

ANNUAL BUDGET OF
EMAKHAZENI LOCAL
MUNICIPALITY

2011/12 TO 2013/14
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS



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Abbreviations and Acronyms

CFO	Chief Financial Officer
MM	Municipality Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
IDP	Integrated Development Strategy
KPA	Key Performance Area
KPI	Key Performance Indicator
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act Programme
MIG	Municipal Infrastructure Grant
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
OHS	Occupational Health and Safety
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan

Part 1 – Annual Budget

1.1 Mayor’s Report

- Mayor’s report to be made available in the final approval of the budget.

1.2 Council Resolutions

On 31 March 2011 the Council of Emakhazeni Local Municipality Local Municipality met in the Council Chambers of Emakhazeni Local Municipality to consider the annual budget of the municipality for the financial year 2011/12. The Council approved and adopted the following resolutions:

EXTRACT FROM THE MINUTES OF THE GENERAL COUNCIL MEETING HELD ON THE 31 MARCH 2011 IN THE COUNCIL CHAMBER, EMAKHAZENI, AT 17:30

17/03/2011

EMAKHAZENI LOCAL MUNICIPALITY DRAFT BUDGET REPORT FOR 2011/2012 TO 2013/2014 DRAFT BUDGET: MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK FOR 2011/12, 2012/13 & 2013/2014 FINANCIAL YEARS

Resolved that;

1. The proposed capital projects are approved.
2. The proposed tariffs are approved.
3. The draft Medium Term Revenue and Expenditure Framework for 2011/2012 – 2013/14 is approved with all budget tables A1 to A10.
4. Public participation meetings to present the budget should be held and concluded by the end of April 2011.
5. The Accounting Officer should submit the draft Medium Term Revenue and Expenditure Framework for 2011/2012 – 2013/14 and all supporting documents and / tables SA1 to SA37 to Provincial and National Treasuries and other relevant departments.

CERTIFIED CORRECT.....
MUNICIPAL MANAGER

DATE.....

1.3 Executive Summary

DRAFT BUDGET: MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK FOR 2011/12, 2012/13 & 2013/2014 FINANCIAL YEARS

REPORT OF THE ACTING CHIEF FINANCIAL OFFICE

BACKGROUND

Section 16 of the Municipal Finance Management Act (MFMA) requires that the municipality must for each financial year approve an annual budget before the start of the financial year.

The format and contents of the budget are prescribed by sections 16 to 27 of the MFMA as well the new budget and reporting regulation issued by National Treasury.

The MFMA refers to funding of expenditure and states:

- a.** An annual budget may only be funded from:
 - realistically anticipated revenues to be collected
 - cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
 - Borrowed funds; but only for the capital budget referred to in section 17(2).
- b.** Revenue projections in the budget must be realistic, taking into account:
 - projected revenue for the current year based on collection levels to date; and
 - Actual revenue collected in previous financial years."
- c.** Circular 54 issued by National Treasury provide further guidance for the preparation of 2010/2011 MTREF. It also guides on the following specific issues:
 - i.** 2011 Local Government Elections and Budget Process

This circular provides for options municipalities have in the adoption of annual budgets for 2011/2012 as the budget process coincide with the local government elections as their first issue. Therefore Emakhazeni Local Municipality as well as the Nkangala District as a whole has adopted option one which prescribes as follows:

Option 1: Outgoing council approves 2011/12 budget
<ol style="list-style-type: none"> 1. Current Mayor prepares a budget schedule that brings the review of the IDP and the tabling of the budget forward to late February or the beginning of March 2011. 2. Community consultations on the annual budget conducted in remainder of March and early April 2011. 3. Officials complete technical work on annual budget by mid-April 2011 4. Current council approves annual budget before the end of April 2011. 5. New council implements annual budget from 1 July 2011.
<i>Benefits of Option</i>
<ul style="list-style-type: none"> • Minimises risk of there not being an approved budget at the start of the financial year • Ensures continuity • Safeguards the financial sustainability of the municipality by ensuring tariff increases • are locked in before the start of the financial year
<i>Risks of Option</i>
<ul style="list-style-type: none"> • New council may not be happy with the priorities set out in the annual budget approved by the outgoing council, and so be reluctant to be held accountable for its implementation.
<i>All district councils are strongly advised to adopt this option. National Treasury also recommends this option for all metros and local councils, unless specific local political circumstances suggest that it is important to allow the new council to approve the budget.</i>

ii. National Outcomes

In January 2010, Cabinet adopted 12 outcomes within which to frame public-service delivery priorities and targets. Cabinet ministers have signed performance agreements linked to these outcomes. All municipalities are expected to take the 12 outcomes into consideration when reviewing their IDPs and developing their annual budgets for the 2011/12 MTREF. The outcomes are as follows:

1. Improve the quality of basic education
2. Improve health and life expectancy
3. All people in South Africa protected and feel safe
4. Decent employment through inclusive economic growth
5. A skilled and capable workforce to support inclusive growth
6. An efficient, competitive and responsive economic infrastructure network
7. Vibrant, equitable and sustainable rural communities and food security
8. Sustainable human settlements and improved quality of household life
9. A response and, accountable, effective and efficient local government system
10. Protection and enhancement of environmental assets and natural resources
11. A better South Africa, a better and safer Africa and world
12. A development-orientated public service and inclusive citizenship

iii. Financial implication of the demarcation process

The Municipal Demarcation Board announced on 1 September 2010 that the number of municipalities will be reduced from 283 currently to 278, and that there will be a number of other changes to the boundaries of the remaining municipalities.

iv. The municipal budget and reporting regulations

Municipalities must prepare their budget in terms of the Municipal Budget and Reporting Regulations as presented to Council last financial year (2009/2010). We must also prepare a range of budget related policies or any necessary amendments to such policies for tabling in municipal council.

v. Revising rates, tariffs and other charges

When municipalities revise their rates, tariffs and other charges for their 2011/12 budgets and MTREF, they need to take into account the labour (i.e. the wage agreements with unions) and other input costs of services provided by the municipality or entity, the need to ensure financial sustainability, local economic conditions and the affordability of services, taking into consideration the municipality's indigent policy. Municipalities should also take note that tariffs may only be implemented from the start of the financial year.

vi. Funding choices and management issues

While the budget must reflect the political priorities of the current council, it is equally important that the current council ensure that the budget for 2011/12 is properly funded, and improves the financial sustainability of the municipality over the medium term.

Therefore priority ought to be given to:

- Ensuring that drinking water meets the required quality standards at all times;
- Protecting the poor from the worst impacts of the slow recovery in the labour market;
- Supporting meaningful local economic development (LED) initiatives that foster micro and small business opportunities and job creation;
- Securing the health of their asset base (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance; and
- Expediting spending on capital projects that are funded by conditional grants.

vii. Budget submissions for the 2011/2012

The tabled and approved budget must be submitted in terms of Section 22 (b)(i) and Section 24(3) of the MFMA respectively read together with regulation 20 (1)

d. Headline inflation forecasts.

The National Treasury is going to issue the information on the headline inflation forecast in March 2011. However in preparing this draft budget an average inflation rate for the last six months has been used, which indicates 3.5% inflation rate.

e. Matters relating to SALGA

SALGA must still issue a guideline to of the salary increase for 2011/2012. It must be noted however that the increase has been estimated to 6%.

f. Proposed Tariff increases 2011/12

Assessment Rates:	12.5 %
Electricity:	20.38 %
Sewerage:	12.5 %
Water:	12.5 %
Cleansing:	12.5 %
Other income:	12.5 %

Details of tariff list attached as Annexure **B**

Nersa has guided for electricity tariffs to be 20.38%. An internal task team has been appointed to investigate the municipal tariff structure and to do a costing on the tariffs which will then inform the final tariff increase. At this stage the preliminary finding is to increase all tariffs with 12.5% and 20.38% for electricity as indicated above.

g. Provision for Bad Debts

A provision for Bad Debts is made for 2011/12 to the amount of R 2,243,240.37

h. Proposed Capital Budget Summary

Detail of proposed capital projects to be funded from income can be read in the annexure. A summary of the proposed capital budget is set as follows:

Source of Funding:	Budget 2011/12	Budget 2012/13	Budget 2013/14
MIG	R 13,131,000.00	R 15,966,000.00	R 16,844,000.00
Nkangala	R 10,360,000.00	R 10,930,000.00	R11,586,000.00
Internally funded	R 1,074,682.00	R 1,128,417.00	R 1,184,837.00
TOTAL:	R 24,565,682.00	R 28,024,417.00	R 29,614,837.00

In terms of Circular 27 from National Treasury only capital projects from which funding has been secured may be included in the Capital budget. Therefore it must be noted that the available funding caters for only the above projects.

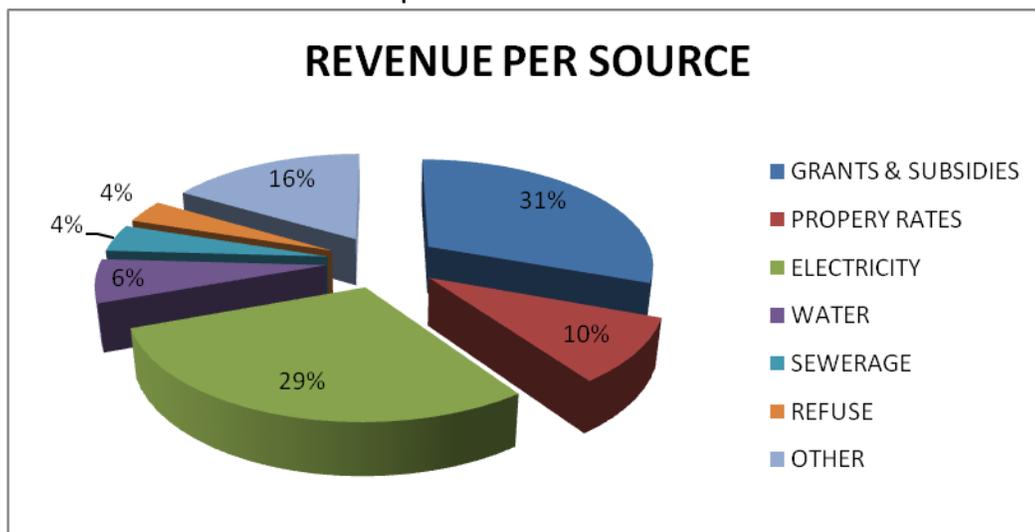
i. The Budget Summary

i. Total Budgeted Revenue

The total estimated revenue for 2011/2012 financial year is R 150,219,788.00 and the sources are summarized as follows:

Item Description	2010/11		2011/12		2012/13	2013/14
	Current Budget DR	% of Budget	Proposed Budget DR	% of Budget	Estimated Budget DR	Estimated Budget DR
GRANTS & SUBSIDIES	40,992,000.00	30%	47,724,000.00	31%	50,298,150.00	52,813,058.00
PROPERTY RATES	15,427,355.00	11%	14,993,823.00	10%	15,743,515.00	16,530,690.00
ELECTRICITY	36,805,591.00	27%	45,594,767.00	29%	47,874,505.00	50,268,231.00
WATER	8,680,877.00	6%	10,069,817.00	6%	10,573,308.00	11,101,973.00
SEWERAGE	5,510,529.00	4%	6,392,214.00	4%	6,711,825.00	7,047,416.00
REFUSE	4,712,547.00	3%	5,466,555.00	4%	5,739,882.00	6,026,876.00
OTHER	22,904,674.00	17%	25,721,382.00	16%	26,819,501.00	28,160,477.00
TOTAL	135,033,573.00	100%	155,962,558.00	100%	163,760,686.00	171,948,721.00
LESS REVENUE FORGONE	6,540,048.00		5,742,770.00		6,029,908.00	6,331,404.00
TOTAL DIRECT OPERATING REVENUE	128,493,525.00		150,219,788.00		157,730,778.00	165,617,317.00

The above can further be represented as follows:



Grants

The Division of Revenue Act for the 2011/12 has been allocated as follows:

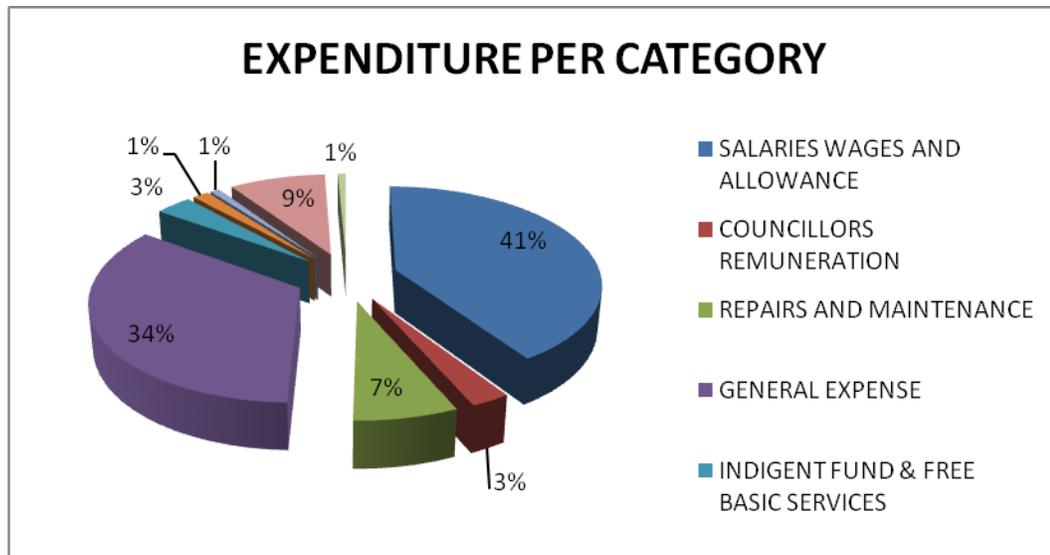
	2010/11	2011/12
1. Equitable Share	R 28,324,000.00	R 31,562,000.00
2. Financial Management Grant	R 1,000,000.00	R 1,250,000.00
3. Municipal Infrastructure Grant	R 10,918,000.00	R 10,918,000.00
4. Municipal Systems Infrastructure Grant	R 750,000.00	R 790,000.00
5. Public Works Programme Incentive Grant	R 0.00	R 536,000.00
6. National Electrification Programme Grant	R 0.00	R 634,000.00
	<u>R 40,992,000.00</u>	<u>R 45,690,000.00</u>

ii. Expenditure Estimated

The total expenditure projected for 2011/2012 financial is R 150,219,788.00 which led to zero deficit/surplus. The summary is as follows:

Item Description	2010/11		2011/12		2012/13	2013/14
	Current Budget DR	% of Budget	Proposed Budget DR	% of Budget	Estimated Budget DR	Estimated Budget DR
SALARIES WAGES AND ALLOWANCE	52,431,179.00	39%	61,184,836.00	41%	64,244,079.00	67,456,283.00
COUNCILLORS REMUNERATION	3,679,353.00	3%	3,977,322.00	3%	4,176,188.00	4,384,997.00
REPAIRS AND MAINTENANCE	9,453,645.00	7%	10,504,146.00	7%	11,134,394.76	11,802,458.45
GENERAL EXPENSE	48,342,737.00	36%	51,818,989.00	34%	54,123,589.00	56,526,241.00
INDIGENT FUND & FREE BASIC SERVICES	4,830,539.00	4%	4,999,608.00	3%	5,299,584.48	5,617,559.55
WORKING CAPITAL RESERVE:BAD DEBTS	2,167,382.00	2%	2,243,240.00	1%	2,355,402.00	2,473,173.00
CAPITAL CHARGES	521,178.00	0%	1,285,965.00	1%	1,350,263.00	1,417,776.00
CAPITAL COST: MIG	10,918,000.00	8%	13,131,000.00	9%	13,918,860.00	14,753,991.60
CAPITAL COST: INTERNAL	2,689,560.00	2%	1,074,682.00	1%	1,128,417.00	1,184,837.00
TOTAL	135,033,573.00	100%	150,219,788.00	100%	157,730,778.00	165,617,317.00

The above can further be represented as follows:



j. Conclusion

When the budget is tabled to council it must be tabled together with any amendments in budget related policies. Hence the proposed amendments in the budget policy as attached.

RECOMMENDATIONS

It is recommended:

1. That the proposed capital projects be approved.
2. That the Council approves the proposed tariffs.
3. That the Council approve the draft Medium Term Revenue and Expenditure Framework for 2011/2012 – 2013/14.
4. That the Council holds public participation meetings to present the budget for the whole month of March 2011.
5. That the Accounting Officer submits the draft Medium Term Revenue and Expenditure Framework for 2011/2012 – 2013/14 to Provincial and National Treasuries and other relevant departments.

1.4 Annual Budget Tables

The annual budget tables are attached as Annexure A. Each table entails the following:

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).

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. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports.

Explanatory notes to 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.

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

1. Table A4 reflects the level in which the revenue base of the municipality. Our reliance is mainly on property rates and service charges as they constitute 53% of the total budget.
2. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operations gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

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.

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.

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.

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".

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.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

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

Part 2 – Supporting Documentation**2.1 Overview of the annual budget process**

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

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

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

a. Budget Process Overview

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

The following has been adhered to in terms of the Budget Time Table and IDP process plan:

- Service delivery implementation were drafted and approved by Council on 30 August 2010.
- Budget timetable for 2011/12 – 2013/14 scheduling key deadlines was adopted by council on 29th July 2010.
- Annual financial statements were prepared and submitted to the Auditor General by the 31st August 2010, then they were audited between August and September 2010 and the municipality got an unqualified audit opinion.
- Nkangala Outreach Programme was held in September 2010 at Fano Masina Stadium, Emthonjeni.
- The IDP review process was done in the month of October 2010.
- The IDP Technical Committee meeting was held on the 12th November 2010.
- The Mid-year budget and performance assessment as informed by Section 72 of the MFMA report has been prepared.
- The proposed adjustment budget has been done.
- The public participation meetings are to take place to consult on the MTREF 2011/12

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council. However the budget timetable was amended and approved by Council on 01st February 2011. The amendment was due to an option that the municipality took with regards to the budget process which coincides with the National Local Government Elections that are to take place in May 2011.

2.2 Overview of alignment of annual budget with IDP

The term of office of the current Emakhazeni Council comes to its logical end on the 1st of March 2011. However, the councilors remain in office until the date of elections supposedly planned for the month of May 2011.

The Emakhazeni Local Council adopted an Integrated Development Plan (IDP) process plan in terms of section 28 of the Municipal Systems Act which clarified the roles and responsibilities of IDP structures that must be established for the consideration of the final IDP review for the 2010/2011 Financial Year.

This review process was done in terms of section 34 of the MSA² which inter-alia reads as follows:

"A municipal Council must review its IDP in accordance with an assessment of its performance measurements in terms of section 41; and to the extent that changing circumstances so demand; and may amend its IDP in accordance with a prescribed process".

Therefore, the purpose of this review is to incorporate the views of the community of Emakhazeni, as influenced by changing circumstances.

Accordingly, section 25 of the Municipal Structures Act (MSA) says that each municipal council must, within a prescribed period after its elected term, adopt a single, inclusive and strategic plan for the development of the municipality which;

- (a) Links, integrates and co-ordinates plans and takes into account proposals for the development of the municipality;
- (b) Aligns the resources and capacity of the municipality with the implementation of the plan;
- (c) Forms the policy framework and general basis on which annual budgets must be based
- (d) Is compatible with National and Provincial development plan and planning requirements binding on the municipality in terms of MFMA Circular no. 54.

An integrated development plan adopted by a municipal council in terms of sub-section (1) may be amended in terms of section 34 and remains in force until an integrated development plan is adopted by the next elected council.

Although, the legislation allows the revised 2010-2011 IDP to remain in force until the newly elected council plans drafts, and adopt its own IDP, the councilors have felt that a new fifth

revision needs to be planned, drafted and adopted since there are circumstances on the ground that necessitate the adoption of a new revised IDP. These circumstances include but are not limited to the election of new cabinet with a different set of priorities, adoption of new growth path towards creation of decent work.

So, these circumstances together with other provincial and district priorities necessitate the drafting and adoption of a new five year plan to guide all planning of the municipality in the next five years.

In drafting the IDP for the next five years, the municipality has followed its process plan adopted in terms of section 28 (1)(2) and (3) of the Municipal Systems Act, adopted by council during July 2010.

Unfortunately the adopted process plan has had to be amended three times due to circumstances that necessitated such review. These circumstances include among other issues, the following:

- Community unrests
- National Treasury's Municipal Financial Management Act (MFMA) circular no: 54
- The late receipt of Nkangala District Municipality's framework plan binding on the municipality.

Section 26 (a) to (i) of the MSA² prescribes nine (9) key components which must appear on a credible IDP and these components are discussed in summary below.

- a) The vision of the Municipality was amended during the strategic planning session held from the 02 to the 04th of March 2008 and it now reads as follows: "A secure environment with sustainable development to promote service excellence, unity and community participation, resulting in a caring society".

This means that the Municipality is thriving to rapidly transform its internal systems such that they are conducive for the rendering of excellence in service delivery which will encourage communities to hold Council accountable, and make each member of the public to be a watch dog of service delivery.

- b) Chapter 3 of the IDP document discusses the existing level of development in the Municipality. Since the Municipality does not have sufficient capacity to conduct regular Social Surveys, it relies on the Census 2001 data as its source of information.
- The municipal council's vision for the long term development of the municipality with special emphasis on the municipality's most critical development and internal transformation needs.
 - The current vision of the municipality remains relevant and it reads as follows;

"A secure environment with sustainable development to promote service excellence, unity and community participation, resulting in a caring society".

The new five year Strategic plan is the era of community service, developmental planning and delivery services for the community of Emakhazeni.

The 2014 in particular is going to be an important year for the country and other countries that are a signatory to the Millennium Development goals adopted by the United Nations (UN).

- (c) Guided by the community, the Municipal Council has developed a set of 25 priority development issues as per the requirement of section 26 (c), which are clustered into five Key Performance Areas, to be implemented during the next three years. They further include the priority areas as indicated in the 2011 State of the Nation Address and the Mpumalanga Economic Growth Path.

The Key Performance Areas are the following:

1. Service Delivery and Infrastructure Developments
2. Local Economic Development
3. Municipal Financial Liability
4. Institutional Transformation
5. Good Governance and Public Participation

Thus the municipality held a strategic planning session in 26th to 28th February 2011 to link the prioritised needs to the budget

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

The Municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

All expenses, including depreciation expenses, shall be **cash-funded**. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.

Finance charges payable by the Municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the municipality.

Depreciation and finance charges together shall not exceed **20%** of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

The allocation of **interest earned** on the Municipality's investments shall be budgeted for in terms of the banking and investment policy.

The Municipality shall adequately provide in each annual and adjustments budget for the maintenance of its **fixed assets** in accordance with its fixed asset management and accounting policy. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

The budget for **salaries, allowances and salaries-related benefits** shall be separately prepared, and shall not exceed 35% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other councillors shall be excluded from this limit.

In preparing its **revenue budget**, the municipality shall strive to maintain the aggregate revenues from property rates at not less than 25% of the aggregate revenues budgeted for.

2.4 Overview of budget related-policies

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

The purpose of these policies is to prescribe the accounting and administrative and procedures relating to Emakhazeni Municipality.

The Municipality performs the procedures set out in the policies to ensure the effective planning and sound financial management

1. **Debt Management Policy** - The implementation of this policy should be based on sound business practices. This includes credit worthiness checks when application for services is made, as well as debt collection through sanctions of warnings, disconnections, evictions and other legal processes.
2. **Supply Chain Management Policy** - The purpose of this manual is to prescribe the policies and procedures relating to Supply Chain Management of the Emakhazeni Municipality. The principles of this policy is to give effect to a fair, equitable, transparent, competitive and cost-effective system for the procuring of goods and services, disposing of goods and selecting of contractors in the provision of municipal services.
3. **Budget Management Policy** - The purpose of this policy is to provide an overview of the procedure for the structural process of Planning and Managing the Budget. The procedures include the development of budgets, including the preparation of the budget, revision, approval, monitoring and evaluation of budgetary performance for a financial year. This policy is currently under review and has been considered by council on the 25th February 2011. The review of this policy includes component on budget virement and budget adjustment. The current policy is however still credible.
4. **Indigent Policy** - to provide access and regulate free basic services to all indigent households.
5. **Tariff Policy** –the purpose of this policy is to determine the tariffs which must be charged for the supply of the four major services, which are : water, electricity, sewerage & refuse.
6. **Property Rates Policy** – the purpose of this policy is to assist the municipality to impose rates within a statutory framework which enhances certainty, uniformity and simplicity across the nation and which takes account of historical imbalances and the burden of rates on the poor. It be noted that the municipality is working on final draft.
7. **Asset Management Policy** – this policy provide guidelines on the management of assets. It must however be noted that the final policy which is GRAP compliant will be provided with the final approved budget as it is still work in progress.

8. **Banking and investment policy** – this policy prescribes for the management of cash and the investing of municipal money.
9. **Borrowing policy** – no policy in place.
10. **Funding & reserves policy** – no policy in place, the municipality does not have reserves at the moment.

NB: Policies attached as Annexure C

2.5 Overview of budget assumptions

2.51 External factors

We will further investigate the following during our public participation process as well as per internal research and take the following into consideration:

- Confirm the labour (i.e. the wage agreements with unions) and other input costs of services provided by the municipality or entity,
- Ensure the need to ensure financial sustainability,
- Reconsider the local economic conditions and the affordability of services,
- Taking into consideration the municipality's indigent policy.
- We also considered relevant policy developments in the different sectors.
- In considering changes in property rates, municipalities we took cognizance of local economic conditions such as the down turn in the property market, trends in household incomes and unemployment. Excessive increases in property rates and other tariffs are likely to be counterproductive, resulting in higher levels of non-payment and increased bad debts.

2.5.2 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2011/12 MTREF:

- National Government macro economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration. Employee related costs comprise 14 per cent increase as compared to the financial year 2010/2011 and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions on 31 July 2009 as well as the categorisation and job evaluation wage curves collective agreement signed on 21 April 2010 must be noted.

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2.6 Overview of budget funding

DESCRIPTION	Audited Financial Statements 2007/2008	Audited Financial Statement 2008/2009	Audited Financial Statement 2009/2010	Budget 2010/2011	Adjustment Budget 2010/2011	Budget 2011/12	Forecast 2011/2012	Forecast 2012/2013
OPERATING REVENUE								
PROPERTY RATES	10,272,274.00	9,261,991.00	11,428,180.00	15,427,355.00	13,210,417.00	14,993,823.00	15,743,515.00	16,530,690.00
SERVICES CHARGES	28,321,385.11	32,515,468.00	40,607,283.00	55,709,544.00	55,709,544.00	67,523,353.00	70,899,520.00	74,444,496.00
RENT OF FACILITIES AND EQUIPMENT	257,089.00	577,773.00	619,502.00	597,312.00	690,312.00	732,880.00	769,524.00	808,000.00
INTEREST	430,233.00	196,003.00	132,593.00	191,372.00	40,000.00	41,400.00	43,470.00	45,644.00
INTEREST EARNED OUTSTANDING DEBTORS	0.00	50.00	132,593.00	0.00	0.00	0.00	0.00	0.00
FINES	268,060.00	214,092.00	343,902.00	551,680.00	550,576.00	600,850.00	630,893.00	662,437.00
LICENCE AND PERMITS	306,468.00	293,903.00	204,809.00	195,980.00	415,140.00	211,610.00	222,191.00	233,300.00
INCOME FOR AGENCY SERVICES	351,674.00	445,298.00	556,760.00	1,254,500.00	1,067,100.00	1,254,500.00	1,317,225.00	1,383,086.00

GRANTS AND SUBSIDIES OPERATING	15,960,500.00	20,418,672.00	23,968,036.00	30,074,000.00	30,074,000.00	34,772,000.00	36,510,600.00	38,336,130.00
EQUITABLE SHARE	13,726,500.00	17,483,672.00	22,224,396.00	28,324,000.00	28,324,000.00	31,562,000.00	33,140,100.00	34,797,105.00
GRANT: MSIG	734,000.00	735,000.00	727,127.00	750,000.00	750,000.00	790,000.00	829,500.00	870,975.00
GRANT: FMG	1,500,000.00	1,500,000.00	935,152.00	1,000,000.00	1,000,000.00	1,250,000.00	1,312,500.00	1,378,125.00
GRNAT:DME	0.00	0.00		0.00	0.00	0.00	0.00	0.00
GRANT:DBSA		700,000.00		0.00	0.00	0.00	0.00	0.00
GRANT : INEP						634,000.00	665,700.00	698,985.00
GRANT :EPWP						536,000.00	562,800.00	590,940.00
VUNA AWARD LED PROJECT			81,361.00					
GRANT AND SUBSIDIES CAPITAL								
GRANT:MIG	0.00	1,670,000.00	5,894,478.00	10,918,000.00	10,918,000.00	13,131,000.00	13,787,550.00	14,476,928.00
OTHER REVENUE	5,765,871.00	10,456,315.00	4,864,297.00	20,113,830.00	20,119,482.00	22,701,142.00	23,836,199.00	25,028,009.00
LESS REVENUE FOREGONE	2,166,187.13	2,654,543.44	3,902,216.00	6,540,048.00	5,548,570.00	5,742,770.00	6,029,908.00	6,331,404.00
TOTAL DIRECT OPERATING REVENUE	59,767,367	73,395,022	84,850,217	128,493,525	127,246,001	150,219,788	157,730,779	165,617,316
TOTAL OPERATING REVENUE GENERATED	59,767,367	73,395,022	84,850,217	128,493,525	127,246,001	150,219,788	157,730,779	165,617,316

The following graph is a breakdown of the operational revenue per main category for the 2011/12 financial year.

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 Municipality 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, fines and land availability or disposal etc).

The municipality does not have any long term investment only a 32days notice account.

2.7 Expenditure on grants and reconciliations of unspent funds

Expenditure on grants can be viewed in SA19 and SA20 attached with other supporting documents as Annexure **F**

2.8 Councillor and employee benefits

Councillor and employee benefits can be viewed in SA 22 and 23, together with the summary of the personnel numbers in SA24 attached as Annexure **F**

2.9 Monthly targets for revenue, expenditure and cash flow

Monthly targets for revenue, expenditure and cash flow cash flow can be viewed in SA25, SA26, SA27, SA28 ,SA29 and SA30 attached as Annexure **F**

2.10 Annual budgets and SDBIPs – internal departments

Annual budget is attached as Annexure **D**. Explanatory notes on internal votes will be included in final approval of the budget.

SDBIPs are hereby attached as Annexure **E**.

2.11 Contracts having future budgetary implications

The municipality does not have any contracts that may exceed the

2.12 Capital expenditure details

The following table represent the proposed capital projects for the MTREF 2011/12 – 2013/14.

The capital projects are funded through internal surplus and external sources which are: MIG and Nkangala District Municipality.

MUNICIPAL INFRASTRUCTURE GRANT

Source of Financing	Vote nr	Projects		Cost 2012	Cost 2013	Cost 2014
MIG		Upgrading of water rising	Machadodorp	2,500,000.00		
MIG		Upgrading of portable water rising main	Belfast	2,671,639.00		
MIG		Replacement of corroded elevated tank	Belfast	1,482,000.00		
MIG		Connection church sites to water & sewer reticulation	Siyathuthuka	554,011.50		
MIG		Rehabilitation of waste dumping site	Siyathuthuka	3,009,600.00		
MIG		Paving of Khayalami street	Siyathuthuka	2,257,200.00		
MIG		PMU		656,550.00		
MIG		Other			R 15,966,000.00	R 16,844,000.00
TOTAL MIG				R 13,131,000.50	R 15,966,000.00	R 16,844,000.00

NKGANGALA DISTRICT MUNICIPALITY

Source of Financing	Vote nr	Project	Area	Cost 2012	Cost 2013	Cost 2014
NDM		Building of Community hall	Siyathuthuka	R 2,000,000.00		
NDM		Rising of Dullstroom Dam wall phase 1	Dulstroom	R 3,500,000.00		
NDM		Widening of Bhekumuzi Masango Drive phase 2	Bhekumuzi Masango	R 4,000,000.00		
NDM		Upgrading of electrical meduim network in Belfast	Belfast	R 560,000.00		
NDM		Other	Emakhazeni		R 10,930,000.00	R 11,586,000.00

TOTAL NDM	R 10,060,000.00	R 10,930,000.00	R 11,586,000.00
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CAPITAL EXPENDITURE - INTERNAL FUNDS

Source of Financing	Vote nr	Projects	Area	Cost 2012	Cost 2013	Cost 2014
Internal	021-305020	MACHINERY & EQUIPMENT	Sewerage Services	255,033.00	267,785.00	281,174.00
Internal	024-305012	INTERN CAP: COMPUTER EQUIPMENT	Municipal Manager	241,236.00	R 253,298.00	R 265,963.00
Internal	035-305020	MACHINERY & EQUIPMENT	Workshop	25,523.00	R 26,799.00	R 28,139.00
Internal	040-305020	MACHINERY & EQUIPMENT	Electricity	112,890.00	R 118,535.00	R 124,461.00
Internal	045-305020	MACHINERY & EQUIPMENT	Water	440,000.00	R 462,000.00	R 485,100.00
			TOTAL INTERNAL FUNDING	1,074,682.00	1,128,417.00	1,184,837.00

TOTAL	R 24,265,682.50	R 26,896,000.00	R 29,614,837.00
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2.13 Legislation compliance status

The Municipality operations are governed by an array of different acts.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Regional Services Council Act, 1985 (Act 109 of 1985)
- ◆ Local Government: Municipal Structures Act, Act 117 of 1998 with all its amendments to date.
- ◆ Local Government : Municipal Systems Act, Act 32 of 2000 with all its amendments to date in its entirety together with regulations promulgated and applicable to high capacity municipalities.
- ◆ Local Government: Municipal Finance Management Act, Act 56 of 2004 in its entirety including regulations promulgated.
- ◆ Compliance is also given to circulars by National Treasury in line with the Municipal Systems Act and the Municipal Finance Management Act
- ◆ Local Government : Property Rates Act, Act 6 of 2004 and its promulgated regulations
- ◆ The Municipality is participating in the Municipal Financial management Internship programme, in the financial year 2010/2011 the municipality employed three interns of which one resigned in February 2011 to peruse an opportunity with the Auditor General. Since the inception of this programme the municipality has employed a total of four whom they have appointed as Deputy Manager Budget & Reporting, Deputy Manager Supply Chain Management, Senior Accountant Income and Senior Accountant Supply Chain Management. Of the four only one intern later resigned to peruse a career with a National Department.

Thus not only is Emakhazeni Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

2.14 Other supporting document.

Other supporting documents entail supporting budget tables on SA1 to SA37, attached as Annexure **F**

QUALITY CERTIFICATION OF THE MUNICIPAL MANAGER

Dear Sir/Madam

I Mr. O.N Nkosi, the Municipal Manager of Emakhazeni Local Municipality, hereby certify that the annual budget and supporting documents have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the act, and that the annual budget and the supporting documents are consistent with the Integrated Development Plan (IDP) of the Municipality.

Name : **MR. O.N. NKOSI**
MUNICIPAL MANAGER

Municipal Code : MP314

Signature : _____

Date : _____