



**THABAZIMBI LOCAL MUNICIPALITY (NP 361)**  
**DRAFT MEDIUM TERM REVENUE AND**  
**EXPENDITURE FORECASTS 2011/12 TO 2013/14**

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## Abbreviations and Acronyms

|        |   |
|--------|---|
| AMR    | Automated Meter Reading                   |
| ASGISA | Accelerated and Shared Growth Initiative  |
| BSC    | Budget Steering Committee                 |
| CBD    | Central Business District                 |
| CFO    | Chief Financial Officer                   |
| CPI    | Consumer Price Index                      |
| DBSA   | Development Bank of South Africa          |
| DoRA   | Division of Revenue Act                   |
| DWA    | Department of Water Affairs               |
| EE     | Employment Equity                         |
| EEDSM  | Energy Efficiency Demand Side Management  |
| FBS    | Free basic services                       |
| GDP    | Gross domestic product                    |
| GFS    | Government Financial Statistics           |
| GRAP   | Generally Recognised Accounting Practices |
| HR     | Human Resources                           |
| HSRC   | Human Science Research Council            |
| IDP    | Integrated Development Plan               |
| IT     | Information Technology                    |
| kℓ     | kilolitre                                 |
| km     | kilometre                                 |
| KPA    | Key Performance Area                      |
| KPI    | Key Performance Indicator                 |
| kWh    | kilowatt hour                             |

**Abbreviations and Acronyms continued.....**

|       |   |
|-------|---|
| ℓ     | litre   |
| LED   | Local Economic Development                    |
| MEC   | Member of the Executive Committee             |
| MFMA  | Municipal Financial Management Act            |
| 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   |
| NGO   | Non-Governmental organisations                |
| NKPIs | National Key Performance Indicators           |
| OHS   | Occupational Health and Safety                |
| PMS   | Performance Management System                 |
| PPE   | Property Plant and Equipment                  |
| PPP   | Public Private Partnership                    |
| SALGA | South African Local Government Association    |
| SAPS  | South African Police Service                  |
| SDBIP | Service Delivery Budget Implementation Plan   |
| SMME  | Small Micro and Medium Enterprises            |

## **Part 1 – Annual Budget**

### **1.1 Mayoral Speech**

Not available at this time.

## 1.2 Council Resolutions

Council approves and adopts;

- 1.2.1** The annual budget of the municipality for the financial year 2011/12 and the multi-year and single-year capital appropriations as set out in the following tables:
- 1.2.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18;
  - 1.2.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19;
  - 1.2.1.3 Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table; and
  - 1.2.1.4 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 22
- 1.2.2** 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:
- 1.2.2.1 Budgeted Financial Position as contained in Table 23;
  - 1.2.2.2 Budgeted Cash Flows as contained in Table 24;
  - 1.2.2.3 Cash backed reserves and accumulated surplus reconciliation as contained in Table 25;
  - 1.2.2.4 Asset management as contained in Table 26; and
  - 1.2.2.5 Basic service delivery measurement as contained in Table 27 on page 38.
- 1.2.3** In terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) and with effect from 1 July 2011 all municipal tariffs – as set out in Annexure A,
- 1.2.4** Property Rates Policy (to be issued for public comments and representations) – as set out in Annexure B,
- 1.2.5** that the municipality be permitted to enter into long-term financing arrangements with authorised financial services provider for the funding of Municipal Fleet amounting to R3 950 000,
- 1.2.5.1 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 Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality'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.

National Treasury's MFMA Circular No. 54 and 55 were used to guide the compilation of the 2011/12 MTREF.

The main challenges experienced during the compilation of the 2011/12 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;

The increased cost of bulk water and electricity (due to tariff increases from Rand Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;

Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies;

The following budget principles and guidelines directly informed the compilation of the 2011/12 MTREF:

- The 2010/11 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 2011/12 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 of bulk water

and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure 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 a view of the aforementioned, the following table is a consolidated overview of the proposed 2011/12 MTREF.

**Table 1: Consolidated Overview of the 2011/12 MTREF**

| <b>R thousands</b>  | <b>Adjusted Budget</b> | <b>Budget Year 2011/12</b> | <b>Budget Year +1 2012/13</b> | <b>Budget Year +2 2013/14</b> |
|---|------------------------|----------------------------|-------------------------------|-------------------------------|
| Total Revenue (excluding capital transfers and contributions) | 182,210                | 198,950                    | 212,231                       | 224,498                       |
| Total Expenditure   | 182,388                | 177,862                    | 187,289                       | 197,590                       |
| Surplus/(Deficit)   | (178)                  | 21,088                     | 24,942                        | 26,909                        |
| Total sources of capital funds                                | 52,713                 | 57,973                     | 61,046                        | 64,403                        |

Total operating revenue rose by 9 per cent or R16.7 million for the 2011/12 financial year when compared to the 2010/11 Adjustments Budget. For the two outer years, operational revenue will increase by 7.2 and 5.85 per cent respectively, equating to a total revenue growth of R25.6 million over the MTREF when compared to the 2010/11 financial year.

Total operating expenditure for the 2011/12 financial year has been appropriated at R177 million and translates into a budgeted surplus of R21 million. When compared to the 2010/11 Adjustments Budget, operational expenditure has decreased by 2 per cent in the 2011/12 budget but would grow by 5 and 6 per cent for each of the respective outer years of the MTREF. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R57 million for 2011/12 is 10% per cent more when compared to the 2010/11 Adjustment Budget. The capital programme increases by R6.4 million for the two outer years



A minimal portion of the capital budget will be funded from borrowing over MTREF with anticipated borrowings of R3.95 million in each of the financial years of the MTREF. The balance will be funded from internally generated funds and funding from National Government (MIG). Note that the Municipality has reached its prudential borrowing limits and so there is very little scope to substantially increase these borrowing levels over the medium-term. Consequently, the capital budget remains relatively flat over the medium-term.

## 1.4 Operating Revenue Framework

For Thabazimbi 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 whilst consumers' debt continues to rise due to the economic conditions. 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.

An amount of R100 000 has been budgeted to review and implement the revenue enhancement strategy. The strategy will be built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 85 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2011/12 MTREF (classified by main revenue source):

**Table 2 Summary of revenue classified by main revenue source**

| Description<br>R thousand  | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>Revenue By Source</b>   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Property rates   | 16 036          | 17 393          | 8 895           | 24 031               | 24 031          | 24 031             | 29 928  | 31 514                 | 33 247                 |
| Property rates - penalties & collection charges                      | 2 554           | 3 465           | 1 696           | 3 230                | 3 230           | 4                  | 546   | 575                    | 607                    |
| Service charges - electricity revenue                                | 16 350          | 18 608          | 27 431          | 31 633               | 31 633          | 31 633             | 45 659  | 48 079                 | 50 723                 |
| Service charges - water revenue                                      | 8 608           | 9 294           | 20 883          | 30 566               | 30 566          | 30 566             | 31 062  | 32 709                 | 34 508                 |
| Service charges - sanitation revenue                                 | 5 584           | 6 462           | 9 210           | 13 646               | 13 646          | 13 646             | 8 919   | 9 391                  | 9 908                  |
| Service charges - refuse revenue                                     | 4 185           | 4 651           | 7 398           | 14 324               | 14 324          | 14 324             | 10 220  | 10 762                 | 11 354                 |
| Rental of facilities and equipment                                   | 647             | 1 682           | 592             | 1 787                | 1 787           | 512                | 433   | 456                    | 481                    |
| Interest earned - external investments                               | 1 294           | 2 801           | 1 488           | 804                  | 804             | 30                 | 804   | 847                    | 893                    |
| Interest earned - outstanding debtors                                | 1 780           | 4 050           | 5 114           | 4 800                | 4 800           | 3 788              | 4 800   | 5 054                  | 5 332                  |
| Fines  | 154             | 166             | 145             | 234                  | 234             | 898                | 652   | 686                    | 724                    |
| Licences and permits   | 1 581           | 1 545           | 1 403           | 2 571                | 2 571           | 1 090              | 5 791   | 6 098                  | 6 434                  |
| Agency services  | 295             | 286             | 637             | 300                  | 300             | 103                | 350   | 369                    | 389                    |
| Transfers recognised - operational                                   | 22 875          | 28 575          | 35 286          | 48 850               | 51 997          | 48 850             | 56 640  | 62 378                 | 66 403                 |
| Other revenue  | 1 067           | 9 746           | 3 984           | 2 087                | 2 087           | 2 087              | 2 947   | 3 103                  | 3 274                  |
| Gains on disposal of PPE   | -               | -               | -               | 200                  | 200             | -                  | 200   | 211                    | 222                    |
| <b>Total Revenue (excluding capital transfers and contributions)</b> | <b>83 010</b>   | <b>108 724</b>  | <b>124 162</b>  | <b>179 063</b>       | <b>182 210</b>  | <b>171 562</b>     | <b>198 950</b>                                      | <b>212 231</b>         | <b>224 498</b>         |

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

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than 72% of the total revenue mix. There has been a small decline in the municipal revenue from services because of non-payment of services by the consumers that has resulted in reengineering of the formula for billing sanitation revenue. In the 2010/11 financial year the municipality collected only 65% of its billed revenue hence the decline in the projected revenues of the municipality. 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 64 MBRR SA1.

The other contributing item to revenue is 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, cemetery 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 R56 million the 2011/12 financial year and steadily increases to R66 million by 2013/14.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

**Table 4 Operating Transfers and Grant Receipts**

| Description<br>R thousand                       | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|   | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>RECEIPTS:</b>                                |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Operating Transfers and Grants</b>           |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>National Government:</b>                     | <b>21 026</b>   | <b>22 655</b>   | <b>27 751</b>   | <b>47 398</b>        | <b>50 545</b>   | <b>50 545</b>      | <b>55 385</b>                                       | <b>61 055</b>          | <b>65 002</b>          |
| Equitable share                                 | 19 792          | 21 420          | 26 516          | 45 148               | 48 295          | 48 295             | 53 095  | 58 755                 | 62 602                 |
| Municipal Systems Improvement                   | 734             | 735             | 735             | 750                  | 750             | 750                | 790   | 800                    | 900                    |
| Finance Management                              | 500             | 500             | 500             | 1 500                | 1 500           | 1 500              | 1 500   | 1 500                  | 1 500                  |
| <b>Provincial Government:</b>                   | <b>-</b>        | <b>-</b>        | <b>464</b>      | <b>500</b>           | <b>500</b>      | <b>500</b>         | <b>533</b>  | <b>567</b>             | <b>600</b>             |
| Local Government SETA                           | -               | -               | 464             | 500                  | 500             | 500                | 533   | 567                    | 600                    |
| <b>District Municipality:</b>                   | <b>136</b>      | <b>221</b>      | <b>360</b>      | <b>952</b>           | <b>952</b>      | <b>952</b>         | <b>1 014</b>  | <b>1 080</b>           | <b>1 142</b>           |
| Fire Reimbursement Subsidy                      | 136             | 221             | 360             | 952                  | 952             | 952                | 1 014   | 1 080                  | 1 142                  |
| <b>Other grant providers:</b>                   | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>             | <b>-</b>        | <b>-</b>           | <b>-</b>  | <b>-</b>               | <b>-</b>               |
| <b>Total Operating Transfers and Grants</b>     | <b>21 162</b>   | <b>22 876</b>   | <b>28 575</b>   | <b>48 850</b>        | <b>51 997</b>   | <b>51 997</b>      | <b>56 932</b>                                       | <b>62 702</b>          | <b>66 744</b>          |
| <b>Capital Transfers and Grants</b>             |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>National Government:</b>                     | <b>12 703</b>   | <b>14 661</b>   | <b>20 464</b>   | <b>28 892</b>        | <b>28 892</b>   | <b>28 892</b>      | <b>34 750</b>                                       | <b>42 252</b>          | <b>44 575</b>          |
| Municipal Infrastructure (MIG)                  | 12 703          | 14 661          | 20 464          | 28 892               | 28 892          | 28 892             | 34 750  | 42 252                 | 44 575                 |
| <b>Other grant providers:</b>                   | <b>1 710</b>    | <b>787</b>      | <b>2 650</b>    | <b>5 000</b>         | <b>5 000</b>    | <b>5 000</b>       | <b>1 600</b>  | <b>5 000</b>           | <b>3 000</b>           |
| Department of Mines and Energy                  | 1 710           | 787             | 2 650           | 5 000                | 5 000           | 5 000              | 1 600   | 5 000                  | 3 000                  |
| <b>Total Capital Transfers and Grants</b>       | <b>14 413</b>   | <b>15 448</b>   | <b>23 114</b>   | <b>33 892</b>        | <b>33 892</b>   | <b>33 892</b>      | <b>36 350</b>                                       | <b>47 252</b>          | <b>47 575</b>          |
| <b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b> | <b>35 575</b>   | <b>38 324</b>   | <b>51 689</b>   | <b>82 742</b>        | <b>85 889</b>   | <b>85 889</b>      | <b>93 282</b>                                       | <b>109 954</b>         | <b>114 319</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 Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of both Eskom and Magalies Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the

control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

#### 1.4.1 Property Rates

Property rates should 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. It should be noted that the current valuation roll of the municipality is inaccurate and thus resulted in numerous disputes with the local rate payers' association. Their dispute included among others, the public consultation on the property rates policy. This resulted in the municipality restoring changes it made in 2010/11 financial year in terms of the rebates allowed to consumers.

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 not fully done in the previous budget process hence the dispute with the local rate payers' association. The dispute has since been resolved with the local rate payers and tariffs are charged in accordance with MFMA circular 51.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- 40 per cent rebate will be granted on all residential properties
- Additional 20% will be granted to residents of Leeupoort
- 75% rebate shall be granted to agriculture
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;

- For pensioners, physically and mentally disabled persons, an additional rebate of 20% will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:
  - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;
  - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
  - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and;
  - The property must be categorized as residential.

The categories of rateable properties for purposes of levying rates and the proposed rates for the 2011/12 financial year based on a 10 per cent increase from 1 July 2011 is contained below:

**Table 5 Proposed Property Rates Tariffs**

| Description of Property       | 2010/11 Tariff | 2011/12 Tariff |
|-------------------------------|----------------|----------------|
| Residential                   | 0.00562        | 0.00597        |
| Business/industrial           | 0.00479        | 0.00509        |
| Mining                        | 0.00648        | 0.00688        |
| Government                    | 0.00479        | 0.00509        |
| Sectional Titles              | 0.00562        | 0.00597        |
| Agriculture                   | 0.00141        | 0.00149        |
| Public Service Infrastructure | 0.00141        | 0.00149        |
| Vacant Stands                 | 0.00562        | 0.00597        |

### 1.4.2 Sale of Water and Impact of Tariff Increases

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

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

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability. Magalies Water has increased its bulk tariffs with 16 per cent from 1 July 2011.

Magalies Water has undertaken a critical assessment of its capital infrastructure requirements. The assessment indicates that Rand Water's current infrastructure is unlikely to sustain its long-term ability to supply water and they had no other choice but to enter capital markets to raise R173 million for infrastructure upgrades.

In addition 6 kℓ water per 30-day period will again be granted free of charge to all residents.

A summary of proposed tariffs for households and non-residential consumers are as follows;

**Table 5 Proposed Water Tariffs**

|     |  |         |         |
|-----|--|---------|---------|
| (a) | 0 – 6 KL free to all indigent households | Free    | Free    |
| (b) | Per connection per KL :                  |         |         |
|     | 0 - 6 KL (Indigents)                     | R -     | R -     |
|     | 1 - 10 KL                                | R 6.96  | R 8.07  |
|     | 10 - 30 KL                               | R 8.52  | R 9.88  |
|     | 30 - 51 KL                               | R 10.03 | R 11.63 |
|     | 51- 80 KL                                | R 11.36 | R 13.20 |
|     | 80 KL and above                          | R 14.44 | R 16.75 |

NB: Refer to Annexure A for detailed proposed water tariffs including non residential consumers

### 1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 26.7 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2011. Considering the Eskom increases, the consumer tariff had to be increased by 22 per cent to offset the additional bulk purchase cost from 1 July 2011. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

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

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

| Domestic consumers                   | Group   | kWh Consumption              |                        |                                  |                                 | Energy charge |               |
|--------------------------------------|---------|------------------------------|------------------------|----------------------------------|---------------------------------|---------------|---------------|
| Urban/Rural                          | Block 1 | 0-50kWh (Free for Indigents) |                        |                                  |                                 | R0.891/kWh    |               |
|                                      | Block 2 | 51-350kWh                    |                        |                                  |                                 | R0.91/kWh     |               |
|                                      | Block 3 | 351-600kWh                   |                        |                                  |                                 | R1.06/kWh     |               |
|                                      | Block 4 | >600kWh                      |                        |                                  |                                 | R1.22/kWh     |               |
| <b>Small business cons.</b>          |         | Service Charge               | Network Charge ≤40A 3Ø | Network Charge >40A 3Ø & ≤80A 3Ø | Network Charge >80A 3Ø ≤100A 3Ø | Energy charge | Prepaid(*2)   |
| Urban                                |         | R 6.80/day                   | R 5.78/day             | R 12.07/day                      | R 18.36/day                     | R 0.8113/kWh  | R0.891/kWh    |
| <b>Large users :<br/>Low voltage</b> |         | Service Charge               | Admin Charge           | Demand Charge                    | Voltage surcharge(*1)           |               | Energy Charge |
| Business and industrial:             |         |                              |                        |                                  |                                 |               |               |
| Urban                                |         | R 21.98/day                  | R 7.36/day             | R 125.20/kVA                     |                                 |               | R 0.3610/kWh  |



| Business and industrial                         |  |                           |                   |                             |                       |               |               |
|---|--|---------------------------|-------------------|-----------------------------|-----------------------|---------------|---------------|
| <b>Large users :<br/>High voltage</b>           |  | Service Charge            | Admin Charge      | Demand Charge               | Voltage surcharge(*1) |               | Energy Charge |
| Urban   |  | R 86.23/day               | R 44.39/day       | R 112.79/kVA                |                       |               | R 0.3044/kWh  |
| Business and industrial                         |  |                           |                   |                             |                       |               |               |
| <b>Large users :<br/>Special : High</b>         |  | Service Charge            | Admin Charge      | Demand Charge               | Voltage surcharge(*1) |               | Energy Charge |
| <b>Voltage(*5):<br/>Business and industrial</b> |  |                           |                   |                             |                       |               |               |
| Urban   |  | R 86.23/day               | R 44.39/day       | R 110.41/kVA                |                       |               | R 0.2517/kWh  |
| Time of use tariff:                             |  |                           |                   |                             |                       |               |               |
|   | Service Charge   | Admin Charge              | Demand Charge(*4) | Voltage surcharge(*1)       |                       | Energy Charge |               |
| For large users :<br>Urban                      | R 86.23/day  | R 44.39/day               | R 39.89/kVA       | $\geq 11000V < 33kV$ 10,07% | High season           |               | Low season    |
| Urban   |  |                           |                   | $\leq 420V$ 17,3%           | R 1.3529/kWh          | Peak          | R 0.5553/kWh  |
| Urban   |  |                           |                   |                             | R 0.5299/kWh          | Standard      | R 0.3649/kWh  |
| Urban   |  |                           |                   |                             | R 0.2963/kWh          | Off-peak      | R 0.2049/kWh  |
| Unmeasured supplies                             |  |                           |                   |                             |                       |               |               |
|   |  | R 28.81/ 100 Watt / Month |                   |                             |                       |               |               |
| Notes   |  |                           |                   |                             |                       |               |               |
|   | (*1) Will be calculated as a % of demand and energy charges only   |                           |                   |                             |                       |               |               |
|   | (*2) Only available for connections bigger than 20A single phase and smaller than 60A single and 40A three phase |                           |                   |                             |                       |               |               |
|   | (*3) Only available for connections smaller or equal to 20A single phase   |                           |                   |                             |                       |               |               |

|  |  |
|--|--|
|  | (*4) Payable during peak and standard periods only   |
|  | (*5) To qualify for this tariff a consumer should have registered a load ratio of 300kWh/kVA for at least 3 consecutive months and a maximum demand of 1200kVA |

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2011. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor).

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

As part of the 2011/12 medium-term capital programme, funding has been allocated to electricity infrastructure but these funding levels will require further investigation as part of the next budget cycle in an attempt to source more funding to ensure this risk is mitigated.

#### 1.4.4 Sanitation and Impact of Tariff Increases

A new tariff structure for sanitation from 1 July 2011 is proposed. This is based on the input cost assumptions related to the size of the property. It should be noted that electricity costs contributes approximately 20 per cent of waste water treatment input costs, therefore the higher than CPI increase of 6.2 per cent for sanitation tariffs. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;
- Free sanitation will be applicable to registered indigents; and

NB: Please refer to annexure A on Detailed proposed tariff structure for sanitation services.

#### 1.4.5 Solid Waste and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration and maintenance of the landfill site. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function

be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

A 6.2 per cent increase in the waste removal tariff is proposed from 1 July 2011. Higher increases will not be viable in 2011/12 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services. Any increase higher than 6.2 per cent would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

The following table compares current and proposed amounts payable from 1 July 2011:

### 1. DOMESTIC CHARGES

|     |   | 2010/11<br>TARIFF | PROPOSED<br>2010/11 TARIFF |
|-----|---|-------------------|----------------------------|
| (a) | Removal of domestic refuse, once per week per dwelling or availability levy :                                   | R 57.21           | R 60.76                    |
| (b) | Removal of domestic refuse or availability levy - Rooiberg, Northam   | R 41.69           | R 60.76                    |
| (c) | Removal of domestic refuse liable from water connection date for depositing of refuse on a pre-arranged point : | R 22.00           | R 23.36                    |
| (d) | Removal of domestic refuse once per week per dwelling at squatters:   | R 21.87           | R 23.22                    |
| (e) | Sport clubs once per month or part thereof:   | R 57.21           | R 60.76                    |
| (f) | Private users (i.e. Guest Farms etc) per dumping in the landfill site per m <sup>2</sup> :                      | R 36.47           | R 38.73                    |

**2. COMMERCIAL CHARGES**

|   |          |          |
|---|----------|----------|
| Removal of refuse from business, public hospitals, schools, hostels and any other premises not mentioned in Item 1, two (2) times per week per any other premises not mentioned in Item 1, two (2) times per week per bin per month or part of a month: | R 133.41 | R 145.41 |
|---|----------|----------|

**3. SPECIAL REMOVAL CHARGES**

|  |          |          |
|--|----------|----------|
| Bulk removals, from business premises, per load or part thereof: | R 198.02 | R 215.84 |
|--|----------|----------|

**4. SALE OF REFUSE REMOVAL PARAPHERNALIA**

|   |            |            |
|---|------------|------------|
| Plastic bags for the removal of garden refuse : | Cost + 20% | Cost + 20% |
| Supply of refuse bins or containers :           | Cost + 20% | Cost + 20% |

**5. SUNDRY CHARGES**

|                                       |  |            |            |
|---------------------------------------|--|------------|------------|
| CARCASS REMOVAL AND DISPOSAL THEREOF: |  |            |            |
| (a)                                   | Horses, cattle, donkeys and mules, per carcass :                 | R 190.10   | R 207.20   |
| (b)                                   | Foals, calves, sheep, goats and pigs per carcass :               | R 154.45   | R 168.35   |
| (c)                                   | Dogs and cats per carcass:                                       | R 100.99   | R 110.08   |
| REJECTION OF FOODSTUFFS               |  |            |            |
|                                       | The owner shall be responsible for the removal and destruction : | Cost + 20% | Cost + 20% |

| DEPARTMENTAL USES |  |          |          |
|-------------------|--|----------|----------|
| (a)               | For the removal of refuse per container per week : | R 42.22  | R 46.02  |
| (b)               | Mass containers per removal :                      | R 152.08 | R 165.76 |

## 1.5 Operating Expenditure Framework

The municipality's expenditure framework for the 2011/12 budget and MTREF is informed by the following:

- The repairs and maintenance of infrastructure assets;
- 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 needs of the community and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2011/12 budget and MTREF (classified per main type of operating expenditure):

**Table 13 Summary of operating expenditure by standard classification item**

| Description<br>R thousand       | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|---------------------------------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|                                 | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>Expenditure By Type</b>      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Employee related costs          | 37 473          | 41 507          | 48 106          | 58 681               | 57 453          | 57 453             | 67 835  | 71 431                 | 75 359                 |
| Remuneration of councillors     | 4 288           | 4 645           | 5 757           | 4 872                | 4 403           | 4 794              | 4 800   | 5 055                  | 5 333                  |
| Debt impairment                 | -               | -               | 4 508           | -                    | -               | -                  | -   | -                      | -                      |
| Depreciation & asset impairment | -               | -               | -               | 16 256               | 16 256          | 16 256             | 2 638   | 2 778                  | 2 931                  |
| Finance charges                 | 2 482           | 2 187           | 2 022           | 1 095                | 1 095           | 562                | 960   | 1 010                  | 1 066                  |
| Bulk purchases                  | 20 172          | 23 420          | 30 225          | 31 773               | 31 773          | 31 773             | 43 187  | 45 476                 | 47 977                 |
| Contracted services             | 1 144           | 1 357           | 7 049           | 2 500                | 2 500           | 2 500              | 7 495   | 7 892                  | 8 326                  |
| Other expenditure               | 16 705          | 25 269          | 54 484          | 60 194               | 68 908          | 68 908             | 50 947  | 53 647                 | 56 598                 |
| <b>Total Expenditure</b>        | <b>82 264</b>   | <b>98 385</b>   | <b>152 151</b>  | <b>175 371</b>       | <b>182 388</b>  | <b>182 246</b>     | <b>177 862</b>                                      | <b>187 289</b>         | <b>197 590</b>         |

The budgeted allocation for employee related costs for the 2011/11 financial year totals R68 million, which equals almost 40 per cent of the total operating expenditure. Based on the three year Collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6.4 per cent for the 2011/12 financial year. An annual increase of 7.5 per cent has been included in the two outer years of the MTREF. As part of the municipality's cost reprioritization and cash management strategy vacancies have been significantly rationalized

downwards. In addition expenditure against overtime is continuously increasing. In the new financial year, departmental heads should take reasonable care to ensure that overtime is reduced by at least 25%.

The settlement reached by the SALGBC parties in the salary dispute resulted in a further financial implication on this area of expenditure. It should be noted that the total financial implication could not be determined as the applicable municipal wage curve (representing equal pay for equal work at all municipalities in South Africa) has not been finalized.

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

The provision of debt impairment was determined based on an annual collection rate of 65 per cent and the Debt Write-off Policy of the municipality. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). As previously noted, the municipality has reached its prudential limits for borrowing – hence the planned borrowing to finance the capital budget does not result in finance charges as a percentage of operational expenditure increasing – rather it is kept relatively low over the MTREF.

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

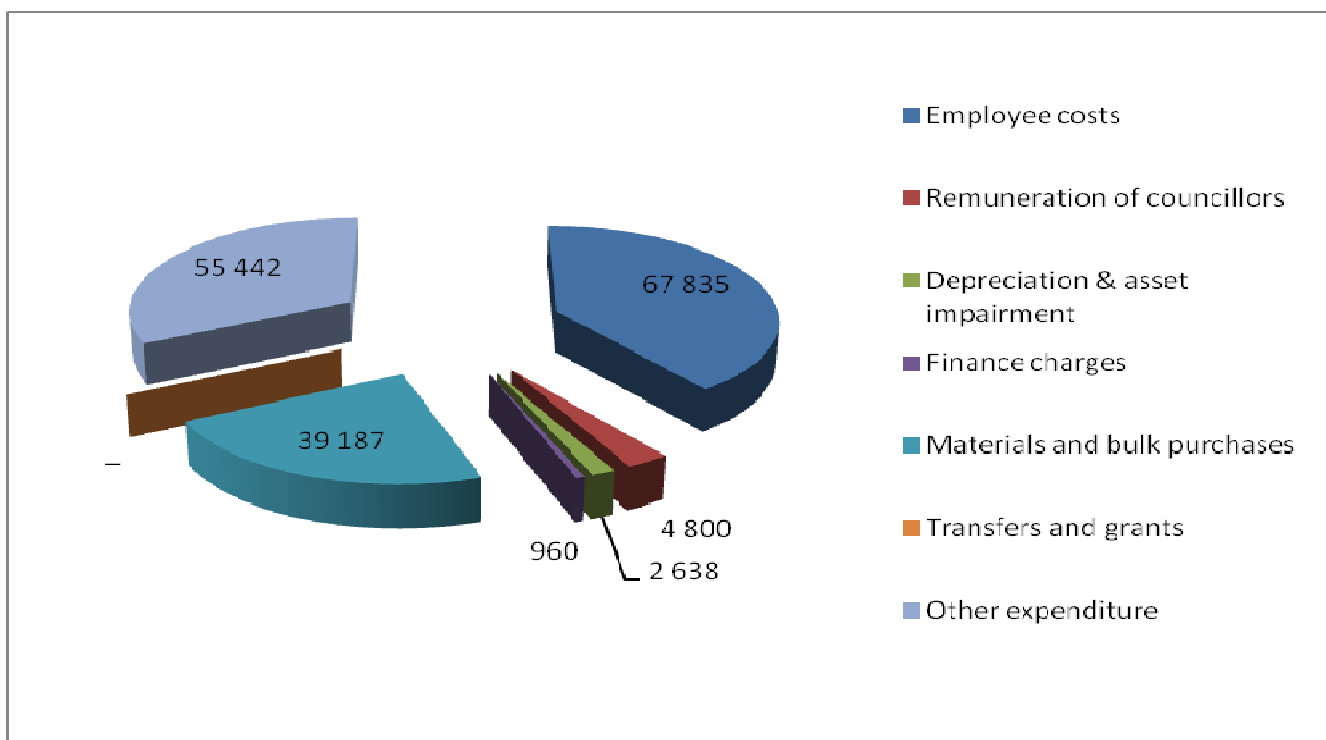
Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the municipality's aged infrastructure.

Contracted services have been identified as a cost saving area for the municipality. As part of the compilation of the 2011/12 MTREF this group of expenditure was critically evaluated and

operational efficiencies were enforced. As part of the process of identifying further cost efficiencies, a business process reengineering project will commence in the 2011/12 financial year to identify alternative practices and procedures, including building in-house capacity for certain activities that are currently being contracted out. The outcome of this exercise will be factored into the next budget cycle and it is envisaged that additional cost savings will be implemented.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved.

The following figure/chart gives a breakdown of the main expenditure categories for the 2011/12 financial year.



**Figure 1 Main operational expenditure categories for 2011/12 financial year**



### **1.5.1 Free Basic Services: Basic Social Services Package**

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the municipality's Indigent Policy. The target is to register 5000 or more indigent households during the 2011/12 financial year, a process reviewed annually. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement)

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

## 1.6 Capital Expenditure

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

**Table 2011/12 Medium term capital budget per vote**

| Vote Description<br>R thousand              | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |               |                        |                 |
|---|----------------------|-----------------|--------------------|---|---------------|------------------------|-----------------|
|   | Original Budget      | Adjusted Budget | Full Year Forecast | Budget 2011/12                                      | Year 2012/13  | Budget Year +1 2013/14 | Year +2 2013/14 |
| <b>Capital Expenditure - Standard</b>       |                      |                 |                    |   |               |                        |                 |
| <b>Governance and administration</b>        | <b>5,800</b>         | <b>5,945</b>    | <b>5,945</b>       | <b>6,031</b>  | <b>6,351</b>  | <b>6,700</b>           |                 |
| Executive and council                       | 3,150                | 3,150           | 3,150              | 6   | 7             | 7                      |                 |
| Budget and treasury office                  | 150                  | 150             | 150                | 300   | 316           | 333                    |                 |
| Corporate services                          | 2,500                | 2,645           | 2,645              | 5,725   | 6,028         | 6,360                  |                 |
| <b>Community and public safety</b>          | <b>6,750</b>         | <b>6,750</b>    | <b>6,750</b>       | <b>5,126</b>  | <b>5,398</b>  | <b>5,695</b>           |                 |
| Community and social services               | 2,555                | 2,555           | 2,555              | 4,560   | 4,802         | 5,066                  |                 |
| Sport and recreation                        | 4,195                | 4,195           | 4,195              | -   | -             | -                      |                 |
| Public safety                               | -                    | -               | -                  | 566   | 596           | 629                    |                 |
| <b>Economic and environmental services</b>  | <b>21,815</b>        | <b>21,815</b>   | <b>21,815</b>      | <b>210</b>  | <b>221</b>    | <b>233</b>             |                 |
| Planning and development                    | -                    | -               | -                  | 210   | 221           | 233                    |                 |
| Road transport                              | 21,815               | 21,815          | 21,815             | -   | -             | -                      |                 |
| <b>Trading services</b>                     | <b>14,674</b>        | <b>18,203</b>   | <b>18,203</b>      | <b>46,606</b>                                       | <b>49,076</b> | <b>51,775</b>          |                 |
| Electricity                                 | 7,419                | 7,906           | 7,906              | 4,800   | 5,054         | 5,332                  |                 |
| Water                                       | 4,755                | 7,797           | 7,797              | 5,750   | 6,055         | 6,388                  |                 |
| Waste water management                      | -                    | -               | -                  | 33,950  | 35,749        | 37,716                 |                 |
| Waste management                            | 2,500                | 2,500           | 2,500              | 2,106   | 2,218         | 2,340                  |                 |
| <b>Total Capital Expenditure - Standard</b> | <b>49,039</b>        | <b>52,713</b>   | <b>52,713</b>      | <b>57,973</b>                                       | <b>61,046</b> | <b>64,403</b>          |                 |

For 2011/12 an amount of R34 million has been appropriated for the construction of new waste water treatment works in both Northam and Thabazimbi. The waste water treatment works in Northam will have a capacity to treat 5 mega liters of waste water per day. Partnership with municipal stakeholders is inevitable in this regard to assist with the speedy finalisation of the said projects.

A total of R24 million worth of capital projects will be funded through internally generated revenue. Further detail relating to asset classes and proposed capital expenditure can be found in table 10 (Asset Management)

The following are, among others, capital projects to be implemented in the 2011/12 financial year;

- Construction of New Waste Water Treatment Works in Northam – R22 million
- Upgrading of Thabazimbi Waste Water Treatment Works – R11 million
- Upgrading of pump station and pipeline – R800 000

- Regorogile Pipe system upgrades – R650 000
- Replacement of Domestic Water meters – R900 000
- Northam Upgrading of sewer networks – R1.5 million
- Upgrading of Rooiberg Waste Water treatment Works – R750 000
- VIP Toilets for informal settlements – R350 000
- Regorogile Ext. 5&9 upgrading of Prepaid Meters – R3.5 million
- Upgrading of electrical network – R700 000
- Raphuthi Installation of high mast lights – R600 000
- Renovations of the Northam satellite office – R250 000
- Purchase of Bulk Containers – R150 000
- Purchase of a refuse removal tractor with Telecon – R450 000
- Weigh bridges for two landfill sites – R1 million
- Purchase of Standby Generators – R350 000
- Development and Construction of cemeteries in Northam – R4.5 million
- IT equipment – R2 million
- Replacement of municipal fleet (including mayoral vehicle) – R3.95 million
- Upgrading of Council Chamber - R400 000
- Upgrading of records department – R300 000
- Centralisation of fleet – R1million

## 1.7 Annual Budget Tables

The following pages present the main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables are set out in the municipality's 2011/12 budget and MTREF. Each table is accompanied by explanatory notes on the facing page.

### MBRR Table A1 – Budget Summary

| Description  | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>R thousands</b>   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Financial Performance</b>   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Property rates   | 18 590          | 20 858          | 9 291           | 27 261               | 27 261          | 24 035             | 30 474  | 32 089                 | 33 854                 |
| Service charges  | 34 727          | 39 015          | 66 222          | 90 169               | 90 169          | 90 169             | 95 860  | 100 941                | 106 492                |
| Investment revenue   | 1 294           | 2 801           | 1 488           | 804                  | 804             | 30                 | 804   | 847                    | 893                    |
| Transfers recognised - operational                                   | 22 875          | 28 575          | 35 286          | 48 850               | 51 997          | 48 850             | 56 640  | 62 378                 | 66 403                 |
| Other own revenue  | 5 524           | 17 475          | 11 875          | 11 979               | 11 979          | 8 478              | 15 173  | 15 977                 | 16 856                 |
| <b>Total Revenue (excluding capital transfers and contributions)</b> | 83 010          | 108 724         | 124 162         | 179 063              | 182 210         | 171 562            | 198 950   | 212 231                | 224 498                |
| Employee costs   | 37 473          | 41 507          | 48 106          | 58 681               | 57 453          | 57 453             | 67 835  | 71 431                 | 75 359                 |
| Remuneration of councillors  | 4 288           | 4 645           | 5 757           | 4 872                | 4 403           | 4 794              | 4 800   | 5 055                  | 5 333                  |
| Depreciation & asset impairment                                      | –               | –               | –               | 16 256               | 16 256          | 16 256             | 2 638   | 2 778                  | 2 931                  |
| Finance charges  | 2 482           | 2 187           | 2 022           | 1 095                | 1 095           | 562                | 960   | 1 010                  | 1 066                  |
| Materials and bulk purchases   | 20 172          | 23 420          | 30 225          | 31 773               | 31 773          | 31 773             | 43 187  | 45 476                 | 47 977                 |
| Other expenditure  | 17 849          | 26 626          | 66 041          | 62 694               | 71 408          | 71 408             | 58 442  | 61 539                 | 64 924                 |
| <b>Total Expenditure</b>   | 82 264          | 98 385          | 152 151         | 175 371              | 182 388         | 182 246            | 177 862   | 187 289                | 197 590                |
| <b>Surplus/(Deficit)</b>   | 746             | 10 339          | (27 989)        | 3 692                | (178)           | (10 684)           | 21 088  | 24 942                 | 26 909                 |
| Transfers recognised - capital                                       | –               | –               | 25 843          | –                    | 33 892          | 33 892             | 36 886  | 45 252                 | 49 575                 |
| <b>Surplus/(Deficit) for the year</b>                                | 746             | 10 339          | (2 146)         | 3 692                | 33 714          | 23 208             | 57 974  | 70 194                 | 76 484                 |
| <b>Capital expenditure &amp; funds sources</b>                       |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Capital expenditure</b>   | 15 402          | 25 932          | 24 832          | 49 039               | 52 713          | 52 713             | 57 973  | 61 046                 | 64 403                 |
| Transfers recognised - capital                                       | 15 402          | 23 114          | 24 483          | 33 892               | 33 892          | 33 892             | 36 886  | 45 252                 | 49 575                 |
| Borrowing  | –               | –               | –               | –                    | –               | –                  | 3 950   | –                      | –                      |
| Internally generated funds   | –               | 2 818           | 348             | 15 147               | 18 821          | 18 821             | 17 137  | 15 794                 | 14 828                 |
| <b>Total sources of capital funds</b>                                | 15 402          | 25 932          | 24 831          | 49 039               | 52 713          | 52 713             | 57 973  | 61 046                 | 64 403                 |
| <b>Financial position</b>  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Total current assets   | 56 908          | 70 621          | 32 150          | 81 256               | 79 730          | 160 009            | 30 344  | 31 953                 | 33 710                 |
| Total non current assets   | 16 031          | 12 782          | 46 780          | 62 890               | 66 564          | 130 883            | 102 115   | 107 525                | 113 441                |
| Total current liabilities  | 36 716          | 26 746          | 58 013          | 17 387               | 23 405          | 125 457            | 51 118  | 31 843                 | 45 489                 |
| Total non current liabilities  | 16 184          | 8 408           | 7 563           | 6 765                | 6 765           | 13 737             | 13 824  | 13 166                 | 12 523                 |
| Community wealth/Equity  | 20 039          | 48 249          | 13 354          | 119 994              | 116 124         | 151 698            | 67 517  | 136 046                | 174 581                |

|   |               |                |                 |              |                |                 |               |               |               |
|---|---------------|----------------|-----------------|--------------|----------------|-----------------|---------------|---------------|---------------|
| <b>Cash flows</b>                             |               |                |                 |              |                |                 |               |               |               |
| Net cash from (used) operating                | 40 682        | 4 470          | 12 393          | 68 948       | 65 304         | 65 304          | 53 499        | 6 289         | 6 790         |
| Net cash from (used) investing                | (18 156)      | (15 990)       | (9 056)         | (61 039)     | (64 713)       | (64 713)        | (51 185)      | (5 196)       | (5 686)       |
| Net cash from (used) financing                | (781)         | (8 279)        | (7 468)         | (1 541)      | (1 541)        | (1 541)         | (976)         | (976)         | (976)         |
| <b>Cash/cash equivalents at the year end</b>  | <b>13 201</b> | <b>(6 598)</b> | <b>(10 729)</b> | <b>7 318</b> | <b>-</b>       | <b>-</b>        | <b>2 208</b>  | <b>2 325</b>  | <b>2 453</b>  |
| <b>Cash backing/surplus reconciliation</b>    |               |                |                 |              |                |                 |               |               |               |
| Cash and investments available                | 15 247        | 14 860         | (7 876)         | 17 361       | 15 835         | 34 295          | 2 208         | 2 325         | 2 453         |
| Application of cash and investments           | 14 907        | 1 127          | 31 209          | 12 252       | 18 270         | 87 542          | (31 234)      | (65 419)      | (57 397)      |
| <b>Balance - surplus (shortfall)</b>          | <b>340</b>    | <b>13 733</b>  | <b>(39 085)</b> | <b>5 109</b> | <b>(2 435)</b> | <b>(53 247)</b> | <b>33 442</b> | <b>67 744</b> | <b>59 850</b> |
| <b>Asset management</b>                       |               |                |                 |              |                |                 |               |               |               |
| Asset register summary (WDV)                  | 13 987        | 8 408          | 46 780          | 57 890       | 61 564         | 130 883         | 102 115       | 107 525       | 113 441       |
| Depreciation & asset impairment               | -             | -              | -               | 16 256       | 16 256         | 16 256          | 2 638         | 2 778         | 2 931         |
| Renewal of Existing Assets                    | -             | -              | -               | 7 419        | 7 419          | 7 419           | -             | -             | -             |
| Repairs and Maintenance                       | 5 040         | 5 417          | 5 793           | 6 533        | 13 635         | 13 635          | 15 951        | 16 796        | 17 720        |
| <b>Free services</b>                          |               |                |                 |              |                |                 |               |               |               |
| Cost of Free Basic Services provided          | 6 762         | 7 232          | 7 734           | 8 848        | 8              | 8               | 9 424         | 10 159        | 10 159        |
| Revenue cost of free services provided        | -             | -              | -               | -            | -              | -               | 24 247        | 26 139        | 26 139        |
| <b>Households below minimum service level</b> |               |                |                 |              |                |                 |               |               |               |
| Water:  | -             | 72             | 72              | 72           | 72             | 72              | 72            | 72            | 72            |
| Sanitation/sewerage:                          | -             | 8 416          | 8 416           | 8 416        | 8 416          | 8 416           | 8 416         | 8 416         | 8 416         |
| Energy:                                       | -             | 9 884          | 9 884           | 9 884        | 9 884          | 9 884           | 9 884         | 9 884         | 9 884         |
| Refuse:                                       | -             | 12 478         | 12 478          | 12 478       | 12 478         | 12 478          | 12 478        | 12 478        | 12 478        |

## Explanatory notes to MBRR Table A1 – Budget Summary

- 1 Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
- 2 The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- 3 Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:

- a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
  - b. Capital expenditure is balanced by capital funding sources, of which
    - i. Transfers recognised is reflected on the Financial Performance Budget;
    - ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
    - iii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash flows from investing activities 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.
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

**MBRR Table A2 – Budgeted Financial Performance (Revenue and Expenditure by standard Classification)**

| Standard Classification Description<br>R thousand | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|   | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>Revenue - Standard</b>                         |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <i><b>Governance and administration</b></i>       | <b>56 414</b>   | <b>54 104</b>   | <b>52 977</b>   | <b>80 080</b>        | <b>83 227</b>   | <b>95 616</b>      | <b>92 390</b>                                       | <b>100 022</b>         | <b>106 112</b>         |
| Executive and council                             | 48 830          | 44 597          | 43 292          | 71 469               | 74 616          | 89 064             | 85 313  | 92 569                 | 98 249                 |
| Budget and treasury office                        | 6 938           | 8 917           | 7 934           | 6 484                | 6 484           | 4 550              | 6 225   | 6 554                  | 6 915                  |
| Corporate services                                | 646             | 590             | 1 751           | 2 127                | 2 127           | 2 002              | 853   | 898                    | 948                    |
| <i><b>Community and public safety</b></i>         | <b>3 190</b>    | <b>2 101</b>    | <b>3 051</b>    | <b>4 353</b>         | <b>4 353</b>    | <b>2 467</b>       | <b>8 414</b>  | <b>8 861</b>           | <b>9 354</b>           |
| Community and social services                     | 231             | 190             | 282             | 393                  | 393             | 236                | 264   | 278                    | 293                    |
| Sport and recreation                              | 16              | 15              | -               | -                    | -               | -                  | 1   | 1                      | 1                      |
| Public safety                                     | 2 943           | 1 896           | 2 769           | 3 960                | 3 960           | 2 231              | 8 149   | 8 583                  | 9 060                  |
| <i><b>Economic and environmental services</b></i> | <b>655</b>      | <b>-</b>        | <b>426</b>      | <b>838</b>           | <b>838</b>      | <b>274</b>         | <b>482</b>  | <b>508</b>             | <b>536</b>             |
| Planning and development                          | 655             | -               | 426             | 838                  | 838             | 274                | 482   | 508                    | 536                    |
| <i><b>Trading services</b></i>                    | <b>22 726</b>   | <b>46 128</b>   | <b>66 551</b>   | <b>93 731</b>        | <b>98 731</b>   | <b>75 168</b>      | <b>98 839</b>                                       | <b>105 393</b>         | <b>113 024</b>         |
| Electricity                                       | 3 901           | 20 958          | 28 891          | 34 828               | 39 828          | 32 900             | 48 341  | 52 218                 | 56 925                 |
| Water   | 9 057           | 15 187          | 20 944          | 30 903               | 30 903          | 25 996             | 31 285  | 32 943                 | 34 755                 |
| Waste water management                            | 5 583           | 5 462           | 9 210           | 13 646               | 13 646          | 9 030              | 8 919   | 9 391                  | 9 908                  |
| Waste management                                  | 4 185           | 4 521           | 7 506           | 14 354               | 14 354          | 7 242              | 10 294  | 10 840                 | 11 436                 |
| <i><b>Other</b></i>                               | <b>25</b>       | <b>6 391</b>    | <b>27 001</b>   | <b>61</b>            | <b>28 953</b>   | <b>28 902</b>      | <b>35 711</b>                                       | <b>42 700</b>          | <b>45 047</b>          |
| <b>Total Revenue - Standard</b>                   | <b>83 010</b>   | <b>108 724</b>  | <b>150 006</b>  | <b>179 063</b>       | <b>216 102</b>  | <b>202 427</b>     | <b>235 836</b>                                      | <b>257 483</b>         | <b>274 073</b>         |
| <b>Expenditure - Standard</b>                     |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <i><b>Governance and administration</b></i>       | <b>24 364</b>   | <b>30 456</b>   | <b>68 245</b>   | <b>75 477</b>        | <b>74 131</b>   | <b>42 066</b>      | <b>57 953</b>                                       | <b>61 024</b>          | <b>64 380</b>          |
| Executive and council                             | 21 111          | 21 054          | 27 535          | 37 313               | 35 388          | 11 544             | 17 664  | 18 600                 | 19 623                 |
| Budget and treasury office                        | 2 862           | 4 355           | 33 797          | 21 838               | 21 174          | 17 823             | 20 224  | 21 296                 | 22 467                 |
| Corporate services                                | 391             | 5 047           | 6 913           | 16 326               | 17 569          | 12 699             | 20 065  | 21 128                 | 22 290                 |
| <i><b>Community and public safety</b></i>         | <b>12 311</b>   | <b>11 628</b>   | <b>12 190</b>   | <b>17 364</b>        | <b>16 875</b>   | <b>15 416</b>      | <b>16 879</b>                                       | <b>17 773</b>          | <b>18 751</b>          |
| Community and social services                     | 9 098           | 7 096           | 6 741           | 9 822                | 9 422           | 8 032              | 8 125   | 8 556                  | 9 026                  |
| Public safety                                     | 3 213           | 4 532           | 5 449           | 7 542                | 7 453           | 7 384              | 8 754   | 9 217                  | 9 724                  |
| <i><b>Economic and environmental services</b></i> | <b>10 089</b>   | <b>21 044</b>   | <b>23 670</b>   | <b>45 190</b>        | <b>47 097</b>   | <b>47 106</b>      | <b>34 780</b>                                       | <b>36 624</b>          | <b>38 638</b>          |
| Planning and development                          | 1 883           | 3 787           | 3 890           | 5 152                | 4 947           | 4 472              | 6 033   | 6 353                  | 6 703                  |
| Road transport                                    | 8 206           | 17 257          | 19 780          | 40 038               | 42 150          | 42 634             | 28 747  | 30 271                 | 31 935                 |
| <i><b>Trading services</b></i>                    | <b>35 500</b>   | <b>35 257</b>   | <b>48 047</b>   | <b>37 340</b>        | <b>44 285</b>   | <b>67 609</b>      | <b>68 251</b>                                       | <b>71 868</b>          | <b>75 821</b>          |
| Electricity                                       | 17 368          | 18 858          | 26 257          | 13 080               | 13 653          | 39 049             | 34 624  | 36 459                 | 38 464                 |
| Water   | 12 903          | 10 503          | 15 991          | 16 037               | 19 110          | 18 422             | 21 451  | 22 588                 | 23 830                 |
| Waste water management                            | 2 271           | 2 499           | 2 719           | 3 697                | 4 733           | 3 982              | 3 833   | 4 037                  | 4 259                  |
| Waste management                                  | 2 958           | 3 397           | 3 080           | 4 526                | 6 789           | 6 156              | 8 342   | 8 784                  | 9 267                  |
| <b>Total Expenditure - Standard</b>               | <b>82 264</b>   | <b>98 385</b>   | <b>152 152</b>  | <b>175 371</b>       | <b>182 388</b>  | <b>172 197</b>     | <b>177 862</b>                                      | <b>187 289</b>         | <b>197 590</b>         |
| <b>Surplus/(Deficit) for the year</b>             | <b>746</b>      | <b>10 339</b>   | <b>(2 146)</b>  | <b>3 692</b>         | <b>33 714</b>   | <b>30 230</b>      | <b>57 974</b>                                       | <b>70 194</b>          | <b>76 484</b>          |

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

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile „whole of government“ reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity, Water and Waste water functions, as well as the Waste management function.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Executive and Council.



### MBRR Table A3 – Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote)

| Vote Description                      | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|---------------------------------------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|                                       | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>Revenue by Vote</b>                |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Vote1 - 100 Political Office Bearers  | 48 830          | 44 597          | 43 292          | 71 469               | 74 616          | 89 064             | 85 313  | 92 569                 | 98 249                 |
| Vote2 - 200 Municipal Manager         | -               | -               | -               | -                    | -               | -                  | -   | -                      | -                      |
| Vote3 - 300 Budget & Treasury         | 6 938           | 8 917           | 7 934           | 6 484                | 6 484           | 4 554              | 6 225   | 6 554                  | 6 915                  |
| Vote4 - 400 Corporate Services        | 646             | 590             | 1 751           | 2 127                | 2 127           | 2 000              | 853   | 898                    | 948                    |
| Vote5 - 500 Planning and Development  | 655             | -               | 426             | 838                  | 838             | 274                | 482   | 508                    | 536                    |
| Vote6 - 600 Community Services        | 7 375           | 6 622           | 10 557          | 18 706               | 18 706          | 9 705              | 18 708  | 19 701                 | 20 790                 |
| Vote7 - 700 Technical Services        | 18 566          | 47 998          | 86 045          | 79 439               | 113 331         | 96 826             | 124 256   | 137 253                | 146 636                |
| <b>Total Revenue by Vote</b>          | <b>83 010</b>   | <b>108 724</b>  | <b>150 005</b>  | <b>179 063</b>       | <b>216 102</b>  | <b>202 423</b>     | <b>235 836</b>                                      | <b>257 483</b>         | <b>274 073</b>         |
| <b>Expenditure by Vote</b>            |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Vote1 - 100 Political Office Bearers  | 21 111          | 18 692          | 23 261          | 31 950               | 31 117          | 7 954              | 11 900  | 12 531                 | 13 220                 |
| Vote2 - 200 Municipal Manager         | -               | 2 362           | 4 274           | 5 363                | 4 271           | 4 144              | 5 764   | 6 069                  | 6 403                  |
| Vote3 - 300 Budget & Treasury         | 2 862           | 4 355           | 33 797          | 21 838               | 21 174          | 17 829             | 20 224  | 21 296                 | 22 467                 |
| Vote4 - 400 Corporate Services        | 391             | 5 047           | 6 913           | 16 326               | 17 569          | 12 143             | 20 065  | 21 128                 | 22 290                 |
| Vote5 - 500 Planning and Development  | 1 883           | 3 787           | 3 890           | 5 152                | 4 947           | 4 470              | 6 033   | 6 353                  | 6 703                  |
| Vote6 - 600 Community Services        | 15 269          | 15 025          | 15 270          | 21 890               | 23 663          | 21 568             | 25 221  | 26 557                 | 28 018                 |
| Vote7 - 700 Technical Services        | 40 748          | 49 117          | 64 746          | 72 852               | 79 647          | 104 085            | 88 655  | 93 354                 | 98 489                 |
| <b>Total Expenditure by Vote</b>      | <b>82 264</b>   | <b>98 385</b>   | <b>152 151</b>  | <b>175 371</b>       | <b>182 388</b>  | <b>172 193</b>     | <b>177 862</b>                                      | <b>187 289</b>         | <b>197 590</b>         |
| <b>Surplus/(Deficit) for the year</b> | <b>746</b>      | <b>10 339</b>   | <b>(2 146)</b>  | <b>3 692</b>         | <b>33 714</b>   | <b>30 230</b>      | <b>57 974</b>                                       | <b>70 194</b>          | <b>76 484</b>          |

### Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

- 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.

**MBRR Table A4 –Budgeted Financial Performance (Revenue and Expenditure)**

| Description  | 2007/8          | 2008/9          | 2009/10         | 2011/12 Medium Term Revenue & Expenditure Framework |                 |                    | Budget Year 2011/12 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
|--|-----------------|-----------------|-----------------|---|-----------------|--------------------|---------------------|------------------------|------------------------|
|  | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget                                     | Adjusted Budget | Full Year Forecast | Budget Year 2011/12 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>R thousand</b>  |                 |                 |                 |   |                 |                    |                     |                        |                        |
| <b>Revenue By Source</b>   |                 |                 |                 |   |                 |                    |                     |                        |                        |
| Property rates   | 16 036          | 17 393          | 8 895           | 24 031  | 24 031          | 24 031             | 29 928              | 31 514                 | 33 247                 |
| Property rates - penalties & collection charges                      | 2 554           | 3 465           | 396             | 3 230   | 3 230           | 4                  | 546                 | 575                    | 607                    |
| Service charges - electricity revenue                                | 16 350          | 18 608          | 27 431          | 31 633  | 31 633          | 31 633             | 45 659              | 48 079                 | 50 723                 |
| Service charges - water revenue                                      | 8 608           | 9 294           | 20 883          | 30 566  | 30 566          | 30 566             | 31 062              | 32 709                 | 34 508                 |
| Service charges - sanitation revenue                                 | 5 584           | 6 462           | 9 210           | 13 646  | 13 646          | 13 646             | 8 919               | 9 391                  | 9 908                  |
| Service charges - refuse revenue                                     | 4 185           | 4 651           | 7 398           | 14 324  | 14 324          | 14 324             | 10 220              | 10 762                 | 11 354                 |
| Service charges - other  | –               | –               | 1 300           | –   | –               | –                  | –                   | –                      | –                      |
| Rental of facilities and equipment                                   | 647             | 1 682           | 592             | 1 787   | 1 787           | 512                | 433                 | 456                    | 481                    |
| Interest earned - external investments                               | 1 294           | 2 801           | 1 488           | 804   | 804             | 30                 | 804                 | 847                    | 893                    |
| Interest earned - outstanding debtors                                | 1 780           | 4 050           | 5 114           | 4 800   | 4 800           | 3 788              | 4 800               | 5 054                  | 5 332                  |
| Fines  | 154             | 166             | 145             | 234   | 234             | 898                | 652                 | 686                    | 724                    |
| Licences and permits   | 1 581           | 1 545           | 1 403           | 2 571   | 2 571           | 1 090              | 5 791               | 6 098                  | 6 434                  |
| Agency services  | 295             | 286             | 637             | 300   | 300             | 103                | 350                 | 369                    | 389                    |
| Transfers recognised – operational                                   | 22 875          | 28 575          | 35 286          | 48 850  | 51 997          | 48 850             | 56 640              | 62 378                 | 66 403                 |
| Other revenue  | 1 067           | 9 746           | 3 984           | 2 087   | 2 087           | 2 087              | 2 947               | 3 103                  | 3 274                  |
| Gains on disposal of PPE   | –               | –               | –               | 200   | 200             | –                  | 200                 | 211                    | 222                    |
| <b>Total Revenue (excluding capital transfers and contributions)</b> | <b>83 010</b>   | <b>108 724</b>  | <b>124 162</b>  | <b>179 063</b>                                      | <b>182 210</b>  | <b>171 562</b>     | <b>198 950</b>      | <b>212 231</b>         | <b>224 498</b>         |
| <b>Expenditure By Type</b>   |                 |                 |                 |   |                 |                    |                     |                        |                        |
| Employee related costs   | 37 473          | 41 507          | 48 106          | 58 681  | 57 453          | 57 453             | 67 835              | 71 431                 | 75 359                 |
| Remuneration of councillors  | 4 288           | 4 645           | 5 757           | 4 872   | 4 403           | 4 794              | 4 800               | 5 055                  | 5 333                  |
| Debt impairment  | –               | –               | 4 508           | –   | –               | –                  | –                   | –                      | –                      |
| Depreciation & asset impairment                                      | –               | –               | –               | 16 256  | 16 256          | 16 256             | 2 638               | 2 778                  | 2 931                  |
| Finance charges  | 2 482           | 2 187           | 2 022           | 1 095   | 1 095           | 562                | 960                 | 1 010                  | 1 066                  |
| Bulk purchases   | 20 172          | 23 420          | 30 225          | 31 773  | 31 773          | 31 773             | 43 187              | 45 476                 | 47 977                 |
| Contracted services  | 1 144           | 1 357           | 7 049           | 2 500   | 2 500           | 2 500              | 7 495               | 7 892                  | 8 326                  |
| Other expenditure  | 16 705          | 25 269          | 54 484          | 60 194  | 68 908          | 68 908             | 50 947              | 53 647                 | 56 598                 |
| <b>Total Expenditure</b>   | <b>82 264</b>   | <b>98 385</b>   | <b>152 151</b>  | <b>175 371</b>                                      | <b>182 388</b>  | <b>182 246</b>     | <b>177 862</b>      | <b>187 289</b>         | <b>197 590</b>         |
| <b>Surplus/(Deficit)</b>   | <b>746</b>      | <b>10 339</b>   | <b>(27 989)</b> | <b>3 692</b>  | <b>(178)</b>    | <b>(10 684)</b>    | <b>21 088</b>       | <b>24 942</b>          | <b>26 909</b>          |
| Transfers recognised - capital                                       |                 |                 | 25 843          |   | 33 892          | 33 892             | 36 886              | 45 252                 | 49 575                 |
| <b>Surplus/(Deficit) for the year</b>                                | <b>746</b>      | <b>10 339</b>   | <b>(2 146)</b>  | <b>3 692</b>  | <b>33 714</b>   | <b>23 208</b>      | <b>57 974</b>       | <b>70 194</b>          | <b>76 484</b>          |

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

1. Reconstruction of the valuation roll will result in more income being generated from mining properties previously classified incorrectly, that have now been reclassified. However a decline in rebates on certain properties from 20% to 40% will impact on negatively on total revenue generated from property rates. Tariffs have generally increased by 6.2%.
2. Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the municipality totaling almost R96 million for the 2011/12 financial year. Increase in bulk price of water is 16%
3. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grant receipts from national government are growing rapidly over the MTREF.
4. Bulk purchases have significantly increased over the 2007/08 to 2012/14 period. These increases can be attributed to the substantial increase in the cost of bulk electricity from Eskom and water from Magalies Water.
5. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

**MBRR Table A5 – Budgeted Capital Expenditure by vote, standard classification and funding source**

| Vote Description<br>R thousand                   | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>Capital expenditure - Vote</b>                |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Multi-year expenditure to be appropriated</b> |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Vote1 - 100 Political Office Bearers             | 6               | -               | -               | -                    | -               | -                  | 6   | 7                      | 7                      |
| Vote2 - 200 Municipal Manager                    | -               | 92              | 81              | 3 150                | 3 150           | 3 150              | -   | -                      | -                      |
| Vote3 - 300 Budget & Treasury                    | 48              | -               | -               | 150                  | 150             | 150                | 300   | 316                    | 333                    |
| Vote4 - 400 Corporate Services                   | 150             | 790             | 706             | 2 500                | 2 645           | 2 645              | 5 725   | 6 028                  | 6 360                  |
| Vote5 - 500 Planning and Development             | -               | 58              | -               | -                    | -               | -                  | 210   | 221                    | 233                    |
| Vote6 - 600 Community Services                   | 4 327           | 7 554           | 232             | 9 250                | 9 250           | 9 250              | 7 232   | 7 615                  | 8 034                  |
| Vote7 - 700 Technical Services                   | 10 871          | 17 438          | 23 812          | 33 989               | 37 518          | 37 518             | 44 500  | 46 859                 | 49 436                 |
| <b>Capital multi-year expenditure sub-total</b>  | <b>15 402</b>   | <b>25 932</b>   | <b>24 831</b>   | <b>49 039</b>        | <b>52 713</b>   | <b>52 713</b>      | <b>57 973</b>                                       | <b>61 046</b>          | <b>64 403</b>          |
| <b>Capital Expenditure - Standard</b>            |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Governance and administration</b>             | <b>204</b>      | <b>882</b>      | <b>787</b>      | <b>5 800</b>         | <b>5 945</b>    | <b>5 945</b>       | <b>6 031</b>  | <b>6 351</b>           | <b>6 700</b>           |
| Executive and council                            | 6               | 92              | 81              | 3 150                | 3 150           | 3 150              | 6   | 7                      | 7                      |
| Budget and treasury office                       | 48              | -               | -               | 150                  | 150             | 150                | 300   | 316                    | 333                    |
| Corporate services                               | 150             | 790             | 706             | 2 500                | 2 645           | 2 645              | 5 725   | 6 028                  | 6 360                  |
| <b>Community and public safety</b>               | <b>4 327</b>    | <b>7 554</b>    | <b>232</b>      | <b>6 750</b>         | <b>6 750</b>    | <b>6 750</b>       | <b>5 126</b>  | <b>5 398</b>           | <b>5 695</b>           |
| Community and social services                    | 1 546           | 7 028           | 232             | 2 555                | 2 555           | 2 555              | 4 560   | 4 802                  | 5 066                  |
| Sport and recreation                             | 10              | -               | -               | 4 195                | 4 195           | 4 195              | -   | -                      | -                      |
| Public safety                                    | 2 771           | 526             | -               | -                    | -               | -                  | 566   | 596                    | 629                    |
| <b>Economic and environmental services</b>       | <b>10 715</b>   | <b>12 246</b>   | <b>23 690</b>   | <b>21 815</b>        | <b>21 815</b>   | <b>21 815</b>      | <b>210</b>  | <b>221</b>             | <b>233</b>             |
| Planning and development                         | -               | 58              | -               | -                    | -               | -                  | 210   | 221                    | 233                    |
| Road transport                                   | 10 715          | 12 188          | 23 690          | 21 815               | 21 815          | 21 815             | -   | -                      | -                      |
| <b>Trading services</b>                          | <b>156</b>      | <b>4 141</b>    | <b>-</b>        | <b>14 674</b>        | <b>18 203</b>   | <b>18 203</b>      | <b>46 606</b>                                       | <b>49 076</b>          | <b>51 775</b>          |
| Electricity                                      | 156             | 1 763           | -               | 7 419                | 7 906           | 7 906              | 4 800   | 5 054                  | 5 332                  |
| Water  | -               | 1 494           | -               | 4 755                | 7 797           | 7 797              | 5 750   | 6 055                  | 6 388                  |
| Waste water management                           | -               | 884             | -               | -                    | -               | -                  | 33 950  | 35 749                 | 37 716                 |
| Waste management                                 | -               | -               | -               | 2 500                | 2 500           | 2 500              | 2 106   | 2 218                  | 2 340                  |
| <b>Other</b>                                     | <b>-</b>        | <b>1 109</b>    | <b>123</b>      | <b>-</b>             | <b>-</b>        | <b>-</b>           | <b>-</b>  | <b>-</b>               | <b>-</b>               |
| <b>Total Capital Expenditure - Standard</b>      | <b>15 402</b>   | <b>25 932</b>   | <b>24 832</b>   | <b>49 039</b>        | <b>52 713</b>   | <b>52 713</b>      | <b>57 973</b>                                       | <b>61 046</b>          | <b>64 403</b>          |
| <b>Funded by:</b>                                |                 |                 |                 |                      |                 |                    |   |                        |                        |
| National Government                              | 14 661          | 20 464          | 24 483          | 28 892               | 28 892          | 28 892             | 35 286  | 40 252                 | 46 575                 |
| Other transfers and grants                       | 741             | 2 650           | -               | 5 000                | 5 000           | 5 000              | 1 600   | 5 000                  | 3 000                  |
| <b>Transfers recognised - capital</b>            | <b>15 402</b>   | <b>23 114</b>   | <b>24 483</b>   | <b>33 892</b>        | <b>33 892</b>   | <b>33 892</b>      | <b>36 886</b>                                       | <b>45 252</b>          | <b>49 575</b>          |
| <b>Borrowing</b>                                 | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>-</b>             | <b>-</b>        | <b>-</b>           | <b>3 950</b>  | <b>-</b>               | <b>-</b>               |
| <b>Internally generated funds</b>                | <b>-</b>        | <b>2 818</b>    | <b>348</b>      | <b>15 147</b>        | <b>18 821</b>   | <b>18 821</b>      | <b>17 137</b>                                       | <b>15 794</b>          | <b>14 828</b>          |
| <b>Total Capital Funding</b>                     | <b>15 402</b>   | <b>25 932</b>   | <b>24 831</b>   | <b>49 039</b>        | <b>52 713</b>   | <b>52 713</b>      | <b>57 973</b>                                       | <b>61 046</b>          | <b>64 403</b>          |

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

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.
3. Single-year capital expenditure has been appropriated at R58 million for the 2011/12 financial year and remains relatively constant over the MTREF.
4. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the municipality. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.
5. The capital programme is funded from capital and provincial grants and transfers, public contributions and donations, borrowing and internally generated funds from current year surpluses. For 2011/12, capital transfers totals R34 million.

## MBRR Table AG – Budgeted Financial Position

| Description                          | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|--------------------------------------|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|                                      | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>R thousand</b>                    |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>ASSETS</b>                        |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Current assets</b>                |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Cash                                 | 293             | –               | 14              | 1 526                | –               | 32 589             | 1 355   | 1 427                  | 1 505                  |
| Call investment deposits             | 24 775          | 14 595          | 2 853           | 10 835               | 10 835          | 1 706              | 853   | 898                    | 948                    |
| Consumer debtors                     | 26 777          | 49 696          | 13 927          | 62 330               | 62 330          | 98 942             | 18 125  | 19 085                 | 20 135                 |
| Other debtors                        | 3 523           | 2 710           | 12 922          | 2 710                | 2 710           | 21 690             | 5 581   | 5 877                  | 6 200                  |
| Inventory                            | 1 540           | 3 620           | 2 434           | 3 855                | 3 855           | 5 082              | 4 431   | 4 666                  | 4 922                  |
| <b>Total current assets</b>          | <b>56 908</b>   | <b>70 621</b>   | <b>32 150</b>   | <b>81 256</b>        | <b>79 730</b>   | <b>160 009</b>     | <b>30 344</b>                                       | <b>31 953</b>          | <b>33 710</b>          |
| <b>Non current assets</b>            |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Investments                          | 2 044           | 4 374           | –               | 5 000                | 5 000           | –                  | –   | –                      | –                      |
| Investment property                  | –               | –               | –               | 15 905               | 15 905          | –                  | –   | –                      | –                      |
| Property, plant and equipment        | 13 987          | 8 408           | 46 676          | 41 985               | 45 659          | 130 779            | 102 011   | 107 418                | 326                    |
| Biological                           | –               | –               | 0               | –                    | –               | 0                  | 0   | 0                      | 0                      |
| Intangible                           | –               | –               | 104             | –                    | –               | 104                | 104   | 107                    | 115                    |
| <b>Total non current assets</b>      | <b>16 031</b>   | <b>12 782</b>   | <b>46 780</b>   | <b>62 890</b>        | <b>66 564</b>   | <b>130 883</b>     | <b>102 115</b>                                      | <b>107 525</b>         | <b>441</b>             |
| <b>TOTAL ASSETS</b>                  | <b>72 939</b>   | <b>83 403</b>   | <b>78 930</b>   | <b>144 146</b>       | <b>146 294</b>  | <b>290 892</b>     | <b>132 459</b>                                      | <b>139 478</b>         | <b>147 151</b>         |
| <b>LIABILITIES</b>                   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Current liabilities</b>           |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Bank overdraft                       | 11 865          | 4 109           | 10 743          | –                    | –               | –                  | –   | –                      | –                      |
| Borrowing                            | 1 948           | 8 148           | 2 234           | 1 435                | 1 435           | 4 468              | 1 783   | 1 877                  | 1 980                  |
| Consumer deposits                    | 2 649           | 2 146           | 3 043           | 2 284                | 2 284           | 6 137              | 5 107   | 5 377                  | 5 673                  |
| Trade and other payables             | 15 198          | 7 286           | 35 835          | 7 760                | 13 778          | 104 262            | 43 211  | 23 517                 | 36 705                 |
| Provisions                           | 5 056           | 5 057           | 6 158           | 5 908                | 5 908           | 10 590             | 1 017   | 1 071                  | 1 130                  |
| <b>Total current liabilities</b>     | <b>36 716</b>   | <b>26 746</b>   | <b>58 013</b>   | <b>17 387</b>        | <b>23 405</b>   | <b>125 457</b>     | <b>51 118</b>                                       | <b>31 843</b>          | <b>45 489</b>          |
| <b>Non current liabilities</b>       |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Borrowing                            | 16 184          | 8 408           | 7 563           | 6 765                | 6 765           | 13 737             | 13 124  | 12 429                 | 11 745                 |
| Provisions                           | –               | –               | –               | –                    | –               | –                  | 700   | 737                    | 778                    |
| <b>Total non current liabilities</b> | <b>16 184</b>   | <b>8 408</b>    | <b>7 563</b>    | <b>6 765</b>         | <b>6 765</b>    | <b>13 737</b>      | <b>13 824</b>                                       | <b>13 166</b>          | <b>12 523</b>          |
| <b>TOTAL LIABILITIES</b>             | <b>52 900</b>   | <b>35 154</b>   | <b>65 576</b>   | <b>24 152</b>        | <b>30 170</b>   | <b>139 194</b>     | <b>64 942</b>                                       | <b>45 008</b>          | <b>58 012</b>          |
| <b>NET ASSETS</b>                    | <b>20 039</b>   | <b>48 249</b>   | <b>13 354</b>   | <b>119 994</b>       | <b>116 124</b>  | <b>151 698</b>     | <b>67 517</b>                                       | <b>94 469</b>          | <b>89 139</b>          |
| <b>COMMUNITY WEALTH/EQUITY</b>       |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Accumulated Surplus/(Deficit)        | 12 334          | 37 232          | 13 354          | 113 613              | 109 743         | 151 698            | 67 517  | 136 046                | 174 581                |
| Reserves                             | 7 705           | 11 017          | –               | 6 381                | 6 381           | –                  | –   | –                      | –                      |
| <b>TOTAL COMMUNITY WEALTH/EQUITY</b> | <b>20 039</b>   | <b>48 249</b>   | <b>13 354</b>   | <b>119 994</b>       | <b>116 124</b>  | <b>151 698</b>     | <b>67 517</b>                                       | <b>136 046</b>         | <b>174 581</b>         |

## Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table 66 is supported by an extensive table of notes (SA3) providing a detailed analysis of the major components of a number of items, including:
  - Call investments deposits;
  - Consumer debtors;
  - Property, plant and equipment;
  - Trade and other payables;
  - Provisions non-current;
  - Changes in net assets; and
  - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

## MBRR Table A7 – Budgeted Cash Flow Statement

| Description                                      | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>       |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Receipts</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Ratepayers and other                             | 41 905          | 41 431          | 74 350          | 27 261               | 27 261          | 27 261             | 93 603  | 97 743                 | 86 781                 |
| Government - operating                           | 44 967          | 30 808          | 34 684          | 47 438               | 50 585          | 50 585             | 56 640  | 62 378                 | 66 403                 |
| Government - capital                             | -               | 21 956          | 25 843          | 33 892               | 33 892          | 33 892             | 36 886  | 45 252                 | 49 575                 |
| Interest   | 5 294           | 2 801           | 1 488           | 804                  | 804             | 804                | 804   | 847                    | 893                    |
| <b>Payments</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Suppliers and employees                          | (48 945)        | (90 950)        | (121 921)       | (39 352)             | (46 143)        | (46 143)           | (133 474)   | (198 920)              | (195 796)              |
| Finance charges                                  | (2 539)         | (1 576)         | (2 051)         | (1 095)              | (1 095)         | (1 095)            | (960)   | (1 010)                | (1 066)                |
| <b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b> | <b>40 682</b>   | <b>4 470</b>    | <b>12 393</b>   | <b>68 948</b>        | <b>65 304</b>   | <b>65 304</b>      | <b>53 499</b>                                       | <b>6 289</b>           | <b>6 790</b>           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Receipts</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Decrease (increase) in non-current investments   | (2 992)         | (2 338)         | 15 776          | (12 000)             | (12 000)        | (12 000)           | 200   | 211                    | 222                    |
| <b>Payments</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Capital assets                                   | (15 164)        | (13 652)        | (24 832)        | (49 039)             | (52 713)        | (52 713)           | (51 385)  | (5 407)                | (5 908)                |
| <b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b> | <b>(18 156)</b> | <b>(15 990)</b> | <b>(9 056)</b>  | <b>(61 039)</b>      | <b>(64 713)</b> | <b>(64 713)</b>    | <b>(51 185)</b>                                     | <b>(5 196)</b>         | <b>(5 686)</b>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Receipts</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Increase (decrease) in consumer deposits         | 25              | (503)           | -               | 27                   | 27              | 27                 | 26  | 26                     | 26                     |
| <b>Payments</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Repayment of borrowing                           | (806)           | (7 776)         | (7 468)         | (1 568)              | (1 568)         | (1 568)            | (1 002)   | (1 002)                | (1 002)                |
| <b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b> | <b>(781)</b>    | <b>(8 279)</b>  | <b>(7 468)</b>  | <b>(1 541)</b>       | <b>(1 541)</b>  | <b>(1 541)</b>     | <b>(976)</b>  | <b>(976)</b>           | <b>(976)</b>           |
| <b>NET INCREASE/ (DECREASE) IN CASH HELD</b>     | <b>21 745</b>   | <b>(19 799)</b> | <b>(4 131)</b>  | <b>6 368</b>         | <b>(950)</b>    | <b>(950)</b>       | <b>1 338</b>  | <b>117</b>             | <b>128</b>             |
| Cash/cash equivalents at the year begin:         | (8 544)         | 13 201          | 598             | 950                  | 950             | 950                | 870   | 2 208                  | 2 325                  |
| Cash/cash equivalents at the year end:           | 13 201          | (6 598)         | (10 729)        | 7 318                | -               | -                  | 2 208   | 2 325                  | 2 453                  |



### 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.

### MBRR Table 8 – Cash Backed Reserves/Accumulated Surplus Reconciliation

| Description   | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|   | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>Cash and investments available</b>   |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Cash/cash equivalents at the year end   | 13 201          | (6 598)         | (10 729)        | 7 318                | –               | –                  | 2 208   | 2 325                  | 2 453                  |
| Other current investments > 90 days   | 2               | 17 084          | 2 853           | 5 043                | 10 835          | 34 295             | (0)   | 0                      | 0                      |
| Non current assets - Investments  | 2 044           | 4 374           | –               | 5 000                | 5 000           | –                  | –   | –                      | –                      |
| <b>Cash and investments available:</b>  | <b>15 247</b>   | <b>14 860</b>   | <b>(7 876)</b>  | <b>17 361</b>        | <b>15 835</b>   | <b>34 295</b>      | <b>2 208</b>  | <b>2 325</b>           | <b>2 453</b>           |
| <b>Application of cash and investments</b>                                      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Unspent borrowing   | –               | –               | –               | –                    | –               | –                  | (3 950)   | –                      | –                      |
| Other working capital requirements  | (4 032)         | (17 005)        | 14 653          | (5 400)              | 618             | 69 890             | 30 690  | 4 775                  | 19 086                 |
| Long term investments committed<br>Reserves to be backed by<br>cash/investments | 18 939          | 18 132          | 16 556          | 17 652               | 17 652          | 17 652             | –   | –                      | –                      |
| <b>Total Application of cash and investments:</b>                               | <b>14 907</b>   | <b>1 127</b>    | <b>31 209</b>   | <b>12 252</b>        | <b>18 270</b>   | <b>87 542</b>      | <b>(31 234)</b>                                     | <b>(65 419)</b>        | <b>(57 397)</b>        |
| <b>Surplus(shortfall)</b>   | <b>340</b>      | <b>13 733</b>   | <b>(39 085)</b> | <b>5 109</b>         | <b>(2 435)</b>  | <b>(53 247)</b>    | <b>33 442</b>                                       | <b>67 744</b>          | <b>59 850</b>          |

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

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".

4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2010/11 MTREF was not funded owing to the deficit.
6. As part of the budgeting and planning guidelines that informed the compilation of the 2011/12 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

## MBRR Table A9 – Asset Management

| Description                                     | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|   | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>CAPITAL EXPENDITURE</b>                      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Total New Assets</b>                         | <b>20 152</b>   | <b>15 402</b>   | <b>25 932</b>   | <b>49 039</b>        | <b>46 539</b>   | <b>46 539</b>      | <b>57 973</b>                                       | <b>61 046</b>          | <b>64 403</b>          |
| Infrastructure - Road transport                 | 10 715          | 3 648           | 11 678          | 21 815               | 21 815          | 21 815             | -   | -                      | -                      |
| Infrastructure - Electricity                    | 156             | 1 763           | -               | 7 419                | 7 419           | 7 419              | 4 800   | 5 054                  | 5 332                  |
| Infrastructure - Water                          | -               | 2 379           | 6 092           | 4 755                | 4 755           | 4 755              | 2 350   | 2 475                  | 2 611                  |
| Infrastructure - Sanitation                     | -               | -               | -               | -                    | -               | -                  | 37 350  | 39 330                 | 41 493                 |
| Infrastructure                                  | 10 871          | 7 790           | 17 770          | 33 989               | 33 989          | 33 989             | 44 500  | 46 859                 | 49 436                 |
| Community                                       | 4 326           | 7 554           | 3 818           | 6 100                | 6 100           | 6 100              | 4 500   | 4 739                  | 4 999                  |
| Other assets                                    | 4 955           | 58              | 4 344           | 8 950                | 6 450           | 6 450              | 8 973   | 9 449                  | 9 968                  |
| <b>Total Renewal of Existing Assets</b>         | <b>-</b>        | <b>-</b>        | <b>-</b>        | <b>7 419</b>         | <b>7 419</b>    | <b>7 419</b>       | <b>-</b>  | <b>-</b>               | <b>-</b>               |
| Infrastructure - Electricity                    | -               | -               | -               | 7 419                | 7 419           | 7 419              | -   | -                      | -                      |
| Infrastructure                                  | -               | -               | -               | 7 419                | 7 419           | 7 419              | -   | -                      | -                      |
| <b>Total Capital Expenditure</b>                |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Infrastructure - Road transport                 | 10 715          | 3 648           | 11 678          | 21 815               | 21 815          | 21 815             | -   | -                      | -                      |
| Infrastructure - Electricity                    | 156             | 1 763           | -               | 14 838               | 14 838          | 14 838             | 4 800   | 5 054                  | 5 332                  |
| Infrastructure - Water                          | -               | 2 379           | 6 092           | 4 755                | 4 755           | 4 755              | 2 350   | 2 475                  | 2 611                  |
| Infrastructure - Sanitation                     | -               | -               | -               | -                    | -               | -                  | 37 350  | 39 330                 | 41 493                 |
| Infrastructure                                  | 10 871          | 7 790           | 17 770          | 41 408               | 41 408          | 41 408             | 44 500  | 46 859                 | 49 436                 |
| Community                                       | 4 326           | 7 554           | 3 818           | 6 100                | 6 100           | 6 100              | 4 500   | 4 739                  | 4 999                  |
| Other assets                                    | 4 955           | 58              | 4 344           | 8 950                | 6 450           | 6 450              | 8 973   | 9 449                  | 9 968                  |
| <b>TOTAL CAPITAL EXPENDITURE - Asset class</b>  | <b>20 152</b>   | <b>15 402</b>   | <b>25 932</b>   | <b>56 458</b>        | <b>53 958</b>   | <b>53 958</b>      | <b>57 973</b>                                       | <b>61 046</b>          | <b>64 403</b>          |
| <b>ASSET REGISTER SUMMARY - PPE (WDV)</b>       |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Infrastructure - Road transport                 | 77 749          | 80 207          | 11 047          | 129 072              | 129 072         | 129 072            | 11 047  | 11 632                 | 12 272                 |
| Infrastructure - Electricity                    | 22 441          | 24 204          | 1 775           | 31 622               | 32 109          | 32 109             | 6 575   | 6 923                  | 7 304                  |
| Infrastructure - Water                          | 18 308          | 18 874          | -               | 21 489               | 24 531          | 24 531             | 2 350   | 2 475                  | 2 611                  |
| Infrastructure - Sanitation                     | 14 979          | 15 442          | -               | 17 582               | 17 582          | 17 582             | 37 350  | 39 330                 | 41 493                 |
| Infrastructure - Other                          | (145 623)       | (164 854)       | -               | (197 331)            | (197 331)       | (112 211)          | (2 638)   | (2 778)                | (2 931)                |
| Infrastructure                                  | (12 146)        | (26 127)        | 17 238          | 2 434                | 5 963           | 91 083             | 54 683  | 57 582                 | 60 749                 |
| Community                                       | 7 343           | 14 897          | 29 438          | 25 007               | 25 007          | 25 007             | 4 500   | 4 739                  | 4 999                  |
| Investment properties                           | -               | -               | -               | 15 905               | 15 905          | -                  | -   | -                      | -                      |
| Other assets                                    | 18 790          | 19 638          | 4 416           | 14 544               | 14 689          | 14 689             | 42 828  | 45 098                 | 47 578                 |
| Biological assets                               | -               | -               | 0               | -                    | -               | 0                  | 0   | 0                      | 0                      |
| Intangibles                                     | -               | -               | 104             | -                    | -               | 104                | 104   | 107                    | 115                    |
| <b>TOTAL ASSET REGISTER SUMMARY - PPE (WDV)</b> | <b>13 987</b>   | <b>8 408</b>    | <b>46 780</b>   | <b>57 890</b>        | <b>61 564</b>   | <b>130 883</b>     | <b>102 115</b>                                      | <b>107 525</b>         | <b>113 441</b>         |
| <b>EXPENDITURE OTHER ITEMS</b>                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Depreciation & asset impairment                 | -               | -               | -               | 16 256               | 16 256          | 16 256             | 2 638   | 2 778                  | 2 931                  |
| Repairs and Maintenance by Asset Class          | 5 040           | 5 417           | 5 793           | 6 533                | 13 635          | 13 635             | 15 951  | 16 796                 | 17 720                 |
| Infrastructure - Road transport                 | -               | -               | -               | -                    | 1 838           | 1 838              | 7 608   | 8 011                  | 8 452                  |
| Infrastructure - Electricity                    | -               | -               | -               | -                    | 500             | 500                | 1 323   | 1 393                  | 1 469                  |
| Infrastructure - Water                          | -               | -               | -               | -                    | 2 843           | 2 843              | 3 828   | 4 031                  | 4 253                  |

|  |              |              |              |               |               |               |               |               |               |
|--|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <i>Infrastructure - Sanitation</i>                 | –            | –            | –            | –             | 900           | 900           | 2 035         | 2 143         | 2 261         |
| Infrastructure                                     | –            | –            | –            | –             | 6 081         | 6 081         | 14 794        | 15 578        | 16 435        |
| Community  | 504          | 542          | 579          | 653           | 653           | 653           | –             | –             | –             |
| Other assets                                       | 4 536        | 4 875        | 5 214        | 5 880         | 6 901         | 6 901         | 1 157         | 1 218         | 1 285         |
| <b>TOTAL EXPENDITURE OTHER ITEMS</b>               | <b>5 040</b> | <b>5 417</b> | <b>5 793</b> | <b>22 789</b> | <b>29 891</b> | <b>29 891</b> | <b>18 590</b> | <b>19 575</b> | <b>20 651</b> |
| <i>% of capital exp on renewal of assets</i>       | 0.0%         | 0.0%         | 0.0%         | 15.1%         | 15.9%         | 15.9%         | 0.0%          | 0.0%          | 0.0%          |
| <i>Renewal of Existing Assets as % of deprecn"</i> | 0.0%         | 0.0%         | 0.0%         | 45.6%         | 45.6%         | 45.6%         | 0.0%          | 0.0%          | 0.0%          |
| <i>R&amp;M as a % of PPE</i>                       | 36.0%        | 64.4%        | 12.4%        | 15.6%         | 29.9%         | 10.4%         | 15.6%         | 15.6%         | 15.6%         |
| <i>Renewal and R&amp;M as a % of PPE</i>           | 36.0%        | 64.0%        | 12.0%        | 24.0%         | 34.0%         | 16.0%         | 16.0%         | 16.0%         | 16.0%         |

### Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The Municipality meets does not meet these recommendations as majority of resources have been allocated towards clearing the backlog on new infrastructure.

## 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 MM.

The primary aim 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.

#### 2.1.1 Budget Process Overview

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

The Mayor tabled in Council the required the IDP and budget time schedule on 3 September 2010. Key dates applicable to the process are contained in the budget process document as per annexure C

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

### **2.1.2 IDP and Service Delivery and Budget Implementation Plan**

This is the fourth review of the IDP as adopted by Council in May 2006. It started in September 2010 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2011/12 MTREF in the very same month.

The municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2011/12 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2011/12 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2010/11 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

### **2.1.3 Financial Modeling and Key Planning Drivers**

As part of the compilation of the 2011/12 MTREF, an extensive financial modeling exercise was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2011/12 MTREF:

- Municipal growth
- Policy priorities and strategic objectives

- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The 2010/11 adjustments budget and performance against the SDBIP
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51, 54 and 55 has been taken into consideration in the planning and prioritisation process.

#### **2.1.4 Community Consultation**

After Council adopts the draft 2011/12 MTREF, public participation as required by Chapter of Municipal Systems Act must be undertaken. The document should be placed on municipal website and hard copies should be made available at municipal offices and libraries. The process will allow the community and stakeholders to make inputs and representations on the adopted 2011/12 MTREF.

All documents in the appropriate format (electronic and printed) should be provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees should be utilised to facilitate the community consultation process.

## 2.2 Overview of alignment of annual budget with IDP

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

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

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

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

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

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

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);



- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's strategic objectives for the 2011/12 MTREF and further planning refinements that have directly informed the compilation of the budget:

- Water and Sanitation
- Land and Housing
- Electricity
- Local Economic Development
- Transport, Roads and Storm water
- Institutional Development
- Waste Management, Health and Environment
- Community Participation and Communication
- Disaster Management
- Social Development
- Safety and Security
- Sport, Art & Culture

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the municipality by identifying the key performance areas to achieve the strategic objectives mentioned above.

## 2.3 Measurable 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 target, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

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



**Figure Planning, budgeting and reporting cycle**

The performance of the Municipality 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 municipality 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 municipality in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:

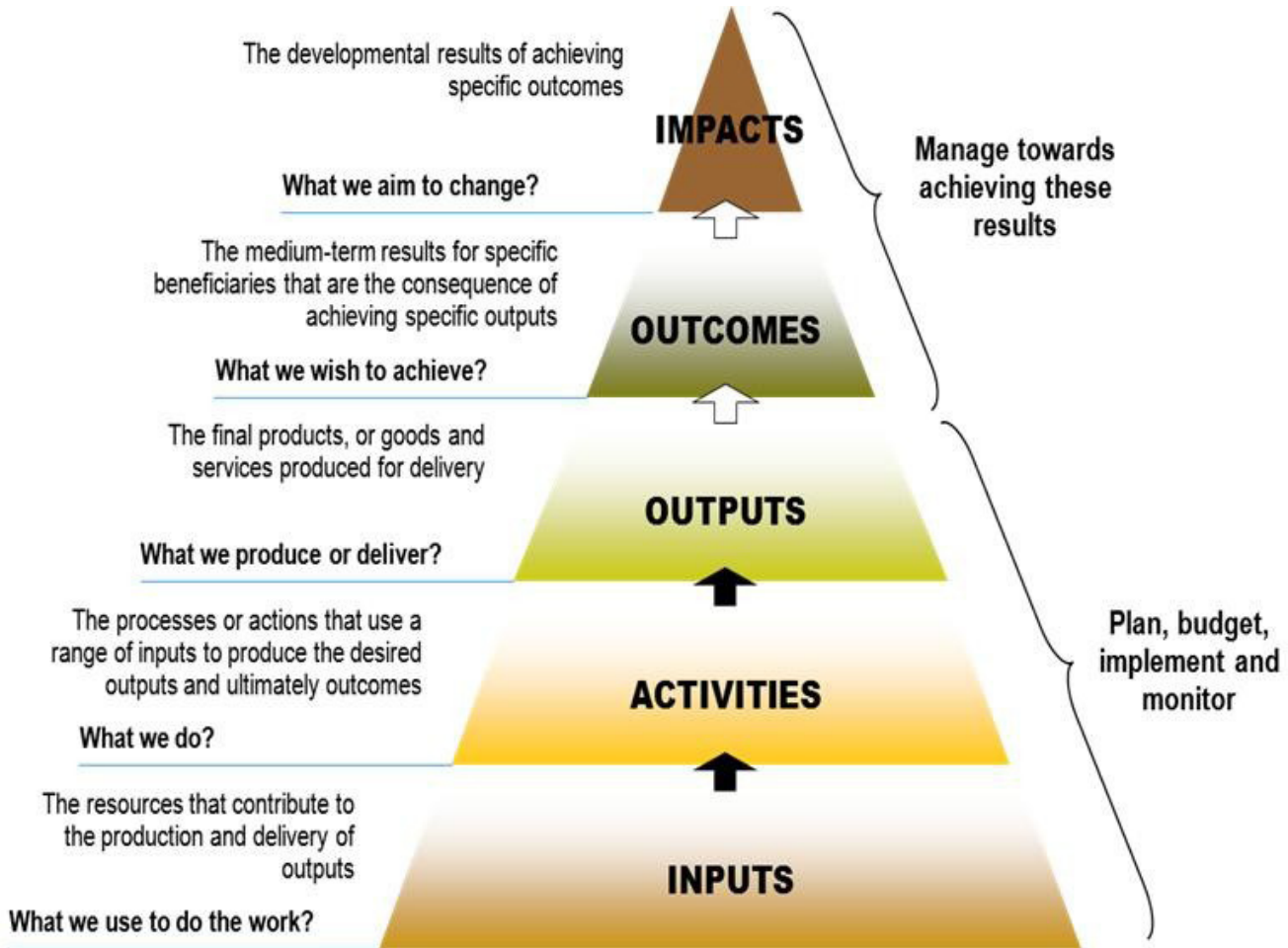


Figure Definition of performance information concepts

The following table sets out the municipality's main performance indicators and benchmarks for the 2011/12 MTREF

| Description of financial indicator               | Basis of calculation   | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|--|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  |  | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b><u>Borrowing Management</u></b>               |  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Borrowing to Asset Ratio                         | Total Long-Term Borrowing/Total Assets                                     | 22.2%           | 10.1%           | 9.6%            | 4.7%                 | 4.6%            | 4.7%               | 9.9%  | 8.9%                   | 8.0%                   |
| Credit Rating                                    |  | TBA             | TBA             | TBA             | TBA                  | TBA             | TBA                | TBA   | TBA                    | TBA                    |
| Capital Charges to Operating Expenditure         | Interest & Principal Paid /Operating Expenditure                           | 4.0%            | 10.1%           | 6.2%            | 1.5%                 | 1.5%            | 1.2%               | 1.1%  | 1.1%                   | 1.0%                   |
| Borrowed funding of 'own' capital expenditure    | Borrowing/Capital expenditure excl. transfers and grants and contributions | 0.0%            | 0.0%            | 0.0%            | 0.0%                 | 0.0%            | 0.0%               | 26.0%   | 26.0%                  | 26.0%                  |
| <b><u>Safety of Capital</u></b>                  |  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Debt to Equity                                   | Loans, Creditors, Overdraft & Tax Provision/ Funds & Reserves              | 264.0%          | 72.9%           | 491.1%          | 20.1%                | 26.0%           | 91.8%              | 96.2%   | 33.1%                  | 33.2%                  |
| Gearing  | Long Term Borrowing/ Funds & Reserves                                      | 210.0%          | 76.3%           | 0.0%            | 106.0%               | 106.0%          | 0.0%               | 19.0%   | 19.0%                  | 19.0%                  |
| <b><u>Liquidity</u></b>                          |  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Current Ratio                                    | Current assets/current liabilities   | 1.5             | 2.6             | 0.6             | 4.7                  | 3.4             | 1.3                | 0.6   | 1.0                    | 0.7                    |
| Current Ratio adjusted for aged debtors          | Current assets less debtors > 90 days/current liabilities                  | 1.5             | 2.6             | (0.2)           | 3.5                  | 2.6             | 1.1                | 0.1   | 0.4                    | 0.5                    |
| Liquidity Ratio                                  | Monetary Assets/Current Liabilities  | 0.7             | 0.5             | 0.0             | 0.7                  | 0.5             | 0.3                | 0.0   | 0.1                    | 0.1                    |
| <b><u>Revenue Management</u></b>                 |  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Annual Debtors Collection Rate (Payment Level %) | Last 12 Mths Receipts/Last 12 Mths Billing                                 |                 | 73.4%           | 56.5%           | 90.4%                | 90.4%           | 90.4%              | 22.9%   | 68.6%                  | 68.0%                  |
| Outstanding Debtors to Revenue                   | Total Outstanding Debtors to Annual Revenue                                | 36.5%           | 48.2%           | 21.6%           | 36.3%                | 35.7%           | 70.3%              | 11.9%   | 11.8%                  | 11.7%                  |
| Longstanding Debtors Recovered                   | Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old                  | 0.0%            | 0.0%            | 0.0%            | 0.0%                 | 0.0%            | 0.0%               | 5.0%  | 5.0%                   | 5.0%                   |

|  |  |        |        |        |        |        |        |       |       |       |
|--|--|--------|--------|--------|--------|--------|--------|-------|-------|-------|
| <b>Creditors Management</b>                          |  |        |        |        |        |        |        |       |       |       |
| Creditors System Efficiency                          | % of Creditors Paid Within Terms (within 'MFMA' s 65(e))                                       | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 99.0% | 99.0% | 99.0% |
| <b>Funding of Provisions</b>                         |  |        |        |        |        |        |        |       |       |       |
| Provisions not funded - %                            | Unfunded Provns./Total Provisions  | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%  | 0.0%  | 0.0%  |
| <b>Other Indicators</b>                              |  |        |        |        |        |        |        |       |       |       |
| Electricity Distribution Losses (2)                  | % Volume (units purchased and generated less units sold)/units purchased and generated         | 13.6%  | 13.6%  | 13.6%  | 13.6%  | 13.6%  | 13.6%  | 13.6% | 13.6% | 13.6% |
| Water Distribution Losses (2)                        | % Volume (units purchased and own source less units sold)/Total units purchased and own source | 11.0%  | 11.0%  | 11.0%  | 11.0%  | 11.0%  | 11.0%  | 11.0% | 11.0% | 11.0% |
| Employee costs                                       | Employee costs/(Total Revenue - capital revenue)   | 45.1%  | 38.2%  | 38.7%  | 32.8%  | 31.5%  | 33.5%  | 34.1% | 33.7% | 33.6% |
| Remuneration   | Total remuneration/(Total Revenue - capital revenue)   | 39.3%  | 34.5%  | 33.4%  | 35.5%  | 32.9%  | 34.9%  | 2.0%  | 2.0%  | 2.0%  |
| Repairs & Maintenance                                | R&M/(Total Revenue excluding capital revenue)  | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 8.0%  | 8.0%  | 8.0%  |
| Finance charges & Depreciation                       | FC&D/(Total Revenue - capital revenue)   | 3.0%   | 2.0%   | 1.6%   | 9.7%   | 9.5%   | 9.8%   | 1.8%  | 1.8%  | 1.8%  |
| <b>IDP regulation financial viability indicators</b> | -  |        |        |        |        |        |        |       |       |       |
| i. Debt coverage                                     | (Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)  | 5.7    | 8.9    | 37.5   | 54.9   | 54.9   | 54.9   | 77.0  | 79.1  | 83.4  |
| ii. O/S Service Debtors to Revenue                   | Total outstanding service debtors/annual revenue received for services                         | 56.1%  | 85.1%  | 35.3%  | 54.6%  | 54.6%  | 105.2% | 18.7% | 18.7% | 18.7% |
| iii. Cost coverage                                   | (Available cash + Investments)/monthly fixed operational expenditure                           | 2.2    | (1.0)  | (1.1)  | 0.7    | -      | -      | 0.2   | 0.2   | 0.2   |

## 2.3.1 Performance Indicators and Benchmarks

### 2.3.1.1 Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, Thabazimbi's borrowing strategy is primarily informed by the affordability of debt repayments. The structure of the municipality's debt portfolio is dominated by annuity loans. The following financial performance indicators have formed part of the compilation of the 2011/12 MTREF:

- *Borrowing to asset ratio* is a measure of the long-term borrowing as a percentage of the total asset base of the municipality. The current ratio is 9.9%.
- *Capital charges to operating expenditure* is a measure of the cost of borrowing in relation to the operating expenditure. While borrowing is considered a prudent financial instrument in financing capital infrastructure development, this indicator will have to be carefully monitored going forward as the municipality has reached its prudential borrowing limits.
- *Borrowing funding of own capital expenditure* measures the degree to which own capital expenditure (excluding grants and contributions) has been funded by way of borrowing.
- The municipality's debt profile provides some interesting insights on the municipality's future borrowing capacity.
- In summary, various financial risks could have a negative impact on the future borrowing capacity of the municipality. In particular, the continued ability of the municipality to meet its revenue targets and ensure its forecasted cash flow targets are achieved will be critical in meeting the repayments of the debt service costs. As part of the compilation of the 2012/13 MTREF the potential of smoothing out the debt profile over the longer term will be investigated.

### 2.3.1.2 Safety of Capital

- *The debt-to-equity ratio* is a financial ratio indicating the relative proportion of equity and debt used in financing the municipality's assets. The indicator is based on the total of loans and creditors as a percentage of funds and reserves.
- *The gearing ratio* is a measure of the total long term borrowings over funds and reserves.

### 2.3.1.3 Liquidity

- *Current ratio* is a measure of the current assets divided by the current liabilities and as a benchmark the municipality has set a limit of 1, hence at no point in time should this ratio be less than 1. The municipality is still struggling to meet this benchmark.
- *The liquidity ratio* is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality

should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations. For the 2010/11 financial year the ratio was below 1. This needs to be considered a pertinent risk for the municipality as any under collection of revenue will translate into serious financial challenges for the municipality. As part of the longer term financial planning objectives this ratio will have to be set at a minimum of 1.

#### *2.3.1.4 Revenue Management*

- As part of the financial sustainability strategy, an aggressive revenue management framework has to be implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention is to streamline the revenue value chain by ensuring accurate billing, customer service, and credit control and debt collection. The current Revenue Enhancement Strategy is outdated and an amount of R100 000 has been appropriated for its review and implementation.

#### *2.3.1.5 Creditors Management*

- The Municipality has struggled during the 2010/11 MTREF to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has only managed to ensure a 70 per cent compliance rate to this legislative obligation. This has had an adverse impact on suppliers' perceptions of risk of doing business with the municipality, which is expected to be a potential harm to the municipality in the form of more competitive pricing of tenders, as suppliers would be reluctant to compete for the municipality's business.

#### *2.3.1.6 Other Indicators*

- The electricity distribution losses have been managed downwards to an average of 14 per cent over the MTREF. The initiatives to ensure these targets are achieved include managing illegal connections and theft of electricity by rolling out smart metering systems, including prepaid meters.
- The water distribution losses are still a major challenge because of the aged infrastructure. The municipality requires a capital injection of R173 million to fund the new pipeline.
- Employee costs as a percentage of operating revenue continues to decrease over the MTREF. This is primarily owing to the departmental heads' support in prioritizing critical positions.



### **2.3.2 Free Basic Services: basic social services package for indigent households**

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

For the 2011/12 financial year almost 2000 registered indigents have been provided for in the budget with this figured increasing to 4000 by 2013/14. In terms of the Municipality's indigent policy registered households are entitled to 6kl fee water, 50 kWh of electricity, free sanitation and free waste removal once a week, as well as 100% rebates on their property rates.

Further detail relating to the number of households receiving free basic services, the cost of free basic services, highest level of free basic services as well as the revenue cost associated with the free basic services is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement).

Note that the number of households in informal areas that receive free services and the cost of these services (e.g. the provision of water through stand pipes, water tankers, etc) are not taken into account in the table noted above.

### **2.3.3 Providing clean water and managing waste water**

The municipality is the Water Services Authority for the entire municipality in terms of the Water Services Act, 1997 and acts as water services provider. Approximately 90 per cent of the municipality's bulk water needs are provided directly by Magalies Water in the form of purified water. The remaining 10 per cent is generated from the municipality's own water sources, such as boreholes.

Despite being a WSA, the municipality still doesn't supply industrial water to the mining industry in the Thabazimbi Municipality's area of jurisdiction.

The Department of Water Affairs conducts an annual performance rating of water treatment works, presenting a Blue Drop or Green Drop award respectively to potable water treatment works and waste water treatment works that meet certain criteria of excellence.

The following is briefly the main challenges facing the Municipality in this regard:

- The infrastructure at most of the waste water treatment works is old and insufficient to treat the increased volumes of waste water to the necessary compliance standard;
- Shortage of skilled personnel makes proper operations and maintenance difficult;

The following are some of the steps that have been taken to address these challenges:

- Infrastructure shortcomings are being addressed through the capital budget in terms of a 5-year upgrade plan;
- The filling of vacancies has commenced and the Waste Water Division will embark on an in-house training programme, especially for operational personnel;

## **2.4 Overview of budget related-policies**

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

### **2.4.1 Review of credit control and debt collection procedures/policies**

The Collection Policy as approved by Council in 2011 is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

The 2011/12 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 75 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the municipality's cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy.

### **2.4.2 Asset Management Policy**

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the municipality's revenue base. Within the framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.

Further, continued improvements in technology generally allow many assets to be renewed at a lesser "real" cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation. The Asset Management Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

### **2.4.3 Budget Adjustment Policy**

The adjustments budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the Municipality continues to

deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

#### **2.4.4 Supply Chain Management Policy**

The Supply Chain Management Policy has been a thorny issue in the municipality. The AG also raised these concerns in his report. The current policy was adopted by Council in two previous financial years but was not in line with the SCM regulations. An amended policy will be considered by Council in due course of which the amendments will be extensively consulted on.

#### **2.4.5 Budget and Virement Policy**

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the municipality's system of delegations. The Budget and Virement Policy was approved by Council in May 2010.

#### **2.4.6 Investment Policy**

The Municipality's Cash Management and Investment Policy was adopted by Council in the previous financial years and must be reviewed as a matter of extreme urgency. The aim of the policy is to ensure that the municipality's investments are adequately managed, especially the funds set aside for the cash backing of certain reserves.

#### **2.4.7 Tariff Policies**

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

## **2.5 Overview of budget assumptions**

### **2.5.1 External factors**

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

### **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 40 per cent of total operating expenditure in the 2011/12 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget.

### **2.5.3 Credit rating outlook**

The municipality's bankers are still to provide the credit rating

### **2.5.4 Interest rates for borrowing and investment of funds**

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions.

### **2.5.5 Collection rate for revenue services**

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

The rate of revenue collection is currently expressed as a percentage (65 per cent) of annual billings. Cash flow is assumed to be 75 per cent of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will, however, only be considered a source of additional cash in-flow once the performance has been carefully monitored.

### **2.5.6 Growth or decline in tax base of the municipality**

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

### **2.5.7 Salary increases**

The collective agreement regarding salaries/wages came into operation on 1 July 2009 and shall remain in force until 30 June 2012. Year three is an across the board increase of 8.54 per cent.

### **2.5.8 Impact of national, provincial and local policies**

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

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

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

### **2.5.9 Ability of the municipality to spend and deliver on the programmes**

It is estimated that a spending rate of at least 95 per cent is achieved on operating expenditure and 90 per cent on the capital programme for the 2011/12 MTREF of which performance has been factored into the cash flow budget.

## 2.6 Overview of budget funding

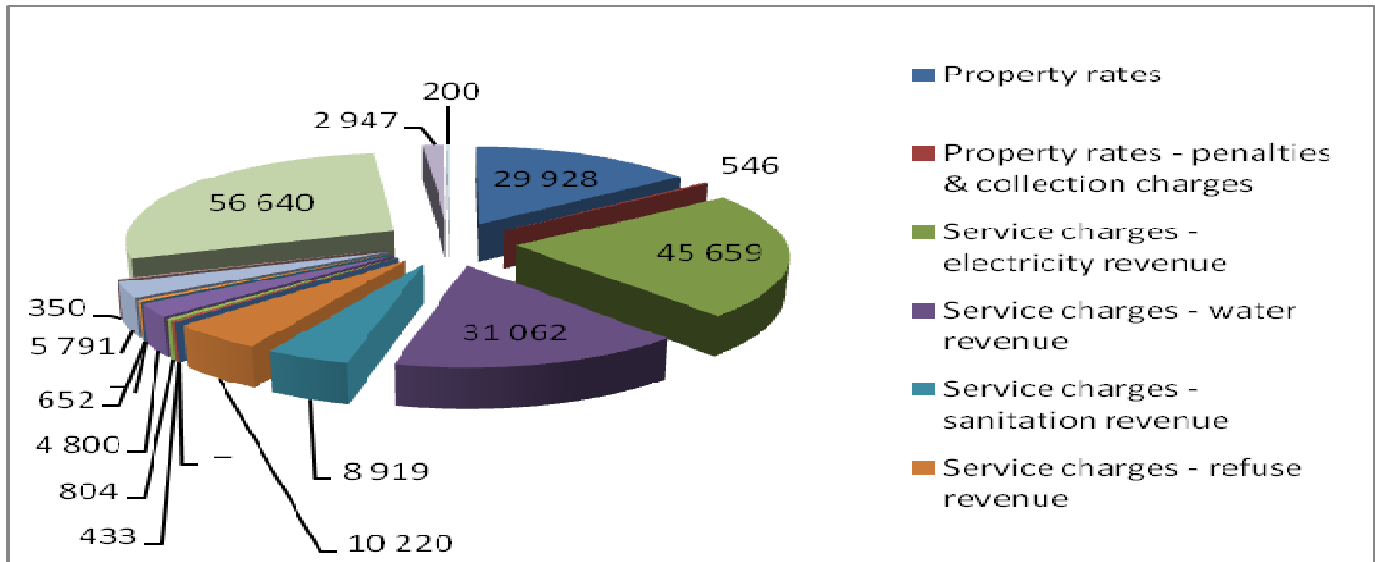
### 2.6.1 Medium-term outlook: operating revenue

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

| Description<br>R thousand  | 2011/12 Medium Term Revenue & Expenditure Framework |          |                           |             |                           |
|--|---|----------|---------------------------|-------------|---------------------------|
|  | Budget Year<br>2011/12                              | % Change | Budget Year +1<br>2012/13 | %<br>Change | Budget Year +2<br>2013/14 |
| <b>Revenue By Source</b>   |   |          |                           |             |                           |
| Property rates   | 29 928  | 5%       | 31 514                    | 6%          | 33 247                    |
| Property rates - penalties & collection charges                      | 546   | 5%       | 575                       | 5%          | 607                       |
| Service charges - electricity revenue                                | 45 659  | 5%       | 48 079                    | 5%          | 50 723                    |
| Service charges - water revenue                                      | 31 062  | 5%       | 32 709                    | 6%          | 34 508                    |
| Service charges - sanitation revenue                                 | 8 919   | 5%       | 9 391                     | 6%          | 9 908                     |
| Service charges - refuse revenue                                     | 10 220  | 5%       | 10 762                    | 5%          | 11 354                    |
| Rental of facilities and equipment                                   | 433   | 5%       | 456                       | 5%          | 481                       |
| Interest earned - external investments                               | 804   | 5%       | 847                       | 5%          | 893                       |
| Interest earned - outstanding debtors                                | 4 800   | 5%       | 5 054                     | 6%          | 5 332                     |
| Fines  | 652   | 5%       | 686                       | 5%          | 724                       |
| Licences and permits   | 5 791   | 5%       | 6 098                     | 6%          | 6 434                     |
| Agency services  | 350   | 5%       | 369                       | 6%          | 389                       |
| Transfers recognised - operational                                   | 56 640  | 10%      | 62 378                    | 6%          | 66 403                    |
| Other revenue  | 2 947   | 5%       | 3 103                     | 5%          | 3 274                     |
| Gains on disposal of PPE   | 200   | 5%       | 211                       | 6%          | 222                       |
| <b>Total Revenue (excluding capital transfers and contributions)</b> | <b>198 950</b>                                      |          | <b>212 231</b>            |             | <b>224 498</b>            |

### Table Breakdown of the operating revenue over the medium-term

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



**Figure 7 Breakdown of operating revenue over the 2011/12 MTREF**

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The 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 and permits etc).

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

- Growth in the municipality's and economic development;
- Revenue management and enhancement;
- Achievement of a 75 per cent annual collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- And the ability to extend new services and obtain cost recovery levels.



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

Revenue to be generated from property rates is R29 million in the 2011/12 financial year and increases to R33 million by 2013/14 which represents 10 per cent of the operating revenue base of the municipality. It remains relatively constant over the medium-term. With the implementation of the Municipal Property Rates Act the basis of rating significantly changed.

The municipality will be compiling its new valuation roll during the 2011/12 MTREF to ensure adequate public participation. The new valuation roll is scheduled for implementation in 2012/13 MTREF. The rate payers' association had objections which were duly addressed to the satisfaction of the chairpersons' forum.

Service charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Municipality totaling R96 million for the 2011/12.

### **2.6.2 Medium-term outlook: capital revenue**

The following is a breakdown of the funding composition of the 2011/12 medium-term capital programme:

- MIG funded projects to the tune of R34.5 million
- National Department of Energy to the tune of R1.6 million
- Internally generated funds to the tune of 22 million
- Finance lease for vehicles to the mount of R3.95 million

### **2.6.3 Cash Flow Management**

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understandability for councillors and management. Some specific features include:

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

**MBRR Table A7 – Budgeted Cash flow statement**

| Description                                      | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|  | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>       |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Receipts</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Ratepayers and other                             | 41 905          | 41 431          | 74 350          | 27 261               | 27 261          | 27 261             | 93 603  | 97 743                 | 86 781                 |
| Government - operating                           | 44 967          | 30 808          | 34 684          | 47 438               | 50 585          | 50 585             | 56 640  | 62 378                 | 66 403                 |
| Government - capital                             | –               | 21 956          | 25 843          | 33 892               | 33 892          | 33 892             | 36 886  | 45 252                 | 49 575                 |
| Interest   | 5 294           | 2 801           | 1 488           | 804                  | 804             | 804                | 804   | 847                    | 893                    |
| <b>Payments</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Suppliers and employees                          | (48 945)        | (90 950)        | (121 921)       | (39 352)             | (46 143)        | (46 143)           | (133 474)   | (198 920)              | (195 796)              |
| Finance charges                                  | (2 539)         | (1 576)         | (2 051)         | (1 095)              | (1 095)         | (1 095)            | (960)   | (1 010)                | (1 066)                |
| <b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b> | <b>40 682</b>   | <b>4 470</b>    | <b>12 393</b>   | <b>68 948</b>        | <b>65 304</b>   | <b>65 304</b>      | <b>53 499</b>                                       | <b>6 289</b>           | <b>6 790</b>           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Receipts</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Decrease (increase) in non-current investments   | (2 992)         | (2 338)         | 15 776          | (12 000)             | (12 000)        | (12 000)           | 200   | 211                    | 222                    |
| <b>Payments</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Capital assets                                   | (15 164)        | (13 652)        | (24 832)        | (49 039)             | (52 713)        | (52 713)           | (51 385)  | (5 407)                | (5 908)                |
| <b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b> | <b>(18 156)</b> | <b>(15 990)</b> | <b>(9 056)</b>  | <b>(61 039)</b>      | <b>(64 713)</b> | <b>(64 713)</b>    | <b>(51 185)</b>                                     | <b>(5 196)</b>         | <b>(5 686)</b>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>      |                 |                 |                 |                      |                 |                    |   |                        |                        |
| <b>Receipts</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Increase (decrease) in consumer deposits         | 25              | (503)           | –               | 27                   | 27              | 27                 | 26  | 26                     | 26                     |
| <b>Payments</b>                                  |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Repayment of borrowing                           | (806)           | (7 776)         | (7 468)         | (1 568)              | (1 568)         | (1 568)            | (1 002)   | (1 002)                | (1 002)                |
| <b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b> | <b>(781)</b>    | <b>(8 279)</b>  | <b>(7 468)</b>  | <b>(1 541)</b>       | <b>(1 541)</b>  | <b>(1 541)</b>     | <b>(976)</b>  | <b>(976)</b>           | <b>(976)</b>           |
| <b>NET INCREASE/ (DECREASE) IN CASH HELD</b>     | <b>21 745</b>   | <b>(19 799)</b> | <b>(4 131)</b>  | <b>6 368</b>         | <b>(950)</b>    | <b>(950)</b>       | <b>1 338</b>  | <b>117</b>             | <b>128</b>             |
| Cash/cash equivalents at the year begin:         | (8 544)         | 13 201          | (6 598)         | 950                  | 950             | 950                | 870   | 2 208                  | 2 325                  |
| Cash/cash equivalents at the year end:           | 13 201          | (6 598)         | (10 729)        | 318                  | –               | –                  | 2 208   | 2 325                  | 2 453                  |

The above table shows that cash and cash equivalents of the Municipality were largely depleted between the 2007/08 and 2010/11 financial year. The cash and cash equivalents situation is

expected to stabilize during the next two financial years. With the 2010/11 adjustments budget various cost efficiencies and savings had to be realised to ensure the Municipality could meet its operational expenditure commitments. In addition the municipality will undertake an extensive debt collection process to boost cash levels. These initiatives and interventions will translate into a positive cash position for the municipality.

#### **2.6.4 Cash Backed Reserves/Accumulated Surplus Reconciliation**

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be "funded". Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination

**MBBR Table 8 – Cash backed reserves/accumulated surplus reconciliation**

| Description<br>R thousand                         | 2007/8          | 2008/9          | 2009/10         | Current Year 2010/11 |                 |                    | 2011/12 Medium Term Revenue & Expenditure Framework |                        |                        |
|---|-----------------|-----------------|-----------------|----------------------|-----------------|--------------------|---|------------------------|------------------------|
|   | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget      | Adjusted Budget | Full Year Forecast | Budget Year 2011/12                                 | Budget Year +1 2012/13 | Budget Year +2 2013/14 |
| <b>Cash and investments available</b>             |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Cash/cash equivalents at the year end             | 13 201          | (6 598)         | (10 729)        | 7 318                | –               | –                  | 2 208   | 2 325                  | 2 453                  |
| Other current investments > 90 days               | 2               | 17 084          | 2 853           | 5 043                | 10 835          | 34 295             | (0)   | 0                      | 0                      |
| Non current assets - Investments                  | 2 044           | 4 374           | –               | 5 000                | 5 000           | –                  | –   | –                      | –                      |
| <b>Cash and investments available:</b>            | <b>15 247</b>   | <b>14 860</b>   | <b>(7 876)</b>  | <b>17 361</b>        | <b>15 835</b>   | <b>34 295</b>      | <b>2 208</b>  | <b>2 325</b>           | <b>2 453</b>           |
| <b>Application of cash and investments</b>        |                 |                 |                 |                      |                 |                    |   |                        |                        |
| Unspent borrowing                                 | –               | –               | –               | –                    | –               | –                  | (3 950)   | –                      | –                      |
| Other working capital requirements                | (4 032)         | (17 005)        | 14 653          | (5 400)              | 618             | 69 890             | 30 690  | 4 775                  | 19 086                 |
| Long term investments committed                   | 18 939          | 18 132          | 16 556          | 17 652               | 17 652          | 17 652             | –   | –                      | –                      |
| Reserves to be backed by cash/investments         | –               | –               | –               | –                    | –               | –                  | (57 974)  | (70 194)               | (76 484)               |
| <b>Total Application of cash and investments:</b> | <b>14 907</b>   | <b>1 127</b>    | <b>31 209</b>   | <b>12 252</b>        | <b>18 270</b>   | <b>87 542</b>      | <b>(31 234)</b>                                     | <b>(65 419)</b>        | <b>(57 397)</b>        |
| <b>Surplus(shortfall)</b>                         | <b>340</b>      | <b>13 733</b>   | <b>(39 085)</b> | <b>5 109</b>         | <b>(2 435)</b>  | <b>(53 247)</b>    | <b>33 442</b>                                       | <b>67 744</b>          | <b>59 850</b>          |

## 2.7 Municipal manager's quality certificate

I TSR Nkhumise, municipal manager of Thabazimbi Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the integrated Development Plan of the Municipality

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

Municipal Manager of Thabazimbi Local Municipality (LIM361)

Signature: \_\_\_\_\_

Date \_\_\_\_\_

