projects are funded from our MIG allocation for 2015/16.

The past financial year has seen major improvements in terms of spending on conditional grant funding. The municipality has worked very hard to partially overcome challenges brought about by lack of staff and the municipality is facing the challenge of financial problems. We are making it a priority to spend on service delivery. The establishment of a Supply Chain Management Unit has also ensured that the municipality is assured on matters of compliance. The municipality is hoping to spend 100% in the financial year.

The internal controls have shown significant improvements but we got Disclaimer audit opinion issued for 2013/14 by the Auditor General but we are expected improvements in the audit outcome for 2014/15. The audit committee has not been active, and has not advised council on matters of financial and risk management on a quarterly basis. The next challenge will be to ensure that the audit committee is again instituted and become fully functional.

The collection rate of 51.69% is still a hindering factor as it means that more than 50% of our income is from government grants. The municipality has amended its financial recovery plan for the 2014/15 financial year and envisage an improvement in the next audit report. Funding was allocated for Municipal Support and Governance, and we hope to secure further funding to implement all the recommendations of the audit action plan.

We have properly assessed the economic conditions of our municipal area and have resolved to devise creative ways to transform the municipality from becoming economical depressed. The LED unit has been tasked to look into projects that will provide economic prosperity to the organisation. We believe in competing where we have a competitive advantage.

The Technical services vote deals with the supply and maintenance of water, electricity, sanitation and refuse removal services. This constitutes the heart of service delivery in the municipality. The appointment of a Director Infrastructure will enhanced these functions and speed up the infrastructure project spending. For the 2015/16 budget, the aim is to provide the infrastructure with proper tools of trade. The current fleet is ageing and is slowing the process of service delivery down.

The local economic development unit within the municipality has been established. The 2015/16 financial year will see the possible implementation of economic projects like the establishment of a solar farm in Jansenville. The aim is to generate energy from the sun, in line with the objective of enhancing renewable energy and also to generate revenue for the municipality.

Table 1 Consolidated Overview of the 2015/16 MTREF

	Budget year 2015/16	Budget year 2016/17	Budget year 2017/18
Total revenue	64,763,917	59,460,878	63,447,764
Total expenditure	53,364,868	55,493,337	58,016,120
Capital Expenditure	16,072,749	7,395,686	7,511,612
SURPLUS / (DEFICIT)	(4,673,700)	(3,428,145)	(2,079,968)

Ms. D.R. Sauls
CHIEF FINANCIAL OFFICER

1.4 Operating Revenue Framework

For Ikwezi 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 Municipality and continued economic development;
- Efficient revenue enhancement and appointment of Revenue Accountant, 5 interns, which aims to ensure a 95 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;
- 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 Municipality.

The following table is a summary of the 2015/16 Annual Budget (classified by main revenue source):

Income Budget by Source	Budget 2015/2016	Budget 2016/2017	Budget 2017/2018
Property rates - Less Revenue Forgone	1,825,945	1,936,036	2,054,460
Penalties & Interest	219,380	232,543	246,495
Service charges - electricity revenue	10,197,824	11,314,345	12,623,561
Service charges - water revenue	3,167,086	3,357,111	3,558,538
Service charges - sewerage revenue	1,690,794	1,792,241	1,899,776
Service charges - refuse revenue	1,433,421	1,519,426	1,610,591
Rental of facilities and equipment	73,225	77,618	82,275
Interest earned - external investments	48,353	51,254	54,329
Interest earned - outstanding debtors	678,353	719,055	762,198
Agency Fees	688,139	729,428	773,193
Transfers recognised - operational			
Other revenue	2,324,397	2,207,821	3,578,348
Grants	42,417,000	35,524,000	36,204,000
Total Income Budget by Source	64,763,917	59,460,878	63,447,764

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 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 increase of Eskom is far beyond the mentioned inflation target. Given that these tariff increases is 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 erode the City'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 of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the City 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 City has undertaken the tariff setting process relating to service charges as follows.

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. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2015/16 financial year based on a 6.0% per cent increase from 1 July 2015 is contained below:

Table 4 Comparison of proposed rates to levy for the 2015/16 financial year

ASSESSMENT RATES	2014/15 Tariff	2015/16 Increase	2015/16 tariff	2016/17 Increase	2016/17 tariff	2017/18 Increase	2017/18 tariff
Residential - per R1 Valuation per annum	R 0.01619	6.00%	R 0.01716	6.00%	R 0.01819	6.00%	R 0.01928
Businesses - per R1 valuation per annum	R 0.01984	6.00%	R 0.02103	6.00%	R 0.02229	6.00%	R 0.02363
Government - per R1 valuation per annum	R 0.02381	6.00%	R 0.02524	6.00%	R 0.02675	6.00%	R 0.02836
Agriculture - per R1 valuation per annum	R 0.000311	6.00%	R 0.000329	6.00%	R 0.000349	6.00%	R 0.000370

2. Sale of Water and Impact of Tariff Increases

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

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

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

Table 5 Proposed Water Tariffs

WATER	2014/15 Tariff	2015/16 Increase	2015/16 tariff	2016/17 Increase	2016/17 tariff	2016/17 Increase	2016/17 tariff
Water Deposits: for new agreements only							
Residential	R 130	0.00%	R 130	0.00%	R 130	0.00%	R 130
Bulk users (Schools, hostels, other)	R 380	0.00%	R 380	0.00%	R 380	0.00%	R 380
Not metered							
Basic charge: Residential (equal to 10kl) - per month	R 58	6.00%	R 61	6.00%	R 65	6.00%	R 69
Basic charge: Schools, hostels and other bulk users) - per month	R 231	6.00%	R 245	6.00%	R 260	6.00%	R 275
Metered							
Basic charge: Residential s - per month	R 58	6.00%	R 61	6.00%	R 65	6.00%	R 69
More than 10kl: per kl	5.78	6.00%	6.12	6.00%	6.49	6.00%	6.88
Basic charge: Businesses & Other users - per month			R 150	6.00%	R 159	6.00%	R 169
More than 10kl: per kl	5.78	6.00%	6.12	6.00%	6.49	6.00%	6.88

3. Sale of Electricity and Impact of Tariff Increases

NERSA has announced the bulk electricity pricing structure. A 12.20% per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2015.

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

The following table shows the impact of the proposed increases in electricity tariffs on the water charges for domestic customers:

Table 2 Comparison between current electricity charges and increases

ELECTRICITY

Proposed electricity Tariffs to be approved by NERSA

	2014/15 Tariff Inc VAT	2015/16 Increase	2015/16 Tariff Ex VAT	2015/16 Tariff Inc VAT	2016/17 Increase	2016/17 Tariff Inc VAT	2017/18 Increase	2017/18 Tariff Inc VAT
A: Prepaid								
Prepaid - Domestic: Indigent								
Block 1 (0 - 50kwh)	R 0.854	6.30%	R 0.796	R 0.908	7.30%	R 0.974	7.30%	R 1.045
Block 2 (51 - 350kwh)	R 1.060	6.30%	R 0.989	R 1.127	7.30%	R 1.209	7.30%	R 1.298
Block 3 (351 - 600kwh)	R 1.474	6.30%	R 1.374	R 1.566	7.30%	R 1.680	7.30%	R 1.803
Block 4 (>600kwh)	R 1.666	6.30%	R 1.553	R 1.770	7.30%	R 1.899	7.30%	R 2.038
Prepaid - Domestic: Standard								
Block 1 (0 - 50kwh)	R 0.904	6.30%	R 0.843	R 0.961	12.20%	R 1.078	12.20%	R 1.210
Block 2 (51 - 350kwh)	R 1.102	7.30%	R 1.038	R 1.237	12.20%	R 1.388	12.20%	R 1.557
Block 3 (351 - 600kwh)	R 1.520	7.30%	R 1.430	R 1.705	12.20%	R 1.913	12.20%	R 2.146
Block 4 (>600kwh)	R 1.689	12.20%	R 1.663	R 1.896	12.20%	R 2.127	12.20%	R 2.386
Basic charge	R 168.95	12.20%	R 166.28	R 189.56	12.20%	R 212.69	12.20%	R 238.63
Commercial								
Commercial Prepaid	R 1.699	13.20%	R 1.687	R 1.923	12.20%	R 2.158	12.20%	R 2.421
B: Conventional								
Commercial								
Energy charge per kwh	R 1.473	12.20%	R 1.450	R 1.653	12.20%	R 1.854	12.20%	R 2.080
Basic charge	R 363.66	14.20%	R 364.30	415.30	12.20%	R 466	12.20%	R 523

The effect the above tariffs will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor). The municipality has entered into discussions with NERSA regarding the suitability of the NERSA proposed stepped tariffs compared to those already being implemented by the municipality already. Until the discussions are concluded, the municipality will maintain the current stepped structure of its electricity tariffs.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the municipality

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply). Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable for the consumers.

4. Sanitation and Impact of Tariff Increases

A tariff increase of 6.0 per cent for sanitation from 1 July 2015 is proposed.

The following table compares the current and proposed tariffs:

Table 3 Comparison between current sanitation charges and increases

SEWERAGE	<u>2014/15</u> Tariff	<u>2015/16</u> Increase	<u>2015/16</u> tariff	<u>2016/17</u> Increase	<u>2016/17</u> tariff	<u>2016/17</u> Increase	<u>2016/17</u> tariff
Jansenville - Basic charge - per month	R 49	6.00%	R 52	6.00%	R 55	6.00%	R 58
Klipplaat - Basic charge - per month	R 89	6.00%	R 94	6.00%	R 100	6.00%	R 106
Septic Tank	R 89	6.00%	R 94	6.00%	R 100	6.00%	R 106
Sewerage fees - Residential (Jansenville & Klipplaat) - per pan - p	R 89	6.00%	R 94	6.00%	R 100	6.00%	R 106
- Jansenville Schools (If connected) - per month	R 588	6.00%	R 623	6.00%	R 660	6.00%	R 700
- Jansenville Hostels (If connected) - per month	R 533	6.00%	R 565	6.00%	R 599	6.00%	R 635
- Angora Lodge Hotel - per month	R 671	6.00%	R 711	6.00%	R 754	6.00%	R 799
- Dept of Correctional Services - per month	R 1,089	6.00%	R 1,155	6.00%	R 1,224	6.00%	R 1,298
- Hus Welverdiend - per month	R 572	6.00%	R 606	6.00%	R 643	6.00%	R 681
- SAWAS Hospital - per month	R 755	6.00%	R 800	6.00%	R 848	6.00%	R 899

5. 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 municipality 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, 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. The outcomes of this investigation will be incorporated into the next planning cycle.

Table 8 Comparison between current waste removal fees and increases

REFUSE REMOVAL	<u>2014/15</u> Tariff	<u>2015/16</u> Increase	<u>2015/16</u> tariff	<u>2016/17</u> Increase	<u>2016/17</u> tariff	<u>2016/17</u> Increase	<u>2016/17</u> tariff
Residential - per month	60	6.00%	R 64	6.00%	R 68	6.00%	R 72
Businesses - per month	71	6.00%	R 75	6.00%	R 80	6.00%	R 85

6. Overall impact of tariff increases on households

The table in annexure "A"- SA14 - shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2015/16 Adjustment 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 plans no budget. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2015/16 budget and MTREF (classified per main type of operating expenditure):

Operating Expenditure Budget by Type	Budget 2015/2016	Budget 2016/2017	Budget 2017/2018
Employee related costs: Sal & Wages	R 19,914,645	R 21,105,962	R 22,372,319
Employee related costs: Soc Contr	R 2,380,151	R 2,522,960	R 2,674,337
Remuneration of councillors	R 1,994,079	R 2,113,724	R 2,240,548
Bad Debts	R 668,457	R 708,224	R 749,277
Interest on External Borrowings	R 98,219	R 104,013	R 109,838
Depreciation & asset impairment	R 4,203,278	R 4,225,873	R 4,462,522
Repairs & Maintenance	R 537,479	R 569,191	R 601,065
Bulk purchases	R 6,320,048	R 7,091,094	R 7,956,207
Contracted Services	R 5,253,450	R 5,605,444	R 6,084,893
Operating Projects Grants & Subs	R 3,589,100	R 2,579,100	R 1,433,000
Operating Projects	R 280,000	R 291,800	R 303,661
General Expenses	R 8,125,962	R 8,575,952	R 9,028,453
Total Operating Expenditure Budget by Type	R 53,364,868	R 55,493,337	R 58,016,120

The Annual Budget allocation for employee related costs for the 2015/16 financial year totals R22.294 Million, which equals 42 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 8.00 per cent for the 2015/16 financial year. An annual increase of 6.0 per cent has been included in the two outer years of the MTREF. As part of the Municipality'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. In addition expenditure against overtime was 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 Municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 51.69 per cent of the Municipality. 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.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R4.2 million for the 2015/16 financial and equates to 8 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 current year.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges is R98 219 of operating expenditure excluding annual redemption for 2015/16 Annual budget and increases to R 104 013 by 2016/17.

Bulk purchases are directly informed by the purchase of electricity from Eskom and buying of chemicals to clean water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other material comprises of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the Municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure. For 2015/16 the appropriation against this group of expenditure has grown and continues to grow for the two outer years.

Contracted services have been identified as a cost saving area for the Municipality. As part of the compilation of the 2015/16 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2015/16 financial year, this group of expenditure totals R5.253 Million, clearly demonstrating the application of cost efficiencies. As part of the process of identifying further cost efficiencies, a business process reengineering project will commence in the 2015/16 financial year to identify alternative practices and procedures,

including building in-house capacity for certain activities that are currently being contracted out. The outcome of this exercise will be factored into the next budget cycle and it is envisaged that additional cost savings will be implemented.

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, indicating that significant cost savings have been already realised.

1. Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the 2015/16 Annual 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 Municipality. 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:

See Annexure "A" – Table A9

During the compilation of the 2015/16 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the Municipality's infrastructure and historic deferred maintenance.

See Annexure "A" – Table SA34c

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 Municipality's Indigent Policy. The target is to register 1 875 or more indigent households during the 2015/16 financial year, a process reviewed annually. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services

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 expenditure

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

See Annexure "A" - Table A 4

For 2015/16 an amount of R16 072 749 has been appropriated for the development of infrastructure. In the outer years this amount totals R7.3 million, and R7.5 million, respectively for each of the financial years.

Some of the salient projects to be undertaken over the medium-term includes, amongst others:

- Cemetery development;
- Fire fighting and security equipment;
- Electricity for all (backlog eradication)
- Refurbishment and renewal electrical network
- New waste water treatment works
- Upgrading and renewal of sewers
- Bulk supply and backlog eradication of water
- Refurbishment and renewal of water network
- Backlog eradication of storm water drainage
- Rehabilitation of roads and storm water
- Extension of main entry roads

1. Future operational cost of new infrastructure

The future operational costs and revenues associated with the capital programme have been included in SA34a.

1.7 Annual Budget Tables - Parent Municipality

The following eighteen pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2015/16 budget as recommended for approval by the Council.

See Annexure "A" -Table A1 to A10

Explanatory notes to Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
 - a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - b. Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognised is reflected on the Financial Performance Budget;
 - ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
 - iii. Internally generated funds are 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 place 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. 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 2015, 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 2015/16 the water backlog will have been very nearly eliminated.

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

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital).
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity, Water and Waste

water functions, but not the Waste management function. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.

4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Corporate Services.

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

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote. The following table is an analysis of the surplus or deficit for the electricity and water trading services.

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

1. Total revenue is R64.4 Million in 2015/16 and decreased to R59.4 Million by 2016/17. This represents a year-on-year.
2. Revenue to be generated from property rates is R1.8 million for 2015/2016 financial year and increases to R1.9 Million by 2016/17 and therefore remains a significant funding source for the municipality.
3. Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R 16.4 Million for the 2015/16 financial year and increasing to R17.9 million by 2016/17. This growth can mainly be attributed to the increase in the bulk prices of electricity and water.
4. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF. The percentage share of this revenue source declines due to the more rapid relative growth in service charge revenues.

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

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations, for 2015/16 R16.07 million has been allocated. This allocation increased to R7.39 million in 2016/17 and then increase to R 7.5 million in 2017/18 owing primarily to the fact that various projects reach completion in 2016/17 hence the spike in expenditure in year two.
3. Single-year capital expenditure has been R16 million for the 2015 financial year and remains relatively constant over the MTREF at levels of R7.3 million and R 7.5 million respectively for the two outer years.
4. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of Municipal vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and

will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the municipality. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.

5. The capital programme is funded from capital and government grants and transfers, public contributions and donations, borrowing and internally generated funds from current year surpluses. For 2015/16, capital transfers totals R7.3 million. No Borrowing for 2015/16 from because loan was not approved by DBSA.

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table A6 is supported by an extensive table of notes) providing a detailed analysis of the major components of a number of items, including:
 - Call investments deposits;
 - Consumer debtors;
 - Property, plant and equipment;
 - Trade and other payables;
 - Provisions non-current;
 - Changes in net assets; and
 - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. It can be seen that the cash levels of the municipality fell significantly over the 2015/16 amount owing lead directly to a net decrease in cash.
4. The approved 2015/16 MTREF provide for a further net decrease in cash for the 2015/16 financial year resulting in an overall projected negative cash position.

5. As part of the 2015/16 Annual budget review this unsustainable cash position had to be addressed as a matter of urgency and various interventions were taken such as the reduction of expenditure allocations and rationalization of spending priorities and also financial recovery plan.
6. The 2015/16 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. As part of the budgeting and planning guidelines that informed the compilation of the 2015/16 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The municipality meets both these recommendations.
3. The following graph provides an analysis between depreciation and operational repairs and maintenance over the MTREF. It highlights the Municipality's strategy to address the maintenance backlog.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
2. The Municipality continues to make good progress with the eradication of backlogs:
 - a. Water services – backlog will be reduced by over 600 households in 2015/16 to just 300 households. These households are largely found in 'reception areas' and will need to be moved to formal areas so that they can receive services.

- b. Sanitation services – backlog will be reduced by over 500 households over the MTREF. The number of households with no toilet provision will be reduced by 200 households in 2015/16.
 - c. Electricity services – backlog will be reduced by 300 households. As indicated elsewhere, the emphasis in the electricity sector is on addressing urgent network upgrades. Once the most pressing network issues have been addressed, the electrification programme will be prioritised; with 6000 households budgeted to be electrified in 2015/16.
 - d. Refuse services – backlog will be reduced by 200 households in 2015/16, and a further 100 households in the outer two years of the MTREF. However it should be noted that this function is being investigated with a view to realising greater efficiencies, which is likely to translate into a more rapid process to address backlogs.
3. The budget provides for 1500 households to be registered as indigent in 2015/16, and therefore entitled to receiving Free Basic Services. The number is set to increase to 7000 households given the rapid rate of in-migration to the municipality, especially by poor people seeking economic opportunities.
 4. It is anticipated that these Free Basic Services will cost the municipality R2.242 million in 2015/16, increasing to R2.3 million in 2016/17. This is covered by the municipality's equitable share allocation from national government.

Part 2 – Supporting Documentation

2.1 Overview of the Annual budget process

The Annual budget process started in September 2014 with the tabling of the Schedule of Key Deadlines in Council, being the Budget Schedule for 2015/16 as tabled. The schedule of dates was then tabled by the Mayor in a council meeting .

The timetable or schedule as outlined, provided the timeframes for the IDP and Budget preparation process - coupled with the required consultative requirements and production of reports as indicated. The strategic objective is to ensure that a revised IDP and a Budget that is fully compliant to the new format prescribed by National Treasury is achieved, tabled and communicated by 31 May 2015. The budget and IDP will start consultative process in March 20. The consultative meetings will be held in all the four wards and we hope the meetings will be well attended.

The SDBIP (Service Delivery and Budget Implementation Plan) is the mechanism and ultimate management tool / guide that aim to ensure that the IDP and Budget are fully aligned.

Ultimate objectives from this process is to ensure that the Budget is maintained within the affordability levels outlined, taking into account the identified IDP deliverables posed, and the various Directorates responsibilities to spend the Budget within the frameworks and available funds to the best of their abilities and to the affordability of the Budget. It is from this document that the performance agreements between the municipality and management will be drafted.

2.2 Overview of budget related-policies

The Ikwezi Municipality has operational Financial Management Policies in place. Current Management, under the leadership of the Accounting Officer, has launched the review, development and ultimate compliance with all legislation expected policies. The financial policies are being reviewed for implementation for the 2015/16 financial year. Policies in existence, reviewed and being developed are:

- 1) Asset Management Policy
- 2) Budget Policy
- 3) Cash Management and Payment of Creditors Policy
- 4) Cash Receipt and Banking Policy
- 5) Cost Estimation Policy
- 6) Credit Control and Debt Collection ex Revenue By-Law Policy
- 7) Administration of Immovable Property Policy
- 8) Investment Policy
- 9) Rates Policy
- 10) Virement Policy
- 11) Risk Management Policy
- 12) Roles and Responsibilities and the Delegation of Powers Policy
- 13) Standing Rules and Order
- 14) Transport Management Policy
- 15) Tariff Policy
- 16) Rewards, Gifts and Favours Policy
- 17) Recruitment Policy
- 18) Supply Chain Management Policy
- 19) Fraud Prevention Plan
- 20) Indigent Policy
- 21) Capital Infrastructure Investment Policy
- 22) Fruitless Wasteful Expenditure Policy
- 23) Borrowing Policy
- 24) Funding and Reserve Policy
- 25) Subsistence and Travel Policy
- 26) EPWP Policy
- 27) Cell Phone Policy

The important role of all these financial policies in the implementation of the financial recovery plan cannot be overemphasized. The municipality continues to develop and implement more policies as a need arise.

2.2.1 Review of credit control and collection procedures/policies

The Credit control and Collection Policy is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the Integrated Indigent Exit Programme aims to link the registered indigent households to development, skills and job opportunities. The programme also seeks to ensure that all departments as well as external role players are actively involved in the reduction of the number of registered indigent households.

2.2.2 Annual Budget

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

2.2.3 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 30 August 2012. An amended policy will be considered by Council in due course of which the amendments will be extensively consulted on.

2.2.4 Virements Policy

Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the City's system of delegations. The Budget and Virement Policy was approved by Council in 30 August 2012 in terms of Operating and Capital Budget Fund Transfers..

2.2.5 Tariff Policies

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next two years.

2.2.6 Financial Modelling and Scenario Planning

The Financial Modelling and Scenario Planning has directly informed the compilation of the 2014/15 MTREF with the emphasis on affordability and long-term sustainability. The policy dictates the approach to longer term financial modelling. The outcomes are then filtered into the budget process. The model and scenario planning outcomes are taken to Council every November and then translate into recommendations for the budget guidelines that inform the compilation of the next MTREF. One of the salient features is the emphasis on financial sustainability. Amongst others, the following has been modelled as part of the financial modelling and scenario planning process:

- Approved 2014/15 Annual Budget;

- Cash Flow Management Interventions, Initiatives and Strategies (Financial recovery Plan)
- Economic climate and trends (i.e Inflation, household debt levels, indigent factors, growth, recessionary implications);
- Loan and investment possibilities;
- Performance trends;
- Tariff Increases;
- The ability of the community to pay for services (affordability);
- Policy priorities;
- Improved and sustainable service delivery; and
- Debtor payment levels.

All the above policies are available on the municipality's website, as well as the following budget related policies:

- Property Rates Policy;
- Basic Social Services Package (Indigent Policy).
- Fixed Assets Policy

2.3 Overview of budget assumptions

2.3.1 Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

2.3.2 Growth or decline in tax base of the municipality

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

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

2.3.3 Salary increases

The collective agreement regarding salaries/wages came into operation on 1 July 2015 and shall remain in force until 30 June 2016. Year three is an across the board increase of 8.00 per cent.

2.3.4 Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- 3 Creating jobs;
- 4 Enhancing education and skill development;
- 5 Improving Health services;
- 6 Rural development and agriculture; and
- 7 Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

2.4 Overview of budget funding

2.4.1 Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term:

See table Table SA 10 Breakdown of the operating revenue over the medium-term

Breakdown of operating revenue over the 2015/16 MTREF

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The City derives most of its operational revenue from the provision of goods and services such as water, electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, licenses and permits etc.).

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

- Growth in the city and economic development;
- Revenue management and enhancement;
- Achievement of a 95 per cent annual collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- And the ability to extend new services and obtain cost recovery levels.

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

See table Table SA 18 - Capital transfers and grant receipts

2.4.2 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 understandability for councillors and management. Some specific features include:

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

See table Table SA30 - Budget cash flow statement

2.5 Expenditure on grants and reconciliations of unspent funds

See table SA19 - Expenditure on transfers and grant programmes and

See table SA 20 - Reconciliation between of transfers, grant receipts and unspent funds

2.6 Councillor and employee benefits

See table SA22 - Summary of councillor and staff benefits

See table SA 23 - Salaries, allowances and benefits (political office bearers/councillors/ senior managers)

Legislation compliance status

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

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

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

3. **Audit Committee**

An Audit Committee has been established and is functional.

4. **Service Delivery and Implementation Plan**

The Draft SDBIP document has not been finalised.

5. **Annual Report**

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

7. **MFMP Training**

The MFMP training 4 officials are attending.

8. **Policies**

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

2.7 Other supporting documents

See tables Table SA1 – Table SA37

2.8 Municipal manager's quality certificate

I Z V. MAPUKATA, Acting municipal manager of Ikwezi municipality EC103, 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 supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name ZACHARIA VIWE MAPUKATA

Acting Municipal Manager: Ikwezi Municipality

Signature



Date:

29 May 2015