

SECTION H: FINANCIAL PLAN AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

1. BUDGET PROCESS OVERVIEW

MFMA, Chapter 4, as well as Circular 48 provide guidance on the steps in the annual budget process. Critical to the development of a credible budget are: the manner in which the strategic planning process is integrated; the input of policy directions; and consultation with the community and other stakeholders.

The 2009/10 budget preparation and IDP review process were conducted mainly in line with the legislative and regulatory frameworks prescribed by the Municipal Finance Management Act (MFMA), Municipal Systems Act (MSA) and National Treasury Guidelines. The format and contents of this budget document are in accordance with the Municipal Budgeting and Reporting Regulations of 2008.

The draft budget was tabled in Council on 31 March 2011 after which an extensive community consultation and public participation process was conducted in all three towns within the municipality. Key issues raised during these public meetings have been considered where possible.

The **strategic alignment** between national, provincial and district service delivery priorities was also a critical factor during the IDP review and budget preparation process. Alignment between the Free State Growth and Development Strategy (PGDS), 2007-2014 and the Lejweleputswa District Municipality were important considerations and inputs during the process.

1.1 Operating and Capital Budget

The operating and capital budget as presented hereunder was developed in line with the requirements of Municipal Financial Management Act and Municipal Budgeting and Reporting Regulations, 2008.

Both the MFMA and regulations provide a for uniform norms and standards for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting process within the municipality.

However, the Budget Steering Committee was not established as required by regulations. The regulations obliges the mayor to establish a budget Steering Committee which will be responsible for providing technical support to the mayor in discharging the responsibilities outlined in section 53 of MFMA.

A summary of the operating and capital budget proposals over the medium-term, is provided in the table below.

1.1.1 Summary Operating Budget

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	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
R thousands										
Financial Performance										
Property rates	-	-	115	115	-	115	-	121	133	146
Service charges	-	-	266	266	-	266	-	293	322	354
Investment revenue	-	-	2,500	2,500	-	2,500	-	-	-	-
Transfers recognised – operational	-	-	28,632	36,475	-	36,475	-	42,719	46,377	49,269
Other own revenue	-	-	351	95	-	95	-	138	152	167
Total Revenue (excluding capital transfers and contributions)	-	-	31,864	39,451	-	39,451	-	43,271	46,984	49,936
Employee costs	-	-	-	-	-	-	-	-	-	-
Remuneration of councillors	-	-	-	1,200	-	1,200	-	1,263	1,389	1,528
Depreciation & asset impairment	-	-	-	-	-	-	-	-	-	-
Finance charges	-	-	-	-	-	-	-	-	-	-
Materials and bulk purchases	-	-	-	-	-	-	-	-	-	-
Transfers and grants	-	-	-	-	-	-	-	-	-	-
Other expenditure	-	-	-	-	-	-	-	-	-	-
Total Expenditure	-	-	-	1,200	-	1,200	-	1,263	1,389	1,528
Surplus/(Deficit)	-	-	31,864	38,251	-	38,251	-	42,008	45,595	48,408
Transfers recognised – capital	-	-	-	-	-	-	-	-	-	-
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	-	-	31,864	38,251	-	38,251	-	42,008	45,595	48,408
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	-	-	31,864	38,251	-	38,251	-	42,008	45,595	48,408

1.1.2 Summary Capital Budget

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	Pre-audit outcome	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
R thousands										
Capital expenditure	-	-	-	46,505	-	46,505	46,505	48,356	51,122	55,306
Transfers recognised – capital	-	-	17,317	14,845	43,845	43,845	43,845	66,855	42,009	25,903
Total sources of capital funds	-	-	17,317	14,845	43,845	43,845	43,845	66,855	42,009	25,903
Financial position										
Total current assets	-	85,219	68,355	75,191	75,191	75,191	75,191	82,710	90,981	100,079
Total non current assets	-	140,152	167,682	184,439	202,836	223,074	245,334	269,856	296,831	326,502
Total current liabilities	-	72,192	52,008	22,604	24,444	26,468	28,728	31,601	34,761	38,237
Total non current liabilities	-	1,287	3,611	3,972	3,972	3,972	3,972	4,369	4,806	5,286
Community wealth/Equity	-	157	32,019	38,421	170	38,421	170	42,195	45,800	48,635
Cash flows										
Net cash from (used) operating	-	-	-	-	-	-	-	182,314	168,400	163,188
Net cash from (used) investing	-	-	-	-	-	-	-	20,800	22,880	25,168
Cash/cash equivalents at the year end	-	-	-	-	-	-	-	203,114	394,394	582,750
Cash backing/surplus reconciliation										
Cash and investments available	-	48,731	33,191	37,821	37,821	37,821	37,821	41,603	45,763	50,340
Application of cash and investments	-	102,443	72,290	15,557	17,397	19,421	21,647	(120,365)	(132,402)	(145,642)
Balance - surplus (shortfall)	-	(53,712)	(39,100)	22,264	20,424	18,400	16,174	161,968	178,166	195,982
Asset management										
Asset register summary (WDV)	-	115	115	115	115	115	115	115	115	115
Depreciation & asset impairment	-	-	-	-	-	-	-	-	-	-
Renewal of Existing Assets	-	-	-	-	-	-	9,226	9,226	10,149	11,163
Repairs and Maintenance	-	-	-	-	-	-	357	357	393	432
Free services										
Revenue cost of free services provided	-	-	-	5,932	-	5,932	5,932	5,932	-	-

1.2 Budget Related Policies: Review and Amendments

The following budget related policies will not be changed for 2011/12 financial year:

Name of Policy	Strategic Focus of the Policy
Budget Policy	Budget development and implementation
Property Rates policy	Property rates billing
Tariff Policy	Billing (services and other)
Investment and Banking Policy	Cash management

The following budget related policies were reviewed for 2011/12 financial year:

Name of Policy	Strategic Focus of the Policy
Credit Control and Debt Collection Policy	Revenue collection
Supply Chain Management Policy	Procurement
Financial Delegation of Powers Policy	Sound Financial Administration

1.3 Indigent Subsidy

The indigent subsidy is provided by the municipality to qualifying households as a measure to provide free access to basic services. The following are the main benefits offered to registered indigents for which a threshold of a monthly household income of R 1 200 has been set. The cost of provision of Indigent Subsidy is covered through Equitable Share allocation from the National Treasury.

- Free electricity of 50kWh per household
- 6 kiloliters of free basic water
- Free sanitation
- Free refuse removal

1.4 Tariff Overview

The municipality has succeeded in most of the services to maintain tariff increases within the growth limits set by National Treasury in line with the inflation target band of the Reserve Bank of between 3

and 6 per cent. However, the average increases include an allowance for growth in consumption levels and corrections in certain tariffs. The average tariff increases are for the 2011/12 is reflected in the table below.

Service	% tariff increase
Property rates	6%
Electricity	21%
Water	6%
Sanitation	6%
Refuse removal	6%

1.5 Proposed Tariff Increases

The summary below indicates the proposed tariff increases for the main consumer services and sundry services for the 2011/12 financial year.

a) Assessment Rates

All agricultural land has been phased-in in the past 3 years, and the last phasing in was in the 2009/10 financial year as per regulations issued in December 2007 by CoGtA.

b) Electricity

Approval must be obtained from NER for the 21% increase in fees/tariff to finance the ring fencing of the service. An allocation of 50KwH of electricity is provided to the indigent households per month.

c) Water

Free basic water of water 6kl will be given to all indigent households. This will be financed from the Equitable Share.

d) Sanitation Service

A tariff increase of 6% is proposed for the 2011/12.

2. COMPLIANCE AND IMPLEMENTATION OF MFMA

2.1 Disclosure on Implementation of MFMA

This section provides disclosure regarding progress in implementing various related legislation including the MFMA and how this affects the budget and budget process.

2.2 MFMA Implementation and Monitoring Checklist

The municipality is generally complying for the majority of the implementation priorities as per the National Treasury implementation and monitoring checklist. This checklist is updated quarterly and submitted to National Treasury.

Below is a summary of progress against the plan.

No.	Implementation priority as per NT template	Progress
1	Preparing an implementation plan	Yes
2	Allocating appropriate responsibilities under the MFMA to Accounting Officer	Yes
3	Establishing a top (senior) management team	Yes
4	Implementing appropriate controls over municipal bank accounts and cash management	Yes
5	Meeting of financial commitments	Yes
6	Reporting revenue and expenditure	Yes
7	Supply chain management	Yes
8	Implementing reforms in relation to municipal entities and long-term contracts	Yes
9	Completing financial statements and advising National Treasury	Yes
10	Completing and tabling annual report	Yes
11	Complying with provisions for tender committees, boards of municipal entities and in relation to forbidden activities	Yes
12	Complying with provisions for internal audit and audit committees	Yes
13	Complying with provisions for budgets	Yes
14	Information to be placed on website	No

2.3 MFMA and DoRA returns

All MFMA and DORA returns are submitted by the municipality as required monthly, quarterly and annually.

Name of return	Submitted to National and Provincial Treasury (Yes/No)
MONTHLY	
Financial Management Grant	Yes
Age Analysis Debtors (AD) and Creditors (AC), Cash Flow, Operating Statement Actual (OSB)	Yes
Section 71 Budget Statements	Yes
Supply Chain Management	Yes
MIG returns	Yes
Equitable Share	Yes
QUARTERLY	
MFMA Implementation and monitoring checklist	Yes
Municipal entities	Not applicable
Public Private Partnerships	Not applicable
Long-term contracts	Yes
Borrowing	Not applicable
ANNUALLY	
Appendix A	Yes
Operating Statement Budget (OSB)	Yes

2.4 Audit units and audit committee

The internal audit unit is not fully capacitated. At this stage, only the Internal Auditor is appointed and there are plans to gradually capacitate the unit with all the human and other resources by December 2011.

The Audit Committee is in place. Members of the audit committee were appointed effective from 31 January 2011. The Committee had its first quarterly meeting on 11 March 2011.

2.5 Risk management

The municipality does not have an updated risk management strategy and plan in place. This will be addressed when with the gradual capacitation of the internal unit in 2011/12 financial year.

2.6 Implementation of Supply Chain Management

The new supply chain management policy of the municipality, in line with the MFMA and national treasury prescripts, was adopted by council in July 2008 and will be reviewed in 2010/11.

All bid committees as required by the SCM regulations are in place, however the composition of the committees is not compliant with the Regulations.

2.7 Tabling of section 71 reports

Section 71 reports are submitted to the mayor and also forwarded to provincial treasury on a monthly basis. Further the reports are forward to the Municipal Manager and the Finance Committee.

2.8 Delegations

Financial delegations and sub-delegations are not in place and will only be developed and presented to council for approval as required by MFMA. A policy of financial delegations and sub-delegations will be reviewed and implemented in the 2011/12.

2.10 Implementation of GRAP

The key challenges for implementation of GRAP/GAMAP requirements are the following:

All the GRAP requirements have been met except for the fixed assets. The GRAP provisions in relation to fixed assets will be phased in line with the guidelines provided by the National Treasury and will be under full implementation by the end of 2011/12.

2.11 Accounting policies

Several accounting policies have been developed to ensure the requirements of Circular 36 are complied with.

The further development of accounting policies will be guided with exemptions as agreed with National Treasury on an annual basis.

2. 13 Asset register

There are plans to revalue all the infrastructure assets. Subsequent to that, a comprehensive and GRAP compliant asset register will be developed and implemented by March 2012 and an allocation of R 1 000 000 has been set aside for this purpose.