

ABAQULUSI MUNICIPALITY



MEDIUM TERM BUDGET 2010/ 2011 TO 2012/2013

26 May 2010 - Adopted

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GLOSSARY

Adjustments Budgets – Prescribed in section 28 of the Municipal Finance Management Act. It is the formal means by which a municipality may revise its budget during a financial year.

Allocations – Money received from Provincial and National Treasury.

Budget – The financial plan of a municipality.

Budget related policy – Policy of a municipality affecting or affected by the budget. Examples include tariff policy, rates policy and credit control and debt policy.

Capital Expenditure – Spending on municipal assets such as land, buildings and vehicles. Any capital expenditure must be reflected as an asset on a municipality's balance sheet.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the Municipality, and the month end balances of cash and short term investments. Cash receipts and payments do not always coincide with budgeted income and expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month that the services or goods are received, even though it may not be paid in the same period.

CPI - Consumer Price Index

CPIX - Consumer Price Index Excluding Mortgage Costs

DORA – Division of Revenue Act. Annual legislation which shows the allocations from national to local government.

DORb – Division of Revenue Bill. Annual legislation tabled in parliament, but not enacted which shows the allocations from national to local government.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted to assist municipalities with the costs of free basic services.

GDFI - Gross Domestic Fixed Investment

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates comparisons between municipalities.

IDP – Integrated Development Plan. The main strategic planning document of a municipality.

KPI – Key Performance Indicators. Measures of service output and/or outcome.

MFMA - Municipal Finance Management Act (No 53 of 2003). The principal piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework as prescribed by the MFMA sets out indicative revenue and projected expenditure for the budget year plus two outer financial years to determine the affordability level thereof. It effectively represents a municipality's medium term financial plan.

Operating Expenditure – Spending on the day to day expenses of a municipality such as general expenses, salaries & wages and repairs & maintenance.

Rates – Local Government tax based on assessed valuation of a property.

TMA – Total Municipal Account

SDBIP – Service Delivery Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – The main priorities of a municipality as set out in the IDP
Budgeted spending must contribute towards achievement of these strategic objectives.

Vote – One of the main segments into which a budget is divided, usually at directorate level.

1. INTRODUCTION

The development of the 2010/2013 Medium–Term Revenue and Expenditure Framework (MTREF) has now resulted in new budget regulations which standardize the format of all budgets throughout the country. AbaQulusi continues to strive towards securing a better life for the residents of AbaQulusi. The current economic situation has impacted heavily on the municipality with many retrenched people coming back home placing strain on the municipality's limited resources. The numbers of indigent people is growing in leaps and bounds. The medium-term budget was compiled with a view to addressing key service delivery challenges focusing on the priorities to ensure that indeed the Municipality works better for all its citizens, residents and businesses.

The AbaQulusi Municipality has prepared this budget for the 2010/2011 financial year, amounting to R261.2 million increasing to R299.5 million in 2012/2013. This represents an increase of 10% over the previous year's budget and 22% over the adjusted budget and is largely due to a drive to refurbish aging infrastructure. Resources have been allocated to continue to uplift underdeveloped areas, maintain existing infrastructure and fulfill strategic priorities in the Integrated Development Plan (IDP).

The budget has been prepared in terms of new Municipal Budget and Reporting regulations. The municipality has introduced the budget in terms of these regulations. A Budget Committee has been set up in terms of the Budget Regulations which is chaired by the Mayor.

The budget recognizes that there are many exciting opportunities for AbaQulusi and its residents, and acknowledging that there are a number of serious challenges that must be addressed to increase prosperity and quality of life.

The Municipality is serious about meeting the challenges of creating an area with an enabling environment for all citizens to utilize their full potential and access opportunities which will enable them to contribute towards a vibrant and sustainable economy.

2. BUDGET PROCESS

2.1. OVERVIEW

The budget process is governed by the legislation, viz:

- Municipal Finance Management Act and Budget Regulations; and
- Municipal Systems Act

The budget process is an effective process that every local government must undertake to ensure good governance and accountability. The process outlines the current and future direction that the AbaQulusi Municipality would follow in order to meet legislative stipulations. The budget process enables the municipality to optimally involve residents and other stakeholders in the budgeting process.

The Municipality's Budget / Integrated Development Plan (IDP) review process for the 2010/2011 financial year started with the development and approval on 28 October 2009 of the "Process Plan for the Budget formulation and IDP Review".

The outcome of the process plan is an understanding and commitment by all stakeholders on the process to be followed in reviewing the IDP as well as formulating the budget.

To assist with the process, all departments were requested to present their proposed budgets to Senior Management. Regular meetings were scheduled to assist with the integration between the IDP and Service Delivery and Budget Implementation Plan (SDBIP). Meetings were held to ensure that the increase in rates and tariffs was restricted to an acceptable level. This entailed the re-

examining of certain items of expenditure and the effect of the new rating system for assessing property rates.

The Capital Budget has been dictated mainly by the projects already approved by the Municipal Infrastructure Grant, the funding of which is extremely small for the number of projects approved.

2.2. POLITICAL OVERSIGHT OF THE BUDGET PROCESS

The key to strengthening the link between priorities and spending lies in enhancing political oversight of the budget process. Section 53(1) (a) of the MFMA states, that the Mayor of a municipality must provide political guidance over the process and the priorities that must guide the preparation of the budget.

The Management team has a significant role to play in the financial planning process. Strengthening the link between Government's priorities and spending plans is not an end in itself, but the goal should be enhanced service delivery aimed at improving the quality of life for all people within the boundaries of AbaQulusi.

Budgeting is primarily about priorities and choices that the Municipality has to make in deciding how to meet the agreed set of policy objectives through better service delivery. Political oversight of the budget process allows the Municipality to manage the divergence between competing policy priorities and fiscal realities. The Management Team and the Executive Committee advise Council accordingly.

2.3. SCHEDULE OF KEY DEADLINES RELATING TO BUDGET PROCESS

The budget time schedule for the compilation of the 2010/2011 medium term budget was approved by Council on 28 October 2009, well before the start of the budget year and in compliance with the MFMA. One of the objectives of the budget timetable is to ensure integration between the development of the IDP and the budget and also to ensure that a balance budget is tabled for consideration and approval.

The following provides an extract of the key deadlines relating to the budget process.

DETAILS	DATE
Draft Operating and Capital Budgets to Exco	3 March 2010
Tabling of Annual Budget: Council	24 March 2010
Public hearings on the Budget	1 – 30 April 2010
Approval of the Final Budget	26 May 2010
Submission of the Draft SDBIP to the Mayor	23 June 2010
Submission of Approved Budget to National Treasury/DPLG	11 June 2010

2.4. PROCESS FOR CONSULTATIONS WITH EACH GROUP OF STAKEHOLDERS AND OUTCOMES

The tabling of this draft budget in Council on 24 March 2010 will be followed by extensive publication of the budget documentation in the Municipal Newsletter and the Local Newspapers. Copies of the tabled budget in both printed and electronic formats will be submitted to National Treasury as well as the KwaZulu-Natal Provincial Treasury and the Department of Cooperative Governance and Traditional Affairs (COGTA). The tabled budget will also be published on the Council's website.

In terms of the Municipal Systems Act and in conjunction with the Municipal Finance Management Act, Public hearings on both the operating and capital budgets will be held from 1 April to 30 April 2010.

3. BUDGET OVERVIEW: EXECUTIVE SUMMARY

BACKGROUND

Growth to AbaQulusi's Medium Term Revenue and Expenditure Framework (MTREF) is based on a combination of factors such as (relatively low) generic growth to core tariff-based services, operational efficiencies and revenue-related policies aimed at optimising and sustaining all income sources.

The 2010/2011 medium-term budget has to comply with the Municipal Finance Management Act (No. 56 of 2003) and is a financial plan to enable the municipality to achieve its vision and mission through the IDP which is informed by our five year program and community/stakeholder inputs.

The draft budget is the start of a journey towards the tabling of the final budget for approval. It includes many processes both politically and administratively, amongst others, consultations with communities throughout the municipal area.

The MTREF-based revenue and expenditure projections assumed inflation-linked annual adjustments of 5.7% and 6.2% and 5.9% respectively for the 3-year budget period of 2010/11, 2011/12 and 2012/13.

Further key parameters applied to AbaQulusi's financial framework included the following for the 2010/11 financial year:

Revenue / tariff increases range between 5.7% and 6% with the exception of the rates. The rate randage set for the 2009/2010 was set very low as the municipality did not know what effect this would have on the average ratepayer. Therefore, the proposed rate randage for 2010/2011 has been increased from .004c/R to .005c/R which will not impact that much on the annual rates to be paid by Residential households. The annual rates will still be lower than what was paid by ratepayers prior to the re-valuation of properties. The municipality has benchmarked with other municipalities in the area and submits the following for information:

Municipality	uMlalazi	Kwadukuza	Umgeni	Emnambithi
Proposed Rate Randage	0.0137c/R	0.01274c/R	0.0212c/R	0.0117

Rates 25%

Electricity 19%

Water 6%

Sanitation 6%

Solid Waste 6%

Salaries adjustments 8%

The increase in the overall salary bill is 18% from 2009/2010 to 2010/2011, which includes new employees and vacancies to be filled. The total salary bill including Councillors is 39% of the total budget. This figure will have to be controlled as it is above the 35% threshold.

General Expenses	20.7% over last year
Bulk Purchases	44% including Eskom increase of 29.8% plus expansion of the supply
Repairs & Maintenance	11%

Total revenue for the 2010/11 financial year amounts to R261.2 million, which represents an increase of 10% over 2009/10.

The adoption of the 2010/2011 medium-term budget for the AbaQulusi Municipality will lay the foundation by which strategic functions within the municipality can apply sound financial planning and management over the medium to long term. It will facilitate the critical alignment of planning, budgeting and sustainable service delivery in line with AbaQulusi's vision of being a place where people enjoy the most improved quality of life.

3.1. PAST AND CURRENT PERFORMANCE, ACHIEVEMENTS AND CHALLENGES

The challenges to improve the quality of the lives of our people has been immense but has also resulted in milestones being achieved for AbaQulusi and its people. We have been able to overcome obstacles and that, has characterized our success as a Municipality. During this term, we are proud to say that we have streamlined our strategy so that people's needs were translated into plans for delivery.

During the past few years we have tried to fast track the provision of basic services to the previously disadvantaged communities. As part of institutional transformation and in an endeavour to build an efficient administration, we are constantly reviewing service delivery mechanisms in relation to basic services in order to ensure improved service delivery.

The Municipality kept its winning ways throughout 2009, with the following achievements:

- Obtaining an Unqualified Audit Report
- "Most Improved Municipality" by SAFA Zululand for supporting and Promoting football amongst local communities
- One of the local municipalities represented at SALGA-KZN games
- Successfully ran Mr and Miss AbaQulusi Competition
- Promoted Sport and Youth Development through Sport
- Overall winner of Umbele wethu Cultural Activities
- Two youths were selected to play for AmaZulu

Our service delivery achievements include the following:

- Provision of Free Basic Electricity to approximately 3200 households and to 5000 Eskom households
- Upgrade of the Western Sewer, which will be completed by the end of June 2010
- Supplied water to rural communities who did not have water through Project Consolidate
- Supplied electricity to the people of Bhekumthetho – Phase 2, balance of houses at Bhekuzulu Phase 6B Housing project and Vrede/Cliffdale
- Commenced with rural roads project
- Commenced with eMondlo Roads project
- Completion of the Bhekuzulu Phase 6B Housing project

Like many South African municipalities we face considerable infrastructure challenges, arising from aging existing infrastructure as well as housing backlogs, population growth and economic growth and development. Many of the citizens of AbaQulusi live in rural areas, which create many challenges in providing basic services such as access roads and bridges, in additions to basic services such as water and electricity. In general, these challenges are far beyond the capacity to

finance on our own. One of the major challenges is the creation of employment and in doing so prevent the migration of people to the cities.

Crime remains one of the biggest challenges and we need to ensure that we create partnerships to deal with this scourge once and for all. Although progress has been made with the reduction in the numbers of HIV/AIDS infections and other illnesses, it still remains a specific challenge requiring us all to get involved to create a better life for all.

The municipality needs to ensure that we continue to lead the way in the Zululand District. A great deal has been achieved, but much is still left to be done. There were a few targets that were lagging, and more effort will be put into making sure that the factors hindering their achievement are removed. We strive to deliver services efficiently, effectively and economically as a Municipality. These are never easy tasks as our needs are great.

3.2 ALIGNMENT WITH NATIONAL AND PROVINCIAL PRIORITIES

Successful alignment of the municipality's service delivery priorities as embodied in the IDP and its focus areas, objectives and perspectives to that of National and Provincial Government is seen as critical if we are to achieve our developmental goals and to ensure maximum impact. The municipality is confident that this budget is structured to give effect to the strategic priorities and to support long term sustained growth and development in line with National and Provincial objectives.

The following five principles are part of National Government's framework to enhance the social, cultural and economic welfare of all South Africans:

- Improving the quality of basic education
- Enhancing the health of our people
- Making our communities safer
- Fostering rural development
- Creating jobs; and
- Investing in local government and human settlements.

In carrying out these principles the municipality needs to take the following into consideration:

- Increased spending on infrastructure
- Fiscal measures to support investments and poverty relief
- Initiatives to promote more efficient use of energy and water resources
- Strong growth in public spending is sustained to support long term growth and social development
- Enhancing the quality of education and skills development.
- Improving the provision of health care, with particular emphasis on reducing infant, child and maternal mortality rates, and broadening prevention and treatment programmes tackling HIV and Aids and tuberculosis (TB).
- Investing in the criminal justice sector to reduce crime levels and enhance public safety.
- Expanding investment in the built environment to improve public transport and meet universal access targets in electricity, water, sanitation and housing.
- Decreasing rural poverty by taking steps to raise rural incomes and improve livelihoods by enhancing access to land and providing support for emerging farmers.

The vision of the Provincial Government for 2010/2011 is:

“Build a better future together”

Key Priorities of the 2010/2011 Provincial Budget:

- Rural development/Agrarian Reform and Food Security
- Creating decent work and economic growth

- Fighting crime
- Education
- Health
- Nation building and Good Governance

The priorities have been analysed and grouped into twelve outcomes that are the basis of the Programme of Action of government, aligned at National and Provincial level:

- Quality basic education
- A long and healthy life for all South Africans
- All people in South Africa are and feel safe
- Decent employment through inclusive economic growth
- Skilled and capable workforce to support an inclusive growth path
- An efficient, competitive and responsive economic infrastructure network
- Vibrant, equitable, sustainable rural communities contributing towards food security for all
- Sustainable human settlements and improved quality of household life
- Responsive, accountable, effective and efficient local government system
- Protect and enhance our environmental assets and natural resources
- Create a better South Africa, better Africa and a better world
- An efficient, effective and development oriented public service and an empowered fair and inclusive citizenship

Local priorities were identified which are mainly in line with the abovementioned national and provincial priorities.

LOCAL PRIORITIES

- To build a functionally efficient and local government structure
- To maintain financial stability and sustainability
- To create an integrated and efficient spatial structure
- To promote equitable access to infrastructure and basic services
- To improve the standard of living for the entire community of AbaQulusi municipality
- To facilitate economic development and growth

3.3 POLITICAL PRIORITIES AND LINKAGES TO THE IDP

All operating and capital programmes for 2010/2011 medium term budget have been evaluated through a prioritization mechanism that was developed to ensure that there is alignment to the developmental strategy for the municipality.

The IDP formed the basis of the priorities identified in the strategic plan and all resources are focused on the achievement of the priorities.

3.4 KEY EXTERNAL SOCIO ECONOMIC FACTORS AND OTHER ASSUMPTIONS

The AbaQulusi Municipality competes in a global business environment for investments to ensure economic growth against other towns and areas and for tourism spending, as both spur job creation. The past low inflation and interest rates contributed to the municipality's ability to increase the capital program. Further growth will be limited in the next few years as upward pressure is experienced in the cost of service delivery and the increases in interest rates and inflation rate.

Factors that the Municipality has minimal control over and that impact the most on the cost of the municipality relate to increases in the procurement of bulk services and remuneration.

Another major challenge is the migration of people to the cities and bigger towns from within the borders of AbaQulusi in their endeavour to find business and job opportunities. This puts further pressure on the available resources of the municipality and will have to be managed in a sustainable manner.

A further challenge in the next few years will be the need for each and every citizen to conserve the use of both electricity and water, now both scarce resources.

The downturn in the global economy and the global effects of recession in many countries has had an impact on South Africa in the current financial year and will continue to affect us in the next financial year. Job losses have impacted on not only the cities but also on the local economy as people return to their homes in order to try and find employment.

3.5 SERVICE DELIVERY STANDARDS, LEVELS OF SERVICES, OUTCOMES, TIMETABLE FOR ACHIEVEMENT AND FINANCIAL IMPLICATIONS

According to studies undertaken, much of South Africa’s future growth and development will probably depend on well-functioning municipality’s which is home to a rapidly increasing proportion of poor households and housing and infrastructure backlogs are increasing.

The following table is a summary of the current backlogs of the Municipality together with the timeframes for addressing same:

Basic Service	Existing backlogs (households) / R	Timeframes to address based on current funding levels
Housing*	9833	10 years
Water#	50%	ZDM Responsibility as Water Service Authority
Electricity	19653	10 years
Sanitation	Backlogs in Louwsburg and informal sectors e.g. rural	+5 years
Solid Waste	Backlogs in rural areas only	Unknown
	R	
Storm water	370 million	15 years
Roads	500 million	5 years
Sidewalks, pedestrian bridges & footpaths	100 million	10 years

- *Ideally the municipality would like to deliver 1500 units per annum to deal with the housing backlog. However, due the yearly limitations on housing subsidies, it is unable to do so.*
- # *Extension of infrastructure in respect of housing developments and informal areas to be fast-tracked.*

3.6 FREE AND SUBSIDISED BASIC SERVICES

South African municipalities are charged with a special developmental responsibility in respect of service delivery to the urban poor. For municipalities, this takes the form of seeing to the provision of subsidized or free services, and also housing provision, to poor households.

The basic social package is an affirmation of the Municipality's commitment to push back the frontiers of poverty by providing social welfare to those residents who cannot afford to pay, because of adverse social and economic realities. The social package will also assist the municipality in meeting its constitutional obligations. However, in order for us to continue to deliver these services in a financially sustainable manner, all residents will have to pay for services over and above the free basic services provided.

The estimated cost of the social package (i.e. income foregone) amounts to R12, 943,500 for the 2010/2011 budget year. It should be noted that the level of zero rating properties remains at R 80,000.

The social package has been increased from R10, 363,900 to R12, 943,500

Details of initiatives carried out by the Council in this regard are detailed below.

SERVICE	SOCIAL PACKAGE	APPROX. COST R
Assessment Rates	All Residential property owners are exempt from paying rates of the first R15,000 of their property value All Properties owned by Indigents valued at R 80 000 or less are exempt from paying any rates.	3,000,000
Water	The first 6kl of water is free to all indigents. Households with property values at R80 000 or less do not pay the fixed charge for water.	1,125,500
Electricity	The first 50kwh of electricity is free to all indigents. (Qualifying households will have to make application for this concession) The package has been extended to the Eskom areas which covers 5000 households	4,000,000
Refuse Removal	All indigent consumers will not pay for refuse removal	2,800,000
Sanitation	All indigent consumers will not pay for sanitation	2,018,000
Total		12,943,500

3.7. CONSULTATIVE PROCESS – OUTCOMES

Since 2000, the Municipality has ensured that there is greater public participation in the budgeting process and communities are informed timeously about road shows that we embark on. The tabling of this Budget in Council on 24 March 2010 will be followed by extensive publication of the budget documentation and various public participation and community consultative meetings will be held to receive submissions from stakeholders.

Section 23(2) of the MFMA stipulates that, “after considering all budget submissions, the Council must give the Mayor an opportunity-

- a) to respond to the submissions, and
- b) if necessary, to revise the budget and table amendments for consideration by the Council”

3.8. LEVELS OF RATES, SERVICE CHARGES AND OTHER FEES AND CHARGES

In order to remain financially viable and sustainable, sufficient resources must be generated. As limited scope exists to generate alternative revenue, it is necessary to increase rates and tariffs. The determining of tariffs is the responsibility of Council, as per the provision of the Local Government Systems Act. Affordability is an important factor when considering any rates and tariff increases. Tariff setting plays a major role in ensuring desired levels of revenue by assisting in the compilation of a credible and balanced budget to accommodate the acceleration of basic services. There has to be alignment between the resources of municipalities, level of services and customer expectations.

RATES

The levying of rates in terms of the Municipal Property Rates Act has had an impact on the rates individual property owners have paid. Over 600 objections to the new values were received which impacted on the revenue for the 2009/2010 financial year. The fact that all first time ratepayers only paid 25% of the rates bill also had a dramatic effect on revenue collection

Revenue neutrally has been maintained using existing income per category of property as a base to calculate the rate randage for the new year. The rating of property based on market value has resulted in a minimal shift in incidence between different categories of property. State property is now rated in accordance with usage resulting in a shift incidence to other property categories, particularly business, commercial, as well as vacant land.

ANALYSIS OF VALUATION ROLL

Residential Property

- Total number of properties is 13033
- In terms of new market values :
 - 14.6% of residential properties are valued at under R 80 000 and will pay no rates.
 - 15.7% of residential properties are first time rated
 - No rates payable in respect of properties valued at R 80 000 or less for indigents, pensioners, disability grantees.

Business, Commercial and Industrial including vacant land

- Total number of properties 956

Agricultural Properties

- Total number of properties is 1464
- Rates phased in over four(4) years

WATER AND ELECTRICITY

The proposed electricity tariffs reflect an increase of 19%. Municipalities are to be charged the 29.8% on bulk purchases. Further, the municipality will have to implement a stepped tariff based on consumption. However, the basic charge will reduce from R87.29 to R32.34 per month. The above average increases will continue in the medium term.

The 6% increase in water tariffs for the 2010/2011 year is in line with the average increases country wide. The municipality still does not receive any grant funding from the Zululand District Municipality for capital or refurbishment of infrastructure.

The Zululand District Municipality is the Water Services Authority and AbaQulusi Municipality is the Water Services Provider for urban areas only. However, it must be noted that the municipality provides water to many rural areas by way of tanker services to fill “jo-jo” tanks.

The municipality, together with ZDM, has embarked on the Blue/Green Drop Assessment for water quality. As yet the performance rating has not been finalised for the Zululand District area.

SANITATION

The 6% increase is in line with the national average. The municipality does not receive any grant funding for sanitation from Zululand District Municipality.

REFUSE

Although it is necessary to increase this tariff by 15% to try and bring this service to a point where it breaks even, the municipality has decided on an increase of only 6%, the shortfall on the service having to come from rates. The annual increase in the external contracts together with high cost of street cleaning contributes to the annual shortfall in Refuse Removal. It is currently impacting on the Rates and General Services budget.

GENERAL

The following are other general contributory factors for the increase in levels of rates and service charges:

- Salary increase of 8% together with the 2.5% allowance awarded in 2009/2010 which now becomes pensionable.
- The municipality will be faced with bringing salary levels into parity once the job evaluation process is complete together with back pay for nine (9) months. This value is as yet an unquantifiable figure
- Provision for the filling of vacancies, many of which were filled during 2009/2010
- Provision of basic services
- Increased maintenance of network and structures

The tariffs and charges for the 2010/2011 year are reflected on a separate document for approval together with the budget.

3.9. FISCAL STRATEGY, FINANCIAL POSITION, ONGOING VIABILITY AND SUSTAINABILITY

AbaQulusi and formerly Vryheid have demonstrated strong and prudent financial management over many years. This is widely acknowledged. The formation of AbaQulusi in 2000, however, brought with it, new challenges, especially in terms of financial and social issues. AbaQulusi can continue to grow and maintain a sustainable competitive advantage through carefully crafted strategies that will lead us into a financial status of long-term sustainability

AbaQulusi's financial strategy to ensure the availability of funds to cover all operating and capital requirements and the long term sustainability of the organisation include amongst others:

- Review of the tariff policy and all user charges and fees to ensure annual price increases are guided by inflation
- Ensuring that all grants available from national and provincial governments are accessed
- Returns on investments of surplus funds are benchmarked to ensure that optimum returns are generated
- Implementation of a Performance Management System resulting in productivity improvements
- Review and enhancement of the credit control policy

With regard to the optimization of returns, optimal use is made of the annual cash flow forecast, together with the investment plan to determine the amount and the duration of the investment. Accordingly, in a rising interest rate market investments are kept as short as possible to take advantage of the higher interest rates to maximize investment returns and conversely, in a falling interest rate market investments will be placed as long as possible to maximize investment returns.

The municipality is in the process of implementing a financial model which will provide a single unified solution to manage the critical financial and operational planning, budgeting, forecasting, reporting and other analytical requirements required in terms of legislation.

3.10 BUDGET SUMMARY

3.10.1 BUDGET HIGHLIGHTS

The following are SELECTED items from Departmental Operating Budgets:

PROJECT / ITEM	R'm
Provision of Free Basic Electricity : Indigent customers incl. Eskom	4.0
Provision of Free Basic Water : Indigent Customers	1.1
Cleansing and Solid Waste Service	2.8
Rehabilitation and maintenance of Landfill site	2.0
Disaster Management	0,2
Special Community events	1,2
Provision of Free Basic Sanitation	2,0
Repairs and maintenance:*	
- Water : (ageing infrastructure) increases to:	2,1
- Electricity: Network and infrastructure maintenance increases to	10,0
- Roads : Maintenance increases to	8,3

***Overall repairs and maintenance amounts to R28 million for the year, which represents 11% of the total budget.**

CAPITAL PROGRAM HIGHLIGHTS AND ELIMINATION OF BACKLOGS

Ensuring that communities remain sustainable is becoming one of the greatest challenges for the municipality. It is clear that sufficient resources are not available to eliminate all backlogs at current service levels.

Without additional sources of revenue, the municipality has to consider alternative options. Various alternative funding options are being considered for inclusion in the Long Term Financial Strategy.

The projected capital expenditure budget for the 2010/2011 MTREF period is R39,003,000, (2009/2010 – R 88,976,000), which included housing projects not yet approved and money allocated to Eskom)

The following are some of the MAJOR Capital Investments, which have been included in the Medium Term Capital Budget:

PROJECT / ITEM	R'm
Electricity Infrastructure for the next three years	24.0
Upgrade of roads, both urban and rural for the next three years	72.0

IMPACT OF CAPITAL BUDGET ON OPERATING BUDGET

During the prioritisation process of the capital budget, the impact of capital projects on future operating budgets is assessed and considered prior to these projects being approved.

The following main operating cost components are considered:

- Additional staff costs
- Additional contracted services e.g. refuse removal, landfill site, fire services
- Cost of maintenance of assets
- Depreciation costs (non cash)

Projects may also result in revenue generation e.g. which is offset against costs to determine real impact on the operating budget.

3.10.2 KEY ISSUES

OPERATING BUDGET:

Salaries and Allowances

This expenditure is continually being reviewed and as a result the percentage Salaries and Allowances of the total Operating Budget has increased steadily over the years due to the increase in the overall numbers of staff. However, year on year (2009/10 – 2010/2011), the employee related costs reflect an increase of 18% which is mainly attributable to the provision for a salary increase of 8% coupled with the provision of certain vacancies, together with the 2.5% Allowance which becomes pensionable from 1 July 2010. Provision has ***not*** been made in the budget for the review and revision of grades, the full impact of which can only be determined once the grading process and the job evaluation have been completed. It must be noted that arising out of the recent strike action by municipal workers an agreement has been signed whereby all municipalities will have to pay employees nine (9) months back pay once the evaluation process has been completed. However, the municipality will continue to look at new ways of doing business, improving

productivity, implementing Business Process Re-engineering (BPR) and undertaking restructuring initiatives in order to bring this expenditure to an acceptable level.

Councillor Allowances

An increase of 8% has been provided for Councillor Allowances.

Ward Committee “Out-of pocket” Expenses

Provision has been made for a new requirement whereby all municipalities must provide for the “out-of-pocket” expenses for Ward Committee members in the amount of R2, 400,000. However a decision has been made to limit this expenditure to R1, 000,000 and rather make provision for travelling and subsistence for Ward Committee members

Unfunded Mandates

In addition to the core functions that the AbaQulusi Municipality has to carry out in terms of the Constitution, other non-core functions and services are being provided, which in terms of the Constitution fall under the responsibility of National or Provincial Authorities. These functions include the provision of Health Services, Libraries, Museums, Housing and Pounds

The reduction or non – payment of subsidies for these services require the municipality to allocate its own resources to make up the shortfall.

These unfunded mandates are as follows:

	R
Libraries	2,505,050
Health	778,060
Museums	437,640
Housing	908,150

The health function has still not been finalised and the municipality has been requested to enter into an agreement whereby the municipality would be able to obtain a subsidy for the provision of health services. The municipality has over the past two years submitted claims for Health Services, which to date remain unpaid, which results in an additional burden on the ratepayers and consumers of AbaQulusi.

ITEM / DESCRIPTION	R'm
TRADING AND OTHER SERVICES	
ELECTRICITY	
Cost of electricity purchases from Eskom including a 29.8% tariff increase	65.6
Repairs and maintenance to the electricity network and planned maintenance	10.0
WATER	
Repairs and maintenance of ageing infrastructure and expansion of water service to rural areas	2.1
HOUSING	
Transfer of housing units to owners in Bhekuzulu and eMondlo	0.6
SOLID WASTE DISPOSAL	
Introduction of waste recycling programs in terms of legislation together with the development of "buy back" centres to reduce disposal of waste at landfill site	0.5
Provision of new services in respect of new developments	2.0
ENGINEERING	
Maintenance of road networks and storm water infrastructure	8.3
HEALTH, SAFETY AND SOCIAL SERVICES PARKS, LEISURE AND CEMETERIES	
Maintenance of Halls and Grounds	1.5
Maintenance of Cemeteries	0.5
Verge Maintenance and parks	5.1
SPORT AND RECREATION	
Mayoral Cup	0.4
SALGA games	0.1
Other Sports, Recreation and Cultural events	0.7
SAFETY AND SECURITY	
Fire services	1.0
GOVERNANCE	
COMMUNICATIONS	
Publication and distribution of Council's newspaper	0.2
Advertising: Staff vacancies and Statutory advertising	0.45
COMMUNITY PARTICIPATION	
Ward Committees "Out-of pocket Expenses"	1.0

COUNCIL

Special Events hosted by the Mayor as follows:

0.75

Back to School Campaign	R	50,000.00
ID Campaign	R	100,000.00
Best Performing Schools/Student	R	50,000.00
Workers Day	R	50,000.00
Human Rights Day	R	50,000.00
Freedom Day	R	50,000.00
Childrens Day/Orphanage Christmas Function	R	100,000.00
Prince Imperial Day	R	50,000.00
AmaKhosi Project	R	100,000.00
Community Meetings/Poverty Alleviation	R	50,000.00
Day for the Aged	R	100,000.00
	R	<u>750,000.00</u>

CORPORATE SERVICES AND HUMAN RESOURCES

CORPORATE SERVICES

Providing legal and administration functions

8.1

INFORMATION TECHNOLOGY

Provision of Information Technology Services to the municipality

2.4

SKILLS DEVELOPMENT

Training

0.7

In service Trainees and bursaries

0.3

On the job training

0.3

OCCUPATIONAL HEALTH

Management of HIV/Aids in the workplace

0.1

Staff wellness programme

0.1

TOURISM

May Fair and Other Tourism Projects

0.1

4. ALIGNMENT OF BUDGET WITH INTEGRATED DEVELOPMENT PLAN

4.1 VISION OF THE MUNICIPALITY

The vision is guided by the constitutional imperatives, which generally require all local governments' structures to be developmental in nature, and continuously strive to empower their communities socially and economically.

4.2 MISSION

AbaQulusi Municipality commits to the following:

- **Creating an environment conducive to economic development and growth.**
- **Becoming the focus area for the Zulu-cultural tourism.**
- **Making AbaQulusi area a safe and vibrant place to live and work in.**
- **Improved service delivery.**
- **Good governance.**

4.3 STRATEGIC FOCUS AREAS

A Long Term Development Framework (LTDF) needs to clearly map out the strategic vision for the AbaQulusi Municipality over the next ten to twenty years. In an effort to achieve a 2020 vision, the LTDF should present the outline of the following set of complex development priorities facing the area that needs to be addressed both in the shorter and longer term:

- Low economic growth and unemployment
- Poor access to basic household services
- High levels of poverty
- Low levels of literacy and skills development
- The issue of HIV / AIDS and other diseases
- Exposure to unacceptably high level of crime and risk
- Unsustainable development practices
- Ineffective, inefficient, inward looking local government

“To make the people of AbaQulusi enjoy the most improved quality of life and community-driven services by 2020”

The essence of a LTDF is to achieve a balance between meeting basic needs, strengthening the economy and developing people skills and a technology base for the future. In an effort to achieve a 2020 vision, Strategic Focus Areas of intervention for the next five years need to be balanced and integrated. Given the strategic framework that is to be outlined it is clear that the area's budget must be a pro-growth budget that meets basic needs and builds on existing skills and technology.

The IDP outlines SIX PLANS, which responds to the municipality's vision and values, thereby directing strategic focus areas, key programmes and strategic projects that are linked to the Council's capital and operating budget. In this way we have perfect alignment of the IDP and the budget:

The six plans are:

- Organisational and institutional transformation
- Infrastructure Development(Service Delivery)
- Financial Stability
- Social Development
- Democracy and Governance
- Economic development

The delivery of these plans should ensure that the people of AbaQulusi are able to:

- Live in harmony
- Be proud of the area
- Feel protected
- Feel that the basic needs are being met

4.4 MUNICIPAL VALUES

The Municipality has seven values that need to be considered when planning to take action in response to the vision. The seven values are:

- Participatory Democracy
- Transparency
- Integrity
- Equity
- Economy
- Efficiency
- Effectiveness

4.5 IDP OVERVIEW AND KEY AMENDMENTS

The IDP, as a legislative requirement, is a five year plan whose principle purpose is to ensure the development of the local community in an integrated manner which involves strategic business units within the Municipality, relevant strategic stakeholders and the community.

In the annual review for the 2009/10 year, the Six Point Plan of action has been retained as this will continue to guide the municipality, but has once again refined and refocused our strategic programmes, so as to respond more effectively to key challenges.

4.6 LINK BETWEEN IDP AND NATIONAL / PROVINCIAL PRIORITIES

One of the objectives of the IDP is to align resources and expenditure with community needs. The municipality could be compared to a conductor, which orchestrates public and private investment and programmes towards building a successful municipal area and creating a better life for all its citizens. To fulfill this role, the municipality needs to align itself with National and Provincial directives and draw these down into the spectrum of service delivery.

The municipality's developmental plan needs to align with national and provincial initiatives to ensure optimal impact from the combined effects of government. In assessing National Government's Priorities "to develop social, cultural and economic welfare of all South Africans" we are pleased to note that ALL the priorities that more directly affect local government are being addressed by our Six Point Plan.

4.7 IDP REVIEW PROCESS AND STAKEHOLDER PARTICIPATION

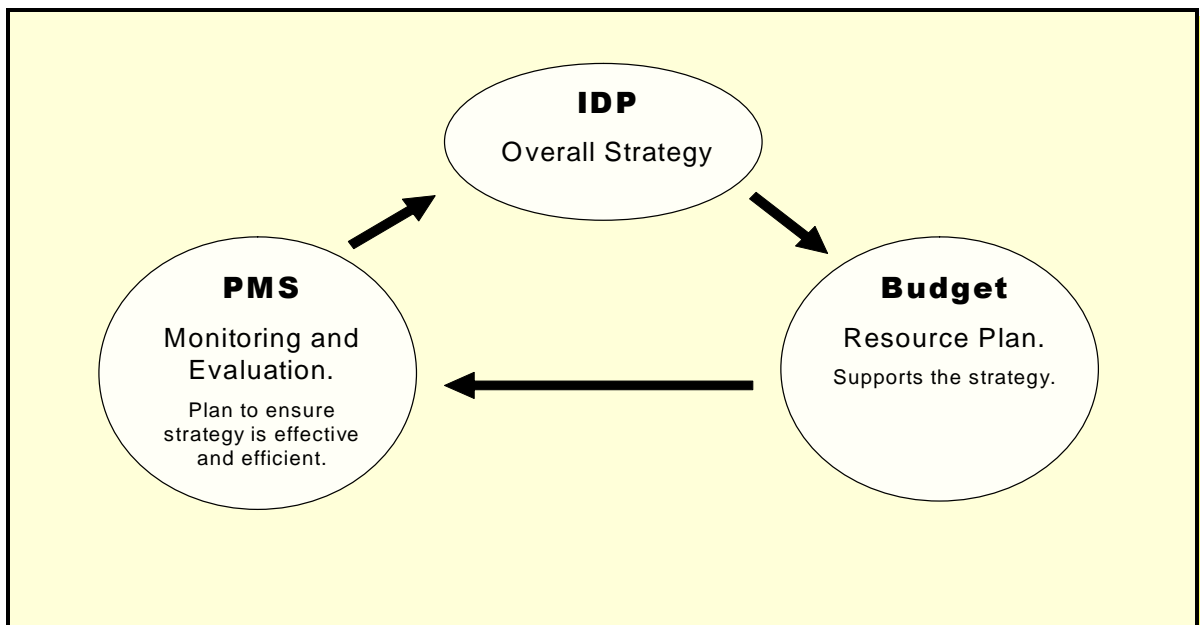
As set out in the Municipal Systems Act (2000), in the review of the IDP on an annual basis, a stakeholder consultation process is necessary. Of critical importance is for the Municipality to ensure that there is thorough consultation with the community and strategic stakeholders. As part of the Annual Review of the municipality's IDP as prescribed by the Municipal Systems Act, the Council embarked on an extensive process to engage with stakeholders and elicit comments which are to be fed into the 2010/2011 reviewed IDP.

As is the case every year, once the draft IDP is completed, the following mechanisms are used to ensure effective participation and consultation of the plan:

- The draft IDP will be placed on the Council website for perusal and comment
- Every Council library and Municipal Office will have copies for comment
- The document will be summarised and will be carried in our local newspaper and municipal newsletter
- Local media will be informed of the IDP review and it will publicise the need for civil society organisations to comment on the document.

The reviewed IDP 2006/07 to 2010/2011 for the 2010/2011 year will be submitted to Council at its meeting on 25 May 2010.

4.8 LINK BETWEEN THE IDP AND THE BUDGET



In compliance with the Municipal Structures Act (1998) and Municipal Financial Management Act (2003), our municipal budget is informed and aligned to the IDP objectives. The IDP determines and prioritises the needs of the community.

The budgetary allocations for both the capital and operating expenditure are undertaken in a manner that will not only ensure that our IDP outcomes are achieved but also to ensure that our town's vision is realized.

More importantly, the Performance Management System (PMS) will allow the municipality an opportunity to monitor and evaluate individual and organisational performance in meeting our IDP outcomes and vision. However, until the job evaluation and task grading is completed the PMS cannot be cascaded down to all levels of staff.

5. BUDGET RELATED POLICIES: OVERVIEW AND AMENDMENTS

Over the years, the functions that local authorities have been expected to perform have increased according to the needs of the community. Unfortunately there has been no proportionate expansion in the income sources available to local authorities in order to serve the community and render the services needed.

Municipalities must table a balanced and credible budget, based on realistic estimates of revenue that are consistent with their budgetary resources and collection experience. The needs of the residents and communities have to be met within the financial capacity of its own and resource constraints of the municipality.

The following budget related policies have to be approved by council, or have to be reviewed /amended and / or are currently being reviewed / amended in line with National Guidelines and other legislation. These policies have been designed to keep the municipality in a fiscally sound position in the short and long term.

5.1 CREDIT CONTROL AND DEBT COLLECTION POLICY

There is no amendment of the Credit Control and Debt Collection policy.

5.2 ASSESSMENT RATES POLICY

Section 3(1) of the Local Government Municipal Property Rates Act, 2004 (Act 6 of 2004) and section 62 (1) (f) of the MFMA determines that a municipality must adopt and implement a rates policy on the levying of rates on rateable properties.

Section 5 of the Local Government Property Rates Act, 2004 requires that municipalities review its policy and if necessary amend it.

The main body of contents of the present rates policy has been retained with some amendments which were made following practical experience with the application thereof.

This policy requires to be amended as follows:

- a. Changes to definitions
- b. New definitions
- c. Additions to categories

DEFINITIONS

Agricultural property (in agreement with organised agriculture)

“Property that is used for the production of crops, livestock or other generally recognized agricultural activities, together with those buildings which are also generally considered necessary for these agricultural activities. Agricultural property excludes the use of a property for the purpose of eco-tourism or for the trading in or hunting of game as defined in the Act as “agricultural purpose.”

Communal Property

*“communal property” means a single cadastral holding inside or outside of a township used for communal purposes, irrespective of the registered owner. This includes land owned by the State in trust for persons communally inhabiting the land in terms of traditional system of land tenure, land over which land tenure rights are registered or granted land which is earmarked for disposal in terms of the Restitution of Land Rights Act, 1994 or property which is used communally. Communal property must have more than a specified number of residents/non residential top structures, occupied **by unrelated occupants** for it to be considered communal by use. Such land includes State Trust Land and property belonging to the Ingonyama Trust Board.*

Specified public benefit activity

“specified public benefit activity” means an activity listed in item 1 (welfare and humanitarian), item 2 (health care) and item 4 (education and development) of Part 1 of the Ninth Schedule to the Income Tax Act;

Special non-market properties

“specialized non-market properties” including national monuments, schools (both state and private, crèches), cemeteries/crematorium, libraries, sports clubs including stadiums, public open spaces including parks, vacant land to be used for these purposes.

PART 8 CATEGORIES OF RATEABLE PROPERTY

8.2 to be amended with the addition of

Hospitality industry

Means all properties identified in the definition

Vacant land

Means all properties identified in the definition

The applicable assessment rate tariffs are reflected in the Draft Resolutions to Council on the budget.

5.3 TARIFF POLICY

In terms of S74 (1) of the Municipal Systems Act, the Council must adopt a tariff policy on 28 May 2009. The objective of the policy which is consistently applied to all tariffs is to ensure that:

- The tariffs of the Municipality comply with the legislation prevailing at the time of implementation
- The municipal services are financially sustainable, affordable, and equitable
- The needs of the indigent, aged and physically challenged are taken into consideration

The policy is drawn in line with the principles as outlined in the Municipal Systems Act.

5.4 WATER POLICY

A water policy must be developed for Council which must provide for amongst others: water tariffs, water connection charges, accounts and arrears, disconnections and illegal connections. The Council's tariffs are affected by the following factors:

- Bulk purchase cost
- Unaccounted for Water
- Debtors collection rate
- Cost of Free Basic Water

5.5 SUPPLY CHAIN MANAGEMENT POLICY

The current policy, which was approved by Council in June 2006, and amended on 28 March 2008 reflects and represents the context of a specific government policy that finds expressions within the provisions of the Municipal Finance Management Act of 2003.

The principal objectives of the policy are to provide, promote, and implement theoretical guidelines, governing processes and procedures within the supply chain management.

5.6 INVESTMENT / BORROWING POLICIES

A Cash and Investment policy and guidelines as required by the Municipal Finance Management Act and in conformity with the Municipal Cash Management Regulations was adopted by Council on 29 May 2008. The Municipality has also prepared a borrowing policy which is included in this policy in compliance with the Municipal Finance Management Act.

5.7 VIREMENTS POLICY

This is a new policy which is necessary in order that the departments may better control their vote allocations. Policy attached.

5.8 ADJUSTMENT BUDGET PROCESS

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 compliance with Section 28 of the MFMA, procedures were formulated with regards to the transfer of funds and the adjustment budget reporting.

6. FINANCIAL STRATEGY

Financial sustainability and viability remain the key principles in the financial planning process and, to ensure compliance with the Municipal Finance Management Act; a Financial Strategy for the municipality must be developed during the year and adopted by Council.

The purpose of a Financial Strategy is to provide measures to ensure the generation of adequate cash resources on a sustainable basis to:

- Provide basic infrastructure and services to the community
- Enable the Municipality to achieve its vision of a high quality of life for all citizens in the area
- Create an environment for business growth and investments conducive to economic development, and
- Ensure financial sustainability of the municipality into the future

The implementation of this strategy will contribute considerably towards ensuring financial viability and sustainability of the organisation into the future.

A review of these strategies at least once per annum prior to finalising the budget is essential to take cognisance of changing circumstances and the needs of all stakeholders in the municipality.

7. BUDGET ASSUMPTIONS

7.1 GENERAL INFLATION OUTLOOKS AND ITS IMPACT ON THE MUNICIPAL ACTIVITIES

Real GDP is expected to be 1.9 per cent lower this year than in 2009, and growth of 1.5 per cent is projected for 2010, rising to 2.3 per cent in 2011 and 3.6 per cent in 2012;

- Exports and imports have both declined by about 20 per cent in volume terms this year, reflecting the sharp downturn in world trade. We expect a recovery in trade of about 4 per cent next year, accelerating moderately in subsequent years;
- Gross fixed capital formation is expected to average 6 per cent growth over the period ahead, supported by continued public sector infrastructure spending and a recovery in private investment.

There is considerable uncertainty in these numbers – a faster global recovery could improve prospects for next year. But South Africa's recovery lags behind global trends to some extent, mainly because households carry a substantial overhang of debt, which holds back more robust consumption expenditure.

For the last two years, consumer price inflation has exceeded the target range of 3 to 6 per cent. We expect CPI inflation to average 6.2 per cent next year and 5.9 per cent in 2012.

The South African economy has expanded continuously since September 1999, with the pace of growth slowing slightly in 2001 and 2002, and since 2003 we have grown by an average of 5 per cent a year. Housing, Water, Sanitation and Electrification have been extended to millions of South Africans. The world recession and the sudden slow down in the local economy will have a negative impact on growth and has resulted in job losses and rising unemployment. Growth is expected to slow to 1.2%.

In the period ahead the pace of economic growth will have to be stimulated. The recession has impacted on the economy and with the uncertainty the course ahead will be tougher.

7.2 KEY FINANCIAL PARAMETERS

Budget assumptions/parameters are determined in advance of the budget process to allow budgets to be constructed to support the achievement of the longer-term financial and strategic targets.

The municipal fiscal environment is influenced by a variety of macro economic control measures. National Treasury determines the ceiling of year-on-year increases in the total operating budget, whilst the National Electricity Regulator of South Africa (NERSA) regulates electricity tariff

increases. Various government departments also affect municipal service delivery through the level of grants and subsidies.

Key budget parameters used in developing the operating budget are:

Description	2010/2011	2011/12	2012/13
	%	%	%
Inflation Rates - CPIX	5.8	5.3	4.7
Macro utilised	5.7	6.2	5.9
Remuneration Increase	8.0	7.5	7.5
Telephones	5.7	6.2	5.9
Fuel and Oil	5.7	6.2	5.9
Postage	5.7	6.2	5.9
Printing & Stationery	5.7	6.2	5.9

7.3. INTEREST RATES FOR BORROWING AND INVESTMENT OF FUNDS

One long-term loan were raised during 2008/2009 financial year with the Development Bank of South Africa for the implementation of the Municipal Property Rates Act in the amount of R1,8 million. It is hoped that the municipality will be in a position to redeem the loan within a shorter period than the required four year which will save the municipality some of the interest payable.

<u>EXTERNAL LOANS</u>	AMOUNT	FIXED INTEREST RATE	REPAYMENT TERMS	SECURITY GIVEN
1. Development Bank of South Africa	R1.8.M	6.5%	4 years	No

The Municipality is in an enviable position that with its sound financial profile and prudent policies, it will be in a position to borrow long term loans for much needed service delivery projects at exceptionally favourable rates.

Investments made with the various financial institutions are strictly in compliance with Municipal Finance Management Act and the Investment Regulations.

The investment returns achieved are as follows:

	<u>30 June 2009</u>
	%
Average rate of return on investments	15.10

The Municipality by its prudent investment policies, has been in a position to generate above market related returns on its investments, ensuring at all times the safety of capital with the lowest possible risk.

7.4 TIMING OF REVENUE COLLECTION

The Municipality bills its consumers monthly in respect of its services in the form of a

consolidated bill. All annual residential and commercial ratepayers have been converted to monthly ratepayers, with the exception of government properties.

7.5 GROWTH IN TAX BASE OF THE MUNICIPALITY

Debtor's revenue is assumed to increase at a rate, which is a combined factor, influenced by the consumer debtors' collection rate, tariff/rate pricing, and real growth rate of the area.

7.6 COLLECTION RATES FOR EACH REVENUE SOURCE AND CUSTOMER

TYPE

The collection rate is the cash collected from consumers expressed as a percentage of the amount billed. The average monthly collection rate and projections for 2010/2011 are as follows:

Average Projections	2009/10	2010/2011
Rates and Services	92%	95%

Rates

As a result of ongoing, fruitful negotiations with Government departments a higher collection rate has been achieved and is anticipated to continue. Good progress has also been made with collection of old debts (including government departments), which is also reflected in this projection. It is anticipated that the transfer of Title Deeds to property owners in Bhekuzulu and eMondlo, including Phase 6a and b will be completed by late 2009/2010. However, there are still a number of areas where this transfer is yet to take place, which impacts on service delivery in that the ownership of homes and vacant properties is unknown. Therefore, it is difficult to undertake a needs assessment in these areas.

Water and Electricity

Due to a focus on Government departments, businesses and domestic consumers that owe large amounts a higher collection rate is anticipated. Electricity debt and income is reducing with lower consumption due to the high cost of electricity.

7.7 PRICE MOVEMENTS ON SPECIFICS

A provision of 29.8% has been made in respect of bulk electricity purchases from Eskom with the estimated cost amounting to R 65 million. The theft of electricity also severely impacts on the cost of bulk electricity as the municipality must pay more and not receive revenue for this supply. Many illegal connections have been removed during the year, but the theft still continues, besides the risk to life and limb.

7.9 AVERAGE SALARY INCREASES

The budgeted actual salary increase is 8% for the fiscal year. The Bargaining Council has entered into a new three wage agreement. As a result of the annualised effect of vacancies filled during 2009/2010, the use of temporary staff and the 13% increase the year on year increase on employee related costs is 18%.

7.10 CHANGING DEMAND CHARACTERISTICS (DEMAND FOR SERVICES)

The anticipated building of approximately 1 500 housing units per annum will impact on service delivery and on other developmental issues. The demand for basic services i.e. electricity, water, sanitation, refuse removal and cleansing would increase accordingly, together with infrastructure development, including the construction of roads and storm water drainage. In addition, the demand for free basic services is increasing on a year to year basis.

An additional 5000 houses serviced by Eskom are now receiving free basic electricity. This will cost the municipality approximately R1.5 million.

Furthermore, the roll out of water services to all consumers together with the extension of water borne sewage infrastructure will place additional demands on services.

7.11 ABILITY OF THE MUNICIPALITY TO SPEND AND DELIVER ON THE PROGRAMS

In the last year the municipality has demonstrated that it has the ability to spend and deliver on its programmes in its area of jurisdiction.

Capital project expenditure is assumed to increase but only by a small margin. The achievements and rate of spending during the second half of 2009/10 provides some confidence that this level of spending can be achieved.

7.12 MAJOR EVENTS

Some of the major events planned to take place during the coming year in the AbaQulusi are:

- AbaQulusi Beauty Contest
- Mayoral Cup Games
- Women's Day
- Youth Day
- Umbele wethu (Reed Dance)
- Prince Napoleon Celebration
- Heritage Day
- HIV/Aids Awareness Day
- SALGA Games
- Women in Sport
- Umkhosi womhlanga
- Umcimbi Wezinsizwa
- Workshop on People with Disabilities
- Youth in Business World
- Sports Federations

8. FUNDING THE BUDGET

FISCAL OVERVIEW

8.1 2008/09 ACTUAL AND 2009/10 PROJECTED FINANCIAL PERFORMANCE

The Municipality continues to display a sound financial profile and high liquidity levels which is mainly attributable to:

- Balanced budgets being funded from current year's revenue. Prior year's surpluses have not been used to support the operating budget
- The municipality operates within its annual budget, as approved by Council
- The municipality maintains a positive cash and investments position.
- Improved revenue collection rate to 94% (average)

8.1.1 OPERATING BUDGET

In respect of the 2008/09 financial year expenditure in the amount of R 174 million was fully funded from the municipality's revenues and grants and subsidies from National and Provincial Government. A similar performance is expected for 2009/10, with R 213 million of expenditure being funded from revenue and grant funding. For both financial years, the revenue allocated was sufficient to cover the operating expenditure, with no reliance placed on the prior year's surpluses.

8.1.2 CAPITAL BUDGET

The capital budget totalled R199 million in 2008/09. This was funded by National and Provincial Grants in the amount of R187 million and R12 million being funded from Council's internal sources. In respect of the 2009/10 financial year, the capital budget increased to R88.9 million, but adjusted to R28.2 million in January 2010 due to funding for Housing not yet approved and Eskom funding incorrectly added to the capital budget.

8.2 MID TERM OUTLOOK: 2010/2011 – 2011/2013

OPERATING BUDGET

The operating budget increased from R236 million in 2009/10, although reduced to R213 million with the adjustment budget to R261 million in 2010/11 and R 280 million 2011/12 and R 299 million in 2012/13 respectively.

The growth in mainly attributable to:

- Increase in the staff establishment
- Cost of addressing service delivery backlogs
- Repairs and maintenance to infrastructure
- Cost of bulk water and electricity
- Impact of increased capital spending on the operating expenditure

CAPITAL BUDGET

Over the next three financial years, 2010/2011 to 2012/13 capital spending is projected to grow substantially to approximately R100 million in order to address some of the long outstanding backlogs in infrastructure and housing.

LOAN DEBT AND INVESTMENTS

In line with the anticipated budget performance, and taking into account the National and Provincial grant allocations, the Municipality will continue to fund each financial year's operating budget from current revenues.

In terms of funding the capital budget, the Municipality relies heavily on funding from both National and Provincial Government as well as from the District Municipality who receive all monies allocated for water and sanitation in the district. Over the past five years the municipality has not received the funding allocated by National Treasury from the District Municipality for Capital expenditure on water and sanitation infrastructure.

The ability of the Municipality to deliver on progress depends a lot on its funding sources which are summarized as follows:

Capital

	2010/2011 R'M	2010/2011 R'M	2011/2012 R'M
Total Capital Budget	39,003	40,254	44,863
<u>Funded as follows:</u>			
Grant Funding	36,940	39,246	43,886
Revenue Funding	2,063	1,008	977
	39,003	40,254	44,863

Operating

The Municipality' receives its funding from many sources including property rates, services charges and government grants. The table below identifies the sources of funding for the 2010/11 financial year:

	R,m	%
Assessment Rates	33.5	13.0%
Penalties & Interest Charges	1.0	0.5%
Service Charges (include Water & Electricity income)	145.3	56.0%
Fines, Licences and permits	7.6	1.5%
Grant and Subsidies	61.5	24.0%
Other Income	10.0	4.0%
Rentals of facilities & equipment	0.5	0.5%
Interest	1.8	0.5%
Total	261.2	100.0%

69% of the Operating Budget is funded from assessment rates and services charges (Tariffs)

* - Includes income from assessment rates, rates interims which is net of rebates of R2 million as indicated in section 3.7.

8.3 SOURCES OF FUNDING

In the case of AbaQulusi a basket of differential tariff increases determines the most acceptable and equitable funding regime taking into consideration the actual cost of delivering services, budget priorities and national legislation, regulations and policy guidelines.

The main sources of income for the municipality are derived from property rates, trading services such as water and electricity and fiscal transfers from other spheres of Government.

8.4 SAVINGS AND EFFICIENCIES

To ensure value for money and an efficient utilisation of resources, benchmarks have been set. These benchmarks are monitored on a quarterly basis and material deviations are followed up at the highest levels. The culture of a performance driven organization must become evident.

In alignment of the IDP and SDBIP, Performance Plans and productivity measures have been updated for all Departments. Outcomes per department are monitored on an ongoing basis and deviations from the norm highlighted and followed up.

The Planning and Budget Team will be looking at various initiatives, aimed at bringing the Salaries and Allowances expenditure to within 30 % of the Total Budget. Initiatives include strict monitoring of Overtime and Sick Leave. The top earners and staff that receive overtime in excess of 50% of their basic salary are being scrutinised. In order to comply with the Basic Conditions of Employment Act, staff that work more than 10 hours overtime per week will be investigated in order to reduce overtime costs.

In order to ensure that the proper authority and delegation of authority is used to approve contracts and payments to suppliers, a Supply Chain Delegations Policy has been implemented that assists in identifying which Official has what authority and to what limit these officials are permitted to authorize requisitions and approve payment of invoices to suppliers.

8.5 INVESTMENTS – CASH BACKED

Adequate provision has been made by way of external investments to ensure that cash is available on the maturity of the investment funds. Investment income is utilized to fund the budget. The permissible reserves will be cash backed in terms of General Recognised Accounting Practice (GRAP) and the MFMA once the municipality has converted to the new system.

8.6 GRANT ALLOCATIONS

In recognition of the critical role that municipalities play in the delivery of social and household services transfers to local government have grown each year.

The following grants allocated to the municipality in terms of the 2010 Division of Revenue Act has been included in this medium term budget, including both National and Provincial Grants

GRANT	2010/11 R	2011/12 R	2012/13 R
Financial Management Grant	1, 200,000	1, 450,000	1, 500,000
National Electrification Programme	8,000,000	8,000,000	8,000,000
Equitable Share	55,648,000	62,779,000	69,127,000
Municipal Systems Improvement	1,000,000	1,000,000	1000,000
Municipal Infrastructure Grant (MIG)	17,440,000	20,975,000	25,504,000
Health Subsidy	611,000	0	0
Museum Subsidy	73,000	77,000	81,000
Library Cyber Cadets	180,000	190,000	201,210
Community Residential Units(CRU)	11,500,000	10,000,000	10,000,000

9. DISCLOSURE ON IMPLEMENTATION OF MFMA AND OTHER LEGISLATION

The promulgation of the Municipal Finance Management Act has had a profound effect on the local government operations that required a transformation in financial planning processes.

This 2010/11 medium-term budget is an expression of a continuous process of improving the financial planning progress at a local government level, incorporating revised formats in accordance with National Treasury requirements. This budget has surpassed most of these requirements within the deadlines prescribed in the MFMA.

National Treasury has developed regulations for new budget formats and contents. It is now mandatory for all municipalities to comply.

The following are some of the key MFMA areas and the relative status:

IDP

The 2010/11 review process is underway, including community consultation as required by legislation

BUDGET

This annual budget has been developed taking the MFMA and National Treasury requirements into account. Budgets are being tabled and approved within the required legislative timeframes.

ANNUAL REPORT

The Annual Report has been developed taking the MFMA and National Treasury requirements into account.

IN YEAR REPORTING

The municipality submits the various reports required, in accordance with the MFMA, to the Executive Committee, Provincial and National Treasuries on an ongoing basis.

BUDGET AND TREASURY OFFICES

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

10. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

The MFMA provides a framework for effective and efficient financial management in budgeting as a way of promoting transparency, participation and accountability.

In particular, the MFMA requires municipalities to prepare a Service Delivery and Budget Implementation Plan as a strategic financial management tool to ensure that budgetary decisions that are adopted by municipalities are aligned with the IDP strategy.

The SDBIP serves to provide an implementation plan that covers all functional areas of the municipality and focuses on actual implementation and delivery with mechanisms for regular review.

The primary objective of the SDBIP is to strengthen local accountability and governance and improve capital, as well as operational, planning, spending and service delivery. The SDBIP is an integral part of the financial planning process, and even though its approval occurs after the medium term budget, its preparation has occurred in tandem with the budget.

To avoid issues related to budgets being under-spent and not achieving the programmes desired outcomes an outline of quarterly projections of service delivery targets and performance indicators are also included.

The SDBIP contains the following main elements:

- Monthly projections of revenue for each source
- Monthly projections of expenditure / income for each vote
- Quarterly projections of service delivery targets and performance indicators for each vote
- Ward information for expenditure and service delivery – Capital

The service delivery targets and performance indicators are monitored and reported to Council quarterly on whether the desired outcomes are achieved.

11. FINANCIAL BENCHMARKS

The benchmarks reflected in the table below are based on actual results in the 2008/09 financial year:

Financial Benchmarks	Basis of Calculation	2008/2009
Debt to Asset Ratio	Total Debt / Total assets	0.16:1
Debt to Revenue	Total Debt / Annual Income	0.23:1

Financial Benchmarks	Basis of Calculation	2008/2009
Capital Charges to Operating Expenditure	Interest and Principal Paid / Operating Expenditure	0.03:1
Current Ratio	Current Assets/Current Liabilities	3:1
Creditors System Efficiency	% of Creditors paid within terms	100%
Other Indicators		
Electricity Distribution Losses	Total units purchased less total units sold / Total units purchased	10.2%
Water Distribution Losses	Total units purchased less total units sold / Total units purchased	71.82%

The financial benchmarks reflected in the table above indicate that the municipality continues to maintain its financially healthy status. However, attention to the Electricity and water losses is being addressed.

12. SERVICE TARIFFS: SAMPLE

SAMPLE OF RESIDENTIAL TARIFF INCREASES

In order to illustrate the effects of the tariff increases on the residents of the area, a sample of four households is selected on estimated consumption as follows:

12.1 ELECTRICITY AND WATER

SAMPLE CATEGORY	ELECTRICITY CONSUMPTION	WATER CONSUMPTION	TARIFF INCREASES
HOUSEHOLD 1	50 Kwh	6 KL	Basic Charge – 6% Water – 6% Electricity – 19%
HOUSEHOLD 2	150 KwH	15 KL	
HOUSEHOLD 3	750 KwH	25 KL	
HOUSEHOLD 4	950 KwH	35 KL	
HOUSEHOLD 5	1100 kWh	45 KL	

	MONTHLY COSTS		
	ELECTRICITY R	WATER R	TOTAL R
HOUSEHOLD 1			
2009/10	113.79	0	113.79
2010/11	62.34	0	62.34
Increase (pm)	(51.45)	0	(51.45)
HOUSEHOLD 2			
2009/10	166.79	101.80	268.59
2010/11	128.34	107.90	236.24
Increase (pm)	(38.45)	6.10	(32.35)
HOUSEHOLD 3			
2009/10	484.79	151.80	636.59
2010/11	729.84	160.90	890.74
Increase (pm)	245.05	9.10	254.15
HOUSEHOLD 4			
2009/10	590.79	219.30	810.09
2010/11	915.84	231.40	1147.24
Increase (pm)	325.05	12.10	337.15
HOUSEHOLD 5			
2009/10	670.29	273.80	944.09
2010/11	1055.34	289.40	1344.74
Increase (pm)	385.05	15.60	400.75

12.2 RATES

The revaluation of properties in terms of the Municipal Property Rates Act meant that properties with similar rateable values and paying the same amount in property rates in the 2008/09 year will not necessarily have the same market valuation in 2009/10. Accordingly, the rates payable by the said properties in 2009/10 will differ and accordingly year on year comparisons would not be feasible.

However, the illustration, hereunder are examples of what typical residential ratepayers would be paying in 2009/10 in terms of the proposed rate randage i e:

- (i) Rate randage – 0.005c/R
- (ii) Rebate – R 15,000

Property Value (R) After rebate	Annual Rates 2009/2010 R		Annual Rates 2010/2011 R		Monthly Rates 2009/10 R	Monthly Rates 2010/2011 R	
	General	Indigent/ Other*	General	Indigent/ Other*	General	General	Indigent/ Other*
60 000	240.00	0	300.00	0	20.00	25.00	0
80 000	320.00	0	400.00	0	26.67	33.33	0
100 000	400.00		500.00		33.33	41.67	
350 000	1400.00		1750.00		116.67	145.83	
500 000	2000.00		2500.00		166.67	208.33	
750 000	3000.00		3750.00		250.00	312.50	
1 000 000	4000.00		5000.00		333.33	416.67	

***-INDIGENT / OTHER**

1. This category includes Indigents, pensioners and disability grantees
2. It is necessary to outline the criteria necessary to qualify for this rebate.
The criteria are as follows:
 - i. The applicant must be 60 years or older and not be in permanent employment. Permanent employment includes self employment.
 - ii. The applicant must produce a bar-coded identity document.
 - iii. The applicant must be the sole registered owner of the property. This includes co-owners who are married to each other.
 - iv. The application must be made no later than 30 April preceding the year for which relief is sought.



BUDGET RELATED RESOLUTIONS

RECOMMENDATIONS

13. BUDGET RELATED RESOLUTIONS

The following draft resolutions are submitted to the Executive Committee for consideration and adjustment where necessary and for onward transmission to council for adoption

13.1 That note be taken of the contents of the budget documentation circulated in accordance with the Municipal Finance Management Act, No.56 of 2003.

13.2 ESTIMATES OF INCOME AND EXPENDITURE

That the annual budget of the municipality for the financial year 2010/2011 and the indicative budgets for the two projected outer years 2010/11 and 2011/12 be approved as set-out in the following schedules of the budget documentation:

- 13.2.1** Operating revenue by source reflected in Table SA25.
- 13.2.2** Operating expenditure by vote reflected in Table A3.
- 13.2.3** Operating expenditure by GFS classification reflected in Table A2.
- 13.2.4** Multi-year capital appropriations by vote reflected in Table A9 and Table SA34a
- 13.2.5** Capital expenditure by GFS classification reflected in Table A5.

13.2.6 CAPITAL EXPENDITURE ESTIMATE

Capital funding by source reflected in Table A5.

- (i) It be recorded that the capital estimates as reflected in Table A5, involve State Treasury Control and these amounts have yet to be approved by the State Treasury.
- (ii) In those instances where information has been provided in terms of Section 19(2)(b) of the Municipal Finance Management Act No. 56 of 2003, the approval of the capital budget constitutes project approval for the specific projects as reflected in the detailed capital budget.

Where information in terms of Section 19(2)(b) is not provided, specific project approval is to be sought from Council during the course of the year.

13.2.7 PROJECTED CASH FLOW FOR THE YEAR

That in terms of Section 17 (3) (c) of the Municipal Finance Management Act No. 56 of 2003 that the projected cash flow for the budget year, broken down per month, is reflected in Table A7 and Supporting Tables SA25,SA26,SA27 and SA28

13.2.8 REMUNERATION OF COUNCILLORS AND SENIOR OFFICIALS

That in terms of Section 17(3)(k) of the Municipal Finance Management Act No.56 of 2003 that the proposed cost to Council of the salary, allowances and benefits of each political office bearer, councillor and senior official, is reflected in Supporting Table SA22 and Table SA23.

13.2.9 Transfers and grants made by the municipality in 2010/2011 as set out in Annexure SA 21.

13.2.10 Performance Indicators for 2010/2011 as set out in Table SA8.

13.2.11 Revised Consumptive Tariffs, Rates and Basic Charges for Electricity Services, Water Services and Waste Management Services as set out in Tariff of Charges Book.

13.2.12 INTEGRATED DEVELOPMENT PLAN (IDP) AS SET OUT IN ANNEXURE

That the Municipality's Integrated Development Plan (IDP) as approved in principle by Council in 2005, and tabled with the budget in terms of Section 17(3)(d) of the Municipal Finance Management Act No.56 of 2003, it being recorded that the annual review process as prescribed in terms of Section 34 of the Municipal Systems Act, is continuing.

13.3 That the Service Delivery Plans / Business Plans with measurable Targets be approved by the Executive Mayor in June 2010 following approval of the Budget.

13.4 That budgetary input received during the public participation process during April/May 2010, has been incorporated into the budget.

13.5 VALUATION OF RATEABLE PROPERTY

It being recorded that the Valuer has certified that a Valuation Roll has been prepared and completed in terms of Section 88(1) of the Local Government Municipal Property Rates Act, No.6 of 2004, such Roll to be operative in respect of the Financial Year from 2009-07-01 to 2013-06-30 inclusive.

That it be recorded that the certificates summarizing the valuations of the rateable property, as certified by the Municipal Valuer, are laid on the table.

The following resolutions, pertaining to property rates (items 13.6 to 13.11) and in conformity with the provisions of Section 14 of the Municipal Property Rates Act, No 6 of 2004 and Section 17 (3) (a) (ii) of the Municipal Finance Management Act, 56 of 2003.

13.6 DETERMINATION OF GENERAL RATES

In terms of the Rates Policy 2010/11 as adopted by Council today, the municipality may levy different Rates for different categories of Property

That, the rate randage for the said financial year for the AbaQulusi Municipality be, and is hereby assessed and levied for the following categories at:

- Residential at 0.005 cents in the Rand
- Agricultural at 0.00125 cents in the Rand
- Business and Commercial at 0.0125 cents in the Rand
- Vacant land at 0.0125 cents in the Rand
- Specified public benefit activities at 0.00125 cents in the Rand
- Specialised non-market properties at 0.00125 cents in the Rand
- Government owned properties at 0.0125 cents in the Rand

13.7 EXEMPTIONS, REBATES AND REDUCTIONS

That the following reductions on the market value and rebates on the rates payable be and are hereby granted in accordance with the Rates Policy

13.7.1 RESIDENTIAL PROPERTIES

The statutory reduction of R15 000.

13.7.2 INDIGENTS, PENSIONERS AND DISABILITY GRANTEES

That in addition to the reduction in 13.4.1 above, further reduction of R 60,000 be and is hereby approved

13.7.3 AGRICULTURAL LAND

That a 50% rebate be and is hereby approved subject to a current agricultural certificate being issued annually by the Council's valuer, in terms of Section Local Government Municipal Property Rates Act, No.6 of 2004

13.8 PHASING IN OF RATES

That the following phasing in of rates, be and are hereby approved subject to Section 21 of the Municipal Property Rates Act, 6 of 2004;

- (i) A rate levied on a newly rated property must be phased in over a period of three financial years, with a phasing in discount of 50% for the 2010/11 financial year;
- (ii) A rate levied on property belonging to a Land Reform Beneficiary or his or her heirs must, after 10 years from the date on which such beneficiary's title was registered in the Office of the Registrar of Deeds, be phased in over three financial years, with the following phasing in discounts:
 - (a) 75% in the first year (2009/10)
 - (b) 50% in the second year (2010/11)
 - (c) 25% in the third year (2011/12)
- (iii) A rate levied on newly owned property and used by organizations conducting Specified public benefit activities and registered in terms of the Income tax Act for those activities must be phased in over a period of four financial years, with the following phasing in discounts:
 - (a) 100% in the first year (2009/10)
 - (b) 75% in the second year (2010/11)
 - (c) 50% in the third year(2011/12)
 - (d) 25% in the fourth year (2012/13)

13.9 INTEREST TO BE CHARGED ON AMOUNT DUE FOR RATES PAYABLE OR TO BE REFUNDED TO THE RATEPAYER AS A RESULT OF ADJUSTMENTS OR ADDITIONS TO THE VALUATION ROLL

Interest rate to be applied

- a) The interest rate referred to in section 55(2)(b) of the Act is prime rate levied by the bank at which the primary account of the municipality in question is kept, plus 1%, as at the date of calculation by the municipal manager in terms of the Act
- b) The municipal manager must use simple interest and must determine the monthly interest rate by dividing the prime rate plus 1% by 12 to get the monthly interest to be applied to the amount due for rates payable by or to be refunded to the ratepayer

13.10 DATE OF OPERATION OF DETERMINATION OF RATES

That this determination comes into operation on 2010-07-01.

13.11 FINAL DATE FOR PAYMENT OF RATES

- (i) Where rates are payable in monthly instalments, such payments shall be in twelve equal or nearly equal instalments.
- (ii) Where rate are payable annually the final date shall be 31 October, provided that where this date falls on a Sunday or public holiday payment shall occur on the last working day prior to such Sunday or public holiday.

13.12 OTHER TARIFFS AND CHARGES

- (i) That other tariffs and charges as circulated with the budget document in terms of 24(2)(c)(i) and
- (ii) be approved for the financial year commencing 1 July 2010.

13.13 BUDGET RELATED POLICIES

(i) RATES POLICY

Proposed amendments in terms of section 17 (3) (e) of the Municipal Finance Management Act, 56 of 2003 and section 5 of the Municipal Property Rates Act, 6 of 2004, to the draft Rates Policy adopted by Council on November 2008

That the following amendments be and are hereby approved:

DEFINITIONS

Agricultural property (in agreement with organised agriculture)

“Property that is used for the production of crops, livestock or other generally recognized agricultural activities, together with those buildings which are also generally considered necessary for these agricultural activities. Agricultural property excludes the use of a property for the purpose of eco-tourism or for the trading in or hunting of game as defined in the Act as “agricultural purpose.”

Communal Property

*“communal property” means a single cadastral holding inside or outside of a township used for communal purposes, irrespective of the registered owner. This includes land owned by the State in trust for persons communally inhabiting the land in terms of traditional system of land tenure, land over which land tenure rights are registered or granted land which is earmarked for disposal in terms of the Restitution of Land Rights Act, 1994 or property which is used communally. Communal property must have more than a specified number of residents/non residential top structures, occupied **by unrelated occupants** for it to be considered communal by use. Such land includes State Trust Land and property belonging to the Ingonyama Trust Board.*

Specified public benefit activity

“specified public benefit activity” means an activity listed in item 1 (welfare and humanitarian), item 2 (health care) and item 4 (education and development) of Part 1 of the Ninth Schedule to the Income Tax Act;

Special non-market properties

“specialised non-market properties” including national monuments, schools (both state and private, crèches), cemeteries /crematorium, libraries, sports clubs including stadiums, public open spaces including parks, vacant land to be used for these purposes.

PART 8 CATEGORIES OF RATEABLE PROPERTY

8.2 to be amended with the addition of

Hospitality industry

Means all properties identified in the definition

Vacant land

Means all properties identified in the definition

PART 8 CATEGORIES OF RATEABLE PROPERTY

(ii) OTHER BUDGET POLICIES

- (a) That in terms of section 24(2) (c)(v) of the Municipal Finance Management Act, 56 of 2003, there are no proposed amendments to any other budget related policies

13.15 PARTICULARS OF INVESTMENTS

That in terms of Section 17 (3) (f) of the Municipal Finance Management Act of No. 56 of 2003, particulars of the Councils investments are reflected in Supporting Tables SA15 and SA16.

13.16 UNFUNDED MANDATES

That the Council make representation to the Provincial and National Government regarding unfunded mandates presently undertaken by the Municipality with a view to securing funding for those services.

14.

BUDGET SCHEDULES

(REFERRED TO IN THE RECOMMENDATIONS)

15.

BUDGET RELATED CHARTS

16.

POLICIES

17.

TARIFF OF CHARGES

19.

Service Delivery and Budget Implementation Plan

20.

Allocations and Grants made to the Municipality

21.

Municipal Manager Quality Certification