

**ANNUAL FINAL BUDGET OF**  
**INTSIKAYETHU LOCAL**  
**MUNICIPALITY**



**2018/19 TO 2022/22**  
**MEDIUM TERM REVENUE AND**  
**EXPENDITURE FORECASTS**

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## Table of Contents

<b>ANNUAL BUDGET</b> .....	<b>2</b>
1.1 MAYOR'S REPORT .....	2
1.2 COUNCIL RESOLUTIONS .....	2
1.3 EXECUTIVE SUMMARY .....	3
1.4 OPERATING REVENUE FRAMEWORK.....	5
1.5 OPERATING EXPENDITURE FRAMEWORK.....	8
1.6 CAPITAL EXPENDITURE .....	14
1.7 ANNUAL BUDGET TABLES - PARENT MUNICIPALITY.....	15
1.8 MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS.....	16

## 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	IYM 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 March 2018, 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. Intsika yethu 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 Intsika yethu 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 IYM's financial plan is essential and critical to ensure that the IYM remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.

## 1.2 Council Resolutions

On 31 May 2018 the Council of Intsika yethu Local Municipality is meeting to consider the final budget of the municipality for the financial year 2018/19. The Council will approve and adopt the following resolutions:

1. The Council of Intsika yethu Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
  - 1.1. The final budget of the municipality for the financial year 2018/19 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 Intsika yethu 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 2018:
    - 2.1. the tariffs for property rates,
    - 2.2. the tariffs for solid waste services
  3. The Council of Intsika yethu 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 2018 the tariffs for other services, as set out in Annexure.
  4. To give proper effect to the municipality's annual budget, the Council of Intsikayethu 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 2018/19 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 IYM's financial plan is essential and critical to ensure that the IYM remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The IYM'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 IYM 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 IYM has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government. The Intsikayethu Local Municipality is also in the processes of finalizing the new general valuation roll to be implemented on the 01 July 2018. The municipal valuer has already submitted a final SV 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 2018/19 MTREF.

The main challenges experienced during the compilation of the 2018/19 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 277m to R 240m;
- 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 2018/19 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 2018/19 MTREF:

- The 2017/18 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 2018/19 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 2018/19 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2018/19 MTREF

	<b>Adjusted Budget 2017/18</b>	<b>Budget Year 2018/19</b>	<b>Budget Year 2019/20</b>	<b>Budget Year 2020/21</b>
Total revenue	<b>227,459,000.00</b>	<b>240,069,253.00</b>	<b>235,939,850.50</b>	<b>230,996,775.00</b>
Opex	167,589,953.88	206,300,857.83	215,742,788.88	202,412,175.87
Surplus(Deficit)	<b>0</b>	<b>-24,820,940</b>	<b>-38,885,656</b>	<b>-33,747,668</b>
Capex	59,869,046.00	58,055,709.00	59,082,717.29	62,332,266.74

Total municipal revenue has increase by 36 per cent or R18.4 million for the 2018/19 financial year when compared to the 2017/18 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 R38 million over the MTREF when compared to the 2017/18 financial year.

Total operating expenditure for the 2018/19 financial year has been appropriated at R206 million and translates into a budgeted deficit of R 24K which is coursed by the depreciation and impairments. When compared to the 2017/18 Adjustments Budget, operational expenditure has grown by 1 per cent in the 2017/18 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 R202 million and then stabilize at R202 million.

The capital budget of R 58 million for 2018/19 is 1 per cent less when compared to the 2017/18 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 R58 million in the 2018/19 financial year and then evens out in 2016/17 and 2017/18 to R135 million. A substantial portion of the capital budget will be funded from grants over MTREF with anticipated borrowings of R2 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 IYM 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 Intsikayethu 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 IYM 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 IYM.

The following table is a summary of the 2018/19 MTREF (classified by main revenue source):

### Summary of revenue classified by main revenue source

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

EC135 Intsika Yethu - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
<b>Revenue By Source</b>	1										
Property rates	2	-	3,309	3,279	3,609	(3,609)	7,020	(6,448)	7,674	7,613	7,727
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	-	-	733	-	-	551	(551)	900	914	927
Service charges - other		-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment		-	1,571	1,576	1,585	(1,585)	897	(633)	1,669	1,782	1,782
Interest earned - external investments		-	2,694	3,548	1,823	(1,823)	1,529	(1,833)	-	-	-
Interest earned - outstanding debtors		-	-	-	-	-	-	-	-	-	-
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		-	789	1,116	883	(883)	291	(144)	1,831	1,858	1,886
Licences and permits		-	1,711	2,500	1,786	(1,786)	2,014	(1,716)	2,690	2,185	2,218
Agency services		-	-	-	-	-	-	-	-	-	-
Transfers and subsidies		-	171,129	165,081	159,198	(159,198)	140,574	(112,916)	194,761	202,828	220,442
Other revenue	2	-	1,969	7,497	3,821	(3,821)	1,864	(1,227)	750	761	773
Gains on disposal of PPE		-	555	-	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>		-	<b>183,727</b>	<b>185,329</b>	<b>172,705</b>	<b>(172,705)</b>	<b>154,740</b>	<b>(125,468)</b>	<b>210,275</b>	<b>217,941</b>	<b>235,755</b>
<b>Expenditure By Type</b>											
Employee related costs	2	-	89,929	100,578	93,223	93,223	15,859	322	116,361	125,670	135,724
Remuneration of councillors		-	13,800	14,452	30,017	30,017	5,010	7	16,738	18,077	19,523
Debt impairment	3	-	753	248	-	-	(53)	(53)	-	-	-
Depreciation & asset impairment	2	-	30,620	24,287	12,418	11,383	5,869	3,755	-	-	-
Finance charges		-	510	541	-	-	0	0	-	-	-
Bulk purchases	2	-	-	-	-	-	-	-	-	-	-
Other materials	8	-	1,255	2,044	8,554	8,554	11,550	4,093	7,348	7,744	8,170
Contracted services		-	-	-	20,583	19,933	19,669	8,777	9,340	9,844	10,386
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	-	44,521	53,552	34,445	34,403	36,221	19,941	31,859	33,338	34,928
Loss on disposal of PPE		-	-	-	-	-	(3,889)	(3,889)	-	-	-
<b>Total Expenditure</b>		-	<b>181,387</b>	<b>195,702</b>	<b>199,239</b>	<b>197,513</b>	<b>90,236</b>	<b>32,953</b>	<b>181,646</b>	<b>194,674</b>	<b>208,731</b>
<b>Surplus/(Deficit)</b>		-	<b>2,340</b>	<b>(10,374)</b>	<b>(26,534)</b>	<b>(370,218)</b>	<b>64,504</b>	<b>(158,421)</b>	<b>28,629</b>	<b>23,267</b>	<b>27,024</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		-	43,362	39,895	54,754	(54,754)	22,955	(13,829)	3,215	335	354
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	6	-	-	-	-	-	-	-	2,215	2,215	2,215
Transfers and subsidies - capital (in-kind - all)		-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>		-	<b>45,702</b>	<b>29,521</b>	<b>28,220</b>	<b>(424,972)</b>	<b>87,459</b>	<b>(172,250)</b>	<b>34,059</b>	<b>25,817</b>	<b>29,594</b>
Taxation		-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after taxation</b>		-	<b>45,702</b>	<b>29,521</b>	<b>28,220</b>	<b>(424,972)</b>	<b>87,459</b>	<b>(172,250)</b>	<b>34,059</b>	<b>25,817</b>	<b>29,594</b>
Attributable to minorities		-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) attributable to municipality</b>		-	<b>45,702</b>	<b>29,521</b>	<b>28,220</b>	<b>(424,972)</b>	<b>87,459</b>	<b>(172,250)</b>	<b>34,059</b>	<b>25,817</b>	<b>29,594</b>
Share of surplus/ (deficit) of associate	7	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) for the year</b>		-	<b>45,702</b>	<b>29,521</b>	<b>28,220</b>	<b>(424,972)</b>	<b>87,459</b>	<b>(172,250)</b>	<b>34,059</b>	<b>25,817</b>	<b>29,594</b>

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 IYM. Rates and service charge revenues comprise 0.004% of the total revenue mix. In the 2017/18 financial year, revenue from rates and services charges totalled R

8.4 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 2018/19. 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 R210 million in the 2018/19 financial year and decrease from R213 million by 2017/18. Note that the year-on-year growth for the 2017/18 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

EQUATABLE SHARE	147,779,000.00	155,357,000.00	165,527,000.00
MIG	51,170,000.00	43,020,000.00	45,315,000.00
FMG	2,215,000.00	2,215,000.00	2,215,000.00
EPWP	2,898,000.00	-	-
INEP	4,792,000.00	4,451,000.00	9,600,000.00
		-	-
EPWP GREENEST	1,690,000.00	-	-
LIBRARY AND ARCHIVES	317,000.00	335,000.00	-
<b>GRAND TOTAL REVENUE</b>	<b>213,952,000,00</b>	<b>201,492,000,00</b>	<b>203,777,000,00</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 IYM.

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 IYM'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 IYM 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 IYM 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.

#### **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 IYM 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 amount payable is billed on a monthly bases:

### **1.5 Operating Expenditure Framework**

The IYM's expenditure framework for the 2018/19 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 2018/19 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 2015/16 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 8 per cent for the 2018/19 financial year. An annual increase of 5 per cent has been included in the two outer years of the MTREF. As part of the IYM'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 2018/19 financial year relating to critical and strategically important vacancies to be filled in 2018/19. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency cases and other critical functions.

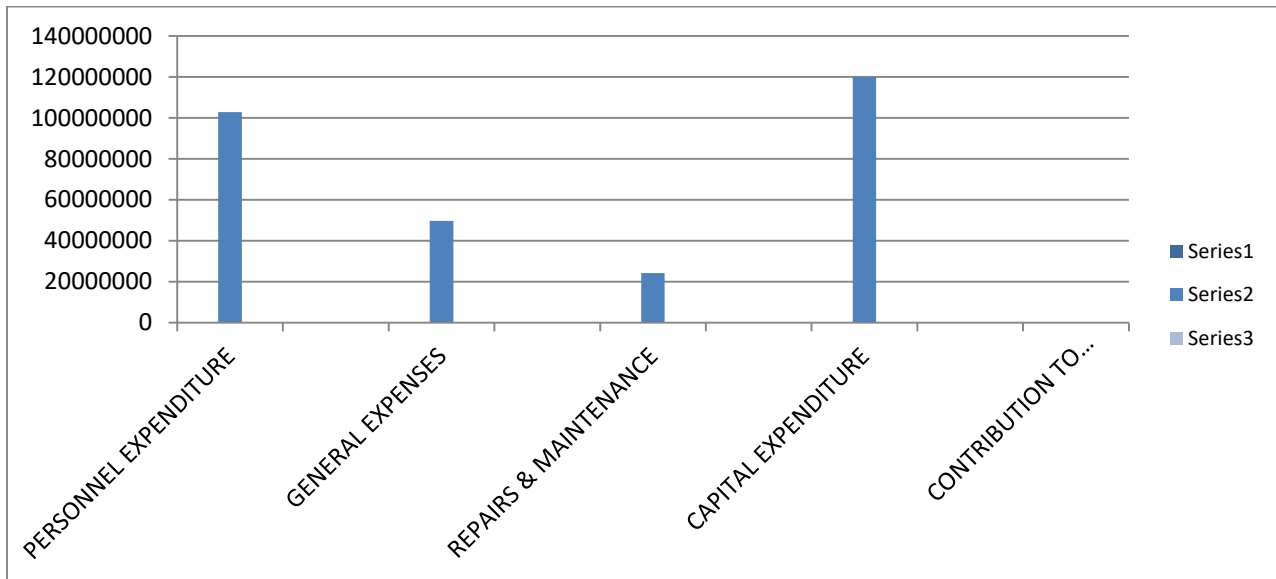
The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the IYM's budget. The cost for the remuneration of councilors is R 16 million for 2018/19 financial year which shows an increase of 8 per cent compared to 2017/18 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 IYM's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the IYM'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 2017/18 and curbed at 6 and 5 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 2018/19 financial year.



### Main operational expenditure line items for the 2018/19 financial year

<b>GENERAL EXPENDITURE</b>					
SALGA FEES			1,330,993.04	1,437,472.48	1,552,470.28
PUBLIC PARTICIPATION			5,265.00	5,549.31	5,854.52
ADVERTISING			105,300.00	110,986.20	117,090.44
ANNUAL REPORT			50,544.00	53,273.38	56,203.41
WORKING ON FIRE			-	-	-
AUDIT COMMITTEE FEES			157,950.00	166,479.30	175,635.66
AUDIT FEES			5,000,000.00	5,000,000.00	5,000,000.00
BANK CHARGES			100,000.00	100,000.00	100,000.00
EPWP GREENEST			-	-	-
CATERING			52,650.00	55,493.10	58,545.22
CLEANING MATERIAL			289,817.00	305,467.12	322,267.81
CHRIS HANI LIBRARY FUND			318,000.00	335,172.00	353,606.46
CONFERENCE FEES			368,550.00	388,451.70	409,816.54

ELECTRICITY			842,400.00	887,889.60	936,723.53
IMPAIRMENT			641,132.00	686,011.24	-
DEPRECIATION			23,646,182.00	25,301,414.74	-
FREE BASIC SERVICES			3,964,400.00	4,178,477.60	4,408,293.87
FUEL AND OIL			4,500,000.00	4,759,000.00	3,891,895.00
FMG - IT SYSTEMS			1,560,320.00	1,644,577.28	1,735,029.03
FMG - ASSET REGISTER			318,000.00	335,172.00	353,606.46
HIV AND AIDS			-	-	-
ICT EXPENSES			1,500,000.00	1,581,000.00	1,667,955.00
IDP ANNUAL REVIEWAL			105,300.00	110,986.20	117,090.44
INSURANCE FOR ASSETS			1,000,000.00	1,054,000.00	1,111,970.00
LABOUR (Workmans Compensation Act)			315,900.00	332,958.60	351,271.32
LANDFIL SITE			212,000.00	223,448.00	235,737.64
LED PROJECTS - AGRIC SUPPORT			1,000,000.00	1,054,000.00	1,111,970.00
LED PROJECTS - TOURISM DEV			165,321.00	174,248.33	183,831.99
LED PROJECTS - livestock			990,000.00	1,043,460.00	1,100,850.30
SMME SUPPORT INITIATIVE			900,000.00	948,600.00	1,000,773.00
LEGAL FEES			421,200.00	443,944.80	468,361.76
LICENCE AND REGISTRATION			200,000.00	210,800.00	222,394.00
MAYORS CUP			895,050.00	943,382.70	995,268.75
MPAC EXPENSES			52,650.00	55,493.10	58,545.22
NATIONAL DAY CELEBRATION			263,250.00	277,465.50	292,726.10
TRAFFIC TESTING STATION EQUIPMENT			1,200,000.00	-	-
OHS AND EAP			-	-	-

OFFICE EQUIPMENT - RENTAL		800,000.00	843,200.00	889,576.00
PERFORMANCE MANAGEMENT SYSTEM		421,200.00	443,944.80	468,361.76
POUND FEES		53,000.00	55,862.00	58,934.41
PROTECTIVE CLOTHING		200,000.00	210,800.00	222,394.00
POSTAGE		15,795.00	16,647.93	17,563.57
REPAIRS AND MAINTNANCE MOTOR VEHICLE		3,000,000.00	3,162,000.00	3,335,910.00
REPAIRS AND MAINTNANCE FOR BUILDING		1,000,000.00	1,054,000.00	1,111,970.00
REPAIRS TRANSIDO		500,000.00	527,000.00	555,985.00
SECURITY SERVICES (RED GUARD) ARLAMS		652,960.00	688,219.84	726,071.93
SUBSISTANCE AND TRAVELLING		1,468,427.45	1,547,722.53	1,632,847.27
ROAD MAINTENANCE		500,000.00	527,000.00	555,985.00
MEMBERSHIP FEES		40,000.00	42,160.00	44,478.80
SPU		52,650.00	55,493.10	58,545.22
TOWN PLANNING		1,000,000.00	1,054,000.00	1,111,970.00
TELEPHONE		1,060,000.00	1,117,240.00	1,178,688.20
TRAFFIC CARDS		265,000.00	279,310.00	294,672.05
TRAINING		600,000.00	632,400.00	667,182.00
TRAVELLING AND ACCOMM		892,340.00	940,526.36	992,255.31
SOCIAL NEEDS		32,643.00	34,405.72	36,298.04
UNIFORM		424,000.00	446,896.00	471,475.28
VALUATION ROLL		1,350,000.00	-	-
PLANNING AND DESIGN OF ROADS		2,500,000.00	-	-
FUEL		-	-	-
WARD COMMITTEES		3,153,735.00	3,324,036.69	3,506,858.71

HERITAGE		384,345.00	405,099.63	427,380.11
INTERGRATED ENERGY CENTER		310,635.00	327,409.29	345,416.80
WELNESS EXPENSES		52,650.00	55,493.10	58,545.22
<b>TOTAL GENERAL EXPENSES</b>		<b>73,201,554.49</b>	<b>71,995,541.27</b>	<b>47,165,148.45</b>

### 1.5.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the IYM's current infrastructure and other assets, the 2018/19 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 IYM. 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

<b>TOTAL REPAIRS &amp; MAINTENANCE</b>	4 500 000	4 734 000	5 003 865
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During the compilation of the 2018/19 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the IYM's infrastructure and historic deferred maintenance.

To this end, repairs and maintenance was kept the same because of the financial difficulties in 2017/18 financial year at R 4 million. During the 2018 Adjustment Budget this allocation was not adjusted. Notwithstanding the no change, as part of the 2018/19 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 IYM's Indigent Policy. The target is to register as many indigent households as possible during the 2018/19 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 2018/19 IYM 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 PROJECTS</b>					
PMU			2,109,500.00	2,223,413.00	2,345,700.72
UPGRADING OF TSOMO RDS & STORMWATER			-	-	-
LUBISIS CHALETTES			-	-	-
DEVELOPMENT OF COFIMVABA SPORT			5,550,000.00	5,849,700.00	6,171,433.50
UPGRADING OF LANDFILL SITE			4,851,400.00	5,113,375.60	5,394,611.26
UPGRADING OF GRAVEL ROAD SURFACING			11,994,214.00	12,641,901.56	13,337,206.14
XUME TO NOBOKWE			4,093,426.00	4,314,471.00	4,551,766.91
FOURTY TO MAWUSHENI			3,171,458.00	3,342,716.73	3,526,566.15
JARA ACCESS ROADS			5,310,000.00	5,596,740.00	5,904,560.70
MAHLATHINI ACCESS ROADS			-	-	-
TSOMO TAXI RANK			4,910,001.00	5,175,141.05	5,459,773.81
PUBLIC TOILETS			200,000.00	210,800.00	222,394.00
ELECTRIFICATION OTP			-	-	-
WEST BANK REPAYMENT			2,000,000.00	-	-
OFFICE FURNITURE			-	-	-
INEP PROJECTS			4,792,000.00	5,050,768.00	5,328,560.24
TSOMO STREET LIGHTING PH2			-	-	-
COFIMVABA COMM LIGHTING PH3			-	-	-
COMPUTERS AND EQUIPMENT			73,710.00	77,690.34	81,963.31

INHOUSE PROJECTS			9,000,000.00	9,486,000.00	10,007,730.00
<b>TOTAL CAPITAL EXPENDITURE BUDGET</b>			<b>58,055,709.00</b>	<b>59,082,717.29</b>	<b>62,332,266.74</b>

For 2018/19 an amount of R 58 million has been appropriated for the development of infrastructure and other assets.

## 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 2018/19 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.

EC135 Intsika Yethu - Table A1 Budget Summary

Description	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<b>R thousands</b>										
<b>Financial Performance</b>										
Property rates	3,186	3,327	3,309	3,609	-	3,609	-	3,609	3,826	4,094
Service charges	-	-	-	692	-	692	-	740	784	839
Investment revenue	1,799	2,694	2,188	-	-	-	-	1,823	1,939	2,063
Transfers recognised - operational	117,795	167,510	215,515	-	-	-	-	147,333	147,638	145,371
Other own revenue	127,097	12,862	13,134	43,678	-	-	-	11,893	7,509	7,874
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>249,876</b>	<b>186,393</b>	<b>234,146</b>	<b>47,979</b>	<b>-</b>	<b>4,301</b>	<b>-</b>	<b>165,398</b>	<b>161,697</b>	<b>160,242</b>
Employee costs	69,421	78,243	86,719	103,388	-	-	-	105,749	117,145	125,143
Remuneration of councillors	-	13,028	13,800	-	-	-	-	15,791	16,738	17,910
Depreciation & asset impairment	32,870	30,435	30,815	30,070	-	-	-	20,135	19,021	19,936
Finance charges	-	510	544	-	-	-	-	-	-	-
Materials and bulk purchases	-	-	-	-	-	-	-	-	-	-
Transfers and grants	-	-	-	4,080	-	-	-	4,200	4,452	4,764
Other expenditure	48,831	61,183	44,924	100,524	-	-	-	17,428	15,507	15,685
<b>Total Expenditure</b>	<b>151,121</b>	<b>183,397</b>	<b>176,801</b>	<b>238,063</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>163,303</b>	<b>172,864</b>	<b>183,439</b>
<b>Surplus/(Deficit)</b>	<b>98,754</b>	<b>2,995</b>	<b>57,345</b>	<b>(190,083)</b>	<b>-</b>	<b>4,301</b>	<b>-</b>	<b>2,095</b>	<b>(11,167)</b>	<b>(23,197)</b>
Transfers and subsidies - capital (monetary allocations)	-	-	-	-	-	-	-	48,235	51,137	55,671
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>98,754</b>	<b>2,995</b>	<b>57,345</b>	<b>(190,083)</b>	<b>-</b>	<b>4,301</b>	<b>-</b>	<b>50,330</b>	<b>39,970</b>	<b>32,474</b>
Share of surplus/ (deficit) of associate	-	(4,582)	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) for the year</b>	<b>98,754</b>	<b>(1,587)</b>	<b>57,345</b>	<b>(190,083)</b>	<b>-</b>	<b>4,301</b>	<b>-</b>	<b>50,330</b>	<b>39,970</b>	<b>32,474</b>
<b>Capital expenditure &amp; funds sources</b>										
<b>Capital expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47,930</b>	<b>41,203</b>	<b>32,474</b>
Transfers recognised - capital	-	-	-	-	-	-	-	47,430	41,203	32,474
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	-	-	-	-	-	500	-	-
<b>Total sources of capital funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47,930</b>	<b>41,203</b>	<b>32,474</b>
<b>Financial position</b>										
Total current assets	635,839	64,693	65,228	65,228	-	65,228	-	96,911	112,929	120,835
Total non current assets	506,986	533,972	568,522	568,522	-	568,522	-	571,771	606,077	648,502
Total current liabilities	31,638	39,989	30,323	30,323	-	30,323	-	6,136	6,493	6,947
Total non current liabilities	7,972	11,560	11,991	11,991	-	11,991	-	4,798	5,086	5,442
Community wealth/Equity	1,103,215	547,116	591,436	591,436	-	591,436	-	657,747	707,427	756,947
<b>Cash flows</b>										
Net cash from (used) operating	-	-	-	-	-	-	-	92,151	50,122	54,638
Net cash from (used) investing	-	-	-	-	-	-	-	(50,330)	(41,203)	(32,474)
Net cash from (used) financing	-	-	-	-	-	-	-	-	-	-
<b>Cash/cash equivalents at the year end</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,417</b>	<b>57,336</b>	<b>79,499</b>
<b>Cash backing/surplus reconciliation</b>										
Cash and investments available	559,614	54,297	53,449	53,449	-	53,449	-	85,575	90,709	97,059
Application of cash and investments	31,638	39,564	29,874	29,874	-	29,874	-	(31,881)	(21,835)	(23,506)
<b>Balance - surplus (shortfall)</b>	<b>527,976</b>	<b>14,733</b>	<b>23,575</b>	<b>23,575</b>	<b>-</b>	<b>23,575</b>	<b>-</b>	<b>117,455</b>	<b>112,544</b>	<b>120,564</b>
<b>Asset management</b>										
Asset register summary (WDV)	-	-	-	-	-	-	619,781	619,781	567,742	372,459
Depreciation	-	-	-	-	-	-	25,461	25,461	25,461	25,461
Renewal of Existing Assets	-	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	-	-	-	-	-	-	1,400	1,400	1,484	1,588

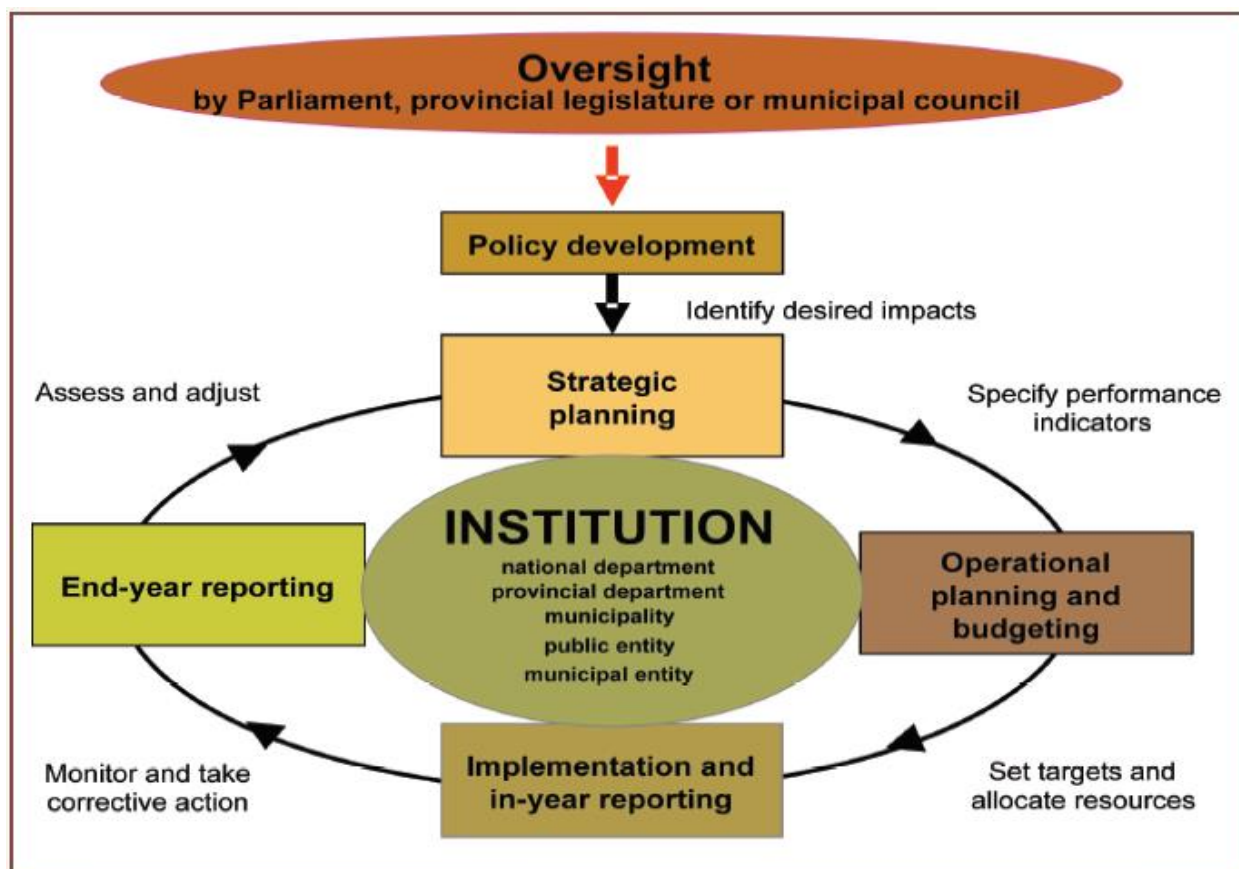
## Explanatory notes to MBRR Table A1 - Budget Summary

1. This is a Treasury template called Schedule A1, it is a budget summary and provides a concise overview of the IYM'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 IYM 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 IYM 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 final 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 IYM management.

### Planning, budgeting and reporting cycle

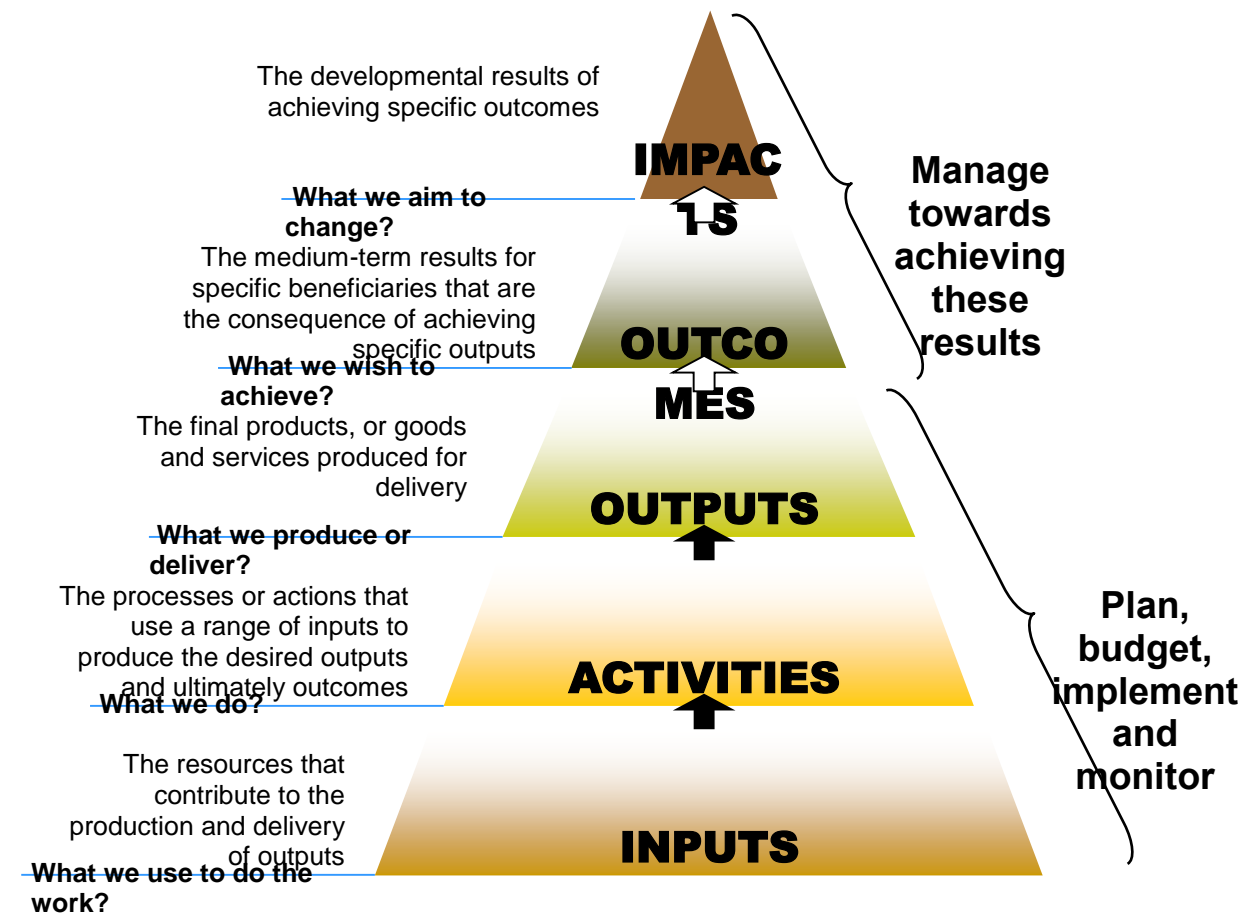
The performance of the IYM relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The IYM therefore has adopted one integrated performance management system which encompasses:

- 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 IYM 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.



